

**STATE UNIVERSITY SYSTEM OF FLORIDA  
BOARD OF GOVERNORS  
Project Summary  
Florida State University - Panama City  
2020 Housing Facility (P3)**

**Proposal & Project  
Description:**

On November 1, 2019, Florida State University (“FSU” or “University”) submitted a request for approval of a proposed public-private partnership (P3) to design, build, privately finance, own and operate a housing facility, along with associated parking (together, the “Project”), on its Panama City campus (“FSUPC”).

The proposed Project is a 3-story, 132-unit, 400-bed residence hall of over 150,000 gross square-feet. The building will include space for student social/educational interaction, as well as outdoor recreational amenities, such as a pool, gazebo and sand volley ball court. Also included will be surface parking adjacent the building sufficient to accommodate the Project (to be delineated by FSUPC) and will include the replacement of any current parking displaced due to Project development.

The Project will be privately-financed, designed, constructed and owned by ZP No. 350, LLC (“Owner” or “Developer”), an affiliate of Zimmer Development Company (“ZDC”). FSU will enter into an operating agreement and a 40-year ground sublease with Developer, who will retain ownership of the housing facility throughout the term of the ground sublease, after which ownership will revert to FSU at no cost to the University.

ZDC is a diversified real estate developer with commercial and multi-family projects in 18 states, including ground leases with Western Carolina University, Arkansas State University and Florida Key Community College. Most of their student housing projects are off-campus, including two near the FSU main campus.

The Project is included in the University’s 2008 campus master plan and was approved by its Board of Trustees in November 2019 pursuant to section 1013.171(1), F.S. Consent will need to be given by the Internal Improvement Trust Fund (“IITF”) Board of Trustees for the sublease of the land.

**Project Site Location:** The Project will be located on the west side of campus on a proposed 2.65-acre waterfront parcel (see *Site Map* and *Neighborhood Map*, attached). The building's exterior and architectural design will be in keeping with FSU's Architectural Design Guidelines.

**Projected Start and Completion Date:** It is anticipated that construction will commence no earlier than July 2020 and will be completed and operational for the fall semester in August 2021. If any portion of the Project is not habitable, no later than 10 days prior to the start of classes for 2021 fall semester, Developer will provide and fund temporary housing for eligible residents, based on the terms of their lease.

**Project Cost:** The total Project cost is anticipated to be approximately \$23.1M, comprised of \$20.2M hard costs and \$2.9M soft costs, or approximately \$57,750 per bed. Included in total cost is a Developer fee of no more than 2%. Developer is at risk for all cost overruns on the design and construction of the Project, with the exception of changes requested by the University. Any such changes would be funded with available auxiliary resources and/or private unrestricted funds, according to the University.

**Financing Structure:** The Project will be privately financed by the Developer using a structure of 20% equity (provided by Developer) and 80% debt. Developer has the option to replace or refinance its equity upon construction completion (issuance of certificate of occupancy). The debt portion will be in the form of a construction loan from a private lender, which will be refinanced into permanent debt 12-24 months after completion depending on stabilization. The permanent debt will be financed over thirty years, in compliance with the P3 Guidelines.

No liens will be placed on state lands (the subject parcel) as a result of this proposed P3 transaction. Likewise, there are no financial guarantees, room guarantees, operating deficit funding requirements or similar monetary obligations on the part of the University or any Direct Support Organization in relation to the construction, operations, maintenance or debt of the proposed Project.

**Quantitative Demand for Project:** The University commissioned Danter & Associates ("Danter"), an independent 3<sup>rd</sup>-party, to prepare a demand for the Project. The study indicated strong demand for the Project, with 80%-85% pre-leased by mid-summer 2021 and 95% occupancy by mid-September

2021. Note, Danter’s projected demand/occupancy assumed a project with 520 beds, which is larger than the Project (i.e. 400 beds).

The Project will house students from FSUPC as well as neighboring Gulf Coast State College (GCSC), although GCSC will have no financial involvement. Danter’s report noted that projected occupancy at the Project is dependent on the schools actively marketing to students, with long-term success requiring ongoing engagement and involvement from both FSUPC and GCSC.

FSUPC enrollment has seen a couple years of growth over the past 10 years, but has generally trended down (see chart below).

#### Enrollment – FSUPC

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Enrollment</b>	<b>1,079</b>	<b>1,043</b>	<b>976</b>	<b>970</b>	<b>856</b>	<b>961</b>	<b>954</b>	<b>940</b>	<b>971</b>	<b>925</b>
<b>% Change</b>	2.9%	(2.8%)	(6.4%)	(.6%)	(1.4%)	12.3%	(.7%)	(1.5%)	3.3%	(4.7%)

Enrollment data based on Danter & Associates student housing analysis, 10/25/19.

The University attributes 2019’s decline to Hurricane Michael, which made landfall in October 2018 and adversely affected the housing stock of Panama City.

Just over 55% enrollment consists of full-time students, which typically represent the greatest amount of support (demand) for the Project, according to Danter, but their focus group survey indicated significant support from part-time students as well, with over 70% interested in student housing. Furthermore, nearly 55% of the total 2018 fall enrollment was comprised of students from outside Bay County, which would indicate an adequate amount of potential support from existing student base for rental housing near/on campus, according to Danter.

Enrollment at GCSC has steadily declined over the last 10 years, with 2019’s decline attributed to the adverse impact of Hurricane Michael. (see chart below)

#### Enrollment – GCSC

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Enrollment</b>	<b>7,632</b>	<b>7,514</b>	<b>6,987</b>	<b>6,674</b>	<b>6,441</b>	<b>6,197</b>	<b>6,070</b>	<b>5,676</b>	<b>5,361</b>	<b>5,278</b>
<b>% Change</b>	--	(1.6%)	(7%)	(4.5%)	(3.5%)	(3.8%)	(2%)	(6.5%)	(5.5%)	(1.5%)

Enrollment data based on Danter & Associates student housing analysis, 10/25/19, and Gulf Coast State College.

Nearly 70% of GCSC's enrollment is part-time students.

According to the report, rents in the market area have increased over 6% annually since April 2016, with a significant jump in rents October 2018, when hurricane Michael damaged much of the rental stock. Danter went on to note, however, that the amount of apartment product expected to re-open over the next 12-18 months will make it difficult for the market to maintain such significant rent increases.

**Current Apartment Stock in the Effective Market Area**

Unit Type	# of Units	Monthly Rent	Average Rent Comparable*
1 Bedroom	2,150	\$653 - \$1,829	\$1,460
2 Bedroom	3,046	\$563 - \$2,306	\$1,750
3 Bedroom	1,095	\$656 - \$2,539	\$1,975
4 Bedroom	78	**	\$2,600

Total 6,369

*Above data per Danter & Associates student housing analysis, October 25,2019*

*\*Includes 3% rent rate increase per year, in light of Fall 2021 Project open. Rents adjusted to include utility package similar to the Project.*

*\*\*Since there were only 78 units in the effective market area, Danter utilized the 3BR unit data and added a \$475 rent gap between 3BR & 4BR units (based on prior student housing studies).*

Post-hurricane renovations as well as new construction will push total market-rate inventory to 7,438 units. This does not include 1,163 government-subsidized units. Danter anticipates the added stock to be absorbed by the market and vacancies to remain very low.

According to the report, the Project will experience healthy demand by virtue of its unit mix, amenities, comparable rents and location.

**Project proposed Unit Mix and Rental Rates**

Unit Type	# of Units	# of Beds	Sq. Ft.	Recommended Monthly Rent/Unit (per Demand Study)	Proposed Monthly Rents**	
					(per Unit)	(per Bed)
1 BR/1 Bath	28*	28	550	\$1,100	\$1,025	\$1,025
2 BR/2 Bath	22	44	942	\$1,500	\$1,450	\$725
4 BR/4 Bath	82	328	1,418	\$2,580	\$2,600	\$650

Total 132 400

*\*Includes 6 Resident Assistant (RA) units.*

*\*\*Includes utilities, high-speed internet and cable television. Semester = 4 months. Adjusted for 2021 opening, 3% annual increase.*

*The above data provided by the University and supported by Danter & Associates student housing analysis, October 25,2019*

The Project will be comprised of apartment style units, complete with refrigerator, microwave, range, dishwasher as well as washer and dryer units. The lease term will be 12 months. For students living more than 100 miles from campus and/or graduating at the end of the next spring semester, the Developer will work with the University to develop a plan for two semester leases and associated rental rates.

In evaluating the market appeal of the Project, Danter considered six (6) apartment communities within a 5-mile radius as being most competitive. Each have very minimal vacancy (average = 1.4%), with students comprising only 5%-15% of total residents. Also, all offered living units slightly larger than the Project at comparable rental rates. However, the competing developments are larger; 200 to 400 in size, giving the Project a competitive advantage, according to Danter. Also, popular among students are fully furnished units, which the Project will offer and are not offered at any of the existing properties in the effective market area. All told, Danter's report emphasized that there are currently no purpose-built student housing projects in the effective market area, and, in short, the proposed Project units will be viewed as a value in the market.

**P3 Justification:**

FSU has chosen to utilize a public-private partnership ("P3") to finance the Project. The primary benefit being the transfer of operational/financial risk to the Developer, but it also preserves the University Housing System's debt capacity and accelerates the delivery of FSUPC's housing development program. Furthermore, FSU currently has no housing staff or related infrastructure at the Panama City campus. Lastly, given that significant occupancy is expected from GCSC students, a P3 approach was deemed appropriate.

**Security/Lien Structure:**

The Owner/Developer will have a leasehold interest in the Project, providing security for a leasehold mortgage. Should the Owner default on any debt associated with the Project, the lender could assume control of the Project, subject to the terms and conditions of the ground sublease. The land is not pledged as collateral nor will it be subordinate to any debt.

Debt service payments are the responsibility of the Owner/Developer, and are projected to be paid from net revenues after payment of operating expenses and payments to FSUPC, including base ground lease payments and annual payments in lieu of real estate taxes. FSUPC will then receive a 2% share of the

resulting net operating income (see *Pro Forma Projection; 10-year Cash Flow Analyses*), together “Rent”. Non-payment of Rent by the Developer is a default under the lease agreement. Owner’s return on equity (approximately 19.25%) is paid last from available net excess cash flow.

**Taxable Debt:**

A portion of the Project will be privately financed by the Owner/Developer with taxable debt. No tax-exempt debt will be utilized.

**University Support of Project:**

The University will not be obligated to provide any construction or operating guarantees. The debt utilized to finance the Project will not be a legal obligation of FSU or a Direct Support Organization. FSU has not pledged its credit towards the Project and is not legally obligated to pay debt service or maintain the Project.

It is not anticipated that the Developer will need to connect to FSUPC’s existing chilled water, potable water, and sanitary sewer utilities.

Parking will be operated and maintained by the University consistent with its plan for development and operation of the parking system on the campus. Resident students will not be charged higher parking fees than non-resident students. The University will have the exclusive right to (a) establish the conditions of access to and use of parking spaces, and (b) set, receive and collect the fees and charges to be imposed for the use of parking.

The University will not be responsible for maintenance of the building and recreational amenities. According to the University, adequate reserves for maintenance, renewal, and replacement will be established based upon industry standards. Project projections include an annual replacement/repair reserve equal to \$200/bed; Developer will not be required to maintain a reserve balance in excess of \$400,000 (subject to a 5% increase every 5 years).

**Return on Investment:**

Under the 40-year ground sublease, and reflected in the attached *Pro Forma Projection; 10-year Cash Flow Analyses*, FSUPC will receive ground lease payments, payments in lieu of real estate taxes, as well as profit sharing, together “Rent”.

Over the first 10 years following Project opening (July 2021), Developer’s pro forma operating projections indicate the University

could receive approximately \$3.7 million in revenues. FSUPC intends to use revenues received from the Project to fund additional campus security and other related costs of having students living on campus, as well as provide scholarships.

In the 7<sup>th</sup> year following substantial completion, the University has the option to terminate the ground lease, and the Developer has the right to sell its interest in the sublease, pursuant to the terms and conditions of the ground lease (for additional details, see *Statement of Key Terms*, attached).

There is no option for renewal or extension of the ground lease. At the end of the 40-year sublease, the Project will revert to FSU at no cost to the University. The Project shall be returned to the University in good and operable condition, considering normal wear and tear.

**Analysis and  
Recommendation:**

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida State University with respect to the request for Board of Governors approval for Project.

If, in the future, the University intends to exercise any optional termination/purchase option for the facilities, the proposed transaction should be brought back before the Board of Governors for review and approval.

The proposed financing complies with the Florida Statutes governing the ground leases and complies with the Board of Governors' Public-Private Partnership Guidelines. Accordingly, Board staff recommend approval of the Project.