

FCR 6

Office of the President
January 31, 2014

Members, Board of Trustees:

AUTHORIZATION OF LEASE FOR PHASE II-C 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-C 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 in October 2011, the Board identified the need to expand and improve student-housing facilities as a 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 is as follows:

Project Phase	Development Cost	Number of Beds	Board Approval	Online
Phase I	\$ 25,200,138	601	February 2012	August 2013
Phase II-A	\$138,026,392	2,381	See Below*	August 2014
Phase II-B	\$101,172,427	1,610	May 2013	August 2015
Phase II-C	\$83,910,979	1,141	Recommended January 2014	August 2016
Phase II Sub-Total	\$323,109,178	5,132		
Grand Total	\$348,309,936	5,733		

* Phase II-A Approved October 2012; Phase II-A Amendment Approved 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 \$2,300,000,000 in collegiate housing transactions, including investing \$1,000,000,000 of its own capital. EdR currently owns or manages 71 collegiate-housing properties with approximately 40,200 beds in 24 states, including four facilities at the University of Louisville.

The average age of University of Kentucky residence halls is 46 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, authorized with a scope of \$52,500,000 by the 2010 Special Session of the Kentucky General Assembly, began in February 2012 following Board authorization. Phase I, at a cost of \$25,200,000, came on-line in August 2013 with 601 beds in Central Hall I and II.

The Housing Project Phase II authorized scope is as follows.

Housing Phase II	Private	University Restricted	Total
2012 Kentucky General Assembly	\$175,000,000	\$0	\$175,000,000
Capital Planning and Bond Oversight Committee, May 2013	\$68,000,000	\$34,000,000	\$102,000,000
Sub-Total Authorized	\$243,000,000	\$34,000,000	\$277,000,000
Requested Increase for Phase II-C	\$85,000,000	\$0	\$85,000,000
Total	\$328,000,000	\$34,000,000	\$362,000,000

This Finance Committee Recommendation (FCR 6) requests the Board authorize the President, or his designee, to enter into a long-term lease with EdR for Phase II-C and to submit an increase in scope to the Capital Projects and Bond Oversight Committee. With a development scope of \$83,900,000, Phase II-C includes two residence halls with a total of 1,141 undergraduate beds at the sites of Boyd, Jewell, Holmes, and Keeneland halls. The two new residence halls, Limestone Park I and Limestone Park II, are expected to be online by August 2016.

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 \$85,000,000 to \$328,000,000 of private funds from EdR. 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. 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-C 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 8.1 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-C terms and a draft of the Phase II-C 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-C 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 _____