

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>5a</u>
Date of Meeting	<u>June 5, 2012</u>

DATE: May 29, 2012
TO: Tay Yoshitani, Chief Executive Officer
FROM: Melinda Miller, Director, Portfolio Manager
Patricia Spangler, Real Estate Manager

SUBJECT: Term Lease with Wounded Warrior Project at Pier 66

Amount of This Request: \$137,284 **Source of Funds:** Operating Revenues

Est. Total Project Cost: \$137,284

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to execute a lease for a five year and two month term substantially as drafted in Attachment 1 and according to the terms laid out in this memorandum at a fair market rate, with Wounded Warrior Project at Pier 66 and to reimburse the tenant in an amount not to exceed \$137,284 for tenant improvements of \$112,769 and the brokerage commission of \$24,515.

SYNOPSIS:

Wounded Warrior Project is a non-profit organization committed, as stated in their mission, to raising awareness and enlisting the public's aid for the needs of injured service members, to helping injured service members aid and assist each other, and to provide unique, direct programs and services to meet the needs of injured service members. Established in 2003, Wounded Warrior Project is headquartered in Jacksonville, Florida. During the last two years, Wounded Warrior Project opened seven offices throughout the United States. In September 2011 the Port entered into a short-term one-year agreement with Wounded Warrior Project. Wounded Warrior Project has since determined the facility and the premises they currently occupy meet their operational needs and they now wish to enter into a longer-term agreement for their current space and expand in additional space. The Real Estate Division is pleased to provide the necessary space that the Wounded Warrior Project requires to support the injured war veterans and their families through the programs they offer.

Commission authorization is requested to approve a proposed five-year lease with the Port's existing tenant as drafted in Attachment 1 and detailed in the terms of the proposed lease below.

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The Real Estate Division proposes to renew the Wounded Warrior Project with a new five-year lease for its current space and add additional space with Wounded Warrior Project's expansion into the adjacent vacant space. The Real Estate Division proposes to pay for tenant improvement work in the amount of \$112,769 and payment to the tenant's broker a commission fee in the amount of \$24,515. Additionally, the Port proposes two months' abated rent for the expansion space. According to Resolution No. 3605, as amended, this lease requires Commission approval because of the two-month period for tenant improvements beyond the five-year term of the lease.

The Port negotiated a market rate of \$20.75 per rentable square foot, for an annual base rent of \$101,737, with annual increases of \$0.75 per rentable square foot. The market rate was determined based on current market conditions further discussed below.

BACKGROUND:

Pier 66 is a multi-use facility consisting of the Cruise Terminal, Bell Harbor International Conference Center, and retail and office space that opened in 1995 as part of the Central Waterfront revitalization project. A majority of the office space is located at the north end on the second floor with some mezzanine space build-out. Fishin' Place, the prior tenant, occupied this space for 10 years prior to vacating August 31, 2010. The space remained vacant for a year, after which the Port entered into a short-term, one-year agreement with Wounded Warrior Project for approximately 3,875 rentable square feet.

MARKET CONDITIONS:

The Real Estate Division staff consulted several different resources to determine the appropriate market rate for the office space located within the Pier 66 facility, including reports on the real estate market condition prepared by several brokerage firms and market research reports 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 Building, Kidder Mathews. These comparables are for lease transactions executed within the last six months and include landlord compromises, such as tenant improvement allowance, abated rent and total lease term.

TERMS OF THE PROPOSED LEASE:

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

Term: Five years plus an additional two months on the expansion space for the build-out of tenant improvements.

Rent Commencement Date: September 1, 2012.

Premises: Premises consists of approximately 4,903 rentable square feet of office.

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Base Rent:	4,903 rentable square feet @ \$20.75 per square foot = \$101,737.30 annual rent. Plus Leasehold Tax.
Rent Increases:	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 \$0.75 per rentable square foot per year.
Rent Abatement:	Two months abated rent for the period July through August 2012 associated with the expansion space only.
Operating Expenses:	Lessee is responsible for the utilities and the repairs and maintenance within their premises.
Port Improvements:	\$23.00 per rentable square foot not to exceed \$112,769. Tenant will contract direct with general contractor for the tenant improvement work. The Port will reimburse tenant upon receipt of paid invoices and lien release.
Security:	Lessee shall provide a cash deposit, corporate surety company bond or irrevocable stand-by letter of credit in the amount of \$18,181.96, which is equal to two months base rent over the term of the lease.
Insurance/ Liability:	\$1 million General Liability.
Assignment/Sublease:	Conditioned on the Port's prior written consent.

FINANCIAL IMPLICATIONS:

<i>Budget/Authorization Summary:</i>	Total Project
Previous Authorizations	\$0
Current request for authorization	\$137,284
Total Authorizations, including this request	\$137,284
Remaining budget to be authorized	\$0

<i>Project Cost Breakdown:</i>	Total Project
Tenant Improvements	\$112,769
Leasing Broker Commission	\$24,515
Other	\$0
Total	\$137,284

Budget Status and Source of Funds:

Per the terms of the lease and Port policy, the tenant improvement allowance and the lease commission will be accounted for as operating expenses. While the 2012 Capital Budget includes a tenant improvement allowance under CIP 800126, no amounts were included in the operating expense budget. Accordingly, the proposed funding required of \$137,284 will result in

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an unfavorable operating expense variance in 2012. It is anticipated that the amount will be offset by savings in other areas.

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

Financial Analysis and Summary:

CIP Category	N/A																																																																								
Project Type	N/A																																																																								
Risk adjusted discount rate	9.0%																																																																								
Key risk factors	<p>Risk of Tenant default partially mitigated by the following:</p> <ul style="list-style-type: none"> • Wounded Warrior is a 501(c)(3) non-profit organization operating since 2003. The organization has \$30.4 million in net assets as of September 2011. • A security deposit is included in the lease terms from Wounded Warrior in the amount of \$18,182. 																																																																								
Project cost for analysis	\$137,284																																																																								
Business Unit (BU)	Portfolio Management & Leasing, Real Estate Division																																																																								
Effect on business performance	<p>The impact to Net Operating Income (NOI) and NOI After Depreciation resulting from this lease is shown below.</p> <table border="1"> <thead> <tr> <th>NOI (in \$000's)</th> <th>Year 1</th> <th>Year 2</th> <th>Year 3</th> <th>Year 4</th> <th>Year 5</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>\$98</td> <td>\$105</td> <td>\$109</td> <td>\$113</td> <td>\$116</td> </tr> <tr> <td>Expenses</td> <td>(\$168)</td> <td>(\$32)</td> <td>(\$33)</td> <td>(\$34)</td> <td>(\$35)</td> </tr> <tr> <td>NOI</td> <td>(\$70)</td> <td>\$74</td> <td>\$76</td> <td>\$79</td> <td>\$82</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>(\$70)</td> <td>\$74</td> <td>\$76</td> <td>\$79</td> <td>\$82</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>NOI (in \$000's)</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>\$30</td> <td>\$103</td> <td>\$107</td> <td>\$110</td> <td>\$114</td> </tr> <tr> <td>Expenses</td> <td>(\$137)</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>NOI</td> <td>(\$107)</td> <td>\$103</td> <td>\$107</td> <td>\$110</td> <td>\$114</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>(\$107)</td> <td>\$103</td> <td>\$107</td> <td>\$110</td> <td>\$114</td> </tr> </tbody> </table>	NOI (in \$000's)	Year 1	Year 2	Year 3	Year 4	Year 5	Revenue	\$98	\$105	\$109	\$113	\$116	Expenses	(\$168)	(\$32)	(\$33)	(\$34)	(\$35)	NOI	(\$70)	\$74	\$76	\$79	\$82	Depreciation	\$0	\$0	\$0	\$0	\$0	NOI After Depreciation	(\$70)	\$74	\$76	\$79	\$82	NOI (in \$000's)	2012	2013	2014	2015	2016	Revenue	\$30	\$103	\$107	\$110	\$114	Expenses	(\$137)	\$0	\$0	\$0	\$0	NOI	(\$107)	\$103	\$107	\$110	\$114	Depreciation	\$0	\$0	\$0	\$0	\$0	NOI After Depreciation	(\$107)	\$103	\$107	\$110	\$114
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ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Not Execute Lease Agreement: Not executing the proposed lease would mean 4,903 rentable square feet of office would remain vacant resulting in no new revenue opportunity for the Port. This is not the recommended alternative.
- Execute Proposed Lease: Proceeding with the proposed lease agreement will increase the revenue to the Port and would likely increase revenue for the Port tenant (such as Anthony's Restaurant, Starbucks, and the Bell Street Deli that provide services to support the employees). Additionally, the Port contributes to the success of the programs offered by the Wounded Warrior Project to injured war veterans and their families by providing space that meets their operational needs. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Proposed lease with tenant signature.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- None.