

ISSUER COMMENT

Monetization of University Property Can Benefit Both Town and Gown

From [Credit Outlook](#)

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On October 29, the Board of Trustees for the Endowment Fund for North Carolina State University (Aa1 stable) announced the sale of 79,000 acres of Hofmann Forest for \$150 million. The agreement is expected to bolster the endowment of the university's College of Natural Resources (CNR). It is also expected to increase property tax revenue in two counties slightly. The deal speaks to the trend of US universities exploring the monetization of land and real estate assets that can benefit both the schools and local governments. It also marks a very modest credit positive for both NC State and the local governments.

For a university, the sale of non-essential real estate can increase endowments and financial reserves; generate additional income to advance its mission; and reduce operating costs for the asset. For a local government, the addition of previously tax-exempt property to the tax rolls can bolster its budget. Over the longer term, the local governments also benefit economically from increasing property, sales and fee revenues as the properties become developed or redeveloped.

Historically, universities have been loath to part with real estate, but many are now reexamining the importance of retaining non-core assets following multiple years of constrained revenue growth. With that approach and an improving real estate market in certain areas, we expect more transactions in 2014. We anticipate this more for urban universities than for rural universities given the stronger buyer's market and opportunities for alternative uses.

More than 30% of the Moody's-rated public university portfolio experienced a decline in operating revenue in 2012, a significant increase over the prior year (see Exhibit). A smaller, but still significant 16% of private universities also had declining operating revenues in 2012, with another 17% having revenue growth of under 2%.

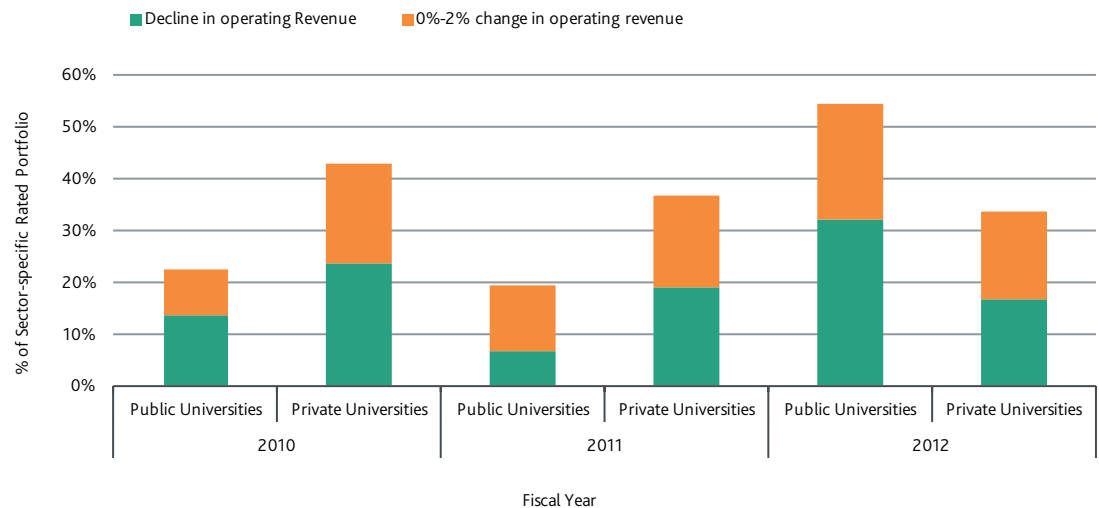
Universities reassessing monetization of assets shows prudent fiscal management, if proceeds are used to support longer-term strategic objectives. Selling real estate to compensate for financial imbalance, however, is a non-recurring event that does not address underlying problems..

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EXHIBIT 1

Revenue Is Pressured at Both Public and Privates



Source: Moody's MFRA

In the case of the Hofmann Forest, the sale agreement contains provisions that would enable NC State to continue to use a portion of the property for academic needs. The \$150 million purchase price will be added to an endowment supporting the CNR. Hofmann Forest has historically been carried in the endowment at \$117 million, so the balance sheet impact is limited. However, the sale is expected to result in increased revenue generation. Under the university's 4% spending policy, the \$150 million endowment is expected to provide \$6 million of support annually, compared to less than \$1 million of net income derived from the land in 2012. This is material to CNR, but not the university overall, which has a \$1.2 billion operating budget. The transaction has not yet closed, and a group is seeking injunctive relief to stop the sale.

[Onslow](#) (Aa2) and Jones counties (unrated), which include portions of the forest, are expected to realize slight increases in assessed valuation after the sale with new residential and commercial developments. Onslow County officials estimate an additional \$116,000 in annual property tax revenues to a \$160 million budget.

In another recent sale, [St. John's University](#) (A3 positive) sold a building in Manhattan for \$219 million, prompting us to revise the university's outlook to positive from stable in August. The university doubled its unrestricted financial resources and increased its operating flexibility. With an assumed 5% spending rate, should the university hold the funds from the sale in an endowment, the operating impact would add \$10 million, a positive but not substantial increase, to the university's \$470 million-plus of operating revenues.

In response to declining enrollment, [Brooklyn Law School](#) (Baa1 stable) has placed six of its no-longer-needed residential buildings on the market. The school has other marketable real estate in Brooklyn, which could be sold over time without materially impacting core operations.

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