



Universities: investment and invention

Sarah Quy and Rachel Wevill look at the commercial opportunities surrounding British universities

Although a key driver for universities remains “the pursuit of knowledge, never fearing to follow truth and reason to whatever results they [lead]” (Thomas Jefferson 1743-1826), they also attract and develop a wealth of ideas, talent and investment with the potential to enhance the economic growth of not just the town in which the university is located, but also the wider region and the country as a whole.

Significant property portfolios coupled with the need to accommodate an expanding student body present an attractive synergy between universities and the real estate market. Even more noteworthy is the extent of collaboration between universities and a diverse range of business enterprises. For example, science faculties such as those at Cambridge, Manchester and Bristol universities have fostered entrepreneurial

communities and attracted investment in products such as:

- the flexible solar technology developed by Eight19 (founded by three Cambridge physics professors); and
- the various applications of graphene, a material discovered by Manchester University scientists which is only one atom thick and has a range of possible uses, from flexible electronics to use as a selective filter to purify water.

Every element of higher education in the UK is currently attracting investment from around the world, including investment to fund the system, regenerate campuses, and promote and encourage commercial applications for the products of universities’ research and development.

Research and development

Universities are involved in commercial

activities in a range of ways, including:

- using their intellectual property rights (inventions, computer software, literary or artistic works, industrial designs, or trademarks);
- providing services by academic staff direct to community partners, commercial organisations or public sector clients;
- supporting spin-offs or start-ups by means of, for instance, on-campus or in-town incubators, science park accommodation, entrepreneurship training, seed corn investments, venture capital, or business advice; and
- taking part in regeneration programmes.

The *HE Business and Community Interaction Survey* (Higher Education Statistics Agency, May 2013) showed that in 2011/12 British universities made £1.1bn through research contracts with businesses and non-commercial organisations. A further £1.4bn was derived from consultancy contracts, facilities and equipment, CPD courses, intellectual property, and regeneration and development programmes. 170 spin-offs

were started with some university ownership in 2011/12 and over 2,500 graduate start-up companies were formed. In 2011/12 active spin-off companies employed nearly 33,000 people.

Many universities now run support programmes for student start-ups. Frequently, the key element of this support is the use of on-campus “incubators” providing hot-desk office space, a meeting room, and an address for a registered office and mail collection. (See box for some of the legal issues relating to these incubators.)

In *Encouraging a British invention revolution: Sir Andrew Witty's review of universities and growth: final report and recommendations* (Department for Business Innovation and Skills, October 2013) Witty called on universities to make economic development their “third mission” as well as teaching and research, and suggested ways the government could help promote and fund this goal. Among the collaborations he praises are:

- The International Centre for Advanced Materials (ICAM), which is supported by a \$100m, 10-year investment from BP. This collaboration is between BP, the University of Manchester, the University of Cambridge, Imperial College London, and the University of Illinois at Urbana-Champaign. Its research focuses on:

- the need for smart coating and better structural materials for oil and gas exploration and production, eg pipes to endure pressure under the sea bed;
- new generations of industrial membranes for separation and filtration in production and refining processes; and
- new steels needed for improved resistance to aggressive environments.

- The SETSquared Partnership, a collaboration between the universities of Bath, Bristol, Exeter, Southampton and Surrey whose manifesto is to “partner in enterprise activities and collectively support the growth and success of new business opportunities through spin-outs, licensing and incubation”. SETSquared currently supports approximately 250 technology start-ups and has spawned around 1,000 high-tech start-ups since its inception 10 years ago. In July 2013, it was ranked the best university business incubator in Europe and the fourth best in the world after three US counterparts.

- A new manufacturing institute to be created by Coventry University and Unipart Group, which will receive part of a £50m fund from the government and aims to create more than 600 jobs in the region's high-value, low-carbon manufacturing sector by developing an engineering education and research environment to stimulate Unipart's supply chain and train a skilled new manufacturing workforce.

REAL ESTATE ISSUES THAT ARISE IN RELATION TO ON-CAMPUS “INCUBATORS”

Drafting and negotiating the licence agreement

The terms of the agreement between the support provider and the would-be entrepreneur are likely to include:

- an all-inclusive rent;
- payment of a deposit;
- customisable office space;
- the use of good technological resources including high-speed internet access, IT and telecoms, audio visual equipment, colour photocopiers and printers;
- staffed reception and administration areas;
- mail and call handling services;
- access to meeting rooms; and
- flexible length of terms.

Investment

Global private equity investors have been keen to invest in this sector over the past few years. For example, in 2009, Apollo Group, a US for-profit university provider, bought BPP College with funding from Carlyle Group; in 2011, Sovereign Capital bought the Greenwich School of Management; and in 2012 Montagu Private Equity bought the College of Law. Why are these colleges such appealing investments? Some of the reasons include:

- It has become much easier for institutions to gain university status, and with it the power to grant degrees to their students.
- It is easy to expand both inside the UK and abroad, by purchasing new sites and developing new campuses, and by purchasing additional colleges.
- Once a college acquires “highly trusted sponsor” status from the UK Border Agency it can attract high-paying students from outside the UK. To do this it needs to obtain approval from the Quality Assurance Agency for Higher Education.
- Once a provider has acquired “designated” status for its courses, its students are eligible for government-backed loans for tuition fees of up to £6,000 per annum and grants for living costs from the Student Loans Company (“SLC”). In 2007/8, £15m of student loans were paid as fees to private (as opposed to public) providers of higher education. By 2011/12 this had increased to more than £100m.

Investing in the funding system

An interesting unanswered question is whether the government will sell the SLC – at present a non-profit government-owned organisation – to private investors. It could maintain its not-for-profit status and still represent an appealing investment if brought within a corporate umbrella.

Planning

University buildings are generally classified as D1 (non-residential institutions) use within the Use Classes Order 1987. This includes a range of education and non-residential training centres. Additional buildings on campus that are specifically business or research and development facilities may well be classified as B1. Incubators would fit within B1 not D1, but if their use is sufficiently connected with the D1 educational establishment, they may be considered to be ancillary to the educational use, and therefore not require specific consent for change of use.

On-campus retail

Universities seem to be bucking the trend for out-of-town retail centres; there is essentially a micro town centre in every campus, providing a huge source of rental revenue. To give one example, the University of East of Anglia boasts on its website that the “UEA campus is a mini city” and lists facilities and services ranging from the Sportspark (Britain's largest indoor sports centre) to the Sainsbury Centre for Visual Arts, as well as a variety of shops and banks, a health centre, a nursery, a post office, and a laundrette.

Accommodation

All this is in addition to the not insubstantial consideration of where the weary student may lay his or her head. Student accommodation represents another commercial opportunity, as seen recently when the £81m deal to fund a 1,367-bed Greater Manchester student accommodation scheme for the University of Salford was agreed by a consortium comprising Campus Living Villages, Equitix, Kier Project Investment and Graham Construction in November 2013 (see EGI, *Salford student digs deal agreed*, November 2013.)

Overall, British universities have become vibrant and innovative in commercial as well as academic spheres, fostering entrepreneurial communities and attracting investment from around the world. For the property sector, the increase in collaboration between universities and the commercial world has widened the property investment and development opportunities to include expansion of the property portfolios, a need for technologically suitable premises and on-campus micro towns.

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