Appendix A: Financial Analysis – Land Acquisition Decision Model

Assumptions:		Notes
Rate of land appreciation	6.0%	Based on BC Assessment Land data, historic 5 year regional land average appreciation rate
Rate of inflation:	2.0%	Based on BC Stats data, adjusted for forecast

Option 1: Borrow to invest in land today		
Fair Market Value of Land Purchased today:	$50 million	Land acquistion is based on 100% financing based on maximum principal serviceable by a $4 million/annum debt servicing budget
Land Values Grow @ 6.0%/year ...	↓	
Growth-adjusted land value in Year 15:	$119 million	Growth of land value over 15 years using rate of land appreciation assumption
Less costs		
Annual Land Holding Costs	$9 million	Assume 1% of land fair market value acquired today per year and grown at assumed inflation rate. Accounts for cost of security/patrols, insurance etc
Financing Costs (financing rate 2.39%)	$10 million	MFA 15 year debt @ current indicative rate
Growth-adjusted land value in Year 15 (after costs):	$100 million	Land value in year 15 less costs
Land value today (after inflation):	**$74 million**	

Option 2: Defer land purchase - save reserves over time		
Fair Market Value of Land Purchased today:	$0	
Annual Reserve Contribution:	$4 million	Annual reserve contribution assumption
Reserve Balance - Year 15:	$60 million	$4 million/annum for 15 years
Plus		
Interest Earned on Reserve Balances	$7 million	Accounts for investment rate of 1.5% / annum on reserve balance
Land Acquisition Budget available in Year 15	$67 million	Land acquistion budget available in year 15
Land Acquisition Budget available in Year 15, in today's dollars (after inflation):	**$50 million**	

Value added by Option 1 over Option 2:	**$24 million**	Difference in option 1 versus option 2 land values in today's dollars