

Ground Leases as a Source of Finance

An Example: Mona Reshma Apartments

Information for Mona Reshma Apartments		
NOI		\$8 MM
Property Value*		\$100 MM
*includes land value		
Debt		\$65 MM
Interest on Debt		5.4%
<u>Land Information</u>		
Land Rent		\$3 MM
Term		70 years
Ground Rental Growth		3% every 10 years

Discount Cash Flow Analysis

Discount Cash Flow Analysis - Ground Lease Payments for Mona Reshma Apts.							
	Year 1	...	Year 10	...	Year 20	...	Year 30
Ground Lease Payment	\$3.00 MM		\$3.09 MM		\$3.18 MM		\$3.28 MM
Terminal Value							\$46.83 MM
Discounted Value @ 7.3%	\$2.80 MM		\$1.53 MM		\$0.78 MM		\$6.05 MM
Value of Land	\$42.48 MM						

Cap Rate Calculations

Ground Lease Cap Rate Calculation	
Revenue	\$3.0 MM
Cap Rate	7.0%
Value	\$42.9 MM

Property Cap Rate Calculation	
<u>Information</u>	
NOI	\$5.0 MM
Land Value	\$42.9 MM
Structure Value	$\$100 \text{ MM} - \$42.9 \text{ MM} = \$57.1 \text{ MM}$
<u>Calculation</u>	
Formula	$5/X = 57.1$
Cap Rate	8.75%

NOI after Ground Lease Payments

Discount Cash Flow Analysis - NOI after Ground Lease Payments							
	Year 1	...	Year 10	...	Year 20	...	Year 30
Property NOI	\$8.00 MM		\$9.15 MM		\$10.62 MM		\$12.32 MM
Ground Lease Payment	\$3.00 MM		\$3.09 MM		\$3.18 MM		\$3.28 MM
Terminal Value							\$97.75 MM
Subtotal	\$5.00 MM		\$6.06 MM		\$7.43 MM		\$106.79 MM
Discounted Value @ 10.75%	\$4.51 MM		\$2.18 MM		\$0.96 MM		\$4.99 MM
Value of Land	\$57.75 MM						

Conclusion

Summary	
NOI	\$5.0 MM
Cap	8.75%
Value of Building	\$57.1 MM
Ground Lease Payments	\$3 MM
Cap (not accounting for growth)	7.00%
Value of Land	\$42.9 MM
Total Value	\$57.1MM + \$42.9MM = \$100 MM

- Subordination to Mortgages