

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4e
Date of Meeting August 9, 2016

DATE: July 29, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Melinda Miller, Director of Portfolio & Asset Management, Economic Development Division
Lily Ninburg, Property Manager II, Portfolio & Asset Management, Economic Development Division
SUBJECT: 1st Amendment to Term Lease Agreement with Washington State Department of Transportation (WSDOT) at Terminal 106

Net Proceeds to the Port: \$1,254,544.80 (annual rent revenue if 1st option exercised)
\$2,546,725.94 (total rent revenue if both options exercised)

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute the First Amendment to term lease agreement (#002165) with the Washington State Department of Transportation at Terminal 106 substantially as drafted and executed by WSDOT and attached to this memorandum to add two additional options at higher rent rates. If both options are executed, the new lease expiration would become February 18, 2019.

SYNOPSIS

WSDOT entered into a lease agreement with the Port in 2011 to secure warehouse space for laydown, storage and parking for buses used in transporting workers to and from construction sites of the SR-99 Alaskan Way Tunnel Project. The original lease of 4 years and 2 months plus an exercised 1-year option will expire on February 18, 2017. Due to project delays, WSDOT has requested additional options for lease extensions. The proposed First Amendment will add two options (each up to 12 months) to potentially extend the lease term to February 18, 2019, depending on how many months they request for each additional extension.

BACKGROUND

The Port originally acquired T-106 Building 1 from PARR Industries around 1970 and used the building for the Port's warehousing business until approximately 2003. The building has largely remained idle since that time, as various alternative uses have been considered for the site including a Request for Proposal (RFP) for a possible logistics facility. The configuration of the building does not meet market industry standards and would require significant capital

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investment to meet current real estate marketplace needs. The future development of this property is included in the upcoming Strategic Real Estate Plan.

The original WSDOT lease was approved by the Commission on August 2, 2011. In December 2013, Seattle Tunnel Partners (STP) stopped tunneling approximately 1,000 feet into the tunnel drive due to damage to the tunnel boring machine, leading to further delays to the Tunnel Project. Since WSDOT's lease at T-106 is an integral part of the Tunnel Project, the tenant has requested two additional options to extend the lease term. The proposed amendment to WSDOT's lease at T-106 demonstrates the Port's continued support for the Tunnel Project.

AMENDMENT JUSTIFICATION AND PROPOSED TERMS

Proceeding with the proposed amendment related to the construction of the SR-99 Alaskan Way Tunnel Project is a benefit to the Port and will help to minimize the negative impact of the project's construction on businesses and the traveling public. Improvements to SR-99 and city streets will provide capacity in the transportation system for today and the future, and improve access and mobility to and through the south of downtown area and to Port properties. Adding two additional options to extend at a higher rent rate also generates additional revenue for the Port.

Amendment Objectives

- Minimizing Tunnel Project's construction impact waterfront and surrounding businesses.
- Supporting regional transportation and freight mobility initiatives.
- Protecting and guaranteeing revenue stream to the Port.

Proposed Changes in Lease Terms: Current vs. 1st Amendment

Key Lease Terms	Current Lease	Proposed 1st Amendment
Premises	522,727 sf of warehouse	Same
<u>Total</u> Term (with options)	5 years, 2 months	7 years, 2 months
Expiration Date	February 18, 2017	February 18, 2019 (if both options executed)
Options to Extend	1 option of 12 months (already exercised and approved)	Two additional options (each up to 12 months)
Rate	\$0.1597/sf/mo	\$0.2000/sf/mo (eff. 2/19/2017)
Fixed Annual Rate Increase %	3%	Same (3%)
Monthly Rent	\$81,036.63	\$104,545.40 (1 st Option); \$107,681.76 (2 nd Option)

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Surety (Not Required)	Per RE-2 Procedure E.1.e, the Port may enter into Term Agreements with federal, state or local public bodies without requiring security.	Same
Use of Premises	Material storage, vehicle parking and office associated with the Tunnel Project	Same
Utilities	Tenant responsible for all utilities	Same
Maintenance & Repair (M&R)	Tenant responsible for all M&R	Same

A WSDOT signed copy of the proposed First Amendment to WSDOT T-106 lease agreement is attached to this Commission memo.

STRATEGIES AND OBJECTIVES

Amending the lease by adding two options is in alignment with both Century Agenda's Regional Initiatives and its Strategic Objectives:

1. One of the four Regional Initiatives in Century Agenda is to "strengthen access to global markets and supply chains for Northwest businesses." Supporting the Tunnel Project is a critical element to that Initiative. It increases freight mobility and access to major facilities of the Port.
2. One of the four Strategic Objectives stated in Century Agenda, "position the Puget Sound as a premier international logistics hub," is also consistent with and in alignment with the this amendment. This proposed amendment will continue to support the Tunnel Project to its completion to enhance the Port's competitiveness as a premier international logistics hub.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not execute lease amendment with WSDOT lease at T-106. This action potentially delays the Tunnel Project currently under way.

Cost Implications: Potentially forgoing up to \$2,546,725.94 of rent revenue over two years

Pros:

- (1) Maintaining complete flexibility for use of the space for property redevelopment.

Cons:

- (1) Disrupting the Tunnel Project.
- (2) Potentially forgoing rent revenue stream to the Port.

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This is not the recommended alternative.

Alternative 2 – Amend the T-106 lease by adding two options and execute the amendment as proposed. This action minimizes construction impacts to the waterfront and other surrounding businesses and will increase and protect the revenue stream to the Port at T-106.

Cost Implications: Potentially increasing rent revenue by up to \$2,546,725.94 over two years

Pros:

- (1) Minimizing construction impacts to waterfront and surrounding businesses.
- (2) Protecting and increasing revenue stream to the Port at T-106.

Cons:

- (1) Property is constrained for at least the initial term.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- WSDOT signed 1st Amendment to term lease with WSDOT at T-106.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 2, 2011 — Twelfth Amendment to Terminal 46 Lease with Total Terminals International LLC and term lease agreements with Washington State Department of Transportation at Terminal 46 and Terminal 106.