

**ALASKA MENTAL HEALTH TRUST AUTHORITY
SPECIAL FULL BOARD OF TRUSTEES MEETING
February 16, 2024
9:00 a.m.**

Hybrid Meeting Originating at:
Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 200
Anchorage, Alaska 99508

Trustees Present:

Anita Halterman, Chair
John Morris
Kevin Fimon
Brent Fisher
Rhonda Boyles
John Sturgeon

Trust Staff Present:

Steve Williams
Julee Farley
Miri Smith-Coolidge
Michael Baldwin
Allison Biastock

Trust Land Office staff present:

Jusdi Warner
Jeff Green
David MacDonald
Blain Alfonso
Sarah Morrison
Marisol Miller

Others present:

John Springsteen; Jon Haghayeghi.

PROCEEDINGS

CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with a roll call. She asked for any announcements. Hearing none, she asked for a motion to approve the agenda.

APPROVAL OF THE AGENDA

MOTION: A motion to approve the agenda was made by TRUSTEE STURGEON; seconded by TRUSTEE FIMON.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boyles, yes; Trustee Fimon, yes; Trustee Fisher, yes; Trustee Sturgeon, yes; Chair Halterman, yes.)

CHAIR HALTERMAN called for any ethics disclosures. Hearing none, she introduced the discussion of commercial real estate items, starting first with the CRE performance update. She turned the floor over to David MacDonald and the TLO Staff.

CRE PERFORMANCE UPDATE

MR. MacDONALD shared the results for the portfolio for the first half of the year, and the most recent quarter. The portfolio brought in over \$2 million in net cashflow. He stated that it was notable that in December they had the first CFF draw related to North Park, for 273,000. There was no CFF draw in January. Showing a chart for the second fiscal quarter, he continued that the NCREIF benchmark was beaten for our peer group comparison across the board. On income, the NCREIF performed at a 1.62 percent return, on a quarterly return; not an annual return. The benchmark did 1.26. We came in at 2.4, and beat it by 1.17. For appreciation, our portfolio declined in value a little less than 1 percent, which isn't great; but he noted that it is significantly better compared to our peer group. The NCREIF benchmark showed a loss in value of slightly over 6 percent, adding that we came in over 5 percent better than our peer group comparison benchmark. Add those two together, and we achieved a 1.57 in total return, which is over 6.5 percent higher than our benchmark.

TRUSTEE FIMON asked what was driving the minus 6 percent for a quarter for the NCREIF.

MR. MacDONALD stated it was due to distress in the office market. The 6.72 percent is the decrease in office valuation. The 3.2 is the decrease in industrial valuations. 6.22 is the weighted average used for our overall comparison. Industrial is struggling in select markets. Phoenix is a bloodbath because they have been overbuilding. Inland Empire, California, is still holding up fairly well. The office market is going through struggles recovering from the pandemic and the work-from-home issue. Companies are mostly bringing back employees on a hybrid schedule. They are also rightsizing, meaning that we are seeing slight decreases in square footage. We are seeing bifurcation between Class A space, with amenities doing very well. Class B space is kind of in a swing; and Class C and below is really doing well. He heard it phrased as rather than the typical oversupply, there is an under-demolition issue. A lot of obsolete products are no longer competitive, and that is where there is a lot of distress. Class A, in major markets, wants to hand the keys back to lenders, which makes the headlines. The implication is that the market has fallen off a cliff, when in reality, it is hard-ball negotiations with a lender to reset their debt. He said that this is, to a degree, an absorption and fundamental office market issue. To a maybe even larger issue, this is a debt issue where lenders were too aggressive, and now they are realizing that they got in over their skis. It is not so much the

leasing side; it is the capital market side. It has not shaken out to the point where we are seeing the opportunistic buying coming in and taking over. Lenders are doing an “extend and pretend” kind of model where they try to work out with owners rather than doing foreclosures or distressed sales. All of that in conjunction is making the buying pool conservative and cautious. Smaller deals are gone before they hit the market. Groups like Blackstone will have early conversations and snatch deals up before they hit the street. So, it’s the perception and the sentiment that is really driving those values.

CHAIR HALTERMAN asked if there were any questions. Hearing and seeing none, she asked Mr. MacDonald to continue.

MR. MacDONALD continued that the motion is to bring to the board of trustees any situations that we see that warrant disposing of assets. The specific recommendation is the Ogden, Utah, property, 1973 Rulon White. The asset is 103,000 square feet on a 13-acre site. It is fully occupied by the IRS, which is essentially a AAA government bond because of who it is. It is a GSA deal, government-backed, which is as good credit as you can get. They have been a tenant since 2002. The Trust has owned the property for ten years. We have determined that it has met all our investment objectives, so we think it is an appropriate time to dispose of the asset.

MS. WARNER noted that it would be appropriate for trustees to move into an Executive Session to discuss the disposal recommendation more.

CHAIR HALTERMAN requested a motion to move into Executive Session.

MOTION: Per AS 44.62.310(c), a motion that the Alaska Mental Health Trust Authority Full Board of Trustees move into Executive Session to discuss confidential matters pertaining to commercial real estate, the immediate public knowledge of which would clearly have an adverse effect upon the finances of the public entity. No decisions will be made in the Executive Session. The motion was made by TRUSTEE FISHER; seconded by TRUSTEE STURGEON.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boyles, yes; Trustee Fimon, yes; Trustee Fisher, yes; Trustee Morris, yes; Trustee Sturgeon, yes; Chair Halterman, yes.)

(Executive Session from 9:22 a.m. until 10:02 a.m.)

CHAIR HALTERMAN requested a motion to come out of the Executive Session.

MOTION: For the record, myself, fellow trustees and members of the Trust Authority and Trust Land Office are returning to the Special Full Board of Trustees’ Meeting from the Executive Session. We did not make any decisions during the Executive Session. The motion was made by TRUSTEE FISHER; seconded by TRUSTEE STURGEON.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boyles, yes; Trustee Fimon, yes; Trustee Fisher, yes; Trustee Morris, yes; Trustee Sturgeon, yes; Chair Halterman, yes.)

COMMERCIAL REAL ESTATE ASSET DISPOSITION

MOTION: A motion that The Alaska Mental Health Trust Board of Trustees concur with the Trust Land Office (TLO) recommendation to proceed with disposal of 1973 North Rulon White Boulevard, Ogden, Utah, at terms acceptable to the executive director, with a minimum price at or above fair-market value as determined via appraisal. The motion was made by TRUSTEE STURGEON; seconded by TRUSTEE FIMON.

CHAIR HALTERMAN asked the TLO staff to continue.

MR. MacDONALD restated prior points regarding 1973 North Rulon White Boulevard in Ogden, Utah, and noted that this is an opportune time to dispose of the asset and to lock in the gains which was the rationale for the motion put in front of the trustees today. He added that if the motion is approved, we will be going through a very exhaustive marketing process in order to generate competition for the asset and maximize the sale price. He clarified that the TLO recommendation is to dispose of the asset through a negotiated sale at terms acceptable to the executive director, not just of sale price, but also closing dates, deposits, due diligence periods, et cetera. In no event will that be less than the fair-market value that we will determine by hiring an appraiser to give us an appraised value that will set the floor as the fair-market value.

CHAIR HALTERMAN asked if there were any questions from trustees. Hearing none, she called the roll-call vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boyles, yes; Trustee Fimon, yes; Trustee Fisher, yes; Trustee Morris, yes; Trustee Sturgeon, yes; Chair Halterman, yes.)

CHAIR HALTERMAN continued to the next section.

MOTION: A motion that The Alaska Mental Health Trust Board of Trustees approves increasing the fiscal year '24 incremental building expenditure budget of the CRE properties by \$544,166 to facilitate capital improvement necessary to secure a long-term lease at North Park Corporate Center. This will be paid from the Central Facilities Fund 3322. The Board of Trustees directs the CFO to transfer \$544,166 to the Central Facility Fund for this purpose and distribute these funds to the third-party property manager at the request of the Trust Land Office. These funds do not lapse. The motion was made by TRUSTEE STURGEON; seconded by TRUSTEE FISHER.

MS. WARNER turned the discussion over to Ms. Miller to walk through the request.

MS. MILLER noted that this will require the board to approve \$544,166 in expenditures from the Central Facility Fund. A long-standing tenant at our North Park property in San Antonio, Texas, has submitted an early lease renewal request. Their lease expires in April 2025. They are interested in a five-year extension through April 2030. The pros of this extension include removing the uncertainty with a prospective rollover in 2025, and replacing it with stability; eliminating the potential for lost income during any down time should they vacate; avoiding lease-up costs associated with a new deal, which would likely triple the costs associated based on the current Circle K deal that was just executed; making the asset more marketable for sale by eliminating one of three primary risk attributes, the other two being the July 2025 True Source lease expiration – which is another tenant at the asset – and negative sentiment in the capital

markets towards office products. The higher valuation due to reduced risk and approved income stream are all positives by executing the renewal. We have considered accelerating deal costs from the fiscal year to the current fiscal year. The TLO is confident that we will overcome the deficit with spendable income, and there will not be a shortfall at the end of the year. Downsizing the tenant's currently leased area from 27,000 square feet to 19,738 square feet, during the renewal, will commence marketing so that we can begin marketing it, and relet it now. The TLO recommends that it is in our best interest to lock this deal down and focus on the True Source space that will vacate in 2025 and improve marketability at the asset for a future disposal. The extension terms, still in negotiation, will provide \$2.7 million gross value, or \$2.2 million net value after deducting deal costs. The deal is prompted by the tenant who is responsible for maintaining the HVAC units on top of their building, which are old and failing. They are currently considering negotiating early extension with us, or vacating completely to another space elsewhere in town. North Park is situated in the suburban Hollywood Park area of San Antonio. Over the last four years, North Park has experienced a constant vacancy rate of 48 percent. Due to diligent leasing efforts, the vacancy has been reduced to 9 percent, or 91 percent occupancy. In contrast, the San Antonio market has a vacancy rate of 18.7 percent, higher than in 2019 when the rate was 13.5 percent. More tenants are leaving to better quality, lower-priced spaces in the area. In conclusion, the TLO recommends the approval of the \$544,166, which will be utilized to cover leasing commissions, HVAC replacement, and tenant improvement allowances.

CHAIR HALTERMAN thanked Ms. Miller, and recognized Trustee Morris.

TRUSTEE MORRIS stated that this may be better addressed in Executive Session, but what is the broker opinion of value for this property? Would it be better to try and sell it without improvements?

MS. MILLER noted that they have spoken to investment brokers in the area, and sales are not closing. It would be considered a distressed asset. Current vacancy rate is 9 percent. If we lose this tenant, the vacancy rate will skyrocket back up. Negotiating the execution of the deal now would poise us for a near-term sale in the future; not necessarily this year, per se. We need to lock down this renewal and stabilize occupancy in this building. The \$544,000 is, in part, to replace several large-tonnage rooftop units on the building, which is what is eating up that cost. Replacing it now will poise it for a future higher-value appraisal with higher stability. The building is beautifully situated in a nice corridor in Texas; close to shopping, eating, and we have put in an outdoor amenity area. The tenants are loving that – which is part of the reason the tenants want to stay versus vacating. The issue is a competitive market oversaturated with both sublease space and current space on the market. If we put it on the market today, left it as it is, we would potentially be selling it as a distressed asset versus a stabilized higher-value asset with locked-in leases and a stabilized occupancy.

TRUSTEE MORRIS noted that the renovations are for one tenant. Based solely on the cash flow rents of that one tenant, how many years would it take us to recoup the half-million dollar CFF distribution?

MS. MILLER stated that the lease alone is anticipated to bring in \$2.2 million over the five-year renewal period. So, roughly a year-ish, depending on stability and timing of those replacements. For perspective, if they were to vacate and we were trying to re-lease the whole 27,000 square feet, we would be looking at more than triple the cost to relet the space. The Circle K deal came

in at 1.5 million; 1.4 to execute the deal. If we were to have to do that, we would be looking at three times that \$500,000.

CHAIR HALTERMAN recognized Trustee Fimon.

TRUSTEE FIMON asked if we are getting a commitment from the tenant prior to the expenditure of the half million.

MS. MILLER stated that we would not expend any dollars until the deal is fully executed. We are in negotiations now. The goal is to come forward with information on the front end, and to give the board the opportunity to approve this before we continue with negotiations. We never want to negotiate with a tenant in bad faith.

CHAIR HALTERMAN recognized Trustee Boyles.

TRUSTEE BOYLES assumed that there is money in the Central Facility Fund. Her opinion is that this is an appropriate use of that particular fund. She asked Mr. MacDonald and Ms. Miller if they believe that this is going to turn around in the near future, or is it going to get worse in San Antonio.

MS. MILLER stated that, right now, the market is oversaturated with space. There is a possibility that it could turn around, but it is still too early to say. We are still in Q1 of '24, but this is definitely an asset that needs to be poised for a future sale.

MS. WARNER noted, for clarification, that there is adequate funding to pay for this in the CFF, but we are still working toward building that CFF. We have the spendable income right now because of the TLO performance that we can continue to put this money into the CFF and then draw it back out.

CHAIR HALTERMAN asked if there were any further questions.

MS. WARNER clarified that this is for the HVAC units at the building, not necessarily specific to this tenant.

MS. FARLEY noted that we will have to wait until we receive a few more distributions from the commercial real estate properties in order to fund this. So there will be a lag on this funding.

TRUSTEE FIMON asked if we anticipate that lag will be completed before the end of this fiscal year.

MS. WARNER replied that we do anticipate that that will be within this fiscal year.

CHAIR HALTERMAN called for the vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boyles, yes; Trustee Fimon, yes; Trustee Fisher, yes; Trustee Morris, yes; Trustee Sturgeon, yes; Chair Halterman, yes.)

CHAIR HALTERMAN asked for a motion to adjourn.

MOTION: A motion to adjourn the Special Full Board of Trustees meeting was made by TRUSTEE STURGEON; seconded by TRUSTEE MORRIS.

After the roll-call vote, the MOTION was APPROVED. (Trustee Morris, yes; Trustee Sturgeon, yes; Trustee Fisher, yes; Trustee Fimon, yes; Trustee Boyles, yes; Chair Halterman, yes.)

CHAIR HALTERMAN adjourned the meeting.

(Special Full Board of Trustees meeting adjourned at 10:29 a.m.)