



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10a

ACTION ITEM

Date of Meeting May 25, 2021

DATE: May 25, 2021

TO: Stephen P. Metruck, Executive Director

FROM: Dave McFadden, Managing Director Economic Development Division
Stephanie Jones Stebbins, Managing Director Maritime Division
Kyra Lise, Director, Real Estate Development

SUBJECT: Approval of Ground Lease for Port Property: Terminal 106

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a ground lease with Trammell Crow Northwest Development in order to develop a multi-story, maritime-related, light-industrial warehouse facility in the City of Seattle at Terminal 106, for a Project Cost of \$2,750,000 and \$3,100,000 in Initial Annual Revenue.

EXECUTIVE SUMMARY

Port staff recently completed an RFP to support redevelopment of its Terminal 106 property along Marginal Way in South Seattle. The firm selected, Trammell Crow Company (TCC), one of the nation's leading developers and investors in commercial real estate. TCC has developed or acquired more than 2,600 buildings across the nation valued at more than \$60 billion and over 565 million square feet.

Trammell Crow plans to build a 700,000 square foot, two story light industrial warehouse that can support key logistics companies and manufacturers within the region. Tenants may include e-commerce, manufacturers, and logistics providers that support the maritime industries. This project supports the Port's Century Agenda objectives to support the region's logistics and maritime industries.

The proposed development also benefits the Port and the region in numerous ways:

- The project will provide approximately 140 prevailing wage construction jobs during the build out of the property. At full occupancy, the TC forecasts the facility will support approximately 650 to 1200 full-time employees with an estimated payroll of more than \$28 million annually.
- The developer will provide apprenticeship training opportunities during construction

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- The design and construction will be completed primarily by locally owned, private small businesses. TCC has agreed to establish Diversity in Contracting goals for the development to further WMBE utilization.
- The development complements the inventory of warehouse space proximate to the Port's shipping terminals. Terminal 106 will provide additional best-in-class industrial inventory that will continue to attract and retain growing firms, keeping jobs within the City of Seattle and the nearby region.
- The close in and core location of Terminal 106 will help reduce sprawl by creating a new light industrial facility adjacent to current road infrastructure, highways, and public transportation.
- The site, located on East Marginal Way and S. Nevada Street, is currently occupied almost entirely by a dilapidated existing warehouse building which needs to be demolished. The warehouse will be torn down at the lessee's expense prior to any new development.

JUSTIFICATION

This ground lease, like the Port's aviation land leases, represents another milestone in the Port of Seattle's real estate development initiatives. Terminal 106's redevelopment advances key Port priorities and generates important new revenue at a time when the Port's operating and capital budgets have been negatively impacted by the pandemic.

Located just south of the West Seattle Bridge in the City of Seattle, Terminal 106 is a 15-acre property that is zoned General Industrial ("IG1 U/85"). Given its location, redeveloping Terminal 106 will help reduce sprawl by creating new facilities adjacent to current arterials, highways, freeways, and the Port.

It is an opportune time to redevelop Terminal 106. The demand for modern Class A warehouse distribution space close-in to the Port of Seattle continues to be high. The market is now seeing record highs, per square foot, for shell rents being attained in South Seattle. This demonstrates the willingness of companies to invest in last mile logistics positions, in addition to traditional cargo distribution through rail and short and long-haul trucking.

Like the manufacturing and marine sectors, the growing lack of Class A or Class B distribution warehouse space has pushed logistics businesses out of the city over the years. Redeveloping Terminal 106 provides critical space that can help retain and attract key logistics and maritime suppliers. Strong national industrial markets support this project and they are augmented by potential demand increases when the Port completes capacity improvements at Terminal 5 and other facilities. The proposed site and building plans at Terminal 106 show a commitment to supporting regional logistics demands. Conceptual design specs allow for high racking layouts and an ample amount of truck maneuvering for a high number of trucks at one time.

The T106 development will play a role in supporting the cargo handling and logistics sector of the Port's maritime operations. Located only a half-mile from our shipping terminals, this facility will

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be the closest state-of-the-art warehouse facility to these facilities. Prospective users will include e-commerce and logistic companies, which will benefit from the proximity by way of lower drayage costs. From a regional traffic standpoint, by shortening the distance from the container terminal to a last-mile destination, the building's location will limit the number of trucks freighting cargo down I-5 from Seattle to as far as south of Tacoma, managing traffic, noise and air pollution in the region. Port staff will be introducing TC Northwest Development to Northwest Seaport Alliance staff as the lease is executed to ensure we explore beneficial relationships that support our key operations.

Ground leasing Terminal 106 and supporting its redevelopment provides a positive financial return to the Port. Base rent for the new warehouse will be \$3,150,955/year. This translates into a \$71 million Net Present Value for the project and a 12 percent return on the Port's investment over the course of the ground lease.

Diversity in Contracting

TC Northwest Development also agrees to collaborate with the Port to develop aspirational goals for the participation of Women and Minority Business Enterprises (WMBE) in the design and construction of the project. TC Northwest will also develop an agreed upon outreach strategy to ensure these goals are met.

Project Labor Agreement

Staff encouraged Trammell Crow Northwest Development to consider the benefits of using a Project Labor Agreement to promote labor harmony during facility construction. TC Northwest Development evaluated the benefits of using a Project Labor Agreement (PLA) on the T106 project and ultimately decided not to use a PLA. TC intends to follow the practices it used to promote labor harmony on the Port's Des Moines Creek North development project in SeaTac. On this project they hired a general contractor that routinely works with union subcontractors. They also used nonunion subs, but the GC was able to manage the project sensitively without labor disruptions. TC Northwest is committed to other Port Resolution 3725 requirements, including payment of prevailing wages and establishment of apprenticeship utilization requirements.

BACKGROUND

Through its RFP process, the Port reached out to 30+ qualified real estate developers with records of accomplishment in industrial, maritime and air cargo related development. The RFP document invited each developer to present offers based on a variety of related building types – distribution, manufacturing, and business park/incubator. Seven developers submitted offers to the RFP and included a Letter of Intent ("LOI"). Each offer and LOI was analyzed based on evaluative criteria that included economic benefits, development team experience, support for maritime operations and regional logistics, project debt/equity financing, and development concept.

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The basic terms of the ground lease are as follows:

Terminal 106

1. **Term** - Initial term of fifty (50) years with three (3) ten-year options to extend.
2. **Base Rent from the day after expiration of the Due Diligence period:**
 - o \$0.38 per square foot or **\$249,450/year**.
3. **Base Rent from Substantial Completion** or day 1 of the 18th month of the term, whichever occurs first:
 - o \$4.80 per square foot or **\$3,150,955/year**.
4. **Base Rent Adjustments:** The applicable Base Rent will increase by twelve percent (12%) throughout the Term and any Extension Term beginning at the sixth (6th) Agreement Year and then every five (5) years thereafter.
5. **Base rent Adjustments reflecting Fair Market Value Re-appraisals** and after the Base Rent Adjustments:
 - o For the twenty-first (21st), thirty-first (31st), forty-first (41st), and fifty-first (51st) Agreement years,
 - o the sixty-first (61st) and seventy-first (71st) Agreement years if the options are exercised.
6. In no event will the **Fair Market Rent** adjustments be:
 - o less than one hundred percent (100%) of the then current Base Rent or
 - o more than one hundred and ten percent (110%) of the then current Base Rent.
7. **Prevailing wage and apprenticeship utilization** required.

Schedule

Activity

Commission Lease authorization	Q2 2021
Completion of Due Diligence Period, DD Waived and Lease Commencement	Q2 2023
Warehouse Demo and Construction Rent Commencement	Q2 2023
Full Rent Commencement	Q3 2024
Certificate of Occupancy and Building Delivery	Q4 2024

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not sign the lease.

Cost Implications: The loss of over \$3.1m in initial annual revenue.

Pros:

- (1) The property could remain available for an unknown maritime operational purpose.

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- (2) There could be some other use identified that could align with the Port’s long-term goals.

Cons:

The loss of \$3.1m in annual revenue that is equal to more than \$265 million in cash flow over the life of the lease (50 years, without exercising renewals)

- (1) The loss of 140 prevailing wage construction jobs.
- (2) The loss of up to 650 to 1200 permanent jobs.

This is not the recommended alternative.

Alternative 2 – Port of Seattle redevelops property

Pros:

- (1) Retains property for other immediate leasehold needs
- (2) Provides temporary laydown area for local construction crews
- (3) Could provide some on-site covered storage

Cons:

- (1) Missed opportunity to remove dilapidated property
- (2) Missed opportunity for maximizing highest and best use in a hot market
- (3) Missed opportunity to engage with local development partner on a property that we are not maximizing to its full potential

This is not the recommended alternative.

Alternative 3 – Approve ground lease with TC Northwest Development

Cost Implications: \$3.1m in initial annual revenue.

Pros:

- (1) \$3.1m in annual revenue.
- (2) The creation of 140 prevailing wage construction jobs.
- (3) The creation of up to 650 to 1200 permanent jobs.

Cons:

- (1) The property would not be made available for an unknown maritime logistics or operational purpose.
- (2) There could be some other unidentified use that could more align with the Port’s long-term goals.

This is the recommended alternative.

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FINANCIAL IMPLICATIONS

The purpose of developing Terminal 106 is to put the property back into productive use with a maritime logistics supportive and compatible development. To ensure a Fair Market Rent for the land, the Port competitively offered the property to the development community. This ensured the Port has a strong basis to evaluate proposals for financial implications and aspirational goals.

The proposal being presented exceeds the financial expectations and addresses the aspirational goals set by Commission.

Financial Analysis and Summary

Project cost for analysis	\$2,750,000 (includes \$2.5M remediation credit and \$250K in due diligence costs)
Business Unit (BU)	Maritime Portfolio Management
Effect on business performance (NOI after depreciation)	This project will increase the Net Operating Income by \$3,150,956 on the first stabilized year (2025).
IRR*/NPV*	NPV = \$71 million MIRR = 12% Payback = 1.5 years
CPE Impact	N/A

Future Revenues and Expenses (Total cost of ownership)

This project will generate the Net Cash Flow of \$265 million over the life of the lease (50 years). There are no financial requests being made as part of this ground lease approval.

ATTACHMENTS TO THIS REQUEST

- (1) Slide Presentation
- (2) Draft Long-Term Ground Lease with TCC
- (3) Neighborhood map graphic and site survey

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None