PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6a

Date of Meeting November 9, 2010

DATE: November 3, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Melinda Miller, Director, Portfolio Management
Rebecca Schwan, Real Estate Manager

SUBJECT: Term Lease with Miller & Miller Boatyard Company, Inc. at the Maritime Industrial Center.

ACTION 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 at fair market rate, substantially as drafted in the attached lease document and according to the terms laid out in this memorandum with Miller & Miller Boatyard Company, Inc. at the Maritime Industrial Center.

BACKGROUND:

One of the purposes of the Maritime Industrial Center is to provide moorage for vessels being serviced by the commercial businesses at the facility. The facility also provides storage and support space to better serve the commercial water dependent maritime community. Continuing to lease space to Miller & Miller Boatyard Company is consistent with the Port's goals.

Miller & Miller Boatyard Company, Inc. has been a tenant at the Maritime Industrial Center since December of 2000. Its lease has come up for renewal, and the company has requested a five-year term lease with an option for an additional five years.

For the past thirty years, Miller & Miller Boatyard Company, Inc. has been providing services to the Northwest marine industry specializing in metal fabrication, woodwork, refrigeration and electronics for recreational vessels. The company is a Northwest distributor for Glacier Bay Refrigeration, Isotemp, Isotherm and Cruisair that provide parts and services that support the recreational vessel industry. It is also a factory-authorized service and sales center for the windlass manufacturer, Lewmar. They currently have eight full-time employees.

With the exception of the lineal feet for the moorage, the rent and all other terms remain unchanged. We lowered the rate for the lineal feet from $9.19/LF/month to $8.54/LF/month. This is slightly higher than the moorage rate we charge for commercial vessels. We agreed to a commercial rate as opposed to a recreational rate since it is a commercial business providing a service, not an actual marina. .

MARKET CONDITIONS:

In the Seattle Industrial Market, most of the tenant activity is occurring in the south end. Although there is no clear broker reporting on Industrial properties in the Ship Canal/Ballard market, local brokers confirm that warehouse space and vacant land are scarce, which has allowed us to maintain our rate in an otherwise declining real estate economy. In addition, the increased commercial development in the submarket in recent years has contributed to the reduction in the industrial inventory.

The following proposal contains three different property types: warehouse, land/yard area, and moorage. According to brokers in the area, rates for warehouse space in the 5-10K range are getting deals done around $.50-$.65 SF/month ($6.00 -$7.80/SF/year). Land is ranging from $.15-$.20/SF/month ($1.80 - $2.40/SF/year).

We recently had an appraisal done by McKee & Schalka on the FVO Marine Ways Shipyard at Fishermen's Terminal. Land came out at $.20/SF/month and warehouse ranged between $6.00 - $7.80/SF/year. The rates we are getting for this lease for warehouse, land and moorage are well within or above the current market. We are proposing $6.25/SF/year for the warehouse and $2.88/SF/year for the land. It is important to note that there are no broker commissions or tenant improvement dollars associated with this lease renewal.

TERMS OF THE PROPOSED LEASE:

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

Term:	Five years, commencing December 1, 2010 through November 30, 2015
Renewal Options:	Option to extend lease for one five-year term.
Use:	Operation of a boatyard and other related uses.
Premises:	Premises consists of approximately 4,590 square feet of warehouse, 4,857 square feet of yard space and 190 lineal feet of moorage.
Rent:	4,590 SF warehouse @ $6.25/SF/year; 4,857 SF of yard space @ $2.82/SF/year and 190 LF of moorage @ $8.54/LF/month.

Leasehold Tax:	Lessee will be billed monthly their share of the Leasehold Tax.
Rent Increase:	Annual CPI increase for first five-year term, not to exceed 2.5% per year.
Port Improvements:	None.
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 serving their premises either directly or indirectly.
Security:	Lessee shall provide a cash deposit, corporate surety company bond, or irrevocable stand-by letter of credit in the amount of $15,463.89, which is equal to three months base rent as security.
Insurance/Liability:	$1 million General Liability.
Assignment/Sublease:	Conditioned on the Port's prior written consent.

FINANCIAL ANALYSIS:

Source of Funds:

No funds needed.

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: - Miller & Miller Boat Yard is a current tenant for the Port and in good standing. - Security Deposit from Miller & Miller Boatyard equal to three months of base rent. - No additional investment by the Port. • The lease includes a provision to extend the term at the

	tenants option for an additional five years at market rate. • The lease provides a cap on the annual base rent adjustment of 2.5%.
Project cost for analysis	N/A
Business Unit (BU)	Portfolio Management, Real Estate Division
Effect on business performance	The impact to Net Operating Income (NOI) and NOI After Depreciation resulting from the extended lease term of this current tenant is shown below.
IRR/NPV	

NOI (in $000's)	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue (1)	$67	$69	$71	$72	$74
Expenses (2)	($10)	($11)	($11)	($11)	($12)
NOI	$57	$58	$60	$61	$63
Depreciation	$0	$0	$0	$0	$0
NOI After Depreciation	$57	$58	$60	$61	$63

(1) Revenue inclusive of estimated operating expense reimbursement collected from tenant.
(2) Expenses inclusive of estimated recoverable and non-recoverable operating expenses for this space. Non-recoverable expenses are estimated to be $4,950 in year one.

NPV (in $000's)	IRR (%)	Payback Years
$252	NA	NA

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

- Offer property to the market through an RFP or broker listing: Miller & Miller Boatyard Company would need to find an alternative location for their operations. The property would likely remain vacant for 12 + months. Given the Department of Ecology's new requirements for small boatyard permits, the property could take even longer to lease. It has become increasingly difficult for small boatyards to operate in the Ship Canal and several have closed down due to regulatory restrictions and requirements. This would result in a loss of revenue to the Port and the likelihood of significant additional costs to secure a new tenant. Even if the Port was able to secure a new tenant, there is no guarantee that we would get a better rate.

- Execute Proposed Lease: Proceeding with the proposed lease agreement will secure a financially strong maritime tenant for at least another five years at a fair market value and is in line with the Port's commitment to the maritime industry. This is a long-term tenant of the Port, in good standing, that provides services and jobs to the maritime industry. ***This is the recommended action.***

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Attachment 1: PowerPointpresentation including site map.
- Attachment 2: Lease agreement between the Port of Seattle and Miller and Miller Boatyard Company, Inc.

PREVIOUS COMMISSION ACTION OR BRIEFING:

In November of 2000, the Port of Seattle Commissioners approved a five-year lease with a five-year option.