# May 2019 Special Called Meeting

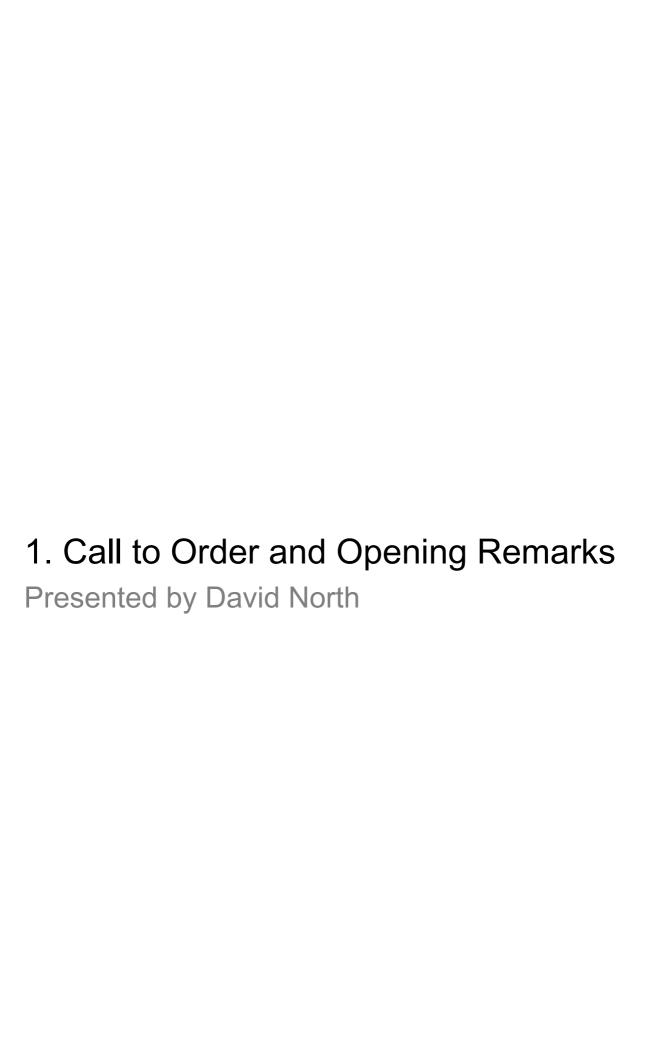
Schedule Wednesday, May 8, 2019 10:00 AM — 11:00 AM CDT

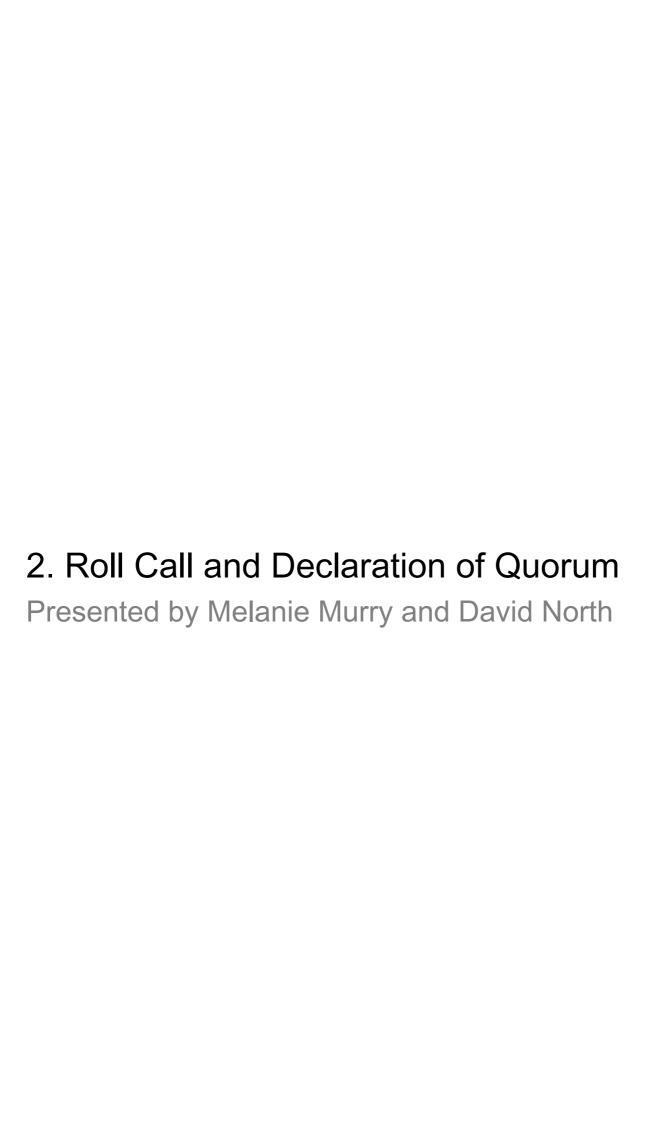
Venue University Center Fountan View Board Room (UC350)

Organizer Jean Rakow

### Agenda

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# 3. Acquisition of The Gather on Southern For Approval Presented by Raajkumar Kurapati

#### The University of Memphis Board of Trustees

Recommendation

For Approval

**Date:** May 8, 2019

**Recommendation:** The Gather on Southern

**Presented by:** Raaj Kurapati, Chief Financial Officer

#### **Background:**

The University of Memphis would like to enter into a partnership with MACQ-Tennessee I, LLC (MACQ) in which the University will acquire the Gather on Southern, a 435 bed property adjacent to the Memphis campus. The University would like to accept the donation of the Real Property (land) on which the Gather Properties (Gather I and Gather II) are located and leasehold improvements thereupon by MACQ to be conveyed to the University of Memphis or the University of Memphis Auxiliary Services Foundation in exchange for a long-term master lease from the University. Further, the University would enter into an Affiliation Agreement with MACQ to provide certain services to MACQ on a cost reimbursement basis to include security and residential programming for the Gather properties. The University will further agree to marketing of the properties as its housing stock including committing to a priority fill of such in accordance with the structure agreed to in the Affiliation Agreement. This partnership will enable us to quickly expand our housing capacity without negatively impacting debt and other CFI ratios.

#### **Committee Recommendation:**

Motion to approve to enter into a partnership with MACQ to acquire the Real Property and Leasehold Improvement referred to as the Gather on Southern with the Real Property (land) and leasehold improvements thereupon to be conveyed to the University of Memphis or the University of Memphis Auxiliary Services Foundation in exchange for a long-term master lease not to exceed a period of 40 years. Additionally, we recommend approval for the University to enter into an Affiliation Agreement with Municipal Acquisitions to provide certain services on a cost reimbursement basis, further participate in related revenue share on the Gather, and designate a priority fill of the housing stock in the Gather in accordance with the priority fill ladder. Further, per the modeling assumptions, the University will increase housing rates at the Gather by 2% annually for the first eight (8) years. This action is subject to the University complying with the applicable processes and approvals required by the State of Tennessee.

Update: Opportunity to Acquire the Gather on Southern (435 beds)

Raaj Kurapati Chief Financial Officer

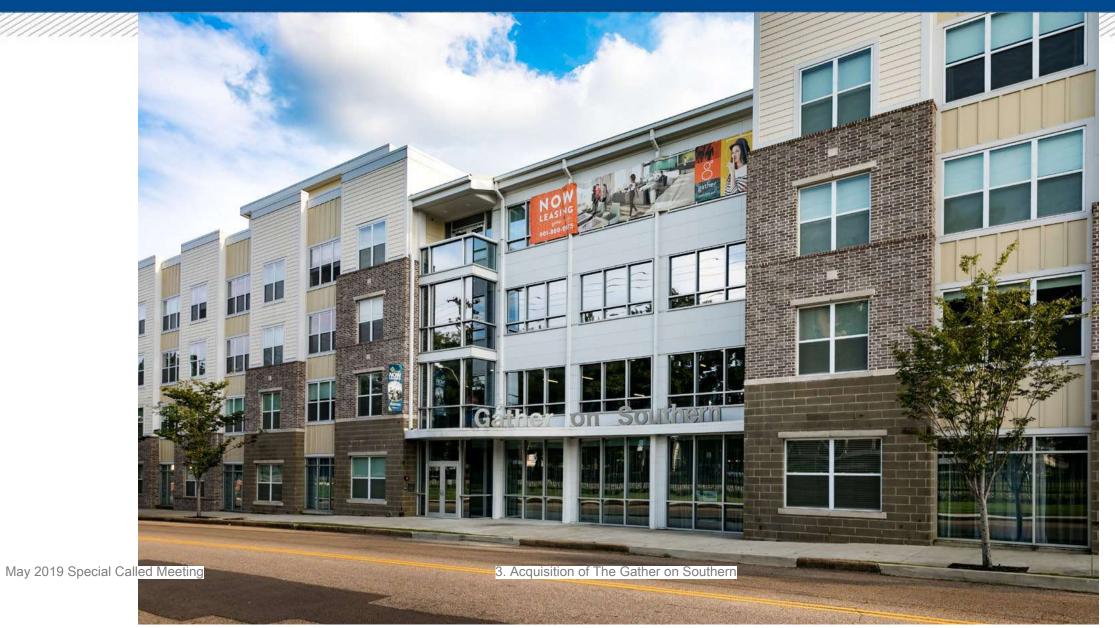
Board of Trustees
Special Called Meeting

May 8, 2019 University Center



# The Gather on Southern





# **Description of the Facilities**



- The Facilities' two Phases are located directly across Southern Avenue from the main campus of the University
- Located on 3.51 acres of land, the Facilities are comprised of two existing fully-furnished four-story buildings, two pools and 137 parking spaces located at 3655 Southern Avenue and 3595 Southern Avenue, Memphis, Tennessee, respectively
- The 435 beds of the Facilities will be used by the University and incorporated into its residential housing program pursuant to the Affiliation Agreement
- The Facilities were delivered in Fall 2014 and Fall 2015
- The occupancy rate of the Facilities are as follows:
  - 98.7% in 2014 (Phase I, August December)
  - 98.0% in 2015 (Phase I, January December and Phase II August December)
  - 98.0% in 2016 (Phase I & II, January December)
  - 96.0% in 2017 (Phase I & II, January December)
  - 91.7% in 2018 (Phase I & II, January December)

# **Facilities Location**



# **Facilities Location**



- Facilities will be on land owned by the University
  - √ Title transferred to University at closing
  - ✓ University is currently under construction for a footbridge and garage next to the Facilities to better connect the Facilities to campus
- Facilities are replacing off-campus student housing
- Facilities are essential to the University
  - ✓ Reduces crime and potential for incidents involving students
  - ✓ Helps overall reputation of the University by eliminating ability for crime to occur
  - ✓ Securing the Facilities is part of the University's master plan and expansion goals

# **University Affiliation**



- "Priority fill" for Facilities
  - ✓ Even after other on-campus dorms are filled, there are enough students to fill the beds at Gather and this allow us the ability to bring some low performing properties offline to renovate or repurpose (Average age of those properties over 30 year)
- University involved in marketing, rate setting, and budget setting
- University will provide security and resident life assistants (as part of setting housing and residence life policies for the Facilities) that make the privatized housing virtually indistinguishable from other university-owned and managed housing
- University has control over the Facilities in the form of lending support as if it were an on-campus housing facility
  - ✓ Facilities will be part of University's housing stock
  - ✓ Same services as other dorms
  - ✓ Fees collected by the University's Bursar Office with the University controlling disciplinary actions and payment of rents
  - ✓ University provides security and residence life services

# **University Affiliation**



- "Priority fill" for Facilities, excerpt from Affiliation Agreement:
  - "Other than the priority assignment of students to Centennial Place, Living Learning Center, and the Carpenter
    Complex as required under existing agreements made by the University, the University covenants that it will assign
    all of its students in need of housing first to the Facilities, until 100% of the beds of the Facilities are occupied,
    except for students who, because of special needs or other circumstances as reflected in the University's housing
    policy, must be assigned to other student housing facilities, and except as required by federal law and laws of the
    State of Tennessee."

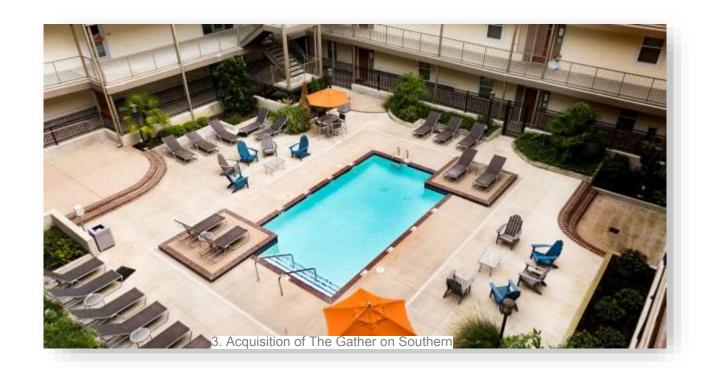




# **University Economic Benefit**



- University receives economic benefit from the Facilities
  - ✓ Annual operating surplus
  - ✓ Lien free ownership once the debt is paid off (debt is between Municipal Acquisitions and Investors).



# **UofM Housing Analysis**



UM Housing Analysis						
Residence Hall	Beds					
<b>Living Learning Complex</b>	487					
Centennial Place	784					
Rawls	302					
Smith	154					
South	163					
Carpenter Complex	497					
Park Ave A	17					
Park Ave B	57					
Total	2,461					
Gather on Southern	435					

- The highlighted housing facilities have priority assignment ahead of Gather on Southern
  - This represents 1,768 beds of the 2,461 on campus beds
  - Rawls, Smith and South Halls are the oldest housing stock on campus and have average occupancy of less than 70%

# **Modeling Assumptions**



#### **Modeling Assumptions**

Metric	Value	Commentary
Term	40 Years	
# of Beds	435	
Annual Income Per Bed	\$8,140	
Residential Vacancy / Loss Rate	5.00%	
Income Escalation (Yrs 1-8)	2.00%	0% Thereafter
Expense Escalation (Yrs 1-8)	2.00%	0% Thereafter
R&R Reserves (Per Annum/Per Bed)	\$200.00	Escrow Per Bed
Management Fee to Third Party Manager	3.00%	Management Fee

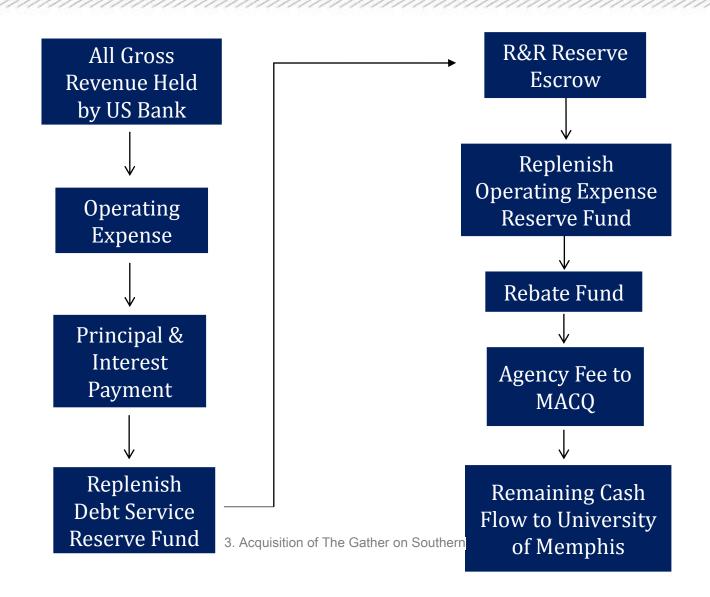
# **Pro Forma Model**



	γ1	Y2	Y3	Y4	Y5	Y6	<b>Y7</b>	Y8
Revenue	Growth	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Gross Potential Income	\$3,540,900	\$3,611,718	\$3,683,952	\$3,757,631	\$3,832,784	\$3,909,440	\$3,987,629	\$4,067,381
Vacancy / Loss	(177,045)	(180,586)	(184,198)	(187,882)	(191,639)	(195,472)	(199,381)	(203,369)
RA Beds	(48,840)	(49,817)	(50,813)	(51,829)	(52,866)	(53,923)	(55,002)	(56,102)
University Contribution (RA /Res Life/Rent Collection)	198,840	202,817	206,873	211,011	215,231	219,535	223,926	228,405
University Contribution (Security/Police)	100,000	102,000	104,040	106,121	108,243	110,408	112,616	114,869
Other Income	97,682	99,635	101,628	103,660	105,734	107,848	110,005	112,205
Gross Revenue	\$3,711,537	\$3,785,767	\$3,861,483	\$3,938,712	\$4,017,487	\$4,097,836	\$4,179,793	\$4,263,389
Operating Expenses								
Project Operating Expenses	\$934,615	\$953,307	\$972,373	\$991,821	\$1,011,657	\$1,031,890	\$1,052,528	\$1,073,579
University Expenses (Res Life/Security/Police)	250,000	255,000	260,100	265,302	270,608	276,020	281,541	287,171
Management Fee	103,846	105,923	108,041	110,202	112,406	114,654	116,948	119,287
Replacement Reserves/Bed	87,000	88,740	90,515	92,325	94,172	96,055	97,976	99,936
Total Operating Expenses	\$1,375,461	\$1,402,970	\$1,431,030	\$1,459,650	\$1,488,843	\$1,518,620	\$1,548,992	\$1,579,972
Net Operating Income	\$2,336,076	\$2,382,797	\$2,430,453	\$2,479,062	\$2,528,643	\$2,579,216	\$2,630,801	\$2,683,417
Debt Service Payment	\$1,903,378	\$1,943,500	\$1,982,250	\$2,023,250	\$2,061,250	\$2,101,250	\$2,148,000	\$2,186,000
Debt Service Coverage (x)	1.23x	1.23x	1.23x	1.23x	1.23x	1.23x	1.22x	1.23x
Cash Flow After Debt Service	\$432,698	\$439,297	\$448,203	\$455,812	\$467,393	\$477,966	\$482,801	\$497,417
Subordinated Operating Expenses								
Asset Management Fee	\$150,000	\$151,500	\$153,015	\$154,545	\$156,091	\$157,652	\$159,228	\$160,820
Operating Reserve Fund	4,673	4,766	4,862	4,959	5,058	5,159	5,263	5,368
Franchise Tax	50,000	51,000	52,020	53,060	54,122	55,204	56,308	57,434
Subordinated Operating Expenses	\$204,673	\$207,266	\$209,897	\$212,565	\$215,270	\$218,015	\$220,799	\$223,622
May 2019 Special Called Meeting	\$228,025	3. Acquisition of	The Gather on So	outhern243,248	\$252,123	\$259,951	\$262,002	Page 15 of 34

# Flow of Funds





# **Master Lease Overview**



- The Master Lease grants MACQ the right to operate the Facilities for use by such persons as the University allows as residents in its University Housing Portfolio, which primarily includes students of the University
- The term of the Master Lease begins on the Effective Date and expires on July 31, 2059, unless terminated earlier as described in the Master Lease
- The University is the owner of a fee simple interest in the Facilities

# Motion



Motion to approve to enter into a partnership with MACQ to acquire the Real Property and Leasehold Improvement referred to as the Gather on Southern with the Real Property (land) and leasehold improvements thereupon to be conveyed to the University of Memphis or the University of Memphis Auxiliary Services Foundation in exchange for a long-term master lease not to exceed a period of 40 years.

Additionally, we recommend approval for the University to enter into an Affiliation Agreement with Municipal Acquisitions to provide certain services on a cost reimbursement basis, further participate in related revenue share on the Gather, and designate a priority fill of the housing stock in the Gather in accordance with the priority fill ladder. Further, per the modeling assumptions, the University will increase housing rates at the Gather by 2% annually for the first eight (8) years.

This action is subject to the University complying with the applicable processes and approvals required by the State of Tennessee.



# Questions?

May 2019 Special Called Meeting 3. Acquisition of The Gather on Southern Page 19 of 34

#### **Executive Summary – Gather on Southern**

#### **Overview of Property**

- Gather on Southern is a class A, mid-rise student housing community located directly across the street from the University of Memphis (3655 Southern Ave, Memphis, Tennessee.)
- The community features quality amenities in student living including: a swimming pool with sun deck, fitness center, community lounge, game room and private study areas.
- The property is comprised of 136 units and 435 beds (this translates into about 17% of the University of Memphis current housing stock)
  - o Gather on Southern was constructed in two phases:
    - The initial phase of 264 beds was completed in 2014 and was fully leased for the 2014-2015 academic year.
    - The second phase added another 171 beds and was completed in 2015, in time for the 2015-2016 academic year.
- Current occupancy is 95% and has been consistently at this level since it has been open for rent.
- Of this roughly 90% are University of Memphis students.
- Gather on Southern offers modern, suite-style configurations which are in high demand and will help promote recruiting and retaining students.
- The asset offers a full amenity package including bed/bath parity, stainless steel appliances, and high-quality fixtures.
- There have been some recent incidents which raise concern about the safety and security of the student living in these facilities and the campus in general.
- As the University does not own this facility (it is privately owned), there occupants who are not our students who we believe are responsible for recent criminal activity.

#### **Overview of the Transaction**

- MACQ-Tennessee I, LLC ("MACQ") has an agreement to acquire Gather on Southern.
- MACQ will fund 100% of the total cost of the acquisition.
- MACQ will at no cost to the University, cause the Project to be directly conveyed to the University in exchange for a long-term master lease from the University
- MACQ has entered or will enter into an agreement with RISE Residential, LLC, a property manager (the "Manager") to manage the Project

#### **Overview of the Structure**

- The term of this Lease shall commence on the Effective Date shall expire on July 31, 2059; provided, however, in the event the obligations secured by any Leasehold Mortgage have been satisfied in full on or after July 31, 2054, the Term shall expire on contemporaneously with the release of the Leasehold Mortgage of record (but in no event shall the Term expire earlier than July 31, 2054).
- At closing, MACQ will surrender and deliver to The University of Memphis the possession and use of the Premises, without delay and free and clear of all liens, encumbrances and charges, and all rights of MACQ under the Lease and in the Improvements shall terminate
- MACQ and the University will enter into the Affiliation Agreement coterminous with the Master Lease.

- As per the Affiliation Agreement, all revenues from the Project collected by the University shall be deposited by the University with MACQ's Trust held by a Trustee in accordance with instructions delivered by Trustee. Revenue shall be shared with the University according to a waterfall, as presented below.
  - o MACQ to receive operating expenses related to the Project, including, without limitation, the management fee owed to the Manager
  - o MACQ to receive amount required to be paid by MACQ under the financing secured by the Leasehold Mortgage
  - o MACQ to receive payments to any repair and replacement reserve fund established under the financing secured by the Leasehold Mortgage
  - o MACQ to receive an asset management fee owed to [MACQ AFFILIATE] as described in the Mortgage Financing
  - o Remaining cash flow will go directly to University of Memphis
- At the end of the 40-year term, the improvements will merge with the land and University will hold lien free title to the land and improvements, retaining all future economic benefits.

#### **Benefits**

- The University receives immediate title to a key housing asset adjacent to its campus.
- The University receives the asset, lien free, in 40 years, or with the release of the Leasehold Mortgage, described above.
- MACQ manages the asset in, but it is affiliated with the University and thus the University will be able to place students in the facility in accordance with its own student housing policies.
- Any use of the Project by persons other than students of the University is subject to the prior written approval of both the University, MACQ, and the Trustee.
  - o This should address safety concerns and incidents of crime.
- Acquisition of this property is in the University's Capital Masterplan
- The University does not incur debt, which given its current debt service outlay on existing housing stock would be difficult to justify while there is clearly a need for additional housing stock.
- Demand for University housing continues to increase as our student body grows and the University is seeing a shift from traditionally being a commuter campus to a destination campus. This opportunity would allow the University to add 435 beds to its stock with minimal capital outlay.
- The University will benefit financially by way of receiving a revenue share based on the remaining income from the property.

#### **Potential Risks**

- Per the Affiliation Agreement, the University's financial obligation is limited to the payment of security, residence life, and other management services, as prescribed within the Affiliation Agreement.
- Based on projections, the University's first dollar would not be at risk unless occupancy falls below 82 5%
  - o As per the revenue sharing arrangement, low occupancy would affect the University's first dollar of revenue share to the University.
- A significant decline in enrollment (see mitigating factors, also the University has been consistent growing and also shifting from a traditionally commuter campus to a destination campus).
- Nonperformance of the Property Manager (RISE) and Low Occupancy which would result in a lower than

- expected residual revenue share.
- Given the above the biggest risk to the University are nonperformance of the Property Manager (RISE) and Low Occupancy which would result in a lower than expected residual revenue share.

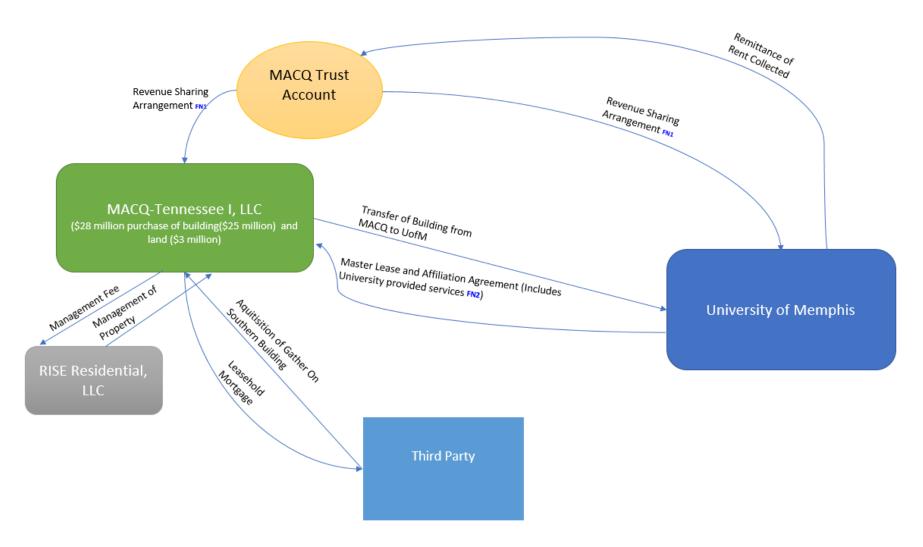
#### **Mitigating Factors/Considerations**

- Housing occupancy of existing inventory has consistently remained high.
- Current housing stock is limited in apartment style options which are attractive to upper classmen and graduate students
- Graduate student enrollment has been on the rise.
- Out of state and international enrollment has also been on the rise
- There is a need for older housing to be taken off-line in order to address deferred maintenance issues. Having additional housing stock would allow the University to do that which increases opportunity to maintain occupancy levels.

#### **Land/Improvements Value**

- Based on the 2018 appraisal by the Shelby County tax assessor's office, the value of the building represented 87% of the appraisal and the land represented 13%.
- Municipal Acquisitions has agreed to purchase Gather on Southern for \$28.0M, which would result in a building value of \$24,360,000 and land value of \$3,640,000.

#### **Gather on Southern - Municipal Acquisitions Deal**



#### FN1 - Revenue Sharing Arrangement

Revenues from the Project will be shared as follows:

- o First, MACQ will receive operating expenses related to the Project, including, without limitation, the management fee owed to the Manager
- o Next, MACQ will receive amounts required to be paid by MACQ under the financing secured by the Leasehold Mortgage
- o Next, MACQ will receive payments to any repair and replacement reserve fund established under the financing secured by the Leasehold Mortgage
- o Next, MACQ will receive amounts for asset management fee owed to [MACQ AFFILIATE] as described in the Mortgage Financing
- o Lastly, remaining cash flow will go directly to University of Memphis

#### FN2 - University Provided Services

<u>o Security</u>. The University shall, at its expense, provide security (including, without limitation, personnel, patrolling, equipment and monitoring) to the Project to at least the extent and in the manner of security that is provided to the University's other student housing facilities

o Residence Life. The University shall, at its expense, provide residential life services to tenants at the Project at the same level or greater as residential life services provided at the University's other student housing facilities. Residential life services include, without limitation, programming events; academic advisory services; wellness programs; and counseling services o Other Management Services. Except as expressly set forth in this Agreement, the University shall not be required to incur any other expense in connection with the management and operation of the Project

#### Impact on Financial Statements of UofM

	ι	JofM		Со	ntractual Com	mitment (Estimate)
				\$	250,000.00	/ Year
		Contractual				
Building	~\$25m	commitment	~\$5m		40	# of Years
Land	~\$3m	(\$250 per yr 40 yrs	:)		4%	Annual Interest
(Per GASB 60)					\$4,948,193	Present Value
		Deferred Inflow	~\$23m			-

# 4. Housing Contract Termination Policy

For Approval

Presented by Raajkumar Kurapati

#### The University of Memphis Board of Trustees

Recommendation

For Approval

**Date:** May 8, 2019

**Recommendation:** Housing Contract Termination Policy

**Presented by:** Raaj Kurapati, Chief Financial Officer

#### **Background:**

Housing retention rates from fall to spring remain lower than desired. To discourage students from breaking their contract and moving off-campus, as well as to cover increasing operating costs and future debt payments, we are proposing a change to the Housing Contract Termination Policy.

The current Housing Contract Termination Fee is \$750, which was increased from \$450 in June 2017. The increase in 2017 had minimal impact on retention rates from fall to spring. Therefore, we are requesting a \$750 increase in the Contract Termination Fee for a total cost of \$1500.

#### **Committee Recommendation:**

Motion to approve an increase in the Housing Contract Termination Fee from \$750 to \$1500 and beginning in academic year 2020-21, students are responsible for the full cost of one year's housing as students will not be able to terminate their housing contract.

Housing Contract Termination Policy

Raaj Kurapati Chief Financial Officer

Board of Trustees
Special Called Meeting

May 8, 2019 University Center



### **Housing Contract Termination Policy – Current** Issue



- Currently, students may terminate their housing contract from Fall to Spring for any reason with a \$750 contract termination fee.
- We currently do not have a live-on-campus expectation for any students.
- We want to encourage and promote student success and benefits of living in University housing.
- It's critical that we increase our housing occupancy and especially retain more residents for the spring term.
- The previous increase in the termination fee from \$450 to \$750 produced negligible reduction in contract terminations.
- On average, the room rate per semester is \$3000. The current termination fee is only a 25% penalty and has not discouraged contract cancel

### **Rationale for Contract Termination Policy Change**



	Current	Proposed	Proposed Increase
Housing Contract Termination Fee	\$750	\$1500	\$750

- The \$1500 fee would double the current fee and is comparable to a first and last month rent payment based on the average housing cost of \$3,000 per semester. We do not require a one month rent deposit which is standard in private housing.
- This is a much greater financial penalty and will likely prove a stronger deterrent to terminate housing contracts, or if termination occurs, exposes the University to a lower decline in anticipated revenue.
- Based on benchmark data from eight (8) universities (LGIs and regional peers), six (6) do not have a contract termination fee, i.e. students who terminate their housing contract and remain enrolled for Spring are responsible for the entire amount of the spring charge.

# **Occupancy Data**



Residence Hall	Fall 2016	Spring 2017	Variance	Fall 2017	Spring 2018	Variance	Fall 2018	Spring 2019	Variance
Carpenter	95%	83%	-12%	88%	74%	-14%	88%	79%	-9%
Centennial	97%	90%	-7%	95%	85%	-10%	95%	88%	-7%
GSFH	77%	78%	1%	75%	77%	2%	92%	92%	0%
LLC	95%	79%	-16%	93%	78%	-15%	82%	73%	-9%
Park Ave*	85%	71%	-14%	43%	47%	4%	93%	85%	-8%
Rawls	95%	79%	-16%	94%	78%	-16%	81%	71%	-10%
Smith	82%	61%	-21%	86%	66%	-20%	80%	70%	-10%
South	99%	82%	-17%	91%	72%	-19%	82%	67%	-15%
Carney Johnston (Lambuth)	33%	32%	-1%	34%	33%	-1%	38%	38%	0%

May 2019 Special Called Meetinger occupied for Academic Year 2017-2018 due 4. Housing Contract Termination Policyorts were deployed to promote improved housing opportunities page 29 of 34 that lead to the increased occupancy for AY 2018-2019.

### **Historical Data**



### **Housing Contract Terminations By Year**

Academic Year	Spring Contract Terminations	Termination Fee	Revenue Lost
2015-2016*	50	\$450	\$12,500
2016-2017**	185	\$450	\$471,750
2017-2018	215	\$750	\$483,750
2018-2019	200	\$750	\$450,000

<sup>\*</sup>Prior to AY2015-2016, the contract termination fee of \$450 was only applied to students who broke the spring portion of their contract after November 1.

<sup>\*\*</sup>Beginning AY2016-2017, any student terminating the spring portion of their contract, regardless of date, was assessed the contract termination fee.

# **Primary Residence Halls With Debt**



Residence Hall	Fall 2017 Occupancy	Spring 2018 Occupancy	Fall 2018 Occupancy	Spring 2019 Occupancy	FY 19 Annual Bond Debt Payment	Payoff Year
Carpenter	88%	74%	88%	79%	\$ 608,400	2036
LLC	93%	78%	82%	73%	\$1,291,157	2040
Centennial Place	95%	85%	95%	88%	\$3,201,771	2046

- There are significant concerns regarding the occupancy numbers as the private off-campus housing competition continues and occupancy in private off-campus housing remains much higher.
- It's crucial that we increase and sustain higher occupancy as the proforma for the bond debt is hinged upon higher and sustainable occupancy rates. The current approach, proposing material regular price increases, would be counter productive.
- Focused efforts are underway to encourage and promote University housing that will assist in achieving a

# **Housing Contract Termination Policy – Proposed** Change



In summary, we propose the following two-phased approach over the next two years:

#### AY19-20

Increase the housing contract termination fee from \$750 to \$1500

#### AY20-21

Students can no longer terminate their housing contract after it has been activated. They are responsible for the full payment.

Our proposed increase to \$1500 in Year 1 is still better than our regional peers and by Year 2, it will mirror our peers.

19 Special Called Meeting



# Questions?

May 2019 Special Called Meeting 4. Housing Contract Termination Policy Page 33 of 34

# 5. Adjournment

For Approval

Presented by David North