

GUIDELINES IN THE DETERMINATION OF LEASE RATES

I. PURPOSE and COVERAGE

- In compliance with the directive of the Board in its June 26, 2012 regular meeting, NDC has formulated the guidelines in the determination of lease rates.
- The aim of these guidelines is to achieve uniformity and consistency in the determination of applicable lease rates for the properties of NDC and its subsidiaries.

II. DEFINITION OF TERMS

- a) Appraisal – is an art of estimating the value of an adequately described property. It is not an exact science but the opinion of value expressed must be educated, which means that the estimate should be supported by pertinent data as basis.
- b) Market Value – is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. (Philippine Valuation Standards 1st Edition, 2009, Concepts Fundamental to GAVP, Paragraph 5.2)
- c) Fair Rental Value – is the reasonable economic rent expectancy if the property were available for lease and/or the base rental justifiably payable for the right of occupancy of the property.
- d) Assessed Value - is the fair market value of the property as determined by the provincial, city, or municipal assessors, as the case may be, and adopted through an ordinance of the sanggunian concerned, multiplied by the assessment level. It is synonymous to taxable value.

- **Factors to Consider**

Before recommending the lease rate to be used for the property offered for lease, NDC has to determine whether the property hurdles the test for the highest and best use (HABU) principle as follows:

| Determinants | Test | Positive/Negative Influence |
|----------------------|--|--|
| Physically possible | <i>Is the property physically suited to the use or can it be adapted to the use?</i> | <ul style="list-style-type: none"> ○ Location, size, shape, topography & elevation ○ Available amenities, power & water utilities, transportation & telecommunications facilities ○ Infrastructures ○ Presence of squatters, hazardous elements, pollution, etc. ○ Traffic volume ○ No right-of-way ○ Flood prone |
| Legally permissible | <i>Are there legal restrictions regarding the use of the land?</i> | <ul style="list-style-type: none"> ○ Zoning, restrictions on use ○ Government issuances, ordinance, policy (e.g. rent control), etc. |
| Financially viable | <i>Is the suggested use financially feasible?</i> | <ul style="list-style-type: none"> ○ Interest Rates, Inflation Rates, CPI ○ Vacancy rate |
| Maximally productive | <i>Is the selected HABU the most productive use of the land?</i> | <ul style="list-style-type: none"> ○ Development trend in the vicinity |

- **Determination of Lease Rates**

Two methods can be used in the determination of the most advantageous lease rate to the company as presented below:

| METHOD | FORMULA |
|--|--|
| DENR AO No. 98-20 and Lands AO No. 47, as amended¹ | <p>A. For Residential and Agricultural Lands $MV = \frac{\text{Assessed Value} + \text{Zonal Value}}{2}$</p> <p>B. For Commercial and Industrial Lands $MV = > \text{either of Zonal Value or Market Value}$</p> <p>Lease Rate minimum of 3% applies to (A) & (B)</p> |
| Fair Rental Value² | <p>$I = V \times R$ Where: I = Income derived from Property V = Market Value of Property R = Fair Rate of Return R varies from 3% to 6% for the Land</p> |

¹ Based on Department of Justice (DOJ) Opinion dated January 3, 2008 issued to DOF

² Based on Third Party Appraisal

- **Property Value, Appraisal Validity and Lease Ranges**

| PROPERTY VALUE | NDC Properties* | No. of APPRAISAL | VALIDITY (Yr) | LEASE RATE (Range) | JUSTIFICATION |
|-----------------|-----------------|------------------|---------------|--------------------|---|
| a. 100M & above | 9 | 2 | 1 | 3% – 4% | <ul style="list-style-type: none"> ○ The number and validity of appraisal and lease rate are consistent with the Privatization Council Policy. ○ Lands Administrative Order No. 47 provides the use of 3% minimum rate for lease of public lands. ○ Commercial Banks and Private Appraisal Companies use 3% to 6% lease rates. |
| b. 50M – 99M | 7 | 1 | 2 | 3% – 4% | |
| c. Below 50M | 41 | 1 | 2 | 4% - 6% | |

*List is shown in Annex “A”

- **Other Terms and Conditions of the Lease* ***

| PROVISIONS | | JUSTIFICATION |
|-------------------------------------|--|--|
| Lease Period | Initial 10-year lease with option to renew | Assured steady income for the lessor and tenure security for the lessee; <ul style="list-style-type: none"> • The lands are vacant with large area that will entail big capital expense for development on the part of the lessee (e.g. for buildings and other improvements). • The lessee cannot recoup the capital expense if the lease is shorter than 10 years. |
| Lease Rate | Comparison of the rate to be derived from the use of the FRV and the DENR issuance. Use resultant higher value + RPT | DOJ Opinion issued to DOF on Jan. 3, 2008; Consistent with Privatization Council Policy |
| Transaction Costs | VAT, documentary stamp tax for lessee's account | Government –imposed legal fees/ Industry practice |
| Manner of Payment | Private – two (2) months cash deposit and advance rental thru issuance of 12 post dated checks | Industry practice |
| | Government – two (2) months cash deposit and one (1) month advance rental | COA rules and regulations |
| Escalation | Six percent (6%) per annum | Inflation rate over the past years; Average % only |
| Penalty | 12% per annum | Legal interest rate (forbearance of money) |
| Lease-Free Period (optional) | 2 - 3 months | Allowance for renovations and/or retrofitting |
| | 3 - 6 months | For building constructions to cover the period of securing the necessary permit wherein the lease is not yet productive. |

**Please refer to Annex “B” for Comparative Table among GOCCs involved in property leasing.

Annex "A"

A. Properties Available for Lease

| | Property Location | Category/Tax Declaration | Market Value | Area (m ²) | Distance from Urban Center | Highest and Best Use |
|----------------------------|---|--------------------------|----------------|------------------------|----------------------------|------------------------|
| I. LUZON | | | | | | |
| a. P100 M and above | | | | | | |
| 1 | Beata, Pandacan, Manila | Commercial | 726,340,000.00 | 50,138.00 | 2 kms | Commercial/ Industrial |
| 2 | Central Business Park, Macapagal Ave., Pasay City | Commercial | 621,660,000.00 | 12,687.00 | 0 km. | Mix use development |
| b. P50 M – P99 M | | | | | | |
| 1 | Dasmariñas, Cavite (Dualtech) | Agricultural | 70,180,000.00 | 96,498.30 | 7 kms. | Industrial |
| 2 | Bo. Sto. Domingo, Angeles City | Commercial | 51,380,000.00 | 3,952.00 | 2 kms. | Commercial |
| c. Below P50 M | | | | | | |
| 1 | A. Linao St., Malate, Manila | Commercial | 32,950,000.00 | 1,318.00 | 1 km. | Commercial |
| 2 | San Juan, San Fernando, Pampanga | Commercial | 11,570,000.00 | 1,526.00 | 1 km. | Commercial |
| 3 | Brgy. Soyung, Echague, Isabela | Residential | 2,880,000.00 | 6,277.00 | 4 kms. | Residential |
| II. VISAYAS | | | | | | |
| a. P100 M and above | | | | | | |
| 1 | Dad Cleland cor P. Rodriguez, Lapulapu City | Commercial | 703,860,000.00 | 50,276.00 | 3 kms | Commercial/ Industrial |
| b. P50 M – P99 M | | | | | | |
| 1 | San Juan St., Bacolod City | Commercial | 98,980,000.00 | 13,197.00 | 3 kms | Commercial |
| c. Below P50 M | | | | | | |
| 1 | Bo. Dao, Tagbilaran City | Residential | 5,580,000.00 | 3,850.00 | 2 kms. | Residential |
| III. MINDANAO | | | | | | |
| c. Below P50 M | | | | | | |
| 1 | Poblacion, Iligan City | Commercial | 15,960,000.00 | 798.00 | 0 km | Commercial |
| 2 | Campo Islam, Zamboanga City | Commercial | 13,250,000.00 | 6,594.00 | 4 kms. | Commercial |
| 3 | Parang, Cotabato | Commercial | 6,990,000.00 | 9,982.00 | 1 km. | Commercial |

Annex "A"

B. Other Properties with Lease and Potential for Other Use

| | Property Location | Category/Tax Declaration | Market Value | Area (m ²) | Distance from Urban Center | Highest and Best Use | Status of Property |
|----------------------------|---|--------------------------|----------------|------------------------|----------------------------|----------------------|---|
| I. LUZON | | | | | | | |
| a. P100 M and above | | | | | | | |
| 1 | I & I Bldg., Sen. Gil Puyat Ave., Makati City | Commercial | 499,306,600.00 | 2,579.00 | 0 km. | Commercial | Leased to BOI & DTI |
| 2 | Sucab, Muntinlupa | Residential | 453,200,000.00 | 39,381.00 | 2 kms. | Commercial | Joint Venture with New San Jose Builder |
| 3 | Dasmariñas, Cavite (Humayao) | Agricultural | 345,190,000.00 | 191,773.00 | 7 kms. | Industrial | For joint venture development |
| 4 | NDC Bldg., Salcedo Village, Makati City | Commercial | 272,209,300.00 | 1,002.00 | 1 km. | Commercial | Leased to various tenants |
| 5 | Bo. Barranca, Mandaluyong City | Commercial | 113,700,000.00 | 1,895.00 | 1 km. | Commercial | Leased to Chevron |
| b. P50 M - P99 M | | | | | | | |
| 1 | Pasong Tamo Ext., Makati City | Commercial | 91,560,000.00 | 1,526.00 | 0 km. | Commercial | Leased to Chevron |
| 2 | Kamagong/Sampaloc, Makati City | Commercial | 62,800,000.00 | 1,256.00 | 1 km. | Commercial | Leased to Chevron |
| c. Below P50 M | | | | | | | |
| 1 | Shaw Blvd., Hillcrest, Pasig City | Commercial | 37,080,000.00 | 824.00 | 0 km. | Commercial | Leased to Chevron |
| 2 | North Avenue, Quezon City | Commercial | 36,450,000.00 | 1,013.00 | 0 km. | Commercial | Leased to Chevron |
| 3 | Malhacan, Meycauayan, Bulacan | Residential | 23,540,000.00 | 5,231.00 | 1 km. | Residential | For land titling |
| 4 | MacArthur Highway, Tarlac City | Commercial | 17,330,000.00 | 1,155.00 | 2 kms. | Commercial | Leased to Orange Fuel |

Annex “A”

| | | | | | | | |
|----|---|--------------|---------------|-----------|----------|--------------|-----------------------|
| 5 | San Dionisio, Parañaque | Residential | 17,110,000.00 | 1,426.00 | 1 km. | Residential | With court case |
| 6 | Los Baños, Laguna | Residential | 13,322,000.00 | 8,901.00 | 6 kms. | Residential | For CMP |
| 7 | San Jose Del Monte, Bulacan | Agricultural | 13,210,000.00 | 88,064.00 | 8 kms. | Residential | For relocation survey |
| 8 | Bo. Batangas II, Mariveles, Bataan | Residential | 8,850,000.00 | 7,674.00 | 20 kms. | Residential | For CMP |
| 9 | San Francisco Del Monte, Quezon City | Residential | 8,720,000.00 | 623.00 | 1 km. | Residential | ICB assigned asset |
| 10 | Bo. San Pedro, Hermosa, Bataan | Agricultural | 7,500,000.00 | 54,892.00 | 12 kms. | Residential | For CMP |
| 11 | Bo. Alas-asin, Mariveles, Bataan | Residential | 5,040,000.00 | 10,071.00 | 20 kms. | Residential | For CMP |
| 12 | National Highway, Tagapo, Sta. Rosa, Laguna | Commercial | 4,640,000.00 | 243.95 | 1 km. | Commercial | Leased to Chevron |
| 13 | Bo. Dolores, San Fernando City, Pampanga | Residential | 4,560,000.00 | 1,139.00 | 2 kms. | Residential | ICB assigned asset |
| 14 | Bongabon, Nueva Ecija | Agricultural | 3,581,000.00 | 8,952.00 | 13 kms. | Residential | ICB assigned asset |
| 15 | Fernandino Subd., San Nicolas, San Fernando | Residential | 1,920,000.00 | 1,200.00 | 1.5 kms. | Residential | ICB assigned asset |
| 16 | Bonot, Legazpi City | Residential | 1,080,000.00 | 400.00 | 2.5 kms. | Residential | ICB assigned asset |
| 17 | Calatagan, Batangas | Residential | 680,000.00 | 1,131.00 | 20 kms. | Residential | With court case |
| 18 | Aurea Subd., San Nicolas, San Fernando | Residential | 540,000.00 | 340.00 | 1 km. | Residential | ICB assigned asset |
| 19 | Joyous Heights Village, San Jose, Antipolo | Residential | 380,000.00 | 250.00 | 2 kms. | Residential | With informal settler |
| 20 | San Felipe, San Fernando | Residential | 240,000.00 | 877.00 | 3 kms. | Residential | For CMP |
| 21 | Sitio Maraming Daan, Bo. Pantay, Tanay, Rizal | Agricultural | 160,000.00 | 4,112.00 | 37 kms. | Agricultural | For relocation survey |
| 22 | Bo. Bia-an, Mariveles, Bataan | Agricultural | 120,000.00 | 2,000.00 | 20 kms. | Residential | For CMP |
| 23 | Everly Hills, Bo. San Isidro, Antipolo | Residential | - | 716 | 8 kms. | Residential | For relocation survey |
| 24 | Garland Subd., Bo. San Isidro, Antipolo | Residential | - | 550.00 | 8 kms. | Residential | For relocation survey |

Annex "A"

| II. VISAYAS | | | | | | | |
|---------------------|--|--|----------------|--------------|----------|---|---|
| c. Below P50 M | | | | | | | |
| 1 | LIDE, Isabel, Leyte | Industrial | 47,681,848.00 | 1,362,338.50 | 44 kms. | Industrial | Leased to Philphos, Petron, etal |
| 2 | Lacson & Rizal Sts., Bacolod City | Commercial | 39,575,000.00 | 1,583.00 | 0 km. | Commercial | Leased to Chevron |
| 3 | Sambag District, Cebu City | Commercial | 15,330,000.00 | 613.00 | 1 km. | Commercial | ICB assigned asset |
| 4 | Sta. Fe., Bantayan Cebu | Commercial | 10,590,000.00 | 5,297.00 | 136 kms. | With restriction | Declared as a reserved area which cannot be titled under NDC's name |
| 5 | Don Jose Village, Guadalupe, Cebu City | Residential | 1,818,000.00 | 303.00 | 4 kms. | Residential | ICB assigned asset |
| III. MINDANAO | | | | | | | |
| a. P100 M and above | | | | | | | |
| 1 | Libona & Manolo, Fortich, Bukidnon | Residential/Commercial/ Road Lots/Pasture | 222,860,000.00 | 9,511,239.00 | 45 kms. | Residential/Commercial/ Agricultural | Leased to DMPI |
| b. P50 M to P99 M | | | | | | | |
| 1 | Bugo District, Cagayan de Oro City | Commercial/Residential | 83,530,000.00 | 315,756.00 | 6 kms. | Commercial/Residential | Leased to DMPI |
| 2 | Toril, Davao City | Industrial/Agricultural | 74,900,000.00 | 249,595.00 | 14 kms. | Industrial | For joint venture development |
| c. Below P50 M | | | | | | | |
| 1 | Puerto, Cagayan de Oro City | Residential | 1,680,000.00 | 3,352.00 | 6 kms. | Residential | For CMP |
| 2 | Macasandig, Cagayan de Oro City | Residential | 870,000.00 | 669.00 | 8 kms. | Residential | For CMP |
| 3 | Langihan District, Butuan City | Agricultural | 650,000.00 | 25,074.00 | 2 kms. | Agricultural | For titling |
| 4 | Iponan, Cagayan de Oro | Residential | 400,000.00 | 502.00 | 8 kms. | Residential | For CMP |
| 5 | Talakag, Bukidnon | Residential | 270,000.00 | 450.00 | 60 kms. | Residential | For titling |

Summary**A. Properties Available for Lease**

| Region | P100 M and above | P50 M to P99 M | Below P50 M | No. of Properties |
|---------------|------------------|----------------|-------------|-------------------|
| I. LUZON | 2 | 2 | 3 | 7 |
| II. VISAYAS | 1 | 1 | 1 | 3 |
| III. MINDANAO | 0 | 0 | 3 | 3 |
| TOTAL | 3 | 3 | 7 | 13 |

B. Other Properties with Lease and Potential for Other Use

| Region | P100 M and above | P50 M to P99 M | Below P50 M | No. of Properties |
|---------------|------------------|----------------|-------------|-------------------|
| I. LUZON | 5 | 2 | 24 | 31 |
| II. VISAYAS | 0 | 0 | 5 | 5 |
| III. MINDANAO | 1 | 2 | 5 | 8 |
| TOTAL | 6 | 4 | 34 | 44 |

| | P100 M and above | P50 M to P99 M | Below P50 M | No. of Properties |
|---|------------------|----------------|-------------|-------------------|
| A. Properties Available for Lease | 3 | 3 | 7 | 13 |
| B. Other Properties with Lease and Potential for Other Use | 6 | 4 | 34 | 44 |
| GRAND TOTAL | 9 | 7 | 41 | 57 |

Annex “B”

COMPARATIVE TABLE ON LEASE TERMS & CONDITIONS AMONG GOCCS

| TERMS & CONDITIONS | PNOC | LBP – Sp. Asset Dept. | PDIC - AMG |
|--------------------|--|---|---|
| LEASE RENTAL | Based on third party appraisal | AO conducts rental survey which is validated by their in-house appraisers | Based on third party appraisal |
| LEASE PERIOD | 5 yrs to 25 yrs. (depends on the negotiation) | 1 year, renewable | For Closed Banks, 3 yrs; For Corporate Accts; 5 yrs. |
| TRANSACTION COST | VAT, doc stamps for Lessee's account | VAT, doc stamps for Lessee's account | VAT, doc stamps for Lessee's account |
| MANNER OF PAYMENT | 2 months security deposit | 2 months security, 1 month advance | 2 months security, 2 months advance |
| ESCALATION | 3% - 5% annually | 5% annually | 10% annually |
| PENALTY | 1% - 5% per month | 24% per year | 3% per month |
| LEASE-FREE PERIOD | 1 – 2 months | 2 months maximum | 2 months maximum |
| Source | Mr. Danilo Aunario | Mr. Adrian Peralta, Asst. Team Head | VP Chit Peralta |

Note: LBP leases its foreclosed properties on short-term basis as the thrust is more on asset disposal.