Ground Lease Analysis

Sources

- Public Institutions (TTC & Universities)
- Private Institutions (Insurance Cos.)
- Private Individuals
- Fast Food Chains
Motivation

- Institutional & private investor traditionally want an inflation protected income stream
- End users largely want to secure a development/commercial site without incurring a significant land acquisition expense
Term

- Term tends to be driven by the nature of the development proposed
- A major office development ground lease would typically have a longer term than a fast food restaurant
Disputes

- Typically at the rental reset cycle
- Tenant – affordability
- Landlord – maximum rental justification
- LUC changes
Hierarchy

- Leased Fee Interest – Land Owner
- Leasehold Interest – Tenant / Developer
- Sub-Leasehold Interest
  *(space tenants in improvements)*
Lease Terms

- Basis for valuation exercise
- Maybe underlying development restrictions
- Must be a realistic development option, taking into account the existing land use control structure
Lease Analysis Example

- **Ground lease over an existing subway**
- **Tenant** – limited development potential, 3 storey commercial – MV = $48M, Ground Rental $2.0M @ 4%
- **Landlord** – 50 & 70 storey mixed use, 19.27x coverage, MV - $123.3M, Ground Rental $6,166,500 @ 5%
Approach to Value

- **Tenant** – Development residual – no sales of low density commercial development sites available
- **Landlord** – Comparable sales of local development land sales adjusted to reflect the special development circumstances (subway structure cost)
SIBUYELA
EMASIKWENI
DR. F. KAAMA
MON-8AM-SAT-6PM
CALL 0738975005

BEWITCHED
PEOPLES
BAD DREAMS
LOVE AFFAIRS
COURT CASES
BAD LUCK
DIABETES
MANS PROBLEM
BROKEN MARRIAGE
SEXUAL PROBLEM

0738975005 LEM
Arbitration Process

- Private commercial dispute
- Landlord & tenant appoint arbitrator, together they chose a chair
- Two development planning lawyers & chair was a commercial litigator
- About 50 days of hearing over 12 months +
Arbitration Procedure

- Arbitrators decided to hear all of the evidence on a topic at once
- All planning evidence heard together
- All engineering evidence heard together
- Allowed appraisers time to refine their presentations & valuation approaches
### Valuation Sensitivity Summary - 2 Bloor Street East - Retail Only Development - Suite Option

#### Table R4

<table>
<thead>
<tr>
<th>Item</th>
<th>Robson Variation 1</th>
<th>Robson Variation 2</th>
<th>Robson Variation 3</th>
<th>Robson Variation 4</th>
<th>Robson Variation 5</th>
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<tbody>
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<td>Low Range</td>
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<td>Tenant Corrected</td>
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<td>Tenant Corrected</td>
<td>Tenant Corrected</td>
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**RETAIL / DEVELOPMENT COST VARIATIONS**

- **Residual Land Value Estimate**
  - @ 4%: $43,800,000, $49,100,000, $53,400,000, $58,000,000, $58,000,000, $85,000,000, $85,400,000, $88,000,000, $86,700,000, $89,000,000, $99,000,000, $99,000,000, $85,400,000, $116,200,000
  - @ 5%: $43,800,000, $49,100,000, $53,400,000, $58,000,000, $58,000,000, $85,000,000, $85,400,000, $88,000,000, $86,700,000, $89,000,000, $99,000,000, $99,000,000, $85,400,000, $116,200,000

**PRIVATE SECURED EQUITY VARIATIONS**

- **Loan at 70% project costs**
  - @ 4%: $2,292,000, $2,472,000, $2,532,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000
  - @ 5%: $2,292,000, $2,472,000, $2,532,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000, $2,720,000, $2,664,000

**UNDERLYING ASSUMPTIONS**

- **Data A: 550 sq. ft. at grade level, B: 9,100 sq. ft. on the mezzanine level. Additional development costs of $2,000,000 assumed.**

**TRIMMED EXISTING LEASING**

- **Residual Land Value Estimate**
  - @ 4%: $69,700,000, $83,700,000, $107,000,000, $111,000,000, $80,200,000, $114,200,000, $81,700,000, $116,200,000, $81,700,000, $116,200,000, $91,600,000, $128,300,000, $137,000,000, $144,300,000
  - @ 5%: $69,700,000, $83,700,000, $107,000,000, $111,000,000, $80,200,000, $114,200,000, $81,700,000, $116,200,000, $81,700,000, $116,200,000, $91,600,000, $128,300,000, $137,000,000, $144,300,000

*Indicated overlap for Highest & Best Use between Retail Only Development & Mixed Use Format.*
Establishing Rental Rate

- In the Toronto market there are historical public records to indicate rental rates as a percentage of land value.
- Assembled lease information in relation to historical rates of return at the various lease inception dates.
- Correlation of data carried the day.
## Ground Lease Information & Prevailing Interest Rates

<table>
<thead>
<tr>
<th>Ground Lease No. (Exhibit &quot;C&quot;)</th>
<th>Commencement Date</th>
<th>Ground Lease Rental Rate</th>
<th>Canada Marketable Bonds - Over 10 Years</th>
<th>Premium (Ground Lease Rental Rate - Canada Marketable Bonds - Over 10 Years)</th>
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<tr>
<td>C2</td>
<td>01-May-58</td>
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<td>2.44%</td>
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</table>

### Correlation Results

**Figure No. 1**

![Ground Lease Rental Rate vs. Canada Marketable Bonds - Over 10 Years](image1)

Correlation: 0.97495963

**Figure No. 2**

![Premium (Ground Lease Rental Rate - Canada Marketable Bonds - over 10 Years) vs. Canada Marketable Bonds - Over 10 Years](image2)

Correlation: -0.76263230

### Interpretation

- **1.0** = Perfect Correlation
- **0 to 1** = The two variables tend to increase or decrease together
- **0.0** = The two variables do not vary together at all
- **-1.0** = One variable increases as the other decreases
- **-1.0** = Perfect negative or inverse correlation
Decision

- Estimated Market Value - $84,200,000
- Ground Rent @ 5%
- $4,210,000 per year
- (up from $167,500/year)