



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 6b

**ACTION ITEM**

**Date of Meeting** September 12, 2017

**DATE:** September 1, 2017

**TO:** Dave Soike, Interim Executive Director

**FROM:** Susie Archuleta, Real Estate Manager  
Melinda Miller, Director, Portfolio and Asset Management

**SUBJECT:** Washington Technology Industry Association New Lease Approval

**Amount of this request:** \$205,184

**Total estimated project cost:** \$205,184

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to 1) enter into a new 7-year lease with Washington Technology Industry Association (WTIA) in the World Trade Center West Building (WTCW), which will expand their existing premises; 2) terminate the existing WTIA lease; and 3) terminate the existing lease of the adjacent expansion premises, currently being leased by Astamed, Inc.

**EXECUTIVE SUMMARY**

The purpose of this request is to provide WTIA, an existing WTCW tenant, the ability to expand their office space. Staff negotiated a new lease with a 7-year term at market rates for the expanded premises.

**JUSTIFICATION**

Staff is proposing this new lease to support the stabilization of WTCW occupancy and revenues. Staff also strives for market rates in all lease negotiations and was able to achieve market rates in the proposed WTIA lease. After expansion, WTIA will be leasing 13% of the total building, so the 7-year term and market rate successes apply to a material portion of the property.

In addition to furthering internal goals, this lease supports the ongoing success of one of its valued tenants, WTIA. WTIA recently created two new programs, Apprenti which is an apprenticeship program, and HR Benefits, Inc., which provides human resource benefits for Washington tech companies. WTIA's current office space is not large enough to accommodate the operations of these new programs, creating the need for their expanded office premises. Apprenti, was recently awarded a \$7.5M contract from the Department of Labor to expand its services nationally. This long term growth requires more space than their current WTCW office can accommodate.

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**DETAILS**

WTIA was founded in 1984 and is a Washington non-profit trade association serving the technology industry in Washington State. Their mission is to inform and motivate industry, education and government professionals about the technology industry; collaborate productively in building technology focused education systems, physical infrastructure and business climate and; ensure that the region continues as one of the world's most influential technology hubs. They consolidate the power of member companies to solve technological business problems they cannot easily solve alone. Their guiding principle is to help Washington residents gain access to tech-industry jobs.

WTIA recently created two new programs. The first is a new apprenticeship program, Apprenti, initially funded with \$3.5 million in grants spread over five years from the US Department of Labor and Washington State Labor and Industries. A subsequent award of \$7.5 million from the US Department of Labor brought the total funding so far to \$10 million, and secured the establishment of the Apprenti program. Funding of this program is also provided by foundations and the program itself, which earns \$2,500 for each apprentice placed. The second new program is HR Benefits, Inc., organized as a for profit corporation. HR Benefits, Inc. also supports the tech industry by providing human resource benefits (medical, 401(k), etc.) to over 300 tech companies mainly located in Washington State but recently expanded to also serve Colorado State. These two programs need additional office space because of staffing (the staff count for expected to double by year end and double again by 2019) and also their heavy use of meeting rooms for interviews, orientations, etc. As they expand operations, they prefer to stay in their current WTCW location because it is centrally located to more than 75 percent of their member base. Also, remaining in WTCW means they avoid any disruption to employee commuting habits. Consequently, WTIA now wishes to expand from their current 6,641 square foot office to a 9,155 square foot office.

Apprenti aims to diversify the tech workforce and find workers to fill the talent gaps. It focuses on opening a pathway into the tech workforce for minorities, including Hispanic and African American employees, women and veterans. Only about 20 percent of tech workers are female, less than three percent are Hispanic or African American, and even fewer are veterans. Apprenti's new students join a two- to six- month training program in database administration, project management, network security administration, software development or web development. The program is partnering with Code Fellows and other education centers in Washington State for this training, which is currently offered to students for free. The apprentices are then placed in a one-year, full time internship with one of the organization's partner companies, where they are paid 60 percent the salary of a fully qualified employee. Working with partner companies that include Microsoft, F5 Networks, Accenture and Impinj, its initial goal is to train and place 600 tech workers.

As WTIA identified a need for more WTCW office space, the adjacent office suite coincidentally became vacant. That suite is still currently under lease by Astamed, Inc., but Astamed moved

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out of their office in May 2016. WTIA started subleasing Astamed’s office and then began negotiations with staff for a new lease that would combine their existing premises with the adjacent sublease premises. The initial lease negotiations for a 5-year term provided a tenant improvement allowance that WTIA rejected as insufficient. In order to provide WTIA the level of tenant improvement allowance they wanted at the market rent rates that staff wanted, staff lengthened the lease term from five to seven years. The proposed new lease allows WTIA to expand by terminating both the WTIA and Astamed existing leases, and creating a new WTIA lease for the combined expanded premises. Astamed will pay an early termination fee, which approximately covers rent, tax and operating expenses for their space during WTIA’s abatement period.

***Market Conditions***

The overall Seattle office market is strong, with vacancy rates continuing to fall in 2017 while rents continue to rise. By comparison, the Seattle Belltown/Denny Regrade submarket, where the WTCW building is located, is better described as sluggish. Vacancy rates in this submarket increased slightly from 5.3% Q1 of 2017 to 5.8% in Q2 while asking rents remained nearly flat, hovering around \$21 per square foot (triple net) in both Q1 and Q2 (JLL).

The WTCW building’s triple net rent is in line with the market range of \$18-\$23 per square foot (triple net) recommended by our broker. This property’s close proximity to railroad tracks (always a concern for prospective tenants), lack of public transportation, no tenant parking within the building, and negative impacts of the current seawall and tunnel construction along the waterfront tend to keep it at the lower end of the market range. Despite these challenges, WTIA will pay a market rate of \$19 triple net that escalates by \$1 per year.

***Proposed key lease terms***

Term	Seven years
Lease Commencement Date	October 1, 2017
Premises	9,155 square feet of office space
Initial Base Rent (triple net)	\$19.00 per square foot per year plus 12.84% leasehold excise tax
Rent Increases	\$1.00 per square foot per year
Rent Abatement	up to 6 weeks on 2,156 sf expansion space only
Operating Expenses	Pro rata share of all the building’s operating expenses
Tenant Improvements	\$137,325, which is \$15.00 per square foot
Security Deposit	\$50,360, which is the average of three (3) months’ rent over the term of the lease but not compliant with Port Policy
Broker Fees	\$67,859 (Inside and Outside Brokers)

This proposed new WTIA lease will require the termination of two existing office leases:

- (1) WTIA: 6,641 square feet, expiring August 31, 2019
- (2) Astamed: 2,448 square feet, expiring March 31, 2018

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Termination of these leases will be at midnight immediately prior to commencement of the new lease.

<b>Cost Breakdown</b>	<b>This Request</b>	<b>Total Project</b>
Tenant Improvement Allowance	\$137,325	\$137,325
Broker Fees	\$67,859	\$67,859
<b>Total</b>	<b>\$205,184</b>	<b>\$205,184</b>

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Status Quo – Do not approve the new WTIA 7-year lease.

Cost Implications: No initial cost.

Pros:

- (1) No Port funds are required *this year* for a tenant improvement allowance or broker commissions.
- (2) No terminations of existing leases are required.

Cons:

- (1) Existing tenant will be forced to find a second, separate office space to support the expansion of their business operations, eroding the goodwill of an existing tenant and risking their future tenancy.
- (2) Port will need to find a new tenant for the Astamed office upon their March 31, 2018 lease termination.
  - o Risk of reduced revenue during lease up period.
  - o New lease will likely incur expenses for a tenant improvement allowance and broker commission, possibly higher than those provided to WTIA.

This is not the recommended alternative.

**Alternative 2** –WTIA new 7-year lease of expanded premises.

Cost Implications: \$205K (\$137K TI allowance + \$68K broker commission)

Pros:

- (1) Stabilize WTCW occupancy by securing 13% of building for 7 years.
- (2) Support WTIA’s long term growth and mission, creating goodwill and continuity.
- (3) Minimal revenue disruption - abating rent only of expansion space until substantial completion or 6 weeks, whichever is sooner, to accommodate construction of tenant improvements.
- (4) Simplify WTIA’s lease management by requiring one lease instead of two, which is their preference.

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Cons:

- (1) Highest upfront costs.

*This is the recommended alternative.*

**FINANCIAL IMPLICATIONS**

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Original estimate	\$0	\$0	\$0
Current change	\$137,325	\$67,859	\$205,184
Revised estimate	\$137,325	\$67,859	\$205,184
<b>AUTHORIZATION</b>			
Previous authorizations	0	0	0
Current request for authorization	\$137,325	\$67,859	\$205,184
Total authorizations, including this request	\$137,325	\$67,859	\$205,184
Remaining amount to be authorized	\$0	\$0	\$0

***Annual Budget Status and Source of Funds***

Funds for the capitalized tenant improvements will be provided by 2017 Plan of Finance Committed CIP C800126 Tenant Improvements. The unbudgeted broker fees will be offset by lower than budgeted spending by Portfolio Management in the in the 2017 Operating Budget.

***Financial Analysis and Summary***

Project cost for analysis	\$205,184
Business Unit (BU)	Portfolio and Asset Management
Effect on business performance (NOI after depreciation)	Incremental Revenue is generated by expanding WTIA lease premises 2,516 sf and extending WTIA’s lease term 5 years and 1 month. Incremental expense of \$67,859 is generated by broker’s fees. Depreciation will increase approximately \$20K per year based on a 7 year lease term. The basis for establishing the market rate for this lease is described in the memo under “Market Conditions.”
IRR/NPV (if relevant)	NPV of cash flows from the incremental revenue generated from the new lease: \$675K

**ATTACHMENTS TO THIS REQUEST**

- (1) Substantially Negotiated Lease Agreement.
- (2) PowerPoint Presentation.

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None