

Item No.: 9A

Date of Meeting: June 6, 2023

# Lineage Seafreeze 19th Amendment to Lease



**THE NORTHWEST**  
SEAPORT ALLIANCE

SEATTLE + TACOMA

Presenter Name: Erin DeBroux

Presenter Title: Sr. Real Estate Manager

# 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.



# Summary

- The purpose of the 19<sup>th</sup> Amendment is to address the Market Rate Adjustment for the ground lease with Lineage Seafreeze 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.

# Background

- Lineage has been a tenant since 1977 and provides processing and storage of refrigerated and frozen commodities, primarily seafood.
- The current term expires November 2027 and has three (3) ten-year Options to extend for a total of approximately 35-years remaining.
- Lineage's current rate is \$.17/sf/mo for the ground lease, excluding all improvements.
- An appraisal was performed and reported the market rates for a ground lease to be \$.38/sf/mo to \$.40/sf/mo. reflecting the current inflated rates which occurred over the past 24-months.

# Background

- 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 of:
  - Year 1: \$.23/sf/mo
  - Year 2: \$.27/sf/mo
  - Year 3: \$.30/sf/mo
  - Increase by CPI thereafter not to exceed 5%
- Staff acknowledges that the rates are lower than the appraised value but believe it is appropriate for the following reasons:
  - Seattle market rental rates for *unimproved* industrial yards from 2018 to 2020 were consistently \$.25/SF/Month and increased in 2021 and 2022 to \$.30/SF/Month to \$.40/SF/Month 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.

Term	Description
Term	Extended from November 22, 2027 to December 31, 2027 to be concurrent with further annual increases and market rate adjustments.
Rent	<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>
Escalation	Rent shall be increased by CPI starting January 1, 2026, not to exceed 5% in any given year.
Security	In accordance with the lease agreement the amount of the Security will be equal to 12-months rent equal to \$2,262,316.



# Financial Implications

- Assuming the three 10-year extensions are exercised, NPV 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.



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