



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8c

ACTION ITEM

Date of Meeting January 9, 2018

DATE: January 2, 2018

TO: Dave Soike, Interim Executive Director

FROM: Melinda Miller, Director, Portfolio & Asset Management
Steve Sawyer, Real Estate Property Manager

SUBJECT: Ground Lease Amendment #1 with Duke's Shilshole Bay Chowder House, LLC at Shilshole Bay Marina

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute the first amendment to the ground lease with Duke's Shilshole Bay Chowder House, LLC to change the following: (1) to increase the square footage of the original ground lease by 1,522 square feet for a total of 8,022 square feet; (2) to increase the monthly rent during the Construction Phase from \$2,605.00 to \$3,216.00 and during the Post-Construction Phase from \$10,420.00 to \$12,864.00; and (3) to change the commencement date of the Construction Phase from June 1, 2018, to August 1, 2018, and commencement of Post-Construction Phase from June 1, 2019, to August 1, 2019.

EXECUTIVE SUMMARY

After Commission approval, a ground lease between The Port and Duke's was executed in May, 2017 for 6,500 square feet at Shilshole Bay Marina for 20 years with one 10-year extension.

After several months of diligently proceeding with design development, Duke's has concluded that additional space is needed to create the flagship venue proposed. Port staff has reviewed the designs and considered the impact on Shilshole operations. The revised design will eliminate three parking spaces. Parking capacity is a sensitive issue at Shilshole and thus we do not take any reduction lightly, even a minor one. Staff believes that the trade-off is necessary and that the expanded restaurant will create a positive amenity for our stakeholders.

Duke's is requesting an increase in square footage of 1,522 square feet, for a total of approximately 8,022 square feet in which to build their restaurant. This will result in an increase in overall rent revenue. The revised plan will also push the construction and post-construction start dates forward by two months.

Meeting Date: January 9, 2018

JUSTIFICATION

In May 2017, The Port decided to enter into a ground lease with Duke's. Duke's proposal was attractive, and surpassed the Port's expectations and intent for this site. Following the lease execution Duke's began an extensive and focused design process, during which it was determined the ground lease area of 6,500 square feet would not completely accommodate the restaurant's concept. A larger area would ensure the proper flow and facility operation. Incorporating the many sustainable elements integral to the Shilshole site also required a larger area.

This restaurant location will serve as the benchmark for all other Duke's restaurants operating now and those in the future. Based on the additional effort and time needed to complete the full design, it is important that Duke's is permitted an extension of two additional months, by moving the initial Commencement Date of the ground lease to August 1, 2018 and the date of operations to August 1, 2019.

DETAILS

Project Objectives

Execution of an amendment to the ground lease at Shilshole Bay Marina will increase the revenue generated for this ground lease by approximately 23 percent, increasing to \$12,864.00 per month after construction.

This amendment will further ensure the following benefits:

- Supports Maritime's goal of creating a "Destination Marina"
- Meets marina customers desire for a full-service restaurant
- Creates an additional community meeting place
- Proposes sustainability practices that support Port environmental goals
- Draws new patrons and customers to the Marina and upland businesses
- Creates additional visibility for Shilshole Bay Marina
- Tenant bears construction cost, however building will become a Port asset
- Generates lease revenue for the Port

Placing a premier restaurant at the Marina will not only bring additional revenue from the lease, but is anticipated to result in increased operational revenue from greater numbers of guest moorage customers and new visitors to the marina.

The recreational boating industry is seeing higher cost of ownership, fewer new boat owners, stricter environmental standards, and an evolution toward Boatshare or boating partnership-type operations. To continue to be competitive, a destination marina needs to provide multiple upland amenities and activities for boaters. A restaurant will potentially increase monthly moorage customer retention and bring new potential customers to the Marina and upland

Meeting Date: January 9, 2018

businesses. Customer feedback has been consistent in requesting a restaurant be built at the Marina.

Additional benefits may include increased security, collaboration with marina events, community meeting space, increased marina customer satisfaction, and an increased awareness of Shilshole Bay Marina.

Revised Lease Terms

Premises: Adding 1,522 SF for a total 8,022 square foot restaurant pad
Construction Rent: \$3,216 per month from August 1, 2018 until Temporary Certificate of Occupancy
Post Construction Rent: \$12,864 per month, \$154,368 annually.
No later than August 1, 2019 or Substantial Completion whichever is sooner

Scope of Work by Tenant

Duke’s will now construct an approximate 8,022 square foot full-service, casual, waterfront restaurant of contemporary design. This will consist of an approximately 6,522 square foot restaurant/bar and 1,500 square foot outdoor deck and seating area. The structure will be constructed to give their dining patrons the most appealing view of Puget Sound, the Olympic Mountains, and boating activities in the marina. The restaurant will be designed to reflect the Northwest aesthetic and will complement the site plan of the Shilshole Bay Marina. Duke’s estimated cost for the building and Furniture, Fixtures & Equipment (FF&E) is approximately \$2.5 – \$3 million.

Schedule

Final design and permitting work will continue through mid-2018. Restaurant construction should commence mid-2018. Restaurant opening is estimated in mid-2019.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not permit Duke’s to expand the original ground lease area from 6,500 to 8,022 square feet.

Cost Implications: Forgo an annual increase in lease revenue of \$29,328.

Pros:

- (1) Port preserves the additional area needed in the drive lane for traffic flow and general operations.
- (2) Adjustments to traffic flow will not need to be made.

Meeting Date: January 9, 2018

Cons:

- (1) Port forgoes long term additional revenue stream of \$29,328 annually.
- (2) Port forgoes opportunity to allow Duke’s to build their restaurant using the most efficient and forward-thinking design.
- (3) Port will force Duke’s into a design configuration that will not provide the best amenities to our customers or allow for the most efficient operation.

This is not the recommended alternative.

Alternative 2 – Amend the ground lease at Shilshole Bay Marina with Duke’s

Cost Implications: Approved site preparation costs estimated at \$500,000 – offset further by additional revenues of \$29,328 annually. (New annual revenue will increase from \$125,000 to \$154,368 with annual CPI escalations).

Pros:

- (1) Additional net revenue to the Port will increase by \$29,328 (including CPI escalations).
- (2) The restaurant will be the most efficient and best amenity that could be built on the Marina site. This should further ensure the attraction of new customers and retain existing Port customers – supporting long term financial goals for the Port.
- (3) Altering the traffic flow of the drive lane east of the restaurant pad may actually increase pedestrian safety since traffic will only be travelling in one direction in front of the restaurant.

Cons:

- (1) Port will lose a portion of the drive lane east of the restaurant site making the lane one-way rather than two-way traffic.
- (2) Removal of three parking spaces to accommodate new design may create the perception that parking is further impacted negatively at the marina.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary

	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$500,000	\$0	\$500,000
AUTHORIZATION			
Previous authorizations	\$500,000	0	\$500,000
Current request for authorization	0	0	0
Total authorizations, including this request	\$500,000	0	\$500,000

Meeting Date: January 9, 2018

Remaining amount to be authorized	\$0	\$0	\$0
-----------------------------------	-----	-----	-----

Annual Budget Status and Source of Funds

No funds requested.

Financial Analysis and Summary

Project cost for analysis	\$500,000*
Business Unit (BU)	Maritime Portfolio Management
Effect on business performance (NOI after depreciation)	The initial post-construction lease revenue for this amendment will produce more than \$29K of additional revenue. The project is expected to generate more than \$130K of NOI after depreciation annually.
IRR/NPV (if relevant)	NPV: This amendment will generate a marginal NPV of over \$350K for a total NPV of \$1.4M over the initial 20-year lease term. IRR: 13.8%
CPE Impact	N/A

*Cost of site improvements approved May 9, 2017

Future Revenues and Expenses (Total cost of ownership)

This project is expected to require minimal annual maintenance expense by the Port. Future revenues will be generated based on lease rates and terms stated above.

ATTACHMENTS TO THIS REQUEST

- (1) PowerPoint Presentation
- (2) Draft Ground Lease Amendment
- (3) Copy of Original Ground Lease

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

May 9, 2017 – The Commission approved a Port investment of \$500,000 for restaurant pad site improvements and a Ground Lease with SBM Restaurant Developer/Operator, Duke’s Shilshole Chowder House, LLC.