

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5A
Date of Meeting December 1, 2020

DATE: November 20, 2020

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial Officer and Chief Strategy Officer

Project Manager: Mike Campagnaro, Director Real Estate
Curt Stoner, Sr. Manager Real Estate

SUBJECT: Associated Petroleum Products, Inc. Lease at Terminal 115

ACTION REQUESTED

As this is a straight-forward lease with an existing tenant, staff is requesting Managing Members waive two readings and authorize at this first reading, the Chief Executive Officer or their delegate to sign the Lease in substantially the same form as the attached Lease Exhibit with Associated Petroleum Products, Inc. to operate an automated commercial vehicle fueling facility at Terminal 115 to commence January 1, 2021 with an annual revenue of approximately \$145,000.00.

A. SYNOPSIS

Associated Petroleum Products, Inc. has been the tenant at Terminal 115 since March 14, 2014. The five-year lease went into holdover status on March 1, 2019 pending renegotiating new lease terms. The Premises consists of approximately 42,980 square feet of yard area and a 1,250 square foot building. In order to establish a fair market lease rate, NWSA hired SH&H Valuation and Consulting to appraise the facility and provide a determination of fair market rent for the subject property. SH&H concluded that a fair market rent range for the yard area was \$0.22 to \$0.26 per square foot per month. SH&H also concluded that a fair market rent range for the building was \$1.33 to \$1.50 per square foot per month.

B. BACKGROUND

The new lease consists of the following proposed terms:

Premises: 42,980 square feet of exclusive use ground area, a 1,250 square foot building and 1,859 square feet of common use sidewalk area.

Term: Five years commencing January 1, 2021 ending December 31, 2025.

Term Extension: Three each five-year extensions subject to the mutual agreement of the parties.

Rent: 42,980 square foot yard area at \$0.24 per square foot per month (\$10,315 per acre per month). 1,250 square foot building at \$1.40 per square foot per month. Subject to WA State Leasehold Excise Tax.

Rent Escalation: Rent will be escalated by CPI annually on January 1. Rent will be adjusted to Fair Market Rent at the end of the first and second five-year extensions.

Security Deposit: Six months' rent plus WA State Leasehold Excise Tax. Initial Security Deposit is \$81,686.

Permitted Use: Automated commercial vehicle fueling facility.

Maintenance: All maintenance and associated costs are the responsibility of Associated Petroleum Products.

Premises Security: Premises Security is the responsibility of Associated Petroleum Products.

Alterations & Improvements: NWSA has no obligation to make any alterations & improvements. Any Lessee alterations & improvements are subject to the NWSA Tenant Improvement Process.

Utilities & Taxes: Associated Petroleum Products is responsible for all utilities and taxes.

Insurance: General Liability \$5M, Business Auto \$2M, Pollution \$2M, Workers Comp per WA State Law.

Assignment: Associated Petroleum Products may assign the Lease to its corporate parent or wholly controlled subsidiaries upon 30-day notice to NWSA.

Subleasing: Associated Petroleum Products may sublease to the existing Subway restaurant and Portside Coffee via a separate Conditional Consent to Sublease Agreement.

Termination for Major Capital Improvement: NWSA may terminate the Lease for a major capital improvement upon one-year written notice to Associated Petroleum Products.

C. FINANCIAL IMPLICATIONS

Source of Funds

N/A

Financial Impact

Based on the market rate appraisal, negotiations have resulted in an annual revenue of approximately \$145,000, about \$43,000 higher than the amount included in the 2021 budget. The budget was based on a conservative increase of 2%.

D. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative**: Allow the current Lease to Terminate. Identify another fuel distribution tenant to lease the Premises or repurpose the Premises for another use.
- **Recommended Action**: Authorize the NWSA CEO to sign the new Lease with Associated Petroleum Products, Inc.

E. ENVIRONMENTAL IMPACTS / REVIEW

- The Premises have been the subject of environmental impairment first identified in the mid-90s. Subsequent investigations have revealed that there were most likely two separate events that released petroleum hydrocarbons at or near the Premises prior to Associated Petroleum Products, Inc. 2014 tenancy. A “Final Assessment of Prior Contamination Report” was produced by Environmental Associates in February 2015. As part of this new Lease, Associated Petroleum Products, Inc. has agreed to perform groundwater sampling at the Premises to determine if there have been any material changes to the contamination identified in 2015. Associated Petroleum Products, Inc. has been an excellent environmental steward of the Premises during their current tenancy.

- Storm Water Permit: NWSA will continue to hold the MS4 permit. Associated Petroleum Products, Inc. is responsible to submit a Storm Water Pollution Prevention Plan and perform all required source control and Best Management Practices.

F. ATTACHMENTS TO THIS REQUEST

- Draft Lease.
- Computer slide presentation.

G. PREVIOUS ACTIONS OR BRIEFINGS

None



Item No.: 5A

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Associated Petroleum Products, Inc. Lease at Terminal 115 First Reading

Presenter: Curt Stoner
Senior Real Estate Manager

Action Requested

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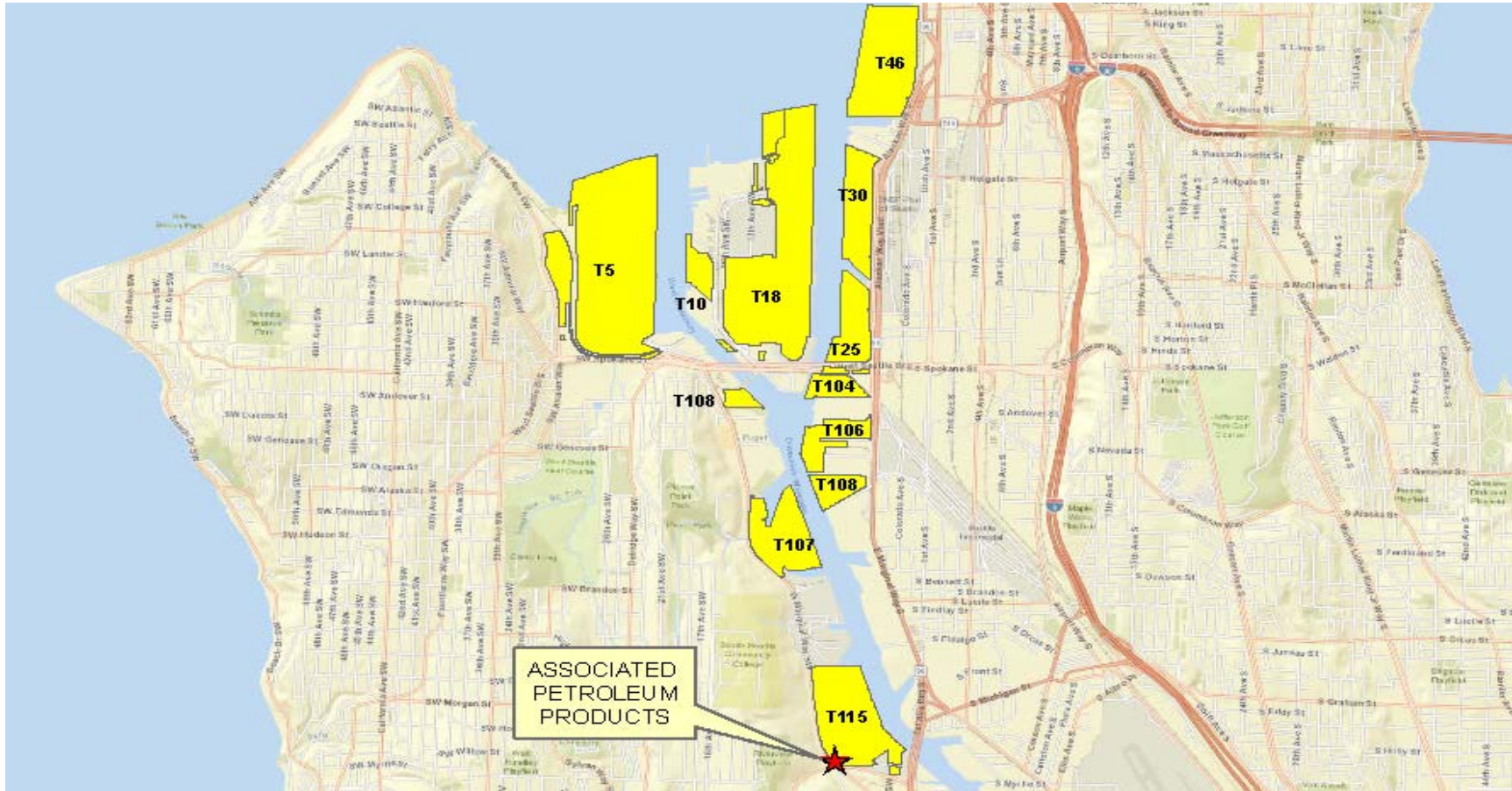


Background

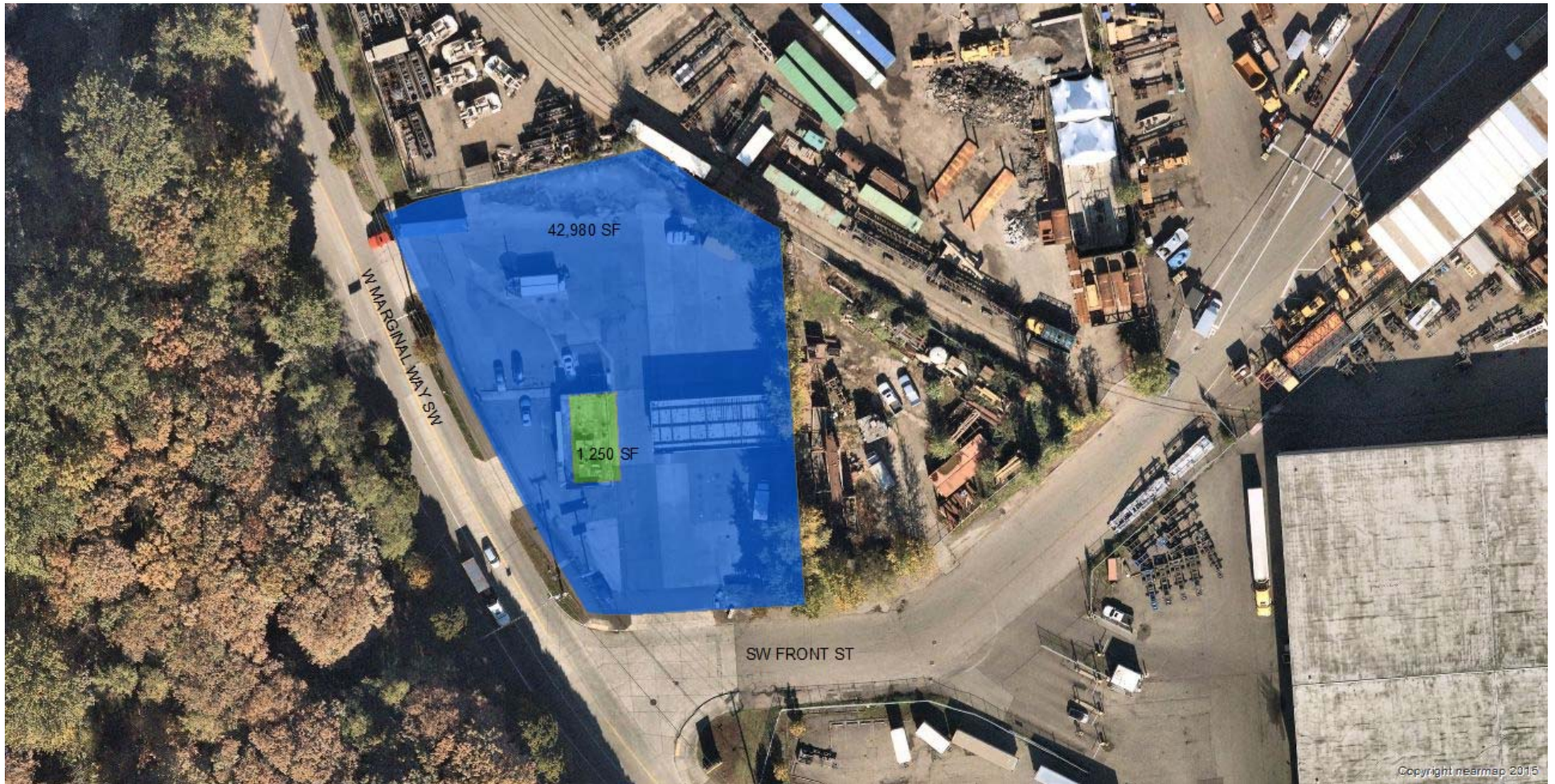
- Associated Petroleum Products, Inc. has been the tenant at Terminal 115 since March 2014.
- This lease renewal rate is based on a formal appraisal which established fair market rent as \$0.22 - \$0.26 s.f./month for the yard and \$1.33 - \$1.50 s.f./month for the building.



Parcel Location in the North Harbor



Parcel Layout



Parcel Layout



Proposed Lease Terms

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Proposed Lease Terms

- Security Deposit: Six months rent plus WA State Leasehold Excise Tax. Initial Security Deposit is \$81,686.
- Permitted Use: Automated commercial vehicle fueling facility.
- Maintenance: All maintenance and cost is the responsibility of Associated Petroleum Products.
- Premises Security: Premises Security is the responsibility of Associated Petroleum Products.
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Financial Implications

- Based on the market rate appraisal, negotiations have resulted in an annual revenue of approximately \$145,000, about \$43,000 higher than the amount included in the 2021 budget. The budget was based on a conservative increase of 2%.



Alternatives Considered and Their Implications

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Environmental Impacts / Review

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