

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>6a</u>
Date of Meeting	<u>August 19, 2014</u>

DATE: August 12, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: Patricia Spangler, Real Estate Manager
Melinda Miller, Director, Portfolio and Asset Management
SUBJECT: Wounded Warrior Project Lease Approval

Amount of This Request: \$449,263 **Source of Funds:** General Fund
Est. Total Project Cost: \$449,263

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to: (1) enter into a new agreement with an existing Port tenant, Wounded Warrior Project (WWP), to effectively relocate from Pier 66, extend the term and expand the leased premises with WWP at World Trade Center West (WTCW) for an initial term of five years and four months, with one five year option to renew; (2) include a Port funded tenant improvement allowance in the amount of \$341,640 and payment of a broker fee in the amount of \$73,153; (3) terminate WWP's existing lease at Pier 66, which has a remaining term of two years and eleven months, upon full execution of the new lease and completion of the tenant improvements; (4) relocate an existing WTCW tenant, Pacific Merchant Shipping Association (PMSA), extending the initial term of the PMSA lease by an additional two years and nine months; and (5) include Port funded tenant improvement allowance in the estimated amount of \$34,470 in the PMSA lease. This request is for the total project cost of \$449,263.

SYNOPSIS

Port staff proposes to relocate WWP from their existing leased space, consisting of 4,903 rentable square feet at Pier 66 by terminating the existing lease, which has two years and eleven months remaining on the term. Simultaneously, WWP will enter into a new lease consisting of 11,388 rentable square feet at WTCW, for a five year, four month term at a market rental rate of \$15.25 per rentable square feet and will provide one five year option to renew.

Entering into a new lease with WWP would a) increase leased square footage and corresponding revenue by an additional 6,485 rentable square feet, b) extend WWP's lease term for an additional two years and five months, c) provide an option to renew for an additional five years, and d) provide a First Right of Offer to WWP for any additional available space within WTCW for the duration of the term with the exception of the space being occupied by PMSA. The Port would provide \$341,640 toward tenant improvements and \$73,153 toward the broker fees.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

August 12, 2014

Page 2 of 6

BACKGROUND

Established in 2003, and headquartered in Jacksonville, Florida, WWP is a non-profit organization that began as a program to provide comfort items to wounded service members. It has grown into a complete rehabilitative effort to support wounded service members as they transition back to civilian life. WWP is committed to honoring and empowering “wounded warriors” by raising awareness, public aid, and to providing unique programs and services directly to meet the needs of injured service members.

WWP currently occupies approximately 4,903 rentable square feet at Pier 66. WWP approached the Port about availability of additional space within Pier 66. WWP has outgrown its space and is looking to more than double in size to expand the valuable programs offered to the veterans in the Puget Sound Region. Pier 66 is 100% leased with no space coming available in the near future. WWP then inquired if space was available to meet their size requirements at WTCW. WTCW has space coming available under a short term lease with a first floor tenant occupying 9,641 rentable square feet that terminates August 31, 2014. WWP inquired if the Port would consider terminating WWP’s existing lease early and entering into a new five year lease for the larger premises at WTCW. During discussions to lease the available space of 9,641 rentable square feet, WWP inquired about additional space on the first floor.

In order to respond to WWP’s growth by providing contiguous space in WTCW, Port staff secured the approval of an existing first floor tenant, PMSA to relocate elsewhere within the building. PMSA’s relocation to the suite on the north end will involve an early termination of their existing lease that has a remaining term of two years and three months and entering into a new five year lease. The Port would provide an estimated \$30 per rentable square feet tenant improvement allowance of \$34,470 for a build-out equivalent to their existing premises. This new lease with PMSA is contingent upon a new fully executed lease with WWP.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

August 12, 2014

Page 3 of 6

MARKET CONDITIONS

The Real Estate Division staff consults with several different resources to determine market rate; including real estate market condition reports prepared by several brokerage firms, a market report assessed through our Costar subscription service and a review of recent transactions for comparable buildings provided by the Port's listing broker for WTCW. The market rate for Net Rent for comparable buildings is in the range of \$15.00 to \$17.50 per rentable square feet plus building expenses and annual rent increases between \$.75 and \$1.00. The Port staff negotiated a market rate with WWP for a Net Rent of \$15.25 per rentable square feet commencing year one with \$.75 annual rent increases. The current market for Landlord concessions for abated rent for a five year term is in the range of one to three months per each year of the term and landlord funded tenant improvements range between \$20 and \$40 per rentable square feet. The Port negotiated four months abated rent as tenant will perform their improvements during this period, while continuing to pay rent under their current lease at Pier 66. The Port would fund \$30 per rentable square feet for tenant improvements, which include construction of a new storefront directly off the lobby entrance creating a greater value for this suite in the future.

TERMS OF PROPOSED WWP LEASE

The major elements of the proposed term lease are outlined below:

- Term: Five year, four months commencing October 1, 2014, expiring January 31, 2020.
- Option to Extend: One additional five year Option to Extend.
- Use: General and administrative office.
- Premises: Premises Consists of approximately 11,388 rentable square feet on the first floor
- Base Rent: 11,388 rsf @ \$15.25/rsf/yr
- Base Rent Increase: \$.75 annual Base Rent increases
- Rent Abatement: The rent is abated for four (4) months October 1, 2014 through January 31, 2015.
- Operating Expenses: Tenant is responsible for all the operating costs associated with their occupancy of the Premises currently estimated to be \$6.68 per rentable square foot billed back to tenant as a Pro-Rata Share of the Building Expense. Tenant is also responsible for the Leasehold Excise Tax charged against the Base Rent at 12.84% currently estimated to be \$1.96 per rentable square foot.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

August 12, 2014

Page 4 of 6

Tenant's Pro-Rata

Share: 16.384%

Port Improvements: Port shall provide up to \$30 per rentable square feet or an amount not to exceed \$341,640.00

Security Deposit: The Security Deposit of \$47,888.25 which is equal to the average of three month's rent over the term of the lease.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$376,110	\$73,153	\$449,263
Total Authorizations, including this request	\$376,110	\$73,153	\$449,263
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$376,110	\$73,153	\$449,263

Project Cost Breakdown

	This Request	Total Project
Tenant Improvement Allowance	\$376,110	\$376,110
Broker Commission	\$73,153	\$73,153
Total	\$449,263	\$449,263

Budget Status and Source of Funds

Funds for the capitalized tenant improvements will be provided by a combination of the 2014 Plan of Finance Committed CIP C800126 Tenant Improvements and savings on other capital projects. Of the total broker fees, \$30,448 will be paid in 2014 and \$42,705 will be paid in 2015. It is expected that lower spending and delays on other broker commissions included in the 2014 Operating Budget will offset these unplanned 2014 broker commission expenses. The remaining 2015 broker commission payment will be included in the 2015 Operating Budget.

The source of funds will be the Real Estate General Fund.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

August 12, 2014

Page 5 of 6

Financial Analysis and Summary

CIP Category	N/A																																																		
Project Type	N/A																																																		
Risk adjusted discount rate	7.0%																																																		
Key risk factors	Risk of tenant default, which is partially mitigated by: <ul style="list-style-type: none"> • Security deposit totaling \$47,888 • Good standing as a current tenant of the Port 																																																		
Project cost for analysis	\$449,263																																																		
Business Unit (BU)	Portfolio Management, Real Estate Division																																																		
Effect on business performance	The incremental impact of the new WTCW leases on Net Operating Income (NOI) for Year 2014 through Year 2018: <table border="1" data-bbox="617 714 1412 976"> <thead> <tr> <th colspan="6">Incremental Incr/(Decr)</th> </tr> <tr> <th>NOI (in \$000's)</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>WWP Revenue</td> <td>\$0</td> <td>\$71</td> <td>\$105</td> <td>\$151</td> <td>\$201</td> </tr> <tr> <td>PMSA Revenue</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$16</td> <td>\$16</td> </tr> <tr> <td>WWP Expense</td> <td>(\$30)</td> <td>(\$43)</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>NOI</td> <td>(\$30)</td> <td>\$28</td> <td>\$105</td> <td>\$167</td> <td>\$218</td> </tr> <tr> <td>Depreciation</td> <td>(\$6)</td> <td>(\$25)</td> <td>(\$25)</td> <td>(\$25)</td> <td>(\$25)</td> </tr> <tr> <td>NOI After Depreciation</td> <td>(\$37)</td> <td>\$3</td> <td>\$80</td> <td>\$141</td> <td>\$193</td> </tr> </tbody> </table> <p><i>Incremental Revenue</i> is generated by expanding WWP leased premises 6,485 sf, extending WWP's initial lease term two years and one month, and extending PMSA's initial lease term two years and 9 months. <i>Incremental Expense</i> is generated by the WWP broker fee (first payment in 2014, second payment in 2015). <i>Depreciation</i> will increase approximately \$25K per year based on a 15 year WWP lease term, a 5 year PMSA lease term, and the assumption that both tenants' improvements will be capitalized.</p>			Incremental Incr/(Decr)						NOI (in \$000's)	2014	2015	2016	2017	2018	WWP Revenue	\$0	\$71	\$105	\$151	\$201	PMSA Revenue	\$0	\$0	\$0	\$16	\$16	WWP Expense	(\$30)	(\$43)	\$0	\$0	\$0	NOI	(\$30)	\$28	\$105	\$167	\$218	Depreciation	(\$6)	(\$25)	(\$25)	(\$25)	(\$25)	NOI After Depreciation	(\$37)	\$3	\$80	\$141	\$193
Incremental Incr/(Decr)																																																			
NOI (in \$000's)	2014	2015	2016	2017	2018																																														
WWP Revenue	\$0	\$71	\$105	\$151	\$201																																														
PMSA Revenue	\$0	\$0	\$0	\$16	\$16																																														
WWP Expense	(\$30)	(\$43)	\$0	\$0	\$0																																														
NOI	(\$30)	\$28	\$105	\$167	\$218																																														
Depreciation	(\$6)	(\$25)	(\$25)	(\$25)	(\$25)																																														
NOI After Depreciation	(\$37)	\$3	\$80	\$141	\$193																																														
IRR/NPV	<table border="1" data-bbox="617 1302 1047 1438"> <thead> <tr> <th>NPV (in \$000's)</th> <th>IRR (%)</th> <th>Payback Years</th> </tr> </thead> <tbody> <tr> <td>\$190</td> <td>NM</td> <td>4</td> </tr> </tbody> </table>	NPV (in \$000's)	IRR (%)	Payback Years	\$190	NM	4	<p>The Net Present Value is based on the incremental net cash flows generated by the new leases and does not factor in the underlying value of the spaces leased. The basis for establishing the market rates for the leases is described in the memo under "Market Conditions."</p>																																											
NPV (in \$000's)	IRR (%)	Payback Years																																																	
\$190	NM	4																																																	

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) Do Not Execute a New Lease Agreement: If the Port does not enter into a new lease for larger space at WTCW that includes terminating WWP's current lease at Pier 66, WWP potentially vacates at the end of their current Pier 66 lease term. The Port would earn roughly \$346,000 in total revenue from this Pier 66 lease.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

August 12, 2014

Page 6 of 6

The Port also loses the opportunity to extend the term of its lease with PMSA for an additional two years and three months. The Port would earn roughly \$73,000 in total revenue from this lease. The Port also loses the opportunity to lease space on the first floor that has had unsecured short term tenants over the past five years. This is not the recommended alternative.

Alternative 2) Execute Proposed Lease: Entering into the proposed new lease agreement with WWP at WTCW increases occupied square footage, extends the lease term an additional two years and eleven months, and terminates their existing lease at Pier 66. This new lease provides incremental revenue to the Port in the amount of \$769,000 over the term of the WWP new lease plus \$52,000 over the term of the PMSA new lease. It also secures a longer term lease for space that the Port has previously only been able to achieve short term leases. Additionally, the tenant improvements proposed by WWP will provide for better marketability of the space by removing the window offices, creating an open floor concept, current with today's typical office build-outs. Tenant improvements also include a new storefront entry off the lobby, improving marketability for this first floor space. Finally, securing a longer term tenant aligns with the Real Estate long term asset plan. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Lease Agreement substantially as negotiated.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- June 5, 2012: The Commission authorized the Port enter into a Lease with WWP at Pier 66 for a term of five years, two months and further approved a Port funded tenant improvement allowance of \$112,769 and payment of a broker fee in the amount of \$24,514.