

September 18, 2013

Mr. Michael Buller
Deputy Executive Director
Alaska Housing Finance Agency
PO Box 101020
Anchorage, Alaska 99510

Re: Estimate of Rental Value
Anchorage Legislative Information Office - 716 W. 4th Avenue, Anchorage
As of June 1, 2014

Dear Mr. Buller:

Pursuant to your request and authorization, we are in the process of completing our analysis and estimate of market rent for the above-referenced property. The purpose of this analysis is to estimate the market rent of the Subject property under the terms and conditions of a proposed lease extension agreement now under negotiation as of its effective date of June 1, 2014. Under the terms of the lease extension agreement, the existing office building will be substantially renovated and expanded and will incorporate 64,048 gross square feet and the adjacent 100 space parking structure. The interest appraised is a leasehold interest, pursuant to the terms of a lease extension agreement now under negotiation. The summary report now in preparation describes the investigation and analysis of market data leading to our conclusions of Market Rent. Our report also contains an analysis of and recommendation for purchase price under terms of a purchase option that may be incorporated into the lease extension agreement at a later date.

The primary purpose of this appraisal analysis and report is to fulfill the mandate of Alaska Statute 36.30.083 and to provide an estimate of Market Rent that will facilitate the evaluation of whether or not the proposed rent for the lease extension as negotiated would or would not be "at least 10 percent below the existing market rent value" at the time the lease agreement would "achieved" (effective) under the extended lease agreement. The intended users of this appraisal analysis and report are the Alaska Housing Financing Corporation acting as the tenant's representative for the Alaska Legislative Council, the Alaska Legislative Council and the Legislative Affairs Agency, as administrative agent for the Alaska Legislative Council. No other use of our appraisal analysis or report is authorized.

Pursuant to the requirements of the Appraisal Foundation for summary valuation reports, our report will include descriptions of the Subject property, community and valuation analysis. In preparing this report, standard appraisal techniques have been used in conformity with the guidelines of the Uniform Standards of Professional Appraisal Practice as promulgated by The Appraisal Foundation.

Based upon our investigation and analysis, we have formed the opinion that the estimated Market Rent for a leasehold interest in the renovated and expanded Legislative Information Office building as contemplated by the lease extension agreement now under negotiation, as of its effective date of June 1, 2014, assuming the building is completed per the lease agreement and landlord proposals, is:

THREE MILLION SIX HUNDRED AND FOURTEEN THOUSAND DOLLARS PER YEAR

\$3,614,000 PER YEAR

ESCALATING ANNUAL RENT



Our estimate of Market Rent is based on the specific terms and conditions of the lease extension agreement now being finalized. Included in these terms and conditions is an agreement wherein the tenant (Legislative Affairs Agency acting on behalf of the Alaska Legislative Council) will contribute \$7.5 million to the cost of the renovation and expansion project for tenant improvements. We refer to this lease as a modified triple-net lease, and under its terms and conditions, the landlord will have certain maintenance and replacement obligations, while tenant will pay normal operating expenses, to include utilities, taxes, insurance and other usual costs of building operations. Our estimate of Market Rent is presented under the assumption that the tenant contributes \$7.5 million for tenant improvements costs; thus, the tenant's cost contribution *is* reflected in our conclusion of Market Rent. Our estimate of Market Rent also includes costs to the landlord for certain maintenance and replacement obligations specified under the lease extension agreement.

You have also asked us to express our opinion of Market Rent as if the lease terms and conditions were modified to reflect a level annual rent over the ten year term of the lease extension. Our conclusion of Market Rent stated above contemplates a two percent (2%) annual escalation in rent. We have performed an analysis to convert our estimate of Market Rent from an amount which escalates at two percent annually to a Market Rent estimate that remains level for each year of the ten year lease extension. Based then upon this analysis, we have formed the opinion that the estimated Market Rent for the renovated and expanded Legislative Information Office building, as contemplated by the lease extension agreement now under negotiation, and assuming a level rent payment for each of the ten years of the lease extension period, as of its effective date of June 1, 2014, assuming the building is completed per the lease agreement and landlord proposals, is:

THREE MILLION NINE HUNDRED AND EIGHT THOUSAND DOLLARS PER YEAR

\$3,908,000 PER YEAR

LEVEL ANNUAL RENT

The specific terms and conditions embodied in our conclusion of market rent are fully described within our pending appraisal report. Our conclusions of Market Rent both incorporate a hypothetical condition that the building is completed per current plans on or about June 1, 2014, and the extraordinary assumption that the terms and conditions of the lease are as presently under negotiation.

Our recommendations for a purchase price under a purchase option provision to be incorporated into the lease extension agreement is also described in our report.

The landlord's proposed rent under the terms and conditions of the lease extension agreement now under negotiation is \$247,756 per month plus Waronzof's estimate of the landlord's service obligations under the lease agreement, or \$12,687 per month, for a total of \$260,443 per month, or \$3,125,316 per year, with rent escalations of 2% per year over the ten year term of the lease extension. We find that for an escalating lease, the proposed contract rent of \$260,443 per month represents 86.48% of our Market Rent conclusion of \$301,167 per month (\$3,614,000 annually).

Landlord has also agreed to a level annual equivalent rent of \$3,379,658 per year, or \$281,638 per month, for each of the ten years of the lease extension, inclusive of the service obligation cost component, under an alternative rent escalation structure. Our Market Rent conclusion, under a level rent structure for ten years, is \$3,908,000 per year, or \$325,667 per month. We find that for a level lease, the proposed contract rent of \$281,638 per month also represents 86.48% of our Market Rent conclusion.



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Accordingly, we are able to conclude that the proposed contract rent for the lease extension agreement now under negotiation is, in fact, "at least 10 percent below the existing market rent value" pursuant to AS 36.30.083, based upon this Rental Value appraisal analysis and our understanding of the proposed terms and conditions of the lease extension agreement now under negotiation.

Our appraisal report sets forth the identification of the property evaluated, property rights appraised, limiting conditions and assumptions of this analysis and report, pertinent facts about the Subject property, community area and current market conditions, an analysis of project costs, investor rates of return, relevant property transactions, and the analysis of this data leading to the conclusions of rental value stated above.

Thank you for allowing us the opportunity to complete this interesting and challenging appraisal assignment for you. We anticipate completion of our narrative appraisal report in the next day; we are transmitting this letter as evidence of our final conclusions of Market Rent. Please contact Timothy Lowe, MAI, CRE, FRICS at (310) 322-7744 with any questions or comments concerning this letter.

Respectfully submitted,

WARONZOF ASSOCIATES, INC.

A handwritten signature in black ink, appearing to read "T. Lowe", is written over a rectangular white box.

Timothy R. Lowe, MAI, CRE, FRICS
Principal

