Office of the President  
May 14, 2013

Members, Board of Trustees:

AUTHORIZATION OF LEASE FOR PHASE II-B STUDENT HOUSING AND  
TO SUBMIT AN INCREASE IN SCOPE FOR PHASE II TO THE  
CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Recommendations: that the Board of Trustees authorize the President, or his designee, to:

1. Enter into a long-term lease with an affiliate of Education Realty Trust, Inc. (“EdR”) guaranteed by Education Realty Operating Partnership, LP for purposes of development and management of Phase II-B of the student housing project.

2. Submit an increase in scope for Phase II to the Capital Projects and Bond Oversight Committee.

Background: At the Board of Trustees retreat on October 1 and 2, 2011, the Board identified the need to expand and improve student-housing facilities as a primary strategic priority. On October 26, 2011, the University issued a Request for Proposal seeking developers with the capacity and interest in partnering with the University to complete a long-term housing plan. On December 13, 2011, the University announced that it would negotiate with EdR, a third-party developer, to improve, expand, and potentially manage student housing. A summary of the existing and recommended leases with EdR by phase follows:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Development Cost</th>
<th>Number of Beds</th>
<th>Board Approval</th>
<th>Online</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase II-A</td>
<td>138,026,392</td>
<td>2,381</td>
<td>See Below*</td>
<td>August 2014</td>
</tr>
<tr>
<td>Phase II-B (Requested)</td>
<td>101,172,427</td>
<td>1,610</td>
<td>Requested</td>
<td>August 2015</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$264,398,957</strong></td>
<td><strong>4,592</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Phase II-A Approved October 2012; Phase II-A Amendment Requested May 2013

EdR is a publicly traded real estate investment trust headquartered in Memphis, Tennessee, with more than 50 years of student housing experience. Since 2000, EdR has completed more than $2.3 billion in collegiate housing transactions, including investing $1.3 billion in private equity.
EdR currently owns or manages 67 student-housing properties with approximately 37,060 beds in 24 states, including four facilities at the University of Louisville.

The average age of the University residence halls is 45 years. The public private partnership (P3) strategy is appropriate for UK given the advanced age of the student housing stock and the University’s desire to modernize and expand it quickly while reserving debt capacity for other capital projects. EdR will provide a 100 percent equity investment in UK’s student housing. The University will continue to provide the Residence Life programs.

Phase I, Phase II and the future Phase III projects will systematically demolish and replace the majority of current on-campus student housing. The total development is anticipated to include up to 9,000 replacement and expansion beds and be completed by Fall 2018. On-campus land is limited; thus, incremental replacement of undergraduate housing is essential.

Phase I of the housing transformation project began in February 2012 following Board authorization for two new buildings, Central Hall I and II, on Haggin Field. Phase I includes 601 beds and will be online by August 2013.

Phase II was authorized by the 2012 General Assembly with a scope up to $175 million and has been subdivided into two parts: Phase II-A and Phase II-B. Phase II-A facilities are expected to be online by August 2014 and Phase II-B facilities online by August 2015.

Phase II-A included development of five residence halls: Champions Court I, Champions Court II, Woodland Glen I and Woodland Glen II, and Haggin Hall. Pursuant to the Board’s authorization granted on October 12, 2012, the President will amend the Phase II-A lease related to Haggin Hall. The amendment will increase the amount of shell space available to the University and add 64 student beds (396 total beds). As a result, the building will increase by 32,300 gross sq. ft. to 150,100 gsf. The amendment will reduce the annual lease income to UK by approximately $9,000 due to the additional development costs related to the increase in shell space. The University will receive an additional 4,400 square feet of space in Haggin Hall (12,100 total sq. ft.) to be used at the University’s discretion at no lease cost. The University anticipates designating this space for a dining venue. The Haggin Hall building is expected to open by August 2014 with a revised development scope of $23.8 million. The total revised development scope of Phase II-A is $138.0 million with 2,381 beds, including the additional beds in Haggin Hall.

This Finance Committee Recommendation (FCR 3) requests the Board to authorize the President, or his designee, to enter into a long-term lease with EdR for Phase II-B and to submit an increase in scope to the Capital Projects and Bond Oversight Committee. With a development scope of $101.2 million, Phase II-B includes three residence halls with a total of 1,610 undergraduate beds at the sites of Cooperstown Buildings A, B, C, F and G. The University will be responsible for asbestos abatement, demolition, and disposal of the existing buildings and surplus the contents for the purpose of site development. The three new residence halls, Woodland Glen III, Woodland Glen IV, and Woodland Glen V, are expected to be online by August 2015.
The 2012 Kentucky General Assembly authorized a $175 million total scope for Phase II (A and B). Pending Board approval, the University will submit an increase in the scope to the Capital Projects and Bond Oversight Committee pursuant to KRS 45.760(6). The University will request a total legislative authorization increase of $102 million to $277 million including up to $68 million of private funds from EdR and up to $34 million of University funds. The legislative authorization is simply an upper limit on the expenditure of funds for a project and does not commit the University or EdR to expend the full amount. The authorization for use of University funds includes estimated costs for site development in Phase II-B and Phase III as well as fit-up of shell space in Phase II-A and Phase II-B. Pursuant to Administrative Regulation 8.2, any capital project with an estimated cost of $600,000 or more will be submitted to the Board for approval prior to initiation.

Phase II-B will include a single lease to EdR for a term of 75 years and include maintenance standards for the facilities and parameters for the room rental rates for the duration. The University will receive 10.3 percent of total revenues and a share of net income (after EdR achieves a minimum internal rate of return).

A summary of the Phase II-B terms and a draft of the Phase II-B lease will be available prior to the Board meeting at http://www.uky.edu/OPBPA/budget.htm. If the Board authorizes the President to take action as described above, an affiliation agreement between the University and EdR outlining how the Phase II-B housing facilities will be operated and maintained will also be executed. The draft agreements may be modified prior to execution, if necessary. Any substantive modifications will be reported to the Board.

Action taken:  ☑ Approved  ❐ Disapproved  ❐ Other ________________