

MEMORANDUM

CITY/BOROUGH OF JUNEAU

Lands and Resources Office
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TO: Michelle Hale, Chair of the Assembly Lands Committee
FROM: Dan Bleidorn, Lands and Resources Manager *Daniel Bleidorn*
SUBJECT: Taku Terrace Association Request to Purchase City Property
DATE: September 15, 2022

Taku Terrace Condo Association currently has a lease agreement with the City that was signed in June of 1970 and has a term of ninety (90) years. When the lease was signed, the building was a multifamily apartment building and had one owner. However, at some point after the lease was signed, the building was converted to condominiums with individual owners. This resulted in the unusual situation of the City owning the land under 35 market value condominiums.

The lease (which was authorized by Ordinance) states that the rent is to be evaluated every ten years and "the rental for any ten (10) year period shall not exceed by more than 20% of the amount paid during the immediately prior ten (10) year period." Currently Taku Terrace's lease rate is \$311.20 per month. Because of the 20% cap on the lease rate, this lease is not currently at fair market value. In 2000, it was determined that fair market value for the lease would have been \$1,852.50 per month.

In 2020, Taku Terrace Condo Association applied to purchase this property from the City and Borough. The Lands Committee provided a motion of support to work with the original proposer, the Planning Commission reviewed this request and provided a favorable recommendation and the Assembly provided a motion of support to work with the original proposers. The next step in the process will be to introduce an Ordinance with terms and conditions of the sale. The last step needed is to determine the fair market value of the property.

Prior to the Association's 2020 application, the Association had an appraisal completed to determine the value of the land. Fee Simple Interest as of the 2019 appraisal was determined to be \$411,600. The complication in determination of value stems from the fact that the current lease rate is so far below fair market value that the 2019 appraiser concluded that the Association should continue to lease at below market value rather than pay the fee simple value of the land.

The 2019 appraisal states that it would "not be advisable to buy out the land from the City at full fee simple value (\$411,600). The appraiser would recommend an

offer to buy somewhere between \$150,000 and \$200,000 accounting for the Leasehold Interest.” The appraisal continues by saying that “It is felt that, with the amount of time remaining for the lease until 2060; there would be mortgage potential beyond those lenders that may require 15 years over and above a 30 year loan period. It may be prudent to research other lending sources and/or consider shorter term loans.” The application further states that this request is being made because financing has become difficult to obtain. The appraisal states that since the lease rate is so far below fair market value and financing is still available, that the Condo Association should pay a value based on the below fair market value lease.

In 2020, the City Manager determined fair market value to be the fee simple value according to the appraisal, which was \$411,600; even though the appraisal was outdated. The Association has been able to take advantage of the lease rate being below fair market value and can continue to do so until 2060; something that is not supported under current city code. Because of the existing agreement, it may be concluded that it is in both parties best interest to continue to lease at less than fair market and discuss the disposal when traditional financing no longer is an option. At that point, a new fair market value lease or disposal could be negotiated. In order to continue with this disposal, a new appraisal of the property must be completed. The Manager does not support sale of property at less than fair market value as has been requested by the Condominium Association.

Staff request a motion of support for this disposal at fair market value once a new appraisal has been completed by the Applicant that reflects the fee simple value of the property under city code 53.09.260