

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

DISCUSSION ITEM

For Meeting of July 19, 2016

UPDATE ON HOUSING STRATEGY, SANTA CRUZ CAMPUS

EXECUTIVE SUMMARY

The Santa Cruz campus was founded on principles that tightly integrate residential and academic student life and provides beds for approximately 50 percent of students.¹ The campus has commitments to mitigate the potential impacts of campus growth on the local community by requiring a minimum number of beds for on-campus enrollments. To fulfill its goals and commitments, the campus has increased density within existing housing with the addition of new beds as part of renovations, but has not developed new housing facilities since 2004. The campus is reaching capacity through these measures and must now find methods to develop new beds for students.

Academic and housing facilities at the Santa Cruz campus have been functioning over capacity for several years. While the campus has continued to provide an environment focused on the transformative student experience and innovative research under these conditions, recent commitments to accelerate enrollment growth combined with existing obligations to provide housing have placed additional strain on campus facilities.

Recognizing the need for additional housing in the near future, the 2015-25 Capital Financial Plan (CFP), accepted by the Regents in November 2015, included five housing projects plus two related dining expansions to meet growth projections at that time. The campus now intends to proceed with several of these projects by partnering with the Office of the President using the planned, systemwide, Public-Private Partnership (P3) solicitation in support of the Student Housing Initiative. Under this P3 model the campus would be able to maximize the number of new beds while maintaining debt capacity for other capital priorities. A successful P3 model is critical for the campus to meet legally binding housing commitments and provide a long-term delivery model to meet student demand. Without completion of these projects in a timely manner, the University would be required, by the terms of the binding agreement, to limit enrollments at the Santa Cruz campus. In addition to developing new housing, the campus also

¹ Survey of campus Housing Directors in December 2015 and revised April 2016 comparing head count of students housed to enrollment based on fall third week registration as reported by campuses in November 2015. Undergraduate enrollment figures include post-baccalaureates.

continues to seek off-campus leases for student housing; however, current market conditions and limited development opportunities make this a less likely near-term solution.

At the same time the CFP was accepted, the University made a commitment to enroll more California resident undergraduate students over the next three years. As a result of this commitment, the Santa Cruz campus has been asked to enroll 650 more students than originally planned for fall 2016. This projected influx has required the campus to adjust planning efforts to ensure a sufficient number of bed spaces are available to comply with legally binding commitments and reasonably satisfy increased student demand associated with higher enrollment. The campus is also proposing a *Modular Student Housing* project to: address near-term demand issues created by higher enrollments; decrease additional density beds to improve the student experience; and provide decanting space during the future P3 development.

BACKGROUND

Requirements for Minimum Number of On-campus Beds

As part of the 2005 Long Range Development Plan (LRDP) approval process, the University negotiated with the surrounding community and agreed to a legally binding Comprehensive Settlement Agreement (CSA) to potentially mitigate the potential impacts of campus growth. The CSA requires, among other things, at least 7,125 beds for the first 15,000 students² enrolled at the main campus and additional beds to accommodate 67 percent of enrollments in excess of 15,000. The beds must be available within a specified period after the enrollments are confirmed³ and also while existing student housing undergoes renovation or capital renewal. If the beds are not available, the University must curtail admissions for new enrollments at the Santa Cruz campus. Under these stipulations, based on 2015-16 enrollments projected forward, the campus must add at least 1,500 beds by fall 2023. The CSA commitment represents the minimum number of beds the campus is legally required to provide.

Housing Guarantees and Wait List

Beyond the CSA, the campus has made additional housing commitments to students. Housing guarantees are one deciding factor a student assesses when choosing a four-year college. The guarantees help students acclimate to the University environment, integrate residential and academic student life, and provide some assurance that a bed is available in the event the student is unable to find housing in the high-demand Santa Cruz rental market. Housing guarantees are a useful student recruitment and retention tool, and the campus periodically reviews the housing guarantee policy to ensure beds are available for students with guarantees and to stay competitive with other four-year institutions.

² Number of students is based on a fall-winter-spring quarter average.

³ From the inception of the CSA through 2017-18, new beds must be available within four years after enrollments have been confirmed. For 2018-19 and beyond, the beds must be available within two years.

Currently, a one-year housing guarantee is offered to all new undergraduate transfer students. A two-year housing guarantee is offered to all new freshmen. Educational Opportunity Program students are offered a three-year housing guarantee. Regents' Scholars, military veterans, international students, and Smith Scholar (emancipated foster youth) students are offered a four-year guarantee. Since the housing guarantee applies to incoming freshman and transfer or existing students, the number of beds filled through housing guarantees fluctuates with the type of enrollment and the students' desire to accept the offer.

Currently, the need associated with the housing guarantees is greater than the CSA commitment and nearly all beds are filled with students who are provided housing guarantees. The number of students who utilize the guarantee and accept housing has increased over the years and the campus estimates a 72 percent "take rate" in fall 2016. With the influx of students and lack of available inventory in the local rental market, the take rate is expected to continue to grow.

Students who are not eligible for a guarantee but desire on-campus housing, or are unable to find housing off campus, may apply for campus housing and are put on a wait list. Housing demand, identified by the wait list, is greater than both the CSA requirement and housing guarantees. The July 2015 campus housing wait list supports the need for more than 800 additional beds including graduate and family student housing. Without additional beds, and adding 650 unplanned enrollments in fall 2016, the campus anticipates a wait list of approximately 1,000 students next fall.

Table 1: UC Santa Cruz Students Housed

Student Type	Fall 2015 Enrollment (on campus)*	Fall 2015 Students Housed**	Percentage of Students Housed
Undergraduates	15,686	8,655	53%
Graduates	1,637	184	11%
Total	17,505	8,839	50%

*Enrollment statistics from Fall 2015 3rd Week Enrollment Report

** Housing Capacity & 3rd Week Occupancy Reports – as of October 16, 2015

Off-campus Market and Constraints

Affordability and availability of housing is an issue for many students at the Santa Cruz campus where geographic barriers and transportation limitations reduce the areas in which students can live, work, study, and commute. According to first quarter 2016 apartment data from Real Estate Investment Services, Inc. (REIS), the Santa Cruz-Watsonville metropolitan area has a vacancy rate of just 1.6 percent, and this rate is expected to remain low in the five-year forecast.⁴ Rental

⁴ REIS, Inc. "Performance Monitor Features: Apartment 1st Quarter 2016," (Santa Cruz-Watsonville Metro Area), 2016

rates in the Santa Cruz market from fourth quarter 2015 showed an average rent of \$2,158 across all unit types, a rate 7.2 percent higher than the Northern California Region average.⁵

The campus also explored leasing off-campus facilities; however, there are specific needs to ensure students are housed together and have a sense of inclusion and community when housed off campus. There are currently no existing multi-family projects in the area that would be viable alternatives. While the campus continues to conduct active discussions with developers of projects in the planning stages, future development sites are limited because the area proximate to the campus is extensively developed with a combination of existing low-density and medium-density housing. There are currently 137 UCSC beds located in the city, but it should be noted that the CSA limits the campus to 548 off-campus beds within the City of Santa Cruz.

Previous Steps to Address Commitments and Demand

Over the last ten years, the campus has added more than 350 new beds by redesigning existing housing facilities while they are undergoing capital renewal. The campus has created additional density by converting many double occupancy rooms into triples and making common spaces into living quarters. Currently 141 lounge spaces, in 45 of 47 residence halls, have been converted to provide 474 beds, but this has left just 17 student lounges for study. Opportunities for creating additional density are now exhausted and can no longer be relied upon to accommodate immediate housing demands. In addition, the diminished availability of communal study space across campus has begun to impact the student experience.

Accelerated Enrollment Targets

At the November 2015 meeting, the Regents approved a budget plan that includes enrolling an additional 10,000 California resident undergraduate students over the next three years. As a result the campus expects to enroll 650 more students in 2016-17 than originally planned. Most of these new students will be offered housing guarantees and are expected to live on campus. The resident undergraduate growth to be assigned to the Santa Cruz campus over the following two years is still undetermined, but the accelerated growth will have an immediate impact on housing.

Ongoing Facility Renewal

While the campus must plan new facilities to accommodate enrollment growth, there is also a plan to maintain existing housing facilities. The 2015-25 CFP includes the *Crown College Residence Halls Major Maintenance* project (620 beds; addition of 8 new beds), and the *Oakes College Apartments Major Maintenance* project (397 beds). Both of these projects provide capital renewal for some of the oldest housing stock on campus. In addition, the Family Student Housing complex and Kresge College housing units are both more than 40 years old. Redevelopment of these two sites, under the potential P3, was determined to be the most

⁵ Real Facts 4th Quarter 2015 average rental rate for Santa Cruz market.

efficient method to both add new beds and address deferred maintenance needs. The campus is required to comply with the CSA commitment while existing facilities are under construction and the proposed *Modular Student Housing* project would help provide the beds necessary to maintain compliance.

STRATEGIES FOR STUDENT HOUSING

The campus is considering several alternatives to address immediate and near-term housing needs including adjusting the construction schedule of an approved capital renewal project, adding a new project to provide additional beds quickly, and P3 delivery of new beds.

Phasing an Existing Rehabilitation Project

The approved *Crown College Residence Halls Major Maintenance* project is primarily aimed at capital renewal of nine, 50-year-old buildings with code compliance and seismic upgrades. The campus looks for ways to add beds during these types of projects; however these buildings offered very few opportunities, and can provide only eight additional beds.

The Crown project was originally phased to take more than 300 beds off-line during the 15 months of construction starting in June 2017. With the projected influx of fall 2016 enrollments, the campus is now extending the project schedule to limit the number of bed spaces that will be off-line during academic years. While the goal is to keep as many beds on-line as possible, some temporary bed space loss may be unavoidable. While keeping most of the Crown College beds on-line alleviates some pressure, additional housing is still needed.

New Beds for Immediate Needs and Discussion of Modular Housing Proposal

New beds are needed as quickly as possible to provide housing for approximately 650 unplanned enrollments attending UC Santa Cruz this fall and additional enrollments over the next two years. The priority is to build new affordable student housing by fall 2017 to ensure beds are available for student housing guarantees associated with enrollment growth.

By fall 2016, the campus will have utilized all options for creating additional density in existing buildings. The campus continues to explore leasing off-campus facilities; however there are currently no lease opportunities of sufficient scale in the high-demand Santa Cruz rental market. The only other alternative is to build new housing and, because the University already owns the land, the quickest and most affordable solution is to build the housing on the main campus.

The campus has initiated pre-design studies for the installation of pre-fabricated modular buildings. Several potential sites were analyzed. The proposed site has the capacity to accommodate up to 360 beds and the infrastructure improvements would be used for future development. A temporary land use designation would allow the modular housing to serve the campus for up to 20 years, and then the site would be returned to the Office of Physical Education, Recreation, and Sports.

The use of prefabricated modular housing has been successful on the Santa Cruz campus since 1997 and can be an immediate solution to meet the anticipated housing guarantees. Over the next few years, the new beds would be used to ensure compliance with the CSA housing commitment, to provide decanting during a planned P3 development, to reduce the number of additional density beds, and to reduce the student housing wait list.

Public-Private Partnership

The President's Housing Initiative, launched in January of this year, set systemwide targets for new housing, and the potential for a systemwide P3 model. This new approach has allowed the campus to re-evaluate three projects currently in the Santa Cruz 2015-25 CFP. These projects consist of two redevelopment sites with existing housing (*Family Student Housing Major Maintenance* and *Kresge College Housing Renovations*) and one undeveloped site for new construction (*Student Housing West Phase 1*). The campus determined that, when taken as a whole, these sites are an excellent opportunity for P3 development because of the potential density achievable through the contiguous site. The campus anticipates a P3 developer could construct up to 3,000 beds on these sites; a net increase of approximately 2,160 beds.

The project area slated for P3 housing is located on the west side of campus⁶ and the anticipated project would replace the three individual projects in the 2015-25 CFP mentioned above. The proposed *Modular Student Housing* project would provide decanting space to ensure the campus maintains compliance with the CSA while the two redevelopment sites go off-line.

Expanded Dining Facilities

To accommodate the additional students, the campus intends to expand two dining halls; one located at College Eight and another at Porter College. The *College Eight and Porter College Dining Expansion* project is included in the 2015-25 CFP and will be delivered by the campus in coordination with the first new beds of P3 housing on the west side of campus (currently planned to be fall 2020). The proposed *Modular Student Housing* project would include a kitchenette in each modular as well as a separate communal kitchen. These kitchen amenities have become very popular with students living in the existing Village modular complex.

Rental Rates

In comparison to the local market, the Santa Cruz on-campus housing rates are now positioned slightly lower than community rentals. The average on-campus double-occupancy rate is \$985 per month as compared to \$1,049 off-campus, double-occupancy one-bedroom apartment.⁷ Over the last five years, student housing rate increases have been less than three percent annually. Residence hall and apartment room reconfigurations (adding density) have created

⁶ See Attachment 1.

⁷ Real Facts, Santa Cruz County, 4th Quarter 2015, per person rent assuming double occupancy and a \$55 utility allowance

lower-cost options for students. Additionally, the campus administers “Rate Saver” programs that allow certain discounted rates to existing students who continue their residency with University housing. With these measures, the campus has worked to lower the cost of on-campus housing.

FINANCING

Santa Cruz has limited campus sources for capital projects. As a result, financing strategies need to be formulated to address the highest priority needs in the most flexible manner possible. Housing revenues and reserves are sufficient to maintain existing housing, support existing debt, and take on new debt for planned major renovations, while limiting annual rent increases to no more than three percent. The current ten-year forecast for housing shows that the debt service coverage ratio is well above the 1.25 ratio required by University policy. While it is feasible for housing revenues to support more debt to produce new beds, the campus-wide resources for other capital investments and new debt service are very limited.

Campus-wide debt capacity under the current UC debt affordability model is a significant campus concern. Even though a major portion of the campus debt capacity has been committed to housing, the limits on debt capacity require capital renewal and new construction projects to be sequenced over longer timeframes in the CFP than would be optimal to meet student demand. Therefore, the campus is pursuing a P3 opportunity that is expected to develop new on-campus beds and minimize the impact on campus-wide debt capacity, leaving more funds available to address other campus priorities.

The President’s Student Housing Initiative includes a system wide solicitation for master developers to design and build new, affordable housing. Utilizing a P3 delivery model would maximize the number of beds than could be provided through more traditional funding models.

IMPACT ON ACADEMIC SPACE

The campus recognizes that accelerated enrollment growth impacts all aspects of the learning environment, and that academic space needs must also be addressed. Student success and academic excellence are negatively impacted by space shortages. At Santa Cruz, renovations and new construction have not kept pace with student needs, enrollment, and evolving technologies. While housing is the most pressing immediate need, the campus intends to conduct further analysis of solutions for academic space needs, and anticipates coming to a future meeting to provide an overview.

Key to Acronyms

CFP	Capital Financial Plan
CSA	Comprehensive Settlement Agreement
LRDP	Long Range Development Plan
P3	Public Private Partnership
REIS	Real Estate Investment Services, Inc.

Attachments:

Attachment 1: UC Santa Cruz Project Locations

