

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents
July 18, 2013

ACTION REQUEST

Subject: 1000 Victors Way, Ann Arbor, Michigan
Shared Services Center

Action

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

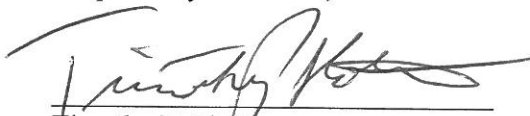
Background:

In accordance with the university's real estate policy, we seek approval for leases or lease amendments when the total amount of leased space in a building or related complex of buildings will exceed 50,000 square feet. As part of the Administrative Services Transformation (AST) program, a new shared services center will be established for finance and human resources transaction processing activities. A suitable site has been identified that meets the program needs. A seven-year lease for 52,682 rentable square-feet within a facility located at 1000 Victors Way in Ann Arbor is the proposed location for the new shared services center. This location will accommodate the current finance and human resources program scope with overall capacity for 300 staff. The agreement will allow future expansion at the same location if additional capacity is needed.

The estimated cost of the leasehold improvements, furniture, moveable equipment, and related expenses is \$4,100,000. The agreed upon base rent is \$19.00 per rentable square foot, with escalation of \$0.50 per square foot per annum after the first year. As part of the base rent, the lessor is including a majority of the tenant improvement costs, design and management fees. Operating costs will be in addition to the base rent and are estimated at \$4.00 per square foot per annum. This overall gross lease rate and escalation are comparable with market conditions in the area. Initial funding will be provided from Finance resources and investment proceeds and then provided through a recharge to customers relying on the center, with a net overall savings to the university through the AST program. 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 1000 Victors Way, Ann Arbor, Michigan, Shared Services Center project as described, and authorize the executive vice president and chief financial officer to execute a lease for a seven-year duration for 52,682 rentable square feet.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

July 2013