



**COMMISSION**  
**AGENDA MEMORANDUM**

**Item No.** 8c

**ACTION ITEM**

**Date of Meeting** May 8, 2018

**DATE:** April 24, 2018

**TO:** Stephen P. Metruck, Executive Director

**FROM:** James R. Schone, Director, Aviation Commercial Management  
James Jennings, Senior Manager, Aviation Properties  
W. Allan Royal, Property Manager, Aviation Properties

**SUBJECT:** Amendment to Lease for EAN Holdings LLC (Enterprise/Alamo/National) "EAN"

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to sign an amendment to the current Enterprise/Alamo/National (EAN) rental-car lease, providing for an additional 18 years to the term of their current lease, providing a total of 20 years to the lease with EAN for car storage, washing, and maintenance in support of their operations at Seattle-Tacoma International Airport.

**EXECUTIVE SUMMARY**

EAN has been in this location for a number of years and the facility (see Attachment 2) is critical to their business in the Airport's Rental Car Facility (RCF). EAN is an existing Airport tenant in good standing and a valued rental car partner. The firm is a significant contributor to the Port's non-aeronautical revenue and generator of jobs as noted below. In addition, this location is closer to the Airport's RCF when compared to other locations that EAN considered, some as far away as the Kent Valley, and may avoid potential emissions from a longer trip to the facility for the 74,000 cars a year currently making that trip.

A snapshot of EAN's contribution, for informational purposes, to the Port in 2017 (June 2016-May 2017) is as follows:

**Revenues paid to the Port**

- Concession Fees = **\$11,524,610**
- Customer Facility Charge Fees = **\$13,896,516**
- Rent for Rental Car Facility = **\$1,105,228.56**

**Total number of EAN employees (peak)**

- RCF = **296**
- Service Facility = **35**
- Third party service vendor = **94**

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In addition, EAN will invest, at their own expense, in the facility to ensure its long-term viability. The improvements EAN will make during the lease term, including some that are traditionally the responsibility of the Landlord, are:

- Asphalt upgrades;
- Heating, Ventilation and Air Conditioning (HVAC) unit replacements;
- Lighting retrofit to improve energy efficiency;
- SMART building system installation, computer controlled, to improve lighting and HVAC system efficiency;
- Security enhancements such as an upgraded camera system and better controls at the entry/exit points;
- Additional lifts/maintenance bay installation;
- Office space, conference room, and break room updates (minimum new flooring and paint).

Supporting a valuable rental car tenant who is significantly contributing to the tourism industry in the Pacific Northwest is important to “Advancing This Region as a Leading Tourism Destination and Business Gateway.”

### **JUSTIFICATION**

EAN entered into a short-term lease with the Port in May 2016 for the building formerly known as the Boeing Building, which is located north of SR-518 and the North Employee Parking Lot. Boeing had a 30-year lease with 2 five-year options with the Port for this property, commencing in 1985, and constructed this building in 1986 for its own use. EAN was previously a sub-tenant of the Boeing Company in this building and has used this facility for many years for off-site support (storage, car washing, and minor maintenance) of their operation at the Airport’s Rental Car Facility. The timing of the initial lease between the Port and EAN coincided with Boeing’s decision to not exercise their 5-year option, which resulted in the Port taking ownership of the building via a reversionary provision.

Prior to this building reverting to Port ownership, an analysis was completed on the potential uses for the facility. At that time, it was determined that the facility was not viable as an industrial warehouse, primarily because of the lack of space on site to handle the much longer trucks in use today than what this facility was designed for in the 1980s. The best use, as determined by this analysis, was in support of rental car operations given its proximity to the Rental Car Facility. A decision was then made to enter into a short-term lease, three years with one, two-year option, with EAN while the site was evaluated for its need in the Sustainable Airport Master Plan (SAMP). Current planning indicates that this site is not needed by SAMP for the proposed period of the term of the lease with EAN.

The requested action is to amend the term of the existing lease to provide a total of 20 years of lease term.

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**AMENDMENT DETAILS**

- Amend the current lease to allow for a total term of 20 years.
  - Lease commencement date of May 21, 2016, is unchanged.
  - 20-year term extends current lease by 18 years.
- Establish rent at an effective rate of \$18.22/year.
  - Note: the rental rate is currently considered “above market” for an industrial property because of the unique use on the property.
  - Rent escalations are evaluated every five (5) based upon Fair Market Value as determined by appraisal.
- EAN to commit to capital improvements, at their expense, including asphalt upgrades; replacement of HVAC units as needed; lighting retrofit to improve energy efficiency; SMART Building system to improve efficiency of lighting and HVAC systems; and installation of additional lifts/ maintenance bays. All improvements will be completed by 2021 and must be approved by the Port.

**Scope of Lease**

**Deal Points**

- Building size 36,128 square feet
- Term 20 years, from lease commencement in 2016
- Rent \$18.22 per square foot
- Escalations Re-evaluated every 5 years
- Repairs/maintenance Tenant responsibility including infrastructure

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Do not amend the current agreement, stay with the existing short-term lease.

Cost Implications: None

Pros:

- (1) At the end of the term of the lease the Port could go to the market for potential alternative uses.

Cons:

- (1) The Port would not have an excellent long-term deal with a valued tenant.
- (2) EAN would not have the security of a critical component to their operations at the Airport’s Rental Car Facility.
- (3) 74,000 cars a year would be added to the area road system because of EAN’s long-term lease at the Airport’s Rental Car Facility.

This is not the recommended alternative.

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**Alternative 2** – Amend the EAN lease creating a long term agreement.

Additional guaranteed revenue: Approximately \$11,200,000 (compared to the total revenue generated in term of the current lease when extended to 20 years)

Pros:

- (1) Get a mutually beneficial long-term lease for a valued tenant
- (2) Receive \$11,200,000 in additional incremental guaranteed revenue by extending the current lease to a total of 20 years. Note: this does not take into account the five (5) year rent evaluations.
- (3) EAN would have the assurance of continued efficient operations with an improved facility in close proximity to the Rental Car Facility.

Cons:

- (1) The Port would lose the opportunity to explore an alternative use.

***This is the recommended alternative.***

**FINANCIAL IMPLICATIONS**

Potential of \$11,200,000 nominal/\$7,800,000 Net Present Value of non-aeronautical revenue.

**ATTACHMENTS TO THIS REQUEST**

- (1) Lease Amendment
- (2) EAN Building Graphic

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None