

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee**University of Washington Bothell – Acquisition of Student Housing**RECOMMENDATION:**

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents:

- 1) Approve the purchase of the Beardslee Cove Apartments property for \$10,937,000;
- 2) Approve the use of the Internal Lending Program to fund up to \$13,000,000 in acquisition, property improvement, furniture, real estate, and debt costs of issuance; and
- 3) Delegate to the President the authority to execute all documents related to this transaction.

BACKGROUND:**Purpose and Benefit**

The University of Washington Bothell launched a student housing program in 2009 by master leasing existing apartment properties near the campus. Student housing demand has continued to grow and in order to meet this demand UW Bothell proposes to acquire the Beardslee Cove Apartments, a 4.4 acre existing apartment property contiguous with the campus boundary. The acquisition of Beardslee Cove Apartments will provide approximately 244 student housing beds and can be available for fall 2011 occupancy allowing the campus to maintain momentum in the housing program development. The proposed acquisition property has unused development capacity for future campus needs and may reduce the capital investment needed for costly parking structures. Beardslee Cove Apartments is a strategic acquisition that will provide student-centered housing in support of UW Bothell's 21st Century Campus Initiative and in a manner that is consistent with the campus master plan.

Property Description

The property, located at 18632 Beardslee Blvd, Bothell, WA contiguous with UW Bothell Campus, was constructed in 1986 and consists of approximately 70,722 GSF on a site that is 4.4 acres. The building has 90 residential units (45-1 bedroom and 45-2 bedroom units), a community center building, and 180 parking

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spaces. The property is owned by Beardslee Cove Apartments LLC and is zoned for dormitories, student housing, multi-family etc.

Purchase of Real Estate

The Purchase and Sale Agreement for the Beardslee Cove Apartments contains the following terms:

- 1) Seller: Beardslee Cove Apartments, LLC
- 2) Purchase Price: \$10,500,000 + University to pay Seller's prepayment penalty estimated at \$250,000 and excise tax at \$187,000 for a total purchase price of \$10,937,000.
- 3) Closing Date: On or before April 29, 2011
- 4) Contingencies:
 - a. UW approval of property condition – Phase 1 environmental assessment has been completed and shows no environmental issues. A building condition assessment was completed and delineates normal wear and tear.
 - b. UW approval of title report – In progress; no substantive issues identified.
 - c. Regents approval – Pending

Property Management

A third-party property manager will coordinate all lease terminations and minor renovation work in preparation for conversion of the property to student housing uses for fall of 2011. Interim management is planned to be in place through September 2012, after which time UW Bothell will manage the property internally.

FINANCING PLAN AND CREDIT ANALYSIS

The proposed total purchase price is \$10,937,000 and the total amount requested to be funded from the Internal Lending Program is \$12,965,000 to include the purchase price, furniture, property improvements and transaction costs. Sources and uses of the project are below:

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Sources and Uses of Funds (\$000)

<u>Sources of Funds</u>	
Internal Lending Program Loan	12,965
Total Sources of Funds	12,965
<u>Uses of funds</u>	
Purchase price	10,500
Excise Tax	187
Prepayment penalty on sellers loan	250
Total Purchase Price	10,937
Property Improvement Costs	1,300
Real Estate Transaction Costs	80
Furniture	400
Contingency	120
Loan cost of issuance	128
Total Other Costs	2,028
Total Uses of Funds	12,965
Annual Loan Payment	892

The Treasury Office performed a credit analysis of the Beardslee Cove purchase as part of the due diligence for this borrowing. This credit analysis looked at the project on a standalone basis, although UW Bothell unrestricted reserves will also be available for debt service.

Project debt will be repaid from apartment rental revenue. The base case proforma (attachment 3) shows positive cash flow and minimum debt service coverage in the first year with the coverage ratios and reserves growing over the planning period.

Key assumptions include:

- Freshmen class growing from 500 in 2011 to 1,000 in 2018
- Percentage of freshman living in housing 30% in 2011 growing to 35% by 2018
- Rents and operating expenses increasing at 3% annually

As shown in attachment 4, two risks were stress-tested: a smaller than expected freshman class size and an increase in the costs of improving the property prior to

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UW use. Under each individual stress, the project generates a positive cash flow and minimum coverage by the second year of operation. Under a “worst case” scenario, where there is both a smaller than expected freshman class and increased improvement costs, the project maintains coverage above 1 times and reaches minimum coverage by the fourth year of operation.

In the event that revenue targets are not met, UW Bothell could make the units available to Cascadia students, reduce capital expenses, and use reserves to fund debt service, or make some of the units available to the general public.

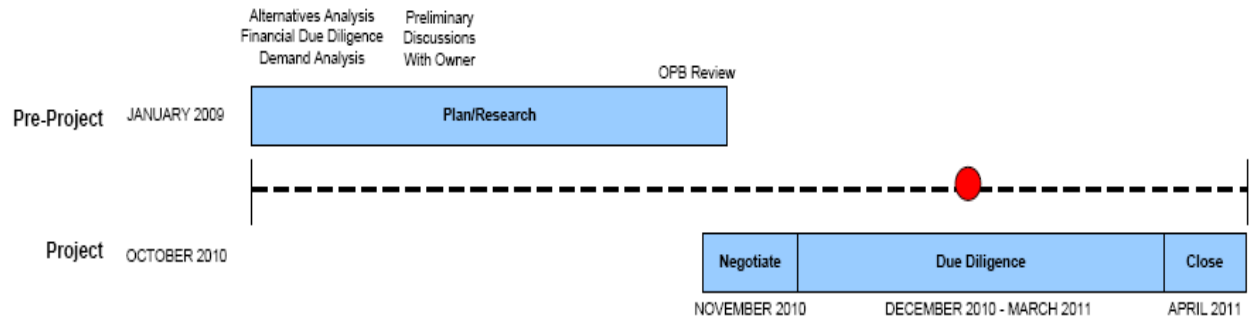
REVIEW & APPROVALS

Purchase of the Beardslee Cove Apartment Building and financing of the purchase price has been reviewed and recommended for approval by the Chief Real Estate Officer, the Senior Vice President and the Chancellor and Vice Chancellor for UW Bothell.

Attachments

1. Acquisition Timeline
2. Site Map
3. Beardslee Cover Purchase – Ten Year Operating Proforma
4. Beardslee Cove Purchase – Stress Test

Acquisition Timeline



ATTACHMENT 1

Site Map



ATTACHMENT 2

F-8.2/202-11
2/17/11

Beardslee Cove Purchase - Ten Year Operating Proforma

Rent per Bed (3% annual rent increase)	\$695	\$716	\$737	\$759	\$782	\$806	\$830	\$855	\$880	\$907
REVENUE	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
1 BR/1BA	750,600	773,118	796,312	820,201	844,807	870,151	896,256	923,143	950,838	979,363
2BR/1BA	650,520	670,036	690,137	710,841	732,166	754,131	776,755	800,058	824,059	848,781
2 BR/2BA	633,840	652,855	672,441	692,614	713,393	734,794	756,838	779,543	802,930	827,017
Gross Potential Rent	2,034,960	2,096,009	2,158,889	2,223,656	2,290,365	2,359,076	2,429,849	2,502,744	2,577,826	2,655,161
Less 8% Vacancy (incl. lease-up in year 1)	(265,430)	(167,681)	(172,711)	(177,892)	(183,229)	(188,726)	(194,388)	(200,220)	(206,226)	(212,413)
Nonrefundable fees	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500
Total Revenue	1,781,030	1,939,828	1,997,678	2,057,263	2,118,636	2,181,850	2,246,961	2,314,025	2,383,100	2,454,248
OPERATING EXPENSES										
Property Expenses	413,269	425,667	438,437	451,590	465,138	479,092	493,465	508,269	523,517	539,222
Program Expenses	263,960	271,879	280,035	288,436	297,089	306,002	315,182	324,638	334,377	344,408
Total Operating Expenses	677,229	697,546	718,472	740,026	762,227	785,094	808,647	832,906	857,893	883,630
Net Cash Flow before Debt Service	1,103,801	1,242,282	1,279,206	1,317,237	1,356,409	1,396,756	1,438,314	1,481,118	1,525,207	1,570,618
Debt Service (\$13 million at 5.5%, 30 years)	892,087	892,087	892,087	892,087	892,087	892,087	892,087	892,087	892,087	892,087
Debt Service Coverage Ratio	1.24	1.39	1.43	1.48	1.52	1.57	1.61	1.66	1.71	1.76
Net Cash Flow after Debt Service	211,714	350,195	387,119	425,150	464,322	504,669	546,227	589,031	633,120	678,531
Reserve Calculations										
Beginning Property Reserves	-	211,714	432,410	690,028	947,578	1,282,400	1,657,569	2,009,296	2,468,828	2,972,448
Addition to reserves	211,714	350,195	387,119	425,150	464,322	504,669	546,227	589,031	633,120	678,531
Capital Improvements	-	(129,500)	(129,500)	(167,600)	(129,500)	(129,500)	(194,500)	(129,500)	(129,500)	(129,500)
Ending Reserves	211,714	432,410	690,028	947,578	1,282,400	1,657,569	2,009,296	2,468,828	2,972,448	3,521,479
Minimum reserves	(892,087)	(892,087)	(892,087)	(892,087)	(892,087)	(892,087)	(892,087)	(892,087)	(892,087)	(892,087)
Over/under minimum reserves	(680,373)	(459,677)	(202,059)	55,491	390,313	765,482	1,117,209	1,576,741	2,080,361	2,629,392

ATTACHMENT 3

Beardslee Cove Purchase – Stress Test

	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
Stress Test #1: Loan amount increases to 14 million because of additional up front costs:										
Net Cash Flow before Debt Service	1,103,801	1,242,282	1,279,206	1,317,237	1,356,409	1,396,756	1,438,314	1,481,118	1,525,207	1,570,618
Annual Debt Service (14 million)	963,275	963,275	963,275	963,275	963,275	963,275	963,275	963,275	963,275	963,275
Debt Service Coverage Ratio	1.15	1.29	1.33	1.37	1.41	1.45	1.49	1.54	1.58	1.63
Ending Reserves	211,714	432,410	690,028	947,578	1,282,400	1,657,569	2,009,296	2,468,828	2,972,448	3,521,479
Stress Test #2: Freshman class remains flat:										
Net Cash Flow before Debt Service	1,044,702	1,114,778	1,185,875	1,222,025	1,259,260	1,297,612	1,337,114	1,377,801	1,419,709	1,462,875
Annual Debt Service (13 million)	892,087	892,087	892,087	892,087	892,087	892,087	892,087	892,087	892,087	892,087
Debt Service Coverage Ratio	1.17	1.25	1.33	1.37	1.41	1.45	1.50	1.54	1.59	1.64
Ending Reserves	152,615	245,806	410,094	572,432	810,104	1,086,129	1,336,656	1,692,870	2,090,992	2,532,280
Stress Test #1 & 2 combined										
Net Cash Flow before Debt Service	1,044,702	1,114,778	1,185,875	1,222,025	1,259,260	1,297,612	1,337,114	1,377,801	1,419,709	1,462,875
Annual Debt Service (14 million)	963,275	963,275	963,275	963,275	963,275	963,275	963,275	963,275	963,275	963,275
Debt Service Coverage Ratio	1.08	1.16	1.23	1.27	1.31	1.35	1.39	1.43	1.47	1.52
Ending Reserves	81,427	103,429	196,528	287,678	454,162	658,998	838,337	1,123,362	1,450,296	1,820,395

ATTACHMENT 4