



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 6k

**ACTION ITEM**

**Date of Meeting** December 10, 2019

**DATE:** November 26, 2019

**TO:** Stephen P. Metruck, Executive Director

**FROM:** Melinda Miller, Director, Portfolio & Asset Management  
Stephanie Jones Stebbins, Managing Director Maritime Division

**SUBJECT:** Assignment of Trident Seafoods Ground Lease to Lineage Logistics and Amendment of Assigned Ground Lease

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to execute, substantially as depicted in drafts below, (1) the assignment of the ground lease from Trident Seafood to Lineage Logistics at Terminal 91, and (2) the amendment and restatement of the assigned lease to convert the existing four 5-year options to one 20-year term and to add two 10-year options to renew and updated lease language.

**EXECUTIVE SUMMARY**

Staff is recommending assignment of the current ground lease with Trident Seafoods to Lineage Logistics. In a second action, the assigned lease will then be amended to convert the four 5-year options to one 20-year term, add two 10-year options to renew, and add updated lease language. This will give Lineage Logistics up to 40 years total, assuming both new options are exercised.

**Background**

Trident Seafoods currently has a 337,090 square foot ground lease at Terminal 91 that includes two buildings, W-391 and W-392 used for food processing and cold storage with accessory office. Trident's initial term of 30 years expires November 30, 2020 and has four 5-year options to renew at the tenant's discretion. If the options are exercised, the lease with Trident will extend for another 20 years. Trident's predecessors-in-interest entered into this ground lease with the Port in 1990 and constructed both buildings W-391 and W-392.

Trident is now moving the bulk of its operations to a new cold facility in the Tacoma area and wants to sell its buildings (W-391 and W-392) to Lineage Logistics (formerly known as CityIce). Both entities are excellent, long-term Port tenants and Lineage has other leases at Terminal 91. Trident and Linear Logistics have executed a Letter of Intent (LOI) and are finalizing a Purchase and Sale Agreement (PSA).

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Lineage’s pending purchase of Trident’s buildings is contingent upon the assignment of Trident’s ground lease restating the four 5-year options as a twenty-year term and amending the lease to include two 10-year options to renew, at tenant’s discretion. This term will allow Lineage proper time to amortize the costs of the acquisition and their intended improvements which are still in development. The ground lease will also be updated with language from Port’s current lease template to capture the changes, updates, and additions that have been made since 1990 per Port policies, Commission Resolutions, and industry standards.

### **JUSTIFICATION**

Lineage Logistics (formerly CityIce) has been an exemplary tenant of the Port for many years. They are considered the industry’s leading innovator in temperature-controlled supply chain and logistics. Their organizational mission aligns closely with the Port’s in that they use technology to advance sustainability and lessen environmental impact, promote food safety, increase distribution efficiency and minimize supply chain waste.

As a result, Lineage helps customers ranging from Fortune 500 companies to small family-owned businesses increase the efficiency and protect the integrity of their temperature-controlled supply chain.

This summer, the Department of Energy named Lineage a winner of the 2019 Better Practice Award which is a designation bestowed to organizations that are making outstanding accomplishments in implementing and promoting the practices, principles and procedures of energy management. The DOE recognized Lineage for pioneering a new and innovative way to improve energy productivity using a process the company calls “flywheeling,” which proactively manages energy consumption using a proprietary machine-learning technology to reduce cost and waste.

Lineage was also recognized as the No 1. Data Science company on Fast Company’s Annual list of The World’s Most Innovative Companies in 2019, in addition to ranking 23rd overall in an evaluation of thousands of companies worldwide.

This requested action echoes Port’s Century Agenda’s Mission Statement of “...advancing trade and commerce, promoting industrial growth and stimulating economic development” and supports the following Century Agenda’s objectives –

- 1) Double the economic value of the fishing and maritime cluster industries
- 2) Increase workforce training, job and business opportunities for local communities in maritime, trade, travel and logistics
- 3) Anchor the Puget Sound urban-industrial land use to prevent sprawl in less developed areas
- 4) Meet all increased energy needs through conservation and renewable sources

This requested action for said Maritime Industrial properties at Terminal 91 also contributes to and aligns with Maritime Division’s overall business strategies:

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- 1) Assure financial sustainability by accomplishing a positive net operating income after depreciation by 2024
- 2) Increase the economic impact of the Maritime Division by leveraging the “ocean economy”
- 3) Be the greenest Port in North America by integrating environmental sustainability into Port business processes & investment decisions
- 4) Develop, maintain and operate Maritime facilities to ensure long-term viability & efficiency, to meet our customer’s needs

The intent of the assignment, restatement and extension of the Ground Lease is to support the continued industrial uses at Terminal 91. Major terms are as follow:

- **Assignment and Assumption:** Port will assign the remaining term in the existing lease from Trident to Lineage, which will give Lineage 20 years.
- **Adding Options:** To amortize the significant investment (\$15 million+), Lineage proposes to add another two 10-year options at tenant’s discretion to potentially extend the ground lease to 40 years in total.
- **Commencement Date:** If authorized, the assignment will commence on the execution of the Purchase and Sale Agreement and the new Amendment Terms will commence on January 1, 2020.
- **Updated Area:** Subsequent to a new survey, the area will be adjusted to 336,650 sf.
- **Rent:** Currently, Trident pays \$0.1567/sf/mo. The proposed new rate for Lineage upon assignment and assumption of Trident’s lease beginning on 1/1/2020 is \$0.19/sf/mo., which represents an increase of 21.25% and is within the market range for this use.
- **Escalations:** CPI adjustments will occur every 12 months (a change from every 30 months in the current lease) and there shall never be a downward adjustment. The lease rate will be adjusted to market every 60 months.
- **Security Deposit:** Letter of Credit or Surety Bond equal to 6 months of rent.
- **Amend / replace the lease with Port’s current term lease template:** The following sections have been either updated with newer language or added with adoption of more recent Port’s policies and industry standards:
  - Alterations; Ownership of Certain Installations (updated)
  - Maintenance and Repairs (updated)
  - Prevailing Wage (added)
  - Common Areas (added)
  - Insurance and Indemnity (updated)
  - Damage and Destruction (updated)
  - Assignment and Sublease (updated)
  - Default (updated)
  - Termination other than for default (updated and added)
  - Surrender and Holding Over (updated)
  - Environmental standards (updated and added)

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- **Sublease:** Lineage intends to sublease approximately 6,397 square feet of space to Trident for three years (with two one-year options to extend). Trident will use this area as a research and development center for their seafood business.

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

Below are two alternatives and staff are recommending Alternative 2.

**Alternative 1** – Reject the assignment and maintain the status quo on the existing ground lease that Trident has with the Port.

Cost Implications: Currently monthly base rent and improvement rent totals \$55,004.70. The next market rate re-set for Trident is not due until December 1, 2020. If the Port does not assign the lease to Lineage (which would start at a higher rate on January 1, 2020) the Port would forgo approximately \$134,000 due to the delayed market rate reset.

#### Pros:

- (1) Assuming Trident continues occupancy, at lease expiration (November 30, 2040), the buildings on land lease revert to the Port. The Port will be in possession of buildings at an earlier date but with aging and specialized systems and equipment (largely a cold storage and seafood processing facility).

#### Cons:

- (1) Due to the investment they have made in these buildings, Trident would likely carry on with the lease until November 30, 2040 and attempt to find another buyer. It is unlikely that Trident will be able to quickly find another buyer whose business would align as well with the Port's mission and vision as Lineage. There are currently no competing offers for Trident-owned buildings at Terminal 91.
- (2) Trident has already started moving its operations to its new Tacoma facility. Maintaining the status quo on the lease will jeopardize the positive relationships that the Port has had with two excellent and long-term tenants. Furthermore, Trident and Lineage Logistics are two key players in the seafood and cold chain industry which is an integral part of the Maritime Industry and align with the Port's target industry.
- (3) The Port does not specialize in cold storage business. It would be challenging to put in the needed investment to find a different tenant in a cost-effective way; or redevelop the space into an alternative use after the lease expires in November 2040.
- (4) The Port could be facing the likelihood of not having a steady lease revenue for months, if not years.
- (5) There will potentially be loss of jobs due to long-term tenants leaving Terminal 91, at least in the short-term.

This is not the recommended alternative.

**Alternative 2** – Assign the remaining term of the lease from Trident to Lineage and amend and restate the current four five- year options as an initial 20-year term and adding two 10-year

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options and updating lease language to incorporate changes, updates, and additions made since 1990 per Port’s policies and Commission Resolutions, and industry standards.

Cost Implications: There are no cost implications for the Port.

Pros:

- (1) We will secure an excellent tenant whose organizational mission aligns with the Port’s.
- (2) Operations will support maritime industry at Terminal 91.
- (3) This alternative will continue to support maritime jobs in line with the Century Agenda.
- (4) Increased revenue due to early market rate reset and annual rather than 30-month CPI adjustments.
- (5) This alternative will not significantly disrupt current cold storage and seafood processing operations that are closely tied to the maritime and fishing industries that are critical to Port’s core functions and vision in the long run.
- (6) This alternative will continue to get the highest and best use of a specialized (temperature-controlled) facility which the Port has neither the expertise nor the experience to operate.

Cons:

- (1) Assuming the Options to Renew are exercised, the Port will not be able to change the tenant for another 40 years without significant investment (e.g. buy-out or relocation costs). To be clear, the Port will retain its right to take back the property for Port development.

***This is the recommended alternative.***

**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation slides
- (2) Draft Conditional Consent to Assignment Agreement
- (3) Draft Amendment and Restatement of the Assigned Lease

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

February 24, 2004 – The Commission authorized for the Managing Director, Seaport Division, to: (1) consent to a sublease, (2) consent to a lease assignment; and, (3) amend certain lease terms, all to effect the transfer of CityIce Cold Storage Company’s interest in a lease with the Port at Terminal 91 to Trident Seafoods Corporation.

September 9, 1999 – The Commission approved an Assignment and Assumption of Lease and Consent of Port of Seattle wherein the Port acknowledged that Tyson had acquired Arctic Alaska Seafoods, Inc’s interest in the Lease and approved an assignment of the Lease from Tyson to Trident.

September 6, 1990 – The Commission approved a thirty-year ground lease between the Port and Arctic Alaska Seafoods, Inc for the lessee to construct, own and operate a cold storage facility at Terminal 91. Terminal 91 Realty was a partnership consisting of Arctic Alaska Seafoods, Inc. (“Arctic”) and SeaPro Cold Storage (“SeaPro”).