

Acquisition of Real Property by Lease - The University of North Carolina at Chapel Hill

The Board of Trustees of the University of North Carolina at Chapel Hill has requested approval to acquire office space from The Endowment Fund of The University of North Carolina at Chapel Hill. The space is within three separate buildings, each with an individual lease.

The request is to acquire approximately 63,471 square feet of office space located at 720 (9,350 SF), 725 (34,777 SF), and 730 (19,344 SF) Martin Luther King, Jr. Boulevard in Chapel Hill, and collectively known as the Bolin Creek office buildings.

These buildings are currently leased to the University and were initially purchased by the Endowment Fund for that general purpose. Leasing these buildings in their entirety allows the University to allocate space within each building to various departments as needed throughout the lease term. These buildings currently house the following research units: the Cecil G. Sheps Center for Health Services Research, the Highway Safety Research Center, the Office of Survey Research, the Office of Clinical Trials, and the Office of Human Research Ethics.

The lease terms are for ten years with an initial aggregate annual cost of \$1,364,626.50, or \$21.50 per square foot, inclusive of utilities and janitorial service. This represents a lease rate that is consistent with market rental rates of similar properties in Chapel Hill. Rent will increase 2.5% per annum beginning in year two of the lease.

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

UNC- Chapel Hill Bolin Creek/Endowment Owned Buildings

Answer to Question – “Why does UNC maintain Endowment ownership instead of State ownership?”

The Endowment of the University of North Carolina at Chapel Hill purchased the commercial office properties at 720 and 730 Martin Luther King Blvd in 1988 and 725 Martin Luther King Blvd in 1990. The buildings are collectively known as Bolin Creek. The purchase of Bolin Creek was intended to provide office space for University-related entities as well as potential investment income for the Endowment. The three office buildings total 63,471 square feet and are approximately one mile from north campus. For the past 15 years, the primary tenants in Bolin Creek have been the Cecil B. Sheps Center for Health Services Research, the Highway Safety Research Center, and the UNC Gillings School of Global Public Health.

The estimated remaining useful life of the Bolin Creek buildings is approximately 20 years. The useful life of the buildings in their current capacity can likely be extended beyond 20 years with continued capital reinvestment. However, given the proximity to campus and the relative scarcity of development sites in this area, the Bolin Creek site offers excellent redevelopment potential for additional office, incubator space, student housing, and/or multi-family development.

Real estate held by the Endowment or other related entities receive neither operating nor capital funds support from the State. The Bolin Creek buildings are completely self-reliant on rental revenue to fund reserves, ongoing maintenance, and capital improvements. As a result of reinvestment of rental proceeds back into the property, there are no deferred maintenance issues and adequate funds are held in reserve to meet future capital requirements (such as a \$300,000 replacement of HVAC systems scheduled for Fall 2015).

Benefits of maintaining off-campus real estate held by the Endowment or other related entities includes:

- Opportunity to support off-campus university requirements as well as provide investment income for related entities
- Ability to maintain adequate building reserves and funding sources for ongoing repairs, maintenance, and capital requirements of off-campus properties
- Flexibility to easily dispose of assets that no longer support the needs of the university
- Ability to redevelop properties to highest and best use as off-campus requirements change or market forces dictate

Answer to Question – “Is the rate of \$21.50 psf gross, with 2.5% annual escalation, representative of fair market lease rates for the area?”

Yes; a sample of comparable commercial office properties and their current respective lease rates are shown below. All of these properties are further removed from the main UNC-CH campus than the Bolin Creek property.

Franklin Park, Buildings A&B \$22.50 psf gross
Europa Center \$22.95 psf gross

300 E. Main – Carrboro \$24.00 psf net of TICAM

Chapel Hill 40 – Vilcom \$22.50 psf gross

Leasing agents for these properties stated that a standard annual escalation would be within a range of 2.5% - 3.0%

Answer to Question – “Why does UNC need this space in light of the recently approved leased space at the new Carolina Square development?”

The requested leased space at Bolin Creek will be occupied by a completely different set of UNC departments, none of which have adequate space on main campus. Leased space at Carolina Square will be used in its entirety by the Carolina Population Center and the Biostatistics and Epidemiology units from the School of Public Health. No excess space has been planned for lease at Carolina Square.