

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6a
Date of Meeting November 10, 2015

DATE: November 2, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Lindsay Pulsifer, Maritime Division Managing Director
Rebecca Schwan, Real Estate Manager, Maritime Division
Tracy McKendry, Sr. Manager, Recreational Boating, Maritime Division
SUBJECT: Fifth Amendment to the Seaview Boatyard West, Inc. Lease

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a Fifth Amendment to the lease with Seaview Boatyard West Inc. (Seaview), a small business located at Shilshole Bay Marina, to expand the lease premises and add two five-year renewal options.

SYNOPSIS

The current lease expires on December 31, 2027. This lease amendment will add two five-year renewal options to the term, expand the Seaview lease premises by approximately 10,000 contiguous square feet and increase annual revenue by approximately \$24,400.00. This expansion will enable Seaview to upgrade their facility to serve the demand for large vessel repairs, increase their ability to adapt to seasonal variations and generate an additional 10-12 family wage jobs. This expansion will displace approximately 20 (of 1158) parking spaces at Shilshole Bay Marina (SBM).

BACKGROUND

Seaview has operated at Shilshole Bay Marina since 1973. Seaview operates three facilities in the Puget Sound area that offer boat repair and maintenance services to recreational boaters, commercial fishermen, and the yachting community. They have invested \$1.6 million into the SBM facility over the term of their ground lease. The boatyard currently employs 27 employees. If approved, the company will invest another \$750,000 to expand and upgrade their facilities to serve the demand for large vessel repair and create an additional 10-12 full-time, family wage jobs. Seaview qualifies as a small business in the State of Washington and utilizes numerous small businesses including sub-contractors and vendors. At the completion of the project, Seaview will own and operate the largest travel lift (rubber tired crane for lifting and transporting vessels) in the greater Seattle area, which will allow them to meet the growing demand for large vessel repairs. The Port of Seattle has received a petition of 146 signatures and letters of support from State of Washington Department of Commerce, SSA Marine, Northwest Marine Trade Association, Fisheries Supply, Sea Hawk Premium Yacht Finishes, Privateer II, Auxiliary Engine Service, Inc. and Sands – Marine.Com.

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Community outreach on this topic has included, since April, five meetings with Liveboard and Dock Captains and one meeting to which all moorage customers were invited. In addition, there have been thirteen contacts with individuals and one with the City of Seattle Department of Neighborhoods. These contacts included information regarding the nature of the expansion of the Seaview operation, the equipment involved and compliance with current noise and environmental regulations.

Environmental Commitment

Seaview has demonstrated environmental leadership by developing a long-term strategic commitment to environmental protection and innovation. They are recognized as a model for environmentally sound boatyard operations throughout the region. The company's three locations are among only 11 boatyards state-wide that have earned the Clean Boating Foundation's Leadership Clean Boatyard Certification. In 2011, Seaview received the Environmental Excellence Award from the Association of Washington Businesses. In addition, Seaview is working with the Northwest Marine Trade Association task force to assist the Washington State Department of Ecology to prepare the 2016 revision of the National Pollution Discharge Elimination System (NPDES) Boatyard General Permit. Questions raised regarding impacts of the expansion have been addressed – the new equipment will be quieter and cleaner, due to current environmental standards.

Previous Expansions & Operations

In 1996, the Port and Seaview agreed to an expansion and improvement plan, which allowed the growth of their boatyard operations at SBM. In 2011 the Port approved a smaller expansion of 1,541 square feet bringing the operation to the current size of 64,385 square feet. This amendment would bring the premises to approximately 74,385 square feet.

Seaview's facilities and operations include yard space, a dedicated pier, a small administrative building, a boat repair building, a mast repair and storage area, a 55 ton travel lift, and a boat wash area. Seaview also leases 300 linear feet of moorage near the "A" dock to support their operations which contributes approximately \$27,000 per year in revenue to SBM.

Seaview allows boat owners with the required expertise to perform their own repairs and maintenance within the yard for a fee. When a higher level of expertise is required, Seaview offers skilled staff to perform maintenance and repair work.

SEAVIEW PROJECT DETAILS & JUSTIFICATION

If approved, Seaview Boatyard will invest approximately \$750,000 in tenant improvements to reconfigure their facility to better accommodate large vessels ranging from 60 feet to 75 feet. This will include an addition to their paint shop building and the construction of additional workshop space. The expansion also includes the purchase of a 75-ton travel lift to replace the current 55-ton travel lift in operation. In addition to the tenant improvement, Seaview projects an increase of 10-12 full-time, family-wage jobs including: (1) purchasing agent/assistant, (1) skilled travel lift operator, (2) skilled fiberglass workers, (1) skilled painter, (4) entry-level general workers, (1) skilled wood worker, and (2) skilled mechanical workers. The extension of

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the lease term will enable Seaview to obtain acceptable terms for the financing required to complete this project.

The boatyard expansion will require the relocation of two tenants – Sands Marine (320 square feet) and Auxiliary Engine (480 square feet) - currently located within the expansion footprint. Staff have reached out to these tenants and both have agreed to a relocation plan to a nearby area at SBM. Seaview has agreed to cover all relocation costs. Staff have also reached out to the dock captains at the September 29, 2015 Dock Captains Meeting at SBM. As previously noted, the proposed expansion will eliminate approximately 20 adjacent parking spaces which the Port will not be able to recover due to the terms of the proposed lease. Loss of these spaces will impact the moorage tenants in nearby docks, including live-a-board customers. To help mitigate this impact, marina staff has launched an aggressive effort to remove derelict vehicles that are parked throughout the marina, including those located near the project area. There is also parking available on the street adjacent to the entire property.

The new services offered at Seaview as a result of the expansion will benefit the Port by attracting large vessels to SBM and increasing the opportunity for additional moorage revenue.

This expansion of Seaview's premises and subsequent increase in full-time, family-wage jobs supports the Century Agenda Strategies and Objectives to promote small business growth and workforce development by increasing job opportunities for local communities in maritime, trade, travel, and logistics.

MARKET CONDITIONS

In the Seattle Industrial Market, most of the tenant activity is occurring in the south end of the city. In the Ship Canal and Ballard market, local brokers confirm that warehouse space and vacant land are scarce, which has allowed the Port to maintain its occupancy and rental rates in a very challenging real estate market. In addition, increased commercial development in the submarket in recent years has contributed to the reduction in industrial inventory.

According to brokers in the area, the rate for improved land is ranging from \$0.15–\$0.20/sf/month (\$1.80–\$2.40/sf/year). In a recent appraisal done by McKee & Schalka on the FVO Marine Ways Shipyard at Fishermen's Terminal, land was valued at \$0.20/sf/month (\$2.40/sf/year). The subject premises is a combination mixed-use area, and the Port will be receiving \$0.1775/sf/month (\$2.13/sf/year), which upon approval of the 5th Amendment will be Seaview's base rent rate. The basic lease provides for both Consumer Price Index and Market Rent increases throughout the term of the lease, which will not change with the proposed amendment. It is important to note that there are no broker commissions associated with this amendment and Seaview Boatyard will assume all of the costs and risks for the expansion.

Rental rate renegotiation is structured into the lease using two methods, and will continue throughout the term of all renewal options.

- A CPI increase occurs every five years. The next increase will take place March 2019.

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- Market Rate is renegotiated every five years. The next renegotiation will take place September 2016.

TERMS OF PROPOSED SEAVIEW BOATYARD 5TH AMENDMENT

Remaining Term: 12 years, 3 months; expiring December 31, 2027.

Option to Extend: Two additional 5-year options to extend.

Use: Boatyard operations.

Premises: Premises consisting of 74,385 square feet comprised of office, storage, yard, and submerged land space.

Total Rent: \$13,511.85/monthly “estimate, to be calculated upon final measurement of expansion area.”

Incremental Rent Increase: \$2,033.33/monthly “estimate, to be calculated upon final measurement of expansion area.”

Port Improvements: None.

Security Deposit: \$40,000.00.

FINANCIAL IMPLICATIONS

If approved the Fifth Amendment will increase annual revenue by \$24,400.00.

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Financial Analysis and Summary

CIP Category	N/A																														
Project Type	Revenue/Capacity Growth																														
Risk adjusted discount rate	7.0%																														
Key risk factors	Risk of tenant default, which is partially mitigated by: <ul style="list-style-type: none"> • Security deposit totaling \$40,000 • Good standing status as a current Port tenant 																														
Project cost for analysis	None																														
Business Unit (BU)	Portfolio Management, Real Estate Division																														
Effect on business performance	<p>The incremental impact of the 5th Amendment on Net Operating Income (NOI) for the years 2015 through 2019 is shown below:</p> <table border="1"> <thead> <tr> <th colspan="6">Incremental Incr/(Decr)</th> </tr> <tr> <th>NOI (in \$000's)</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>\$0</td> <td>\$19</td> <td>\$25</td> <td>\$25</td> <td>\$26</td> </tr> <tr> <td>Expenses</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>NOI</td> <td>\$0</td> <td>\$18</td> <td>\$25</td> <td>\$25</td> <td>\$26</td> </tr> </tbody> </table> <p><i>Incremental revenue</i> is generated by expanding the leased premises 10,000 sf.</p> <p>Note the 2016 incremental impact assumes an expansion effective date of April 1st, and so only nine months of this year are affected by the 5th Amendment.</p>	Incremental Incr/(Decr)						NOI (in \$000's)	2015	2016	2017	2018	2019	Revenue	\$0	\$19	\$25	\$25	\$26	Expenses	\$0	\$0	\$0	\$0	\$0	NOI	\$0	\$18	\$25	\$25	\$26
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IRR/NPV	<table border="1"> <thead> <tr> <th colspan="2">NPV (in \$000's)</th> <th rowspan="2">IRR (%)</th> <th rowspan="2">Payback Years</th> </tr> <tr> <th>without extension</th> <th>with extension*</th> </tr> </thead> <tbody> <tr> <td>\$200</td> <td>\$292</td> <td>NA</td> <td>NA</td> </tr> </tbody> </table> <p>The NPV is based on incremental net cash flows generated by the 5th Amendment and does not factor in the underlying value of the land and improvements. The basis for establishing the market rates for the lease is described in the memo under "Market Conditions."</p>	NPV (in \$000's)		IRR (%)	Payback Years	without extension	with extension*	\$200	\$292	NA	NA																				
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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) Reject the Seaview Fifth Amendment. Seaview is currently operating at full capacity. Seaview's current lease expires in 2027, so the Port is not at risk of losing them as a tenant should this amendment be rejected, however, without the opportunity to expand their operations and meet the growing demand of larger vessels, they would likely explore options to make investments at one of their alternate locations in Bellingham. By rejecting this amendment the Port would preserve approximately 20 parking spaces. These spaces currently do not provide

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any revenue to the Port and staff is confident that the loss of these spaces can be mitigated by a focused effort on parking enforcement throughout the marina. In addition, rejecting this amendment would result in the loss of \$24,400 in annual revenue. – This is not the recommended alternative.

Alternative 2) Approve the Seaview Fifth Amendment. This would improve utilization of Port property with no Port investment, support the growth of a small business and the creation of maritime jobs, expand the services provided by Seaview Boatyard and result in increased revenue to the Port. - **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Fifth Amendment to Lease as negotiated.
- Seaview Boatyard proposed expansion layout.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 15, 2011 – Fourth Amendment to renegotiate the rent; Commission review and approval was not required.
- June 28, 2011 – Third Amendment to increase premises was reviewed and approved by the Commission.
- December 12, 2006 - Second Amendment for the expansion of the premises and a term extension was reviewed and approved by the Commission.
- October 6, 2006 – First Amendment to renegotiate the rent; Commission review and approval was not required.
- July 23, 1996 – Lease with a 20-year term was reviewed and approved by the Commission.