

BY THE NUMBERS

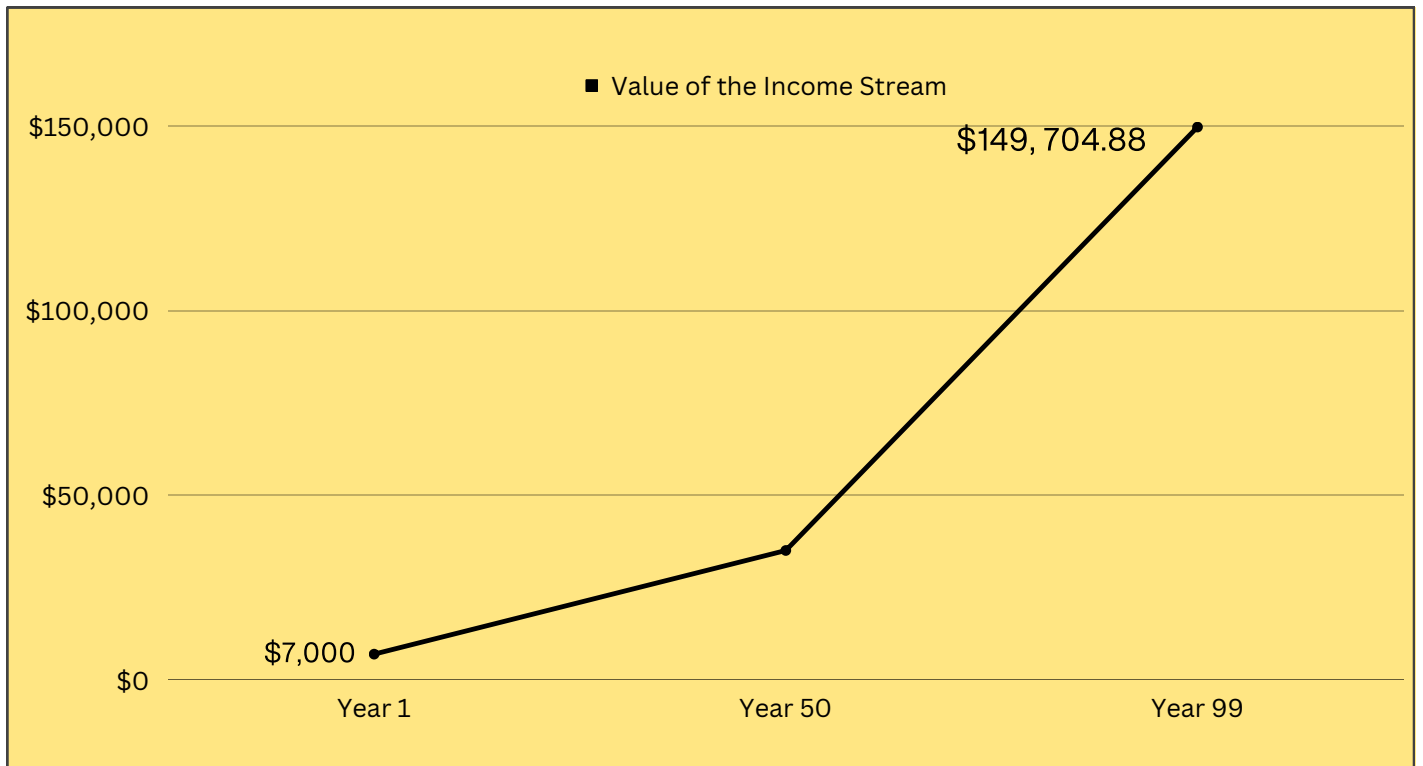
EXAMPLE OF VALUING THE LEASED FEE INTEREST

In pricing a leased fee interest two different values have to be factored in: the income stream and the reversionary value.

The Income Stream:

The chart below shows the revenue collected over 99 years of a ground leased that starts at \$7,000 a year. The lease is indexed to 5-year incremental increases. The 5-year increases are indexed to the Consumer Price Index with a minimum 3.5% per year 17.5% increase every 5 years.

Using the above lease criteria over 99 years the leased fee owner collects \$3,444,435.00 (Three million four hundred and Forty-four thousand four hundred and thirty-five). Discounting the preceding number using a 5% yearly discount rate brings the present day value of the income stream to \$149,704.88. The leases are secured at 100 to 1.



The Reversionary Value

At the end of the lease term in 99 years title to the home and land revert back to the leased fee interest.

For the below model we used a today's value \$700,000 home in Scottsdale Arizona. Over the last 50 years homes in Scottsdale have appreciated at an average of 4.1% a year. For this model we used a 3.5% a year average increase. A \$700,000 home today appreciating at 3.5% per year is worth \$20,382,259.18 (Twenty Million Three Hundred Eighty Two Thousand Two hundred and Fifty Nine Dollars and Eighteen cents.) Discounting the preceding number using a 5% yearly discount rate brings the present day reversionary value to \$170,000.

It is important to remember while the leased fee interest owns the home – it never has to find a tenant or find a buyer or pay property tax or fix anything on the house – that is all the leasehold holders responsibility

