Stanford Creek and Stanford Hills Subdivisions

Frequently Asked Questions
September 25, 2017

EXTENDING THE LEASE

Is there a way for me to keep my lease term at 51 years?
Yes, but not perpetually; lease extensions can only be initiated up until February 28, 2051, at Stanford Creek, and April 29, 2058, at Stanford Hills. However, before these dates, the extension right allows for extensions to be purchased at regular intervals. For example, if you currently have a 51-year lease, you can choose to extend your lease term on a yearly basis beginning when you have 50 years remaining. These yearly extensions essentially maintain the lease term near the maximum limit.

Can Stanford tell me what my fee simple land value is today?
No, because we do not have individual land appraisals that reflect current market values of Creek and Hills properties. A fee simple land value appraisal will account for market conditions and site characteristics at the time of the appraisal and may vary for each individual parcel. To determine fee simple land value, appraisers frequently look to recent fee simple sales of nearby improved properties where the purchaser intended to demolish most or all of the existing improvements, or did demolish the improvements, which indicates how the market is valuing the land alone. Land values need not be determined until a lease extension is being purchased.

How do I avoid arriving at the 2051 or 2058 deadline for lease extensions with a need to purchase a substantial additional lease term?
There are numerous options for purchasing lease extensions – at regular intervals as mentioned above, periodically when desired, upon a sale of your leasehold, or all at once in 2051 (Creek) or 2058 (Hills).

Why is a fee simple land value vs. leasehold land value used for calculating the extension fee?
The extension fee is essentially prepaid rent for the continued use of Stanford's land beyond the point in time when the lease would have otherwise expired and the fee simple property interest would have reverted back to Stanford. The rent convention for land leases is to pay an annual lease rate as a percent of fee simple value. Leasehold value is not used because it does not reflect Stanford's perpetual interest (fee simple). At expiration, the value of a leasehold is $0 and the landowner's value is 100% of the fee simple value of the property. If a new rental rate is calculated at that time, it would not be based on the leasehold value but would be calculated on the landowner's value because by extending the Lease, the landowner is postponing its free- and- clear use of the property.

Are Stanford Creek and Stanford Hills leased land properties the primary properties used in an appraisal?
No, the Appraisal Guidelines in the 2013 Amendment specifically exclude using Stanford Hills and Stanford Creek properties for comparable sales. We are appraising the fee simple land value equivalent, and by definition must use fee simple property sales in the appropriate comparable neighborhood area to obtain this value. It is important to note that an appraisal is only required for purchasing an extension, not for establishing the value of your leasehold. When leaseholds are put up for sale, leaseholders alone determine the asking price. Ultimately, the market will determine the value of the leasehold given the rights under the Lease.

What are the growth rate and discount rate assumptions behind the Extension Factors?
As noted in Appendix B of the 2013 Amendment, which discusses the basis for the annual growth and discount rates used in the Extension Factor Schedule, Stanford assumed a growth rate of 3%, and a discount rate of 7%. This is based on collective input from real estate experts and economists, as well as long term historical data on both inflation and investment rates.

SELLING THE LEASEHOLD UNDER THE RIGHT OF FIRST OFFER ("ROFO")

Why is the 95% Threshold Price under the ROFO important to Stanford?
The 95% Threshold Price encourages leaseholders to make realistic market offers to Stanford. By establishing an offer price that is reasonably consistent with the market value of the leasehold, the 95% threshold is less likely to be triggered. That said, it is also important to note that the offer price to Stanford does not have to equal the listing price; they are not linked. The leaseholder determines the initial offer price to Stanford in its absolute discretion. In fact, if Stanford has declined an initial offer, a new offer can be submitted to establish a new 95% threshold price.

Under the ROFO, a lessee is obligated to offer the leasehold to Stanford at an offer price of the lessee's choosing. If Stanford passes on this initial offer to purchase, can Stanford later elect to purchase the property at the initial offer price?
No, if Stanford has declined the initial Lessee offer, Stanford cannot reinstate the offer price later. For example, if an initial offer to Stanford is made at $2,000,000, Stanford declines the offer, and 6 months later the leaseholder receives an acceptable third-party offer at $2,500,000, Stanford cannot then choose to accept the original $2,000,000 offer price and force a sale to Stanford. If the leaseholder chooses to sell 12 months after the initial Lessee offer to Stanford, a new Lessee offer will need to be submitted to Stanford pursuant to the ROFO provision in the Lease.

Under the ROFO, how would an example of a Stanford matching opportunity work?
In the example above, suppose Stanford declines the initial offer of $2,000,000, therefore establishing a 95% Threshold Price of $1,900,000, and 6 months later the leaseholder receives an acceptable third-party offer of $1,850,000. Because this offer is below the 95% Threshold Price of $1,900,000, Stanford would have the opportunity to match the offer and purchase the leasehold. If Stanford agrees to match the offer, the parties will enter into a purchase and sale contract, and the transaction will close when all contingencies are removed. If Stanford declines to match the offer, the sale can proceed with the third party.

Does the ROFO give Stanford the right to match <u>any</u> third-party offer?
No, if Stanford chooses not to purchase your leasehold, you will have one year to sell it to a third party (at a price and upon terms you plan to accept) without having to start the offer process over again with Stanford, provided the sale price is greater than or equal to the Threshold Price (i.e. 95% of the Stanford offer price), and the material terms of the third-party offer are not significantly different than those offered to Stanford. If the acceptable third-party offer is greater than or equal to the Threshold Price and the material terms have not significantly changed, Stanford does <u>not</u> have the right to match the third-party offer.

What happens if you sell your home without telling Stanford about it?
If you fail to comply with the ROFO provisions of the Lease, you will be in breach of the Lease and you will lose the right to exercise any further lease extensions. That means your buyer and all future owners of your leasehold will also lose the right to extend the lease term.

If Stanford declines the initial offer from the leaseholder under the ROFO, are the terms of the initial offer confidential?
Many lessees have expressed an interest in being able to let prospective buyers know the 95% Threshold Price as part of their sales effort. Stanford does not want to dictate the approach or strategy around whether or not the price initially offered to Stanford should be kept confidential. However, Stanford will not disclose it unless otherwise instructed by the leaseholder. This decision is up to each individual leaseholder.

If Stanford has declined to purchase the leasehold under its ROFO, would Stanford allow the leasehold to be posted on the Stanford faculty housing website when it is officially put on the market?
The Stanford University Faculty Staff Housing Campus Homes for Sale and Rent listing are available for purchase or rent by individuals who meet Stanford's Housing Programs Eligibility Criteria. Homes available to the general public are not listed on this website and Stanford does not anticipate changing this policy. Stanford Creek and Stanford Hills homes under the non-faculty leases (versus homes Stanford has purchased and will make available to faculty) are not subject to eligibility restrictions and, therefore, will not be included on the website.

Will Stanford make available the price it paid for leaseholds under its ROFO?
In the instances where the closing price is not automatically made public, Stanford will disclose the price upon request. Please note that if the seller requests the closing price not be made public, Stanford will honor the request.

Would Stanford consider setting a floor for what it would pay for a leasehold?
No, because Stanford's goal is to pay the current market value of the leasehold at the time of the sale. Setting a floor, or a cap, on values would be inconsistent with that goal.

Can we make the decision to extend the Lease at the time of a sale of the leasehold?
Yes, you may choose to extend your lease term when you sell. The extension fee can be funded through escrow with the sale proceeds, so the fee need not be paid out of pocket in this situation.

How are closing costs allocated in a sale to Stanford?
Under the ROFO, the offer terms submitted to Stanford should include how the seller intends to allocate closing costs. If Stanford declines the offer and an accepted third party offer has a very different allocation of costs, that could be considered a change in Other Material Terms as defined in the 2013 Amendment, and therefore subject to a matching opportunity by Stanford. Therefore, the seller will want these terms to be consistent with what they intend to offer the market.

Under the Right of First Offer provision, are the improvements included as part of the Leasehold Interest?
Yes, the "Leasehold Interest" includes the land parcel and any authorized improvements placed upon the parcel. The Woodside ground leases provide a lessee the use of a land parcel and its improvements located thereon for the term of the ground lease. The Woodside ground leases allow for the removal of the improvements, but while they are located upon the parcel, they are considered part of the Leasehold Interest.