

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No.	<u>5d</u>
Date of Meeting	<u>May 12, 2009</u>

DATE: April 13, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: James R. Schone, Director, Aviation Business Development
Luis Navarro, Manager, Aviation Properties

SUBJECT: Amendment to Transportation Security Administration/General Services
Administration Main Lease #000307

REQUESTED ACTION

Request for authorization for the Chief Executive Officer to extend the existing Main Lease of the Transportation Security Administration (TSA), represented and negotiated by the United States General Services Administration (GSA).

SYNOPSIS

Port of Seattle ("Port") staff requests approval for a lease amendment to extend the TSA's Main Lease #000307 ("Main Lease"), which includes break rooms and operational offices located throughout the Seattle-Tacoma International Airport ("Airport") terminal complex. Exhibit A provides an overview of premises contained in this Lease. The Main Lease had a term of five (5) years, was executed on December 16, 2002, and is currently in holdover status. This amendment will increase the rental rate retroactive to the Main Lease expiration date and will reflect changes to the premises that have occurred during the holdover period.

BACKGROUND

The TSA earlier added 14,524 sq.ft. of office space in two separate locations at the Airport, both of which required significant tenant improvement projects and two separate leases as described below. Note: These facilities are separate from the leased areas referenced in this memo totaling 9,852 sq.ft. These previous locations are referred as "Mezzanine Offices" and "C1 Building". TSA moved into the Mezzanine Offices in September, 2008, and is moving into the C1 Building premises in May 2009. These facilities specifically required separate agreements because of the differing site conditions; the C1 Building was new construction whereas the Mezzanine Offices were a major remodel. It took these two federal agencies over six (6) years to justify, fund, design, construct and move into these spaces. Due to the complexities of issues associated with these two new spaces, the parties involved agreed to put the existing Main Lease into holdover status until both construction projects and leases were completed. As part of this holdover

agreement, it was made clear that the lessee would have to pay all retroactive rent due to rate and premises changes implemented during the time that the lease was in holdover. Now that these facilities are essentially completed and occupied, the parties wish to resolve the holdover status of the Main Lease by extending the term of the current lease.

In the original Main Lease, the TSA/GSA accepted the offices and break-rooms in "as-is" condition. The responsibility of making any improvements to remedy deficiencies was the responsibility of the tenant. Although the TSA/GSA would like a long term lease, the standard GSA forms have stringent requirements that would put the responsibility of remedying deficiencies on the Port. It would not be in the Port's best interest to execute a new lease without including provisions for the needed improvements to the premises. Therefore an extension of the existing lease has been agreed upon by both parties. This lease extension will provide TSA/GSA adequate time to scope, quantify, and fund proposed tenant improvements to the existing break rooms and operations offices. Once these tenant improvements are clearly defined, the Port will negotiate a longer term lease incorporating the improvements into the terms.

The proposed term extension for this Lease is three (3) years retroactive to November 1, 2007 with an expiration date of October 31, 2010. This amendment will simply extend the term of the existing lease, increase the rental rate, and reflect changes to the premises that were not addressed under the holdover status.

SCOPE OF AGREEMENT:

	Basic Lease	18th Amendment
Term/Effective Date:	Five (5) years, Nov. 1, 2002 through Oct. 31, 2007.	Three (3) years, Nov. 1, 2007 through Oct. 31, 2010.
Options:	None	None
Use:	Provide break rooms and operational offices for TSA.	No change
Rent:	5,912 sq.ft. @ \$83.38/sq.ft./yr. Totaling \$472,681/yr.	9,852 sq.ft. @ \$97.66/sq.ft./yr. Totaling \$962,146
	3,171 sq.ft. @ \$76.38/sq.ft./yr. Totaling \$242,201/yr.	Total Annual Rent of \$962,146
	243 sq.ft. @ 74.25/sq.ft./yr. Totaling \$18,043	
	Total Annual Rent of \$732,925	

HOLDOVER RENT RECONCILIATION:

Rental Rate Increase Retroactive to beginning of Holdover Period	\$ 167,397.30
Added Lease Premises Retroactive to beginning of Holdover Period	\$ 298,399.86
Overpayment from Vacated Premises' since beginning of Holdover Period	<u>\$(69,009.40)</u>
Total Back Rent to be paid to Port of Seattle	\$ 396,787.76

STRATEGIC OBJECTIVES:

Ensuring Airport and Seaport Vitality and Develop New Economic Opportunities for the Region and the Port.

ALTERNATIVES CONSIDERED:

Alternative 1: Remain in holdover status. This would perpetuate an underpayment and not address the required changes in the premises.

Alternative 2: Negotiate a new lease instead of an extension of the existing Lease – Port staff does not consider a new lease in the best interest of the Port for various reasons. First, the TSA/GSA would like a long term lease, but has been unable to clearly define and quantify their required level of tenant improvements and associated Port contribution. Second, the Port is not willing to use the standard GSA forms for “as-is” premises because of its stringent requirements and current facility deficiencies.

Alternative 3: This is the preferred alternative. Extend the existing Lease for approximately 18 months going forward thus providing TSA/GSA with adequate time to scope, quantify, and fund their proposed tenant improvements. Once these tenant improvements are clearly defined, the Port will negotiate a longer term lease incorporating the improvements into the terms.

FINANCIAL IMPLICATIONS:

The Port will recover \$396,788 of uncollected back rent related to an increased annual rate and added premises as part of this lease extension, as well as an increase in total annual rent for this lease \$229,221 (\$732,925 to \$962,146).

ECONOMIC IMPACTS:

Not deemed to have significant negative or positive economic impact.

PREVIOUS COMMISSION ACTIONS/REVIEW:

On January 15, 2008, the Port Commission executed a 10 (ten) year Lease Agreement (Lease) with the United States General Services Administration (GSA), on behalf of the Transportation Security Administration (TSA) for the construction of tenant improvements in the C1 Building.

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On September 11, 2007, the Port Commission authorized the construction of tenant improvements with the General Services Administration (GSA) and the Transportation Security Administration (TSA) for office space on the Mezzanine Level of the Main Terminal.