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April 15, 2003

**CHAIRMAN OF THE BOARD
CHAIRMAN OF THE COMMITTEE ON GROUNDS AND BUILDINGS
CHAIRMAN OF THE COMMITTEE ON FINANCE
PRESIDENT OF THE UNIVERSITY**

**ACTION BY CONCURRENCE - APPROVAL OF THE ACQUISITION OF AND
EXTERNAL FINANCING AND COMMON AREA LEASE AND RELATED
DOCUMENTS FOR LAUREATE COURT PROPERTY, SANTA CRUZ CAMPUS**

**AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE
CAPITAL IMPROVEMENT PROGRAM AND APPROVAL OF EXTERNAL
FINANCING AND APPROVAL OF THE SUBDIVISION, LOT LEASE, AND RELATED
DOCUMENTS FOR HAGAR COURT APARTMENTS, SANTA CRUZ CAMPUS**

It is recommended that:

A. Laureate Court

- (1) The Regents approve the purchase of 700-752 Nobel Drive in Santa Cruz (the Laureate Court Property) from Laureate Court Partnership for a purchase price not to exceed \$15,400,000 plus estimated closing costs not to exceed \$100,000.
- (2) The President be authorized to obtain financing not to exceed \$15,500,000 to finance the purchase listed in (1) above, subject to the following conditions:
 - a. For external financing of \$7,044,259, as long as the debt is outstanding, the rental rates at the Laureate Court Property shall be established at levels to provide excess net revenues to pay the debt service and to meet the related requirements of the financing, and if such income is insufficient, from Telecommunications reserves (a campus auxiliary department);
 - b. For interim financing of \$8,455,741, repayment shall be from the rental income of the Laureate Court Property and the sale of condominium units at the Laureate Court Property and the Hagar Court Apartments in an amount to provide to pay the debt service and to meet the related requirements of the financing, and if these are insufficient, from Telecommunications reserves; and

- c. The general credit of The Regents shall not be pledged.
- (3) The President, or designee, in consultation with General Counsel, be authorized to execute the Condominium Common Area Lease, the Declaration of Covenants, Conditions, and Restrictions, the Home Purchase Contracts, and other related documents as necessary for the completion and sale of condominium units in the Laureate Court Property. These documents shall contain the following provisions:
- a. Condominium Common Area Lease to be between the Homeowners Association and the Regents with a term of 60 years;
 - b. The Condominium Common Area Lease to provide for the Association to sublease an undivided interest to the buyers of the Laureate Court units;
 - c. The Homeowners Association to initially pay annual ground rent of \$720 per year for each owner (other than the University) of a Laureate Court unit for expenses associated with the Santa Cruz faculty and staff housing program, subject to annual increases at the discretion of the University by an amount not to exceed 8% of the previous year's rent. The Association will pass through the ground rent to the owners and may request that it be paid by payroll deduction;
 - d. The initial purchasers of the Laureate Court units to be selected from University affiliated persons determined to be eligible by the Chancellor of the Santa Cruz campus;
 - e. Upon the resale of a Laureate Court unit, the owner must offer the unit to buyers in the priority established by the Chancellor of the Santa Cruz campus, at a price which conforms to A(3) g. below;
 - f. At any time when fewer than 45 years remain on the Lease, the Homeowners Association may request a new Condominium Common Area Lease. If in the opinion of the University, the Faculty for Sale Housing Program will benefit thereby, a new Condominium Common Area Lease may be entered into for a term not to exceed 60 years;
 - g. To ensure that Laureate Court units remain affordable by members of the University community, resale prices shall be limited to the lesser of:
 - 1. The price negotiated between the buyer and the owner; or
 - 2. The sum of:
 - i. The original purchase price of the unit paid by the owner, plus
 - ii. The product of the original purchase price of the unit paid by owner and the fractional change in that one of the following indices which shall result in the largest product: (x) the National Consumer Price Index (all items), or (y) the Faculty Salary Index (as published by the Office of Loan

Programs), using the value for each Index published for the month immediately preceding the date on which the owner originally purchased the condominium and the value for each Index last published prior to the date of the offer to sell, plus

- iii. The cost of all capital improvements to the unit made by the owner or the Homeowner's Association, but only to the extent that each such capital improvement to a unit exceeds \$1,000 in cost (including such costs as may be distributed to an owner's unit as a result of qualified capital improvements made by the Homeowner's Association) and was certified by the University at the time such improvement was completed, less
 - iv. The cost of correcting damage to the unit in excess of normal wear and tear.
- (5) The Regents accept title to the Laureate Court property described above, to be conveyed by deed from the seller and consent to recordation of said deed.

B. Hagar Court Apartments

- (1) The President be authorized to obtain interim financing not to exceed \$ 3,036,000 to finance the cost of renovating the Hagar Court Apartments, subject to the following conditions:
- a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period;
 - b. Repayment shall be from the rental income of Laureate Court and proceeds of the sale of units in the Hagar Court Apartments in an amount to pay the debt service and to meet the related requirements of the financing, and if these are insufficient, from Telecommunications reserves; and
 - c. The general credit of The Regents shall not be pledged.
- (2) The President or designee be authorized to designate, describe, and subdivide that portion of the Santa Cruz campus previously approved by The Regents as the site for the Hagar Court Apartments into condominium units including separately designated units, common area, and condominium owners exclusive use areas, and to prepare a legal description indicating such subdivision, with said legal description to be filed with the Recorder of the Santa Cruz County as evidence of the action.
- a. The initial purchasers of the Laureate Court units to be selected from University affiliated persons determined to be eligible by the Chancellor of the Santa Cruz campus;
 - b. Upon the resale of a Laureate Court unit, the owner must offer the unit to buyers in the priority established by the Chancellor of the Santa Cruz campus, at a price which conforms to B(2) c. below;

- c. To ensure that Laureate Court units remain affordable by members of the University community, resale prices shall be limited to the lesser of:
1. The price negotiated between the buyer and the owner; or
 2. The sum of:
 - i. The original purchase price of the unit paid by the owner, plus
 - ii. The product of the original purchase price of the unit paid by owner and the fractional change in that one of the following indices which shall result in the largest product: (x) the National Consumer Price Index (all items), or (y) the Faculty Salary Index (as published by the Office of Loan Programs), using the value for each Index published for the month immediately preceding the date on which the owner originally purchased the condominium and the value for each Index last published prior to the date of the offer to sell, plus
 - iii. The cost of all capital improvements to the unit made by the owner or the Homeowner's Association, but only to the extent that each such capital improvement to a unit exceeds \$1,000 in cost (including such costs as may be distributed to an owner's unit as a result of qualified capital improvements made by the Homeowner's Association) and was certified by the University at the time such improvement was completed, less
 - iv. The cost of correcting damage to the unit in excess of normal wear and tear.
- (3) The President, or designee, be authorized to execute new documents for the formation of a separate Faculty for Sale Housing Project, with the same applicable restrictions and provisions as the existing Faculty for Sale Housing Project.

C. General Provisions

- (1) The President or his designee be authorized to provide certification that the interest paid by The Regents on financing obtained pursuant to A(2) and B(1) above is excluded from gross income for purposes of federal income taxation under existing law.
- (2) The President, in consultation with the General Counsel, be authorized to execute all documents, including all amendments as may be necessary or appropriate related to changing circumstances or unforeseen conditions, as long as such amendments or other documents do not contravene the basic meaning or purpose of provisions approved by the Regents in connection with the above.

DESCRIPTION

This action requests approval and financing of \$ 18,536,000 for the purchase of the Laureate Court Property (\$15,500,000) and the renovation of Hagar Court Apartments (\$3,036,000), and the authority to sell condominium units in each property as part of the Santa Cruz campus Faculty For Sale Housing Program.

Background

Santa Cruz Campus Faculty and Staff Housing- Goals

To help meet institutional goals for the recruitment and retention of qualified faculty and staff, the campus currently provides both for-sale and rental housing. The mission of UCSC's Faculty and Staff Housing Program is to provide a range of affordable, high-quality rental and for-sale properties to faculty and staff faced with the limited housing options in Santa Cruz.

The campus' ability to recruit and retain faculty and staff has been adversely affected by the high cost and scarcity of housing in the region. The median sales price of a single-family home in Santa Cruz County for the month of January 2003 was \$515,000 and the median price of a condominium was \$390,000. Junior faculty without additional income are unable to meet conventional lending requirements to purchase either a condominium or single family home in this market. This becomes an especially critical challenge as the campus expects to recruit an average of 30 to 40 new faculty each year to keep pace with unprecedented student growth.

Consistent with the goals set forth in the 1988 LRDP, the campus operates rental units and manages groundleases for for-sale units. Under this program the campus currently provides 80 units of for-sale housing at Cardiff Terrace and 50 units of rental housing at Hagar Court. There are waiting lists for both the existing rental and for-sale housing, and demand is forecast to increase significantly over the next several years with anticipated enrollment growth. The for-sale waiting list for faculty in the first priority category consists of 100 faculty. The second priority category waiting list has 36 faculty members. There are currently 50 faculty applicants on the for-rent waiting list. Waiting lists for other priorities, including staff, have not been established due to lack of availability of either rental or for-sale housing. The project would allow the campus to expand existing faculty housing programs, offering opportunities to staff that are not currently available.

This project was originally submitted to The Regents for approval at the September 2002 meeting. It was removed from the agenda prior to the meeting due to discovery of seismic deficiencies at Laureate Court late in the due diligence process. Those deficiencies have now been fully identified and will be corrected prior to the close of escrow.

Action is requested at this time to provide short-term financing for the renovation and conversion to for-sale units at Hagar Court. By obtaining this short-term financing now, the campus will be able to move ahead quickly to renovate and sell the units at Hagar Court in 2003-04, while also taking advantage of the favorable interest rates currently available.

Project Description

Laureate Court

The Santa Cruz campus proposes to purchase 700-752 Nobel Drive, Santa Cruz, commonly known as the Laureate Court Property for \$15,400,000 plus closing costs estimated to be \$100,000. The Laureate Court Property would provide a total of 64 units, which initially would be comprised of 13 units for-sale and 51 units for-rent, for faculty and staff. This would allow the campus to increase its stock of faculty/staff housing by 64 units beginning Summer 2003. The Property consists of a 3.5-acre parcel located adjacent to the UCSC campus's lower boundary at the intersection of High Street and Bay Drive, improved with a 11-year-old condominium complex of 12 multi-family residential structures containing 64 housing units to be used by the UCSC for faculty and staff rental and/or for-sale housing.

The Property includes 125 developed surface parking stalls, five carport structures, a cabana and swimming pool and other appurtenances. Construction of the Property was completed in February 1992 and complies with the UC requirements and policies regarding life safety, Environmental Health and Safety (EH&S), and Americans with Disabilities Act (ADA) codes. During the due diligence process it was discovered that the building did not meet seismic safety for purchased buildings. Engineers hired by the campus in consultation with the sellers' engineer have determined how to correct the problem and the sellers have agreed to perform the work. All necessary seismic work will be completed prior to the close of escrow.

The Laureate Court Property is ideally located for faculty/staff housing as the property borders UCSC and is situated directly across from the campus's main entrance. The Laureate Court Property would become part of the UCSC Faculty and Staff Housing Program and be managed by the Faculty Housing Office. Acquisition of Laureate Court would increase the number of rental housing units and for-sale condominiums available to the campus. Because the Laureate Court Property is already subdivided into 64 units, it would provide flexibility to the campus in meeting future faculty housing needs.

The Laureate Court Property was appraised by an MAI appraiser at \$19,159,000 based on its value as 64 condominiums units and \$15,670,000 based on a "bulk purchase price." The Office of the President's Real Estate Services Group (RESG) negotiated a price of \$15,400,000, which is less than the appraised "bulk purchase price" by approximately 1.7%. Based on its analysis of the Property, RESG has concluded that \$15,400,000 is an appropriate purchase price for the property.

The Property is subject to a restriction imposed by a City of Santa Cruz "investominium" ordinance, which approved the property as condominiums, but required that the units be rented for a 10-year period, during which 100% of the housing units could be rented at market rate. This period was recently extended by the owners and the City to December 31, 2004. During this period, 13 units may be sold to persons with moderate income. If the moderate-income units are not sold by December 31, 2004, the ordinance requires that 13 units be rented to low-income households in perpetuity. Junior faculty without additional income are within the City's "moderate income" for-sale income limitations and would be eligible to purchase these units. The campus anticipates sales of these units to be completed prior to December 2004. The remaining 51 units must remain as rentals and may be rented at market rates through

December 31, 2004. These 51 units may be sold after this date. Should revenues fall below projections or expenses exceed estimates, UCSC may sell additional units after January 2005.

Hagar Court

The campus would renovate and convert the 50 existing rental units at Hagar Court to condominiums for sale to faculty and/or staff. The net proceeds from the sale of these units would be used to reduce the debt financing for the purchase of Laureate Court and would provide the campus the option to retain ownership of 51 units at Laureate Court for continued use as rentals.

Renovation of the Hagar Court units would begin in April 2003 with the first 25 units being ready for sale in September 2003. The remaining 25 units would be renovated beginning June 2003 and would be sold by January 2004.

Completion of the campus's proposal to renovate existing rentals and convert them to condominiums would benefit the campus because of the following:

- The renovation and conversion supports the University's goal of expanding the supply of moderately priced for-sale housing.
- The units, located on-campus, are a part of an already existing faculty housing community.
- The "townhome" type units are suitable for families with ground floor entrances and direct access to the extensive common area grounds.

The renovation would include new roofs, new flooring, remodel of kitchens including new appliances, new bathroom fixtures, installation of energy efficient windows and exterior paint. Renovation costs include those required to meet applicable building and fire codes for condominiums. The plans and specifications for the remodel and conversion to condominiums were reviewed by the Campus Architect and the State Fire Marshall regarding fire safety and/or code issues. They were also reviewed by an independent architect and a developer to determine the appropriateness and marketability of converting the apartments to for-sale units. Their reports indicated that the project was feasible as presented in this item.

The campus proposes to create separate recordable leasehold lots for the 50 units and create a new homeowners association. The Covenants, Conditions and Restrictions would include eligibility requirements for purchasing as well as price restrictions on resales.

Financial Feasibility

The total project cost is \$18,536,000, which includes \$15,500,000 for the purchase of Laureate Court including estimated closing costs, and \$3,036,000 for the renovation of the Hagar Court Apartments.

The components of financing are summarized below:

Long term (Pool)	\$ 7,044,259	Portion of Purchase of Laureate Court
Interim(Bank)	\$ 8,455,741	Balance of Purchase of Laureate Court
	<u>\$ 3,036,000</u>	Renovation for Hagar Court
Total Interim loans	\$11,491,741	

Long Term Financing

The campus has requested long term financing of \$7,044,259 for a portion of the purchase price for Laureate Court. The average annual debt service is projected at \$518,621 based on a 30-year amortization at 6.125% interest rate. The debt would be repaid from the rental revenues generated by Laureate, with support for debt service coverage from Telecommunications Department, a campus auxiliary enterprise.

The campus projections show rental income from 64 units at Laureate Court through September 2004 and 51 units thereafter after the intended sale of 13 units. The projected rental income is sufficient to meet operating expenses and debt service payments in all years. However, the campus would provide an advance from other auxiliary fund reserves of the Telecommunications Department to subsidize the debt coverage ratio required by the Indenture through fiscal year 2007 in decreasing amounts, after which the Laureate Court property is projected to be self supporting.

While proposed initial rental rates are higher than existing faculty rental rates, the rents are lower than current market rental rates. One of the primary objectives of the faculty and staff housing program is to provide housing for junior faculty and new staff coming from outside of the region. To meet these recruitment and retention objectives, rental rates need to be kept below market rates as shown on the following table:

Santa Cruz Campus vs. Local Rental Market Comparison of Projected Monthly Rents			
	<i>Laureate Court Rents</i>		<i>Difference</i>
	<i>Fall 2003</i>	<i>Local Rents</i>	
Laureate Court Apartments			
1 bedroom	\$1000-1100	\$1220-1400	\$220-300
2 bedroom	\$1250-1350	\$1450-1735	\$200-385

However, to meet the needs of the faculty with lower rental rates the revenues generated from the Laureate Court project do not fully meet all operating need and financing requirements in the first few years of operation. The campus proposes to operate the Laureate Court project through the Campus Housing System, an independent-campus operated program, not the systemwide UCHS (University of California Housing System) program.

Interim Financing

Interim financing to be repaid from the proceeds of sales from Laureate Court and Hagar Court are as follows:

Estimated Sales Date	Units Sold	Sales Proceeds	Average Price	Loan Balance after Sales Proceeds
<u>Hagar Court</u>				
September 2003	25	\$5,000,000	\$200,000	\$6,491,741
January 2004	25	\$5,125,000	\$205,000	\$1,366,741
<u>Laureate Court</u>				
September 2004	13	\$3,086,741*	\$235,700 to \$266,800	0

* Excess proceeds will be used to repay an existing internal loan from University of California Housing System (UCHS) of \$1,720,000.

The following table summarizes the projected sales price of the Hagar Court and Laureate Court units as compared to the local market. The analysis used a like for like comparison of unit type and it is important to note that the median condominium sales price in the City of Santa Cruz, during the first quarter of 2003, was \$390,000.

Santa Cruz Campus vs. Local Sales Market Comparison of Projected Sales Prices		
	<u>Sales Price</u>	<u>Local Market</u>
<u>Hagar Court Condominiums</u>		
Phase 1, September 2003	\$200,000	\$373,000
Phase 2, January 2004	\$205,000	\$373,000
<u>Laureate Court</u>		
13 moderate income units		
1 bedroom	\$235,700	\$262,000
2 bedroom	\$266,800	\$373,000

Given the favorable pricing, the campus anticipates the successful sale of the units and sufficient proceeds to repay all of the interim financing. However, during the sales period, reserves of the Telecommunications Department totaling approximately \$1.1 million will be used to help pay the debt service on the interim loans and the internal UCHS loan until the sales are completed. The subsidy from Telecommunications for the interim loans ends in 2007 with the sales of Laureate Court, and will be repaid at the STIP rate. If necessary, the campus would return for approval to convert any remaining balance on the interim financing to long term financing supported by rental revenues.


Environmental Impact Summary

The proposed purchase, renovation and sale are classified as categorically exempt under the California Environmental Quality Act.

Approved by:



Richard C. Atkinson
President of the University



George M. Marcus
Chairman of the Committee on Grounds and Buildings

Judith L. Hopkinson
Chairman of the Committee on Finance

John Moores
Chairman of the Board

Attachments

Environmental Impact Summary

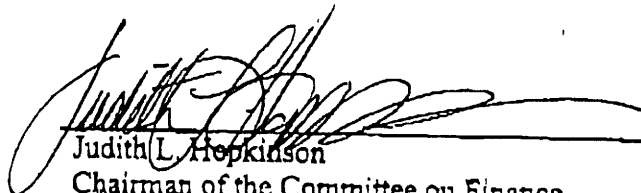
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Attachments

ATTACHMENT 1

**PROJECT STATISTICS
HAGAR COURT RENOVATION
CAPITAL IMPROVEMENT BUDGET
SANTA CRUZ CAMPUS
CCCI 4141**

Cost Category	Amount	% of Total
Site Clearance	\$0	0.0
Construction	\$2,549,000	84.0
Exterior Utilities	\$0	0.0
Site Development	\$30,000	1.0
fees	\$92,000	3.0
A&E/PP&C	\$60,000	2.0
Surveys, tests, Plans, Specs	\$9,000	0.3
Special Items	\$127,000	4.2
Contingency	\$169,000	5.5
Total P-W-C	<u>\$3,036,000</u>	
Group 2 & 3 Equipment	<u>\$0</u>	
Total Project	\$3,036,000	100%

Project Statistics

Hagar Court

Total Renovation	\$3,036,000
Assignable Square Feet	47,168
Gross Square Feet	54,482
Number of Units	50
Construction Cost/Unit	\$60,720
ratio asf/gsf	87%

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title: LAUREATE COURT APARTMENTS 700 NOBEL DRIVE and
HAGAR COURT TOWNHOME CONVERSION, Santa Cruz Campus

Estimated Purchase and Renovation Cost (including estimated closing costs):

Laureate Court Purchase Cost	\$15,500,000
Hagar Court Renovation Cost	\$3,036,000
Total Estimated Purchase and Renovation Cost	<u>\$18,536,000</u>

Proposed Source of Financing

Interim Financing (Bank Loan)	\$11,491,741
Long Term Financing (Pool)	\$7,044,259
Total Financing	<u>\$18,536,000</u>

Projected Financing Terms

Bank Loan Interest Rate:	Term - 3 years	7.125%
Pool Interest Rate	Term - 30 years	6.125%

Estimated Revenue from Sales

Revenue Associated with Sale of Moderate Income Laureate Court Units (13 units at \$257,211 Less: \$150,000 for Laureate Court Homeowner's Association Reserve)	\$3,086,741
Revenue Associated with Sale of Hagar Court Units (25 units at average sales price of \$200,000, 25 units at average sales price of \$205,000)	\$10,125,000
Total Cumulative Revenue from Sales	<u>\$13,211,741 *</u>

* Sales revenues will repay bank loan (\$11,491,741) and balance of existing \$1,720,000 UCHS loan on Hagar Court. Interest will be paid from Telecommunications Reserves.

Long-Term Funding Requirements

(Total Estimated Purchase and Renovation Cost Less Estimated Revenue from Sales)	\$7,044,259
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Estimated Laureate Court Revenues (2005-06 fiscal year)

(the year principal & interest payment for long-term debt begins)

Rental on 51 units	\$743,237
Expenses:	
Operations	\$218,375
Other expenses and fees (contingencies @4%)	\$8,735
Net Revenue for debt service	\$516,127
Subsidy Provided by Telecommunications Reserve (1.25 debt coverage)	\$132,149