

EXECUTIVE SUMMARY

ACTION ITEM:

Request for Authority to Enter into one or two Ground Lease Agreement(s) with American Campus Communities (ACC), a private developer, to construct and operate Student Housing on the Tempe campus.

ISSUE:

Pursuant to ABOR Policy 7-207, Arizona State University (ASU) requests Board approval to negotiate and enter into one or two Ground Lease Agreement(s) with ACC, a private developer, for the construction and operation of student housing on the ASU Tempe campus.

PREVIOUS BOARD ACTION:

Approval to acquire Oasis site	November 2004
Approval of the Comprehensive Development Plan	June 2005
Approval to acquire Timberwolf site	June 2005
Capital Development Plan (South Campus Academic Village)	June 2005, June 2006
2007 Capital Development Plan (DPS Facility)	June 2006

BACKGROUND:

If no further development occurs by fall 2007, ASU Tempe will have about 8,000 beds available to house an estimated 33,000 undergraduate students. Undergraduate student success and student retention rates improve significantly when students reside on campus since students who live on campus are supported in their transition to college and its continuing demands. Among first-time full-time freshmen, 81% of those who live on campus return the following year as compared to 76% of those who reside elsewhere.

Barrett College, home to the Barrett Honors program, currently has both insufficient and inadequate student housing, classroom, and faculty office space. It is highly desirable for this nationally prominent honors college to become a fully residential program, seamlessly integrating housing, dining, and academic studies within a single complex.

Several of the residence halls currently in use are beyond their useful lives and need to be replaced or undergo complete interior and exterior renovation. This project contemplates demolition and replacement of Mariposa and Sahuaro Residence Halls.

ASU has determined that, given the priority of other academic facility needs, and the existence of a private market industry for student housing, it can best meet the housing needs of the campus through a relationship with a private developer. In 2004, ASU conducted a rigorous RFP process to select a private developer possessing a demonstrated track record of successful student housing projects and the financial strength to meet the phased needs of the residential student population on the Tempe Campus. American Campus Communities (ACC) met or exceeded all selection criteria. A Memorandum of Understanding

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was negotiated between ACC and ASU in February 2006 and has served as the basis to determine the financial feasibility of the project.

The housing project to be developed by ACC will be located on land owned by the University that will be ground leased to ACC. Upon the completion of the projects, ACC will transfer title to the facilities to ASU subject to a leasehold interest under which ACC will maintain and operate the facilities, which consist of the following:

Phase I (South Campus) consists of housing for upperclassmen and graduate students and will be located generally on the southernmost boundary of the Tempe campus, south of Apache Boulevard. The units will be apartment-style and the student programming will be directed to a more mature, independent, residential population. All residents of the complex will be required to adhere to the ASU Student Code of Conduct as a condition of their lease.

The order of permitted occupancy in South Campus is currently will be:

1. ASU Students (continuing students given priority)
2. Students of other universities or colleges, (*only with ASU approval*)
3. ASU faculty and staff, (*only with ASU approval*)
4. Other non students, (*only with ASU President's approval with concurrence of ABOR acting through its president*)

Phase I will comprise approximately 1,850 beds in apartment style buildings with individual kitchens and no central dining facilities. This residential complex will include 570,000 gsf of apartment-style units plus amenities such as a pool and community center, parking garage, and retail space for a total project of over 810,000 gsf. Estimated project cost is approximately \$130,000,000. This project will be completed for occupancy in fiscal 2009.

Phase II (Barrett College) will provide student housing and academic space for the Barrett Honors College and will be located generally in the south portion of the Tempe campus (directly north of Apache Boulevard), along the eastern boundary of the campus. Phase II will comprise approximately 1,700 beds to house freshman through upperclass honor students in residence halls with a central dining facility. Major components of the total 490,000 gsf are 431,000 gsf of residential space and over 22,000 gsf of academic space for the Honors College, including 11 classrooms, the Dean's Office and 26 faculty offices. ASU will sublease back and operate a dining facility located within this complex in order to integrate this facility into the dining program offered elsewhere on campus. Estimated project cost is \$110,000,000. This project would open fall 2009.

Additional Phases are contemplated upon the successful completion of Phases I and II and will be brought to ABOR for approval as they are deemed to be financially feasible and ready to proceed. ACC has been granted exclusive student housing development rights on the Tempe Campus for a three-year period.

With the exception of the dining hall to be located within Barrett College, the projects will be constructed, financed, operated and maintained by ACC.

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SUMMARY OF BUSINESS TERMS PROPOSED FOR THE LEASE:

1. **Master Lease Agreement** – Each project is to be administered by a Ground Lease Agreement between the University and ACC. The Ground Lease is for a period of 65 years with two 10-year options to renew.
2. **Lease Payments**– ASU will receive annual rent approximating 8% of gross revenues for South Campus for the first five years and 8.7% thereafter. ASU will receive a fixed payment of \$250,000 per year for the first 10 years and thereafter 2.3% of gross revenue for Barrett College.
3. **Project Funding** – ACC will provide approximately \$230 million for construction of the project. Barrett College will be 100% equity (\$ 110,000,000 cash) financed by ACC while South Campus may be financed up to, but not to exceed, 75% of the project cost. There will be no legal recourse to ASU in the event of a default by ACC on any financing and, except for the obligations noted below, the University has no obligation to support the facilities financially or to guarantee occupancy.

ASU is responsible for the site acquisition and preparation costs that are described below, and has committed to lease back the Barrett Dining Hall space.

4. **Improvements** – ASU will approve all design standards, exterior building elevations, exterior and structural building materials, site and landscaping plans. Title to improvements, equipment, furniture and fixtures will transfer to ASU, subject to a leasehold interest, upon project completion. At the end of the lease term, ASU may either take possession of the improvements at no cost, or may direct ACC to clear the leased land of all improvements at their sole cost.
5. **Operating Expenses** – Except for the Barrett Dining Hall, ACC is responsible for all costs and expenses of operating and maintaining the facilities, including reasonable reserve deposits. Minimum Standards of Operation (both maintenance and staffing) are defined as equal to “Class A” privatized student housing.
6. **Management** – ACC and ASU will jointly establish an Advisory Committee responsible for the day-to-day operations of the Facilities, including review and approval of the annual operating budget, capital budget, and staffing plan and any proposed changes in programs, policies, and procedures. ACC retains ultimate control of those decisions that result in a material economic consequence to ACC, provided that Minimum Standards of Operations have been satisfied.
7. **Pricing** - The Advisory Committee will review proposed rental rates, however ACC will have final authority to establish rates.
8. **Non-compete** – The University will agree that it will not enter into any additional competing student housing development on the Tempe Campus unless it can demonstrate, through a market study, that adequate demand exists for additional housing.

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FISCAL IMPACT AND FINANCING PLAN:

In anticipation of this project, ASU previously incurred \$5.7 million to acquire the Oasis site and will soon acquire the Timberwolf site for an estimated \$2.7 million. ASU will also fund \$6.0 million of additional site acquisition and preparation costs, primarily demolition. Total cumulative land acquisition, demolition, and ancillary costs for which ASU is responsible is therefore \$14.4 million, of which \$8.4 million has already been approved, and authority to proceed with the remaining \$6.0 million is contained in another Board Action Item.

In addition, and in accordance with the Master Plan, construction of Barrett College will require relocation of the ASU Department of Public Service Facility. The estimated cost of a new DPS Facility is \$12.5 million. The Request for approval to construct the DPS Facility is contained in another Board Action Item.

Revenue to ASU will be generated primarily as a percentage of gross rental income. Expenses incurred by ASU consist of Student Affairs programming costs for the additional on-campus students attending Barrett Honors College and debt service for costs incurred for land acquisition and site preparation and for a newly constructed DPS Facility, as well as. The attached pro-forma estimates provide a summary of the anticipated revenue and costs to ASU.

As shown in the proforma, the debt service costs that ASU will pay to fund the construction of the DPS Building and other site acquisition and preparation costs are less than the anticipated ground lease revenue. However, ASU will gain a badly-needed new 40,000 gsf Department of Public Safety Facility and approximately 22,000 gsf of classroom and office space within the Barret College complex, as well as additional student housing.

RECOMMENDATION:

RESOLVED: Arizona State University is hereby authorized to enter into one or two Ground Lease(s) with American Campus Communities to develop Student Housing on the ASU at Tempe campus according to the terms and conditions set forth in this executive summary, subject to review by Board and University counsel of the final document.

RESOLVED FURTHER: That the President of the University or the Executive Vice President and CFO shall take such actions as may be necessary and proper to negotiate and execute the Ground Lease(s) on behalf of ASU.

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	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
PROJECT COSTS:								
Annual Debt Service on \$26.9 million @ 6% (1)	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Additional Student Programming Expense	397,000	408,910	421,177	433,813	446,827	460,232	474,039	488,260
Total Uses	2,297,000	2,308,910	2,321,177	2,333,813	2,346,827	2,360,232	2,374,039	2,388,260

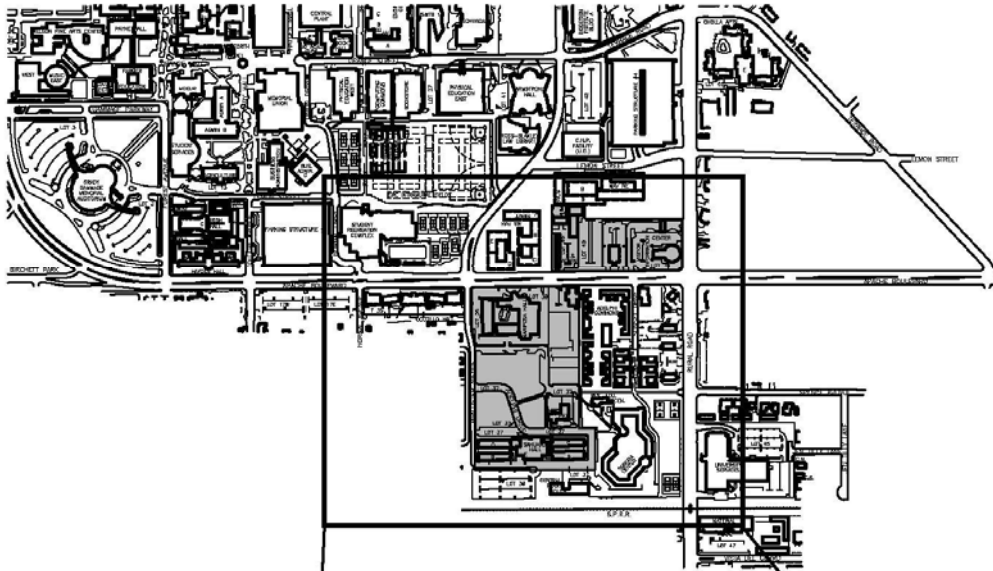
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
SOURCE OF FUNDS:								
Projected Ground Lease Revenue:								
South Campus Apartments	1,131,538	1,181,117	1,232,680	1,286,305	1,342,075	1,508,026	1,568,347	1,631,081
Barrett College	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Total Projected Ground Lease Revenue	1,131,538	1,431,117	1,482,680	1,536,305	1,592,075	1,758,026	1,818,347	1,881,081
Tuition and Fees	1,165,462	877,793	838,497	797,508	754,752	602,206	555,692	507,179
Total Sources	2,297,000	2,308,910	2,321,177	2,333,813	2,346,827	2,360,232	2,374,039	2,388,260
EXCESS SOURCES OVER USES:	-	-	-	-	-	-	-	-

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
PROJECT COSTS:								
Annual Debt Service on \$26.9 million @ 6% (1)	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Additional Student Programming Expense	502,908	517,995	533,535	549,541	566,027	583,008	600,498	618,513
Total Uses	2,402,908	2,417,995	2,433,535	2,449,541	2,466,027	2,483,008	2,500,498	2,518,513
SOURCE OF FUNDS:								
Projected Ground Lease Revenue:								
South Campus Apartments	1,696,324	1,764,177	1,834,744	1,908,134	1,984,459	2,063,838	2,146,391	2,232,247
Barrett College	250,000	250,000	250,000	376,806	391,878	407,553	423,855	440,809
Total Projected Ground Lease Revenue	1,946,324	2,014,177	2,084,744	2,284,940	2,376,337	2,471,391	2,570,246	2,673,056
Tuition and Fees	456,584	403,818	348,791	164,601	89,690	11,617	-	-
Total Sources	2,402,908	2,417,995	2,433,535	2,449,541	2,466,027	2,483,008	2,570,246	2,673,056
EXCESS SOURCES OVER USES:	-	-	-	-	-	-	69,748	154,543

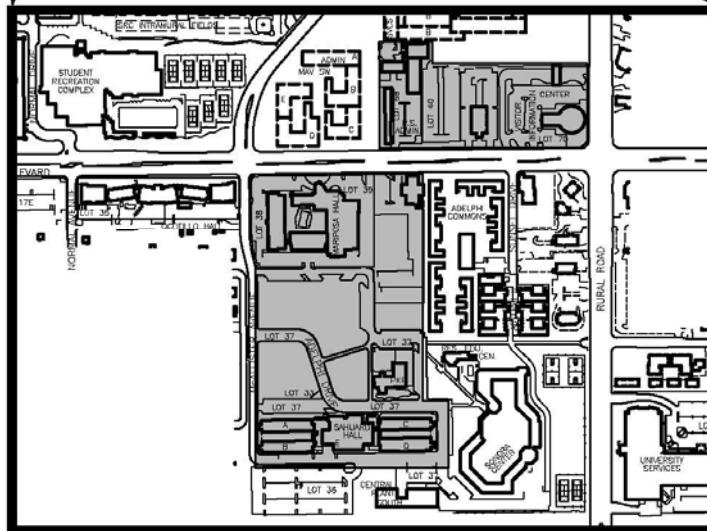
(1) Debt Components:	
DPS Facility Cost	12,500,000
Site Acquisition & Preparation:	
Current request	6,000,000
Previously approved	8,400,000
Total	26,900,000

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GENERAL LOCATION MAP



**BARRETT COLLEGE AND SOUTH CAMPUS
ACADEMIC VILLAGE LOCATION**



AREA IN DETAIL