PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6b

Date of Meeting February 23, 2010

DATE: February 17, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Melinda Miller, Director, Portfolio Management
Patricia Spangler, Real Estate Manager

SUBJECT: Term Lease with Arctic Storm Management Group, LLC at Pier 69.

Amount of This Request: $344,557 **Source of Funds: Tax Levy**

ACTIONS REQUESTED:

Request for authorization for the Chief Executive Officer to execute a five-year lease, with an option to renew for one additional five-year term, with the Arctic Storm Management Group, LLC and to provide funds for tenant improvements and broker fee in the amount of $344,557.

BACKGROUND:

Early in the fall of 2009, Fugro Seafloor Surveys, Inc., (SSI) occupying approximately 20,000 square feet on the west end of the first floor of Pier 69 notified the Real Estate Division staff that the company planned to close its Seattle office and vacate at the end of their lease expiration date of March 31, 2010.

The Real Estate Division in collaboration with the Seaport Division reviewed current Seaport customers for possible interest in the coming available space. In addition, the Real Estate Division prepared a flyer marketing the space specifically targeting water dependent users and distributing the flyers to brokers within the greater Puget Sound area. This distribution of the flyer to the brokers resulted in one response from a broker representing Arctic Storm Management Group, LLC (ASMG). The Port staff and ASMG represented by their broker entered into negotiations.

ASMG was formed in October 2001 and provides management services to the fishing vessels Arctic Storm Inc., Arctic Fjord Inc. and Sea Storm Fisheries, Inc. ASMG has been a long-term customer of the Port mooring vessels at other Port properties.

TERMS OF THE PROPOSED LEASE:

The major elements of the proposed term lease are outlined below:

Term:	Five years and three months, commencing March 1, 2010 through May 31, 2015.
Renewal Options:	Option to extend lease for one five-year term.
Use:	General office and/or professional business purposes and related storage/warehouse and equipment repair for water dependent user.
Moorage:	Lessee shall have use of the vessel berth at Pier 69 for moorage with an agreement negotiated between Port's Dock's Operations group, which is part of the Seaport Division.
Premises:	Premises consists of approximately 9,430 square feet of office and 10,230 square feet of storage/warehouse.
Rent:	9,430 sf office @ $19.00 sf/yr with annual base rent increases of $.50 psf. 10,230 sf storage/warehouse @ $5.70/sf/yr with annual base rent increases of 3% psf.
Triple Net Costs:	Lessee will be billed monthly their share of the operating costs (leasehold taxes, insurance and common area operating expense).
Rent Abatement:	Eight months office June 2010 thru January 2011. Four months storage/warehouse June 2010 thru Sept 2010.
Port Improvements:	Port will provide funds toward improvements in the 9,430 sf office portion of the premises only in the amount of $30.00 psf totaling $282,900.
Maintenance:	Lessee is responsible to pay for repairs and maintenance for the interior and exterior of the premises.
Utilities:	Lessee is responsible to pay for all utilities either directly or indirectly serving their premises.

Security:	Lessee shall provide a cash deposit, corporate surety company bond, irrevocable stand-by letter of credit or other security in the amount of $125,258, which is equal to the average of six months base rent over the term of the lease as security.
Guaranty:	Arctic Storm, LLC and Arctic Fjord, LCC each will be a Guarantor to the lease.
Insurance/Liability:	$2 million General Liability/ $1 million Auto Liability.
Assignment/Sublease:	Conditioned on the Port's prior written consent.

FINANCIAL ANALYSIS:

Budget/Authorization Summary

Previous Authorizations	$0
Current request for authorization	$344,557
Total Authorizations, including this request	$344,557
Remaining budget to be authorized	$0

Project Cost Breakdown:

Tenant Improvement Allowance	$282,900
Leasing Broker Commission	$61,657
Other	$0
Total	$344,557

Source of Funds:

Funds for Real Estate Division tenant improvements are included in the 2010 Draft Plan of Finance under Committed CIP 800126 Tenant Improvements. Since this is a Real Estate Division project, the source of funds will be the tax levy. Broker commission payments were included in the Real Estate Division's 2010 Operating Expense Budget.

Financial Analysis Summary:

CIP Category	N/A
Project Type	N/A
Risk adjusted Discount rate	9.0%
Key risk factors	• Risk of Tenant default partially mitigated by the following factors: - Security deposit from Arctic Management Group, LLC ("ASMG") in the amount of $125,258. - ASMG lease performance is guaranteed by Arctic Storm, Inc. ("ASI") and Arctic Fjord, Inc. ("AFI"). - ASI and AFI are current tenants of the Port and are both in good standing. -
Project cost for analysis	$344,557 (Tenant Improvement Allowance and Leasing Broker Commissions)
Business Unit (BU)	Portfolio Management, Real Estate Division
Effect on business performance	• Net Operating Income After Depreciation for Year 1 through Year 5 is shown below.

NOI (in $000's)	2010	2011	2011	2012	2013
Revenue	$48	$255	$261	$268	$275
Expenses	($74)	($12)	($13)	($13)	($13)
NOI	($25)	$242	$249	$255	$262
Depreciation	($33)	($57)	($57)	($57)	($57)
NOI After Depreciation	($132)	$173	$180	$186	$192

Negative Net Operating Income in Year 1 is due to lower revenue associated with abated rent and payment of leasing broker commissions. Depreciation expense is based on the capitalized tenant improvements amount of $282,900, depreciated over the term of the lease.

IRR/NPV

NPV (in $000's)	IRR (%)	Payback Years
$549	NA	3

DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Lease is not available until it is signed, but the terms of this lease are provided in this memo.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

- Not execute lease agreement: Not executing the proposed lease would mean the 20,000 sf office and storage/warehouse space would remain vacant resulting in no new revenue opportunity to the Port.
- Execute Proposed Lease: Proceeding with the proposed lease agreement for a space that has a relatively narrow market of water-dependent users. The proposed lease agreement will also allow the Port to utilize the existing space with limited alterations, keeping the warehouse/storage as-is and modifying the office portion only. ***This is the recommended action.***

PREVIOUS COMMISSION ACTION:

- None.