

Item #: 6F

Date: 5/23/2023

Lease Termination

4012 SR 509 N Frontage Road

Gloria Fletcher, Sr. Manager, Real Estate & Economic Development

Port of Tacoma Special Commission Meeting

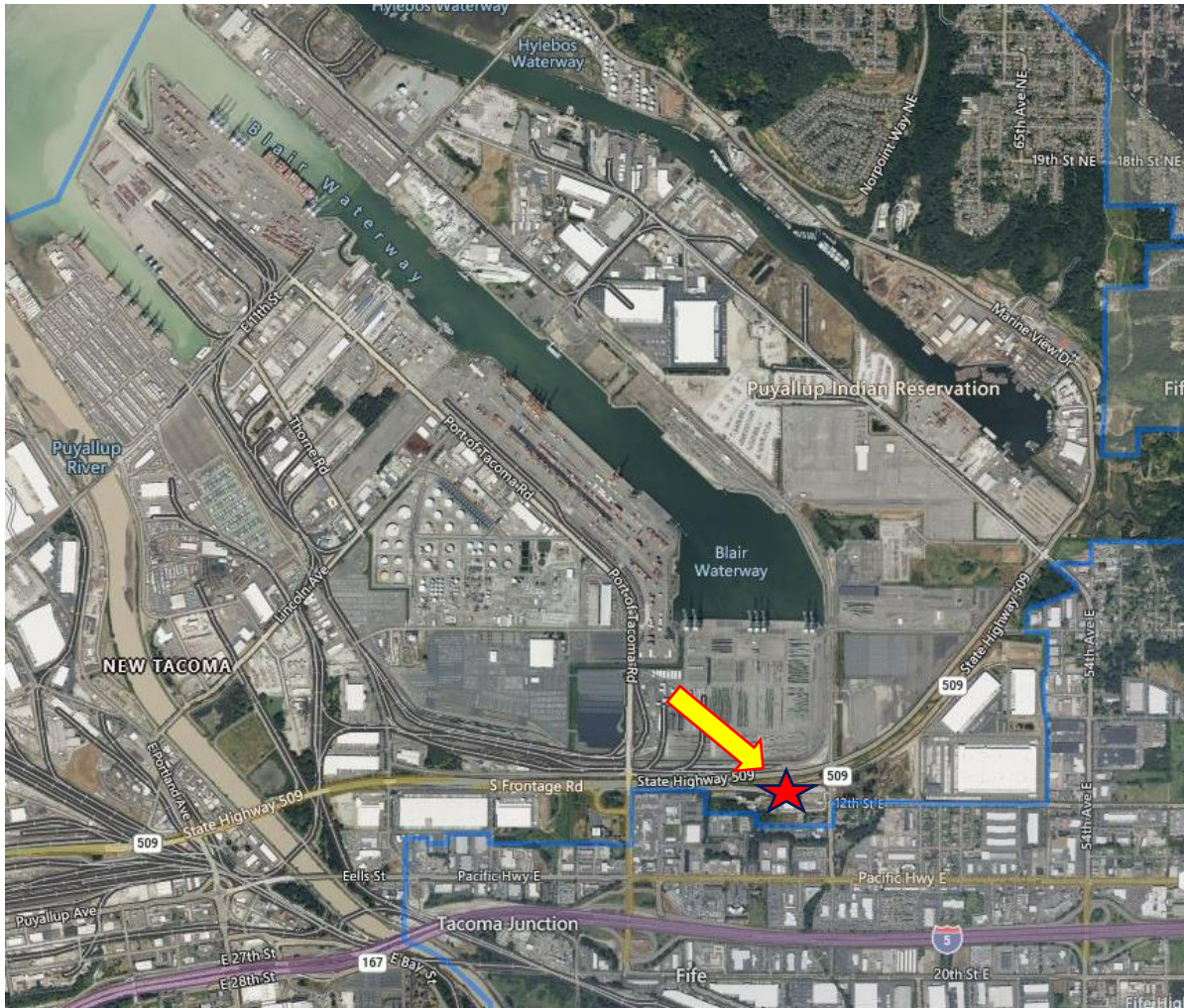
May 23, 2023



Action Requested

Authorize the Executive Director or his designee to enter into a termination agreement for an existing lease with Progress Rail Services Corporation for the premises located at 4012 SR509 North Frontage Road, Tacoma, Washington, effective August 1, 2023.

Location – 4012 SR509 N Frontage Road



- Located at intersection of SR 509 & Alexander
- Property: 19.75 acres
- Leased Premises: 13.98 acres
- Primary Vehicular Access from Alexander
- Rail Access across SR 509 via easement

Premises – 4012 SR 509 N Frontage Road



- The Port of Tacoma currently leases 13.98 acres of land, 3 major shop/warehouse buildings, a locomotive washing facility, appurtenant storage facilities and railroad infrastructure to Progress Rail Corporation.
- The original lease was signed in 1996 by Coast Engine and Equipment Corporation (“Coast”). Two of the major buildings were constructed by the original lessor.
- In 2009 the Port of Tacoma authorized assignment of this lease from Coast to Progress Rail Services Corporation (“Progress Rail”). The lease is scheduled to terminate on December 31, 2029.

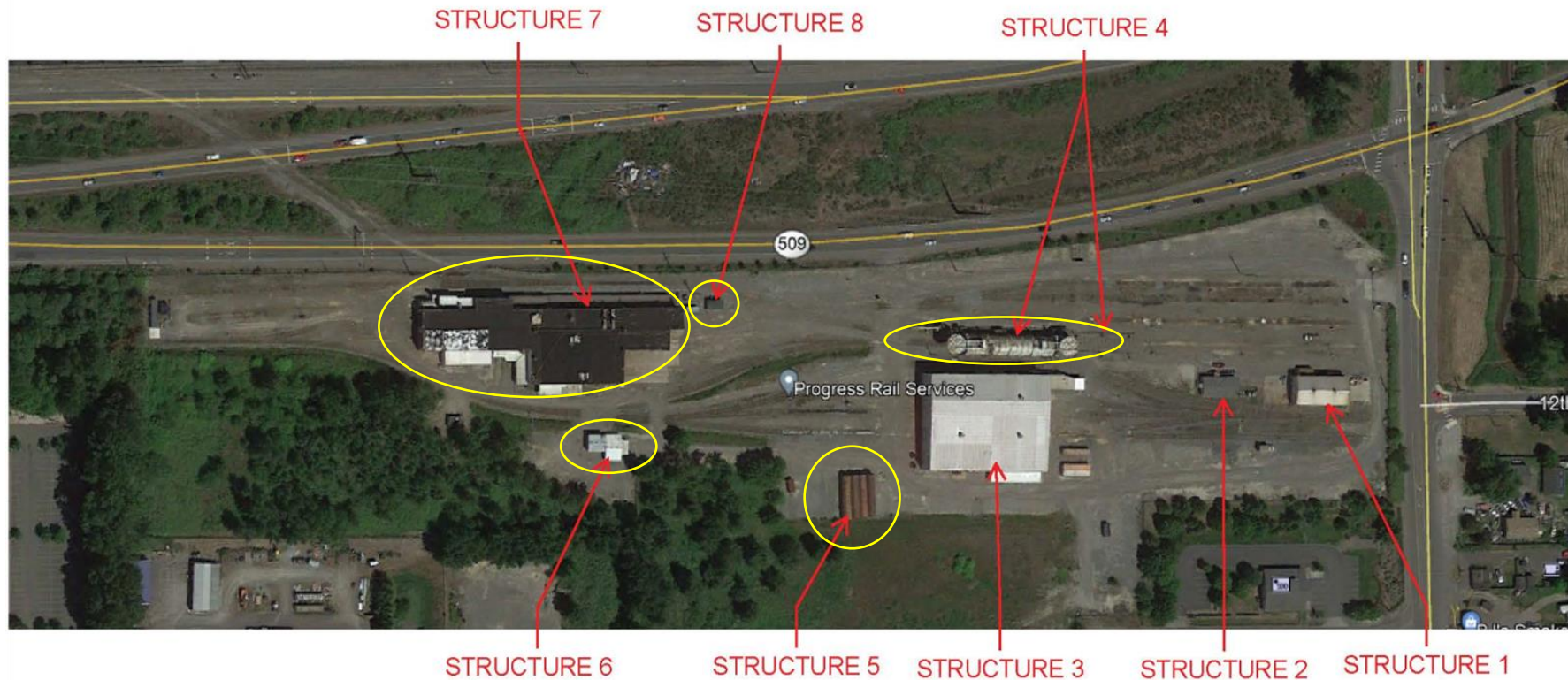
Background (Continued)

- The property has been used for fabrication, supply, repair, and maintenance of railroad locomotive and transit system parts and products.
- Progress Rail discontinued operations at this facility and has participated in the Washington State Department of Ecology's Voluntary Cleanup Program to address potential Hazardous Waste Substances on the Premises. Washington State granted a "No Further Action" Letter on December 2, 2022 for the Premises.
- Progress Rail has requested termination of their Lease since they have no operational need for the Premises.

Financial Impacts

- The current monthly lease rate is \$34,919, approximately \$2,500 per acre. The lease provides for rent increases of 7.5% every 3 years, with the next adjustment due on January 1, 2025.
- The negotiated lease termination fee is \$1,700,000 which is based upon the estimated cost of removing the structures that are at the end of their economic life. Three of the structures, totaling approximately 45,000 square feet, will remain on the property.
- Current market rent is estimated to range from \$6,000 to \$7,500 per acre, without considering the usable buildings. The Real Estate team will begin preparations to market the property upon approval of this request.

Structures – 4012 SR509 N Frontage Road



Structures to be Demolished*:

- #4: 6,000 SF
- #5: 3,200 SF
- #6: 1,600 SF
- #7: 30,000 SF
- #8: 300 SF

* Approximate
Square Footage

Termination Agreement Highlights

- **Termination Date:** August 1, 2023
 - Allows time for Port of Tacoma staff to inspect property and coordinate move-out with Progress Rail.
 - Allows time to prepare for market exposure and to develop short, mid, and long-range plans for the property.
- **Termination Fee:** \$1,700,000 cash upon termination. There is no requirement to initiate demolition project.
- **Environmental Liability:** The indemnification provision contained in the lease will survive the lease termination, ensuring that Progress Rail and its successors will remain liable for any environmental issues related to the use of the Premises during the entire Lease term.

The Termination Agreement contains terms that obligate Progress Rail or its successors to remain liable for any environmental conditions that are subsequently discovered on the Premises and related to the Lease.

Action Requested

Authorize the Executive Director or his designee to enter into a termination agreement for an existing lease with Progress Rail Services Corporation for the premises located at 4012 SR 509 North Frontage Road, Tacoma, Washington, effective August 1, 2023.

Questions & Discussion



Gloria Fletcher
Sr. Manager, Real Estate & Economic Development
gletcher@portoftacoma.com