



1111 Franklin Street
Oakland, CA 94607-5200
Phone: (510) 987-9074
Fax: (510) 987-9086
<http://www.ucop.edu>
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**ACTION UNDER PRESIDENT'S AUTHORITY- AMENDMENT OF THE BUDGET
FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM
AND APPROVAL OF INTERIM FINANCING FOR NORTH CAMPUS FACULTY
HOUSING PHASE 1, SANTA BARBARA CAMPUS**

EXECUTIVE SUMMARY

Campus:	Santa Barbara
Project:	North Campus Faculty Housing Phase 1 – construction and sale of approximately 22 units of faculty housing,
Proposed Actions:	<ul style="list-style-type: none">• Approve of Phase I project budget of \$9,400,000• Approval of amendment to 2009-10 Capital Improvement Program and approval of up to \$9,400,000 of external financing
Total Cost:	Total project costs (including expense reimbursement to the University) is \$9,400,000, inclusive of all grading, infrastructure, streets, buildings, fixtures, parking, landscaping, open space amenities, and any recreation equipment.
Previous Regents Actions:	<p>September 1992: Authorization for University's acquisition of the approximately 174.24 acre North Campus property (previously known as the "West Devereux" property) from University Exchange Corporation. This purchase was completed in 1994.</p> <p>January 1998: Adoption of 1998 North and West Campus Amendment, to the 1990 Long Range Development Plan (LRDP), adding the West Devereux property to the 1990 LRDP.</p> <p>September 2004: Certification of Environmental Impact Report, amendment of 1990 LRDP to incorporate the 2004 North and West Campus Long Range Development Plan and approval of design of North Campus Faculty Housing and Sierra Madre Family Housing projects.</p> <p>January 2007: Acceptance of the modifications and conditions of approval by the California Coastal Commission (Coastal Commission) to the LRDP Amendment, Notice of Impending Development and Coastal Permit, including reduction in the number of housing units to be</p>

developed from 366 to 323 (323 units, consisting of 172 faculty housing units on the North Campus and 151 family housing units on the West Campus), and authorization of the President to approve, execute and record an irrevocable dedication of, or an offer to dedicate, a permanent conservation easement to a public agency or private association on the approximately 70-acre South Parcel of the North Campus prior to construction of the North Campus Faculty Housing for the purpose of habitat conservation and public access.

January 2008: Authorized the President, after consultation with the General Counsel, to approve and to execute a ground lease of approximately 26 acres (Property) of Santa Barbara campus land that will be the site of the North Campus Faculty Housing development (Project) for an initial 3-year term, with extensions as reasonably required under the ground lease, to a single-purpose entity, majority-owned and controlled by Olson Urban Housing, LLC, dba The Olson Company (Developer), to build approximately 161 housing units (comprised of 8 single-family homes, 19 detached townhomes, and 134 attached townhomes) and related utilities and other on-site infrastructure improvements.

RECOMMENDATION

It is recommended that:

Pursuant to Standing Order 100.4(q)

- (1) The President amend the 2009-10 Budget for Capital Improvements and the Capital Improvement Program to include:

Santa Barbara: North Campus Faculty Housing Phase 1 - working drawings, construction,
-- \$9,400,000 to be funded from interim financing (9,400,000)

Pursuant to Standing Order 100.4(nn)

- (2) The President be authorized to obtain interim financing not to exceed \$9,400,000 to finance the *North Campus Faculty Housing Phase 1* project. The President shall require that:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period;
 - b. If interim financing is required beyond the construction period, repayment of the debt for the North Campus Faculty Housing Phase 1 shall be from the gross revenue associated with sale and/or leasing of up to 22 homes; and
 - c. The general credit of The Regents shall not be pledged.
- (3) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

BACKGROUND

Development of faculty housing at North Campus is necessary to meet a critical University objective of providing affordable, quality faculty housing to attract and retain distinguished academic personnel. There is a particular need to provide faculty with suitable housing that is competitive with housing opportunities available at other colleges and universities that are competing for the same faculty. At the Santa Barbara campus, the waiting list to purchase a home at North Campus has grown over the last year from 90 to 140 faculty. The price of a home in Santa Barbara remains well beyond the average earnings (\$72,000) of new assistant campus professors. Currently the median price of a Santa Barbara (South Coast) home has recently increased to \$800,000 from a low of \$740,000, with the average sales price at slightly over \$1,000,000. In the Goleta area, per the *Los Angeles Times*, the median price for a 30-year-old home is \$701,000. Comparable new homes in the area were sold by auction for \$800,000 approximately one year ago.

To meet institutional goals for recruitment and retention of qualified faculty in a market with limited housing options, the campus developed a plan and secured entitlements to construct 161 affordable homes on the North Campus. To achieve this goal, in 2007, the campus selected the The Olson Company ("Olson") to develop the property after a competitive process, which included requests for qualifications and requests for proposals.

In March 2008, due to the rapid decline in the housing market and resulting turmoil in the financial markets, Olson informed the campus that they were having difficulty securing financing for the project. In June 2008, the campus entered into a pre-development agreement with Olson to enable the project to proceed and to protect University interests. The agreement committed the campus to fund the construction documents. In April 2009, the campus became concerned that Olson would not be able to obtain financing and that an agreement could not be reached that would enable the project to be under construction by October 2009. The campus began examining alternative delivery options to achieve its objective of constructing affordable housing for faculty in a timely manner. Under the California Coastal Commission's project conditions of approval, site work must commence prior to the start of the rainy season, which is estimated to be between November and April, to protect environmentally sensitive habitat and species.

In July 2009, the University terminated its relationship with Olson due to concerns over Olson's ability to finalize the business terms, execute a ground lease, secure financing and start construction of the homes by October 2009 and meet the necessary critical path development timeline. All documents and all contracts between Olson and their architect and sub-consultants were transferred to the campus. Currently, all construction documents are complete, and the only remaining cost to the campus will be preparation of bid documents which has been included in the project budget. Costs of preparation of the construction documents will be recovered from the sales of the homes.

Proposed Alternative Delivery Option

The ability of the campus to achieve the same sales prices for the homes and have more control over the development schedule was the determining factor in the selection of the proposed delivery option. The severe economic downturn has resulted in an extremely favorable residential housing construction market. Due to this market, the construction estimate prepared by Davis Langdon, which includes prevailing wage, allows the campus to use traditional University financing and procurement to proceed with the first 22 homes and associated infrastructure and still achieve its affordability objectives. The estimated average sales prices of the homes are contained in *Project Description Table 1*. The campus will seek approval to proceed with additional development phases as market demand and conditions dictate.

Project Description

2009-10 Budget for Capital Improvements
and Capital Improvement Program
Scheduled for Regents' Allocation, Loans, Income Reserves,
University Registration Fee Reserves, Gift Funds, and Miscellaneous Funds

Phase	Proposed (09-10)	Funding Source
Preliminary Plans	\$ 0	
Working Drawings	\$ 61,000	Interim Financing
Construction	\$9,339,000	Interim Financing
TOTALS:	\$9,400,000	

The proposed *North Campus Faculty Housing Phase 1* project is the construction and sale of 22 units of faculty housing, consisting of: 8 single-family homes at 2,100 square feet each, 3 townhome units at 1,796 square feet, 3 townhome units at 1,387 square feet, 1 quadplex with each unit at 1,750 square feet and 1 quadplex with each unit at 1,384 square feet. In addition, the project's scope includes: the construction of a road, associated infrastructure to serve the 22-unit development and grading the entire 26-acre site. Total estimated project cost is \$9,400,000.

The *North Campus Housing* project is located on an approximately 26-acre parcel of land (sometimes referred to as the "North Parcel") situated south of Phelps Road and Cannon Green Drive, bounded on the west by Ellwood Mesa open space, and bounded on the south by the Ocean Meadows Golf Course. The proposed project is less than three miles from the campus, and is about a half-mile from a major retail center and a park with sports fields. It is located near public transportation and bike paths. The proposed 22 homes are located on the eastern portion of the site.

When all phases are complete, the North Campus will include 161 new homes, consisting of eight single-family houses (approximately 2,100 square feet), 19 detached townhomes (1,800 – 2,300 square feet), and 134 attached townhomes (1,400 – 1,900 square feet). To ensure that homes sell in a timely manner, that financial risk to the campus is minimized and that homes are brought on line in a manner that meets the recruitment and retention needs, the campus has developed a phased plan for development. Based on the success of unit sales, the campus will determine whether to proceed with the construction of additional phases and has the ability to combine phases to meet demand. The campus may use privatized development for future phases if determined to be the most cost effective method of achieving affordability objectives.

Table 1 displays the unit types and anticipated average base prices. These figures are preliminary and may change based on bid and costs of marketing. However, the average base prices are not expected to vary more than ten percent. The prices vary depending on the location of each unit.

Table 1: Phase 1 Average Sales Price & Qualifying Income				
Unit Description	Average Sales Price	Qualifying Household Income		
		Market Loan (30 yr./Fixed)	MOP Loan (30 yr./Adj.)	MOP Loan (40 yr./Adj./ Int. Only)
2-Story Quadruplex Townhome	\$354,990	\$80,513	\$51,746	\$42,333
2-Story Quadruplex Townhome	\$419,990	\$92,921	\$61,221	\$50,084
2-Story Duplex Townhome	\$354,990	\$80,513	\$51,746	\$42,333
2-Story Duplex Townhome	\$419,990	\$92,921	\$61,221	\$50,084
1-Story Single-Family Detached	\$599,990	\$129,394	\$87,459	\$71,549
<i>UC Mortgage Origination Program (MOP) Loans allow 40% ratio of income to housing costs (principal and/or interest). All loans assume 10% down payment (although Market Loans currently require minimum 20% down); qualifying household with no existing debt payments. Market Loans allow 40% ratio of income to all housing costs (principal, interest, taxes, insurance, HOA fees, and ground rent). Market Loans assume 5.375% interest conforming (loan amounts below \$417,000); 5.875% non-conforming.</i>				

The Project will be developed with consideration of sustainable practices and has been designed to be built to a minimum standard equivalent to the Leadership in Energy and Environmental Design (LEED™) "Certified" rating, or comparable rating system such as Green Point, to the fullest extent feasible.

Environmental Review

In September 2004, The Regents certified the Environmental Impact Report, adopted the Findings and Mitigation Monitoring Program, approved the Amendment of the 1990 Long Range Development Plan to reflect changes indicated in the North and West Campus Long Range Development Plan Amendment, and approved the design of the *North Campus Faculty Housing* project, which at the time consisted of 236 faculty housing units on the North Parcel site.

In December 2005, in response to a request by the Coastal Commission's ecologist for additional biological field work and analysis of the Project site, additional environmentally sensitive habitat area (ESHA) was identified. As a result, the campus withdrew its Coastal Commission application, and the North Campus site plan was modified to reduce the number of faculty housing units from 236 to 215 units to avoid the newly discovered ESHA. The campus prepared an Addendum to the EIR in which it concluded that no new or more significant environmental impacts would occur as a result of the reduction in housing units from 236 to 215, and resubmitted its application to the Coastal Commission for project approval.

Following additional site visits by the Coastal Commission ecologist in August and October 2006, additional ESHA was identified. At the direction of Coastal Commission staff, the site plan for the project was revised, and the number of units to be developed on the North Campus faculty housing site was further reduced from 215 to 172 units. In November 2006, the Coastal Commission approved the LRDP Amendment and Notice of Impending Development, with

modifications, and permitted development of the 172-unit faculty housing project, with numerous conditions. Findings were adopted by the Coastal Commission in which it was determined that the Notice of Impending Development and Coastal Permit, as modified and approved by the Commission, are consistent with CEQA.

In January 2007, The Regents accepted the modifications and conditions of project approval imposed by the Coastal Commission to the LRDP Amendment, Notice of Impending Development and Coastal Permit, including reduction in the number of housing units to be developed on the North Parcel from 215 to 172 faculty housing units, and, consistent with the Coastal Commission conditions, authorization of the President to approve, execute and record an irrevocable dedication of, or an offer to dedicate, a permanent conservation easement to a public agency or private association on the approximately 70-acre South Parcel of the North Campus prior to construction of the Project for the purpose of habitat conservation and public access.

The EIR analyzed implementing the North Campus Faculty Housing project in four phases, with 120 units completed initially, followed by three subsequent phases of approximately 40 units each, for a total of 236 units. As a result of the Coastal Commission permitting process, the number of units was reduced to 172; the unit count was thereafter further reduced by the campus to 161 to increase the size of some individual units to better address market demand by faculty and to increase efficiency of site plan. The campus now proposes to construct 22 units in the first phase, followed by up to 8 additional phases in which between 10-40 units will be constructed in each phase. The campus has determined that the revised project phasing would not result in any new or more significant environmental impacts and that no further CEQA documentation is required.

Project Cost

The total cost for the Project is estimated to be \$9,400,000 that includes marketing and sales costs, a pro-rata share of pre-development costs and pro-rata share of traffic mitigation costs identified in the EIR.

Financial Feasibility

The financial feasibility assumes the estimated average sales price of a Phase 1 Project home will be \$464,773 which is more than 30 percent below the current market home prices. Single family home prices range from 20 percent to 33 percent below what is currently available in the resale market and more than 33 percent below the price of the last comparable new home product sold in the area.

The Project will provide for-sale housing that is affordable for all faculty members. As indicated in *Table 1* previously, faculty with household incomes between \$44,000 and \$54,000 could qualify to purchase all but the eight 1-Story Single-Family Detached homes using a MOP loan.

Lease Option

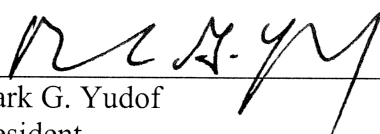
Attachment 1 presents a financial feasibility scenario where it is assumed that the local housing market declines further and that upon completion unit sales are sluggish. In this eventuality, the campus would maintain interim financing to support the portion of project costs not immediately covered by unit sales. Short term leases and rents on the units would be directed toward support of interest and other carrying costs on a short-term basis, allowing some time for improvement in market conditions and sale of the units. After three years, funding for any remaining inventory of unsold units would be transferred from interim financing to long-term campus equity, via Housing Reserves.

As there are currently 140 faculty on the wait list and 8 of the 22 units are single family homes which have the highest demand by faculty, the campus believes it is conservative to assume that the eight single family units will be sold on project completion. After applying the \$4.8 million proceeds from these sales to the overall project cost, a balance of \$4.54 million would require interim financing beyond the construction period. Annual interest costs on this borrowing (at 5 percent) combined with other carrying costs (Ground Rent, Maintenance, and Homeowner's Association dues) would have a total annual cost of \$302,000 for coverage from annual lease income on the 14 unsold units. The feasibility analysis as shows in *Attachment 1* assumes each of the unsold units could be leased for \$2,400 per month; after allowing for vacancy losses, these leases would generate \$383,000 annually, which would be more than sufficient to cover the project interest and other carrying costs.

Table 2 shows comparative lease/rental rates for 2- and 3-bedroom unit properties in the Goleta area in 2008. The assumed lease rate of \$2,400/month for the 14 North Campus units analyzed in *Attachment 1* is at the midpoint of *current* rates for 3-bedroom units having average size of 1,157 square feet. In view of the market data in *Table 2*, the campus believes the \$2,400 monthly lease rate is a conservative assumption, as the average size of the 14 North Campus units will be much larger (1,577 square feet) and the North Campus units will be much newer than average properties in the area.

Table 2: Average Rental Rent Range for Goleta, California			
Unit	Average size	Rent Rage	Rent Range/sf
Two bedroom	875 sf	\$1,950-\$2,046	\$2.23-\$2.34
Three bedroom	1,157 sf	\$2,360 - \$2,445	\$2.04 - \$2.12
Combined Average	1,016 sf	\$2,155 -\$2,250	\$2.12 -\$2.21
Average		\$2,203	\$2.17

Approved:


Mark G. Yudof
President

10/2/09
Date

ATTACHMENT 1

SUMMARY OF FINANCIAL FEASIBILITY ANALYSIS

Project Title:

North Campus Faculty Housing Phase 1

Total Project Estimated Cost

Project Working Drawings & Construction	\$	9,065,000
Interest During Construction	\$	<u>335,000</u>
Total Project Cost:	\$	9,400,000

Estimated Unit Sales Revenues:

	Units	Price	Revenues
Single Family	8	\$ 599,990	\$ 4,799,920
Townhome	3	\$ 419,990	\$ 1,259,970
Townhome	3	\$ 354,990	\$ 1,064,970
Quadruplex	4	\$ 419,990	\$ 1,679,960
Quadruplex	<u>4</u>	<u>\$ 354,990</u>	<u>\$ 1,419,960</u>
Total	22		\$ 10,224,780

Feasibility Where 8 Single Family Units are sold; 14 Unsold Units are offered for Lease.

Total Estimated Project Cost

Project Working Drawings & Construction	\$	9,065,000
Interest During Construction		<u>335,000</u>
Total Project Cost:	\$	9,400,000

Less: Estimated Unit Sales Revenues, 8 Single Family Units:

Net Project Cost for Interim Financing:	\$	4,600,080
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Annual Cost of Debt & Leasing Operations (14 Units)

Interim Financing (4.0%, Interest Only)		\$ 184,003 (a)
Ground Lease (\$250 Unit/Mo)	\$ 42,000	
Maintenance Reserve (\$50 Unit/Mo)	8,400	
Homeowners Assn Dues (\$150 Unit/Mo)	<u>25,200</u>	
Leasing Operations Cost	\$ 75,600 (b)	
Annual Interest & Leasing Operations Cost:	\$	259,603

Annual Leasing Revenue (14 Units)

Average Monthly Lease Rate	\$ 2,400	
Units for Lease	14	
Occupancy Rate	<u>95%</u>	
Monthly Revenue	\$ 31,920	
Annual Lease Revenue:	\$	383,040 (c)

Annual Net Revenue \$ 123,437

Debt Service Coverage (Interest Only) **1.67x [(c-b)/a]**

Backup Source of Repayment for Interim Financing of 14 Unsold Units

(assuming funding from campus equity after three years)

Principal	\$	4,600,080
Campus Housing Reserves (FY 2012-13)	\$	32,736,397
Principal Coverage		7.12x