

EYZENBERG

GROUND LEASE CAPITAL

PROPRIETARY CAPITAL SOLUTIONS

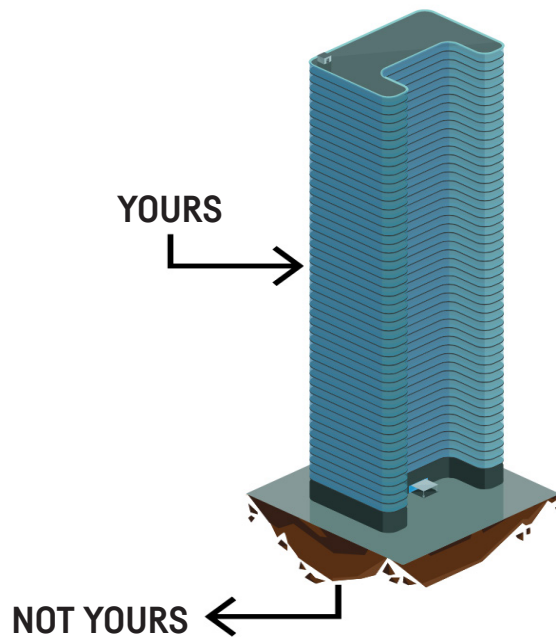


EYZENBERG

GROUND LEASE CAPITAL

Eyzenberg Ground Lease Capital originates, structures, and acquires leased fee positions in tandem with our institutional investment partners.

THE BASIC IDEA



WHAT IS A GROUND LEASE?

- A ground lease is a document that memorializes the relationship between a leased fee owner “the landlord” (owns the land) and the leasehold owner “the tenant” (owns improvements/building sitting on the land)
- The land is leased by the landlord to the tenant on a long-term basis
- The tenant owns and operates the vertical improvements and is responsible for all expenses, including operating, taxes, insurance, and maintenance
- Upon expiration or default under the terms of the ground lease, the improvements revert back to the landlord

WHY SELL THE GROUND?

A sale makes sense because land under an existing building is a non-accretive asset providing no means to drive its value.

- There are no specific benefits to operational efficiency stemming from owning the underlying land
 - Revenue is in no way impacted by land ownership under an operating asset
 - Unless the property is a near-term development site, all future land value increases will simply be a byproduct of NOI growth producing a larger total asset value where land is a remainder interest
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The general economic benefits of a bifurcation transaction include:

EFFICIENT CAPITAL

- Fixed-income-like return requirements of 5.0 - 6.5% create arbitrage opportunities relative to real estate private equity return targets

TAX-ADVANTAGEOUS

- Remove the non-depreciable asset from the balance sheet and deduct ground lease payments as an operating expense

HIGHER LEVERAGE

- Achieve higher “all-in” leverage in tandem with senior debt at a lower blended cost than a senior/mezzanine loan option

DE-RISK REFINANCE

- Fix the cost of capital for 20-40% of your capital stack and avoid interest rate and liquidity risk

FUNDING PARAMETERS

Transaction Type:	Acquisition, recapitalization & select development of income-producing assets
Property Type & Geography:	All commercial property types located in primary and strong secondary markets
Transaction Size:	\$10MM - \$150MM+
Pricing:	3.65% - 5.0% acquisition cap rate dependent on the asset class, location, percentage of the total value, coverage, development, etc.
Lease Term:	Generally 99 years, but can be shorter depending on jurisdiction and tax implications
Purchase Price:	Approximately 20% - 35%+ of the total property (fee simple) value
Ground Rent:	Triangulated from a number of variables, including: spread over treasuries, a premium to the stabilized cap rate of the underlying asset, and a target 3x - 5x NOI coverage ratio*
Rent Escalation:	Flexible options include fixed steps, CPI adjusters (with or without caps and lookback resets), percentage rent or flat/ramp up options
Buy-back Options:	Deals can be structured with options priced in
Leasehold Financing:	Ground leases are structured to accommodate current balance sheet and securitization requirements enabling leaseholds to be easily financed
Lease Structure:	Unsubordinated ground lease

*depending on asset class and deal specifics

Multifamily Case: 7-Year Hold

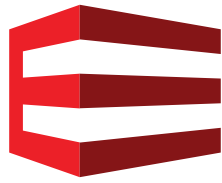
- **The Property:** A \$100 million asset, valued at a 5.25% cap rate, with a \$5.25 million NOI
- **Fee Simple Financing:** 70% LTV, 10 year term, 30-year amortization at 4.15% interest
- **The Ground Lease:** A \$35 million ground sale and the creation of a 99-year lease
- **Ground Rent:** fixed at 3.75%, with 2% annual escalations
- **Leasehold Financing:** 70% LTV, 10 year term, 30 year amortization at 4.15% interest

Deal Specific Benefits

1. The equity requirement has been reduced by 44%, and the IRR has increased by 638 bps.
2. The going-in cap rate has improved by 74 bps, with a 10-year average improvement of 90 bps.
3. The first-year cash-on-cash is increased by 217 bps and the average cash-on-cash over a 10-year period is 286 bps.

Ground Lease vs. Traditional Finance in a Refinance Scenario

7-Year Base Case Scenario	FEE SIMPLE		LEASEHOLD		Better/(Worse)	
Asset Value	\$ 100,000,000	@ 5.25% Cap	\$ 71,590,909	@ 5.50% Cap		
Cost Basis	\$ 101,656,250		\$ 66,717,019			
Senior Debt Amount	\$ 65,625,000	@ 4.00%	\$ 46,701,913	@ 4.15%		
Gap Capital Amount	\$ -	@ 12.00%				
Ground Lease			\$ 35,000,000			
Cash Basis	\$ 36,031,250		\$ 20,015,106		\$ 16,016,144	
NOI	Amount	Cap Rate	Amount	Cap Rate	Cap Rate	
	Year 1	\$ 5,250,000	5.16%	\$ 3,937,500	5.90%	0.74%
	Exit Year	\$ 6,268,775	6.17%	\$ 4,790,686	7.18%	1.01%
	Average	\$ 5,835,596	5.74%	\$ 4,427,452	6.64%	0.90%
After Debt Net Cash Flow	Amount	C-on-C Yield	Amount	C-on-C Yield	C-on-C Yield	
	Year 1	\$ 1,489,901	4.14%	\$ 1,261,632	6.30%	2.17%
	Exit Year	\$ 2,508,675	6.96%	\$ 2,114,818	10.57%	3.60%
	Average	\$ 1,986,747	5.51%	\$ 1,677,050	8.38%	2.86%
Total Leverage on Value	\$ 65,625,000	65.63%	\$ 81,701,913	81.70%	\$ 16,076,913	
Total Leverage on Cost		64.56%		80.37%	15.81%	
Total Cash Flow (Holding Period)	\$ 67,196,626		\$ 52,210,394		\$ (14,986,232)	
Total Cash Receipts	\$ 67,196,626		\$ 52,210,394		\$ (14,986,232)	
IRR						
	Equity Basis	10.33%	16.71%		6.38%	
	Cash Basis	10.33%	16.71%		6.38%	



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THE CAPITAL STACK INNOVATORS

Eyzenberg & Company is a New York City-headquartered investment bank delivering full capital stack solutions for existing, transitional, and to-be-built commercial real estate projects. With offices in New York, Miami, and Washington D.C., Eyzenberg & Company is one of the fastest-growing real estate capital advisory firms in the U.S.

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