



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6a

ACTION ITEM

Date of Meeting November 22, 2016

DATE: October 28, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Dave McFadden, Managing Director Economic Development Division
Jeffrey Utterback, Director Real Estate & Economic Development

SUBJECT: Approval two ground leases for the Northeast Redevelopment Area (“NERA”).

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute (1) a ground lease with Seattle Gateway 2 LLC to develop aviation-related facilities in Northeast Redevelopment Area 2 in the city of Burien and (2) a ground lease with Seattle Gateway 1 LLC to develop aviation-related facilities in Northeast Redevelopment Area 3 in the city of Burien.

EXECUTIVE SUMMARY

The Port and City of Burien have been working collaboratively for a number of years preparing the NERA area for development. Work has included zoning, master planning, development of a regional storm water facility and obtaining a grant from the Federal Aviation Administration for \$5 million to plan all necessary improvements required for development. These two leases, along with the City’s adjacent project, represent the fruition of all the work preparing for development.

The Port reached out to 25 qualified developers with records of accomplishment in industrial and air cargo related development. Five developers submitted a Letter of Intent. The evaluation included financial benefits, labor harmony, and small business participation.

Panattoni has created two limited liability companies to lease each of the sites.

JUSTIFICATION

This project is a large step forward in pursuing the Century Agenda Strategy of “Positioning the Puget Sound region as a premier international logistics hub.” In addition, it furthers the airport’s strategic goal of maximizing non-aeronautical income.

The proposed development of the two properties by Panattoni Development Company will create approximately 425,000 square feet of manufacturing, office, and supporting warehouse functions across the NERA 2 & 3 sites. Tenants will include food processors, manufacturers,

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and supporting logistics providers including Washington Distribution Services (“WDS”) as lead tenant. WDS currently employees 50+ with an average wage of \$18.00/hr. with a full range of benefits. The other, yet undisclosed, tenants are anticipating up to 500-600 family wage jobs. Construction of the site will be completed at Prevailing Wage and there will be an outreach for apprentice and small business participation.

DETAILS

The basic terms of the lease are as follows:

NERA 2

1. **TERM**- Initial term of fifty-five (55) years with two (2) ten year options to extend.
2. **Base rent from the day construction** begins or April 1, 2017 whichever occurs first- \$0.075 per square foot – approximately **\$23,196.00/year**
3. **Base rent from substantial completion** or January 1, 2018, whichever occurs first- \$0.88 per square foot – approximately **\$272,163.00/year**.
4. **Base rent adjustments:** The applicable Base Rent will increase by ten percent (10%) throughout the Term and any Extension Terms beginning at the sixth (6th) Agreement Year and then every five (5) years thereafter.
5. Fair Market Rent appraisals for the twenty-first (21st), thirty-first (31st), forty-first (41st), and fifty-first (51st) Agreement years and the sixty-first (61st) and seventy-first (71st) Agreement years if the options are exercised.
6. In no event will the Fair Market Rent adjustments be less than ninety-five percent (95%) of the then current base rent or more than one hundred ten percent (110%) of the then current base rent.

NERA 3

1. **TERM**- Initial term of fifty-five (55) years with two (2) ten year options to extend.
2. **Base rent from the day construction** begins or April 1, 2017 whichever occurs first- \$0.075 per square foot – approximately **\$62,400.00/year**
3. **Base rent from substantial completion** or January 1, 2018, whichever occurs first.- \$0.88 per square foot – approximately **\$732,156.00/year**.
4. **Base rent adjustments:** The applicable Base Rent will increase by ten percent (10%) throughout the Term and any Extension Terms beginning at the sixth (6th) Agreement Year and then every five (5) years thereafter.
5. Fair Market Rent appraisals for the twenty-first (21st), thirty-first (31st), forty-first (41st), and fifty-first (51st) Agreement years and the sixty-first (61st) and seventy-first (71st) Agreement years if the options are exercised.
6. In no event will the Fair Market Rent adjustments be less than ninety-five percent (95%) of the then current base rent or more than one hundred ten percent (110%) of the then current base rent.

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Scope of Work

The execution of all necessary documents related to the two proposed leases.

Schedule

The leases are anticipated to be signed by November 30, 2016.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not sign the two leases.

Cost Implications: The loss of over \$1,000,000 in initial annual revenue.

Pros:

- (1) The property would be available for some yet unknown airport operational purpose.
- (2) There could be some other use identified that could more align with the Port's long term goals.

Cons:

- (1) The loss of \$1,000,000 in annual revenue equal to more than \$200 million over the life of the lease with baseline escalations.
- (2) The loss of Leasehold Excise Tax of \$123,093 per year (not including lease revenue escalations) to the State.
- (3) The loss of construction jobs.
- (4) The loss of up to 500-600 family wage jobs.

This is not the recommended alternative.

Alternative 2 – Sign the two leases.

Cost Implications: \$1,000,000 in annual revenue.

Pros:

1. \$1,000,000 in annual revenue equal to more than \$200 million over the life of the lease with baseline escalations.
2. Leasehold Excise Tax of \$123,093 per year (not including lease revenue escalations) to the State.
3. The creation of construction jobs.
4. The creation of up to 500-600 family wage jobs.

Cons:

1. The property would not be available for some yet unknown airport operational purpose.
2. There could be some other use identified that could more align with the Port's long term goals.

This is the recommended alternative.

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FINANCIAL IMPLICATIONS

The development of these two sites is tied to the Federal Aviation Administration’s (FAA) funding of the purchase of the many residential sites under the Part 150 Noise Program. The sites were acquired because of the noise impact to the residences. The FAA provided significant grants that allowed the purchase, relocation, and demolition of the homes.

The purpose of redevelopment is to put the property back into productive use with an airport compatible development. It is a requirement under the FAA grant assurances. To ensure a Fair Market Rent for the land the Port appraised the property in its current condition and then competitively offered the property to the development community. This ensured the Port has a strong basis to evaluate proposals for both financial implications and aspirational goals. The proposal being presented exceeds the financial expectations and addresses the aspirational goals set by Commission.

Future Revenues and Expenses (Total cost of ownership)

The total estimated revenue is equal to more than \$200 million over the life of the leases (75 years.) The Port will pay to the City of Burien approximately \$775,000 to acquire the street easements located within NERA 2. This funding request is not part of this approval and will be submitted at a later date.

ATTACHMENTS TO THIS REQUEST

- (1) NERA 2 & 3 Map

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None