Talking points - potential triple net lease of 716 West 4th Ave. & 712 West 4th Ave. in Anchorage, Alaska

1. Why a triple net lease rather than just a standard full service lease?

It is possible to use either, and there are advantages and disadvantages to both.

2. What are the advantages and disadvantages for a tenant/Lessee to enter into a full service lease?

Advantage:

- The landlord/Lessor is responsible for all costs and expenses associated with the ownership, maintenance, and operation of the facility.
- The tenant/Lessee is responsible for the monthly lease payments as defined in the lease and nothing more.
- This form of lease works well for short-term occupancy, for the lease of properties that are older and in need of extraordinary maintenance, and for the lease of properties where maintenance and operating expenses may be difficult to either estimate or control.

Disadvantage:

- Monthly rent is significantly higher in order to cover the costs of property ownership, management, routine maintenance, and extraordinary maintenance/repairs.
- The tenant/Lessee has no control over the maintenance of the facility or of the vendors and suppliers who perform work at, or provide services to, the facility.
- The landlord/Lessor may perform only the minimal maintenance and services required under the lease agreement and may not be responsive to the tenant's/Lessee's needs. If the lease is long-term, the facility may begin to have a "run down" appearance.

- ***3. What are the advantages and disadvantages for a tenant/Lessee to enter into a triple net lease?***

Advantage:

- The monthly base rent is lower than the monthly rent for a full service lease.
- If the property is new, or in good condition, maintenance expenses will be minimal; particularly if the building is fitted with energy-efficient equipment, fixtures, systems, and controls.
- The tenant/Lessee maintains control of the entire facility and its daily management.
- The tenant/Lessee is able to adjust the frequency of routine maintenance and services (i.e. janitorial, grounds maintenance, window washing, etc.) based upon need rather than a fixed schedule.
- If the tenant/Lessee is able to generate revenue from its use of the facility (i.e. rent out spaces in a parking garage, sub-let space, etc.), the tenant/Lessee may use that revenue to offset other lease expenses.

- With respect to the draft triple net lease presently under consideration:
  - The landlord/Lessor is responsible for major system inspections and repair (HVAC, elevators, fire suppression system, roof, structural components, plumbing, electrical, etc.). The tenant/Lessee will not have to budget for major unforeseen expenses.
  - The facility will be completely renovated; the condition at occupancy will be substantially equivalent to that of a brand new facility.
- This form of lease works well for long-term occupancy because it offers the tenant/Lessee with the benefits of ownership without the associated need for the substantial capital outlay required to purchase the same facility. It also offers the tenant/Lessee the ability to terminate the lease and vacate the premises without the expenses that would be associated with the sale of a facility.

<u>Disadvantage</u>:

- In addition to monthly rent, the tenant/Lessee is responsible for the costs of routine facility maintenance, insurance, and property taxes. Tenant/Lessee expenses may be controlled, but they are not fixed.
- If the lease agreement is poorly drafted, there may be dispute over the expenses the respective parties are responsible for.

4. How is it possible to budget for or plan for the unknown expenses associated with the proposed triple net lease; how is it possible to accurately estimate the long-term costs?

The best approach might be to acquire a detailed cost comparison from an appropriately-qualified expert that has no interest in the proposed transaction.

Some expenses may be estimated by reviewing historical facility data along with local utility rates.

Estimates of routine facility maintenance costs should be readily available through local property management companies that service similar buildings located in the same geographical area.

If the facility is newly renovated or newly constructed, major building components will be covered by an initial warranty period and the manufacturer's literature will detail the required routine maintenance tasks and maintenance schedule.

Real property taxes may be estimated by comparing the assessed value of the subject property (estimated value if the facility is new or substantially renovated) with the assessed value of similar properties in the immediate neighborhood.

Property insurance premiums may be estimated by speaking with the insurance broker who provides coverage for the landlord's/Lessor's other properties. It is necessary to receive permission from the property owner before speaking with his/her insurance broker.