

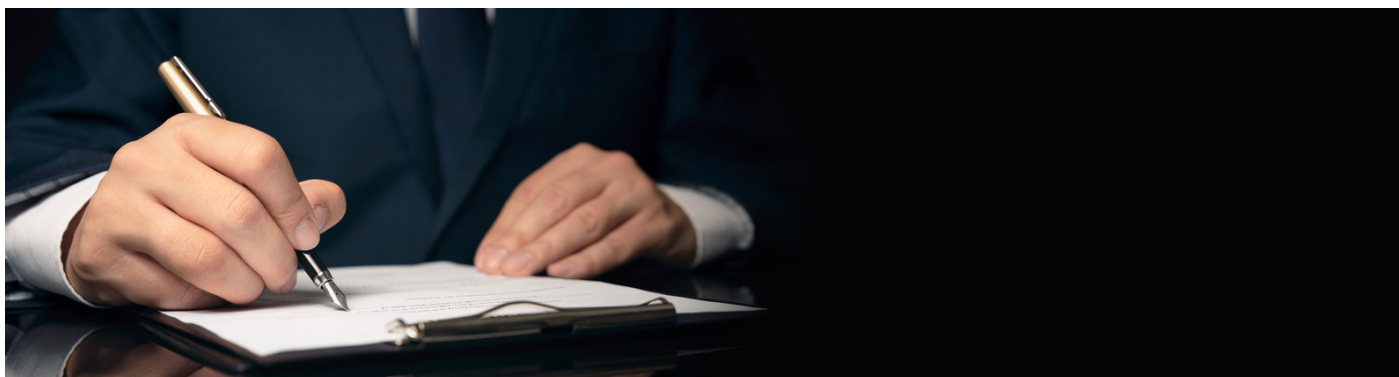
# HOW TO VALUE THE LEASED FEE INTEREST & EXPLANATION OF THE DISCOUNTED RATE

The value of the leased fee interest is represented by the sum of the contract rental income, during the term of the lease, plus the reversionary value at the end of the term both are discounted back to present day value.

**The leased fee interest in residential property has 2 distinct values that need to be added.**

- (1)** A 99-year revenue stream with 5 years incremental increases indexed to the CPI. The income stream is secured at 100 to 1.
- (2)** The reversionary interest. At the end of the lease term title to house and land revert back to the lessor (leased fee interest)

To establish present value, the discounted rate we use is more than 1 full point over the thirty year treasury rate (see explanation below)



It is useful to summarize the obvious similarities between Treasury Securities and Leased Fee Interests. Both are by definition long term and offer high security as investments. There are also salient differences. Treasury Securities offer ready liquidity. Leased fee estates, like most real estate, are comparatively illiquid. However leased fee estates offer significant appreciation and therefore a considerable amount of inflation protection. Finally, it generally appears that real estate investments are somewhat less volatile than investments in highly liquid capital markets. If an investor can anticipate holding to maturity, then the illiquidity of leased fee estates is not a major disadvantage. Consequently, it would appear that leased fee estates offer an attractive investment opportunity - relative to alternative long-term investment such as bonds and mortgages - for this type of investor. Many of the richest families and entities in the world own leased fee interests as a significant portion of their portfolios as a secure way to accumulate and pass on generational wealth.