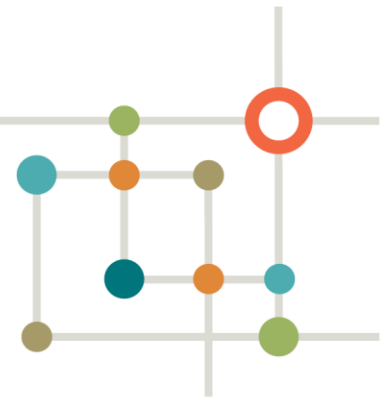


INNOVATION IN HIGHER EDUCATION



CASE STUDY: DREXEL UNIVERSITY Philadelphia, Pennsylvania / www.drexel.edu

Institutional Type:	Comprehensive, global research university
Institutional Characteristics:	One of America's 15 largest private universities
Location:	Main campus is located on 74 acres in the University City neighborhood of Philadelphia
Full Time Enrollment:	24,232 (graduate and undergraduate; Fall 2016-17)
Annual Operating Budget:	\$1 billion (FY 2016)
Board Size:	50 members

The Challenge: Transforming the Urban University

As a distinctly urban institution, Drexel University's physical campus serves a central role in fulfilling the university's mission. Founded during the Industrial Revolution—a time of rapid change and technological advancement—Drexel has historically demonstrated a spirit of innovation in its educational philosophy and research. As the institution pursues campus development, it employs that same innovative spirit.

Several years ago, the institution faced a shortage of on-campus student housing options, no affordable daycare options near campus, and no reasonably-priced hotel option for university guests. Simultaneously, Drexel was eager to launch development projects related to its academic facilities to advance the teaching and research capabilities of the university. Facing these competing needs, Drexel decided to focus its institution's resources, both staff expertise and financial capital, on those projects it saw as core mission—academic development—and to work with external partners to construct and operate non-academic facilities.

The Approach: Public-Private Partnerships

In 2010, Drexel University launched a competitive bidding process to develop a small parcel of land on its campus into student residences. American Campus Communities (ACC) won the bid and constructed what is now Chestnut Square—a 19-story high-rise with 861 beds—around the existing buildings already in the space. ACC owns and operates Chestnut Square, paying annual ground rent to Drexel. The building is considered University-Affiliated Housing and integrated with all student life policies. However, students sign leases directly with ACC.

Drexel continued to launch additional projects in the market: two mixed-used commercial and student residences with over 2,300 additional beds; a complex of market-rate apartments with childcare and preschool facilities; and a 212-room boutique hotel with conference facilities. Before committing to each partnership, Drexel's board of trustees reviewed and approved the scope of the project and terms of the contract. Senior administration held forums for trustees to weigh in and register questions, and in the end the board voted unanimously to approve every project.



These facilities represent over \$400 million in capital contributed by external partners to develop Drexel's campus. The institution now has over 3,000 new opportunities to house students on campus, conveniently-located daycare services, and a hotel for visitors to the community. Simultaneously, Drexel directed its own expertise and capital—close to \$300 million—into major academic development, constructing new facilities and renovating buildings to reflect new advancements.

The Future: An Innovation Neighborhood

Drexel's latest development initiative is its largest to date. Called Schuylkill Yards, it comprises 14 acres and approximately 8 million square feet of development and is located at the gateway to Drexel's campus. Over the next 20 years, this space will become a mixed-use academic, commercial, residential, retail, and public realm project.

Due to the magnitude of this project, Drexel's board of trustees has taken on a new level of involvement. The board convened a special committee, the complex transactions committee, to oversee this project. Led by the vice chair, the committee membership included trustees with content expertise in land-use planning, real estate development, and finance. Together with senior leadership, the committee set the scope of the project, ran a competitive bid in the market, and negotiated terms with the master developer selected.

Schuylkill Yards represents a key moment for the university and for the city of Philadelphia. As the gateway to the University City neighborhood—containing Drexel, the University of Pennsylvania and its hospitals, the Children's Hospital of Philadelphia, and the University of the Sciences—Drexel hopes that this project will drive economic growth, neighborhood revitalization, and innovation. With Schuylkill Yards, Drexel continues leveraging public-private partnerships to transform its campus and community.

President John Fry on Innovation at Drexel

Below, Drexel University President John Fry reflects on the spirit of innovation that guides its public-private partnerships.

Q: What motivated Drexel to pursue this innovation?

In developing public-private partnerships, it's a question of core competencies. As we approached each of these projects, we had to ask ourselves whether we were the appropriate party to be carrying them out or whether we would be better served by having partners help us. When it comes to our core mission—teaching and research—we take responsibility at the university to fund, design, and develop those projects.

But when it comes to thinking about the construction of certain facilities and the provision of certain services that are not core mission—though still important to the institution—there is a lot of capacity and expertise in the market available to help us do that work. One of the areas where there is an enormous amount of commercial expertise is in the construction and management of facilities like student residences, campus hotels, daycare centers, and market-rate apartments. Each of our partnerships produced major additions for our campus that we would not have had the bandwidth to do on our own. At the same time, this approach allowed the university to use its capital and expertise to renovate or add another \$300 million in academic facilities.

**Q: What challenges have you encountered throughout the process? How has your institution overcome these challenges?**

Early on in my time at Drexel, I realized the institution had significant needs without the capital to support those needs—most urgently, more beds for students on campus. We also needed to update and expand academic facilities. We were going to have to figure out a way to do both, because while the academic buildings are at the core of our mission, so are the safety and the residential experience of our students. The board worked with us to understand and think through those needs. We agreed that we could handle them on two different tracks. For the non-academic campus needs, we would rely on third-party vendors to construct and operate those facilities.

For some groups on campus, particularly faculty and staff, this approach was unusual because they just hadn't seen it before. However, by clearly communicating the philosophy behind these partnerships, people understood and came to embrace the overall strategy. Our message about these projects was that we had to allocate capital carefully, and we wanted to put it towards academic projects central to our mission.

Q: What was the board's involvement in this innovation on your campus?

The board's role was extremely hands-on relative to the approval and review. Even though the projects were being developed and constructed by third parties, the board had full eyes on each of them. The business, facilities, and construction committee reviewed the content of each proposal, and the finance committee reviewed the terms and conditions of contracts. In fact, I would say that the board spent more time looking at these contracts than the details of other institution-run projects brought to them. Senior administration organized open forums for trustees to weigh in and register questions, and in the end, the board voted unanimously to approve each partnership.

Schuylkill Yards is different. This project is extraordinarily big, complex, and like nothing we have done before. Because this project has such a broad impact, I felt it would be good to have a special group of trustees with content expertise to help senior management work through this project, and I went to the board and requested that they initiate a complex transactions committee.

The board moved into a new governance model with the creation of this committee. They were incredibly helpful to the project, offering a broad perspective as we thought through what the institution was trying to achieve with this space. And when it got down to the final bid, they helped us negotiate the best deal possible. This committee will disband after the transaction is complete, but the format was so useful that we've created another complex transactions committee with a different membership to guide us in another project.

Over the course of these partnerships, I think the board has changed and deepened their governance, which is a great innovation in itself.

Q: What did this process teach you about developing a culture of innovation?

The spirit of innovation comes directly from mission, which is very alive at this institution. We just celebrated our 125th anniversary last year, so over the last few years we've really been thinking about our founding and about the challenges we've faced. We are a very particular type of institution founded by a person who felt that not all higher education institutions needed to be elite, but that the format could be open to any young woman or young man regardless of race or ethnicity. It was an experiment from the very beginning—opening the potential and the power of higher education to the working class of



Philadelphia, primarily through an applied trade focus with an emphasis on helping people develop skills and get jobs. Without innovation, Drexel wouldn't be the institution it is today.

Necessity is the mother of invention. Because we have limited resources, we can't make certain investments that other institutions can—but we still can find a way to get the work done that we need. So, there's a layered effect of history, necessity, and invention that has built us into an institution that thinks a lot about innovation and how it happens.

At the board level, it's important to be open to risk. Drexel has always had a mentality that we should try new things. My predecessor was a famous innovator, and our founder was a famous innovator, so I think our board is used to seeing unorthodox approaches and being comfortable with them. They certainly still scrutinize and consider, but I think the board realizes that for the institution to get ahead we must take risks. They are comfortable with that in their own culture as a board and in their governance. I've never been discouraged to try something that is new or has a little risk attached to it—rather, I've been encouraged to do that in a responsible way. I think our board has really embraced innovation, pushing us to be innovative in the way we do things and willing to take the well-considered risk.

Q: What other lessons did you learn, and what advice would you offer other institutions pursuing innovation?

The most important thing when considering a partnership is the cultural compatibility between your institution and your prospective partner. None of this stuff is easy, and there will be tension and disagreement. It's important to think about how flexible both parties can be with each other as each try to achieve its goals. A partnership can't be a win-lose situation. We've really tried to get into the heads of our partners and consider what a victory would be for them, clearly express what a win is for us, and see to what extent we can accomplish those for both parties. Yes, you want to create advantages for your institution, but you also don't want to *take* advantage. With that alignment, you have a greater chance of success.

Competition is key. With each of these projects, we set off spirited competition in the market among providers. Providers that were selected felt confident that they were a trusted partner, and we felt confident knowing we had done our homework and selected the best option.

One final important thing: An institution should never want to sell a piece of land or lose control of any of its assets. But you can still accomplish a lot by giving up control for a period of time. Ultimately, the land and the improvements made under these partnerships will revert to Drexel. In the meantime, our students get great housing, our staff gets great childcare, our guests get a great place to stay, and Drexel gets a developed gateway to our campus—all without having to finance and operate these projects ourselves.



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