

**TOPIC:** University of Maryland, College Park: Amended and Restated Lease for Graduate Hills and Graduate Gardens Apartments

**COMMITTEE:** Finance

**DATE OF MEETING:** November 16, 2017

**SUMMARY:** The University, as lessor, requests approval from the Board of Regents to amend and restate a lease entered into with SMC Limited Partnership (“SMC”), as lessee, on February 1, 1995, as amended on December 6, 1995 and April 3, 2009 (collectively referred to as the “1995 Lease”), for Graduate Hills Apartments, in Hyattsville, MD, and the Graduate Gardens Apartments, in College Park, MD (collectively the “Apartment Property”).

Under the 1995 Lease, SMC committed a significant capital refurbishment investment in the Apartment Property and thereafter has operated and maintained the Apartment Property for UMD for the primary purpose of providing conveniently located, quality graduate student housing, at below market rents.

The original lease term expires on December 31, 2019; but the 1995 Lease provides SMC with four 15-year renewal options plus one 13-year renewal option, which, if exercised in total, could extend the lease term through December 31, 2092. SMC has requested that the 1995 Lease be amended and restated in the form of the Amended and Restated Lease for two purposes: 1) to simplify the agreement by deleting significant portions of the 1995 Lease that only address the initial refurbishment of the Apartment Property in 1995; and 2) to modify financial terms.

SMC has demonstrated to the University (“UMD”) and its financial consultant, Cushman and Wakefield, that the current financial structure under the 1995 Lease, by which UMD is paid rent equal to 30% of gross revenues, provides neither an adequate revenue stream for SMC to maintain its quality operations, nor an appropriate incentive for SMC to make on-going capital improvements to preserve and protect the Apartment Property. Pursuant to the Amended and Restated Lease, UMD will receive 85% of the net revenues and SMC will receive 15%.

In return, the Amended and Restated Lease addresses UMD concerns about the potential length of the lease term under the 1995 Lease. The Apartment Property most likely will have a higher and better use before December 2092. The Amended and Restated Lease allows UMD to terminate said lease beginning at the end of the 10<sup>th</sup> Lease Year (post December 31, 2028), by giving SMC 365 days’ notice. The Amended and Restated Lease addresses the parties’ financial concerns and deletes irrelevant provisions from the 1995 Lease, providing an updated and more viable lease agreement between the parties.

**LESSEE:** SMC Limited Partnership  
David H. Hillman, CEO  
Southern Management Corporations  
1950 Old Gallows Road, Suite 600  
Vienna, VA, 22182

**ALTERNATIVES:** The Board of Regents could reject this request, which would require UMD and SMC to operate under the 1995 Lease. If SMC declines to exercise its first renewal option (December 2019), UMD would need to find a new operator (with a financial structure like that in the Amended and Restated Lease) or, alternatively, directly manage the Apartment Property (assuming the corresponding payroll and operating costs).

**FISCAL IMPACT:** There will be a decrease in rent revenues for UMD, as shown on the attached financial analysis. The financial restructuring will, however, result in better long-term management of the Apartment Property and facilitate UMD's program of offering below-market rents to its graduate student community. In addition, the Amended and Restated Lease provides UMD with the right to reclaim possession of the Apartment Property if and when a higher and better use is identified.

**CHANCELLOR'S RECOMMENDATION:** That the Finance Committee recommend that the Board of Regents approve that UMD execute the Amended and Restated Lease with SMC.

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COMMITTEE RECOMMENDATION: RECOMMEND APPROVAL

DATE: 11/16/17

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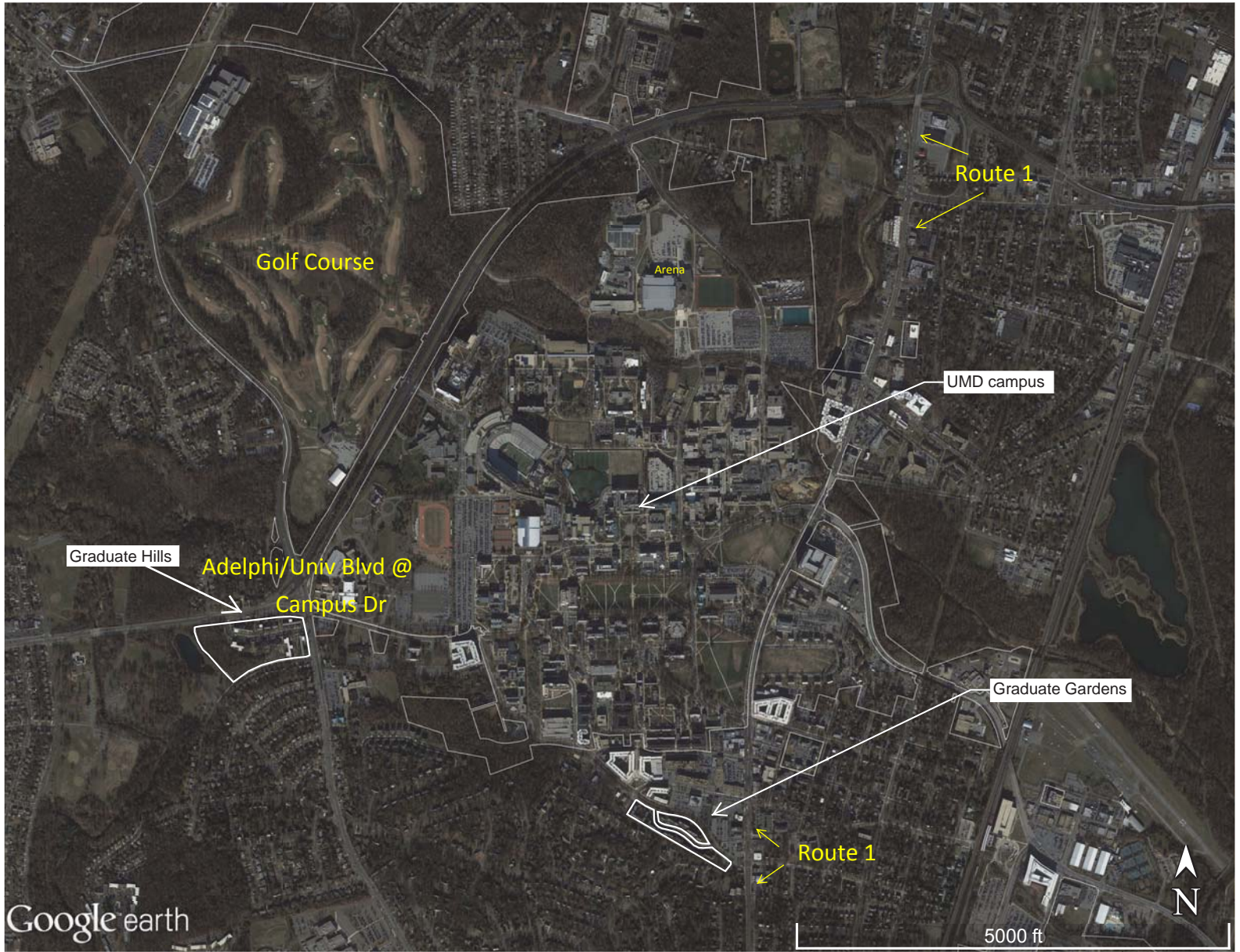
BOARD ACTION:

DATE:

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

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Comparison of Percentage Rent Calculation	2016	2015	2014	2013	4- Year Average
<b>1995 Lease - Existing Lease Terms with SMC to Operate Graduate Hills &amp; Gardens</b>					
UMD Ground Rent (30% of gross revenue)	\$2,042,506	\$2,055,639	\$2,001,790	\$1,875,946	\$1,993,970
SMC Property Cash Flow (after expenses)	(\$326,629)	\$502,720	\$272,725	(\$330,347)	\$29,617
<b>Amended &amp; Restated Lease UMD receives 85% Net Revenue</b>					
UMD Ground Rent (85% of net cash after expenses)	\$1,458,495	\$2,174,605	\$1,933,338	\$1,313,759	# \$1,720,049
Change in UMD Ground Rent vs. Current Terms	(\$584,011)	\$118,966	(\$68,452)	(\$562,187)	(\$273,921)
SMC Property Cash Flow (15% of net cash after expenses)	\$257,381	\$383,754	\$341,177	\$231,840	\$303,538

**Notes:**

1. GHG Property cash flows based upon combined property operating statements (2013 to 2016) provided by SMC
2. SMC invested \$1.4 million in equity into the property in 1995. Since then, SMC has covered expenses out of property cash flows. (No additional equity investments)
3. Under the 2017 University Final Offer, SMC would cover any future expense shortfalls which could not be covered by property cash flows.
4. SMC property cash flows shown above do not include its fee to manage the property, which payment of fees was not changed by the amended and restated lease.