



6-7-1993

# University of Tennessee Board of Trustees Exhibit Records, 1993 June 7, Exhibit 1

University of Tennessee

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Office of the General Counsel and Secretary  
719 Andy Holt Tower  
Knoxville 37996-0170  
Telephone 615/974-3245  
FAX 615/974-1324

**TO: Members of the Finance Committee, Board of Trustees**

Mr. William M. Johnson, Chairman  
Mr. William B. Sansom  
Mr. Roger Dickson  
Mr. J. Steven Ennis  
Mr. Roy Flowers  
Mr. J. Houston Gordon  
Dr. Joseph E. Johnson

**FROM: Beauchamp E. Brogan**

A handwritten signature in black ink, appearing to be 'BE' with a flourish.

**DATE: May 18, 1993**

**SUBJECT: Meeting of the Finance Committee  
2:30 p.m., Monday, June 7, 1993  
Board Room, Andy Holt Tower, Knoxville**

Upon call of the Chairman, the Finance Committee of the Board of Trustees will meet at the time and place indicated.

The primary purpose of the meeting is to discuss the proposed site for the Valhalla Village, Inc.

**BEB:ll**

**cc: Other members of the Board of Trustees  
Members of the President's Staff**

REPLY FORM  
BOARD OF TRUSTEES FINANCE COMMITTEE MEETING

Monday, June 7, 1993

YES NO

2:30 p.m.

Finance Committee Meeting, Board Room,  
Andy Holt Tower

\_\_\_ \_\_\_

NAME: \_\_\_\_\_

# News from UT

The University of Tennessee / News Center / 107 Communications Building / Knoxville, Tennessee 37996-0315 / (615) 974-2225

*Logan*

FOR IMMEDIATE USE  
Village (75)  
May 31, 1993

KNOXVILLE, Tenn. -- The finance committee of the University of Tennessee Board of Trustees will meet June 7, the board secretary said Monday.

The meeting is scheduled for 2:30 p.m. in the board room of Andy Holt Tower.

The purpose of the meeting is to discuss the proposed location of Valhalla Village, a retirement complex that would be built near the UT Medical Center in Knoxville, Beauchamp Brogan, board secretary and UT general counsel, said.

FILED BY UT NEWS CENTER (615-974-2225)-JMC  
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ORDER OF BUSINESS  
BOARD OF TRUSTEES  
THE UNIVERSITY OF TENNESSEE

2:30 p.m.  
Monday, June 7, 1993

Board Room, Andy Holt Tower  
Knoxville campus

- A. Roll call.
- B. Approval of lease of University land to Valhalla Village, Inc.
- C. Other business.



May 24, 1993

Office of the Executive Vice President and  
Vice President for Business and Finance  
709 Andy Holt Tower  
Knoxville, Tennessee 37996-0174  
Telephone (615) 974-2243  
Fax (615) 974-1324

TO: UT Board of Trustees Finance Committee

FROM: Emerson H. Fly<sup>EH</sup>

SUBJECT: Lease of University Land to Valhalla Village, Inc.

On April 5, I wrote to you regarding the appraisal on the land the University is proposing to lease to Valhalla Village, Inc. (See Attachment I.) In view of that appraisal and the possible expense Valhalla would have to incur to secure sewer service to the property, we asked the Valhalla Village Board to reassess the viability of the project. Their response was that the project is still viable and they are prepared to execute a long-term lease for the property.

In addition to reaffirming the viability of the project, we asked the appraiser, Donald White and Associates, to recommend a fair-market rental rate for the property. In response, Mr. White recommended an annual rental rate of \$7,125. (See Attachment II.) That recommendation is based on the original \$75,000 appraisal of the property given the fact that the facilities to be constructed on the property cannot be connected to the University Medical Center's sewer system. As stated in my April 5 correspondence, The Medical Center's sewer system is approaching capacity and cannot accommodate the additional demand that would be placed on it by Valhalla.

It is important to stress the point that the University has no financial involvement in development of this project; no responsibility should it fail, and no liability in the event of litigation. In the event of dissolution of Valhalla Village, Inc., all buildings, funds, and possessions will pass to the University after settlement of any indebtedness. In brief, the University is simply proposing to lease approximately 26.5 acres of land that has been in its possession and been relatively unused for some 75 years. The timber on the property is not of significant value and the only use of the property has been for periodic grazing of livestock and occasional use for field experiences for students in forestry and agriculture. As for the latter activities, they can continue to take place on adjacent wooded land and most likely on the land that the University is proposing to lease to Valhalla as well. Further assurance that academic endeavors will not suffer resides in the fact that the University has a considerable amount of other forest land that is readily available for instructional purposes.

There are those who contend that the leasing of this property to Valhalla Village, Inc. would be precedent-setting and would benefit only a limited group of faculty and administrators. Although the University would not object to leases of unused property for similar purposes at

other campuses, to date there have been no such requests and we are not aware of any that will be forthcoming. However, were similar requests to be made, each would be assessed on its own merits and handled accordingly. As for the contention that Valhalla would benefit only a limited group of faculty and administrators, it should be noted that subscription to Valhalla Village is not presently restricted to University faculty and staff and that none of the subscribers are employed by the University as administrators. This does not, however, rule out the possibility that University affiliation might become a prerequisite for subscription after the project is fully subscribed.

Set forth below are a few of the more notable benefits the University will derive from the presence of Valhalla Village.

1. A number of mature scholars will remain in the community where they will continue to contribute their energies and special expertise to the University.
2. The presence of Valhalla can be a plus in recruitment and retention of faculty.
3. The educational programs of the UT Medical Center will benefit in that Valhalla's health care center will serve as a convenient resource for the study and treatment of geriatric ailments and will provide valuable educational experiences for students and interns in medicine, dentistry, pharmacy, nursing, physical therapy, and other fields.

At our meeting on Monday, June 7, we will discuss this matter with you and address questions or concerns you may have. It is also the intention of the University Administration to at that time recommend that the following action be taken by the Board of Trustees.

**RECOMMENDED ACTION:**

It is recommended that the University Administration be authorized to enter into a 50-year lease agreement with Valhalla Village, Inc. for the purpose of leasing to said corporation approximately 26.5 acres of unimproved University property located at the southeast corner of Alcoa Highway and Cherokee Trail for the sum of \$7,125 per year with the understanding that the rental rate will be reviewed at five-year intervals.

EHF/cem

Attachments (2)

c: Members of the Board of Trustees  
Dr. Joseph E. Johnson  
Mr. Beauchamp E. Brogan

# ATTACHMENT I



Office of the Executive Vice President and  
Vice President for Business and Finance  
709 Andy Holt Tower  
Knoxville, Tennessee 37996-0174  
Telephone (615) 974-2243  
Fax (615) 974-1324

**TO:** President Joseph E. Johnson  
Members of the Board of Trustees

**FROM:** Emerson H. Fly *EH Fly*

**DATE:** April 5, 1993

**SUBJECT:** Valhalla Village, Inc. - Appraisal Report

At the February 18, 1993 Finance Committee meeting of the Board of Trustees, the University Administration was requested to obtain an appraisal report concerning the proposed site to be leased to Valhalla Village, Inc. In response to the Committee's request, the Administration entered into a contract with Mr. Donald White, MAI, SRA of Knoxville to determine the fair market value of this property.

We have received an appraisal from Mr. White which indicates the following fair market value of the property to be as follows (see attachment):

1. \$304,500 less the cost of sewer access with the University Medical Center assuming the University would agree to this arrangement.
2. \$75,000 - If the University will not agree to the proposed arrangement with the University Medical Center concerning sewer access.

The University Medical Center sewage treatment system is approaching capacity and could not accommodate the additional volume from Valhalla Village. It continues to be the University's position that the Medical Center will not provide the additional capacity required by Valhalla Village.

A copy of the appraisal report, including estimated costs associated with the sewer connection, has been provided to the Valhalla Village Board. Given the cost of the sewer connection, we have requested the Valhalla Village Board to review the viability of this project. At such time, as we receive their response, we will advise you in regard to the long-term lease of this property.

EHF:lb

Attachment (2 pages)

cc: Mr. Beach Brogan



*Donald White and Associates  
Real Estate Appraisers and Consultants  
602 South Gay Street, Suite 900  
Knoxville, Tennessee 37902*

Donald W. White, MAI, SRA, CG-155  
Sandra C. Tuck, Associate, CR-459  
Glen J. Strange, Associate, CG-125

April 1, 1993

Mr. John M. Preston, Director  
Office of Campus Planning  
432 Communications Building  
Knoxville, Tennessee 37996-0342

Dear Mr. Preston:

RE: Appraisal of Approximately 26.5 Acres  
Southeast corner of Alcoa Highway and Cherokee Trail  
Knoxville, Tennessee

In response to your request, I have personally inspected and appraised the real property located at the southeast corner of Alcoa Highway and Cherokee Trail. The purpose of the appraisal is to estimate the market value of the fee simple estate.

The report which follows contains a summary of my investigation and analysis. The pertinent facts and data which I believe are applicable to the property are summarized and the reasons leading to the estimate of value are enclosed.

Based on my investigation of the market data and the contingent and limiting conditions as set forth in the report, it is my opinion that the market value of the fee simple estate, as is, as of March 17, 1993, if sewer service is available in cooperation with the University Medical Center was:

**\$304,500 less the cost of sewer access with University Medical Center**

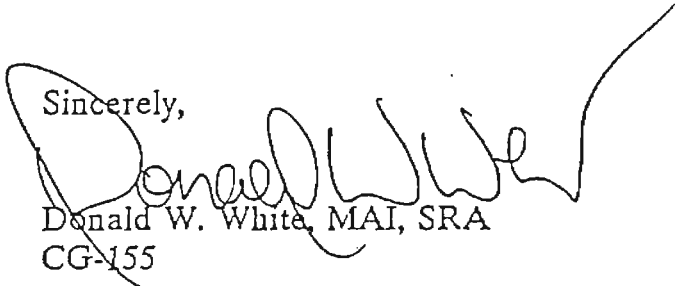
I found it necessary to state the market value as I did since the cost of sewer extension with the University Medical Center has not been established. The Medical Center cannot currently accommodate additional volume and would need to install a larger diameter line from the hospital to the treatment plant on Neyland Drive. Until the developer's plans are firm in terms of number of units and accessory buildings, the Medical Center's sewage engineer cannot project the needs. Factors such as washers and dryers in each unit versus a central laundry facility factor into these decisions.

In the event that the property cannot be tied onto the University of Tennessee Hospital's proposed private sewage system, the highest and best use of the land changes from some residential apartment development to agricultural land and the market value is estimated at:

\$75,000.

*There was no condition established regarding a required value or range of values for the property when I was employed to perform the appraisal.*

Sincerely,



Donald W. White, MAI, SRA  
CG-155

# ATTACHMENT II

*Donald White and Associates  
Real Estate Appraisers and Consultants  
602 South Gay Street, Suite 900  
Knoxville, Tennessee 37902*

Donald W. White, MAI, SRA, CG-155  
Sandra C. Tuck, Associate, CR-459  
Glen J. Strange, Associate, CG-125

May 3, 1993

Mr. John M. Preston, Director  
Office of Campus Planning  
432 Communications Building  
Knoxville, Tennessee 37996-0342

Dear Mr. Preston:

RE: Letter of Opinion  
Appraisal of Approximately 26.5 Acres  
Southeast corner of Alcoa Highway and Cherokee Trail  
Knoxville, Tennessee

In response to your request, I have personally inspected and appraised the real property located at the southeast corner of Alcoa Highway and Cherokee Trail. The purpose of the appraisal is to estimate the market rent of the fee simple estate.

You indicated that the joint sewer service with the University Medical Center will not be possible. As a result, the highest and best use of the property is for pasture land and to remain vacant. The estimated market value of the fee simple interest for pasture use was \$75,000 in my original appraisal report.

My review of land lease and sales data reflects that the typical land lease ranges from 9.5% to 10.5% of fee value per year. Because I have no direct data on the lease of pasture land, I examined the capital markets to build a rate indirectly.

The lease term probably will equal or exceed fifty years in length. The first step in building in indirectly building a rate is to establish an absolutely safe rate. The closest thing to an absolutely safe rate is U.S. 30 year bonds. I examined the U.S. 30 year bond rate for each June and December between 1989 and 1992 and found a range of 7.44 percent and 8.47 percent. I used the US 5 and 10 year bond rates to extrapolate a rate for a longer period than 30 years. The percentage difference between 5 and 10 year rates for the June and December 1989 to 1992 dates ranged from nine basis points in December 1989 to 78 basis points in June 1992. The percentage differences between 10 year and 30 year US bond

rates ranged from six basis points in December 1989 to 79 basis points in December 1991. The yield curve has been steepest over the past 12 months, with the difference in five year bonds and 30 year bonds ranging from 136 to 169 basis points (1.36 to 1.69%). Between December 1991 and December 1992, the 30 year bond falls in the 7.6 to 7.7 percent range. If we use the difference in the 10 and 30 year rates and apply that difference to produce a 50 year rate, the 50 year rate would range from 8.11 to 8.42% over the past 18 months.

A lease of 50 years duration has a limited market. The 8.11 percent to 8.42 percent is associated with an absolutely safe rate, but for an illiquid investment. A real estate investment is not absolutely safe. A premium of 100 to 150 basis points is required to satisfy the risk requirement. Adding 100 to 150 basis points reflects an indicated rate of return of 9.11 to 9.97 percent.

Based on this analysis, a capitalization rate of 9.5% is indicated.

Using the universal value formula,

$$V = I/R$$

where

V = Value  
I = Income  
R = Overall Rate

and transposing;

$$I = V \times R$$

then substituting,

$$I = \$75,000 \times .095 = \$7,125 \text{ per annum}$$

Based on this data, the estimated market rent for the property totals

**SEVEN THOUSAND ONE HUNDRED TWENTY FIVE DOLLARS**  
**(\$7,125)**

per annum.

I trust that this information is satisfactory for your purposes.

Sincerely,

  
Donald White, MAI, SRA, State Certified General Real Estate Appraiser No. 155