



UNIVERSITY OF WASHINGTON

West Campus Development Long Term Real Estate Strategies

SCPB / FCUFS

November 2020

Discussion/Questions

- 1. Capital Investments:** Should we leverage P3 projects and capital investment by others to broaden our impact? Are we willing to spend more on projects in order to preserve debt capacity for campus renewal & clinical investments?
- 2. Space Utilization:** How should we look for opportunities to reduce space in order to reduce our growth rate? Can we normalize costs for owned space and leased space?
- 3. Risks:** With partnerships come new types of risks – have we identified all the potential risks? What mitigation strategies should we have in place? What is our threshold for tolerance of these new types of risk?

West Campus

The Opportunity



69 acres of development opportunities

3 million new gross square feet

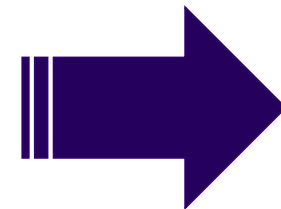
1 million GSF for industry partners

19 potential new development sites

West Campus

Guiding Documents

<p>Campus Master Plan July 2015–Jan 2019 Approved February 2019 <i>including building design guidelines</i></p>
<p>West Campus Development Advisory Committee Nov 2016–July 2017 Report Completed August 2018 <i>creating opportunities for collaborative research and new cross disciplinary majors</i></p>
<p>UW Parking Study Oct 2017 <i>9,000 space campus maximum, but we need to add spaces in West Campus</i></p>
<p>West Campus Public Realm Design Guidelines March 2018 <i>recognizing the value of public realm to connect West Campus</i></p>
<p>West Campus Academic Committee Month Year–April 2018 Recommendations Report April 2018 <i>academic vision – interdisciplinary programs and shared space</i></p>
<p>UW Capital Plan July 2018 <i>assumes partnerships (no impact on debt capacity) W27 is first project</i></p>



WEST CAMPUS VISION

West Campus

A place where people come together to do big things

The University of Washington has designated the West Campus area as an “Innovation District” with the intention of creating a **dynamic and** interdisciplinary **urban** community that will merge **education and student life with** cutting-edge UW research, pioneering public/nonprofit institutions and private companies.

The UW’s vision for the West Campus “Innovation District” is to create a place where **students and faculty** experts across multiple fields — including public health, engineering, life sciences, social work, public policy and the humanities — can partner with business, government, nonprofit organizations and the Seattle community to solve critical challenges. The Innovation District will be a place to discover answers to the big questions facing the people of Seattle, the state of Washington and the Pacific Northwest region. It’s a place to create an inclusive spirit and leverage a culture of entrepreneurial thinking and innovation mindsets.

Original Source: West Campus Development Advisory Committee Report

Bold copy: September 2019 edits

West Campus

Creating a full & dynamic ecosystem

*Innovation and jobs grow in great places —
and universities are often at the center of them*



West Campus

The vision



Fritz Hedges Waterway Park

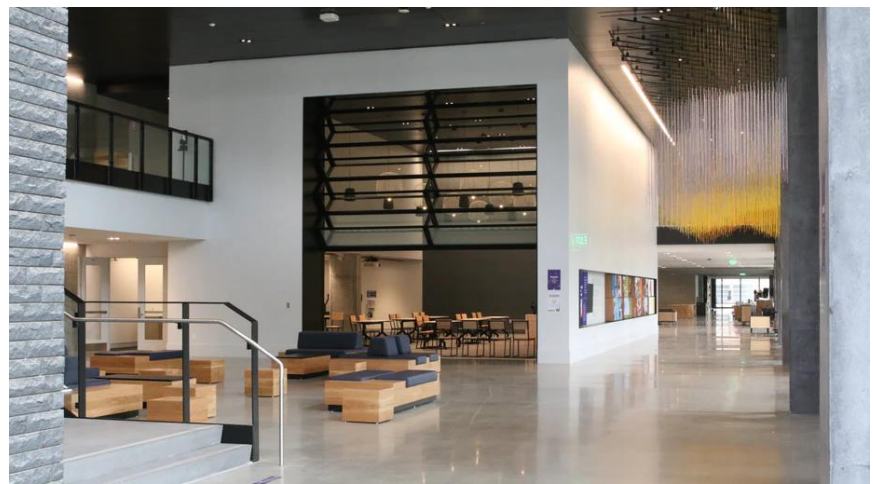
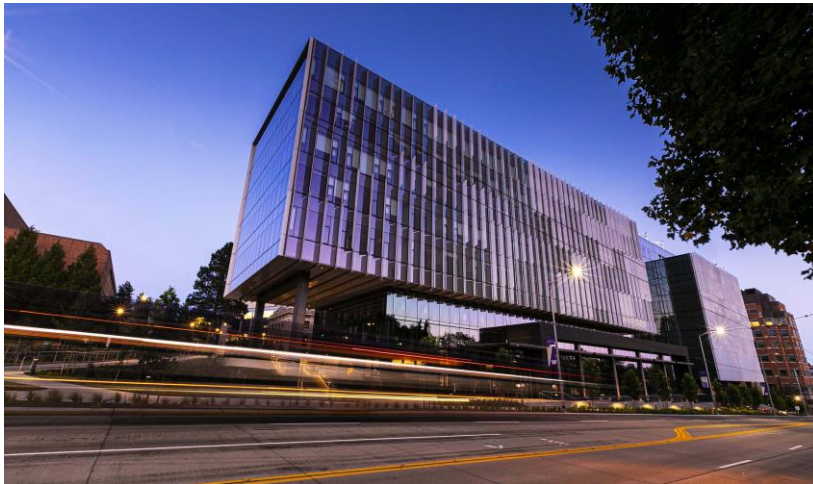
Setting the tone



Hans Rosling Center for Population Health

Gateway to West Campus

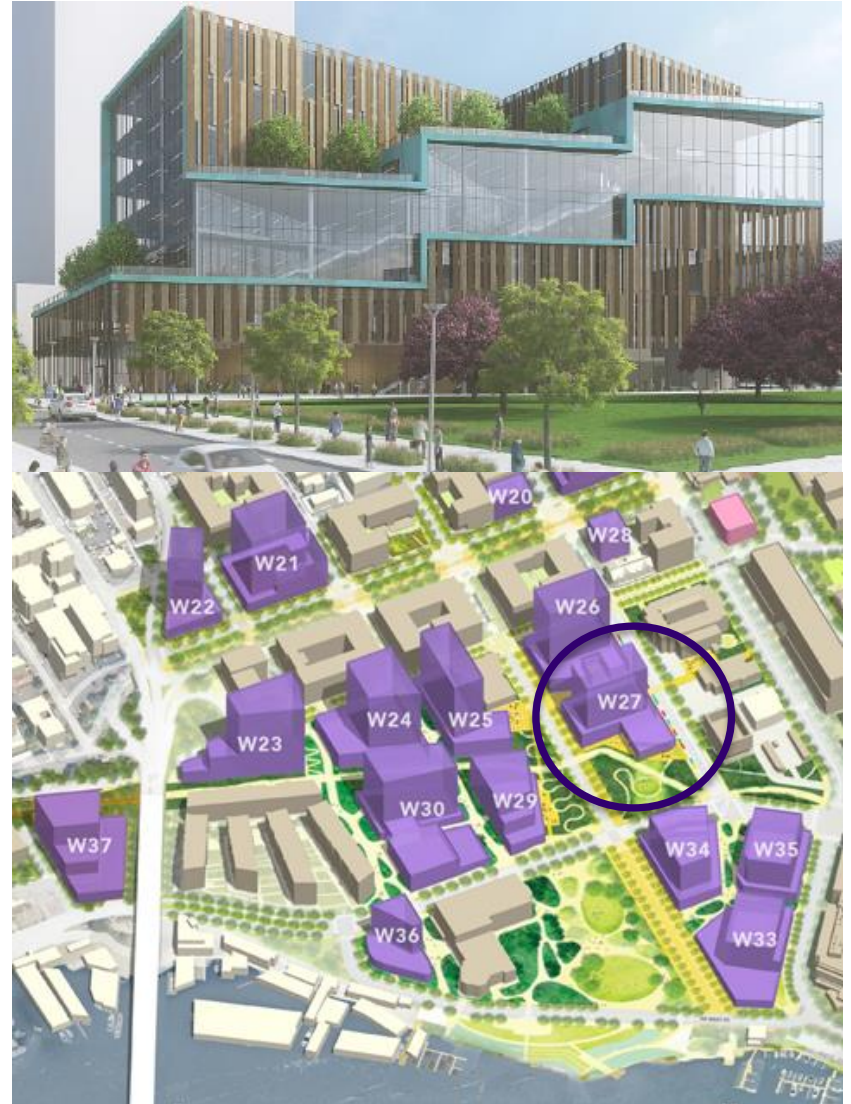
- Specifically sited to act as the gateway to West Campus and to foster collaboration and community
- Cross disciplinary academic research space with numerous external partners
- Includes convening and collaboration space, retail amenities, and art gallery to connect with community.



Flagship Development

W27 – Solutions for a health planet / clean energy

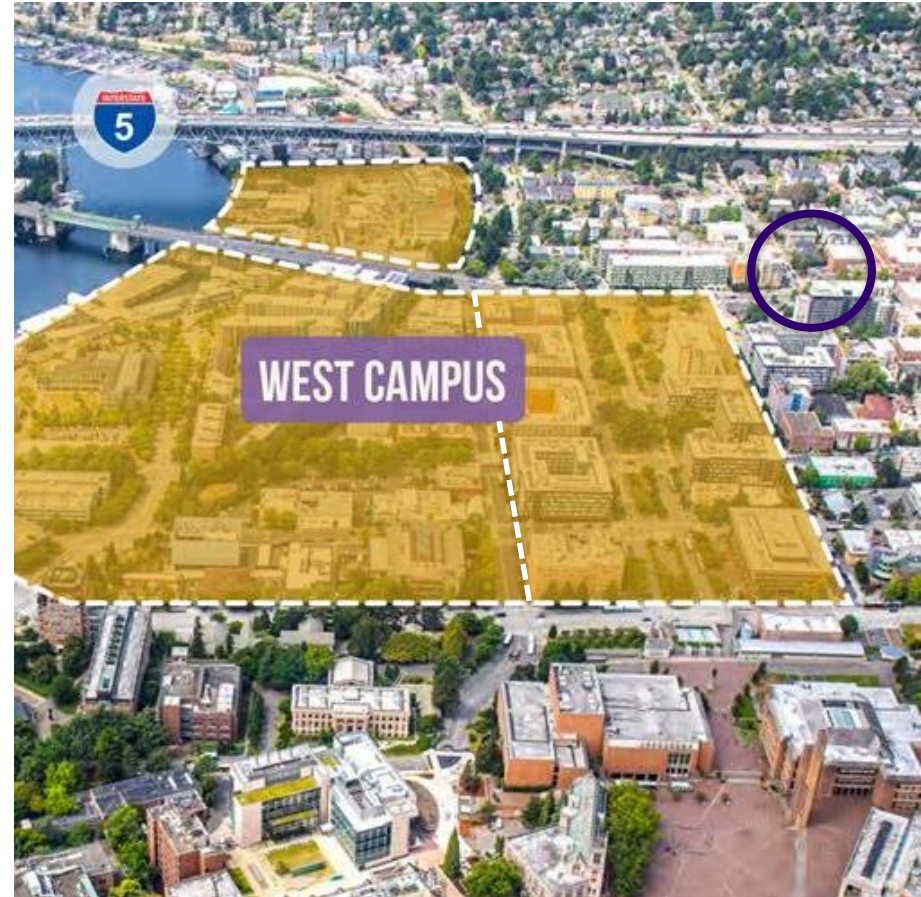
- Sited at the head of the west campus green
- Development includes “belvedere” and Burke Gilman Trail
- 340,000 SF of interdisciplinary and interagency research
- Clean Energy, Earth Lab, NOAA
- Includes convening and collaboration spaces, retail amenities.
- \$20M state support
- \$1M donor support



Affordable Housing

Partnering with the Seattle Housing Authority

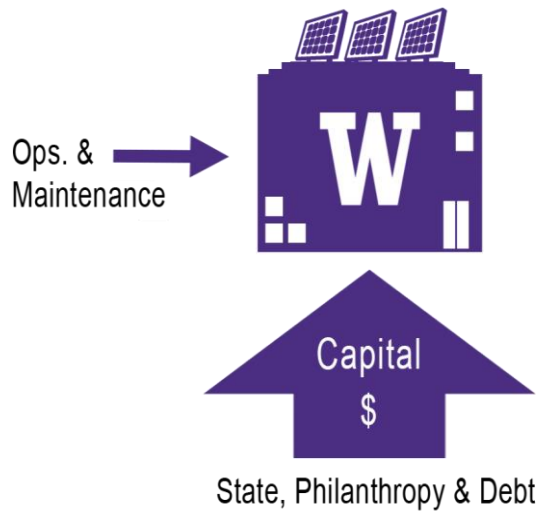
- 150 units for residents making 60% of AMI
- Potential for up to 100 additional units for residents making 80% of AMI
- 45,000 SF site on Roosevelt Way owned by UW
- Focused on qualifying UW faculty and staff
- Potential for child care facility and/or services for homeless young adults



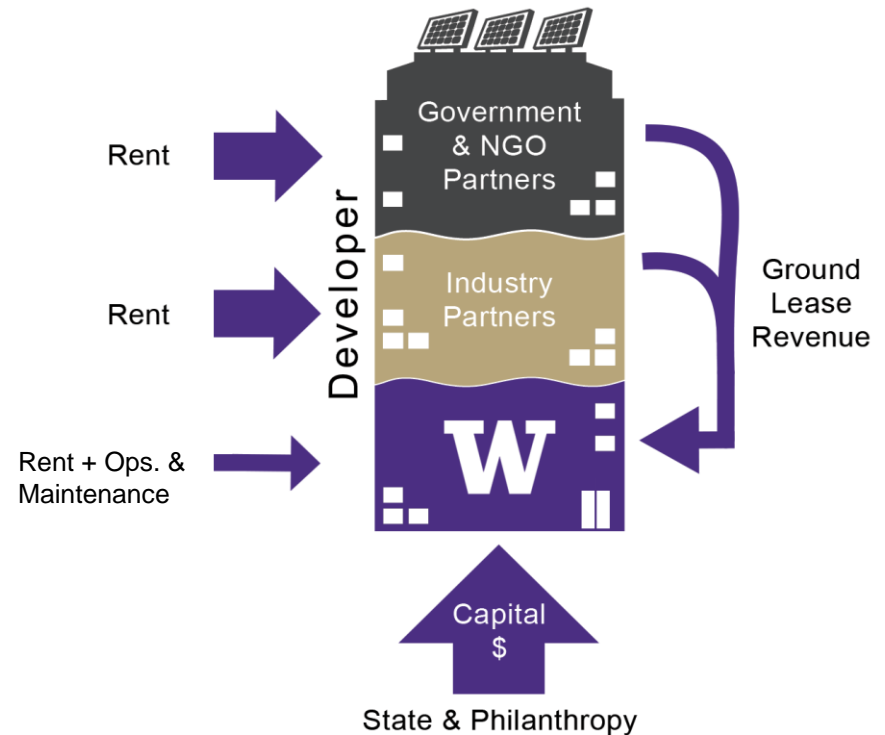
Enabling the Vision

Partnering with developer leverages land value & encourages mixed occupancy

TRADITIONAL MODEL



WEST CAMPUS MODEL



Understanding the Cost of Space

Partnering with developer leverages land value & encourages mixed occupancy

Approx. Annual Cost Per Square Foot	Life Sciences	W27 (est.)
Utilities	\$5	\$5
Custodial	\$1.50	\$2
Maintenance (incl. Grounds & PM)	\$3.50	\$6
Renewal	\$10	\$0
Debt Service / Rent	\$27	\$60
Ground rent revenue	\$0	(\$60)
Total Cost of Space	\$47 psf	\$13 psf

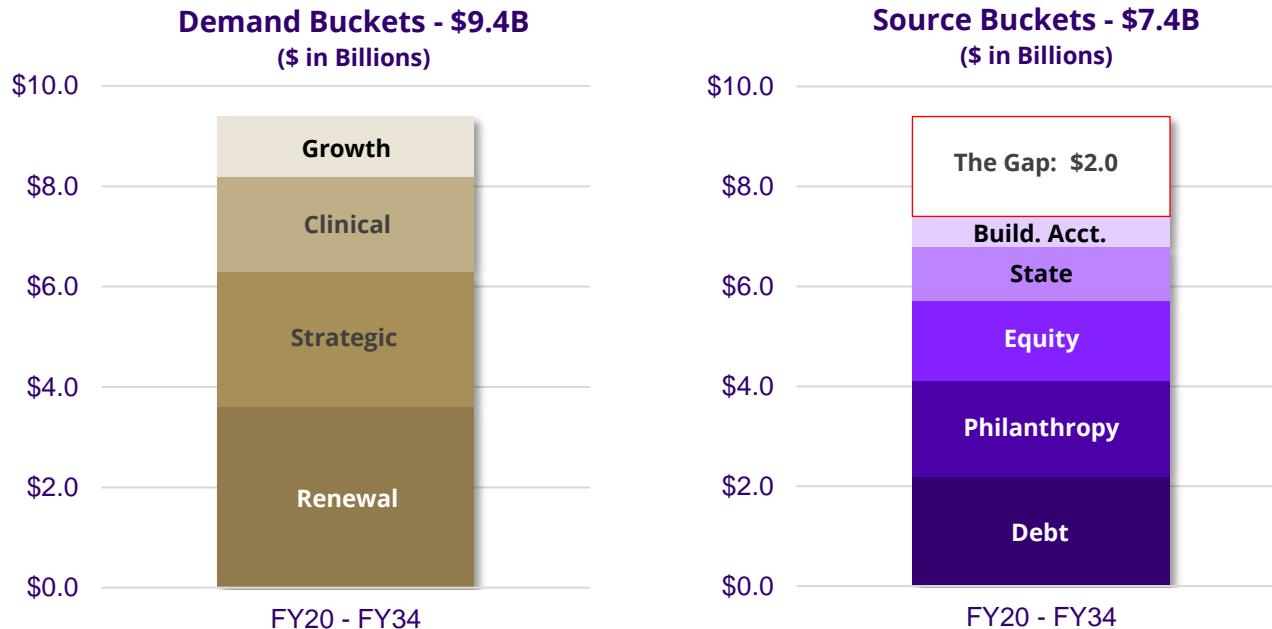
Notes:

1. Utilities, custodial, and maintenance costs for leased space are passed through to tenant in addition to rent.
2. Rent generally includes debt service, taxes, renewal, management, and overhead & profit.
3. Debt service for LSB is for 70% of total project cost - 30% was equity/donor funded
4. W27 assumes fitout is funded by state/donor, so debt service is not included in rent
5. Ground rent revenue assumes ~40,000 SF is leased by UW (total building is ~340,000 SF).
6. Ground rent revenue PSF drops as UW leases more space.
7. Rent escalates over time while debt service remains steady.

Long-Term Capital Strategies

From March 2020 Regent Meeting

Demands exceed sources by ~\$137M per year



- **Growth** – investments that add new square footage
- **Renewal** – renovations or replacement of the existing physical infrastructure
- **Strategic** – investments that have the potential to take the University in new directions through efficiencies, technologies, partnerships, etc.
- **Clinical** – investments that support the mission and objectives of the Clinical Enterprise

Long-Term Capital Strategies

From March 2020 Regent Meeting

1. Focus Capital Spending on Renewal and Clinical Investments

- a) Make capital investments in existing facilities to preserve asset functionality and reduce costly deterioration
 - ~\$240M / yr funded by state, donors, & debt (50% of total CapEx)*
- b) Increase access to debt financing for the clinical enterprise
 - ~\$125M / yr funded by clinical equity & debt (25% of total CapEx)*

2. Limit Growth in Square Footage

- a) Reduce campus funded SF growth rate to 0.5% per year (current rate is 3%)
 - ~\$75M / yr funded primarily by donors*
- b) Leverage partnerships to pursue strategic goals and increase impact
 - ~ Partnerships bring resources and/or space with minimal capital investment*

Corresponding Real Estate Strategies

1. Preserve debt capacity for renewal & clinical investments

- All real estate transactions should have limited impact on debt capacity
- e.g. Husky Village, Husky Hall, UDSB

2. Consolidate leases & reduce square footage

- Evaluate all leases nearing end of term
- Capitalize on emerging post-COVID trends in office space
- Reduce square footage = less SF per person
- e.g. Roosevelt Commons, UW Medicine Call Center, Education

3. Leverage partnerships to maximize impact

- Seek out other agencies & companies with common goals
- Partner with developers to optimize land values
- e.g. W27 (NOAA), UDSB (Sound Transit), Filer (Seattle Housing Authority)

ANNUAL REPORT ON LEASE OBLIGATIONS

FY20 | July 2019 – June 2020



UW REAL ESTATE | UW FACILITIES

LEASES UW AS TENANT¹

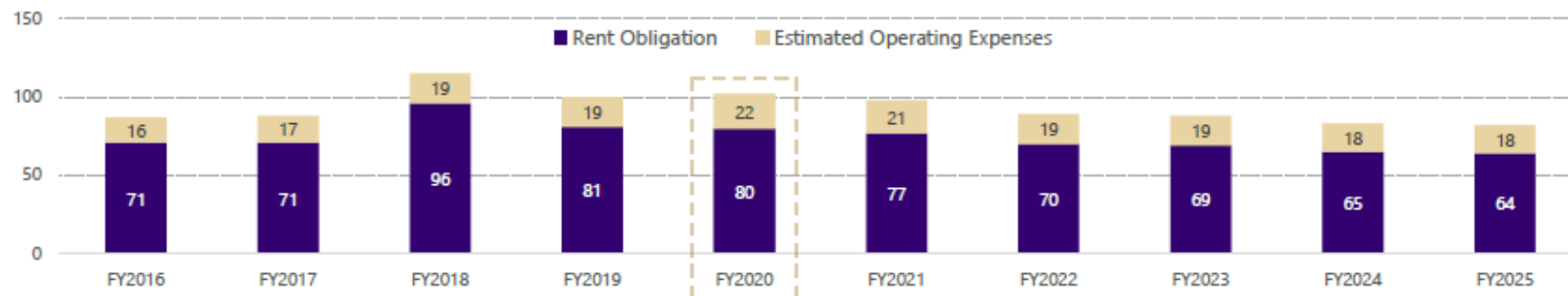
PORTFOLIO METRICS²

Annual Lease Obligation	\$102M	Total Lease Obligation	\$2B	Leased SF	2.5M SF	Properties	173	Active Leases	259	Contracted Services	18
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HIGHLIGHTS

- 19 new leases, 75 lease renewals, 17 TI projects = 123 total FY20.
- 42 terminations.
- Generated revenue or savings of \$18M through subleasing, downsizing and backfill. Examples: 5th & Bell lease termination, Liberty Mutual sublease for UW Med IT, 4545 Roosevelt subleases.
- Renegotiated Benjamin Hall DBOM contract from fixed fee to actual costs for operating expenses for estimated \$12.5M savings over 15 years.
- Assumed management of NW Hospital lease portfolio since integration with UWMC January 2020 adding \$40M to total lease obligation.
- Negotiated average cost for office space at \$30/RSF compared to market average \$35-\$55/SF.
- Completed \$8M Tenant Improvement project at SLU 3.2 on budget.
- Obtained, at record speed, new Lab Med leases to meet COVID demands.
- Strategized on future lease renewals due to COVID impacts, including planned terminations, reduced space and blend/extend.

ANNUAL LEASE OBLIGATION (IN MILLIONS)^{3, 4, 5}



Our Goals



- Preserving and enhancing UW's physical infrastructure
 - *one of most beautiful campuses*
- Building on UW's reputation as dynamic institution delivering impact
 - *one of most innovative universities*
- Maintaining a strong and sustainable clinical enterprise
 - *top rated academic medical system*

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