**TOPIC:** University of Maryland, Baltimore: Approval to Sell 100 N. Eutaw St., 410-412 W. Fayette St., 414-418 W. Fayette St., and 405 Marion St., Baltimore, Maryland

**COMMITTEE:** Finance

**DATE OF COMMITTEE MEETING:** October 6, 2016

**SUMMARY:** The University of Maryland, Baltimore seeks approval to sell four University-owned properties to an affiliate of Focus Development, LLC. The properties are located at 100 N. Eutaw St. (the former Drovers & Mechanics National Bank Building; 410-412 W. Fayette St. (the former Sons of Italy Building); 414-418 W. Fayette St. (surface parking lot); and, 405 Marion St. (vacant lot). The site totals 35,615 SF (0.82 acres). The subject properties are depicted on Attachment A.

The buyer proposes a mixed use development that is between five and seven stories and includes approximately 220 residential apartments, a 120 car garage, and between 6,000 and 9,000 square feet of retail space. The buyer will be required to begin construction within eighteen months of the execution of the Agreement of Sale and be substantially complete within 36 months.

The proposed sale will be contingent upon the buyer having sufficient equity, debt and other resources in place as of the closing date to construct the project as planned and a Guaranty of Completion of Construction will be required from creditworthy entities or individual(s) other than the Buyer. Further, the buyer will be required to obtain any required approvals from the Maryland Historical Trust prior to closing.

**Prior Approvals:** At its February 13, 2015 meeting, the Board of Regents approved the creation of a single ground lease for the development of the four University-owned properties listed above, which are located adjacent to the campus (Attachment B). At its October 9, 2015 meeting, the Board of Regents approved a modification allowing for the creation of two ground leases instead of one to allow the developer to apply for historic tax credits on the former Drovers & Mechanics National Bank Building.

The tenant under the original approval and its approved modification was to be an affiliate of the Developer, Focus Development, LLC and Kinsley Equities III, L.P.

**Reason for New Approval:** There are substantial changes to the previous approvals that require Board of Regents approval.

- The prior development team (comprised of an affiliate of Focus Development, LLC and Kinsley Equities III, L.P.) has disbanded. Kinsley Equities III, L.P. and its affiliates are no longer interested in participating in the proposed development project. Focus Development, LLC is determined to proceed alone with the development, and has restructured the financing, reducing the overall size of the project as described above and eliminating the need for federal historic tax credits.

- In order to enhance the necessary financing, the Developer now wants to purchase the properties immediately, instead of entering into a ground lease arrangement with an option to buy the properties at a future date.
• The proposed purchase price is $1,883,000, which is lower than the future purchase price of $3,000,000 in the original and modified proposals. The revised purchase price is based on new appraisals completed in September 2016. The lower value of the properties is the result of reduction in the value of the properties due to the passage of time, based upon comparison to recent area property sales where prices were lower and the continuing deterioration of the two historic structures.

Requested Approval: In order to achieve the development of the properties as previously approved by the Board of Regents, the University seeks approval to sell the properties to an affiliate of Focus Development, LLC, subject to the requirement that the development of the project be substantially completed after the sale. Development control would be maintained by the University pursuant to an Agreement of Purchase and Sale or similar agreement. The purchase would be subject to certain State of Maryland review processes and Board of Public Works approval.

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<th>APPRAISALS:</th>
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<td>Valbridge Property Advisors</td>
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<td>Jones Realty Advisors</td>
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PURCHASER/DEVELOPER: Affiliate of Focus Development, LLC

ALTERNATIVE(S): One alternative to the proposed sale is for the University to retain ownership of the properties for some future undefined need. The two historic buildings would continue to deteriorate and the buildings would continue to contribute to the neighborhood blight. The University believes the proposed sale and the subsequent development of the properties represents an opportunity that will benefit both the University and the community and may not present itself again. A second alternative is to require the Developer to ground lease the property from the University as originally proposed. This could negatively impact the financial structure of the development deal and make the project infeasible.

FISCAL IMPACT: The University will receive $1,883,000 as a result of the sale of the properties. Additionally, the University will be relieved of the annual expenses for maintaining and stabilizing the buildings.

CHANCELLOR’S RECOMMENDATION: That the Finance Committee recommend that the Board of Regents approve the sale of the properties to an affiliate of Focus Development, LLC; and, delegate to the Chancellor the authority to execute, after appropriate legal review, all documentation required consistent with applicable University System of Maryland Policy and Procedures on the Acquisition and Disposition of Real Property.

COMMITTEE RECOMMENDATION: RECOMMEND APPROVAL DATE: 10/6/16

BOARD ACTION: DATE:

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

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COMMITTEE RECOMMENDATION: RECOMMEND APPROVAL  
DATE: 1/29/15

BOARD ACTION:  
DATE:

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