

Item No.: 5C
Date of Meeting: October 17, 2019

Second Reading: 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

Presenter:

Scott Francis
Director, Real Estate
Port of Tacoma



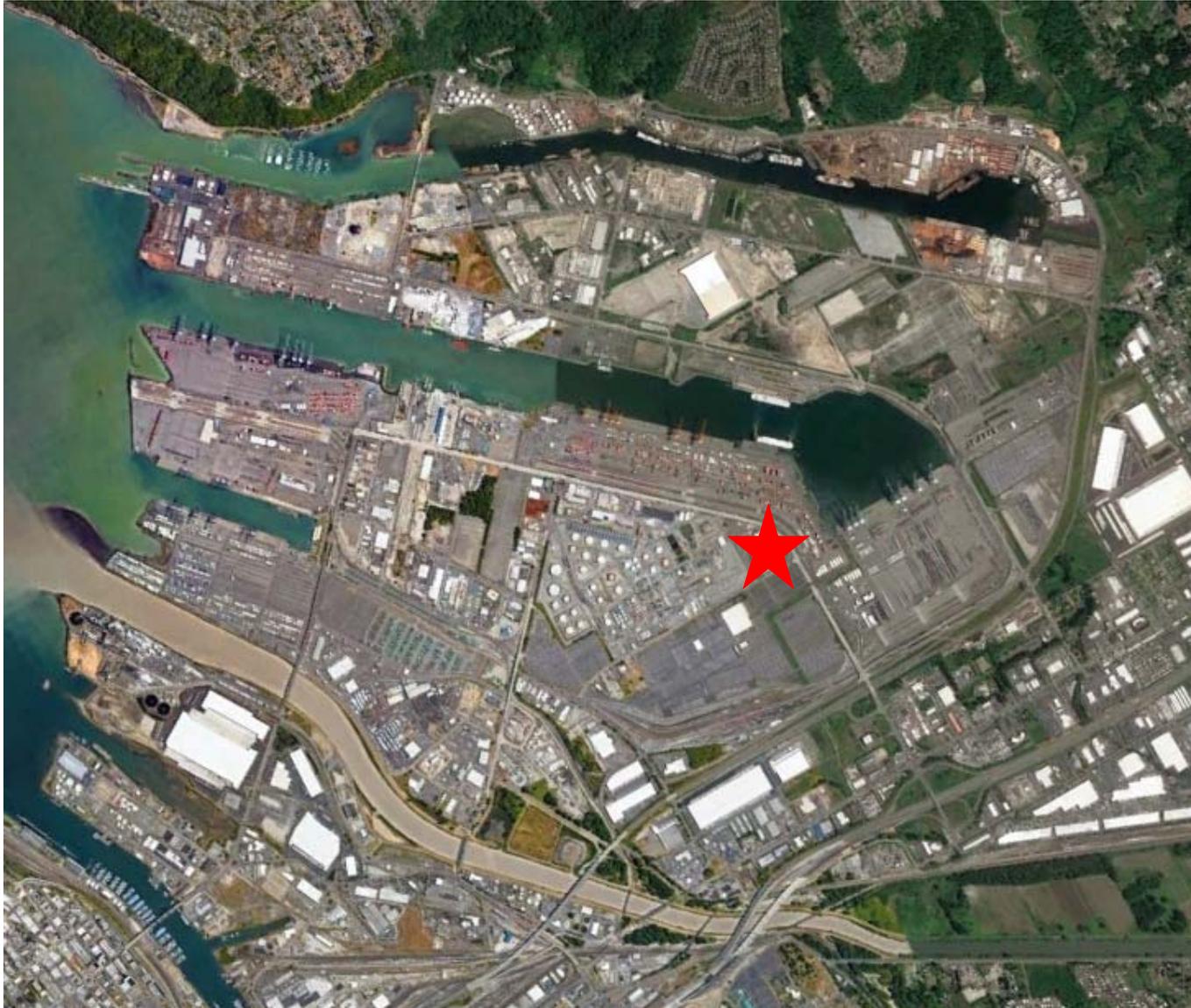
Action Request



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.

2602 & 2608 Port of Tacoma Rd.



2602 & 2608 Port of Tacoma Rd.



2602 & 2608 Port of Tacoma Rd.



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 include about 6,170 square feet of office space.
- PCC Logistics has leased this property on a month to month lease since April 2014.
- In this Lease, the Port is responsible to repair and maintain the building roofs, gutters, outside walls, primary utility systems, foundations and the fire suppression systems.

Background Continued



- 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 at about \$12.5M.
- Building maintenance and repair costs have escalated in recent years.

Background Continued



- PCC Logistics operates a freezer facility in one building where they handle 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.

Alternative Analysis



1. Port invests \$12.5M in the required building capital improvements and continues to lease the buildings
 - Improvements will extend the building life an estimated 20-years.
 - The NPV of the anticipated 20-year net rent income = **(\$1,900,000)**.
2. Port retains ownership and partners with PCC Logistics to share cost of improvements and share in future maintenance responsibilities.
 - The unknown repair liabilities are too great.
 - This option does not work well with PCC's lease term limit of 5-10 years.

Alternative Analysis Continued



3. Port sells the buildings and leases the land to a developer.
 - This option requires no capital outlay from the Port.
 - Developer has commitment for financial performance.
 - The NPV of 20-year net income stream = \$8,300,000.
 - This option creates a 50-year income stream for this property.

Recommended Alternative: Port Sells Buildings and Leases Land

- Highest NPV (\$10,200,000 greater than Option 1)
- Most dependable numbers / lowest financial risk to Port.
- Creates a 50-year income stream for property.
- A new warehouse will eventually be built with no cost to Port.
 - Supports the Port's strategic plan for this property.
 - Supports the Port's core business.

PSA Terms – Buildings Only (land not included)



- 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 is responsible for all future building maintenance and repairs.
- Special Provisions:
 - 1) Buyer agrees to use Port Maintenance at billable rates for required preventive and corrective maintenance items up to 700 hours 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.
 - 3) Building sale is conditioned on execution of the land lease.

Land Lease Terms



- Lease Premises: Approximately 14.2 acres.
- Use: General warehouse, ancillary office and storage yard.
- Lease Effective Date: Approximately November 1, 2019.
- Inspection Period: 90-days with 90-day extension.
- Lease Term: 50-years with one 25-year extension.
- Rent: Approximately \$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).

Land Lease Terms Continued



- 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, \$2M Pollution Liability and \$1M Auto coverage.
- Maintenance Responsibility: Tenant is responsible for all maintenance and repairs.
- Special Provision: Land lease is conditioned on sale of buildings.

Benefits of PSA and Land Lease



- The building sale relieves the Port from making an estimated \$12.5M capital improvement in the buildings to repair the roof, siding, awnings, gutters, downspouts and all other repairs as required by the current lease.
- 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.
- The sale of the buildings will result in an approximate gain of \$2,000,000.

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.

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