

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**Item No.** 5e

**Date of Meeting** April 12, 2011

**DATE:** April 6, 2011

**TO:** Tay Yoshitani, Chief Executive Officer

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

**SUBJECT:** Term Lease with Golden Alaska Seafoods L.L.C. at the World Trade Center West Building. (CIP #C800126)

**Amount of this Request:** \$110,138

**Source of Funds:** Tax Levy and General Fund

**Total Project Cost:** \$110,138

**ACTIONS REQUESTED:**

Request Commission authorization for the Chief Executive Officer to execute a five-year lease, substantially as drafted in Attachment 1 and according to the terms laid out in this memorandum, at a fair market rate, with Golden Alaska Seafoods L.L.C. at the World Trade Center West Building.

**SYNOPSIS:**

Golden Alaska Seafoods, L.L.C. is a world leader in the production of high-quality white fish products and frozen seafoods. The company is a long-time customer of the Port in good standing and wishes to re-locate its administrative office to the World Trade Center West Building (WTC West) when its current lease expires at the end of June. The twelve full-time employees who work in the administrative office provide support to over 130 Golden Alaska employees at the height of the fishing season. The lease term is for five years beginning on July 1, 2011, but Golden Alaska wishes to enter the premises in advance to complete tenant improvements. The Port determined the market rate of \$21/per rentable square foot, or \$84,063 for the annual base rent, with annual increases of \$0.50 per rentable square foot. This request includes \$80,100 as a Tenant Improvement Allowance and a \$30,038 broker commission for a total request of \$110,138.

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### **BACKGROUND:**

The World Trade Center West Building is a four-story Class A commercial office building developed in 1998 as part of the Central Waterfront Project. The building currently houses one retail tenant, several non-profit organizations related to international trade, several private businesses, and the World Trade Center Seattle Club which is operated for the Port by Columbia Hospitality. The building is approximately sixty-eight percent (68%) occupied and a majority of the remaining space has been vacant for over a year.

Golden Alaska Seafoods L.L.C operates a 305-foot processing vessel, the *Golden Alaska*, in partnership with six catcher boats and has produced high-quality whitefish and frozen seafood for more than twenty years. Golden Alaska Seafoods L.L.C. has been a long-time customer in good standing of the Port with a preferential use agreement for moorage and a storage agreement for approximately 10,000 square feet of warehouse at the north end of Terminal 46. Entering into this new lease for their administrative offices in the World Trade Center West Building will strengthen the partnership the Port has with the fishing community and with this long-time excellent customer.

### **MARKET CONDITIONS:**

The Real Estate Division staff consults several different resources to determine the appropriate market rate for the World Trade Center West Building including reports on the real estate market condition prepared by several brokerage firms and a market research report accessed through our Costar subscription service, and a review of recent transactions for comparable buildings. The most weight is given to the comparable rents within the Seattle Central Business District including lower Queen Anne. These are provided to us by the Port's listing broker for the World Trade Center West Building, Kidder Mathews. These comparables are for lease transactions executed within the last six months and include landlord concessions, such as tenant improvement allowance, abated rent, and total lease term.

Based on the First Quarter 2011 market conditions, using information retrieved from the above resources, staff negotiated a market rent that starts at \$21.00 per rentable square foot and has annual \$.50 per square foot increases. Concessions include four months abated rent and \$20 per square foot allowance for tenant improvement.

### **TERMS OF THE PROPOSED LEASE:**

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

Term: Five years commencing July 1, 2011.

Use: Administrative office for support of Golden Alaska processing vessel operations.

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Premises:	Premises consists of approximately 4,003 rentable square feet of office.
Base Rent:	4,003 rentable square feet @ \$21.00 per square foot = \$84,063.00 annually.
Rent Increase:	The Base Rent shall be adjusted on the anniversary of the rent commencement date and annually thereafter through the term of this lease increased by \$.50 per rentable square feet per year.
Rent Abatement:	Four (4) months abated rent for the period July through October, 2011.
Operating Expenses:	The Port is responsible for all the building repairs and maintenance under this full service lease agreement.
Base Year:	2011 - Tenant is responsible for increases in the building operating expenses above the Base Year.
Port Improvements:	\$20.00 per rentable square foot not to exceed \$80,060.
Security:	Lessee shall provide a cash deposit, corporate surety company bond or irrevocable stand-by letter of credit in the amount of \$22,016.50, which is equal to the average of three months base rent over the term of this lease.
Insurance/Liability:	\$1 million General Liability.
Assignment/Sublease:	Conditioned on the Port's prior written consent.

### **FINANCIAL ANALYSIS:**

#### **Budget/Authorization Summary:**

Previous Authorizations	\$0
Current request for authorization	\$110,138
Total Authorizations, including this request	\$110,138
Remaining budget to be authorized	\$0

#### **Project Cost Breakdown:**

Tenant Improvement Allowance	\$80,100
Leasing Broker Commission	\$30,038

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Other	\$0
Total	\$110,138

### Source of Funds:

Funds for Real Estate Division capitalized tenant improvements are included in the 2011 Plan of Finance under Committed CIP 800126 Tenant Improvements. The source of those funds for the capitalized costs will be the Tax Levy. Amortized broker commission payments were included in the Real Estate Division's 2011 Operating Expense Budget. The source of funds for payment of the broker fees will be the General Fund.

### Financial Analysis Summary:

<b>CIP Category</b>	Revenue																																				
<b>Project Type</b>	Tenant Improvements																																				
<b>Risk adjusted Discount rate</b>	9.0%																																				
<b>Key risk factors</b>	<ul style="list-style-type: none"><li>• Risk of Tenant default partially mitigated by the following factors:<ul style="list-style-type: none"><li>- Security deposit from Golden Alaska Seafoods L.L.C. in the amount of \$21,207.</li><li>- Golden Alaska is a current tenant of the Port and in good standing.</li></ul></li></ul>																																				
<b>Project cost for analysis</b>	\$110,138																																				
<b>Business Unit (BU)</b>	Portfolio Management & Leasing, Real Estate Division																																				
<b>Effect on business performance</b>	Net Operating Income (NOI) and NOI After Depreciation for Year 1 through Year 5 of this lease are shown below. <table border="1"><thead><tr><th><b>NOI (in \$000's)</b></th><th><b>Year 1</b></th><th><b>Year 2</b></th><th><b>Year 3</b></th><th><b>Year 4</b></th><th><b>Year 5</b></th></tr></thead><tbody><tr><td>Revenue <sup>(1)</sup></td><td>\$57</td><td>\$88</td><td>\$90</td><td>\$94</td><td>\$97</td></tr><tr><td>Expenses <sup>(2)</sup></td><td>(\$6)</td><td>(\$6)</td><td>(\$6)</td><td>(\$6)</td><td>(\$6)</td></tr><tr><td>NOI</td><td>\$51</td><td>\$82</td><td>\$84</td><td>\$87</td><td>\$91</td></tr><tr><td>Depreciation <sup>(3)</sup></td><td>(\$16)</td><td>(\$16)</td><td>(\$16)</td><td>(\$16)</td><td>(\$16)</td></tr><tr><td>NOI After Depreciation</td><td>\$35</td><td>\$65</td><td>\$68</td><td>\$71</td><td>\$75</td></tr></tbody></table> <ul style="list-style-type: none"><li>(1) Revenue inclusive of rent abatement and estimated operating expense reimbursements collected from the tenant.</li><li>(2) Expenses inclusive of amortized broker commissions in the amount of \$6,008 per year.</li><li>(3) Depreciation expense is a result of capitalized tenant improvements in the amount of \$80,100, depreciated over the term of the lease.</li></ul>	<b>NOI (in \$000's)</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	Revenue <sup>(1)</sup>	\$57	\$88	\$90	\$94	\$97	Expenses <sup>(2)</sup>	(\$6)	(\$6)	(\$6)	(\$6)	(\$6)	NOI	\$51	\$82	\$84	\$87	\$91	Depreciation <sup>(3)</sup>	(\$16)	(\$16)	(\$16)	(\$16)	(\$16)	NOI After Depreciation	\$35	\$65	\$68	\$71	\$75
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<b>IRR/NPV</b>	<b>NPV</b>	<b>IRR</b>	<b>Payback</b>
	<b>(in \$000's)</b>	<b>(%)</b>	<b>Years</b>
	\$243	NA	2

### **ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:**

- Not Execute Lease Agreement: Not executing the proposed lease would mean 4,003 rentable square feet of office would remain vacant resulting in no new revenue opportunity to the Port.
- Execute Proposed Lease: Proceeding with the proposed lease agreement will increase the revenue to the Port and would likely increase revenue for the Port Tenants (such as Anthony's Restaurant, Starbucks, Bell Street Deli and the World Trade Center Seattle Club) that provide services to support the employees. This is a long-term moorage customer and 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:**

None.

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:**

None.