

DRAFT LEASING POLICY

PORT OF PORT TOWNSEND

June 13, 2018

I. INTRODUCTION

It is the policy of the Port of Port Townsend to retain and recruit businesses that will provide sustainable community-wage jobs.

The Port takes seriously its mission to generate countywide economic vitality, retain existing businesses, attract new business, and add good jobs that will provide local employment opportunities. The Port competes with other regional and national governments and entities for these jobs. Accordingly, it is the Port's policy to negotiate leases that will attract and retain businesses based on sound business, financial and operational plans.

II. GENERAL POLICIES

The general policies of the Port regarding industrial/commercial land and buildings are as follows:

A. Highest and Best Use:

Seek the highest and best use of all Port properties, consistent with principles of prudent land use planning.

B. Rental Rates:

Conduct recurring market analyses to establish and maintain appropriate rental rates for Port-owned land and buildings. Conduct periodic rental surveys of comparable properties in the Western Washington area (including land, buildings, and private and public assets). The values and rental rates documented in such surveys will be regarded by the Port as general guidelines in negotiating and/or amending future leases, and shall not be considered as binding upon the Port in any future negotiations. The Port will also consider other indicators of reasonable fair market rental value in setting rental rates, including parcel size, location, inflation occurring since the date of the last survey, changes in the rental market since the date of the last survey, waiting lists, competing offers for the same properties, and any other evidence of fair market rental value.

In deciding upon rents to be charged for ground leases, the Port will strive to generate an annual return of approximately nine and one-half percent (9.5%) of the fair market value of a fee simple interest in the land and improvements being leased, unless demand for the land indicates a higher return may be obtained.

C. Rent Adjustments:

- i. Periodically adjust rental rates to the fair market rental rates then prevailing for comparable properties in the Western Washington area, bearing in mind all allowable uses of the property and all services and amenities available to the property by virtue of its location.
- ii. In addition to the rent adjustment described above, require annual rent adjustments equal to the amount found on the Consumer Price Index for all urban consumers (CPI-U) for Seattle-Tacoma-Bellevue (compiled by the US Department of Labor, Bureau of Statistics) plus an additional 1%.
- iii. Rental rate adjustments, whether periodic or annual CPI-U + 1%, should be implemented either on January 1st or the anniversary date of the lease.
- iv. Rent adjustments should not result in a reduction in rent from the rate paid in the prior year.

D. Lease Term & Options to Extend:

- i. Initial term. An initial lease term for either land or buildings will be determined in consideration of the needs of the tenant, design standards of any improvements, the useful life of the improvements, the economic value provided to the community, and the needs of the Port.
- ii. Options to extend. The initial term may be extended, provided that: the tenant has met the maintenance standards outlined in the lease, made upgrades extending the useful life of any improvements (including buildings), and the proposed additional term is supported by outside professionals such as structural engineers and/or architects, licensed inspectors, the generation of economic value to the community, and the needs of the Port.
- iii. Generally, the initial lease term and option periods together should not exceed the anticipated useful life of the improvements. However, in no circumstance shall the initial lease term together with option periods exceed fifty (50) years.

E. Standard Lease Provisions:

Lease conditions vary from tenant to tenant. Good business practice requires that certain standard (i.e., "boilerplate") provisions be included in all leases. Such boilerplate provisions include, but are not limited to: indemnification and hold harmless, environmental, the Port's right of entry for inspection, maintenance of the premises, taxes, fixtures and equipment, liability and casualty insurance, retention of air rights, FAA requirements, condemnation, default, costs and attorney fees, notices, waivers, month-to-month tenancy on termination of lease, and others.

F. Assignment:

It is the policy of the Port to prohibit any assignment or sublease by a tenant without the prior written consent of the Port having first been obtained. The Port may grant or withhold consent to a requested assignment or sublease at its sole discretion.

G. Structural Changes:

Structural changes to buildings require the prior written consent of the Port. Upon termination of the lease, state law requires that all improvements be either removed at the cost of the tenant or, at the Port's option, become the property of the Port.

H. Insurance:

Insurance provisions require the tenant to provide certificates of insurance with the Port listed as additional insured, and to prohibit cancellation of insurance without prior notice to the Port. General liability insurance must be provided for the benefit of the Port in an amount deemed appropriate by the Port and typically not less than \$1,000,000 combined single limit.

I. Rent Security:

It is the policy of the Port to require security from all Port tenants in accordance with RCW 53.08.085.

J. Lease Extensions:

Lease extensions may be granted, and will be determined based on the following: tenant needs, tenant performance under prior lease terms, jobs produced, community contributions, proposed capital investments, condition of the building, and the needs of the Port. At the time of any such lease extension, the rental rate will be adjusted to the then prevailing fair market rental rate.

K. Lease Buy-Out:

Should the Port conclude that it would be of substantial benefit to the community as a whole that a lease be terminated prior to the expiration of the lease term, the Port will purchase the building for the current fair market value of the building as determined by appraisal or commercial real estate professional.

L. Termination of Lease

At the termination of the lease, the Port has the right to request the tenant to remove all tenant-constructed improvements, including the building(s). This supports the goals of

quality construction, maintenance standards, and minimizes the financial exposure to the Port.

M. Performance Requirements:

The Port recognizes its obligation to ensure development and continued operation of viable industrial and commercial enterprises on its property. One means the Port may employ to accomplish this goal is to place performance requirements in its leases. Such requirements are established to ensure that the tenant will develop the property as the tenant has represented to the Port. The performance requirements may take various forms depending upon the nature of the development, such as: stated capital investment amounts, employment of a minimum number of persons (from the local labor force when practical), type of jobs (sustainable community-wage), production above a certain level, or some other reasonable measure to ensure a viable activity. It is not the intent to establish such performance requirements at a maximum level, but rather, at a threshold level of viability for operation of the business.

N. Maintenance Costs:

- i. Port-owned buildings. The Port will schedule and coordinate all landscape, storm water, HVAC systems, sprinkler systems, parking lot, and gutter maintenance and bill each tenant as part of its common area maintenance fees.
- ii. Land leases. The Port will schedule landscape and parking lot maintenance for tenants and bill each tenant as part of its common area maintenance fees.

III. CAPITAL IMPROVEMENTS:

For Port-owned buildings, Port staff will develop management plans that include maintenance and capital improvement schedules and budgets for each building. The maintenance and capital improvement budgets will be included in the Port's annual operating and capital improvement budgets and six-year capital facility plan (updated annually). This will include a reserve sinking fund for replacement of deteriorating items like roofs, asphalt, building poles, parking lots, landscaping, etc.

IV. OPEN PUBLIC RECORDS:

All information provided to the Port is subject to the requirements of the Washington Public Records Act (Chapter 42.56 RCW). If a public records request is made, the Port will notify the party submitting the records and the requesting party will assume all costs associated with the disclosure or non-disclosure of such documents.

V. VARIATIONS FROM POLICY:

The policy set forth above may be varied from time to time to fit particular instances as is deemed advisable by the Port Commission.

VI. REVIEW OF POLICY:

This leasing policy will be reviewed from time to time as deemed appropriate by the Port Commission.

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