

National Association of College Auxiliary Services ♦ 31



# University Gables – from Concept to Reality

**Cal State Fullerton Provides  
Affordable Housing in  
Perpetuity for Faculty & Staff**

by

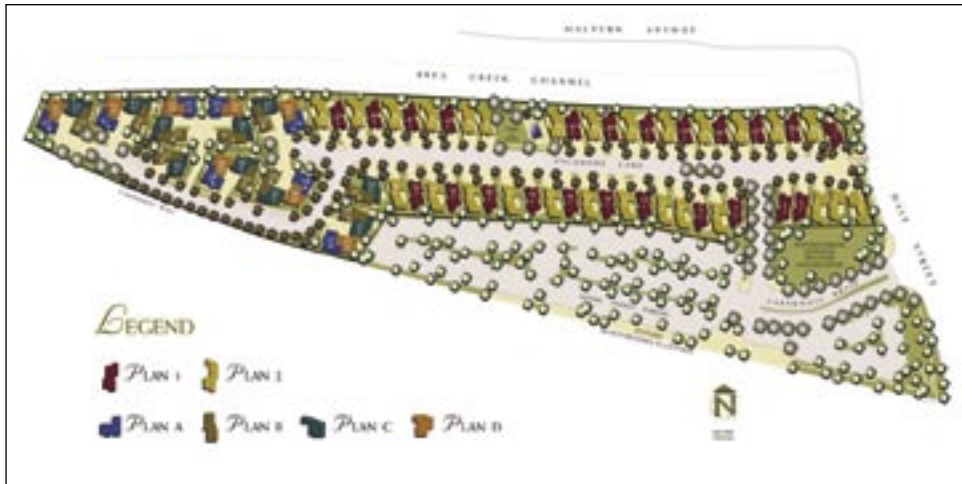
**William Dickerson**

Cal State Fullerton had a serious problem. Its 1989 projections showed that the University would need to hire more than 600 tenure-track faculty by the year 2000. But Orange County, California is one of the most expensive housing markets in the country, and unfortunately, starting faculty salaries (which in 2002 still averaged less than \$60,000 per year) are not the most competitive.

So Cal State Fullerton decided that alleviating the high cost of housing was to become a major priority, and, like any good academic institution, CSUF created an "Affordable Housing Task Force" (a committee of faculty, administrators and representatives from the local community) and turned to its Auxiliary Services Department (a 501(c)(3) nonprofit corporation known as the CSUF Foundation) to facilitate the process.

It didn't take long for the Task Force to realize that the University's housing problems were far greater than anyone might have imagined, for not only was there a tremendous demand for affordable housing, but the University was also lacking the two key ingredients essential for solving the problem – land and money.

But what they did have was a group of dedicated individuals who were entrepreneurial in spirit – and dogged in their determination to resolve the problem. And though they had no appreciable funds with which to work, they knew that the best way to optimize their limited resources was to engage expertise that could guide the campus through the maze of demand studies, faculty surveys and development "opportunities" that lay ahead.



### Housing Consultant Critical

As luck would have it, they didn't have to look very far – for nearby UC Irvine had developed what many viewed as the most successful faculty housing program in the country. Of course, UCI had plenty of land, but nonetheless, one of the key individuals assisting UCI was a consultant named Courtney Caldwell. So CSUF engaged the services of Ms. Caldwell and began what has turned out to be a 12+ year battle to provide faculty-staff housing for the University.

Over the years, the campus had come close to obtaining a project on two separate occasions. However, in each instance, they essentially lost out to the private sector at the 11th hour as landowner “greed” triumphed over “good intentions.” However, their spirits would not be dampened.

One of the brighter spots emanating from the University's second failed attempt was its introduction to Conrad Sick, the builder responsible for developing many of the homes at UC Irvine. Conrad understood faculty housing, from the subtleties of design (market-rate construction in every way and then some) to the significance of university demand (essentially removing developer risk and eliminating the need for normally high profits).

So the University had the demand, had identified the experienced developer, and had the consultant it needed to help put it all together. Now all it needed was the land. Asked to find a site where the private sector could not trump the campus, Conrad Sick identified a twelve-acre parcel about six miles from the campus in nearby Buena Park – owned by the County of Orange, but clearly “surplus” and hence, ideal for affordable housing.

As it happened, the city of Buena Park had been eyeing the same parcel as a possible location for a Metrolink commuter train platform, but that would only require about four of the twelve acres (and what better use for the remaining eight acres than affordable housing?) So from a casual conversation between Conrad and Buena Park Mayor Art Brown, an idea began to germinate that would ultimately lead to a Metrolink platform for the City – and 86 homes for faculty and staff of Cal State Fullerton.

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But even as “surplus” property, the County initially contended that it could only dispose of the property at “market” rate (something on the order of \$3 million dollars) – and paying “market” rate for ANY property makes it extremely difficult to keep the housing affordable.

### \$3 Million Land Cost Reduced to \$1

Fortunately, however, the County soon changed its position after the auxiliary's real-estate attorney, Jon Goetz, pointed out that a public agency could indeed dispose of the property at a price of less than market rate, IF the property was to be used exclusively for affordable housing and funneled through a redevelopment agency. So the County ultimately received around \$350,000 from the City of Buena Park for the four-acre transit platform parcel. However, the cost of the eight-acre parcel that was to be used for affordable housing was only \$1 – in exchange for restricting its



A second key element of the Development Agreement was a pre-determined concurrence to split any cost savings between Valeo and the Housing Authority – with Valeo getting the first \$250,000. In other words, the Agreement provided a true incentive for the builder to control costs – a factor that ultimately led to net project revenues of several hundred thousand dollars.

So in June 2001, ground was broken on University Gables – an 86-unit development consisting of 36 attached and 50 detached homes ranging in size from 1,277 to 1,640 square feet. Each home consisted of a minimum of 3 bedrooms, 2 baths and a 2-car garage – and was sold on a “ground lease” basis in which the buyer purchased the structure but only “leased” the underlying lot.

use to low-income (11 units) and moderate-income (75 units) housing for thirty years. In addition, the City was able to grant \$30,000 subsidy loans to most of the low-income buyers.

Attorney Goetz then crafted the Development and Disposition Agreement (DDA) transferring the parcel from the County of Orange to the Buena Park Redevelopment Agency – and then to the University, or technically to the Cal State Fullerton Housing Authority – a new 501(c)(3) nonprofit corporation created by Foundation attorney John Francis, to oversee faculty housing.

Similarly, it became equally important that an appropriate development agreement be established between our developer-partner – Ambling West (now known as Valeo Companies), of which Conrad Sick was Senior VP, and the University’s Housing Authority – which had replaced the original Affordable Housing Task Force as the University entity responsible for developing affordable housing.



### Arson Suspected

Construction on the homes was scheduled for fifteen months and proceeded smoothly until March 2002 when an arsonist’s fire damaged three of the framed-out pads. Quick work by the Buena

### Development Agreement Critical

Among the many key elements of the development agreement was the fact that Valeo was functioning as a “fee developer” only. That meant that (1) the Housing Authority – rather than the developer – would provide the financing, eventually borrowing approximately \$16 million in construction funds, with the



donated land serving as the equity; (2) Valeo would then agree to build each home for a guaranteed maximum price, and would earn only its overhead fee plus a small profit of about 5 percent; and (3) the Housing Authority would pay off the pro rata portion of the

project loan and developer fees with the sale proceeds of each home. This is in contrast to a typical new home development in which the developer often generates profits in excess of 30-40 percent, but, of course, also retains the risk of selling each home.



Park Fire Department prevented the fire from spreading to more homes, and 3-4 months later, construction was back on schedule. However, nearly two years later, the arson investigation continues, and little significant progress has made in terms of identifying those responsible.

Despite the momentary setback, sales efforts continued to be strong with attached units selling at an average price of \$160,000 while the average price for detached units was about \$230,000. These prices were \$150,000 to \$200,000 below market for North Orange County and, as a result, a critical inclusion in each buyer’s ground lease restricted “appreciation” on the unit to coincide with the median income for North Orange County (which had been averaging about 3 percent per year for the previous ten years.) This particular restriction was critical so that each of the homes would remain affordable to future generations, since university salary rises tended to keep pace with the median income.

## Home Sales Slower Than Expected

As one might have guessed, demand for the homes was high among University employees. However, it soon became apparent that not everyone who wished to purchase a home would qualify, and, more often than not, the reason was that the buyer made *too much money*.

Seventy-three percent of the University's tenure-track faculty were still being hired at salaries of less than \$60,000 per year. However, the municipal covenants limited eligible household incomes to 120 percent of the median income (\$72,750 for a two-person family; \$90,700 for a family of four) – and too often, spousal income combined with that of the University employee exceeded the maximum amount allowed. (Income limits, however, are only a consideration in the year of purchase, meaning that homeowners would not be prevented from earning additional income in subsequent years.)

## Expanding the Sales Market

As a result, even with exceedingly high demand, the actual rate of sales of homes in University Gables proceeded considerably slower than originally anticipated. Completed homes were delivered in late summer of 2002, but even though some 250 faculty and staff had actually begun the purchase process for a home, by December more than 30 of the homes remained unsold. (While this situation would not be unusual for a marketplace project, for University Gables a short sales period with commensurate reduction in carrying costs was one factor in affordable home pricing.) Therefore, the Housing Authority made the prudent decision to expand the offer of affordable homes to nearby universities (affiliated campuses in the Cal State system). Moreover, to satisfy its obligation to Valeo, the Housing Authority borrowed approximately \$1.2 million dollars from its "sister organization," the Cal State Fullerton Foundation. However, the Foundation had a long history of providing low-cost loans to university entities (with minimal collateral), so why not?

And as one might guess, when word got out that the remaining homes might be sold to faculty and staff from other campuses, interest on the part of Cal State Fullerton faculty and staff literally "went through the roof." Over the next four months, the remaining 30+ homes were sold, with the final close of escrow taking place in August 2003 for a home held for a new faculty recruit. In other words, many of Cal State Fullerton's faculty and staff who may have been "on the fence" in terms of buying, all of a sudden became motivated to move ahead quickly.

When all was said and done, six of the eighty-six homes were sold to colleagues from neighboring universities – and eighty were sold to faculty and staff of Cal State Fullerton. So a scheduled six-month sales process actually took thirteen months – but is that so unusual for a university?



All in all, University Gables is an overwhelming success! And because of the ground lease structure, it will continue to enable future faculty and staff to buy homes at discounts of 40-50 percent below market in perpetuity. But University Gables is only a beginning, and numerous lessons were learned that will be factored into the next university housing development -- as well as serve as a basis from which others might benefit.

## Lessons Learned

- Don't underestimate spousal income – for even though 73 percent of newly hired tenure-track faculty were eligible based on their University salaries, when combined with spousal income, a considerable number were deemed ineligible. (This constraint only applies in an income-restricted project, which this one was as a quid pro quo for free land; if possible, structure your project without income limits, because the desirability of employees to be incentivized with affordable housing is not related to a specific income ceiling! In a non-income-restricted project, household income higher than employee salaries can be a help in affording the purchase.)
- Analyze demand data carefully – approximately 55 tenure-track faculty were to be hired for Fall 2002, leading the campus to conclude that the pool of high-prospect buyers would increase by an equal amount. However, only 28 of the 55 actual new hires had to relocate to Southern California to accept their new teaching positions because the other twenty-seven already lived there. As a result, the actual pool of high prospect buyers was considerably smaller than originally anticipated. In the end, seven of those twenty-eight (or 25 percent) actually purchased a home at University Gables.
- "Newness" of Ground Lease needs "selling" – for the concept of "owning" a structure and "leasing" the land upon which it is built tends to meet with considerable resistance – until people really begin to understand the economics. As a result, a major marketing effort to educate buyers as to



how they can still make a reasonable return on their investment without actually owning the land is essential to achieving success.



sector, and CitiMortgage, which had a beneficial arrangement with the Cal State system.) We eventually learned that Fannie Mae works through “lenders” to certify projects and facilitate mortgages – *not* through developers



such as the Housing Authority – and that strategy will hopefully lead to Fannie Mae endorsement in the not-too-distant future (in order to facilitate resales).

***Yes, expect the unexpected – and you will NOT be disappointed.***

- Defer payment of fees to increase affordability – unless you’ve been involved in actually building a home, you may not be aware that it is not uncommon for homebuilders to pay municipal and school fees of \$15,000-\$30,000 per home for each home built in a new development. In most cases, those fees are required prior to the start of construction, which means that the builder often has to borrow a substantial amount of money above and beyond the actual cost of materials just to construct the homes. By negotiating to pay such fees upon close of escrow to the buyer instead of prior to the start of construction – enabling the homebuyer to pay the fees directly instead of the builder having to borrow the funds to pay the fees – substantial savings can be achieved in interest carry, and less equity is needed to achieve the construction lender’s loan-to-value ratio.
- Construction financing – “lock” it in early – in order to avoid unexpected costs. In dealing with prospective lenders who are anxious to provide millions of dollars in construction financing, it becomes evident that the lender representatives actually soliciting the loans are not always in sync with those providing the underwriting and legal review. For example, a last-minute insistence on the part of the lender for a Letter of Credit from either the Housing Authority or the developer/builder (as happened on the University Gables loan) can add thousands of dollars in unanticipated costs which, in turn, reduce affordability.
- Fannie Mae endorsement a must – but as of this writing, University Gables is still awaiting such because of miscommunications with field representatives throughout the construction process. It’s important for Fannie Mae to give the project its “blessing” to facilitate mortgage processes for both buyers and lenders. And in the case of University Gables, the inability to provide Fannie Mae endorsement essentially limited the choices for mortgage placement to portfolio lenders – those who had no interest in selling the mortgage on the secondary mortgage market. (Most University Gables loans were provided through two lenders, both very cooperative – the Orange County Teachers Federal Credit Union, which is oriented to the educational
- Incorporate to minimize liability – not because anything is likely to go wrong – but universities are not in the business of building and selling homes and leasing land to their employees – and a bit of “separation” between the “employer” and the “homeowner” is the proverbial “ounce of prevention” that is too often missing. A separate 501(c)(3) nonprofit corporation created specifically for housing is ideal (and can usually be incorporated at a cost of less than \$5000) but lacking that, an existing nonprofit corporation (such as a Foundation or Auxiliary Corporation) can easily be adapted to serve the purpose.
- Target both faculty *and* staff – if for no other reason than to limit the possibility that the assignment of such homes could become a matter for collective bargaining. Prioritization of employees by classification is a commonly used mechanism to enhance a university’s ability to meet its greatest needs (i.e. nationally recruited faculty), but broad eligibility among several employee classifications is a must.
- Seek experienced advice and counsel – for the prospect of “reinventing the wheel” is costly – and not without a high degree of risk. This entire area of for-sale housing for faculty and staff is relatively new, and you can probably count on one hand the number of people who have first-hand experience at bringing it to fruition. For this reason, learn from the mistakes of those who’ve tried to adapt another university’s ground lease – which in one notable case ended up in public auction losing hundreds of thousands of dollars before it was all through. Making certain that the project “passes muster” with respect to the IRS is essential to achieve a successful project (to say nothing of preventing homebuyers from incurring a tax liability on what some might mistakenly view as “employer-subsidized” housing). Don’t make the mistake of being “penny-wise and pound-foolish.” Do your homework *before* you begin. Well-founded advice is worth its weight in gold.
- Development agreement provides incentives – as uncommon as it may be for colleges or universities to offer

incentives for *anything*, the Development Agreement is the exception to the rule. As a key element of the Development Agreement, Valeo had to provide a GMAX (Guaranteed Maximum Price) for which it would build each home. However, since Valeo was assuming at least a certain amount of “risk” in making this guarantee, it was only right that Valeo also share in any “savings” that might result from a well-managed project. In the case of University Gables, the Development Agreement called for Valeo to receive the first \$250,000 in savings, with excess savings being shared with the Housing Authority.

- Insist on quality design and construction – for “university housing” cannot connote “second-rate housing” such as might be found in some graduate student housing. Faculty and staff expect and deserve the same amenities contained in market-rate housing and simply because they may be paying less as a result of a ground lease, is no excuse to provide a lesser quality. Indeed, while constituencies might be willing to make compromises in temporary rental housing, the same cannot be said for ownership housing – the largest purchase of their lives. For the same reason, selection of a quality builder is also essential. The homebuilder who promises the best price may NOT be the best builder for the job.
- Expect the unexpected – from beginning to end. (1) ...obtaining a multi-million dollar parcel of land for the price of the proverbial “One Dollar”; (2) ...an arsonist who tried to destroy the project and did manage to cause significant damage to three of the frame structures; (3) ...a last-minute requirement for a Letter of Credit that added another \$30,000 in unanticipated project costs; (4) ...promises of project certification from Fannie Mae from before the acquisition of the land that are still outstanding some 18 months after completion (but anticipated soon); (5) ...an incoming group of 55 tenure-track Hires who were thought to be top prospects for purchasing at University Gables – only to find that nearly 50 percent already resided in Southern California and hence had little interest in University Gables; (6) ...73 percent of those new hires were employed at salaries of less than \$60,000 per year, but a high percentage of those households were *still* ineligible with the addition of spousal income.

Yes, expect the unexpected – and you will NOT be disappointed.

## Conclusion

There you have it – the saga of University Gables. How one Southern California university – with no land and no money – successfully put a dent in the problem of affordable housing. Pride is high among those of us who’ve had the privilege of being associated with University Gables, for we know well that we’ve been a part of history with its creation from virtually nothing. But even that pride begins to pale when compared to the satisfaction of knowing that hundreds of Cal State Fullerton families over the next several decades will experience the joy of homeownership because of what we’ve been able to accomplish here today. University Gables is indeed a remarkable achievement – but most importantly, one that is capable of being replicated elsewhere for the benefit of others. ♦

## About Cal State Fullerton

Founded in 1957 by act of the California Legislature. Classes began in fall 1959 in facilities leased from the Fullerton Union High School District. Classes on the permanent site of the main campus began in fall 1960.

As part of The California State University, Cal State Fullerton is subject to policies established by the California Legislature and the CSU Board of Trustees. Governance at the campus level is the responsibility of the President. The University Advisory Board, composed of lay persons, provides community input. The Academic Senate, consisting primarily of teaching faculty members, recommends policies affecting curricula.

### Statistics

- 32,592 students enrolled in fall 2003 (61% female); 32,545 in spring 2003; 32,143 in fall 2002 (61% female).
- Average age: 24.6 years.
- International students, representing 83 nations, number 1,421 in the fall 2003 census.
- Ethnic distribution of student body (fall 2002 census): American Indian 1%, Asian/Pacific Islander 22%, Black 3%, Hispanic 24%, White 35%, Unknown 12% and International Students 4%.
- 25,061 full-time-equivalent enrollment budgeted for 2003-2004 with total operating costs of approximately \$228.7 million, including all fees.
- Approximately 1,900 full- and part-time faculty members.
- More than 144,800 graduates as of August 2003.
- Faculty members were awarded more than \$10.3 million in grants and contracts for research and scholarly activities in 2002-2003.

### Economic Impact

As noted in the university’s Economic Impact Report of April 2002, Cal State Fullerton and its students generate \$828.5 million in economic activity annually and support 11,679 full- and part-time jobs. CSUF’s economic activity also generates \$142.2 million each year in federal, state and local taxes.

### Accreditations

National accreditations and associations in art, athletic training, business, chemistry, communications, communicative disorders, computer science, dance, engineering, music, nursing, public administration, teacher education, and theater with over-all accreditation from the Western Association of Schools and Colleges.



Bill Dickerson is Executive Director of the Cal State Fullerton Foundation, Fullerton, CA. In that capacity, he serves as the CEO of a nonprofit organization of 600+ employees that generates annual Auxiliary Services revenues in excess of \$40 million dollars. He currently serves as President of NACAS West, and throughout his bi-coastal career (NY to CA by way of NJ) has served in several regional and national leadership positions for NACAS, ACU-I, NACA and AOA. Bill can be reached at: [bdickerson@fullerton.edu](mailto:bdickerson@fullerton.edu)