



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6a

ACTION ITEM

Date of Meeting May 9, 2017

DATE: May 2, 2017

TO: Dave Soike, Interim Chief Executive Officer

FROM: Melinda Miller, Director, Real Estate Asset Management
Steve Sawyer, Real Estate Property Manager
Mark Longridge, Capital Project Manager III

SUBJECT: Ground Lease with Duke’s Shilshole Bay Chowder House LLC at Shilshole Bay Marina including associated construction (CIP #C800445).

Amount of this request: \$400,000

Total estimated project cost: \$500,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to (1) execute a ground lease with Duke’s Shilshole Bay Chowder House, LLC, for an initial term of 20 years with one 10-year option to extend, for the 6,500 square-foot restaurant development pad at Shilshole Bay Marina and (2) proceed with up to \$500,000 for Port-completed utility extensions and site preparation.

EXECUTIVE SUMMARY

The Port’s mission for Shilshole Bay Marina is to create a known destination for boaters and to build a successful marina business for years to come. A restaurant is a key cornerstone to building a destination marina. Marina customers have long desired a full-service restaurant and meeting place and the 2005 Shilshole Site Plan identified an appropriate location in the central area near the main plaza.

Although an earlier effort to attract a restaurant in 2006 resulted in extensive negotiations with a qualified developer/operator, the downturn in the financial markets eventually resulted in the termination of those negotiations.

In 2016, the Port issued another Request for Proposal (RFP) seeking qualified restaurant developers/operators to construct a full-service waterfront casual restaurant.

Staff conducted extensive outreach and advertisement to inform all interested prospects of its intent to move forward with plans to secure a restaurant for the temporary garden location in the center area of the marina. This included the general business community, real estate

Meeting Date: May 9, 2017

brokers, the broader Shilshole community, and suggestions from the Washington Restaurant Association. Prior feedback from operations staff and current moorage and building tenants helped shape the RFP requirements.

After two extensions of the initial submittal deadline to encourage greater participation, proposal review, and site visits, Duke’s Shilshole Bay Chowder House, LLC (Duke’s) was unanimously approved by the selection panel.

JUSTIFICATION

Developer/Operator

The selection panel found Duke’s proposal attractive and surpassing the expectations of the Port’s intent for this site. Duke’s is a local, family-owned enterprise that currently operates in six different neighborhood locations in the Puget Sound area.

Duke’s has sustained and nurtured their concept for over 39 years, keeping current and innovative with food, décor, training, and maintaining a family quality with their employees. All current Duke’s restaurant location is under a lease and has maintained an excellent payment history with each landlord. Their credit is exemplary and they have garnered respect and praise from their creditors.

One of Duke’s cornerstones of success is fostering strong vendor relationships. The Port was provided numerous vendor references on behalf of Duke’s, which demonstrated their overwhelming commitment to their distributor pipeline and the quality they provide.

Sustainable Practices

Duke’s ownership intends to make the new Shilshole Bay Marina location the flagship of their already successful business. They strive to introduce innovative and visually appealing concepts, coupled with state-of-the-art sustainability. Duke’s has a long history of sourcing wild and natural foods and placing a premium on sustainable practices. Duke’s has also been recognized by Smart Catch as a 100% sustainable seafood rating, based upon volume compliance, a program designed to promote sustainability and raise customer awareness regarding sustainable seafood options.

Owner Duke Moscrip personally travels to Alaska every year to oversee the catch of their salmon. This ensures that all salmon served at Duke’s is 100% wild and sustainable, and meets the highest and strictest guidelines in the industry .

Duke’s takes their responsibility as stewards of the environment seriously. Specific design, construction and operational programs include: use of sustainable building materials, waste water collection, green sanitation and maintenance and repair practices. Additionally they will continue to employ best management practices regarding janitorial maintenance capturing

Meeting Date: May 9, 2017

fugitive dust and helping to prevent contamination of the shoreline and the marine environment.

Duke’s building design will focus on achieving the following sustainability goals:

- On-site farming of greens and vegetables grown with aeroponic technology, using custom lighting and growing devices, both inside and outside of the restaurant
- Plans for a rooftop greenhouse are in design
- A proposed 10KW solar panel array to charge three advanced deep-cell Tesla batteries to store energy until needed
- A 100,000 gallon cistern to harvest rainwater for irrigation of produce and to flush water lines that tie to the City sewer system
- A net zero use of water and electrical consumption

These elements have been proposed and will continue to be discussed with the City of Seattle during design and permitting.

DETAILS

Project Objectives

Execution of a ground lease and construction of a new restaurant building at Shilshole Bay Marina will create the following benefits:

- Supports Maritime’s goal of creating a “Destination Marina”
- Meets marina customers desire for a full-service restaurant
- Creates an additional community meeting place
- Proposes sustainability practices that support Port environmental goals
- Draws new patrons and customers to the Marina and upland businesses
- Creates additional visibility for Shilshole Bay Marina
- Tenant bears construction cost, however building will become a Port asset
- Generates lease revenue for the Port

Placing a restaurant at the Marina will not only bring additional revenue from the lease, but is anticipated to result in increased operational revenue from greater numbers of guest moorage customers and new visitors to the marina.

The recreational boating industry is seeing higher cost of ownership, fewer new boat owners, stricter environmental standards, and an evolution to Boatshare or boating partnership-type operations. To continue to be competitive, a destination marina needs to provide multiple upland amenities and activities for boaters. A restaurant will potentially increase monthly moorage customer retention and bring new potential customers to the Marina and upland businesses. Customer feedback has been consistent in requesting a restaurant be built at the Marina.

Meeting Date: May 9, 2017

Additional benefits may include increased security, collaboration with marina events, community meeting space, increased marina customer satisfaction, and an increased awareness of Shilshole Bay Marina.

Key Lease Terms:

Premises:	6,500 square foot restaurant pad
Term:	20 years, with one 10-year option to extend
Base Rent:	\$10,420 per monthly, \$125,000
CPI Increase:	Annual increase in rent
Construction Rent:	\$2,605 per month until Temporary Certificate of Occupancy
Expenses:	Tenant pays own utilities, share of common area costs, and Leasehold Excise Tax
Surety:	Equivalent to one year average base rent (\$150,000) satisfies Port policy
Parking:	Will create short-term parking area (133 spaces) in central marina to be used on non-exclusive basis. No reserved parking
Due Diligence:	Completed before lease execution
Broker:	None

Scope of Work by Tenant

Duke’s will construct a 6,500 square foot full service, casual, waterfront restaurant of contemporary design. This will consist of an approximately 5,000 square foot restaurant/bar and 1,500 square foot outdoor deck and seating area. The structure will be constructed to give their dining patrons the most appealing view of Puget Sound, the Olympic Mountains and all the boating activities in the marina. The restaurant will be designed to reflect the Northwest aesthetic, and will complement the site plan of the Shilshole Bay Marina. Duke’s estimated cost for the building and Furniture, Fixtures & Equipment (FF&E) is approximately \$2.5 – \$3 million.

Site Improvements by Port

As outlined in the lease, the Port has agreed to provide all necessary utilities to within 5 feet of the building premises. These utilities include gas, water, electrical service, sewer, communications and telephone utilities, but exclude the installation of a grease interceptor vault, which will be installed by the tenant’s contractor. All these services are currently available on the marina property, but will need to be extended to the pad site point of connection once that is determined in the restaurant design.

The Port plans to use Port Construction Services (PCS) to manage this work and will complete the required site improvements with a combination of Port crews and contracts.

As the design and site layout are still under development, the exact nature and placement of the utilities will not be finalized for some time. As such, the Port is currently carrying a not to

Meeting Date: May 9, 2017

exceed budget of \$500,000 to cover all costs associated with providing and extending these utilities as described above. Every effort will be made to complete this work with the maximum of efficiency and at the lowest cost to the Port while fulfilling its obligations under the lease.

Schedule

Ground lease execution would be expected in May 2017. Design and permitting work will continue for both projects through early 2018. Restaurant construction should commence mid-2018. Site Preparation construction will be completed prior to commencement of restaurant construction. Opening is estimated in mid-2019.

Activity

Commission design authorization	2017 Quarter 2
Site improvements design start	2017 Quarter 3
Site improvements construction start	2018 Quarter 2
Restaurant construction start	2018 Quarter 3
Restaurant In-use date	2019 Quarter 3

Cost Breakdown

	This Request	Total Project
Design	\$0	\$75,000
Construction	\$400,000	\$425,000
Total	\$400,000	\$500,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Leave the temporary garden in place and do not develop a restaurant.

Cost Implications: Save approximately \$450,000 in site preparation costs. Forego minimum base rent of \$125,000 annually.

Pros:

- (1) Port saves the remaining cost of extending the utilities to within five feet of the restaurant pad (approximately \$450,000).
- (2) Temporary Garden space remains open to use by customers and the public.

Cons:

- (1) Port forgoes long term revenue stream from restaurant pad (\$125,000 annually).
- (2) Port forgoes opportunity to add a much needed amenity to the marina, reducing the long term value to boaters and other customers or users of the marina.
- (3) Ongoing customer dissatisfaction with existing food options within close proximity to the marina.

This is not the recommended alternative.

Meeting Date: May 9, 2017

Alternative 2 – Ground Lease the Restaurant Pad at Shilshole Bay Marina to Duke’s Shilshole Bay Chowder House, LLC.

Cost Implications: Site preparation costs estimated at \$500,000 - offset by new revenues of \$125,000 in annual base rent (that escalates annually by CPI).

Pros:

- (1) Additional net revenue to the Port (\$125,000 annually).
- (2) The restaurant will add a desired amenity to the marina, which should attract new customers and retain existing Port customers – supporting long term financial goals for the Port.

Cons:

- (1) Port bears the cost of site preparation of the restaurant pad (\$500,000).
- (2) Perception that parking at the marina will be negatively impacted.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$500,000	\$0	\$500,000
AUTHORIZATION			
Previous authorizations	\$100,000	\$0	\$100,000
Current request for authorization	\$400,000	\$0	\$400,000
Total authorizations, including this request	\$500,000	\$0	\$500,000
Remaining amount to be authorized	\$0	\$0	\$0

Annual Budget Status and Source of Funds

Funding for this project was included in the 2017 Plan of Finance under CIP #C800445 SBM Pad Site Development with a total project cost of \$500,000. The source of funds for this project is the General Fund.

Financial Analysis and Summary

Project cost for analysis	\$500,000
Business Unit (BU)	Maritime Portfolio Management
Effect on business performance (NOI after depreciation)	This project will increase annual depreciation expense by approximately \$1,000 over the life of the asset(s). The project analysis assumes an increase of approximately \$1,500 per year of maintenance expenses.
IRR/NPV (if relevant)	NPV of approximately \$1,000,000 over the initial 20-year term of the agreement.

Meeting Date: May 9, 2017

Future Revenues and Expenses (Total cost of ownership)

This project is expected to require minimal annual maintenance expense by the Port. Future revenues will be generated based on lease rates and terms stated above.

ATTACHMENTS TO THIS REQUEST

- (1) PowerPoint Presentation
- (2) Draft Ground Lease

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None