COMMISSION
AGENDA MEMORANDUM

ACTION ITEM

		Item No.	8g
		Date of Meeting	May 10, 2022

DATE : March 25, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Susie Archuleta, Real Estate Manager

SUBJECT: **New 5-Year Lease with Arctic Storm Management Group LLC at Pier 69**

Amount of this request: $216,894
Total estimated project cost: $216,894

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a Lease with Arctic Storm Management Group LLC (ASMG) at Pier 69 that provides a 5-year original term and one 5-year option to extend. The Port will provide $141,450 towards tenant improvements and will pay $75,444 for broker commission fees.

EXECUTIVE SUMMARY

ASMG is an existing tenant at Pier 69, occupying 19,660 square feet of office and warehouse space on the first floor of the building. Their lease expires May 31, 2022. Port staff negotiated a new 5-year lease to continue their occupancy of this Pier 69 premises. The new lease includes a 5-year option to extend the lease term, as requested by ASMG, Port funded tenant improvements of $141,450, and Port funded commission fees of $75,444 for the tenant's broker.

JUSTIFICATION

Arctic Storm Management Group LLC (ASMG) was formed in October 2001 and is a Seattle-based company that oversees the fishing and processing of five fishing vessels that operate in the waters of Alaska and the West Coast. The company harvests, processes, packages and freezes its catch before distributing its products around the world, specifically North America, Europe and Asia.

ASMG has a long-term relationship with the Port. They have been a tenant at Pier 69 since June of 2010 and also moor their vessels at other Port properties. ASMG employs approximately 400 people on an annual basis and currently employs 25 people at Pier 69. Annual revenues for their entire operations fluctuate depending on the value of the fishing catch. For the year 2022, ASMG is forecasting annual revenues in excess of $120,000,000 generating annual income in excess of $20,000,000.

ASMG provides management services to the fishing vessels, Arctic Fjord Inc., Arctic Storm Inc., Fjord Seafoods LLC, F/V Neahkahnie LLC and Sea Storm Fisheries Inc. To promote healthy fisheries that will last for many generations, ASMG practices conservation and sustainability of the fisheries in which they participate. The company's vessels catch pollock and whiting in two fisheries that have been certified sustainable by the Marine Stewardship Council (an independent international nonprofit organization dedicated to protecting the ocean and safeguarding seafood supplies for the future by setting sustainable fishing standards). Other good business practices include their memberships in the At-Sea Processors Association (a trade association representing US flag catcher/processor vessels of principally Alaska pollock and west coast Pacific whiting fisheries) and Genuine Alaska Pollock Producers (a nonprofit with a mission to educate and inform customers and consumers about the fish and the fishery). In addition to industry focused memberships, the company supports communities at large by participating in SeaShare, a nonprofit that processes donated frozen seafood and then distributes to food banks nationwide.

The proposed new ASMG lease at Pier 69 supports both the Century Agenda goal of Economic Growth via advancing maritime industries through capable management of Port facilities and also the Economic Development Division's mission of managing its' cash flowing properties.

DETAILS

The State of Washington Department of Natural Resources (WADNR) imposes restrictions at Pier 69 because the pier is located overwater. One of the WADNR restrictions is that non-Port occupants of the Pier 69 building must be water dependent. Since water dependency is only a fraction of the entire office market, the terms of the ASMG lease are favorable to ASMG. The proposed lease terms help the Port to maintain Pier 69 occupancy and avoid the challenging quest of finding a new water dependent tenant by simply retaining its existing water dependent tenant.

The proposed lease terms include a starting rent rate of $22.00 per rentable square foot per year for the office space and $7.50 per rentable square foot per year for the warehouse space. These rates are below market rate and 10% less than ASMG is currently paying because of the Port's occupancy goal. Retaining ASMG and avoiding vacancy and lease up risk at Pier 69 is staff's priority. In addition to favorable rates, staff also agreed to the tenant's request for an Option to Extend the lease term. Therefore, the proposed lease provides one 5-year Option to Extend at the then fair market rent rate. The proposed security requirement of $75,004 is the amount of security that the Port holds for the current lease and is roughly half of what would typically be required under RE-2 (which would be six months' rent in the amount of $159,927). Because of ASMG's history of timely Pier 69 rent payments and its' ongoing operations at Terminal 91, there is a low risk of default. Accordingly, there is no need to increase the amount of security already held by the Port. The Port will also provide a Tenant Improvement Allowance of $141,450. ASMG plans to use this allowance primarily to refresh the carpet and paint in their office, both of which were last refreshed 8 years ago in 2014.

Schedule

The timing detail of the Port funded costs associated with the proposed lease follow:

Activity	
Commission approval	Q1 2022
Broker Commission – 50% at signing	Q2 2022
Broker Commission – 50% at rent commencement	Q3 2022
Tenant Improvements	Q4 2022

Cost Breakdown	This Request	Total Project
Tenant Improvement Allowance	$141,450	$141,450
Tenant Broker Commission	$75,444	$75,444
Total	$216,894	$216,894

ALTERNATIVES AND IMPLICATIONS CONSIDERED

The alternatives for this issue are the typical leasing alternatives: 1) Attempt to find a new tenant, endure an extended period of vacancy and lost rent since water dependency is a tiny fraction of the office market, achieve market rent rates, forego rents during an abatement period, or 2) Attempt to find a new tenant, achieve below market rent rates to shorten the period of vacancy and lost rent, forego rents during an abatement period, or 3) Proceed with renewing the existing tenant at the negotiated lease terms, maintaining continuous occupancy and rents and avoiding any rent abatement.

Alternative 1 – Find a new water dependent tenant at market rates.

Cost Implications: $627K the sum of abated rent, Port funded tenant improvements and brokers fees

Pros:

(1) Achieve highest/market rent rates
(2) Delays Port funded tenant improvement allowance and brokers fees, assuming lease commencement is a year later than ASMG's commencement date

Cons:

(1) Finding a water dependent office tenant is quite difficult, so an extended period of office vacancy (12 months) is highly likely
(2) Lost rental income during the office vacancy period
(3) Additional lost rental income during the new tenant's rent abatement period
(4) Highest cost alternative

This is not the recommended alternative.

Alternative 2 – Find a new water dependent tenant at below market rates.

Cost Implications: $602K the sum of abated rent, Port funded tenant improvements and brokers fees

Pros:

(1) Potential to achieve rates higher than ASMG rates albeit lower than market rates
(2) Delays Port funded tenant improvement allowance and brokers fees, assuming lease commencement is a year later than ASMG's commencement date

Cons:

(1) Finding a water dependent office tenant is quite difficult, so an extended period of office vacancy (12 months) is highly likely
(2) Lost rental income during the office vacancy period
(3) Rent abatement needed to entice new tenant
(4) Lower cost alternative

This is not the recommended alternative.

Alternative 3 – Execute a lease with ASMG under the terms outlined in this memo.

Cost Implications: $217K the sum of the Port funded tenant improvements and brokers fees

Pros:

(1) Maintains Pier 69 occupancy
(2) Maintains goodwill with existing Pier 69 tenant who also has operations at Terminal 91
(3) Avoids any rent abatement
(4) Lowest cost alternative

Cons:

(1) Rent rates are below market
(2) Security is less than RE-2 typically requires

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Annual Budget Status and Source of Funds

The current total project estimate is $216,894. This project will be funded by the General Fund.

Financial Analysis and Summary

Project cost for analysis	$216,894
Business Unit (BU)	Portfolio Management
Effect on business performance (NOI after depreciation)	The project will generate the Total Cash Flow of $1,237,093 and increase the Net Operating Income by $1,453,991 for a 60-month lease term.
IRR/NPV (if relevant)	NPV = $1,023,055 with payback period less than 2 years
CPE Impact	N/A

Future Revenues and Expenses (Total cost of ownership)

Modernizing our existing assets readies them for current and future changes, extends their useful life, and preserves the economic vitality of our operations. If approved, the new ASMG lease would preserve steady rental income by avoiding an office vacancy and securing the Pier 69 premises for five years.

ATTACHMENTS TO THIS REQUEST

(1) ASMG Lease Agreement (excluding Exhibits) with tenant signature
(2) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

February 23, 2010 – The Commission approved a new lease with ASMG that provided a term of 5 years and 3 months, one five-year option to extend and Port funded tenant improvements of $228K.

July 3, 2014 – The Commission approved ASMG’s First Amendment to extend the term from 5 years and 3 months to 12 years and 3 months, Port funded tenant improvements of $114K and Port funded tenant broker fees of $66K.