



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6e

ACTION ITEM

Date of Meeting October 9, 2018

DATE: September 17, 2018

TO: Stephen P. Metruck, Executive Director

FROM: James R. Schone, Director, Aviation Commercial Management
James Jennings, Senior Manager, Aviation Properties
Denise Trogon, Senior Property Manager

SUBJECT: Three Year Extension to the General Services Administration/Transportation Security Administration (GSA/TSA) Main Lease and the GSA/TSA C1 Building Lease

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute Lease Amendment No. 25 (Exhibit A attached) of the existing Main Lease and Lease Amendment No. 3 (Exhibit B attached) of the C1 Building Lease with the General Services Administration (GSA) for the current occupancy of the Transportation Security Administration (TSA).

EXECUTIVE SUMMARY

GSA/TSA has two separate terminal space leases with the Port. Those two leases are commonly known as the Main Lease (7,935 square feet) and C1 Building Lease (10,756 square feet) for a total of 18,691 square feet of leased space at Seattle-Tacoma International Airport. The Main Lease will expire on 10/31/2018 and is largely comprised of breakrooms and training spaces throughout the airport; the C1 Building Lease will expire on 1/21/2019 and covers the consolidated administration offices within the C1 Building. These two leases exist because the Main Lease was put in place utilizing existing space soon after 9/11, whereas the C1 Building Lease was developed as part of a comprehensive lease agreement, put in place back in 2008, which included a significant tenant buildout. The two leases are written on GSA lease templates and neither the Port nor GSA wishes to combine the leases into one lease at this time.

The request is to extend both leases for three years, align their expiration dates, and allow a one-time option for GSA/TSA to reduce premises in the C1 Building Lease. The leased areas are spread across the airport, and are depicted on Exhibit C (attached).

JUSTIFICATION

The proposed lease extension for each lease is approximately three years and will align both leases termination dates. The proposed three year term is intended to provide flexibility to accommodate potential construction impacts of a future C1 Building Expansion Project, subject

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to Commission authorization, which would potentially require a complete relocation of all premises in the C1 Building Lease. It is anticipated that once the potential impacts of the C1 Building Expansion Project are known, a new longer-term lease would be negotiated to reflect existing and relocated premises.

Under the C1 Building Lease, GSA/TSA will have a one-time option to reduce the total square footage leased on or after March 1, 2019. The partial space reduction is only available under the C1 Building Lease, and is anticipated to occur sometime in mid-2019. TSA has determined that some of their office space (i.e., non-airport required administration and training areas) do not need to be on-airport, therefore are anticipated to be relocated to an offsite property. With airport rates significantly higher than offsite rates, this is not a surprise. Although this will result in a loss of leased square footage, GSA/TSA rent to the Port will actually increase due to the increases in rental rates as negotiated by Port and GSA staff. This change in the GSA/TSA revenue stream has been reflected in the proposed 2019 budget. Additionally, the decrease in leased area would potentially simplify the phasing complexity of the potential C1 Building Expansion Project, which Commission approved \$500,000 of funds for advance planning in June of this year.

Lastly, with the significant shortfall of terminal space today, Aviation Properties has already received requests for potential interim uses of portions of the to-be-vacated area from existing airport tenants.

DETAILS

LEASE SUMMARY COMPARISON

The current terms and proposed amended terms of the two leases are as follows:

Main Lease	Current terms	Amended terms
Term	12/23/2001 – 10/31/2018	11/1/2018-1/21/2022
Area Leased (in square feet)	7,935 sf	7,935 sf
Annual Rent	\$97.66/sf/yr	\$128.85/sf – year 1 \$153.26/sf – year 2 \$161.66/sf – year 3
C1 Building Lease	Current terms	Amended terms
Term	12/1/2008-1/21/2019	1/22/2019-1/21/2022
Area Leased (in square feet)	10,756 sf	10,756 sf
Rent	\$112.3/sf/yr	\$128.85/sf – year 1 \$153.26/sf – year 2 \$161.66/sf – year 3
Option		One time option to reduce leased area on or after 3/1/2019

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Allow the leases to expire

Cost Implications: None

Pros:

- (1) Potential for return of terminal space that could be occupied by a tenant not otherwise accommodated.

Cons:

- (1) The Port would miss the opportunity to secure the three years of revenue and increase the rental rate.
- (2) GSA/TSA by policy does not permit holdovers, so the Port would be required to seek a waiver from GSA/TSA.
- (3) Does not support TSA’s mission in managing its facility efficiencies supporting the critical security function they provide at the Airport.

This is not the recommended alternative.

Alternative 2 – Extend the two leases for five (5) years.

Cost Implications: None

Pros:

- (1) Secures five (5) additional years of revenue.

Cons:

- (1) Does not meet the TSA’s need to increase organizational efficiencies.
- (2) Does not provide the Port with flexibility to develop the C1 Building Expansion Project schedule.

This is not the recommended alternative.

Alternative 3 – Execute three (3) year lease extensions for both leases.

Cost Implications: None

Pros:

- (1) Satisfies the occupancy needs of TSA to fulfill their critical security function at Seattle-Tacoma International Airport.
- (2) Provides interim commitment from GSA/TSA for space.
- (3) Secures three years of revenue and increases rental rates over the three year term.

Cons:

- (1) The space will not be available to potential tenants not otherwise accommodated in the terminal.

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This is the recommended alternative.

FINANCIAL IMPLICATIONS

By extending the two leases for an additional three years, and increasing the negotiated rental rate (based on Finance and Budget rate forecast), the Port will realize total revenue over the three year term extension of \$8,294,506. If GSA elects to reduce the area leased under the C1 Building Lease on March 1, 2019, total revenue would be reduced by \$2,999,562 over the three year term. This lease extension does not financially obligate the Port in any measurable way.

Main Lease	Current Annual Rent	Amended Annual Rent
Current annual rent	\$774,932	
Year 1		\$1,022,425
Year 2		\$1,216,118
Year 3		\$1,282,772
Total revenue		\$3,521,315
C1 Building Lease	Current Annual Rent	Amended Annual Rent
Current annual rent	\$1,208,006	
Year 1		\$1,385,911
Year 2		\$1,648,465
Year 3		\$1,738,815
Total revenue		\$4,773,191
Combined Rental Streams		\$8,294,506
Less revenue from anticipated space return 3/1/2019		(\$2,999,562)
Net Total Lease Revenue		\$5,294,944

ATTACHMENTS TO THIS REQUEST

- (1) Exhibit A – Lease Amendment No. 25 to GSA Main Lease
- (2) Exhibit B – Lease Amendment No. 3 to GSA C1 Building Lease
- (3) Exhibit C – Graphic depicting spaces leased

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PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

Main Lease #000307:

- 1) October 8, 2013, Commission approved Amendment No. 23 of the existing Main Lease with the Transportation Security Administration represented by the General Services Administration (TSA/GSA) to extend the term of the lease for five (5) additional years from 11/1/2013 to 10/31/2018 and decrease the leased premises by 403 square feet.
- 2) October 5, 2010, Commission approved Amendment to extend the lease for an additional three (3) years and increase the rental rate
- 3) May 12, 2009, Commission approved Amendment 18 to extend the lease for an additional three (3) years and increase the rental rate, covering hold over period that expired on October 31, 2010
- 4) September 11, 2007, the Port Commission authorized the construction of tenant improvements with the General Services Administration (GSA) and the Transportation Security Administration (TSA) for office space on the Mezzanine Level of the Main Terminal.

C1 Building Lease #000995:

- 1) February 24, 2015, Commission approved Amendment No. 1 to construct administrative office space and tenant improvements, to prepare contract documents; perform construction services; execute and award outside professional services agreement; advertise and award major and small works contracts; pre-purchase material and equipment; provide contract administration and execution on behalf of GSA and TSA for the construction of tenant improvement requiring an authorization of \$1,312,000 of Tenant Reimbursement CIP funds.
- 2) January 15, 2008, the Port Commission executed a 10 (ten) year Lease Agreement (Lease) with the United States General Services Administration (GSA), on behalf of the Transportation Security Administration (TSA) for the construction of tenant improvements in the C1 Building.
- 3) August 14, 2007, the Port Commission authorized a \$6,000,000 Tenant Reimbursement CIP (CIP C800154). As part of that authorization, Port staff is required to bring any project requesting funds in excess of \$200,000 before the Commission for specific authorization.
- 4) October 24, 2006, the Port Commission authorized an additional \$488,000 to the C1 Project for a total of \$1,288,000 for the TSA tenant improvements. This amount is expected to be fully reimbursed back to the C1 Project by the GSA/TSA, as a part of the 10 year lease agreement with the Port.
- 5) January 31, 2006, the Port Commission authorized the C1 Project to spend \$800,000, as part of a \$25,300,000 request for the C1 Building Interim and Final Baggage Screening Systems project to design and build tenant improvements in the C1 Building on behalf of the TSA.