Valuation of Real Estate that is Bound by Site Leasehold and Subject to Regulation by the Ground Lease Act

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Statskog SF

- Public enterprise
- Ownership of 65,000 km², more than 20% of the mainland of Norway
- Real estate administration and development
Statskog SF - organization

Managing Director

Staff

Real estate  Energy  Forestry  Outdoor life

Statskog SF – leasehold administration

• Administration of 11,000 own leasehold sites,
  – 95% cabins
  – 5% housing purposes
• Administration of 11,000 leasehold sites for external employers
  – mainly housing purposes
Site leasehold

- Lease of land for housing purposes, in opposite to lease of a building
- Long-term use
  - normally for 80 - 100 years
  - may also be unlimited

The Ground Lease Act of December 20th 1996 nr. 106

- Comes to application for lease of real estate for buildings that leaseholder has, or will get on the site, § 1
- Stronger rights for leaseholders of sites for private housing and cabins than for other purposes
Leaseholders disposal

• Judicial disposal
  – Leaseholder has no access to undertake a judicial act connected directly with the property

• Actual disposal
  – build up the site
  – raise a building
  – the right to lease may be subject to mortgaging

The Ground Lease Act in relation to market price

• Rental adjustment, § 15
  – main rule according to national price index
  – exception can only be carried out once

• Equity of redemption, §§ 32, 36, 37
  – only housing and cabin purposes
  – housing; 30 years after the time of agreement, and then every second year
  – cabin; 30 years after the time of agreement, and then every 10th year
Rental adjustment - example

- Estimated market price 150,- NOK/ square meter
- Wanted return 6 pst
  - Gives an annual fee on 9 000,- NOK/ decare (appr 1 130 €/ 1 770 $)

Equity of redemption - example

- Estimated market price 150,- NOK/ square meter
- Wanted return 6 pst
  - Gives an annual fee on 9 000,- NOK/ decare (appr 1 130 €/ 1 770 $)
  - The main rule in GLA gives a redemption price on 30 x 9 000,- NOK = 270 000 NOK/ decare
  - Exception 40 % gives 60 000,- NOK/ decare
  - The Supreme Court of Norway has set the minimum redemption amount to an annual fee divided on 5,0 pst, which in this case gives a price at 180 000,- NOK/ decare
Valuation – general reflections

- Leasehold sites are not subjects for trading in an open market
- Only one purchaser
- Lack of available market prices

Different kinds of valuation objects

- Single sites
  - area based leasehold
  - point based leasehold
- Site areas
  - differentiated prices
  - for further leasehold
- Valuation in special cases
Single sites - area based leasehold

- Normal situation
- Defined area and property borders
- Demand on surveying for sites leased for longer than 10 years

Single sites - point based leasehold

- Area not defined in the contract
- Mostly sites for cabins
- Approximately 1 daa, according to GLA § 16
- High prices achieved by trade of mountain cabins
Differentiated prices within site areas

- Site areas
  - resource-demanding to estimate the value of each site
  - different price zones
  - specific valuation as required

- Single sites
  - the possibility to raise a building makes up the main value of the site
  - valuation often has basis in normal site of 1 000 square meter
  - large sites – lower price per square meter that exceed 1 decare

Site areas for subletting

- An actor B leases a large area from property holder A
- B sublets sites for housing to C, D, ...
- C, D,...are raising houses on their sites
- The ground lease act comes to application only for agreements between B and C, D,..., not for the agreement between A and B
Valuation in special cases

• Sites with a high level of utilization
• Sites with special regulations
• Sites for public or common use purposes
  – site value follows of an alternating usage

Final reflections

• Complex legal situation
• Considerable political awareness
  – several changes in the Ground Lease act since 2002
  – new changes 2008 for government property
• A tendency towards stronger rights for leaseholders
Thank you!
Questions?