

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of July 19, 2016

APPROVAL OF PRELIMINARY PLANS FUNDING, MINNESOTA STREET STUDENT AND TRAINEE HOUSING, SAN FRANCISCO CAMPUS

EXECUTIVE SUMMARY

The San Francisco campus proposes to construct housing on recently acquired property at 566/590, and 600 Minnesota Street, located immediately south of the Mission Bay. The Minnesota Street Student and Trainee Housing project (Minnesota Street Housing) would provide up to 610 units for students and trainees by 2019, helping to significantly reduce the estimated shortfall of on-campus housing units.

Recent studies suggest the campus has a demand for 1,400 units (in addition to its current supply of 662 units) to accommodate 1,700 students and trainees. UCSF is embarking on a series of student and trainee housing developments in response to demand for housing beyond what was anticipated and included in its 2014 Long Range Development Plan (LRDP). Because the San Francisco rental-housing market is now the most expensive in the U.S., demand for campus housing (priced 40 percent below market levels) is extremely high. The 2014 LRDP proposed an addition of 852 units, an amount no longer sufficient to meet current demand.

The Minnesota Street Housing project is proposed to be comprised of five to six stories of housing over one level of parking with a unit mix of two-bedroom, studio, and efficiency-type units for graduate and professional students and trainees. The project plans to include courtyards, common spaces, retail space, and landscaping.

The campus proposes to develop and operate the project using in-house resources, as validated by Century Urban, a third-party consultant. Financial analyses show that UCSF can build the proposed project and maintain project rents at well below market levels. The project's construction is anticipated to be funded by debt financing, with debt service covered by rental revenue. UCSF plans to set rents and manage operating costs so that the project's net revenue will meet the debt service and debt coverage ratio requirements, as set by the UC Office of the President.

This item requests the approval of Preliminary Plans funding in the amount of \$12.8 million, funded by housing reserves and campus funds, specifically from a centrally managed pool of unrestricted funds (non-State, non-tuition), derived from a variety of sources, including indirect

cost recovery on sponsored contracts and grants, gift assessments, and investment earnings. The campus funds would be reimbursed by external financing. These funds would allow the campus to engage an executive architect and construction professional to explore design constructability alternatives, including use of industrialized construction methods, identify cost-effective development alternatives, choose the approach which delivers best value, and advance the project through design development and design approval. Approval of full budget, financing and approval of design following action pursuant to the California Environmental Quality Act will be requested of the Regents in March 2017.

RECOMMENDATION

The President of the University recommends that the Committee on Grounds and Buildings recommend to the Regents that the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Francisco: UCSF Minnesota Street Student and Trainee Housing – preliminary plans – \$12.8 million to be funded from housing reserves (\$7.0 million) and campus funds (\$5.8 million).

BACKGROUND

UCSF currently has 662 campus housing units, including 30 units occupied by faculty, located on the Mission Bay and the Parnassus Heights campus sites. As of the 2015-16 academic year, campus housing can accommodate only 14 percent (about 900) of the 6,310 student and trainees in 632 units. Yet because on-campus housing offers a convenient and well-priced option compared to the market, current demand is significantly higher.

The last UCSF housing project was built a decade ago. The Mission Bay Block 20 Housing project delivered a 431-unit housing complex in fiscal year 2005-06. At the time of opening, the development of the Mission Bay area was just beginning and there was little supply of housing in the immediate area, either on-or off-campus. With most of the parcels in San Francisco's Mission Bay neighborhood now either built-out or entitled, and populated by UCSF and a host of biotechnology, pharmaceutical, and healthcare companies, the demand for housing in the area has significantly increased. Although a substantial amount of new private off-campus housing has recently opened (or will open soon) in the greater Mission Bay area, the majority of the new housing is market rate and is occupied by well-compensated professionals who can afford the median rents of over \$3,000 a month.

In San Francisco proper, a one-bedroom rental averages \$3,452⁽¹⁾ per month, up from \$2,195 in 2011. In contrast, a one-bedroom rental on campus averages \$2,300 a month, up from \$1,811 in 2011. On-campus housing rates average 40 percent (\$1,152 per month) lower than the average off-campus rates.

¹ Rental rates are based on an August 2015 report by Pricenomics.

Students and trainees have fluctuating schedules, and overnight shifts and involvement in patient care are required by their studies and work. As such, close proximity to campus hospitals, clinics, and laboratories is critical. This need limits students' and trainees' ability to live outside of San Francisco, where housing prices are slightly lower. Therefore, many students and trainees residing off-campus are often living in less than desirable conditions and in tight quarters in order to live near campus and keep monthly costs reasonable.

To ensure the well-being of current students and to facilitate the recruitment of new students, the Chancellor and campus leadership recently made a decision to support a cost-of-living supplement (COLS) for eligible students. The COLS will provide a bridge solution between now and when the Minnesota Street Housing project will be delivered in 2019. Effective July 1, 2016, students who demonstrate financial need and who are not able to live in campus housing will receive a \$200 per month supplement (\$2,400/year). In fiscal year 2016-17, the COLS program is funded by a philanthropic gift, UCSF Health, and each school. The COLS program will be funded year-to-year. However, the San Francisco campus hopes to have the funds available to offer the program until 2019, when Minnesota Street Housing is planned to open.

As indicated in the 2014 Long Range Development Plan (LRDP), the student and trainee population is proposed to grow only modestly through 2035. As such, pressure on campus housing supply among the students and trainees population is not a result of enrollment growth but is directly correlated to rapid housing cost increases throughout San Francisco. The LRDP proposed the addition of approximately 850 units at existing campus sites. At the Parnassus campus, this includes the creation of new student and trainee housing by converting non-housing space in the existing UC Hall building into campus housing in two phases (105-120 units by 2021 and 69-89 units by 2035), as well as the conversion of the Millberry Union buildings into campus housing (83 units by 2035).

The LRDP designated Block 15 on the Mission Bay campus site for future housing. Block 15 is adjacent to blocks zoned for instruction and research, and open space. When parcels on Minnesota Street became available in 2015, UCSF leadership decided to defer the development of housing on Block 15 and reassess the best use of this centrally located block. UCSF has experienced tremendous demand for research and clinical space as a result of growing federal and philanthropic support, as well as changes in the delivery of clinical services with the implementation of the Affordable Care Act. There are limited locations in or near Mission Bay that could accommodate research, clinical, and ancillary administrative uses.

Project Drivers

The following drivers have been identified for UCSF student and trainee housing projects. The Minnesota Street Housing project meets all of these:

1. Burgeoning housing demand has overwhelmed the City of San Francisco's housing supply. This has resulted in unprecedented rent rates.

2. UCSF's students and trainees (often with limited incomes) have difficulty competing with working professionals for market-rate housing in areas close to campus facilities and convenient to public transportation.
3. Difficulties in securing (and paying for) affordable proximate housing are impeding UCSF's recruitment and retention of top-tier graduate and professional students and trainees.

These current conditions impact the campus' ability to maintain UCSF's status as a top-ranked health sciences university and require immediate action to address the problem. UCSF first considered options to increase the supply inventory by master leasing and/or purchasing already developed units. However, given current market conditions for housing, UCSF did not succeed with these efforts as discussed in Attachment 3. As a result, UCSF determined that the most viable and cost-effective way to address the problem would be to increase its campus housing inventory by developing new reasonably priced campus housing as soon as possible.

It is important that UCSF's housing rents are affordable to students and trainees. UCSF's housing plan is also predicated upon maintaining below-market rates. Although UCSF campus housing rents are inexpensive compared with off-campus rates, on-campus housing rents still pose significant challenges to students' and trainees' modest budgets. For the past ten years, UCSF Housing Services has increased rents at a rate just high enough to cover annual increases in operating expenses, fund reserves for renewals and ongoing repairs, and save for future new development. UCSF Housing plans to continue this approach for modest rate increase for future housing projects, including the Minnesota Street Housing project.

The Minnesota Street Housing project meets all three of the project drivers and can be completed in an efficient timeframe.

- With the project anticipated to open for occupancy in the summer of 2019, it will make a significant contribution to overall inventory in a relatively near-term time horizon.
- Current pro forma analysis indicates that the rental rates in this project (and across other UCSF housing) can continue to stay well below market. By maintaining low rental rates, the project achieves one of its primary objectives of student and trainee affordability in an area close to the campus.
- With up to 610 units accommodating up to 810 occupants, this project helps fulfill one of the campus' primary drivers in that it provides a supply of campus housing and gives those who recruit and retain academic talent a competitive offering.

Project Description

In September 2015, UCSF received approval from the Regents to purchase and finance the two approximately 40,000 square-foot parcels at 566/590, and 600 Minnesota Street, located in the

Dogpatch neighborhood, just south of the Mission Bay campus. The parcels were acquired because of their proximity to the campus site and because of the residential character of the Dogpatch neighborhood. The City of San Francisco rezoned the neighborhood in the 1990s to promote housing development. Historically mixed industrial/residential neighborhood, Dogpatch has become more residential in character and many ground-up housing developments have been and are proposed to be built in the area. Dogpatch provides retail offerings and residential life within a block of the Mission Bay campus. Developing housing on land it owns will allow UCSF to control housing rents.

Preliminarily, the Minnesota Street Housing project (approximately 390,000 gross square feet) would be for construction of up to 610 units of housing and up to 140 parking spaces on two sites (566/590 and 600 Minnesota) located one block south of the Mission Bay campus. The project would be comprised of Type 1 construction of six stories of housing over one level of below-grade parking, and with landscape improvements.

The unit mix would include two-bedroom, studio, and efficiency type units with up to 60 percent of the units proposed as efficiency units. Efficiency units (250 square feet) are self-contained living spaces with kitchenette and bathroom.

In order to foster a sense of community, the proposed project would include common courtyards and community space where residents can socialize, network, and study. In addition, the proposed project would include some space for retail facing the public street, though the type and size of retail is still under study.

UCSF plans to include up to 140 spaces of parking in order to accommodate campus service vehicles, staff in the adjacent 654 Minnesota administrative facility, and the few students and trainees who need personal cars. Several parking spaces will be dedicated for the use of rideshare vehicles. Students and trainees living at Minnesota Street Housing will be advised not to bring cars to campus but to, instead, use rideshare vehicles, nearby public transit, and the well-established UCSF shuttle system.

Although the University is exempt from local zoning requirements, UCSF endeavors to be substantially consistent with the City's use and height limitations. The City and County of San Francisco, through its Eastern Neighborhood Plan, zoned the property "Urban Mixed-Use" (UMU), a designation intended to promote a mix of activities. The rules applying to this UMU zone allow residential development among other uses common to the Dogpatch neighborhood. The City's height limit for the property is 58 feet.

Based on its Community Planning Principles as stated in the 2014 LRDP, UCSF is required to work with the community to identify planning parameters, environmental impacts, and cushioning actions to offset impacts. The campus has begun the process of engaging the community during the conceptual planning phase and would continue the process of engagement during the design phase. A separate process is underway to address cushioning of impacts related to the proposed project as well as other proposed UCSF projects in the neighborhood.

Project Delivery

The campus hired Century Urban, a third-party development advisor consultant and developer, to evaluate alternative delivery methods for the Minnesota Street Housing project, including campus delivery and operation, and a Public Private Partnership (P3) model. They recommended internal delivery and the primary reason for this approach, as detailed in Attachment 4, is that campus delivery and operation afford the campus greater control of rental rates and delivery schedule.

Supported by Century Urban's analysis, the campus proposes to deliver the Minnesota Street Housing Project using a campus-led Construction Manager at Risk (CMAR) approach, with integrated Design-Build subcontractor trades using an integrated Target-Value Design strategy. It is anticipated that a high volume of construction will be underway in the Mission Bay area concurrent with the Minnesota Street Housing project. The proposed delivery method allows the campus to engage the construction professionals early in design to address the challenges of construction under these circumstances, explore constructability alternatives, including off-site modular and industrialized building techniques, and identify the most cost-effective approach.

The Preliminary Plan budget reflects this investment in bringing in the contractors and subcontractors early so that later phases of design and construction will be more efficient and predictable. By investing upfront in planning the design and construction, the campus expects to minimize unanticipated construction costs and/or delays later in the schedule. It is imperative that the project be completed by summer 2019 in order to meet the student/trainee move-in period. Any delay would mean the project is delayed by one year.

Financial analyses show that UCSF can build the proposed project and cover its costs within UCSF's housing finances, while maintaining project rents well below market levels, and maintaining annual rental rate increases near the campus' target of four percent. The project's construction is anticipated to be funded by debt financing, with debt service covered by rental revenue. UCSF Housing will manage operating costs to meet the debt coverage ratio requirements, as set by the UC Office of the President.

Approval Request and Schedule

UCSF requests approval of preliminary plans funding of \$12.8 million, to be funded by housing reserves (\$7 million) and campus funds (\$5.8 million), specifically from a centrally managed pool of unrestricted funds (non-State, non-tuition). These funds are derived from a variety of sources, including indirect cost recovery on sponsored contracts and grants, gift assessments, and investment earnings. These funds will support completion of programming, and design through design development documents together with completion of California Environmental Quality Act documentation and cost analysis. The campus funds would be reimbursed by long-term financing and are being used to support this project because of the limited availability of housing reserves, as a portion of those reserves are dedicated to capital renewal and deferred maintenance of existing housing stock.

The campus intends to submit the project for full budget, financing, and design approval in March 2017. Following budget, financing, and design approval, it is estimated that the construction would be completed by summer 2019, with move-in by August 2019.

Key to Acronyms

CMAR	Construction Manager at Risk
COLS	Cost-of-Living Supplement
GSF	Gross Square Feet
LRDP	Long Range Development Plan
Minnesota Street Housing	Minnesota Street Student and Trainee Housing project
P3	Public Private Partnership
UMU	Urban Mixed-Use

Attachments:

- Attachment 1: Preliminary Plans Budget
- Attachment 2: Alternatives Analysis
- Attachment 3: Delivery Model
- Attachment 4: Project Location

PRELIMINARY PLANS BUDGET

Category	Amount
Fees ⁽¹⁾	\$ 6,200,000
Campus Administration ⁽²⁾	\$ 1,900,000
Surveys, Tests, Plans, and Specifications ⁽³⁾	\$ 500,000
Special Items ⁽⁴⁾	\$ 4,200,000
Total Preliminary Plans Budget	\$12,800,000

The Preliminary Plans budget phase includes the selection of the design and construction team and completion of the Programming, Schematic Design, and Design Development documents. The participants will include the design and construction team and campus stakeholders. The Preliminary Plans phase will also include a substantial investment into research of high quality, highly efficient industrial design. UCSF Capital Programs will produce the pre-qualification and qualification documents and will facilitate the design team, construction management, and sub-contractor selection processes. Other activities such as California Environmental Quality Act analysis, community outreach, internal review, and coordination will occur during this period.

⁽¹⁾ Architect, construction manager, and technical team fee required through Design Development and Regents Design Approval

⁽²⁾ Campus project management, plan review, and contract administration

⁽³⁾ Surveys, tests, plans, and specifications include geotechnical investigation, hazardous materials survey and testing

⁽⁴⁾ Planning and programming technical performance criteria, structural peer review, campus planning, third-party peer review, legal and CEQA consultants, community presentations, CEQA approval, and telecommunications

ALTERNATIVES ANALYSIS – OPTIONS CONSIDERED BUT REJECTED

Four options were analyzed in detail, including the development of housing on the Minnesota Street properties. Minnesota Street Housing project (with an in-house delivery) was considered the most favorable option for reasons of schedule, cost, operational difficulties, and locational challenges.

A summary of the other three considered but rejected options is provided below.

Rejected Option: Master leasing privately developed off-campus housing: UCSF considered master leasing large blocks of units within recently or soon-to-be constructed apartments. Master leasing was rejected as an option principally because of costs. The net cost to UCSF under a master lease arrangement was estimated at \$7 million per year for 500 units. Additionally, the campus would build no equity with a master lease arrangement; therefore, this option was not viable from a long-term investment perspective. The cost difference between what UCSF could collect from students and trainees in rent vs. what UCSF would pay to a landlord ranged from \$1,000 to \$1,500 per unit per month, as all properties were renting or planning to rent at market levels.

Rejected Option: Purchasing privately developed off-campus housing: UCSF considered purchasing apartment complexes (whole or in part), including properties under development or slated for development. However, UCSF's 2014 LRDP calls for the campus to avoid adversely affecting the availability of housing by purchasing housing stock in the off-campus market. Furthermore, available options were too upscale for students and trainees and, therefore, UCSF would have overpaid compared to its needs. One sample site was priced at \$341,000,000 for 500 units, much more expensive than the proposed development by UCSF on Minnesota Street. In addition to being more expensive, the property is being constructed as a type 3 (wood frame over concrete podium), which is below the University's preferred construction standard.

Rejected Option: Develop housing on Block 15. The LRDP designated Block 15 on the Mission Bay campus site for future housing. When parcels on Minnesota Street became available in 2015, UCSF leadership decided to defer the development of housing on Block 15 and reassess the best use of this centrally located block. There are limited locations in or near Mission Bay that could accommodate research, clinical, and ancillary administrative uses. Although building housing on Block 15 remains a possibility in the future, it was not considered the best option given the opportunity to purchase the Minnesota Street properties. Given the immediate need for housing, UCSF is electing to develop the Minnesota Street project in lieu of Block 15.

DELIVERY MODEL

UCSF engaged a third-party development consultant (Century Urban) to analyze and make recommendations on the best way to deliver the proposed project. After careful consideration, Century Urban recommended internal delivery through UCSF Capital Programs. Although future UCSF housing projects, such as the joint partnership with UC Hastings, may be delivered through a Public Private Partnership (P3), circumstances surrounding the Minnesota Street Housing project suggest a P3 would be less advantageous to the University than a project developed internally. The four most compelling reasons are noted below:

- 1) **Control of Rental Rates** – Keeping rental rates well below market is a key goal of the Minnesota Street Housing project. If rental rates edge toward market, one of the proposed project's primary objectives – to offer housing affordable to students and trainees – would not be met. In-house developed and operated projects would provide more assurance that rental rates can be controlled.
- 2) **Maintaining Community Relations** – A key priority is to maintain positive relations with UCSF's neighbors. The Dogpatch community is sensitive to high levels of development activity occurring in its neighborhood and has concerns about the priorities of developers. UCSF is viewed as a long-term neighbor with vested interests in maintaining and improving the neighborhood. A project developed by a third party could make maintaining UCSF-community relations more challenging.
- 3) **Delivery Schedule** – It is critical to deliver the project in the summer of 2019 given the extreme shortfall of student and trainee housing. Meeting the target completion date may be difficult for a third-party developer to achieve given the time need for community involvement in the developer selection process and to execute a P3 agreement with selected developer.
- 4) **Price Competitive** – Century Urban identified no material price differential between developing the proposed project internally vs. through a P3 project. In addition, the pro forma showed a Stabilization Return on Costs of 5.82 percent, which is less than the target six percent sought by most developers. It was suggested that this level of return would attract some developers but that the project would not solicit enough interest to be competitive.

UCSF intends to deliver the proposed project through the Construction Manager at Risk (CMAR) approach, with integrated Design-Build subcontractor trades, and employing an integrated Target-Value Design strategy. CMAR project delivery allows UCSF the most flexible process for delivering this challenging building.

UCSF firmly believes that an integrated Target-Value Design process will ensure the highest overall design quality and building performance. UCSF has a history of using similar approaches for campus-delivery of major projects that have been on schedule and on budget. Recent successes include the Smith Cardiovascular Research Building, the Ray and Dagmar Dolby

Regeneration Medicine Building, the Medical Center Phase 1 Parking Structure, the Mission Hall Global Health & Clinical Sciences Building, and the Medical Center at Mission Bay.

Project Location

