
DATE: November 29, 2024

TO: Port of Tacoma Commission

FROM: Eric Johnson, Executive Director
Sponsor: Alisa Praskovich, Chief Strategic Projects & Commission Relations
Project Manager: Debbie Shepack, Sr. Director Real Estate

SUBJECT: REAL ESTATE DEPARTMENT ANNUAL UPDATE

A. BRIEFING PURPOSE

In accordance with the Port of Tacoma’s Master Policy, on December 17, 2024, the Real Estate Department will present their annual update to the Commission. Topics include: a Port of Tacoma real estate market update including a discussion on market rental rates, an overview of the department’s 2024 accomplishments and leases executed, and a discussion of current and future projects as we look ahead to the next few years towards redevelopment of our currently vacant, environmentally contaminated properties.

Strategic Plan Initiatives: EV-1, EV-2, EV-3, OS-2, TA-1, CC-1

B. BACKGROUND

In accordance with the Master Policy, a public briefing on available properties and the Real Estate Department’s marketing strategies as well as a summary of new leases executed and public interest in available properties is required at least once per year. This briefing is typically provided at the end of each year so that the Port’s Real Estate Department can provide a full briefing to the Commission on the topics stated above as well as the expected projects for the new year and forecasted market trends.

C. 2024 HIGHLIGHTS AND EXECUTED LEASES

The market for industrial lands and commercial warehouse space remained strong throughout 2024 and the Port’s Real Estate team held a near 100% occupancy of its industrial land properties. Demands are anticipated to remain strong for the coming year. Demand for office space in the Fabulich Center has seen a decrease in 2024 with vacancies on the 4th floor of the building. Staff continues its active marketing efforts to find a suitable tenant to occupy the space.

Real Estate staff in coordination with the Maintenance Department repurposed the former Progress Rail site, adjacent to SR 509 which included railroad/tie removal, landscaping, graveling

and leveling of the site and restoration of electrical poles. In partnership with the NWSA, eight acres were leased on a month-to-month basis to Keen Transport Inc., for break-bulk purposes.

Also, in coordination with our Maintenance Department, Port staff successfully implemented a building inspection program which encompassed a total of 20 Port-owned properties inspected by trade-specific professionals. The goal of these inspections is to enhance our maintenance strategies and make decisions on future preventative maintenance activities. The average age of the Port's buildings is 50-years old, with the oldest building being built in 1932 (EBC) and the newest being built in 1998 (Spectra Labs building). The building assessment indicates that overall, the Port-owned buildings are generally in good condition. While the Port acknowledges the presence of deferred maintenance across our portfolio, the overall stability of the buildings remains intact.

In 2024, 17 new leases were executed. Of those 17, two were acquired from property acquisitions, three were with established Port tenants moving to a different space, and twelve were with new Port tenants. Also in 2024, we executed eight lease amendments. Of those eight amendments, four were to extend the term of the lease, one was for a tenant to expand their leasehold, and three were for tenants decreasing their leasehold. We also executed three interlocal agreements with NWSA. One for EB1, one for 1701 Port of Tacoma Rd & 2302 Ross Way, and another for 4012 SR 509 S Frontage Rd (Progress Rail).

Additionally, Port Real Estate Staff accomplished the following:

1. In support of WSDOT State Route 167 project, Real Estate Staff worked to grant/finalize two TPU utility easements.
2. Execution of the Right of Way Occupancy Permit which memorialized the terms and conditions of the 11th Street "Viaduct Property", allowing the NWSA customer to park containers and chassis storage.
3. Short-term leasing of the Thorne Road (proposed Off-Dock Container Support Yard), allowing the Port to continue collecting revenue prior to redevelopment.
4. Successful negotiation of the terms for the Ness Campbell Crane Lease Buyout.
5. Partnered with the Environmental and Planning department to complete the Earley Business Center master plan and scenario analysis.
6. Development of the EBC Bldg. 407 Tenant Relocation plan.
7. Collaborated with Port's Engineering and Environmental/Planning Department on tentative clean-up plans for Arkema Manufacturing to bring the property to market.
8. In coordination with the Environmental/Planning Department and legal counsel, a draft cooperation agreement with Occidental Chemical Corporation was prepared.

D. **FINANCIAL SUMMARY**

Year-over-year revenues are up \$925,741 (3.5%). Current annual revenues are \$26,514,926 compared to \$25,589,185 last year. This increase is primarily due to new leases and rent escalations on existing leases. Revenues would have been up even more but were offset by no revenues produced for the vacant Progress Rail site for the first half of the year and the loss of Federal Staffing Resources, who previously occupied the entire 4th floor of the Fabulich Center. Real estate revenues have exceeded our budget by \$0.7 Million due to new leases that were executed after the budget was prepared.

E. LOOK AHEAD

Port staff will continue to work with the Environmental and Engineering departments of the Port on environmental clean-up and redevelopment of the Earley Business Center (EBC). A current work plan for demolition and replacement of building 407 and relocation of the tenants is being drafted and will be presented to the commission in on December 17, 2024, and at subsequent Commission meetings in 2025.

The real estate staff continues to work with the City of Tacoma on street vacations including: 1) Milwaukee Way from Lincoln to 11th St and 2) E. 11th Avenue from Stewart Street to Thorne Road. Staff is assessing the costs associated with the project such as requirements by the city for sidewalks, multi-modal lanes and transfers of utilities. A cost vs. benefit analysis will be conducted before making final recommendations to the Commission.

Efforts to fully lease the Fabulich Center will continue as well as a review of the building assessment report, scheduled to be completed by the end of this year. This report will help guide Port staff on necessary repairs to the building and help to evaluate the remaining economic life and determine future use of the building and premises.

With the Commission approval of the new Maritime Center, Real Estate Staff will focus their efforts on finding future tenants for the Port's current administration building at 1 Sitcum Way and will actively market the office space in advance of current Port staff's move-out of the building anticipated in late fall of 2026 or early 2027.

Efforts to secure the final private crossing agreement (and all applicable real estate agreements) with BNSF will continue throughout 2025 in an effort to finalize the necessary crossing rights for full access across the 20 ft. rail crossing easement to access the Maritime Center Site.

F. FUTURE SITE DEVELOPMENT OF CONTAMINATED PORT PROPERTIES

Finally, Port Real Estate staff will continue to work collaboratively with other Port departments on future redevelopment plans for contaminated property such as the former Arkema Manufacturing site and Port parcels 114 and 117 ("Snail lot"). Many of the Port's properties are encumbered with environmental issues and past uses/users of these properties have left behind substantial clean-up requirements. These large projects will take time to cleanup, market, negotiate, permit, and lease and Port staff is working expeditiously to bring these properties to market over the next few years. As an example, staff is currently in discussions with a local seafood company to explore the possibility of bringing a large cold storage facility with floating barge capacity to the Port of Tacoma. Working collaboratively with other Port departments will help us expedite bringing our currently vacated contaminated properties to full use.