

September 26, 2018

TO: Members of the Board of Trustees

FROM: Scott A. Jordan 
Executive Vice President for Administration and Chief Financial Officer

RE: Nathan Hale Inn
Ground Lease and Purchase & Sale Agreement

RECOMMENDATION:

That the Board of Trustees authorize the University Administration to enter into the following agreements with AJ CP, LLC dba Graduate Hotels (“AJ CP”) (or a special purpose entity owned or controlled by AJ CP): (a) a Purchase & Sale agreement for the sale of the existing Nathan Hale Inn building and (b) a Ground Lease pertaining to approximately one (1) acre of land under and surrounding the Nathan Hale Inn building; and (c) any other necessary or desirable ancillary agreements, in exchange for a lump sum payment of \$8,300,000, potentially adjusted as described below, and improvements to the building and land in the range of \$10,000,000 to \$13,000,000 (including hard and soft costs). The Administration recommends that the Board of Trustees adopt the Resolution below.

RESOLUTION:

“Be it resolved that the Board of Trustees authorizes the University Administration to enter into the following agreements with AJ CP, LLC dba Graduate Hotels: (a) a Purchase & Sale agreement for the sale of the existing Nathan Hale Inn building; (b) a Ground Lease pertaining to approximately one (1) acre of land under and surrounding the Nathan Hale Inn building; and (c) any other necessary or desirable ancillary agreements, all in exchange for a lump sum payment of \$8,300,000, as potentially adjusted in accordance with the terms described below, and improvements to the building and land in the range of \$10,000,000 to \$13,000,000 (including hard and soft costs).”

BACKGROUND:

The Nathan Hale Inn (the “Inn”) is an existing 98 guestroom hotel. It was constructed by a private third-party developer on University property under a ground lease and opened in 2001. After approximately 12 years of operation, deferred maintenance on the Inn had accrued and the quality of the hotel accommodations and the reputation of the Inn had diminished. Due to

increased student housing demand at the University, half of the Inn's guestrooms were converted to student housing under a reservation agreement with the University starting in the Fall 2013 and the Inn continued to function as a 48 guestroom property thereafter. At the beginning of 2014, the owners of the Inn decided to sell their interest in the property and actively solicited offers. As approved by the Board of Trustees in December 2014, the University exercised its right of first refusal on the property, and in June 2015, closed on the purchase of the Inn for \$8,372,333.

At the time of the Board of Trustees' approval to purchase the Inn, the University planned to convert it to a residence hall. This plan was predicated on the expectation that the market would support development of a new hotel to replace the Inn. A private developer had sought Town approval to build a hotel in Downtown Storrs (aka Storrs Center) in 2013, but could not get the required local approvals, so that hotel project did not proceed.

Twice in the last three years, the University solicited offers to develop a new hotel on University land, but the response to the solicitations was weak. The respondents generally indicated they would not pursue the development of a hotel without obtaining from the University a prior room block guarantee or an equity investment. Over the same time period, student housing demand plateaued at the Storrs campus, and, therefore, the necessity to wholly convert the Inn to a residence hall waned.

In March 2018, the University went to the market a third time. The University published a Request for Offers to ascertain whether a private party would be interested in improving and operating the Inn. The University received three (3) financial proposals from hotel owners and developers and conducted interviews with each of them. The University chose AJ CP LLC dba Graduate Hotels ("AJ CP") as the preferred vendor because Graduate Hotels is an up-and-coming collegiate brand with substantial experience with college and university hotels. AJ CP's financial proposal is strong because it includes a large private investment in the improvement of the Inn, and includes a sale of the building, effectively reimbursing the University for the purchase price paid in 2015.

AGREEMENT TERMS

The pertinent terms of the agreement between the University and AJ CP concerning the Purchase & Sale and Ground Lease of the Inn are as follows:

Lessee Entity: Graduate Hotels is an emerging collegiate brand of boutique-style hotels with 23 hotels either operating or under development on or adjacent to college campuses in various locations throughout the United States. AJ CP is the parent company and developer of the Graduate Hotels brand and is based in Chicago, IL.

Purchase Price: A lump sum payment of \$8,300,000, subject to the approval of a new Ballroom Addition and a Conditions Report (both defined below), and paid on the Ground Lease commencement date

- Ground Lease:** A 98-year Ground Lease, commencing on or about May 1, 2019, with an annual rent of \$1.
- Improvements:** AJ CP will invest no less than \$10,000,000 and no more than \$13,000,000 in improvements to the building and land, which shall include renovation of the guestrooms, guest bathrooms, guest corridors, lobby, restaurant, bar, meeting rooms, ballroom addition and other public spaces. Modest improvements to the exterior and parking areas are anticipated.
- Ballroom Addition:** With CEPA approval, AJ CP plans to add a permanent addition to the building to serve as a year-round ballroom. If the Ballroom Addition is not approved during the CEPA process, then the Purchase Price shall be reduced by \$300,000.
- Conditions Report:** Based on a Conditions Report to be prepared by AJ CP for the building and land during the due diligence period, AJ CP shall be due an adjustment to the Purchase Price for deferred maintenance as it relates to: 1) the condition of the HVAC and plumbing systems and; 2) potential failures to the structure or exterior envelope of the building. AJ CP and the University will share equally in the costs to either upgrade or replace the elevators in the Inn.
- Construction:** The University shall have no authority for the direction and control of any construction activity. The direction and control of construction is the responsibility of AJ CP. The University will not enter into any construction contract.
- Operations:** AJ CP will operate the Inn as a private venture for its own account (through itself or a third party management company). It will bear all the risk of losses from operations. There is no room block guaranty or other financial guaranty from the University.
- First Refusal Option:** If AJ CP receives a bona fide offer from an independent third party to purchase AJ CP's interests in the building, the University shall have the option to purchase the building on effectively the same terms and conditions. In such an event, AJ CP's interest in the Ground Lease would be transferred to the University as the Landlord. The first refusal option shall not apply to a Graduate Hotels portfolio transaction.
- Property Transfer:** AJ CP shall not transfer its interest in the Premises to another entity not controlled by AJCP during the first three (3) years of the Ground Lease, unless as part of a Graduate Hotels portfolio transaction.
- Capital Reserve:** AJ CP will at all times fund a capital reserve for the repair, upkeep and refurbishment of the furniture, fixtures and equipment (FF&E) and to maintain the condition of the hotel. The capital reserve will start at 1% of

gross revenue in Year 1 and increase an additional 1% annually to a maximum of 3% of gross revenues per calendar year.

Schedule of Work: AJ CP shall endeavor to complete all improvements by December 31, 2019. The Inn will likely be closed during the five to six month renovation period.

Maintenance: AJ CP is wholly responsible for all maintenance costs associated with the building and land, as well as, all utility and service costs.

Operating Standard: AJ CP shall operate the hotel to the standard of other national industry "Upscale" brands as defined by STR Global and shall maintain the Inn up to the industry standard for a minimum three diamond hotel as rated by the American Automobile Association.

SUMMARY

The Inn was purchased by the University to better maintain the building, which is near the center of the campus, and to potentially serve to address an increasing student housing demand. Since the student housing demand on the Storrs campus has stabilized, the Administration believes this is a unique opportunity to sell the Inn to a professional hotel company and have that private party make much-needed improvements to the Inn.

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