

TLO Real Estate Cost Effectiveness Analysis

3745 Community Park Loop Options

Prepared for Trust Authority Resource Management Committee

Consultant Project Team



Shanna Zuspan
Principal
Agnew::Beck Consulting
Role: Principal in Charge. Market
Analysis, Cost Efficiency Analysis,
Executive Summary



Mike Fisher
Associate Senior Consultant
Northern Economics Inc.
Role: Cost Efficiency Analysis, Market
Analysis



Curtis Fincher
Senior Associate
Agnew::Beck Consulting
Role: Project Manager, Market
Analysis, Cost Efficiency Analysis,
Executive Summary



Colleen File
Project Analyst
Northern Economics Inc.
Role: Cost Efficiency Analysis Lead,
Market Analysis



Nate Seymour
Principal
Pacwest Consulting
Role: Property Assessment, Cost
Estimating/Scheduling,
Property Condition Assessment

Client Project Team:
Jusdi Warner, David MacDonald, and Jeffrey Green.

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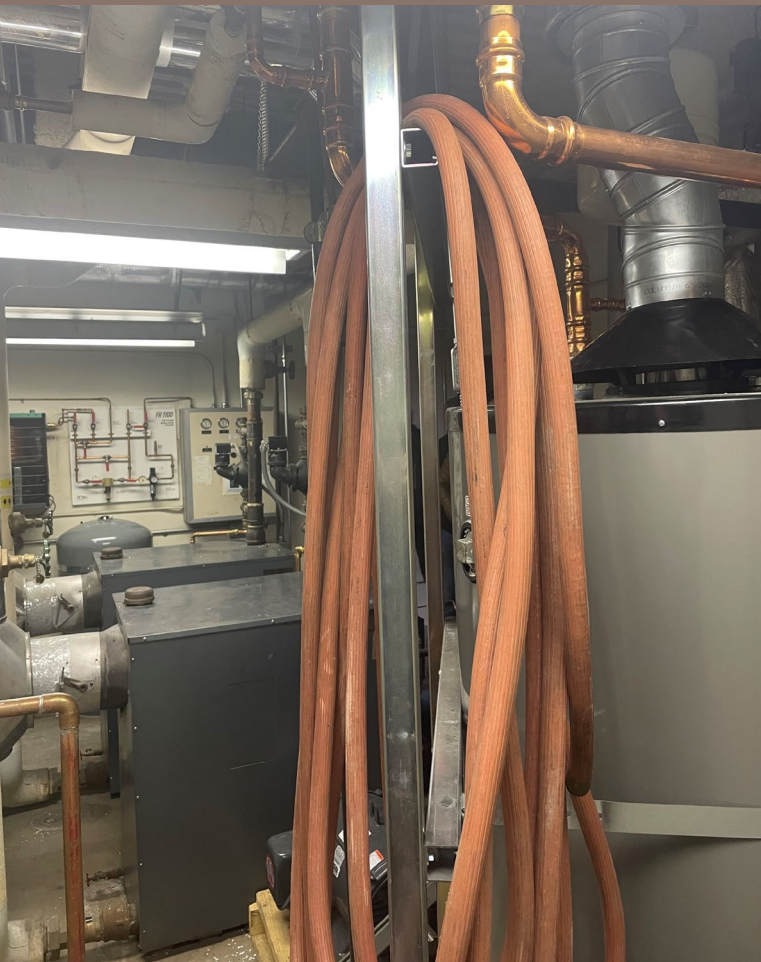
Edits

This slide deck is a corrected version of the slide deck shared with the Resource Management Committee on 7/16/25.

A tabulation error in the Excel document driving the model was found that resulted in changes to net operating income for a handful of scenarios. This edit changed values on Slides 9, 44, 47, and 48 (Economic Considerations, Model Leaders, NOI, and NPV) in this report. The top four scenarios overall did not change, however their respective rankings across different metrics did change.

Other significant edits include one additional slide (Slide 14); the addition of previously unaccounted renovation costs to sub-scenarios 1b, 1c, 2b, and 2c on Slide 50; and the removal of one slide (Slide 51 in previous deck) regarding longer time horizons which the tabulation error referenced above rendered no longer useful.

Project Overview



The Trust Authority Building's (3745 Community Park Loop) mechanical equipment is at risk of failure and the Trust Authority must choose how to address the issue.

TLO selected a consulting team to evaluate 10 real estate scenarios intended to remedy the problem, with the goal of understanding the most cost-effective option.

Terminology

TLO	Staff from the Trust Land Office
TAO	Staff from the Trust Authority Office
TA	All staff and the Board from the Alaska Mental Health Trust Authority
TAB	Trust Authority Building; the building at 3745 Community Park Loop
LTCO	Long term Care Ombudsman
CapEx	Capital Expenses used to acquire, upgrade, or maintain physical assets; typically represents a significant, long-term investment.
NOI	Net Operating Income. Revenue minus expenses, yearly.
NPV	Net present value. A way to evaluate costs and revenues over a period of time. CapEx + NOI through time, adjusted to account for inflation and rendered in present dollars.
Disposition Value	The expected sale proceeds from a building that is sold at a point in time.
Residual Value	The estimated market value of a building at a point in time, assuming it is retained and not sold.

Current Real Estate Situation for Staff at TAO and TLO

Trust Authority Building (TAB)

- ~**25,000 GSF**, 2 stories
- TAO and LTCO occupy 2nd floor.
- Large conference room on 1st floor for TA activities.
- ASD occupied 1st floor; that lease terminated due to inability to guarantee a functioning building for 2025/2026 school year and 1st floor now vacant.
- Mechanical systems (boiler room + HVAC) in need of repair or **risk building failure**. High likelihood of systems failure.

2600 Cordova Street Building

- ~**28,000 GSF**, 2 stories + basement/lobby.
- Home to TLO staff, VOA Alaska, a CPA office, and a dental office.
- Building in **good condition**.

Project Methodology



1. **Refine Assumptions** underlying each scenario.
Understand exactly what each scenario is modelling: includes space needs, feasibility of remote work during renovation, approach to asset valuation, modelled time horizons, and more.
2. **Market Analysis** of commercial real estate data for Anchorage.
Interviews with local brokers and data analysis to understand market trends, costs to lease, costs to buy, and tenant improvement allowances.
3. Develop a detailed **Cost Estimate** for each scenario.
Includes Property Condition Assessment of Community Park Loop and site visits to 2600 Cordova Street and for-lease office space (1835 Bragaw Office Center).
4. **Cost Effectiveness Analysis**.
Model 10 different scenarios, and 4 additional sub-scenarios, which locate the Trust Authority Office in a suitable office space for the next 10 to 40 years; compare their costs.
5. Executive Summary Report & PowerPoint to synthesize findings.

High Level Takeaways

Economic considerations:

- Building new or rebuilding the Trust Authority Building onsite is extremely expensive and not recommended (could cross off 3 scenarios).
- Partially renovating the TAB, co-locating at Cordova, leasing for TAO, or buying for the TAO all offer viable options that range from -\$1.6M to -\$5.5M net present value (5 scenarios – 4 are shown as model leaders later in this presentation).
- No real compelling economic reason to consider buying or leasing a building for TAO and TLO to co-locate when the TA already owns Cordova and the TAB (could cross off 2 scenarios)

Non-economic considerations:

- Desirability of co-locating the Trust Authority Office (TAO) and the Trust Land Office (TLO).
- Medium and long-term goals associated with the PLI zoned land that the TAB currently inhabits and its ability to support beneficiaries, and whether those goals are compatible with the TAB (not scope of this project but something for leadership to consider).

High Level Takeaways

Economic considerations:

- Building new or rebuilding the Trust Authority Building onsite is extremely expensive and not recommended.
- Rehabilitating the TAB or co-locating at an existing asset such as Cordova Street or the TAB offer cost effective options.
- Leasing or buying another building are also cost-effective options but add to the real estate portfolio of the TA; they become less cost effective with co-location.

Non-economic considerations:

- Desirability of co-locating the Trust Authority Office (TAO) and the Trust Land Office (TLO).
- Medium and long term goals associated with the PLI zoned land that the TAB currently inhabits and its future to support beneficiaries.

Property Condition Assessment

TAB: Property Condition Assessment



Building Construction:

- Steel and Metal Stud Framing Construction over Slab on Grade, Continuous Footing/Stem wall and select Spread Footings



Building Envelope:

- Exterior stucco and wood siding combination
- Exterior Windows (Combination fixed and operable, older in age and efficiency)
- Built up style roofing system consisting of single ply membrane, rigid insulation and concrete paver overlay



Finishes:

- Dated finishes at Level 1 (ASD Tenant Space)
 - Carpet and Vinyl Flooring, Painted GWB Walls, ACT Ceilings, Plastic Laminate Casework/Counter
- Updated finishes at Level 2 (Client Space)
 - Glass Storefront Entrance, Carpet and LVP Flooring, Tile Bathroom, Painted GWB Walls, ACT Ceilings, Casework and Solid Surface Counters.

TAB: Property Condition Assessment (...continued)



Mechanical, Electrical, and Plumbing:

- Plumbing: Boiler System serves building thru radiant panels throughout
 - Existing boilers are beyond life expectancy and recently requiring regular maintenance/repairs
 - Minimal leaks with boiler piping system over the last two years
- Plumbing: Domestic system consists of Hot Water heater and DWV and water piping routed to installed fixtures
 - Hot Water Heater recently replaced
 - Domestic hot water line replaced more recently as a result of previous leaks
- Fire Sprinkler: Building appears to be fully sprinklered
- HVAC: Roof Mounted AHU supplies air thru ductwork routed to ceiling installed VAV boxes and grilles
 - Existing AHU is beyond life expectancy and utilizes outdated refrigerant
- Electrical: Power and Data routed throughout (typical commercial office application), combination ceiling and accent fixtures throughout
 - Building Control System is primarily original and pneumatic.

Immediate Concerns and Risks

Currently the TAB is operating on one boiler. Looking ahead to winter, if anything went wrong with that boiler, the building would become uninhabitable.

In this case, there could potentially be a 4+ month period where staff would need to work from home or elsewhere until the boilers were replaced and heat re-established by February/March 2026.

TAO could relocate into a short-term lease before this coming winter to mitigate this possibility, however there is significant lead time needed to move TAO into such a lease.

If the board decides to replace TAB's boilers, the soonest that work could be completed and a comfortable building environment could be guaranteed is February/March 2026, and there is a risk that the project could take longer.

Scenarios



Scenarios for Study

10 Scenarios:

- Initially developed by TLO; refined by project team + TLO
- Deliberately **wide-ranging**: intended to investigate many possible solutions to TAB's failing mechanical equipment without presumption or bias
- Model tells us which scenarios are most **cost-effective** over 10 years (can be adjusted for longer)
- An additional 4 sub-scenarios are also investigated.

Goal for the Committee today:

Generate a ranked list of preferred 3 scenarios to recommend to the Board.

Scenarios Cheat Sheet

This is to help you follow along as we discuss the different scenarios throughout the presentation.

#	Name	Description
1	TAB Partial Renovation	Mechanical systems replacement + ductwork, piping, and associated finish work.
2	TAB Mechanical Equipment Replacement	New boiler room, building controls, and HVAC.
3	TAB Full Renovation	Gut and renovation. #1 + efficiency (windows, roof) and finish upgrades.
4	Demolish TAB and Construct New Building for TAO	Class A, 10,400 GSF
5	Demolish TAB and Construct New Building for TAO + TLO	Class A, 16,400 GSF
6	Renovate 2600 Cordova Street for TAO	Renovate VOA's leased space for TAO occupancy.
7	Long term lease for TAO	\$2.50/RSF, 7,500 RSF
8	Long term lease for TAO + TLO	\$2.50/RSF, 11,750 RSF
9	Buy for TAO	\$250/GSF, 10,400 GSF
10	Buy for TAO + TLO	\$250/GSF, 16,400 GSF

Scenarios 1 – 3: Renovate/No Demolition

1. TAB Partial Renovation

- *Full replacement of failing mechanical systems; new piping and ductwork.*
- *Significant finish work also required due to ceiling and drywall removal for pipe & ductwork replacement.*

2. TAB Mechanical Equipment Replacement

- *Replaces failing mechanical systems only (boilers and HVAC) and adds new control system.*
- *No piping or ductwork replaced throughout building and therefore no finish work required.*
- *Includes \$835,000 reserve fund for either additional unforeseen issues or to make some additional necessary improvements within the 10-year time frame.*

3. TAB Full Renovation

- *Scope of work includes everything in 'Partial Renovation' (Scenario 1), as well as efficiency and finishes upgrades throughout, including replacement of all insulation and exterior windows to improve efficiency as well as finish updates such as flooring, paint, ceilings, casework, appliances, roof replacement, and doors/frames/hardware.*

TAB Renovation Scenarios: Scopes of Work

	I. Partial Renovation	2. Mechanical Equipment Replacement	3. Full Renovation
Cost (millions)	\$6.7	\$3.3	\$15.6
Additional Future Maintenance Costs Budgeted?		\$835,000	
New Boiler & Controls	X	X	X
New HVAC Unit	X	X	X
New Radiant Panels	X		X
New Ductwork	X	(existing ductwork cleaned)	X
New Piping	X		X
New Light Fixtures	X		X
Drywall Patching Required?	X		
New Acoustic Ceiling Panels	X		X
Efficiency Upgrades (E.g. New windows, New insulation)			X
Finishes Upgrades Throughout			X
Title 21 Code Compliance Upgrades Required?	X		X

Scenario 2: Mechanical Equipment Replacement Reserve Fund

We have allotted a \$835,000 reserve fund to Scenario 2, Mechanical Equipment Replacement, to account for unanticipated costs associated with a more limited renovation.

This cost estimate includes piping repairs and interior finish repair due to potentially leaking pipes at 2X/year for 10 years, although there have been no pipe leaks for the past 2 years.

It also includes 2X/year radiant panel and VAV box replacement, although to date, replacement of radiant panels and VAV boxes have not been required.

TAB Renovation Scenarios: Benefits, Risks, & Impacts

	Scenario 1, Partial Renovation	Scenario 2, Mechanical Equipment Replacement	Scenario 3, Full Renovation
Benefit	Complete mechanical and control system upgrade. Improves building efficiency and reduces required maintenance.	Smaller financial investment to maintain building functionality. Improved efficiency with new equipment and controls. Less invasive to tenants.	Transformation into a state of the art facility.
Risk	Project cost exceeds building value. Full scope may be excessive to maintain building functionality.	Potential for maintenance to be required with items not replaced (piping, radiant panels, VAV boxes). Recommend \$835,000 reserve fund be set aside for next 10 years.	Project costs exceeds current building value and anticipated building value upon completion.
Impact	9-12 months construction. Building must be vacated; interim lease required for TAO.	Boiler/Controls – 6 months. AHU – Installed May 2026. Vacating of building may not be required but could be prudent; Interim lease assumed in modeling for TAO	15-18 months construction. Building must be vacated; interim lease required for TAO.

Scenarios 4 – 5: Demolition and Build New

4. Demolish TAB and Construct New Building on Site for TAO

- Demolition of current TAB
- In its place, construction of **10,400 Gross Square Feet (GSF)** facility constructed at a class A commercial level and with a layout specific to TAO's needs.

5. Demolish TAB and Construct New Building on Site for TAO + TLO

- Demolition of current TAB
- In its place, construction of **16,400 Gross Square Feet (GSF)** facility constructed at a class A commercial level and with a layout specific to TAO and TLO's needs.
- Cordova St. property is assumed to be sold.

Scenarios 6 – 10: Demolition and Relocate

6. Renovate 2600 Cordova Street for TAO

- Interior renovation of **7,500 RSF** office space currently occupied by VOA (*lease expires March 2027*).
- Tenant improvement costs of **\$150/RSF**.

7. Long term lease for TAO

- Lease **7,500 RSF** office space at market rate of **\$2.50/RSF**.
- Tenant improvement costs of **\$150/RSF** with a **\$35** Tenant Improvement Allowance (TIA) provided by landlord.

8. Long term lease for TAO + TLO

- Lease **11,750 RSF** office space at market rate of **\$2.50/RSF**.
- Tenant improvement costs of **\$150/RSF** with a **\$35** Tenant Improvement Allowance (TIA) provided by landlord.
- Cordova St. property is assumed to be sold.

9. Buy for TAO

- Purchase **10,400 GSF** office space at market rate of **\$250/GSF**.
- Improvement costs of **\$150/RSF**.
- Cordova St. property is assumed to be sold.

10. Buy for TAO + TLO

- Purchase **16,400 GSF** office space at market rate of **\$250/GSF**.
- Improvement costs of **\$150/RSF**.
- Cordova St. property is assumed to be sold.

Key Findings: Market Analysis

Building Class

TAO likely seeking “B+” quality office space...

“[Class B buildings] are elegant and functional office spaces... [they] work well for many tenants who want a nice space while paying a more reasonable price compared to Class A buildings.”

In contrast,
“Class A buildings usually are the newest and highest quality buildings in their market”.¹

¹ Building Owners and Managers Association (BOMA). 2025. Building Class Definitions. <https://boma.org/boma-standards/building-class-definitions/>.

For Lease

Space Type	Number of Listings	Average Building Age	Total Space Listed (sf)	Average Listing Size (sf)	Average Price (\$/sf/month)	Range of Monthly Lease Prices (\$/sf/month)
Office Class A	10	24	45,647	4,565	2.89	2.50-3.50
Office Class B	50	36	248,376	4,968	2.20	1.10-2.65
Office Class C	5	47	14,391	2,878	1.70	1.40-2.00
All Office	65	35	308,414	4,745	2.27	1.10-3.50

**Note: This table only includes those spaces designated as “Office” not those designated as “Office/Medical”, “Office/Retail”, or “Office/Warehouse” since these listings often don’t have a class designation.*

Source: LoopNet (2025) and Northern Economics analysis

For Lease (...continued)

Cost

- B+ quality office building: **~\$2.50/RSF for long term leases.**
- ~2.70/RSF for short term leases.

Tenant Improvements

- Anticipated Tenant Improvements of **~\$150/RSF** total to customize space to fit TAO's needs.
- TIAs not offered for leases less than 3 years.
- Standard Tenant Improvement Allowance of **~\$5/ft/year**
- TIA of **\$35/RSF** modelled.

Trends

- **12-15% vacancy in Midtown**
- Lease market stable or trending very slightly up.

“The perception that there are lots of good deals to be had right now is driven by less desirable Class C buildings.”

-Broker Interview

Example Broker Selected Buildings for Lease

4361 Boniface Parkway



11,635 RSF

\$2.35/RSF/
month

3000 A St.



Ste 200:

6,891 RSF

Ste 300:

9,994 RSF

\$2.75/RSF/
month

1835 Bragaw



Ste 125: **684 RSF**

Ste 200: **17,505 RSF**

Ste 160: **1,593 RSF**

\$2.50/RSF/month

For Sale

Listing Type	Number of Listings	Total Space for Sale (sf except land in Acres)	Average Listing Size (sf except land in Acres)	Average Building Age	Average Price (\$/sf) or Acre	Range of Prices (\$/sf) or Acre
Industrial	2	100,750	50,375	50	210.11	200.16 - 220.06
Office	5	63,544	12,709	50	266.55	135.38 - 484.66
Medical	1	47,736	47,736	N/A	480.93	480.93 - 480.93
Hospitality	1	24,972	24,972	60	120.09	120.09 - 120.09
Flex Building	2	55,614	27,807	47	216.72	135.82 - 297.62
Retail	2	62,155	31,078	51	205.32	172.85 - 237.78
Land	5	5.37	1.07	N/A	718,665.16	243,243 – 1,031,250
Apartment Building	1	7,671	7,671	58	123.84	123.84 - 123.84

Source: LoopNet (2025) and Northern Economics analysis

For Sale and New Construction

Cost

- B+ quality office building: **~\$250/GSF**
- New construction is **~\$950/GSF**, making replacement costs much higher than market value.

Tenant Improvement

- Tenant Improvements of **~\$150/USF**

Benefits

- Additional benefits of ownership include control over when building is open/closed, and office flexibility (i.e. bringing dogs to work).

“Given interest rates it is safe to say a tenant that might want to buy would rather lease right now. But, if there’s a building they really like, they should just plug their nose, buy it, then refinance when rates drop.”
—Broker Interview

Example Broker Selected Buildings for Sale

3000 A St.



\$7.9M // **\$149.51/SF**

Basement/storage: 6,190 SF

Floor 1/Parking: 14,427 SF

Floor 2: 14,473 SF

Floor 3: 11,507 SF

Floor 4: 10,096 SF

Penthouse: 1,712 SF

Total SF: 52,839

3035 C St.



\$3.895M // **\$261/SF**

Total SF: 14,900 SF

Core Assumptions Driving the Cost Effectiveness Model



Space Needs, Driven by Employee Estimates

User	Employees	Square Feet Per Employee	Space Needs (in Useable Square Feet)
Trust Administrative Office	18	250	4,500
Trust Land Office	17	250	4,250
Long Term Care Ombudsman Office	6	250	1,500
Conference Room Commensurate to Current Experience	N/A	1,500	1,500
			11,750
Without TLO			7,500

- Space for LTCO staff (6 people) required
- **250 square feet per employee** factor assumed—this is at the lower end of what is considered “spacious”
- Space for a **conference room** equal in size to TAO’s current conference room in TAB is accounted for.

Details: Gross, Useable, Rentable Square FEet

#	Category	Scenario	Gross Sqft (GSF)	Rentable Sqft (RSF)	Useable Sqft (USF)
1	3745 Community Park Loop	Partial Renovation	24,850	19,900	n/a
2	3745 Community Park Loop	Mechanical Equipment Replacement	24,850	19,900	n/a
3	3745 Community Park Loop	Full Renovation (Assume TLO Moves in)	24,850	19,900	n/a
4	3745 Community Park Loop	Construct New Building on Site for TAO	10,400	8,300	7,500
5	3745 Community Park Loop	Construct New Building on Site for TAO + TLO	16,400	13,100	11,750
6	2600 Cordova Street	Cordova: TAO to move in	n/a	n/a	7,500
7	Lease	Long term lease for TAO	10,400	8,300	7,500
8	Lease	Long term lease for TAO + TLO	16,400	13,100	11,750
9	Buy	Buy for TAO	10,400	8,300	7,500
10	Buy	Buy for TAO + TLO	16,400	13,100	11,750

Square feet definitions:

- Gross Square Feet (GSF). The total area of a building measured to the outside walls. Used for construction costs, property taxes, purchase price comparisons, and general building size.
- Useable Square Feet (USF). The area a tenant can actually use within their space. Includes offices, conference rooms, private kitchens and bathrooms (if inside the space). Excludes shared hallways, elevators, common lobbies. Used for understanding the actual working space a tenant gets.
- Rentable Square Feet (RSF). The **usable square feet plus a share of common areas** (like lobbies and hallways). Used for tenant leases and calculating rent. purposes using the following factors.
- When estimating in this model, Rentable Square Feet is 10% more than Useable Square Feet. Gross Square Feet is 20 percent more than Rental Square Feet. All numbers are rounded up for additional buffer.

Trust Authority Building (TAB) Demolition

All scenarios which do not repair/replace TAB's mechanical systems include **demolition costs** for TAB. This is because once these mechanical systems fail, TAB will be uninhabitable. The mechanical systems are expected to fail anytime within the next four years.

Decision for Trustees:

- repair TAB's mechanical equipment or
- demolish the building and begin future planning for the site



Interim Lease Assumptions

All scenarios include the additional cost of an interim lease to account for the potential operating costs associated with a shorter-term lease should the TAB require an interim solution. Different scenarios have different durations. The interim lease lengths do not reflect an exact schedule for each scenario but are meant to hold the cost of such an expense in the model.

Costs for an interim lease are built into all scenarios where necessary. Interim leases are assumed to be **more expensive** than long term leases, since they are shorter in duration (\$2.70 vs. 2.50/RSF/month) and do not include a tenant improvement allowance (TIA).

		Interim Lease Assumptions
1	Partial Renovation	6 months
2	Mechanical Equipment Replacement	6 months
3	Full Renovation (Assume TLO Moves in)	14 months
4	Construct New Building on Site for TAO	24 months
5	Construct New Building on Site for TAO + TLO	24 months
6	Cordova: TAO to move in	18 months
7	Long term lease for TAO	6 months
8	Long term lease for TAO + TLO	6 months
9	Buy for TAO	6 months
10	Buy for TAO + TLO	6 months

Note: Interim lease expenses are assumed for TLO when they move out of Cordova to account for sale of building in year 1 and time before they can occupy the building. In reality, TLO might delay year of sale to avoid interim lease expenses.

Revenue/Expenses

- Projected revenue, expenses, and asset value for both Cordova Street and Trust Authority Building (TAB) are included in all scenarios. **The model is designed to look at both buildings collectively.**
- Revenue/expenses for Cordova Street are based on 2024/2025 actuals. Where Cordova Street lease income would be displaced (e.g. TAO moves into VOA's suite) that displaced lease income has been deducted from the projected revenue for that scenario.
- Projecting revenue/expenses for TAB is speculative, since the most recent actuals include ASD who is no longer a tenant. Based on conversations with TLO staff and brokers, we have assumed a \$1.50/RSF lease, with a \$35/RSF Tenant Improvement Allowance for re-leasing ASD's space.
 - In sub-scenarios where TLO moves into TAB, we allot the entire 12,564 RSF ASD lease to TLO, due to inefficient building layout and no floorplan redesign; even though this is in excess to TLO's space needs.
 - In the 'TAB full renovation' scenario, we assumed a rent value of \$2.20/RSF with a \$35/RSF TIA, given that it will become a more desirable space once fully renovated.

Trust Authority Building: No Sale

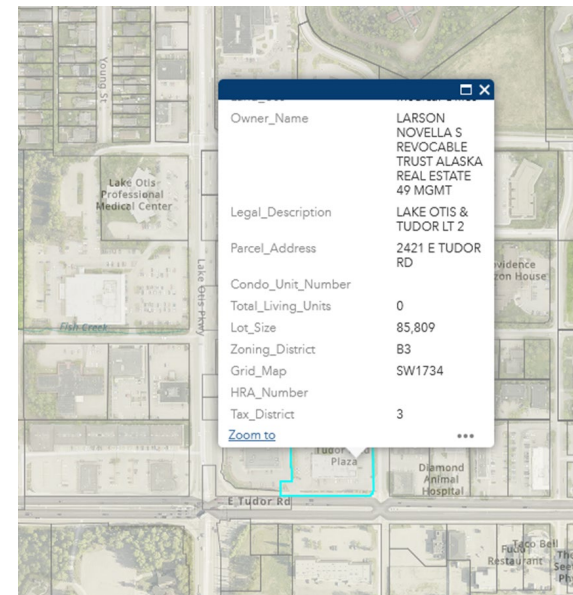
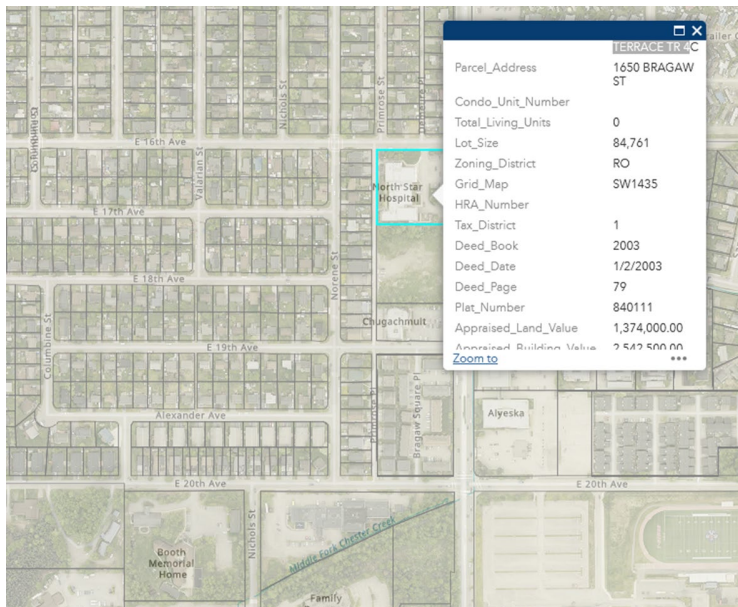
In all scenarios, we assume the Trust Authority Building and associated land are NOT disposed, based on direction from TLO staff. For this reason, **all scenarios assume zero cash flow from disposal of Community Park Loop.**

However, the residual value of Community Park Loop is included in all scenarios under the 'NPV + residual value' metric. This inclusion is not to suggest that Community Park Loop is sold, but rather to include the value of owned assets along with net present value for purposes of 'apples to apples' comparisons across scenarios.



Trust Authority Building Valuation

The Municipality of Anchorage's assessed value of the Trust Authority Building (TAB) land is less than a dollar per square foot. Land values of \$15-30/sqft are more common in Anchorage, in that area. We used two neighboring property's assessments to estimate a \$16/sqft price that we believe is more accurate. Since the TAB's building is not functional without significant investment, we valued the property at land value minus demolition costs for scenarios where the TAB is not renovated. This approach results in a disposition value of approximately \$2.5M for the property. The 'residual value' in the cost effectiveness model is this disposition value + 2% appreciation/year.



New Construction Valuation Ceiling

Building replacement costs/new construction are currently far higher than market value to purchase office buildings in Anchorage.

The cost for new construction in Scenarios 4 and 5 is \$945/GSF. The top of Anchorage's office space market, however, is ~\$300/GSF.

In other words, even if it costs \$15M to build a new ~10,000 GSF building today, there is not necessarily a buyer for that building at \$15M tomorrow.

Given this discrepancy, we have capped the disposition value of all scenarios at \$300/GSF based on the market study and conversations with brokers.

Cordova Street Sale

The direction from TLO staff has been that the sale of 2600 Cordova is Street is a potential option. For this reason, **the model assumes a sale of Cordova Street for all scenarios where TLO re-locates.**

This sale value is input as a cash flow at Year 0, and no residual value from the Cordova Street property remains at the end of the modelled time horizon.

Based on a recent appraisal, **the disposition value of 2600 Cordova Street in scenarios where TLO is relocated is \$4.1M.** In those scenarios where TLO is not relocated, the residual value of 2600 Cordova Street is \$4.5M.



Key Findings: Cost Effectiveness Analysis

Evaluation

We arranged our Cost Effectiveness Analysis to output four primary metrics by which to evaluate the ten scenarios. These are:

1. **Capital Expense** (CapEx): *the initial cost of construction, renovation, or purchase under each scenario.*
2. **Net Operating Income** (NOI): *average revenue minus expenses over the time horizon, averaged annually.*
3. **Net Present Value** (NPV): *CapEx + NOI over the time horizon, calculated in today's dollars.*
4. **Net Present Value plus Residual Value**: *NPV + disposition value of asset assuming 2% annual appreciation.*

High Level Findings

- Any scenario that requires building new is burdened by prohibitive construction costs.
 - Buying, leasing or pared-down renovations offer more cost-effective options.
- Top 4 options defined by net present value with and without residual value:
 - TAB Mechanical equipment replacement
 - Move TAO into Cordova
 - Long term lease for TAO
 - Purchase building for TAO

Scenario #	Scenario Name	CapEx	NOI	NPV	NPV + Residual
		Rank	Rank	Rank	Rank
2	Mechanical Equipment Replacement	4	1	2	2
6	Cordova: TAO to move in	2	8	3	4
7	Long term lease for TAO	1	7	1	3
9	Buy for TAO	5	3	4	1

Capital Expenditures Estimates

- **All Scenarios:** CapEx ranges from **\$1.2 to \$15.8M**
- Scenarios 6, 7, and 8 have the lowest CapEx with \$1.2M to \$1.7M.
 - Of those, only Scenario 6 invests those funds into a building owned by the TA.

Scenario #	Scenario Name	Estimated Capital Expenditures									Interim Lease Amount
		Tenant Improvements		Renovation	Reserve Fund	TAB Demo	New Construction	Purchase Price	Total CapEx	Rank	
		Amount	Note								
1	Partial Renovation	\$439,740	[1]	\$6,272,389	\$0	\$0	\$0	\$0	\$6,712,129	7	\$133,650
2	Mechanical Equipment Replacement	\$439,740	[1]	\$1,980,048	\$835,000	\$0	\$0	\$0	\$3,254,788	4	\$133,650
3	Full Renovation (Assume TLO Moves in)	\$439,740	[1]	\$14,960,943	\$0	\$0	\$0	\$0	\$15,400,683	9	\$311,939
4	Construct New Building on Site for TAO	\$0	[2]	\$0	\$0	\$380,000	\$9,828,000	\$0	\$10,208,000	8	\$534,600
5	Construct New Building on Site for TAO + TLO	\$0	[2]	\$0	\$0	\$380,000	\$15,498,000	\$0	\$15,878,000	10	\$837,540
6	Cordova: TAO to move in	\$1,125,000	[3]	\$0	\$0	\$380,000	\$0	\$0	\$1,505,000	2	\$400,950
7	Long term lease for TAO	\$862,500	[4]	\$0	\$0	\$380,000	\$0	\$0	\$1,242,500	1	\$133,650
8	Long term lease for TAO + TLO	\$1,351,250	[4]	\$0	\$0	\$380,000	\$0	\$0	\$1,731,250	3	\$133,650
9	Buy for TAO	\$1,245,000	[5]	\$0	\$0	\$380,000	\$0	\$2,600,000	\$4,225,000	5	\$209,385
10	Buy for TAO + TLO	\$1,965,000	[5]	\$0	\$0	\$380,000	\$0	\$4,100,000	\$6,445,000	6	\$209,385

[1] TIs assumed at \$150/sqft with a \$35 allowance from the TA to release ASD's space

[2] TIs for any space that is potentially sublet assumed in the cost per sqft of building new.

[3] TIs assumed to cost \$150/sqft to cover the cost of improving 7,500 sqft of Cordova St. for TAO to move in.

[4] TIs assumed to cost \$150/sqft with a \$35/sqft allowance resulting in \$115/sqft net to cover the cost of improving 7,500 and 11,750 sqft of building space for TAO or TAO/TLO to move into new building, respectively.

[5] TIs at \$150/sqft to cover useable sqft including common areas. Gross sqft shown in table and are in addition to \$250/sqft acquisition costs.

Capital Expenditures Per Building Sqft

Scenario #	Scenario Name	Total CapEx	Building Sqft	Type	Cost per Sqft
1	Partial Renovation	\$6,712,129	24,850	gross	\$270
2	Mechanical Equipment Replacement	\$3,254,788	24,850	gross	\$131
3	Full Renovation (Assume TLO Moves in)	\$15,400,683	24,850	gross	\$620
4	Construct New Building on Site for TAO	\$10,208,000	10,400	gross	\$982
5	Construct New Building on Site for TAO + TLO	\$15,878,000	16,400	gross	\$968
6	Cordova: TAO to move in	\$1,505,000	7,500	leasable	\$201
7	Long term lease for TAO	\$1,242,500	7,500	leasable	\$166
8	Long term lease for TAO + TLO	\$1,731,250	11,750	leasable	\$147
9	Buy for TAO	\$4,225,000	10,400	gross	\$406
10	Buy for TAO + TLO	\$6,445,000	16,400	gross	\$393

Average Annual Net Operating Income

NOI gives us an idea of yearly cash flow. Revenues and expenses in each case are scenario-dependent. The NOI is a ten-year average of combined lease revenue minus combined expenses for TAB, Cordova Street, and other buildings included in each scenario.

The Scenarios that perform best by NOI are primarily those which do not sell Cordova St. or otherwise displace its rent revenue, since the building nets ~\$250,000/year.

Scenario #	Scenario Name	NOI	Rank
1	Partial Renovation	\$178,309	1
2	Mechanical Equipment Replacement	\$100,968	4
3	Full Renovation	(\$3,794)	5
4	Construct New Building on Site for TAO	\$177,354	2
5	Construct New Building on Site for TAO + TLO	(\$12,913)	6
6	Cordova: TAO to move in	(\$126,309)	8
7	Long term lease for TAO	(\$31,284)	7
8	Long term lease for TAO + TLO	(\$462,723)	10
9	Buy for TAO	\$117,003	3
10	Buy for TAO + TLO	(\$228,479)	9

Net Present Value (10-year Time Horizon)

NPV & NPV + Residual Value: give us an idea of cost effectiveness over time.

Over a ten-year time horizon, **Scenarios 7, 2, and 6** emerge as the most cost-effective options, in that order. Including residual value, **Scenarios 9, 2, and 7** are the most cost-effective, in that order.

Scenario #	Scenario Name	Net Present Value		NPV + Residual Value	
		Amount	Rank	Amount	Rank
1	Partial Renovation	(\$5,506,715)	6	(\$209,362)	7
2	Mechanical Equipment Replacement	(\$1,743,279)	2	\$3,554,074	2
3	Full Renovation (Assume TLO Moves in)	(\$15,917,097)	9	(\$5,437,047)	9
4	Construct New Building on Site for TAO	(\$9,077,379)	8	(\$2,595,083)	8
5	Construct New Building on Site for TAO + TLO	(\$16,499,045)	10	(\$7,589,872)	10
6	Cordova: TAO to move in	(\$2,639,744)	3	\$1,909,165	4
7	Long term lease for TAO	(\$1,598,839)	1	\$2,950,071	3
8	Long term lease for TAO + TLO	(\$5,452,834)	5	\$407,539	6
9	Buy for TAO	(\$3,506,099)	4	\$3,624,609	1
10	Buy for TAO + TLO	(\$8,424,160)	7	\$630,792	5

Sub-Scenarios Investigated

Many combinations of scenarios are possible for this project. We have provisionally explored 4 additional combinations. The additional scenarios investigate the cost effectiveness of **TLO moving into TAB** as part of the TAB renovation scenarios, as well as the cost effectiveness of **keeping vs. selling Cordova Street** in those conditions.

Sub-scenarios Investigated (...continued)

Scenario #	Scenario Name	NPV		NPV + Residual Value	
		Amount	Rank	Amount	Rank
1A	Partial Renovation	(\$5,506,715)	1	(\$209,362)	1
1B	Partial Renovation TAB, TLO moves in	(\$9,616,340)	3	(\$3,007,524)	3
1C	Partial Renovation TAB, TLO moves in, Keep Cordova	(\$7,516,317)	2	(\$2,218,964)	2
2A	Mechanical Equipment Replacement	(\$1,743,279)	1	\$3,554,074	1
2B	Mechanical Equipment Replacement TAB, TLO moves in	(\$5,930,308)	3	\$678,508	3
2C	Mech.Equipment Replacement TAB, TLO moves in, Keep Cdv.	(\$3,548,865)	2	\$1,748,488	2
3A	Full Renovation TAB	(\$12,746,770)	1	(\$3,578,184)	1
3B	Full Renovation TAB, TLO Moves in	(\$15,917,097)	3	(\$5,437,047)	3
3C	Full Renovation TAB, TLO moves in, Keep Cordova	(\$13,513,420)	2	(\$4,344,833)	2

**For scenarios 1B, 1C, 2B, and 2C, a \$150/RSF renovation cost has been applied to make the TAB space vacated by ASD usable for TLO.*

The “main” scenarios are highlighted in green. The only cluster of scenarios where a sub-scenario displaces the main scenario is Scenario 3, Full Renovation. This is one of the least cost-effective scenarios overall, and therefore the sub-scenarios modelled above do not affect overall scoring and can likely be dismissed.

Model leaders

- Given current assumptions, here are the top 4 options defined by net present value with and without residual value:
 - TAB Mechanical equipment replacement
 - Move TAO into Cordova
 - Long term lease for TAO
 - Purchase building for TAO

Scenario #	Scenario Name	CapEx	NOI	NPV	NPV + Residual
		Rank	Rank	Rank	Rank
2	Mechanical Equipment Replacement	4	1	2	2
6	Cordova: TAO to move in	2	8	3	4
7	Long term lease for TAO	1	7	1	3
9	Buy for TAO	5	3	4	1

Next steps

- The 10 Scenarios and 4 additional sub-scenarios studied are deliberately wide-ranging and intended to cover a variety of different approaches to the problem.
- TAB's mechanical equipment is at risk of immediate failure. If the board does not elect to repair that equipment, we suggest they plan for the demolition of the building.
- Additional topics for discussion:
 - Desirability of keeping Cordova Street (both in cases where TLO is and is not moved)
 - Desirability of co-locating TLO and TAO
 - Long term goals and timeline for Community Park Loop redevelopment, and whether that redevelopment is compatible with existing building
 - TAO immediate building needs for coming winter

Goal for today's meeting: *Generate a ranked list of preferred 3 scenarios to recommend to the Board.*

Thank you!

