National Executive Forum on Public Property
Members’ Retreat 2008

Lease vs. Own Considerations

Friday, November 7, 2008

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<th>Strategic Factor</th>
<th>Value</th>
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<td>Strategic Building</td>
<td>Non-Strategic Building</td>
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<td>Special Purpose</td>
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<td>Value-Based</td>
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<td>Architectural Icon</td>
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<td>Value to Owner</td>
<td>Market Value</td>
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<tr>
<td>Own</td>
<td>Lease or Lease-to-Own</td>
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LEASE vs. OWNERSHIP CONSIDERATIONS

Ownership Advantages:
• **Control**: over premises occupancy and management
• **Value appreciation**: subject to the ability / willingness of the City to realize value
• **Permanence**: a demonstrated permanent commitment to the City Centre
• **Lower Cost**: over the long term (for new built-to-suit space)

Ownership Disadvantages:
• **Current Capital Requirements**: are very substantial
• **Future Capital Reserve**: also significant
• **Management Burden/Cost**: City must manage owned assets
• **Less Flexibility**: to expand, contract, relocate
• **Less Liquidity**: capital is committed to a relatively less liquid asset (City Hall Expansion)
• **Ownership Risks**: potential for vacancy, capital repair costs, uncertain value

Excerpt from Cushman & Wakefield Lepage Study, prepared for City of Brampton.
LEASE vs. OWNERSHIP CONSIDERATIONS

Lease Advantages:

- **Flexibility**: to expand, contract, relocate (subject to lease provisions and terms)
- **Limited Immediate Capital Commitment**: Only for leasehold improvements (that are not provided or subsidized by the Landlord)
- **Reduced Management Burden**: No need to hire/retain asset and property managers
- **Reduced Risk**: Limited risk of future capital expenditure (other than for leaseholds and workstations), property devaluation or loss of tenant/sub-tenant income

Lease Disadvantages:

- **Limited Control**: over asset and property management, co-tenants, etc.
- **Escalating Rents**: most lease structures provide for period rent increases
- **No opportunity for capital appreciation**: No rental or value growth

Excerpt from Cushman & Wakefield Lepage Study, prepared for City of Brampton.
LEASE vs. OWN FINDINGS (BRAMPTON STUDY)

• Confirmed many of staff’s assumptions and findings.

• Using a comprehensive “Occupancy Cost Analysis”, it is less expensive to own in the long run.

• The cumulative cost of leasing exceeded the cumulative cost of ownership by an average of 15% over the investment horizon.

• Ownership becomes cost effective starting in Year 10 – based on cumulative NPV.

• The estimated reversionary property value has a significant impact on the Occupancy Cost Analysis.
CRITICAL ASSUMPTIONS/RISK FACTORS

• A Special Purpose building, with many public amenities, will have a lower reversionary value than a Market-Aligned building.

• A Leased-Up building is worth much more than a vacant building.