

## **Woodside Leases: Frequently Asked Questions**

### **September 25, 2017**

**This list will be updated periodically**

#### **Lease Extension Offer**

##### **What decision do I need to make within the 6-month offer period?**

*The only decision that you need to make in the next 6 months is whether you want to accept the Lease Extension Offer and sign the Lease Amendment. Signing the Lease Amendment means (1) you will have the right to extend your lease, or not; and (2) Stanford will have the right of first offer to purchase your home when you are ready to sell, at the price you propose. After the 6 months have lapsed, you will not be able to sign up for the Lease Extension Offer, nor will future purchasers of your leasehold.*

##### **Do I have to decide now to extend my lease?**

*No. The decision to extend your lease does not have to be made at any particular time, and indeed you may elect never to extend the lease if that is your choice. That decision is available to you until the original expiration date of your lease, and can be made as many times as you choose. You have complete control over the timing of whether you extend your lease, if ever.*

##### **Do I have to get my property appraised if I want to accept the Lease Extension Offer?**

*No, you do not need to obtain an appraisal to sign the Lease Amendment.*

##### **If I plan to sell my leasehold will my buyer be able to sign the Lease Amendment if I haven't already done so?**

*Yes, as long as the sale is complete and the buyer elects to participate on or before the expiration of the Lease Extension Offer on November 30, 2017.*

##### **Do I need to get my lender's permission to accept the Lease Extension Offer?**

*It is important to review your loan documents, as requirements vary by lender. Some loans have provisions that require lender approval prior to agreeing to amend an existing lease. We will work with the lenders to address their requirements associated with signing the Lease Amendment.*

##### **Will signing the Lease Amendment trigger a tax reassessment of my property?**

*As noted in the Guide to Stanford's Lease Extension Offer, the University was aware of issues relating to property taxes when formulating the Lease Amendment. The University designed the program so that it should not trigger a re-assessable "change in ownership" determination under existing law, and the University then reviewed the program with counsel for the San Mateo County Assessor to ensure the program remained within the limits of property tax law. As always, leaseholders should consult with their own legal and tax advisors regarding any tax implications that may be involved with respect to participating in the program.*

##### **Has Stanford recorded any Lease Amendment documents with the San Mateo County Recorder's Office yet?**

*Yes, Stanford has submitted Memorandum of Lease Amendments to the San Mateo County Recorder's Office for recording in the public records at the Stanford Creek and Stanford Hills communities. Stanford has confirmed with the Recorder's Office that the Lessees involved in those Lease Amendments were not charged transfer tax, nor did the transaction trigger a property tax reassessment of the subject property.*

*The documents were submitted without modification to title of the property; therefore, no transfer tax was charged, and no reassessment occurred.*

**How will the Lease Amendment affect my heirs?**

*Your descendants will be able to take over the lease as amended by the Lease Amendment without needing to come to Stanford under the Right of First Offer. The Lease Amendment specifically excludes transfers to descendants from Stanford's first right to purchase the leasehold. Therefore, signing the Lease Amendment within the 6-month offer period means you are gaining for your descendants the right to purchase additional lease years in the future. You are not obligating yourself to give Stanford priority over your descendants to purchase your leasehold. Please note that your descendants will not be able to sign the Lease Amendment after the 6-month offer period if you have not already done so.*

**Can I bring a neighbor or a family member to my meeting with Stanford to discuss the offer?**

*Yes. We expect that some leaseholders will want to meet with us individually and others will prefer to meet along with a few of their neighbors. We would like any group meetings to be small so that everyone's questions can be answered effectively. We want to hear from individual leaseholders what works best for their needs. We would appreciate, however, knowing in advance how many people will attend a meeting so that we can make the proper room accommodations.*

**Can I bring financial and real estate advisors to my meeting with Stanford?**

*Yes. Please feel free to invite advisors to join any discussions with Stanford.*

**Could the Lease Amendment impact financing?**

*Having the right to further extend is also a favorable provision compared with a lease that cannot be extended. Furthermore, there is no monetary obligation created by the Lease Amendment, as lease extensions are elective.*

**What is Stanford's goal in making the offer?**

*Offering lease extensions allows existing residents to remain in their homes longer than permitted under the terms of the original lease. At the same time, Stanford's "Right of First Offer" provides Stanford the ability, should a future need arise, to repurchase individual homes over time, when leaseholders are ready to sell.*

**What is the final day I can sign up for the Lease Extension Offer?**

*The last day to sign up for the Lease Extension Offer is November 30, 2017. Ideally, we prefer receipt of the Lease Extension Offer Participation forms by November 15, 2017, to allow for processing time. However, we will accept them until November 30, 2017.*

**What are the documents I will need to sign to accept the Lease Extension Offer?**

*Upon receipt of the Lease Extension Offer Participation Form indicating your offer acceptance, Stanford will proceed with preparing all of the necessary documents for signature, which will include a standard form release, a Memorandum of Lease Amendment, and a Lease Amendment. Sample forms of these documents are available either in the package that was delivered to the leaseholders on May 24, or on the [woodsidelease.stanford.edu](http://woodsidelease.stanford.edu) website.*

**Please explain the reason for asking for a "Release" and what the Release is for.**

*Stanford would not want to extend the benefits of the Lease Extension Offer only to be sued for claims relating to the sufficiency of the Offer or any old claims relating to the lease relationship between the leaseholder and Stanford. That would not be a productive outcome for Stanford. The release covers claims, if any, you might have against Stanford that relate in any way to your lease relationship up until*

*and as of the date of the Lease Amendment, but not after it. The release would not affect any new claim that may arise following the Lease Amendment date.*

**If a new lease option is offered in the future would it be offered to everyone?**

*At this time we do not expect to offer any new lease options in the future, nor will we be making any changes to the Lease Extension Offer. As to the longer term future, it is impossible to predict now whether or not Stanford will offer any new lease options, and to whom any future options would be offered.*

**Why has the incentive of 10 free additional lease years offered to the leaseholders in the Stanford Creek and Stanford Hills neighborhoods not been offered to the leaseholders in Woodside?**

*The 123 leaseholds in Stanford Creek and Stanford Hills are traditional suburban single-family properties (i.e., 6000 to 12,000 square feet parcels) in locations proximate to campus that are well suited for Stanford's faculty housing needs. The goal is to make them available for future faculty ownership as Stanford acquires them. Because of the number of these properties and their desirability as faculty homes, Stanford included this incentive to encourage early and extensive participation by current leaseholders.*

*In contrast, the leaseholds in Woodside are fewer and on much larger properties located in a rural area further from the campus. Stanford does not believe they will be as suitable for the university's future faculty housing needs. Therefore, the balance of needs between the leaseholders and Stanford in this case is quite different. Stanford does, however, recognize the desires of the current leaseholders to have the opportunity to remain in their properties and has made the decision to offer the same lease extension program. The program is active and successful and has been well received by the residents of Stanford Creek and Stanford Hills. We feel with the proven success of the program, the residents of Woodside will find the lease extension program beneficial as well.*

**What is the reason for the 6-month offer period?**

*Stanford considered both shorter and longer offer periods, but felt six months is an appropriate period to review and consider details relating to the lease extension offer and also to consult with trusted advisors and family as desired. Stanford wants certainty just as the leaseholders want certainty with respect to the future of the leases. While signing the Lease Amendment commits a leaseholder to the ROFO process, no extension decision or payment to Stanford is required to sign up. Therefore, we felt that it was an ample period of time.*

**When can I meet with Stanford?**

*You can meet with Stanford at your convenience. To make an appointment, please contact Yvonne Trevelyan at (650)736-9354, or email her at [woodsidelease@stanford.edu](mailto:woodsidelease@stanford.edu).*

**Extending the Lease under the Lease Amendment**

**Under the Lease Amendment, 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 the expiration date of the original lease. However, before the expiration date of the original lease, the extension right in the Lease Amendment 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 on a yearly basis beginning when you have 50 years remaining. These yearly extensions essentially maintain the lease term near the maximum limit.*

**Can you 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 the Woodside 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 outside date for lease extensions with a need to purchase a substantial additional lease term?**

*Under the Lease Amendment, you will have until your original lease expiration date to plan for how best to take full advantage of the lease extension right. 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 at the original lease expiration date.*

**Why are you using fee simple land value vs. leasehold land value 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.*

**In the future, will Woodside leasehold properties be the primary properties used in an appraisal?**

*No, the Appraisal Guidelines in the Lease Amendment specifically exclude using the Woodside leasehold 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 original lease and Lease Amendment.*

**What are the growth rate and discount rate assumptions behind the Extension Factors?**

*As noted in Appendix B, 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**

**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 Right of First Offer (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 Amendment.*

**Under the Right of First Offer (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 any 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 not have the right to match the third-party offer.*

**What happens if you sell your home without telling Stanford about it?**

*If you have not accepted the Lease Extension Offer, you can sell your leasehold pursuant to the terms of your existing lease. If you accept the Lease Extension Offer and sign the Lease Amendment, and then fail to comply with the ROFO provisions of the Lease Amendment, 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. The ROFO is an important requirement to Stanford in exchange for Stanford offering the right to extend the lease.*

**If Stanford declines the initial offer from the leaseholder under the ROFO, are the terms of the initial offer confidential?**

*Lessees may ask if they are 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.*

**Will Stanford make available the price it paid for leaseholds under its Right of First Offer?**

*In the instances where the closing price is not automatically made public, Stanford will disclose the price upon 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, if you have signed the lease amendment during the offer period, you may choose to extend the lease 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 Lease 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.*