

Board Meeting
March 10, 2010

ROLL CALL

APPROVE LEASE OF SPACE FOR MILE SQUARE HEALTH CENTER,
HAWTHORNE WORKS, CICERO, ILLINOIS

Action: Approve the Lease of Space located at Hawthorne Works, Cicero, Illinois

Funding: Institutional Funds Operating Budget

The Chancellor at Chicago recommends that the University lease 6,762 square feet of office space on the first floor of a retail shopping center located at 4769 West Cermak Road, Suite B-3 (Cicero and Cermak Avenues), Cicero, Illinois, for the period May 1, 2010, through April 30, 2020 (“Leased Premises”). The landlord is Hawthorne Works Center, Ltd., a Florida limited partnership and the management agent is Sterling Organization. The leased space would accommodate a satellite clinic for Mile Square Health Center (MSHC).

This would be the third satellite clinic established by MSHC. Two satellites have been successfully operating at 7131 South Jeffrey Boulevard since 2005 and 4630 South Bishop since 2008. Satellite clinics are targeted at areas meeting the requirements for a Federally Qualified Health Center (FQHC) in which MSHC sees opportunities to augment its patient base and fulfill its mission in providing healthcare to underserved populations.

The required space program is less than 10,000 square feet and did not necessitate the publication of a Request for Information (RFI) pursuant to the Illinois Procurement Code. However, to satisfy due diligence concerns, a market survey was conducted to compare alternative locations for this practice and assist in negotiations. Eight alternate sites were originally evaluated in comparison with the Cicero location.

Criteria used to evaluate potential locations included the following:

- A. location within the FQHC boundaries prescribed for MSHC's license to operate;
- B. contiguity of space;
- C. first floor location in heavily trafficked area;
- D. availability of public transportation and adequate parking;
- E. total operating costs (base rental, common area costs and parking costs, if any); and
- F. condition of space and financial requirements to remodel for use.

There were only two suitable locations available within the boundaries prescribed for the FQHC. Initial negotiations were conducted with both landlords, but the Cicero location was deemed to be a preferable location for the population that MSHC plans to serve.

For the proposed lease, the starting net rental rate is \$16.50 psf, escalating at \$.50 psf annually, for a ten-year term. The lease includes a termination option in favor of the University after five years. Operating and tax charges are estimated at approximately \$12.14 psf, resulting in a starting annual *gross* rental rate of \$28.64 for the Leased Premises. The tenant's tax and operating costs include rubbish removal, common area and parking lot maintenance, heating and cooling during normal business hours, insurance, and taxes. MSHC will be responsible for its own electrical and telephone

charges.

This is comparable to rents in successful and heavily trafficked shopping centers and also competitive with typical medical office space, which ranges from \$27.00 to \$45.00 psf annually. Landlord has provided a concession to tenant of nine months free rent in the first year as a consideration of the lease.

To recap, the proposed lease rates are as follows:

	PSF	Annual Equivalent
Starting Base Rental Rate	\$16.50 psf	\$111,573.00
Estimated tax and operating	<u>12.14 psf</u>	<u>82,090.68</u>
Total Year One Gross Rental Rate	\$28.64 psf	\$193,663.68

The buildout of the clinic is estimated at approximately \$110.00 psf. The MSHC will fund the cost of the buildout using the proceeds of a federal stimulus grant not to exceed \$747,000.

It is proposed to lease the space at Hawthorne Works, as it is an excellent location, at a fair market cost, and meets all of the minimum requirements of MSHC.

Funds for the current fiscal year are available from the institutional funds operating budget of the University of Illinois Medical Center. Funds for future fiscal years will be included in the institutional funds operating budget requests to be submitted to the Board of Trustees.

The Board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The Vice President/Chief Financial Officer and Comptroller concurs.

The President of the University recommends approval.