

SOUTH END  
AVENUE



NEW YORK  
STATE OF  
OPPORTUNITY

Battery Park  
City Authority

# Ground Rent Briefing

## April 2022

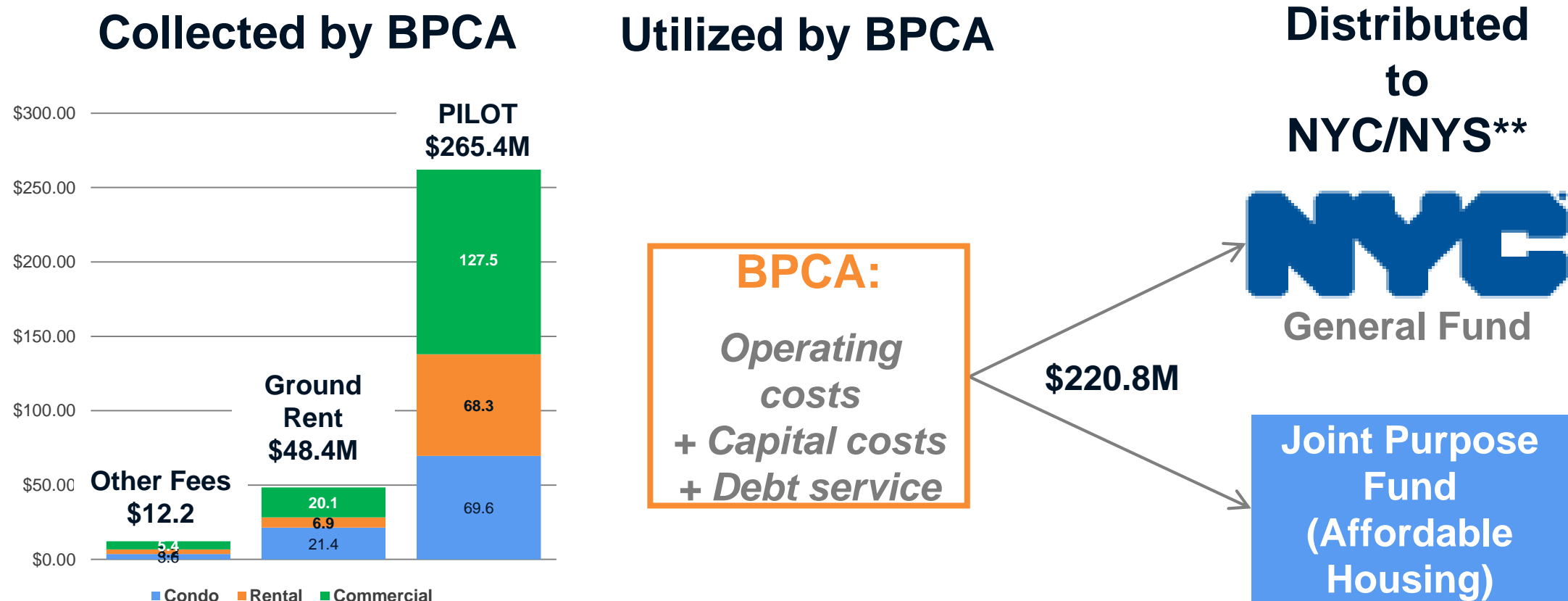


## Agenda

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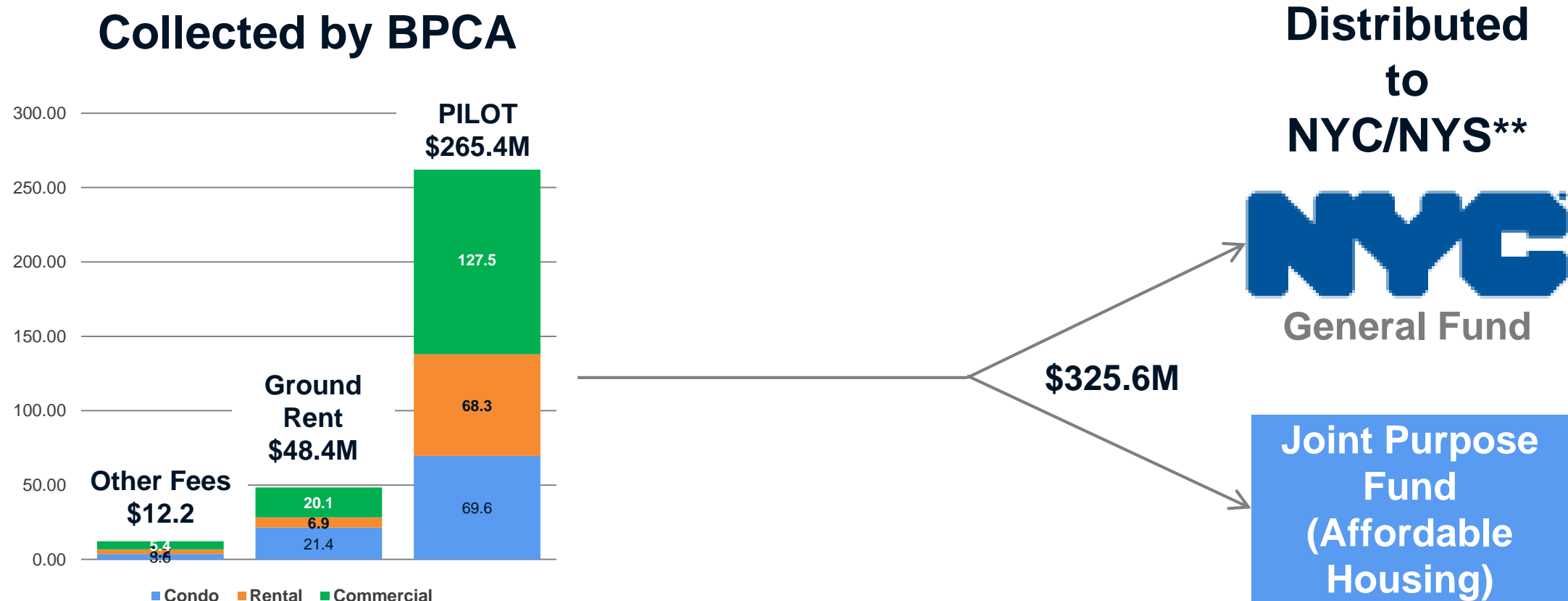
- Ground Rent Overview
- Current Ground Rent Analyses
- Valuing Ground Rent
- Next Steps

## BPCA Funding Framework Reminder\*



\*BPCA FY2021 financials. Graphic for illustrative purposes only. \*\*Pro rata based on % of revenues from PILOT (NYC) and ground rent (joint purpose fund).

## Funding Framework Without BPCA (If City Exercised Its Repurchase Option)

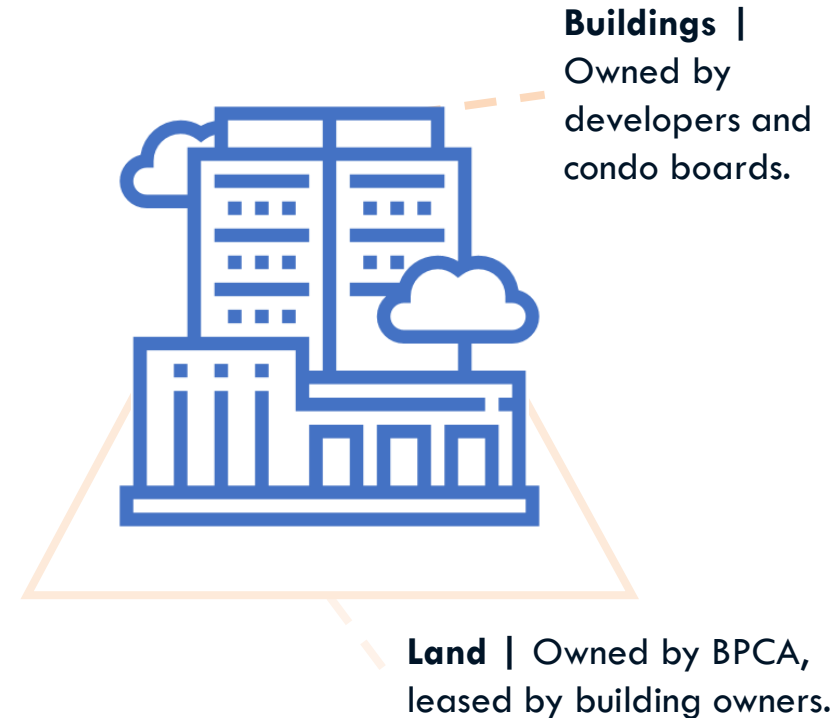


\*BPCA FY2021 financials. Graphic for illustrative purposes only.

\*\*Pro rata based on % of revenues from PILOT (NYC) and ground rent (joint purpose fund).

## Ground Rent Explainer

- Homeowners pay for the land they live on either through purchasing it outright (and factoring it into the price) or renting it. In BPC, it is the latter.
- BPCA owns the land underlying all of Battery Park City. Land is leased to building owners for development and ongoing management of all buildings. Ground rent compensates BPCA for the value of the underlying land.
- As a public authority, BPCA has a fiduciary duty to receive an appropriate value for its property, a public asset, while maintaining the neighborhood for residents, visitors, workers, and students.



## Ground Rent Analysis

- The average BPCA condo owner paid \$480 in ground rent in 2021 out of ~ \$3,270 in monthly common charges, the bulk of which is PILOT (real estate taxes set by the City of New York) and building operations and maintenance.

Monthly Common Charge.  
Est. BPC Unit Avg.

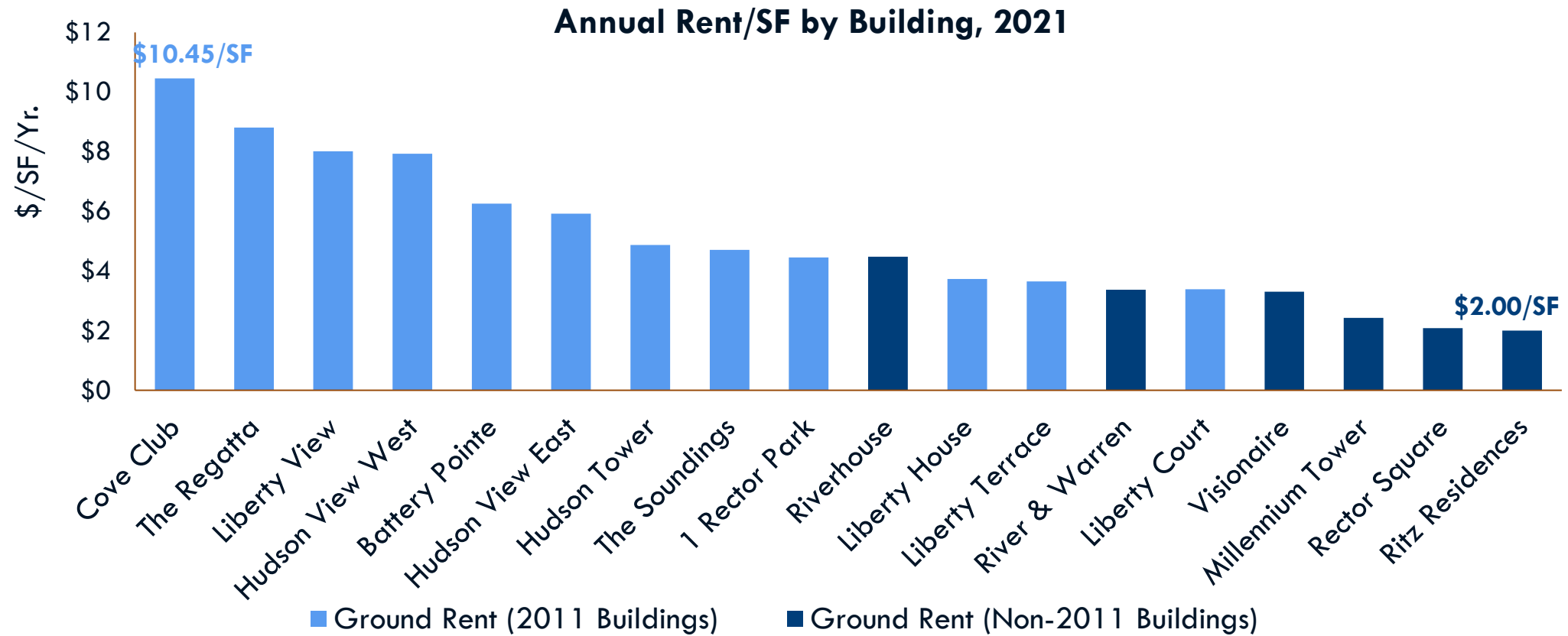
**CFM, \$60**

**Ground Rent  
\$480**

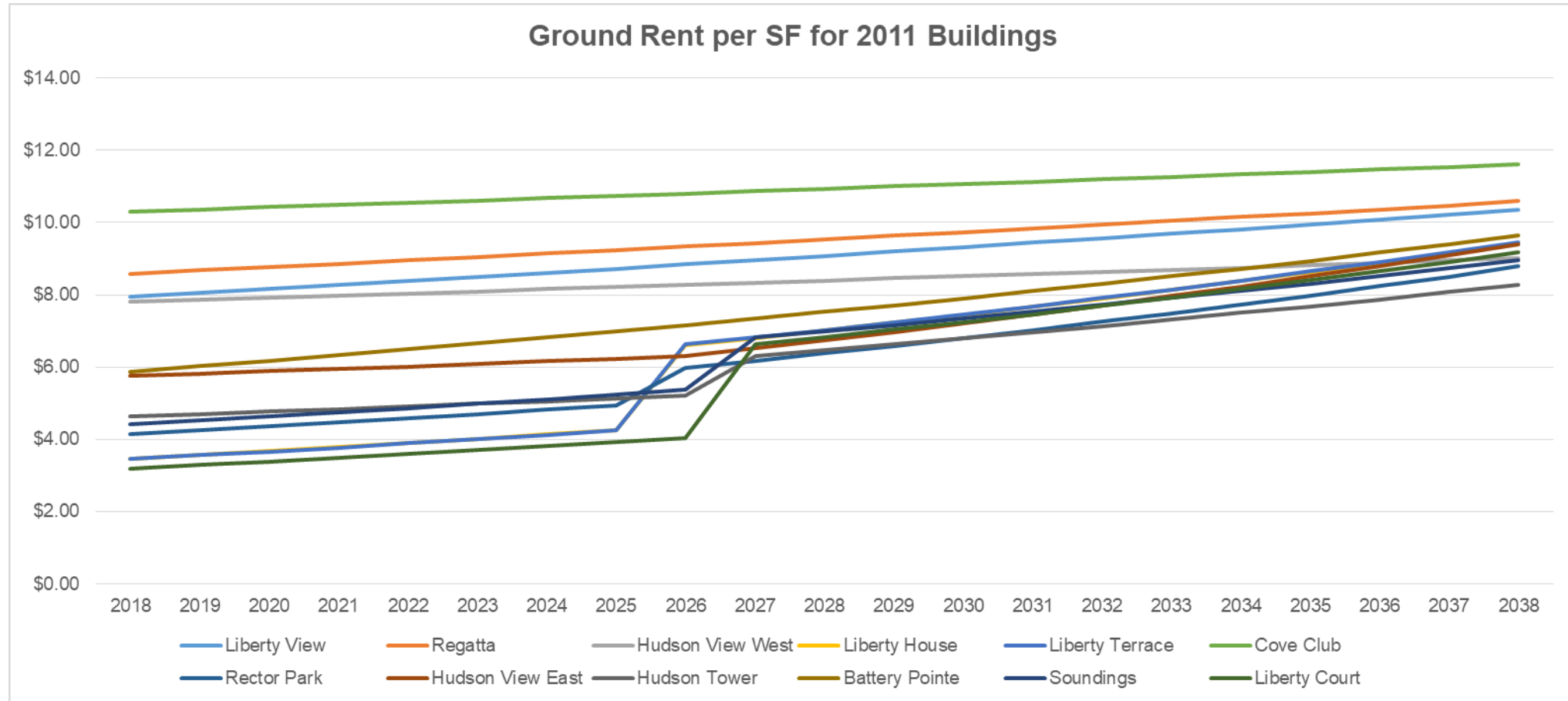
**Bldg. Ops & Maint.  
\$1,160**

**PILOT  
\$1,570**

## 2021 Ground Rent Varies



## Ground Rents Align More Closely By 2038



“2011 Buildings” refer to the 12 buildings who negotiated a new rent schedule for two reset periods.



## Valuing Ground Rent

**BPCA seeks to establish an objective market value for ground rent. This involves understanding how current leases relate to potential market-rate terms for a condo building ground lease if it were executed today.**

- The existing **6% FMV resets are significant** and uncertain.
- For this reason, recent market ground leases for rental buildings **avoid land-based resets** and instead **adjust rents for building performance** (NOI, EGI, etc.).
- Valuing ground leases for condo buildings poses a challenge because
  - 1) there are **limited comparable ground leases** and
  - 2) condo owners, unlike rental owners, typically **do not capture market value until unit sale.**

## Valuing Ground Rent

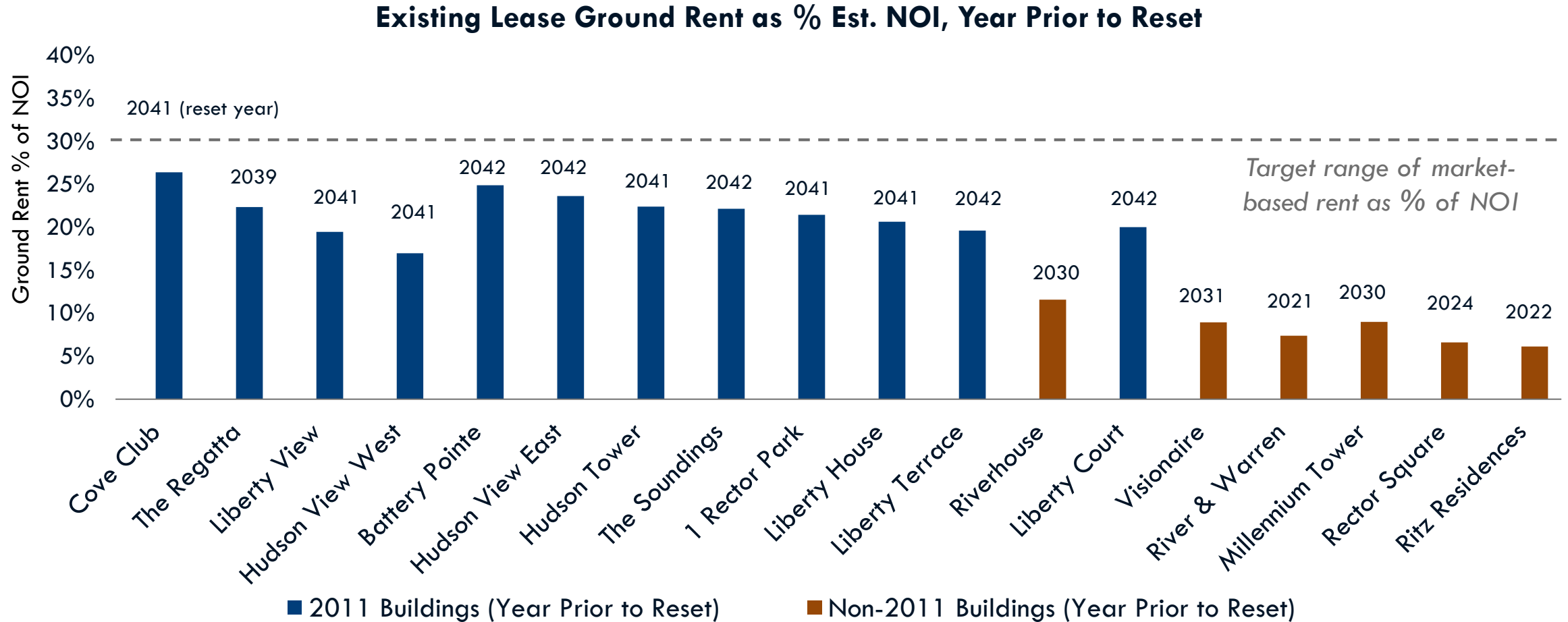
- BPCA seeks to establish an objective market value for ground rent.
- BPCA is studying the potential range of ground rents that could result from applying a “rental equivalent” approach to the condo ground leases.
  - A percentage of the estimated net operating income, consistent with market practices, is taken – between 20%-30%
  - Income is derived from nearly 2,000 rental listings from all BPC condo buildings and estimated typical expenses from BPC rental buildings.
- This approach is attractive for a few reasons:
  - It aligns with **“rental-equivalent” valuation methods** used by condo building appraisers (and DOF),
  - It accounts for the **actual market value** earned by the existing buildings through rentals, and
  - A significant share of **condo units in BPC are already rented** on the open market.

## Ground Rent Comparison

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- Comparing current rent, market estimates, and the contractual reset value highlights several findings:
  1. The 6% FMV resets in the existing leases would trigger significant increases in ground rent and common charges.
  2. Ground rents for the 2011 buildings will approach market-based levels after the upcoming step-ups.
  3. Ground rents for non-2011 buildings remain well below market-based levels until their next reset dates and so their rent must then be increased.
  4. BPCA's proposed framework aligns is a fiscally responsible alternative to the rent reset formulas

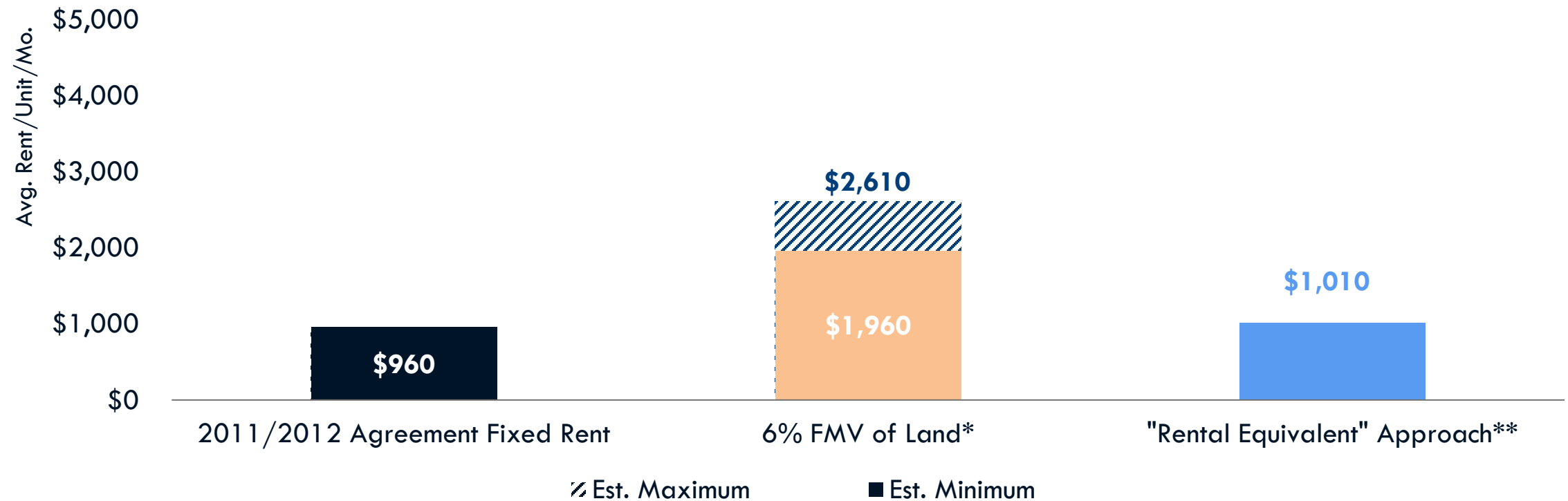
## Rental-Equivalent Condo Valuation Analysis





## The Regatta

### Average Monthly Ground Rent per Apartment in 2021

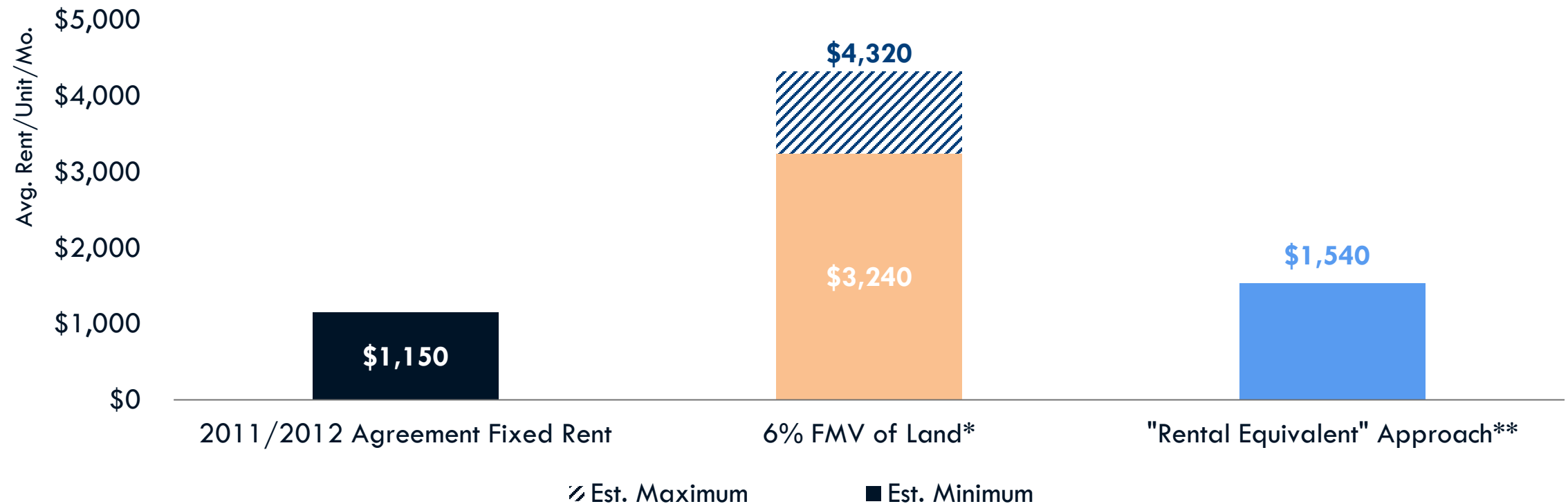


\*Based on a range of comparable land sales (inflation escalated)

\*\*Based on estimated % of future NOI

## The Regatta (continued)

### Average Monthly Ground Rent per Apartment in 2038



\*Based on a range of comparable land sales (inflation escalated)

\*\*Based on estimated % of future NOI

## **BPCA Approach to Condo Ground Rent Resets**

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### **Basic Principles:**

1. BPCA's goals for all condo buildings are to:
  - Provide economic stability to homeowners through a predictable ground rent schedule (versus the unpredictable FMV-driven ground rent reset terms).
  - Ensure BPCA participation in the enhanced value of the underlying land through the ground lease.
  - Reduce the disparities in ground rent per square foot across buildings over time.

### **Two-Stage Strategy:**

1. Align the 6 non-2011 buildings more closely with the 2011 buildings in terms of rent.
2. Respect the 2011-2012 agreements and establish a consistent framework in the future for all buildings.

## Rent Reset Proposals

- Condo Coalition

1. Replace the remaining 6% FMV resets in the existing leases
2. Eliminate all interim step-ups in 2011 agreement
3. For 15 of the condo buildings, limit annual increases to 0.5% to 1%, depending on the building starting in 2022
4. For 3 of the condo buildings, increase ground rent by about 100% with 1% annual increases thereafter

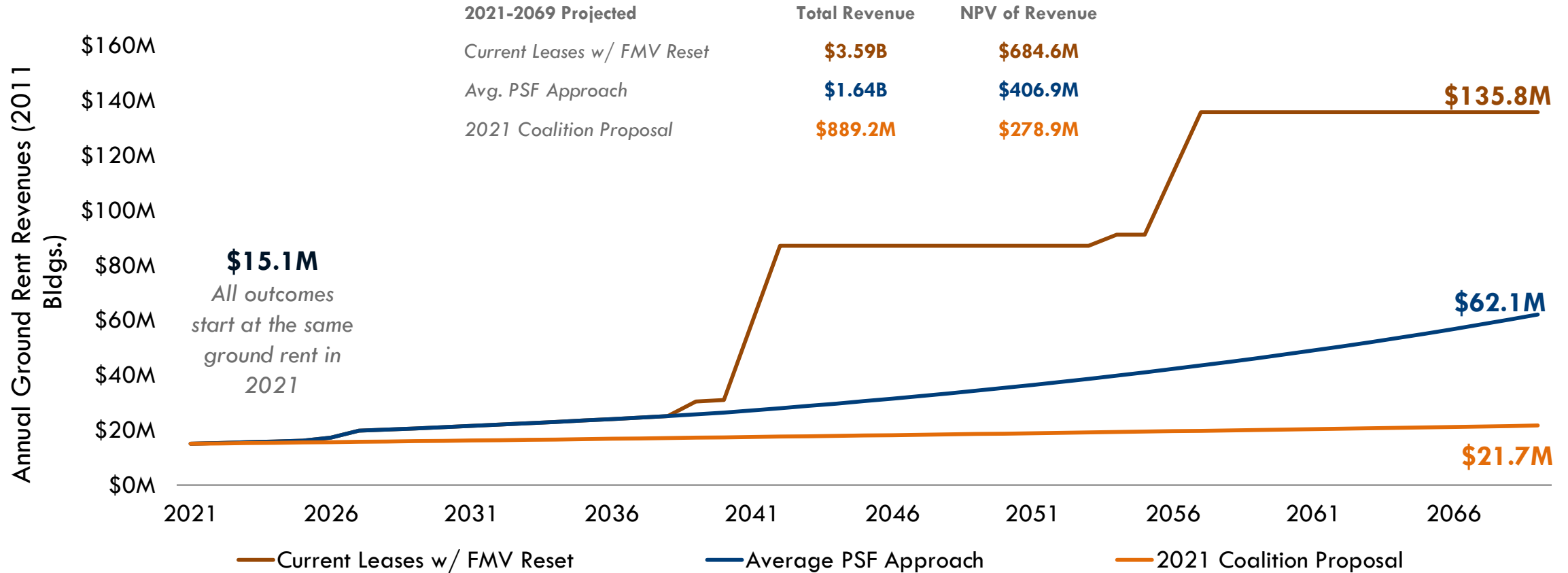
- BPCA

1. Replace the remaining 6% FMV resets in the existing leases
2. Maintain 2011 agreement
3. For the 6 buildings not part of the 2011 agreement, align with average rent PSF of the other buildings
4. For all buildings, replace rent resets with 3% annual increases and a transaction fee on sales to capture market value of land
5. Introduce an affordability component to limit increases for existing tenants with a demonstrated need (e.g., <130 AMI)



# Ground Rent Revenue Projections, 2011 Buildings

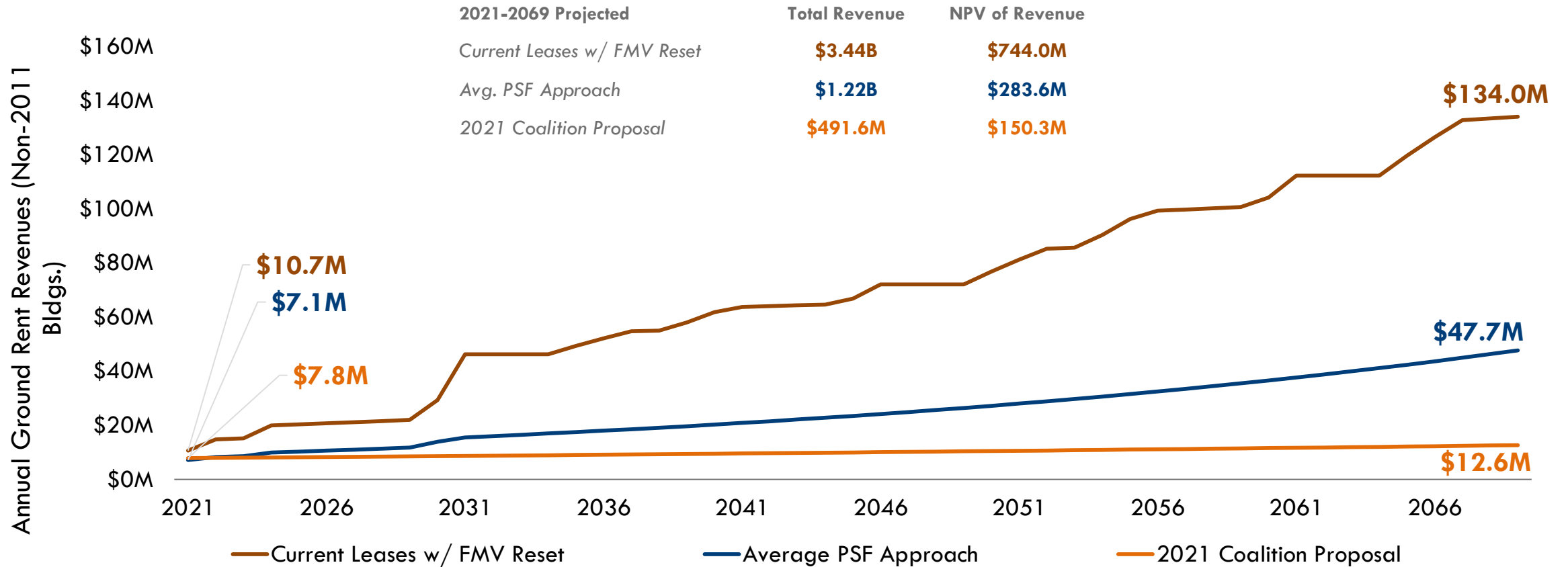
## Coalition's 2021 Proposal Projections Compared to the Other Potential Outcomes



Note: FMV Reset projections assume a land value of \$300/ SF.  
 NPV calculated using 6% discount rate  
 PSF Approach estimate does not show revenue from transaction fees

# Ground Rent Revenue Projections, Non-2011 Buildings

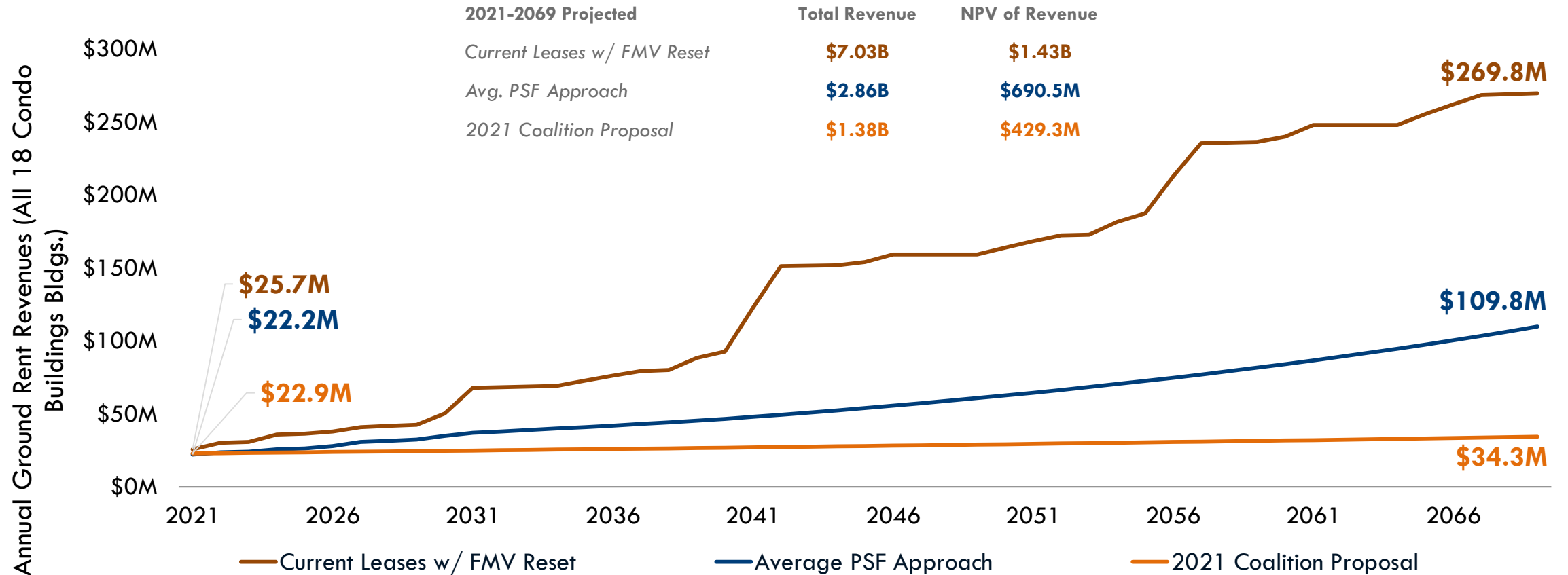
## Coalition's 2021 Proposal Projections Compared to the Other Potential Outcomes



Note: FMV Reset projections assume a land value of \$300/ SF.  
 NPV calculated using 6% discount rate  
 PSF Approach estimate does not show revenue from transaction fees

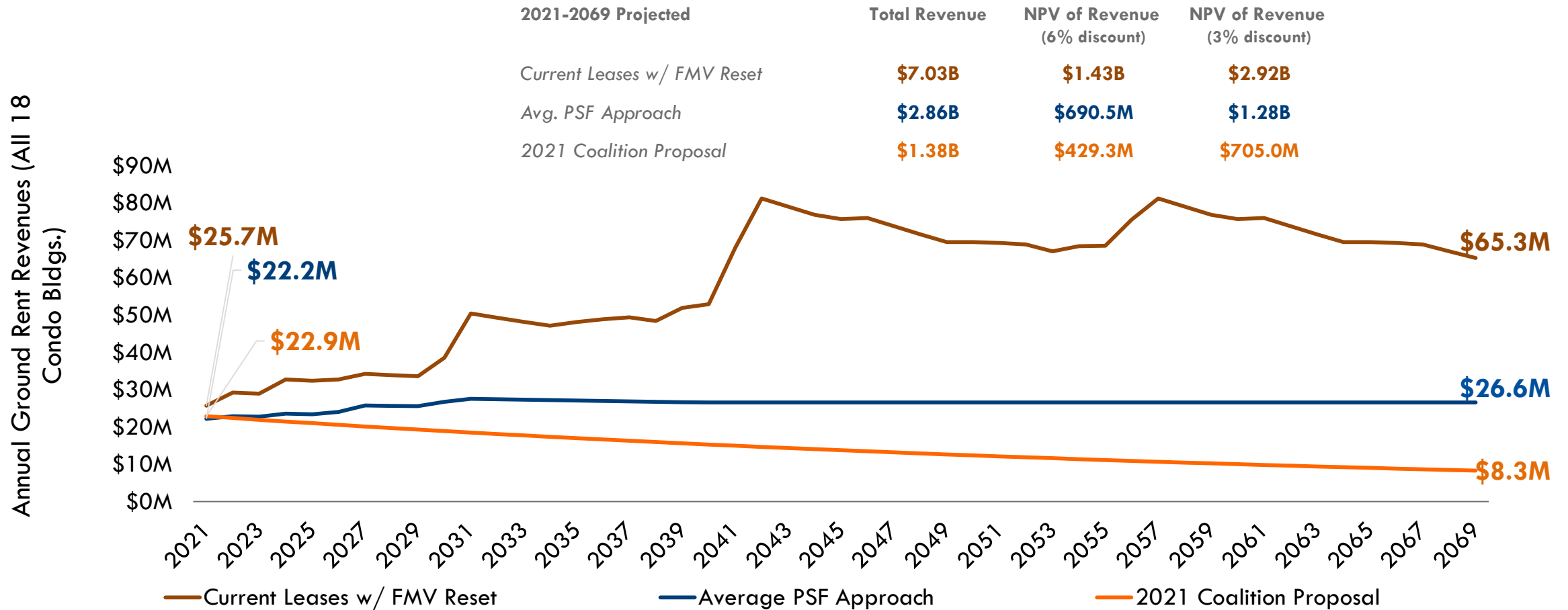
# Ground Rent Revenue Projections, All 18 Condo Buildings

## Coalition's 2021 Proposal Projections Compared to the Other Potential Outcomes



Note: FMV Reset projections assume a land value of \$300/ SF.  
 NPV calculated using 6% discount rate  
 PSF Approach estimate does not show revenue from transaction fees

# Present Value of Future Annual Ground Rent Revenue, All 18 Condo Buildings Assuming Inflation of 3% per Year

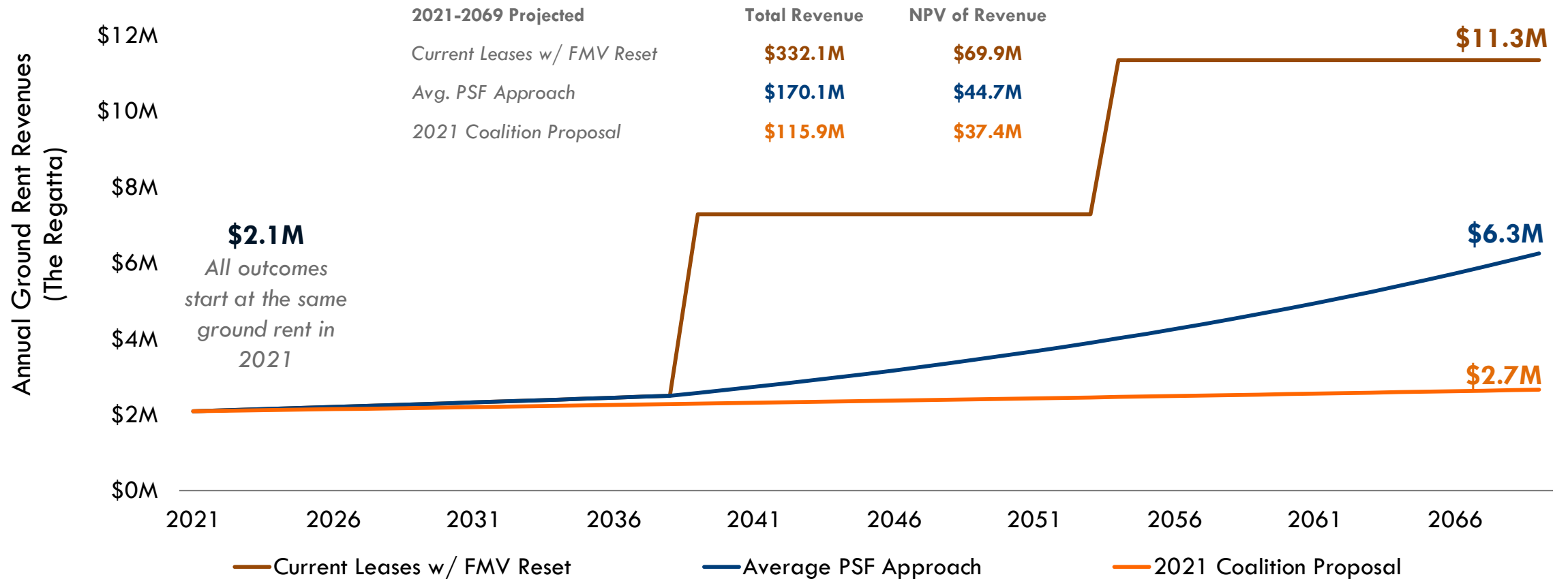


Note: FMV Reset projections assume a land value of \$300/ SF.  
 NPV in chart calculated by discounting annual ground rent revenues by 3%  
 PSF Approach estimate does not show revenue from transaction fees



# Ground Rent Revenue Projections, The Regatta

## Coalition's 2021 Proposal Projections Compared to the Other Potential Outcomes



Note: FMV Reset projections assume a land value of \$300/ SF.  
 NPV calculated using 6% discount rate  
 PSF Approach estimate does not show revenue from transaction fees

## Ground Rent Comparisons

| Scenario  | NPV thru<br>2069 | 2050 Ground Rent/SF |      |      |       |
|---|------------------|---------------------|------|------|-------|
|   |                  | Min                 | Max  | Avg. | Range |
| <b>Current leases w/FMV resets</b><br>(FMV assumed @ \$300/SF)  | \$1.43B          | \$29                | \$43 | \$34 | \$14  |
| <b>Average PSF approach w/steady increases</b><br>(Non-2011 building ground rents are increased to align with the average of all 2011-2012 buildings on a PSF basis at their next rent increase. Then, all buildings are on a schedule of steady, moderate increases through 2069.) | \$691M           | \$12                | \$16 | \$13 | \$4   |
| <b>Coalition Proposal 2021</b><br>(Non-2011 buildings would be increased to align with the low end of 2011-2012 building ground rents on a PSF basis. Going forward, all buildings would be subject to low ground rent increases, between 0.5% and 1% through 2069.)                | \$429M           | \$3                 | \$12 | \$7  | \$9   |

\*All values shown are rounded (million for NPV, dollar for ground rent/SF)  
PSF Approach estimate does not show revenue from transaction fees

## Affordability Framework

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- The Authority is exploring options through which owners would be protected from ground rent increases they can't afford. Examples might include:
  - Discount on ground rent based on verified ability to pay
  - Deferral of a portion of ground rent to be collected at the time of sale
  - Use of transaction fees to enable lower increases on ground rent.

## Next Steps

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- Develop affordability framework
  - Income survey
  - RFP for nonprofit to finalize and implement program
- Negotiate near-term resets (happening within next 5 years) if fiscally responsible alternative can be determined, otherwise proceed with contractual rent reset formula
  - River & Warren
  - Ritz Carlton Condos & Wagner Hotel
  - 225 Rector
- Consider proposals from individual condo buildings that are fiscally responsible
- Lease extension would be contemplated later once it is demonstrated that a fiscally responsible ground rent schedule can be agreed upon for existing term