

UC On-Campus Rental Housing Alternatives

UC Developed, Owned and Operated—

Transaction: UC plans, designs, constructs, owns and operates the project with 100% financing arranged by UC.

Projects: Suitable for any University dormitories or rental housing on any UC site for single or married students, faculty or staff. UC maintains 100% control, enjoys the lowest financing cost, and retains 100% of net cash flow.

Privatized on a UC Ground Lease—

Transaction: Ground lease to a competitively selected third party developer team with ground rent in the form of cash consideration, reduced rents and/or above market amenities.

Projects: Apartment-style housing for rent to single or married students, faculty or staff. May be suitable for non-core campus locations where UC can afford to give up long-term control and the site affords access to the general public. In addition to site control, UC gives up direct control over serving the UC market segments for which the project is designed. A privatized project should deliver lower development costs sufficient to result in lower bed rents (for a comparable project) and/or substantial other benefits to the campus in order to offset the UC-developed project advantages of control, low cost financing and receipt of 100% of net cash flow.

Non-Profit w/FTS Debt Transaction Specifics:

Typically, a for-profit developer designs and builds pursuant to a development agreement with a non-profit ground lessee/owner and contracts to perform property management on the owner's behalf. The non-profit may be an operating or "traveling" entity; its 501(c)(3) status must permit ownership of student housing. Use of the Financing Trust Structure (FTS) affords the lowest financing cost for privatized projects at UC.

For-Profit w/Developer Equity and Financing Transaction Specifics:

For-profit developer designs, finances, builds, owns and operates the project using developer raised equity (30% +/-) and conventional mortgage financing. Special considerations include developer may sell or refinance over the life of ground lease.

In considering the privatized alternatives, campuses should review the attached matrix and UC's Privatized Housing Paper, and discuss the suitability of these alternatives for their particular project with OP External Finance and the Real Estate Services Group.

UC On-Campus Rental Housing Alternatives Matrix

	UC- Developed Projects	Privatized Projects	
		Non-Profit FTS Tax Exempt Bonds	For-Profit Conv. Debt + Equity
1. Debt Capacity & Cost			
-on balance sheet	Yes	Yes	No—Subj. to Auditor's Review
-on credit	Yes	Yes	Moody's—??? S & P—No
-finance cost	Lowest	Higher	Highest (combined return on debt and equity)
2. Effect on UC Housing Rates	Yes--if campus elects to subsidize rates between new and existing housing	No direct effect	No direct effect
3. UC Avoids Risk			
-Construction	No--UC manages cost and delay	Yes	Yes
-Operating	No--UC manages lease-up, occupancy, operating expense and major maintenance	Yes	Yes
4. Operating Expense Cost Savings (assuming same level of services & maintenance)	Property tax exempt--otherwise may be higher cost	Property tax exempt— possibly lower operating expense	Subject to property tax though inconsistently applied--possibly lower operating expense (other than property tax)
5. Ground Rent & Net Cash Flow Distribution	No ground rent; 100% of net cash flow available for use by UC	Ground rent subordinate to debt; UC shares in net cash flow depending on economics of transaction	Ground rent may need to be forgone to achieve desired bed rents; no share of net cash flow to UC
6. Delivery Time Savings	UC decision and planning process and selected construction delivery method determine schedule	No material savings compared to optimal UC design-build process - otherwise potentially faster	No material savings compared to optimal UC design-build process –otherwise potentially faster
7. Construction Cost Savings (assuming same quality & amenities)	Typically higher cost given delivery method, soft costs and overhead (est. NPV = to FTS @ approx 9% lower cost)	Potentially lower cost if competed (though some perceived savings may be due to lesser quality)	Potentially lower cost if competed (though some perceived savings may be due to lesser quality)
8. Rent per Bed (assuming same quality & amenities)	Lowest cost provided construction and operating costs are effectively managed	May achieve lowest cost only if significant construction and operating cost savings can be achieved relative to UC	Only lower if substantial cost savings achieved—may require construction & ground rent concessions