



SOUTH STATION LEASE RESTRUCTURE PROPOSAL

THE FINANCIAL ARRANGEMENT: EXISTING AND PROPOSED LEASE CONDITIONS

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Executive Summary

- Existing South Station Lease has derived no revenue to the MBTA
 - Cumulative cost of \$2.5M over ten years (FY05 – FY15)
- Amended and Restated Lease monetizes an underperforming asset proving both a guaranteed rental stream and eliminating operating costs
 - Amended and Restated Lease will result in a one time payment of \$12 Million
 - Amended and Restated Lease will provide a guaranteed \$1 Million revenue stream to the MBTA
- Amended and Restated Lease will eliminate operating and capital cost obligations of the MBTA

South Station Assumed Valuation Overview



| Valuation (Jan 2015) | |
|----------------------------------|----------------------|
| Retail & Office Rental Income | \$ 13,444,522 |
| Expenses & Taxes | \$ (6,860,381) |
| Approximate NOI FY15 | \$ 6,584,141 |
| Assumed cap rate | 7.06% |
| Building Value | \$ 93,259,788 |
| Less: Debt | \$ 10,000,000 |
| Total Value | \$ 83,259,788 |
| MBTA Value (50%) | \$ 41,629,894 |
| Equity Office Value (50%) | \$ 41,629,894 |

| Present Value of Proposed Lease Extension | |
|---|----------------------|
| One-time payment | \$ 12,000,000 |
| Rental income (discounted @ 4.5%) | \$ 25,501,636 |
| Expense Avoidance (discounted @ 4.5%) | \$ 9,499,350 |
| MBTA present value | \$ 47,000,986 |

Incremental Value to MBTA in Equity Sale of Lease Hold Interest

To the extent Equity Office sells its Lease Hold interest in South Station after an Amended and Restated Lease has been executed, the MBTA has the potential to share in incremental value above \$75 Million. The chart below projects potential MBTA incremental value.

| Projected Sale Price | \$75,000,000 | \$80,000,000 | \$85,000,000 | \$90,000,000 | \$95,000,000 |
|--|--------------|--------------|--------------|--------------|--------------|
| Incremental Value | \$0 | \$5,000,000 | \$10,000,000 | \$15,000,000 | \$20,000,000 |
| 0-6 Months - 30% MBTA share of incremental value | \$0 | \$1,500,000 | \$3,000,000 | \$4,500,000 | \$6,000,000 |
| 6-12 Months – 15% MBTA share of incremental value | \$0 | \$750,000 | \$1,500,000 | \$2,250,000 | \$3,000,000 |
| 18 Months and beyond - 10% MBTA share of incremental value | \$0 | \$500,000 | \$1,000,000 | \$1,500,000 | \$2,000,000 |

Comparison of Lease Terms

| | Existing | Proposed |
|--------------------------------|---|---|
| Lease Term | Dec 31, 2024 expiration date, plus 2 renewal options of 15 years each. | 99 years from the amended lease commencement date. |
| Base Rent | Historically, the MBTA has not received ANY rent due to the Tenant's right to offset rent to cover MBTA cost obligations. | Guaranteed \$1,000,000 increasing by 3% every 5 Years. |
| Revenue Share | Historically, the MBTA has not received ANY revenue share based on existing lease structure. | In lieu of an ineffective Revenue Share, a \$12,000,000 payment to the MBTA will be made. |
| Expense Obligations | The Lease obligates the MBTA to contribute to operating and capital expenses. | All 'Back Stop' obligations will be eliminated relieving the MBTA this monetary risk. |
| Initial EOP Assignment True Up | n/a | If the TENANT sells its interest in the Lease the MBTA will be paid a percentage of value above \$75,000,000. |
| Lease Assignment Fee | n/a | The MBTA will be paid a fee equal to 1% of the value the Tenant receives to sell its lease interest. |

Assessment Information

Assessing On-Line

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| | |
|--|---|
| Parcel ID: | 0305364100 |
| Address: | 195 SUMMER ST BOSTON MA 02110 |
| Property Type: | Commercial |
| Classification Code: | 347 (Commercial Property / OFFICE CLS A-) |
| Lot Size: | 139,685 sq ft |
| Living Area: | 228,815 sq ft |
| Owner on Thursday, January 1, 2015: | EOP SOUTH STATION LLC |
| Owner's Mailing Address: | PO BOX A3879 CHICAGO IL 60690 |
| Residential Exemption: | No |
| Personal Exemption: | No |

Value/Tax

Assessment as of Wednesday, January 1, 2014, statutory lien date.

| | |
|-------------------------------------|-----------------|
| FY2015 Building value: | \$59,165,000.00 |
| FY2015 Land Value: | \$0.00 |
| FY2015 Total Assessed Value: | \$59,165,000.00 |

Current Owners

- 1 EOP SOUTH STATION LLC
- 2 LESSEE

Owner information may not reflect any changes submitted to City of Boston Assessing after Jun 17, 2015.

Conclusions

Question:

Is a renegotiation of the existing South Station concourse lease with Equity Office in the best financial interest of the MBTA.

Response:

A renegotiated South Station concourse lease with Equity Office is in the best interest of the MBTA for the following reasons:

- Provides guaranteed income for the MBTA
- Eliminates expenses for the MBTA