Approved by the Board of Trustees
September 6, 2007

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Board Meeting
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ROLL CALL

APPROVE LEASE OF SPACE FOR RELOCATING CAMPUS UNITS, URBANA

Action: Authorize the Lease of Space Located at 507 E. Green Street, Champaign, Illinois

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 three floors of a proposed mixed use building to be constructed at 507 East Green Street, Champaign, Illinois, for the period commencing on or about September 1, 2008, through August 31, 2018. The landlord/developer is JSM Development of Champaign. The developer has proposed construction of a mixed use building consisting of five floors (two floors retail, three floors office space) in the heart of campus town. The leased space consists of three floors or approximately 30,387 square feet of office space and would accommodate the central campus relocation of the following campus units: Institutional Advancement, News Bureau, Office of Publications, along with uTeach. It is anticipated 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 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 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 units necessitate the location in close proximity to central campus with 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 central campus and backbone connectivity. The proposed terms and conditions of all ten proposals were used as comparables.

2. Of the three locations that met the criteria, one is marginal in that it is two blocks outside of the campus master plan and three blocks from backbone connectivity. Of the two centrally located with campus backbone readily available, one is fully leased by University units. The proposed location is ideally located in central campus, a block from the Swanlund Administration Building, has campus backbone readily available at a contiguous property and will be available in September 2008.

3. Availability of nearby parking is not an issue with central campus locations as staff will continue to park in Campus Parking facilities.

4. Two of the three locations meeting the campus location criteria are new construction. The proposed location will provide a sufficient tenant improvement allowance in the amount of $60.00/sf and would include restrooms build out within demised space. The other new construction proposed tenant improvement allowance of $20.00/sf that would be insufficient and require, at a minimum, an estimated additional $30.00/sf tenant improvement

investment. The total estimated tenant improvement of $50.00/sf does not include restrooms in the demised space and the cost of same would be included in the core building cost since the restrooms would be located in common area space.

5. The base net rental rate for the first lease year for the proposed space is as follows: three-floor lease at $14.25/sf, escalating annually at $.25/sf plus $9.00/sf fixed additional rental over the ten-year lease term to amortize the $60.00/sf tenant improvements (effective interest rate of approximately 8.15 percent). At tenant's option, the $60.00/sf tenant improvement cost can be paid in lump sum payment at lease commencement thereby eliminating the $9.00/sf annual amortization.

6. The total first year net rental rate, including $9.00/sf amortization, would be $23.25 or $706,498 for the three leased floors (30,387 sf). Additionally, tenant will pay its prorated share of property taxes and common area maintenance estimated to be $1.00/sf first year and increasing to full property tax assessment levels at an estimated $3.50/sf. Renewal option years would not include the $9.00/sf tenant improvement amortization and the first year rental rates would be CPI adjusted in the first lease option year.

7. The comparative analysis of the two new construction proposals include a discounted cash flow analysis of the net rent over a 20-year lease period (10-year term with two 5-year lease renewals), plus the tenant improvement amortized over the ten-year lease term. The annual net rental cost (with tenant improvement amortized for ten years) was discounted at a six percent discount rate (cost of capital) and the results were compared. The proposed location's average annual net present value (NPV) per square foot is calculated to be $12.80/sf compared to $12.94/sf for the 20-year analysis. 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 $14.25/sf, escalating $.25/sf annually for the ten-year term, plus $9.00/sf tenant improvement amortization fixed for the 10-year term. The annual first year base cost would equal $706,498. There is also a provision for additional costs, calculated as tenant's proportionate share of taxes and common area maintenance, estimated at $1.00/sf for the first year and increasing to full assessment at an estimated $3.50/sf by the third 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 the fiscal year 2009 and future fiscal years will be included in the institutional funds operating budget authorization 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.