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COMMISSION

AGENDA MEMORANDUM Item No. 8e

ACTION ITEM Date of Meeting July 26, 2022

DATE : July 10, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Susie Archuleta, Real Estate Manager, Central Harbor

SUBJECT: Mad Anthony's Pier 66 Second Amendment to Lease

Amount of this request: \$0

Total estimated project cost: \$0

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute the Second Amendment to Lease with Mad Anthony's Pier 66 ("Anthony's"), substantially similar to the attached draft amendment. The First Amendment temporarily restructured the method for calculating Base Rent from June 2020 to May 2022. The Second Amendment would extend the First Amendment rent structure until April 2023 (the start of cruise season).

EXECUTIVE SUMMARY

Due to the significant economic impact of COVID-19 on the restaurant industry in general and Anthony's at Pier 66 specifically, in June 2020, Commission approved a First Amendment to Anthony's lease. That amendment temporarily restructured the base rent calculation for the period beginning June 1, 2020 and ending May 31, 2022 in order to provide financial relief to Anthony's.

Today, Anthony's business volumes continue to be negatively impacted by 1) the aftermath of the COVID-19 pandemic; 2) the ongoing construction along the Seattle Waterfront; and 3) labor shortages. Together, the impact to Anthony's business volumes is significant and has led to staff recommending an extension of the First Amendment terms. The proposed Second Amendment would set a new expiration date of April 30, 2023 (11 additional months) for the temporarily restructured base rent calculation.

JUSTIFICATION

Anthony's is a family-owned, local company that was established in 1969 and currently operates restaurants known for their excellent seafood in nineteen locations in Washington, Oregon and Idaho, including Anthony's Pier 66 and Chinook's Restaurant at Fishermen's Terminal. The Port

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of Seattle and Anthony's have both made significant investments in the building and operations of the Pier 66 restaurant. As an anchor tenant, the success of Anthony's restaurant reflects on the entire Pier 66 campus.

The COVID-19 pandemic wreaked havoc on retail tenants nationwide, requiring full shutdowns, allowing partial reopenings, and changing the requirements for conducting business every few months. Anthony's suffered serious financial hardship during that period, and ultimately Commission approved their First Amendment in June 2020 to help them weather the storm. The First Amendment temporarily restructured the base rent calculation for the period beginning June 1, 2020 and ending May 31, 2022 by: 1) temporarily removing the Minimum Rent requirement; and 2) increasing the percentage rent rate from 6.0% to 6.5%. Furthermore, from June 1, 2022 onward, it increased the percentage rent rate from 6.0% to 6.25%.

COVID-19-related restrictions on Washington's restaurant industry is easing somewhat in 2022, with the Governor ending vaccination requirements for entry into restaurants in February 2022 and then lifting indoor mask requirements in March 2022. Subsequently, Anthony's sales improved modestly but are still well behind pre-pandemic levels and not yet covering all operating costs. The well-publicized hiring challenges that restaurants in this region are suffering from unfortunately necessitates reducing the operating hours due to staffing shortages. This also negatively impacts Anthony's revenues and ability to cover their costs.

The ongoing construction along the Seattle waterfront continues to limit visitation and foot traffic, with visitors generally uncertain about traffic patterns, parking availability and which businesses are impacted. Finally, labor shortages have plagued all service industries, including restaurants. Difficulty hiring staff has led to Anthony's temporarily omitting its valet parking

service and hours of operation. Year-to-date through the month of June, 2022 revenue is 38% less than it was in 2019.

To ensure the long-term success of this key Pier 66 tenant, staff recommends providing additional time for Anthony's to recover via a Second Amendment to their lease. The Second Amendment would simply extend the length of time that Anthony's pays percentage-only rent as initiated by the First Amendment. This proposed 11-month extension would provide Anthony's with breathing room until April 30, 2023. This end date is tied to the beginning of the next cruise season and spring weather, both of which bring more foot traffic to Pier 66 than is seen during winter months.

Diversity in Contracting

There is no opportunity for WMBE participation as this is a request for an amendment to an existing lease agreement.

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DETAILS

Staff proposes the following Second Amendment temporary base rent calculation:

First Amendment Second Amendment

Minimum Rent None None

Percentage Rent Rate 6.50% 6.50%

Effective period June 1, 2020 – May 31, 2022 June 1, 2020 – April 30, 2023

Additionally, the Second Amendment provides a Percentage Rent Rate of 6.25% from May 1, 2023, onward (an increase compared to the 6.00% Percentage Rent Rate provided in the Basic Lease).

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Reject Anthony's request for additional temporary lease modification after the First Amendment expiration on May 31, 2022.

Cost Implications: None, unless tenant vacates the Pier 66 restaurant

Pros:

- (1) The Port receives more monthly rent in the short term
- (2) Administrative effort of processing a Second Amendment is avoided

Cons:

- (1) Increases the risk that Tenant fails financially
- (2) Increases the risk that Tenant vacates the restaurant
- (3) Increases the risk the Port will take legal action against a tenant who is still operating at another Port location (Fishermen's Terminal)

This is not the recommended alternative.

Alternative 2 – Shorten the Second Amendment effective period, using a December 31, 2022 expiration date (instead of April 30, 2023).

Cost Implications: None

Pros:

- (1) Tenant receives 7 additional months (Jun-Dec 2022), which could be enough to keep them afloat
- (2) Rent structure reverts to the original calculation earlier than in the recommended alternative, accelerating the Port's collection of higher monthly rents

Cons:

- (1) Reverts to the original, higher rent structure mid-winter which is the Tenant's slowest season and difficult for the Tenant to absorb

This is not the recommended alternative.

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Alternative 3 – Agree to extend the First Amendment terms until April 30, 2023

Cost Implications: None

Pros:

- (1) Provides a reasonable bridge to the next cruise season, since tenant receives 11 additional months of financial assistance (Jun 2022 – Apr 2023)
- (2) Strengthens the relationship between the Port and one of its' key Pier 66 tenants

Cons:

(1) Extends the period that the Port receives reduced rent

This is the recommended alternative.

FINANCIAL IMPLICATIONS There are no incremental costs to the Port for this request.

Financial Analysis and Summary

Project cost for analysis No incremental costs to the Port for this request

Business Unit (BU) Portfolio Management

Effect on business performance This second amended lease agreement will generate the (NOI after depreciation) Total Cash Flow of \$10,870,280 for the remainder of the lease term until December 31, 2041.

IRR/NPV (if relevant) Total Effective Rent: \$10,870,280, a decrease of \$240K and \$166K as compared to the first amendment and the current lease agreement respectively.

Discounted Effective Rent at 4.5%: \$6,555,255, a marginal NPV of (\$221K) and (\$301K) as compared to the first amendment and the current lease agreement respectively.

CPE Impact N/A

Future Revenues and Expenses (Total cost of ownership)

Future revenues will be generated based on lease rates and terms stated above in the Second Amendment.

ATTACHMENTS TO THIS REQUEST

(1) Draft Second Amendment to Lease

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

February 14, 1995 - Commission approved the Lease Agreement

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January 12, 2016 – Commission authorized reimbursement of costs related to the installation of heating and hot water systems necessitated by the termination of Seattle Steam service to the facility.

June 23, 2020 – Commission approved the First Amendment to Lease.

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