

GB9A

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of January 18, 2012

APPROVAL OF PRELIMINARY PLANS FUNDING, BLOCK 25A ACADEMIC BUILDING (FACULTY OFFICE BUILDING), SAN FRANCISCO CAMPUS

EXECUTIVE SUMMARY

The Block 25A Academic Building (Faculty Office Building) at the San Francisco Mission Bay Campus will provide 251,000 GSF of critically-needed faculty and staff academic offices for clinicians serving the new Medical Center at Mission Bay, it will also accommodate clinical and translational research now in off-campus leased space. This item requests approval of Preliminary Plans (“P”) funding (\$3,000,000) for the proposed Block 25A Academic Building (Faculty Office Building).

Proposed Action

- Approve P funding in the amount of \$3,000,000 to be funded from Campus Funds.

Total Project Cost: Total project cost, including site improvements and underground utilities, is estimated to be \$118,600,000 to be funded from Campus Funds, External Financing, and Gift Funds.

Statement of Issues:

New Medical Center Needs Faculty Offices. The new UCSF Medical Center at Mission Bay (Women’s, Children’s and Cancer Hospitals), scheduled to open in late 2014, does not provide local offices where clinical and academic personnel can conduct their academic work, separate and apart from their clinical work. Given the land acquisition costs, only clinical facilities and critical support functions were planned for the Medical Center site, as noted in the September 2008 Regents’ action approving the budget and financing for the new Medical Center.

Maximize Productivity. Due to their patient care and training responsibilities, the clinical faculty and staff office space must be in close proximity to the new Mission Bay Medical Center site. These offices must be available in time the new Medical Center to be operational. If faculty were to commute from their current offices at Parnassus Heights and Mount Zion campus sites, the 30 minutes distance in urban traffic would significantly impact the productivity of staff, and the Medical Center operations.

No Existing Owned Space Options. There is no space in existing facilities on the UCSF Mission Bay research campus suitable or large enough to accommodate the clinical faculty office demand.

High Lease Costs for Clinical and Translational Research Programs. UCSF maintains an inventory of leases for office-based clinical and translational research programs in the Mission Bay area. The leases will be expiring over the next four years. Lease costs are anticipated to increase significantly because initial rents were set at a favorable time in the market, when vacancy rates were higher. UCSF expects market rents for office space to increase as San Francisco's low office vacancy rates continue into the foreseeable future.

By accommodating these programs in the proposed facility (which would accommodate both the faculty offices and clinical and translational research programs), UCSF could provide a lower cost of occupancy, as well as increase revenues by recovering more overhead dollars from moving off-campus research to on-campus locations. UCSF would also advance strategic goals to co-locate clinical and translational research programs near clinical facilities and other disease oriented research programs.

Delivery Model. There are various ways to deliver the project including a campus-delivered building and a Public Private Partnership (PPP) (developer-delivered). Cost differences between the two models are minimal; however, a PPP project may have higher financing costs during construction, and based on UCSF's recent experience with developer-built projects, a PPP project entails significant risks for delay that can result in cost escalation. Potential delays related to development agreement negotiations can add six to twelve months to the project schedule. A delay in opening the proposed building until after the new Medical Center opens would force faculty to commute from their current offices at Parnassus and Mt. Zion, and would result in a significant loss of productivity.

UCSF has a history of campus-delivered projects that are on time and on budget. Recent successes include several design/build projects including the Smith Cardiovascular Research Building and the Ray and Dagmar Dolby Regeneration Medicine Building. In addition to minimizing risk, the campus-delivered method provides greater control over design, quality, and managing community concerns.

UCSF has available building footprints on the Mission Bay research campus and has identified Block 25A - located across 16th Street from the Medical Center - as the optimal site for housing the faculty offices and research programs.

RECOMMENDATION

The President recommends that the Committee on Grounds and Buildings recommend to the Regents that the 2011-2012 Budget for Capital Improvements be amended to include the following project:

San Francisco: Block 25A Academic Building (Faculty Office Building) - Preliminary Plans - \$3,000,000 to be funded from Campus Funds.

BACKGROUND

Context

There are three broad strategies driving the development of the Block 25A Academic/Faculty Office Building at Mission Bay:

- 1) Supporting the operations of the new \$1.5 billion Medical Center at Mission Bay with critically needed offices in which clinical and academic personnel can conduct their academic work.

UCSF's strategic plan and the Long Range Development Plan (LRDP) Amendment #2 (March 2005) both call for a full service medical center at Mission Bay, co-located with basic, clinical and translational research. The LRDP anticipated the need for the faculty offices; however, due to land acquisition costs, only clinical facilities and clinical support functions were planned for the site. Because faculty offices do not generate revenue, they were intended to be located nearby, but not on the Medical Center site. UCSF's research campus is located across 16th Street from the Medical Center site, and has available footprints for such a building, consistent with the UCSF Mission Bay Campus Master Plan (see Attachment 2 for map).

Relocation of clinical faculty from the Parnassus Heights and Mount Zion campus sites to the proposed Block 25A building would create critical release space. The backfill of this release space would be critical to supporting Medical Center growth in high revenue generating programs (e.g. Neurosurgery, Transplant) at the Parnassus Heights and Mount Zion sites.

- 2) Strengthening clinical and translational research by relocating off-site research programs to campus space near other basic and disease-oriented research programs already at Mission Bay and by co-locating those clinical and translational research programs with clinical facilities. The LRDP Amendment #2 discusses the synergies of locating clinical and translational research near the clinical facilities, as well as growing these programs over the next decade.
- 3) Reducing long-term occupancy costs by moving programs in leased space into owned space. UCSF has embarked on a strategic initiative to consolidate leases into owned space as much

as possible over the next decade in order to maximize utilization of UCSF's assets and minimize occupancy costs associated with leased space in a rising market.

Project Need

Clinical Faculty Offices. The new Medical Center at Mission Bay, scheduled to open in late 2014, does not provide local offices where clinical and academic faculty and staff critical to efficient operations of the new inpatient and outpatient facilities can conduct their academic work, separate and apart from their clinical work of treating patients. Space for these critical functions could not be provided on the Medical Center site, as discussed above. The clinical faculty and staff office space must be available in order for the new Mission Bay Medical Center to begin operations.

Currently, academic offices for clinical faculty are located within a five minute walk to the clinical facilities at the Parnassus Heights and Mount Zion campus sites. Faculty are in and out of the clinical facilities during the day, with short periods in their offices. This co-location of faculty offices and the Medical Center is critical to patient care and student training. The existing clinical faculty offices are at least a 30 minute drive from the site of the new Medical Center on the Mission Bay campus. Shuttling faculty between their existing offices and Mission Bay would significantly impact productivity, quality of services, and compromise the operations of the Medical Center (see Attachment 2 for map of existing and proposed locations). Without the new facility, faculty, staff, fellows, and residents would have no place to conduct their academic work while at Mission Bay and they would need to spend valuable time traveling or find public spaces in which to do their academic work.

The campus evaluated other scenarios, but determined there were no viable options. There is no available space in existing owned offices within the five minute walking distance requirement. Off-site options entail purchasing land or leasing existing space, and there are no opportunities within walking distance at this time.

Clinical and Translational Research. UCSF currently has an inventory of dispersed leased space (e.g., at 50 Beale and China Basin, per Attachment 2). Some of UCSF's research programs that conduct clinical research (disease and patient-oriented research) and translational research (research which translates basic research discoveries into clinical applications) are housed in leased facilities. In support of UCSF's LRDP Amendment #2 and its strategic goals to co-locate this type of research near clinical facilities, the campus is proposing to relocate some of the clinical and translational research programs now in leased space to the new Block 25 research building at Mission Bay in proximity to the new Medical Center and the basic sciences research programs there. This will create synergies which are expected to advance research that will accelerate the translation of basic research discoveries to the diagnosis, treatment and prevention of human disease.

UCSF currently expends \$4 million in annual rent and operating costs for these clinical and translational research program leases (124,000 RSF), which will be expiring over the next four years. Many of the existing leases are currently well below market levels. As an example, one

of the leases is 36 percent under the current rental rate for its building. When the leases expire, new lease costs are expected to increase significantly, by approximately \$1.4 million in total by Fiscal Year 2015 (the first year of operations for the Block 25A building), with annual increases thereafter to adjust to market levels.

The overall vacancy rates for San Francisco have dropped by 100 basis points to 13.5 percent in the last year. This is a result of significant net absorption of 677,000 square feet, driven by technology companies that want to locate in the South of Market and South of Mission areas (not far from the UCSF Mission Bay campus). Several large technology tenants are currently looking for new office space up to 300,000 square feet in size. With strong demand and low vacancy rates, rental rates are expected to continue to rise in San Francisco business districts, including the Mission Bay area.

By relocating these office-based clinical and translational research programs to on-campus space, UCSF projects \$331.8 million in direct lease avoidance costs over 35 years. Given the lack of existing owned space and given the campus's strategy to consolidate leases into owned space, the cost of constructing replacement space for the clinical and translational research programs was modeled. This modeling of owned replacement space yielded a significantly lower net present cost of occupancy in contrast to continued lease occupancy.

In addition, UCSF would generate more revenue from research grants because the campus receives more over-head dollars for research in on-campus space than for research in off-campus space (per negotiated Federal indirect cost recovery rates).

Project Description

As a result of the evaluation of needs and constraints, the campus proposes constructing a six-story, 251,000 GSF office and desktop research building, site utilities, and a landscaped courtyard on Block 25A at the corner of 16th and 4th Streets on the Mission Bay research campus (See Attachment 2.)

Clinical Faculty Offices. The faculty offices would accommodate faculty providing clinical care in the new Women's, Children's, and Cancer Hospitals at Mission Bay. The faculty office space would house 1,052 faculty, staff, fellows and residents in private offices and open workstations, some of which would be shared "hotel" spaces (i.e., office space not dedicated to assigned personnel). The hotel spaces and shared support space would maximize space efficiency. With support space, the faculty offices would require approximately 92,000 ASF or 133,000 GSF.

The majority of the clinical faculty and staff in the proposed Faculty Office Building would be existing employees relocating from other UCSF owned space (i.e., 84 percent of the clinical faculty and staff in the new building would be current employees). These existing employees would occupy roughly the same amount of office space as they are vacating (43,000 ASF). The balance of the space (49,000 ASF) would accommodate: (1) new clinical faculty and staff in ancillary services (e.g., Anesthesia and Radiology) who will support the new Medical Center at Mission Bay; (2) space for fellows and residents who currently do not have workstations; (3)

"hotel space" to be shared by faculty and staff coming from other UCSF sites to see patients or conduct training at Mission Bay; and (4) support space.

Clinical and Translational Research. The office-based clinical and translational research programs proposed in the building include: Global Health Sciences, Clinical and Translational Sciences Institute, Epidemiology and Biostatistics, Center for AIDS Prevention Studies, and Women's Health clinical research. The clinical and translational research space will house 654 faculty and staff in private offices and open workstations.

Global Health Sciences and other research programs in leased space require video teleconferencing and classroom space for distance learning, elements that would be included in the proposed building and also available on the Mission Bay campus. The office-based research space would require approximately 82,000 ASF or 118,000 GSF, including support space. The leased space headcount would remain approximately the same in aggregate, with efficiencies gained through shared hotel offices.

The combined space program for the Clinical Faculty Offices and the Clinical and Translational Research programs is 251,000 GSF, for 1,706 aculty, staff, fellows and residents.

Plans for Vacated Space. The relocations of clinical faculty to Mission Bay to support the new Medical Center facilities would vacate 43,000 ASF in existing space. Some of this vacated space would be used to support expansion of revenue generating clinical programs for the Medical Center at Parnassus Heights and Mount Zion. Other vacated space would be used to accommodate occupants of seismically-poor buildings (which would be demolished or retrofitted for other uses), and some would be used for research programs.

The relocation of clinical and translational research from leased space would vacate 124,000 RSF, space that would not be reoccupied. All but one of these leases would expire by the time the Faculty Office Building opens in 2014. The remaining lease of 30,000 RSF would extend eight months beyond the new building's occupancy and the cost of this overlap (\$800,000) has been incorporated into the financial analysis.

Alternatives

UCSF evaluated a variety of project sites, scopes and delivery models (campus delivery vs. developer delivery) against project criteria, such as proximity to the new Medical Center (i.e. within a five minute walk), affordability, and co-location of clinical and translational research. Both on- and off-campus sites were evaluated, as were program options (e.g. clinical faculty offices only or mixed faculty office and desktop research programs). The options evaluated included the following:

- 1) Build a 251,000 GSF building on the UCSF Mission Bay Research Campus Block 25 A/B site (**campus delivery**), to house both clinical faculty and staff offices and those programs in leased space whose leases expire over the next four years.

- 2) Build a 251,000 GSF building on UCSF Mission Bay Research Campus Block 25 A/B site (**developer delivery**), to house both clinical faculty and staff offices and those programs in leased space whose leases expire over the next four years.
- 3) Build 133,000 GSF Faculty Office Building (FOB) on the UCSF Mission Bay Research Campus Block 25 A/B site (**campus delivery**), to house only the academic offices for clinical faculty and staff offices needed to support the Medical Center.
- 4) Build 133,000 GSF Faculty Office Building (FOB) on the UCSF Mission Bay Research Campus Block 25 A/B site (**developer delivery**), to house only the academic offices for clinical faculty and staff offices needed to support the Medical Center.
- 5) Build a 133,000 GSF Faculty Office Building on a nearby privately-owned vacant site (**developer delivery**).
- 6) Lease 133,000 GSF in nearby existing privately-owned office building.

251,000 GSF Faculty Office and Clinical and Translational Research Building vs. 133,000 GSF Faculty Office Building. If UCSF constructed a smaller building (133,000 GSF) that would only accommodate the clinical faculty offices, with the research programs remaining in leased space, the net present cost of constructing the 133,000 GSF building and the lease costs would be \$247 million compared with \$118.3 million (for a campus-delivered project) for the larger, 251,000 GSF building.¹

Project Delivery Model Analysis. UCSF has a history of delivering projects through PPPs with developers, as well as a history of innovation in project delivery of campus-delivered buildings. Recent UCSF PPP projects include: the Neurosciences Research Building, the Osher Medical Office Building, and the Mt. Zion Parking Garage. UCSF has experienced recent success in delivering its campus projects on schedule and on budget. Recent campus-delivered buildings include the Smith Cardiovascular Research Building and the Ray and Dagmar Dolby Regeneration Medicine Building, both delivered on-schedule and on-budget.

After in-depth financial and risk analysis, UCSF determined that campus delivery of a new building on Block 25A is the optimal option. Comparison of the net present value (NPV) of the total cost of occupancy over a 35-year term between the campus-delivered and developer-delivered (PPP) projects (251,000 GSF) on Block 25A indicates that the cost differences between the two models are minimal, although a PPP delivery could incur cost escalation due to potential delays related to development agreement negotiations, and higher financing costs during construction.

In addition, fewer avenues exist to challenge the entitlement of a campus-delivered project than a developer-delivered project. This directly would convert to fewer risks to the project schedule and delivery date. Based on UCSF's experience with actual/threatened delays in recent developer-delivered buildings, delays could be up to a year or longer, arising from challenges to project entitlements (e.g., a challenge to the PPP process as not compliant with the Public Contract code), or risks of developer financing.

¹ The NPV of building on Block 25 does not include the opportunity cost of developing the land based on current market values in the Mission Bay area. The NPV for the larger building does not include the opportunity cost of the anticipated gift and campus equity contribution to fund the construction.

Financial cost is a campus risk under the campus delivery model. Under the developer model, the cost risk could be shared or transferred to the developer.

Approval Request

The requested P funds of \$3 million in funds available to the Chancellor would enable UCSF to refine and confirm the scope of work (for the building, infrastructure, and courtyard), prepare bridging documents for design build delivery, and develop budget and design for Regents' approval.

The campus intends to submit the project for full budget and finance approval in May 2012, and to conclude the P phase in July 2012 with design approval.

ATTACHMENTS:

Attachment 1: Preliminary Plans Budget.

Attachment 2: Project Site Map and UCSF Site Map

ATTACHMENT 1

PRELIMINARY PLANS BUDGET

Category	Amount
Site Clearance	
Building ⁽²⁾	\$ 75,000
Exterior Utilities	
Site Development	
A/E Fees ⁽³⁾	2,389,000
Campus Administration ⁽⁴⁾	176,000
Surveys, Tests, Plans ⁽⁵⁾	140,000
Special Items ⁽⁶⁾	220,000
Contingency	
Total	\$ 3,000,000
Group 2 & 3 Equipment	
Total Preliminary Plans Budget	\$ 3,000,000

(2) Inspector of Record Services through Bidding

(3) Bridging Architect and Technical Team, Design-Build Design Development to Regents Design and CEQA Approval, Construction Management Consultants, Telecommunications and Security Consultants, and Plan Review

(4) Campus Project Manager and Contract Administration

(5) Includes soil borings and geotechnical surveys

(6) Legal and CEQA Consultants

ATTACHMENT 2

PROJECT SITE MAP AND UCSF SITE MAP

