

**Minutes of Everett Port Commission
Special Meeting
October 26, 2021**

PRESENT:	Tom Stiger	President
	Lisa Lefeber	Executive Director
	Eric Russell	Chief Finance Officer
ZOOM:	Glen Bachman	Secretary
	David Simpson	Vice President
	Jordan Stephens	Port Attorney

CALL TO ORDER: Commission President Tom Stiger called the meeting to order at 12:02 p.m.

COMMISSION PRESIDENT'S REPORT

Commission President Tom Stiger acknowledged and congratulated CEO/Executive Director Lisa Lefeber's appointment to the Board of Directors of the American Association of Port Authority. Lefeber joins the Board along with Julianna Marler, CEO, Port of Vancouver and Gary Nelson, Executive Director, Port of Grays Harbor, who was the President last year. Both Commissioner Simpson and Commissioner Bachman congratulated Lefeber as well.

CEO/EXECUTIVE DIRECTOR'S REPORT

Ground Lease and Option Agreement with PNW Realty Partners LLC

CEO/Executive Director Lisa Lefeber reported there are two actions before the Commission, one was with respect to a ground lease and the other was with respect to an option agreement. Lefeber stated it was important to take the two actions separately, as they have different actions tied to them.

On October 24, staff reached terms for a long-term ground lease (50 years, with two, 15-year options) with PNW Realty Partners LLC, an affiliate of The Schuster Group, to build the 6,500 square foot Port Gardner Landing building at 1710 West Marine View Drive. The Schuster Group was established in 1989 and is a nationally recognized and award-winning developer in the Seattle area. Over the years, the development company has earned recognition for their work in restaurant, retail, multi-family, and mixed-use developments and have completed projects throughout the Puget Sound region. The building, which is at 50% design, will be the future home of Woods Coffee, provide 3,000 square feet for future tenants and has a 1,500 square foot patio area. The Port will provide construction plans and permits for the building. Schuster will construct the building and manage the building tenants.

Financial terms are as follows: the Port will be paid \$200 per month as rent during construction, startup rent for the first two years after construction, and beginning year three, full rent, as defined in the lease. In addition, the Port will receive 40% of any percentage rent received by Schuster from the subtenants, The Port will contribute, up to \$75 RSF for subtenant improvements, which will be amortized over a ten-year period. The project must be under construction by Q1 2022. Given the uncertainty in the construction market, the Port is mitigating some of the cost risk by providing a construction cost cap of \$450 per square foot. Schuster would pay the initial costs and the Port would pay any costs over the \$450/sf over a three-year period, if necessary. If the construction cost exceeds \$620/sf the Port and Schuster would reopen the lease. Under this worst-case scenario, the Port would still yield a 6% return. Schuster has sent the 50% plans to a couple contractors and expects to get estimates back soon. The Port will maintain all the parking management in and around the building, as per standard Port practice. The Port will also maintain the landscaping which is the entrance to the Port. Staff has also discussed potentially serving as the buildings facility management which would be a separate fee, not included in this budget.

The ground lease rates rent will adjust annually by 2% and will undergo a market rate adjustment at certain intervals, which cannot lower the rent to the Port. The first ten years of this ground lease is expected to earn the Port approximately \$500,000 gross receipts and save the Port approximately \$3.5 million in capital investment.

Staff also discussed a separate option agreement with The Schuster Group for future retail and restaurant buildings. The option agreement will require construction of at least one building in Waterfront Place annually and each parcel in the option agreement would have a separate lease. Parcels in the agreement include A1, A2, A6, A7, A12 and three parcels in the South Marina.

Commissioner Tom Stiger stated this was a different type of an arrangement that the Port has done in the past, in addition to the ground lease and other provisions, and asked Commissioner Glen Bachman for his opinion based on his experience when he worked on the Bellevue properties with the package as proposed by staff. Commissioner Bachman stated the one thing he heard was the TI (tenant improvement) dollars, \$75 RSF spread over a ten-year period so presumably the Port would have a tenant, ideally, that would sign a 10-year lease but if they signed a shorter with an option but didn't take the option, would the language in the lease require them to cash out the balance of the TI that was in there? Lefebber stated that would be correct. The TI for \$75 RSF is based on the Woods Coffee 10-year lease.

Commissioner Bachman also stated back in the day when the Weyerhaeuser building was in the old location, West Marine View couldn't be seen from the highway, will the architecture be different? Lefebber stated the Port is at 50% design but didn't do a height or view assessment for West Marine. The building is not as tall as the Weyerhaeuser building. Project Manager Brandon Whitaker added that the Port has reached out to West Marine about this project, and they were very happy to hear about it and very enthusiastic for the work that is upcoming. Commissioner Bachman added if all goes as planned, this is a pretty good deal.

Commissioner Stiger asked Whitaker for an illustration or describe what type of building it is, will it be similar to the buildings in the area? Whitaker shared his screen and went over the look of the buildings that have been designed so far. Commissioner Stiger asked how much equity does the Port have in this building once all the construction and conditions are met? Does Schuster have entire ownership or is a 50/50 deal? Russell answered that Schuster will own the building and the Port's equity is in the land that the building is on. Lefebber added for whatever reason they decide to sell said lease, the Port will have first right to purchase. Commissioner Bachman added Schuster's ownership of the building makes maintenance theirs and not the Port's.

Commissioner David Simpson asked about parking management and Lefebber confirmed the Port will have control of the parking, it will be part of the LAZ parking management. Since the Port has the obligation to maintain that, the Port will be keeping the park management. Schuster does have the opportunity to validate if it exceeds the two-hour free timeframe.

Commissioner Simpson also asked about the signage. He hopes that the Port will stay in control of the signage and make sure Schuster doesn't allow tenants to start changing the signage requirements. Lefebber stated the Port has language in the lease that says that the design for all signage is subject to Port staff review.

Commissioner Stiger asked about the Woods Coffee lease since the Port has already signed a lease with them. Lefebber answered once this agreement is in place and they start construction, the lease will be assigned to Schuster. Woods Coffee is on board with everything, the Port has been in regular communication with them since the beginning.

Commissioner Stiger also asked about the Port receiving 40% of any percentage rent received by Schuster from the subtenants, which Stiger thought the Port got away from the percentage rent provision and 40% is an unknown figure at this time. Lefeber stated when the Port is trying to build a new market for restaurants and retail, having a structure where there is a little bit lower rental square foot in the building with a cost share or revenue share, with percentage sales, is attractive especially with people and businesses investing in the new market which is how Scuttlebutt Restaurant started as well. The Port does have a 6% rent after the natural break point with Woods Coffee so the agreement with Schuster is 2.5% of that 6%. Commissioner Stiger asked from a policy point of view then, on future and new leases, the Port can expect to include a percentage figure? Lefeber answered that would depend on the business type and the willingness of the individual tenant. However, as part of the option agreement, the Port is jointly marketing and negotiating agreements.

There will be a report back to the Commission with an update on these agreements with respect to the construction costs.

After discussion, Commissioner Glen Bachman moved that the Commission approve a long-term ground lease with PNW Realty Partners, LLC, for the Port Gardner Landing Site, substantially as presented, and authorize the CEO/Executive Director to execute such lease. Commissioner David Simpson seconded the motion. A vote was called for:

Vote: 3-0
Yes: Bachman, Simpson, Stiger
No: None
Abstained: None
Motion carried.

Commissioner David Simpson moved that the Commission authorize the CEO/Executive Director to enter into an option agreement with PNW Realty Partners, LLC. Commissioner Glen Bachman seconded the motion. A vote was called for:

Vote: 3-0
Yes: Simpson, Bachman, Stiger
No: None
Abstained: None
Motion carried.

THE REGULAR MEETING WAS ADJOURNED at 12:47 p.m.

APPROVED this 16th day of November, 2021.

EVERETT PORT COMMISSION

By: Tom M. Stiger
Tom Stiger, President

By: David Simpson
David Simpson, Vice President

By: Glen Bachman
Glen Bachman, Secretary