

EXPLANATION OF CONSENT AGENDA ITEM E.2.c. (13) January 20, 2016

ITEM:

Consideration of approving negotiating and entering a buyout/termination agreement of the remaining term of the 745 Holding Company, Inc 30 Year Lease dated September 1, 1988, expiring August 31, 2037 located at 8985 Columbia Rd at a purchase price of \$870,000.00, (purchase price of \$850,000.00 plus a NTE amount of \$20,000 for environment testing, closing costs and pro-rated 2016 property taxes) subject to the review and approval by General Counsel and the Port Attorney. (Denig/Shepard)

EXPLANATION:

Staff is proposing to purchase the long term leasehold interest in the real property located at 8985 Columbia Rd subject to the terms and conditions outlined in the Letter of Intent and wishes to negotiate a lease termination agreement with respect to the above mentioned Lease Agreement.

As the Port is updating its Master Plan and identifying land planning, Staff feels it is in our best interest to purchase back this properties for future development.

Funding Review by Finance (Pat Poston) The total NTE amount of \$870,000 is included in the FY16 Capital Budget and no increase is required. [Budget item 2250 - Land Acquisitions]

Staff recommends approval.

Prepared by Diane Denig/Scott Shepard

dd/ss

8985 Challenger Road Early Lease Buy-Back Acquisition

Agenda Item # E (2)-C- (13)

Final version

Prepared by
Scott Shepard, CCIM, CPE
Director of Real Estate
January 20, 2016



Executive Summary

- With the recent acquisition of 510, 520, 530 and 540 Challenger, there remains one final property to acquire to complete the 13.3 acre land/parcel assemblage plan.
- Acquisition of this property will allow CPA to have for immediate and/or future use of a large continuous parcel of land that can be used for a variety of uses including retail, office, cargo, parking, recreation, etc.
- The Subject property ground lease expires 2037 (21 years)
- The Subject property is adjacent to the proposed future Auto Vehicle staging lot
- Return on Investment (ROI): 10.6% to 16.4%
- The 2016 Budget has money budgeted for property acquisition.
- Staff recommends approval and request approve to spend **\$ 870,000 (Purchase Price of \$850,000 and estimated inspection/closing cost)** to acquire the 16,671 SF building that is located on 1.3 acres of land.



**Aerial of Subject and 13.3 acre strategic land assemblage area
(subject property in yellow outline and 13.3 acres in red outline)**



Property Information

Bldg. SF: 16,971
Land Area: 1.3 acres
Built: 1989
Ground lease expiration: 2037 (21 years)

The building has three separate lease bays
There are currently two tenants and one vacant space

Tenant #1: 7000 sf expires 11/2018
Tenant #2: 6500 sf Month to Month....tenant would like to extend
Vacant: 3471 sf Market rent = \$6.00 to \$8.00/SF



Subject



Subject Property ----8985 Challenger Rd

Photo #1



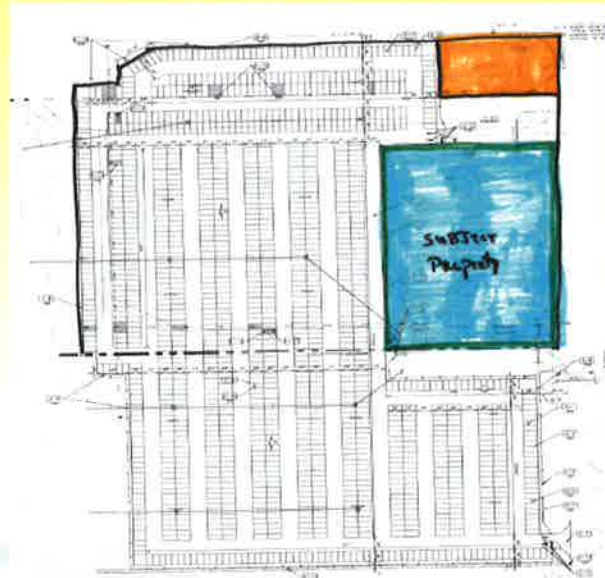
Photo #2



Long Term Strategic Plan-----13.3 acres (yellow outline area)



Proposed Auto Processing Staging Lot Expansion



Income/Expense Data

Space #	SF	Monthly Rent	Annual Rent	\$/SF
Tenant #1	7,000	\$7,000	\$84,000	\$12.00
Tenant #2	6,500	\$4,500	\$54,000	\$ 8.31
Vacant	<u>3,471</u>	\$2,025	<u>\$ 24,297</u>	\$ 7.00
Gross Income	16,971		\$162,297	
Vacancy Factor			(\$ 2,430)	
			\$159,867	
Less Expenses			(\$20,200)	
Net Income			\$139,667	



Cash Flow after Financing---Income/Expense Data

	SF		Annual Income	
Gross Income	16,971		\$162,297	
Vacancy Factor			(\$ 2,430)	
			\$159,867	
Less Expenses			(\$20,200)	
Net Income			\$139,667	
Debt Service *			(\$ 62,356)	
CASH FLOW			\$ 77,311	

*Assumes 20 yr amortization at 4% interest



Income/Expense Information

Gross Income: \$162,297 (when 100% leased, existing tenants to remain)
 Expenses: (\$ 20,200) (not including land lease currently paid to CPA)
 Income: \$142,097
 Less: Vacancy (\$ 2,430) (10% of vacant space)
NOI: \$ 139,667
 Ground Rent (\$ 50,000) currently paid by owner to CPA
CPA -NOI \$ 89,667

Asking Price: \$1,100,000 (\$64.82/sf)
 Negotiated Price: \$ 850,000 (\$50.09/sf)
 Replacement Cost: \$60-\$70/SF (\$1,018,000 to \$1,188,000)
 Value at 8% Cap: \$1,121,000 (\$66.04/sf)

Return on Investment without Ground lease payment included: 16.4%
 Return on Investment with \$50,000 Ground lease included: 10.6%



Inspection-Testing and Closing Cost

Real Estate Commission	None.....paid by Seller
Lead/Asbestos Testing	\$ 2,500
Environmental Testing	\$ 2,500
Miscellaneous/Closing Cost	\$ 15,000
TOTAL	\$ 20,000



Staff Recommendation

- Approve the recommendation to acquire the property.
- Total funding request: **\$ 850,000 plus estimated testing and closing cost of \$20,000.....total of \$870,000.**

Recommendation Justification

- Acquisition of this building will result in the Port having available a large contiguous 13.3 acre parcel.



Questions??

