

## **Space for Lease Projects** **(UC as ground lessor & facility tenant)**

Definition-- A ground lease from UC to another entity to develop a facility on campus where the consideration for the land is a leaseback of a substantial portion of the space to UC rent-free. The ground lessee ("Lessee") may be a private corporation (e.g., Hitachi Chemical Corp.-UCI), department of government (e.g., State of California Fish and Game-UCSC), or non-profit institution (e.g., La Jolla Playhouse-UCSD). The joint use of the facility by the Lessee and UC must be compatible and is usually collaborative. Indeed, the opportunity for collaboration with UC may be the primary motivation for the Lessee to enter into these transactions.

Key Terms-- A campus site is selected in a use-appropriate location and a ground lease is negotiated with the Lessee for the minimum acceptable term. The design, construction and use of the facility are overseen by UC and, subject to UC design approval and building official oversight, the Lessee is solely responsible to design, finance, construct, own and operate the facility consistent with the ground lease terms. UC is entitled to use a portion of the space in the facility for the term of the ground lease at no cost other than UC's prorata share of operating expenses. UC may have occupancy rights both exclusive and shared use areas. UC's occupancy rights are set forth in a space lease between the Lessee as landlord and UC as tenant (leaseback). At the end of the ground lease, UC has reserved the right to elect to take title to the improvements (at no cost) or have them demolished at the Lessee's expense). In order to represent appropriate consideration for UC's land, the replacement cost of the space UC is entitled to occupy (prorata cost if shared) should equal or exceed the present value of the fair market ground rent UC might otherwise have received for the site over the term of the ground lease.

Applications-- This technique is most commonly used in research-related endeavors (see examples above) where the Lessee has or would like to have a collaborative research relationship with UC. The La Jolla Playhouse (UCSD) and Irvine Theatre (UCI) are examples of instructional/performing arts theatres developed on UC land where the space is shared on a seasonal basis rather than being exclusive or shared use on a continuous basis. While the Space for Lease arrangement could in theory be used for anything, as a practical matter, it will usually be driven by a Lessee's desire to collaborate with UC or the opportunity to share use of a special purpose building.

Opportunities-- Space for Lease Projects may make sense where:

- excess land is available for development—inclusion area or any non-core, unrestricted campus land;
- there is a Lessee with a need to do collaborative research with UC or there is a special purpose facility that UC and the Lessee both need that is most cost effective if shared;
- the Lessee has the financial resources to develop the facility;

- the proposed Space for Lease project use is compatible with existing and planned UC uses in the vicinity of the site; and/or
- the value of space leased back to UC would justify the amount of land encumbered by the ground lease .

Constraints-- Space for Lease Projects may not make sense where:

- the campus does not have a site that can be encumbered for the probable ground lease term (40 +/- years is a long time to commit a site to a single use controlled by another party);
- for corporate research where (i) intellectual property rights issues cannot be worked out, or (ii) the lack of flexibility, notably the ability to change the use or to expand the facility, are material considerations to the corporation that cannot reasonably be accommodated by the UC; and/or
- it is not reasonably foreseeable that the long-term interests of UC and the Lessee will be compatible.

## Exhibit III – 2 Space for Lease



