

November 4, 2015

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: Utah State University – Acquisition of Property and Accompanying Revenue Bond Authorization Request

Issue

Utah State University (USU) requests authorization to purchase a 2.5 acre property with three student apartment buildings and a 2.5 acre ground lease for \$20 million. USU also seeks approval to request bonding authorization of the Utah State Legislature. The facilities are located at 1111 North 800 East in Logan, Utah.

Background

The 2.5 acre property includes three apartment buildings with 146,697 gross square feet in 92 units with 255 beds. The property owner negotiated a long-term ground lease with the University for an additional 2.5 acres owned by the University adjacent to the property. As part of that lease the University was given the right of first refusal for the property, which recently became available. USU requests authorization to purchase this property and the ground lease interest which includes an access and utility easement. The appraised value for the property is \$19.2 million and the appraised value of the ground lease interest is \$1.36 million.

USU requests approval to acquire the property and to obtain legislative authorization to bond for the \$20 million needed to purchase the property. The bonds will be issued as part of the USU Housing Revenue Bond System and will be deceased with rental income. If approved by the Legislature, the final financing arrangements for the bond will be brought back to the Regents for approval. No state appropriated funding for ongoing operation and maintenance (O&M) or capital improvements will be requested.

Additional details regarding this project may be found in the attached letter from the University and an executive summary of the property appraisal. Representatives from the University will be at the meeting to address questions from the Regents.

Commissioner's Recommendation

The Commissioner recommends that the Regents, after careful consideration of the merits of the project, approve the University's request to acquire property at 1111 North 800 East in Logan, Utah including authorization to request legislative authority to bond.

David L. Buhler
Commissioner of Higher Education

DLB/GLS/RPA
Attachment

October 20, 2015

Commissioner David L. Buhler
Utah State Board of Regents
Board of Regents Building The Gateway
60 South 400 West
Salt Lake City, Utah 84101-1284

Subject: Property Acquisition

Dear Commissioner Buhler:

Utah State University (USU) desires to exercise its option to purchase a parcel of developed commercial land that includes three buildings located at 1111 North 800 East, Logan Utah. The buildings together include 92 student apartment units with 255 beds and a modest amount of commercial space currently used for restaurants.

Both parties have obtained independent appraisals and have tentatively agreed upon a purchase price at fair market value. The purchase will be funded using bonds issued under the housing revenue bond system.

USU Facilities has inspected and evaluated the overall condition of the buildings including internal systems, roof, structure, etc. and found them to be in good condition.

We appreciate your support and ask that you present this item to the Board of Regents for approval during the November 13, 2015 meeting. This request will receive Board of Trustees approval on October 30, 2015.

Sincerely,



David T. Cowley
Vice President for
Business and Finance

C: Gregory L. Stauffer, Associate Commissioner for Planning, Finance, & Facilities
Rich Amon, Assistant Commissioner for Business Operations
Stan Albrecht, President
Charles Darnell, Associate Vice President for Facilities

Executive Summary

Property Name	Blue Square At Utah State	
Location	1111 North 800 East, Logan, Cache County, Utah 84341	
Highest and Best Use		
As If Vacant	Student Apartment	
As Improved	Student Apartment	
Property Rights Appraised	Fee Simple	
Date of Report	July 6, 2015	
Date of Inspection	February 3, 2015	
Estimated Exposure Time	6 Months	
Estimated Marketing Time	6 Months	
Land Area (Improved)	2.57 AC	111,949 SF
Ground Leased Land Area	2.50 AC	108,900 SF
Easement Land Area	1.05 AC	45,738 SF
Improvements		
Property Type	Apartment	(Multi-family Student Housing)
Number of Buildings	3	
Number of Stories	4	
Gross Building Area	146,697 SF	
Net Rentable Area - Residential	101,410 SF	
Net Rentable Area - Retail	5,775 SF	
Number of Units	92	
Number of Bedrooms	223	
Number of Beds	255	
Average Unit Size	1,102 SF	
Average Bedroom Size	455 SF	
Year Built	2012-2013	
Condition	Excellent	
Buyer Profile	Utah State University	
Financial Indicators		
Current Occupancy	98.8%	
Stabilized Occupancy and Credit Loss	95.0%	
Overall Capitalization Rate	5.90%	
Pro Forma Operating Data	Total	Per Bed
Effective Gross Income	\$1,905,908	\$7,474
Operating Expenses	\$565,269	\$2,217
Expense Ratio	29.66%	
Net Operating Income	\$1,340,639	\$5,257

VALUATION		Total	Per Bedroom
Ground Lease Land Value		\$2,700,000	\$10,900
Market Value As Is On	February 3, 2015	Total	Per Bed
Sales Comparison Approach		\$19,300,000	\$75,686
Income Capitalization Approach		\$19,200,000	\$75,294
Insurable Value		\$13,600,000	\$53,333
CONCLUDED MARKET VALUE			
Appraisal Premise	Interest Appraised	Date of Value	Value
As Is	Fee Simple	February 3, 2015	\$19,200,000
As Is Ground Lease	Leasehold Interest	February 3, 2015	\$1,360,000
Compiled by CBRE			

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Strengths/ Opportunities

- The subject is 98.8% leased for the current school year.
- The subject is 100% pre-leased for the summer months with a waiting list.
- The subject is 47% pre-leased for the 2015-2016 school year.
- The subject offers private bathrooms for each bedroom.
- The subject's interior finish is well above average for student housing.
- The subject is the newest student housing project in the neighborhood.
- The subject is adjacent to the USU campus boundaries.

Weaknesses/ Threats

- The subject's rent levels are among the highest in the area.
- There are two new student housing projects currently under construction (Aggie Factory and Independence).
- The subject's location on the northwest edge of campus is well away from the student union building and main core of campus classes.

EXTRAORDINARY ASSUMPTIONS

An extraordinary assumption is defined as "an assumption directly related to a specific assignment, as of the effective date of the assignment results, which if found to be false, could alter the appraiser's opinions or conclusions."¹

- The rent roll and on-site manager reported a total of 92 units while the owners indicated 93 units. No support has been provided for the 93 units; therefore we have relied on the information provided in the rent roll of 92 total units, 223 bedrooms, and 255 total beds.
- The gross square footage was taken from a "cost segmentation" report provided by the owners. We have not been able to verify the gross square footage but have relied on the information provided.
- The Cache County Records reflect a small section of land between the subject site and the ground lease land that is owned by Logan City on which a portion of the subject's parking is

¹ The Appraisal Foundation, USPAP, 2014-2015 ed., U-3.

located. The subject's owners have reported that this section of land was annexed to Utah State University and is now part of the ground lease land.

- It is an extraordinary assumption of this report that the subject is legally conforming as to parking.
- The subject was inspected on February 3rd 2015. It is an extraordinary assumptions that as of the report date the subject is in the same condition as it was at the time of inspection and that all reported financial and rent roll information is consistent as previously reported as well.

If subsequent information is provided contrary to the assumptions made we reserve the right to make the appropriate changes to our value conclusions herein.

The use of extraordinary assumptions may have an effect on the value conclusions.

HYPOTHETICAL CONDITIONS

A hypothetical condition is defined as "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purposes of analysis." ²

- None noted

² The Appraisal Foundation, *USPAP*, 2014-2015 ed., U-3.