

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

INFORMATION ITEM

For Meeting of May 15, 2024

PEPPER CANYON EAST DISTRICT, SAN DIEGO CAMPUS

EXECUTIVE SUMMARY

The San Diego campus proposes to develop the Pepper Canyon East District (District) on a 20-acre site on the west campus adjacent to the Light Rail Transit station. The District would be built in multiple phases and would include 5,000 net new beds to expand access to the benefits of affordable on-campus housing for all undergraduate students.

- District Phase 1 would deliver up to 2,000 beds with associated amenities, with completion in summer 2029.
- Future phases include up to an additional 4,000 beds (for a total of up to 6,000 beds) in six- and eight-bed apartment-style units with residential support services, food/retail amenities, student-focused recreation and entertainment, and programmable open space to support formal and informal gatherings.
- A future phase includes a potential public-private partnership to develop a campus hotel and conference center.

For the District Phase 1 project, the campus intends to return to the Regents to seek preliminary plans approval in fall 2024, with approval of budget, external financing, and design following action pursuant to the California Environmental Quality Act in spring 2026. The timing of future phases would be further examined as part of the master district site development planning effort.

DISTRICT BACKGROUND

The proposed Pepper Canyon East Neighborhood District (District) would be located on UC San Diego's west campus between the Interstate 5 corridor and the Light Rail Transit (LRT) Station at Pepper Canyon (refer to Attachment 1, Project Location, and Attachment 2, Site Map).

The District would redevelop an approximately 20-acre site. The site is one of the few remaining large campus sites that can accommodate substantial on-campus housing and other development, so the campus seeks to maximize the site's use.

The District would fully incorporate planned pedestrian, bicycle, and vehicular connections to existing housing, medical center, academic and research enterprises, and regional transportation projects to serve the campus.

The overall development plan currently contemplates:

- Six- and eight-bed apartment-style units (up to 6,000 beds)
 - Residential support services (such as laundry facilities, study space, and common gathering areas)
- Food/retail amenities
- Campus hotel and conference center (up to 300 keys)
- Student-focused recreation and entertainment
- Outdoor areas for formal and informal gatherings
- Recreation fields (includes relocating an existing large recreational sports field (“Warren Field”) and related support infrastructure)
- Programmable open space
- Parking

Parking would support accessibility, the hotel and conference center, service/loading requirements, and visitors for nearby event venues. The proposed housing would be within a five-minute walk of the Gilman Transit Hub, providing extensive public bus transit options. Therefore, the proposed project provides only limited residential parking.

The residence halls currently on the site were originally designed to provide 994 beds. The proposed District would significantly maximize the use of the site and increase the number of beds per acre, providing approximately 6,000 new beds (5,000 net new) in multiple mid-rise and high-rise configurations for upper division undergraduate students and transfer students, in 12-month apartment-style living.

NEED FOR ON-CAMPUS HOUSING

Regents-owned on-campus housing provides students a community setting in easy reach of the campus’s academic, research, clinical, and recreation resources, and allows students to get around campus without a car – by foot, bicycle, and campus shuttles.

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 presently only able to offer limited housing to upper division undergraduate students, well below the current demand. Upper division students often report a lack of connection to the campus when living off campus during those years.

Expanding Student Access to the Benefits of Living on Campus

The UC San Diego 2018 Long Range Development Plan (LRDP) aims to provide housing for up to 65 percent of eligible¹ students (including graduate and professional students) in campus-owned facilities. As of fall 2023, the campus provided housing for 47 percent of all eligible students (graduates and undergraduates). The housing provided in the Pepper Canyon East District (District) would represent further progress towards meeting the 65 percent goal, as well as providing four years of housing for all undergraduate students.

Chancellor Khosla has articulated a vision for a four-year housing guarantee with a goal of offering rental rates at 20 percent below market. In October 2022, the Associated Students of UCSD (ASUCSD) adopted a resolution supporting this campus goal for a four-year housing guarantee. The ASUCSD indicated that housing is an integral part of the student experience and students who live on campus benefit academically and socially. On-campus students were more engaged, devoting more time and effort to studies and other learning activities in their place of residence.

Addressing Demand for Affordable Housing

The San Diego campus currently has a limited number of beds for upper division students. While the campus has recently added a significant number of beds on campus, for the past five years the overall waitlist for undergraduate and graduate students has fluctuated annually between 1,000 to 3,000+.²

Because on-campus housing for upper division undergraduate students is limited, the students must secure housing off campus. There are few affordable off-campus housing options in the San Diego region. The immediate area surrounding the campus is one of the most expensive areas for housing in San Diego County. Off-campus leases generally require one-time upfront fees for rental applications, rental deposits, and utility deposits, which further increases the cost of off-campus housing.

To lower housing costs, these students often resort to overcrowded living conditions and/or securing housing a significant distance from campus. Students who live off campus and commute by car must purchase a parking pass to park on campus, adding to their annual expenses and, for the campus, places further demand on a limited parking supply.

The campus has committed to maintaining lower rates than the surrounding private market for all new proposed on-campus housing. On-campus monthly rental rates have been at least 30 percent lower than the market rate in the University Towne Center/La Jolla area immediately adjacent to campus and 20 percent lower than in the greater San Diego areas where students live.

¹ Eligible students have met all required deadlines in the admissions and housing application process. Undergraduate students must also maintain a minimum of 12 units per quarter to be considered “eligible”.

² The campus does not keep waitlist numbers specific to upper division undergraduate students.

PEPPER CANYON EAST DISTRICT PHASE 1 PROJECT

The first project to go forward would be Pepper Canyon East District Phase 1, planned to provide up to 2,000 undergraduate student beds and associated amenities.

It is anticipated that District Phase 1 would demolish all 27 existing low-density one- and two-story residence halls and support buildings on the site. These structures were built in the 1980s and total roughly 326,000 GSF. The demolition of these buildings would eliminate building and infrastructure restoration and renewal needs and result in cost avoidance of seismic retrofit. The value of the seismic retrofit and restoration and renewal needs to be eliminated will be determined as planning and design progress.

For the District Phase 1 project, the campus intends to return to the Regents to seek preliminary plans approval in fall 2024, with approval of budget, external financing, and design following action pursuant to the California Environmental Quality Act in spring 2026.

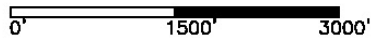
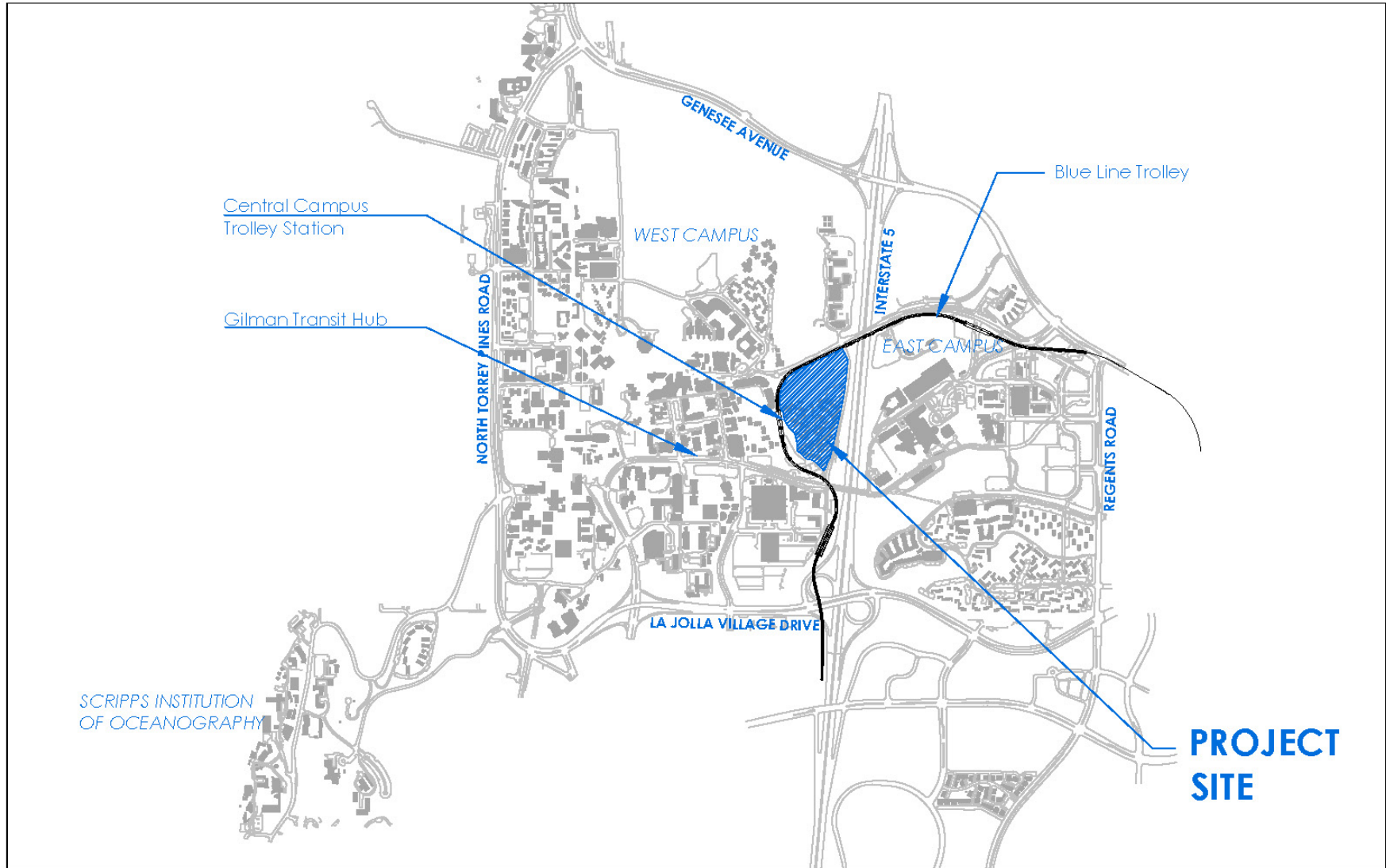
KEY TO ACRONYMS:

| | |
|------------------|-------------------------------------|
| ASUCSD | Associated Students of UCSD |
| District | Pepper Canyon East District |
| GSF | Gross-square-feet |
| LRT | Light Rail Transit |
| LRDP | Long Range Development Plan |
| District Phase 1 | Pepper Canyon East District Phase 1 |

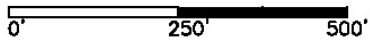
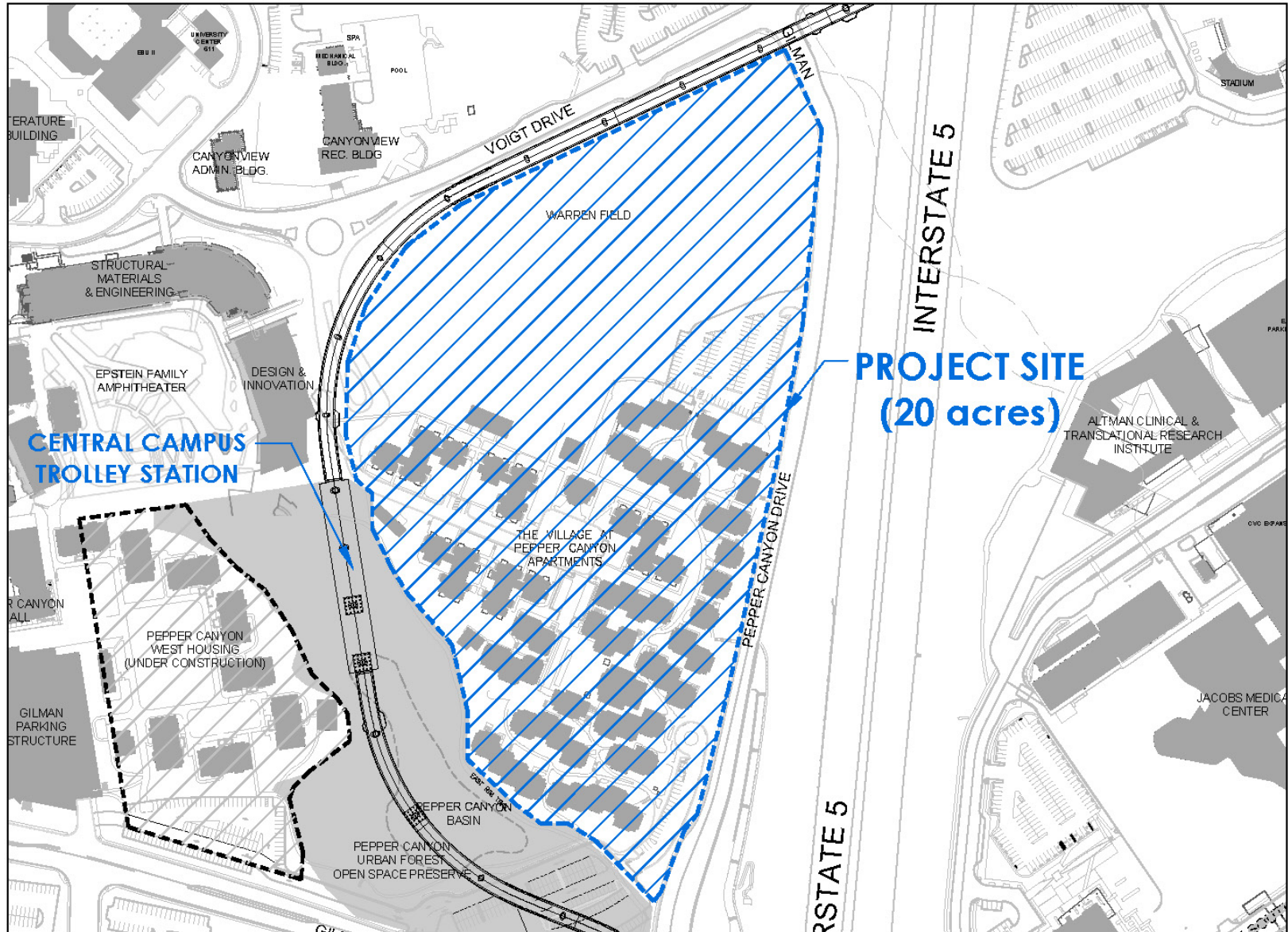
ATTACHMENTS:

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| Attachment 1: | Project Location Map |
| Attachment 2: | Project Site Map |
| Attachment 3: | Alternatives Considered |

PROJECT LOCATION



PEPPER CANYON EAST NEIGHBORHOOD
UNIVERSITY OF CALIFORNIA SAN DIEGO
CONTEXT MAP



PEPPER CANYON EAST NEIGHBORHOOD
UNIVERSITY OF CALIFORNIA SAN DIEGO
SITE MAP

ALTERNATIVES CONSIDERED

Alternatives considered for the delivery of new student housing included:

- 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 be redeveloping a 20-acre campus site to create the Pepper Canyon East District project. As described in the item, the project would provide approximately 6,000 new beds, (5,000 net new beds) for upper division (third- and fourth-year) undergraduate students.

Without additional housing, the San Diego campus will be unable to offer enough housing to meet upper division undergraduate student demand. Compared to current market rates in the surrounding area, the proposed project is the best solution for making affordable housing available to undergraduate students. This scenario provides the greatest likelihood of meeting campus goals as described under the Project Drivers section.

Option 2 - Reallocate Existing Housing

Current demand from all students exceeds the available housing supply, and, where possible, the available housing has already been converted to accommodate additional students. With the 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 Towne Center (UTC) area, 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. 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 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 campus recently investigated several properties for potential purchase; however, further evaluation revealed that these properties were older wood-frame products that would require significant seismic and building code upgrades to bring the property within University of California standards. The purchase of off-campus residential property would have also triggered the need for an environmental review relating to potential environmental issues such as increased traffic and impacts on the surrounding community. One such purchase would have potentially 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.

The other portion of the private market housing in the adjacent community is designated as condominiums with individual owners and homeowner 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 campus users and non-affiliates.

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

The campus evaluated various 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 deliver and operate a unique type of project successfully.

However, the campus has a solid track record of developing and operating student housing projects cost-effectively, resulting 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 likely 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. Therefore, this option was not selected.

Option 5 - “Do Nothing”

The current housing inventory is insufficient 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 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.