

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

**COMMISSION AGENDA**

**Item No.** 5d

**Date of Meeting** October 11, 2011

**DATE:** October 4, 2011

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

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

**SUBJECT:** Term Lease with Fremont Maritime Services, Inc. at Fishermen's Terminal

Amount of This Request: \$45,320

Source of Funds: Operating Revenues

**ACTIONS REQUESTED**

Request Commission authorization for the Chief Executive Officer to; 1) execute a five-year lease at fair market value, with options to renew for two additional five-year terms, according to the terms laid out in this memorandum, with Fremont Maritime Services, Inc. at Fishermen's Terminal; and 2) provide \$33,570 as a tenant improvement allowance and \$11,750 as a leasing broker commission for a total request of \$45,320.

**SYNOPSIS**

Fishermen's Terminal is the home of the North Pacific Fishing Fleet. Over 50 percent of the upland tenants are maritime or commercial fishing related businesses. One of the goals of Fishermen's Terminal is to support the needs of the fishing fleets and securing a tenant such as Fremont Maritime Services, Inc. is consistent with this goal.

Despite consistent and comprehensive marketing of the facility, the office space proposed has been vacant for nearly two years and is challenging in its location and its configuration. This office space is the only remaining office vacancy in the Fisherman's Center Building and leasing it will bring the building to 100% occupancy.

Fremont Maritime Services, Inc. is one of America's most respected maritime safety and emergency procedures training organizations. Every year, they help thousands of professional mariners prepare for fire, flooding, abandon ship, and man-overboard emergencies. Some of the world's largest towing, cargo, passenger and fishing companies retain them to train their officers and crew. They teach the skills that are essential to successful emergency response. Fremont Maritime Services is the only civilian firefighting school the U.S. Navy retains to train and evaluate their seagoing personnel. They also train employees of most of the major fishing

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companies including American Seafoods, Icicle, Trident, Clipper, and Jubilee. Foss Maritime, Crowley Marine, and Holland America are also their customers.

We have a signed Letter of Intent (LOI) and the major terms of the lease are described below. If there are any material changes to these terms, we will return to the Commission for approval.

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

The major elements of the proposed term lease are outlined below: (Signed Letter of Intent dated September 16, 2011 is attached)

Term:	Five years, commencing December 1, 2011, through November 30, 2016.
Renewal Options:	Options to extend lease for two additional five-year terms.
Use:	Operation of a maritime training school.
Premises:	Premises consists of approximately 3,357 square feet of office space.
Rent:	3,357 sf office @ \$14.00/sf/yr/Net.
Leasehold Tax:	Lessee will be billed monthly for their share of the Leasehold Tax.
Rent Increase:	Annual CPI increase for first five-year term. The rate for the first two years of the first renewal term shall be subject to an annual CPI increase. The rate for the remainder of the term, first renewal term and for the second five-year option shall commence at fair market rental value of the Premises with subsequent annual CPI increases. The Lease will contain an arbitration provision to resolve disputes regarding "fair market rental value" in the event the parties cannot agree on the rent.
Port Improvements:	Port shall provide a tenant improvement allowance in the amount \$33,570.00, equal to \$10.00/sf.
Maintenance:	Lessee is responsible to pay for repairs and maintenance for the interior of the premises.

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- 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 \$23,499.00, which is equal to six months base rent as security.
- Insurance/Liability: \$1 million General Liability.
- Assignment/Sublease: Conditioned on the Port's prior written consent.

## **MARKET CONDITIONS**

This submarket has taken a hit in recent months. With rents dropping and property owners offering concessions in the Central Business District, many non-maritime tenants are leaving this area for nicer space downtown. We would be fortunate to secure a maritime-related tenant for the next five years. In speaking with local brokers, they describe greater demand for high quality space and less demand for Class B and C office space. According to reports from CB Richard Ellis and Cannon Commercial Real Estate lease rates have been dropping for the past year and likely will not stabilize until 2012. Tenants are being lured away by the low rates and concessions in the Central Business District. It is difficult to retain tenants in this submarket, unless they are maritime-related or reside in the area.

Although most of the quarterly reports do not report on Class B and C rent in this submarket, we have confirmed with local brokers that \$14.00/sf/yr/Net falls in line with comparable rates that property owners are taking to fill space. A new lease at Pacific Palisades, a Class B office complex located on lower Queen Anne, was negotiated at a rate of \$12.00/sf/y/Triple Net (Operating Costs @ \$4.85/sf/yr). The property owner dropped the rate from \$16.00/sf/yr/Triple Net to \$12.00/sf/yr/Triple Net in June of 2011 because they could not lease the space. It consists of 2,310 sf of office space and the term is three years, effective October 10, 2011. Another lease at the Canal Building, a Class B office building located near Lake Union, was negotiated at a rate of \$13.21/sf/yr/Gross. It is comprised of 1,226 sf of office space and was effective in December of 2010. On West Commodore Way, approximately a quarter of a mile east of Fishermen's Terminal, the former Marco Marine has been redeveloped into Class A waterfront office space and earlier this year they were offering rates of \$20.00/sf/yr/Gross (Operating Costs @ \$7.00/sf/yr) along with \$50.00/sf as a Tenant Improvement allowance. At the Wharf Building across the street from Fishermen's Terminal, we have a recent comparable showing an office lease that was negotiated at a rate of \$16.00/sf/yr/ Gross. (Operating Costs @ \$5.00/sf making it \$11.00/sf/yr/Triple Net)

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### **FINANCIAL ANALYSIS:**

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

Previous Authorizations	\$0
Current request for authorization	\$45,320
Total Authorizations, including this request	\$45,320
Remaining budget to be authorized	\$0

#### **Project Cost Breakdown**

Tenant Improvement Allowance	\$33,570
Leasing Broker Commission	\$11,750
Other	\$0
Total	\$45,320

#### **Source of Funds:**

The 2011 Capital Budget included a tenant improvement allowance under CIP 800126 Tenant Improvements Capital in the amount of \$72,302. The 2011 Operating Budget included a lease commission in the amount of \$2,518. Per the terms of the lease, and Port policy, the tenant improvement allowance and lease commission will be expensed. The proposed funding required of \$45,320 will result in an unfavorable operating expense variance as noted below. This amount will be offset by savings in other areas.

Tenant improvements and lease commissions will be funded from operating revenues.

#### **Financial Analysis Summary:**

<b>CIP Category</b>	N/A
<b>Project Type</b>	N/A
<b>Risk adjusted Discount rate</b>	9.0%
<b>Key risk factors</b>	Risk of Tenant default partially mitigated by the following factors: <ul style="list-style-type: none"><li>• Fremont Maritime Services has been in business for twenty-two years.</li><li>• Security deposit from Fremont Maritime Services equal to six months of base rent.</li><li>• Allowance provided to the tenant is for improvements deemed marketable in the event of a default.</li></ul>

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<b>Project cost for analysis</b>	\$45,320																																				
<b>Business Unit (BU)</b>	Portfolio Management & Leasing, Real Estate Division																																				
<b>Effect on business performance</b>	<p>The impact to Net Operating Income (NOI) and NOI After Depreciation resulting from the extended lease term of this current tenant is shown below.</p> <table border="1"> <thead> <tr> <th><u>NOI (in \$000's)</u></th> <th><u>Year 1</u></th> <th><u>Year 2</u></th> <th><u>Year 3</u></th> <th><u>Year 4</u></th> <th><u>Year 5</u></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>\$65</td> <td>\$67</td> <td>\$68</td> <td>\$70</td> <td>\$72</td> </tr> <tr> <td>Expenses</td> <td>(\$67)</td> <td>(\$22)</td> <td>(\$23)</td> <td>(\$23)</td> <td>(\$24)</td> </tr> <tr> <td>NOI</td> <td>(\$2)</td> <td>\$45</td> <td>\$46</td> <td>\$47</td> <td>\$48</td> </tr> <tr> <td>Depreciation</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>NOI After Depreciation</td> <td>(\$2)</td> <td>\$45</td> <td>\$46</td> <td>\$47</td> <td>\$48</td> </tr> </tbody> </table> <p>Revenue is inclusive of estimated operating expense reimbursements collected from the tenant.</p> <p>Expenses are inclusive of estimated recoverable and non-recoverable operating expenses, a tenant improvement allowance, and a lease commission.</p>	<u>NOI (in \$000's)</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	Revenue	\$65	\$67	\$68	\$70	\$72	Expenses	(\$67)	(\$22)	(\$23)	(\$23)	(\$24)	NOI	(\$2)	\$45	\$46	\$47	\$48	Depreciation	\$0	\$0	\$0	\$0	\$0	NOI After Depreciation	(\$2)	\$45	\$46	\$47	\$48
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## ALTERNATIVES CONSIDERED/RECOMMENDED ACTION

- **Do Not Execute Proposed Lease:** Not executing the proposed lease and waiting to see if we can secure another tenant at a higher rate per square foot. The space has been vacant for over two years and the market shows little sign of recovery for at least a couple of years. If we did find another potential tenant, it would likely be a general office user and would require a far more substantial build-out than Fremont Maritime Services, Inc. The space has a very open configuration, which is ideal for the classroom use of this tenant. If we do not execute this lease, it would result in a loss of revenue to the Port and the likelihood of significant additional costs to secure a new tenant in the future. Even if the Port was able to secure another 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 Fishermen's Terminal 20-Year Plan and the Port's commitment to the

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maritime industry. Fremont Maritime Services, Inc. has been in business for 22 years and provides services and jobs to the maritime industry. ***This is the recommended action.***

**OTHER DOCUMENTS ASSOCIATE WITH THIS REQUEST**

Signed Letter of Intent

**PRIOR COMMISSION ACTION OR BRIEFINGS**

None