

FCR 3

Office of the President
October 14, 2012

Members, Board of Trustees:

AUTHORIZATION OF LEASE FOR PHASE II-A STUDENT HOUSING
AND
AMENDMENT FOR PHASE I GROUND LEASE

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

1. Enter into long-term leases 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-A of the student housing project.
2. Amend the long-term ground lease with EdR for the Phase I student housing project. The amendments include: (1) removal of demolition costs in the amount of \$518,000; (2) removal of university project reimbursement of \$50,000; and (3) reduce the fall 2013 rental rate from \$3,490 to \$3,325.

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 beginning with Phase I to construct two new buildings on Haggin Field. The authorized Phase I project is under construction by EdR with 601 beds scheduled to house University of Kentucky students in August 2013.

The University’s housing stock currently includes 5,154 undergraduate beds and 816 efficiency, one- and two-bedroom apartments for graduate students and family housing. The average age of the residence halls and apartments is 45 years and 49 years, respectively. On-campus land is limited; thus, incremental replacement of undergraduate housing is essential.

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.

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 65 student housing properties with approximately 36,100 beds in 24 states, including four facilities at the University of Louisville.

Phase II-A includes the development of five residence halls with a total of 2,317 undergraduate beds at four sites: Blazer parking lot, Wildcat Lodge, Cooperstown Buildings D and E, and Haggin Hall. The five new residence halls included in Phase II-A are expected to come on-line by August 2014. Phase II-A represents the second step in the transformation of student housing. The total development is anticipated to include up to 9,000 replacement and expansion beds and be completed by Fall 2018.

Phase II-A will include four leases 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. In addition to receiving funds to provide Residence Life programs, the University will receive a percentage of gross revenues and a share of net income (after EdR achieves a minimum internal rate of return).

The Phase I ground lease is also requested to be amended to reflect a decrease in the rental rate due to an anticipated reduction in expenses and development costs. The University will initiate the asbestos abatement, demolition, and disposal of the following buildings for the purposes of site development for Phase II-A: Cooperstown Building D, Cooperstown Building E, Wildcat Lodge, Haggin Hall, and K-Lair.

A summary of the terms and a draft of the leases will be available prior to the Board meeting at http://www.uky.edu/Housing/facilities_documents.html. The draft agreements may be modified prior to execution, if necessary. Any substantive modifications will be reported to the Board. If the Board authorizes the President to enter into these long-term leases, an affiliation agreement between the University and EdR outlining how the housing facilities would be operated and maintained will also be executed.

Action taken: Approved Disapproved Other_____