

**Office of the President**

**TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:**

**DISCUSSION ITEM**

*For Meeting of January 16, 2019*

**PEPPER CANYON WEST UPPER DIVISION UNDERGRADUATE STUDENT HOUSING PROJECT, SAN DIEGO CAMPUS**

**EXECUTIVE SUMMARY**

The proposed Pepper Canyon West Upper Division Undergraduate Student Housing (Pepper Canyon West) project would provide approximately 1,400 new beds on the San Diego campus in response to high demand for affordable on-campus housing. As presented to the Regents in July 2017, completion of the North Torrey Pines Living and Learning Neighborhood (anticipated fall 2020) will provide a permanent home for Sixth College, which will relocate from its current location on a six-acre parcel at Pepper Canyon. At that time, the site would be available and the campus would demolish 11 existing buildings (432 beds) built in 1967 in order to provide space for approximately 1,400 new beds, increasing density of the site by over 200 percent. The proposed project would provide transit-oriented development adjacent to the new Light Rail Transit Station at Pepper Canyon. The project would house upper division undergraduate students in support of the campus's goal to offer four years of affordable on-campus housing to undergraduate students.

Due to limited housing supply, increasing enrollment, and growing demand, the campus currently limits the length of stay in campus housing for undergraduate students in campus housing to their first two years; the campus is currently unable to offer housing to third- and fourth-year undergraduate students. Third- and fourth-year undergraduate students face a tremendous challenge when trying to secure affordable off-campus housing, often resorting to overcrowded living conditions and/or securing housing that is a significant distance from campus. The results of an August 2018 survey indicated that a majority of students were somewhat or very interested in the proposed housing: 60 percent of juniors and 50 percent of seniors would want to live on campus if housing were available. This equates to approximately 8,800 upper division students who are interested but do not currently have an option to live on campus.

The campus expects to request approval of preliminary plans funding for Pepper Canyon West at the March 2019 Regents meeting. Preliminary plans funding would support selection of a pre-qualified design-build team via the competitive process, scope refinement, preliminary design,

and project cost estimating prior to submitting the project for approval of full budget and financing by the Regents, anticipated in summer or fall 2019.

### **BACKGROUND**

UC San Diego is currently ranked the third-largest residential campus by number of student housing beds on campus listed with the Association of College and University Housing Officers – International and by 2020 the San Diego campus is on target to become the largest residential campus. Affordable on-campus housing aids in the recruitment and retention of students. It also expands opportunities to fully integrate students into the academic and social life of the UC San Diego campus. Third- and fourth-year undergraduate students often report a lack of connection to the University when living off-campus during those years.

Part of the attraction of University-owned housing is the community setting that is provided by living on campus, adjacent to the academic, research, clinical, and recreation facilities that are available within walking distance of most on-campus housing. By living on campus, students are able to get around campus without a car – by foot, bicycle, and campus shuttles. Affordable off-campus housing options in the San Diego region are few, and those that are available are a significant distance from campus.

### **PROJECT DRIVERS**

The four key drivers for the Pepper Canyon West Upper Division Undergraduate Student Housing (Pepper Canyon West) project are:

#### Campus Goal to Provide Housing for Third- and Fourth-Year Undergraduate Students

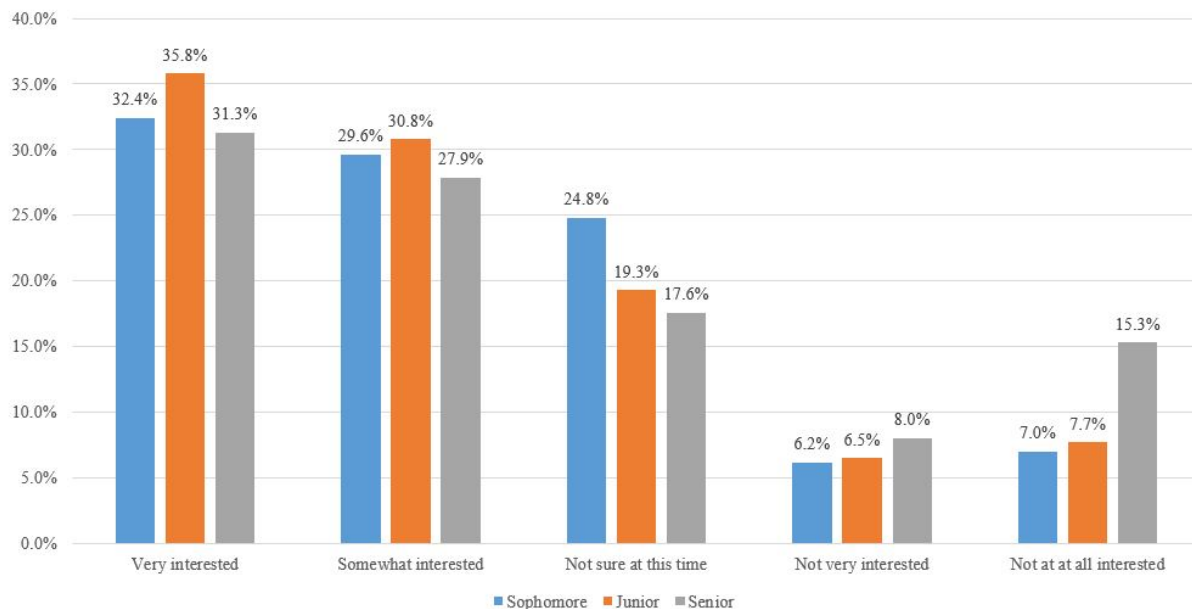
Due to limited housing supply, increasing enrollment, and growing demand, the campus currently limits the length of stay in campus housing for undergraduate students to their first two years; the campus is unable to offer housing to third- and fourth-year undergraduate students. Third- and fourth-year undergraduate students find themselves in competition with the general population for rental housing in the immediate area surrounding campus, which is one of the most expensive areas to live in San Diego County. These students face a tremendous challenge when trying to secure affordable off-campus housing, often resorting to overcrowded living conditions and/or securing housing that is a significant distance from campus. Because UC San Diego can offer campus housing at significantly lower rental rates than private market housing in the surrounding neighborhoods, demand for on-campus housing is substantially higher than the number of students the campus can house.

#### Demand for Affordable Housing

The San Diego campus currently does not provide housing for continuing third- and fourth-year undergraduates, although there are approximately 2,300 beds currently allocated to transfer students. In August 2018, the campus conducted a Student Housing Survey. The purpose of the survey was to collect undergraduate student input on proposed new student apartment-style

housing at Pepper Canyon West. A total of 23,760 UC San Diego sophomore, junior, and senior students who were enrolled in the 2018 Summer Session II or the 2018 Fall Quarter were contacted by email and invited to participate. The survey participation rate was 13 percent, or 3,131 students and the results are illustrated in Figure 1. The largest proportion of respondents was living off-campus. A majority of students were somewhat or very interested in the proposed housing. Sixty-six percent of juniors and 59 percent of seniors reported that they would want to live on campus if housing were available. This equates to approximately 8,800 upper division students who are interested but do not currently have an option to live on campus. Students were also asked to rate proposed amenities, of which the most popular were in-unit kitchens, location on campus, and nearby retail or grocery. A substantial number of students expressed interest in nearby or dedicated parking, which would not likely be offered at Pepper Canyon West due to proximity of the site to the Light Rail Transit (LRT) Station.

**Figure 1:  
Level of Interest by Undergraduate Standing**



Because the San Diego campus currently does not provide housing for third- and fourth-year undergraduates, the campus does not keep wait list numbers for them. Over the past five years, however, the wait list has annually fluctuated from just under 1,000 to more than 3,000 undergraduate and graduate students.

The shortage of reasonably priced rentals in the surrounding (private market) community strongly affects the demand for on-campus housing. UC San Diego is located adjacent to La Jolla and University Town Center (UTC), areas where housing costs are extremely high. The average

rent in San Diego County hit a record \$1,960 per month as of October 2018, which represents a six percent increase in one year. Rent has increased 20 percent since March 2015, when the average monthly rent was \$1,563, and the apartment vacancy rate off campus continues to be slightly over four percent <sup>1</sup>.

On-campus monthly rental rates have been at least 20 percent lower than market rate in the UTC area and the campus has committed to maintaining lower rates than the surrounding private market for all new proposed on-campus housing. The following table summarizes estimated rental rates for Pepper Canyon West upper level undergraduates compared to the surrounding private market rental rates in UTC, and illustrates that the proposed project would be at least 20 percent below private market.

**Table 1: Rental Rate Comparison**

<b>Location</b>	<b>Type</b>	<b>Rate Per Student Per Month in 2022-23</b>	<b>Amenities</b>
<b>Pepper Canyon West</b>	2-bedroom, 1-bath (each student has a private room)	\$1,188	Included
<b>Off-Campus*</b>	2-bedroom, 1-bath	\$1,485	Included

*Note: \*Off-campus rent and amenities based on 2018 San Diego Apartment Association market rate for 2-bedroom, 1-bath unit, escalated by 4.5 percent annually for rent and 2 percent for amenities.*

Off-campus leases require one-time, upfront fees for rental applications, rental deposits, and utility deposits which would increase the total annual cost for the off-campus rate listed above. Students who live off-campus may also choose to own a vehicle and purchase a parking pass which adds cost to their annual expenses and, for the University, places further demand on the campus' limited parking supply.

**LRDP Goal to House 65 Percent of Eligible Students**

The housing goal of UC San Diego, as stated in its 2018 Long Range Development Plan (LRDP), is to provide housing for 65 percent of eligible students (which includes graduate and professional students) in campus-owned facilities. As of fall 2018, the campus provided housing for 40 percent of all students (graduates and undergraduates), leaving a shortage of more than 9,500 beds to achieve the LRDP goal. Table 2 shows current and projected enrollment through 2022 compared to the LRDP housing goal. The campus anticipates that with the addition of an estimated 1,200 students and approximately 3,300 beds, the campus would be able to house approximately 47 percent of eligible students by 2022.

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<sup>1</sup> Average rent, increases and vacancy rate data for San Diego County as published in the San Diego Union Tribune on October 9, 2018.

**Table 2: Enrollment and LRDP Goal**

	<b>Fall 2018</b>	<b>Fall 2019</b>	<b>Fall 2020</b>	<b>Fall 2021</b>	<b>Fall 2022</b>
<b>Projected Enrollment (headcount)</b>	37,900	38,200	38,500	38,800	39,100
Number of Student Beds (as new projects are delivered)	15,100	15,100	18,400	18,400	18,400
Bed Deficit to Meet 65% LRDP Goal	(9,535)	(9,730)	(6,625)	(6,820)	(7,015)
Percentage of Students Housed	40%	40%	48%	47%	47%
<i>Notes:</i>					
1. Number of student beds rounded to the nearest 100.					
2. Number of student beds includes undergraduate, transfer and graduate housing.					
3. In 2020, number of student beds increases due to completion of North Torrey Pines Living and Learning Center Nuevo East, and Nuevo West projects, and some decompression of existing UG Housing.					
4. Enrollment numbers are estimates and subject to change.					

As a result of rapid student enrollment growth and unprecedented housing demand, creative measures have been necessary to provide additional beds for students. For the 2018-19 academic year, the campus provided housing for 11,652 undergraduate students (representing first- and second-year students only) in facilities that were only designed to house 9,466 (2,186 beds over design capacity, primarily added by converting double rooms to triples). Even with housing students in excess of design capacity, the campus is unable to meet demand, nor is it able to achieve the 65 percent housing goal set forth in the 2018 LRDP. Table 2 demonstrates the number of students housed on campus (per college) relative to design capacity and the 2018 LRDP Housing Goal.

**Table 3: Undergraduate (UG) Students Housed<sup>1</sup>, fall 2018**

	<b>UG Students Enrolled<sup>2</sup></b>	<b>UG Students Housed</b>	<b>Percent of UG Students Housed (Fall)</b>	<b>Design Capacity</b>	<b>Beds added in Excess of Design Capacity</b>
Revelle College	5,106	1,811	35%	1,402	409
Muir College	5,043	1,466	29%	1,227	239
Warren College	4,905	1,229	25%	1,056	173
Roosevelt College	5,074	1,743	34%	1,400	343
Marshall College	5,022	1,531	30%	1,232	299
Sixth College	5,135	1,549	30%	1,298	251
Transfer Housing		2,323		1,851	472
<b>Total</b>	<b>30,285</b>	<b>11,652</b>	<b>38%</b>	<b>9,466</b>	<b>2,186</b>

*Notes:*

<sup>1</sup> Data above represents first and second year students only. Campus is unable to offer housing to 3<sup>rd</sup> and 4<sup>th</sup> year UG's.

<sup>2</sup> Data in this column represents total number of students enrolled in each college as of the Fall 2018 Quarter, 3<sup>rd</sup> week.

The proposed Pepper Canyon West project is part of a larger campus effort to provide more housing to all student groups. It has been strategically planned in concert with other future student housing projects that would continue to address growing demand. Future proposed housing projects would include redevelopment of the existing Extension site and the Thurgood Marshall Lower Apartments site, as well as creation of a new college and eventual redevelopment of the eastern portion of Pepper Canyon.

President’s Student Housing Initiative

Since 2014, the UC San Diego campus has received approval to add approximately 5,000 (net) new beds for undergraduate and graduate students: Mesa Nueva, Nuevo West, and Nuevo East are for graduate students, and North Torrey Pines Living and Learning Neighborhood housing (for Sixth College undergraduate students) is anticipated to open in 2020. This housing expansion was driven by demand and was reinforced by the President’s Student Housing Initiative<sup>2</sup> to provide sufficient housing for UC’s current and growing undergraduate and graduate student population, as well as to keep housing for UC students affordable. In response to the President’s Initiative and the three project drivers listed above, over the next few years, UC San Diego will continue to propose construction of new student housing projects, as reflected in the 2018-28 Capital Financial Plan.

**PROJECT DESCRIPTION**

The proposed Pepper Canyon West Student Housing project would redevelop a six-acre parcel on the west side of Pepper Canyon, which is located between the University Center and the new LRT Station at Pepper Canyon (refer to Attachment 1). The project would include demolition of 432 beds in residence halls that were built in 1967 (refer to Attachment 2). The existing residence halls currently provide housing for Sixth College but will be vacated upon completion of new housing at the North Torrey Pines Living and Learning Neighborhood. The proposed Pepper Canyon West project would provide approximately 1,400 new beds in multiple mid-rise and high-rise configurations for upper division undergraduate students in support of the campus’s goal to offer four years of housing to all undergraduates. Table 4 lists the proposed unit mix, which would be confirmed through the design-build process.

**Table 4: Proposed Unit Mix**

	<b>No. of Units</b>	<b>Total Beds</b>
Studios	100	100
2 Bedroom	250	500
4 Bedroom	125	500
6 Bedroom	50	300
<b>Total</b>	<b>525</b>	<b>1,400</b>

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<sup>2</sup> Aimed at accelerating the construction of new housing projects that will add a minimum of 14,000 student beds by the 2020 academic year.

The project would fully incorporate planned pedestrian, bicycle, and vehicular connections to existing housing, medical center, academic and research enterprises, and regional transportation projects that will serve the campus. Those regional transportation projects include the new Gilman Bridge over Interstate 5, the Mesa Housing Bike and Pedestrian Bridge, and the LRT.

The overall development plan would be comprised primarily of residential space with additional support services such as laundry facilities, study space, common gathering areas, and a retail food component. The campus is concurrently planning three proposed projects (Pepper Canyon West, Triton Pavilion, and Design and Innovation), in close proximity to each other, and each is planned to include retail. The campus is evaluating the type of retail food service to be included in each of the proposed projects so that they are complementary to one another and able to offer a variety of choices to students, faculty, staff, and visitors. In addition, there are existing food service vendors operating in the adjacent University Center.

Because the individual apartment units would have kitchens, and because of the potential retail planning described above, the proposed Pepper Canyon West project would not include a dining hall. This housing would be offered to third- and fourth-year students who do not want a traditional meal plan. Since the project would be located adjacent to the new LRT Station at Pepper Canyon, students would also have convenient access to off-campus markets and food service dining options.

The proposed Pepper Canyon West Student Housing is an opportunity to deliver transit-oriented development due to its proximity to the LRT Station, which is expected to be complete in 2021. For this reason, parking would be provided to meet only accessibility and service/loading requirements. The proposed project and future redevelopment phases (on the east side of the LRT Station) are anticipated to enrich the living experience and more fully support a sense of community and belonging than a typical residential community or neighborhood in San Diego provides.

#### Project Delivery Model

The campus has selected a progressive design-build delivery method. Under this scenario, three pre-qualified design-build teams would be short-listed and invited to participate in a design and collaboration exercise. The competitive nature of this approach has shown that the teams strive not only to meet the program requirements, but are incentivized through a point system evaluation to convey their team building, creativity, communication, and technical skills. Please refer to Attachment 3 for more information.

#### Project Schedule

The campus expects to request approval of preliminary plans funding at the March 2019 Regents meeting. Approval of full budget and external financing would be requested in summer or fall 2019, and design following action pursuant to the California Environmental Quality Act would be requested at a future meeting. Construction is anticipated to be completed in 2022.

**ALTERNATIVES CONSIDERED**

The proposed project is the best alternative to provide housing that is urgently needed to meet current demand as well as projected demand for 2019-20 and beyond. Without additional housing, the San Diego campus will be unable to meet demand from single upper division undergraduate students. Please refer to Attachment 4 for more detailed information regarding alternatives considered.

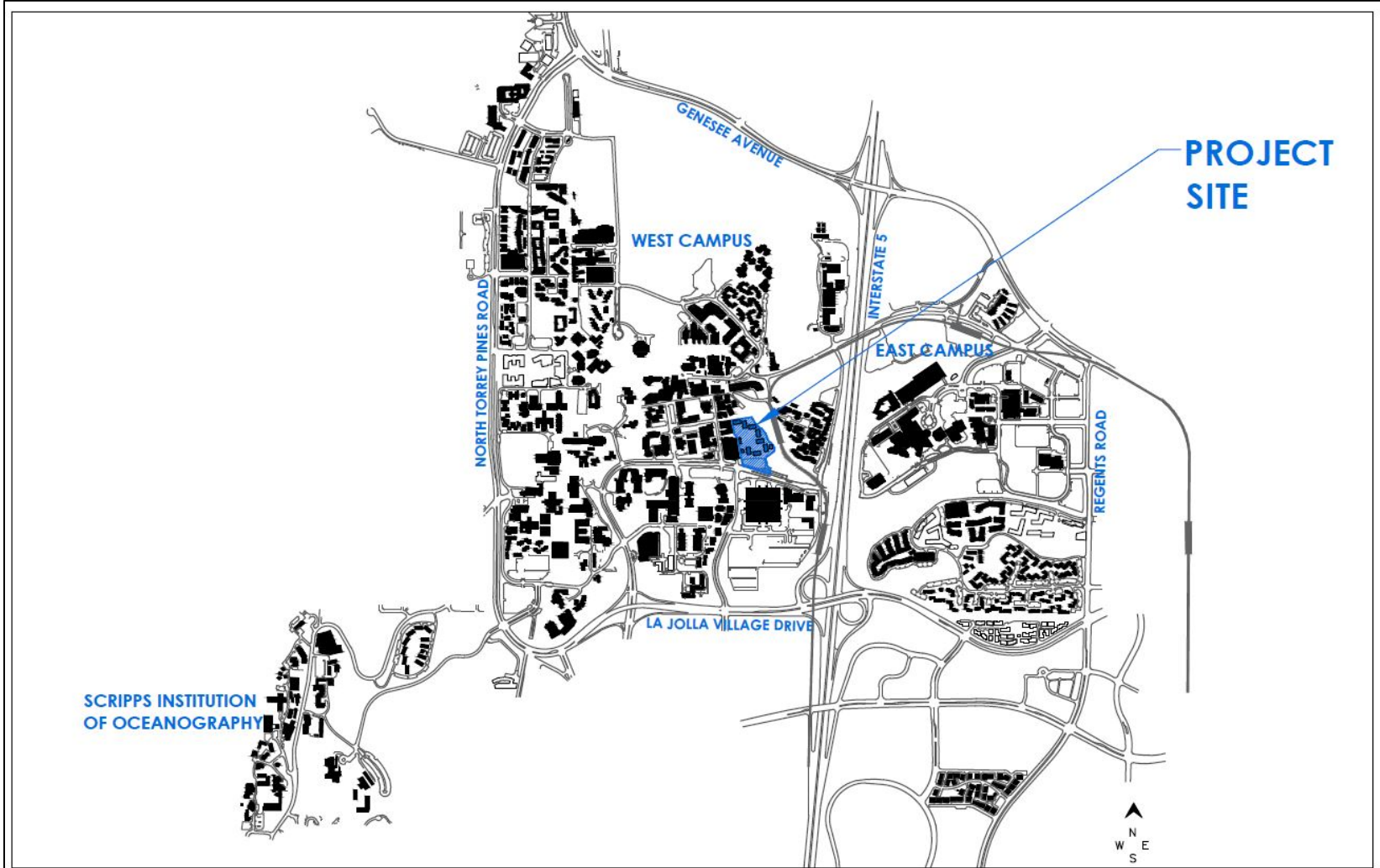
**KEY TO ACRONYMS**

LRDP	Long Range Development Plan
UTC	University Town Center
LRT	Light Rail Transit
UG	Undergraduate
UTC	University Town Center

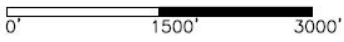
**ATTACHMENTS**

Attachment 1:	Exhibit 1 – Context (Project Location) Map
Attachment 2:	Exhibit 2 – Project Site Map
Attachment 3:	Project Delivery Model
Attachment 4:	Alternatives Considered

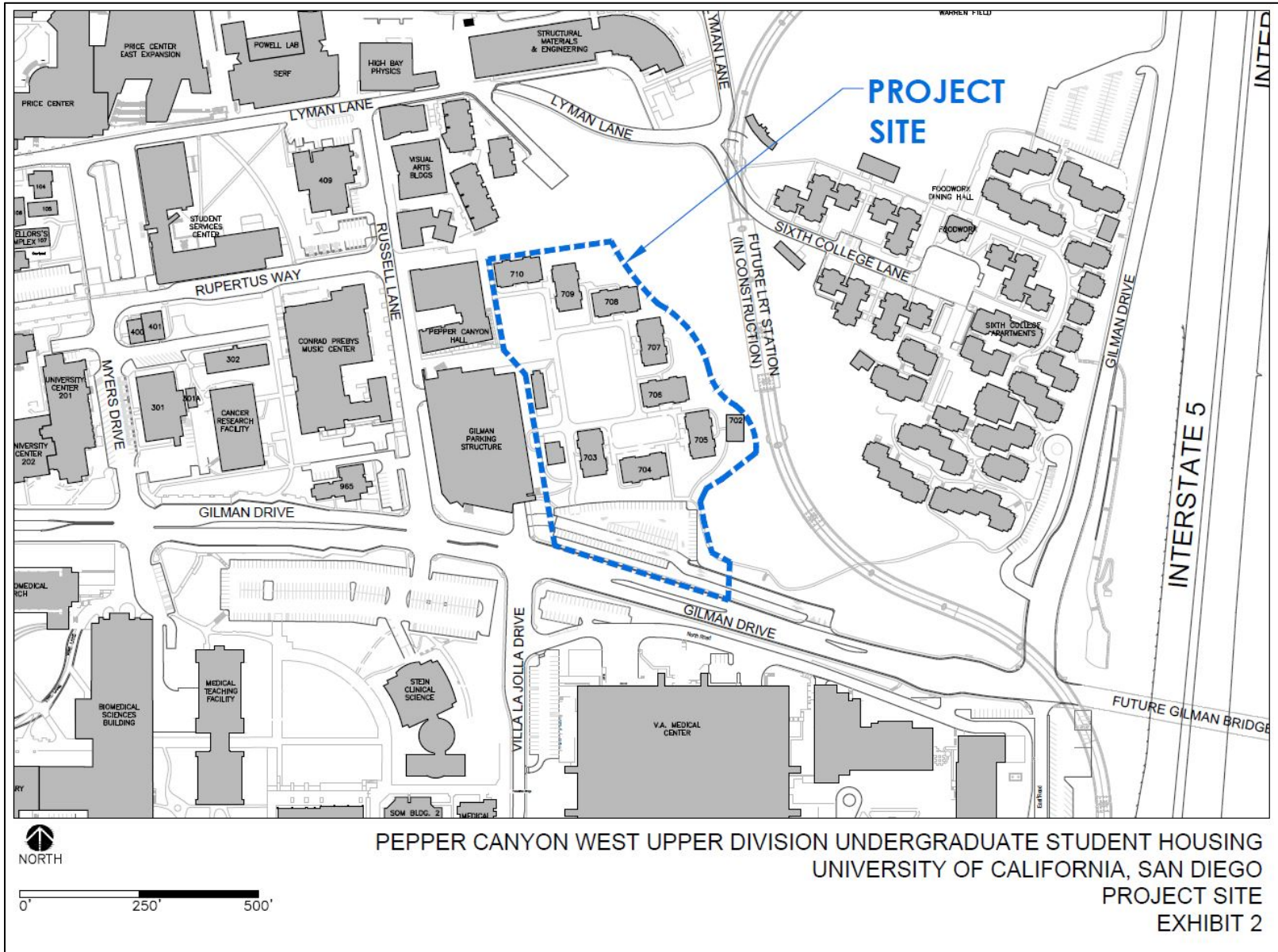




NORTH



PEPPER CANYON WEST UPPER DIVISION UNDERGRADUATE STUDENT HOUSING  
UNIVERSITY OF CALIFORNIA, SAN DIEGO  
CONTEXT MAP  
EXHIBIT 1



PEPPER CANYON WEST UPPER DIVISION UNDERGRADUATE STUDENT HOUSING  
UNIVERSITY OF CALIFORNIA, SAN DIEGO  
PROJECT SITE  
EXHIBIT 2

**PROJECT DELIVERY MODEL**

The campus intends to utilize the progressive design-build delivery process that would support the accelerated completion schedule for the proposed project. UC San Diego has had success in utilizing a design-build delivery method for multiple housing projects over the years (including The Rita, One Miramar Street Apartments, and Mesa Nueva). The process allows the University to pre-qualify design-build teams and establish a comprehensive Request for Proposal (RFP).

The design-build RFP outlines program requirements including quality of construction elements, quantity and type of housing units, proposed amenities for each unit, requirements for common and administrative areas, site amenities, and life-safety requirements. Design guidelines are included with the RFP to ensure specific product and detailing requirements align with Housing, Dining and Hospitality (a UC San Diego department) operational and maintenance practices.

Three pre-qualified design-build teams would be short-listed and invited to participate in a design and collaboration exercise. Each proposal would be reviewed and scored by a selection committee consisting of UC San Diego personnel as well as several appointed members of the Design Review Board. The competitive nature of this approach has shown that the teams strive not only to meet the program requirements, but are incentivized through a point system evaluation to convey their team building, creativity, communication and technical skills.

## ALTERNATIVES CONSIDERED

Information regarding alternatives considered for delivery of new student housing is provided below, including:

- Option 1 – Redevelopment with New Construction on Campus
- Option 2 – Reallocate Existing Housing
- Option 3 – Lease or Purchase off Campus
- Option 4 – Redevelopment with Public-Private Partnership (P3)
- Option 5 – “Do Nothing” (no project)

### **Option 1 - Redevelopment with University-Delivered, New Construction on Campus**

The preferred solution would redevelop a six-acre parcel on campus to create the Pepper Canyon West Student Housing project. As described in the item, the project would provide approximately 1,400 new beds for upper division (third- and fourth-year) undergraduate students.

Option 1 is the only solution of the alternatives considered that would provide new housing, in the shortest amount of time – which is what is urgently needed to meet current demand as well as projected demand associated with increased enrollment. When compared to current market rates in the surrounding area, the proposed project is the best solution for making affordable housing available to undergraduate students. The campus would proceed with a design-build, fixed-price delivery model with the plan being to complete the new housing by fall 2022. This scenario provides the greatest likelihood for meeting campus goals as described in the “Project Drivers” section. Without additional housing, the San Diego campus will be unable to offer housing to upper division undergraduate students.

### **Option 2 - Reallocate Existing Housing**

Current demand from all students exceeds available housing supply and, where possible, the available housing has already been converted to accommodate additional students. With completion of proposed housing projects such as Nuevo East, Nuevo West, and the North Torrey Pines Living and Learning Neighborhood, the campus is evaluating opportunities to reallocate housing to better accommodate demand from all groups; however, reallocation alone does not create more housing and will not meet the demand for on-campus housing.

### **Option 3 - Lease or Purchase off Campus**

As previously mentioned, UC San Diego is located in La Jolla/University Town Center (UTC) where housing costs are extremely high and rents are among the highest in the county. This reduces the availability and financial feasibility of leasing or buying off-campus developments. The rental market is so robust in La Jolla/UTC that, although UC San Diego has continually looked for opportunities to lease or purchase, there has not been an

opportunity to secure a large number of units within any single private sector community. In fact, during the past ten years, only five apartment complexes in the UTC area have transferred ownership. Because the UTC area is one of the premium apartment investment markets in San Diego County, competition for those few properties that are offered for sale is fierce and capitalization rates are competitively bid downward to historically low rates. Owners of surrounding apartment communities have little to no interest in negotiating on price or committing to a long-term master lease.

The other portion of the private market housing in the adjacent community is designated as condominiums with individual owners and home owner associations, and typically houses a high percentage of non-UC San Diego residents. Pursuing these opportunities would not generate enough new beds for UC San Diego students and would place the University in the position of purchasing and operating a property made up of non-affiliates as the homeowners and tenants and, in these types of residential arrangements, conflicts tend to occur between the University users and non-affiliates.

The campus recently investigated several different properties for potential purchase; however, further evaluation revealed that these properties were older wood-frame product that would require significant seismic and building code upgrades in order to bring the property within University of California standards. Purchase of off-campus residential property would have also triggered environmental issues such as increased traffic and impacts to the surrounding community. One such purchase would have displaced approximately 250 residents to make room for students. The high sales prices combined with necessary seismic retrofitting and building modernization costs exceeded the cost of new construction and was therefore rejected.

#### **Option 4 – Redevelopment with Public-Private Partnership (P3)**

The campus evaluated a variety of delivery methods for this student housing project including ground lease and concession agreement types of P3 structures. A P3 structure is typically selected for several reasons including the desire to transfer design, construction, financing, and leasing risk; potential preservation of the campus debt capacity and credit; or lack of campus talent to successfully deliver and operate a unique type of project. The campus has a solid track record of developing and operating student housing projects in a cost-effective manner that has resulted in student housing rents averaging 20 percent below local market rates. The campus views student housing projects as inherently low-risk, with operating revenues that support the debt service, thus preserving the campus's debt capacity. A P3 project would result in lesser revenues to the campus, the payment of a developer fee for a low-risk project, and potentially greater rents charged to students.

The campus is currently planning several new projects that are excellent candidates for a P3 delivery approach due to their level of risk; specialization of design, construction, and operations; and opportunity to preserve the campus balance sheet.

### **Option 5 - “Do Nothing”**

As previously described in this document, the current housing inventory is not sufficient to meet the demand from the campus community (students, staff, and faculty) in the near and long term. Without increasing the housing inventory, UC San Diego:

- Would not be able to address current and projected demand for student housing;
- Would not progress towards meeting the 65 percent housing goal as stated in the LRDP;
- Would not be able to provide enough affordable housing to meet student demand, forcing these students to live farther away from campus and resulting in longer commutes/more traffic on local roadways;
- Would not progress towards the campus goal of offering four years of housing to undergraduates; and
- Would not be able to improve the overall experience for residential students, which may threaten the campus’ ability to recruit and retain top students.