COMMITTEE MEMORANDUM

TO:      Property and Facilities Committee Members
         Board of Regents, State of Iowa

FROM:    Jean Friedrich and Joan Racki

DATE:    June 1, 2005

SUBJ:    University of Iowa Real Estate Matter

Recommended Action:

Recommend that the Board authorize the University of Iowa to proceed
with a lease with the University of Iowa Facilities Corporation for property
(approximately 68,000 gross square feet of space in the Old Capitol Mall
in Iowa City) to be acquired by the University of Iowa Facilities
Corporation.

Executive Summary:

Request The Property and Facilities Committee is requested to recommend that
the Board authorize the University of Iowa to proceed with a lease with
the University of Iowa Facilities Corporation for approximately 68,000
gross square feet on two levels of the Old Capitol Mall in downtown Iowa
City.

It is the intent of the University of Iowa Facilities Corporation to purchase
the property, which includes the space vacated by Younkers department
store in February 2005 plus additional space on the second floor of the
Mall, and lease it to the University of Iowa.

A map showing the location of the property directly south of the
University’s Pentacrest is included as Attachment A. The space
proposed to be leased is shown on Attachments B and C.

Use of Space The University’s proposed use of the space to be leased includes:

- Centralization of the University of Iowa Hospitals and Clinics and
  Carver College of Medicine Joint Office of Patient Financial
  Services;

- Relocation of the University’s International Programs and English
  as a Second Language Programs; and

- Addition of one or more classrooms.
Financing

The total purchase price, including fit-out costs, is $11,250,000 which would be financed by the Facilities Corporation through the issuance of revenue bonds. The University’s lease with the Facilities Corporation would be in an amount equal to the debt service payments of the Corporation. The annual lease payments are estimated at approximately $900,000. Annual operation and maintenance costs for the space are estimated at approximately $374,000.

Background and Analysis:

Facilities Corporation

The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University.

The Facilities Corporation, through the issuance of revenue bonds authorized by the Regents, made possible the construction of the Eckstein Medical Research Building, the Medical Education and Biomedical Research Facility, the Pomerantz Center and the Carver Biomedical Research Building.

Property Description

The Old Capitol Mall is located in downtown Iowa City, immediately adjacent to the University of Iowa Pentacrest. Younkers department store was located in the northwest corner of the Mall, directly south of the Pentacrest and east of the Seamans Center for the Engineering Arts and Sciences. Younkers occupied a total of 60,222 GSF on two levels of the Mall and vacated this space in February 2005.

Space Needs / Proposed Uses

Due to its proximity to campus, this property could meet a number of University needs. University personnel and engineering consultants have inspected the facility and have found the property to be in satisfactory condition for the following, identified University space needs.

- Centralization of University of Iowa Hospitals and Clinics (UIHC) and Carver College of Medicine Faculty Practice Plan (FPP) Joint Office of Patient Financial Services (JOPFS) [pre-access (e.g.: insurance verification, registration services, etc.) and patient accounting (e.g.: billing and collection)] for a short-term basis (likely a five to ten year period).

- JOPFS current operations involve 160 staff working out of offices in five different locations within the UIHC and 90 additional staff who are located within rented space at the downtown Iowa City U.S. Bank building.

- JOPFS would occupy approximately 38,000 gross square feet of space including the entire second floor of the former Younkers space (~30,000 gross square feet) plus an additional 8,000 gross square feet of adjacent second floor space.
• The permanent relocation of the JOPFS will depend upon further analysis and identification of options.

• The lease of space for JOPFS from the Facilities Corporation would address the immediate and intermediate term needs of JOPFS and make this space available in the future for academic related University functions.

• Relocation of the University’s International Programs, currently located in the International Center (former College of Law facility), to a more central campus location closer to students and its faculty who typically hold appointments in departments within the College of Liberal Arts and Sciences.

• Placement of the English as a Second Language Program (now housed in Macbride Hall) adjacent to the University’s International Programs to take advantage of the close relationship between the two programs.

• Development of classrooms to replace three classrooms located in Spence Laboratories, which would be taken off line for security purposes.

The International Programs, English as a Second Language Program and the classrooms would occupy the first floor of the former Younkers location (~ 30,000 gross square feet).

The current locations occupied by the International Programs and English as a Second Language Program would be evaluated for other uses which could include swing, relocation or expansion space.

**Purchase Price**

The Facilities Corporation purchase of the approximately 68,000 gross square feet would be a turnkey agreement, incorporating the needed fit-out costs (partitioning, installation of electrical and telecommunications cabling, etc.) to make the space usable for the functions to be located within the space.

The proposed purchase price is $11,250,000 which equates to $165.44/GSF including the fit-out costs. The purchase price component for the building and land is $100/GSF, which is slightly less than the average of two independent appraisals for the building and land which were $91/GSF and $111/GSF.

• The $165.44/GSF cost for the turnkey agreement including fit-out, less the value of the building and land, results in an estimated cost of $65.44/GSF for the fit-out.

• An independent analysis of the projected fit-out cost was conducted by a cost consultant used previously by the University, who estimated the cost at $74.25/GSF or approximately $9 per square foot higher than the fit-out cost included in the turnkey agreement.
Consequently, the purchase price of $11,250,000 or $165.44/GSF is slightly below the average of the two building/land appraisals and the independently calculated fit-out cost.

Options

The Board Office understands that the University of Iowa Facilities Corporation will acquire options for the purchase of nearby space in the Mall and also a right of first refusal for the eventual purchase of the remaining real estate.

Financing

Subject to Board approval for the University to proceed with a lease with the University of Iowa Facilities Corporation, the Corporation would finance the acquisition, including improvements, through the issuance of single tax-exempt bonds issued on behalf of the Board of Regents. The tentative sale date for the bonds is September 2005.

There would be a lease between the Facilities Corporation and the Board with lease payments based on the annual debt service costs. At the conclusion of the financing period and lease term, the property may be transferred from the Facilities Corporation to the University, subject to the approval of the Board of Regents.

The University’s annual lease payments for the space are estimated at approximately $900,000 ($13.24/GSF based on 68,000 GSF). Operation and maintenance costs for the space are estimated at $374,000 annually ($5.50/GSF).

Each of the parties occupying the leased space would assume its proportional share of the lease and operation and maintenance costs on the basis of the space assigned.