

Acquisition of Property by Lease — Appalachian State University

ISSUE OVERVIEW

The University of the North Carolina System institutions are required to request authority from the University of North Carolina Board of Governors to proceed with certain acquisitions and dispositions of real property. The App State University Board of Trustees requests authorization for the acquisition of property by lease for a new student housing complex, located at Mountaineer Ridge Road, Boone, North Carolina.

App State is requesting authorization to enter into a lease agreement and use agreement with Mountaineer Ridge LLC (the “LLC”) for the Mountaineer Ridge housing project. The project includes approximately 850 student housing beds in a mix of two-, three-, and four-bedroom apartment units, approximately 1,000 surface parking spaces, and related demolition and infrastructure construction to be available in fall 2027. The project will be located on property owned by the endowment and designated as a millennial campus.

The endowment will ground lease the housing property to the LLC, a single purpose limited liability company of the Appalachian Real Estate Development Corporation (“AREDC”), which is an associated entity, and a 501(c)(3) nonprofit corporation whose purpose is to support App State by, among other things, owning and managing student housing. The ground lease will enable the LLC to execute a development agreement with a private company for the design and construction of the student housing development. The ground lease will be for a term of 50 years or until the project loan has been paid in full, whichever comes first. The project will be financed by a loan procured from a banking institution pursuant to a competitive request for proposal (RFP) process taken out by the LLC. The LLC will own any improvements to the project site and will grant a lien on its leasehold interest in the project site to secure a loan to finance the project.

The lease agreement between App State and the LLC will be for a term of 10 years, commencing in May 2025 and terminating in May 2035. The lease agreement clarifies App State’s leasehold interest in the project and provides App State the authority to operate the project as student housing and the university’s parking systems. Per the use agreement, App State will collect the housing fees from the project and reimburse the LLC for any costs incurred to operate the project. App State will be required to make base rental payments in an amount sufficient to pay the principal and interest on the LLC’s loan. The use agreement also includes specific terms including the construction, installation, and equipping of the project as well as payments, covenants, insurance, and maintenance. The attached term sheet provides additional details on the project agreements. The lease agreement and use agreement shall be coterminous.

In October 2023, Moody’s Investors Service revised App State’s credit rating from a stable outlook to a negative outlook. Moody’s rating report, issued in connection with the outlook change, noted App State’s “near term need for additional housing to support its growing enrollment” including potentially adding up to 1,850 beds. As the project’s proposed financing will be via a bank loan, the transaction will not be rated and will not cause a Moody’s rating review. However, it has been approximately 18 months since App State was put on negative outlook and a Moody’s rating review may come at any time. In addition, last month Moody’s revised its outlook for the entire US higher education sector from stable to negative. App State is aware that the next Moody’s review may involve a rating action as opposed to a continuation of the negative outlook and a potential downgrade from Aa3 to A1.

The App State Board of Trustees approved the acquisition by lease on March 14, 2025.

RECOMMENDATION

It is recommended that the Board of Governors approve the request for acquisition of property by lease in accordance with the proposed terms of the use agreement and lease agreement.

Appalachian State University
Lease and Use Agreements
Term Sheet

April 2025

The Appalachian State University Board of Trustees requests authority to negotiate and enter into a use agreement and a lease agreement to facilitate the development of student apartments, surface parking, and related infrastructure, as described herein, on substantially the terms set forth in this term sheet.

I. Project Overview	
1. Project	<p>The project includes approximately 850 student housing beds in a mix of two, three, and four-bedroom apartment units, approximately 1,000 surface parking spaces, and related demolition and infrastructure construction to be available in fall 2027. The project will be located on property owned by the endowment and currently designated as a millennial campus. The project site is approximately 13.27 acres.</p> <p>The project will be financed by a loan procured from a banking institution taken out by Mountaineer Ridge LLC (the “LLC”), a single-purpose LLC, the sole member of which is the Appalachian Real Estate Development Corporation (“AREDC”), which is an associated entity of Appalachian State University and a 501(c)(3) nonprofit corporation whose purpose is to support App State by, among other things, owning and managing student housing.</p> <p>The number of beds, number and phasing of parking spaces, and square footage may change slightly as project design is finalized.</p>
II. Lease and Use Agreements	
2. Lease Agreement	<p>A lease agreement for the site associated with the project will be entered into between App State and the LLC to clarify App State’s leasehold interest in the project. The lease will authorize App State to sublease the student housing and parking, to operate the housing project as housing for App State students, and to operate the parking as part of App State’s parking system.</p>
3. Rental Payments	<p>Base rental payments under the lease and use agreements will equal the LLC’s debt service requirements under the 2025 Loan, and the LLC will collaterally assign its rights to receive such payments to the lender. The sum of the lease payments shall not exceed \$8,200,000 per year.</p> <p>App State’s payment obligations under the agreements will be limited and will be payable solely from a defined basket of revenues, including (1) net revenues of the project, (2) ground lease payments made to App State by Beyond Boone, LLC in connection with Phases I & II of App State’s housing plan, and (3) App State’s housing system revenues after payment of App</p>

	State's senior, general revenue bond debt. App State will have the right to terminate the lease agreement and use agreement if these funds are insufficient to meet its lease payment obligations.
4. Lease Term	App State will lease the project from the LLC. The lease term shall be for ten (10) years, commencing May 2025 and terminating May 2035. There are no options to extend.
5. Ownership of Improvements	App State will not own the improvements, and the project will revert to the endowment when the debt is repaid.
6. Anticipated Related Project Agreements	The LLC will enter into a development agreement with the developer regarding the design and construction of the project. AREDC will enter into a ground lease with the endowment for the housing site.
7. App State Review of Final Design and Construction Documents	The use agreement will provide that App State will be entitled to approve the final plans and specifications for the construction of the project and the terms of all related design and construction contracts and change orders thereto.
8. Operations and Maintenance	App State will be responsible for the operations and maintenance of the project including any repairs, renewals, renovations, or improvements to maintain the value of the project.
9. Insurance	The LLC will be responsible for the insurance of the project upon acceptance and occupancy and be reimbursed by App State using project revenues.
10. Failure to Deliver Student Housing Facility on Schedule	If the project is not delivered on time, the development agreement will require that temporary housing will be arranged for the contracted tenants. Responsibility for making such arrangements and making upfront payments, regardless of ultimate responsibility to pay, will be assigned to the developer.
11. Other Terms	This term sheet does not include all the terms contemplated to be in the lease and use agreements. Other terms shall be incorporated into the lease and use agreements and/or related project agreements, including the rights to be retained by App State, as modified in the documents consistent with the parties' intentions.