

9. Acquisition of Property by Lease – UNC-CH .....Jonathan Womer

**Situation:** The acquisition of real property by lease was approved by the UNC-CH Board of Trustees and requires Board of Governors approval because it is over \$500,000, at \$3,135,000. The proposed lease is for 95,000 SF over 10 years as part of a public-private partnership that would enable the creation of a 450,000 SF mixed-use development on Franklin Street in Chapel Hill.

**Background:** In 2009, Chapel Hill Foundation Real Estate Holdings, Inc. purchased a 12-acre site adjacent to campus that included the Granville Towers student housing and the 120,000 square-foot University Square office and retail buildings. Through an RFP process, the UNC-CH Foundation selected Cousins Properties. In 2013, the Town approved the redevelopment of approximately six acres fronting Franklin Street into a mixed-use project containing 450,000 square feet of office, residential, retail, and parking. The development will bring an additional 60,000 to 80,000 SF of new space to the downtown market. The apartment homes will house an additional 300 new residents. In total, the project will add about \$90 million to the property tax base. The redevelopment is expected to begin in the spring of 2015 and be completed in the fall of 2017. The proposed UNC-CH lease of 95,000 square feet of the proposed development is required to ensure financing of the project.

**Assessment:** The proposed price per square foot is comparable to similar prices paid in Chapel Hill. The partnership allows UNC-CH to create a large development with a relatively moderate investment. In addition, the Carolina Population Center and the School of Public Health's Biostatistics and Epidemiology groups are currently located in leased space throughout Chapel Hill through eight separate leases. This lease would consolidate these units into one location in a building with modern facilities and significantly enhance collaboration.

**Action:** This item requires a vote.

### Acquisition of Property by Lease – The University of North Carolina at Chapel Hill

The University of North Carolina at Chapel Hill requests approval of a 95,000 SF acquisition lease as part of a large public-private partnership. The partnership would create a mixed-use development at 123 West Franklin Street in downtown Chapel Hill. It will be located on a ground lease to the landlord from Chapel Hill Foundation Real Estate Holdings, Inc., the UNC-CH foundation. The lease by UNC-CH is required to ensure financing of the project.

The UNC-CH departmental units planned to use the leased space will be the Carolina Population Center and the Departments of Biostatistics and Epidemiology of the Gillings School of Global Public Health. Carolina Population Center will occupy 55,000 SF and School of Public Health departments will occupy 40,000 SF. The combined annual rent is not to exceed \$3,135,000 with 2.5% annual escalation over a ten-year term. This equates to a per square foot rate of \$33.00 and is inclusive of all utilities, taxes, insurance, and common area maintenance. This price per square foot is comparable to similar prices paid in Chapel Hill. The lessor for these leases will be Cousins Properties, Inc./Northwood Ravin, Inc.

Carolina Population Center and the School of Public Health's Biostatistics and Epidemiology groups are currently located in leased space throughout Chapel Hill through eight separate leases. The result of these units being in multiple locations has created an inefficient use of space and reduced collaboration within and among the programs. By consolidating these units into one location in a building with larger and more modern floor plates, better efficiencies will be realized through the use of more open offices, shared conference and meeting spaces, and consolidated break rooms and administrative function areas. Furthermore, by co-locating Carolina Population Center, Biostatistics and Epidemiology

together, research collaborations between these groups will expand and be more easily facilitated.

In 2009, Chapel Hill Foundation Real Estate Holdings, Inc. purchased a 12-acre site adjacent to campus that included the Granville Towers student housing residences and the 120,000 square foot University Square office and retail buildings (see attached graphics). The purchase was a strategic opportunity to acquire a large parcel adjacent to campus, secure the student housing residences, and provide an opportunity for a mixed-use redevelopment that would meet the University's needs while also benefiting downtown Chapel Hill.

Through an RFP process, Chapel Hill Foundation Real Estate Holdings, Inc. selected Cousins Properties to conceptualize the redevelopment of the existing University Square buildings along Franklin Street and obtain the necessary entitlements with the Town of Chapel Hill. In 2013, the town approved the redevelopment of approximately six acres fronting Franklin Street into a mixed-use project containing 450,000 square feet of office, residential, retail, and parking. The development will bring an additional 60,000 to 80,000 SF of new space to the downtown market. The apartment homes will house an additional 300 new residents. In total, the project will add about \$90 million to the property tax base. The project is approximately \$90 to \$100 million in total cost.

Chapel Hill Foundation Real Estate Holdings, Inc. has signed an option agreement with Cousins Properties and their joint venture partner, Northwood Ravin, to enter into a 99-year ground lease. Prior to executing the ground lease, Cousins must receive building permits from the town as well as commitments to lease approximately 50% of the office component of the

project. The redevelopment is expected to begin in the spring of 2015 and be completed in the fall of 2017.

It is recommended that the request of the Board of Trustees be approved.















