University Financing Instruments:
Case of Aalto University Campus

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Background: Birth of Aalto University 2010

- **Merger** of three universities - technology, business and arts & design
- From state agency to private, non-profit **foundation** -> financial autonomy
- Forming strong **asset base**: ownership of the campus, endowment
- New **governance**, including fully external Board that appoints the President and key leadership
- Introduction of international **tenure track**, based on research strengths (RAE), strong wave of frontloaded recruitments
- Decision to locate all university activities on **one campus** and build competitive **ecosystem** with shared use with partners
  -> significant campus investment program

The Aalto University community:
20,000 students,
5,000 staff members, 370 professors
Annual budget: 400M€
Balance sheet: ~2B€

Transforming our campus into a unique *collaboration hub*

Aalto Campus: Building Autonomy

- Finnish university reform 2010 -> university real estate ownership transfer* from government to companies jointly owned by universities and government**, with shareholder agreement requiring market returns and joint decisions
- Parliament Audit Committee: recommendation for government exit from university real estate companies, to enable pricing on non-profit basis*** -> purchase of government share by Aalto -> wholly owned Aalto subsidiary for campus assets
- Rationale for the purchase:
  - Agility in developing campus to strategic asset & competitive edge
  - Material savings in tax & government dividends
  - Facility related services under one roof -> quality improvements, cost savings
  - Loan portfolio renegotiated with creditors with better pricing and more flexible collateral arrangements
  - Payback estimated at ~10 years

*Partly in-kind, partly purchase (debt from commercial banks) **3 companies with 1/3 government share: Aalto, Helsinki, rest of Finland ***market pricing bypasses parliament power by redirecting funds meant for research & education to real estate

Campus: From crisis to opportunity

- Significant public funding cuts towards the university sector -> community decision to look for significant facility savings, move from quantity to quality (33% reduction in space, roughly 100.000 sqm)
- Facilities released from university use -> opportunity to build competitive campus ecosystem
- Bridge-finance & then share risks for additional investments that are necessary for the system, i.e. leasing out properties
- Generate returns from the real estate assets to diversify university funding sources

* Preference: introduce Aalto partner companies and institutions to the campus area based on their collaboration depth/quality and volume with the university in research, innovation, education and campus development. Preferred location: close proximity of the area of research the partner contributes to (shared &open innovation spaces).

Campus: Current status

- Current volume of ecosystem
  - 65.000 sqm, roughly 120 tenants, mainly Aalto related corporations, start-ups, incubators, UNTIL
- In the process of forming a fund with external equity investors
  - Ecosystem buildings are transferred to the fund, releasing cash to university
  - New ecosystem development projects can be realized within the fund
- Boundary conditions for the external partners:
  - Secure university strategic occupancy policy*
  - Maintain control on core campus, i.e. first right of refusal at co-investor exit

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Financial Considerations

- Our current creditors are EIB, NIB & commercial banks
  - debt level ~300M€ of 2B€ balance sheet
  - key covenants equity ratio 60% & debt service costs 15% of total cost*
- Key debt management principles:
  - long term debt only for long term assets with solid future cash flow (only campus qualifies at the moment)
  - debt service costs part of facility pricing (ensuring repayment)
  - interest rate hedging
- Financial sustainability: follow & forecast net asset growth in real terms over 3-5 years period!

*capital repayment and interests

Some Learnings (so far)

- Our traditional university finance competencies needed to be complemented by more business minded competencies, incl. corporate M&A
- Our endowment role crucial -> access to debt -> credit ratings -> we were able to arrive to favorable pricing, terms and covenants with banks
- Equity financing may be good instrument university for risk/cost sharing, interest alignment important
- Finally: Aalto as challenger university has comparatively thin resources -> we cannot afford lazy assets - opportunity cost thinking – invest capital to where it is used in the most efficient way, however, long term academic mission comes first

Thank you ☺

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