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**To:** Analysis Group Inc.  
1898 and Co.  
New York Independent System Operator

**From:** Ignatius Armenia, Executive Vice President  
Jones Lang LaSalle Americas, Inc. ("JLL"), Northeast Industrial Region

**Re: Comments on Proposed Installed Capacity Demand Curve Parameters for the 2025/2026 through 2028/2029 Capability Years – Draft Report**

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In response to the Analysis Group's Independent Consultant Study to Establish New York ICAP Demand Curve Parameters for the 2025/2026 through 2028/2029 Capability Years –Draft Report ("Draft Report"), please accept these comments regarding the Load Zone J site leasing costs derived from the May 2024 JLL Research Report – New York City's M Zone Land Value Analysis.

It is my understanding that 1898 & Co. used the JLL Research Report data to determine the average sale price over the last 5 years of M-3 zoned property, over 4 acres, without existing buildings, within a 3-mile radius of an existing substation within Load Zone J. 1898 & Co. and multiplied the average sale price by a capitalization rate ("cap rate") of 5.5%. They derived the assumed capitalization rate based on a 2023 Q3 New York City industrial cap rate of 5.7%, published by JPMorgan Chase Bank, N.A. on February 1, 2024, and the assumption that cap rates would decrease following a decrease in interest rates. This methodology fails to consider many factors and underestimates the expected site leasing costs given the screening parameters.

Published market industrial cap rate data is mainly derived from industrial building sales and does not focus on ground leases. Within the New York Metro area, this data set is approximately 95% warehouse and logistics facilities, with 5% or less being trades of manufacturing buildings or leased land. Warehouse and logistics facilities are at the highest end of the quality spectrum and typically achieve the highest pricing with the lowest cap rates since the buildings are a commodity product that can be used by a wide array of users after the first tenant leaves the space. Thus, stable residual

values, lower risk profiles and result in comparably lower required rates of returns from investors. Furthermore, public cap rate data reflects the risk profile of fully leased product to credit worthy companies where the level risk associated with purchased is very limited. However, the data set that was used to derive the \$12.1 million per acre average price was constituted of raw land without leases in-place, which is a very different risk profile and would require a substantial return premium.

Cap rates for industrial ground leases tend to be higher compared to those for leased buildings. However, the difference between these cap rates can vary significantly based on the lease term and planned improvements for the property. The risk profile and expected return on a ground lease transaction are greatly influenced by the planned improvements and the associated term. Highly specialized and unique improvements specific to a particular company or industry can increase cap rates, as potential buyers would need to consider the cost of re-tenanting the land through retrofitting or demolishing existing infrastructure. This cost raises the risk profile and requires a higher rate of return for the investor. Furthermore, environmental risks such as hazardous waste generation, onsite fuel storage, oil-filled transformers, heavy metals, chemicals, solvents, coolants, etc., which are not found in typical land lease transactions, can further contribute to expanded cap rates compared to the averages. Finally, 1898 & Co. does not account for other expenses which would be covered by the tenant as part of a triple net lease, such as insurance and property tax.

In conclusion, JLL estimates that the return premium over a published market cap rate data to be at least 150 - 175 basis points. Therefore, JLL would recommend using a required rate of return between 7.2% and 7.45%.