

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee****Purchase of Cavalier Apartment Building****RECOMMENDED ACTION:**

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 Cavalier Apartments property for \$6.4 million;
2. Approve the use of the Internal Lending Program to fund up to \$6.5 million in acquisition costs; and
3. Delegate to the president or his designee the authority to execute all documents related to this transaction.

BACKGROUND:

Property Description: The Cavalier Apartments, located at 1303 NE Campus Parkway at the corner of Brooklyn Ave NE and NE Campus Parkway, was constructed in 1926 and consists of approximately 52,250 GSF on a site that is 10,300 SF. The building has 48 residential units on 5 floors (studios and 1 bedroom units), one commercial unit (hair salon), and garage parking for 35 vehicles. Current zoning is MIO-105-MR (Major Institutional Overlay, 105' height limit, Multi-Family Residential). The property is owned by the Raden Family LLC. All of the other property on this block is owned by UW.

Purpose and Benefit: Purchase of the Cavalier Apartments is a component of Housing and Food Services' (HFS) Master Plan, and the site has been identified for future student housing. UW Campus Plan Site 35, which contains the Cavalier Apartments, will be redeveloped in the first phase of the Housing Master Plan. Demolition of the Cavalier and subsequent redevelopment of Site 35 will result in a residence hall for 450-500 undergraduate students. Design is currently underway by Mahlum Architects.

Purchase of Real Estate: A purchase price of \$6.6 million was originally negotiated with the seller. After the November Regents meeting, further negotiations resulted in a reduction of the price to \$6.4 million, with all other terms remaining the same.

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The Purchase and Sale Agreement for the Cavalier contains the following essential business terms:

- Seller: The Raden Family, LLC
- Purchase Price: \$6,400,000
- Closing Date: December 31, 2008
- Contingencies:
 - UW approval of property condition
 - UW approval of title report
 - Regent and HEC Board Approval

Current market information:

Although the national and regional economies have declined over the past 6 months and recovery is not expected for 12 or more months, the apartment sector is likely to fare better than most property types. According to Dupre + Scott, vacancy rates in North Seattle were 2.3% in October 2008 and have a five-year average of 3.2%. The University District is unique because the student population stabilizes this market and provides continuous demand.

The first appraisal of the property was in March 2008 at \$6,600,000. A second appraisal was obtained to determine the impact of current economic conditions on the market value. This new appraisal, as of December 2, 2008, places the market value at \$6,200,000. The major difference between the two appraisals is in the income approach to value, due to the capitalization rate moving from 5% to 5.75%. It should be noted that the second appraiser used a vacancy rate of 4%, which is conservative compared to the 2008 vacancy rate and five-year average for the area, and the sales comparison approach resulted in a value of \$6,600,000 in both appraisals.

The property continues to be fully occupied, and no decrease in Net Operating Income was demonstrated during the interim between the two appraisals.

Property Condition:

Phase 1 and Phase 2 environmental assessments have been completed and show no environmental issues. A building condition assessment was completed and only minor items were noted. The building is not on local, state or federal historic registers, but it is listed on Seattle's "Potentially Eligible" Historic Resources Survey.

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Financing Plan:

Although this building site is a key element of the Housing Master Plan and is planned for demolition, for purposes of financial analysis the base-case assumption is that the building continues to be operated as apartments with potential conversion to student housing. The property acquisition is affordable to HFS and is not dependent on successful future phases of the Housing Master Plan. Over the planning period, HFS debt service coverage averages 2 times and available reserve balances average \$18 million per year (see financial analysis spreadsheet attached).

Interim Management Plan:

Until demolition, the existing apartment rentals will be continued with current tenants and managed by a third-party property manager. Interim management is expected through June 2010, at which time the property would be fully vacated in preparation for demolition. Tenant relocation requirements may apply and the interim management plan will consider the appropriate tenant relocation process. If for any reason demolition isn't feasible, the building will be converted to student use with management by HFS.

REVIEW & APPROVAL

Purchase of the Cavalier Apartment Building and financing of the purchase price has been reviewed and recommended for approval by the Senior Vice President, Finance & Facilities, the Vice Provost, Student Life, the Director of Housing & Food Services, the Assistant Vice President, Treasury, and the Director of Real Estate.

Attachments:

1. Map
2. Proforma

The map shows the University of Washington campus with various buildings and streets. A red box highlights the Cavalier Apartments, which are located between NE 40th Street and NE 41st Street, near the Arts Ticket Office and W6/W7 buildings. A red arrow points from the Cavalier Apartments to the Arts Ticket Office. A red box labeled '35W' is also shown near the Community Design Center. The map includes a legend for 'Cavalier Apartments' and '35W'.

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Housing and Food Services Summary Proforma FY 2008-2018
Cavalier Purchase as Standalone

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Operating Revenue (1)	55,758	58,151	60,917	63,341	65,862	68,484	71,210	74,044	76,992	80,058	83,245
Total Operating Expense	43,790	47,392	49,393	51,369	53,423	55,560	57,783	60,094	61,939	63,859	65,854
Net Operating Income	11,968	10,759	11,524	11,973	12,439	12,923	13,427	13,950	15,053	16,199	17,391
Operating Income Public Private Partnerships	7,625	7,930	8,248	8,578	8,921	9,278	9,649	10,035	10,436	10,853	11,288
Non Operating Income	3,789	2,512	2,591	2,716	2,834	2,972	2,773	2,678	2,862	3,064	3,285
Total Income Before Debt Service and Capital Expenses	15,757	13,272	14,115	14,688	15,273	15,895	16,200	16,629	17,915	19,263	20,675
Debt Service											
HFS Debt Service	5,766	5,749	5,746	5,736	5,739	5,741	5,175	5,173	5,169	5,175	5,168
Cavalier Debt Service	-	241	481	481	481	481	481	481	481	481	481
Public Private Debt Service	6,243	6,204	6,312	6,421	6,540	6,653	6,718	6,797	6,894	6,902	6,875
Total Debt Service	12,009	12,194	12,539	12,638	12,760	12,875	12,374	12,451	12,544	12,558	12,524
HFS System Coverage	2.73	2.22	2.27	2.36	2.46	2.55	2.86	2.94	3.17	3.41	3.66
Total System Coverage (2)	1.75	1.66	1.71	1.77	1.83	1.89	2.02	2.07	2.19	2.33	2.48
HFS Capital Expenses (3)	5,300	6,862	7,214	6,188	6,761	7,646	8,663	9,829	11,168	12,704	14,469
HFS Income after Capital Expenses and Debt Service	4,690	420	674	2,283	2,292	2,026	1,881	1,145	1,098	903	558
HFS Beginning Reserve Balance	8,077	12,768	13,188	13,862	16,145	18,437	20,463	22,345	23,490	24,588	25,491
Plus HFS Income	4,690	420	674	2,283	2,292	2,026	1,881	1,145	1,098	903	558
Ending Reserve Balance	12,768	13,188	13,862	16,145	18,437	20,463	22,345	23,490	24,588	25,491	26,049
Reserve Balance distribution											
Repair and Replacement Fund	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Facility Improvement Fund	8,476	8,666	9,106	11,140	13,171	14,924	16,874	18,342	19,748	20,944	21,778
Retail and Remote Fund	1,291	1,521	1,756	2,005	2,266	2,540	2,471	2,148	1,840	1,547	1,270
Total Reserve	12,768	13,188	13,862	16,145	18,437	20,463	22,345	23,490	24,588	25,491	26,049

NOTES:

(1) Includes Housing and Dining System and Retail and Remote

(2) Includes debt service for Housing and Dining System, Retail and Remote, and Public Private Partnerships

(3) Includes \$2.7M in capital expenses for Cavalier upgrades in FY 2009-2010

Attachment 2