

BOARD OF REGENTS BRIEFING PAPER

1. Agenda Item Title: Bond Sale Resolution for the Vegas Grand Property Offer/Acquisition - UNLV

2. BACKGROUND & POLICY CONTEXT OF ISSUE:

UNLV is positioned to make an offer to purchase a lender foreclosure property adjacent to the University's main campus. The property under consideration is a condominium project which consists of 212 units on approximately 4 acres, commonly known as 'Vegas Grand,' together with approximately 16 additional acres of vacant improved land. UNLV may be in an excellent position to acquire this property at a fraction of the amount invested by the prior owner. UNLV feels it is very important to make a strong offer on this property, at a price we think would be advantageous to us. It is very possible that an offer would be accepted, but then again it is also possible the offer would not be considered. However, based on discussions with individuals very experienced in making offers through bankruptcy proceedings, it is strongly felt that it is critical to have Board action on a Bond Sale prior to making the offer, vs making an offer without any Board action (and only included as a contingency in the offer). This is the reason this action item is coming to the Board at this point in time, as this is not a standard transaction.

UNLV has been reviewing the feasibility of this property since the property first went into foreclosure in Fall 2007. It is anticipated based on a demand survey completed in Fall 2008 and market analysis in Spring 2009 that the project will be supported from rents collected from student and faculty residents, requiring no state funding. The demand survey and market/feasibility analysis of the property were conducted by the Commercial Development and Management Corporation (CDMC) affiliate of the UNLV Research Foundation with much assistance and expertise generously provided without compensation by experienced local developer Mr. John Midby and his staff from the Midby Companies. Mr. Midby serves as the Chairman of CDMC's Board of Directors and also serves as a member of the UNLV Foundation Board of Trustees.

Our interests are related not only to the location, but the fact that there is such a large vacant acreage adjacent – something that is relatively rare in close proximity to the campus (and not under significant airport airspace restrictions). The existence of the 212 units is an existing condition that we think we can capitalize on to create housing opportunities for graduate students and faculty/staff.

In order to present an offer to the bankruptcy trustee that provides the greatest opportunity to be considered and accepted, we believe it is necessary to minimize the number of contingencies when the offer is made. For this reason, we are requesting approval from the Board to proceed with the financing prior to making the offer to the seller, understanding that the final negotiated terms and conditions of the purchase will be presented to the Board at a subsequent meeting for approval prior to completing the financing and acquisition of the property, if in fact our offer is accepted. It is not known whether our offer will be accepted or not, but we feel this is an exceptional opportunity and that we need to make an offer on our terms in hopes of purchasing a property that would be very valuable to the institution in the long term.

Property Description

Condominium Structure

The property consists of approximately 20 acres on Flamingo Road between Swenson Street and Cambridge Street, generally across the street from the Stan Fulton Building. The property has a substantially completed, but unoccupied, 212 unit structure and 16 acres of undeveloped, but improved vacant land. The condominium complex was designed and built as a resort-style condominium project with high quality specifications. There are 212 units with an attached 406 space parking garage including 20 private double garages. The units consist of 11 different floor plans ranging from 587 to 1,883 square feet with one, two and three bedrooms. Property amenities include a rooftop swimming pool, clubhouse, tennis courts, fitness center, and guard-gated security. The roof top recreation area including the swimming pool will need to be completed by the seller for Certificate of Occupancy approval.

The facility is a 'Class-A' product offered in a 'Class-C' location primarily due to the age of residential and commercial real estate in the area. This location provides a significant benefit to UNLV, while it is likely a detriment to commercial interests. Most competitive properties in the area were constructed between 1970 and 1980 with the exception of 'Rebel Place' which is expected to open in the Fall 2009 offering 480 beds nearly adjacent to the north of this property.

Vacant Land

- Approximately 16 acres of vacant land currently approved for 782 units (49/acre) and buildings up to 150 feet.
- Overlay districts include MUD-2 (mixed-use) and A-E65 (airport environs).
- Mapped into 4 individual pads from 2-4 acres each plus one common element pad of +/- 5 acres.
- Existing site improvements include boxed culvert wash improvements, site grading, building pads, 500,000 yards of soil with fabric reinforcement, wet utility for 880 units and natural gas.

Targeted Renters

The target market for the completed condominium structure is UNLV graduate and professional students, faculty and staff. This apartment-style living which is more desirable for graduate and professional student lifestyle is not currently available in UNLV's existing housing facilities, nor do we have any housing available for faculty/staff.

Existing campus residential housing facilities provided capacity for approximately 1,500 residents with occupancy of approximately 1,400 for Fall 2008. Of the student residents, approximately 65% were first time freshmen and only two were graduate students (out of 6,468 graduate and professional students enrolled).

Student and faculty were surveyed in the fall of 2008 and based on this data, there appears to be a strong demand for this product among the target group over the next 24 months due to the location in proximity to UNLV and expected monthly rent given the amenities of the property. The draft business model suggests monthly rents for the property in the range of \$.92 to \$1.08 per square foot (\$635 to \$1,750 depending on the size of the unit) and that these rates would be very attractive to the target market. (note: these rates assume an unfurnished unit, with all utilities with the exception of water and sewer being the renter's responsibility). Based on the survey data, an occupancy rate of approximately 90% is expected following the initial lease-up period of 24 months.

Acquisition Timeline

With approval of this financing resolution, UNLV will finalize a Purchase and Sale Agreement offer document to be submitted to the seller. Assuming acceptance and negotiation of the offer (we do not know the likelihood of success of our offer), UNLV would return to a future meeting of the Investment Committee and the Board for approval of the acquisition terms and conditions together with the final financing plan.

The acquisition timeline is difficult to predict given that the property is a comparatively minor part of the massive Lehman Brothers bankruptcy so it not possible to estimate the timing of a response to our offer. In addition, if the offer is accepted, this would begin a feasibility/due diligence period during which activities typical of a property acquisition will take place (such as building inspections, utility assessments, environmental and soil studies, etc.) and during which, the University will have the ability to terminate for any reason. Provided no issues arise during the feasibility/due diligence period, final Board approval will then be requested at a future meeting to complete the acquisition and financing.

3. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

Acting President Neal Smatresk requests approval of a bond sale resolution to allow the Nevada System of Higher Education, on behalf of the University of Nevada, Las Vegas to submit an offer for the purchase of the Vegas Grand property and proceed toward a debt issuance to finance the acquisition.

Approval of this action will allow UNLV to submit an offer making the seller aware that our Board has seen this proposal and has authorized us to proceed. However, this action does not supercede other contingencies provided in the offer including, but not limited to, a due diligence period and further Board approval of the financing specifics and final Board approval to acquire the property. UNLV will return to a future meeting to request these additional approvals to complete the purchase and the financing if the seller accepts our offer.

4. IMPETUS (WHY NOW?):

Great opportunities often arise in times of great economic stress. This property has been vacant and in foreclosure since the fall of 2007 and the further deterioration of the local real estate market presents an environment in which UNLV believes this property can be acquired at a fraction of the amount invested by the defaulting developer. We feel it is important to make an offer on this property at a price that would be beneficial to the institution, even if we end up being unsuccessful (we certainly will not be successful in acquiring the property without making an offer).

The 212 unit structure will provide apartment-style housing opportunities for graduate and professional students not currently available in our student housing facilities portfolio so this acquisition will not compete with current student housing facilities. The long term value of the vacant 16 acres of the property is significant, given the fact that the current campus is locked into 330 acres. Within these 330 acres is approximately 22 acres on campus dedicated to supporting the existing student housing, which accommodates less than 1500 students per semester. Over the long term, the campus could develop more housing options on this parcel, freeing up very valuable land in the core of the campus for higher priority uses.

In order to present an offer to the bankruptcy trustee that provides the greatest opportunity to be considered and accepted, we believe it is necessary to minimize the number of contingencies when the offer is made. For this reason, we are requesting approval from the Board to proceed with the financing prior to making the offer to the seller understanding that the final negotiated terms and conditions of the purchase will be presented to the Board at a subsequent meeting for approval prior to completing the financing and acquisition of the property.

5. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

UNLV's interests in this property include the following:

- Proximity to the main campus and meeting our longer term master plan goals of land acquisition.
- Ability to provide apartment-style living opportunities for graduate and professional students not currently available in existing student housing facilities.
- Long term value of the 16 acres of vacant, improved land adjacent to the main campus.

6. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

- Incurring debt service could take away from other programmatic needs.
- This is a very difficult financial period to incur additional costs.

7. ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:

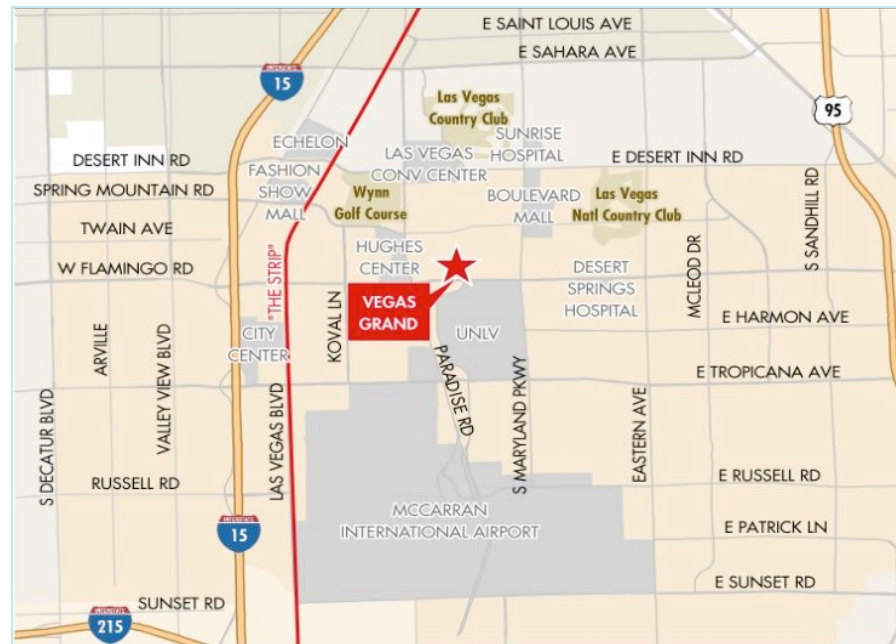
Without approval for financing, funds would not be available to acquire this property so no purchase offer would be made to the bankruptcy trustee.

8. COMPLIANCE WITH BOARD POLICY:

<p><input checked="" type="checkbox"/> Consistent With Current Board Policy: Title #_4_ Chapter #9 Section #_D(1)_</p> <p><input type="checkbox"/> Amends Current Board Policy: Title #_____ Chapter #_____ Section #_____</p> <p><input type="checkbox"/> Amends Current Procedures & Guidelines Manual: Chapter #_____ Section #_____</p> <p><input type="checkbox"/> Other: _____</p> <p><input type="checkbox"/> Fiscal Impact: Yes_X_ No_____</p> <p>Explain: The repayment of the debt requested is anticipated to be from rents collected from student and faculty tenants following the lease-up period requiring no state funding. Institutional funds set aside for property acquisition may be needed to support the start-up period.</p>

'Vegas Grand' Property Overview

Location



- Vegas Grand located on Flamingo and Swenson, across from UNLV north end of campus and less than 2 miles from LV Strip
- 3.5 miles from I-215 and 2 miles from I-15
- One of the more established submarkets in LV, with limited new residential construction (mostly apartment conversions and high/mid rise condos on or near the Strip)
- Near several retail/commercial/restaurant conveniences including a major regional mall and several strip malls

'Vegas Grand' Property Overview

Site Overview



Bella Venezia 1
4.11 acres
212 units



Improved Land
15.93 infill acres
Approved for 782 units

Zoning: all 20.04
acres zoned R-5
Apartment
Residential
(50/acre)

'Vegas Grand' Property Overview

Product - Condominium Units



'Vegas Grand' Property Overview

Product - Condominium Units

- 4.11 acres, 212 apartment units, 2 buildings, 406 parking spaces
- Construction complete save the roof top recreation area to be completed by seller for +/- \$150K for Certificate of Occupancy approval
- 212 units in two 3- and 4-story buildings
- Attached 406 space 3-story parking garage including 20 private double garages
- 11 floor plans, ranging from 587 to 1,883 s.f. with 1, 2, and 3 bedroom plans
- Unit specifications: granite countertops, GE Profile stainless steel appliances, custom cabinets, balconies
- Community amenities: rooftop lagoon-style pool/spa, clubhouse, tennis courts, business center, fitness center, and guard-gated security

'Vegas Grand' Property Overview

Product - Land

- +/- 15.93 infill acres, approved for 782 units (50/acre) and buildings up to 150 feet
- Overlay districts include MUD-2 (Mixed-Use) and A-E65 (Airport Environs).
- Mapped into 5 individual pads from 2-4 acres each
- Existing site improvements: box culverts, site grading and building pads, 500K cubic yards of soil and fabric reinforcement, wet utility for 880 units and natural gas. Buyer to pay \$150K for gas connection

Current Estimate of Costs invested in Overall Project

- **CBRE ESTIMATED COSTS: \$113,284,820 for entire property**
 - 212 unit construction cost: \$77,900,000
 - 15.93 improved acres development cost: \$35,384,820

RESOLUTION NO. ____

A RESOLUTION PERTAINING TO THE ISSUANCE OF BONDS FOR THE PURPOSE OF FINANCING STUDENT HOUSING FACILITIES FOR THE UNIVERSITY OF NEVADA, LAS VEGAS; AUTHORIZING THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION OR THE DIRECTOR OF BANKING AND INVESTMENTS TO ARRANGE FOR THE SALE OF BONDS; AND PROVIDING OTHER MATTERS PERTAINING THERETO.

WHEREAS, the Board of Regents (the “Board”) of the Nevada System of Higher Education (“NSHE”) is authorized pursuant to chapter 501, Statutes of Nevada 1991, as last amended by AB 401, Statutes of Nevada 2009 (as amended, the “Act”) to issue bonds (the “Bonds”) in the amount of up to \$422,155,000, of which \$211,855,000 has not been issued; and

WHEREAS, pursuant to the Act, NSHE may issue Bonds in order to finance the costs of improvements at the University of Nevada, Las Vegas, including the construction, land and other acquisition, rehabilitation and improvement or any combination thereof of additional student housing and dining facilities required or desired by the University of Nevada, Las Vegas; parking facilities required or desired by the University of Nevada, Las Vegas; and campus facilities required or desired by the university master plan at the University of Nevada, Las Vegas, including, but not limited to the acquisition, rehabilitation and improvement or any combination thereof of additional student and faculty housing known as the Vegas Grand project on E. Flamingo Road, Las Vegas, Nevada (the “Project”).

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF REGENTS OF THE NEVADA SYSTEM OF HIGHER EDUCATION:

Section 1. The Vice Chancellor for Finance and Administration or the Director of Banking and Investments of NSHE is hereby authorized to arrange for the issuance and sale of the Bonds in order to finance the Project in a total principal amount of not more than that which is necessary to carry out the Project in accordance with the Act and not in excess of the outstanding authorization under the Act, including, but not limited to, submission of an offer to purchase the Project from the current owner by officers of the University of Nevada, Las Vegas.

Section 2. The Vice Chancellor for Finance and Administration or the Director of Banking and Investments is authorized to specify the method of sale, the terms of the Bonds, the date of their sale, the final principal amount of the Bonds, the terms of their repayment and security therefor, and other details of the Bonds, subject to the University Securities Law and to adoption by the Board of one or more bond resolutions specifying certain of the Bond terms and details and

delegating certain terms of the sale of the Bonds pursuant to chapter 396 of Nevada Revised Statutes (the "Bond Resolution").

Section 3. The officers of NSHE are hereby authorized to take all action necessary or appropriate to effectuate the provisions of this resolution, including without limitation (a) assembling of financial and other information concerning NSHE, the Project and the Bonds, and (b) preparing and circulating an official statement for the Bonds, and, if deemed appropriate by the Vice Chancellor for Finance and Administration or the Director of Banking and Investments, the preparation and circulation of a preliminary official statement, a notice of bond sale for the Bonds or both in the forms specified by the Vice Chancellor for Finance and Administration or the Director of Banking and Investments. The Vice Chancellor for Finance and Administration or the Director of Banking and Investments is authorized to deem the official statement "final" for purposes of Rule 15(c)2-12 of the Securities and Exchange Commission.

Section 4. This resolution shall be effective on its passage and approval.

PASSED, ADOPTED AND SIGNED this September __, 2009.

Chair

(SEAL)
Attest:

Chief Administrative Officer, Board of Regents and
ex-officio Secretary, Board of Regents

Vegas Grand Property
Summary Financial Projections for Lease-Up and Operation

	<u>24 Month Lease-Up</u>		<u>Full Operation</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Revenue</u>			
Gross Rental Revenue	\$ 2,898,720	\$ 2,898,720	\$ 2,898,720
Less Vacancy	<u>(2,091,494)</u>	<u>(619,760)</u>	<u>(434,808)</u>
Net Rental Revenue	<u>807,226</u>	<u>2,278,960</u>	<u>2,463,912</u>
<u>Expenses</u>			
General & Administrative	15,000	15,000	15,000
Management Fees	60,000	68,372	73,917
Payroll	181,983	219,177	250,000
Marketing	75,000	75,000	40,000
Utilities	130,000	150,000	165,000
Repairs & Maintenance	104,360	144,200	220,000
Insurance & Licenses	<u>36,552</u>	<u>36,552</u>	<u>50,000</u>
Total Operating Expenses	<u>602,895</u>	<u>708,301</u>	<u>813,917</u>
Net Operating Income (Loss)	204,331	1,570,659	1,649,995
Capital Reserve (\$200 per unit)	42,400	42,400	42,400
Debt Service	<u>1,555,000</u>	<u>1,555,000</u>	<u>1,555,000</u>
Cash Flow after Debt Service	<u>\$ (1,393,069)</u>	<u>\$ 15,659</u>	<u>\$ 94,995</u>

NOTE:

Rental rates and expense estimates per CDMC market and feasibility analysis

ASSUMPTIONS**Operations**

Lease-up costs (year 1 loss above) will be covered from institutional funds for property acquisition

Lease-up absorption assumed at 10 units per month.

15% economic vacancy at full operation (+/- 9% vacancy + 6% lease incentives).

Rental rates average approx. \$0.97 per square foot (before incentives).

Management fees at 3% of net rent after lease-up.

Marketing expenses higher during lease-up period.

Repairs & maintenance includes landscaping, repairs & maintenance, turnover, and safety and security.

Financing

Debt service estimated based on a 30 year fixed rate tax exempt financing at approximately 5.5%. Other financing options being evaluated include taxable 'Build America Bonds', variable rate demand obligation with/without hedging (synthetic fixed rate).

Note that variable rate financing may provide an initial lower effective borrowing rate as low as approximately 2% (without interest rate swap/hedge) or 4% with interest rate swap. These options may lower the annual debt service by approximately \$200,000 annually based on historical trends. These options do, however, require consideration of risks attached to variable rate financing including interest rate risk and counterparty risk and stability of the variable rate financing market.