

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: University of Michigan Hospitals and Health Centers
I-275 Corridor Clinic Expansion

Action

Requested: Approval to Proceed with Project and Authorization for EVPCFO to Execute a Lease

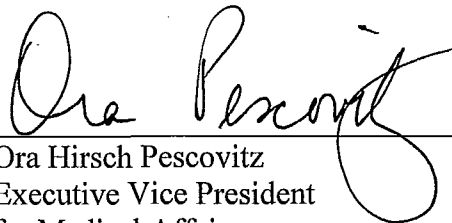
Background:

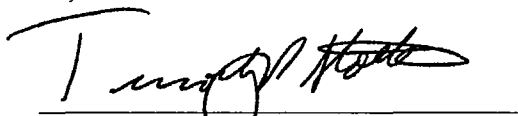
In accordance with our real estate policy, we seek approval to execute leases when the lease term will exceed ten years or the total amount of leased space in a building or related complex of buildings will exceed 50,000 square feet. As part of the University of Michigan Health System (UMHS) strategic plan to attract patients from outside the local market (Livingston and Washtenaw counties), the Faculty Group Practice and Ambulatory Care Services have targeted the I-275 corridor in western Wayne County for an expansion of services to improve overall market share. An expansion site has been identified near the intersection of Seven Mile and Haggerty Roads in Northville Township within one-half mile from the existing Livonia Center for Specialty Care. The location will accommodate a 100,000-square-foot facility with a 25-year lease that will create a new multi-specialty medical building. The expanded clinical programs made possible by the new location will further support the existing Livonia Center for Specialty Care. The site will also accommodate future expansion.

The estimated cost of the leasehold improvements, moveable equipment, furniture, and related expenses is \$39,000,000. The agreed-upon base rent is \$27.25 per rentable square foot per year, with escalation of 5 percent every five years. As part of the base rent, the lessor is including expenses relating to the land, site work, design and management fees, and a part of the building construction. Operating costs will be in addition to the base rent. The overall lease rate is comparable with market conditions in the area. Funding will be provided from Hospitals and Health Centers' resources. The construction cash flow may be provided, all or in part, by bond proceeds or increasing the commercial paper issuance under the commercial paper program, secured by a pledge of General Revenues, and authorized by the Board of Regents. Construction will be managed by the lessor and is scheduled to be completed in the winter of 2014.

We recommend that the Board of Regents approve the University of Michigan Hospitals and Health Centers I-275 Corridor Clinic Expansion project as described, and authorize the EVPCFO to execute a lease for a 25-year duration for approximately 100,000 gross square feet.

Respectfully submitted,


Ora Hirsch Pescovitz
Executive Vice President
for Medical Affairs


Timothy P. Stottow
Executive Vice President and
Chief Financial Officer

January 2012