

Board Meeting
March 23, 2011

APPROVE DEVELOPMENT AGREEMENT
FOR THE UNIVERSITY OF ILLINOIS RESEARCH PARK

Action: Approve Development Agreement for the University of Illinois Research Park

Funding: No New Funding Required

Brief History of Research Park

In January 2000, the Board of Trustees authorized the formation of the University of Illinois Research Park, LLC (UIRP), a limited liability company, to assist the University in developing and operating the Research Park with the goal of fostering new start-up companies to bring innovative research to the marketplace, retain top University talent, attract research units of major corporations, create jobs, and spur economic development. The Board of Trustees of the University of Illinois is the sole member of the UIRP. A Services and Management Agreement was entered into between the University and the UIRP to define the responsibilities of the UIRP for operation of the Research Park and the incubator (EnterpriseWorks). Among other things, the Services and Management Agreement authorized the UIRP to enter into a development agreement with a developer and to establish a declaration of covenants for the Research Park in Champaign. A ten-year development agreement was entered into with Fox/Atkins Development, LLC on May 3, 2000.

The Research Park is located on the west and east sides of First Street between St. Mary's Road and Windsor Road. As land was developed in the Research Park, the University leased to the UIRP tracts of University land which in turn was subleased by the UIRP to the Developer. These ground leases are typically for a term of 50 years with one 25-year renewal option. The Developer constructed buildings on these tracts which it leases to tenants. Upon termination of the ground leases, ownership of these buildings will revert to the University. The first building was opened in the Research Park in January 2001. Currently, there are 90 companies housed in ten buildings in the Research Park. Tenants include start-up companies and research units of large companies. Presently, there are approximately 1,381 employees in the Research Park. Many companies have research relationships with the University through its faculty and students. Students gain experience and job opportunities while a number of start-up companies graduate from the EnterpriseWorks incubator and remain in the Research Park. The original development agreement expired on May 3, 2010.

Selection Process for Next Developer

The process for selecting the developer of the Research Park started in June 2009 with the publication of a Request for Information (RFI). From that RFI, the UIRP received 16 information requests and three submittals from potential developers. The UIRP and the University subsequently engaged in outreach efforts in an attempt to attract interest from additional developers. In September 2009, a Request for Proposal (RFP) was jointly published by the UIRP and the University. In November 2009, the UIRP and the University received 34 information requests and three proposals as a result of the RFP

publication. A technical evaluation committee was established in January 2010, to review the proposals. The committee was chaired by the Senior Associate Vice President for Capital Programs and Real Estate Services. In February 2010, the technical evaluation committee recommended two finalists. The Board of Managers of UIRP conducted interviews of the two finalists in March 2010. In June 2010, the UIRP posed additional questions to the two finalists. After consideration of the terms of the respective proposals at its meeting in October 2010, the Board of Managers of the UIRP selected Fox/Atkins Development, LLC (Fox/Atkins) as the preferred Developer. The UIRP Director subsequently engaged in discussions with Fox/Atkins to arrive at mutually agreeable key terms and conditions of a new development agreement, subject to subsequent approval by the UIRP Board of Managers and the University Board of Trustees. On February 7, 2011, the UIRP Board of Managers approved recommending to the Board of Trustees of the University of Illinois a proposed development agreement between the UIRP and Fox/Atkins.

Proposed Development Agreement – Key Terms and Conditions

The proposed development agreement recommended to the Board of Trustees would be in force for ten years. As Developer, Fox/Atkins will be able to lease individual parcels of land from the UIRP for development in the project area. The key terms and conditions of the proposed development agreement between UIRP and Fox/Atkins are attached in the document titled “Summary of Proposed Terms of Development Agreement between University of Illinois Research Park, LLC and Fox/Atkins Development, LLC.”

Recommended Action

The Interim Vice President for Research recommends the Board of Trustees of the University of Illinois approve the proposed development agreement between the University of Illinois Research Park, LLC and Fox/Atkins Development.

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 President of the University concurs.

**SUMMARY OF PROPOSED TERMS OF DEVELOPMENT AGREEMENT
BETWEEN UNIVERSITY OF ILLINOIS RESEARCH PARK, LLC AND
FOX/ATKINS DEVELOPMENT, LLC**

- Term of Development Agreement. 10 years.
- Length of lease for land parcels. 50 years with ability to renew for 25 years at Developer's option.
- Initial Ground Rent. A market rent will be determined by appraisal of the parcel at time of lease. To help spur growth in the Research Park, UIRP may offer reduced rent to Developer for first ten (10) years of the 50 year lease (this reduction is defined as "deferred rent" for purposes of profit sharing from the sale of the Developer building discussed below). The rent reduction, however, shall never exceed 30% of the market rent.
- Ground Rent Increases. Ground rent of individual parcels will be adjusted every five years based upon CPI increase, up to a maximum of 15%, during any five year period.
- Profit Sharing from Sale of Developer Building. The Developer will share with UIRP any profits Developer receives from the sale of a building according to the following formula: (i) from the net proceeds of the sale, Developer shall first be entitled to a recovery of its equity investment, then UIRP shall recover its "deferred rent"; (ii) if there are net proceeds still remaining after step (i), then Developer and UIRP shall each receive a 10% annual return on their equity investment and deferred rent, respectively; (iii) if there are net proceeds still remaining after step (ii), then the Developer shall receive 80% of the balance and UIRP shall receive 20% of the balance.
- Right of First Refusal on Sale of Developer Building. UIRP maintains a first right of refusal on the sale of any Developer building.
- Infrastructure. Developer provides, at its cost, all right-of-way improvements necessary for tract development (including roads, bike paths, sidewalks and storm sewers).
- Telecommunications. Developer is responsible, at its cost, for providing telecommunication services to buildings.
- Other Utilities. UIRP will cause to be provided University-based electric service, natural gas service, water service and sanitary interceptor service to within 200 feet of each building. Developer shall be responsible to construct and coordinate the extension for the utilities from the point provided by UIRP to each building. Developer will pay a one-time connection charge of \$1.50 per gross square feet of the building for the utilities in addition to recurring usage charges.
- Marketing. Developer has primary responsibility for marketing. There will be no reimbursement by UIRP to Developer for marketing expenses. UIRP has an obligation to collaborate with the Developer in marketing efforts.

- Key Man Provision. UIRP has right to terminate agreement if key principals of the Developer for any reason ceases to adequately devote the time and effort necessary to fulfill the obligations of the development agreement.
- Spec Space. At all times during the term of the development agreement, Developer will maintain a minimum inventory of 20,000 square feet of vacant building space available for immediate leasing.
- Design Standards. Buildings must meet defined design review criteria.
- Third Party Buildings. Certain tract developments in the Research Park may be excluded from the development agreement for the University and selected third parties under specific conditions.