## STAFF REPORT

|  |  |  |  |
| --- | --- | --- | --- |
| **Proposed No.:** | 2020-0277 | **Name:** | Wendy K. Soo Hoo |

**SUBJECT**

Proposed Ordinance 2020-0277 would authorize a lease at 9725 Third Ave NE (Northgate Executive Center Building C) in Seattle to support the Department of Community and Human Services Veterans Program. The landlord is Gateway Muirland, Inc., a California corporation.

**SUMMARY**

Proposed Ordinance 2020-0277 would authorize a new lease for the King County Veterans Program in the Northgate area of Seattle. The lease would be for 8,592 rentable square feet (RSF), as well as 28 parking stalls. The lease term would be 10 years with an option to extend the lease for five additional years. The base rent is $37.50 per RSF in the first year[[1]](#footnote-1) for an annual total of $322,200 with annual escalation set at three percent.

The Veterans Program is currently located in the Belltown neighborhood in Seattle. The program is seeking to relocate to create a new service access point for veterans, service members and their families, and the Northgate location would provide improved transportation and parking access. The lease will not commence until after Council approval and substantial completion of tenant improvements, which are estimated to take 60 to 90 days to complete.

**BACKGROUND**

Proposed Ordinance 2020-0277 was transmitted to Council pursuant to King County Code 4A.100.070, which requires Council approval of leases with terms lasting longer than five years.

The King County Veterans Program is mandated by Washington state law (RCW 73.08.010) and is funded primarily through the Veterans, Seniors, and Human Services Levy. The Veterans Program is currently located in the Belltown neighborhood in Seattle. The current lease, which has a per square foot cost of $24.26, expires at the end of September 2020 and the lease will begin holdover status at 150 percent of the current rent in October.

The Veterans Program is seeking to relocate to the Northgate area to expand its geographic spread of various Department of Community and Human Services programs. In addition, veterans would still be able to access programming near downtown Seattle via the federal Department of Federal Affairs Community Resource and Resource Center in Georgetown.

**ANALYSIS**

Proposed Ordinance 2020-0277 would authorize a new lease for the King County Veterans Program in the Northgate area of Seattle. The lease would be for 8,592 rentable square feet (RSF) and would include the use of 28 parking stalls. The lease term would be for 10 years with one option to extend the lease for five additional years. The base rent is $37.50 per RSF in the first year for an annual total of $322,200 with annual escalation set at three percent.

**Table 1. Summary of Veterans Program Lease Terms**

| **Category** | **Terms** |
| --- | --- |
| **Square Footage & Parking** | * 8,592 square feet * 28 parking stalls |
| **Base Rent** | $37.50 per RSF in the first year with three percent annual increases – note that the lease includes rent abatement during the first four months of the lease. |
| **Term** | * Ten years for the initial term * One option to extend for an additional five-year term |
| **Council Approval Deadline** | November 23, 2020 |
| **Commencement Date** | The lease will commence when the following have occurred:   * Substantial completion of tenant improvements by the Landlord; * Adoption of the approval ordinance by the Council; and * Mutual execution of the Lease. |

The lease also includes a negotiated tenant improvement allowance of $343,680 to cover new carpet, paint and ceiling lighting, as well as construction of a restroom in compliance with the Americans with Disabilities Act, front desk reception area, computer lab, and work areas and meeting rooms. The tenant improvements are expected to be completed in 60 to 90 days.

According to the transmitted Property Summary (Attachment 3), the Facilities Management Division (FMD) conducted a comprehensive office space search in Northgate and the University District and the proposed location best met the program's needs in terms of rental rate, timing, and proximity to public transportation options.

**Fiscal Analysis**

The fiscal note estimates 2021-2022 lease costs of $630,438[[2]](#footnote-2) and 2023-2024 lease costs of $691,656.

Note that the term of the lease extends beyond the current Veterans, Seniors, and Human Services Levy, which will expire in 2023. However, under the lease, a different County agency could potentially move into the space if the levy were not renewed.[[3]](#footnote-3)

Council staff asked FMD if office space utilization trends in the Northgate area are being affected by increased remote work through the COVID-19 pandemic. FMD anticipates Northgate will continue to be a sought after location due to the proximity to the light rail station and existing transit center, and significant investments in the Northgate Mall facility.

**Other Considerations**

The non-discrimination provision in the lease is consistent with King County Charter Section 840 and King County Code 12.16.125. On July 21, 2020, the Council passed Ordinance 19135, which would place on the November ballot a proposition to amend the County Charter to prohibit discrimination on the basis of family caregiver, military or veteran status in county employment and in county contracting with nongovernmental entities. FMD indicates that the landlord feels that the current language in the lease is consistent with the proposed charter amendment and is willing to address language changes if the proposed charter amendment passes.

The Council's legal counsel has reviewed the lease.

**ATTACHMENTS**

1. Transmittal Letter
2. Fiscal Note
3. Property Summary

1. The lease is a full service lease that includes the tenant's share of operating costs (such as property taxes, insurance, and common area maintenance costs) in the base rent. The estimated 2021 operating costs are $12.12 per RSF. [↑](#footnote-ref-1)
2. Note that the fiscal note assumed the lease commencing in October 2020 with rent abatement through January 2021. The lease will not commence until after Council approval and substantial completion of tenant improvements, which are estimated to take 60 to 90 days to complete, so 2021-2022 costs will be less than estimated in the fiscal note. [↑](#footnote-ref-2)
3. Under the lease terms, the County could seek to assign or sublease space to a non-County entity, but would remain responsible for meeting the obligations of the lease if an assignment or sublease were approved by the landlord. [↑](#footnote-ref-3)