

AGENDA REPORT

Ordinance: Approve and Authorize the Executive Director to Enter into a Lease Amendment with Sea-Logix, LLC for Approximately 5.5 Acres of Combined Warehouse, Office and Yard Space for a Term Extending Through June 30, 2024, Resulting in Total Rent of \$4.3 Million with One Five-Year Option Resulting in Additional Rent of Approximately \$6.0 Million (**Maritime**)

MEETING DATE: 9/26/2019

AMOUNT: \$4.3 Million Total Rent (FY 2020 – FY 2024)
Revenue

PARTIES INVOLVED: Sea-Logix, LLC, Oakland, CA
George W. Pasha, IV, President and CEO

SUBMITTED BY: John C. Driscoll, Director of Maritime

APPROVED BY: Danny Wan, Acting Executive Director

ACTION TYPE: Ordinance

EXECUTIVE SUMMARY

Sea-Logix, LLC (“Sea-Logix” or “Lessee”) entered into a Lease Agreement (“Lease”) dated April 29, 2016 with the Port of Oakland (“Port”) for approximately 5.5 acres (“Premises”) at 1425 Maritime Street. Port Staff (“Staff”) and Lessee have negotiated terms for a Lease Amendment (“Amendment”) extending this Lease through June 30, 2024 resulting in total rent of \$4.3 million, with one five-year option to extend through June 30, 2029. If the option extension is exercised by Lessee and approved by the Port, a 5-year term extension will result in additional total rent of approximately \$6.0 million. Staff is requesting the Board’s authorization to enter into the proposed Amendment with Sea-Logix, LLC.

BACKGROUND

Sea-Logix is owned and operated by The Pasha Group, a global transportation and logistics management company, and operates a Container Freight Station (“CFS”) and Transportation Company located at 1425 Maritime Street adjacent to the Outer Harbor Terminal (“OHT”). The Sea-Logix Oakland operation consists of two distinct properties which are identified as CFS and Marine Warehouse on Exhibit A.

The **CFS operation** is utilized for loading and unloading of containers in a secure location, and includes a yard adjacent to the CFS warehouse that is used for storage of containers

("Container Yard"). Employees are located in the office space associated with the CFS Warehouse ("Office"). Sea-Logix also runs their trucking operation out of this Office and Container Yard. The **Marine Warehouse** is used for storage of time sensitive maritime materials for The Pasha Group. This facility serves a key role in the Sea-Logix logistics supply chain by adding transportation efficiencies with cargo consolidation and de-consolidation services within the Port's Heavy Container Corridor.

The **CFS operation** consists of approximately 4.5 acres of land which includes 21,800 square feet ("sf") of warehouse space, 166,500 sf of yard space, and 5,518 sf of office space. The total available office space within the CFS is 12,218 sf. Sea-Logix occupies a portion of the available office space. Since 2017, the Port's Truck Customer Service Center ("CSC") has occupied the remaining 6,700 sf of office space. This coexistence of Sea-Logix and CSC office staff is expected to continue.

The **Marine Warehouse** consists of approximately 1 acre of land which includes 9,350 sf of warehouse space, 35,700 sf of yard space, and 500 sf of office space. Both distinct properties together total approximately 239,580 sf, that is 5.5 acres.

Sea-Logix has operated at this location since 2015, initially as a sub-tenant to the former marine terminal operator, Ports America Outer Harbor, LLC ("PAOH"), and now as a direct tenant of the Port. In 2016, PAOH vacated the OHT, and Sea-Logix subsequently entered into the current Lease direct with the Port of Oakland.

The initial term of the lease was through June 30, 2019, and included an option to extend for an additional three years through June 30, 2022. However, Sea-Logix did not meet the noticing requirement to exercise this option. Thus, Sea-Logix is currently in "holdover" status pursuant to the existing Lease, which requires a 150% increase over the June 1, 2019 rental rate.

Sea-Logix is interested in continuing their operations and extending their Lease. Thus, Staff has worked with Sea-Logix and have negotiated terms of a proposed Amendment, as described herein, that meets the goals of Sea-Logix to continue operations and of the Port to secure steady future revenues.

ANALYSIS

Highlights of the proposed terms in the Amendment are provided below:

- **Term.** The term shall be effective November 1, 2019, and expire on June 30, 2024. Contract years ("CY") are July 1 to June 30 the following year.
- **Option to Extend Term.** Sea-Logix will have one option to extend for up to an additional five years through June 30, 2029, subject to Port approval. Sea-Logix must provide the Port with a notice of their intent to extend no less than 12 months before expiration of the initial term (June 30, 2023).

- **Compensation.** Fixed annual rent increases on November 1, 2019 by approximately 23% from June 1, 2019 rates to an annualized amount of \$752,160.00, increasing to \$1.1 million annualized in CY 5. Total rent for the initial term is \$4.3 million. The option term, if exercised by Lessee and approved by Port, results in additional rent of approximately \$6.0 million.¹
- **Annual Rent Increase.** Commencing July 1, 2020 and for each CY of the initial term thereafter, annual rent increases by 10%. If Lease is mutually extended per the option, rent will escalate on July 1, 2024 and each CY thereafter, at the greater of (a) the percentage increase in Consumer Price Index ("CPI") over the preceding 12-month period; (b) three percent (3%) of the annual and monthly rent as of June 30 of the immediately preceding Contract Year; and (c) the percentage increase in the Port's Tariff rates for land that is Paved, Lighting and Fencing.
- **Lighting/Utility Assessment.** Commencing November 1, 2019, Sea-Logix will be subject to the Common Area Electric Utility Assessment set forth in the Port's Tariff.
- **Surrender and Holdover.** Port has right to fix monthly rent as deemed appropriate if lease enters into a holdover status.

Sea-Logix is responsible for all repair and maintenance of the leasehold, and will follow a detailed annual inspection program for asphalt maintenance. A security deposit equal to 3-months' rent, which is also subject to increases pursuant to rent escalations, is required. Sea-Logix, as proposed, will have on file \$188,040.00 by November 1, 2019.

Sea-Logix will maintain all landscaped areas, approximately 18,100 square feet, of which 6,100 square feet of this landscaped area is within the fenced in Premises and 13,500 square feet is located outside the Premises as depicted on Exhibit A. The 13,500 square feet occupies the area between Maritime Street and the CFS Warehouse.

A term sheet providing a complete summary of terms contained within the Amendment is attached hereto as Exhibit B.

¹ Assumes an Option extension of 5 years and minimum annual rent escalations of 3%

BUDGET AND STAFFING

The proposed Amendment will result in projected revenues during the initial approximate 5-year term as detailed below. This revenue is included in the 5-year revenue budget forecast. Of note, the budget forecast included conservative assumptions, thus, actual proposed revenue over the approximate 5-year initial term is approximately \$872,000 greater than budgeted. The actual forecasted revenues will be reflected in the next budget cycle.

Table 1: Total Rent Projections

	FY 20²	FY 21	FY 22	FY 23	FY 24	Total
Total Rent	\$501,440	\$827,376	\$910,114	\$1,001,125	\$1,101,237	\$4,341,292

The proposed Amendment allows one option to extend the term an additional 5 years through June 30, 2029. If the option to extend is exercised, the Port would receive additional rent of approximately \$6.0 million as detailed below.

Table 2: Option Period Total Rent Projections

	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Total Rent	\$1,134,275	\$1,168,303	\$1,203,352	\$1,239,452	\$1,276,636	\$6,022,018

Additionally, Sea-Logix leases Port land surrounding the Premises, on a month-to-month basis, at Tariff rates. This results in added monthly revenue from Sea-Logix in the amount of \$6,996 (\$83,952 annualized). With the execution of the proposed Amendment, this additional revenue is expected to continue and increase in accordance with Port's Tariff rates for land that is Paved, with Lighting and Fencing.

The proposed action does not have any staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The action to enter into this Proposed Lease Amendment with Sea-Logix does not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement ("MAPLA") and the provisions of the MAPLA do not apply to this action. However, if in the future tenant construction work under these Agreements exceeds the thresholds required for coverage under the MAPLA, the provisions of MAPLA will apply when Port Permits are requested for that construction work.

² FY 20 revenue is prorated for the period from November 1, 2019 (proposed Effective Date) to June 30, 2020 (\$752,160 annualized).

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

<https://www.portoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

- Goal: Grow Net Revenue
- Goal: Modernize and Maintain Infrastructure

LIVING WAGE

Based on the proposed Amendment, living wage requirements may apply because the agreement is for a value greater than \$50,000. However, the condition of the tenants employing 21 or more employees must also be met for the tenants to comply with the living wage requirements and all of its obligations. In addition, for future construction work under these agreements prevailing wage requirements will apply.

SUSTAINABILITY

Sea-Logix has not proposed any new development within the Premises. If Sea-Logix decides to develop the Premises in the future, they must comply with the 2000 Sustainability Policy and complete the Sustainability Opportunities Assessment Form.

Additionally, this proposed Amendment incorporates the updated "Environmental Responsibilities" Exhibit, which requires Sea-Logix to adhere to any Maritime Air Quality Improvement (MAQIP) 2020 and Beyond Plan requirements including but not limited to, 1) providing annual equipment and operational data for emissions inventories, 2) meeting with Staff annually to evaluate feasibility of using zero-emissions equipment, and 3) participate in pilot projects of new zero-emission equipment.

ENVIRONMENTAL

The proposal to approve and authorize the Executive Director to enter into the Amendment was reviewed in accordance with the requirements of the California Environmental Quality Act ("CEQA") and the Port CEQA Guidelines. This action is categorically exempt from CEQA pursuant to the Port CEQA Guidelines, Section 15301(p), which exempts renewals, extensions or amendments to leases or license and concession agreements where the premises or licensed activity was previously leased or licensed to the same or another person, and involving negligible or no expansion of use beyond that previously existing. Sea-Logix will continue to engage in the same type of maritime-related cargo handling and services as it has for over 28 years in the same location. Therefore, extending the lease for Sea-Logix to continue its current business operations meets the criteria for this exemption. No further CEQA review is required.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)

The Owner Controlled Insurance Program (OCIP) does not apply to the matters addressed by this Agenda Report as they are not capital improvement construction projects.

OPTIONS

Staff has identified the following three options for the Board's consideration:

1. Approve and authorize the Executive Director to execute the Amendment with Sea-Logix, as described herein.
2. Approve and authorize the Executive Director to execute a lease amendment with Sea-Logix under different terms than those stated in this Agenda Report.
3. Do not approve or authorize the Executive Director to execute a lease amendment with Sea-Logix, and direct Staff to pursue alternative uses of the subject property.

RECOMMENDATION

Staff recommends that the Board approve and authorize the Executive Director to execute the Amendment with Sea-Logix, LLC, for a term through June 30, 2024, resulting in total rent of \$4.3 million and approximately an additional \$6.0 million in total rent with a 5-year option term extension.

EXHIBIT A

Site Map for Sea-Logix, LLC

SEAPORT FACILITIES

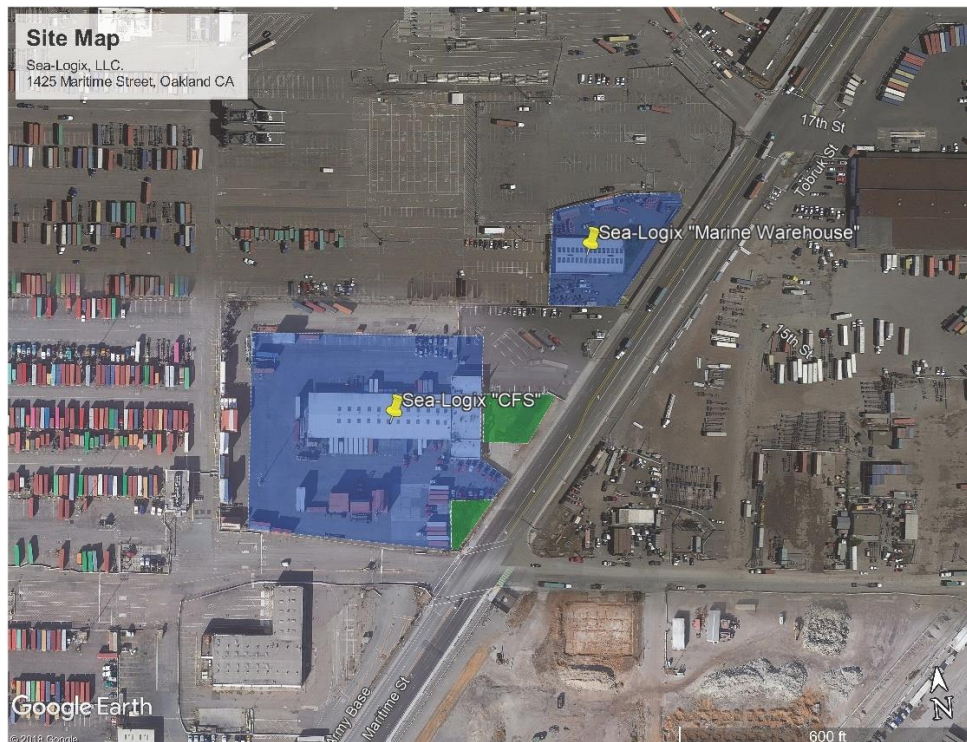


EXHIBIT B

Summary of Proposed Key Lease Amendment Terms for Sea-Logix, LLC

Form of Agreement	<ul style="list-style-type: none">• Lease Amendment
Effective Date	<ul style="list-style-type: none">• November 1, 2019
Lease Term, Termination, & Options to Extend	<ul style="list-style-type: none">• The term of the Amendment shall terminate on June 30, 2024 (~5 years)• Each Lease Year (aka Contract Year) shall be the 12-month period beginning on July 1 of a calendar year and ending on June 30 of the following calendar year.• No termination right by Port or Sea-Logix• (1) mutual option to extend up to 5-years with a max term through June 30, 2029
Premises	<ul style="list-style-type: none">• Approximately 5.5 acres (See Exhibit A)
Rent and Rent Escalations	<ul style="list-style-type: none">• As of the Effective Date of new Lease, Sea-Logix shall pay monthly rent of approximately \$62,680 (\$752,160.00 annualized)• Annual rent will increase on July 1, 2020 and each year thereafter by ten percent (10%) of prior Contract Year• Option Period: Annual rent will increase on July 1, 2024 by an amount equal to the greatest of (a) the percentage increase in Consumer Price Index ("CPI") over the preceding 12-month period; (b) three percent (3%) of the Annual and monthly rent as of June 30 of the immediately preceding Contract Year; and (c) the percentage increase in the Port's Tariff rates for land that is Paved, with Lighting and Fencing• Notwithstanding the above, monthly rent shall never decrease
Utilities	<ul style="list-style-type: none">• Port's Tariff Common Area Electric Utility Assessment for yard high mast lighting applies = 202,200 sf x \$0.010/sf = \$2,022/month as of November 1, 2019
Performance Deposit	<ul style="list-style-type: none">• An amount equal to three (3) months' monthly rent (less utility assessment fee), or \$188,040.

	<ul style="list-style-type: none"> • The Performance Deposit shall be increased whenever the monthly rent is increased so that the Performance Deposit is equal to at least three (3) times the Month Rental.
Truck RFID Data	<ul style="list-style-type: none"> • Port reserves the right to install RFID readers on the Premises
Holdover	<ul style="list-style-type: none"> • If Lessee fails to vacate and surrender possession of the Premises on or prior to the Termination Date, with or without the Port's consent, such holding over shall be deemed a tenancy from month-to-month on terms and conditions, and at a compensation that may be fixed from time to time by the Port by giving to Lessee written notice thereof at any time, but not less than 7 days before the expiration of any such month
Environmental	<ul style="list-style-type: none"> • Standard form of Environmental Exhibit • Comply with the Port of Oakland's Comprehensive Truck Management Plan (CTMP); Port Environmental and Storm Water Ordinances, Maritime Air Quality Improvement Plan (MAQIP), and the Seaport Air Quality 2020 and Beyond Plan