



**King County**

**Facilities Management Division**

**Kathy Brown, Division Director**

Department of Executive Services

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September 19, 2013

The Honorable Dow Constantine

401 5<sup>th</sup> Avenue, Suite 800

Seattle, WA 98104

Dear Executive Constantine:

The King County Department of Executive Services, through the Facilities Management Division (FMD), has directly negotiated a new Lease Agreement with Saint-Gobain Containers, Inc. (St. Gobain) to replace their existing 47-year ground lease with the County adjacent to the Duwamish Waterway. Lease plans have been discussed with the Executive's Office at numerous sessions of the Real Estate and Major Projects Oversight Committee (REMPOC) and negotiations have included the active participation of Fred Jarrett and Sung Yang at various points. The subject new lease is currently scheduled for review by the King County Council. The purpose of this letter is to memorialize the previously obtained verbal approval of direct lease negotiation by the Executive's Office in conformance with KCC 4.56.160

**Background**

The subject leased site was part of the 1910 Harbor Bond Issue that created the Duwamish Waterway and the Lake Washington Ship Canal. This property was purchased between 1912 and 1919 and retained by King County following the creation of the Port of Seattle and the transfer of other Duwamish properties to the Port. The property is one of the County's Harbor Bond Properties, which have been designated as financial investment properties pursuant to KCC 4.56.075. FMD manages these investment properties, leasing them to private parties and creating a revenue stream to the General Fund.

Saint-Gobain's original 12.09 acre ground lease commenced in 1966 with the tenant constructing 194,000 square feet of industrial warehouse improvements in 1966 and 1975. The original lease expired February 28, 2011 and has been continued on a holdover basis during negotiations for the new lease. Saint-Gobain has also temporarily leased an adjacent 27,685 square feet for recycled glass storage.

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Saint-Gobain (also known as Verallia North America) operates thirteen glass packaging plants, including their Seattle bottle manufacturing plant built in 1931, located on the east side of Ohio Avenue South, Seattle. The subject adjacent King County leasehold is located on the west side of Ohio Avenue South, abutting the Duwamish River and the site is used for related warehousing and storage.

### **Summary of Proposed Lease**

The proposed new lease replaces the existing, outdated 47-year old lease and incorporates current industry standards. The new lease term commences March 1, 2011 (expiration date of the existing lease) and expires five years later on February 29, 2016. The lease format continues to be a ground lease with the tenant responsible for all improvements and related costs. The new lease includes the original 12.09 acres (or 526,523 square feet, referred to as the Original Premises), plus an expansion to include the northerly abutting 99,451 square feet (referred to as the Expansion Premises).

The lease provides a five-year extension option for the Original Premises. The Expansion Premises term may also be extended for an additional five-years subject to King County approval at the County's sole discretion. County approval of the extension term for the Expansion Premises term is needed because the King County Wastewater Treatment Division (WTD) has preliminary plans to acquire the Expansion Premises from the General Fund for a future outfall facility subject to budget approval. In the event that WTD's project schedule is delayed, Saint-Gobain's continued use of the property may be feasible.

St. Gobain will be responsible for demolishing existing deteriorated warehouse and office buildings on the Expansion Premises to allow use for recycled glass storage. St. Gobain will pay the initial cost of demolition, estimated at \$100,000, subject to a rent credit as demolition will be required for WTD future use.

Proposed rent and the existing rent are summarized below, based on lease requirements for fair market value appraisals every five-years. The differential between proposed and existing rents is not significant due to adjustment every 5-years and a fairly constant ground rent market for industrial land.

	<u>Proposed Rent/Year</u>	<u>Existing Rent/Year</u>
Original Premises	\$639,533.76 (\$1.22 PSF)	\$632,468.16 (\$1.20 PSF)
Expansion Premises	\$115,495.44 (\$1.16 PSF)	\$41,528.00 (\$1.50 PSF) (temporary)

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Negotiating with St. Gobain is supported by a practice of directly negotiating with existing long-term tenants in good standing. If you have any questions regarding this proposal, please call me at 206-296-0630.

Sincerely,



Kathy Brown  
Director, Facilities Management Division

cc: Fred Jarrett, Deputy County Executive, King County Executive Office (KCEO)  
Sung Yang, Chief of Staff, KCEO  
Caroline Whalen, County Administrative Officer, Dept of Executive Services (DES)  
Stephen L. Salyer, Manager, Real Estate Services, Facilities Management Division  
(FMD), DES  
Bob Thompson, Leasing Supervisor, Real Estate Services, FMD, DES