



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8h

ACTION ITEM

Date of Meeting February 9, 2021

DATE: February 9, 2021

TO: Steve Metruck, Executive Director

FROM: David McFadden, Managing Director Economic Development
Kyra Lise, Director of Real Estate Development

SUBJECT: SR509 Right-of-Way Surplus Acquisition

Amount of this request: \$3,150,000

Total estimated project cost: \$3,150,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a purchase and sale agreement to acquire SR509 Surplus property in Des Moines, WA for \$2,900,000 plus associated fees, including predevelopment costs, due diligence and feasibility studies. The property will support development of an adjacent Port-owned property and add value to the overall development of this site.

EXECUTIVE SUMMARY

The Port of Seattle and Washington State Department of Transportation (WSDOT) have agreed to terms to acquire a 14-acre WSDOT-owned parcel located on S. 216th Street in Des Moines, WA. This parcel is identified as the SR509 Surplus Site and was designated as a right-of-way for the former SR509 extension project. This section of the highway extension is now obsolete and the Port is interested in buying this parcel in order to connect two other Port properties on both adjacent sides of the subject parcel.

This Port acquisition will allow all parcels to be one contiguous parcel with a direct connection to the Des Moines Creek Business Park. This new contiguous section will be called "Des Moines Creek West" (DMCW) and be part of a long-term ground lease development strategy slated for Q2 2021 Request for Proposals (RFP).

Port staff has completed various due diligence activities on the property so the Port can issue this RFP soon after the purchase in collaboration with the Aviation Division. The property is currently vacant forest land.

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Sellers (WSDOT) of the SR509 Surplus Property have accepted the Port’s offer of \$2,900,000. This price has been substantiated by our own appraisal, their appraisal and a final third appraisal that both parties (buyer and seller) have agreed to.

The investment made at Des Moines Creek-West will help fulfill the goals and economic benefits of the Port of Seattle’s Century Agenda in the following ways:

- Support SEA operations by generating income for the Aviation division and developing property for aviation suppliers, logistics and support operations;
- Development of DMCW will create jobs and provide economic benefits to the City of Des Moines and surrounding communities.
- Will complement the nearby Des Moines Creek Business Park by adding additional best-in-class industrial inventory that will continue to attract and retain growing firms, keeping jobs within King County and the nearby region.
- The infill location of Des Moines Creek-West will help reduce sprawl by creating new light industrial facilities adjacent to current road infrastructure, highways, and public transportation.

Land Summary

The site is a 14.3-acre vacant land parcel with an irregular shape. Based on soil surveys and other initial research, the site has reasonable level areas, but the northern portion is impacted by moderate slopes. Based on the information available, the wetlands and buffers also impact 72% of the site leaving four acres of usable land area.

JUSTIFICATION

Acquiring the WSDOT property enhances development of the Port’s DMCW property, which flanks this property on both sides of the subject. Assembling these parcels results in a larger and more regularly shaped parcel, which is more conducive to development. The WSDOT property favorably impacts overall development of DMCW by allowing developers to maximize overall use of the properties, significantly provide more jobs and increase land rent revenues by 46%.

The DMCW property was originally purchased to support development of the third runway at Seattle Tacoma International Airport (SEA). Developing DMCW can further develop the aviation supply chain and drive SEA efficiencies. The development also creates jobs for the City of Des Moines and generates favorable economic impacts for the city and surrounding communities.

The property development can also generate income to support SEA operations and capital projects. Additionally, the development can advance Port Diversity in Contracting and Workforce Development goals.

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The new assemblage would have good visibility and access to I-5 and SR509. The larger industrial market continues to have low vacancy rates along with rising rents. The demand fueling rent growth and low vacancies over the past ten years has attracted a lot of new development. The strong and positive absorption rates show new deliveries are quickly being absorbed. Current vacancy of less than 5% is well below the historical average of 9.9%. In addition, rent growth has averaged over 7% over the last five years (2016-2020), indicating demand remains strong in the face of new supply.

Given strong market demand for industrial property it is an excellent time to develop DMCW. We are also well prepared to go to market. The City of Des Moines and the Port have worked over the past couple years to widen adjacent roadways and improve overall access to this site and general area.

The larger property can support up to 300,000 square feet of light industrial warehouse facilities. Tenants may include food processors, manufacturers, and logistics providers that support the aviation and air cargo industries.

DETAILS

Upon Commission authorization staff would execute the purchase sale agreement (PSA) with WSDOT. Staff will also work with the City of Des Moines to merge these parcels through a boundary line adjustment process. On a parallel path, we will begin the RFP process which will determine a development partner, who we will ultimately negotiate a long term ground lease agreement with, and they would subsequently begin pre-development, entitlements and permitting, build the facilities and finally, procure a final end user / tenant.

Schedule

Activity

| | |
|-------------------------------------|---------|
| Commission purchase authorization | Q1 2021 |
| RFP Procurement and Land Assemblage | Q2 2021 |
| Execute Long Term Land Lease | Q1 2022 |
| Begin Construction | Q2 2023 |
| Certificate of Occupancy | Q3 2024 |

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Option One: Do Nothing – Pass on Acquisition Opportunity

Cost Implications: None

Pros

- Retains Port capital for other priority projects and finance initiatives.

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- The property could remain available for an unknown airport operational purpose and expansion of adjacent property development at a later time.

Cons

- Potential to lose this aviation supportive land to a non-compatible and non-aviation /Industrial use.
- Loss of ability to add additional light industrial space in the City of Des Moines.
- Missed opportunity to lead or help with wetland remediation and environmental enhancement at this site.

This is not the recommended option

Option Two: Purchase the vacant surplus property

Pros

- The purchase would protect and reserve future industrial land development and provide needed space for local distribution and manufacturing companies related to the aviation sector.
- The property assemblage is adjacent to the highly successful Des Moines Creek Business Park.
- The property would support new job creation. 1 new 300,000 square foot light industrial facility typically supportive of 400 jobs.
- The property provides the Port a wetland remediation opportunity.
- Environmental liabilities and buffers are balanced by reduction in purchase price.

Cons

The acquisition and development use Port capital at a time when there are other competing needs with limited long-term financial capacity.

This is the recommended option

Option Three: do not purchase, and develop only Port-owned parcel

Cost Implications: Site Due Diligence and associated predevelopment costs of approx.. \$250,000

Pros

- Retains Port capital for other priority projects and finance initiatives.
- Develop adjacent 14 acre property, although limited, but still feasible.
- The property could remain available for an unknown airport operational purpose and expansion of adjacent property development at a later time.

Cons

- Potential to only create half as many jobs as the larger project can deliver.
- Loss of half of ground rent revenue that will be attained by larger project.

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- Missed opportunity to satisfy the air cargo market with a larger light industrial building.

This is not the recommended option

FINANCIAL IMPLICATIONS

Annual Budget Status and Source of Funds

The purpose of purchasing, and the ultimate assemblage of Des Moines Creek-West is to put the property back into productive use with an aviation supportive and compatible development. To ensure a Fair Market purchase price for the land, the Port and the seller appraised the property in its current condition and then both parties agreed to a third and final appraisal of \$2.9m. This ensures the Port starts off with a low land cost basis which will ensure healthy financial returns.

We are confident that the future lease proposals on this land assemblage that the eventual RFP will present, will exceed the financial expectations and addresses the aspirational goals set by Commission for a property that has otherwise remained fallow and vacant for decades.

Financial Analysis and Summary

| | |
|---|--|
| Initial project cost for analysis* | \$3,150,000 |
| Business Unit (BU) | Aviation - Airport Development Fund |
| Effect on business performance (NOI after depreciation) | Revenue, Expense, and Depreciation is planned to stabilize at the end of year 3 with NOI after Depreciation of approximately 21% |
| IRR/NPV (if relevant) | IRR 7.8% |
| CPE Impact | N/A |

Future Revenues and Expenses (Total cost of ownership)

ATTACHMENTS TO THIS REQUEST

- (1) Appraisal Summary
- (2) Purchase Sale Agreement
- (3) DMCW Analysis and Conceptual Options
- (4) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None