Article

Going from P3 to P4, and other trends from the P3 Higher Education Summit

In late October, I attended the P3 Higher Education Summit for the third year in a row. I continue to be impressed with the quality of the information and the great people focused on helping colleges and universities find new and creative ways to build facilities designed to meet student needs. Haley & Aldrich is working on P3 projects on both coasts and is focused on helping both the developer and the campus find the most effective solutions to geotechnical and environmental issues impacting development. I learned a lot of P3 basics when I first attended in 2017, and in 2018, I saw the momentum continuing to build. This October I noticed both developers and campuses being more transparent about their goals and objectives. Here's what I learned this year:

Fundamental P3 drivers continue

The more things change, the more they stay the same. The reduced availability of capital, both at public and private institutions, drives the need to find alternative methods to achieve facilities goals. Those goals may be about catching up on deferred maintenance or keeping up in the facilities arms race. Demographic trends point to a smaller student body in the future, which foster worries of a "flight to quality" and pressure to compete for students. "All of the typical drivers for P3s still make it an attractive option for many colleges and universities," said Jay Pearlman, Senior Vice President for Advisory Services at The Scion Group. "Speed to market and reduced impact on debt capacity are still important considerations. But today, as more and more institutions contemplate their first ever student housing, we see schools electing to go P3 to fill an expertise gap. It may be that they lack a significant program management team

or they need help building a residential life program. Working with a development partner provides away to access these specialties in order to increase the success of a program."

P3 developments support student access and engagement

Often, P3 developments are considered a means to a financial end. But they can be much more than that. If you follow trends in higher education, you'll frequently hear about the student debt crisis, college readiness, and the plight of many first-generation students. In addition, students and faculty face affordable housing challenges in many locations, particularly in areas like the Bay Area or Boston where housing prices are skyrocketing. It's a perfect storm where more students are taking on debt to attend college, more likely to commute to reduce their cost, and realizing they're not fully ready or engaged. If that student doesn't graduate, they're at risk of missing out on key educational opportunities while also facing loans that will be very difficult to repay. And yet, as Maria Anguiano, Senior Vice President of Strategy at Arizona State University, said at the conference, "The knowledge economy requires knowledgeable workers."

Colleges and universities recognize that they need to allocate additional resources to ensure student success, which means even fewer resources for the facilities that support student success. P3 developments can be an alternate method to provide facilities such as student centers, dining halls, and athletic facilities that support student engagement and help students succeed while on campus.

As for campus living, P3 student housing developments can help regulate supply and demand for housing. From Berkeley to Boston, the addition of P3 housing helps campuses provide homes for students, faculty, and staff that they otherwise could not afford. Last year with help from American Campus Communities, UC Berkeley opened Blackwell Hall, a freshman dorm with over 700 beds, study areas, and an activity space. In Boston, the city outlined an initiative to build 69,000 new housing units in 2014, which included student housing. Northeastern University responded by partnering with American Campus Communities to build an 800-bed residence hall. LightView opened in the fall of 2019 to a very positive reception by both students and the city.

Both schools and developers want commitment, clarity, and fairness

When thinking about how private development supports campus objectives, there is often a conflict between being mission driven and financially driven. While the two sides may seem at odds, there's a lot of common ground.

At the conference, I heard time and time again that developers want to be able to focus on tangible projects with a committed campus leadership. Developers pointed to weak advisors, missing internal champions, a "testing the waters" mentality, and a lack of transparency as red flags for a lack of commitment from a university. As P3 becomes increasingly prevalent, developers can be more selective. They don't need or want to spend large sums of money responding to aimless RFPs that are fishing expeditions by a campus that doesn't really know what it wants or needs. And campus leaders don't want to get RFP responses that demonstrate the developer's lack of understanding of the campus and the student body.

We call this "institutional readiness," adds Pearlman. "The development community is becoming more and more aware of when an institution has done their homework to determine a defined scope. Beyond that, they also want to know that they have considered impact beyond the walls of the project. For example, for an institution adding first time housing, do they have a full appreciation of what is involved with becoming a 24-hour campus?"

This is where clarity comes in. I heard campus leaders and developers both asking for the other side to do their homework and be ready to address the specific goals and objectives of the specific campus.

Owners are looking for developers to understand their needs and know what the students want – not just by what they say, but by what they actually do. For example, students may clamor for superfluous amenities that sound great in theory, but developers can look at how students actually spend their time on campus to get a sense of potential usage.

Developers are looking for clearly defined projects, owners with an understanding of risk transfer and its costs, and well-defined selection criteria. Clarity allows for a more competitive offering because, in a developer's eyes, uncertainty

is risk, and risk costs money.

And both sides want fairness. Developers want — and need — to make a fair return to deliver the project. Owners want – and need – to pay a fair price to allocate risk to the developer. When either side is unreasonable, the deal may die. "Although no one likes to talk about it, more than 20% of deals never cross the finish line to reach financial close," said Jeff Turner, Executive Vice President at Brailsford & Dunlavey. "It is clear that setting up the project goals on day one and having a solid understanding of each other's needs are paramount."

P3 sometimes moving to P4

Just when you thought you had an understanding of P3s, schools are now turning to P4 approaches. Very simply, P4 means partnering with local government to help achieve community goals, as well as campus goals. For example, Rutgers University partnered with the City of New Brunswick to develop a performing arts center that both parties needed. The dual use increases efficient use of the space and strengthens the relationship between the campus and the surrounding community. P4 helps cash-strapped municipalities and campuses both achieve their goals.

But it doesn't work everywhere. Positive and productive town-gown relationships are necessary, and developers and universities need to be willing to work with additional stakeholders.

P3s continue to be a win-win

As I said after last year's conference, P3s are here to stay, but it's going to take commitment, clarity, and fairness in order for them to continue to be successful. Developers need to be able to understand a university's goals, while universities need to be upfront about their expectations and selection criteria. As local governments and communities start to get involved, this transparency becomes even more important. When it comes down to it, a successful P3 project is ultimately about delivering a better experience for the student.

I'm always interested in talking and learning more about P3s. Send me an email if you want to discuss further or learn about how Haley & Aldrich can support your P3 project.

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