

Request for Board approval

**CONFIDENTIAL**

For consideration by:  
Board of Governors

On:  
November 30, 2007:

**Agenda Title:** Endowment Lands – Parcel 1C

**Motion:** THAT the President be authorized to enter into a 99-year land lease with RDC Corporation for the 11.12 acres on Water Street, identified as Parcel 1C in the University's Endowment Lands Master plan, January 2006. The lease will incorporate the terms and conditions as outlined in this proposal to the Board dated November 23, 2007.

**ITEM**

**Action requested:** Board approval

**Subject:** Development proposal for Student Residence/Retail space on Endowment Lands – Parcel 1C, Water Street.

**DETAILS**

**Purpose of Proposal:** See attached briefing note.

**Impact of Proposal:**

Replaces/revises: n/a

**Timeline/implementation date:**

Phase 1 to be completed by August 2009.  
Phase 2 to be completed no later than August 2014.

**Cost:** The financial terms and conditions are outlined in the attached briefing note.

**Sources of funding:** Funding sources not required.

**Risk assessment:** Proposal will lead to a land lease that will outline terms and conditions to mitigate University's risk.

**Confidentiality:** Confidential

Notes: n/a

## ALIGNMENT/COMPLIANCE

**Alignment with Guiding Documents:** The proposed development is consistent with the Endowment Lands Master Plan (January 2006). The proposal is conditional on the development satisfying all municipal approval requirements.

**Compliance with Legislation, Policy and/or Procedure:**

Endowment Lands Committee Terms of Reference, Special Resolution 1.7  
Property and Land Use, Special Resolution 2.4

## ROUTING

**Consultation:** Proposal was reviewed extensively by the appropriate University resources including: VP (Academic), VP (External Relations & Advancement), Directors of Finance, Student Affairs, Housing, Physical Resources and the Managers of Purchasing and Construction Projects. External consultants include the University's accountants and lawyers.

**Approval (Governance):** Recommended by Endowment Lands Committee November 22, 2007 for submission to Board of Governors November 30, 2007.

**Final Authority:** Board of Governors

## ATTACHMENTS

Development Proposal for University Endowment Lands – 11.12 Acres on Water Street, November 23, 2007

**Prepared by:** Don O'Leary, VP (Administration), November 23, 2007

**CONFIDENTIAL**  
**Board of Governors**  
**Development Proposal for University Endowment Lands –**  
**11.12 Acres on Water Street**  
**November 23, 2007**

**Purpose of Briefing Note:**

The purpose of this briefing note is to overview and recommend a student housing/retail development for an 11.12 acre parcel on Water Street identified in the Endowment Lands master plan as parcel 1C. See Attachment A – Location Map. The proposal is consistent with the Endowment Land Master Plan's recommended use for the property.

**Background:**

The Master Plan outlined a development sequencing strategy and Parcel 1C was identified as a ready and marketable property. Its development presently provides the best business and financial opportunity for the University for the following reasons:

- The University's requirements for additional student housing and retail services near the Symons Campus matches the master plan's recommended uses for the property - small format retail, convenience and professional services, inn, medium density residential, faculty and student housing. There is a lack of student accommodation and retail services close to Symons campus.
- The Water St. location supports university as well as community retail and commercial needs. The growth of the campus and neighbouring residential communities, and the Water Street road link to communities north of Peterborough provides a significant market.
- An appraisal of the property confirms that significant land lease revenue is possible from the development of the property.
- The development interest in the property has been significant with several developers inquiring about the University's plans for the property.
- The Property has full municipal services.
- The City of Peterborough is supportive of the property's development as a mix of student housing and retail uses.
- The high visibility of the property and the quality of the proposed development will attract significant opportunities to other endowment land parcels.

**Proposal Evaluation Process:**

Parcel 1C is the first attempt at attracting development interest in the endowment lands; therefore every effort has been made to complete a transparent and professional proposal process, which would interest a number of credible developers. To assist the University in the process, the consulting services of Janet Dey & Associates were engaged. This real estate consulting firm has assisted in the development process for projects at York University, Seneca College and Sheridan College as well as numerous corporate clients.

A two stage proposal call process was used. In the first stage, the University issued a “Call for Expressions of Interest” from developers capable of building a student housing/retail project. Six developers responded in the first stage. The essential evaluation criteria which determined the shortlist was previous experience with student housing projects and financial ability to build a substantial project at Trent. Four of the developers were short-listed and invited to respond to a “Call for Proposals”.

Of the four developers called upon to respond to the RFP, the University received three proposals because two of the original four developers merged into a new corporation. The three proposals were reviewed objectively by two separate university evaluations teams. One team reviewed the scope and purpose of the proposals such as number of student housing units, type of accommodation, construction style, construction timing, and compatibility with university facilities. Another team reviewed the financial aspects of the proposals including forecast operating statements and proposed revenues to the University. The evaluation teams used the services of the University’s accountants (McColl Turner), legal counsel (Lockington, Lawless Fitzpatrick) and the real estate consultant, Janet Dey. A property survey was completed by Elliott & Parr that confirmed the size of the property. An environmental assessment was completed in May 2007 by Briggs Canada Ltd, which determined there were no environmental concerns. The property was appraised by McLean Simon & Associates Inc. in November 2007.

In the evaluation process of both the Call for Expression of Interest and Call for Proposals, developers commented favourably about the University’s process and the thoroughness of the documents. The entire process from start to recommendation to the Endowment Lands Committee has taken seven months.

The evaluation teams eliminated two of the three proposals because they required financial participation by the University, either in the form of direct investment or by guaranteeing rental revenue.

### **Recommended Proposal**

The Administration is recommending the University accept the following development proposal for Parcel 1 C:

#### *(a) Company/Developer*

Residence Development Corporation (RDC) is the most experienced designer, developer, builder, owner and operator of student housing in Canada. The company is owned by London Property Corp and Ivest Properties Ltd of Toronto and London, Ontario. This past summer, London Property/Ivest Properties Ltd acquired its main competitor, Campus Living Centres Inc. and formed the Residence Development Corporation. All three companies have been in the student residence ownership and management business for more than 15 years. The company owns and operates facilities at the Universities of Guelph, Western Ontario, Ottawa, and Ontario Institute of Technology. The company manages residences for eleven Ontario colleges, as well as several colleges in Atlantic and Western Canada. RDC is also active in the construction and management of retirement homes and commercial malls/plazas.

*(b) Project*

RDC is proposing to build the Trent development in 2 phases (see Attachment B–Proposed Site Plan).

Phase 1 - \$17,300,000 - is 119,500 sq. ft. of student housing comprised of town houses and apartment units, totally 256 bedroom units (see Attachment C–Architect’s Rendering of Buildings) and 12,700 sq. ft of commercial space to be completed by August 31, 2009. Phase 1 will require approximately 5 acres of the 11.12 acres of Parcel 1C.

Phase 2 - construction cost to be determined - at a minimum the project will be the same as Phase 1, however the residential area could be as much as 140,000 sq. ft. Phase 2 will be completed no later than 5 years from the start of Phase 1 construction, If Phase 2 does not commence within 5 years of the start of Phase 1, the University can renegotiate the land lease with RDC for the 5-6 acres or consider proposals from others. If RDC wants to increase the Phase 2 density beyond 140,000 sq. ft of residential and 12,700 sq. ft. of commercial space, the University can renegotiate the lease with RDC for the 5-6 acres.

*(c) Land Lease Term*

The University will lease the 11.12 acres to RDC for a term of 99 years. At the end of the lease, the property and buildings will be retained by the University at no cost. RDC is adamant that the lease term be 99 years; it is the same term as RDC has with other universities. The financial terms of the lease provide revenues to the University throughout the entire 99 year term therefore, RDC’s position is considered reasonable.

*(d) Other Lease Considerations*

- The lease will contain a first right of refusal for the University to acquire the buildings should they become available during the lease term. The University would also have approval controls over future ownership of the buildings on the leased lands.
- The lease will also allow the University control over the type of management and any changes in management of the buildings located on the leased lands.
- The lease will contain a clause allowing the University to have control over the design of any buildings constructed on the leased lands.
- RDC will offer a “triple net” lease so absolutely no costs associated with the leased lands are borne by Trent.
- The lease will contain a guarantee that the facility will be maintained to a first class standard for the entire lease term.
- Trent will undertake not to build or have built any student housing that would compete with any RDC built or proposed project for a minimum of 5 years following the completion of Phase 1.

*(e) Financial Terms of the Lease:*

The basis for the financial terms of the lease discussed with RDC was determined using:

- RDC’s forecasts for Phase 1 and assuming similar financial forecasts for Phase 2.

- A land appraisal completed by McLean Simon & Associates Inc (see Attachment D) which determined the land, if sold free hold, is worth \$1.7M to \$1.9M for 11.12 acres.
- Contact with other universities to understand their leasing experiences.

Given Board of Governors approval, this lease will provide the University with the following financial terms:

### **1. Basic Land Lease Payments**

The University will lease the lands to RDC at \$160,000 per acre (for the entire 11.12 acres as surveyed), or \$1,779,200. One half of this amount would be payable to Trent for Phase 1 and one half for Phase 2.

Trent would expect the Phase 1 payment to be made in 3 equal instalments: a deposit at the time of the signing of the contract, an amount at the time of the issuance of the building permit, and the remaining sum payable at substantial completion of Phase 1.

Trent would expect the Phase 2 payment to be made in 3 equal instalments: a deposit at the time of Trent's approval of that part of the project, an amount at the time of the issuance of the building permit, and the remaining sum payable at substantial completion, with full payment not later than the completion of Phase 2.

Lease payments:

At Completion of Phase 1 in August 2009	\$ 889,600
At Completion of Phase 2 – no later than Aug. 2014	<u>\$ 889,600</u>
	<u>\$1,779,200</u>

### **2. Trent Participation in Gross Revenues**

RDC will commence payments to Trent of 5% of gross revenues (determined by audited statements) starting in year 20. RDC agreed to commence paying the percentage of gross after repaying its initial debt financing. Based on RDC's present revenue forecasts, this payment to the University, commencing in year 20, will be substantial.

### **3. Other Revenues to Trent from RDC refinancing:**

RDC will make payments to Trent of 6% of the benefits of any re-financing(s) of the project that take place at any time during the lease. RDC will guarantee there will be no debt outstanding by year 25, and RDC will undertake to refinance the project at 60% of the asset value in year 26. In year 26, the University will receive a substantial lump sum payment.

### **4. Revenue to Trent from Change in Ownership**

In the event of a sale, at any time as permitted in the lease, RDC will pay Trent 6% of the amount that is the difference between the gross sale price less the debt outstanding at the time of the change in ownership. If and when ownership changes, which might happen

several times over the lease term, the University obtains a substantial lump sum payment each time.

### **5. Share in Benefits of Savings from Development Charges & Property Taxes**

Trent and RDC will equally split any savings from the waiving of development charges and/or property taxes by the City of Peterborough. The University will make every effort with the City to have these fees waived or reduced. Notwithstanding, should Trent be unsuccessful in negotiating same, then RDC shall be responsible for the payment of both.

Development charges are one time or periodic fees, the value of which can be determined and, if waived, an equal split between RDC and the University is straightforward. Property taxes over a 99 year term will be substantial. Waiving property taxes will be a tremendous financial benefit to RDC. If the taxes are waived, the estimated value of the taxes over the full term of the lease will be determined and RDC will pay the University a one time lump sum payment of half of the net present value at the beginning of construction of each phase of the project.

The financial terms of the lease will provide substantial revenues to the University. In a survey of other universities and colleges, most only receive a one time lease payment; a few with commercial tenants also receive a percentage of revenue. We are not aware of any other university that receives performance revenues as proposed in the lease. RDC confirmed Trent's is the first agreement they have entered into that requires on-going return to the University. RDC understands and accepts Trent's position of wanting a share of future growth and worth from a development that will operate on Trent-owned property for a long time.

#### **Reason for Recommending the RDC Proposal:**

Administration completed an extensive analysis of companies in the student housing market and RDC is regarded as the best operator in Canada. Reasons for recommending the RDC proposal include:

- RDC is proposing to build facilities (student housing and retail space) offering quality, affordable accommodation and retail facilities including a convenience store, restaurant, medical offices, and professional offices which the University needs nearby.
- Reference checks with the Universities of Guelph and Ontario Institute of Technology in Oshawa confirm great satisfaction with RDC.
- Financial reference checks with Manulife and Bank of Montreal confirm the RDC financial capability to undertake Trent's project of upwards of \$35 - \$40M.
- Credit reference checks with Dunn & Bradstreet confirm the solid business history and credit worthiness of RDC's owners - London Property Ltd and Ivest Properties Ltd.
- The university is not underwriting or guaranteeing any part of the financing or any part of the project.
- Trent is not required to guarantee student occupancy levels.
- RDC will construct the project in accordance with the plans and specifications approved by Trent and in accordance with all laws, including (i) a site plan agreement

approved by the University and the municipality (ii) all municipal requirements and (iii) all building codes.

- During construction, RDC will provide at minimum 50% performance and 50% labour and material bonding for the project.
- RDC will provide all day to day property management and will coordinate its occupancy policies with the University's residence policies.

### **Conclusion**

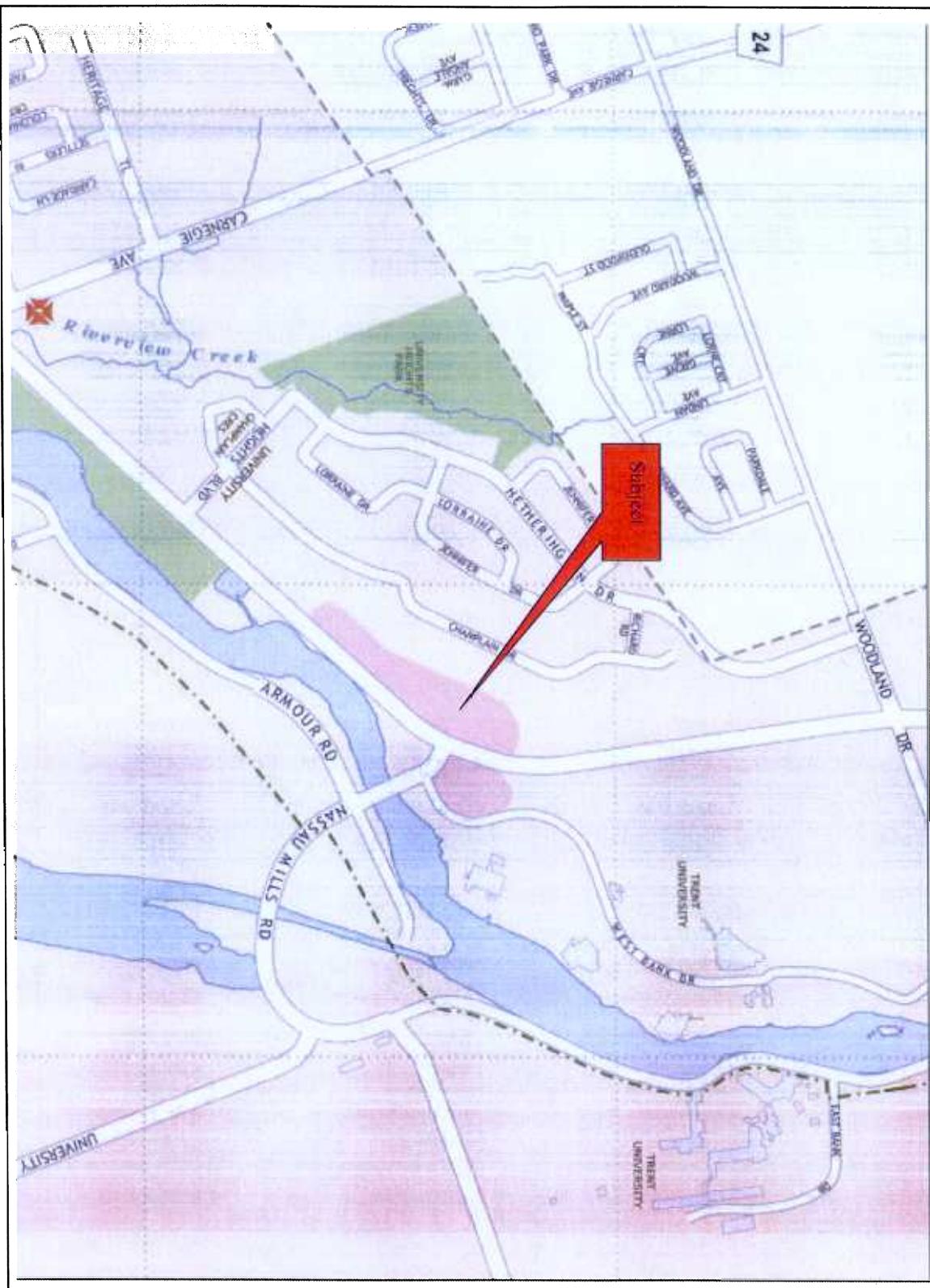
The RDC development proposal was the best proposal in all areas of the evaluation completed, including company management, financial ability, construction quality, student housing management, operating experience, compatibility with Trent housing policies and financial return to the University. The company's reputation is solid with all reference checks speaking very highly of the management group.

It is the opinion of Administration that the University's RFP process provided the best proposal for the University's long-term interest.

### **Recommendation**

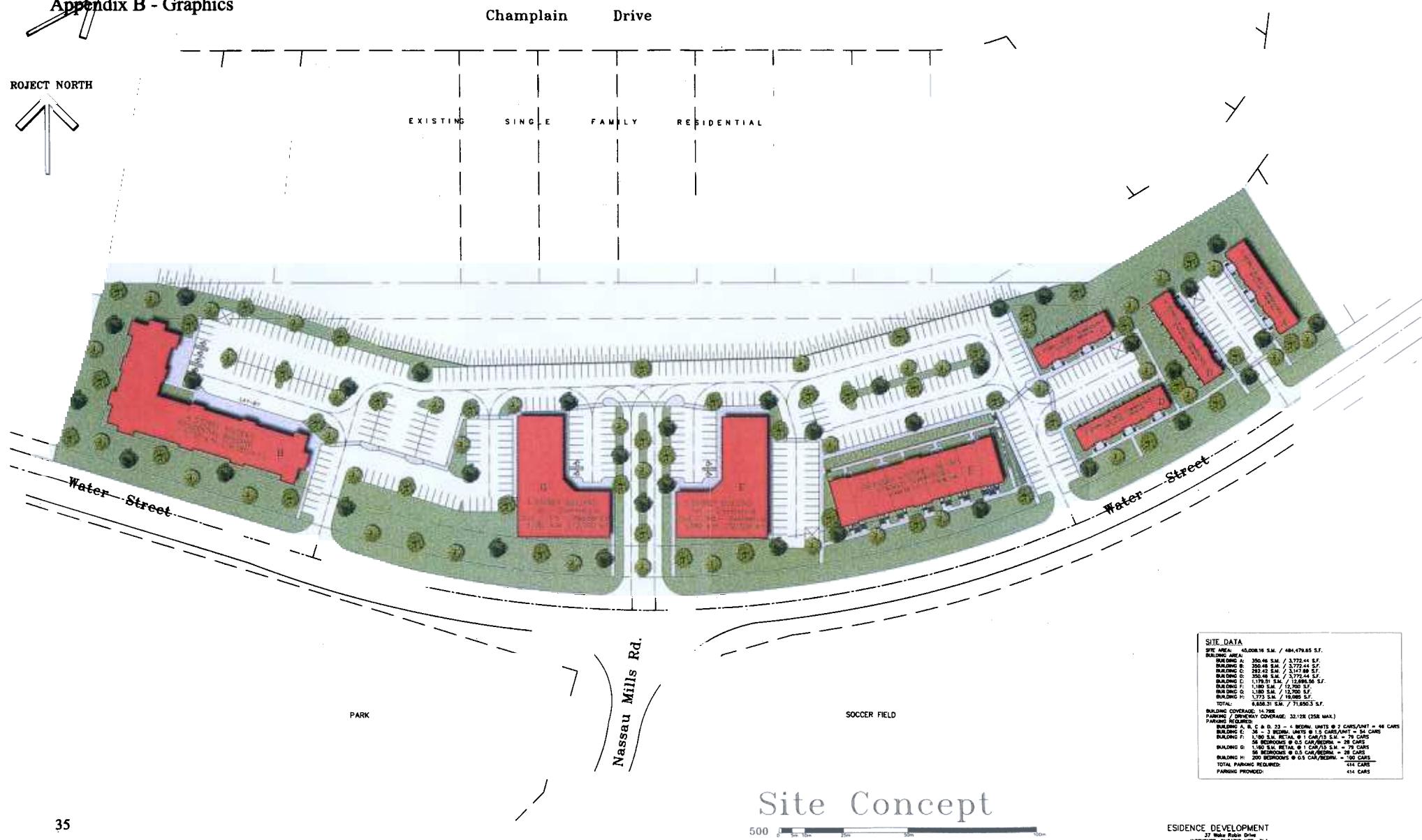
**The President be authorized to enter into a land lease with RDC Corporation for the 11.12 acres on Water Street, identified as Parcel 1C in the University's Endowment Land Master Plan, January 2006. The lease will incorporate the terms and conditions as outlined in this report.**

## LOCATION MAP



Attachment B (i)

**Appendix B - Graphics**

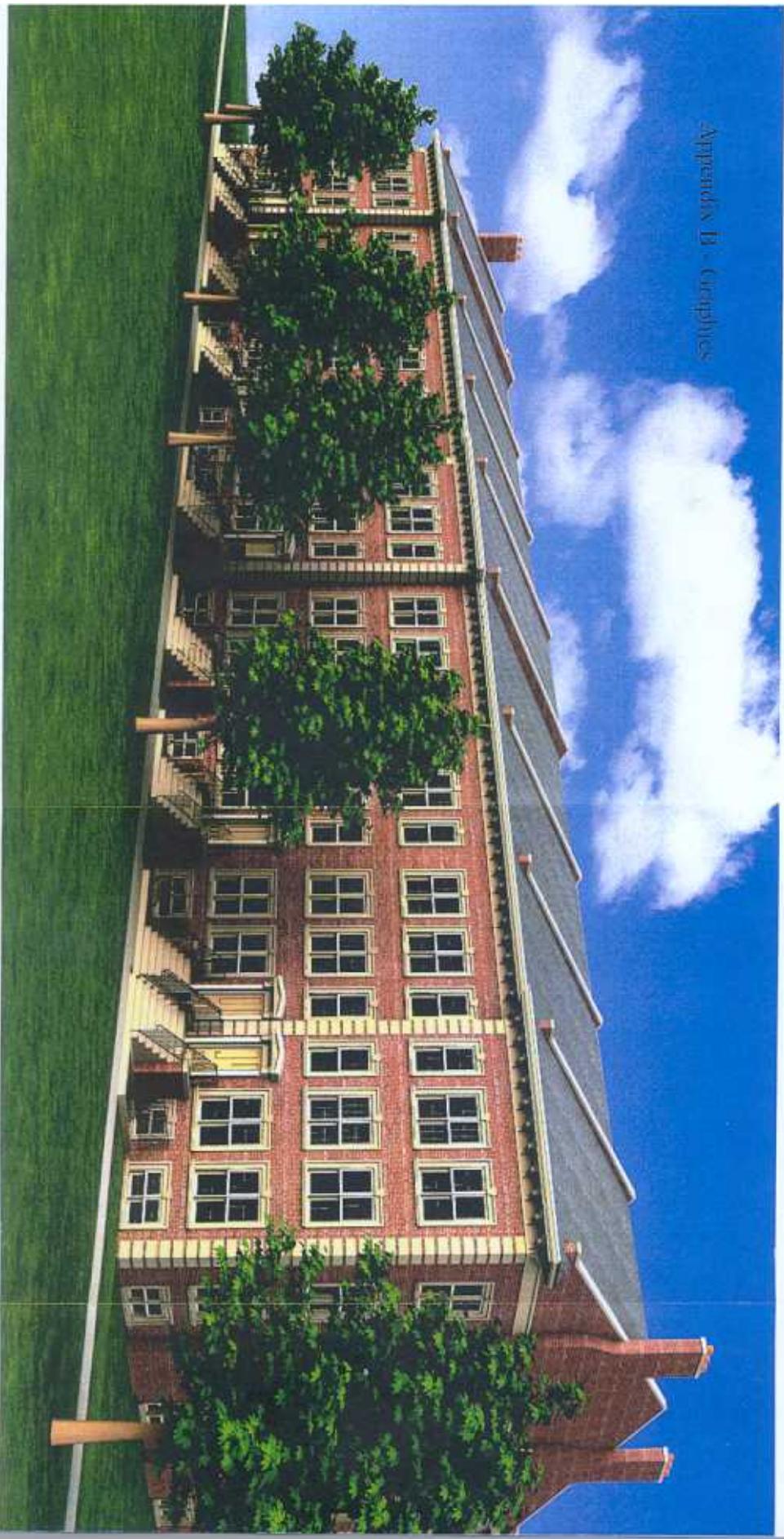


## Attachment B (ii)

### Appendix B - Graphics



Appendix H: Graphics





# McLean, Simon & Associates Inc.

Real Estate Advisory Services

Attachment D

November 20, 2007

Reference No. 1079C07

Trent University  
1600 West Bank Drive  
Peterborough, Ontario  
K9J 7B8

**Attention: Don O'Leary, Vice President Administration**

**Re: Appraisal on Vacant Land, located at Water Street, City of Peterborough**

Dear Mr. O'Leary;

In accordance with your instructions, we have inspected the above referenced property and have undertaken a valuation investigation in order to provide you with an estimate of its Current Market Value. The effective date of appraisal is November 12, 2007.

The property rights being appraised are those of the Fee Simple Interest in the subject property. The market value estimate assumes an "all cash" transaction, free and clear of any existing mortgages and/or restrictive covenants, unless otherwise noted in this report.

We have concluded that the highest and best use of the subject is development with the adjoining property owner in conjunction with the proposed use.

An environmental assessment was not prepared in conjunction with the preparation of this report. For purposes of valuation, **the subject site is assumed to be free and clear of any environmental contamination**. The presence of contaminated soils or other environmental constraints could significantly affect our market value estimate and/or our conclusion as to the highest and best use.

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Based on our investigations and analysis, it is our opinion that the Current Market Value Range of the Fee Simple Interest in the subject property, as of November 12, 2007 is:

**ONE MILLION SEVEN HUNDRED THOUSAND  
TO ONE MILLION NINE HUNDRED THOUSAND DOLLARS  
(\$1,700,000 TO \$1,900,000)**

This report cannot be reproduced, in whole or in part, without our prior written consent. The report is only valid if it bears the original signatures of its authors.

Please find attached the details of the subject property and our valuation methodologies. Should you require further assistance in regards to this report, please contact us.

Yours truly,

**McLean, Simon & Associates Inc.**



Peter B. McLean, AACI, P. App