



Motion No. M2022-71

Microsoft Corporation lease agreement at the Redmond Technology Station

Meeting:	Date:	Type of action:	Staff contact:
System Expansion Committee Board	8/18/2022 8/25/2022	Recommend to Board Final action	Ron Lewis, DECM Executive Director Jon Lebo, Executive Project Director - DECM John Arnesen, Senior Project Manager-DECM

Proposed action

Authorizes the chief executive officer to execute a 15-year lease agreement with two 15-year options to extend with Microsoft Corporation under which Sound Transit will lease to Microsoft Corporation a building located at the Redmond Technology Station, at 3849 156th Avenue NE, Redmond, Washington.

Key features summary

- In 2014, Sound Transit, Microsoft, and the City of Redmond entered into a funding agreement for the Overlake Transit Center (now Redmond Technology Station or RTS), in which Microsoft agreed to fund certain betterments at RTS.
- Microsoft paid to construct the shell and core of an approximately 4,600 square foot building to be used to support Microsoft shuttle services and passenger waiting area, including a café that will be open to the general public. Sound Transit owns the building but agreed to lease it to Microsoft at fair market value, with a rent credit equal to Microsoft's financial commitment to construct the building.
- The funding agreement included a term sheet for the building lease agreement between Sound Transit and Microsoft but stated that the final lease agreement was subject to approval by the Sound Transit Board of Directors.
- Microsoft will pay Sound Transit fair market rent of \$16,240 per month, plus leasehold excise tax, with increases every 5 years. Sound Transit will provide a rent credit in the amount of \$2,659,896, which is equal to Microsoft's financial contribution to construct the shell and core of the building.
- Microsoft will pay all taxes, insurance premiums, utilities, maintenance costs, and other costs associated with the lease of the building, except for costs associated with solar panels installed and maintained by Sound Transit on the roof of the building that provide power to Sound Transit's parking garage.
- The lease is for a term of fifteen years and contains two options to renew for additional terms of fifteen years each. Staff will return to the Board to request approval of the final lease agreement for the option terms should Microsoft chose to exercise the options in the future.

Background

Sound Transit owns the property located at 3849 156th Avenue NE, Redmond, Washington which is part of the Redmond Technology Station (RTS), formerly known as the Overlake Transit Center.

Sound Transit and Microsoft have a long history at this location. In 1996, the City of Redmond entered into a Dedication Agreement with Microsoft in which Microsoft agreed to deed to Redmond the land on which RTS currently stands, in exchange for transferable development rights to be used elsewhere on Microsoft's campus. Redmond later assigned its rights under the Dedication Agreement to Sound Transit to be used for Overlake Transit Center. The property is subject to certain restrictive covenants requiring the property to be used as a transit center and granting Microsoft the right to approve certain uses and design of the property. Microsoft has leased property from Sound Transit at Overlake Transit Center since 2001 to accommodate Microsoft connector buses and shuttle service to its Redmond campus.

In 2014, Sound Transit, Microsoft, and the City of Redmond entered into an agreement for the Overlake Transit Center Component of the East Link Extension Project (the Funding Agreement), which provided for Microsoft to fund certain improvements not included in Sound Transit's original project scope for RTS. The Funding Agreement provided for, among other things, Microsoft to fund Sound Transit's construction of a separate office building at RTS to be leased to Microsoft to support Microsoft's shuttle connect services. This separate building and lease is the subject of this motion.

The Funding Agreement provided for Microsoft to pay Sound Transit \$2,659,896 (\$1,839,000 plus contingencies and sales tax) for the design and construction of the building. Sound Transit will provide a rent credit to Microsoft in the amount of \$2,659,896 applied against monthly rent. Sound Transit will also provide a tenant improvement allowance, determined by market rent appraisal, to Microsoft to build out the interior spaces, which will include a coffee shop and seating area that will be open to the general public. The lease includes use of nine reserved parking spaces in the Sound Transit parking garage located at RTS, the cost of which is included in the overall lease. The term of the lease is 15 years, with two options to extend for 15 years each. If Sound Transit terminates the lease during the initial 15-year term for reasons other than tenant default, Sound Transit agrees to repay Microsoft's funding contribution in the shell, plus interest, amortized over the remainder of the term, less amounts already paid in the form of the monthly rent credit. After the initial term, Sound Transit can terminate the lease if Sound Transit determines it needs the building to improve its delivery of high-capacity transportation services to the public.

Project status

Projected completion date for E360 Substantial Completion: 1Q 2023

Project scope, schedule and budget summary are located on page 24 of the June 2022 Agency Progress Report.

Fiscal information

The revenue from this action is \$797,452 in YOES for payments from 2023 through 2038 for the initial term of the lease. The impact of this revenue increase on remaining available debt capacity in the minimum year (2042) is an increase of 0.01% in the minimum year. This is a negligible impact on agency affordability and does not impact the affordability of the finance plan.

Disadvantaged and small business participation

Not applicable to this action.

Public involvement

Not applicable to this action

Time constraints

A one-month delay would not create a significant impact, however it would impact the ability for Microsoft to complete tenant improvements before the opening of the Transit Center at this facility.

Prior Board/Committee actions

Motion No. M2019-48: Authorized the chief executive officer to execute the Second Amendment to the Agreement between the City of Redmond, the Central Puget Sound Regional Transit Authority, the Microsoft Corporation and the Redmond Community Facilities District No. 2014-01, for the design and construction of elements of the Redmond Technology Station, formerly known as Overlake Transit Center, within the East Link Extension, and to remove the pedestrian bridge from the Agreement.

Motion No. M2014-79: Authorized the chief executive officer to execute an amendment to the agreement between the City of Redmond, the Central Puget Sound Regional Transit Authority, and the Microsoft Corporation, for the design and construction of the Overlake Transit Center within the East Link Extension to add the Redmond Community Facilities District No. 2014-01 as an additional party to the agreement.

Motion No. M2013-110: Authorized the chief executive officer to execute the Agreement between the City of Redmond, the Central Puget Sound Regional Transit Authority, and with the Microsoft Corporation for the Overlake Transit Center within the East Link Extension.

Environmental review – KH 8/4/22

Legal review – JV 8/11/22



Motion No. M2022-71

A motion of the Board of the Central Puget Sound Regional Transit Authority authorizing the chief executive officer to execute a 15-year lease agreement with two 15-year options to extend with Microsoft Corporation under which Sound Transit will lease to Microsoft Corporation a building located at the Redmond Technology Station, at 3849 156th Avenue NE, Redmond, Washington.

Background

Sound Transit owns the property located at 3849 156th Avenue NE, Redmond, Washington which is part of the Redmond Technology Station (RTS), formerly known as the Overlake Transit Center.

Sound Transit and Microsoft have a long history at this location. In 1996, the City of Redmond entered into a Dedication Agreement with Microsoft in which Microsoft agreed to deed to Redmond the land on which RTS currently stands, in exchange for transferable development rights to be used elsewhere on Microsoft's campus. Redmond later assigned its rights under the Dedication Agreement to Sound Transit to be used for Overlake Transit Center. The property is subject to certain restrictive covenants requiring the property to be used as a transit center and granting Microsoft the right to approve certain uses and design of the property. Microsoft has leased property from Sound Transit at Overlake Transit Center since 2001 to accommodate Microsoft connector buses and shuttle service to its Redmond campus.

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The term of the lease is 15 years, with two options to extend for 15 years each. If Sound Transit terminates the lease during the initial 15-year term for reasons other than tenant default, Sound Transit agrees to repay Microsoft's funding contribution in the shell, plus interest, amortized over the remainder of the term, less amounts already paid in the form of the monthly rent credit. After the initial term, Sound Transit can terminate the lease if Sound Transit determines it needs the building to improve its delivery of high-capacity transportation services to the public. Staff will return to the Board to request approval of the final lease agreement for the option terms should Microsoft chose to exercise the options in the future.

Motion

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the chief executive officer is authorized to execute a 15-year lease agreement with two 15-year options to extend with Microsoft Corporation under which Sound Transit will lease to Microsoft Corporation a building located at the Redmond Technology Station, at 3849 156th Avenue NE, Redmond, Washington.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on August 25, 2022.



Dave Somers
Board Vice Chair

Attest:



Kathryn Flores
Board Administrator