UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Finance and Administration

ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease between UHS Center for Industrial Partnerships and Special Purpose Entity for Center to lease approximately 47,000 square feet of 60,000 square foot building to be constructed for technology development and educational programs.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease between UHS Center for Industrial Partnerships and Special Purpose Entity for Center to lease approximately 47,000 square feet of an approximately 60,000 square foot building to be used for technology development and educational programs. Term of lease will be 25 years, renewable for 2 five year periods. Rent will be $775,500 per year. UHS will sublease to WCJC approximately 10,000 square feet for higher education use. Remaining 13,000 square feet of building will be utilized for the operations of an affiliate of the Special Purpose Entity that is also involved in providing educational-related services and technology development at the building.

SUPPORTING DOCUMENTATION:

Term Sheet with the Special Purpose Entity for Digital Media Technology Development

FISCAL NOTE:

Letter from WCJC Chairman of Board of Trustees
Annual base rental expenses not to exceed $800,000 per year over 25 years.

RECOMMENDATION/ACTION REQUESTED:

Administration recommends approval of this item.

COMPONENT:

University of Houston

PRESIDENT

Renu Khator

DATE

EXECUTIVE VICE CHANCELLOR

Carl Carlucci

DATE

CHANCELLOR

Renu Khator

DATE

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BUILDING LEASE AGREEMENT RELATED TO
DIGITAL MEDIA TECHNOLOGY DEVELOPMENT – SUGAR LAND

Summary Term Sheet

Business Terms

Parties: Special Purpose Entity ("SPE") created by Alan Chavelleh, President of Timegate Studios, Inc. and other unknown investors. University of Houston System ("UHS"), on behalf of its Center for Industrial Partnerships created under Chapter 153 of the Texas Education Code.

Purpose/Objective: UHS to lease approximately 47,000 square feet of 60,000 square foot building from SPE for use by UHS and educational partners (UH, UHV, and Wharton County Junior College) for technology development and educational programs related to digital media, interactive technologies, digital game design/development and/or computer/information systems. Remaining 13,000 square feet of building will be utilized for the operations of an unrelated and separate "affiliate" of the SPE, Timegate Studios ("Affiliate"), which is also involved in providing educational-related services and technology development at the building.

Lease Term: 25 years, with a renewal option upon mutual agreement, after which building reverts to UHS.

Permitted Use and Type of Space: Classroom, labs, and office space related only to higher educational purpose.

Deliverable Condition of Premises: SPE shall build out premises prior to UHS occupancy in accordance with UHS requirements with approximately $35 per square foot improvement allowance provided by SPE for build out to be consistent with University standards.

Rent: Triple net lease, with base rent not to exceed $16.50 per square foot, i.e. $64,583/month or $775,000 annually, of which UHV and Wharton County Junior College ("WCJC") will pay their respective pro rata shares. Rent commences after building

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completion.

Costs for Maintenance and Operations not to exceed fair market value.

Total UHS obligation not to exceed fair market rate for Sugar Land/northern Fort Bend County for triple net leases.

**UHS Obligations:**

UHS’s rent and additional costs to SPE include payments for taxes, insurance, costs to operate and maintain the space UHS and its educational partners occupy in the Building and for their proportionate share of the common areas.

UHS will sublease space to WCJC.

**SPE and Affiliate Obligations:**

SPE and Affiliate shall be responsible for operation and maintenance of the Building and all costs, expenses, damages and liability caused by their own negligence, wrongful intent, or breach of Ground Lease and/or this Lease.

Affiliate shall be responsible for all furnishings, fixtures, improvements for its own occupied space.

Affiliate shall be responsible for taxes, mechanics liens, and other costs, expenses, liability incurred in connection with its occupancy and use of the Building.

Affiliate shall utilize building in accordance with educational purposes and deed restrictions, consistent with Chapter 153 of the Texas Educational Code.

**Legal Protections**

**Structure with Technology Center:**

Structuring deal under Chapter 153 of the Texas Education Code helps assure compliance with deed restrictions.

**Casualty/Condemnation Awards:**

UHS to receive its share of proceeds related to pro rata use of space.

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Insurance: SPE/Affiliate insurance to contribute to claims involving interior use of space. UHS/WCJC to be named as additional insureds with waiver of subrogation provisions.

Use of Equipment: Parties need to agree upon initial terms for use of Viacom Equipment.
July 13, 2012

Dr. Renu Khator, Chancellor  
University of Houston System  
212 E. Cullen Building  
Houston, Texas 77204-2018

Re: Letter of Intent and Support for University of Houston’s initiative at University of Houston Sugar Land Campus

Dear Chancellor Khator:

Wharton County Junior College (WCJC) is pleased to support and actively participate in University of Houston’s new building on the University of Houston Campus Sugar Land. With the anticipated growth in Fort Bend County, there is a need for additional space at the UH Sugar Land Campus to accommodate new programs that will serve the interests and aspirations of the residents of the county, as well as business enterprises in the county.

In support of the University of Houston’s plan to expand its Sugar Land facilities, WCJC is committed to lease 10,000 square feet of space in the new building for use as classrooms and office space for a new Associate of Applied Science Degree program in Computer Simulation and Game Development. Beginning in fall 2012, WCJC will offer state-of-the-art career training in computer simulation and gaming that will lead to entry-level employment in positions that are opening in healthcare, law enforcement, military services, and other industries that are developing simulated training environments. The degree is also aligned with the UH System degrees. This new WCJC program is being developed in partnership with the University of Houston Victoria and the University of Houston System and is planned to be located in the new facility on the UH Sugar Land Campus.

To support the new WCJC associate degree program in computer simulation and gaming, WCJC will provide equipment and software costing approximately $300,000. These instructional items include motion capture studio equipment ($125,000), three computer classrooms to support the program ($100,000), and digital media software ($75,000).
We believe the entire community of Fort Bend County will benefit from the University of Houston’s initiative to expand its facilities at UH Sugar Land, and WCJC is pleased to be a partner in this effort.

Thank you for your continuing support of our partnership and your commitment to higher education.

Sincerely,

[Signature]

P. D. (Danny) Gertson, III
Chairman
Board of Trustees

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