



Restricted Residential Ground Lease

Overview

This document explains Stanford's restricted ground lease program ("Restricted Lease"). You should read the text of the Restricted Lease carefully before considering purchasing a leasehold interest in a home that will have a Restricted Lease. Please contact Faculty Staff Housing by phone at (650) 725-6893 or by email to fshousing@stanford.edu for more information.

PURPOSE

The terms of the Restricted Lease are designed to help address the challenge of finding affordable housing in Palo Alto and surrounding cities. By restricting certain rights of lessees, the University is able to offer long-term leasehold interests at significantly less than the cost of either a conventional leasehold interest or outright ownership of an otherwise comparable home. Only certain Stanford employees who are "Eligible Persons" are entitled to enter into Restricted Leases. At the time a leaseholder desires to sell a home on a Restricted Lease, and under other specific circumstances described in the Restricted Lease, homes on Restricted Leases must be sold back to Stanford University ("Stanford").

LEASE TERM AND LEASE EXTENSION

The maximum term of the Restricted Lease for a new leaseholder is currently set by University policy at fifty-one (51) years. The Restricted Lease may not be extended or renewed, so future financing options will be limited.

NOTHING IN THIS DOCUMENT SHOULD BE CONSTRUED AS AN OFFER OR COMMITMENT OF ANY KIND. PROGRAMS AND ELIGIBILITY REQUIREMENTS ARE SUBJECT TO CHANGE OR DISCONTINUATION WITHOUT NOTICE.

ELIGIBILITY

Some Eligible Persons, as defined in the Housing Purchase Programs Eligibility Criteria, are eligible to purchase a leasehold interest in homes on the Restricted Lease. The Housing Purchase Programs Eligibility Criteria is available from Faculty Staff Housing or on the Faculty Staff Housing website at fsh.stanford.edu. Specific eligibility requirements will be available as homes are offered on the Restricted Lease.

Stanford permits only an Eligible Person to hold title to a leasehold property. Spouses and registered domestic partners (as Stanford defines the term) ("Domestic Partner") of the Eligible Person do not hold title to the leasehold, regardless of their financial interest in the property.

The Restricted Lease stipulates that once the lessee ceases to be an Eligible Person, the home must be sold back to Stanford within one (1) year.

RETIREMENT

An Eligible Person who becomes an Official Retiree of the University may remain in the home for up to ten (10) years after the date of retirement.

RIGHTS OF SURVIVING SPOUSES AND DOMESTIC PARTNERS

While the lease is entered into solely by the Eligible Person, there are certain instances in which the surviving spouse or Domestic Partner of an Eligible Person has survivorship rights under the lease. If an active Eligible Person dies while married and living with his or her spouse or living with his or her Domestic Partner who is acknowledged in the Restricted Lease as a Surviving Partner, then the Surviving Partner is permitted to continue to reside at the property as his or her principal place of residence until the earlier of: (a) the termination date of the Restricted Lease or (b) the tenth (10th) anniversary of the Eligible Person's death. If an Eligible Person who is an Official Retiree dies while married and living with his or her spouse or living with a Domestic Partner who is acknowledged in the Restricted Lease as a Surviving Partner, then the Surviving Partner is permitted to continue to reside on the property as his or her principal place of residence until the earlier of: (a) the termination date of the Restricted Lease or (b) the expiration of the remainder of the ten (10) year period after the date that the Eligible Person retired.

Any spouse or Domestic Partner who has not signed the Partner Agreement attached as an exhibit to the Restricted Lease has no rights under the Restricted Lease. The home must be sold back to Stanford within one (1) year after the death of the Eligible Person or Official Retiree.

LESSEE'S PRINCIPAL RESIDENCE

The Restricted Lease requires that an Eligible Person occupy the leasehold property at all times as his or her principal residence. The Eligible Person must provide satisfactory proof of residency to Stanford when requested. The Restricted Lease stipulates that if the lessee ceases to occupy the home as his or her principal residence, the home must be sold back to Stanford within one (1) year.

In the event of a separation or divorce and the Eligible Person vacates the property, a non-eligible spouse or Domestic Partner must vacate the property within one hundred eighty (180) days after the Eligible Person ceases to live at the property as his or her principal place of residence. If the Eligible

Person does not then immediately move back into the home, the home must be sold back to Stanford within one (1) year after the date that the Eligible Person vacated the property.

LIVING TRUSTS

A lessee may assign his or her leasehold interest to a living trust for estate planning purposes, subject to the University's written approval. Stanford will prepare the appropriate documents as may be determined by Faculty Staff Housing. The University assumes no liability for the legal or tax implications or consequences of such assignments to trusts. A document preparation fee will be charged. If the lessee wishes to have the assignment recordation arranged by Faculty Staff Housing, an additional fee will be collected. A Schedule of Fees is available from Faculty Staff Housing or on the Faculty Staff Housing website at fsh.stanford.edu.

OBLIGATIONS OF LESSEE

The Restricted Lease requires that the lessee comply with certain conditions. These include, but are not limited to, the following: payment of utility charges, payment of any association fees, the cost of any repair or replacement of damaged utility lines or connections on the leasehold premises; obtaining and maintaining fire, hazard and liability insurance at all times,¹ maintenance of the property, including walkways or driveways as applicable, and any Rules and Regulations (Governing Documents) that may apply. Earthquake insurance may also be required.²

The lessee is responsible for and pays 100% of all property taxes, fees and assessments. Property taxes will be assessed at the market value (or fee value) of the property, not the Restricted Lease value (or purchase price). The County Assessor determines the value on which the taxes, fees and assessments are charged.

SUBLETTING

The Eligible Person may sublet or rent the home to another Eligible Person for not less than one academic quarter, or for not more than one (1) year during any three (3) year period, and in either case only while on an approved University leave and with notification to Stanford. Short-term lodging, time-share, vacation rentals, home exchanges or guest hosting are prohibited.

IMPROVEMENTS

Lessees must abide by all building regulations as applicable. All home improvement projects that involve a supplier of labor, materials and or equipment must be reviewed and approved in writing by Faculty Staff Housing. Any alteration or improvement made without the approval of the University may require removal prior to the repurchase or lease expiration and the premises fully restored and any damage caused by the removal repaired.

FINANCING

Eligible Persons using Stanford financing programs to purchase a home on a Restricted Lease may only use the standard programs.

1 If the leasehold is a condominium, certain insurance may or may not be provided by the Condominium Association.
2 A lender may require Earthquake insurance in the amount of the improvements on the property.

PRICING AND REPURCHASE

The initial price of a home on a Restricted Lease will be less than the market value of a comparable home that has no restrictions, as the price reflects the impact of the restrictions on the leasehold interest. The lessee must always sell the home back to Stanford when specific events occur. Sales to third parties are not permitted, even if they are Eligible Persons. The amount that Stanford will pay will be the lesser of (1) a value capped by an annual rate of appreciation, which is set at the time of purchase or (2) a value that reflects current market conditions of residential homes in the area and adjusted to reflect the restrictions of the Restricted Lease. An example of how the repurchase price is determined follows.

REPURCHASE ASSUMPTIONS

Purchase Price	\$1,500,000
Annual Appreciation Cap	3.11% ¹
Holding Period	10 Years

CALCULATIONS OF AMOUNT TO BE PAID BY STANFORD TO LESSEE IN 10 YEARS

SCENARIO # 1: CAPPED APPRECIATED VALUE IS LESS THAN MARKET VALUE

House price increases.

Capped Appreciated Value	\$2,037,849
Market Value/Appraised Value	\$2,500,000
Amount Paid by Stanford on Repurchase	\$2,037,849

SCENARIO # 2: CAPPED APPRECIATED VALUE IS GREATER THAN MARKET VALUE

House price remains the same. There is no appreciation.

Capped Appreciated Value	\$2,037,849
Market Value/Appraised Value	\$1,500,000
Amount Paid by Stanford on Repurchase	\$1,500,000

SCENARIO # 3: CAPPED APPRECIATED VALUE IS GREATER THAN MARKET VALUE AND LESS THAN THE PURCHASE PRICE.

House price decreases, resulting in a loss.

Capped Appreciated Value	\$2,037,849
Market Value/Appraised Value	\$1,300,000
Amount Paid by Stanford on Repurchase	\$1,300,000

THIS IS A SUMMARY ONLY, AND DOES NOT MODIFY IN ANY WAY THE ACTUAL TERMS OF THE RESTRICTED LEASE.

1 The annual appreciation cap is set at the time of lease execution for the entire term of the lease. The appreciation cap rate is set each year as of September 1st and is determined by examining 10- or 15- year rolling average changes in Stanford and national university faculty salaries, CPI, and rates of return on Stanford's loans.