

Board Meeting
January 18, 2007

ROLL CALL

LEASE OF SPACE FOR MILE SQUARE HEALTH CENTER,
7131 SOUTH JEFFERY, CHICAGO

Action: Authorize the Lease of Space Located at 7131 South Jeffrey Boulevard,
Chicago, Illinois

Funding: Institutional Funds Operating Budget

The Chancellor at Chicago recommends that the University lease 4,000 square feet of office space on the first floor of Jeffery Plaza Shopping Center located at 7131 South Jeffery Boulevard, Chicago, Illinois, for the period April 1, 2007, through March 31, 2012. The landlord is Jeffery Plaza Investors LLC. The leased space would accommodate a satellite clinic for Mile Square Health Center (MSHC).

MSHC has operated a satellite clinic at this site since October 2005 under a sublease from a University of Chicago physicians group that had a failed practice in this location. The sublease featured a below market rental rate of just under \$25.00 per square foot (psf) gross annually, fully constructed medical space in move-in condition. It expires March 31, 2007.

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.

Nine alternate sites were toured and evaluated in comparison with the Jeffery location.

Criteria used to evaluate the location included the following:

1. Location within the prescribed boundaries set forth under MSHC's license to operate as a Federally Qualified Health Center (FQHC);
2. High visibility and accessibility to maximize its potential to generate patient traffic;
3. Limited tenant construction requirements to minimize start-up costs;
4. Total operating costs (base rental, common area costs and parking costs, if any).

A list of the alternate sites is attached as Exhibit A. Following are the conclusions resulting from evaluation of the alternatives:

1. There was only one other location available within the boundaries prescribed for the FQHC. This location had been toured and evaluated earlier, when the sublease was under consideration. This office space would require expensive reconfiguration, and offers no visibility to the public. Regardless of the lower annual rental rate, it did not present an appealing alternative because it lacked traffic generation potential and the start-up costs for remodeling to suit the use were deemed too expensive.
2. The starting rental rate for Jeffery Plaza is \$27.00 psf in base rent plus Tenant's Proportionate Share (3.53 percent) of any increases in tax and operating costs for the building over the base year of 2006. The current estimate of the gross rental rate including common area maintenance at \$9.00 psf would be \$36.00 psf. This is comparable to other market alternatives. The average starting gross rental rate for the other nine (24) alternatives is \$31.73 psf; if only shopping center locations, most comparable to Jeffery Plaza, are evaluated, the average starting gross rental rate is \$41.87 psf.
3. The office locations provided essentially the equivalent of

one year's rent as a tenant allowance, but in all cases these amounts were insufficient to cover estimated costs to configure the space for a medical use, because of extensive plumbing and HVAC work required. Additional funds required for the University to complete remodeling beyond the amounts supplied from the tenant allowance were estimated, based on University experience at between \$428,000 to \$940,000. In almost all cases, the existing spaces were either raw or needed demolition before build-out for medical use. The space at Jeffery Plaza would not require additional financial investment.

4. Relocating the program to another location would require establishment of new telecommunications and data cabling, plus moving costs and the program would have to bear these additional costs.

It is proposed that the current location for Mile Square Health Center at Jeffery Plaza, 7131 South Jeffery, be retained, as it is the best location, with the lowest cost, and will present the least disruption for patient care. The term of the proposed lease is five years, with an option to renew for one additional five-year period. Annual base rental costs would start at \$27.00 psf, escalating two percent annually on April 1 of each year. There is also a provision for additional cost, calculated as Tenant's Proportionate Share (3.53 percent) of the tax and operating costs for the building (currently estimated at \$9.00 psf). It is estimated that the annual first year total cost (including Tenant's Proportionate Share) would equal \$144,000. The lease rate is full-service and includes rubbish removal, common area maintenance, heating and cooling during normal business hours, insurance, and taxes. The University will be responsible for its own electrical and telephone charges.

Funds for the current fiscal year are available from the institutional funds operating budget of the Mile Square Health Center. Funds for future fiscal years would

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 for Administration concurs.

The President of the University recommends approval.