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COMMISSION

AGENDA MEMORANDUM Item No. 8d

ACTION ITEM Date of Meeting July 9, 2024

DATE: July 9, 2024

TO: Stephen P. Metruck, Executive Director

FROM: Kyra Lise, Director Real Estate Development

Dave McFadden, Managing Director, Economic Development Division

SUBJECT: Tract C Purchase and Des Moines Creek West Ground Lease Amendment

Amount of this request: \$700,000

Total estimated project cost: \$700,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to take all necessary steps and execute all purchase and sale documents, including the ground lease amendment. The Port of Seattle has negotiated, at fair market value, a purchase of a 19,881 Square Foot, underutilized and adjacent parcel from the City of Des Moines. This purchase will enhance accessibility and the overall developability of the Des Moines Creek West project.

EXECUTIVE SUMMARY

The property in question is made up of 1 parcel totaling 19,881 SF. The Parcel ("Parcel") is located at the intersection of South 216th Street and 20th Avenue South, just west of International Boulevard in the City of Des Moines. The Parcel was originally deeded over to the City of Des Moines as part of the Interlocal Agreement in 2014 which included several other land swaps due to the development of the Des Moines Creek Business Park immediately to the east of the Parcel. Now the Port of Seattle requires this parcel due to its strategic location for safe and easy access for commercial cargo trucks that will be entering and exiting the Des Moines Creek West development site. This site is being developed by the Port's ground lease tenant, The Panattoni Development Company, executing the ground lease between Panattoni and The Port of Seattle in August of 2022.

The Tract C site is currently vacant.

The Parcel was appraised by Kidder Mathews, using a highest and best use standard. The appraised value = \$690,000. A sales agreement was negotiated between the parties (the Port of Seattle and the City of Des Moines) based on this price. We are now requesting authorization

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from Commission to permit the Executive Director to execute the Purchase and Sale Agreement (PSA).

Development analyses show no financially viable scenarios for the Port to develop this Parcel (Tract C) as a standalone development, rather, its value is tied to the larger and adjacent Des Moines Creek West site.

Due to this purchase, the ground lease will need to be amended due to an increase in square footage, which in turn, equals an increase in lease revenues to the Port. Timelines for the developer are also clearly cited to guide a clear path to substantial completion for the developer to complete this light industrial, aviation supportive project on Port of Seattle owned land. Panattoni was founded in 1986 in Sacramento, California by Carl Panattoni. His son Adon serves as the CEO for Panattoni Development Company.

Panattoni is currently going through the SEPA process, has submitted all documentation and is in conversations with the City of Des Moines regarding the short platting of Tract C to meet development requirements.

JUSTIFICATION

The Port has procured and reviewed the appraisal and agrees that the valuation is consistent with fair market value.

The 2024 SEA Real Estate Strategic Plan directed port staff to purchase real property if the property adheres to the criteria derived from the strategic plan. The Port determined through this process that the Tract C Parcel is needed for development, and without it, the larger Des Moines Creek West development would not be possible.

Panattoni will abide by the City of Des Moines' tree-replacement regulations in the commercial

zone. If a significant tree was identified to be retained on approved plans, but removed during construction, then three trees will be planted in its place. There are currently no trees on the Tract C parcel.

Diversity in Contracting

Not Applicable as this is a property purchase.

DETAILS

Scope of Work

Execute conveyance documents and Lease Amendment.

Template revised June 27, 2019 (Diversity in Contracting).

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Schedule

Q3 2024

Activity

Sign Purchase and Sale Agreement and close on Tract C parcel 2024 Quarter 3

Amend Lease due to increase in square footage and lease revenue due 2024 Quarter 3 to purchase of Tract C

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do Nothing – Do not purchase Tract C.

Cost Implications: none / Save \$690,000

Pros:

- (1) The City of Des Moines quitclaims Tract C back to the Port in an effort to allow for the private drive, then the Port leases this parcel to Panattoni.
- (2) The City of Des Moines retains ownership and grants an easement to the Port so the Port can legally lease this parcel to Panattoni.
- (3) The City of Des Moines grants an easement directly to Panattoni and charges Panattoni for the use of Tract C.

Cons:

- (1) Missed opportunity to purchase property that aligns with SEA Strategic Real Estate Plan.
- (2) Missed opportunity for buying in a high demand market with no competition.
- (3) Missed opportunity to engage with seller that is ready to sell a property that we need.
- (4) Missed opportunity to maximize highest and best use as a developer in buying adjacent parcel.

This is not the recommended alternative.

Alternative 2 – Buy parcel Tract C

Cost Implications: \$690,000

Pros:

- (1) Preserves highest and best use as it is purchased by the adjacent property owner (Port of Seattle) which maximizes the site's footprint value.
- (2) Provides additional lease revenue from purchase of property that is otherwise non usable for Port purposes.
- (3) Tract C purchase remains contingent upon Panattoni receiving permits.

Cons:

- (1) Requires Port to buy existing property back that it once owned prior to the interlocal agreement with the City of Des Moines.

Template revised June 27, 2019 (Diversity in Contracting).

[Link]

https://portseattle.sharepoint.com/:w:/r/sites/CR/_layouts/15/Doc.aspx?sourcedoc=%7BB942D934-5F3D-4DCB-A788-AC5674B221B1%7D&file=Advice_Sheet_Previous_Actions.docx&action=default&mobileredirect=true

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(2) Subsequent leasing will require a reduction of existing port owned real estate available for on-site open storage

(3) Requires reduction of existing land available for lay down area for various port projects in the vicinity.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The Port will pay market value for the property purchase.

Site Area

Total Developable Site Area 19.8 acres

Building Area 402,380 SF

Des Moines Creek West Stabilized Annual Income \$3,575,048

NPV \$60,025,605

Cost Basis

Street improvement payment to Des Moines (2018) \$1,500,000

14-acre WSDOT Property Acquisition (July 2021) \$2,900,000

Predevelopment costs \$250,000

Tract C purchase (July 2024) \$690,000

Total Cost Basis \$5,340,000

IRR w/out Tract C 7.80%

IRR with Tract C 10.50%

Tract C Isolated Yield on Cost 11.30%

Total payback period (From stabilization) 18 months

ATTACHMENTS TO THIS REQUEST

(1) Lease Amendment 1

(2) Purchase and Sale Agreement

(3) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

July 12, 2022 – Approval of Ground Lease for Port Property in Des Moines, WA: Des Moines Creek West

Template revised June 27, 2019 (Diversity in Contracting).