

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	5d
Date of Meeting	April 1, 2014

DATE: March 17, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Michael Ehl, Director, Aviation Operations
James Jennings, Manager, Aviation Properties
SUBJECT: First Amendment to Air Cargo Building Lease Agreement with BT Property LLC

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a First Amendment to Air Cargo Building Lease with BT Property LLC, substantially represented in Attachment 1, to reflect a 4 year, 7 month extension of the lease term to 12/31/2018.

SYNOPSIS

BT Properties leases half of a cargo building, constructed in 1978, from the Port and the other half of the cargo building from AMB. This unique lease situation was created in 1998 when AMB, a development company, leased an adjacent parcel of land from the Port and expanded both the BT Properties building, as well as built a separate standalone cargo building for a separate tenant. Staff would like to extend the lease of BT Properties to align with the lease expiration date of the AMB lease and the anticipated ownership reversion of the adjacent improvements built by AMB, as well as align termination dates with several adjacent cargo buildings as depicted in Exhibit B.

The Port is proposing a 4 year, 7 month lease extension for both the building and the land, which would extend to 12/31/2018. The original lease term was 4 years, 5 months and thus, did not require Commission approval. Extending the current lease term to 2018, will require Commission approval as the extension creates a 9 year total lease term. The terms of the extension would match existing lease terms, except for an added annual consumer price index (CPI) adjustment to rent commencing 6/1/2015. Comparable properties surrounding the BT Property building were appraised in 2012, demonstrating that the current rent was already at the market rate.

Exhibit A depicts the BT Property ground and warehouse lease and clearly shows the lease line dividing the warehouse and the portion of the warehouse currently owned by AMB on their ground lease. In Exhibit B, the highlighted buildings represent properties that will be owned by the Port on or before 12/31/2018. The boundary line area in red represents approximately 17 acres of property. The extension of the lease term for BT Properties is a derivative of the larger strategy of assembling a large chunk of property for future redevelopment flexibility, with the

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specific use to be proscribed by the Airport's Sustainability Master Plan, which is currently in development

BACKGROUND

BT Property is a limited liability corporation under UPS Supply Chain Solutions, headquartered in Alpharetta, Georgia. UPS Supply Chain Solutions provides logistics and distribution, transportation and freight (ground, air, and rail), international trade management and customs brokerage.

Emery Air Freight constructed the facility BT Property LLC presently occupies under a ground lease dated April 25, 1978. BT Property LLC assumed the ground lease on April 27, 2005, when Menlo Worldwide Forwarding, the successor company to Emery, was acquired by UPS. Emery constructed the building and through a variety of subsequent transactions was ultimately acquired by UPS. The lease expired May 31, 2009, at which time, pursuant to the terms of that lease, ownership of the Lessee-constructed improvements reverted to the Port. At expiration, the lease continued in a holdover status until a lease with BT Property was negotiated, which took effect January 1, 2010. The Port of Seattle entered into this term lease agreement with BT Property, LLC to lease 61,073 sf of ground space and 16,545 sf of warehouse space for the operation of a cargo building, warehousing, air and ocean freight forwarding, customs brokerage, distribution services and other related activities. The term of the lease commenced on January 1, 2010 and will expire on May 31, 2014.

This facility is unique, in the fact that the Port's adjacent lessee (AMB) in 1998 constructed an approximately 9,000 square foot (sq. ft.) expansion to the existing BT Property building, and then subleased it back to BT Property LLC, resulting in 50% of the building being leased from the Port and the other 50% of the building being leased from AMB. The staff that negotiated this arrangement are no longer with the Port, but we believe this unique agreement was developed because BT Properties was unable to contribute the needed capital to expand the building themselves. Therefore, AMB who leased the entirety of land between the Port's Air Cargo 4 and BT Properties LLC, expanded the BT Properties LLC building as well as building a separate cargo building. All improvements built by AMB as part of their lease will revert to the Port on 12/31/18. This will facilitate the Port owning both the separate cargo building, as well as the entirety of the BT Properties building, which will allow for the entire building to be under one lease in the future if the Port desires.

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LEASE SUMMARY COMPARISON

	Current Lease Terms	Proposed Amended Lease Terms
Term	1/1/2010 - 5/31/2014	1/1/2010 - 12/31/2018
Premises (Square Feet)	16,545 sf – building 61,073 sf - land	16,545 sf – building 61,073 sf - land
Monthly Rent	\$6,886.94 – building \$7,786.81 - land	\$6,886.94 – building \$7,786.81 – land Annual CPI adjustment, effective 6/1/2015
Capital Investment Requirement	None	None

All other terms and conditions of the current lease will remain unchanged. Given the limited number of potential tenants for this existing facility, and based on the limited market for these custom buildings, as well as the Port's limited term constraint, Port staff believe offering BT Property a minimal lease extension insures a continued revenue stream through 12/31/2018, as well as aligns this lease with the lease termination dates of adjacent properties in preparation for future strategic redevelopment, if warranted by the Airport's Sustainability Masterplan.

FINANCIAL IMPLICATIONS

The lease in its present condition contributes \$176,085.00 in annual rent to the Port. The proposed First Amendment to Air Cargo Building Lease will secure continuation of this revenue through December 31, 2018, with annual increases by the percentage change in the CPI, All Urban Consumers, Seattle-Tacoma-Bremerton Index.

STRATEGIES AND OBJECTIVES

The Port's Century Agenda articulates a regional initiative to strengthen access to global markets and supply chains for Northwest businesses. Two of the Agenda's strategic objectives support that initiative: 1) increasing air cargo tonnage at the airport to 750,000 metric tons by 2036, a near tripling of tonnage from 2011 when the Century Agenda was authorized, and 2) positioning the Puget Sound region as a premier international logistics hub.

In the longer term, alignment of the termination dates for all the properties in this area supports future development for cargo or other uses, as determined by the Airport's Sustainability Masterplan. In the near term, this lease extension supports UPS Airlines, a signatory airline at Seattle-Tacoma International Airport (Airport), whose scheduled flight service is primarily at King County International Airport, but whose freight forwarding arm UPS Supply Chain Solutions is a vital component of the region's logistics supply chain and supports air cargo at the Airport. Freight that is handled through the BT Property facility is delivered for transport to a variety of domestic and international airlines at the Airport, contributing to the Airport's annual tonnage figures. This freight forwarding and logistics service provided by UPS is a significant component to the Northwest region's logistics supply chain, providing economic benefit to the region's businesses and industries by providing access to global markets.

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Allow the BT Property lease to expire and market the property to another user. The risk for this alternative, to the Port, would be finding a replacement tenant to lease the property. There is limited demand for on-airport cargo warehouse property and even less demand for property with no direct airfield access. This alternative would also negatively affect UPS and its role in the regional logistics supply chain. This is not the recommended alternative.

Alternative 2) – Allow BT Property to remain in the space, in holdover status, without extending the lease. The holdover rent would be the same rate as is currently in place under the lease, but would not provide the stability both the landlord and tenant desire, nor the commitment for a CPI adjustment in 2015. This is not the recommended alternative.

Alternative 3) – Request BT Property to vacate the space and leave the space vacant until 2018, when the adjacent lease with AMB will expire. No lease revenues would be received by the Port after May 31, 2014, and UPS would be negatively impacted. This is not the recommended alternative.

Alternative 4) – Extend the lease with BT Properties to ensure a continued revenue stream and align the termination with the reversion of the remaining portion of the building, as well as align the lease termination with adjacent cargo facilities. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Attachment 1 – Draft First Amendment to Air Cargo Building Lease Agreement
- Exhibit A – BT Property Leased Premises
- Exhibit B – Cargo Building Lease Expiration Alignment