Meeting Synopsis:

1. Call to order
2. Review of the minutes from October 1, 2020
3. Chair’s Report
4. Brief on UW Club
5. West Campus Development/Long Term Real Estate Strategies - Mike McCormick and Lou Cariello
6. Good of the order
7. Adjourn

1. Call to order

The meeting was called to order at 10:04 a.m.

2. Review of the minutes from October 1, 2020

The minutes from October 1, 2020 were approved as written.

3. Chair’s Report

The meeting started with a tribute in memoriam of Professor Emeritus William Rorabaugh, former FCUFS member and faculty in the UW Department of History.

Chair Borys provided updates to the council on committees of interest to FCUFS. The Environmental Stewardship committee still needs a representative. The Finance Transformation Advisory committee will send a representative to FCUFS in December. Chair Borys is serving on the UW Priority Hires Committee, charged by Vice President Cariello with a study of programs focused on incentives for job opportunities to local communities on capital projects. The UW Architectural Commission met on Oct 26 and reviewed progress on 3 projects in early design stages: joint UW/Cascadia College STEM building at UW Bothell, the combined business and mechanical engineering building at UW Tacoma, and the Behavioral Health Teaching Facility on the UWMC Northwest Campus).

4. Brief on UW Club

FCUFS was asked to consider new ways to use the UW Club building. There will be a committee convened in 2021 with faculty representation to consider options and make recommendations on the future use of the building. FCUFS will have a representative on that committee. In the meanwhile,
FCUFS was asked to provide any ideas about faculty and wider community interests in using this asset. Chair Borys asked council members to discuss this issue with their colleagues to collect ideas.

Members questioned the higher purpose and future use of the lot. The UW Club committee will be discussing potential uses but it was noted that the club had been losing money in the previous 3 years but closed permanently due to COVID-19. The overarching goal is to preserve the UW Club as a protected historic building.

Chair Borys asked members to consider what will draw faculty to the facility and how can we conceive of the facility in a community way as a shared resource?

5. West Campus Development/Long Term Real Estate Strategies - Mike McCormick and Lou Cariello

Mike McCormick and Lou Cariello provided an update (Exhibit 1) on capital investments and space utilization on campus.

Cariello noted they have discussed the investment into off-campus leases, and the costs associated with on-campus versus off-campus. The cost of space appears smaller at the unit level on-campus rather than off-campus (rent/debt service) but it is actually very similar. They are interested in getting feedback on how UW treats space allocation and tracks costs associated with occupancy and value of these spaces. The condition of occupied spaces directly contributes to the success of academic programs. Over the next 15 years UW needs to invest $9b for all institutional updates. Currently, UW anticipates having around $7b. Cariello and McCormick emphasized the immediate need to educate faculty and staff on the cost of space – to make data visible on the flow of funds, how much units contribute and generate revenues or expenses.

Post COVID-19 office space: Cariello and McCormick conducted group discussions to review the trends national organizations are seeing. Around 60-70% of respondents would like to continue some sort of remote working, meaning a real change in the role of offices and a review how these new changes are affecting work. Some units, such as in the medical school, make the local unit decision to have some work completely remote. Every unit has their own unique needs to using space efficiently. The WA legislature is looking at space utilization and has guidelines on office size, which are quite low. A member asked how departments can calculate for utilization, including price, and if working spaces are shared. There is strong support to have a transparent use of space to encourage occupants to efficiently utilize their buildings. The plan would start with reducing administrative office space and determining if the changes can be projected in research or teaching spaces.

P3 (Public-Private Partnership) program: McCormick and Cariello noted the reduced rent in a contract (variable or fixed contract) but acknowledged that P3s could present reputational issues and financial risks. Many universities have partnerships with developers for housing, similar to the housing currently in development at UW Bothell. In that situation, all risk is normally carried by developers, but the university can feel obligated to reimburse students for rent.
For the West campus development of the W27 site, UW owns the lands while the developer will own the building. This is a long-term ground lease until the end-of-lease term when it will come back to UW in around 50-75 years to recapitalize the cost. UW will rent space from developer as one of several tenants. There are default clauses into a ground leases, should the relationship between UW and the developer become disagreeable.

McCormick noted it is not less expensive to have a developer, thus they are asking the council if this process is worth the time and money. There is a specific need for the skill sets to manage the risks and have the financial capacity. UW is assuming the best way to do this is one project at a time, as value builds as each project is built on West Campus – often called a proof of concept.

Chair Borys asked McCormick and Cariello to provide an update at a future meeting.

6. Good of the order

Nothing was stated.

7. Adjourn

The meeting was adjourned at 11:30 a.m.

Minutes by Alexandra Portillo, faculty council analyst, xanport@uw.edu

Present:

Faculty Code Section 21-61 A: Ann Marie Borys (chair), Andy Hoofnagle, Ashley Emery, Sandeep Vaidya, Bill Erdly
Faculty Code Section 21-61 B: Bruce Balik, Alena Wolotira, Matt Weatherford
Faculty Code Section 21-61 C: Lou Cariello
Guests: Mike McCormick

Absent:

Faculty Code Section 21-61 A: Gundula Proksch

Exhibits

Exhibit 1 - FCUFS - Real Estate & Long Term Capital Strategy - rev3
UNIVERSITY OF WASHINGTON

West Campus Development
Long Term Real Estate Strategies

SCPB / FCUFS

November 2020
Discussion/Questions

1. Capital Investments: Should we leverage P3 projects and capital investment by others to broaden our impact? Are we willing to spend more on projects in order to preserve debt capacity for campus renewal & clinical investments?

2. Space Utilization: How should we look for opportunities to reduce space in order to reduce our growth rate? Can we normalize costs for owned space and leased space?

3. Risks: With partnerships come new types of risks – have we identified all the potential risks? What mitigation strategies should we have in place? What is our threshold for tolerance of these new types of risk?
West Campus
The Opportunity

69 acres of development opportunities
3 million new gross square feet
1 million GSF for industry partners
19 potential new development sites
# West Campus

## Guiding Documents

<table>
<thead>
<tr>
<th>Document</th>
<th>Date Range</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus Master Plan</td>
<td>July 2015–Jan 2019</td>
<td>Approved February 2019 including building design guidelines</td>
</tr>
<tr>
<td>West Campus Development Advisory Committee</td>
<td>Nov 2016–July 2017</td>
<td>Report Completed August 2018 creating opportunities for collaborative research and new cross disciplinary majors</td>
</tr>
<tr>
<td>UW Parking Study</td>
<td>Oct 2017</td>
<td>9,000 space campus maximum, but we need to add spaces in West Campus</td>
</tr>
<tr>
<td>West Campus Public Realm Design Guidelines</td>
<td>March 2018</td>
<td>recognizing the value of public realm to connect West Campus</td>
</tr>
<tr>
<td>West Campus Academic Committee</td>
<td>Month Year–April 2018</td>
<td>Recommendations Report April 2018 academic vision – interdisciplinary programs and shared space</td>
</tr>
<tr>
<td>UW Capital Plan</td>
<td>July 2018</td>
<td>assumes partnerships (no impact on debt capacity) W27 is first project</td>
</tr>
</tbody>
</table>
West Campus
A place where people come together to do big things

The University of Washington has designated the West Campus area as an “Innovation District” with the intention of creating a dynamic and interdisciplinary urban community that will merge education and student life with cutting-edge UW research, pioneering public/nonprofit institutions and private companies.

The UW's vision for the West Campus “Innovation District” is to create a place where students and faculty experts across multiple fields — including public health, engineering, life sciences, social work, public policy and the humanities — can partner with business, government, nonprofit organizations and the Seattle community to solve critical challenges. The Innovation District will be a place to discover answers to the big questions facing the people of Seattle, the state of Washington and the Pacific Northwest region. It’s a place to create an inclusive spirit and leverage a culture of entrepreneurial thinking and innovation mindsets.

Original Source: West Campus Development Advisory Committee Report

Bold copy: September 2019 edits
West Campus
Creating a full & dynamic ecosystem

Innovation and jobs grow in great places — and universities are often at the center of them

Source: 2019 UW Campus Master Plan
West Campus
The vision
Fritz Hedges Waterway Park

Setting the tone
Hans Rosling Center for Population Health  
*Gateway to West Campus*

- Specifically sited to act as the gateway to West Campus and to foster collaboration and community
- Cross disciplinary academic research space with numerous external partners
- Includes convening and collaboration space, retail amenities, and art gallery to connect with community.
Flagship Development
W27 – Solutions for a health planet / clean energy

- Sited at the head of the west campus green
- Development includes “belvedere” and Burke Gilman Trail
- 340,000 SF of interdisciplinary and interagency research
- Clean Energy, Earth Lab, NOAA
- Includes convening and collaboration spaces, retail amenities.
- $20M state support
- $1M donor support
Affordable Housing

Partnering with the Seattle Housing Authority

- 150 units for residents making 60% of AMI
- Potential for up to 100 additional units for residents making 80% of AMI
- 45,000 SF site on Roosevelt Way owned by UW
- Focused on qualifying UW faculty and staff
- Potential for child care facility and/or services for homeless young adults
Enabling the Vision
Partnering with developer leverages land value & encourages mixed occupancy

TRADITIONAL MODEL

WEST CAMPUS MODEL

Exhibit 1
Understanding the Cost of Space

Partnering with developer leverages land value & encourages mixed occupancy

<table>
<thead>
<tr>
<th>Approx. Annual Cost Per Square Foot</th>
<th>Life Sciences</th>
<th>W27 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>$5</td>
<td>$5</td>
</tr>
<tr>
<td>Custodial</td>
<td>$1.50</td>
<td>$2</td>
</tr>
<tr>
<td>Maintenance (incl. Grounds &amp; PM)</td>
<td>$3.50</td>
<td>$6</td>
</tr>
<tr>
<td>Renewal</td>
<td>$10</td>
<td>$0</td>
</tr>
<tr>
<td>Debt Service / Rent</td>
<td>$27</td>
<td>$60</td>
</tr>
<tr>
<td>Ground rent revenue</td>
<td>$0</td>
<td>($60)</td>
</tr>
<tr>
<td><strong>Total Cost of Space</strong></td>
<td><strong>$47 psf</strong></td>
<td><strong>$13 psf</strong></td>
</tr>
</tbody>
</table>

Notes:
1. Utilities, custodial, and maintenance costs for leased space are passed through to tenant in addition to rent.
2. Rent generally includes debt service, taxes, renewal, management, and overhead & profit.
3. Debt service for LSB is for 70% of total project cost - 30% was equity/donor funded.
4. W27 assumes fitout is funded by state/donor, so debt service is not included in rent.
5. Ground rent revenue assumes ~40,000 SF is leased by UW (total building is ~340,000 SF).
6. Ground rent revenue PSF drops as UW leases more space.
7. Rent escalates over time while debt service remains steady.
Long-Term Capital Strategies
From March 2020 Regent Meeting

Demands exceed sources by ~$137M per year

- **Growth** – investments that add new square footage
- **Renewal** – renovations or replacement of the existing physical infrastructure
- **Strategic** – investments that have the potential to take the University in new directions through efficiencies, technologies, partnerships, etc.
- **Clinical** – investments that support the mission and objectives of the Clinical Enterprise
Long-Term Capital Strategies

From March 2020 Regent Meeting

1. Focus Capital Spending on Renewal and Clinical Investments
   a) Make capital investments in existing facilities to preserve asset functionality and reduce costly deterioration
      ~$240M / yr funded by state, donors, & debt (50% of total CapEx)
   b) Increase access to debt financing for the clinical enterprise
      ~$125M / yr funded by clinical equity & debt (25% of total CapEx)

2. Limit Growth in Square Footage
   a) Reduce campus funded SF growth rate to 0.5% per year (current rate is 3%)
      ~$75M / yr funded primarily by donors
   b) Leverage partnerships to pursue strategic goals and increase impact
      ~ Partnerships bring resources and/or space with minimal capital investment
Corresponding Real Estate Strategies

1. Preserve debt capacity for renewal & clinical investments
   - All real estate transactions should have limited impact on debt capacity
   - e.g. Husky Village, Husky Hall, UDSB

2. Consolidate leases & reduce square footage
   - Evaluate all leases nearing end of term
   - Capitalize on emerging post-COVID trends in office space
   - Reduce square footage = less SF per person
   - e.g. Roosevelt Commons, UW Medicine Call Center, Education

3. Leverage partnerships to maximize impact
   - Seek out other agencies & companies with common goals
   - Partner with developers to optimize land values
   - e.g. W27 (NOAA), UDSB (Sound Transit), Filer (Seattle Housing Authority)
# ANNUAL REPORT ON LEASE OBLIGATIONS

**FY20 | July 2019 – June 2020**

## LEASES UW AS TENANT

<table>
<thead>
<tr>
<th>PORTFOLIO METRICS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Lease Obligation</strong></td>
<td><strong>$102M</strong></td>
</tr>
<tr>
<td><strong>Total Lease Obligation</strong></td>
<td><strong>$2B</strong></td>
</tr>
<tr>
<td><strong>Leased SF</strong></td>
<td><strong>2.5M SF</strong></td>
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<tr>
<td><strong>Properties</strong></td>
<td><strong>173</strong></td>
</tr>
<tr>
<td><strong>Active Leases</strong></td>
<td><strong>259</strong></td>
</tr>
<tr>
<td><strong>Contracted Services</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

## HIGHLIGHTS

- 19 new leases, 75 lease renewals, 17 TI projects = 123 total FY20.
- 42 terminations.
- Generated revenue or savings of $18M through subleasing, downsizing and backfill. Examples: 5th & Bell lease termination, Liberty Mutual sublease for UW Med IT, 4545 Roosevelt subleases.
- Renegotiated Benjamin Hall DBOM contract from fixed fee to actual costs for operating expenses for estimated $12.5M savings over 15 years.
- Assumed management of NW Hospital lease portfolio since integration with UWMC January 2020 adding $40M to total lease obligation.
- Negotiated average cost for office space at $30/RSF compared to market average $35-$55/SF.
- Completed $8M Tenant Improvement project at SLU 3.2 on budget.
- Obtained, at record speed, new Lab Med leases to meet COVID demands.
- Strategized on future lease renewals due to COVID impacts, including planned terminations, reduced space and blend/extend.

## ANNUAL LEASE OBLIGATION (IN MILLIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent Obligation</th>
<th>Estimated Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016</td>
<td>71</td>
<td>16</td>
</tr>
<tr>
<td>FY2017</td>
<td>71</td>
<td>17</td>
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<td>FY2021</td>
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<td>FY2023</td>
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<td>19</td>
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<tr>
<td>FY2024</td>
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<td>18</td>
</tr>
<tr>
<td>FY2025</td>
<td>64</td>
<td>18</td>
</tr>
</tbody>
</table>
Our Goals

- Preserving and enhancing UW’s physical infrastructure
  - one of most beautiful campuses
- Building on UW’s reputation as dynamic institution delivering impact
  - one of most innovative universities
- Maintaining a strong and sustainable clinical enterprise
  - top rated academic medical system
Discussion/Questions

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