

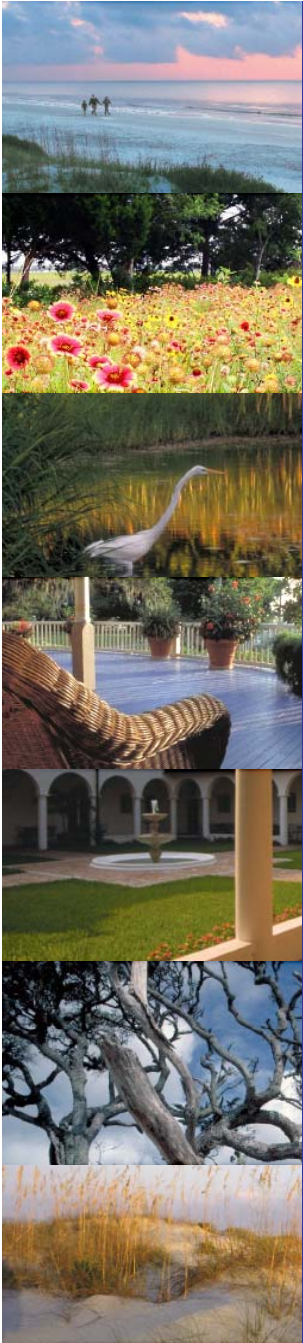


JEKYLL ISLAND STATE PARK AUTHORITY ANALYSIS OF RESIDENTIAL LEASING POLICIES

Presentation to the Finance Committee
of the Jekyll Island Authority Board
August 10, 2009

NOTE

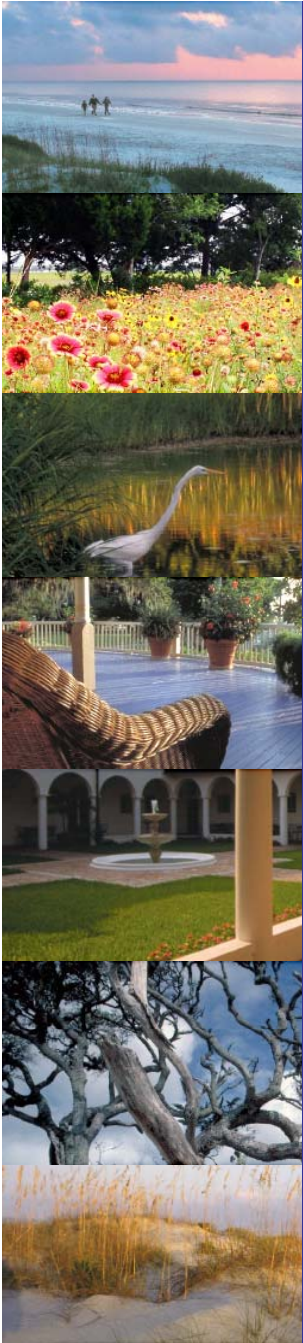
- The following slides have been specifically prepared to accompany an oral presentation by Bleakly Advisory Group, Inc. The oral presentation provides a more detailed explanation of the methodology, data sources, findings and conclusions. The oral presentation is integral to understanding the following information and the basis for the findings.





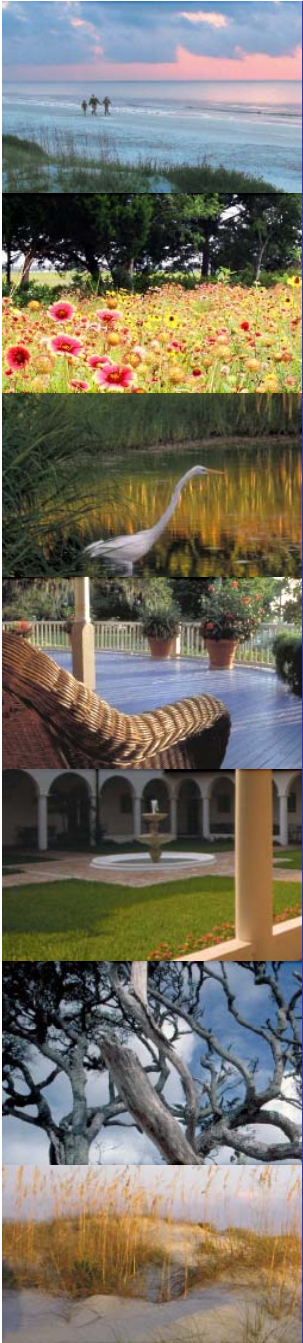
Presentation Outline

- The Purpose of the Lease Analysis
- Objectives of the Leasing Policy
- The Research Approach
- A Snapshot of Residential Properties on Jekyll
- The Challenge with Jekyll's Current Lease Policy
- Best Practices in Residential Land Leases
- A Summary of the Proposed Jekyll Island Lease Policy
- Proposed Jekyll Island Lease Policy
- Potential Benefits to JIA from the Proposed Lease Policy
- Benefits to Participants from the Lease Structure
- Implications of Lease Policy on Affordability to Georgians
- Impact of Lease on Costs-- Jekyll vs. Coastal Glynn
- Recommendations
- The detailed results of the analysis are presented in the full draft report: **"An Analysis of the Residential Land Lease Policy on Jekyll Island, Georgia"** by Bleakly Advisory Group.



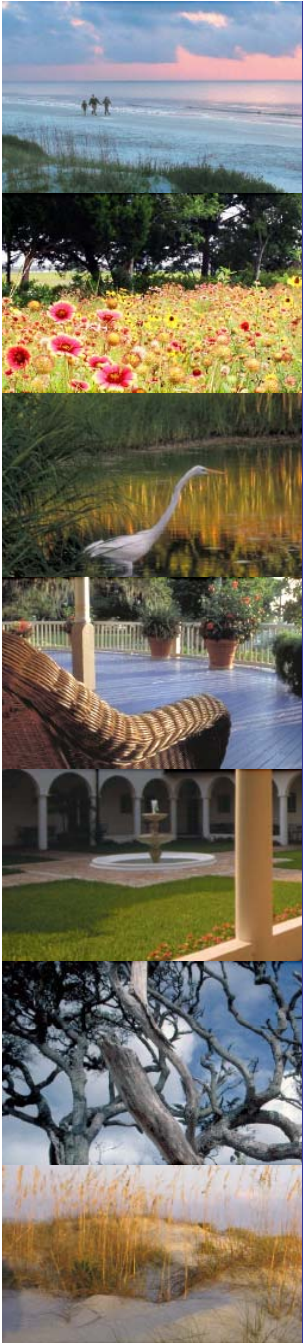
Purpose of the Lease Analysis

- As part of its on-going fiduciary responsibilities in its stewardship of the Island, the Jekyll Island Authority commissioned a review of current residential lease policies.
- The study's goal is to present for the Board's review and consideration an equitable policy for addressing future lease renewals on the island through 2089.



Objectives of the Residential Leasing Policy

1. To encourage improvements to the island's existing residential structures.
2. To make certain current leasing policies are consistent with industry practices.
3. To provide a means to adjust lease fees closer to market values both currently and over time.
4. To provide a means for transitioning current leases to any new lease structure.
5. To address the Authority's long-term revenue needs in order to assure its on-going financial viability.



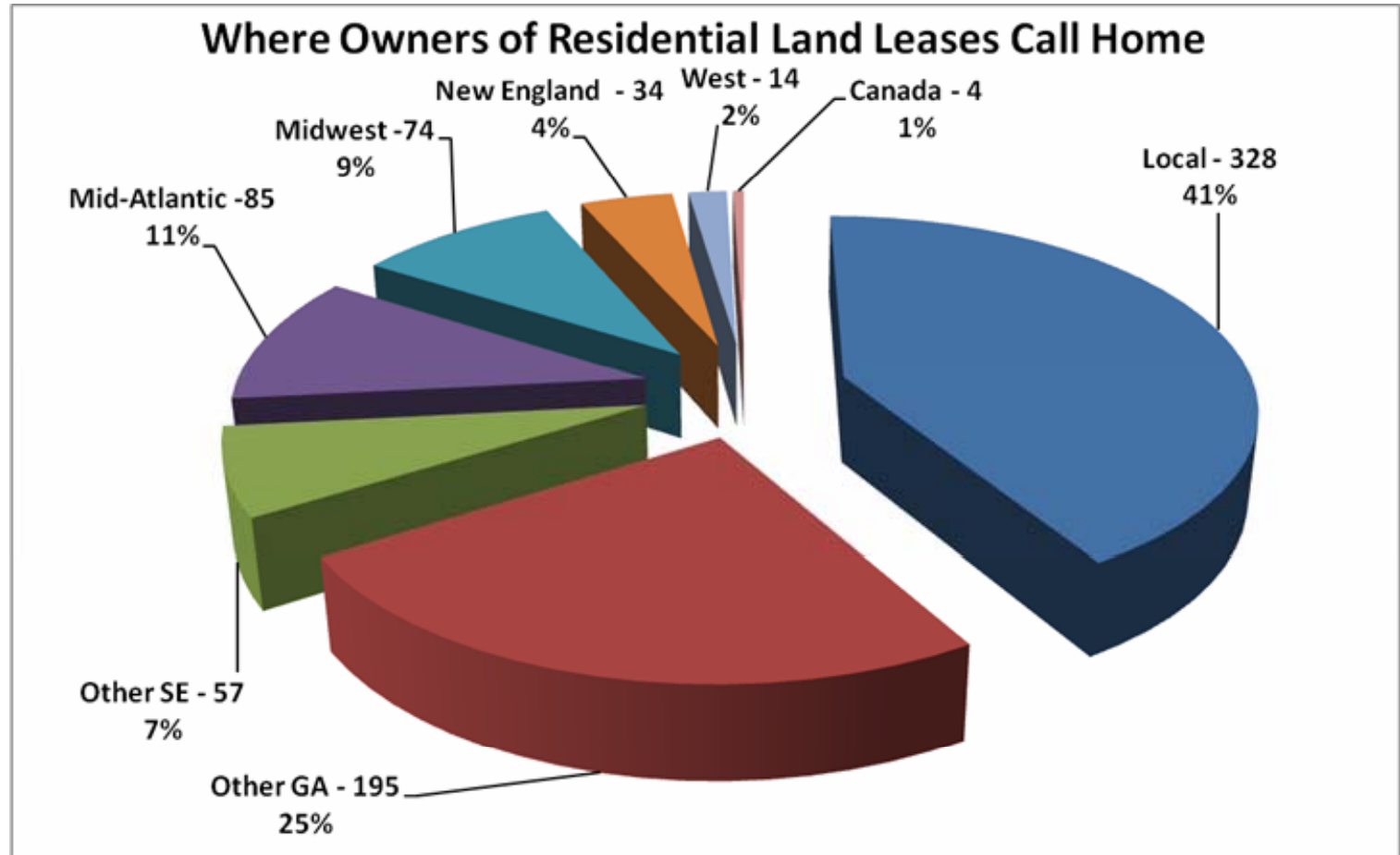
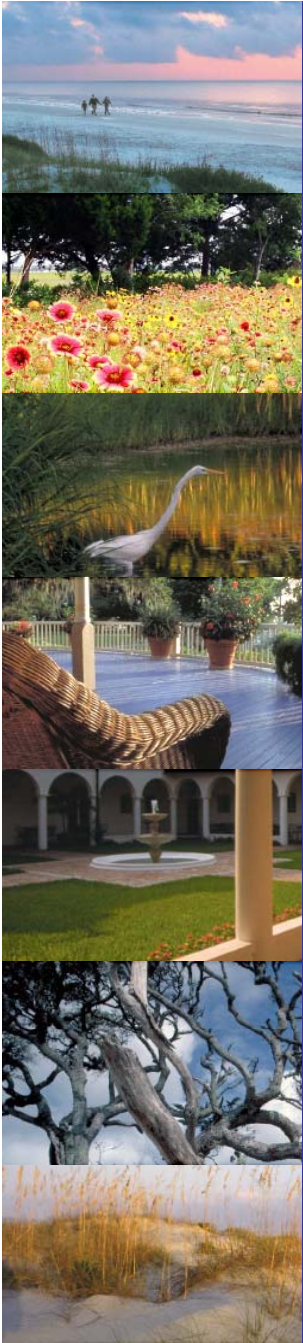
The Research Approach

- Created a data base covering existing residential leases on Jekyll Island:
 - Ownership, occupancy, terms, turnover/sales, assessed values
- Commissioned Richard C. Freidman SRA to prepare an appraisal of residential land values on Jekyll Island
- Compared the annual “public” cost of residential leaseholds on Jekyll Island to home ownership costs at other Coastal Glynn County locations
 - Public costs included residential property taxes (on land), water/sewer rates and fire fees
- Created a comparative framework of 9 other resort/water oriented locations with residential land leases
- Analyzed the financial implications of alternative lease structures on Jekyll Island over time.



A Snapshot of Residential Properties on Jekyll Island

- **Number of Units:** 801 residential units on land lease (including Villas by the Sea condos), covering 204 acres and 84% of the island's taxable value.
- **Taxable Unit Value:** Average single family cottage is valued at \$471,200 for tax purposes, all units (including duplexes) average more than \$401,000.
- **Jekyll residential owners not all Georgians:** 41% are primary residents, 25% live elsewhere in Georgia and 34% live in other states or Canada.
- **Turnover of units:** On average 36 units turnover per year. Since 1980, 88% of the units had a change of ownership.
- **Appreciation is strong:** from 1979 to 2008 property values have appreciated at a rate of 6.2% per year.
- **Many units are in rental pool:** 48% of all units are available for short term rental.
- **Residential land values are substantial:** "fee simple" values ranged between \$325,000 and \$875,000 per lot in 2008.





The Challenge with Jekyll's Current Lease Policy

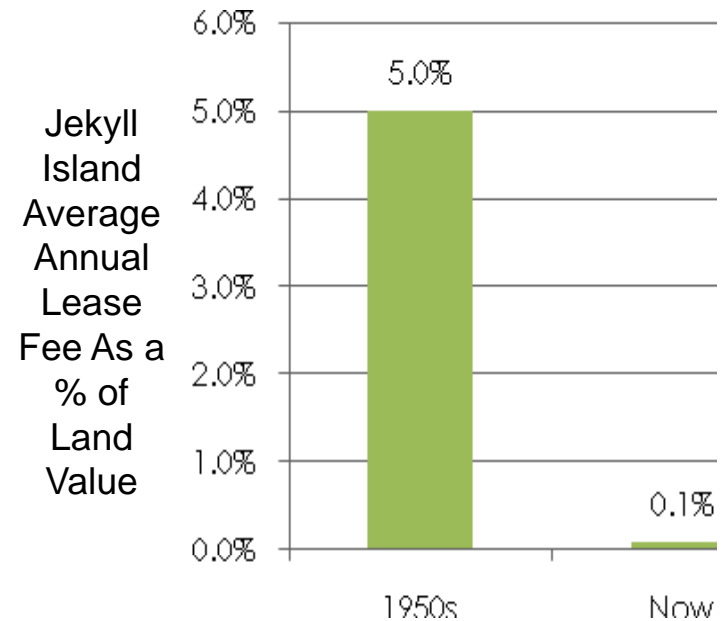
- Jekyll Island leases have not kept up with market trends
 - Of the 627 leases studied, the average lease rate is \$334
 - 96% of leaseholders pay between \$100 and \$400 per year
 - When initial leases were written in mid 1950s they were set at roughly 5% of land market value
 - Currently, the average Single Family cottage on Jekyll is assessed at a FMV of \$471,200, The average lot value is \$262,663.
 - Based on current land values, leases are at historic lows--
Today, leases represent less 0.1% of the land's market value

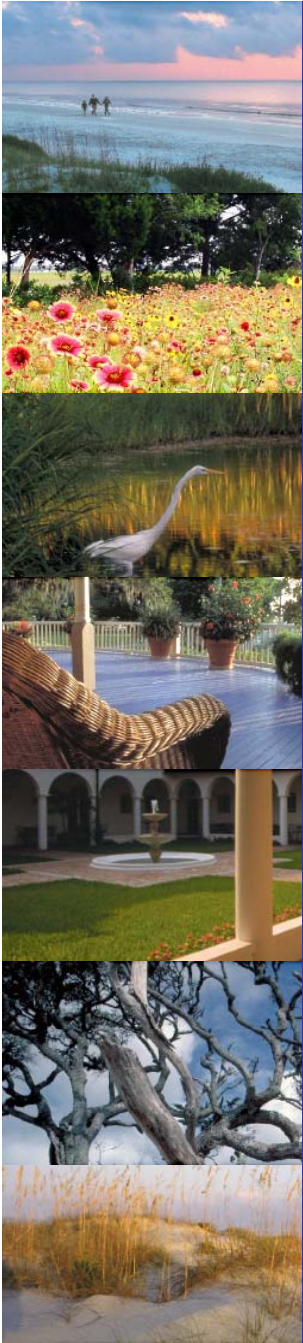


Table 8: Consumer Price Index 1950-2008					
Year	CPI	% Change	Year	CPI	% Change
1950	24.1	0	1980	82.4	13.5%
1951	26	7.9%	1981	90	9.2%
1952	26.5	1.9%	1982	96.5	7.2%
1953	26.7	0.8%	1983	99.6	3.2%
1954	26.9	0.7%	1984	103.9	4.3%
1955	26.8	-0.4%	1985	107.6	3.6%
1956	27.2	1.5%	1986	109.6	1.9%
1957	28.1	3.3%	1987	113.6	3.6%
1958	28.9	2.8%	1988	118.3	4.1%
1959	29.1	0.7%	1989	124	4.8%
1960	29.6	1.7%	1990	130.7	5.4%
1961	29.9	1.0%	1991	136.2	4.2%
1962	30.2	1.0%	1992	140.3	3.0%
1963	30.6	1.3%	1993	144.5	3.0%
1964	31	1.3%	1994	148.2	2.6%
1965	31.5	1.6%	1995	152.4	2.8%
1966	32.4	2.9%	1996	156.9	3.0%
1967	33.4	3.1%	1997	160.5	2.3%
1968	34.8	4.2%	1998	163	1.6%
1969	36.7	5.5%	1999	166.6	2.2%
1970	38.8	5.7%	2000	172.2	3.4%
1971	40.5	4.4%	2001	177.1	2.8%
1972	41.8	3.2%	2002	179.9	1.6%
1973	44.4	6.2%	2003	184	2.3%
1974	49.3	11.0%	2004	188.9	2.7%
1975	53.8	9.1%	2005	195.3	3.4%
1976	56.9	5.8%	2006	201.6	3.2%
1977	60.6	6.5%	2007	207.3	2.8%
1978	65.2	7.6%	2008	215.3	3.9%
1979	72.6	11.3%			

Source: U.S. Bureau of Labor Statistics, Annual Consumer Price Index, Urban Households/BAG

Over the period from 1950 to 2008, the Consumer Price Index has increased at a compound average rate of 3.85%. This period included several major recessions, wars and the high inflation of the 1970s.



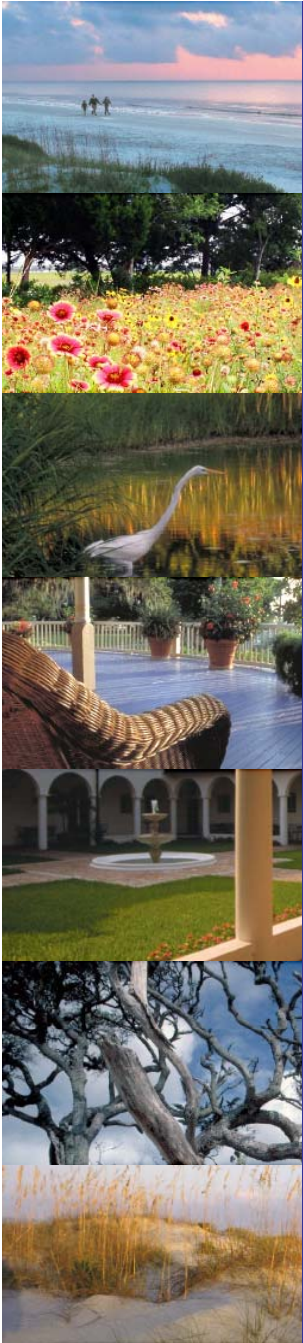


Inflation Adjusted Current Leases

Table 4: 2008 Value of Jekyll Island Leases Adjusted for Inflation				
Initial Residential Lease Amount	\$100	\$200	\$300	\$400
2008 Value of Lease Adjusted for Inflation*	\$800	\$1,601	\$2,401	\$3,201

* Based on National Consumer Price Index, U.S. Bureau of Labor Statistics/BAG

- If the current leases are adjusted for the impact of inflation, their current (market) rates would be roughly eight times higher than they are today.
- For an average current lease of \$334 that would be an inflation adjusted lease rate of \$2,672.
- Based on the average unit value of \$471,200, the inflation adjusted lease would represent 0.6% of the total unit value.



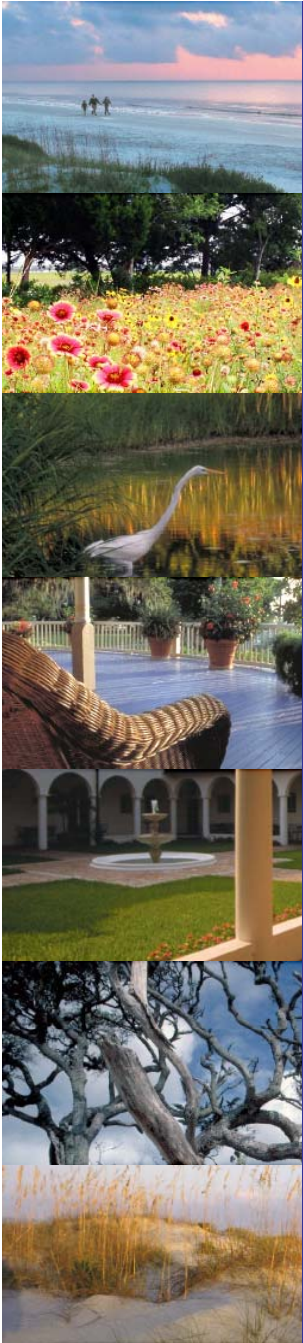
Best Practices in Residential Land Leases

- Best Practices for residential land leases from a sample of 9 coastal, resort and/or water-oriented locations:
 - The base rent should be between 0.4% and 6.0% of land market value
 - The lease should adjust periodically to reflect changed market conditions—either value or CPI based
 - Lease terms should be 50 to 60 years in length
 - Transfer fees are common
 - Having a clear policy in place is key to efficient operation of residential market — predictability of future lease costs
- **Santa Rosa Island Authority, Fl; Navarre Beach, Fl; Georgia Power Lakes , GA; State of Idaho; State of Montana; Palm Springs, CA; State of Hawaii; Vancouver, B.C. ; Brazos River Basin, TX**



The Challenge with Jekyll's Current Lease Policy

- The lack of any periodic adjustment of leases to market has been costly to the Authority:
 - If a CPI or other inflation index been part of the original leases, the Authority would have received over \$11.4 million in additional revenue over the past 40 years.
 - Each leaseholder has saved an average of more than \$18,072 over the last 40 years, due to the lack of a CPI adjustment factor.
 - Residential land values have been rising substantially but the Authority doesn't participate in the growth—values have increased at 6.2% annually over past 29 years, yet ground lease rates are unchanged.



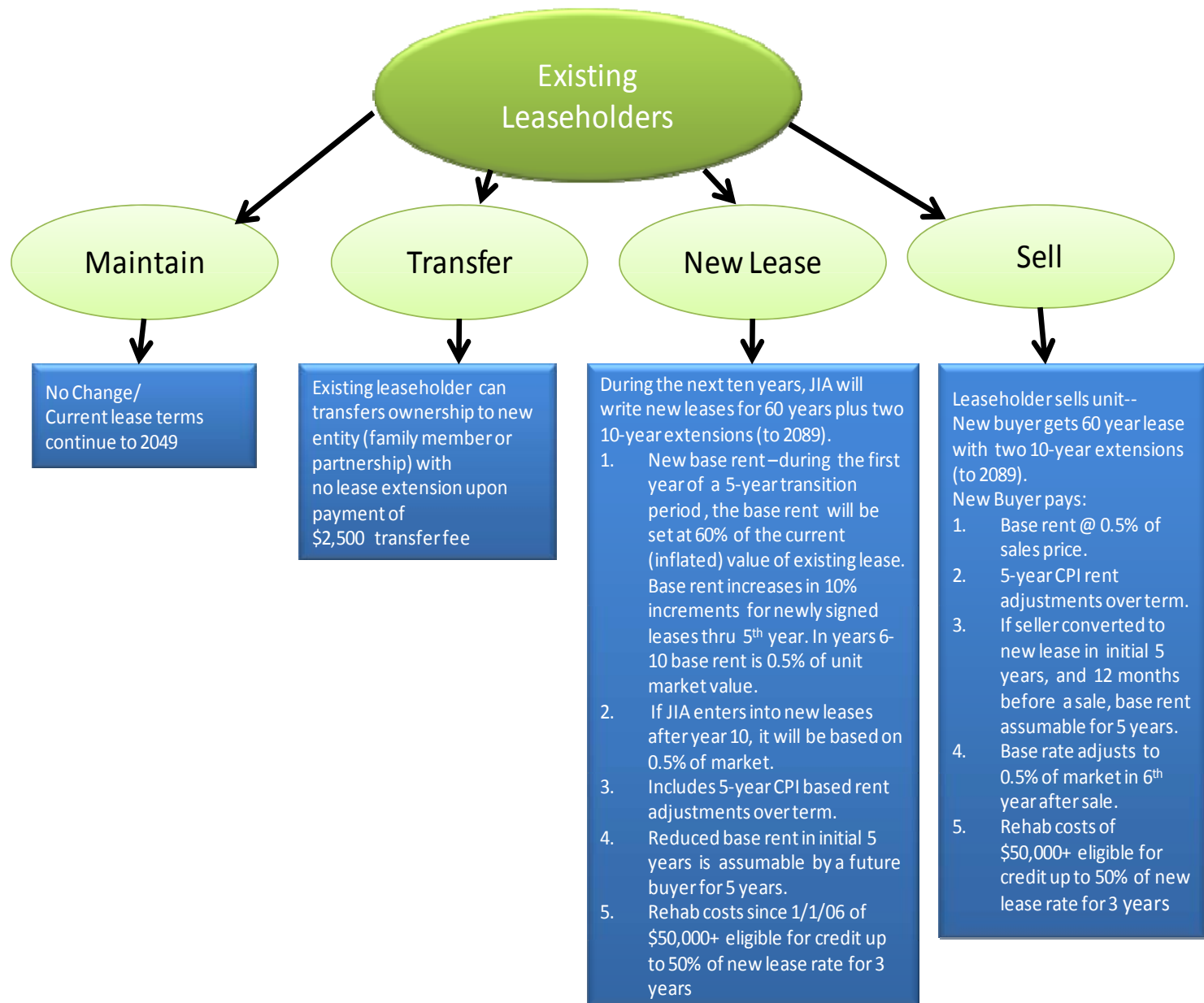
Summary Objectives: Proposed Jekyll Island Lease Policy

1. To encourage improvements to the island's existing residential structures.
2. To make certain current leasing policies are consistent with industry practices.
3. To provide a means to adjust lease fees closer to market values both currently and over time.
4. To provide a means for transitioning current leases to any new lease structure.
5. To address the Authority's long-term revenue needs in order to assure its on-going financial viability.



Summary Objectives: Proposed Jekyll Island Lease Policy (cntd.)

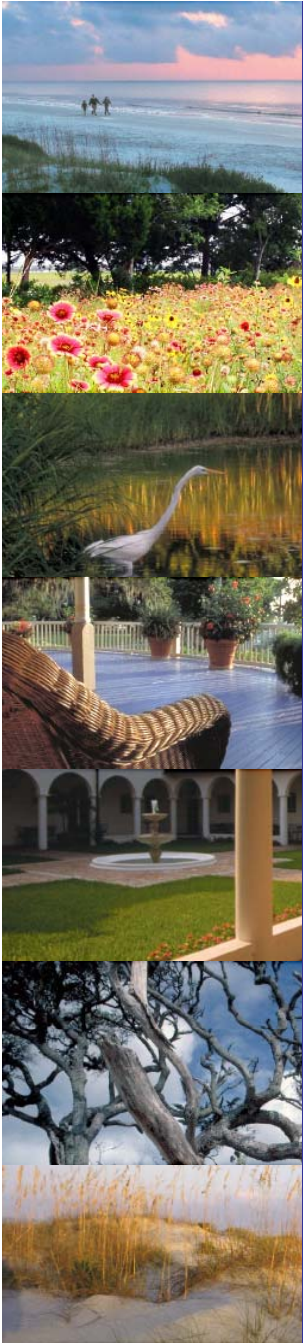
6. Establish a lease transfer fee for non-arms length sales or transactions which do not result in a new lease being written.
7. Encourage private investment in residential properties by offering a lease “credit” to current leaseholders and future buyers who invest in major renovations to their properties
8. Establish clear lease policies in the marketplace for the next ten years in order to (a) provide predictability of future holding costs and (b) enhance property values.





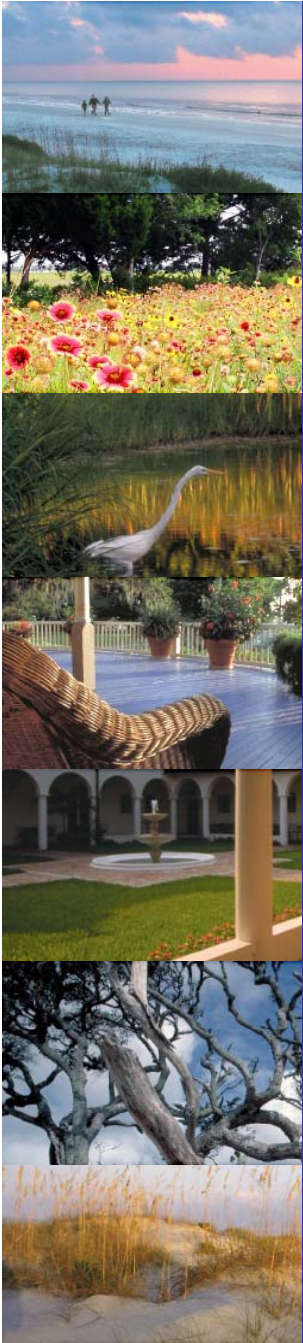
Proposed Jekyll Lease Policy

- **Option # 1: Maintain Existing Lease** —Existing leaseholders can keep their current lease with no change in terms through 2049.
- **Option #2: Transfer Existing Lease** —Existing leaseholders can transfer their lease to a family member, partnership, corporation or trust for a \$2,500 transfer fee. Arms length sales involving buyers who elect to retain the original lease would also be subject to the one-time transfer fee.



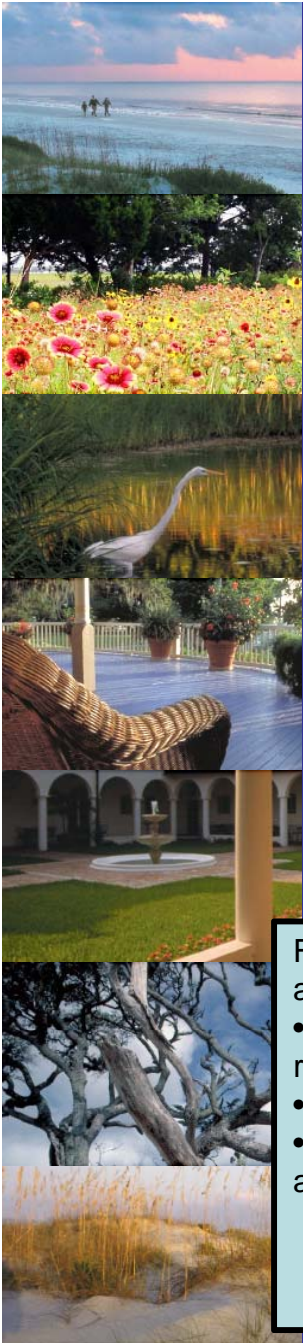
Proposed Jekyll Lease Policy

- **Option # 3: New Lease**—Existing leaseholders can obtain an extended lease term by signing a new lease with the following provisions:
 - **Term**—for 60 years plus two 10 year extensions up to 2089
 - **Base rate**—existing leaseholders who sign a new lease within the next five years will pay the inflation adjusted present value of their current lease (\$100 lease is \$800 inflation adjusted). New leases written between years 6 and 10 will pay a higher base rate of 0.5% of the market value of their home (land and improvements)



Proposed Jekyll Lease Policy

- Option # 3: New Lease— (continued):
 - Incentives for early conversion - Inflation adjusted base rate is discounted to 60% for those who convert in the first year, Discounts are reduced by 10% per year thereafter, with no discount in offered by the fifth year. Existing leaseholders who convert during years 6 thru 10 instead pay a base rate of 0.5% of the market value of the home (land and improvements)
 - Escalators —base rate is adjusted every five years based on annual historic CPI rate of 3.85%. Leaseholder has the option (at signing) to base escalator on either historic or future CPI
 - Assumable Rate — Discounted lease terms are assumable by a buyer if the seller had signed a new lease at least one year prior to the sale
 - Rehab Credit — An existing leaseholder who incurs rehab costs of \$50,000+ (including costs retroactive to 1/1/06) are eligible for up to 50% credit on the new lease term for 3 years



How the Lease Conversion Incentive Works

Proposed Jekyll Island New Lease Rates for Conversion of Existing Leases						
	Year 1	Year 2	Year 3	Year 4	Year 5	Years 6-10
	60%	70%	80%	90%	100%	0.5% of market
Current Lease Rate						
\$100-\$199	\$ 480	\$ 560	\$ 640	\$ 720	\$ 800	\$1,250 @ \$250,000
\$200-\$299	\$ 960	\$ 1,120	\$ 1,280	\$ 1,440	\$ 1,600	\$2,000 @ \$400,000
\$300-\$399	\$ 1,440	\$ 1,680	\$ 1,920	\$ 2,160	\$ 2,400	\$3,000 @ \$600,000
\$400+	\$ 1,920	\$ 2,240	\$ 2,560	\$ 2,880	\$ 3,200	\$3,750 @ \$750,000
Assuming 50% Rehab Credit *						
\$100-\$199	\$ 240	\$ 280	\$ 320	\$ 360	\$ 400	\$625
\$200-\$299	\$ 480	\$ 560	\$ 640	\$ 720	\$ 800	\$1,000
\$300-\$399	\$ 720	\$ 840	\$ 960	\$1,080	\$ 1,200	\$1,500
\$400+	\$ 960	\$ 1,120	\$ 1,280	\$ 1,440	\$ 1,600	\$1,725

* The rehab credit is for up to 50% of the new lease amount, up to a minimum payment equivalent to the original lease amount, for example, the rebate cannot reduce the rent during the three year period below the original \$100.

Source: BAG

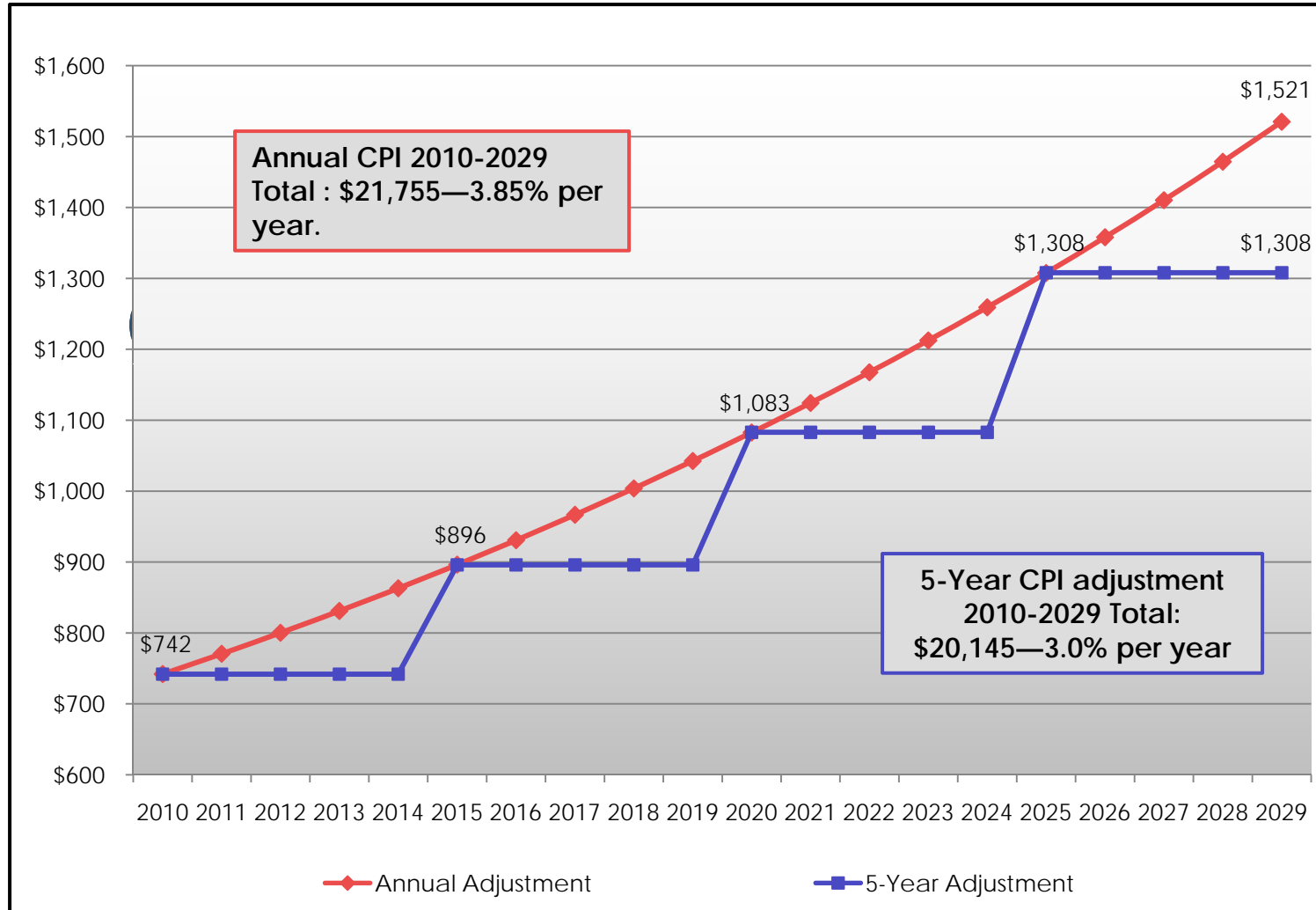
For example, consider **three leaseholders** who have properties valued at \$500,000. Each pays a current annual lease of \$200 and they decide to convert to a new/extended lease in different years:

- **The first leaseholder** converts in Year 1 and pays \$960 in base rent for the next 5 years. In Year 6 the rent payment would adjust based on a 3.85% annual CPI factor to \$1,160 for the following five years.
- **The second** converts in Year 3. The base rent is \$1,280 for 5 years and adjusts in the 6th year to \$1,546.
- **The third** converts in Year 6. The base rent is set \$2,500 (0.5% assuming a \$500,000 value) for 5 years and adjusts in the 6th year based on CPI to \$3,020.

As shown, current leaseholders who request a new/extended lease can receive a significant savings by converting early.



Comparison of Annual and 5-Year CPI Adjustment





Distribution of Land Values by Current Lease Rate

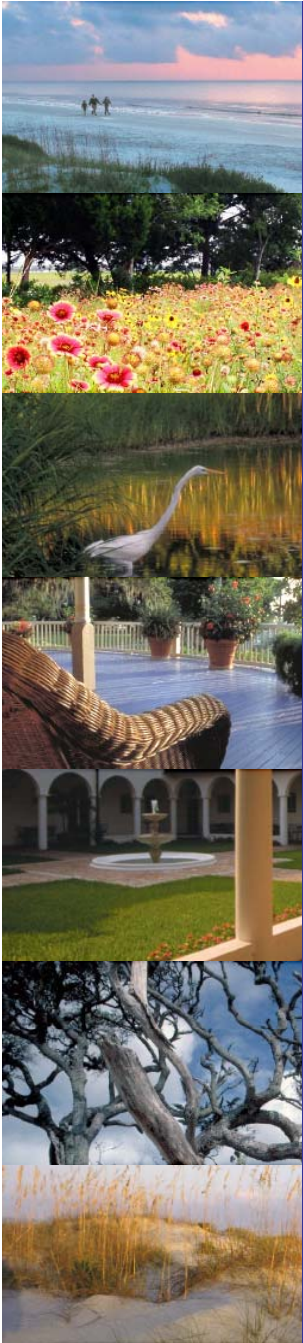
Land Valued up to	Lease Rate					
	< \$200	\$200 - \$299	\$300- \$399	\$400- \$499	> \$500	
> \$100K	0	0	0	0	0	0%
\$100K - \$200K	0	33	6	9	8	10%
\$200K - \$300K	23	114	162	160	7	80%
\$200K - \$225K	23	109	111	156	7	
\$225K - \$250K	0	0	0	0	0	
\$250K - \$275K	0	5	51	3	0	
\$275K - \$300K	0	0	0	1	0	
\$300K - \$400K	0	0	0	1	0	0%
\$400K - \$500K	0	0	0	0	6	1%
\$500K - \$600K	0	0	1	0	0	0%
\$600K - \$700K	0	2	5	20	1	5%
\$700K - \$800K	0	1	10	11	1	4%
\$800K - \$900K	0	0	0	0	0	0%
\$900K - \$ 1Mil.	0	1	1	0	0	0%
\$1 Mil. and up	0	0	0	0	0	0%
	8%	45%	60%	62%	5%	100%
Avg Lease/Land Ratio	0.08%	0.12%	0.13%	0.17%	0.28%	

- 80% of leaseholder's land is worth between \$200,000 and \$300,000.
- 87% of those are between \$200,000 and \$225,000.
- Current lease rates do not correlate well with current land values



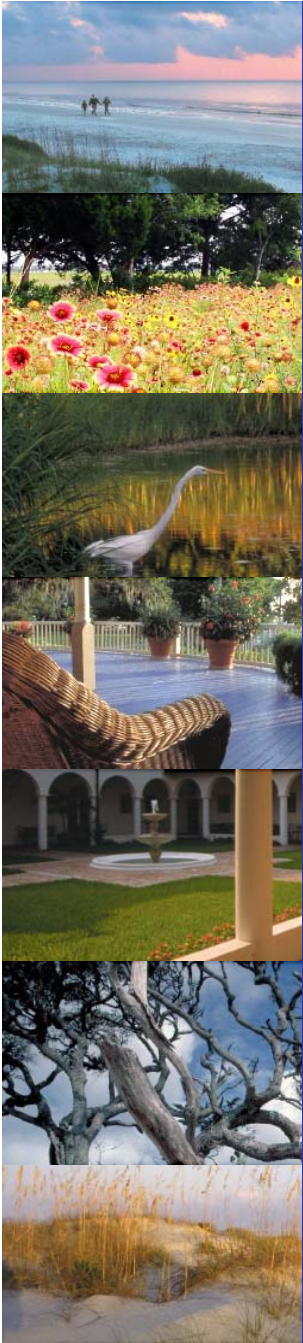
Proposed Jekyll Lease Policy

- **Option #3 New Lease**--An alternative structure to consider for existing leaseholders who want to extend their lease to 2089 would be the following:
 - Term—same 60 years plus two 10 year extensions up to 2089
 - Base rate— existing leaseholders who sign a new lease within three years will pay a new base lease rate of 0.35% of the 2008 market value of their land. New leases written between years 4 to 10 will pay a base rate of 0.5% of the market value of their home, (land and improvements). If the current lease rate exceeds 0.35% of lot value, then it becomes the base rate for the extension.



Proposed Jekyll Lease Policy

- Incentives for early conversion— ability to convert at 0.35% of market value of land— substantially below the current inflation adjusted value of the current lease and the 0.5% paid by new buyers.
 - Median lease today: \$324; new base \$735--increase of \$411.
 - At \$200,000 base lease rate: \$700
 - At \$225,000 base lease rate: \$788
 - At \$275,000 base lease rate: \$963
 - At \$400,000 base lease rate: \$1,400
 - At \$900,000 base lease rate: \$3,150
- Escalators— same, base rate is adjusted every five years based on 3.85% historic CPI rate (effectively 3.0% due to 5 year steps). Authority will do 10 year review of actual CPI and if lower, will adjust for future periods.



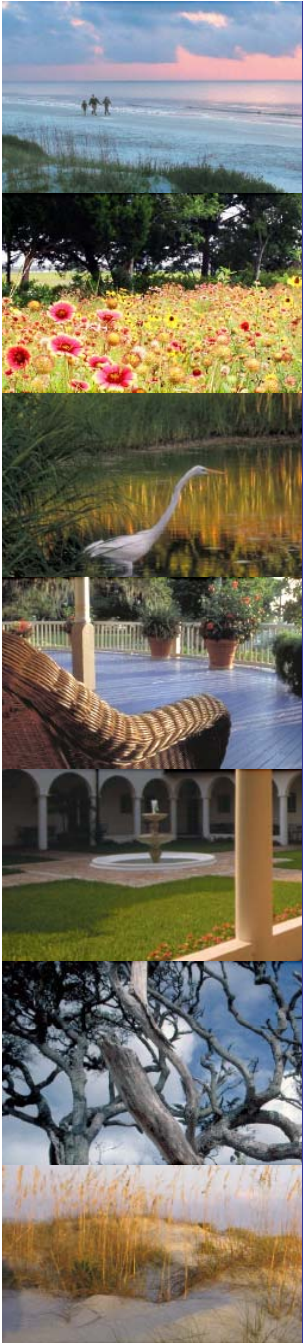
Proposed Jekyll Lease Policy

- Assumable Rate— buyer's lease rate for first five years set at 150% of seller's extended lease rate, year 6 it goes to 0.5% of sales price.
- Rehab Credit— An existing leaseholder who incurs rehab costs of \$50,000+ (including costs retroactive to 1/1/06) are eligible for a credit up to the lesser of a 50% of their new lease rate or, the difference between old and new lease rate.

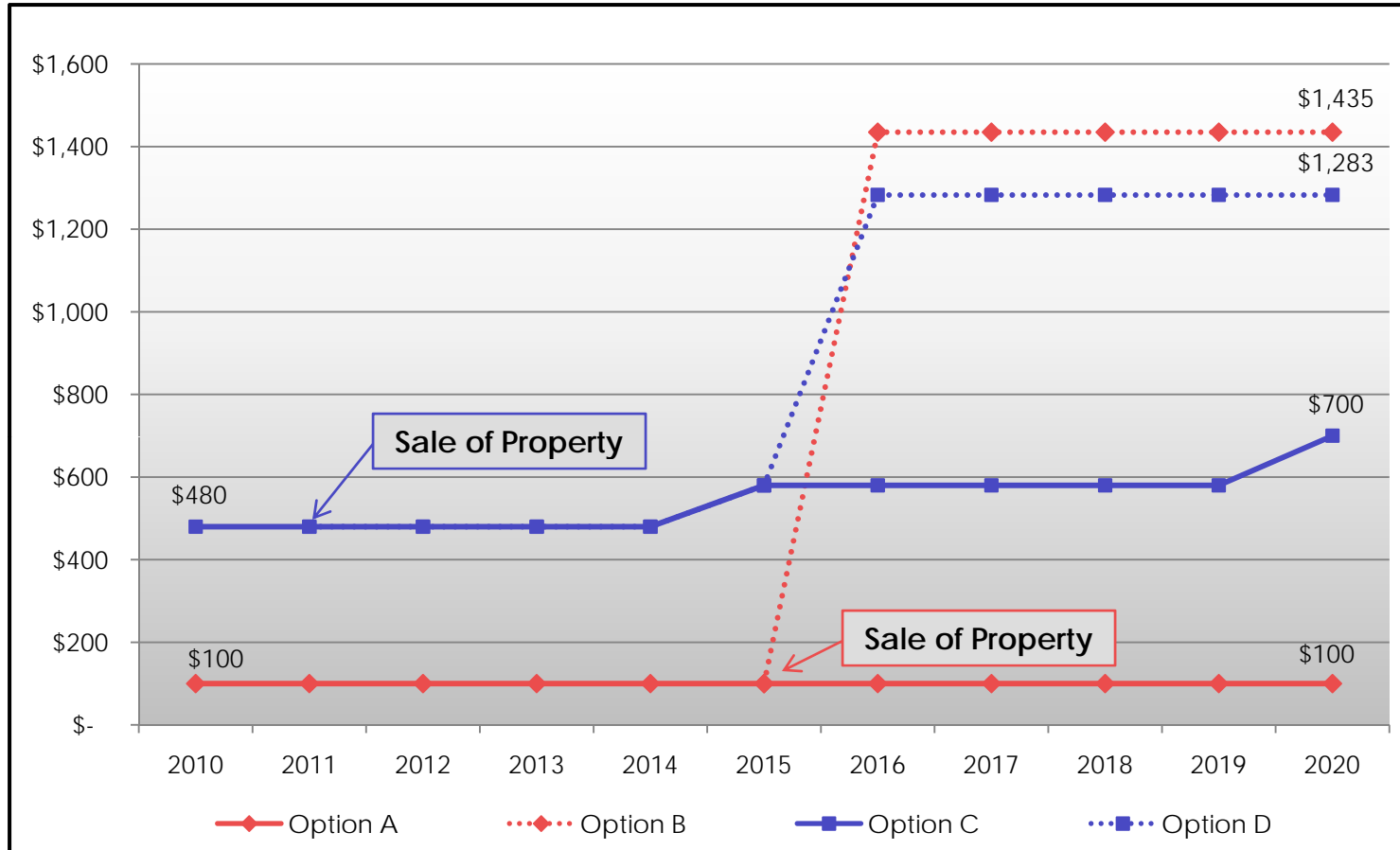


Proposed Jekyll Lease Policy

- **Option # 4: Sell Unit** —The current owner sells and the new buyer has two options:
 1. Assume existing lease until 2049, or
 2. Enter into new lease base on following terms:
 - **Term**– for 60 years, plus two ten year extensions up to 2089.
 - **Base rate** – 0.5% of sales price.
 - **Escalators**– base rate adjusts every 5 years based on historic CPI of 3.85% (or future CPI at buyer’s option)
 - **Assumable**–If seller was under new lease structure for at least a year, base rent is assumable for 5 years—then resets at 0.5% of sales price in 6th year.
 - **Rehab Credit**–\$50,000+ in rehab costs eligible for a credit of up to 50% of lease amount for 3 years.



Summary of the Effects of Leaseholder Options (\$100 Lease)



Option A – Leaseholder does not extend lease, does not sell property.

Option B – Leaseholder does not extend lease, sells property in 2015

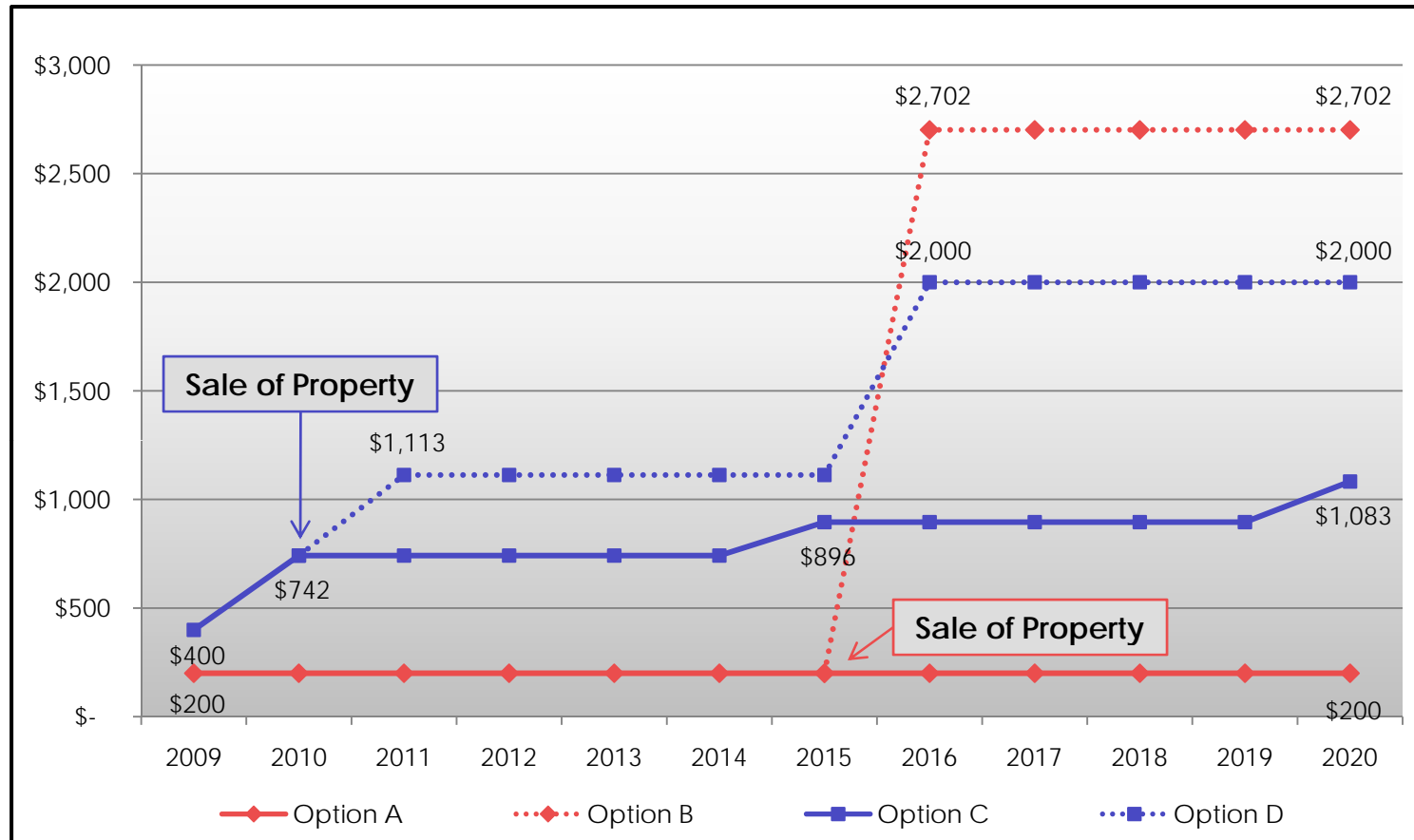
Option C – Leaseholder extends lease, does not sell property.

Option D – Leaseholder extends lease, then sells property in 2011.

(\$200,000 unit, appreciating at 6.2% annually)



Summary of the Effects of Leaseholder Options



Option A – Leaseholder does not extend \$200 lease, does not sell property.

Option B – Leaseholder does not extend \$200 lease, sells property in 2015

Option C – Leaseholder extends \$400 lease in 2009, does not sell property.

Option D – Leaseholder extends \$400 lease in 2009, then sells property in 2010.

(Assumes \$212,000 lot value and \$400,000 market value appreciating at 6.2%.)



Potential Financial Benefit to the Authority from New Lease Policy

Three financial scenarios were analyzed:

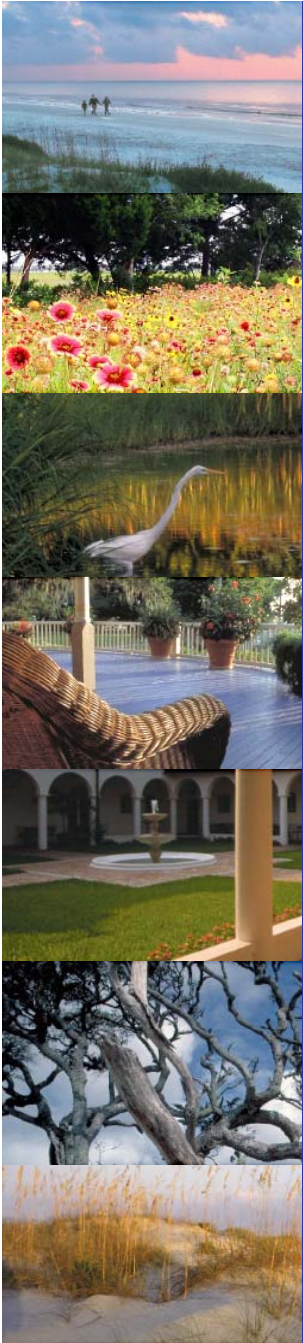
Scenario 1: only new buyers convert to new leases – at a rate of 15 re-sales per year

Scenario 2: new buyers at a rate of 15 per year plus current leaseholders (15 per year) convert to new leases

Scenario 3: 15 new buyers, plus 30 converts years 1-3 then 15 per year based on alternative new lease structure

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
Lease Revenue Yr. 1	\$240,322	\$245,394	\$245,210
Lease Revenue Yr. 10	\$633,751	\$801,989	\$762,994
New Revenue 10 Yrs.	\$2.1 mil.	\$2.9 mil.	\$2.7 million

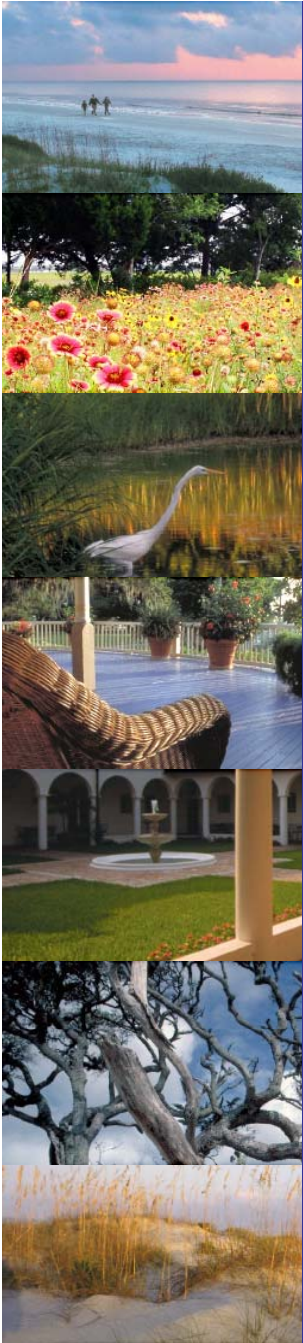
There will be a significant gain to the Authority over time from the gradual conversion of units to the new lease structure.



Benefits to Participants from the New Lease Structure

- The Authority

- Sees significant increase in residential lease revenue from new sales and new lease conversions.
- Financially encourages the renovation of existing residential inventory.
- Provides certainty to the market about the future lease structure, increasing the predictability of investing in Jekyll
- Ties future lease revenues to market conditions
- Likely higher sales levels after “Great Recession” due to extension of the lease period and clarity over terms



Benefits to Participants from the New Lease Structure

- Existing Leaseholders

- May keep their current lease terms until 2049, at their option
- Are provided a five year window to obtain a new lease with extended terms at discounted rates that are well below the historic rate of land value appreciation on Jekyll Island
- Can obtain an assumable base lease rate that will have an economic value to a new buyer and provide a competitive advantage upon resale
- Can receive further lease discounts if they make significant investments to their properties
- Should see the value of their homes increase after the uncertainty over future leasing policy is resolved



Benefits to Participants from New Lease Structure

- New Buyers:

- Are provided clarity about future lease terms, removing uncertainty in the marketplace
- May obtain a new/extended lease with up to an 80 year term, regardless of current leaseholder's term
- Have the option to base future rent adjustments on known historical CPI trends rather than future inflation risk
- Can obtain an assumable base lease rate if the seller qualified, lowering the buyers' lease costs for five years
- Receive an additional lease credit for three years if they make a minimum investment of \$50,000 in rehab

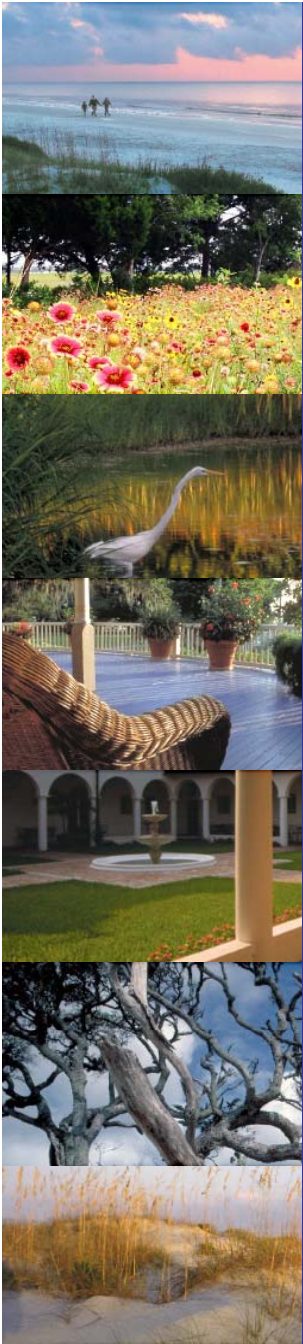
- Existing Leaseholders, Future Buyers and the JIA:

- Lease rates will continue to make Jekyll an attractive place to purchase and invest



Implications of Lease Policy Changes on Affordability to Average Georgians

- Existing owners can continue low lease rates until 2049 at their option.
- Owners who do extend can do so at below market rates
- The average value of a single family home is \$471,200—which is beyond the reach of many Georgians seeking to buy a first or second home on the island.
- Value appreciation of 6.2% per year is the cause of this lack of affordability - not the lease averaging \$334 per year.
- Units on Jekyll are selling across a broad price range from the \$100,000s to over \$1,000,000, reflecting age, condition, size and location of the units, this broad range will continue in the future.
- Relative to other alternatives Jekyll offers a broad range of prices and unit types and will still be the most affordable coastal location in Glynn County.



Impact of Lease Structure on Jekyll Costs vs. Coastal Glynn Co.

Table Jekyll Island Land Taxes and Fee Differential Based in Proposed Lease Structure

Average Lot Value Adjusted for Size	Current Differential in Costs		Cost Based on Extension of Existing Lease				Cost Based on
	Jekyll Property Tax, W/S and Fees	Difference with Coastal Properties in Glynn County	W/S Fee (a)	Property Tax On Land Leasehold (b)	Extended Lease Rate* (c)	New Combined Jekyll Tax and Fee (a)+(b)+(c)	New Sale Lease Rate ** (d)
Water Front	\$ 7,532	\$ 1,217	\$ 460	\$ 2,829	\$ 3,200	\$ 6,489	\$ 4,000
Water Access	\$ 3,462	\$ 1,795	\$ 360	\$ 1,241	\$ 1,600	\$ 3,201	\$ 2,500
Interior	\$ 2,179	\$ (302)	\$ 280	\$ 760	\$ 800	\$ 1,840	\$ 1,250

* based on proposed CPI Adjusted base fee for extending current leases

** based on 0.5% of sales price of homes at \$800,000, \$500,000 and \$250,000

Source: BAG

An analysis of the impacts of both the discounted new lease rate for current leaseholders and the new lease rates applied to new buyers is presented above.

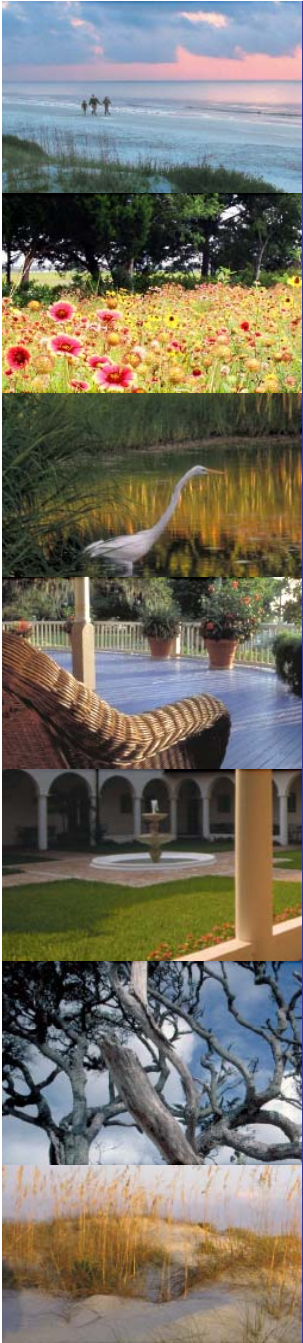
Under both scenarios, Jekyll will continue to enjoy a cost advantage from its leased land over other Coastal Glynn locations.



Table Summary of Impact of Proposed Lease Changes at Different Unit Prices					
			Owner's	Authority's	
	2010	2020	Appreciation/ JIA Lease Amt.	Participation in The Appreciation	
1. \$200,000 Unit With/without Lease Extension					
Value of unit	\$ 200,000	\$ 364,985	\$ 164,985		
Appreciation Percentage			82%		
Value of Lease to Authority					
Original Lease	\$ 100	\$ 100	\$ 1,100	0.0%	
With Extended Lease	\$ 480	\$ 727	\$ 6,137	3%	
With Extended Lease and Subsequent Sale	\$ 480	\$ 1,235	\$ 9,177	5%	
2. \$450,000 Unit With/without Lease Extension					
Value of unit	\$ 450,000	\$ 821,217	\$ 371,217		
Appreciation Percentage			82%		
Value of Lease to Authority					
Original Lease	\$ 200	\$ 200	\$ 2,200	0%	
With Extended Lease	\$ 960	\$ 1,455	\$ 12,055	3%	
With Extended Lease and Subsequent Sale	\$ 960	\$ 2,779	\$ 19,855	5%	
3. \$700,000 Unit With/without Lease Extension					
Value of unit	\$ 700,000	\$ 1,277,448	\$ 577,448		
Appreciation Percentage			82%		
Value of Lease to Authority					
Original Lease	\$ 400	\$ 400	\$ 4,400	0%	
With Extended Lease	\$ 1,920	\$ 2,909	\$ 24,549	3%	
With Extended Lease and Subsequent Sale	\$ 1,920	\$ 4,323	\$ 33,623	5%	

Source: BAG

The lease policy allows JIA to participate at a modest level (3% to 5%) in the significant appreciation (82%) that will likely be occurring to residential properties over the next decade, instead of 0% participation under the current lease structure.



Recommendations

- Pending the results of the peer and legal reviews, the Authority should move to adopt the proposed leasing policy and implement quickly.
- The Authority should work closely with Glynn County during implementation of the leasing policy with respect to the impact of new lease rates on property tax assessments for residential land.
- A draft of new lease agreement needs to be prepared.
- Legislative action may be required to assure all transfers and property sales are reported to the Authority and to Glynn County tax officials.
- A process for monitoring and enforcing new lease policies needs to be put in place.
- After ten years of operation, JIA needs to evaluate the effectiveness of these policies and make any needed modifications for the future.

Discussion

