

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

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

**Item No.** 5B  
**Date of Meeting** December 3, 2019

**DATE:** November 22, 2019

**TO:** Managing Members

**FROM:** John Wolfe, CEO

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

**Project Manager:** Mike Campagnaro, Director Alliance Real Estate  
Jennifer Maietta, Sr. Real Estate Manager

**SUBJECT:** United Parcel Service, Inc. Lease at Terminal 25S – Seattle Harbor

**A. ACTION REQUESTED**

Request Managing Members of The Northwest Seaport Alliance (NWSA) grant authorization for the Chief Executive Officer or his delegate to execute a five (5) year lease with United Parcel Service, Inc. (“UPS”) for the premises at Terminal 25 South in the Seattle Harbor.

**B. SYNOPSIS**

This is a 5-year term lease renewal for a 190,081 square foot (4.36 acre) parcel located at Terminal 25 South with the Lessor’s exclusive right to terminate upon 180-day prior notification to Lessee. The proposed rent reflects the current Market Rate and is leased at \$.35 psf/mo or \$4.20 psf/yr and will escalate annually by a flat rate of 3%. The commencement date and rent will commence retroactively to October 1, 2019. The Premises is offered on an “as is” basis.

**C. BACKGROUND**

UPS, a multi-billion-dollar package delivery company, specializes in global transportation and logistics services. UPS has been a tenant at Terminal 25 South since September 15, 2014 using the premises for the purposes of parking, storing, staging and dispatching trailers, containers, chassis and tractors supporting the marine cargo industry. The current UPS 5-year term lease was placed into a month-to-month hold over status as of September 30, 2019 during lease negotiations.

The Premises is located within an area in which Market Rates have markedly increased due to industrial lands becoming scarcer as a result of surrounding changes in use and development. UPS is currently leasing the premises at \$.23 psf/mo. Market Rates according to the Q2 Kidder Matthews Industrial Market Trends for Seattle Industrial properties give a range of \$.25 to \$.35 per square foot per month for unimproved to improved moving south to north towards downtown. Recent appraisals of three industrial NWSA managed properties are consistent with this range. Of these, the best comparable is Terminal 10, which appraised at \$.32 to \$.34 psf/mo.

This improved portion of Terminal 25 South should be leased at a higher rate than Terminal 10 rate because the irregular shape of Terminal 10 hinders the use of portions of its yard. Terminal 25 South is located at E Marginal Way and Spokane St. in close proximity to Terminals 18, 30 and 46; is improved with paving, fencing and lighting, and has direct access to the I-5 corridor. The negotiated lease rate for this parcel located on Terminal 25 South reflects a \$.35 psf/mo Market Rate.

The prior lease includes a termination clause, in which the Lessor could terminate upon 180 days prior notification provided that the actual termination date would not occur between the months of November through January during UPS's busy season. Because of the changing real estate environment and in order to keep the property liquid for NWSA purposes, the proposed lease removes the busy season window and reserves the Lessor's exclusive right to termination with 180 days prior notification.

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

The proposed lease does not require funding and is a lease renewal. The rental rate has had a Market rate adjustment from \$.23 psf/mo to \$.35 psf/mo. The current base rent per square foot per year is \$524,624 and the proposed base rent per square foot per year is \$798,340 resulting in a 34% increase in the amount of \$273,716. The rent will escalate at a flat rate of 3% annually. The Lessee is responsible for all other monthly utility and maintenance charges associated with the Premises.

The security deposit is in the amount of \$900,847 equal to twelve (12) month's base rent plus Leasehold Excise Tax (12.84%).

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

The 2020 budget assumed a 2% CPI increase in current lease revenue. The proposed lease will provide approximately \$274,857 over budgeted revenue in 2020.

Operating Income over the five-year term is \$4,303,759 or \$3,186,764 NPV discounted at 8.4%.

**E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS**

- **No Action Alternative:** Do not lease to UPS and have the lease premises vacant for several months while it is leased and may not find as financially stable Lessee as UPS.
- **Recommended Action:** Approve the 5-year term lease agreement with UPS retroactive to October 1, 2019, continuing to bring in consistent revenue at Market Rates for the property by financially stable Lessee.

**F. ENVIRONMENTAL IMPACTS / REVIEW**

**Stormwater:** Lessee shall apply for and hold as permittee any required permits and shall comply with all applicable requirements of all Stormwater Regulations, including implementing and performing best management practices (“BMPs”) and writing and managing to a Stormwater Pollution Prevention plan, a copy of which lessee shall file with the Port of Seattle stormwater program manager.

**G. ATTACHMENTS TO THIS REQUEST**

- Copy of the “Final Draft” Lease by and between the Northwest Seaport Alliance and United Parcel Service, Inc., to be fully executed by UPS with NWSA execution pending Managing Member approval.
- Computer Slide Presentation

**H. PREVIOUS ACTIONS OR BRIEFINGS**

September 15, 2014: Authorization to execute 5-year term lease by and between the Port of Seattle and United Parcel Service, Inc.

January 7, 2019: Executed First Amendment to Lease reducing the premises by 4,099 square foot to 190,081 square feet to coincide with a property survey completed by the Port, effective September 15, 2014.