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COMMISSION

AGENDA MEMORANDUM Item No. 8e

ACTION ITEM Date of Meeting June 28, 2022

DATE : June 8, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Susie Archuleta, Real Estate Manager, Central Harbor

SUBJECT: Contract to provide property management services at the World Trade Center West building

Amount of this request: \$530,000

Total estimated project cost: \$530,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a contract for property management services at the World Trade Center West with an initial term of 2 years plus 5 oneyear options to extend, and a total contract value of up to \$530,000.

EXECUTIVE SUMMARY

Since opening in 1998, the World Trade Center West (WTCW) building has utilized contracted property management services to provide a high level of service to its occupants. The existing WTCW property management contract provides a five-year term that will expire December 31, 2022. A new property management contract is needed to continue the high level of service at this property.

Current nationwide labor shortages are impacting all service providers, including property managers. Because of this, the quality of service that any provider can offer is especially uncertain right now. The term of the new property management contract is structured to provide a 2-year initial term and five 1-year options to extend for a maximum contract value of \$530,000 (if all options are exercised).

JUSTIFICATION

The WTCW is a four-story building with retail and office tenants on floors one through three, and office tenants and hospitality visitors to the World Trade Center Seattle (WTCS) on the fourth floor. The WTCS attracts business leaders, politicians and other high-profile individuals attending the various conferences and social events held at this venue. The high-profile foot

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traffic in the WTCW building and Class A status drives the need for a high level of property management service, which are the primary reasons for contracting for this service.

Diversity in Contracting

The Port of Seattle is committed to providing the maximum practicable opportunities for Woman and Minority Business Enterprises (WMBE) to compete for and participate in Port contracting. Staff has contacted the Diversity in Contracting Department to discuss this contract and has set a 10% WMBE goal. The wide variety of service contracts needed to support daily operations (janitorial, window cleaning, horticulture, HVAC, elevator, pest control, etc.) are expected to provide ample opportunity for the property management provider to achieve this goal.

DETAILS

The normal business hours for the WTCW building and office tenants are Monday through Friday from 7am to 6pm. The retail tenant and the WTCS both regularly operate outside of these hours. The most efficient way to support their off hours needs (for plumbing leaks, temperature adjustments, elevator failures, etc.) is to contract for a property management provider that offers 24/7/365 emergency coverage.

The property manager will be responsible for contracting for the services needed to operate the WTCW building. In addition to supporting most of the daily building operations, the scope of this contract will include collaborating with Port staff to prepare annual budgets, monthly financial reporting, collection of rents from tenants, and payment to all service providers.

We are proposing a 7-year term because the most recent solicitation for a 5-year term and \$299,000 contract value did not produce enough interest from the market. To increase interest in the current labor market, this contract offers a maximum 7-year term. There is a nationwide labor shortage and staff is concerned the level of service might not meet expectations in

subsequent years. To address this potential concern, the contract term is structured to provide an initial 2-year term followed by five 1-year options. This gives Port staff the flexibility to shift contract strategies as necessary depending on contract performance.

Property management fees are typically based on a percentage of the building's gross revenues. For buildings with long terms leases, that structure works well because total revenue is certain. In the expiring property management contract, fees were provided in fixed amounts because the WTCW tenants all have short term leases (5-year terms). Today , the WTCW building is 75% occupied. To overcome the building's uncertain revenue forecast and entice more market interest in this contract, staff will negotiate a fixed fee structure in the new property management contract.

Property management fees are considered an operating expense. Because the WTCW leases are structured as triple-net leases, WTCW tenants each pay their pro rata share of the building's

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total operating expenses. The current occupancy is 75%, meaning that WTCW tenants will pay for 75% of these contracted property management fees.

Scope of Work

The property manager will be responsible for contracting the services needed to operate the WTCW building. These services include but are not limited to: janitorial, window washing, floor cleaning, restocking supplies, HVAC, fire/life/safety, elevator, interior horticulture, roof maintenance, and pest control. The services that will not be included in this contract are locksmithing, roving security, and exterior landscaping. These excluded services are provided separately to the WTCW by the Port. In addition, the parking management in the basement level garage is managed by the WTCS so is also excluded from the scope of this contract. Other responsibilities included in the property management contract are preparation of annual budgets, monthly financial reporting, monthly owners' reports, monthly collection of rents from tenants, and payment to all service providers. The cost breakdown below is estimated annual amounts.

Cost Breakdown This Request

Year 1 \$65,000

Year 2 \$68,000

Year 3 \$72,000

Year 4 \$76,000

Year 5 \$79,000

Year 6 \$83,000

Year 7 \$87,000

Total \$530,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Contract for a fixed 5-year term, as has been done historically.

Cost Implications: \$360,000

Pros:

- (1) The total cost to the Port and WTCW tenants is less than a 7-year term.
- (2) A fixed 5-year term provides certainty to the contract applicants, which could increase applicant interest. Applicants know what fees they will receive regardless of the quality of their performance.

Cons:

- (1) The contract value is less than a 7-year term, which could reduce applicant interest.
- (2) Addressing poor service quality is difficult with a longer fixed term. Service quality is a major concern because of the current nationwide labor shortage.

This is not the recommended alternative.

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Alternative 2 – Contract for a fixed 7-year term.

Cost Implications: \$530,000

Pros:

- (1) A fixed 7-year term provides certainty to the applicants, which could increase contract

applicant interest. Applicants know what fees they will earn regardless of the quality of their performance.

(2) Port staff's time spent on contracting efforts would be less frequent than with a 5-year term.

Cons:

(1) Total cost is higher than a 5-year term (but annual cost is the same).

(2) Less flexibility to address performance concerns with a longer fixed term. Service quality is a major concern because of the current nationwide labor shortage.

This is not the recommended alternative.

Alternative 3 – Contract for a 7-year term that is structured as a 2-year initial term plus 5 one-year extensions

Cost Implications: \$530,000

Pros:

(1) Provides the Port with the highest flexibility for reacting to the quality of service.

Service quality is a major concern because of the current nationwide labor shortage.

(2) If quality of service is good, a 7-year term will be achieved. Port staff's time spent on contracting efforts would be less frequent than with a 5-year term.

Cons:

(1) Cost is higher than a 5-year term.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate \$0 \$530,000 \$530,000

AUTHORIZATION

Previous authorizations 0 0 0

Current request for authorization 0 \$530,000 \$530,000

Total authorizations, including this request 0 \$530,000 \$530,000

Remaining amount to be authorized \$0 \$530,000 \$530,000

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Annual Budget Status and Source of Funds

Property management services are budgeted annually as a line item in the World Trade Center West operating budget. WTCW tenants pay their pro rata share of the WTCW operating expenses and costs are charged to the operating divisions.

Financial Analysis and Summary

Project cost for analysis \$530,000

Business Unit (BU) Portfolio Management

Effect on business performance Reduce the Net Operating Income by \$132,500 for a 7-(NOI after depreciation) year lease term, based on 75% occupancy rate.

IRR/NPV (if relevant) N/A

CPE Impact N/A

Future Revenues and Expenses (Total cost of ownership)

None

ADDITIONAL BACKGROUND

None

ATTACHMENTS TO THIS REQUEST

(1) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None

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