



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6a

ACTION ITEM

Date of Meeting July 25, 2017

DATE: July 18, 2017

TO: Dave Soike, Interim Executive Director

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

SUBJECT: Approval of ground lease for Port property in SeaTac, Des Moines Creek North

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a ground lease with TC Northwest Development in order to develop an aviation-related, light-industrial facility in the City of SeaTac near the Des Moines Creek Business Park (DMCBP).

EXECUTIVE SUMMARY

Port staff recently completed an RFP to select a developer for its Des Moines Creek North site in the City of SeaTac. The firm selected, Trammell Crow Company (TCC), is one of the nation's leading developers and investors in commercial real estate. TCC has developed or acquired more than 2,600 buildings valued at more than \$60 billion and over 565 million square feet. TCC has created a new, wholly-owned company TC Northwest Development, for this ground lease and investment. TCC was recently named as the #1 Development Company in the US for 2016.

The investment made at Des Moines Creek-North will help fulfill the goals and economic benefits of the Port of Seattle's Century Agenda in the following ways:

- The project will provide approximately 90+ prevailing wage construction jobs during the build out of the property. At full occupancy, the development will be home to approximately 400+ full-time employees with an estimated payroll of more than \$28 million annually.
- Complements the nearby Des Moines Creek Business Park by adding additional best-in-class industrial inventory that will continue to attract and retain growing firms, keeping jobs within King County and the nearby region.
- The design and construction will be completed primarily by locally owned, private small businesses. This further serves to promote small business growth and workforce development.

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- The infill location of Des Moines Creek-North will help reduce sprawl by creating new light industrial facilities adjacent to current road infrastructure, highways, and public transportation.

The Port ultimately reached out to 30+ qualified real estate developers with records of accomplishment in industrial and air cargo related development. The RFP document invited each developer to present offers based on a variety of related building types – distribution, manufacturing, and business park/incubator. Four developers submitted offers to the RFP and included a Letter of Intent (“LOI”). Each offer and LOI was analyzed based on a matrix that included economic benefits, development team experience, Century Agenda goals, project debt/equity financing, and development concept.

Located just north of the Des Moines Creek Business Park (“DMCBP”) in the City of Des Moines, this 22.47-acre undeveloped property is zoned Aviation Commercial (“AVC”) and will expand upon the success of the industrial development at the DMCBP. It will also represent the first new industrial development on Port property in the City of SeaTac in many years.

JUSTIFICATION

This ground lease, along with the Port’s adjacent land leases, represents another milestone in the area’s land development.

The proposed development by TC Northwest Development will create more than 356k square feet of high quality, light industrial space with supporting warehouse functions within 2 industrial buildings. Tenants may include food processors, manufacturers, and logistics providers that support the aviation and air cargo industries.

TC Northwest Development will spend up to \$25,000 in pursuit of tenant prospects that meet the Port’s targeted list of users or industries to support the Port’s Century Agenda. A marketing plan will be developed that specifically targets companies that create jobs by advancing trade and commerce, that promote industrial growth, and stimulates economic development.

TC Northwest Development has committed to developing marketing materials, host marketing events, and create a direct mail campaign that focuses on companies that support the strategies and objectives of the Century Agenda. This campaign will be developed in conjunction with the Port, who will review and approve all final materials.

Any building tenants that meet the criteria established will received 1 additional month of free rent above typical market concessions on leases with a 7-year term or longer. TC Northwest Development will be responsible solely for the financial impact of the free rent.

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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.

DETAILS

The basic terms of the ground lease are as follows:

Des Moines Creek-North

1. **Term** - Initial term of fifty-five (55) years with two (2) ten year options to extend.
2. **Base Rent from the day after expiration of the Due Diligence period:**
 - \$0.075 per square foot or **\$73,409.00/year**.
3. **Base Rent from Substantial Completion** or day 1 of the 15th month of the term, whichever occurs first:
 - \$0.85 per square foot or **\$831,974/year**.
4. **Base Rent Adjustments:** The applicable Base Rent will increase by ten percent (13.14%) throughout the Term and any Extension Term beginning at the sixth (6th) Agreement Year and then every five (5) years thereafter.
5. **Base rent Adjustments reflecting Fair Market Value Re-appraisals** and after the Base Rent Adjustments:
 - For the twenty-first (21st), thirty-first (31st), forty-first (41st), and fifty-first (51st) Agreement years,
 - 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 one hundred percent (100%) of the then current Base Rent or
 - more than one hundred and five percent (105%) of the then current Base Rent.
7. **Prevailing wage and apprenticeship utilization** required

Scope of Work

The execution of all necessary documents related to the proposed ground lease.

Schedule

Subject to Port Commission approval, the lease can be signed by July 31, 2017.

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not sign the lease.

Cost Implications: The loss of over \$832k in initial annual revenue.

Pros:

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

Cons:

- (1) The loss of \$832k in annual revenue that is equal to more than \$168 million over the life of the lease with baseline escalations.
- (2) The loss of leasehold excise tax of \$106k per year (not including lease revenue escalations) to the State.
- (3) The loss of 90+ prevailing wage construction jobs.
- (4) The loss of up to 400+ permanent jobs.

This is not the recommended alternative.

Alternative 2 – Sign the lease.

Cost Implications: \$832k in initial annual revenue.

Pros:

- (1) \$832k in annual revenue equal to more than \$168 million over the life of the lease with only Base Rent escalations.
- (2) Leasehold excise tax of \$106k per year (not including lease revenue escalations) to the State.
- (3) The creation of 90+ prevailing wage construction jobs.
- (4) The creation of up to 400+ permanent jobs.

Cons:

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

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The purpose of developing Des Moines Creek-North is to put the property back into productive use with an aviation supportive and compatible development. 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 financial implications and aspirational goals.

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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 \$168 million over the life of the lease (75 years.) There are no financial requests being made as part of this ground lease approval.

The Port is making no capital investment as part of this ground lease. All capital costs will be carried by TC Northwest Development.

ATTACHMENTS TO THIS REQUEST

- (1) Property Map

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None