

Acquisition of Real Property

SUMMARY

The university has entered into a \$19.8 million purchase and sale agreement for a building of 103,000 gross square feet, located at 4575 Research Way in Corvallis. The agreement is contingent on Board approval and due diligence findings. This acquisition is a unique opportunity because of its location and existing infrastructure to support biological and chemical research and innovation. Acquisition of this building would also provide surge space opportunities for research needs and building renovations, as well as replace the need for the construction of a new STEM-related building in the future.

The building will enable Cordley Hall to be renovated efficiently and with minimal impact on faculty research and scholarly outputs. During the period in which the research building is used to facilitate the Cordley Hall renovation, OSU will develop a research and innovation-focused bioscience strategy similar to the Advanced Technology and Manufacturing Institute at the Hewlett-Packard campus. The size of the building and the functionality of the space it contains create the potential for an innovation hub in the biological and chemical sciences—a world-class research facility that would integrate industry, academic research, and startups. There are no other buildings in the immediate Corvallis area of this magnitude, degree of compatibility to the biological sciences, or proximity to OSU.

PROJECT DETAILS AND DUE DILIGENCE

The research building is currently leased to Sarepta Therapeutics and SIGA Technologies. Built in 1984, it is located on Research Way about two miles southwest from the heart of the OSU campus. As summarized above, the purchase and renovation of this building will fulfill the need for a future STEM building identified in the university's ten-year capital forecast resulting in significant cost savings compared to a new building (~\$70 million).

The opportunity to purchase this building was evaluated by the Deans of the College of Agricultural Sciences and the College of Science, and they were both very supportive. Staff also held a series of meetings with leadership and faculty from the two primary departments housed in Cordley Hall (Integrative Biology, and Botany and Plant Pathology). These groups were resoundingly supportive. The Infrastructure Working Group recommended this purchase as a high priority for OSU and included it in their recommended update to the 10-year capital forecast, which was reviewed with the Council of Deans.

Two firms have been contracted to perform due diligence studies for environmental, building code, accessibility, site review, building envelope, structural, mechanical, plumbing, electrical, alarm, security, access control, information technology, and civil engineering review.

REVENUE

The plan for the use of the building calls for working with Sarepta Therapeutics, who vacated the building last year, to terminate their lease in exchange for their leasehold improvements and research equipment. The tenants that will continue to occupy space in the building (SIGA Technologies and another small tenant), along with existing cell tower leases, will provide an estimated \$1.6 million in revenue in total over the next five years. These existing leases range from two to five years, with renewal options.

ACQUISITION COST AND FINANCING

Item	Cost (million)	Comment
Acquisition	\$19.8	Includes building, equipment, cell tower

OSU revenue bond proceeds will be used to purchase the Research Way building for \$19.8 million. Initial due diligence on the building will be completed in mid-April. A programming study will be initiated to obtain a total project cost estimate for building improvements and capital renewal needs. If needed improvements and capital repairs total more than \$5.0 million, staff will make a capital request for these improvements at a future Board meeting.

This research building was included in the 10-Year Business Forecast that was accepted by the Board at the January 2018 meeting, with a placeholder value of \$30 million for purchase and improvements, to be financed by OSU revenue bonds. The 10-Year Business Forecast included forecasts of the debt policy ratios that would be impacted by this purchase. A financial *pro forma* that outlines the revenue and expenses of the research building and laboratory infrastructure is provided in Attachment 1.

This purchase will create a vital opportunity within the university’s innovation portfolio, eliminate the need for a future STEM building (at an estimated cost of \$70 million), and provide surge space for the renovation of Cordley Hall.

STAFF RECOMMENDATION

Staff recommend the Board approve the purchase of the research building for \$19.8 million using OSU revenue bond proceeds, contingent on satisfactory due diligence reports.

Attachment 1. Operating *pro forma* for the research building under consideration for purchase.

OSU - Research Building											
Project Name Operating Pro Forma											
Resources	FY19	FY20	FY21	FY22	FY23	FY24	FY28	FY33	FY38	FY43	FY48
Rental Income (10% of the building is occupied by for profit companies)	\$326,918	\$336,725	\$346,827	\$357,232	\$230,791						
Total Resources	\$326,918	\$336,725	\$346,827	\$357,232	\$230,791	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures											
Debt Service Requirements	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)	(\$1,076,552)
Operations & Maintenance Requirements	(\$1,050,000)	(\$1,081,500)	(\$1,113,945)	(\$1,147,363)	(\$1,181,784)	(\$1,217,238)	(\$1,370,012)	(\$1,588,219)	(\$1,841,181)	(\$2,134,434)	(\$2,474,394)
Operations & Maintenance Savings during Cordley remodel	\$0	\$1,050,000	\$1,050,000	\$1,050,000	\$1,050,000	\$0	\$0	\$0	\$0	\$0	\$0
Capital Renewal Needs						(\$8,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)
Total Expenditures	(\$2,126,552)	(\$1,108,052)	(\$1,140,497)	(\$1,173,916)	(\$1,208,337)	(\$10,293,790)	(\$7,446,564)	(\$7,664,772)	(\$7,917,734)	(\$8,210,986)	(\$8,550,946)
Net Resources / (Net Expenditures) - E&G Contribution	(\$1,799,635)	(\$771,327)	(\$793,670)	(\$816,684)	(\$977,546)	(\$10,293,790)	(\$7,446,564)	(\$7,664,772)	(\$7,917,734)	(\$8,210,986)	(\$8,550,946)
Accumulated Balance	(\$1,799,635)	(\$2,570,961)	(\$3,364,632)	(\$4,181,315)	(\$5,158,861)	(\$15,452,651)	(\$30,004,104)	(\$47,878,652)	(\$66,946,447)	(\$87,397,543)	(\$109,452,264)