

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	6d
Date of Meeting	April 28, 2015

DATE: April 21, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Ralph Graves, Director, Capital Development Division
Joe McWilliams, Managing Director, Real Estate Division
SUBJECT: Request Authorization to Execute Lease Agreement with SEATAC VENTURES 2010 LLC for International Arrivals Facility (IAF) Program Management Office Space near Sea-Tac International Airport.

Amount of This Request:	\$0	Source of Funds:	Airport Development Fund, Passenger Facility Charges and future Revenue Bonds
Est. Total Project Cost:	\$608,000,000		

Estimated Lease Value: \$1,995,285

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a lease agreement with SEATAC VENTURES 2010 LLC, as Landlord, for IAF Program Management Office Space near Sea-Tac International Airport for four years for an estimated cost of \$1,995,285. Funding for this lease is included in the overall IAF program budget and authorization.

SYNOPSIS

During interviews with other airport operators in San Diego, San Jose and San Francisco, it was learned that co-location is a key best practice in the successful management of large Progressive Design-Build (PDB) programs. It was revealed that providing co-located office space for both the Owner and the Design-Builder engendered a much more collaborative and productive work environment than maintaining separated work locations.

Several different locations have been evaluated by staff for the co-location of the IAF program teams. It has been determined that renting office space at the nearby SeaTac Office Center, Building III would best satisfy the space requirements for the combined project team offices and would also allow the teams to be located close to the jobsite. This lease space would require minimal improvements to accommodate the project teams and could be ready for occupancy in time for the project kick-off and validation phases of the IAF Program.

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This Action will authorize the Port to enter into a lease with the SEATAC VENTURES 2010 LLC for a four year term.

BACKGROUND

Experts in Progressive Design-Build delivery agree that co-located offices for the Owner and Design-Build project team staff are a key success factor in the PDB delivery method. Sharing physical office space results in a more efficient, integrated and collaborative project team and promotes a greater understanding and achievement of common project goals. Challenges are identified earlier and resolved faster by co-located teams that enjoy the benefits of increased face-to-face interaction and more productive working meetings. Early integration of the Port with the multiple professional disciplines required to design and construct a complex facility, such as the IAF, will act to shift everyone's focus from the "us versus them" mentality prevalent in more traditional contract delivery methods to "we're in this together", ultimately resulting in a more collaborative and collegial working relationship between the teams and, in the end, making more likely the delivery of a better performing facility that is on-schedule and on-budget.

The IAF Program's project team currently manages the IAF Program from the Aviation Project Management Group's offices at the Airport Office Building (AOB) at Sea-Tac International Airport. The AOB is located relatively close to the future construction site of the IAF, but does not have vacant space available to house the anticipated 80-plus members of the integrated IAF team.

The Port compared several nearby alternatives for their relative available space, proximity to the jobsite, opportunity costs, up-front cost and effort required to prepare the space for occupancy, and ongoing maintenance costs. Leasing space for the team at the SeaTac Office Center, Building III was selected as the best fit.

Although the proposed site for co-location is on the east side of International Boulevard (Highway 99) it nevertheless provides easy access to the Airport. The Aviation Project Management Group was located in this building complex several years ago and successfully managed the Airport's Capital Improvement Program during construction of the South Terminal Expansion and Central Terminal Expansion projects. Additional information about the alternatives evaluated for the IAF Program Management Offices is included in the Alternatives section, below.

SCOPE OF AGREEMENT

Landlord: SEATAC VENTURES 2010 LLC
Tenant: Port of Seattle

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Term/Effective Date: A term of forty-eight (48) months to commence on July 1, 2015, or upon completion of tenant improvements and receipt of a Certificate of Occupancy.

Use: General Office and Project Management Administration

Area: 21,003 rentable square feet of the fourth floor of Building III at the SeaTac Office Center (17900 International Blvd. S, Seattle, WA, 98188), including the existing Suite 400 and part of Suite 402.

Rental: Rental rate scheduled is based on a triple net (NNN) lease.
Months 01 - 12 @ \$13.25/sq.ft./yr. = \$23,190.81/month
Months 13 - 24 @ \$14.25/sq.ft./yr. = \$24,941.06/month
Months 25 - 36 @ \$15.25/sq.ft./yr. = \$26,691.31/month
Months 37 - 48 @ \$16.25/sq.ft./yr. = \$28,441.56/month

Tenant Improvements: Landlord shall provide a tenant improvement allowance up to \$252,036, \$12.00 per rentable square foot (RSF), using building standard improvements and based on a mutually agreeable space plan. Tenant shall be responsible for tenant voice and data cabling and any unused portion of the allowance may be used for this purpose.

Operating Expenses &
Real Estate Tax Costs: Tenant shall be responsible for its pro-rata share of building/complex operating expenses, including, but not limited to, janitorial services, waste disposal, parking and grounds cleaning and striping, utilities, insurance, property taxes, property management fee and premises maintenance and repair, except that Landlord shall be responsible for the building roof, structural elements, and parking lot replacement. No operating expenses shall be payable during the tenant improvement construction or free rent periods. Landlord currently estimates operating expenses at \$9.00 per RSF for a total annual cost of \$189,027.00. The estimated lease value includes \$756,108 total for four years of operating expenses.

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Security Deposit: Not required.

Parking: Eighty-four stalls are included in the lease rate, four (4) stalls to be provided per 1,000 RSF leased.

FINANCIAL IMPLICATIONS

Budget Status and Source of Funds

A previous Commission authorization approved initial capital funding for establishment of the co-located IAF Program Management Offices. Future authorization requests will include capital funds for rent and monthly operating expenses for the remaining duration of the IAF Program.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Six different co-location alternatives were evaluated for criteria such as; available space for project team, proximity to IAF job site, opportunity cost, upfront cost, monthly maintenance cost and duration required for preparing the space for occupancy. Cost estimates were only prepared for spaces considered large enough to accommodate the project team.

Alternative 1) – Airport Parking Garage Former Rental Car Offices. This option would house the IAF program team in offices located on the 1st floor of the parking garage formerly used by rental car companies. Estimates were not prepared for this option since the space could not accommodate the project team. This is not the recommended alternative.

Pros:

- This option is located close to the IAF jobsite.

Cons:

- This option proved to be too small to accommodate project staff and the necessary conference spaces.
- This is also considered leasable space that could generate revenue for the Port.

Alternative 2) – Airport Parking Garage Former Rental Car Offices, plus existing IAF AOB offices. The team evaluated keeping existing Port IAF staff in their AOB offices plus using the rental car offices evaluated in Alternative 1. Estimates were not prepared for this option since the two spaces combined could not accommodate the project team. This is not the recommended alternative.

Pros:

- Existing staff would not need to relocate.

Cons:

- Those combined spaces would still not accommodate anticipated Port and Design-Build project team staff.

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- Splitting up the team would not permit the Port to capitalize on the proven benefits of co-location.
- Reduced efficiency because the number and duration of trips made between the two spaces for meetings would increase.

Alternative 3) – Phased Co-Location from Parking Garage to SeaTac Office Center. This option would locate Port and Design-Build project team staff at the Parking Garage offices through Validation and then move them to the SeaTac Office Center once design and construction begin. Estimates were not prepared for this option since the Parking Garage office space could not accommodate the Validation phase project team. This is not the recommended alternative.

Pros:

- If the Parking Garage space was large enough, this option would delay payment of rent for office space.

Cons:

- The Parking Garage offices are not large enough to house the project team staff that will be brought on board during Validation and it would not provide the number of conference spaces required to work efficiently.
- This option would require fit-out of two project office spaces instead of one, making it a more expensive option.

Alternative 4) – Trailer Complex on Tye Golf Course parking lot. This option would house the co-located IAF Program Team in a complex of construction trailers in the parking lot of the Tye Golf Course located at the south end of the Airport's runways. Rough order of magnitude (ROM) costs for this alternative is \$3,700,000 for upfront costs and four years of monthly maintenance and utility costs. This is not the recommended alternative.

Pros:

- The site is large enough to accommodate the IAF team.

Cons:

- The drive time from this location to the IAF jobsite would be approximately 10-15 minutes and would necessitate establishment of an IAF fleet of vehicles.
- This option would require the Port to purchase or rent two-story modular buildings and make site improvements in order to fit the entire team at this location.
- Site improvements and procurement of modular structures is estimated to take significantly longer than other options and could not be accomplished prior to start of design and construction.
- This site would be better used for contractor logistics and/or laydown area during construction.

Alternative 5) – Trailer Complex on IAF jobsite. This option would locate IAF staff in trailers on the IAF jobsite. ROM estimate for initial costs and operating expenses is \$4,000,000. This is not the recommended alternative.

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Pros:

- This option provides easiest access to the construction site.

Cons:

- The size of the trailer complex required to accommodate the Port and Design-Build project team would almost completely negate critical contractor laydown area needed for onsite construction.
- Locating the trailers on site would also drive additional relocation of airline ground service equipment, Port maintenance functions, and Air Operations Area (AOA) fence and security gates.
- Due to the shape of the IAF jobsite, the trailers would physically impede construction access to the site and impact air operations at the south end of Concourse A.
- This option carries a high cost for the trailer complex and would require site improvements.

Alternative 6) – IAF Offices in SeaTac Office Center, Building III. This option would establish the co-located IAF Project Management Offices in rental office space. ROM estimate for this option is \$2,700,000 for upfront costs, rental costs, utilities and operating expenses. **This is the recommended alternative.**

Pros:

- There is adequate contiguous vacant space (21,000 sq. ft.) available in Building III, requiring only minimal tenant improvements to meet the office and meeting space needs of the IAF program.
- Building III is located across the street from the IAF jobsite, about a 5-minute walk away.
- This space could be made ready for occupancy quickly, at a minimal cost and in a short timeframe, so the Port and Design-Build co-located team could begin working from this space starting as early as project Kick-Off and Validation.

Cons:

- Although already included in the project budget, this option requires the project, and therefore the Port, to pay rent for office space.

ATTACHMENTS TO THIS REQUEST

- None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- February 24, 2015 – Service Agreement for IAF Consultant Program Leader.
- January 27, 2015 – IAF Funding Plan.
- January 27, 2015 – IAF RFP Advertisement.

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- January 13, 2015 – IAF Update.
- December 2, 2014 – IAF Scope and Budget Update.
- October 28, 2014 – IAF Q3 Quarterly Briefing.
- August 19, 2014 – IAF Q2 Quarterly Briefing.
- August 5, 2014 – IAF RFQ Advertisement.
- July 22, 2014 – IAF Progress Briefing.
- June 10, 2014 – IAF Update and Quarterly Briefing.
- May 6, 2014 – IAF Project Delivery Briefing.
- April 22, 2014 – Capital Program Briefing.
- March 11, 2014 – IAF Master Planning authorization.
- February 25, 2014 – IAF Program Briefing.
- November 19, 2013 – International Arrivals Facility Construction Management, testing and inspection; surveying and locating and safety service agreements.
- July 23, 2013 – International Arrivals Facility Project & Program Support; and Price Factor Design-build Methodology authorization.
- July 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- July 9, 2013 – Alternative Public Works Contracting Briefing.
- April 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- June 26, 2012 – Briefing on Airport Terminal Development Challenges at Seattle-Tacoma International Airport.
- June 14, 2011 – International Air Service Growth and Future Facility briefing.
- February 2, 2010 – Briefing on South Satellite Passenger Growth and Facility Considerations, Delta's Proposed Airline Lounge and Other Possible Future Aviation Projects.