

COMMISSION AGENDA

Item No: 4C

Meeting: 04/19/18

DATE: April 4, 2018

TO: Port Commission

FROM: John Wolfe, Chief Executive Officer
Sponsor: Tong Zhu, Chief Commercial Officer & Chief Strategy Officer
Project Manager: Scott Francis, Director, Real Estate

SUBJECT: Second Reading: Avenue 55, LLC Lease – 3402 Lincoln Avenue

A. ACTION REQUESTED

SECOND READING/ADOPTION: Authorize Chief Executive Officer or his designee to enter into a 50-year lease with a 25-year extension option with Avenue 55, LLC for the Premises located at 3402 Lincoln Avenue, Tacoma, WA.

B. BACKGROUND

On November 1, 2016, Avenue 55, LLC entered a 50-year lease for the Port properties located at 1514 Taylor Way and 3401 Lincoln Ave. The combined area of these parcels is approximately 19.7 acres. Avenue 55 is scheduled to start construction in the next two months on a three-building industrial development called “Portside 55” that will add about 423,940 square feet of warehouse space to the tide flats.

To support the Portside 55 development, Avenue 55 would like to lease the seven-acre parcel at 3402 Lincoln. This will allow maximum development at Portside 55. In the future, a building (multiple use, service center or a small warehouse) may be constructed on this site.

- This 7.13-acre parcel was purchased in 2007 for \$2,860,000.
- The property was purchased as part of the Blair-Hylebos terminal development project and was to be used for “non-terminal” infrastructure. The purchase was made at a time of high property prices.
- A rail easement exists on the site to provide rail service to an adjacent property owner.

C. PRIMARY LEASE TERMS

- Lease Effective date estimated at May 1, 2018.
- Fifty (50) year lease with one twenty-five (25) year lease extension.
- Rent at \$0.06/SF plus leasehold excise tax.
- Deposit is \$55,000.
- Due diligence period is 180-days with three 30-day extensions.
- Rent Commencement is at earlier of start of construction or May 1, 2019.

- Rents escalate by CPI not to exceed 3% per year.
- Rents reset to market at approximate 15-year intervals.
- Security deposit is one-year's rent plus leasehold excise tax.
- Insurance coverage
 - \$2 Million general liability
 - \$2 Million auto liability
 - \$2 Million pollution liability
- All utilities are Lessee's responsibility.
- All building and site maintenance is the responsibility of Lessee.

D. TIMEFRAME/PROJECT SCHEDULE (TENTATIVE)

First Reading	February 22, 2018
Second Reading	April 19, 2018
Lease Effective Date	May 1, 2018
Due Diligence Completion	January 2019
Rent Commencement / Construction	Spring 2019

E. FINANCIAL SUMMARY

- Revenues estimated at \$18,635/mo. and \$223,620/yr.
- New warehouse facilities are expected to generate new rail and container business that support Port's core business.
- Assuming that the property was purchased today at the original cost, the payback period would be 13 years and would result in a return below the Port's 10% target. Given the long-term outlook for container terminal over-capacity, this agreement will generate long-term cash with minimal capital costs and supports maritime cargo activity.

F. ECONOMIC INVESTMENT / JOB CREATION

- New jobs generated during construction.
- The warehouse facility will create dozens of new long-term jobs.
- This lease will support the Port's core container business and complies with the Port's Strategic Plan.
- Utilization of a non-performing Port asset at 3402 Lincoln.

G. ENVIRONMENTAL IMPACTS / REVIEW

No known environmental issues.

H. NEXT STEPS

Upon Commission approval of the Requested Action, the Chief Executive Officer or his designee will enter into the Lease which will commence on or about May 1, 2018.

cc: Tong Zhu