



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6f

ACTION ITEM

Date of Meeting July 14, 2020

DATE: March 30, 2020
TO: Stephen P. Metruck, Executive Director
FROM: James Jennings, Director, Aviation Business and Properties
Denise Trogdon, Senior Property Manager, Aviation Business and Properties
SUBJECT: Lease approval for a 10-year term lease with Alaska Airlines, Inc. (Alaska)

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute an Airport Term Lease Agreement with Alaska Airlines, Inc. (Alaska) for cargo building and related facilities at Seattle-Tacoma International Airport (Airport). The proposed lease term is for ten (10) years, with an option to extend the term for an additional five (5) years.

EXECUTIVE SUMMARY

Alaska has operated its cargo operations from a cargo building complex, comprised of warehouse space, office space and aircraft parking (hardstand) space at the Airport since January 1, 1979 under a land lease agreement that expired on December 31, 2018. At the expiration of the land lease, the building and improvements at the property reverted to Port ownership. Alaska continued to operate from the property under the land lease in holdover status while rental rates for Port properties were evaluated and assessed as part of our regular five-year appraisal cycle. Alaska challenged the revised rental rates and engaged with the Port in an arbitration process, resulting in the development of the current market-based rental rates represented in this lease. Additionally, there were challenging operational terms to negotiate due to fundamental differences with Alaska that were ultimately resolved, which contributed to the delay in finalizing the ultimate terms.

JUSTIFICATION

Alaska has the second largest cargo operation at the Airport, second only to Federal Express. Alaska aircraft carry a significant amount of cargo in the belly of their passenger aircraft, in addition to operating dedicated cargo freighters from the cargo facility at the Airport. Alaska's significant cargo operation at Sea-Tac Airport requires significant facilities from which to operate, and there are no alternate facilities available at the Airport beyond the existing cargo building.

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LEASE TERM DETAILS

Key lease terms are as follows:

Premises	66,455 sf warehouse/office space 29,684 sf hardstand space 13,199 sf buffer area
Term	Ten (10) years, with one five (5) year option to extend, with Port’s consent
Rent	1/1/2019 – 12/31/2019: \$74,600.00/month (Retroactive Rent) * 1/1/2020 – 12/31/2029: \$107,650.20/month (Current Rent) ** Market rate adjustment every 5 years from Commencement Date
Maintenance and Repair	Alaska will keep and maintain the Premises (outside/inside) in good order, condition and repair at all times

* Retroactive Rent was based on a negotiated rate prior to the Airport-wide 5-year land appraisal process

** Current Rent was based on the recently finalized Airport-wide 5-year land appraisal process

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not lease the property to Alaska Airlines

Pros:

- (1) There are other potential users for the facility
- (2) There would be no obligation on the Port’s behalf to buy out a long-term lease to move ahead with SAMP

Cons:

- (1) Alaska’s cargo operations would be impacted in their ability to accommodate its significant Airport cargo business (second only to FedEx at the Airport) and its ability to grow its cargo business
- (2) The Port would be required to maintain infrastructure on the building with another tenant. Port engineering estimates \$8,693,000 to keep the building viable for an additional ten years

This is not the recommended alternative.

Alternative 2 – Enter into a lease with Alaska Airlines

Pros:

- (1) The Port would not have to make improvements to the building
- (2) The Port would have total rental income of approximately \$13,813,000 over the ten-year lease term
- (3) Alaska Airlines cargo would be able to continue and grow its operations

Cons:

- (1) Eliminates any other potential use of the building
- (2) The property would be off the market for other potential users

This is the recommended alternative.

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FINANCIAL IMPLICATIONS

The lease will produce approximately \$13,813,000 in rent for the 10-year term of the lease, without considering the potential five-year extension.

ADDITIONAL BACKGROUND

Alaska Air Cargo has regional operations in other parts of the United States and on the west coast, the most extensive air cargo operations and larger than that of any other passenger airline. Alaska operates a mixed fleet operation of both all-cargo freighter aircraft as well as their passenger belly cargo aircraft at the Airport, focused primarily on serving the northwestern contiguous states and Alaska, between Anchorage and Seattle. South of Alaska, the goods primarily carried include fresh Alaskan seafood, while products carried north of Seattle primarily include US Postal Service mail. In addition, the airline carries goods for remote Alaskan communities and personal delivery services.

Alaska Airlines is consistently a top 5 air cargo carrier, measured by air cargo tonnage averaging over 25,000 metric tons per year. As evidence of Alaska's commitment to its cargo operations, it recently invested in the conversion of three 737-700 aircraft from passenger to all-cargo configuration. The merger with Virgin America added an additional 200 million pounds of belly cargo capacity to the Seattle market, expanding domestic air cargo service offerings.

ATTACHMENTS TO THIS REQUEST

- (1) PowerPoint slides to depict property location and premises

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None