5.2.5 REAL ESTATE LEASES

Last updated on: September 1, 2016

Summary:
This Guide Memo describes policies that apply to off-campus real estate leases. Capital and operating lease liabilities utilize the University’s debt capacity. All uses of debt must comply with the University’s debt policy and require prior approval. The only parties authorized to execute documents that commit Stanford to real estate lease obligations are the Vice President for Land, Buildings & Real Estate; the Associate Vice President, Real Estate; or their designees. For relevant policies, see section 1 in Administrative Guide Memo 5.1.1: Procurement Policies. Approvals, requisition processes and reporting requirements are included.

Authority:
Approved by the Vice President for Land, Buildings & Real Estate.

1. Definitions and Terms

Real Estates Leases
Real Estate Leases are contracts under which a lessee has committed to pay stipulated cash payments for the use of real estate for a specific period of time. Real Estate leases are considered long-term financial obligations of the University. Therefore, all new real estate leases and lease renewals are considered a use of the University’s debt capacity.

2. Real Estate Leases

a. Background
When the academic core campus becomes more space-constrained, academic and administrative units begin to look for options outside of campus boundaries to fulfill their space requirements. While physical planning on campus is centrally managed with rules and guidelines established by the University, locations off campus are subject to a completely different set of jurisdictional regulations and University policies depending upon where a particular property is situated. Prospective off-campus users should be made aware of these respective policies prior to choosing their final space destination. These policies are intended to address the political and economic realities of locating an operation or unit outside the academic core campus.

b. Off-Campus Leasing Requirements

1. All off-campus users (whether occupying space on Stanford Real Estate Lands or not) are required to:
   a) Confirm their use and/or proposed construction plan confirms with the local zoning code
   b) Understand jurisdictional design and construction review and approval processes
   c)
Pay all necessary fees for jurisdictional and University approval (GUP/SIP fees do not apply)

- d) Engage their own resources, including leasing agent, to find space and negotiate the lease
- e) Self-administer leases
- f) Consult with LBRE before removing property from County property tax rolls

2. If off-campus location is on Stanford Real Estate (SRE) lands, lessee will additionally be required to:

- a) Understand that lessee's direct landlord may be SRE's ground lessee and that, in those cases, SRE as well as the off-campus user are obligated to comply with the terms of the existing ground lease document
- b) In all cases (whether or not there is a ground lease between off-campus user and SRE), the off-campus user must obtain SRE approval for all major improvements and exterior changes to land and buildings, as well as any exceptions to jurisdictional zoning regulations
- c) If SRE is direct-owner of the building, obtain SRE approval of all interior improvements; otherwise obtain approval from direct landlord (i.e. SRE’s ground lessee)
- d) Adhere to SRE design guidelines and/or policies for a particular location or district, if applicable (Stanford Research Park Handbook, Stanford Research Park Policy Regarding Medical Clinics, Welch Road Planning Guidelines, etc.)
- e) Understand that market rents will apply and be charged, even for SRE-owned buildings

c. Approval Process and Thresholds

All real estate leases must be included as a capital request in the Capital Planning Process. The Capital Planning Process is managed by the Vice President for Land, Buildings & Real Estate and occurs in conjunction with the annual budgeting process for the University. Departments are required to submit their capital plans for approval as part of this process. Real estate lease searches and/or negotiations initiated outside the Capital Planning Process must be approved by the Vice President for Land, Buildings & Real Estate.

All real estate leases require separate approval from (1) the Vice President for Land, Buildings & Real Estate if the total anticipated contracted cash payments over the term of the lease are under $1,000,000, or (2), the Provost if the total anticipated contracted cash payments are $1,000,000 or above. Real estate leases with total contracted cash payments of $5,000,000 and above require approval by the Finance Committee of the Board of Trustees.

d. Requisition

Prior to negotiating lease terms, departments must submit an off-campus lease requisition form to the Associate Vice President, Real Estate. The form can be downloaded from the Land, Buildings & Real Estate website [1]. The Associate Vice President, Real Estate will advise in the search, or direct the requestor to an approved real estate advisor.

e. Approval Forms

Prior to executing a lease, departments must submit an off-campus lease approval form to the Associate Vice President, Real Estate. Real estate lease approval forms can be downloaded from the Land, Buildings & Real Estate website [1]. After approval of the lease transaction and execution of the lease, departments must request a Purchase Order or BU number from Procurement for the total contracted cash payments over the term of the lease, to ensure proper recording of the transaction and to enable payments.

f. Lease Terms

The Associate Vice President, Real Estate or their designee, will assist departments in negotiating lease terms. Real estate leases must be executed by the Vice President for Land, Buildings & Real Estate, the Associate Vice President, Real Estate or their designee, or the Administrator designated by the Finance Committee of the Board of Trustees. Material exceptions to standard terms must be reviewed and approved
by the Office of the General Counsel.

g. Reporting Requirements
By January 15 of each year, departments must provide Land, Buildings & Real Estate a schedule of all real estate lease obligations to assist with the preparation of the University’s College Exemption property tax filing.

h. Insurance
Lessor’s insurance for real estate leases should cover damage to the building and premises and injury occurring in the building’s common areas. For more information, contact the Director of Risk Management.

i. Change of Terms
Departments must observe the start and stop dates of the lease. Occupying the real estate property outside the terms of the agreement has significant contractual implications and may subject Stanford to additional rental charges, early termination charges, and other liabilities. The lessor’s insurance may be valid only during the stated period. To terminate a real estate lease early, the department must contact the Associate Vice President, Real Estate.

j. Renewals and Extensions
Departments must follow the approval process to extend the duration of the original contract, exercise options included in the original contract, or renew a real estate lease.


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