

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>6b</u>
Date of Meeting	<u>October 14, 2014</u>

DATE: October 7, 2014
TO: Theodore J. Fick, Chief Executive Officer
FROM: Melinda Miller, Director, Portfolio and Asset Management
Patricia Spangler, Real Estate Manager
SUBJECT: Conference and Event Center Management Agreement Amendment

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a First Amendment to the Conference and Event Center Management Agreement between the Port and Columbia Hospitality Inc. to expand the premises under its management agreement at the World Trade Center Seattle by 1,448 rentable square feet.

SYNOPSIS

Staff proposes execution of a First Amendment to the Conference and Event Center Management Agreement (CECMA) between the Port and Columbia Hospitality, Inc. (CHI) that would expand the premises of the World Trade Center Seattle (WTCSE) by an additional 1,448 rentable square feet. The management agreement is based on a defined description of the premises so any change to the premises requires Commission authorization. The Port would fund approximately \$80,000 from the Real Estate General Fund to convert the premises from the currently vacant office use to a members' lounge which will include an auxiliary dining room with small meeting rooms and a refreshment station. The primary purpose of this expansion is to keep the facility relevant and competitive by allowing for expanded marketing of and event programming for the Holland America Dining Room. Currently, when there is a buyout or event in the dining room they must turn away lunch guests which create uncertainty when members are making their lunch plans. By creating a drop-in members' lounge, we will be able to assure that members always have access to dining during the operating hours of the facility.

BACKGROUND

On November 22, 1994, the Commission approved the purchase of the World Trade Center Seattle license. The Port sought the license to assist the development of the Central Waterfront Development Project. The World Trade Center West Building was completed in 1998 and is the location of the World Trade Center Seattle (WTCSE). The WTCSE serves as a dynamic venue for international trade and business development events in our region and currently has 600 member/sponsors (members) representing large and small businesses. CHI, as manager, is responsible for the day-to-day operations and marketing of the facility for dining, conferences, meetings, and private events as well as sponsorship and membership sales.

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Again, to ensure that WTCSE remains relevant and competitive, it is important to continue to develop and expand the programming and offerings. CHI has proposed that the Port consider the expansion of the WTCSE premises to include the former Suite 400, which is immediately adjacent to the WTCSE. This area is currently vacant and has been a challenge to lease as an office and by adding it to the WTCSE CHI can address some of the challenges they have had with their dining operations. The intent is to create a drop-in members' lounge that will always be available during WTCSE operating hours. This will assure that during "buyouts" in the dining room, members will be still able to dine at the WTCSE. This revision will enhance and add value to the WTCSE customer's experience and increase revenue to the Port. No significant physical upgrades or facility modifications have been made to our facility since WTCSE began operating. The proposed new amenities will attract new members and bring additional vibrancy to the building.

With improvements to the space, we can provide the following additional services and benefits:

1. A daily Monday through Friday a-la-carte luncheon experience that will always be available to members.
2. Increased revenue by growing the a-la-carte lunch business because members will have confidence that WTCSE is always available; board rooms will be yielded for events with more attendees instead of being used frequently for small meetings of two to six people; the dining room can be more aggressively promoted as an international event space at all times without restriction.
3. Trade meetings, weddings and other events will be more inclined to utilize WTCSE because they have access to the lounge as ancillary space.
4. Weddings and other weekend events will be significantly enhanced by the "residential" quality of the new space.
5. The overall member experience is significantly improved enhancing the WTCSE competitive position as the most effective venue in Seattle for promoting trade and facilitating business and nonprofit collaboration and coordination.

OFFICE LEASE VS. WTCSE NPV PROJECTIONS

To compare the two options, Port staff created an office lease pro forma based on market rates and CHI staff prepared a WTCSE pro forma. These proformas both used a term of five years, which is a typical office lease term. It was determined that the WTCSE use was projected to generate \$107,000 more in net present value than the office lease (\$165,000 versus \$58,000, respectively) in the period analyzed.

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FINANCIAL IMPLICATIONS

<i>Budget/Authorization Summary</i>	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$80,000	\$0	\$80,000
Total Authorizations, including this request	\$80,000	\$0	\$80,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$80,000	\$0	\$80,000

<i>Project Cost Breakdown</i>	This Request	Total Project
Allowance	\$80,000	\$80,000
Other	\$0	\$0
Total	\$80,000	\$80,000

Budget Status and Source of Funds

This tenant improvement allowance was not included in the 2014 Capital Plan because it was anticipated that a new office lease would begin in 2013, requiring related improvements in 2013. It is expected that lower spending on other budgeted capital projects will offset this 2014 unplanned capital expenditure.

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

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Financial Analysis and Summary

CIP Category	Revenue/Capacity Growth																																										
Project Type	New Business Development																																										
Risk adjusted discount rate	7.0%																																										
Key risk factors	<p><i>Revenue risk</i> –WTCSE event use provides demand driven revenues that are not guaranteed, whereas an office lease provides a guaranteed revenue stream. Over a typical office lease term of 5 years, CHI’s WTCSE proforma projects generating revenues 1.6 times greater than an office lease (\$281K vs \$172K), so proforma WTCSE revenues would have to fall by 40% or more to be outperformed by an office lease.</p> <p><i>Occupancy risk</i> – would be reduced. Since 2009, the office suite has been occupied a total of 16.5 months (24% occupancy). The CECMA terminates in 7+ years, resulting in WTCSE’ long term occupancy of this suite.</p> <p><i>Payback risk</i> – WTCSE relies on non-guaranteed revenues for payback of improvements. This risk is partially mitigated by WTCSE’ shorter payback period (two years compared to an office tenant’s 3 year payback).</p>																																										
Project cost for analysis	\$80,000																																										
Business Unit (BU)	Portfolio Management, Real Estate Division																																										
Effect on business performance	<p>Net Operating Income after Depreciation for Years 1 through 5 is shown below:</p> <table border="1"> <thead> <tr> <th colspan="6">Incremental Incr/(Decr)</th> </tr> <tr> <th>NOI (in \$000's)</th> <th>Year 1</th> <th>Year 2</th> <th>Year 3</th> <th>Year 4</th> <th>Year 5</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>\$32</td> <td>\$31</td> <td>\$34</td> <td>\$32</td> <td>\$31</td> </tr> <tr> <td>Expenses</td> <td>(\$11)</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>NOI</td> <td>\$21</td> <td>\$31</td> <td>\$34</td> <td>\$32</td> <td>\$31</td> </tr> <tr> <td>Depreciation</td> <td>\$4</td> <td>\$4</td> <td>\$4</td> <td>\$4</td> <td>\$4</td> </tr> <tr> <td>NOI After Depreciation</td> <td>\$17</td> <td>\$27</td> <td>\$30</td> <td>\$29</td> <td>\$28</td> </tr> </tbody> </table> <p>Incremental revenue is generated by the converting the use from office space to WTCSE space. Incremental expense decreases in Year 1 because broker fees are not required for the WTCSE use but are required for an office lease. The depreciation increase is primarily a result of WTCSE requiring \$44K more of capitalized improvements than an office user would.</p>	Incremental Incr/(Decr)						NOI (in \$000's)	Year 1	Year 2	Year 3	Year 4	Year 5	Revenue	\$32	\$31	\$34	\$32	\$31	Expenses	(\$11)	\$0	\$0	\$0	\$0	NOI	\$21	\$31	\$34	\$32	\$31	Depreciation	\$4	\$4	\$4	\$4	\$4	NOI After Depreciation	\$17	\$27	\$30	\$29	\$28
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IRR/NPV	<table border="1"> <thead> <tr> <th colspan="3">Incremental Incr/(Decr)</th> </tr> <tr> <th>NPV (in \$000's)</th> <th>IRR (%)</th> <th>Payback Years</th> </tr> </thead> <tbody> <tr> <td>\$107</td> <td>NM</td> <td>(1)</td> </tr> </tbody> </table> <p>The Net Present Value is based on incremental net cash flows generated by WTCSE use and does not factor in the underlying value of the land and improvements. The Payback period decreases from 3 years for an office lease to 2 years with WTCSE, an incremental decrease of one year.</p>	Incremental Incr/(Decr)			NPV (in \$000's)	IRR (%)	Payback Years	\$107	NM	(1)																																	
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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Reject this request for a First Amendment to CECMA and the Port would forego approximately potential \$160,000 of additional revenue over the five year period commencing January 1, 2015. The Port would continue to pursue an office lease and would incur costs associated with the lease-up, such as broker fees, tenant improvements and rent abatement. Suite 400 has been actively marketed through a professional broker for over a year and we have not secured an office lease. The Port will continue to lose revenue during the period the space remains vacant with the possibility of increased tenant improvement costs. Additionally, not expanding the WTCSE would keep WTCSE from enhancing its competitive position as the most effective venue in Seattle for promoting trade and facilitating business and nonprofit collaboration and coordination. **This is not the recommended alternative.**

Alternative 2) – Approve this First Amendment to CECMA, expanding the WTCSE to provide additional space as a members' lounge with a la carte dining, meeting rooms and events, and potentially increase revenue to the Port by approximately \$160,000 over the initial five year period commencing upon Commission approval. The additional space will significantly improve the overall sponsor experience, enhancing the WTCSE competitive position as the most effective venue in Seattle for promoting trade and facilitating business and nonprofit collaboration and coordination. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- First Amendment to Conference and Event Center Management Agreement.
- PowerPoint Presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 23, 2011 – Commission approved for the Chief Executive Officer to execute a Management Agreement for the Port's Conference and Event Centers
- August 9, 2011 – Commission was briefed on the proposed comprehensive Conference and Event Center Management Agreement.