

COMMISSION AGENDA

Item No: 5C

Meeting: 10/17/19

DATE: October 2, 2019

TO: Port Commission

FROM: Eric Johnson, Executive Director
Sponsor: Tong Zhu, Chief Commercial Officer & Chief Strategy Officer
Project Manager: Scott Francis, Director, Real Estate, Port of Tacoma

SUBJECT: Purchase and Sale Agreement for Buildings at 2602/08 Port of Tacoma Road and Long-term Ground Lease of land at 2602/08 Port of Tacoma Road

A. ACTION REQUESTED

SECOND READING/ADOPTION: Request Commission approval/authorization for the following:

- Approve the Purchase and Sale Agreement with Prologis to sell the buildings located at 2602 and 2608 Port of Tacoma Road, Tacoma, WA, and authorize the Executive Director or his designee to execute any and all additional documents and take any and all additional actions necessary or required in connection with the completion of this building sale; and
- Authorize the Executive Director or his designee to enter into a 50-year lease with a 25-year extension option with Prologis for the approximately 14.2-acre premises located at 2602 and 2608 Port of Tacoma Road, Tacoma, WA (a portion of tax parcel 0320021002) and authorize the Executive Director or his designee to execute any and all additional documents and take any and all additional actions necessary or required in connection with the completion of this land lease.

B. BACKGROUND

- The two warehouses located at 2602/08 Port of Tacoma Road were built about 1967.
- These two warehouses total about 204,800 square feet and have been leased to PCC Logistics on a month to month lease since April 2014.
- In this Lease, the Port is responsible to repair and maintain the building roofs and gutters, outside walls, primary utility systems, the foundations and the fire suppression system.
- In 2018, the Port hired Helix Design to complete a Building Condition Assessment. This report identified the following:
 - Much of the siding on both buildings has penetrations and should be replaced.
 - Both roofs are starting to leak and need to be replaced.
 - The sprinkler heads have reached their life span and should be replaced.
 - Gutters and downspouts need to be replaced.
 - Most canopies are in poor condition and need to be replaced.
 - Building repairs were estimated in the range of \$10M to \$12.5M.
- Building maintenance and repair costs have escalated in recent years.
- PCC Logistics operates a freezer facility and handles large volumes of food products including: beef, pork, chicken, fish, crab and animal feed. This use requires a tight moisture free environment. This use is at risk if the building envelope is not properly maintained.

- On March 21, 2019, the Port Commission declared the two buildings located at 2602 and 2608 Port of Tacoma Road as surplus property by Resolution 2019-05-PT.
- The identified building capital improvements and repairs were not included in the 2019 budget and are not included in the proposed 2020 budget.

C. PURCHASE AND SALE TERMS - BUILDINGS

- Sale Price: \$2,500,000 in As-Is Condition.
- Earnest Money: \$250,000 (refundable during inspection period).
- Broker Commission: Port has no commission obligation.
- Closing Fees: Normal closing fees.
- Maintenance: Buyer responsible for all future building maintenance/repairs.
- Special Provisions:
 - 1) Buyer agrees to use Port Maintenance at normal billable rates for required preventive and corrective maintenance items up to 700/hrs. per year during the lease of existing buildings,
 - 2) Buyer will enter into a buildings and yard space lease with PCC Logistics for a five-year lease term with a five-year lease extension option, and
 - 3) Building sale is conditioned on execution of the land lease.

D. LAND LEASE TERMS

- Lease Premises: Approximately 14.2 acres.
- Use: General warehouse, ancillary office and/or storage yard.
- Lease Effective Date: November 1, 2019.
- Inspection Period: 90-days with a 90-day extension.
- Lease Term: 50-years with one 25-year extension.
- Rent: \$49,484/month (\$593,808/yr.) plus leasehold excise tax.
- Rent Escalation: Based on CPI-U, applied every 5-years (capped 0%-3% per year).
- Rent Reset to Market: Applied in years 16, 31 and 51 (capped at a compounded rate of 3%/yr. for full lease term).
- Security Deposit: \$670,053 (one year's rent + excise tax).
- Insurance Requirements: \$2M General Liability and Pollution Liability; \$1M Auto.
- Maintenance Responsibility: Tenant is responsible for all maintenance and repairs.
- Special Provision: Land lease is conditioned on the sale of the buildings.

E. TIMEFRAME/PROJECT SCHEDULE

September 26, 2019	First Reading at Commission Meeting.
October 17, 2019	Second Reading and Commission Action.
November 1, 2019	Lease and Inspection Period commencement.
May 1, 2020	End of 90-day Inspection Period + 90-day extension.
June 1, 2020	Rent Commencement Date; Closing of building sale.

F. BENEFITS OF PURCHASE & SALE/LAND LEASE

- Selling the buildings to Prologis relieves the Port from making an estimated \$12.5M capital improvement in the buildings to repair the roof, siding, awnings, gutters, downspouts and other requirements as required by the current lease.
- The current tenant, PCC Logistics, will continue to lease the buildings from Prologis for five-years with an option to extend for an additional five-years.
 - PCC loads/unloads about 600 containers and 100 railcars per month.
 - PCC employs 30-50 people at this location.
 - Eventually, Prologis will construct a new warehouse on this property that will provide a long-term income stream and support the Port's strategic plan by providing terminal support warehousing activity on this property.

G. FINANCIAL SUMMARY

The sale of the buildings will result in an approximate gain of \$2 million dollars. Future budgeted rent revenue will be reduced to reflect the new land only lease.

H. ALTERNATIVES ANALYSIS/FINANCIAL IMPACT

1. Port retains buildings and funds repairs - If the Port makes the required capital investment in the buildings and continues to lease the buildings, the NPV of the anticipated net rent income stream for 20-years is (\$1,912,428). This return may be considerably lower if additional repairs are required in the buildings, yard areas or site utilities servicing buildings. Thus, a (\$1,912,428) NPV is likely a best-case scenario.
2. Port sells the buildings and the new owner invests in building improvements and repairs - The proposed sale of the buildings and land lease to Prologis produces a NPV of \$8,299,917 for the 20-year net rent income stream. This income stream is much more dependable and requires no capital investment from the Port. It also creates a 50-year lease with no vacancy. The continued use of this facility as a warehouse facility further benefits the Port's core business.

I. ECONOMIC INVESTMENT / JOB CREATION

Currently, there are 30-50 employees working in this building. The continued operation at this site also contributes to local trucking jobs, rail related positions and the Port's core business of moving international and domestic cargo through the NWSA.

J. NEXT STEPS

Upon Commission approval, the Executive Director will execute both the Purchase and Sale Agreement for the buildings and the Lease Agreement for the land located at 2602 and 2608 Port of Tacoma Road.