

Board Meeting
March 26, 2008

ROLL CALL

APPROVE LEASE OF SPACE FOR RELOCATING CAMPUS UNIT, URBANA

Action: Authorize the Lease of Space Located at 901 West University Avenue, Urbana

Funding: Institutional Funds Operating Budget

The Chancellor at Urbana subject to the availability of funds and satisfactory resolution of final lease terms, recommends that the University lease the third floor and a portion of the second floor of a proposed mixed-use building to be constructed at 901 West University Avenue, Urbana, Illinois, for the period commencing on or about April 1, 2009, through March 31, 2019. The landlord/developer is Vermillion Development Corporation of Danville, Illinois. The developer has proposed construction of a mixed-use building consisting of three floors (first floor retail, two floors office space) at the southwest corner of University and Lincoln Avenues, a designated gateway to the campus. The University will have prominent campus gateway signage on the corner as a critically important component of the redevelopment project. The University will lease space along with a foremost Urbana medical foundation to anchor this significant gateway presence. This private redevelopment project and lease satisfy the obligation of the University to jointly plan with the City of Urbana for the private

redevelopment of this parcel pursuant to a 2001 agreement entitled, “An Agreement Concerning The Vacation Of Certain Rights Of Way.”

The University’s leased space consists of approximately 16,456 square feet of office space (inclusive of common areas) and would accommodate the relocation of the Office of Continuing Education. This campus unit has an academic outreach mission and will be relocating from larger leased space within the community. It is anticipated that the space requirements will include shared meeting and work rooms, shared supply and network closets, shared restrooms and break areas, and staff offices and workstations. The proposed space will afford greater space efficiencies than the existing eight-suite configuration located on three floors of a twenty-floor, 40-year building that has converted to student apartments over time.

The required space exceeds 10,000 square feet and therefore necessitated the publication of a Request for Information (RFI) pursuant to the Illinois Procurement Code. Notices were published in both the Illinois Procurement Bulletin and The Champaign-Urbana News-Gazette in June 2007. In addition, letters were forwarded to building owners and brokers having inventory in the Champaign-Urbana area. There were seven responders to the RFI, submitting ten potential locations. The pertinent facts of the RFI responses are summarized as follows:

1. The programmatic requirements of the identified unit necessitate the location in close proximity to campus with the potential for campus backbone connectivity. Only three of the ten locations met the requirements of a campus location with backbone capabilities. Additionally, four locations remain viable for other potential space needs not requiring close proximity to campus and

- backbone connectivity. The proposed terms and conditions of all 10 proposals were used as comparables.
2. Of the three locations that met the criteria, two are fully leased by University units. The subject location is two blocks outside of the campus master plan, reasonably close to backbone connectivity and most importantly a significant campus gateway location. Given the gateway strategy the proposed location is unique to the other locations.
 3. Availability of nearby campus parking will allow a more significant gateway building presence on the site.
 4. Two of the three locations that met the campus location criteria are new construction. The proposed location will provide a tenant improvement allowance in the amount of \$60.00/sf, comparable with the other.
 5. The base net rental rate for the first lease year for the proposed space is as follows: \$15.50/sf, escalating annually at roughly a 3.0 percent adjustment plus \$6.09/sf fixed additional rental over the ten-year lease term, the equivalent of a 20-year amortization of the \$60.00/sf tenant improvements with the remaining unamortized balance becoming due and payable at the end of the lease term in the event the University elects not to extend/renew the lease (effective interest rate of approximately 8.15 percent).
 6. The total first year net rental rate, including \$6.09/sf amortization, would be \$21.59 or \$355,291 for the rentable area (16,456 sf). Additionally, the tenant will pay its prorated share of property taxes and common area maintenance estimated to be \$2.00/sf first year and increasing to full property tax assessment levels at an estimated \$4.00/sf. Renewal option years would include the \$6.09/sf tenant improvement amortization and the first year rental rate would be CPI adjusted in the first lease option year.
 7. The comparative analysis of the two new construction proposals concluded similar tenant improvement finishing and cost with the subject location somewhat more costly due to exterior building enhancements indicative of the

gateway presence and the development and land costs being spread over approximately half the building square footage. Additional tenant cost with the proposed location as with any other location considered would be the installation of voice and data communications, furniture and moving, as well as janitorial and utility costs for the demised space.

The term of the proposed lease is ten years, with two options to renew for additional five-year periods. The ten-year lease term would be subject to a five-year termination provision and appropriate lease termination payment. Annual net base rental costs would start at \$15.50/sf, escalating at roughly a 3.0 percent annual increase for the 10-year term, plus \$6.09/sf tenant improvement amortization fixed for the 10-year term, subject to the unamortized balance due and payable at lease expiration. The annual first year base cost would equal \$355,291. There is also a provision for additional costs, calculated as tenant's proportionate share of taxes and common area maintenance, estimated at \$2.00/sf for the first year and increasing to full assessment at an estimated \$4.00/sf by the second year. The University will be responsible for the installation of voice and data communications, furniture and moving, as well as janitorial and utility costs for the demised space.

Funds for are available from the Fiscal Year 2009 institutional funds operating budget of the Urbana campus. 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.