


August 10, 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 ancillary 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 ancillary 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 Condominium¹ 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.

Second, a Primary Lease, under which the University will lease the Student Housing Condominium to RMS, as tenant, will be executed. A condition of the Primary Lease is that RMS simultaneously enter into a Master Sublease back to the University, the third primary document.

The Master Sublease from RMS to the University 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.

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.

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;
- 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.
- Under the terms of the Master Sublease, real estate taxes are the obligation of the University, but will be at no cost to the University as the Student Housing condominium will be owned by the University and will be treated as tax exempt.

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.

If for some period full occupancy cannot be reached, the University has the right to sublease apartments to non-students in order to mitigate losses. Rent may need to be subsidized in the early years of operation to build the student community. 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.

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