

## **Resolution for a Capital Lease for the Kmart and Ardmore Properties**

### **JOINT FINANCE AND RESOURCE MANAGEMENT COMMITTEE AND BUILDINGS AND GROUNDS COMMITTEE**

**July 1, 2019**

Due to limited space on campus, certain Virginia Tech programs lease space in the surrounding community for functions and storage that cannot be accommodated on campus. One of the largest leased properties is approximately 55,552 square feet of warehouse space in Blacksburg, used primarily for surplus storage and printing services. The university has leased for this property, at 1425 South Main Street (Kmart), for 26 years and the lease is up for renewal in 2022. The owner will renew the existing Kmart lease for 20 years contingent upon the university's additional lease of 131 Ardmore Street (Ardmore), an approximately 9,460 square foot property that is adjacent to the Kmart building. The landlord will gift the entire Ardmore property to the university at the expiration of the lease.

The Kmart lease provides space for essential university functions, and the rate (\$7.04) is significantly below local market rates. An alternative of this size, price, and convenience is not available. Further, the university cannot build replacement space at a lower cost. The owner has packaged the Kmart property with the Ardmore property into a single agreement. The rate (\$7.50) for the Ardmore component is also significantly below the local market. The Ardmore property is suitable for conditioned and unconditioned storage. At this lease rate, the university can collapse various storage leases into lower costs and the savings will accrue to the operating budgets of university departments. The market rate for comparable space in Blacksburg would be \$14.00 to \$18.00 per square foot.

The university has an amended lease agreement that will secure these properties for an additional 20 years at the rates described above. This will ensure continued and expanded space in a convenient location and will ensure uninterrupted and affordable operations for its units. The present value of the discounted cash flows for the 65,012 gross square feet is \$6.9 million.

The university is ready to proceed with the Kmart and Ardmore lease and has developed a resource plan sufficient to support the annual lease. The nature of the lease package creates a capital lease and as such requires approval by the Board of Visitors. Under the 2006 Management Agreement between the Commonwealth of Virginia and the university, the Board of Visitors has the authority to approve the budget, size, scope, and funding of nongeneral fund capital outlay projects, including capital leases. This request is for authorization to enter into a \$6.9 million capital lease for the Kmart and Ardmore properties.

## **RESOLUTION OF A CAPITAL LEASE FOR THE KMART AND ARDMORE PROPERTIES**

**WHEREAS**, the university has been leasing large commercial warehouse space in Blacksburg for its printing services and surplus property functions as well as for general storage and is preparing to renew the existing lease; and

**WHEREAS**, the owner will renew the existing lease at 1425 South Main Street (Kmart) for 20 years contingent upon the university's amendment to add an additional lease of 131 Ardmore Street (Ardmore) for the same period; and

**WHEREAS**, the landlord will gift the entire Ardmore property to the university at the expiration of the lease; and

**WHEREAS**, this lease will provide continued and expanded space in a desired location with the additional ability to meet a variety of university needs; and

**WHEREAS**, the rental rates for the Kmart and Ardmore buildings are set below market rates; and

**WHEREAS**, the university has developed a resource plan sufficient to support the annual lease payments for this \$6.9 million capital lease; and

**WHEREAS**, under the 2006 Management Agreement between the Commonwealth of Virginia and Virginia Tech, the Board of Visitors has authority to approve the budget, size, scope, debt issuance, and overall funding of nongeneral funded major capital outlay projects, including capital leases.

**NOW, THEREFORE, BE IT RESOLVED**, that the university be authorized to enter into a \$6.9 million capital lease for the Kmart and Ardmore properties.

### **RECOMMENDATION:**

That the above resolution authorizing Virginia Tech to enter into a capital lease for the Kmart and Ardmore properties be approved.

August 26, 2019