

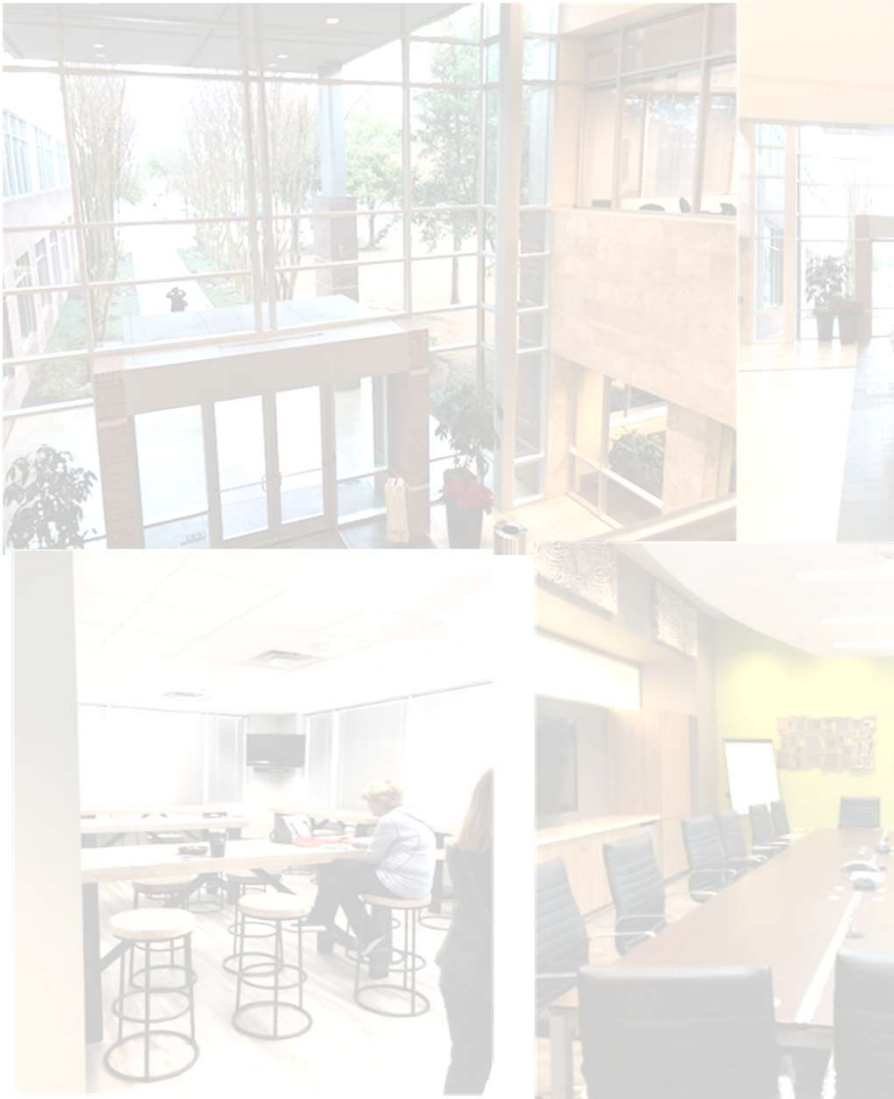
AMHTA FINANCE COMMITTEE MEETING April 22, 2020



Meeting Slides

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HARVEST CAPITAL ROLE

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- The 2018 Legislative Audit recommended AMHTA revise its Asset Management Policy Statement, to incorporate industry Best Practices and facilitate compliance with State Investment Laws.
- AMHTA engaged Callan Associates, a 30-year advisor to Alaska Permanent Fund (APF), to assist and make revision recommendations to the Asset Management Policy Statement.
- Callan recommended:
 - Hire an independent real estate advisor to oversee the Trust's real estate investments on a fiduciary basis.
 - Services to include valuation, hold/sell decision recommendation, performance measurement, and property management assistance, all as a fiduciary.
 - The independent outside advisor services does not replace the TLO services. Advisor to report annually to the Finance Committee and BOT.
- AMHTA completed this recommendation, and Harvest Capital was selected as the independent real estate advisor in October 2019, after Callan solicited Harvest to participate in an RFP process.

HARVEST CAPITAL ROLE

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Erin O'Boyle



- Founder/Managing Partner, SEC registered;
- 35+ Year Veteran, CIO, acquisition head, head of asset mgmt., portfolio mgmt.
- Pension Fund Advisor, Clients' assets in excess of \$100 billion.
- MS Real Estate from MIT.

Gail McDonough



- 30+ Year Veteran providing advisory services.
- Real estate acquisitions, strategy, project analysis, dispositions.
- Clients have included Blackstone/Equity Office, Archon/Goldman Sachs. J.E Roberts.
- MS Real Estate from MIT.

Harvest Fiduciary Duty:

- *Advise, advocate, and protect the Trust to maximize the value of the Trust's assets.*
- *Provide leadership in advocacy and planning, in order for AMHTA to maximize total return (cash flow & appreciation) for the funding for the Trust's Programs.*
- *As an SEC registered investment advisor, fulfill the fiduciary duty we have to act in the Trust's best interests, making recommendations determined to be in AMHTA's best interests.*

HARVEST FIDUCIARY EVALUATION

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- ✓ PORTFOLIO QUALITY: HIGH QUALITY
- ✓ MANAGEMENT OF PORTFOLIO: WELL MANAGED BY TLO
- ✓ PORTFOLIO PERFORMANCE: TOP PERFORMING, WELL ABOVE BENCHMARK AND APF

PORTFOLIO BENCHMARKED RETURNS	1 Yr.	3 Yr.	5 Yr.
AMHTA Portfolio (1)	8.5%	N/A	N/A
Comparison: APF Real Estate Performance (2)	-1.29%	5.25%	7.47%
Comparison: APF Total Fund Performance (2)	6.32%	9.96%	7.13%
<u>NCREIF Benchmark</u>			
FY 19 Reported (2)	6.83%	7.07%	9.13%
Updated 1 Year	6.20%		

(1) Income return only reported, does not include appreciation return included in APF and NCREIF. Also, reported without netting Advisory Fees due to lagging time period when no advisor retained. In future years, advisor fees to be deducted (approx. 70 bps). (2) Per APF performance reporting.

PORTFOLIO OVERVIEW (As of 12/31)

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1111 Israel Road, Tumwater

- 100% leased, credit tenants.
- 11% of leases expires in 2021.
- YTD income on Budget.
- State of Washington Lease extension in 2023.
- Refinancing with CMFG Life.
- Stable long term cash flow.



1973 N Rulon White Blvd., Ogden

- 100% leased under a long term credit tenant IRS lease.
- YTD income is on Budget
- YTD expenses are under budget.
- Potential value add opportunity to expand the building to serve the IRS needs.
- Refinancing opportunity.
- Stable long term cash flow.

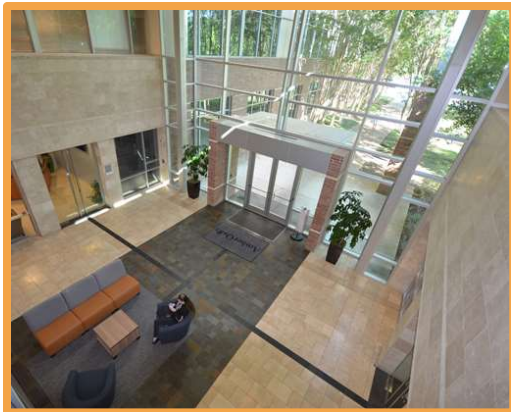
PORTFOLIO OVERVIEW (As of 12/31) (cont'd)

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17310 San Pedro Ave, San Antonio

- 97% leased, with 47.8% leases expirations in 2019.
- Marriott Worldwide and True Source renewed leases.
- YTD net income exceeds budget by \$27K.
- Refinancing opportunity.
- After release Advantage suite, good long term cash flow.



9610 Amberglen Blvd., Austin

- 97% leased, Class A+ asset.
- 14.8% lease expirations in 2020.
- YTD income on budget after updated CAM billings.
- Refinancing the asset will significantly enhance cash flow.
- High performing multi-tenant asset.

PORTFOLIO OVERVIEW (As of 12/31) (cont'd)

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2420/2500 Ridgpoint Dr., Austin

- 100% leased with new Texas DOT credit tenant lease.
- 50% of leases expire in 2020, which is expansion space for the Texas DOT.
- Positive income variance of \$278K, due to the unbudgeted \$600K termination payment.
- Refinancing opportunity.
- Stable long term cash flow.



2600 Cordova Street, Anchorage

- 82% leased, 97% occupied, 10.3% expiring in 2020.
- TLO occupies 4,337 SF of space (not under a lease).
- YTD net income is \$26K under budget, a result of unbudgeted concessions.
- Minimal lease rollover, good stable cash flow asset.

PORTFOLIO OVERVIEW (As of 12/31) (cont'd)

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2618 Commercial Drive, Anchorage

- 100% leased to Cummins Northwest.
- The lease expires in June 2021, and its upcoming renewal is very strategic.
- YTD income and expenses are all on budget.
- Refinancing the asset will significantly enhance cash flow.
- Stable long term cash flow with lease renewal.

PORTFOLIO OVERVIEW and CONCLUSIONS

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- **Outstanding** Portfolio Performance, demonstrated by achieving:
 - **8.5% benchmarked return compared to the 6.2% NCREIF (NPI) index return.**
 - **The AMHTA 8.5% benchmarked return is income – not even including appreciation.**
- The Portfolio valuation **increased from \$95,260,000 to \$99,045,929.**
- Harvest findings include that the portfolio debt does not follow Best Practices.
- **Harvest strongly recommends that the portfolio be refinanced with Best Practice Debt:** interest only, and with other provisions (extensions, repayment provisions, etc.).
 - **BENEFITS:**
 - **\$45 MILLION of Cash Flow over 10 years, superior to other outcomes.**
 - **Avoid \$15 MILLION of loan repayments over this time period.**
 - **Fulfill mission statement ‘*maximizing revenues from those lands over time*’.**
 - **FLEXIBILITY – CAN STILL MAKE AMORTIZATION PAYMENTS IF DESIRED.**
 - **DETRIMENTS: NONE.**

HARVEST FINDINGS

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- AMHTA has a high quality, well leased, well managed portfolio with balanced rollover.
- The leverage on the portfolio is conservative at a 44% Loan To Value (LTV).
- Special Issues:
 - Amberglen Blvd. has a loan locked out to prepayment (2026).
 - 1111 Israel Road if not refinanced will have significant negative cash flow after the lease extension with the State of Washington.
 - San Pedro Avenue loan matures in Oct 2021.
- The existing loans are financed with quality Life Companies and Banks, preferred lenders.
- The existing loans are not structured with Best Practices:
 - The Existing loans have interests rates well above market, diminishing cash flow.
 - The existing loans have high loan constants (the rate of interest and loan amortization combined), further diminishing cash flow. Best practices at this low LTV are interest only.
 - Certain loans have high loan early prepayment provisions.
 - The loans do not provide loan extension options which are a best practice to provide flexibility.

HARVEST RECOMMENDATION: REFINANCE

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- Refinance the portfolio with best practice interest only (I/O) market rate debt (conservatively 3-3.5%) with flexible prepayment terms:
 - **Refinancing will increase Cash Flow to AMHTA by \$19.5 million over 10 years, compared to the existing financing, a significant benefit.**
 - **If the portfolio otherwise is not refinanced, AMHTA will need to fund \$15 million in these 10 years to repay maturing loans.**
 - **FLEXIBILITY – AMHTA CAN STILL MAKE AMORTIZATION PAYMENTS IF DESIRED. But will have flexibility!**
- Engage a mortgage broker to market the portfolio to lenders and to negotiate best terms.
- Consider a Portfolio Loan, instead of individual loans, to get best terms on interest rate with great flexibility.
 - The loan would also allow for prepayment, selling assets, loan extensions;
 - Existing Lenders in competition may solve Amberglen/1111 Israel issues.

HARVEST RECOMMENDATION: Benefit of Scenario C

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AMHTA PORTFOLIO SCENARIOS	Cash Flow to AMHTA 10 Year Total
A. Existing Debt	\$25,891,834
B. Individual Debt Paid Off at Maturity	\$18,908,039
C. Recommended – Refinance Portfolio Dec. 2020	\$45,372,773
<i>D. AMHTA Benefit: Impact on Cash Flow with Portfolio Refinance (C minus A)</i>	<i>\$19,480,939</i>



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