



HIGHER EDUCATION PUBLIC-PRIVATE PARTNERSHIPS

2019 State of the Industry Report



INTRODUCTION

2019 P3 State of the Industry Report

In the second annual State of the Industry Report, Brailsford & Dunlavey (B&D) provides a snapshot of the public-private partnership (P3) industry through its research of transactions taking place between 2014 and 2018.

This year's report again focuses on housing and housing-anchored mixed-used projects. Additionally, we are currently expanding our pipeline beyond just housing. This pipeline, which tracks possible future P3 projects in higher education, will now additionally cover project types such as innovation districts, energy deals, academic buildings, parking structures/operations, and more. While future years' reports will cover these additional project types, again, this year's report focuses on housing.

To be included in this database, a project must be tied to a higher education institution, meaning the projects were—or will be—built on

an institution's or foundation-owned land. The goal of the report remains the same. As one of the critical stakeholders (e.g., higher education leadership, developers, financiers, architects, builders, and advisors) exploring development projects, we seek to empower the industry with a "snapshot" of the market's key metrics. This year's snapshot, yet again, shows a dynamic industry.

As always, the findings of B&D's survey of the industry 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*** (p3resourcecenter.com).

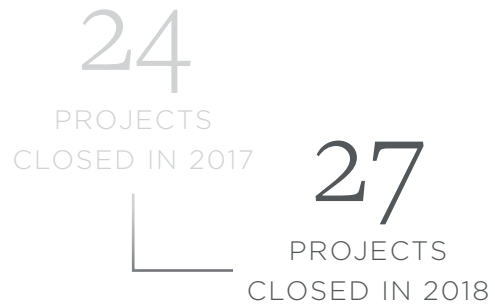
HIGHLIGHTS FROM 2018

A Steady Picture... Aside from Deal Size

In many ways, housing P3s in 2018 looked a lot like they did in prior years.

Most deals were tax-exempt, most were at public 4-year institutions, and most included ground leases of 40-49 years in length. The same is true for almost all previous years.

2018 did see slightly more projects, though. Last year, 27 projects closed—a figure within the norm but on the higher side, and a step up from 2017's 24 closed projects. 2018 also saw an increase in average deal size, with a figure of \$100M—the largest average we've seen since the tracking of this data began in 2014, and a step up from 2017's average deal size of \$94M.



5-year Industry Snapshot

The buzz around housing P3s has not slowed down. We can attribute this to many factors affecting the higher education landscape—continued decrease in state funding, increased pressure on reducing the cost of education, shifts in student desires related to campus amenities, huge deferred maintenance issues, and so on. So the landscape is shifting, but the data tracked in this study shows a pretty steady picture.

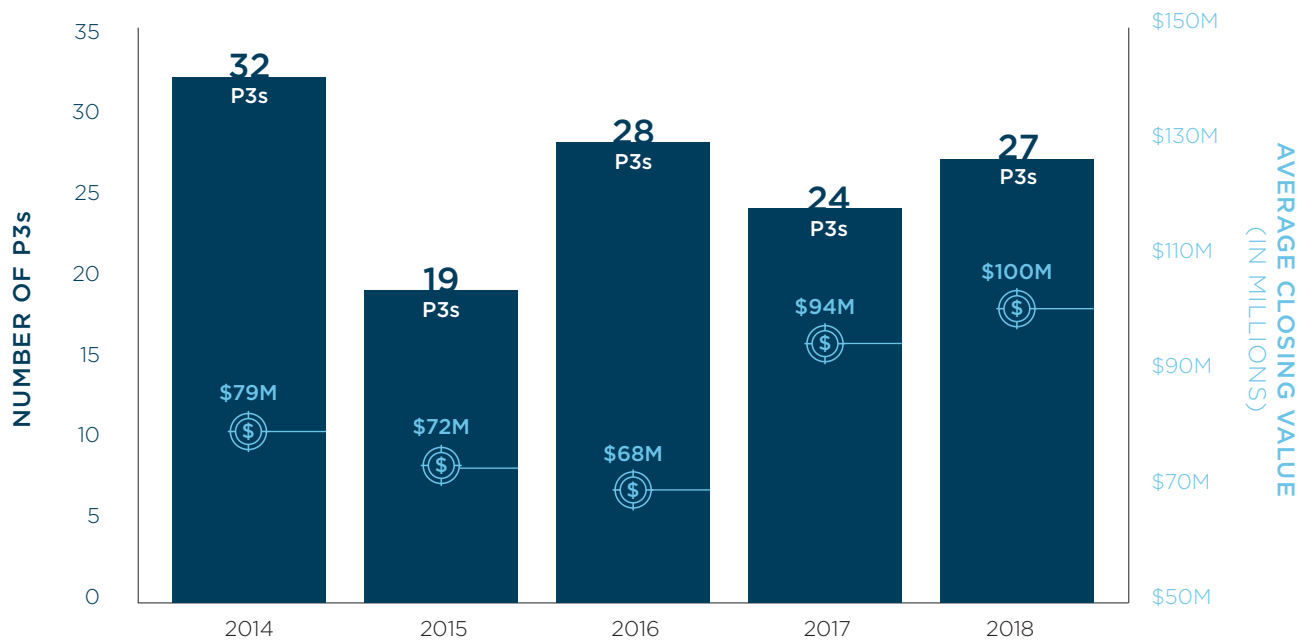


Number of Deals & Closing Value

The database currently holds 130 housing deals that have closed over the past 5 years (2014-2018)¹. While the average number of deals closed per year is perhaps settling in the high 20s range, average deal size appears to be getting bigger after a few years of getting smaller. If average deal sizes increase while the number of deals decrease, that might be a sign more schools are bundling—wherein a single project covers multiple asset classes.

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Number of Housing P3s and Average Closing Value, by Year



¹ Throughout this report, you will see modest changes to the numbers stated in last year's report. These changes are due to additional findings over the course of 2018.

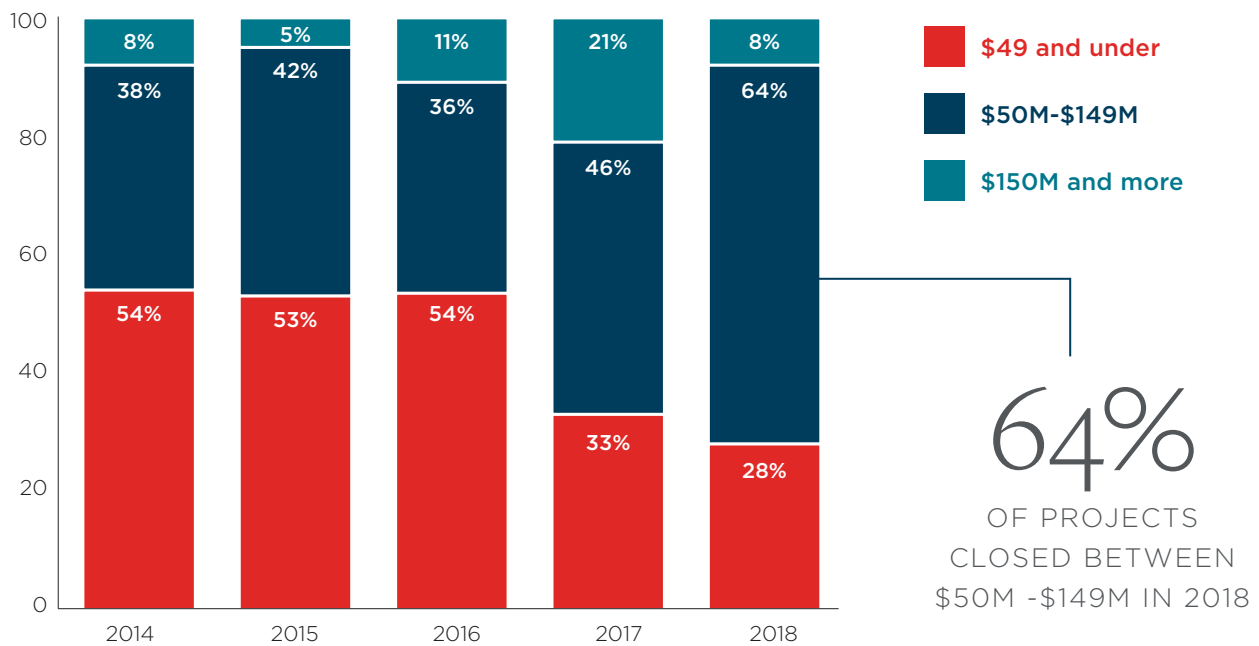
This idea is reinforced by a breakdown of the data looking at roughly three scales of projects:

- 1 **A single building/asset** (projects with a closing value of \$49M and under)
- 2 **Multiple buildings/assets** (\$50M - \$149M)
- 3 **Campus-wide projects** (\$150M and more).

The data shows a recent uptick in the percentage of projects closing between \$50M - \$149M—possibly an indication of projects being bundled, or possibly just rising construction costs.

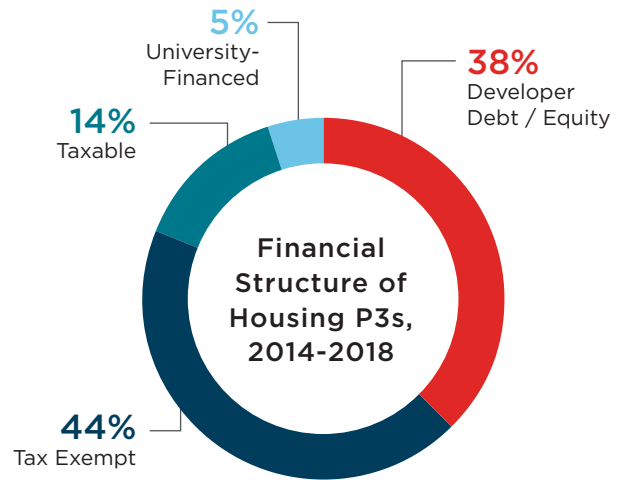
The uptick in larger/bundled projects is paired with a downtick in smaller/simpler projects. A trend is not yet proven, however; 2019's data will help confirm or refute it.

Closing Value of Housing P3s, by Year

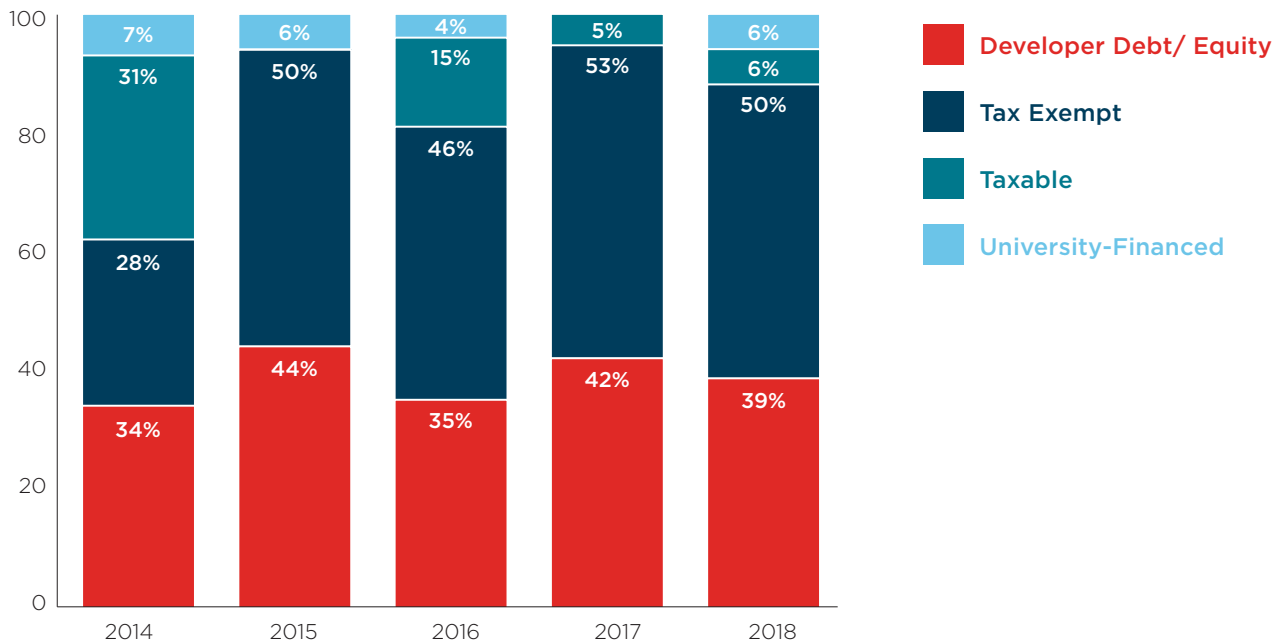



Financial Structure

The majority of housing deals closed continues to be tax exempt or equity. As seen in the chart below, in the previous year studied (2017), deals financed through **taxable debt** or **by the institution** seemed to be decreasing, but 2018 saw an uptick in both. Compared to last year, the return of university-financed deals—while maintaining transference of operations and maintenance risk—indicates schools are considering retaining the finance piece.



Financial Structure of Housing P3s, by Year



An aerial night photograph of a university campus. The scene is illuminated by streetlights and building lights, creating a blue and white color palette. A large white diagonal graphic overlay is positioned in the upper left quadrant, containing text. The background shows various campus buildings, including a large multi-story building on the left and a smaller building with a cupola on the right. A central courtyard with a fountain and walkways is visible in the lower right. A parking lot with several cars is at the bottom.

*The return of university-
financed deals indicates
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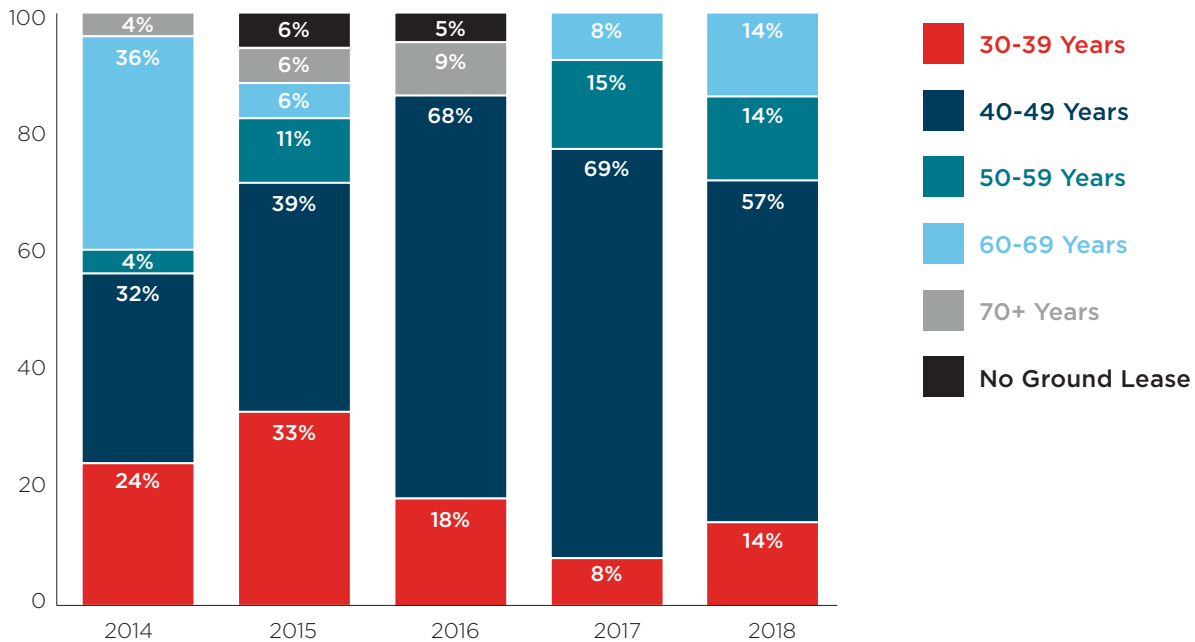
Ground Lease Duration

Long leases remain popular. Within each year analyzed through the database, 67% or more of the housing deals had lease durations that were 40 years or greater. While the last two years saw no leases **70+ years** in length, many leases listed here as **40-49 years** in fact have built in extension options—usually three 10-year extensions.

40+ YEARS

MOST HOUSING DEALS HAVE LONG LEASE DURATIONS

Ground Lease Duration of Housing P3s, by Year



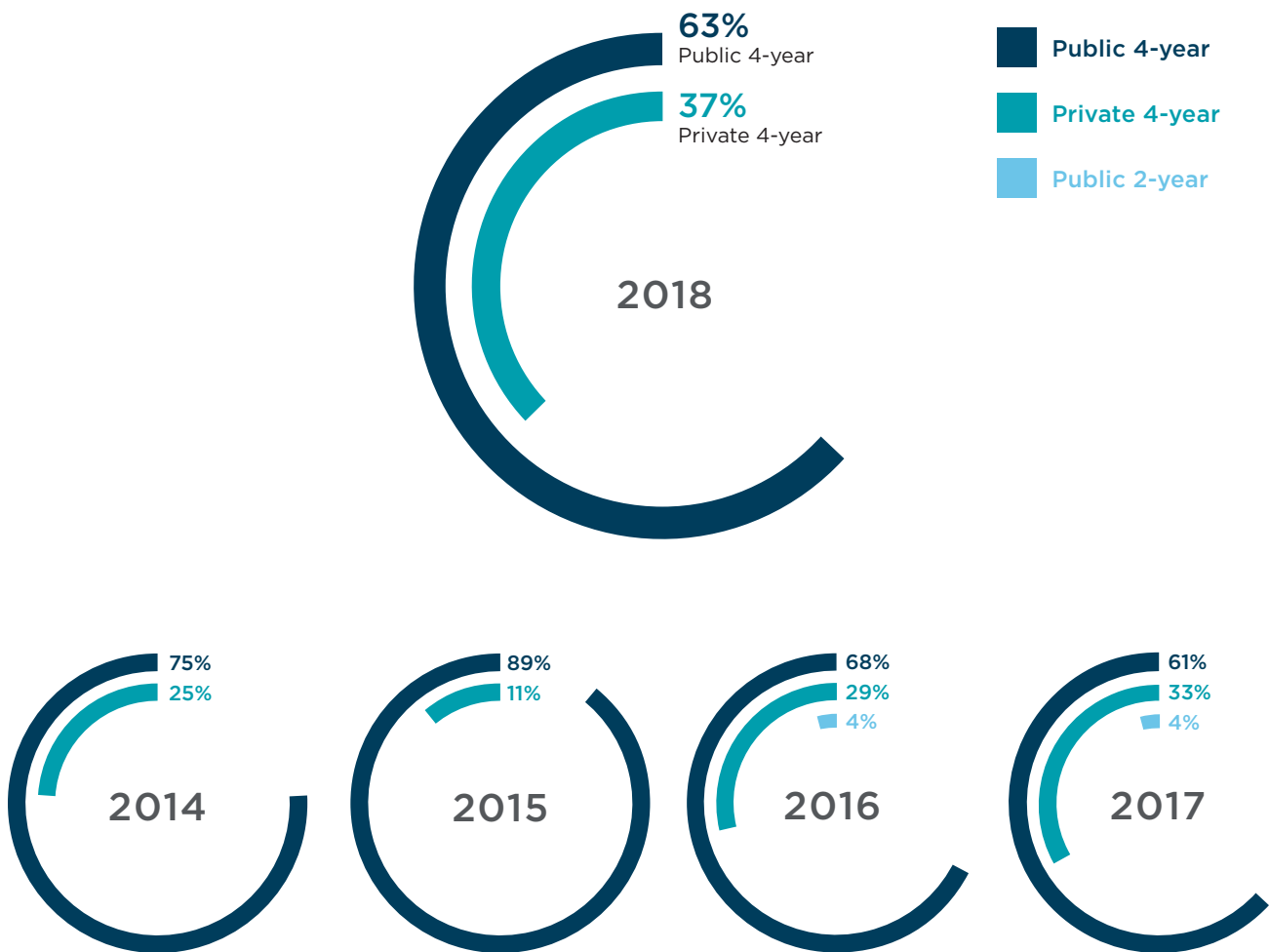
Institution Type

Most housing and housing-anchored mixed-use P3s we've tracked have taken place at **public 4-year** institutions. Likewise a larger percentage of public 4-years have opted to pursue housing P3s during the study period (8%) than have **private 4-years** (2%).

Note, though, that except for a dip in 2015, each year more and more projects have taken

place at private 4-years; what started as one-quarter (25%) of deals in 2014 is now more than one-third (37%). Some years have also seen a small number of deals at **public 2-year** colleges, which we believe will see an increase in the foreseeable future despite none being recorded in 2018.

Housing P3s by Institution Type, by Year



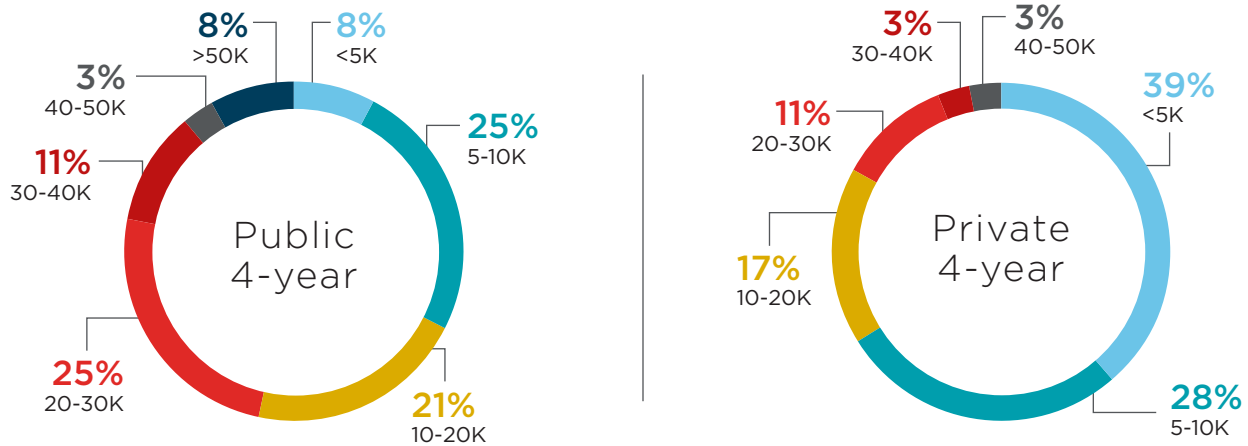
*A comparatively large
number of deals took place
at schools enrolling more
than 20,000 students—
and the largest number
of deals took place at the
largest schools.*



Institution Size

Over the five-year period, 33% of housing P3s at **public** 4-year institutions took place at schools with fewer than 10,000 students; 67% of the deals at **private** 4-year institutions took place at schools with fewer than 10,000 students. Given that nearly 60% of all public 4-year institutions and more than 95% of private 4-year institutions enroll fewer than 10,000 students, this is surprising.²

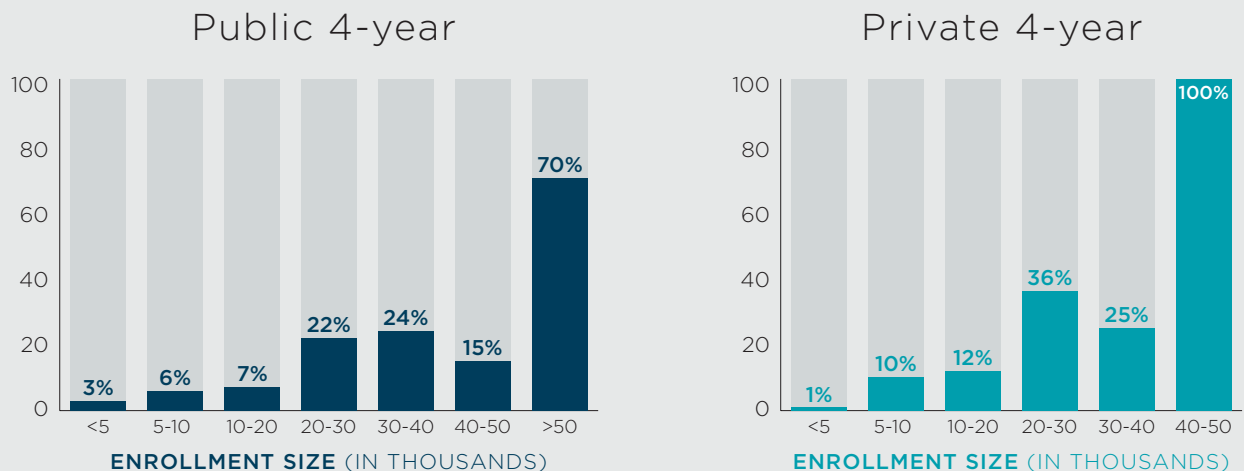
Housing P3s by Enrollment, 2014-2018



WITHIN ENROLLMENT CATEGORIES

The data is a bit more revealing when we look at the percentage of schools pursuing housing P3s by enrollment. Which is to say, out of all public and private schools in a certain enrollment category, what percentage opted to do a P3? The data shows that, for both publics and privates, a comparatively small number of deals took place at schools enrolling fewer than 20,000 students, and the largest number of deals took place at schools enrolling more than 50,000 students (publics) / 40,000 students (privates).

Percentage of Schools Pursuing Housing P3s, by Enrollment, 2014-2018



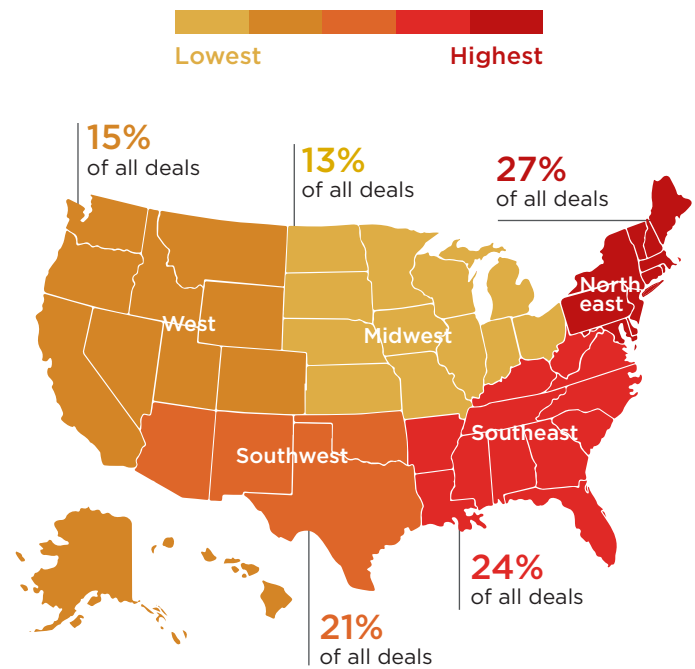
² National enrollment data reflects 2017 higher education enrollments collected by the National Center for Education Statistics - IPEDS Data as of March 2019.

Regional Focus

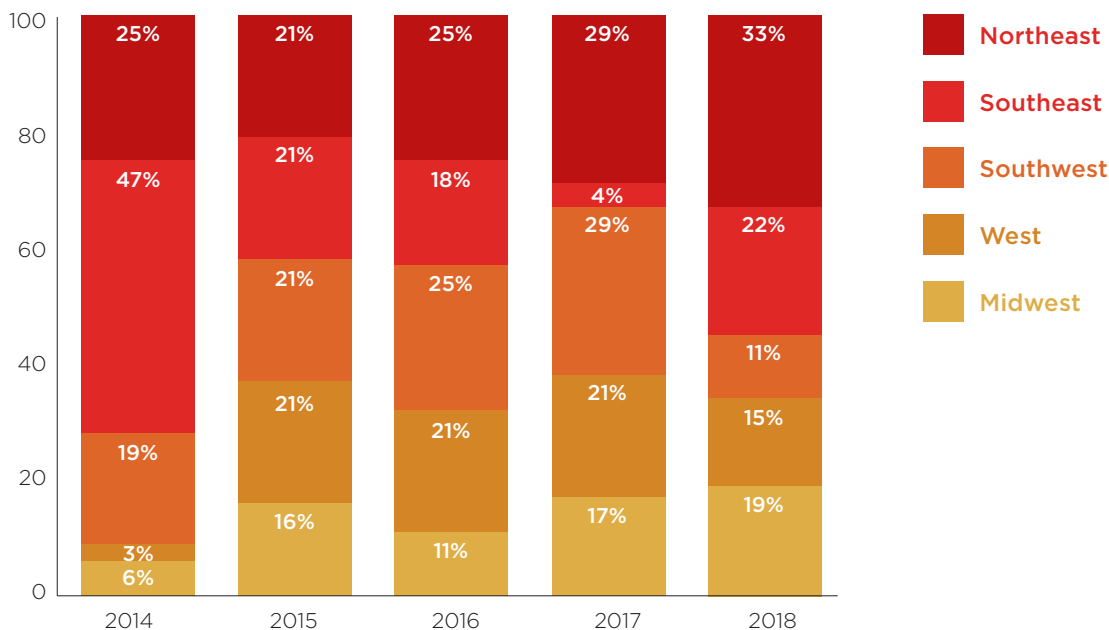
Over the last five years, more than 70% of all housing deals closed were in the Northeast, Southeast, or Southwest. However, from year to year, this has proven to be relatively dynamic; likewise our pipeline data suggests increasing deals in the West.³ Some other key findings:

- The **Northeast continues to dominate**, holding a larger percentage of the deals than any other region nearly every year.
- Nearly 15% of all deals closed have been **in Texas**.
- The number of deals in the **Southwest** rose from 2014 to 2017, but then **dropped dramatically this past year**—from 29% of all deals in 2017 to only 11% in 2018.
- The **Southeast** held a strong majority of the deals in 2014, mainly because of the large system-wide deal in Georgia, but began to **drop steadily** until the number of deals spiked again in 2018, coming in second with 22% of all deals.

Housing P3s by Region, 2014-2018



Housing P3s by Region, by Year



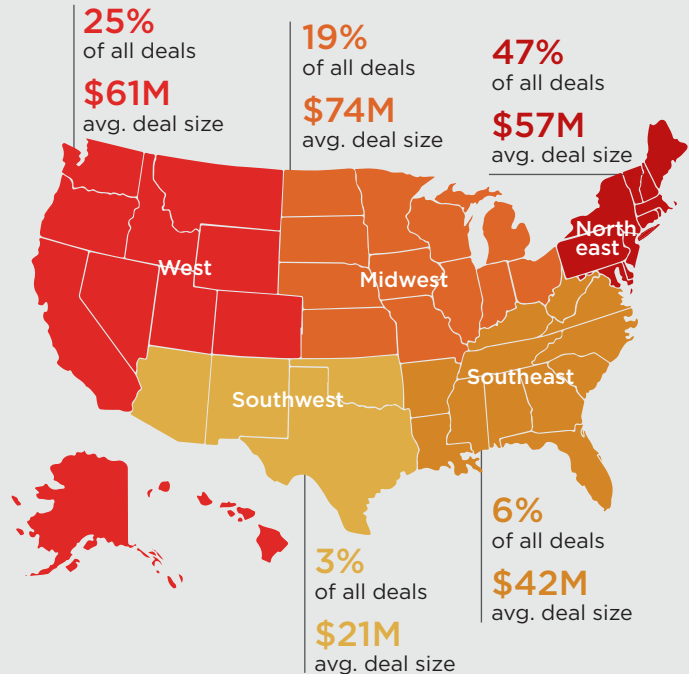
³ To be included in our database as a pipeline deal, the project must have been conceptualized within a request for information/qualifications/proposals and put out for bids by advisors and/or developers.

REGIONS BY INSTITUTION TYPE

Private 4-year

The region with the most private institutions doing housing P3s during the study period was the **Northeast**—by far—with almost half (47%) of the closed projects taking place here. This is not terribly surprising given the density of schools in the Northeast; 32% of all private schools are located in this region.⁴ Meanwhile the **Midwest**—a region that saw about one-fifth of all housing P3s at private institutions—had projects with the largest deal sizes, averaging \$74M.

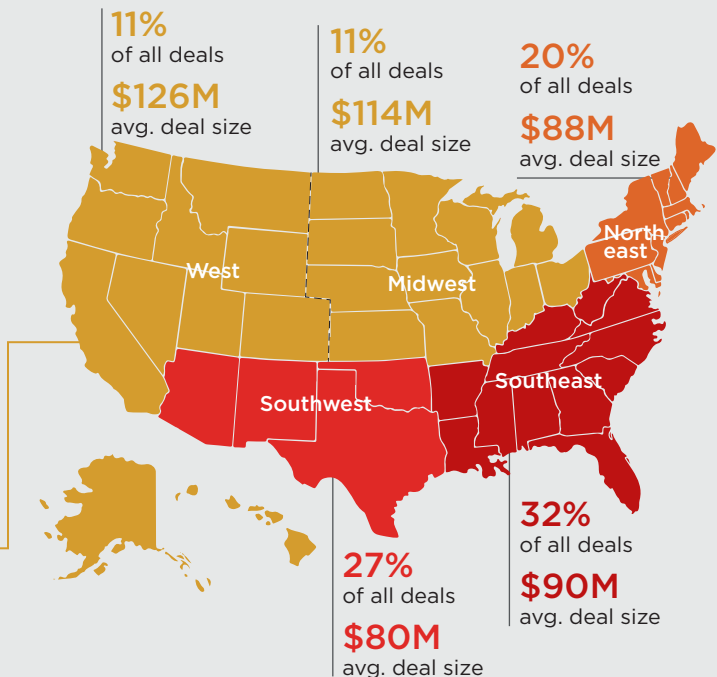
Housing P3s by Region, Private 4-year, 2014-2018



Public 4-year

The region with the most public institutions doing housing P3s during the study period was the **Southeast**—with almost one-third (32%) of closed projects taking place here. The publics with the largest average deal size (\$126M) were located in the **West**. Note that the largest average deal size for publics was almost twice the size than that at privates.

Housing P3s by Region, Public 4-year, 2014-2018



\$126M

LARGEST AVERAGE DEAL SIZE
AMONG PUBLIC SCHOOLS

⁴ Data pulled from the National Center for Education Statistics – IPEDS Data as of March 2019.

A Look Ahead

Beyond housing

While housing or housing-anchored deals make up the majority of all closed deals, they are only about half of the deals in our pipeline (the deals we are tracking across the country that have yet to close). These other projects will involve innovation districts, academic buildings, childcare centers, office spaces, theaters and performing arts venues, parking, hotels and conference spaces, energy, athletics facilities / events complexes, bookstores, and more.



Housing



Mixed-Use



Energy



Academic



Venues



Innovation Districts



Parking



Other

Pipeline

We are currently tracking 95 deals across the country that could result in more than \$8B of new projects. Of these pipeline deals, 28% are located in the West. Over the course of this next year, we will take a look at which pipeline deals convert into actual implemented projects and explore reasons why deals may or may not achieve financial close.

95

POTENTIAL
PROJECTS IN
THE PIPELINE

\$8B

WORTH OF NEW P3
PROJECTS IN THE
NEXT FEW YEARS

For more information or to have your projects represented in next year's report, please contact:

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A man with short dark hair and a goatee, wearing sunglasses and a light-colored striped polo shirt, is walking outdoors. He has a black bag slung over his shoulder and is looking off to the side with a slight smile. In the foreground on the right, a hand is holding a brown folder or envelope. The background is a blurred outdoor setting with buildings and other people.

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Founded in 1993, Brailsford & Dunlavey is a leader in implementing creative solutions for higher education clients to maximize the value of their buildings and resources. We are at the forefront of higher education P3 advising—shaping the deal structures of today. B&D is listed among *Engineering News-Record's* “Top 30 Program Management Firms” and has been a finalist for the P3 Bulletin’s Technical Advisor of the Year award in both 2017 and 2018.

programmanagers.com

Higher Ed P3 Resource Center

B&D launched the Higher Ed P3 Resource Center as an educational forum for the sector—college and university leaders, developers, and other stakeholders. Serving as a central, go-to place for answers—or even the right questions to ask—the resource center offers articles from industry experts, a P3 101 guide, infographics, presentations, and more. The Higher Ed P3 Resource Center serves as a library, housing information from throughout the industry.

p3resourcecenter.com