

HIGHER
EDUCATION
PUBLIC-PRIVATE
PARTNERSHIPS:

STATE OF THE INDUSTRY REPORT

FALL 2017



INTRODUCTION

The following report highlights Brailsford & Dunlavey’s findings from an inaugural annual survey of higher education public-private partnership (“P3”) transactions. This initial State of the Industry report focuses on **housing and housing-anchored mixed-use projects** from the database¹ that achieved financial close from 2014 through September 2017 and were—or will be—built on university or foundation-owned land².

B&D embarked on this survey after fielding numerous questions across the industry about the higher education P3 marketplace—How big is the market? Are P3s more common in certain regions of the country? What are the differences in the P3 market between public and private schools? What range of P3 structures are institutions exploring?

In the process, B&D partnered with firms across the country to collect a variety of critical data points, and then analyzed the data for each transaction, including average closing value, square footage, deal structure, ground lease term, and real estate asset class mix, among others.

The goals of this annual survey are to begin to answer questions in order to benefit the sector’s many critical stakeholders—university leaders, developers, financiers, architects, builders, and advisors.

More specifically, the survey is intended to:

- › Provide a central resource for a growing and increasingly complex higher education P3 sector
- › Provide an annual “snapshot” of the market’s key metrics
- › Present current trends that will empower the market’s many stakeholders as they explore development projects

The findings will be updated and reported to the industry on an annual basis, with additional metrics unveiled throughout the year on the online knowledge exchange, The Higher Ed P3 Resource Center.

¹ B&D’s database of higher education P3 projects. The database is extensive but not complete.

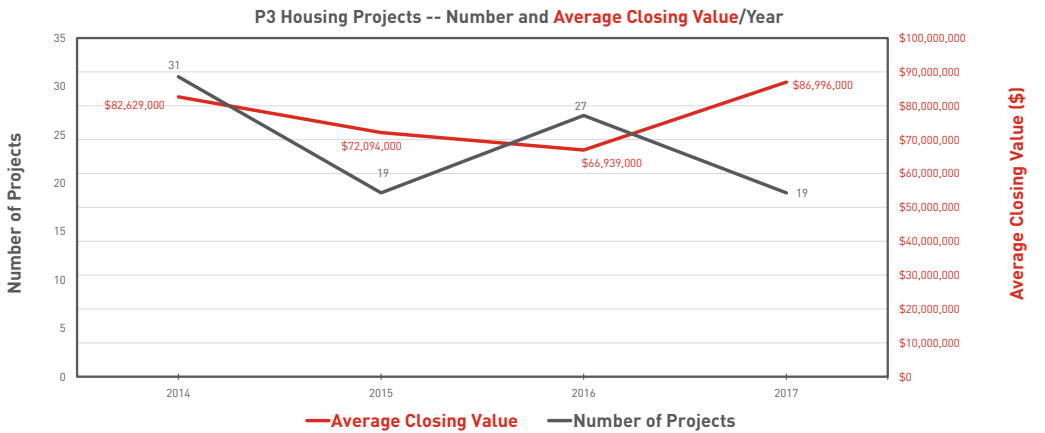
² B&D unveiled some data collected as part of this research effort at the P3 Higher Education Summit in October 2017. This written report focuses exclusively on housing and housing-anchored mixed-use projects, whereas the October 2017 presentation reported data from a broader set of projects.



INDUSTRY SIZE: IT'S COMPLICATED

You might hear a lot about a blossoming higher education P3 market and ask for more details. Overall, **the data in this study shows that the market is not outright growing; still, the market is dynamic and there are signs of growth in size and complexity.**

An initial look at the number and size of deals paints an interesting picture. With the sector receiving increasing exposure over the past few years, one may think it's clearly growing. But in fact, **the number of deals closed in a given year has been a bit unpredictable.** In 2014, the first year examined in the database, a total of 31 deals reached financial close. The following year (2015), that number dipped to 19, before climbing back to 27 in 2016. Thus far in 2017 (through September 2017) the count stands at 19. If one were to extrapolate an average, the data suggests a 2017 figure around 25 deals reaching financial close. The timing of closed transactions understandably results in fluctuations with recent data indicating the market is neither growing nor shrinking.



Transaction size has also ranged. In 2014, the average deal was \$82.6M, before dipping to \$72.1M in 2015 and \$66.9M in 2016. However, 2017 is way up—at \$87M, the highest figure yet. While these figures fluctuate, they do establish a range. We anticipate a 2018 average closing value in this range, between \$65M and \$85M. We are most interested to see if the recent jump in average value is an inflection point toward increasing transaction values.

So what do these numbers tell us for the present situation? **Like a lot of dynamic markets, the year-to-year changes are not surprising.** Much of this is simply the timing of financial close, but it also has to do with underlying shifts in the market—particularly evolving financial markets, approval processes, and higher education's political context.

DEAL STRUCTURES: A SIGNIFICANT MOVE TOWARD BUNDLING

The total and average number of beds per year has also been dynamic between 2014 and 2017—seesawing up and down alongside deal size. Here, though, **there is a trend toward fewer beds.**

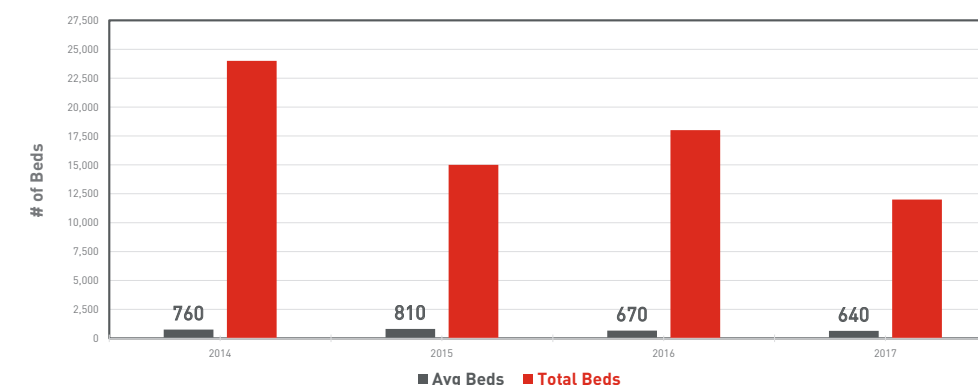
When we consider the average bed data—which trends down—alongside the average closing value data—which does not trend down—we can see that while housing is included within each P3 project, the projects are diversifying, including additional asset classes like retail, recreation, dining, parking, classrooms, or office space.

Ultimately, the data points to an increasing bundling of asset classes within higher education P3 projects. For example, in 2017 it is less common to have a student housing-only project and more common to include a range of project components.

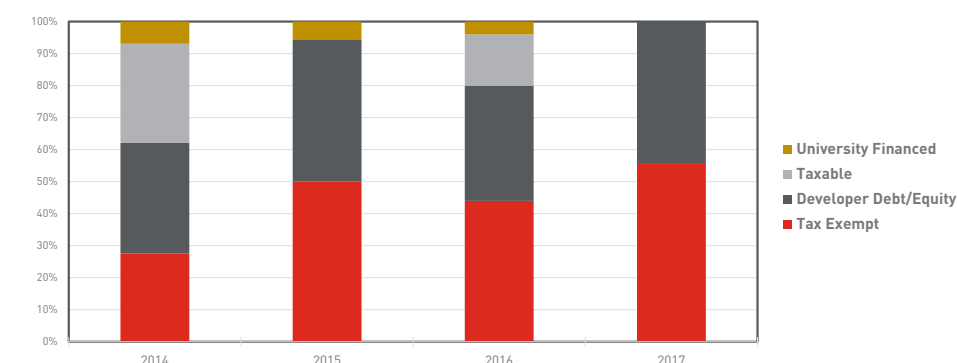
Meanwhile between 2014 and 2017, the sector also saw a notable trend related to financial structure—**movement to either Developer Debt/Equity or Tax Exempt structures**, and a reduction in those financed through taxable debt or university self-finance. While the complex range of factors that contribute to higher education institutions pursuing P3s remain, the data indicates continued strong interest in significantly transferring risk to a private partner.

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*P3 Housing
Projects by Year
and Number
of Beds*



*Percentage of P3
Housing Projects
by Year and
Financial Structure*



"Schools are pursuing P3s not just for financing, but as a way to bring in external expertise or to outsource certain functions."

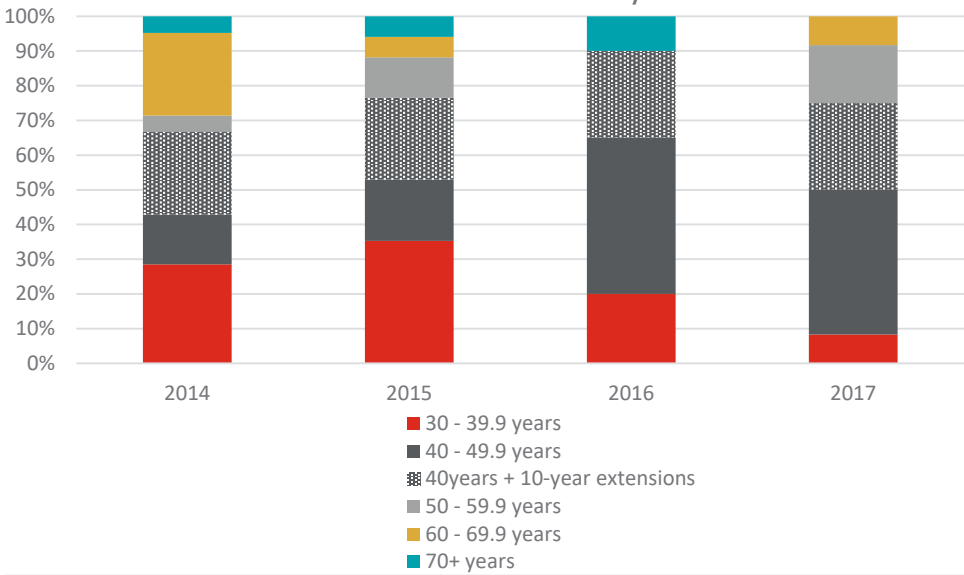
DEAL STRUCTURES: A SIGNIFICANT MOVE TOWARD BUNDLING (CONTINUED)

Ground lease durations also shifted over the years, hand-in-hand with financial structures. Ground leases lasting either 40 years or 40 years with 10-year extensions were popular throughout the study period—always representing at least 38% of the ground leases that year. Their popularity has only increased: **By 2017, 92% of leases were at least 40 years in length.** Indeed, there has been a general trend toward longer leases. While 2014 and 2015 saw a sizeable percentage of leases just 30–39 years in length—29% and 35% respectively, 2016 and 2017 saw significantly fewer short leases—20% and 8% respectively.

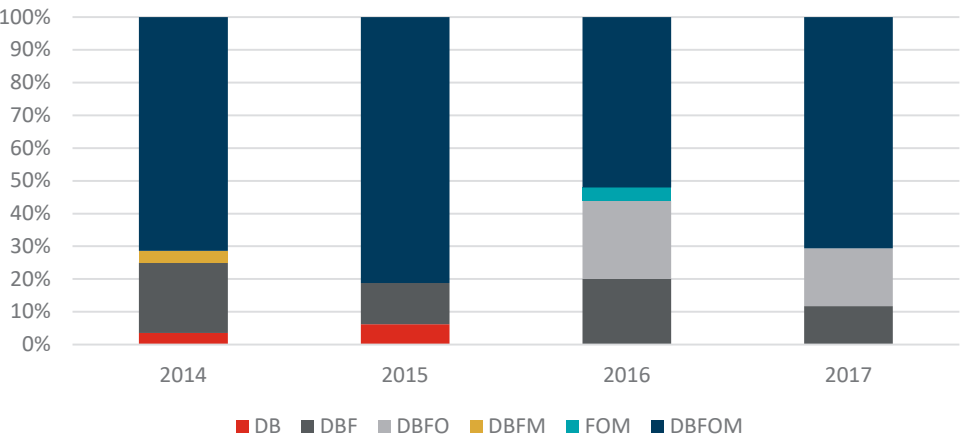
Partnership structures varied over the years and from deal to deal, however teams opted for **a D/B/F/O/M³ structure between 52% and 81% of the time—by far the most of any structure.** While the data shows D/B/F structures being selected throughout the study period, the high percentage of projects with private partner involvement in operations and/or maintenance indicates that **schools are pursuing P3s not just for financing, but as a way to bring in external expertise or to partner on the delivery of certain functions.**

There was also the expected difference between how public and private schools engage in these partnerships: Whereas no public 4-year schools selected a D/B/F/O structure during the study period, 32% of private 4-year schools did. *Note: The sample size of 2-year public schools was too small to offer a compelling figure here, but this population did pursue D/B/F/O partnerships.*

Ground Lease Durations by Year



Partnership Structure by Year



³ Design/Build/Finance/Operate/Maintain



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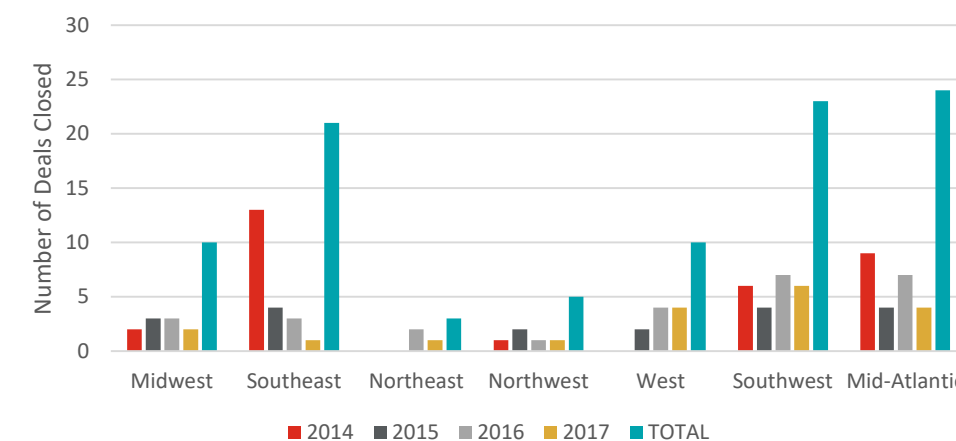
REGIONAL SNAPSHOT: BIG DIFFERENCES

During the study period, **the majority of deals closed were located in the Mid-Atlantic, Southwest, and Southeast**, with the Northeast and Northwest seeing comparatively little activity. The Northeast, specifically, has closed housing P3 projects in only the last two years, and the Southeast—while representing a large proportion of P3 projects in recent years—has seen fewer projects year over year. This data indicates that regions' activity is impacted by enrollment growth or decline, as well as each state's clarity and effectiveness of P3 enabling legislation—or lack thereof.

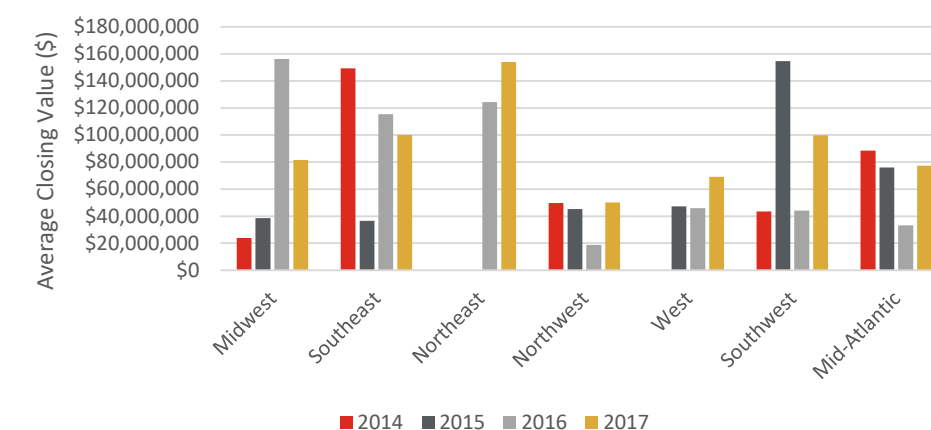
The average closing value shows no clear trend in each individual region.

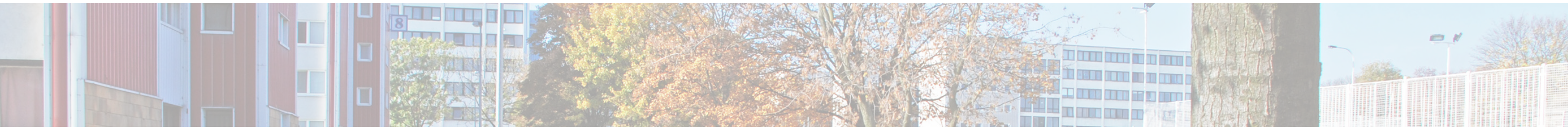
The data does not show a region having higher average closing values year over year (though the Midwest approaches this trend), nor does it show lower closing values year over year (though the Southeast approaches this trend). And while some regions are relatively steady, like the Northwest, others vary widely, like the Southwest.

Number of Deals Closed per Region by Year



Average Closing Value per Region by Year



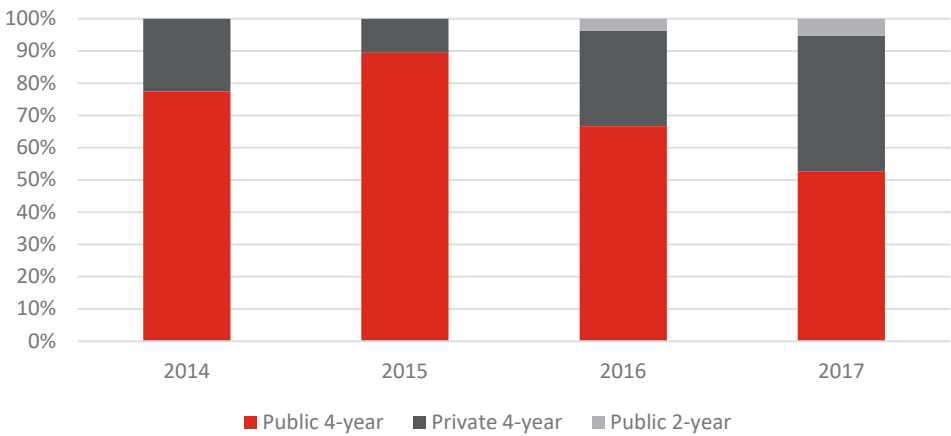


"The data indicates that a comparatively large number of the closed deals took place at schools with 20,000–30,000 students."

REGIONAL SNAPSHOT: BIG DIFFERENCES (CONTINUED)

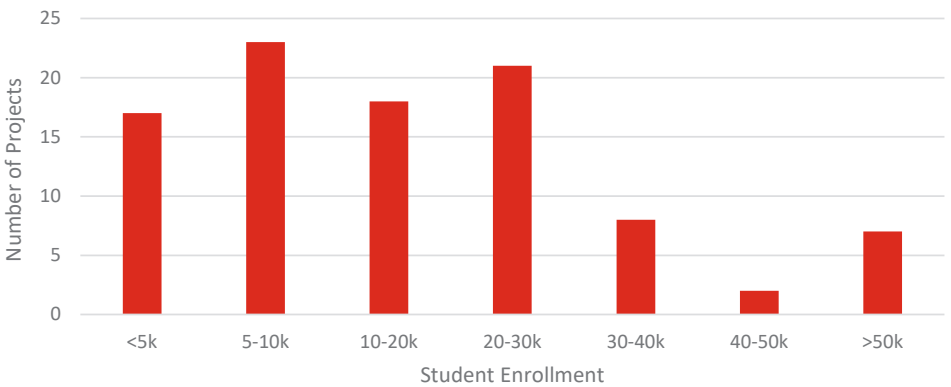
Zooming out from region and looking at the types of institutions engaging in housing P3 deals reveals a shift. Historically, the majority of these transactions have been at public 4-year institutions, but **the data shows an increase in the types of institutions looking at alternative financing structures**. In 2014, 77% of housing P3s were at public 4-year colleges. By 2017, that figure had dropped to 53%. Over the same time period, the percentage of housing P3s at private 4-year colleges jumped—from 23% to 42%—and 2-year public colleges entered the scene.

Percentage of P3 Housing Projects by Institution Type



The enrollment data is also revealing; **the vast majority transactions between 2014 and 2017 were at institutions with fewer than 30,000 students**. Since the majority of schools have fewer than 10,000 students, the data indicates that a comparatively large number of the closed deals took place at schools with 20,000–30,000 students.

Total Number of Projects at Schools of Varying Sizes



CONCLUSIONS

Housing P3s in higher ed—and P3s in higher ed, more generally—comprise a dynamic market that is continuing to evolve. As part of this evolution, the data shows trends like a greater diversity of institution types engaging in housing P3s—not just primarily 4-year public universities. Likewise the partnership structure data indicates that schools' motivation to engage in P3s stretches beyond just financing.

While this inaugural dive into the database looked for trends across the four years surveyed, it also serves as a benchmark. With 2014 through 2017 as a baseline, the industry can expect a fair number of bundled projects in 2018, and plenty of work at small- to mid-size schools. The industry might also see more initiatives similar to the approach taken by the University System of Georgia, which combined a number of projects across multiple campuses at the same time.

Another trend to look out for will be “mega projects,” which were not included in this study's analysis so as to not skew the data. An example: the project at the University of California, Merced. The Merced 2020 Project is the campus's largest-ever project, adding 1.2M gross square feet of academic, research, student housing, and student-support facilities by 2020 (with Phase 1 complete in 2018). While housing was a component of this ambitious project, the other components so dwarfed housing that including the entire project cost and other details would have heavily skewed the report's data.

The industry might also look for more projects like the one at the Ohio State University—another project in the database that was purposefully excluded from this analysis. Ohio State's Comprehensive Energy Management Project shows an additional evolving area for P3s in higher education. This P3 transferred all of the energy rights and responsibilities on the 1,904-acre, 485-building Columbus campus to private partners.

In future years, this survey will expand to areas of the database outside of just housing P3s, whether non-housing projects like Ohio State or something smaller in scale but still outside of the world of housing. Already multiple P3 projects exist in the science and technology space, and this sector could be poised to grow significantly—potentially an additional shift for P3s in higher ed given the sector's large size.





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Heffner & Weber
 Municipal Acquisitions
 Plenary Group
 The PRC Group
 RISE: A Real Estate Company
 Servitas
 PROffutt Limited Partnership
 Signet Development
 Student Suites
 University Student Living
 Westminster Group Companies

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ABOUT B&D

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AND ADVANCING COMMUNITIES

Founded in 1993, Brailsford & Dunlavey is a program management and development advisory firm with comprehensive in-house planning capabilities, dedicated to serving educational institutions, public agencies, and non-profit clients. Acting as advisors, we shepherd an idea, make it a viable project, and manage it through ribbon cutting and into operation. We are nationally recognized as a leader in the higher ed P3 market and were nominated for P3 Bulletin's 2017 Technical Advisor of the Year award.

HIGHER ED P3 RESOURCE CENTER

The Higher Ed P3 Resource Center—the industry's place for information on this dynamic market—is produced by Brailsford & Dunlavey. Visit the resource center at www.p3resourcecenter.com.



