

V. REPORT OF THE UNIVERSITY PRESIDENT

Establishment of UW Advisory Committee on Real EstateRECOMMENDED ACTION:

It is the recommendation of the administration that the Board of Regents establish an advisory committee to provide strategic advice on matters relating to the management of the University's commercial income producing properties and other significant real estate investments. The advisory committee, called the UW Advisory Committee on Real Estate ("ACRE"), shall be guided by the Statement of Principles adopted as part of this action.

BACKGROUND:

The Metropolitan Tract is the University's most significant income producing real estate asset. It is located in the central business district of Seattle, and is a large and complex asset for which the University has overall management responsibility. It was the site of the original campus of the University of Washington, and has been leased to private parties since the early 1900's for commercial development where income generated from the properties accrues to the University. Currently there are three long term leases for the property:

- Unico Master Lease: expires 2014 (Rainier Tower & Square, Financial Center, IBM Building, Puget Sound Plaza, & Skinner Building)
- Unico Cobb Lease: expires 2050 (Cobb Building)
- Fairmont Olympic Hotel Lease: expires 2040 (Olympic Hotel & Parking Garage)

At the April Board of Regents meeting, the Regents asked individual Board members to work with the administration to develop a recommendation regarding how best to obtain expert guidance on the future management of the Metropolitan Tract. This ad-hoc working group supports the establishment of a committee to advise the Board of Regents and President on management of the Metropolitan Tract as well as other significant real estate investments.

SCOPE AND COMPOSITION OF ADVISORY COMMITTEE:

The new advisory committee, ACRE, will initially focus on the Metropolitan Tract and provide advice on future real estate investments as requested by the President or the Board of Regents (and/or its appropriate committee).

V. REPORT OF THE UNIVERSITY PRESIDENT

Establishment of UW Advisory Committee on Real Estate (continued p. 2)

ACRE will provide strategic advice to the Board (and/or its appropriate committee) and the President (and/or his designee) on matters relating to the management of the Metropolitan Tract and other significant University investments in real estate assets.

ACRE will be comprised of both Regent and non-Regent members. One or two members of ACRE shall be selected from the Board of Regents. Non-Regent members will be professionals of varying backgrounds whose expertise brings added perspective to those responsible for the management of the University’s real estate. The President of the University shall also be a member of the Committee. It is expected that the ad-hoc working group will continue to serve until ACRE is fully appointed and functioning.

STATEMENT OF PRINCIPLES:

The structure and duties of ACRE are set forth in the Statement of Principles for the UW Advisory Committee on Real Estate (attachment 1). The Statement of Principles will be periodically reviewed and updated as needed. Changes will be approved by the Board of Regents. Key provisions include:

Statement of Principles	
Membership Total; Appointment	No more than 8 members; appointed by Regents
Regent Membership	1 or 2
Membership Term	3 years (renewable) Members serve at pleasure of Regents
Chair	Any member; appointed by Chair of the Board of Regents
Meeting Frequency	Regular meetings TBD and other meetings as needed
Conflict of Interest	Regent members governed by Regental policies. Members required to disclose and be recused from transactions in which they have a potential beneficial interest; transactions with members allowed if member recused

V. REPORT OF THE UNIVERSITY PRESIDENT

Establishment of UW Advisory Committee on Real Estate (continued p. 3)

FOCUS OF COMMITTEE:

Meetings of ACRE will focus on strategy and performance. This includes, but is not limited to, advice on: the real estate market, governance structure, performance goals, strategy and implementation. Experts who are not members of the Committee may be invited to attend specific meetings as may be determined by ACRE or its Chair, to provide additional guidance, advice and information.

APPOINTMENTS TO ACRE:

Appointments shall be based on recommendations submitted by the Chair of the Board of Regents, in consultation with the Chair of ACRE, the President of the University, and his or her designee(s).

CHAIR AND VICE CHAIR:

The Chair of the Board of Regents shall designate a Chair for ACRE from the committee membership. The Chair of ACRE shall designate a Vice Chair from the committee membership.

AUTHORITIES:

The governing authorities for exercising the University's real estate management responsibilities are set forth in the Statement of Authorities for Real Estate (attachment 2, for reference purposes only).

INVESTMENT POLICIES:

The Board of Regents will approve investment policies for the Metropolitan Tract, and changes thereto, based on recommendations of the Finance, Audit and Facilities Committee and with consideration of the advice of ACRE.

RECOMMENDATION FOR APPROVAL:

Creation of the new UW Advisory Committee on Real Estate as outlined above has been recommended by the President and the Senior Vice President. The Statement of Principles for the Advisory Committee has been reviewed by the Office of the Attorney General.

Attachments

1. Statement of Principles for UW Advisory Committee on Real Estate (for adoption)
2. Statement of Authorities for Real Estate (for reference)

Attachment 1

University of Washington Advisory Committee on Real Estate Statement of Principles

Adopted September 17, 2009

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the real properties of the University, including its Metropolitan Tract located in downtown Seattle. The Board approved the establishment of an Advisory Committee on Real Estate at its meeting on September 17, 2009, and adopted the following Statement of Principles:

1. **Membership and Terms:** The UW Advisory Committee on Real Estate ("ACRE") shall consist of no more than eight (8) members to be appointed by the Board of Regents. These appointments shall be based on recommendations submitted by the Chair of the Board of Regents after consultation with the Chair of ACRE, the President of the University and his or her designee(s).

One or two members shall be selected from the Board of Regents. The President of the University shall also be a member of ACRE. The remaining members shall be experienced professionals of varying backgrounds.

There shall be a three year term limitation for Regent and non-Regent members of ACRE, renewable by the Board of Regents. Members will be asked to make a minimum commitment of three consecutive years, and shall serve at the pleasure of the Board of Regents.

2. **Functions:** ACRE shall advise the Board of Regents (and/or its appropriate committee) and the President (and/or his designee) on matters relating to the management of the University's commercial income producing properties and other significant real estate investments.
3. **Meetings:** ACRE shall establish a regular meeting schedule. Other meetings may be called by the Chair at any time. The Chair of ACRE may invite experts who are not members of the ACRE to attend specific meetings to provide additional guidance, advice and information.
4. **Indemnification and Compensation:** The University shall indemnify members of ACRE to the fullest extent permitted by law and the standing orders of the Board of Regents. ACRE members will not be paid for service on the committee.

5. **Conflict of Interest:** Regental members of ACRE are governed by conflict of interest rules applicable to Regents. Non-Regent members shall comply with the following conflict of interest provisions:
 - A. When a member of ACRE knows that the University is considering a transaction in which he or she has or may have a beneficial interest, the member shall (1) alert the Senior Vice President (“SVP”) (or successor official) of the University of his or her potential beneficial interest and (2) not participate in the formulation or rendering of advice with respect to the transaction.
 - B. Committee members shall not participate in the formulation or rendering of advice by ACRE where their participation could be influenced by financial or other considerations that would conflict or could reasonably appear to conflict with their obligations to only consider the best interest of the University. Where a member is uncertain about the application of this rule to particular circumstances, he/she should consult the Chair of ACRE and the SVP, who may seek the advice of the Attorney General’s Office as appropriate.
 - C. Committee members may engage in transactions with the University if the Chair of ACRE and the SVP (who may consult with the Attorney General’s Office as she/he deems appropriate) determine that the member has not participated in the formulation or rendering of advice by ACRE to the University regarding the transaction.
6. **Chair and Vice Chair; Administrative Support:** The Chair of ACRE shall be designated by the Chair of the Board of Regents. The Chair of ACRE shall designate a Vice Chair from the committee membership. During the absence of the Chair or while he/she is unable to act, the Vice Chair shall perform the duties and exercise the powers of the Chair. The SVP shall ensure that ACRE has appropriate administrative support services, including secretarial assistance and record keeping.
7. **Communication:** The Chair of ACRE shall provide quarterly reports to the Board of Regents (and/or its designated committee).
8. **Amendments:** This Statement of Principles shall be reviewed annually and updated as needed. Amendments, additions, deletions or replacements may be recommended by ACRE. Such changes shall be subject to the approval of the President of the University and the Board of Regents.

**Attachment 2
(for reference only)**

**University Of Washington
Statement of Authorities for Real Estate**

Introduction:

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the properties of the University, including the Metropolitan Tract. This Statement of Authorities sets forth the governing authorities for management of the Metropolitan Tract. This statement is effective until modified by the Board.

A. Authority

1. **Deeds.** Deeds to the original 10-acre property, which was a gift to the State of Washington, express the donors' intent that the Metropolitan Tract be used for University purposes, and place limitations on authority by requiring that proceeds from sale¹ may only be used for:
 - i. Purchase land for the University
 - ii. University buildings and improvements
 - iii. Remainder invested as legislature prescribes, with interest used to maintain the University (principal may be used to construct University buildings).

2. **Statute.** By state law, with respect to the Metropolitan Tract², the Board of Regents has certain authorities and restrictions:
 - i. **Authority to:**
 1. **Lease** land or buildings for up to 80 years
 2. **Manage**, improve, alter, operate, lease, own, and control land and buildings
 3. **Use and pledge income** from managing, operating and leasing
 4. **Borrow** funds for land and buildings, and grant deeds of trust or mortgage liens on buildings
 5. **Sell buildings** (subject to underlying leases on land)
 - ii. **Restrictions**
 1. **Cannot sell land** without legislative approval
 2. **Cannot lease** land or buildings for **over 80 years** without legislative approval
 3. **Sale or lease proceeds** to be used for (in following order)
 - (1) **Maintenance and improvements on Tract**
 - (2) Remainder **appropriated** by legislature to erect, alter, maintain, equip or furnish **University buildings** after **debt service** on certain capital projects (e.g., Law School)
 4. Activities with respect to Tract must be **"consistent with purpose" of original donors** of Tract

B. Delegation of Authority (existing)

1. Board of Regents

- i. By statute, the Board of Regents has full control of the University and its property of various kinds, except as otherwise provided by law.
- ii. Statutory authority and restrictions on control of the Metropolitan Tract are set forth above.

¹ Proceeds from leasing is not addressed in deeds.

² Statutory authorities and restrictions may not apply to UW owned land adjacent to the original 10-acre Metropolitan Tract.

- 2. Board of Regents Finance, Audit and Facilities Committee (UW BoR Bylaws March 17, 2005)**
 - i. The Finance, Audit and Facilities Committee (FAF) reviews and makes recommendations to the Board on the ownership, management, leasing and development of the University's real property, including the Metropolitan Tract.

- 3. Delegation to President (Standing Orders)**
 - i. The President of the University or the President's designee is authorized to act for the Board of Regents regarding the execution and administration of instruments and the general business and financial affairs of the University which occur in the usual course of business, with a number of exceptions.
 - ii. One of these exceptions is the execution of instruments relating to real property, including the Metropolitan Tract, where the anticipated cost or value to the University exceeds \$1,000,000.
 - iii. Notwithstanding this dollar limit, the President or the President's designee is authorized to act for the Board of Regents regarding the execution and administration of all instruments, business affairs, and operations relating to leases of real property and modifications thereto of up to 20 years, and real property acquired through gift or devise.

C. Special Committee on the Future of the Metropolitan Tract

1. In April 2009, the Board of Regents created an ad hoc committee called the Special Committee on the Future of the Metropolitan Tract (SCFMT). The SCFMT is comprised of three Regents with the Chair of the Board serving as an ex-officio member.

2. The SCFMT was created to address the impending expiration of the long-term master lease with Unico Properties LLC in 2014, and other strategic matters related to the Metropolitan Tract.

D. Contractual Relationships

1. Leases
 - i. Unico – Master Lease (Skinner, IBM, Financial Center, Puget Sound Plaza, Rainier Tower and Square)
 - ii. Unico – Cobb Building
 - iii. Fairmont Olympic Hotel

2. Subleases
 - i. Rainier Tower Sublease – UW