Leveraging higher education real estate assets as a strategy for success

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Executive summary

The need to serve stakeholders better in an environment of stagnant public investment and concerns about the cost of higher education has led innovative institutions to seek new revenue sources and more ways to meet the needs of its constituencies. Among the strategies employed by Arizona State University (ASU) is more productive use of its land as a strategic asset, similar to the approach taken by some institutions in the management of their financial assets, particularly endowments. These efforts not only have generated additional revenue to support important university initiatives but, importantly, care has been taken to ensure that they also support ASU’s mission, charter and programs. The use of partnerships to magnify value to both the university and its stakeholders has been a key aspect of this strategy’s success. ASU’s efforts to use land as a strategic asset may be replicable by other higher education institutions, ultimately offering the opportunity for higher education to be of greater societal benefit.

Key takeaways

- New revenue streams have been essential to ASU’s growth and its ability to support the increasing needs of its stakeholders.
- Greater attention to maximizing the value and economic return on land held by the university has been a fruitful strategy for meeting these needs.
- Recognizing and championing the importance of mission alignment as a fundamental part of this strategy has been a key component of its success.
- Other higher education institutions have the same pressures to generate revenue and may have similar opportunities to use this strategy successfully.

Arizona State University (ASU) has developed a new model for the American research university, creating an institution committed to excellence, access and impact known as the New American University. ASU’s charter, adopted in 2014, is the blueprint for that transformation:

*ASU is a comprehensive public research university, measured not by whom it excludes, but by whom it includes and how they succeed; advancing research and discovery of public value; and assuming fundamental responsibility for the economic, social, cultural and overall health of the communities it serves.*

From its modest beginning in February 1886 as the Territorial Normal School, ASU has grown and evolved to become a global research university with over 530,000 alumni serving more than 120,000 students on four campuses in the greater Phoenix area, virtually, and in locations around the world. Its academic offerings have expanded to more than 350 undergraduate programs and majors, 450 graduate degree programs and certificates, and 200 online degree and certificate programs taught by ASU faculty.
Through a 1958 citizen initiative, the institution became in name—Arizona State University—what it had grown to be in programs, people and prominence. Its sponsored research expenditures exceeded $673 million in fiscal year 2020, reflecting its role as a major research university.

ASU, by its charter, seeks to assume responsibility for the success of the communities it serves. This charge requires that the university and its affiliated entities generate revenue from a broad base of mission-related activities to provide the resources necessary to meet this challenge. The state of Arizona invests its tax revenues in its public higher education institutions at a relatively modest level, with a fiscal year (FY) 2021 appropriation of $958 million, or 2.53% of Arizona personal income, compared to the national average of 4.65% of personal income. Similarly, Arizona FY 2021 per-capita appropriations for public higher education were $129.09, 55% less than the $288.19 national average.

For ASU, state investment declined 40% between fiscal years 2008 and 2012, or 51% on a per-FTE-student basis, and has recovered only slightly since that time. State investment today comprises less than 10% of the university’s FY 2021 revenue.

This modest level of state investment means that it is imperative for the university to focus aggressively on its own revenue generation both to meet the scale of operation necessary for the state to be competitive in a global, information-based economy and to supplant resources not coming from public investment. Arizona’s level of educational attainment—the percentage of adults who earn a two- or four-year degree—significantly trails the national average. In 2019, prior to the pandemic, 52.9% of Arizona’s high school graduating class enrolled in a two- or four-year college or other postsecondary institution upon graduation. In comparison, the national average college enrollment rate for high school graduates in 2019 was 66%.

ASU has focused on developing alternative revenue streams, given the state investment policy outcomes of the Great Recession and a strong commitment to student accessibility and affordability. These revenue streams include sponsored research contracts, charitable giving, investment income and partnerships revenue, among others. Once the largest budgeted revenue source, state investment now trails both tuition and fee revenue and grants and contracts revenue in the share of the university’s operating budget it funds (8.75% in FY 2021).

While ASU recently joined the $1 billion endowment club, its endowment is not yet commensurate with its scale as an institution. Fortunately, in assessing its opportunities, ASU leadership found significant physical assets that long had been underutilized. For example, the Tempe campus included over 300 acres of land that either had never been developed or had been committed to use as a golf course. As downtown Tempe continued to urbanize, it became clear that neither was the highest and best use for this land. After a comprehensive campus master planning process

2 State Fiscal Support for Higher Education, Per $1,000 in Personal Income and Per Capita, FY16, FY19, FY20, FY21, Table 4, Grapevine, Illinois State University, https://education.illinoisstate.edu/grapevine/tables.
confirmed that this land was not needed for expansion of ASU’s core Tempe campus, a strategy to monetize that land, as well as similar properties adjacent to each of the other three core campuses, was created. This strategy held that these lands could be developed in a way that generated revenue to support the university’s charter, mission and goals while simultaneously advancing them.

This “dual bottom line” of economic returns and mission realization is the focus of ASU’s real estate development strategy and helps to determine whether a proposed project is in full alignment with the mission and charter. While early efforts to monetize underutilized university land resulted in fee interest sales to third parties, it has become clear that far greater economic opportunity and mission alignment can be achieved by retaining ownership of the land, and in most cases, the buildings and other physical improvements thereon. Thus, a fundamental component of the university’s real estate development strategy is to employ long-term ground leases to strategic partners who bring additional value stemming from their areas of expertise.

While the uses of these lands have taken multiple forms, most may be categorized either as “innovation zones” or projects that extend the breadth of the university’s teaching, research and public service mission. The innovation zones are physical locations that allow businesses and other organizations to collocate with ASU knowledge assets (our faculty, staff and students, and what they know) in collaborative partnerships that advance the goals of both partners. In several of these innovation zones, mixed-use office, multi-family residential and hospitality development creates a live/work/play environment for its tenants, as described below.

**Novus Innovation Corridor**

The Novus Innovation Corridor is an approximately 355-acre, mixed-use development innovation zone, and the next step in fulfilling ASU’s vision of the New American University as a fundamental contributor to the state’s economic success. Novus is being developed through a public-private partnership, where a master development
partner and various commercial developers invest in its creation, following a master development plan established by the university and its master development partner. Novus will consist of approximately 10 million square feet of commercial office, multi-family residential, hospitality and retail uses at full buildout. Novus will provide a live/work/play environment in which companies and other organizations, attracted by the university’s knowledge assets, will collocate with the Tempe campus to advance mutual interests.

The first phase of Novus, *Marina Heights*, is complete, resulting in a 20-acre, five-building, 2.1-million-square-foot regional hub for the State Farm Automobile Insurance Company, one of three such hubs in the U.S. Sun Belt, and offices for the world’s fastest-growing online used car retailer and additional offices, fitness and healthcare services, retail, and a public park along Tempe Town Lake. Today, nearly 10,000 people are employed there by the tenant companies, adding significantly to the economic activity of the downtown Tempe area. Marina Heights is the single largest office development in the history of Arizona and has received multiple awards of excellence from organizations representing the design, construction and commercial real estate professions.

Novus Phase 2 is a $330 million reinvention of *Sun Devil Stadium* as a facility that is used not only for university athletic events but also around the calendar for meetings, entertainment, exercise, community and university programs, etc., that has come to be known as Community Union 365. This project exemplifies the mixed-use nature of Novus, which will be replicated throughout future phases of development. Phases 3 and 4 are now under development, with a multi-flag hotel, a 160,000-gross-square-foot Class A commercial office building, a large shared-use parking structure, and a 318-unit multi-family residential complex completed, and two additional multi-family residential complexes, a second Class A commercial office building and a multi-building creative office complex in various stages of development.

Novus also serves as a test bed for the university’s smart university.smart city initiatives that leverage the Internet of Things and other emerging technologies to improve the way we live and enhance productivity and safety. All buildings developed in Novus will have Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council. Novus itself was one of the first developments in the country to receive LEED-ND Gold certification, a designation indicating that the overall development has achieved a high level of sustainability. The Novus Place Parking Structure, with 1,801 automobile stalls, parking for 100 bicycles, and 31 electric vehicle charging ports, has achieved Parksmart Gold certification, signifying the highest level of sustainable design, construction and operation—the first parking structure in the state to achieve this designation.

Novus will generate ground lease proceeds and annual assessment revenue and, in doing so, create a sustainable funding source for the construction and renovation of Sun Devil Athletics facilities. At completion, the development is projected to create approximately 34,000 jobs and $4.6 billion in annual economic output.\(^4\)

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Mirabella at ASU

Mirabella is a 20-story lifelong learning community comprising 246 senior housing units and 52 healthcare units on ASU’s Tempe campus. ASU’s commitment to learning across the lifespan led to development of this new facility dedicated to supporting engagement between the university and age 55+ individuals attracted to the active ASU community. In addition to lifelong learning opportunities for its residents, Mirabella has multiple benefits for ASU, as well. ASU’s alumni, students, faculty and staff, for example, can tap Mirabella residents’ experience and professional knowledge that they are willing to share. Mirabella encourages such community interactions; creates pathways to lifelong learning for a demographic not traditionally associated with college classrooms; provides a platform to conduct use-inspired research that pursues health and quality of life solutions for aging adults; enhances the university’s academic programs; generates work-study and mentorship opportunities for students; and engages older alumni, faculty, staff and friends with Tempe residents.

Mirabella is a joint venture between a nonprofit life plan community operator and a nonprofit university affiliate focused on supporting the university through real estate projects and services. The project was developed on land acquired by ASU over 35 years ago, when a small shopping center failed in a location adjacent to the Tempe campus. Despite plans to redevelop the site, it sat largely unused for anything except parking since acquisition. As part of the development of Mirabella, the university received ground lease proceeds for the approximately 1.5-acre site in a one-time upfront payment. ASU also collects annual assessments equivalent to real property taxes on the units that have been sold. The nonprofit partner provided both equity capital and operating expertise to the project.
Omni Tempe Hotel at ASU

ASU and the City of Tempe are collaborating to bring a four-star hotel and conference center on 1.6 acres of the shared edge of downtown Tempe and the ASU Tempe campus to enrich community and campus life. The project is under construction and slated to open in the spring of 2023. Both ASU and the city of Tempe provided investment in the project to attract this four-star hotel operator to the site. A high-quality hotel and conference center with 330 rooms, four dining venues, and more than 36,000 gross square feet of meeting and event space will support community engagement and university meetings and events. The main ballroom of over 15,000 square feet will be the largest in the city.

ASU’s impact as an educational and research institution will be advanced by the increased ability to host research and education-related professional meetings and public functions on the campus. The hotel’s location immediately adjacent to Mirabella will afford synergy between these two assets as well.

The hotel and conference center also will serve as a catalyst for community and economic development with strategic value to the university. The Omni is being developed under a long-term ground lease of university land. The university received ground lease proceeds in a one-time upfront payment, and also will benefit from additional base rent payments annually and preferential rights for conference center use.
In 2016, the city of Phoenix made available to ASU a 7.4-acre parcel of undeveloped, city-owned land in the heart of downtown Phoenix, with the understanding that the university would foster the location of biomedical and life sciences companies there. The parcel is adjacent to the 12,500-student ASU Downtown Phoenix campus, home of ASU’s Edson College of Nursing and Health Innovation and College of Health Solutions, as well as other life sciences programs. The University of Arizona College of Medicine–Phoenix, the Northern Arizona University allied health programs, the Translational Genomics Institute (TGen), and four major healthcare systems also are located in this part of Downtown Phoenix. At full buildout, this 30-acre area, known as the Phoenix Bio Core, will exceed 6 million square feet of development and is expected to generate an annual economic impact exceeding $2.1 billion annually.\(^5\)

ASU partnered with a company specializing in developing built environments that drive innovation in research and entrepreneurial activity to build a seven-story, approximately 227,000-square-foot building, 850 PBC, as the first of multiple buildings planned on the 7.4-acre parcel to support the biotech and life sciences industries. The building was designed as an innovation hub, featuring tenant spaces that encourage the commercialization of biomedical research. The building also is used by the ASU College of Health Solutions, the Edson College of Nursing and Health Innovation, and the Biodesign Institute.

The development of this 7.4-acre parcel is expected to result in more than 1.2 million square feet of laboratory, office and support space focused on established and startup biomedical and life sciences companies. The university receives ground lease proceeds and semi-annual additional rent payments equivalent to real property taxes on space not occupied by ASU.
SkySong, the ASU Scottsdale Innovation Center

SkySong, the ASU Scottsdale Innovation Center, is a 42-acre, 1.2-million-square-foot innovation zone located in Scottsdale. The city of Scottsdale made this south Scottsdale land available to ASU in 2005 under a long-term ground lease with the express purpose of fostering economic development in the area, which had been suffering from economic transition stagnation.

Today, SkySong is an economic engine focused on entrepreneurship and the startup economy. Five multi-tenant commercial office buildings are in place, with plans for a sixth to complete SkySong office development, along with a hotel, a multi-family residential complex, and a multi-tenant restaurant building that serves tenant employees and visitors. The more than 80 companies situated in SkySong have direct access to ASU research, startup company support and custom educational opportunities. Many of the more than 100 ASU spinout companies that have raised more than $600 million in venture capital started at SkySong. Additionally, SkySong enhances ASU’s corporate engagement activities and provides education, training and instructional facilities.

SkySong currently has a $1.3 billion annual economic impact. ASU and its affiliates receive revenue from ground lease and building rents and participate in the economic outcomes of the development as equity partners.
Organizational considerations

The greater Phoenix metropolitan area, often referred to as the Valley of the Sun, long has been known as a premiere tourism and retirement destination. Now the fifth largest metropolitan population in the country, it increasingly is becoming a major commerce hub and a regional healthcare center with five medical schools, multiple allied health education programs, and the presence of three national healthcare systems along with many regional and local providers. Technology, insurance and financial services companies have flocked to the Valley in recent years, resulting in a growing startup economy as well.

Residential and commercial real estate development also are longstanding major components of the Arizona economy, resulting in a substantial industry talent base, rapidly growing real estate values, and a competitive landscape for industry participants. In preparation for the strategy of leveraging its real estate assets, ASU found it necessary to develop a skilled University Real Estate office, staffed with professionals possessing substantial commercial real estate experience and expertise. Over time, this office has been supplemented by expansion of the university’s legal staff with multiple attorneys skilled in real estate and commercial development law, creating a team that can manage sophisticated real estate transactions and complicated development projects, often with private sector partners providing capital and/or specific real estate development and operating experience.

In addition, an affiliated nonprofit entity, University Realty, was created to facilitate complex real estate transactions identified as part of this strategy. University Realty similarly has been staffed with commercial real estate development professionals who partner with University Real Estate on projects that advance and support the university’s overall real estate strategy. A separate entity from the university, University Realty can make equity investments in real estate developments, providing an additional potential revenue source as part of the overall real estate strategy. University Realty also benefits from the advice of a panel of seasoned real estate professionals with substantial experience in raw land improvement, real estate transactions, and commercial real estate development projects focusing on commercial office, multi-family residential, retail and hospitality development.

The development of this extensive team has been critical in addressing the complexities inherent in the types of real estate development projects in which the university is engaged to leverage its real property assets.
Conclusion

Many higher education institutions have found it necessary to revise their resource acquisition strategies and, in some cases, comprehensively evolve their business models to adjust to an environment in which public investment has declined, the price of their offerings sometimes is perceived as too high, and the value proposition of higher education is increasingly questioned.

Arizona State University has focused significant attention on diversifying its revenue sources while evolving as a prototype of the New American University, seeking to serve students and other learners broadly and across the age spectrum. Fully leveraging the potential value of its land holdings both to advance its mission and generate additional revenue is a strategy that similarly situated institutions can use effectively to meet the challenges they face.
About the author

Morgan R. Olsen is Executive Vice President, Treasurer and CFO at Arizona State University and holds an appointment as Professor of Practice in the Mary Lou Fulton Teachers College. In 2018, he received NACUBO’s Distinguished Business Officer award. Dr. Olsen is former chair of NACUBO’s board of directors and a past president of CACUBO. The Arizona chapter of Financial Executives International named Olsen 2017 nonprofit CFO of the Year. He also chairs the United Educators insurance company board.

Olsen joined ASU in 2008 from Purdue University, where he was Executive Vice President and Treasurer. He previously served Southern Methodist University as Vice President for Business and Finance. Olsen earned a BS, summa cum laude, and an MPA from the University of North Dakota, and was inducted into Phi Beta Kappa. He earned a Ph.D. in higher education from the University of Kansas.

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