

**THE NORTHWEST SEAPORT ALLIANCE**  
**MEMORANDUM**

**MANAGING MEMBERS**  
**ACTION ITEM**

<b>Item No.</b>	<u>9A</u>
<b>Date of Meeting</b>	<u>June 6, 2023</u>

**DATE:** April 21, 2023

**TO:** Managing Members

**FROM:** John Wolfe, CEO

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

**Project Manager:** Erin DeBroux, Sr. Real Estate Manager

**SUBJECT:** Nineteenth Amendment to Lease Between The Northwest Seaport Alliance and Lineage Seafreeze Leasehold RE, LLC at Terminal 115

**A. ACTION REQUESTED**

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to approve the Nineteenth Amendment to Lease Between The Northwest Seaport Alliance and Lineage Seafreeze Leasehold RE, LLC at Terminal 115.

**B. SYNOPSIS**

The Lineage lease was due for a Market Rate Adjustment for their ground lease at Terminal 115. The Market Rate Adjustment was initiated in a timely manner but extended due to the length of time to review and obtain an appraisal. The parties mutually agreed to extend the negotiation and came to resolution in April. The agreed upon rent will be billed back retroactively to January 1, 2023.

**C. BACKGROUND**

Lineage Seafreeze Leasehold RE, LLC ("Lineage") has been a long-time tenant since 1977 and provides processing and storage of refrigerated and frozen commodities, primarily seafood. Their lease commenced November 2, 1977 with the current term expiring November 22, 2027 with three (3) ten year Options to extend for a total of approximately thirty-five (35) years remaining. This lease is a ground lease, whereby Lineage improved the entire site inclusive of, but not limited to, the building structure(s), paving, fencing and lighting. The market rate adjustment was

due to be in effect January 1, 2023. The Market Rate Adjustment was initiated in a timely manner but extended due to the length of time to review comparable properties, current market conditions and obtain an appraisal. The parties mutually agreed to extend the negotiation and came to resolution in April. The agreed upon rent will be billed back retroactively to January 1, 2023. Additionally, the term has been extended from November 22, 2027 to December 31, 2027 to be concurrent with further annual increases and market rate adjustments.

Lineage's current rental rate is \$.17/sf/mo. Rent is for the ground, excluding all improvements. An appraisal was performed in which the current market value concluded a range of \$.38/sf/mo to \$.40/sf/mo. A step-up increase in rent is proposed to allow Lineage to absorb the increase predictably while bringing the rental rate within the market value range. Upon consideration of the appraised value and market rate trends over the past five years the proposed rates are \$.23/yr-1, \$.27/yr-2, \$.30/yr-3 reverting to an increase by CPI thereafter, not to exceed 5% in any given year. Staff acknowledges that the rates are lower than the appraised value but believe it is appropriate for the following reasons:

- Market rental rates over the past two years have been substantially higher than the more predictable increases prior to 2021. Seattle market rental rates for unimproved industrial yards from 2018 to 2020 were consistently \$.25/SF/Month. In comparison, rates from 2021 to 2022 ranged from \$.30/SF/Month to \$.40/SF/Month. Staff recommend establishing rental rates based upon the historical data prior to the higher increases seen during the past 24 months related to the marine cargo surge and other pandemic responses resulting in higher demands for close-in Seattle industrial properties.
- This parcel is 18.77-acres. Due to economies of scale, larger parcels typically see an adjustment downward in the market rate due to their size vs. more compact like-kind use properties.
- The lease provides for a market rental reset upon the 60<sup>th</sup> month of the lease term. Should recent trends prove to be standard and not an isolated event, lease rates will be reset accordingly.

The property includes 17,254.4 square feet of submerged lands, which is at the appraised rate of \$.03/sf/mo.

**Terms:**

<b>Term</b>	Extended from November 22, 2027 to December 31, 2027 to be concurrent with further annual increases and market rate adjustments.
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<b>Rent</b>	<p>The rent beginning retroactively January 1, 2023 shall be as follows:</p> <p>817,429.3 square feet of upland area:</p> <ul style="list-style-type: none"><li>• Year 1: \$2.76/sf/yr = \$2,256,104.87/yr = \$188,008.74/mo = \$.23/sf/mo</li><li>• Year 2: \$3.24/sf/yr = \$2,648,470.93/yr = \$220,705.91/mo = \$.27/sf/mo</li><li>• Year 3: \$3.60/sf/yr = \$2,942,745.48/yr = \$245,228.79/mo = \$.30/sf/mo</li></ul> <p>17,254.4 square feet of submerged area: \$.36/sf/yr = \$6,211.58/yr = \$517.63/mo = \$.03/sf/mo</p>
<b>Escalation</b>	Rent shall be increased by CPI starting January 1, 2026, not to exceed 5% in any given year.
<b>Security</b>	In accordance with the lease agreement the amount of the Security will be equal to 12-months rent equal to \$2,262,316.

#### **D. FINANCIAL IMPLICATIONS**

##### ***Financial Impact***

Assuming the three 10-year extensions are exercised the net present value of the increase in rental rates due to the proposed lease structure and market rate adjustment is \$17.9M. For 2023, revenue is expected to be approximately \$600,000 higher than the original budget.

#### **E. ATTACHMENTS TO THIS REQUEST**

- Executed 19<sup>th</sup> Amendment by Lineage
- PowerPoint Presentation