

Comprehensive Plan for Housing and Residence Life

Submitted to:

East Tennessee State University

Submitted by:

ANDERSON STRICKLER, LLC



18310 Montgomery Village Avenue, Suite 520

Gaithersburg, MD 20879

December 15, 2002

©2002 Anderson Strickler, LLC

TABLE OF CONTENTS

EAST TENNESSEE STATE UNIVERSITY

EXECUTIVE SUMMARY	1
MARKET ANALYSIS	7
Summary of Existing Housing.....	7
Goals and Objectives.....	7
Focus Groups.....	8
Off-Campus Market Analysis	11
Competitor Institution Analysis	14
Written Survey	19
FACILITY ASSESSMENT	29
OPERATIONS REVIEW	31
Summary of Approach.....	31
Results of the Operating Budget Analysis.....	33
ECONOMIC MODEL AND PRO FORMAS.....	35
Programming Approach.....	35
Development Approach.....	36
Financial Plan.....	36
Phasing of Projects	38
Results of the Financial Analysis.....	39
ATTACHMENT 1: GOALS AND OBJECTIVES	
ATTACHMENT 2: FOCUS GROUP NOTES	
ATTACHMENT 3: OFF-CAMPUS PROPERTIES	
ATTACHMENT 4: COMPETITIVE CONTEXT ANALYSIS	
ATTACHMENT 5: SURVEY RESULTS	
ATTACHMENT 6: FACILITY ANALYSIS	
ATTACHMENT 7: FINANCIAL REVIEW	
ATTACHMENT 8: FINANCIAL PRO FORMAS	



EXECUTIVE SUMMARY

EAST TENNESSEE STATE UNIVERSITY

EXECUTIVE SUMMARY

East Tennessee State University (ETSU) retained Anderson Strickler, LLC (ASL) to develop a Comprehensive Plan for Student Housing, consisting of a market analysis with focus groups, a competitor institution analysis, and a student survey. ASL also conducted a facility analysis of current housing, and then conducted a financial review with the assistance of Dr. Gene Luna, Director of Housing at the University of South Carolina and developed an economic model with capital budgets and operating pro formas. The resulting program entails renovation, new construction, and demolition at a cost of \$64,394,000 over a period lasting until 2015. The final system will have 2,545 beds, a 1% increase from today's 2,511, with improved configurations: 70 more apartment beds and 640 new suite beds.

Goal Setting

The goal setting exercise revealed that the housing improvements should help support the University's goal of Academic Excellence, primarily serve Freshmen, Athletes, and Scholarship students; follow a program that addresses the need for life/safety improvements, new construction, air conditioning in the remaining halls, and improved unit configurations; and result in a system that maintains self-supporting operations, maximizes the quality of construction, and maintains affordable rents.

Market Study

Focus Groups

ASL conducted focus groups from various groups of students to elicit opinions on housing. Participants who lived on campus liked living on campus for the convenience, for the reasonable cost, and for the ready ability to be involved in campus life and activities. On-campus residents had negative comments about the downsides of community living—responsibility for the actions of others and varying standards of neatness. Specific concerns were voiced about the cleanliness of the facilities and the lack of temperature controls, lack of comfortable furniture, and lack of storage space, as well as the visitation and parking policies.

Some participants liked the idea of housing freshmen by areas of interest and having more common areas. Some participants disliked the concept of having academic support or programming in the halls. Most desired improvements in housing concerned relaxing the existing rules and regulations; other areas for improvement were laundry facilities, HVAC controls, and better equipped kitchens.

Off-campus participants moved out of campus housing in search of private bedrooms and baths, kitchens, and relaxed supervision; they selected units based on distance from campus and cost. One drawback to living off campus, particularly for international students, is the need to procure furniture. Most participants believe, however, that living off-campus is less expensive than on-campus living.

Participants preferred a four single-bedroom apartment to a four single-bedroom suite or a two double-bedroom suite. They like the private bedrooms, the semi-private bathroom, and the kitchen. They dislike a split bathroom, a bathroom shared by four students, or having to share a



EXECUTIVE SUMMARY

EAST TENNESSEE STATE UNIVERSITY

bedroom, although they do understand the additional privacy results in increased rent. In new housing, participants would like to see private-room unit types and believe that a late-night coffee shop would be popular.

Participants who live in family housing are largely content with their housing, and sincerely appreciate the low rental costs of the Buc Village units. Some more university involvement would be appreciated, however, especially if rents were not raised.

Off-Campus Market Analysis

ASL evaluated the local rental apartment market by visiting apartment complexes, talking to local experts, and contacting the Johnson City planning department. The market is relatively stable, with trends expected to continue in the future as they have for the past few years. Rents have been increasing slowly, no faster than inflation; vacancies have remained around 5% on average. Although some students live in converted single-family homes on the "tree" streets, most live in apartments. Apartment rents for two-bedroom units range from \$272 to \$545 with a median of \$425. Unit sizes range from 721 to 1,250 square feet with a median of 953 square feet.

All properties offer twelve-month leases, while many offer shorter lease terms for a monthly premium; only a third collect a full months rent for a security deposit. Most include no utilities in the rent, but all have air conditioning. Half offer pools and a quarter have clubhouses; only two specifically target student renters: Seminole Ridge and Upper Class Suites. Seminole Ridge was originally planned for 1,200 beds and has 528 currently with no plans for expansion, suggesting that the level of demand may not support further growth at this time.

Competitor Institution Analysis

ASL compared ETSU to twelve peer institutions on occupancy, housing trends, costs, policies, amenities, and cost. ETSU, at 24%, is below the 28% median of peers for the ratio of beds to enrollment, but with stated opening occupancy of 100%, is above the median of peers of 99. Half of the peers are building or will build housing in the next five years. ETSU's room rates are third to the bottom for double rooms in traditional-style halls and the bottom for double rooms in suite-style halls. Four others offer family/graduate-style apartment units. When ranked according to the total cost (tuition, fees, room, and board, ETSU is just above the peers' median.

Written Survey

ASL received 531 responses to a survey that sought information on student preferences for housing, interest in new housing, current housing situation, and demographic information. Bias was not detected in the survey's respondents. Students select housing on the basis of affordable rent, proximity to campus, and adequacy of living space. Students moved off campus because of visitation restrictions; rules, regulations, and policies in general; and preference for a private bedroom.

Respondents suggest facility improvements of private bedrooms, larger rooms, individual room temperature controls, and the cleanliness of shared bathrooms. Suggested amenity improvements include computer labs with network access, weight or aerobics rooms, convenient laundry



EXECUTIVE SUMMARY

EAST TENNESSEE STATE UNIVERSITY

rooms, and cable TV service. Respondents suggested list of student life improvements is topped by in-hall tutoring services, the availability of programs for students of the same major, the ability to live near others with similar interests, and having in-hall review sessions.

Respondents prefer four-single bedroom suites, followed by two-single bedroom apartments, four-single bedroom apartments, two-double bedroom suites, a typical ETSU suite, and a typical ETSU double room. Half of on-campus respondents would have been interested in living in their preferred unit; about 15% of off-campus respondents would have been interested in living in theirs. Those that were not interested most frequently cited that the units were too expensive, the desire not to move, and the concern over the level of rules and regulations.

A minority of students had considered as definitely or extremely important in their selection of where to attend college, although almost 90% believe that it is very important to offer housing to freshmen. Based on the results of the survey and enrollment data supplied by the University, the estimated demand for new units, above and beyond the level of existing housing, is as shown in Table 1.

Fall 2001			
Unit Type	Rent	Preference	Potential Demand
Typical ETSU Double	\$225	3.3%	24
Typical ETSU Suite	\$250	4.9%	36
2-Double BR Suite	\$300-325	11.5%	83
4-Single BR Suite	\$350-375	27.9%	202
4-Single BR Apt. with 2 BA	\$400	24.6%	179
2-Single BR Apt. with 1 BA	\$450	27.9%	202
Total		100.0%	727

Table 1: Unit Demand, Fall 2001

Facility Assessment

Based on information provided by the University and a visual survey of the fifteen residential buildings, ASL formulated a renovation cost assessment and recommended course of action for each building, as shown in Table 2. These numbers were derived from the University's assessments of facilities needs and recommendations and the facility condition rankings. Using a full renovation cost of \$75 per square foot, ASL developed budgets for each building that were a percentage of what the cost of the full renovation would be.



EXECUTIVE SUMMARY

EAST TENNESSEE STATE UNIVERSITY

Building	Renovation Scope	Renovation Hard Cost	Average Hard Cost (per GSF)	Average Hard Cost (per bed)
Carter	Limited Renovation	\$2,123,438	\$56.25	\$15,631
Ellington	No Work			
Lucille Clement	Refresh	\$3,195,600	\$30.00	\$7,265
Luntsford	Refresh	\$1,524,600	\$30.00	\$8,818
Panhellenic	Limited Renovation	\$1,808,888	\$56.25	\$28,850
Stone	Refresh	\$582,480	\$30.00	\$7,299
West	Limited Renovation	\$1,376,606	\$56.25	\$16,467
Cooper	No Work			
Davis A	Refresh	\$595,590	\$30.00	\$9,499
Davis B	Refresh	\$825,870	\$30.00	\$9,659
Davis C	Refresh	\$794,160	\$30.00	\$9,720
Dossett	Limited Renovation	\$1,466,213	\$56.25	\$12,651
Frank Clement	No Work			
McCord	No Work			
Powell	Limited Renovation	\$1,293,750	\$56.25	\$15,835
Buccaneer Ridge	No Work			
Buccaneer Village	Refresh	\$2,361,030	\$30.00	\$21,611

Table 2: Facility Cost Summary

Financial Review

Dr Gene Luna assisted the ASL team in appraising the operations of Housing and Residence Life. In the next several years, a significant portion of ETSU's HRL debt will be paid off, providing for some opportunity to invest in housing. This may provide the opportunity to enhance linkages between residence hall life and residents' academic experience. More than an investment of money, developing such a partnership will involve an investment of HRL staff time and a commitment from faculty.

Image management and marketing can be improved in order to better disseminate the message that housing can play an important role in a student's academic career. Some HRL staffing changes can be made that will enhance the position of HRL in the ETSU community and improve smooth operations. Several immediate opportunities are apparent for the development of linkages between the residence life and student learning and academics. Some facility improvements can be made that will assist academic support.

An analysis of the recent operating budgets identified the potential for supporting debt and deriving assumptions for use in the financial model. Based on the summary analysis in Table 3, Other Revenues were assumed to be 6.15% of Rental Revenue and Operating Expenses were assumed to match the 2000-01 budget average of \$5.23 per GSF.



EXECUTIVE SUMMARY

EAST TENNESSEE STATE UNIVERSITY

FY 2000-2001 ACTUAL		Per Bed	Per GSF
Revenues			
Rental Revenue	\$4,994,936	\$1,989	\$7.31
Other Revenue	\$307,424	\$122	\$0.45
	\$5,302,360	\$2,112	\$7.77
Expenses			
Operating Costs	\$3,574,617	\$1,424	\$5.23
Debt Service	\$1,045,900	\$417	\$1.53
Renewal and Replacement	\$714,442	\$285	\$1.05
	\$5,334,959	\$2,125	\$7.81
Surplus (Deficit)	(\$32,598)	(\$13)	(\$0.05)

Table 3: 2000-01 Budget Breakdown

Implementation Plan

The preliminary program recommendations result in a housing system that offers age-appropriate unit configurations to students who choose to live on campus. Generally, freshmen and sophomores will reside in residence halls that will undergo critical renovations; upperclassmen and graduate students will be accommodated in apartment-style or suite-style units. Detailed programming for the renovations was not performed, although residence halls were assumed to lose 5% of beds after renovations takes place, allowing for expanded and upgraded common areas.

The phasing of the projects was developed to maintain a minimum capacity in each year while allowing reserves to accumulate to cover temporary operating costs. The following tables summarize the project scope, final bed counts, development budgets, and phasing.

The phasing of the plan calls for ETSU to build a new hall first, allowing for residence halls that are in the worst condition to be vacated and turned over to the campus for alternative uses and for the other halls to be renovated one at a time. In summary, the residence halls will be renovated with the projects phased to allow for the capacity of the system to increase marginally by 1% by the end of the plan.



EXECUTIVE SUMMARY

EAST TENNESSEE STATE UNIVERSITY

Project	Project Type	Marketable Beds	Development Budget	Scheduled Completion
Buccaneer Ridge 2	Off Bal Sheet	112	\$4,093,000	August-04
Greek Solution	New	120	\$4,085,000	August-04
Davis A	Renovate	63	\$966,000	August-05
Davis B	Renovate	86	\$1,337,000	August-05
Davis C	Renovate	82	\$1,285,000	August-05
Dossett	Renovate	116	\$2,395,000	August-06
Ellington	Vacate/Demo	0	\$0	August-06
Frank Clement	Vacate/Demo	0	\$0	August-06
New Hall 1	New	272	\$11,785,000	August-06
New Hall 2	New	272	\$11,785,000	August-06
West	Renovate	84	\$2,201,000	August-06
Carter	Renovate	136	\$3,508,000	August-07
Luntsford	Renovate	173	\$2,667,000	August-07
Panhellenic	Renovate	63	\$2,884,000	August-07
Powell	Renovate	82	\$2,135,000	August-07
Cooper	Vacate/Demo	0	\$0	August-08
Lucille Clement	Renovate	440	\$5,911,000	August-08
McCord	Vacate/Demo	0	\$0	August-08
Stone	Renovate	80	\$1,108,000	August-09
Buccaneer Village	Renovate	115	\$4,694,000	August-11
Buccaneer Ridge	Renovate	296	\$0	August-20
		2,589	\$62,839,000	

Table 4: Summary of Development Budget/Phasing



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

MARKET ANALYSIS

Summary of Existing Housing

ETSU has fifteen housing facilities on campus with a housing capacity of 2,511 beds.¹ Nine halls offer traditional double rooms with community bathrooms, one hall offers rooms in suite-style housing, one hall offers a mix of suite-style housing and apartments, and four offer rooms in apartment-style housing. Rental rates for 2001/2002 ranged from \$1,730 to \$2,040 for the academic year for doubles and from \$2,596 to \$4,080 for singles.

Building	Constructed (B=built, R=renovated)	Capacity	Type
Carter	B 1911/ R 1980	143 / women	Mix of suites and apartments
Ellington	1960	110/ women	Traditional, community bath
Lucille Clement	1966-1967	463/women	Traditional, community bath
Luntsford	1970	182/women	Apartments
Ross Panhellenic	1964	66/Women	Traditional, community bath
Stone	B 1952/ R 1990	84/Women	Suites
West	1963	88/Men	Traditional, community bath
Cooper	B 1966/ R 1980	170/men	Traditional, community bath
Davis	1970	242/men	Apartments
Dossett	1966	122/Men	Traditional, community bath
Frank Clement	1965	172/men	Traditional, community bath
McCord	B 1966/ R 1993	172/men	Traditional, community bath
Powell	1961	86/Men	Traditional, community bath
Buccaneer Ridge	1998	296/co-ed	Apartments
Buccaneer Village	1966-1967	115 units/family	Apartments

Table 5: Existing Residence Hall Summary

Goals and Objectives

Process

Members of the University administration were invited to participate in a goal setting exercise. The members selected a number of potential goals and objectives in four basic categories: University Goals, Students Housed, Program Priorities, and Project Structure. Through a pair-wise comparison (also called a forced choice indicator), each participant compared each goal and objective within its category and selected which goal or objective in the comparison was more

¹ Bed count includes RA and staff beds.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

important. ASL tabulated the results of all the participants to determine which goals and objectives were most important while considering improvements to housing.

Outcome

ASL calculated both which goals and objectives “won” the most comparisons (“Rank” in the charts in Attachment 1) and how much consensus there was about that ranking (“Agreement” in the charts in Attachment 1).

Based on the outcome of the exercise, the following mission statement was developed. The housing improvements should:

- Help support the University’s goal of Academic Excellence
- Primarily serve freshmen, athletes, and scholarship students
- Follow a program that addresses the need for life/safety improvements, new construction, air conditioning in the remaining halls, and improved unit configurations
- Result in a system that maintains self-supporting operations, maximizes the quality of construction, and maintains affordable rents.

Focus Groups

Summary of Approach

ASL met with 22 students through four focus group sessions. The focus groups were made up of married and on-campus residents, students from family housing at Buccaneer Village, on campus residents, and residents living in Greek housing. Focus group notes can be found in Attachment 2.

Opinions on On-Campus Housing

Students noted a number of reasons for choosing to live on campus, including convenience (no need to commute, proximity to class and other campus facilities, no need to pay monthly bills), and the reasonable cost. Students also mentioned the ability to be involved in campus life and activities as an attractive feature of living on campus.

Negative responses focused on community living. Students feel that people are disrespectful about garbage and trash, and the wishes of others, and participants dislike that everyone is responsible for everyone else on a hall. Specific complaints about the facilities included the cleanliness of the housing and in particular, the laundry rooms, lack of temperature control and inefficiency of the heating/cooling system, uncomfortable furniture, and lack of storage space. Another concern had to do with policies on campus. The most unpopular policy was the visitation policy. Parking policies were also unpopular and students feel they cannot leave during the day because their spaces will be taken (by commuters).



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

In terms of living/learning opportunities, some concepts were of interest to a number of students, while others were not. Of interest to focus group participants were housing freshmen together by major or interest, having more common areas to study in the residence halls, and more community building activities like open forums. Students were not interested in having academic programming/support available in the residence halls.

Desired improvements to existing housing primarily centered on the rules and regulations. Students feel that the rules for on-campus housing, such as visitation, are too rigid, and that such rules can be avoided by living in off-campus housing units. Specific amenities of interest to students for new on-campus housing include ample washer/dryers, central air and heat, carpeting, and kitchen accessories. Students would also like to see individualized parking spaces and better security and public safety.

Opinions on Off-Campus Housing

Some of the reasons students cited for moving off campus included having a private bathroom, having a kitchen, having a private bedroom, and freedom from campus regulations. The two main selection criteria for off-campus housing are proximity to campus and cost. Even students without cars manage to find housing within walking distance or on a transit line that meets their criteria. Popular complexes include Seminole Ridge, Upperclass Suites, Ridgeview, Evergreen Terrace, and Evergreen Terrace.

In addition to having to commute or walk to campus, a drawback to living off campus is the need to find furniture, which is a particular challenge for international students. In general, students believe off-campus housing to be less expensive than on-campus living. Typical rents with all expenses included are about \$320-\$350 per student per month; one student paid \$200 per month, but described his housing as substandard.

Preferred Unit Types

Participants were shown three different floor plans: a 2-double bedroom suite with living area, a 4-single bedroom suite, and a 4-single bedroom apartment.

2-double bedroom suite with living area

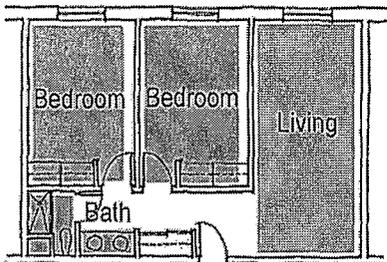


Figure 1: 2-Double Bedroom Suite



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

The most appealing characteristic of this type of unit is the private bathroom. Students prefer the private bathroom to the community bathroom because of the additional privacy it offers. However, students feel that four people sharing one bathroom are too many. This floor plan would appeal to students even more if the bedrooms housed a single occupant, and students would prefer to have the single bedroom over amenities like a kitchen(ette) or a living area. Participants are willing to pay more for the individual bathroom (as opposed to the community bathroom) but not too much more for the unit if it has double bedrooms.

4-single bedroom suite

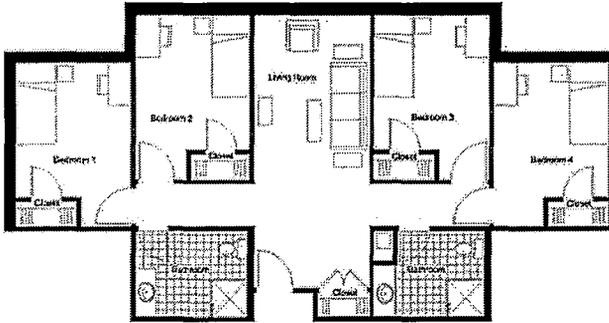


Figure 2: 4-Single Bedroom Suite

This floor plan was very attractive to focus group participants mainly because of the private bedrooms. Privacy is very important to the participants. The floor plan shown to the participants had a split bathroom with a shower and a sink in one area and a toilet and a sink in the other. Students disliked having the bathroom divided and would prefer a unit with no common area and two full bathrooms, since the common areas on campus are sufficient.

4-single bedroom apartment

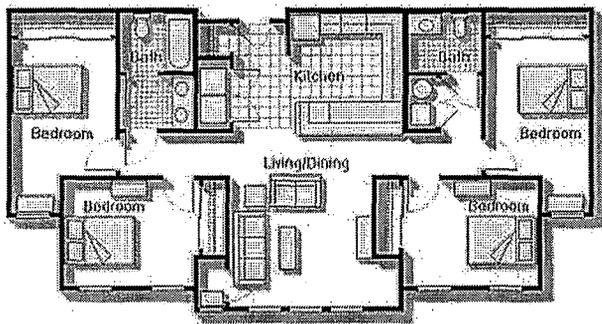


Figure 3: 4-Single Bedroom Apartment

The floor plan was the top choice for participants. Participants are willing to pay more for this unit type because of the additional bathrooms, washer and dryer, and kitchen. One participant believes that this would be cheaper to students in the long run. There would be less of a need for students to have a meal plan because the kitchen would allow them to cook meals in their unit.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

Thoughts on New Housing

Focus group participants were asked what types of amenities they would like to see in any new student housing. In terms of room types, students prefer units that allow for privacy, with single bedrooms and private or semi-private bathrooms, and, in particular were interested in the 4-single bedroom suite and apartment floor plans. In terms of room amenities, students are interested in carpeting, having more kitchen accessories provided, more electrical outlets, comfortable furniture

Students noted a number of common area amenities in student housing, such as a late night coffee shop, more common study areas, and computer rooms, that they believe would be sufficiently utilized if the University included them in new housing.

Family Housing

In addition to sharing many of the same thoughts as other focus group participants, students living in University family housing had comments on their particular situation. In general, students residing in family housing are content with the housing and favor the low rent costs, but students believe that the University could do more to make them happier (without raising the rent). One participant suggests adding a breakdown to family housing, dividing it into families with children and families without children, in order to minimize noise levels.

Off-Campus Market Analysis

Market Overview

To evaluate the local real estate market, ASL spoke to realtors and property managers and conducted research over the Internet. ASL also visited a number of rental properties in the area. Students seeking off-campus accommodations face a variety of choices, from the primarily older apartments and "tree-street" houses near campus to nearby newer housing specifically targeting ETSU students.

As two-fifths of survey respondents who rent housing off campus do so in apartment buildings, (and one-fifth in townhouses or duplexes) the off-campus market analysis focuses on apartment housing. The off-campus apartment market has two components: properties that rent housing by the unit and are targeted to students and non-students alike (conventional apartments) and properties that rent by the bed and are designed and targeted specifically to the student market (single student apartments). Single student apartments reported a range of occupancy rates when this survey was undertaken in late 2001 (72% to 100%).

Property managers and realtors discerned some trends in the local rental market. Vacancy rates average around 5% overall. This has been the case for the past few years and there is no reason to expect this trend to halt. Rental rates have increased, and may continue to increase, by about 3% annually, just enough to keep pace with inflation, no more. Properties within walking distance of campus are the most popular for student renters.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

New projects that have entered the formal planning process or that have been discussed are the continuation of Seminole Ridge, which has not been built out to the site limits, and a project on Greenwood Drive.

ASL's off-campus property tabulation can be found in Attachment 3.

Apartment Options

Efficiency or Studio

Out of the 15 properties ASL visited, four offer efficiency or studio apartments. Monthly rental rates for conventional apartments range from \$200 to \$255 with a median rental rate of \$210. Unit sizes ranged from 260 to 350 square feet, with a median of 260 square feet. The median rent per square foot is \$0.77.

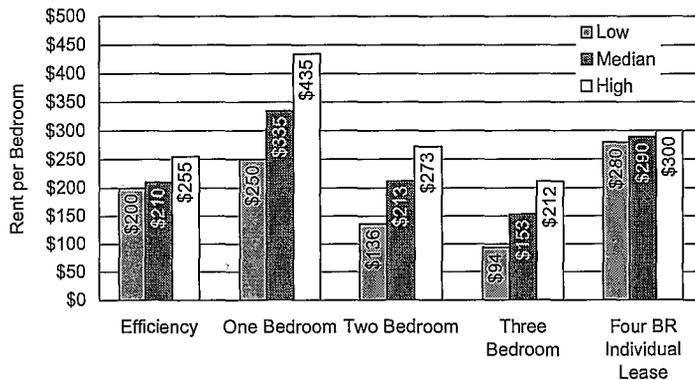


Figure 4: Off Campus Apartment Rents per Bedroom per Month

One-Bedroom Units

Three-fifths of the 15 conventional apartments offer one-bedroom units. A number of properties offer several one-bedroom rental rates, depending on factors such as the size of the unit and/or the location. Monthly rental rates for conventional units range from \$250 to \$435 with a median of \$335. Unit sizes range from 410 to 1,000 square feet with a median of 567 square feet. The median rent per square foot cost is \$0.60.

Two-Bedroom Units

Only two of the apartment complexes do not offer two-bedroom units. As with the one-bedroom units, some properties offer several different rental rates. Rental rates for conventional two-bedroom units range from \$272 to \$545 with a median of \$425. Unit sizes range from 721 to 1,250 square feet with a median of 953 square feet. The median cost per square foot is \$0.46.

Three-Bedroom Units



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

Only two of the apartment complexes offer three-bedroom units. Rental rates for conventional three-bedroom units range from \$283 to \$635 with a median of \$459. Only one of the units provided a measure of size of 1,249 square feet, and the median cost per square foot for that complex is \$0.51.

Four-Bedroom Units

The per-student, per-month rental rates at the two single student apartments ranged from \$280 to \$300. Unit sizes ranged from 1,400 to 1,635 square feet. As with the two-bedroom units, owing to the higher rents and smaller unit sizes, per square foot rents for single student housing were greater than square foot rents for conventional apartments; median rent per square foot is \$0.77. No conventional apartment offered a four-bedroom unit.

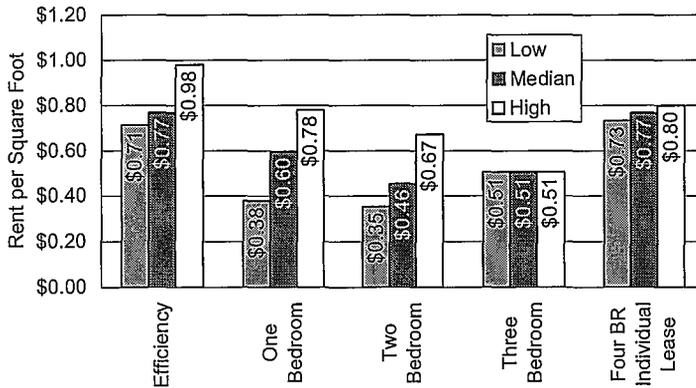


Figure 5: Rent per Square Foot

Amenities/Policies

All of the properties ASL interviewed offer twelve-month leases. In addition, the vast majority of properties offered less than twelve-month leases (albeit typically at a higher per month charge) indicating some softness in the market; in a more stable market, landlords traditionally prefer to offer only twelve-month leases. Another sign of potential softness is in security deposits; in a more stable market, landlords prefer to collect the equivalent of a month's rent; here only a third manage to charge for a security deposit equal to one month's rent.

A slight majority of properties include water and sewer in the rent; the remaining utilities are the responsibility of the tenant. Only one out of five offer furnished units. Only 7% of the properties permit pets. Common unit amenities include air-conditioning, dishwashers, and washer/dryer connections. About half of the properties offer swimming pools and about a quarter offer clubhouses. Amenities offered by less than one-quarter of the properties include tennis, volleyball, and covered parking. Only a third offered a playground. Figure 6 depicts the features and amenities.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

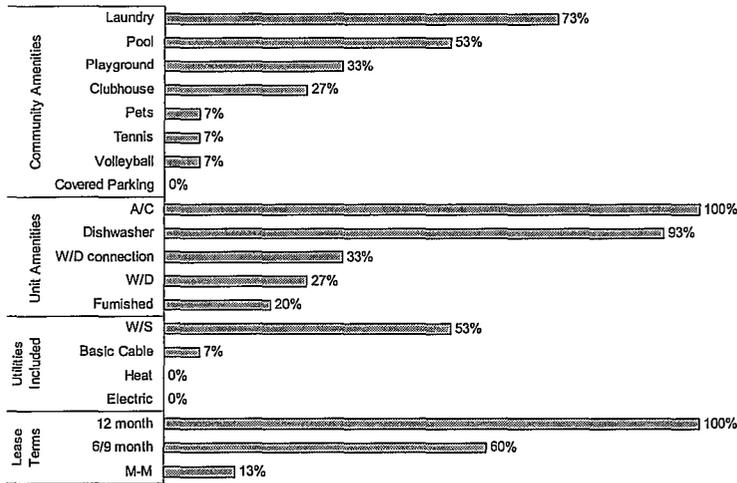


Figure 6: Apartment Amenities and Community Features

Conclusion

Most apartment complexes in Johnson City attract no more than a few student renters. The student-targeted complexes, Seminole Ridge and Upper Class Suites, however, rely upon student renters for virtually all of their occupancy. At present, their rates and amenity packages make them an attractive alternative to on-campus housing for many students. Nevertheless, Seminole Ridge's scaling back of its initial plans to develop 1,200 beds on the site suggests some softness in the market.

Competitor Institution Analysis

Summary of Approach

ASL performed a competitor analysis with twelve institutions supplied by ETSU. ASL contacted representatives from these institutions and asked a series of questions so that ASL could analyze occupancy, housing trends, cost, policies, amenities, and total cost of attendance. ASL also obtained information from the 2002 HEP Directory and from university web sites. The following institutions comprised the competitor group:

- Appalachian State University
- East Carolina University
- Georgia Southern University
- Middle Tennessee State University
- Northern Kentucky University
- Radford University
- University of North Carolina Charlotte
- University of North Carolina Greensboro
- University of Tennessee Chattanooga
- University of Tennessee Knoxville
- West Carolina University
- Western Kentucky University

Findings

Following is a summary of findings; more detailed information is presented in Attachment 4.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

Beds to Enrollment Ratio

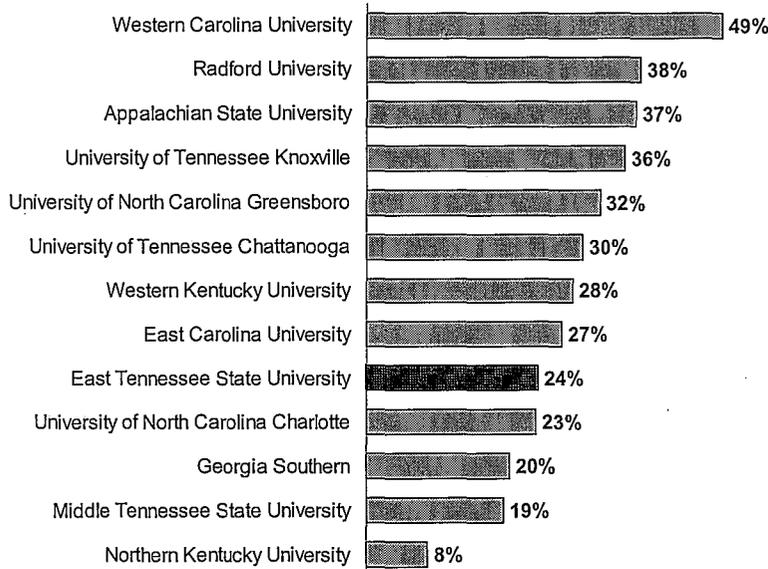


Figure 7: Beds-to-Enrollment Ratio

In terms of bed spaces, ASL found that ETSU is below the median of its competitors, offering bed spaces to 24% of enrollment. Northern Kentucky's bed to enrollment ratio is lowest, at 8%, and Western Carolina is the highest at 49%. The median is 28%. The chart above shows the beds to enrollment ratio for all institutions.

Occupancy

ETSU's 2001 Fall occupancy rate of 100% places it at the high end of competitors in the group, which had a median occupancy rate of 99%. The highest was Northern Kentucky University at 103% occupancy. Nine institutions reported an increase in the demand for student housing over the past few years; many open at overflow levels each year. The remaining institutions report steady demand for housing; no institutions report a decrease in the demand for student housing.

New Housing Plans

Six of ETSU's competitors have begun new housing projects or are considering new housing within the next few years. The following table lists all projects reported to ASL.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

Institution	Number of Beds / Description	Anticipated Opening
Appalachian State University	328 beds / suite style housing	Aug-02
	300 beds	2005
Georgia Southern University	2,500 beds	5 year plan
Northern Kentucky University	comprehensive student housing plan	2001
University of NC, Charlotte	housing for freshmen	
University of Tennessee Chattanooga	UTC Place A and B opened Fall 2001; building C is planned	
Western Carolina University	300 beds	Fall 2003

Table 6: New Construction Plans at Peer Institutions

Housing Rates

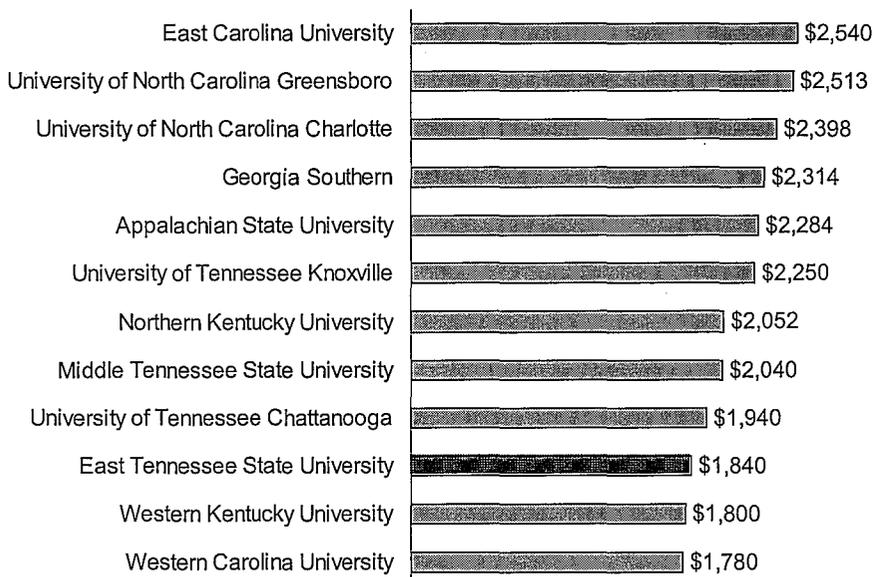


Figure 8: Academic Year Rent – Double Rooms in Traditional Residence Halls

Double rooms in traditional residence halls with community bathrooms rent for \$1,780 (Western Carolina University) to \$2,540 (East Carolina University). At \$1,840 per person, ETSU's housing rate is below the median rate of \$2,052 for a double room in a traditional residence hall with community bath. See chart above. Single rooms rent for \$2,700 (Western Kentucky University) to \$5,026 (University of North Carolina, Greensboro). ETSU's average rental rate for a single room is \$2,840, well below the median of \$3,468.

Double rooms in suite-style housing rent for \$1,840 (ETSU) to \$2,958 (University of North Carolina, Charlotte). ETSU's rate of \$1,840 is the low. The median is \$2,250. See chart below. Single rooms in suite-style housing rent for \$2,840 (East Tennessee State University) to \$4,326 (Northern Kentucky University). The median is \$3,527.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

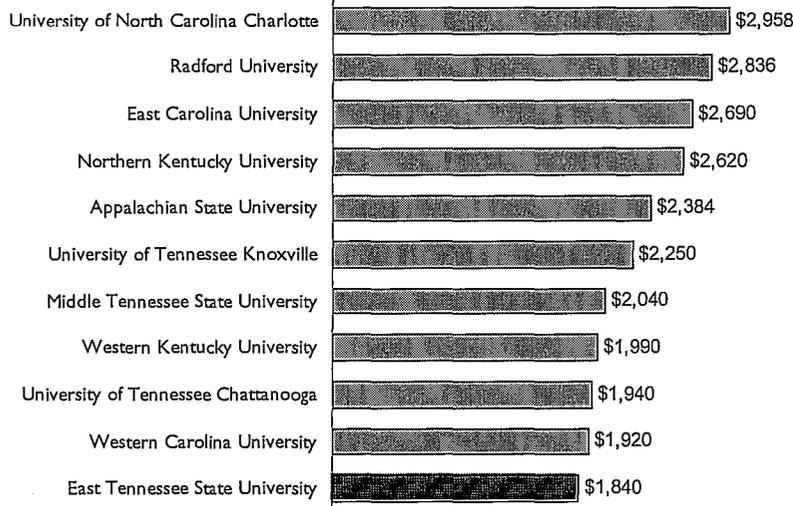


Figure 9: Academic Year Rent – Double Rooms in Suite Style Housing

Nine institutions, including ETSU, offer apartment-style housing for students. Units are rented by the bed and include one-, two-, three-, four-, and five-bedroom apartments. Rents range from \$2,100 to \$6,640 for a private bedroom to \$1,600 to \$2,856 for a shared bedroom. Rent ranges and median rents are described in the table below.

Unit Type:	1-Bedroom (5 Institutions)		2-Bedroom (6 Institutions)		3-Bedroom (3 Institutions)		4-Bedroom (5 Institutions)	5-Bedroom (1 Institution)	
	Room Type:	Private	Shared	Private	Shared	Private	Shared	Private	Private
Low:		\$3,600	\$2,316	\$2,592	\$2,434	\$2,400	\$2,886	\$2,200	\$2,100
High:		\$6,640	\$4,024	\$3,910	\$2,996	\$6,132	\$2,886	\$4,350	\$2,100
Median:		\$5,120	\$3,522	\$2,700	\$2,550	\$4,266	\$2,886	\$3,229	\$2,100

Table 7: Single Student Apartment-Style Housing

Five of the competitor institutions, including ETSU, offer apartment-style housing rented by the unit. Typically these units are rented to students who are married and/or have children, non-traditional students, graduate students, faculty, and staff.

Two institutions, including ETSU, offer efficiency units with monthly rents ranging from \$295 to \$430, five offer one-bedroom units from \$295 to \$515, five offer two-bedroom units from \$325 to \$576, and two offer three-bedroom units from \$297 to \$373. See chart below.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

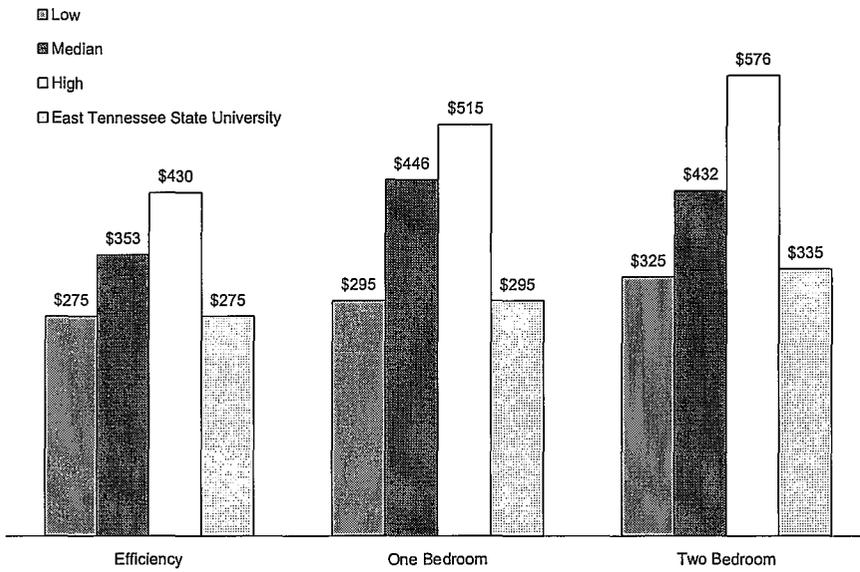


Figure 10: Apartment Housing Rented by the Unit

ASL reviewed tuition, fees, room, and board rates for this group. When comparing tuition, fees, room, and board, ETSU is just above the median of \$6,808 at \$6,843. West Carolina University is the lowest at \$4,832 and Appalachian State University ranks the highest at \$10,018 (see Figure 11, below).

Total Cost

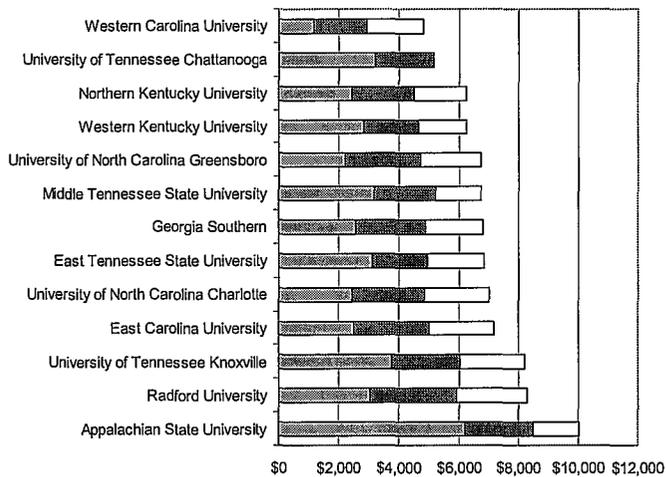


Figure 11: Peer Institutions Total Cost



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

Policies and Amenities

Five out of thirteen institutions, and not including ETSU, require freshmen to live on campus. Three report that they have a mandatory meal plan requirement for students who live on campus; four others require only freshmen to subscribe to a meal plan. Meal plans are optional for apartment dwellers at most campuses.

All schools in this group include utilities in rental rates for residence halls. Nine include all or some utilities in apartment rates; one includes no utilities in the apartment rate. All of the institutions offer furnished units in residence halls; the majority offer furnished units in all or some of their apartment-style housing.

All but one of ETSU's competitors bill students' rent by the semester. Three institutions also allow students to pay for the entire academic year in one lump sum. Six institutions offer monthly payment plans, particularly for apartment renters.

All offer in-room cable for residence hall residents; only one charges an additional fee. All offer cable in all or some of their apartments; one charges an additional fee. All institutions supply an Ethernet connection in all or some residence hall rooms; one charges an additional fee. Nine campuses provide an Ethernet connection in all or some apartment units; one charges an additional fee. Middle Tennessee State is adding Ethernet to the residence halls and apartments and should be available for the fall of 2002.

Dining halls are located in one or more residence halls at five campuses. Six have convenience stores in some residence halls or apartment complexes. All but one has a common kitchen area in all or most of their residence halls. None have community kitchens in apartment complexes.

Recreational facilities located in student housing include weight rooms or fitness centers (3 universities), basketball and/or volleyball courts (9), swimming pools (3), and TV or game rooms (9). Ten have BBQ grills for students' use.

Eleven schools have study rooms for residents' use located in all or some of the halls. Nine have computer labs in all or some student housing. All have on-site laundry facilities for resident's use.

Written Survey

Summary of Approach

The University sent all students an email inviting them to participate in a survey via a dedicated website. ASL received 531 responses to the survey. The survey exceeded the minimum target sample size of 400. Following is a summary of the surveys' findings, which are reported in Attachment 5.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

Demographics of Respondents

The profile of survey respondents closely reflects the overall student body in terms of year of study; for all categories, the percentage of respondents was within four percentage points of their actual share of total enrollment. Respondents were split 60% female and 40% male vs. 58% female and 42% male in the full-time student body. However, this imbalance of female to male students does not impact the survey analysis, as cross-tabulations to key questions did not reveal any significant bias based on gender.

In terms of location prior to attending the University, the majority, 41%, of respondents come to ETSU from elsewhere in Tennessee as opposed to the 37% that originate from the Tri-Cities area. Students responding to the survey were primarily traditional-age students with 62% age 20 or under. 59% of respondents live in University-owned housing vs. 23% of total headcount enrollment.

Approximately half of respondents to the survey work during the academic year (74% of off-campus students and 61% of on-campus students).

Off-Campus Respondents Living Situation

Currently, 25% of respondents live within walking distance of campus, while another 25% live in Johnson City but not within walking distance of campus. The majority of remaining off-campus students live outside of Johnson City but within the Tri-Cities area. Most off-campus renters live with roommates and rent apartments or detached houses as opposed to a duplex or a rented room in a house. Only 4% of off-campus renters share a bedroom with someone other than their spouse or partner. Just over half of renters had lease terms of twelve months with the remainder having shorter lease terms, showing flexibility on the part of the property owners.

In terms of rental costs, single respondents who do not share a bedroom pay a median of \$355 per month for all housing expenses (rent and all utilities); the few who do share a bedroom pay \$156 a month at the median, as shown in Figure 12.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

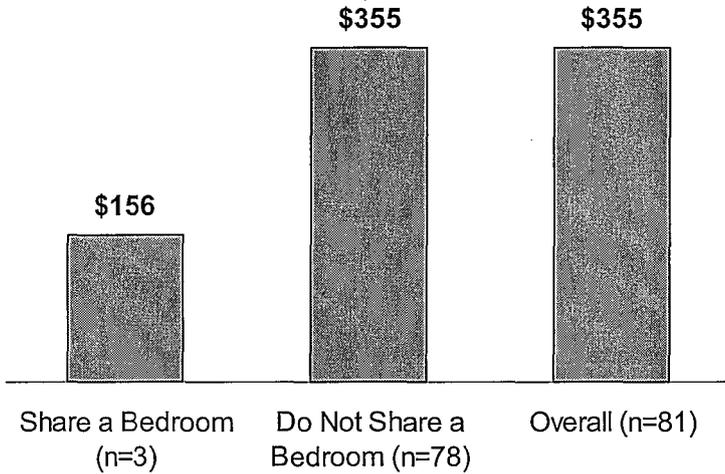


Figure 12: Median Single Student Monthly Total Housing Expenses

The median all-in cost for housing from renters who live with a spouse, partner, or children was \$595 for a two-bedroom unit and \$760 for a three-bedroom unit, as shown in Figure 13.

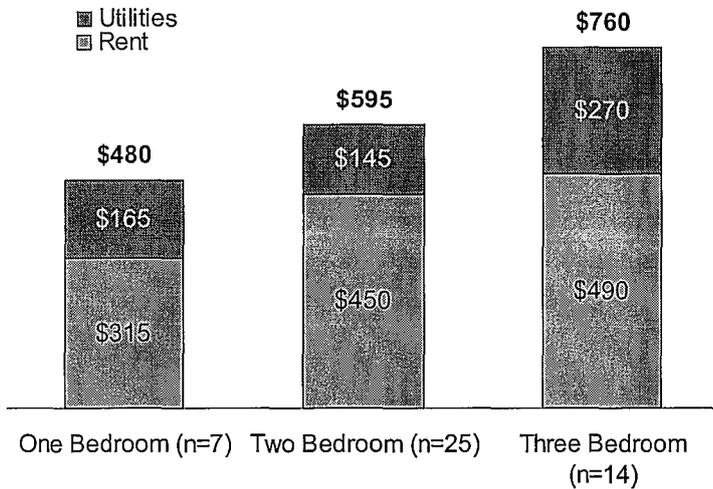


Figure 13: Family Apartment Housing Expenses

Housing Preferences

The most often-cited reasons for moving off campus given by respondents who previously lived on campus were visitation restrictions; rules, regulations, and policies in general; and preference for a private bedroom.

When asked their level of satisfaction with their current housing situation, 35% of off-campus single students are “very satisfied” with their housing situation vs. 19% of on-campus students (as shown to the right). However, when “very satisfied” and “satisfied” are added together, the two groups are much closer (91% of off-campus residents and 87% of campus residents.)



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

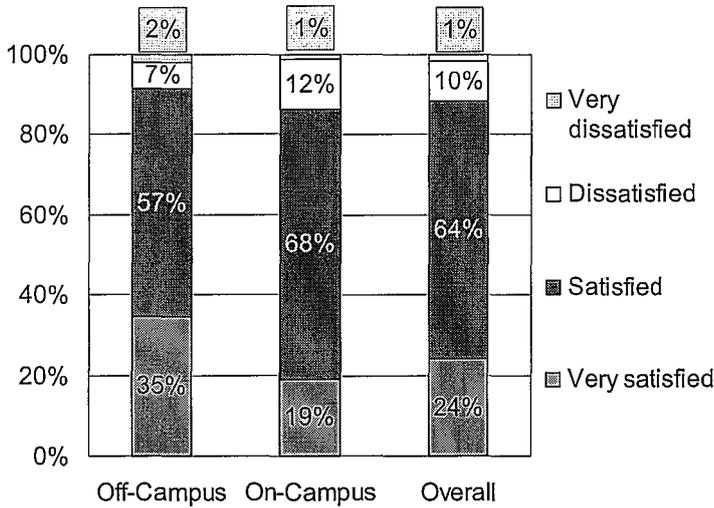


Figure 14: Satisfaction by Residence Location

Seven respondents lived in the nearby Seminole Ridge apartment complex. Of these, three (43%) were very satisfied, three (43%) were satisfied, and one (14%) was dissatisfied.

In terms of the most important factors considered in the decision of where to live, the top four, in order, were affordable rent, proximity to campus facilities and services, having adequate living space, and security. Figure 15 shows the top ten responses.

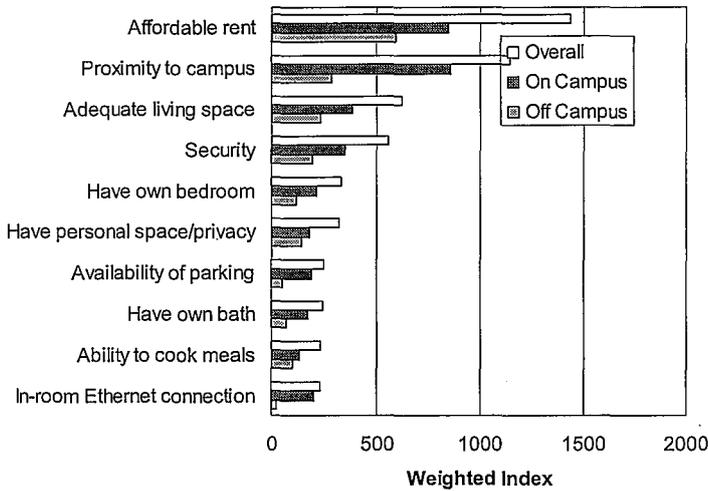


Figure 15: Five Most Important Selection Factors

Improvements

Survey respondents also chose the most important housing improvements in three areas: facilities, amenities, and student life. For facilities, the most important improvements were



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

having private bedrooms, having larger rooms, and having individual room temperature controls. Some variation was reflected in the answers of on- and off-campus respondents; on-campus residents thought the most important was having individual room temperature controls, while off-campus residents expressed more concern about the cleanliness of shared bathrooms.

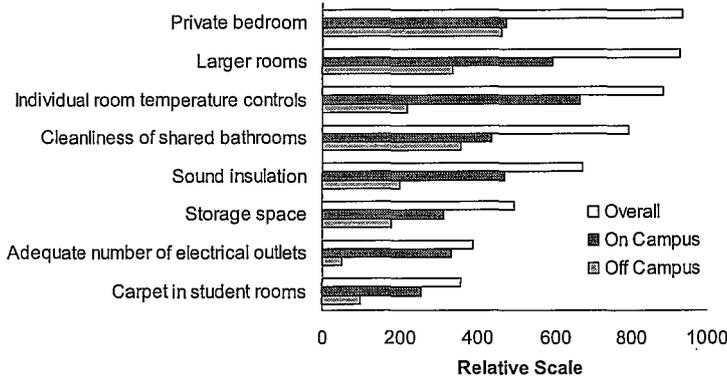


Figure 16: Facilities Improvements

For amenity improvements, the presence of computer labs, weight rooms, and convenient laundry rooms top the list, as shown in Figure 17.

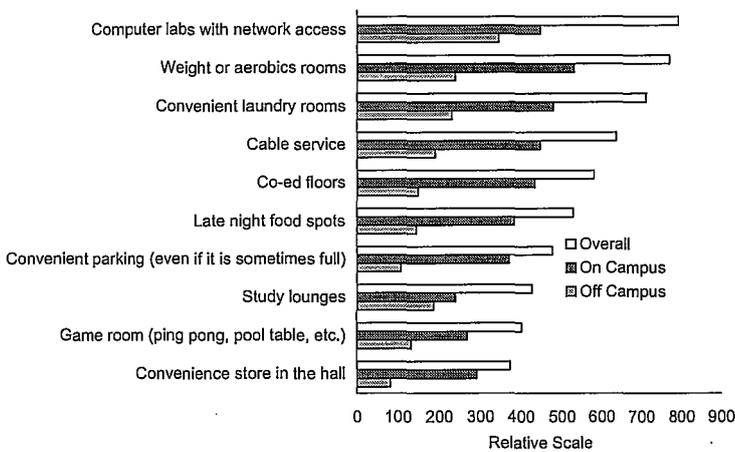


Figure 17: Amenity Improvements

For student life improvements, in-hall tutoring, availability of programs for those with the same major, and the ability to live near others with similar interests top the list, as Figure 18 shows.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

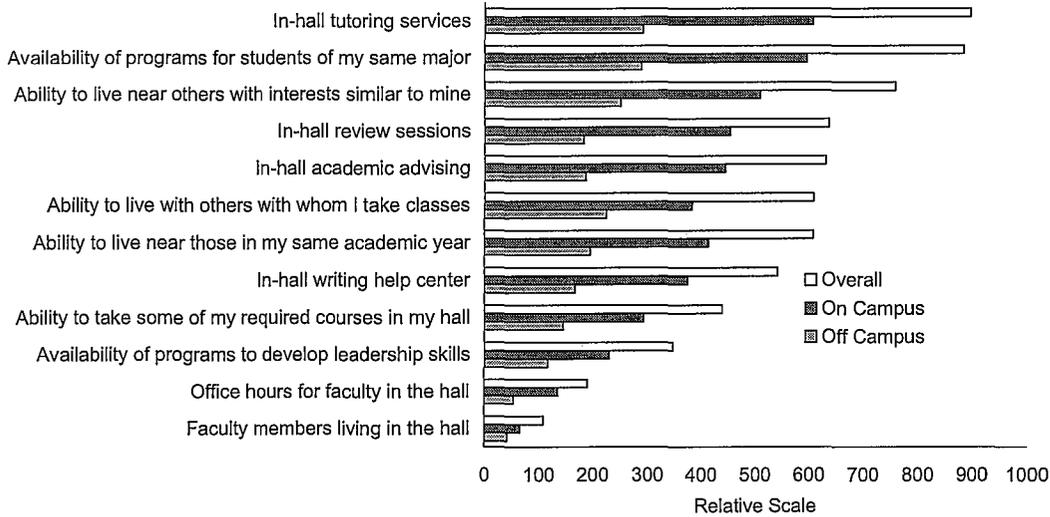


Figure 18: Student Life Improvements

In terms of the preference for unit type out of those tested, the most preferred was a four single bedroom suite with two baths followed by a two single bedroom apartment with one bath., as shown in Figure 19.

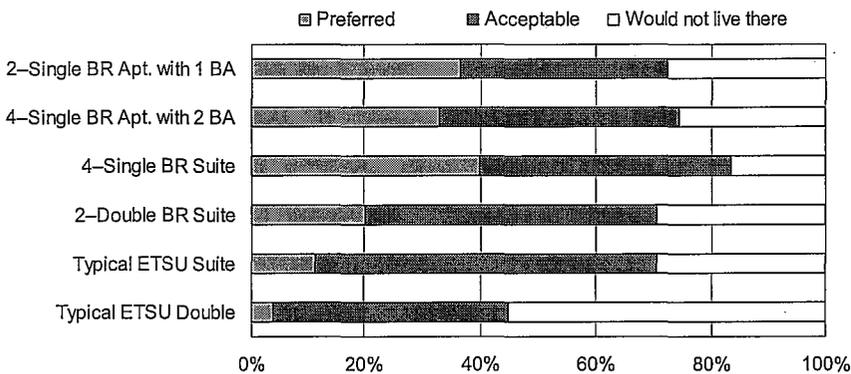


Figure 19: Unit Preference

In terms of the length of lease, most students would prefer an academic year lease, even though currently this is not the norm for those who rent their housing off campus, as Figure 20 shows.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

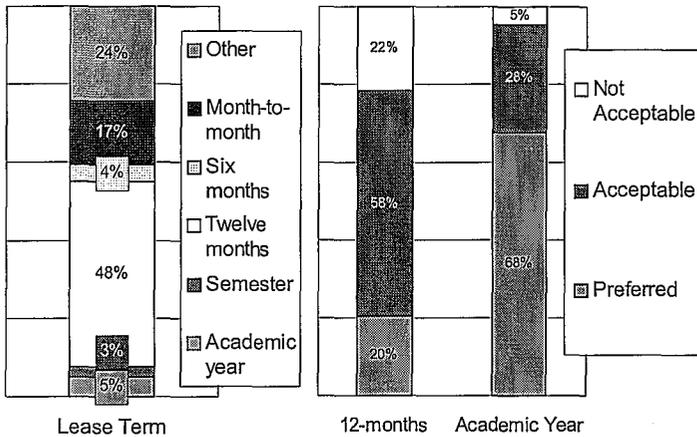


Figure 20: Renter's Lease Terms and All Respondents' Preferences

In order to gauge the level of interest in new housing, the survey questioned respondents as to their interest in living in the proposed housing with their preferred floor plan and amenities from the previous questions if it had been available when they were making the decision of where to live for where they live now. The results are shown in Figure 21. The three possible responses were: "I would have been interested in living in this housing if it had been available," "I was already settled in a comfortable housing situation, but I would have been interested in this housing if it were available earlier in my time at ETSU," and "I would not have been interested in living in this type of housing on campus."

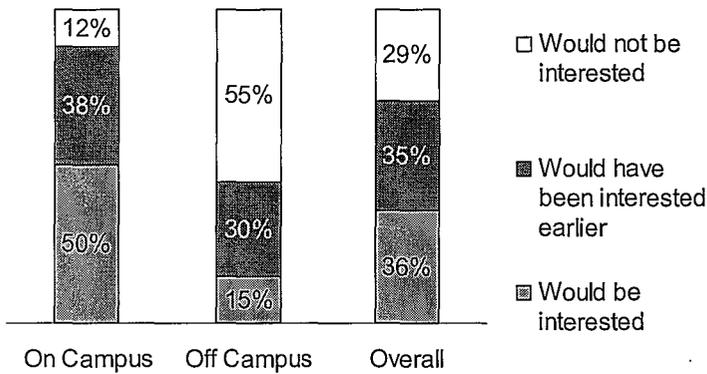


Figure 21: Interest in the Proposed Housing

Those who were not interested, as well as those who indicated earlier in the survey that they would not even consider living on campus, gave their reasons, shown in Figure 22.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

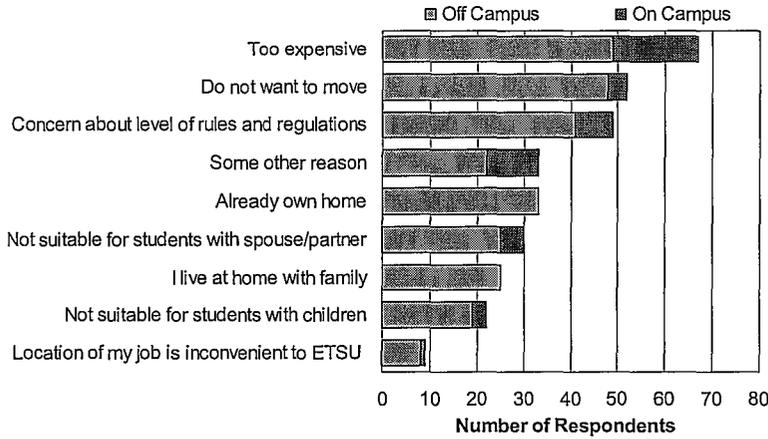


Figure 22: Reasons for Disinterest

Other Observations

When responding to the question of whether the quality of on-campus housing was a factor in the respondent's selection of a college or university, a small minority indicated that housing was the deciding factor. 39% of on-campus students found the availability of housing either "definitely" or "extremely" important. However, 56% of off-campus respondents did not consider housing availability at all, as Figure 23 shows.

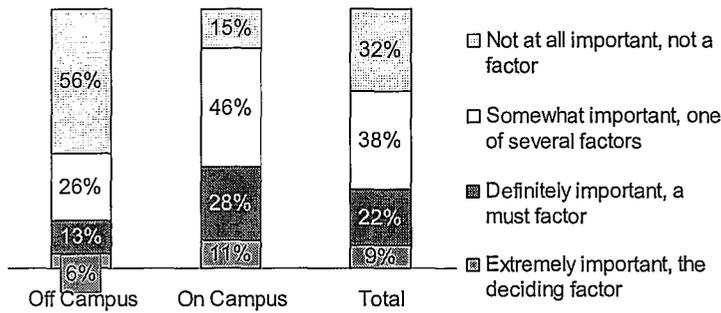


Figure 23: Role of Housing as Selection Criteria

As far as how important participants believe it is to offer housing to various groups, 87% feel that it is extremely important to offer housing to freshmen; this percentage decreases with each year of study to the point where only 24% percent believe it is extremely or somewhat important to offer housing to graduate/medical students. For other groups, 40% believe it is extremely important to offer housing to students with spouse or children, 16% believe it is extremely important to offer housing to Greek students, 23% believe it is extremely important to offer housing to non-traditional students, and 77% believe it is extremely important to offer housing for international students.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

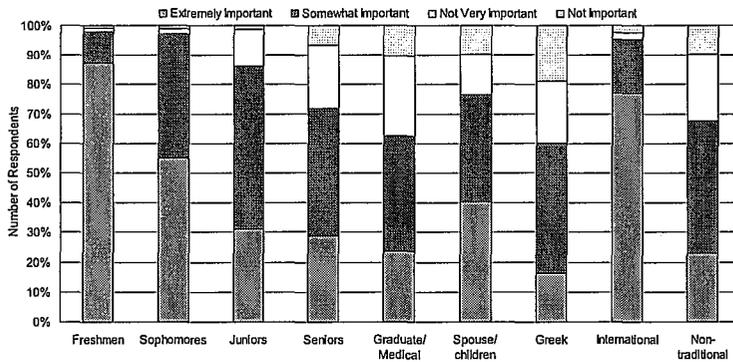


Figure 24: Importance of Various Groups

Demand Analysis

Overview

Based on the results of the survey, ASL conducted a demand analysis to estimate the number and type of housing units desired by students. Using the assumptions that are described below, ASL estimated there was demand for approximately 727 more beds of housing in fall 2001.

Summary

To estimate demand, ASL used the following methodology:

- ASL calculated the capture rate by student level (i.e., the percent of students by class level that is potentially interested in the new housing). The numerator of the capture rate percentage is the number of full-time, off-campus students who stated that they would be interested in the new housing; the denominator is the number of full-time, off-campus students in that class level that participated in the survey.
- To determine the level of demand, the capture rate was multiplied by the number of full-time, off-campus students in that particular class level. Potential interest in housing was estimated to be 1,453 beds based on fall 2001 enrollment data and assuming that the proportion of all students who indicated they would definitely have lived in the proposed housing would have done so, assuming the preferred unit types are provided, as shown in Table 4. ² Potential Demand is calculated by reducing the Potential Interest in new housing by 50% to 727 to account for the difficulty in converting an interested student to a signed lease.

² With the confidence interval of $\pm 4.15\%$, the 727 figure is our best estimate for the demand; we are 95% certain that the actual demand would lie somewhere within the range of 545 to 908.



MARKET ANALYSIS

EAST TENNESSEE STATE UNIVERSITY

Fall 2001							
Class	Capture Rate		Target Market		Potential Interest	Closure Rate	Potential Demand
	<i>Full-time Off-campus Interested Now from Survey</i>		<i>Full-time Off-campus Enrollment</i>				
Freshmen	22.7%	x	1,714	=	390	x 50% =	195
Sophomores	14.7%	x	1,347	=	198	x 50% =	99
Juniors	22.6%	x	1,523	=	344	x 50% =	172
Seniors	17.5%	x	2,509	=	438	x 50% =	219
Graduate	5.0%	x	1,670	=	84	x 50% =	42
Total			8,763		1,453		727

Table 8: Potential Demand for New Housing, Fall 2001

If ETSU's enrollment increases as expected, demand would increase as well. If this growth fails to materialize, however, then this model still reflects an achievable level of demand given the current headcount population.

Preliminary Program

In order to use these demand figures in devising a program for the housing system, ASL combined the unit preferences expressed by students with the demand for beds expressed by students. The resultant preliminary program shown in Table 9 will have to be adjusted to incorporate the realities of budgets, existing facilities, and residence life concerns, but it serves as a starting point for the development of the financial plan.

Fall 2001			
Unit Type	Rent	Preference	Potential Demand
Typical ETSU Double	\$225	3.3%	24
Typical ETSU Suite	\$250	4.9%	36
2-Double BR Suite	\$300-325	11.5%	83
4-Single BR Suite	\$350-375	27.9%	202
4-Single BR Apt. with 2 BA	\$400	24.6%	179
2-Single BR Apt. with 1 BA	\$450	27.9%	202
Total		100.0%	727

Table 9: Demand for Unit Types



OPERATIONS REVIEW

EAST TENNESSEE STATE UNIVERSITY

FACILITY ASSESSMENT

As part of the scope of this engagement, ASL made a general inspection of each of the residence halls, interviewed staff of the University, and reviewed available materials and data. A summary of this evaluation is provided in Table 10, showing whether or not the facility is air conditioned, its need for windows, the recommendations of the University's master plan, and the recommendations of Housing and Residence Life.

Residence Hall	Air Conditioning	New Windows	Master Plan Recommendations	Housing Recommendations
Carter	Yes	Yes	Full renovation and add private baths	Renovate
Ellington	No	Needed	Demolish	Demolish, in interim use as singles
Lucille Clement	Yes		Renovate and add apartment addition	Renovate and use as singles
Luntsford	Yes			Renovate
Panhellenic	No	Needed	Full renovation, convert to private rooms and link bldgs	Renovate
Stone	Yes		Full renovation, convert to private rooms and link bldgs	Renovate
West	No	Needed	Full renovation, convert to private rooms and link bldgs	Renovate
Cooper	Yes	Needed		Demolish, in interim use as singles
Davis A	Yes	Needed		Renovate
Davis B	Yes	Needed		Renovate
Davis C	Yes	Needed		Renovate
Dossett	No	Needed	Full renovation, convert to private rooms and link bldgs	Renovate
Frank Clement	No	Needed	Demolish	Demolish, in interim use as singles
McCord	Yes	Needed		Demolish, in interim use as singles
Powell	No	Needed	Full renovation, convert to private rooms and link bldgs	Renovate
Buccaneer Ridge	Yes		Add 112 beds	
Buccaneer Village	Yes			Renovate

Table 10: Facility Needs and Prior Recommendations

ETSU Physical Plant also conducted a building-by-building inspection in 1994. In Table 11, this rank and the rank of the satisfaction of residents from the ASL survey are combined to rank the building conditions. Attachment 6 contains a summary for each building.



OPERATIONS REVIEW

EAST TENNESSEE STATE UNIVERSITY

	1994 Audit		Student Satisfaction Rank	Sum of Ranks	Final Ranking	Last Renovation
	Rating	Rank				
Buccaneer Village	97.1	2	1	3	1	None
Luntsford	95.4	3	3	6	2	None
Buccaneer Ridge	100	1	5	6	2	New
Stone	91.4	5	2	7	4	1990
Carter	87.6	6	6	12	5	1980
Lucille Clement	94.7	4	9	13	6	Yes
Panhellenic	73.1	15	4	19	7	None
Davis C	86.5	7	12	19	7	None
Powell	78.5	13	7	20	9	None
Davis B	83.1	9	12	21	10	None
Ellington	73.9	14	8	22	11	None
West	80.6	12	10	22	11	None
Cooper	83.3	8	14	22	11	1980
Davis A	81.5	10	12	22	11	None
McCord	80.8	11	15	26	15	1993
Dossett	73	16	11	27	16	None
Frank Clement	73	16	13	29	17	None

Table 11: Facility Ranking by Satisfaction and Condition

The facilities review suggested that a current replacement cost for the buildings, taken on average, was in the neighborhood of \$140 per square foot. ASL reviewed local construction costs and concluded that for the purposes of the economic model and pro formas, using an estimated cost of \$75 per square foot for renovations would be reasonable.

A scale was then developed for four levels of renovation work: full renovation, limited renovation, refresh, and critical measures, since a full renovation is not necessarily desirable and definitely not affordable, in most cases. A limited renovation was taken as 75% of the cost of a full renovation, or \$56.25 per square foot; a refresh would be 40% of the cost of a full renovation, or \$30 per square foot, and critical measures as 15% of the cost of a full renovation, or \$11.25 per square foot.

Based on the needs and recommendations and the facility conditions, ASL determined the appropriate level of renovation for each building. ASL was able to balance the projects across buildings such that all buildings receive either a refresh or a limited renovation. The resulting renovation costs are shown in Table 12; these hard cost figures form the basis for the financial models and pro formas.



OPERATIONS REVIEW

EAST TENNESSEE STATE UNIVERSITY

Building	Renovation Scope	Renovation Hard Cost	Average Hard Cost (per GSF)	Average Hard Cost (per bed)
Carter	Limited Renovation	\$2,123,438	\$56.25	\$15,631
Ellington	No Work			
Lucille Clement	Refresh	\$3,195,600	\$30.00	\$7,265
Luntsford	Refresh	\$1,524,600	\$30.00	\$8,818
Panhellenic	Limited Renovation	\$1,808,888	\$56.25	\$28,850
Stone	Refresh	\$582,480	\$30.00	\$7,299
West	Limited Renovation	\$1,376,606	\$56.25	\$16,467
Cooper	No Work			
Davis A	Refresh	\$595,590	\$30.00	\$9,499
Davis B	Refresh	\$825,870	\$30.00	\$9,659
Davis C	Refresh	\$794,160	\$30.00	\$9,720
Dossett	Limited Renovation	\$1,466,213	\$56.25	\$12,651
Frank Clement	No Work			
McCord	No Work			
Powell	Limited Renovation	\$1,293,750	\$56.25	\$15,835
Buccaneer Ridge	No Work			
Buccaneer Village	Refresh	\$2,361,030	\$30.00	\$21,611

Table 12: Facility Hard Cost Renovation Budgets

OPERATIONS REVIEW

Summary of Approach

The goal of this analysis is to determine the potential for funding debt service, to develop an operating cost assumption for use in the financial projections, to analyze staffing patterns and to understand the philosophy and services provided by Housing and Residence Life (HRL). To achieve this goal, the ASL team reviewed background materials, interviewed campus stakeholders, and toured campus housing.

Dr. Luna's analysis and conclusions are summarized in the HRL Overview section below; a more detailed analysis can be found in Attachment 7.

HRL Overview

East Tennessee State University (ETSU) has an ambitious vision to be "the best regional university in the country." Realizing this vision will obviously involve all aspects of the university, including student life on campus. Several initiatives are currently in process, including the construction of a new state-of-art Center for Physical Activity. One of the most visible indicators to prospective students and parents regarding student life is the quality of the campus residence halls and apartments. To become one of the best regional universities in the country, it will be very important to create an ambience about living on campus that evokes excitement, fun, and learning opportunities in halls and apartments perceived to be comfortable and secure.



OPERATIONS REVIEW

EAST TENNESSEE STATE UNIVERSITY

As with many campuses around the country, ETSU's current housing stock consists primarily of traditional residence halls over 30 years old. These aging facilities have reached an age that requires major investment to replace worn out infrastructure (HVAC, electrical, plumbing, etc.) and to improve, where feasible, interior design features that no longer meet the expectations of tomorrow's students. The addition of Buccaneer Ridge Apartments has been a positive addition to campus living and may be the model for expansion and replacement within the HRL offerings.

ETSU has an excellent financial opportunity upcoming as current housing bond indebtedness is paid off in the next year or two. The challenge will be to keep the newly available funds targeted to the improvement of campus housing rather than be directed to other campus financial needs. This will be particularly critical in the current public higher education funding climate. However, if campus housing is to be transformed to support the vision of being the best regional campus in the country, these funds will have to be invested in campus housing facilities.

In addition to addressing the deferred maintenance and infrastructure needs of existing housing facilities, while continuing to add more modern new housing, there is a stated intention to develop much closer linkages between the residence hall experience and students' academic needs. Just as older facilities require investment to transform them to meet tomorrow's needs, the residence life function requires investment to transform its focus to better facilitate student learning through partnerships with academic departments and faculty. The investment required for this transformation is less financially driven, although funding issues will surface. More importantly it will require HRL and Student Affairs staff to invest time in developing partnerships with faculty and academic administrators to forge initiatives that create a more seamless learning environment on campus. The appropriate blending of students' out of class life with what they encounter in the classrooms will occur only with sustained efforts and with appropriate senior level support.

The consultants have been asked to develop a comprehensive plan for HRL. The charge includes being guided by and have all recommendations centered on the HRL vision and mission. The vision "to make on-campus housing the first choice of all ETSU students" is a considerable challenge given the geographic and socioeconomic characteristics of the ETSU student body. However, the mission gives clarity to the manner in which this vision can be approached. In the mission, one finds a focus on an environment that enables student learning in a setting that is affordable, enjoyable, safe, and well maintained. It speaks of connecting academics with the residential experience while continuing to encourage students' involvement in campus life. With the appropriate partnerships across departmental lines in both student affairs and academic affairs, this mission is achievable is sustained investment is maintained.

This aspect of the report will focus on image management/marketing issues, HRL staffing, student learning and academic linkage opportunities, policy and procedural issues, and facility issues related to academic support. Other parts of the comprehensive plan recommendations will provide more detailed assessment of the fiscal and facilities issues and opportunities.



OPERATIONS REVIEW

EAST TENNESSEE STATE UNIVERSITY

Conclusions and Recommendations

East Tennessee State University is in a unique position to advance significantly the stature and effectiveness of campus housing in such a way as to play a significant role in the vision of ETSU "becoming the best regional university in the country." With significant debt service being retired, an interest in using the residential environment to expand student learning, and the addition of Buccaneer Ridge apartments as a model for future construction, the department of Housing and Residence Life has tremendous potential for significant improvements.

We recommend that the resources becoming available from the retired debt service be designated for re-investment in the renovations and new construction for student housing as well as for specific staffing enhancements and academic initiatives. We also recommend that HRL commit to a student-centered review of policies and procedures that will result in less restrictive and more customer friendly rules, regulations, and services.

With a plan of action developed with input from all stakeholders, students included, the leadership in HRL and their campus partners can embark on a campaign to promote the image of student housing at ETSU as a forward moving, world class service fully engaged in realizing the vision of being the "first choice of housing for all ETSU students."

Results of the Operating Budget Analysis

The Housing and Residence Life Budget for FY 2000/01 was reviewed and analyzed to develop the assumption for the cost of operations. Actual line items for FY2000/01 were re-categorized to separate true operating costs from administrative overhead, reserves, and capital expenditures to organize the data in a form that could be used in the financial model and to evaluate potential opportunities for savings in operations. The details of this analysis are summarized in Table 13.

FY 2000-2001 ACTUAL	Per Bed	Per GSF
Revenues		
Rental Revenue	\$4,994,936	\$1,989
Other Revenue	\$307,424	\$122
	\$5,302,360	\$2,112
Expenses		
Operating Costs	\$3,574,617	\$1,424
Debt Service	\$1,045,900	\$417
Renewal and Replacement	\$714,442	\$285
	\$5,334,959	\$2,125
Surplus (Deficit)	(\$32,598)	(\$0.05)

Table 13: Summary of Operating Budget for FY 2000-01

Based on the above, ASL made the following assumptions for operating costs and other revenues for the financial model:

- Other Revenues: 6.15% of Rental Revenue



OPERATIONS REVIEW

EAST TENNESSEE STATE UNIVERSITY

- Operating Expenses: taken from the system average of \$5.23 per GSF
- Operating expenses per GSF are assumed to remain at the same level for renovated facilities in recognition of the way Housing and Residential Life obtains utility services from Physical Plant. New facilities are assumed to have operating expenses of \$4.75/GSF and the new Buc Ridge is assumed to have operating expenses of \$4.50 reflecting more efficient operation.



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

ECONOMIC MODEL AND PRO FORMAS

Much of the housing on the ETSU campus was built in the 1960s in traditional residence hall configuration: double rooms with community bathrooms. The construction of the residence halls was funded with low-interest loans that have been mostly paid off, leaving the housing system with only debt service from renovation projects over the intervening years. Since only a limited portion of the resulting surpluses have been reinvested in renewal or replacement of housing, there is significant deferred maintenance and impending renewals to be funded. The ability of the housing system to sustain itself is therefore at risk.

Programming Approach

The preliminary program for the residence halls attempts to balance the competing forces of what is desired versus what can be afforded. Although most students, regardless of class standing, would prefer to live in private bedrooms and have private baths, this model is neither realistic from the standpoint of student development nor financial feasibility. Likewise, while it may be desirable to decompress and reconfigure the existing residence halls, the age of the buildings and the backlog of capital improvement projects leave little, if any, debt capacity for major unit configuration improvements. The over-arching consideration, however, is the limit to the amount of rent students are willing to pay and administrators are willing to charge to renovate and improve the existing housing inventory.

Generally, freshmen and sophomores will reside in one of the traditional residence halls in traditional rooms with community baths or semi-suites; these will undergo critical renovations to improve systems, finishes, and commons areas. Upperclassmen and graduate students will be accommodated in Buc Ridge apartments or new suite-style units. The final system will grow to have 2,589 beds.

Detailed programming for the renovated residence halls and apartments was not performed as a part of this study. Instead, each residence hall was assumed to lose 5% of its beds as a result of renovations to expand and upgrade lounges, study areas, and other common areas. Some residence halls may need more or less than 5% changes to meet living/learning objectives or other considerations, but the financial pro formas would have to be rebalanced if this percentage changes for the overall system. Before engaging design professionals to plan building renovations, a detailed programming study should be performed for each building.

Greek housing is incorporated in this plan, but with the purpose of demonstrating the necessary assumptions that make developing it feasible. The Greek housing presented herein does not rely on subsidization by other housing, but it does challenge the conservative interpretation that the TBR prohibits tax-exempt financing of Greek facilities. Programming for Greek housing will require a thorough evaluation of the University's and the Greek organizations' needs and desires.



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

Development Approach

The plan addresses the current state of the housing system by renovating, vacating, or building new residence halls or apartments. The residence halls that are in the worst condition will be vacated and turned over to the campus for alternative uses; the other halls will be renovated with a 5% loss in beds after renovation. The new construction serves as swing space, allowing the residence hall project phasing to be arranged such that the 1% growth in beds by the end of the project will take place more smoothly.

Students	Size	Proportion
Total Headcount	11,093	
FTEs	9,271	84% of Total Headcount
Full-Time	8,367	75% of Total Headcount
On-Campus Residents	1,999	18% of Total Headcount 22% of FTEs 24% of Full-Time Headcount
Proposed	2,485	22% of Total Headcount 27% of FTEs 30% of Full-Time Headcount

Fall 2001 data; Proposed 2,485 equals 2,589 beds @ 96% occupancy.

Table 14: Beds-to-Enrollment Ratio

Financial Plan

The financial plan brings together all elements of the market analysis, the facility assessment, and the proposed program and overlays the phasing of projects. The proper balance between program, development budgets, timing, rental rates, and operating costs yields an optimal development scenario that seeks to maximize the value of the living/learning environment at rent levels acceptable to residents. To accomplish this balance, ETSU is faced with several significant challenges:

- Life safety needs must be addressed
- Room configurations are less than ideal, especially for upper-division students
- Community bathrooms, although prevalent, are not desired by students
- Common areas do not meet functional requirements
- The housing system's status as a vital, sustainable, and productive asset must be restored

A successful development plan, therefore, must address these deficiencies. Specifically, the development plan will:

- Begin increasing rents, particularly on the completion of renovations



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

- Leverage capital expenditures through long-term financing
- Focus on renovations, as extensive reconfiguration of existing unit types is not financially feasible

Consideration of the housing system in aggregate provides the greatest opportunity for funding additional debt. In any given year, some facilities may be contributing to the payment of debt service and reserves while others operate in a deficit position; in the whole, the system maintains a positive reserve balance.

The University must determine the minimum balance in the reserve account. To increase the minimum, it may be necessary to scale back project scope or delay projects until sufficient reserves can accumulate. With respect to phasing, it is also advisable to stagger projects so that a specified minimum number of beds will always be on line and in no given year is there a large change in the number of available beds.

Assumptions

The most critical assumptions are summarized in this section. These variables, if changed even minimally, can throw the financial plan out of balance, possibly requiring a re-phasing of projects or revisions to other assumptions.

Revenues

Current room rates are escalated ~~annually by 4.5%~~. When a project is completed, a one-time "kicker," or premium, of ~~20.0%~~ is applied to rent. Average occupancy rates are assumed at 96.0% after renovations are completed. Other Revenues are calculated at 6.15% of academic year revenues to account for summer and other income. This is the current level of Other Revenues as calculated in the Operations Analysis.

Operating Costs

The cost of operations for existing buildings is calculated from the FY 2000-01 budget and adjusted annually for inflation. Over the course of the plan, ~~operating costs~~ are assumed to grow at an ~~annual rate of 3.0%~~. The result is that the operating cost budget rises on a per bed basis, but with a modest annual increase on a per-square-foot basis over time and a growing gap between revenues and expenses.

Development Budgets

The total development budget for the plan is \$62,839,000 (inflated), including \$31,748,000 for new construction of 776 beds of suites and apartments. Additional capital budget assumptions are as follows:

- The hard cost of construction for deferred maintenance projects has been based on the Facility Assessment.



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

- The hard cost for renovation was set at one of two levels (\$30.00 or \$56.25 per GSF) depending on whether the level of renovation necessary is lesser (refresh) or greater (limited renovation).
- The hard cost for new construction was set at \$90 per GSF.
- The hard cost of vacating and/or demolishing a building was assumed to be carried by the campus instead of the housing system and was thus set at zero. (Such costs would generally amount to \$10 to \$15 per GSF).
- New furniture and equipment (\$2,000 per bed for new; \$1,500 for renovations) is included for all buildings.
- Soft costs of permits and fees (1%), design (6% new, 8% renovation), development cost (4%) and construction contingency (5% new, 10% renovation), and financing are added to the hard cost figures.
- Capital costs escalate at 3% per year to the projected start of construction.

Debt Service and Financing

The funding for renovations will be through the issuance of tax-exempt debt, which is preferably a revenue bond, placed through a traditional state financing conduit. The average coupon rate is assumed at 5.5% for 20 years. New construction funding is assumed to be at 6.0% for 30 years. All surpluses are available to service new debt, fund renewal and replacement costs, or serve as reserves for deficit operations.

The Tennessee Board of Regents (TBR) requires projects demonstrate the effects of a 7.5% rate in order to be approved. Nevertheless, representatives of the TBR agreed that this serves as a "stress test" and need not be used for an entire strategic plan since it is intended only to be applied to single projects at the time of approval.

Phasing of Projects

The phasing of the projects is critical for a number of reasons. It is important that a minimum number of beds be available in any given academic year to provide adequate capacity. Phasing of projects also determines the rate at which new debt service will accumulate, which must be funded by the housing system operation. Therefore, a balance must be maintained between expediting the renovations and the accumulation of reserves to cover potential temporary operating losses from increased debt service. A summary of the projects and the phasing is shown in Table 15.



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

Project	Project Type	Marketable Beds	Development Budget	Scheduled Completion
Buccaneer Ridge 2	Off Bal Sheet	112	\$4,093,000	August-04
Greek Solution	New	120	\$4,085,000	August-04
Davis A	Renovate	63	\$966,000	August-05
Davis B	Renovate	86	\$1,337,000	August-05
Davis C	Renovate	82	\$1,285,000	August-05
Dossétt	Renovate	116	\$2,395,000	August-06
Ellington	Vacate/Demo	0	\$0	August-06
Frank Clement	Vacate/Demo	0	\$0	August-06
New Hall 1	New	272	\$11,785,000	August-06
New Hall 2	New	272	\$11,785,000	August-06
West	Renovate	84	\$2,201,000	August-06
Carter	Renovate	136	\$3,508,000	August-07
Luntsford	Renovate	173	\$2,667,000	August-07
Panhellenic	Renovate	63	\$2,884,000	August-07
Powell	Renovate	82	\$2,135,000	August-07
Cooper	Vacate/Demo	0	\$0	August-08
Lucille Clement	Renovate	440	\$5,911,000	August-08
McCord	Vacate/Demo	0	\$0	August-08
Stone	Renovate	80	\$1,108,000	August-09
Buccaneer Village	Renovate	115	\$4,694,000	August-11
Buccaneer Ridge	Renovate	296	\$0	August-20
		2,589	\$62,839,000	

Table 15: Development Budget and Phasing Summary

Results of the Financial Analysis

The detailed financial model for the student housing development program can be found in Attachment 7. The model provides detailed assumptions and financial results including:

- Project summaries
- Phasing summaries
- Performance charts
- Housing system operating pro forma
- Individual project operating pro forma

Several charts illustrate the components and requirements of the financial plan over the planning horizon through fiscal year 2015. The annual capital requirements and cumulative total debt are shown in Figure 25. Construction funding is required over a fifteen-year period resulting in total new debt of \$64,394,000 for renovations and new construction.



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

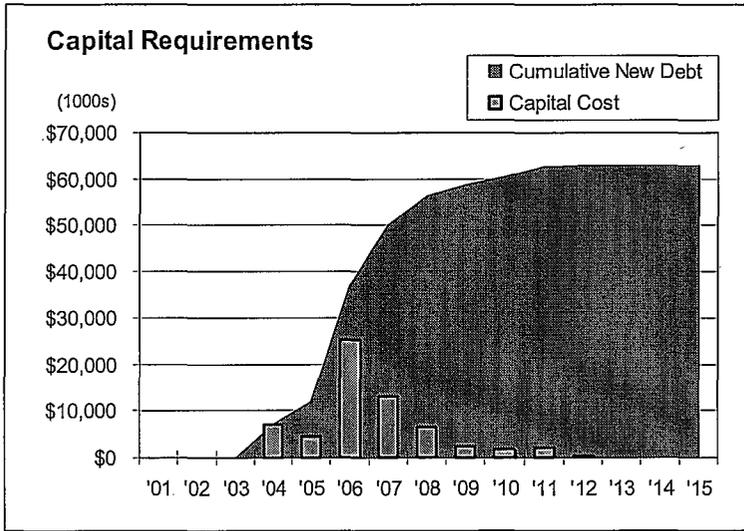


Figure 25: Funding Requirements

The phasing of the renovations has been staged to keep relative consistency in the number of beds online despite the 5% decrease in the post-renovation bed count. The plan starts off with the construction of new apartment beds at the Buc Ridge site in 2004, providing some swing space to allow existing beds to be taken off line for renovations. In 2005, Mack Davis will be taken off line for renovations and returned to service the following year. In much the same manner, the plan cycles through all the halls: Davis is followed in 2006 by Frank Clement being permanently removed from housing service and Powell, Panhellenic, and West being taken off line for renovations. In 2007, Cooper, Ellington, and McCord are vacated and Dossett is taken off line for renovations. In 2008, Carter goes off line for renovations; in 2009 a New Hall is opened to allow for renovations of Lucille Clement in 2010 and Luntsford in 2011. Bucanear Village is renovated in 2015. By 2015, the residence hall bed capacity has increased by 1% to 2,545.



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

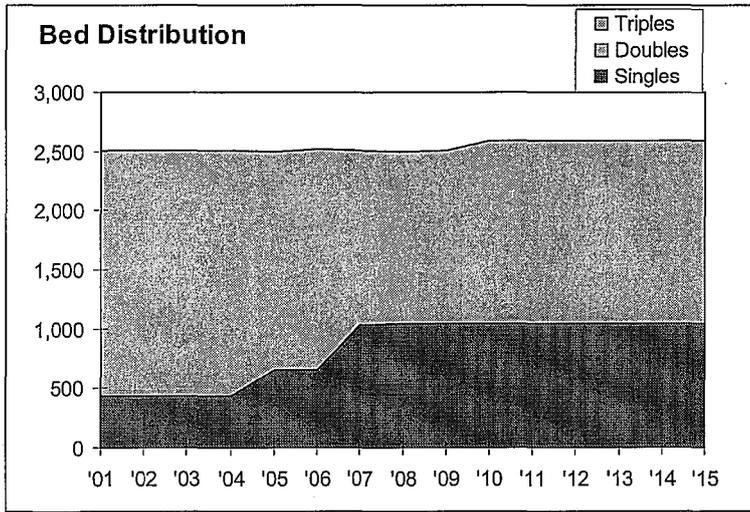


Figure 26: Bed Distribution and Unit Count

Revenues escalate at an annual rate of 4.5%, and a one-time premium of 20% is levied on a hall that has been renovated. Revenues per bed are shown in Figure 27.

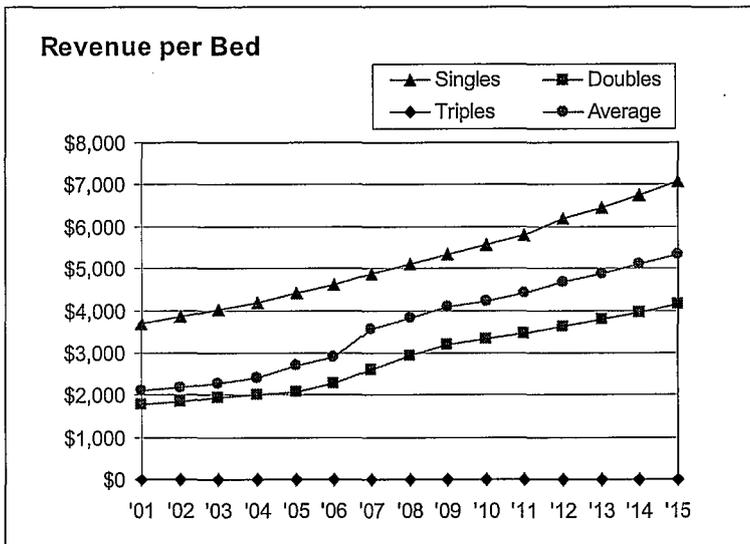


Figure 27: Rent Structure

The chart in Figure 28 demonstrates the trend of operating costs (1) by the beds on line and (2) by gross area on line. The overall trend is dominated by an annual escalation of costs of 3.0%. If operating costs are forced to rise at a faster pace than this assumption, rental rate increases will have to follow to maintain a financially sound operation.



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

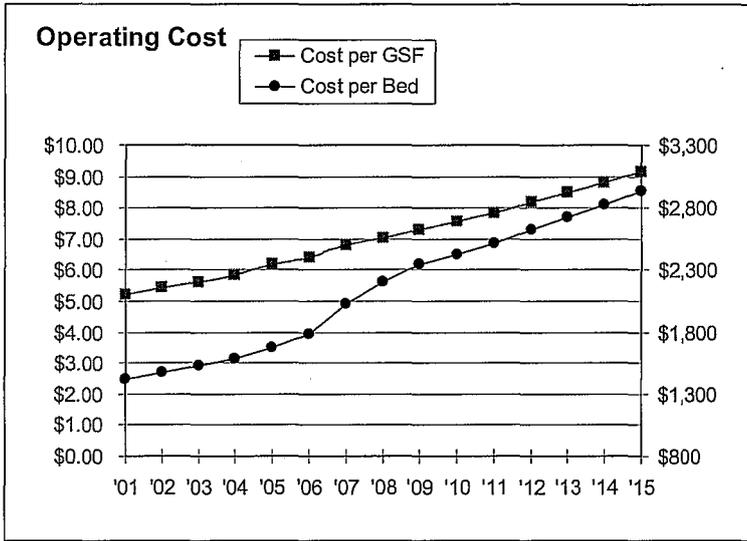


Figure 28: Operating Cost

The impact of operations and the addition of new debt service are reflected in the graph of the plant fund balance in Figure 29. The increase in rents by 4.5% annually and the 20% premium for renovated beds result in a positive operation throughout the planning period. Surpluses from operations gradually build up the cumulative balance to \$3,475,000. It should be noted, however, that the fund balances are before any withdrawals for renewals and replacements. However, since the buildings will be newly renovated, these expenditures should be minimal for the next ten years.

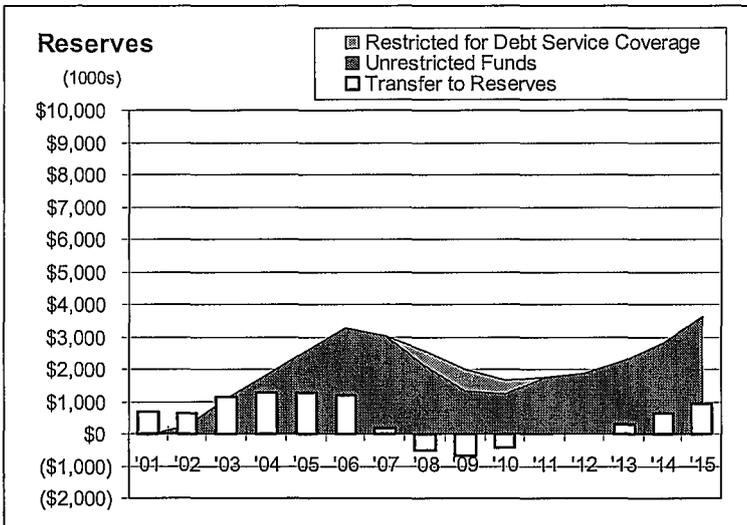


Figure 29: Reserves

At the end of the renovation cycle, it is quite possible that the demand for student housing will increase because of the improved condition of the halls. The University should periodically



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

reassess demand to determine if construction of additional new facilities would be feasible. Since new projects would be self-funding and self-supporting, the addition of new beds would be limited only by demand (i.e., if demand exists and the project is financially feasible, it can only serve to improve the overall financial condition of the housing system).

Alternative Seminole Ridge Purchase Scenario

The University asked ASL to consider a scenario whereby the University purchases the recently built 528-bed apartment complex near campus, Seminole Ridge, for \$11,000,000 rather than constructing new buildings for suite-style housing and Greeks on campus. Master-leasing the units at Seminole Ridge might provide a stop-gap solution if the University experienced an unexpected surge in demand, but is inappropriate for a long-term solution. A purchase, however, does appear to present an attractive alternative to the previous scenario.

Using the same underlying assumptions as above, except as noted, the complete model for this approach is presented in Attachment 8. Phasing was adjusted considerably to adjust for the beds added to the system early in the plan. Pricing for Seminole Ridge was set to equal rents at Buc Ridge. Two new halls were eliminated from the plan; Buc Ridge 2 remains in the plan to help offset the bed loss from renovations and vacating buildings. Table 16 summarizes this scenario.

Project	Project Type	Marketable Beds	Development Budget	Scheduled Completion
Buccaneer Ridge 2	Off Bal Sheet	112	\$4,093,000	August-04
New Hall 2	New	136	\$5,588,000	August-04
Davis A	Renovate	63	\$966,000	August-05
Davis B	Renovate	86	\$1,337,000	August-05
Davis C	Renovate	82	\$1,285,000	August-05
Dossett	Renovate	116	\$2,395,000	August-06
Ellington	Vacate/Demo	0	\$0	August-06
Frank Clement	Vacate/Demo	0	\$0	August-06
Seminole Ridge Purchase	New	528	\$11,000,000	August-06
West	Renovate	84	\$2,201,000	August-06
Carter	Renovate	136	\$3,508,000	August-07
Luntsford	Renovate	173	\$2,667,000	August-07
Panhellenic	Renovate	63	\$2,884,000	August-07
Powell	Renovate	82	\$2,135,000	August-07
Cooper	Vacate/Demo	0	\$0	August-08
Lucille Clement	Renovate	440	\$5,911,000	August-08
McCord	Vacate/Demo	0	\$0	August-08
Stone	Renovate	80	\$1,108,000	August-09
Buccaneer Village	Renovate	115	\$4,694,000	August-11
Buccaneer Ridge	Renovate	296	\$0	August-20
Greek Solution	Out of Scope	0	\$0	August-50
		2,589	\$51,772,000	

Table 16: Seminole Ridge Purchase Scenario



ECONOMIC MODEL AND PRO FORMAS

EAST TENNESSEE STATE UNIVERSITY

Conclusion

Building new beds on campus provides more beds and additional flexibility in design of the new beds but places a heavier financial burden on the housing system. The purchase of Seminole Ridge would leave the University with an entirely different unit mix from that of the first ASL plan. As shown in Table 17, purchasing Seminole Ridge heavily shifts the balance in favor of apartments and away from suites, resulting in a system with few options between residence halls and apartments.

	Existing		On-Campus Scenario		Seminole Ridge Purchase	
Traditional Beds	1,668	66%	992	38%	992	38%
Suite Beds	0	0%	664	26%	136	5%
Apartment Beds	843	34%	933	36%	1,461	56%
	2,511	100%	2,589	100%	2,589	100%

Table 17: On-Campus Development vs. Seminole Ridge Purchase Comparison

For reference, Table 18 shows the class level of students living on campus in fall 2001. Assuming the same breakdown by class level as fall 2001, the Seminole Ridge purchase would necessitate housing freshmen in apartments while the on-campus scenario would provide enough traditional beds and suites to house all freshmen and about three-quarters of sophomores.

Fall 2001 On-Campus		
Freshmen	932	47%
Sophomores	433	22%
Juniors	266	13%
Seniors	262	13%
Graduate	95	5%
Total	1,999	100%

Table 18: Class Level of On-Campus Residents, Fall 2001

The purchase of Seminole Ridge provides expediency and removes a competitor from the marketplace, but introduces an element of uncertainty due to the questionable construction quality and sub-optimal performance achieved for its original developer. Before concluding that the purchase of Seminole Ridge is appropriate, however, ASL recommends that the University must first conduct a thorough facility assessment.

