

## Acquisition of Leasehold Interest

### BACKGROUND

#### Lease Agreement

The GEM is a student housing facility located on the OSU campus at 155 NW Kings Boulevard in Corvallis, Oregon. The facility includes approximately 121,000 square feet on seven floors and a basement level. The facility was originally constructed in 1966 and underwent a major renovation that was completed in 2006. The majority of the 231 residential units are studio apartments, with some one-, two-, and three-bedroom units. In addition to residential units, the facility also contains a number of residential amenities, including community lounges, kitchens, a fitness center, a mailroom, and laundry facilities.

The GEM is owned by OSU but privately operated pursuant to a 35-year public-private partnership (“P3”) ground lease agreement signed in spring 2004 with College Housing Northwest (“CHNW”), a non-profit student housing provider. The lease has provisions for termination prior to the 35-year term and the agreement could terminate as early as June of 2038.

As part of the initial lease agreement, CHNW completed a \$19.32M renovation of the property in May 2006. This renovation was funded by \$19.32M in revenue bonds issued by the State of Oregon on behalf of the Oregon Facilities Authority.

In exchange for renovating the property, CHNW as the leaseholder is allowed to retain 15% of the net cash flow after all expenses, including debt service, and is reimbursed by the project for all operating costs. CHNW also receives a management fee of 5% of gross rent revenues, and a 1% asset management fee.

### NEGOTIATIONS TO DATE

Informal, nonbinding negotiations with CHNW were first discussed in 2016 and began in earnest in 2019. Throughout this time, the GEM leasehold interest acquisition has been consistently reported on the OSU ten-year capital forecasts (all versions since 2017) as the “GEM Equity Buyout” project, slotted for the current biennium. The forecast amount applies to both the acquisition of the CHNW leasehold interest plus applicable and subsequent renovation work once OSU fully reacquires the GEM.

Since the April OSU Board of Trustees meeting, nonbinding negotiations have continued and advanced as noted below.

Discussions with CHNW are continuing and focused primarily on the following terms:

- Development of a “Letter of Intent Regarding the GEM” (“LOI”) between OSU and CHNW that frames the key deal parameters and intentions around the leasehold interest acquisition;
- Defeasance of the existing bonds, less any applicable bond-related reserves;
- Payment to CHNW of a termination price, consistent with prior nonbinding negotiated estimates, representing the net present value of CHNW’s estimated management fees and cash share portions for the balance of the lease term;

- Inclusion of a 45-day due diligence period during which OSU will conduct additional and reaffirm existing due diligence work; and
- Inclusion of a post-closing audit whereby remaining assets and obligations of the GEM are settled and dispersed to OSU and CHNW, in accordance with audited financials and the terms of the lease.

### **PREFERRED ACQUISITION PATHWAY, RECOMMENDATIONS, & NEXT STEPS**

OSU staff propose acquiring the GEM leasehold interest from CHNW and terminating the lease.

The preferred university acquisition pathway is to finalize with CHNW the Letter of Intent (“LOI”) that frames the following deal parameters and intentions:

- Pays CHNW for the defeasance of the remaining GEM debt net of all GEM reserves;
- Pays CHNW a negotiated leasehold interest acquisition valuation amount (the termination fee), determined via the university financial due diligence work and the CHNW deal discussions informed by over 24 months of preliminary negotiations;
- Settles any residual and outstanding obligations of the GEM to OSU, and of OSU to the GEM, via a post-closing audit;
- Ensures OSU has its interests addressed and affirmed through stipulated due diligence periods, post-closing cooperation terms, and post-closing audit work;
- Utilizes debt stemming from the sale of OSU revenue bonds in the spring of 2019 that is available for this project.

With the LOI as the framework, staff recommend the university move forward with the acquisition of the GEM leasehold interest and termination of the lease.

Given the anticipated complexity of completing the transaction, staff also recommend the Board consider delegating to the President the authority to complete the transaction.