



COMMISSION
AGENDA MEMORANDUM

Item No.	<u>4b</u>
Date of Meeting	<u>June 13, 2017</u>

ACTION ITEM

DATE: June 6, 2017
TO: Dave Soike, Interim Chief Executive Officer
FROM: Jeffrey Utterback, Director Real Estate & Economic Development
SUBJECT: Assignment and Assumption of Ground Lease Agreement at Des Moines Creek Business Park Phase III

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute an Assignment and Assumption of Ground Lease Agreement at the Des Moines Creek Business Park Phase III from the existing tenant, Des Moines Creek Business Park Phase III, LLC, to the new tenant - Des Moines Creek ILP LLC (“ILP”).

EXECUTIVE SUMMARY

The Port entered into a ground lease with Des Moines Creek Business Park Phase III, LLC in May 2016, a limited liability company controlled by the Panattoni Development Company (“Panattoni”). Now that this project is nearing completion and is almost fully leased, Panattoni has identified a buyer for the entire investment and wishes to exit the property through a sale of the assets and an assignment and assumption of the underlying ground lease.

The proposed new owner, Des Moines Creek ILP, LLC (“ILP”), a single asset entity formed for this transaction by Institutional Logistic Partners, an investment fund vehicle created to acquire, own, and operate industrial warehouse facilities across the U.S. The owners of the fund are:

- CalPERS, the \$300 billion pension fund from California, the largest in the US, and
- Bentall Kennedy, a Sun Life Investment Management company, a global real estate investment advisory firm with over \$34 billion of asset under management.

ILP is purchasing the assets and the ground lease from Des Moines Creek Business Park Phase III, LLC for \$67.9 million in cash.

The ground leases for the three Des Moines Creek Business Park (“DMCBP”) phases allow for the current tenant to assign the lease with the Port’s consent. If assignment of the Phase III ground lease is approved, Des Moines Creek ILP, LLC will replace the existing one-year lease security, providing the same security that Port currently has from Des Moines Creek Business Park Phase III, LLC.

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JUSTIFICATION

Panattoni is an industrial merchant developer. Like many similar developers in this asset class, they look to sell their investments as soon as the projects they develop are completed and the income from leasing is fully stabilized. This exit strategy is typically driven by the cost of their capital and the need to repay their original investors, allowing them to achieve the highest Internal Rate of Return (“IRR”) possible. The shorter the period they use the money, the higher the IRR they achieve, and the more profit they make as a developer as the result of the sale. In the US, the primary buyers of stabilized industrial assets are pension funds, as is the case here.

The security provided to the Port by Des Moines Creek ILP, LLC matches what is currently provided by Panattoni. More importantly, the new tenant is investing \$67.9 million in the property and its ultimate owners financial depth far exceeds that of the existing tenant. The Port should draw comfort by this level of investment and any concerns over lease payment defaults.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – The Port does not agree to the request to the assignment and assumption of the ground lease from Panattoni to Des Moines Creek ILP, LLC.

Pros:

- (1) The Port retains Panattoni as the ultimate responsible tenant under the existing ground lease agreement.

Cons:

- (1) Could lead to a dispute with the current tenant. Based on the information provided to the Port about Des Moines Creek ILP, LLC, it would be difficult for the Port to establish that its refusal to consent to the assignment was not unreasonable.

This is not the recommended alternative.

Alternative 2 – The Port agrees to the request to the assignment and assumption of the ground lease from Panattoni to Des Moines Creek ILP, LLC..

Pros:

- (1) The Port receives a matching level of lease security from the new tenant Des Moines Creek ILP, LLC that it currently has from Panattoni.
- (2) The Port is able to replace the original tenant with a tenant who has made a significant investment in the property and is focused on holding and maintaining the property long term.

Cons:

The Port releases a known tenant in Panattoni and enters into a ground lease with a new tenant with whom the Port does not have a current relationship. **This is the recommended alternative.**

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ATTACHMENTS TO THIS REQUEST

- (1) Assignment and Assumption of Ground Lease Agreement
- (2) DMCBP_First Amendment to Phase III Ground Lease Agreement

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

November 22, 2016 – The Commission authorized the First Amendment to Phase III Ground Lease Agreement.

June 10, 2014 – The Commission authorized Des Moines Creek Business Park ground lease approval for Panattoni.