STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of South Florida
USF Research Park Mixed Use Lab and Office Facility Project

Project Description: On July 1, 2019, the University of South Florida ("USF" or "University") submitted a proposal to the Board of Governors ("Board") requesting authorization to finance the construction of a 3-story mixed-use lab and office facility consisting of approximately 120,000 sq. ft. including a research lab/office shell and core, as well as a 1st-floor shell for optional retail/dining/amenities (together, the "Project").

Project financing will be through the issuance of debt by the USF Financing Corporation (the "DSO") in an amount not to exceed $27,000,000 (the "Debt") as well as a $15,000,000 cash equity contribution from the USF Research Foundation ("Research Foundation").

The Research Foundation is the owner/operator of the USF Research Park (the "Park"). The Park facilitates student internships and research faculty collaboration, innovation, licensing and joint development of intellectual property, as well as commercialization of technology, accommodating both start-up and established research companies.

The Project is not required to be on the University's master plan, but is included on the Research Foundation master plan.

The Project and proposed financing were approved by the DSO Board of Directors on 4/30/19, the Research Foundation Board of Directors on 5/13/19, and the USF Board of Trustees on 6/6/19.

Site Location: The USF Research Park represents 112+ acres on the north and south sides of Fowler Avenue, adjacent to the USF Tampa campus. The Project will be located near the southeastern corner of the Park, on the NE corner of Spectrum Blvd and Fowler Avenue. The Project will increase the Park's space inventory 34%, from 349,807 sq. ft. to 469,807 sq. ft. (See *USF Research Park Aerial Map*)

Projected Design, Marketing & Timeline: In late 2018, the DSO and Research Foundation initiated competitive procurement processes for design, construction and marketing/broker services for the Project. Skanska USA and Gensler

& Associates, who have successfully completed other large projects for the University, were selected as the design-builder team. CBRE, the largest commercial real estate services company in the world, was selected as marketer/broker for the Project

Project design is expected to commence in late 2019, with a construction start in January 2020 and completion of the shell/core structure in September 2021. According to the University, CBRE does not plan to market to potential tenants (locally and nationally) until 6 months prior to construction completion, as tenants want to be assured of product/space availability before committing.

Project Cost: Skanska has committed to a guaranteed maximum price of $27M for construction of the shell/core, while total Project costs are expected to be $42M, including $10M reserved for funding tenant improvements as the building leases up, $2.4M of capitalized interest, a $2.4M debt service reserve, and $112,000 for costs of issuance. Funding for these Project costs will be provided from a $27M bond and $15M cash equity from the Research Foundation. (See *Estimated Sources and Uses of Funds*)

Average all-in construction costs can vary depending on space utilization. Estimates (per sq.ft.) for the subject market vary accordingly:

Class A Office	$196/gsf
Dry Lab	$272/gsf
Wet Lab	$535/gsf

(Source: HR&A Advisors, per broker & architectural sources, December 2018)

Comparatively, the cost per square foot for the Project, as currently contemplated, is approximately $350/sf.

Operation of retail and other amenities will be outsourced to third-party vendor/operators.

Financing Structure: The Project will be financed with 20-year, fixed rate, taxable debt issued by the USF Financing Corporation ("DSO") in an amount not to exceed $27,000,000, excluding capitalized interest ($2.4M) and costs of issuance ($112,000). Project costs over the $27M will be funded via $15M cash equity contribution from the Research Foundation. The Debt will be privately placed with a commercial bank with a 20-year final maturity and level debt service. (See *Estimated Debt Service*)

On April 11, 2019, the DSO initiated a competitive procurement process for direct placement of the debt. Four proposals were received from qualified, commercial banks. Subsequent negotiations with two finalists produced fully underwritten and approved commitments with interest rates of 3.47% and 3.51%, as of 6/14/19 (note: for the purpose of projecting debt service and coverage ratios, a conservative rate of 6% was utilized). In light of the anticipated high level of for-profit tenants, the Project will be financed with taxable debt.

A debt service reserve equal to the maximum annual debt service on the Debt will be funded from proceeds and held at the bank.

Proceeds of the Debt and the equity contribution are expected to complete the construction of the Project without the use of additional funds.

The $10 million allocated in the construction budget for Tenant Improvements (TI) is an estimate, based on market rates/allowances for office/lab space, and will stay with the Research Foundation, as Landlord, until new tenants lease and commit to improve the space. If actual costs are higher than anticipated, the Research Foundation will fund this difference from its own funds (per USF, the Research Foundation had $39.4M of cash/investments as of 6/30/19). Conversely, if the TI allowance is more than sufficient, excess funds will be retained by the Research Foundation.

Quantitative Demand For Project:

Average occupancy within the Park is nearly 100%, as reflected in the chart below, evidences current demand as well as the lack of capacity for future growth.

USF Research Park – Average Annual Occupancy (per parcel)

According to USF, administrative space is being converted to lab use for faculty recruits and company expansion. This is a short-term strategy, as new space is needed and supported by current demand.

The University engaged HR&A Advisors, Inc. ("HR&A") to perform a demand study for the Project, the findings of which were reported in a December 2018 analysis.

The Demand Study performed by HR&A Advisors, Inc. determined that demand for office and laboratory space at the USF Research Park will derive from three categories, each showing strong indicators for demand, currently unmet in the market:

Historical and Projected Development Trends	Growth in Aligned Industries	Internal Demand at USF
4.5M SF Office Office absorption in Hillsborough County, past five years	**7,170 jobs** In applicable Life Sciences and Tech industries by 2023	**15%** Annual research funding growth from 2013-2017
31% Increase in Class A rents in Hillsborough County, past five years	**2.1M SF** Additional space demanded by Life Sciences & Tech firms by 2023	**253k SF** Demanded by new faculty hires by 2022
290k SF Average annual leasing turnover for lab users in Tampa MSA	**1.2M SF** Unmet demand for Life Science and Tech space	**35k SF** Unmet private sector demand from corporate partnerships

(Source: HR&A Demand Study, December 2018)

Looking ahead, the Hillsborough County market is projected to add over 4.5 million sf of Class A office space by 2022; however, the bulk of the new product will be in the Water Street and Midtown areas, only 400k sf of lab space is projected. The subject Northeast/I-75 corridor submarket is projecting only 150k sf of office and 14k sf of lab space. With an undersupply of inventory looming, new space in the Research Park would be well-positioned to absorb demand.

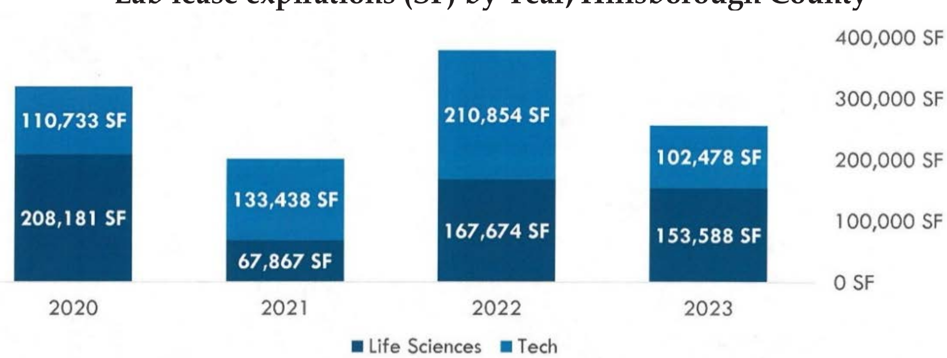
Regional industries aligned with the Research Park's mission are projected to drive growing demand for dry and wet lab space. Of particular note, almost 7,200 jobs are expected to be created in Hillsborough County in the life sciences and tech industries by 2023, driving a projected 2.1 million sq ft in new demand for lab and office space. With only 400k sf in a development pipeline and 500k of existing vacant space, there could be up to 1.2 million in unmet demand:

Hillsborough County demand for Life Science & Tech space vs. anticipated supply, 2018-2023

(Source: HR&A Demand Study, December 2018)

Furthermore, HR&A's analysis projected future demand from the existing Tampa Bay market by way of firms looking to relocate upon lease expiration. Over 1.4 million sf of lab space, rented by 65 different tech and life science firms, is expected to come up for renewal by 2023, as reflected below:

Lab lease expirations (SF) by Year, Hillsborough County



(Source: HR&A Demand Study, December 2018)

Lastly, the growth of USF's academic departments is projected to produce sustained internal demand for research space, which may potentially locate to the Project as backfill to market demand.

While numerous departments have indicated substantial demand for lab space, not all are well-suited for the Project. For example, the Colleges of Nursing and Marine Sciences have purpose-built facilities elsewhere, and the Colleges of Medicine, Public Health and Behavioral Sciences will utilize their existing spaces. According to the demand study, primary alignment will be in the following areas:

- **USF Research Foundation Leadership Offices: 30,000 sf**
- **Corporate Partnership Tenants: 35,000 sf**
- **College of Engineering: 69,000 sf**
- **College of Arts & Sciences: 81,000 sf**
- **Cyber Security & Computer Science: 8,000 sf**

Currently, the Research Foundation is leasing 31,177 sf of space outside the Park, across the street, which could be absorbed as well once the Project is completed.

HR&A advises that the Research Park would consider different sources of demand when determining the mixture of lab and office space. Job growth in the life science and tech lab-using sector, with its projected 1.2 million sf unmet demand, may be sufficient to carry the Project by itself. However, if not, then the substantial lease turnover in local market, as well as demand from within USF, will likely fill any shortfall and support the balance of the building.

Overall, HR&A's study indicates more than ample demand for the Project, and the University is in a position to cultivate a mixture of tenants to support its institutional and economic development goals.

Pledged Revenues & Debt Service Coverage:

The bank will have a first priority lien on the pledged building lease revenues, and payments made by the Research Foundation (to the DSO) will be secured by a lien on gross rental revenues from three existing, unencumbered, research buildings in the Park (University Technology Centers I & II and the Multi-Tenant Office Building) and the Project.

Occupancy in the existing buildings is driven predominantly by University use, summarized in the following chart: (Also, see *Revenue Pledge – Existing Buildings; tenant & occupancy*)

Existing Buildings – occupancy and rental rates
(source: University of South Florida, August 2019)

University Technology Center I (UTC I)
- University use: 100%
- Two (2) tenants: Research & Innovation (80%), GraphicStudio (20%)
- Funded by overhead and indirect costs generated from sponsored research grants (80%), sales revenue from GraphicStudio (20%)
- FY20 rent: $21.41/sf

University Technology Center II (UTC II)
- University use: 100%
- One (1) tenant: Health Informatics Institute (100%)
- Funded by overhead and indirect costs generated from sponsored research (grants)
- FY20 rent: $22.59/sf

Multi-Tenant Office Building (MTOB)
- University use: 58% (Research Team, 21%; Tech Incubator, 37%, the latter typically serving 70+ private companies annually)
  Private tenant: four (4) tenants (22%)
  Federal tenant: one (1); Dept. of Veteran Affairs (12%)
  Vacancy: 2% (based on annual avg.)
- University use funded by overhead and indirect costs generated from sponsored research (grants), sublease payments from tenants, and state/local economic grants.
- FY20 rents (all tenants): $24.69 - $27.28/sf

Project revenues were projected based on a 50/50 mixture of office and lab space, as well as a conservative 5-year lease-up (see below) and rents derived from HR&A's feasibility analysis.

Project estimated lease-up & rental rates

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Lease up (sf)	25,000	50,000	75,000	100,000	114,000
Occupancy	20.8%	41.7%	62.5%	83.3%	95.0%
50% Office	*10.4%*	*20.8%*	*31.3%*	*41.7%*	*47.5%*
50% Laboratory	*10.4%*	*20.8%*	*31.3%*	*41.7%*	*47.5%*
Rent (/sf)					
Office	$25.90	$26.68	$27.48	$28.30	$29.15
Laboratory	$30.40	$31.31	$32.25	$33.22	$34.22

(Source: HR&A Demand Study, December 2018)

Pledged revenues (the Project and three existing bldgs.) are projected at $5,391.924 in FY21-22 and $6,278,544 in FY22-23, which, as a gross revenue pledge (i.e. before operating expenses), yields debt service coverage ratios of 2.23x and 2.59x, respectively. (See *Historical and*

Projected Debt Service Coverage)

DSO Debt: On May 1, 2019, in accordance with the Board's Debt Management Guidelines, the DSO obtained a conventional mortgage in the amount of $3,600,000 to finance the purchase and acquisition of an existing Park facility; the University Diagnostic Institute (UDI) building. Financing was vetted via competitive procurement process, ultimately privately placed as taxable debt, with an all-in interest cost of 4.33%. The Research Foundation subleases the building from the DSO on a triple net basis, with the 18,925 sf building 100% occupied by the University Diagnostic Institute.

As of 6/30/19, the DSO's total debt was $346,018,076, including the new $3.6 million mortgage for the UDI building. The proposed Project Debt will increase DSO total debt by 8% to approximately $373 million.

Security/Lien Structure: In November, 1982, a 50-year ground lease was executed between the State of Florida (lessor) to the Tampa Bay Area Research and Development Authority ("TBARDA", lessee) for the 87-acre subject parcel on the north side of Fowler Avenue now known as the USF Research Park. That ground lease was extended to 99 years in October, 1985. TBARDA later assigned its interest to USF Research Foundation ("Research Foundation") in October, 2000. The Research Foundation acquired (via purchase) the 25-acre parcel on the south side of Fowler Avenue in November, 2005.

In consideration of the DSO incurring the proposed debt, the Research Foundation will ground sublease the Project site to the DSO, the DSO will construct the building and then master lease the facility to the Research Foundation, who will manage and operate the Project and make lease payments to the DSO equal to 1.30x the required debt service on the Debt. In order to satisfy this requirement, the Research Foundation will make the first payment equal to 1.30x required debt service. The extra 30 basis points (over the 1.0x) will be held in trust by the DSO and applied as a credit to future 1.0x payments, such that the Research Foundation can make payments equal to required debt service (i.e. 1.0x) and, with the 30 basis point reserve, together equal the agreed upon 1.30x.

Return on Investment: The Project is expected to achieve an internal rate of return (IRR) estimated at 8.04%, based upon assumptions provided by the University. (See *Projected IRR*)

Consistency with University Mission: It is expected that the Project will enhance the University's research and economic development missions by concentrating on tenants in market sectors that align with the University's Research Strategic Plan, namely in the areas of: Brain and Spinal Cord, Data Science, Heart, Human Security, Research Translation, and Water.

Assessment of Private Sector Alternatives: The University considered a public-private partnership (P3) structure prior to the Project evaluation process. In the P3 scenario considered, tenant rents were higher due to the higher costs for development, operating and financing. Also, the P3 structure would have placed the University in a subordinate position regarding design input, financial benefits, operational controls, ultimately limiting the University's ability to fully integrate the Project with existing research facilities in the Park. In light of the cost-benefit comparison, the P3 delivery method was not advantageous, whereas the DSO-financed approach provided lower costs and greater flexibility.

Method of Sale: The Project Debt will be issued using a taxable, fixed interest rate structure, in the form of a direct placement loan. The DSO is an infrequent issuer without a broad investor base, and the pledge of non-tax-based revenues is considered somewhat weaker (by the market) than a general receipts/obligations pledge. Consequently, the DSO concluded that a negotiated sale is in the best interest of the University and DSO.

Selection of Professionals: The professionals involved in this transaction, including Bryant Miller Olive P.A. (Bond Counsel) and PFM Financial Advisors LLC (financial advisor), were selected through a competitive process.

Recommendation: Factors supporting the Project include: (1) demand for additional research space, (2) $15 million cash equity contribution, (3) additional revenue pledge from 3 existing unencumbered buildings, resulting in first year debt service coverage of 2.23x, (4) conservatively assumed taxable interest rate of 6% (compared to bank commitments at 3.47% and 3.51% as of 6/14/19), and (5) a 5-year lease up. The demand for the Project appears adequate and University-provided projections indicate more than sufficient pledged revenues to service the debt.

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University with respect to the request for Board of Governors approval for the Project and issuance of debt.

It appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt as well as Board of Governors Debt Management Guidelines. Accordingly, Board staff recommends adoption of the resolution authorizing the proposed Project and financing.