

**SOUND TRANSIT
STAFF REPORT**

MOTION NO. M2009-103

625 Union Station Office Space Lease

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Board	12/10/09	Action	Bonnie Todd, Operations Director Nancy Bennett, Property Manager	(206) 398-5367 (206) 398-5401

Contract/Agreement Type:	✓	Requested Action:	✓
Competitive Procurement		Execute New Contract/Agreement	✓
Sole Source		Amend Existing Contract/Agreement	
Agreement with Other Jurisdiction(s)		Budget Amendment	
Real Estate	✓	Property Acquisition	

PROJECT NAME

Office Space Lease for Sound Transit staff/consultants

PROPOSED ACTION

Authorizes the chief executive officer to execute a ten year lease with two additional three or five year options to renew with Seattle Union Station, L.L.C. for office space located at 625 5th Avenue S. in Seattle, WA, in an amount not to exceed \$18,497,643 for the ten year term.

KEY FEATURES of PROPOSED ACTION

- Sound Transit currently leases approximately 58,475 rentable square feet of office space located at 625 5th Avenue S. in Seattle, WA. This action will execute a new lease with Seattle Union Station, L.L.C. for that space for a ten year term.
- The requested amount covers the ten year lease term. The lease also provides the option to extend the term for two additional three or five year terms (Sound Transit's option) at 95% of the current market rate. The lease amendment also provides the option to terminate the lease after seven years as long as Sound Transit reimburses the landlord the unamortized transaction costs which include commissions, tenant improvement allowance, space planning allowance, and free rent.
- The lease rates for rent and operating expenses for the ten year period average \$30.98 per square foot per year and are estimated as follows:

Year	Base Rent/SF	Estimated Building Operating Expenses	Total Rent + Expenses
1	16.75	9.69	26.44
2	17.50	9.93	27.43
3	18.25	10.18	28.43
4	19.00	10.44	29.44
5	19.75	10.70	30.45
6	20.50	10.96	31.46
7	21.25	11.24	32.49
8	22.00	11.52	33.52
9	22.75	11.81	34.56
10	23.50	12.10	35.60

- The landlord will provide a tenant improvement allowance of \$35.00 per rentable square foot totaling \$2,046,625 dollars. Sound Transit may use this allowance to offset rent if the tenant improvements do not require the full amount.
- In addition, the negotiated rent and estimated operating expenses will not reach the current rate Sound Transit is paying until the third year of the new lease.
- The existing lease expires on June 30, 2010 and has an option to renew for five years at 95% of current market rate. The terms of the proposed lease are more cost effective than the option to renew the current lease since the proposed lease is at market rate and includes a \$35 per rentable square foot tenant improvement allowance which can be used as an offset to rent. Since the greater Seattle rental market is extremely competitive at this time, it has been determined a ten year lease term is more favorable to Sound Transit than a five year lease term.
- Even though the current lease does not expire until June 30, 2010, the landlord has agreed to terminate it early. If authorized, the proposed lease will become effective on January 1, 2010 utilizing the new negotiated rates. Sound Transit will save \$43,856 during this six month period on rent.
- The landlord will provide a \$.15 per rentable square foot space planning allowance.
- The landlord will provide a continuing right of first offer to lease any space that becomes available in the building as well as any space that becomes available on the first four floors at 605 Union Station.

BUDGET IMPACT SUMMARY

There is no action outside of the Board-adopted budget; there are no contingency funds required, no subarea impacts, or funding required from other parties other than what is already assumed in the financial plan.

BUDGET and FINANCIAL PLAN DISCUSSION

The proposed action would authorize execution of a 10 year lease with Seattle Union Station, LLC effective January 1, 2010 in an amount not to exceed \$18,497,643 including a 2% contingency for operating expenses. In 2010, the full service gross lease rate is approximately \$26.44/sf with an estimated total rent and operating expense of \$1,580,076.

The Proposed 2010 operating budget for administration facilities rental is \$1,922,940. Approval of the proposed action would leave a remaining balance of \$342,864. Budgets for the remaining years of the lease will be requested in future operating budgets.

If Sound Transit chooses to apply the \$35.00 tenant improvement allowance to rent, this would result in an additional savings of \$2,046,625.

The proposed action is consistent with the current Board-adopted budget and is affordable within Sound Transit's current long-term financial plan and the subarea financial capacity. The action will have no new revenue impacts on Sound Transit.

BUDGET TABLE

Summary for Board Action (X \$1,000)

Action Item: 625 Union Station Lease

	(A)	(B)	(C)	(D)
	Proposed 2010 Budget	Spent to date	Contract Expenditures 2010	Remaining 2010 Budget
Current Year Budget				
Administration Facilities Rental	1,922,940	-	1,580,076	342,864
		-	-	-
Total	1,922,940	-	1,580,076	342,864

Budget Shortfall

Level	Shortfall	Resources	Funding Source
N/A	-	-	N/A

Contract Budget	Current Approved Contract Value	Spent to Date	Proposed Action	Proposed Total Contract Value
Administration Facilities Rental	-	-	18,116,725	18,116,725
Contingency	-	-	380,918	380,918
Total Contract	-	-	18,497,643	18,497,643
Percent Contingency	-	-	2%	2%

Notes:

The Administration Facilities Rental budget is located on page 96 of the Proposed 2010 Budget.

SMALL BUSINESS PARTICIPATION

Not applicable to this action.

PROJECT DESCRIPTION and BACKGROUND for PROPOSED ACTION

The primary locations that house Sound Transit staff and consultants are Union Station and the “Opus” building located at 625 Union Station and both are utilized beyond capacity.

A real estate services contract was competitively procured and executed at no cost to Sound Transit with Pacific Real Estate Partners, Inc. for the purpose of locating suitable office space. The search parameters were related to the total cost, proximity or travel time to Union Station and the ability to incrementally increase space over the next several years.

Eleven potential sites were initially identified and after applying our secondary parameters of building construction completion dates, decreasing lease costs, tenant improvements required, tenant improvement allowance, floor plan efficiency, and computer and connectivity costs to Union Station servers, eight sites were eliminated.

The final three locations offered competitive leasing rates and tenant improvement allowances and are located within ½ block of Union Station. However, one was eliminated because the existing tenant move-out date was not soon enough to meet Sound Transit’s needs. Together the two remaining buildings – located at 5th and Jackson and our existing leased office space at 625 Union Station – are sufficient to meet the agency’s forecasted office space requirements.

Sound Transit has negotiated terms to lease 58,475 square feet as of January 1, 2010, at a NNN lease rate of \$16.75 per square foot for the first year with \$.75 annual increases. The landlord has agreed to provide a \$35.00 per square foot tenant improvement allowance that can be used to offset rent or used to complete improvements such as new carpet, paint, and furniture.

Prior Board/Committee Actions

Motion/Resolution Number and Date	Summary of Action
M99-29 5/27/99	Authorizing and delegating authority to the Executive Director to execute all necessary documents to enter into a five-year lease (with a possible five year option to extend the same) beginning July 1, 2000, at the proposed Opus Union Station development for 58,000 square feet, for co-location of consultants for final design of the Link Light Rail project, and a short-term interim lease agreement for approximately 30,000 square feet from February 23, 2000 through July 31, 2000.
M2005-21 2/24/2005	Exercising a five year lease option with Seattle Union Station LLC for office space at the 625 Union Station Building (Opus East), effective July 1, 2005 to June 30, 2010, and amending the agreement to include an additional five year renewal option.

CONSEQUENCES of DELAY

A delay beyond December 10, 2010 will require Sound Transit to exercise their current option to extend which must be exercised by December 30, 2009. In doing so, Sound Transit will be paying a higher rental rate per square foot. Sound Transit will not receive a tenant improvement allowance which will cause Sound Transit to pay for any improvements necessary in the space.

PUBLIC INVOLVEMENT

Not applicable to this action.

ENVIRONMENTAL COMPLIANCE

SSK 11-10-09

LEGAL REVIEW

DB 12/9/09

SOUND TRANSIT

MOTION NO. M2009-103

A motion of the Board of the Central Puget Sound Regional Transit Authority authorizing the chief executive officer to execute a ten-year lease with two additional three- or five-year options to renew with Seattle Union Station, L.L.C. for office space located at 625 5th Avenue S. in Seattle, WA, in an amount not to exceed \$18,497,643 for the ten-year term.

Background:

The majority of Sound Transit's employees and consultants work either in Union Station or in the adjacent Opus Building. Both buildings are utilized beyond capacity.

To assist the agency in obtaining additional suitable office space, Sound Transit competitively procured a no cost real-estate services contact with Pacific Real Estate Partners, Inc.

After evaluating total rental cost, travel time to Union Station, and available expansion space over the next several years, eleven buildings were identified as potential locations. Eight of these locations were eliminated after evaluating building completion dates, long-term lease costs, required tenant improvements, tenant improvement allowance, floor plan efficiency, and computer networking costs.

The three remaining buildings offered competitive rent and tenant improvement allowances, and were each located within ½ block of Union Station. However, one location was eliminated because the space will not be available for occupancy in time to meet Sound Transit's needs.

The two remaining buildings, located at 5th and Jackson, and our existing leased office space at 625 Union Station, are together sufficient to meet the agency's forecasted office space requirements through 2016.


The landlord of the Opus Building has agreed to lease 58,475 square feet to Sound Transit on January 1, 2010, at a triple-net lease rate of \$16.75 per square foot for the first year with \$.75 annual increases in base rent. The landlord has also agreed to provide a \$35 per square foot tenant improvement allowance that can either be used to offset rent or to complete tenant improvements such as new carpet, paint, and furniture.

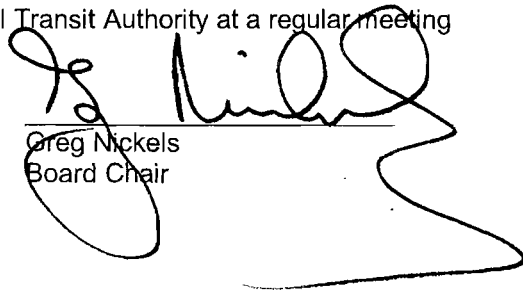
Motion:

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 ten-year lease with two additional three- or five-year renewal options with Seattle Union Station, L.L.C., on the terms specified above, for office space located at 625 5th Avenue S. in Seattle, WA, and legally described in Exhibit A attached hereto, in an amount not to exceed \$18,497,643 for the ten-year lease term.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on December 10, 2009.

ATTEST:


Marcia Walker
Board Administrator


Greg Nickels
Board Chair

SOUND TRANSIT

MOTION NO. M2009-103

Exhibit A - LEGAL DESCRIPTION

CONDOMINIUM DESCRIPTION AND DECLARATION

“Union Station Condominium” means Union Station, a condominium, recorded in Volume 15 of Condominiums, pages 37-45, according to the amended and restated declaration thereof recorded under King County Recording No. 9811171094 as amended by a First Amendment filed under King County recording no. 9901042189, and any other amendments thereto, including and together with those certain easements for support, utilities, equipment and improvements, elevators, access and telecommunications links as set forth therein; situated in the City of Seattle, County of King, State of Washington.

“Condominium Declaration” means the restated and amended Declaration and Covenants, Conditions, Restrictions and Reservations for Union Station, a condominium, recorded in the records of King County, Washington, under recording number 9811171094, as amended by a First Amendment filed under King County recording number 9901042189, and as now or hereafter amended or restated in the records of King County, Washington.

“Permitted Encumbrances” means all mortgages, deeds of trust, security interests or other security documents of like nature that at any time may encumber all or any part of the Property and any replacements, renewals, amendments, modifications, extensions or refinancings thereof, and each advance (including future advances) made under any such instrument (**“Mortgages”**), liens, easements, condominium or other declarations, including the Condominium Declaration, encumbrances, covenants, conditions, reservations, restrictions and other matters now or after the Effective Date affecting title to the Property.