7-20-2016

2016 July 20 -- Agenda and Attachments

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UNIVERSITY OF CONNECTICUT BOARD OF TRUSTEES

AGENDA

University of Connecticut
Stamford Campus
Learning Distance Room 107
1 University Place
Stamford, Connecticut

July 20, 2016

BOARD MEETING AGENDA

Call to order at 10:30 a.m.
1. Public Participation
2. Chairman’s Report
   (a) Items requiring Board discussion and approval:
      (1) Amended and Restated Lease for the Graduate Business Learning Center at 100 Constitution Plaza, Hartford, CT (Attachment 1)
      (2) UConn Stamford Housing Agreements (Attachment 2)
3. Adjournment

PLEASE NOTE: If you are an individual with a disability and require accommodations, please call the Board of Trustees Office at (860) 486-2333 prior to the meeting.
July 20, 2016

TO: Members of the Board of Trustees

FROM: Scott A. Jordan  
Executive Vice President for Administration and Chief Financial Officer

RE: Amended and Restated Lease for the Graduate Business Learning Center at 100 Constitution Plaza, Hartford CT

RECOMMENDATION:

The University entered into a Term Sheet on June 21, 2016 with Constitution Plaza Holding LLC, owner of 100 Constitution Plaza in Hartford CT, to extend its lease and expand its space for the Graduate Business Learning Center (“GBLC”). The Administration recommends that the Board of Trustees authorize us to enter into a new 10 ½ year lease regarding the GBLC space at 100 Constitution Plaza by adopting the Resolution below.

RESOLUTION:

“Be it resolved that the Board of Trustees authorizes the University Administration to enter into an Amended and Restated Lease and any necessary or desirable collateral agreements for the Graduate Business Learning Center at 100 Constitution Plaza as set forth in this Memorandum.”

BACKGROUND:

Downtown Hartford Campus Strategy
The overall program for the UConn Hartford campus, developed and approved by all Schools and departments in 2013, had sufficient space for the GBLC and all other School of Business functions at the new Downtown Hartford campus. The original plan was to relocate the GBLC to 38 Prospect Street in the summer 2017 to occupy approximately half the building, with the other half being occupied by the School of Social Work (“SSW”). Since then, the GBLC has experienced rapid growth, steadily over the last ten years and particularly over the last two years, and currently has 1,113 students. It is projecting an incoming class of 1,348 students, an increase of 235 students or 21% growth in the last year alone, and the GBLC is projecting further growth in enrollment in upcoming years. The result is that GBLC needs more space than 38 Prospect can provide if occupied partially by SSW.
The Downtown Hartford campus was designed to have a surplus capacity to accommodate some departmental growth and flexible floor plans to make expansion or contraction available with little modification to the buildings. In this particular case, the department that shares the entirety of the 38 Prospect Street building (SSW) has no plans to contract and may actually expand slightly after its relocation. The GBLC could expand into other spaces on the campus, but it would likely have to be spread over multiple floors in a building or amongst several buildings, and would likely not be able to stay as a contiguous and discrete unit.

If GBLC extends its lease at 100 Constitution Plaza as recommended, it would allow a profitable program to continue to grow without boundaries in one location, not split among multiple buildings. The lease extension would preserve the existing surplus capacity of the campus, plus add additional capacity, which would make it easier to accommodate future growth of other departments. Lastly, while providing additional symbiotic and overflow space between the new campus buildings and 100 Constitution Plaza, the student and faculty foot-traffic in the area will be expanded and the impact on the neighborhood of the new expanded campus will be furthered.

Summary of Key Lease Terms
The GBLC currently occupies four floors at 100 Constitution Plaza totaling 39,081 square feet and has a lease that commenced in 2005 and currently terminates on June 30, 2017. The GBLC is proposing to increase its lease area to encompass an additional two floors (24,160 square feet) to accommodate present and future growth. The primary reason for the additional floor area is to create more large classrooms. The GBLC currently has two 65-seat classrooms and eleven mid-sized classrooms (30-seat to 48-seats). If the lease area were to expand to six floors, the GBLC would have six 65-seat classrooms and sixteen mid-sized classrooms. To accommodate approximately 1,350 students, the number of classrooms (and additional associated staff and faculty offices and facilities) in an expanded lease area appears reasonable.

The new amended and restated lease extension and expansion includes the following business terms:

- Lease commencement date of January 1, 2017
- An initial term of 10 ½ years (to June 30, 2027 to coincide with the end of an academic year) and two 5-year renewal options
- A slightly below-market rent of $22 per square foot for the entire leased premises, with escalations of $0.25 per square foot per year, plus reimbursement of a portion of the real estate tax expense increases above the baseline 2017 amount
- Free rent for 12 months on half the added space (12,080 square feet)
- 15 free parking spaces
- An allowance of $25 per square foot for capital improvements on the two new floors
- Ability to leave the space “as is” at the end of the lease, except for removal of the exterior signage and interior furniture (to avoid a present dispute over improvement removal requirements)
Financial Considerations
The base rent on the leased space for calendar year 2017 will be $1,125,542. The base rent for the second year of the lease will be $1,407,112 and the lease base rent increases at a rate of $15,810 annually thereafter. All lease payments will be made by the School of Business from revenue generated from the GBLC. The School of Business entrepreneurial programs currently generate approximately $28.4 Million in annual revenue. Since fiscal year 2013, the revenue has increased from approximately $14.5 Million to its current amount, a 96% increase in the last three years alone.

For the reasons set forth above, the University administration recommends that the Board of Trustees adopt the above resolution.
July 20, 2016

TO: Members of the Board of Trustees

FROM: Scott A. Jordan
Executive Vice-President for Administration and Chief Financial Officer

RE: UConn Stamford Housing Agreements

RECOMMENDATION:

The University entered into a Term Sheet on March 30, 2016 with RMS Companies to lease a portion of 900 Washington Boulevard in Stamford CT for the purpose of providing 116 apartment-style housing units to students attending the UConn Stamford campus. The Administration recommends that the Board of Trustees authorize it to enter into agreements regarding the control and use of the property by adopting the Resolution below.

RESOLUTION:

“Be it resolved that the Board of Trustees authorizes the University Administration to enter into a Purchase and Sale Agreement, Ground Lease, Master Sublease and any other necessary or desirable collateral agreements in order to utilize the property at 900 Washington Boulevard for the intended use as student residential housing for the UConn Stamford campus on material terms as set forth in this Memorandum.”

BACKGROUND:

Stamford Campus Strategy
The Stamford campus is currently the only UConn regional campus with increasing enrollment. This growth emanates from strong student interest in our well-established academic programs as well as interest in our new and emerging undergraduate and graduate programs, particularly in Digital Media and Business. The University projects a continued growth trend in Stamford, at both the undergraduate and graduate level, because of the expanded curriculum and offerings at both levels, the campus location in the vibrant City of Stamford, and the established transportation system allowing access to the entire Eastern Seaboard via Metro North and Amtrak. Additionally, international students are particularly attracted to the area due to the proximity to New York City.
The University conducted a survey of its student population and determined that the average travel distance to attend class at the Stamford campus is 20 miles. Through follow-up interviews and other data collection, we learned that only about 100 of the 1,565 currently enrolled undergraduate students actually live in Stamford. One of the major deterrents for students who would like to live in Stamford, preferably near the campus, is the high cost of housing. The cost of a one bedroom Stamford apartment averages $1,900 per month and the average cost of a two-bedroom apartment is $2,700 per month, expenses that are beyond the range of affordability for most students.

The average monthly housing cost for many students will be reduced if the University provides student housing. In addition to the potential financial benefits, University-sponsored student residential housing will eliminate commuting time and expenses, enhance the college experience and increase student independence. University housing will also provide students with more opportunities to enjoy cultural experiences, entertainment, and employment and internship opportunities in Stamford, and generally increase time for academic work.

The decision to provide student housing in Stamford is based on multiple interrelated factors including the projected growth of the campus, the location of campus, the nature and extent of the academic programs and the high cost of market rate housing. Because this recommendation is based on the unique set of circumstances present in Stamford, including the structure of the transaction, approval of this recommendation should not be considered a precedent for providing UConn student housing at other regional campuses, none of which have the same financial constraints facing students when it comes to housing.

**Site Selection of the Residence Hall**

The University initiated a public process to elicit interest in the development of student housing through the issuance of a Request for Expressions of Interest (“RFEI”). The University received and reviewed eleven (11) responses to the RFEI in November 2015. The University eventually chose to finalize negotiations with RMS Companies (“RMS”), led by Randy Salvatore, a local developer, for a property under construction at 900 Washington Boulevard, which is 2 blocks south of the UConn Stamford campus and half way between the main campus building and the Stamford Transportation Center.

The 900 Washington Boulevard submission was selected for several reasons:

- All required zoning approvals – with one minor exception of allowing dormitory use which is in process – are complete and accordingly, no opposition from developers or others in Stamford is expected;
- The building is under construction and will be completed by the Summer 2017, allowing occupancy a year earlier than all the other submissions;
- The entire building, with the exception of the ground floor retail and some parking, will be under the University’s control via a Master Sublease; and
- Control of the entire building will give the University a significant street presence on Washington Boulevard and further expand the University’s brand presence in Stamford.

The building is six stories tall and will have 116 apartment units (10 studios, 49 one bedrooms and 57 two bedrooms). Seventeen of the apartments on the highest floor also have lofts. The
building has an 80-person meeting room, administrative offices and a lobby on the first floor, as well as, three retail spaces that will be retained by the developer. Each floor has a study lounge, and the second floor has a large community center in which students can congregate and have events. The building will have a roof-top patio, which will be utilized only with strict management oversight.

If all bedrooms have two occupants, the maximum occupancy of the building will be approximately 350 students. Because some of the bedrooms will be single occupancy (at a premium rate), the target occupancy in and after the stabilized year for the property is 290 students. The University plans on managing the residential housing similar to residential housing at Storrs, with an on-site Resident Director and on-floor Resident Directors at a ratio of 1 to every 35 students.

Primary Agreements

Three (3) primary documents will be necessary in order to structure the transaction consistent with the terms of the Term Sheet. Other secondary collateral documents may be necessary as the transaction progresses.

First, the University will execute a Purchase and Sale Agreement pursuant to which it will become the fee owner of a Student Housing Condominium at the end of construction and concurrent with occupancy of the building. The payment of the purchase price at closing will be nominal, as most of the value and consideration will be paid as rental payments over the term of the Master Sublease as set forth below. The University is taking title to the Student Housing Condominium after discussions with and the concurrence of the City.

Second, a Ground Lease, under which RMS, as ground tenant, would lease the Student Housing Condominium from the University. The Ground Lease allows RMS to remain responsible for and to continue to control over the building and improvements. A condition of the Ground Lease is that RMS simultaneously enter into a Master Sublease, the third primary document.

The Master Sublease allows the University to control, occupy and sublease the apartments and non-retail parking to students and utilize all non-retail space in the building.

The key terms of the Master Sublease are:

- The initial term will be 25 years and the University will have four (4) options to renew of five years each;
- The University will pay an annual base lease payment and will be responsible for the payment of all utility expenses with respect to the premises;
- RMS will be responsible for all maintenance on the property, capital repairs, insurance and property management;
- The University would have self-help rights and rent off-set if RMS fails to meet its maintenance and repair and other obligations;
- 100 designated parking spaces are included with the Student Housing Condominium;

1 A condominium will be created to separate the retail space and retail parking (“Retail Condominium”) from the balance of the building improvements, residential units and parking (“Student Housing Condominium”). The ownership of the Retail Condominium will be retained by RMS.
• Lease commencement is anticipated as no later than August 1, 2017;
• The University will have the right to display its exterior signage on the building;
• Potential brokerage terms will be included should the University desire or need to have units rented to non-students;
• The University will have options to purchase the property on each tenth (10th) anniversary of the term, and a right of first refusal if RMS receives a bona-fide offer to buy the property; and
• The University will incur minimal to no up-front capital costs. RMS will provide all improvements, including all kitchens, finishes and common areas.
• Furniture for the whole building is also being provided by the developer, and as long as selections are within the established line-item budget, they will be at no cost to the University.
• Real estate taxes are excluded from the lease, but are expected to be at no cost to the University, since the property should qualify for the State PILOT program.

Financial Considerations
The first year cost under the Master Sublease will be $2,670,000., which includes the base lease payment and an operating expense reimbursement component. The base rent payment under the Master Sublease increases at a rate of 1.9% per annum, which is a blended rate computed by increasing the base lease payment at a rate of 1.75% and increasing the operating expense component at a rate of 3%. As a net-zero cost model, the cost of housing will need to increase at this 1.9% per annum rate in order to remain in balance. Historically, the University has raised housing costs by an average of 3% per year.

The University intends to recoup all of its costs under the Master Sublease by charging students for their dormitory rooms. Using baseline assumptions, the per-bed cost of a shared bedroom in the building is $995 per month and the per-bed cost of a non-shared bedroom is $1,248 per month, based on a 12 month lease. The assumptions that affect these rates primarily include the ratio of shared to single bedrooms (assumes 75% shared) and the rate premium for a single bedroom (assumes 25% premium). The business model also assumes that we will achieve a 95% occupancy rate, all utility and services costs included in the base monthly rate, and that full-time contracted security service will be required for the property.

Because there are only approximately 100 UConn students currently residing in Stamford, the proposed lease-up period to achieve full occupancy of the building is 3 to 4 years. If, contrary to expectations, full occupancy cannot be reached in the first three years, the University has the right to sublease some of the apartments to non-students in order to mitigate losses. Additionally, rent may need to be subsidized in the early years of operation to build the student community. We project that the cumulative losses during the ramp-up period may be in the range of $750,000 to $1.0 Million. After the property has reached stabilized occupancy, the rent from students should fully offset the expenses of the property and it is not anticipated that the property will need to be subsidized after it achieves full student occupancy.

For the reasons set forth above, the University administration recommends that the Board of Trustees adopt the above resolution.