

Facilities and Land Management
 1815 Bragaw Street, Suite 101
 Anchorage, AK 99508-3438
 Phone: 786-7766 Fax: 786-7733

Memorandum

To: Dr. Ashok K. Roy, VP for Finance & Administration/Chief Financial Officer

From: Kit Duke, Associate Vice President
 Robert McMaster, Senior Property Manager

Date: May 9, 2013

Re: Washington DC - Condo Unit Waterford House – Unit 711

In response to your memorandum dated May 2013, we have answered your questions below in the order posed.

1. Who owns the property? It is my understanding that it was purchased with proceeds from our Inflation-Proofing fund of the Land Grant Endowment. As such, any proceeds from the sale of the property should go back to the said Endowment.

Facilities & Land Management Response:

The Board of Regents has the right and authority to direct any proceeds (Cash Flow / Sales Proceeds) per University policy and regulations.

2. The Condo has been vacant for 15 months. Why did we not start the conversation earlier?

Facilities & Land Management Response:

At the time the Waterford House Condominium (“Condo”) was vacated in February 2012, Land Management (“LM”) had only one Senior Property Manager (“SPM”) on staff and two open SPM positions to be filled. Other LM business that had priority or a higher potential to generate University revenue was attended to before all the necessary steps to rent the condo could be concluded. Additionally, the changes necessitated by University policy to the management company’s (“WMS”) standard property management agreement could only be approved by the company’s owner and senior officers, as the potential management fee of \$176 per month did not justify having the company’s legal counsel work on the agreement. Needless to say, this particular piece of new business was not a high priority to WMS. Thus, the management agreement went

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through several rounds of “redline” exchanges and negotiations that were begun and stopped by either pressing University or WMS business.

3. Your Analysis depicts an Internal Rate of Return (IRR) of 7.5%. This is considered marginal for real estate investment particularly one which is isolated

Facilities & Land Management Response:

We believe the initial decision to purchase the Condo was driven more as an operating cost measure and not necessarily a pure real estate investment on behalf of the LGTF. The limited market and financial analysis completed by former SW Land Management staff indicates that the escalating 2002-2006 Washington DC real estate market influenced their confidence that purchasing the Condo would not result in a poor investment for the University.

The Washington DC real estate market is one of only a dozen or so markets that have a relatively stable and ingrained economic driver (US Federal Government) that makes it one of the most coveted and safest real estate markets in the world, similar to New York or London or even Houston. This is not to imply that the DC market isn't subject to bubbles or downturns, but simply that things being equal, investors are normally willing to accept lower yields in these world-class markets as the perceived long term market risk is fairly low.

Additionally, the Real Estate Research

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why the IRR for the 7 year hold period is 4.65%, but holding the investment for just an additional 3 years during an appreciation upswing changes the IRR from 4.65% to 7.4% over the entire life of the investment. The attached "IRR Comparison" analysis comparing the projected IRR's for the LGTF

IRR Comparison - Holding DC Condo vs. Selling and Investing in LGTF

Condo Sales Scenarios

	Sell Condo in <u>July-13</u>	Sell Condo in <u>December-15</u>	Sell Condo in <u>June-21</u>
Projected Sales Price of Condo	\$452,596	\$602,406	\$796,501
less Make-Ready Costs			
less RE Sales Commission (7%)			
less other Closing Costs			
Net Sales Proceeds - Amount Invested in LGTF	\$411,389	\$549,213	\$727,781

Investment Scenarios

Year	Investment Scenarios	Sell DC Condo during Summer of 2013 and Invest in LGTF at Projected 10% Annual Return on Investment			Rent DC Condo until Selling it in December 2015			Rent DC Condo until Selling it in June 2021		
		LGTF Investment Basis as of 2013 2.5 yr IRR	LGTF Cash flow for Reinvestment IRR Stac	LGTF Annual Appreciation 10.0%	DC Condo Investment Basis as of 2013 2.5 yr IRR	DC Condo Cash Flow Available for Reinvestment IRR Stac	RE Value Avg. Annual Appreciation 9.0%	DC Condo Investment Basis as of 2013 8yr IRR	DC Condo Cash Flow Available for Reinvestment IRR Stac	RE Value Avg. Annual Appreciation 8.9%
FY 14	Condo Net Sales Proceeds or Current Value	\$411,389	\$0	\$41,139		\$15,907	\$45,260		\$15,907	\$45,260
FY 15	Investable Cash Flow from Investment		\$0	\$41,139		\$15,907	\$49,786		\$15,907	\$49,786
FY 16	Condo Net Sales Proceeds & Annual Cash Flow	514,236	\$0	\$514,236	\$549,213	\$7,954	\$557,167	\$27,382	\$15,907	\$15,907
FY 17	Reinvestable Cash Flow from Investment		IRR 11.8%			IRR 14.8%			15,907	15,907
FY 18	Reinvestable Cash Flow from Investment								15,907	15,907
FY 19	Reinvestable Cash Flow from Investment								15,907	15,907
FY 20	Reinvestable Cash Flow from Investment								15,907	15,907
FY 21	Condo Net Sales Proceeds & Annual Cash Flow							\$727,781	\$725,488	0
								IRR 10.2%		

- Note:**
- 1) FLM recommends renting the DC Condo until 2015/2016, then selling it. All things being equal, this scenario represents the highest potential investment return.
 - 2) The reason the "8 yr IRR" (15 yr hold period) scenario is less then the "2.5 IRR" (7 yr hold period) scenario is due to the RE value appreciation rate during the last 3 years of the hold period is projected to decrease to 3%/yr from 10%/yr based upon DC Metro historical RE price trends.

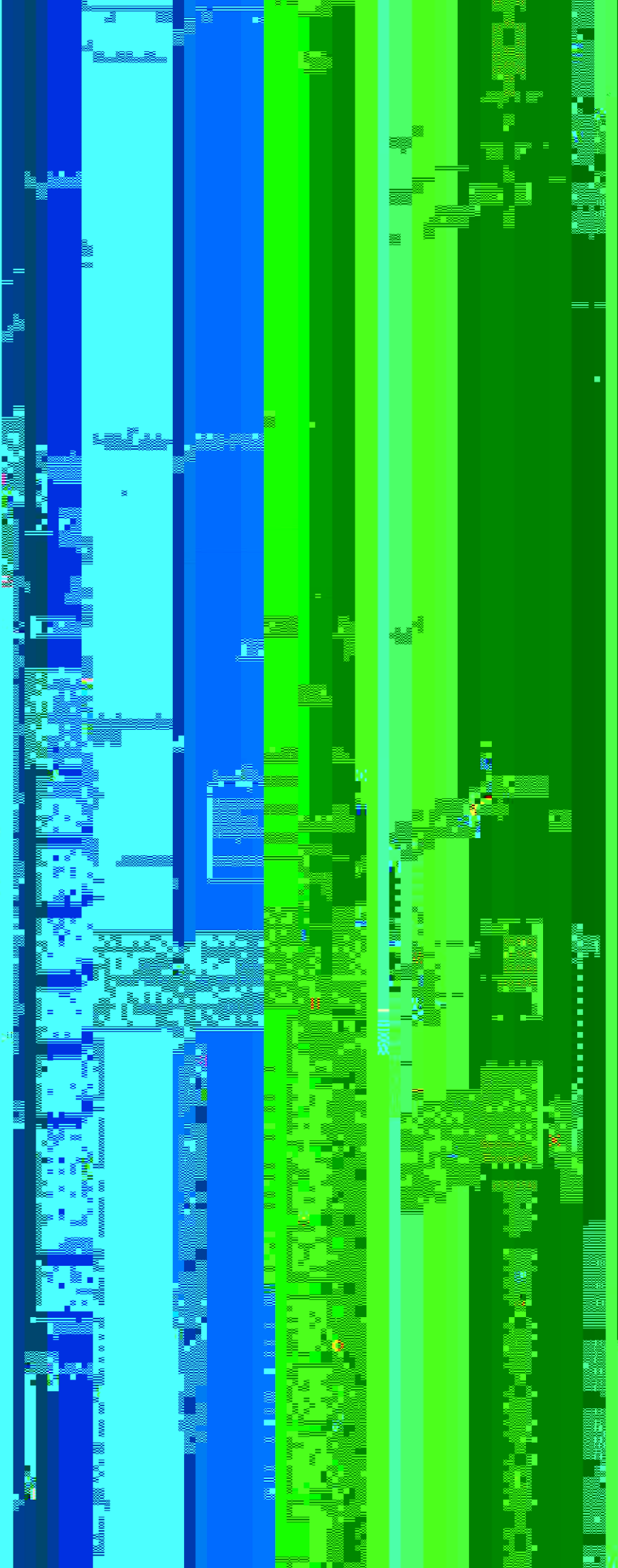
Property Name
 Location (City)
 Purchase Price
 Settlement Costs
 Total Investment
 Monthly Mortgage
 Monthly Savings
 Monthly Rent
 Monthly Expenses
 Monthly Profit/Loss
 Annual Profit/Loss
 IRR

Year
 Date

1 ep-06
 30 sep-06
 31 mar-07
 31 jun-07
 30
 2 ep-07
 31 sep-07
 31 mar-08
 31 jun-08
 30
 3 ep-08
 30 sep-08
 31 mar-09
 31 jun-09
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 4 ep-09
 30 sep-09
 31 mar-10
 31 jun-10
 30
 5 ep-10
 30 sep-10
 31 mar-11
 31 jun-11
 30
 6 ep-11
 30 sep-11
 31 mar-12
 31 jun-12
 31 Jul-12
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 31 mar-13
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Totals
 Total Investment
 Total Monthly Costs for
 Rental Property & Closi
 Total Monthly Profit/Loss
 Total Annual Profit/Loss

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Year	Date	Value 1	Value 2
1	ep-06	10,000	10,000
1	30 sep-06	10,000	10,000
1	31 mar-07	10,000	10,000
1	31 jun-07	10,000	10,000
1	30	10,000	10,000
2	ep-07	10,000	10,000
2	31 sep-07	10,000	10,000
2	31 mar-08	10,000	10,000
2	31 jun-08	10,000	10,000
2	30	10,000	10,000
3	ep-08	10,000	10,000
3	30 sep-08	10,000	10,000
3	31 mar-09	10,000	10,000
3	31 jun-09	10,000	10,000
3	30	10,000	10,000
4	ep-09	10,000	10,000
4	30 sep-09	10,000	10,000
4	31 mar-10	10,000	10,000
4	31 jun-10	10,000	10,000
4	30	10,000	10,000
5	ep-10	10,000	10,000
5	30 sep-10	10,000	10,000
5	31 mar-11	10,000	10,000
5	31 jun-11	10,000	10,000
5	30	10,000	10,000
6	ep-11	10,000	10,000
6	30 sep-11	10,000	10,000
6	31 mar-12	10,000	10,000
6	31 jun-12	10,000	10,000
6	31 Jul-12	10,000	10,000
6	30	10,000	10,000
7	ep-12	10,000	10,000
7	30 sep-12	10,000	10,000
7	31 mar-13	10,000	10,000
7	31 jun-13	10,000	10,000
7	31 Jul-13	10,000	10,000
7	30	10,000	10,000
8	ep-13	10,000	10,000
8	30	10,000	10,000

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Year	Month	Day	Category	Description	Amount	Balance
2010	1	31	Income
2010	2	1	Expense
2010	2	15	Expense	...	...	...
2010	2	28	Expense	...	...	...
2010	3	1	Expense	...	...	...
2010	3	15	Expense	...	...	...
2010	3	31	Expense	...	...	...
2010	4	1	Expense	...	...	...
2010	4	15	Expense	...	...	...
2010	4	30	Expense	...	...	...
2010	5	1	Expense	...	...	...
2010	5	15	Expense	...	...	...
2010	5	31	Expense	...	...	...
2010	6	1	Expense	...	...	...
2010	6	15	Expense	...	...	...
2010	6	30	Expense	...	...	...
2010	7	1	Expense	...	...	...
2010	7	15	Expense	...	...	...
2010	7	31	Expense	...	...	...
2010	8	1	Expense	...	...	...
2010	8	15	Expense	...	...	...
2010	8	31	Expense	...	...	...
2010	9	1	Expense	...	...	...
2010	9	15	Expense	...	...	...
2010	9	30	Expense	...	...	...
2010	10	1	Expense	...	...	...
2010	10	15	Expense	...	...	...
2010	10	31	Expense	...	...	...
2010	11	1	Expense	...	...	...
2010	11	15	Expense	...	...	...
2010	11	30	Expense	...	...	...
2010	12	1	Expense	...	...	...
2010	12	15	Expense	...	...	...
2010	12	31	Expense	...	...	...
2011	1	1	Expense	...	...	...
2011	1	15	Expense	...	...	...
2011	1	31	Expense	...	...	...
2011	2	1	Expense	...	...	...
2011	2	15	Expense	...	...	...
2011	2	28	Expense	...	...	...
2011	3	1	Expense	...	...	...
2011	3	15	Expense	...	...	...
2011	3	31	Expense	...	...	...
2011	4	1	Expense	...	...	...
2011	4	15	Expense	...	...	...
2011	4	30	Expense	...	...	...
2011	5	1	Expense	...	...	...
2011	5	15	Expense	...	...	...
2011	5	31	Expense	...	...	...
2011	6	1	Expense	...	...	...
2011	6	15	Expense	...	...	...
2011	6	30	Expense	...	...	...
2011	7	1	Expense	...	...	...
2011	7	15	Expense	...	...	...
2011	7	31	Expense	...	...	...
2011	8	1	Expense	...	...	...
2011	8	15	Expense	...	...	...
2011	8	31	Expense	...	...	...
2011	9	1	Expense	...	...	...
2011	9	15	Expense	...	...	...
2011	9	30	Expense	...	...	...
2011	10	1	Expense	...	...	...
2011	10	15	Expense	...	...	...
2011	10	31	Expense	...	...	...
2011	11	1	Expense	...	...	...
2011	11	15	Expense
2011	11	30	Expense
2011	12	1	Expense
2011	12	15	Expense
2011	12	31	Expense

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Year

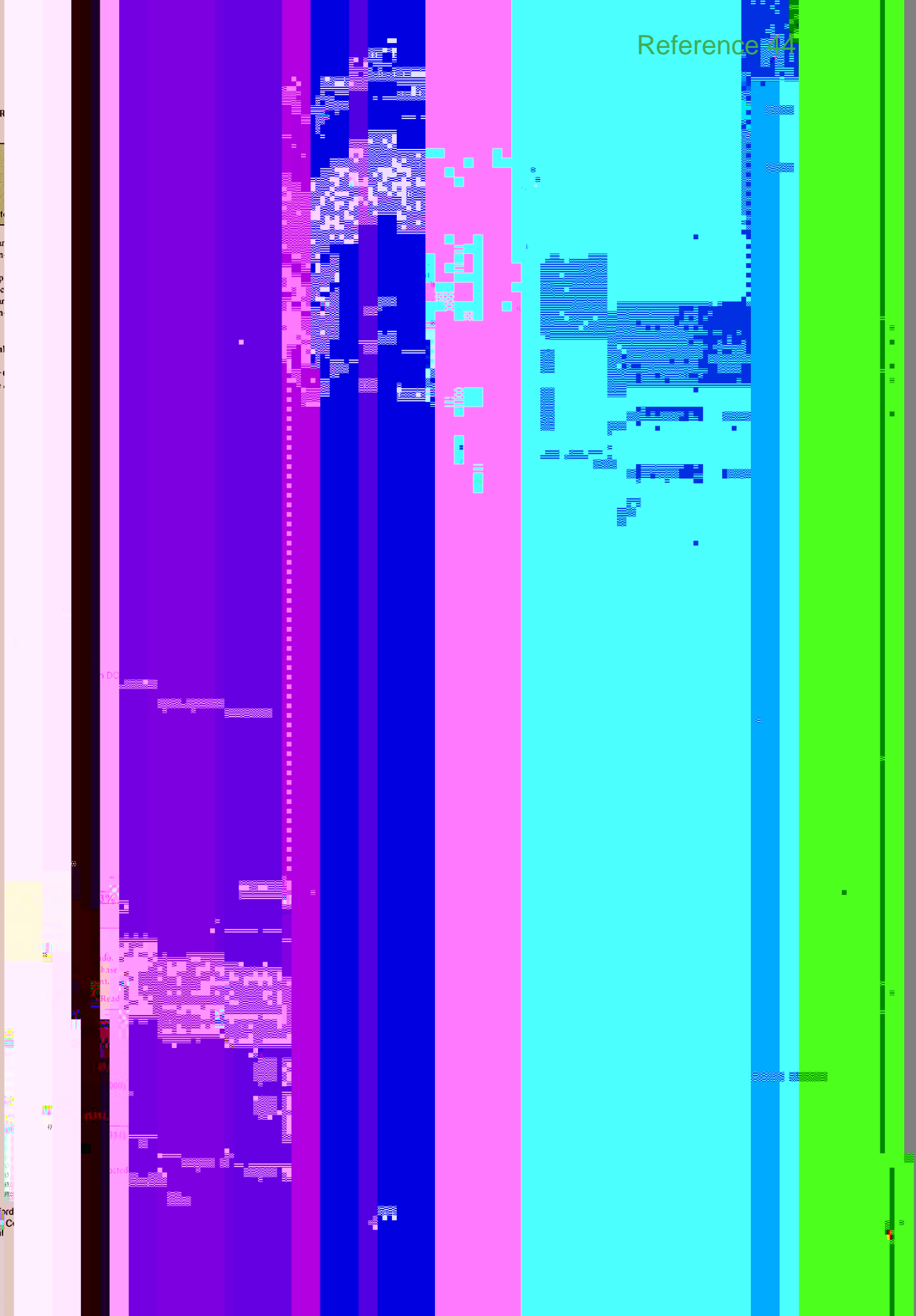
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29-Jun
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