



TOPIC: University of Maryland, Baltimore: Creation of Ground Lease on 100 N. Eutaw Street, 410 - 412 W. Fayette Street, 414- 418 W. Fayette Street and 405 Marion Street, Baltimore, Maryland

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: January 29, 2015

SUMMARY: The University of Maryland, Baltimore seeks approval to enter into a 75-year ground lease with an affiliate of Focus Development, LLC and Kinsley Equities III, L.P. (Developer) for the development of four University-owned properties located at 100 N. Eutaw St. (former Drovers & Mechanics National Bank Building), 410 - 412 W. Fayette St., (former Sons of Italy Building) 414- 418 W. Fayette St. (surface parking lot) and 405 Marion St. (vacant lot) in Baltimore City. (Attachment A)

The development site totals 35,615 SF (0.82 acres) and includes two historic structures and two surface lots. The site is on the edge of the campus in Baltimore's Westside neighborhood that is undergoing redevelopment. The two historic buildings are unoccupied and are not suitable for University uses without costly renovation. The larger of the two surface lots is currently used for University staff parking. The University president has been working with the Mayor of Baltimore City over the last two and a half years on the redevelopment of the City's Westside. The proposed development of this University property will improve almost an entire city block in the Westside and enhance the campus.

The Developer proposes rental housing and related amenities, compatible retail and office uses and parking. The ground lease will state prohibited uses such as adult entertainment, gambling, the sale of alcoholic beverages except in connection with the operation of a restaurant with table service or any other use that is not consistent with the University's mission. The Developer will be required to obtain necessary approvals from the Maryland Historic Trust as well as other required permits and licenses prior to the start of development. Construction will commence within 18 months of the lease's execution and be substantially complete within 36 months of the lease execution.

The negotiated term sheet provides the Developer with a purchase option by the Developer for the underlying fee interest in the property for \$3,000,000, subject to annual escalation of 2%, which shall commence on the third anniversary of substantial completion. The option will remain in effect for five years after substantial completion. Two appraisals have placed the current value of the properties at between \$2,870,000 (Jones Realty Advisors) and \$2,061,000 (Valbridge Property Advisors). The purchase will be subject to certain State of Maryland review processes and Board of Public Works approval.

Other key items included in the term sheet are: an annual ground rent of \$90,000 with annual escalations commencing the third year after substantial completion; the transaction must be structured in a manner that does not create debt or financial obligation for the University System of Maryland or the State of Maryland; a guarantee of construction completion; construction financing will have a maximum Loan to Value ratio of 75% and include EB-5 program funds; prior to commencing construction tenant must provide evidence of sufficient readily available funds to complete construction. University approval will be required for any material changes to proposed uses, site design, building massing, building and parking garage placement, and other exterior features; approval by Maryland Historical Trust; and compliance with WBE/MBE goals.

DEVELOPER: Affiliate of Focus Development, LLC and Kinsley Equities III, L.P.

ALTERNATIVE(S): Nine years ago the University attempted to enter into a similar development agreement that did not reach fruition. During the interim, the property has remained unusable and continues to deteriorate. The only alternative to the proposed improvements to these deteriorated properties is to allow them to continue to deteriorate. The University believes this proposal represents a quality development opportunity that will benefit both the University and the community.

FISCAL IMPACT: The University will realize an annual ground rent of \$90,000 to commence upon certificate of occupancy but no later than 42 months after execution of the ground lease. Commencing on the fifth year after the lease is executed, the annual rent will increase each year based on increases in the CPI index – all urban consumers for Washington-Baltimore DC-MD-VA-WV. Additionally, the University will avoid the annual expenses associated with maintaining and stabilizing the buildings.

CHANCELLOR’S RECOMMENDATION: That the Finance Committee recommend that the Board of Regents approve the terms of the negotiated term sheet, including the option for the developer to purchase the underlying interest in the property after substantial completion of the construction for the University properties located at 100 N. Eutaw Street, 410 - 412 W. Fayette Street, 414- 418 W. Fayette Street and 405 Marion Street in Baltimore City; and, delegate to the Chancellor the authority to execute, after appropriate legal review, all documentation required to establish a 75-year ground lease as described above, consistent with the University System of Maryland Policy and Procedures on the Acquisition and Disposition of Real Property. The University shall continue to work with the University System of Maryland Office of the Vice Chancellor for Administration and Finance and the Office of the Attorney General throughout the ground lease development processes. If there are any substantial changes to the negotiated ground lease terms as the document is being developed, UMB shall return to the Board of Regents to approve those changes.

COMMITTEE RECOMMENDATION: RECOMMEND APPROVAL

DATE: 1/29/15

BOARD ACTION:

DATE:

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

UNIVERSITY OF MARYLAND, BALTIMORE

