PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA | **Item No.** 6d

Date of Meeting May 4, 2010

DATE: April 28, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Burke, Senior Manager, Container Leasing and Operations
Steve Queen, Manager, Container Operations

SUBJECT: Term Lease with PCC Logistics at Terminal 104.

Amount of This Request: $145,387 | **Source of Funds: Operating Revenues**

Est. Workers Employed: 90

ACTION REQUESTED:

Request for authorization for the Chief Executive Officer to execute a ten-year lease with PCC Logistics, a division of Pacific Coast Container, Inc. and provide funds for broker fees in the amount of $145,387.

BACKGROUND:

In June of 2009, the prior tenant at Terminal 104 defaulted on its lease and was evicted. The property has been vacant since then.

Terminal 104 is an 8.5 acre site with a 36,840 square foot warehouse and 4,800 square feet of office space. It is located between Ash Grove Cement and Spokane Street adjacent to the Duwamish River.

The Seaport Division issued an RFP on November 11, 2009 to solicit bids for the approximately 8.5 acre site. Bids were due on December 11, 2009. PCC Logistics, represented by commercial real estate service group Neil Walter Company, was the lone bidder. The RFP was advertised via the Seattle Journal of Commerce, via direct mail to known entities, as well as the Port’s eBid website. Port staff and PCC Logistics represented by their broker entered into negotiations.

PCC Logistics was formed in 1988 as an Oakland, CA based warehouse and logistics operator. They have operated in Seattle for over 15 years. They currently operate in sixteen locations in Washington, California, Nevada as well as China providing transloading, warehousing, trucking, USDA fumigation and third party logistics. PCC Logistics has been a long-term customer of the Port on Harbor Island.

TERMS OF THE PROPOSED LEASE:

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

Term: Ten years, rent commencing June 1, 2010 through May 31, 2020.

Renewal Options: None.

Use: Import and export transload facility via rail and truck.

Premises: Premises consists of approximately 382,447 square feet of yard storage, with 41,280 square feet of storage/warehouse.

Rent:

June 1, 2010 to Feb. 28, 2011	Yard/Office/Warehouse Space	$5,250.00/mo.*
Mar. 1, 2011 to Nov. 30, 2011	Yard/Office/Warehouse Space	$12,250.00/mo.*
Dec. 1, 2011 to Aug. 31, 2012	Yard/Office/Warehouse Space	$20,250.00/mo.*
Sept. 1, 2012 to May 31, 2013	Yard/Office/Warehouse Space	$25,250.00/mo.*
June 1, 2013 to May 31, 2014	Yard/Office/Warehouse Space	$40,250.00/mo.*
June 1, 2014 to May 31, 2015	Yard/Office/Warehouse Space	$41,458.00/mo.*
June 1, 2015 to May 31, 2016	Yard/Office/Warehouse Space	$42,701.00/mo.*
June 1, 2016 to May 31, 2017	Yard/Office/Warehouse Space	$43,982.00/mo.*
June 1, 2017 to May 31, 2018	Yard/Office/Warehouse Space	$45,302.00/mo.*
June 1, 2018 to May 31, 2019	Yard/Office/Warehouse Space	$46,661.00/mo.*
June 1, 2019 to May 31, 2020	Yard/Office/Warehouse Space	$48,061.00/mo.*

*Plus applicable taxes

Rent Abatement: None

Port Improvements: None definite although Port has the right to install oil/water separators. Rail improvements associated with the adjacent East Marginal Way overpass project will take place in 2011.

Maintenance: Lessee is responsible to pay for all repairs and maintenance related to the premises including rail line.

Utilities: Lessee shall be liable for and shall pay throughout the term of this Lease, all charges for all utility services furnished to the 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 $31,500, which is equal to the average of six month's

	base rent as security. This amount will be adjusted annually to reflect rent increases.
Guaranty:	Pacific Coast Container, Inc.
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	$145,387
Total Authorizations, including this request	$145,387
Remaining Budget to be Authorized	$0

Project Cost Breakdown

Tenant Improvement Allowance	$0
Leasing Broker Commission	$145,387
Other	$0
Total	$145,387

Source of Funds

The broker lease commissions associated with this lease were not included in the 2010 Operating Budget. The funding required in the amount of $145,387 will result in an unfavorable operating expense variance. Seaport Division will seek ways to offset this incremental operating expense with savings in other operating expenses.

Broker lease commissions will be funded from the general fund.

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 PCC Logistics ("PCC") equal to six

	months of base rent. The amount is to be adjusted annually. • Lease guarantee from Pacific Coast Container, Inc. • PCC is a current tenant of the Port and in good standing.
Project Cost for Analysis	$145,387 (Leasing Broker Commissions)
Business Unit (BU)	Container Support Properties
Effect on Business Performance	Net Operating Income ("NOI") After Depreciation for Year 1 through Year 5 is shown below.

NOI (in $000's)	2010	2011	2012	2013	2014
Revenue	$42	$141	$263	$408	$491
Expenses[a]	($132)	$0	$0	$0	$0
NOI	($91)	$141	$263	$408	$491
Depreciation	$0	$0	$0	$0	$0
NOI After Depreciation	($91)	$141	$263	$408	$491

a) Operating expenses in 2010 reflect payment of leasing broker commissions, partially offset by savings of $13,000 for security costs at Terminal 104 in June 2010.

IRR/NPV

NPV (in $000's)	IRR (%)	Payback Years
$2,498	NA	2

NPV calculation does not factor in an opportunity cost for the land or existing improvements at Terminal 104.

ECONOMIC IMPACTS AND BUSINESS PLAN OBJECTIVES:

Initially the rent looks very low for the first three years. It is. It reflects the quality of the building and its environs. This aging facility has not seen any upgrade in 30+ years. Ingress and egress of both truck and rail are hampered by the East Marginal Way Grade Separation project next door until September 2011. The warehouse and yard lack working lights. The roof currently leaks and the HVAC system is ten years past its useful life. The dock doors and levelers are in general disrepair and the yard needs paving. Given these deficiencies, the lessee will be required to make significant improvements and repairs to the premises. The Port will be making zero investment.

STRATEGIC OBJECTIVES:

Leasing Terminal 104 to PCC Logistics fully utilizes all characteristics of this property. The lessee will take full advantage of the existing rail connection, handling approximately ten rail cars per day. This transloading operation will result in an additional 72,000 TEUs of export containers annually. This activity will require hiring 90 new full-time jobs.

ENVIRONMENTAL SUSTAINABILITY AND COMMUNITY BENEFITS:

PCC Logistics will comply with all requirements of the City ordinance and Ecology regulations and permits, including the preparation of and compliance with state industrial general stormwater permits and/or the Phase I Municipal permits.

DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Lease agreement.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

- Not execute lease agreement: Not executing the proposed lease would mean the 382,447 square feet of yard storage, and 41,280 square feet of warehouse space would remain vacant resulting in no new revenue opportunity to the Port. The Port could wait for a market turnaround and hope for higher initial lease rates. According to CoStar, a commercial real estate analysis company, the average time on market for Puget Sound industrial properties is 13.8 months.
- Execute Proposed Lease: The proposed lease agreement will allow the Port to maximize this unique asset while making no investments to an aged facility. ***This is the recommended action.***

PREVIOUS COMMISSION ACTION:

- None.