

MEMORANDUM

CITY/BOROUGH OF JUNEAU

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TO: Deputy Mayor Smith and Assemblymembers
FROM: Dan Bleidorn, Lands and Resources Manager *Daniel Bleidorn*
SUBJECT: Burns Building Acquisition Update
DATE: February 20, 2025

At the August 5, 2024, meeting the Assembly Committee of the Whole (COW) passed a motion to direct the Manager to hire an appraiser to value the Michael J. Burns Building (Burns Building) as a business condo. As a result of this motion, the Manager hired Reliant LLC to complete an appraisal of the Burns Building with the hypothetical condition of the building being condominiumized and CBJ acquiring the first two floors. The appraiser provided an in-depth analysis of the property value which included comparable properties, current trends, replacement costs, building quality, parking and other expenses. Under the hypothetical situation of the 1st and 2nd floors on the of the Burns Building being condominiumized, the appraised value was determined to be \$9,300,000 for the acquisition of the first and second floors. The full appraisal is available for review and a link is provided as an attachment to this memo.

Previously, Alaska Permanent Fund Corporation (APFC) offered the first and second floors to the CBJ at the rate of \$1.55M dollars in rent annually "as is" (without any tenant improvement allowance). The \$1.55M is calculated at a rate which equals \$2.85/sq ft for the rentable area. This does not include tenant improvements, which CBJ estimated range from \$3.5-5.25M¹ which equates to \$73/sq ft up to \$113/sq ft. Amortizing the leasehold improvements over the 30 years at a 9% rate indicates additional rent of up to \$0.90/sq ft., indicating an occupancy cost of up to \$3.77/sq ft².

Alternately, the first and second floors were offered by APFC at a price of \$12M dollars or \$266/sq ft. of rentable area. Factoring in CBJ's planned interior build-out, the \$12M asking price equates to \$344/sq ft. up to \$382/sq ft. or \$15.5M up to \$17.25M in total. Also at the August 5, 2024, meeting, the COW was presented with a table that compared the cost of leasing verses the cost of buying the two floors of the Burns Building. The memo from that meeting is attached to this memo and the table is listed below. Updating the projected cost to acquire two floors to reflect the appraised value of \$9.3M the total costs would be

¹ Numbers provided by Engineering/Public Works for the August 5, 2024 Assembly COW.

² The calculation was provided in the appraisal

\$12.8M – \$14.55M, if the building is acquired at the appraised value. Currently there is \$14.5M in funds between the New City Hall and City Hall CIPs.

Rent Costs				Owning Costs			
Total square footage:		48,145		One Time Purchase Price		\$12,000,000	
		Remodel Costs		Cost to create Business Condo Association:		\$250,000	
Annual Lease Rate includes 3% annual escalation:				Remodel Costs:		\$ 5,250,000	
year				year			
1	\$	2.85	\$ 1,646,559	1	\$	650,000	
2	\$	2.94	\$ 1,695,956	2	\$	669,500	
3	\$	3.02	\$ 1,746,834	3	\$	689,585	
4	\$	3.11	\$ 1,799,239	4	\$	710,273	
5	\$	3.21	\$ 1,853,217	5	\$	731,581	
6	\$	3.30	\$ 1,908,813	6	\$	753,528	
7	\$	3.40	\$ 1,966,078	7	\$	776,134	
8	\$	3.51	\$ 2,025,060	8	\$	799,418	
9	\$	3.61	\$ 2,085,812	9	\$	823,401	
10	\$	3.72	\$ 2,148,386	10	\$	848,103	
Total after 10 years:		\$ 24,125,954		Total after 10 years:		\$ 24,951,522	
Based on CBJ's % interest of ownership, 66% of the total operating expenses would bring the annual cost to CBJ to roughly \$650,000.							

At the November 4, 2024, meeting the COW passed a motion to direct the Manager and Attorney to research establishing a business condo association including bylaws, covenants, conditions and restrictions, and rules and regulations to better understand the practicalities of purchasing two floors of the Burns Building. The CBJ Manager and the CBJ Attorney hired James J. Sheehan from Faulkner Banfield Law, to assist with drafting a letter of intent (LOI), Purchase and Sales agreement (PSA) and CCRs. CCRs include Covenants, Conditions, and Restrictions which are legally binding rules that govern a potential condo community and are recorded with the state and are enforced by a condo association (HOA). A draft LOI is attached to this memo and will be the starting point for negotiations with the APFC. This LOI outlines a potential opening offer from the CBJ to the APFC. With the appraisal now completed, the next step will be for Mr. Sheehan to engage with the CBJ Attorney and the owners of the Burns Building to draft the PSA and CCRs prior to the next Assembly review.

Staff request that the Committee of the Whole provide a motion of support to enter into negotiations with the Alaska Permanent Fund Corp. for the purchase of two floors of the Burns Building

Attachments:

1. August 5, 2024, COW Koester Memo
2. Appraisal Letter of Transmittal
3. Draft Letter of Intent (LOI)

Attachments as digital links:

1. 2025 Michael J. Burns Building Appraisal: https://juneau.org/wp-content/uploads/2025/02/Appraisal_Burns-Building-Hypothetical-Condo-online.pdf