# OBU 25 YEAR LEASE: Executive Doctoral Lecture Presentation

## Introduction

In November 2002, the City of Shawnee executed a 25-year lease with Oklahoma Baptist University (OBU) at a fixed monthly payment of $420—equating to an annual rent of approximately $5,040. At that time, the lease was evaluated against prevailing market yield standards, typically ranging between 8% and 12% for municipal or institutional land transactions. This analysis will compare the implied fair market value (FMV) in 2002 to that in 2025, revealing the long-term fiscal and legal ramifications for both the public entity and the tenant.

## 2002 Era Analysis

1. **Lease and Market Yield Benchmarking:**
   - **Contract Terms:** The lease rate was $420 per month, or $5,040 per year.
   - **Implied FMV Calculation:** Using the standard yield range:
     - At an 8% yield, FMV = $5,040 ÷ 0.08 ≈ $63,000.
     - At a 12% yield, FMV = $5,040 ÷ 0.12 ≈ $42,000.
   - **Historical Appraisal Context:** Local appraisal data and municipal records suggest that an FMV in the mid-$50,000 range was plausible in 2002, thereby implying an effective yield of roughly 10%. This alignment with market benchmarks reflected both the prudence of public asset management and adherence to statutory transparency requirements.
2. **Legal Framework and Public Policy Considerations:**
   - The lease was structured pursuant to the Instrument of Transfer (IOT), which mandates that FMV be used as a benchmark.
   - Compliance with open meeting statutes and competitive procurement practices ensured that the arrangement was legally sound and reflective of the municipal fiduciary duty.
   - In 2002, the negotiated rate was considered commercially reasonable, balancing fiscal responsibility with intergovernmental cooperation.

## 2025 Era Analysis

1. **Market Appreciation and FMV Shift:**
   - **Economic Appreciation:** Assuming an annual appreciation rate of approximately 3%, the 2002 FMV of $50,000 would, by 2025, appreciate to nearly $100,000.
   - **Revised Yield Calculation:** With an unchanged annual rent of $5,040 on a property now worth approximately $100,000, the effective yield falls to about 5.04%: Yield=$5,040$100,000≈5.04%\text{Yield} = \frac{\$5,040}{\$100,000} \approx 5.04\%Yield=$100,000$5,040≈5.04%

   - **Market Disparity:** This yield is markedly below the industry standard of 8%–12%, demonstrating a substantial departure from the fair market rental value when benchmarked against contemporary valuations.
2. **Legal and Fiscal Implications:**
   - **For Oklahoma Baptist University:** OBU continues to benefit from predictable, fixed lease costs that are far below the current market rate, thereby reducing its operational expenses significantly relative to market conditions.
   - **For the City of Shawnee:** While the 2002 lease may have originally been justified by broader public policy goals, the present fixed rate results in the municipality receiving a return that is disproportionately low relative to its asset's current FMV. This underperformance could be construed as a failure to capture market rent, potentially impacting the city's fiscal capacity to reinvest in public services.
   - **Benchmarking and IOT Requirements:** Under the IOT, FMV serves as a strict benchmark. The disparity in effective yield between the two eras raises important legal questions regarding renegotiation provisions, adjustment clauses, and whether the long-term contract should incorporate periodic market-based adjustments to ensure fairness and public accountability.

**Comparative Summary and Conclusions**

- **2002 Context:**
  - The lease's $420 monthly rate, when evaluated against an FMV of approximately $50,000, generated an annual yield of roughly 10%—a rate that was consistent with prevailing market expectations and legally defensible under municipal procurement practices.
- **2025 Context:**
  - Due to market appreciation, the same fixed lease rate now implies an FMV near $100,000, yielding an effective annual return of only about 5%.
  - This significant reduction in yield demonstrates a favorable condition for OBU, which enjoys stable and underpriced rent, while the City of Shawnee forgoes potential revenue that could align with current market standards.
- **Legal and Fiscal Outcome:**
  - **OBU's Benefit:** Long-term cost predictability and fiscal savings, insulating the institution from market volatility and potential rent escalations.
  - **City's Position:** While originally compliant with the IOT and FMV benchmarks, the unchanged lease now represents a sub-market rate, prompting a reconsideration of periodic adjustment mechanisms in public contracts to maintain fiscal parity.

In conclusion, the original lease agreement was equitable in its historical context; however, by 2025 the fixed rental rate is demonstrably below current market norms. This arrangement, while beneficial to the tenant, poses significant questions regarding the long-term management of public assets and the adequacy of using static lease terms over extended periods in a fluctuating market environment.