TOPIC: University of Maryland, College Park: Briefing on the Hotel and Conference Center Project and Approval of Easements

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: June 19, 2014

SUMMARY: At its meeting of December 6, 2013 the Board of Regents approved for the University of Maryland, College Park the sale of approximately 3 acres of University land located within that tract formerly known as East Campus, and now referred to as the “Innovation District,” to the University of Maryland, College Park Foundation for the purpose of providing a development site for a high quality hotel and conference center of approximately 300 rooms and a parking garage (Attachment A).

With its approval, the Board delegated to the Chancellor the authority to execute documents associated with the sale conditioned upon the completion of due diligence on the part of the University and all that due diligence deemed necessary by the USM Office of the Chief Operating Officer/Vice Chancellor for Administration and Finance and legal review by the Office of the Attorney General. The Board also requested that it be updated as to the substance of the transaction.

In support of this project and future development of the larger Innovation District, the University will provide approximately 2.0 acres of easement area for “offsite” improvements including road and utility work. The developer will secure the completion of this work with a letter of credit. In addition to this briefing, the University is requesting the Board’s approval to grant these necessary easements.

1. Approvals of the Land Transfer
   - On March 19, 2014, the Board of Public Works approved declaring the 3-acre parcel surplus for the purpose of entering into a land sale with the University of Maryland, College Park Foundation (UMCPF) for private development as a University hotel and conference center.
   - On June 5, 2014, UMCPF approved the purchase of the 3 acres of land from the University and acting as ground lessor in the Hotel Project.
   - The request to dispose of the property was submitted to the Legislative Budget Committees for their review and comment. The budget committees offered no comment.
   - On July 2, 2014, the University plans to seek BPW approval of a Purchase and Sales Agreement for the approximate 3 acres of land between the University and the UMCPF Property III LLC, an affiliate of the UMCPF, for the purposes of the Hotel transaction.

2. The Purchase and Sales Agreement
   - The purchase price under the Purchase and Sales agreement will be $5,431,500.
– The agreement also establishes the conditions of closing which include the Developer having obtained detailed site plan and other development approvals from M-NCPPC and the County and having satisfactory debt and equity in place to complete construction of the project.

– Until Closing, the Purchase and Sale Agreement and the Development Agreement will govern and control. At Closing, the University will deliver a deed to the Property to the UMCPF Property III LLC and, as between the UMCPF Property III LLC and the Developer, the Ground Lease will govern and control.

– Closing will not occur until all approvals, financing and permits are in place and construction on the Project is ready to begin.

– The University will have review and approval rights of the Detailed Site Plan and, after closing, any façade or exterior changes or any changes to the Project that substantially differ from the project as approved in the local development approval process.

3. The Development Agreement

– This Development Agreement establishes the conditions under which the UMCPF Property III LLC will lease the property to the Developer including conditions requiring the Developer to obtain development approvals, permits and satisfactory equity financing.

– The Developer will submit for County development approvals while concurrently completing due diligence and construction documents.

– The Development Agreement will require that, at the time of closing the Developer also close on a construction loan from an unaffiliated lender for approximately $70M of the hotel cost.

4. The Declaration

– The University, Developer and UMCPF Property III LLC will enter into a declaration agreement that will impose certain permanent restrictive use requirements on the sale of the Property. Examples of these restricted uses would include no package liquor stores, no pawnshops, no gambling operations and no competing higher education tenants (except other USM institutions or State of Maryland community colleges).

– The Declaration will grant to the Developer easements over portions of the adjacent University property for vehicular access and utilities.

– The Declaration mandates that the property will be used for the development of a high quality hotel and assigns responsibility for maintenance among the parties.

– The University has agreed not to allow the construction of a competing full service hotel on the adjoining Innovation District property for a period of 25 years.

– Mr. Hillman will be providing a letter of credit securing the cost of the Offsite Improvements on University land.
5. The Ground Lease

- The UMCPF Property III LLC will enter into a long-term ground lease for 75 years (up to 99 years if renewal options are exercised) with The Hotel at UMCP, LLC, an affiliate of David Hillman and Southern Management Corporation as developer for the private development of a high quality Hotel and Conference Center.

- The ground lease will establish the annual rent, the high quality hotel use restrictions, assignment restrictions, provisions relating to leasehold financing and lender foreclosure rights, construction quality and schedule requirements.

- The Hotel will consist of approximately 276 guest rooms, 23,500 square feet of ballroom, conference center and meeting space and ground floor retail space, plus a café, restaurant and bar within the Hotel. The Hotel will also have a penthouse lounge, swimming pool, fitness center and other amenities of a "Four Diamond" rated hotel as determined by the American Automobile Association as well as an adjacent 7 story parking garage with approximately 750 spaces that may also have some leasable space on the ground floor.

6. The Guaranty

- Mr. Hillman will provide a personal guaranty to the UMCPF Property III LLC and the University for the completion and opening of the Project in lieu of a completion bond or letter of credit.

This Project is expected to have a transformative effect on the campus and the community, with positive impacts on the local economy, the future viability of the research park, the proposed Innovation District and the revitalization of the College Park downtown. The University anticipates that documents will be completed and executed and groundbreaking will occur in 4th Quarter, 2015

**ALTERNATIVE:** This item is for the purpose of providing the Board with certain detail regarding the Hotel project transaction since its approval on December 6, 2013 and request approval for certain easements necessary for roadway and utility access to the project site and future Innovation District development. These easement areas are substantive to the site’s development.

**FISCAL IMPACT:** There is no direct fiscal impact to the University except for any value placed upon the easement areas. Although benefitting and necessary for the Hotel project, the associated roadway construction by the Developer completed within the easement areas would be future costs the University would bear as it pursued development of the larger Innovation District site. The easements provide long-term benefit to the University.

**CHANCELLOR’S RECOMMENDATION:** That the Board approve for the University granting approximately 2.0 acres of easement area within the Innovation District for the purpose of roadway and utility extension in support of the Hotel project and future University development as described above.

**COMMITTEE RECOMMENDATION:**

**DATE:**

**BOARD ACTION:**

**DATE:**

**SUBMITTED BY:** Joseph F. Vivona (301) 445-1923