UNIVERSITY OF IOWA APARTMENT HOUSING REPLACEMENT

Actions Requested: Consider approval of the following:

1. Ground lease with Balfour Beatty Campus Solutions for the benefit of the University of Iowa, subject to approval of the final documents by the Board Office and Attorney General’s office.

2. A Resolution directing the abandonment of portions of the Hawkeye Court Apartment Complex at the State University of Iowa.

3. Demolition of the portions of the Hawkeye Court Apartment Complex abandoned under the previous requested action.

(ROLL CALL VOTE)

Executive Summary:

Background

In April 2011 and October 2012, the University of Iowa provided a report to the Board on the options it was considering to replace the existing Hawkeye Court and Hawkeye Drive apartments. Hawkeye Court includes 427 one and two-bedroom apartments. The units are two story structures, slab on grade with cinder block construction, and were first occupied in 1968. Hawkeye Drive apartments were first occupied in 1960; they are two story buildings with basements and contain 160 two-bedroom apartments. The units, in total, are over 90% occupied during the academic year.

Both of the complexes are beyond their useful lives and the University has continued to invest significant funds to ensure that the apartments and surrounding areas are safe for tenants. Based upon University studies, it believes that a large capital outlay would be needed in the next few years to ensure the short term future of the apartments.

The options the University explored included: 1) financing, constructing and operating apartments using standard practices; 2) entering a University/private partnership with private construction and operation, and 3) discontinuing provision of family housing. The University’s preferred option, for which it sought proposals, was to enter into a partnership whereby the University would lease land to a private entity that would plan, construct, and manage the apartment complex with limited financial risk to and participation by the University.

As a result of an RFP process, including the solicitation of several Iowa firms and a posting on the University’s e-bid system, the University received two proposals. The University is requesting in this agenda item that the Board, on behalf of the University, approve a ground lease with Balfour Beatty Campus Solutions, LLC (BBCS) of Dallas, Texas (the selected firm), to construct and operate 444 beds within 270 apartment units (a mixture of one bed / one bath, two bed / one bath, and two bed / two bath units) to replace a portion of the Hawkeye Court apartments. (The University’s residence system will continue to operate the other Hawkeye Court apartment units.) Subsequent phases are also possible to expand the number of new Hawkeye Court apartments and to replace the nearby Hawkeye Drive apartments.
Ground Lease

Iowa Code §262.11 requires that certain agreements, leases, and easements be approved by the Board of Regents by roll call vote. The ground lease for the benefit of University of Iowa, which includes an indemnification clause, has been reviewed by the Attorney General’s Office.

The University of Iowa seeks the approval of a 41-year ground lease, with one optional 10-year extension, with BBCS. The 27.8 acre property is located on the Hawkeye Campus, west of the central University campus, as shown in Attachment A. As part of the ground lease, BBCS will raze units 377-452 and 501-672 of the existing Hawkeye Court Apartment Complex. BBCS will then raise the elevation of the site, construct a new student apartment complex (with first floor levels being at a minimum of two feet above the 500-year flood plain), with associated support facilities, including a community center and related surface parking. BBCS subsequently will operate and maintain the facilities, consistent with the maintenance standards for facilities on the University's main campus, for the duration of the ground lease. The new student apartment complex will serve primarily students with dependents and graduate students, as do the current facilities.

The Board, on behalf of the University of Iowa, will continue to own the underlying real estate in fee simple and no real estate property rights are being transferred to BBCS other than the leasehold interest. BBCS will own the improvements on the property, including the new buildings they will construct, operate and maintain. The Board, on behalf of the University has the right to purchase the leasehold improvements after five years and every five years thereafter on the anniversary date of occupancy. The purchase price, as specified in the ground lease, would be in accordance with Board of Regents policy based on appraised value of the improvements. The Board’s option to purchase may only be exercised if the proposed purchase price is equal to or greater than the aggregate of amounts to be paid by BBCS pursuant to any indebtedness and BBCS’s “Minimum Return” as further defined in the Lease.

If the University does not exercise its option to purchase, BBCS will surrender the units to the University at the conclusion of the lease period and any renewal period. The University also has the option to request that BBCS remove the facilities at the University's expense.

BBCS will make an annual $1.00 payment for the ground lease, with provisions for additional rent based upon the lessee’s annual net income and the occupancy rate of the new facilities. BBCS will make the new units as affordable and attractive as possible to tenants. BBCS will also be responsible for costs associated with the razing of the existing buildings on the site of the facilities to be constructed by the firm, with the exception of any needed asbestos abatement. The University will reimburse BBCS for the costs of asbestos abatement. The University and BBCS will execute an agreement assigning responsibility for the payment of any work required to expand the capacity of the utilities infrastructure which is needed to accommodate and service the new facilities. BBCS will be responsible for all fill needed to meet the 500 + 2 feet above flood plain standard, infrastructure costs, and all design and construction costs. The new units will be served by University water and University Information Technology Services (both at cost to BBCS), as well as University police services. All other utilities will be provided by the public utility companies.
Operating Agreement

The University and BBCS have agreed in a separate operating agreement that BBCS will lease the apartments, in priority order, to (1) University students with dependents, (2) University graduate and professional students, (3) University international students, (4) University faculty and staff, and (5) students enrolled and attending other institutions of higher education. The University will include in its housing inventory and publications information on the BBCS apartments and may provide billing services for University students residing in the units, at a cost to BBCS. As part of the agreement, BBCS has agreed to establish and deposit each year a sum per bed into a facilities renewal and replacement account to fund repairs, replacements and improvements. The University and BBCS have agreed to establish a special committee to review rental rates, as well as to establish policies and procedures pertaining to residence living and resident life management.

Abandonment Resolution and Razing of Facilities

The new units would be located where a portion of the current Hawkeye Court apartments are located. Bond resolutions for the University of Iowa’s Residence System require specific approval of the Board of Regents prior to the abandonment of any units in the system. The University requests that the units be removed from the system and demolished. The resolution for the abandonment of the facilities, prepared by the Board’s bond counsel, also includes a determination that the net rents, profits, and income of the Residence System, after abandonment of the facilities, are sufficient to meet the specific financial requirements of the bond covenants.