



TOPIC: University of Maryland, College Park: Modification of M Square Research Park Single Purpose Entities Leases

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: September 29, 2015

SUMMARY: The University of Maryland, College Park (UMCP) requests approval from the Board of Regents for a modification to the Senior Ground Lease, and existing and future Single Purpose Entities (SPE) leases at UMCP's M Square Research Park.

By way of background, in September 2007 UMCP, through a Senior Ground Lease, leased the 65-acre M Square Research Park to University of Maryland Enterprise Corporation (UMEC), a not-for-profit affiliate of UMCP. UMEC, in turn, was authorized to enter into "SPE leases" for each separate parcel of land to be developed in the Research Park. There are now two separate SPE leases in effect for each of the two developed properties: one is between UMEC and M Square 5825, LLC and the second is between UMEC and M Square 5850, LLC.

The modification sought for both existing and future SPE leases relates to the Permitted Use Clause. As now drafted, permitted use is limited to one of two categories. The primary use category, "University Related Use," includes research and development or academic uses or those uses that UMCP, in its discretion, determines to have either a present or future connection to the University. The second permitted use category is "Unrelated Use." An Unrelated Use does not need to have a University connection, but it is capped at ten percent of the square footage of the building. That ten percent cap may be increased, at UMCP's sole discretion, to 25 percent.

Third-party lenders treat the use restriction as an impairment on the value of the SPE leases. As such, the lenders increase the interest rate payable under the loan. In addition, lenders require the parent of the borrower (in this case, Corporate Office Property Trust) to provide a full payment and performance guaranty to increase the value of the SPE leases to an amount equal to the loan. Because Corporate Office Property Trust is a publicly traded company, it is required to report the guaranty as a liability, and the liability created by the guaranty has an adverse impact on its balance sheet.

To address the lending marketplace concern about the impact of the SPE lease use restrictions upon a lender's recourse in the event of foreclosure, UMCP wishes to remove the "University Related Use" use restriction **only in the event of a foreclosure**. UMCP believes the benefit from this change—more favorable lending terms—is both current and tangible. Today, each of the existing buildings at the M Square Research Park is 100% leased. In the future, UMCP believes growth prospects for the M Square Research Park are good and that there will be sufficient "University Related Use" prospective tenants to maintain project viability.

The form of the SPE leases is established by the Senior Ground Lease, which was previously approved by the Board of Public Works. BPW approval will also be required to make the SPE lease modifications described above.

ALTERNATIVES: The alternative is to not consent to the SPE lease modification. In that event, it is probable that a credit enhancement or some other less favorable lending term would be required.

FISCAL IMPACT: There is no direct fiscal impact to the University. Maintaining the existing SPE lease use restriction in the event of a foreclosure is expected to affect the lending terms for a proposed refinancing of the Research Park mortgages.

CHANCELLOR'S RECOMMENDATION: That the Finance Committee recommend that the Board of Regents approve for the University of Maryland, College Park the modification of the Senior Ground Lease and existing SPE leases; and, delegate to the Chancellor the authority to execute, after appropriate legal review by the Office of the Attorney General, all required documentation, all consistent with the University System of Maryland Policy "Acquisition and Disposition of Real Property."

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

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



M SQUARE
 The University of Maryland Research Park
 College Park, Maryland



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