

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**ACTION ITEM**

**Item No.** 4e  
**Date of Meeting** September 13, 2016

**DATE:** September 2, 2016  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** Melinda Miller, Director, Portfolio and Asset Management  
Patricia Spangler, Real Estate Manager  
**SUBJECT:** Tideworks Technology, Inc. Lease at Harbor Marina Corporate Center

**Amount of This Request:** \$570,536      **Source of Funds:** General Fund  
**Est. Total Project Cost:** \$570,536

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to (1) enter into a new agreement with Tideworks Technology Inc. to lease Suite 207 at Harbor Marina Corporate Center consisting of approximately 11,510 rentable square feet (RSF) for an initial term of seven years with one five-year option to renew and (2) approve a Port-funded tenant improvement allowance in the amount of \$460,400 (\$40.00 per RSF) and payment of a broker fee in the amount of \$110,136. This request is for the total cost of \$570,536.

**SYNOPSIS**

Port staff proposes to enter into a new lease with Tideworks Technology, Inc. (Tideworks) at Harbor Marina Corporate Center (HMCC) for space consisting of approximately 11,510 RSF. The lease term is for seven years at an average market rental rate of \$18.00/RSF Triple Net (NNN) over the term of the lease with one five-year option to extend at market rental rates. The Port would also invest approximately \$40/RSF (\$460,400) toward the build-out of the space. This allowance is about \$7.00/RSF higher than usual due to the extensive amount of work that needs to be done to update an antiquated layout and poor condition of a space that has been vacant for several years. The proposed new build-out will include a completely new ceiling grid and tiles, extensive electrical work, and significant HVAC upgrades. The new use also requires adding an ADA accessible bathroom. In addition to the Port funds for improvement, Tideworks will spend another \$5.00-\$7.00/RSF toward the build-out of the space. The Port will pay standard broker fees in the amount of \$110,136.

Entering into a new lease with Tideworks will: a) increase the occupancy at HMCC from 84% to 93%; b) lease-up space that has remained vacant for seven years; and c) increase the Port's revenue with steady market-based rate increases for seven years.

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### **BACKGROUND**

Tideworks provides terminal operating systems and graphical planning solutions for marine and intermodal terminal operations around the world. Tideworks was established in 1999 following forty years of experience as the technology division of Carrix, Inc. Their technology framework and innovative tools leverage third-party technologies in order to help their clients improve data accuracy, terminal security, and clear, timely communication. Tideworks is a wholly owned subsidiary of Carrix, Inc. providing support to SSA Marine (SSA), another wholly owned subsidiary. Carrix, the world's largest privately held marine and rail terminal operator, is locally-owned, privately held corporation.

Tideworks currently shares space with SSA Marine in the Carrix complex adjacent to HMCC. To accommodate SSA's plans for an extensive remodel of their offices that will improve the working environment for their staff and allow for future growth, Tideworks will relocate fifty-five staff members out of the Carrix complex into the proposed new HMCC leased space. HMCC is a logical location for Tideworks to relocate their staff due to the proximity of HMCC to the Carrix complex.

### **MARKET CONDITIONS**

To determine the acceptable market rate, staff consults with several different resources including real estate market condition reports prepared by several brokerage firms, Co-Star's market report, and a review of recent transactions for comparable buildings provided by Madison Bay Commercial, the Port's listing broker for HMCC. HMCC consists of approximately 138,110 RSF of flex space (office/warehouse/storage). The market rate for Net Rent for HMCC is in the range of (\$14.00 to \$17.00) per rentable square feet plus building expenses with annual rent increases between \$0.50/RSF and \$1.00/RSF. The Port staff negotiated a market rate with Tideworks on the higher range for a Net Rent of \$16.50/RSF commencing year one with \$.50/RSF annual rent increases. The current market for Landlord concessions for funded tenant improvements ranges up to \$5.00/RSF per year of the lease. The Port staff negotiated funding a higher tenant improvement allowance of \$5.71/RSF per year. The Port staff agreed to the higher tenant improvement allowance to allow tenant to update the antiquated layout, out-of-date electrical and mechanical systems and to install a new ADA restroom and shower. The proposed build-out will create a large open space with various size conference rooms, typical for office use today. The Lease also provides for four months abated rent.

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### **TERMS OF PROPOSED TIDEWORKS LEASE**

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

**Term:** Seven years, commences on the earlier of substantial completion of tenant improvements or April 1, 2017.

**Option to Extend:** One five-year option to extend at then market rent.

**Early Occupancy:** Tenant will occupy the premises upon fully executed lease.

**Rent Abatement:** Rent is abated for four (4) months during first year of the term.

**Premises:** Approximately 11,510 rentable square feet (RSF) in Building C on the second floor in Suite 207.

**Use:** General office and administrative purposes.

**Base Rent:**

Base Rent shall be as set forth below:		
<b>Month</b>	<b>Rate/SF/Year</b>	<b>Monthly Base Rent (NNN)</b>
1- 4	\$0.00	\$0.00
5 - 12	\$16.50	\$15,826.25
13 - 24	\$17.00	\$16,305.83
25 - 36	\$17.50	\$16,785.42
37 - 48	\$18.00	\$17,265.00
49 - 60	\$18.50	\$17,744.58
61 - 72	\$19.00	\$18,224.17
73 - 84	\$19.50	\$18,703.75

**Port Improvements:**

The Port shall provide a tenant improvement allowance for up to \$460,400 (\$40/RSF) to reimburse tenant for its approved costs to build out the premises, including all soft costs associated with the build-out. Any alterations to the premises shall be subject to Landlord's prior written approval.

**Taxes and Operating**

**Expenses:** Tenant is responsible for all the operating costs associated with the occupancy including their proportionate share of all common area building operating expenses and for any separately metered utilities. In addition, the tenant is responsible for the leasehold excise tax charged against the base rent.

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Security Deposit:

Security Deposit is equivalent to six months' escalated rent in an amount of \$112,222.50. This is compliant Port Real Estate Policy.

### **FINANCIAL IMPLICATIONS**

#### ***Budget/Authorization Summary***

	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$460,400	\$110,136	\$570,536
Total Authorizations, including this request	\$460,400	\$110,136	\$570,536
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$460,400	\$110,136	\$570,536

#### ***Project Cost Breakdown***

	This Request	Total Project
Tenant Improvement Allowance	\$460,400	\$460,400
Broker Commission	\$110,136	\$110,136
Total	\$570,536	\$570,536

#### ***Budget Status and Source of Funds***

Funds for the capitalized tenant improvements will be available as part of the 2016 plan of finance CIP C800126 for tenant improvements. It is expected that lower spending and delays on other broker commissions included in the 2016 operating budget will offset these unplanned 2016 broker commission expenses.

The source of funds will be the General Fund.

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### ***Financial Analysis and Summary***

<b>CIP Category</b>	Tenant Improvements						
<b>Project Type</b>							
<b>Risk adjusted discount rate</b>	7.5%						
<b>Key risk factors</b>	Risk of tenant default, which is partially mitigated by: <ul style="list-style-type: none"><li>• Security deposit totaling \$112,222</li><li>• Carrix Inc's (parent company) subsidiary tenants (SSA) are in good standing as a current tenants of the Port</li></ul>						
<b>Project cost for analysis</b>	\$570,536						
<b>Business Unit (BU)</b>	Portfolio Management						
<b>Effect on business performance</b>	The incremental impact of the lease on Net Operating Income (NOI) for Year 2017 through Year 2023:  The incremental revenue generated from this lease is approximately \$200K per year based on average revenue of the initial 5-year term of the lease.						
<b>IRR/NPV</b>	The NPV/IRR is based on the incremental net cash flows generated by the new lease and does not factor in the underlying value of the spaces leased. The NPV and IRR are based on the initial 7-year lease term. <table border="1"><thead><tr><th>NPV (\$000s)</th><th>IRR (%)</th><th>Payback (yrs)</th></tr></thead><tbody><tr><td>\$536.37</td><td>22%</td><td>3</td></tr></tbody></table>	NPV (\$000s)	IRR (%)	Payback (yrs)	\$536.37	22%	3
NPV (\$000s)	IRR (%)	Payback (yrs)					
\$536.37	22%	3					
<b>CPE Impact</b>	N/A						

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** –Continue to market the 11,510 RSF to single user with minimal improvements to the space.

**Cost Implications:** Loss of revenue to the Port in the amount of \$191,354 versus the Tideworks projected revenue.

#### Pros:

- (1) Single user accepting the space with minimal improvements would generate revenue sooner than with the proposed lease.
- (2) The Port investment toward the tenant improvements would be less.

#### Cons:

- (1) The Port would generate less revenue because the lease term would likely be for a shorter period. Historically, lease terms for this property are between three to five years. Under a shorter lease, the Port will lose revenue for the additional two years with the proposed Tideworks seven year lease term.

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- (2) While the Port's investment for improvements would be less under an earlier lease-up, the space build-out will remain antiquated and the Port would likely incur higher costs for updating the build-out later.

This is not the recommended alternative.

**Alternative 2** – Demise the current build-out of the 11,510 RSF into smaller office spaces.

Cost Implications: Potential loss of revenue to the Port in the amount of \$426,829 versus the Tideworks projected revenue. (Undetermined costs associated with creating circulation and separation among the smaller spaces)

### Pros:

- (1) By demising the 11,510 RSF into smaller office space, consisting of 2,500 RSF to 3,000 RSF, the smaller spaces might appeal to a broader range for tenants.
- (2) Less risk to the Port for several smaller office spaces becoming vacant at the same time than having a single user vacating the entire 11,510 RSF causing downtime and loss of revenue.

### Cons:

- (1) Building out the 11,510 RSF into smaller spaces would require even more extensive tenant improvements including extending corridors and creating circulation.
- (2) The Port would have considerable downtime during the design and build-out of the corridor which the Port would be unable to generate revenue. In addition, the Port would generate less revenue by demising the space to create office spaces on the east and the west side of the corridor. The market rate for east side space is less versus the market rate for the spaces on the west side that have water views.

This is not the recommended alternative.

**Alternative 3** – Approve this proposed lease with Tideworks for a seven-year term with a five-year extension and invest Port funds in the amount of \$460,400 to build-out the space. In addition, pay broker fees of \$110,136.31.

Cost Implications: The Port would generate \$1,653,649 in revenue over the seven-year term of the lease with Tideworks.

### Pros:

- (1) The Port leases a large space that has been vacant for seven years and challenging to lease to a single user.
- (2) The Port would generate revenue commencing no later than February 1, 2017, and have in place a seven-year lease with market rate rent increases.
- (3) Proposed lease provides for one five year option to extend. Should Tideworks exercise this option the Port would continue to generate revenue at a higher market rate to be negotiated.

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### **Cons:**

- (1) The Port investment toward the tenant improvement costs associated with Tideworks proposed build-out of the space are higher than typical but similar to what would be expected by another tenant.
- (2) Tideworks would be required to lease space elsewhere losing the continuity of their operations with SSA Marine, long-time leaseholder with the Port.

**This is the recommended alternative.**

### **ATTACHMENTS TO THIS REQUEST**

- Computer slide presentation.
- Lease signed by Tideworks Technology, Inc.

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None