



# *Seattle Parks & Recreation – Property Contracts and Food Service Analysis*

August 4, 2015

# Overall Project Objectives

- Identify best practices, processes, and successful operating models for the Department of Parks and Recreation (DPR) to consider related to landlord leasing and food services in City parks
- Understand DPR's mission and take this into account while evaluating the process
- Identify current risks and suggest ways in which DPR can improve its landlord leasing process
- Identify current risks and suggest ways in which the DPR can improve food service, help support small business, and further activate parks
- Identify opportunities for improving practices going forward
- Outline recommendations

## DPR's Mission

Seattle Parks and Recreation provides welcoming and safe opportunities to play, learn, contemplate and build community, and promotes responsible stewardship of the land.

# Project Methodology

## Overall

- Interviewed key staff from DPRs in multiple cities and representatives from the City of Seattle's Department of Transportation (DOT), Office of Economic Development (OED), Finance and Administration (FAS), and DPR
- Performed numerous park site visits to observe level of activation and success of concessionaire operations
- Interviewed and assessed the private sector

## Property Contracts

- Detailed comparisons of private sector best landlord practices
- Evaluation of DPR historic contracts
- Detailed evaluation of the assets under review and the real estate submarkets surrounding them

# Project Methodology

## Food Service

- Interviews with food trucks, brick/mortar operations and concession owners/managers in 3 cities
- Evaluated leases and permit process in 4 cities
- Evaluated the method in which concessionaires are identified and selected in Seattle and comparative cities
- Explored common issues and relationships that affect each city's concessionaires

# Findings

## Overall

- DPR process for both leasing and food service has continued to improve over time
- There is room for improvement in the process by which DPR negotiates its agreements
- DPR currently has no method in place for evaluating costs against income and needs to implement a method

## Property Contracts

- The quality of the contracts executed by DPR has improved over time
- The contracts cannot be directly compared against typical private real estate contracts due to the location of the assets and the nature of the agreements
- The contracts reasonably identify and reduce the risks to the City
- DPR does not have good data on what it costs to run its facilities
- Most city departments carry a different methodology in handling leasing

# Findings

## Food Service

- All cities share a similar desire to use concessions to provide a public amenity and support positive park activation, but each approach it differently
- Seasonality is an issue with concessionaires and revenues fluctuate accordingly
- Short term leases are problematic for brick, mortar concessionaires
- Illegal vendors cannibalizing the business of legally permitted vendors is a major issue
- DPR does not have sufficient tools to enforce against illegal vendors
- Many vendors complained that the City's permitting and payment process is laborious and time consuming

# Primary Recommendations

## Property Contracts

- Determine income versus costs by developing rent income less facility cost documents so that each opportunity can be assessed and monitored
- Phase out capital offsets and other offsets that continue throughout the entire leasing process
- Determine market conditions to reconcile
- Track and monitor all leases and critical dates
- Mandate security deposits or other forms of securitization whenever possible
- Follow private sector real estate practices when possible in order to increase probability of procuring tenants
- Prepare vacant space for marketing if possible

# Primary Recommendations

## Food Service

- Adjust base rent terms to allow for seasonality (by fluctuating base rent requirements)
- Accept extended lease term lengths for concessionaires
- Incorporate a maintenance fund and/or personal property clause within lease agreements
- Conduct facilities assessments to determine deferred maintenance
- Standardize the leasing process
- Streamline the permitting process
- Provide more food truck pads with utility hookups in areas with ready access to bathrooms and seating
- Provide DPR with more authority to cite illegal vendors



# Contract Review Matrix

	<i>Magnuson Park Cascade Bicycle Club</i>	<i>Seacrest Boathouse Marination LLC</i>	<i>Seward Park Audubon Society</i>	<i>Magnuson Park Waldorf School</i>	<i>Magnuson Park Earthcorps</i>	<i>Magnuson Park Arena Sports</i>	<i>Pratt Park Park PRATT Fine Arts</i>
<b>Building</b>							
<b>Rent Schedule</b>	●	◆	✘	◆	✘	✘	✘
<b>Improvement Allowance</b>	●	◆	✘	✘	◆	✘	◆
<b>Concessions</b>	◆	◆	◆	◆	◆	◆	◆
<b>Security Deposit</b>	✘	✘	◆	✘	✘	✘	✘
<b>Renewal Language</b>	✘	●	●	✘	✘	●	✘
<b>Restoration Obligations</b>	●	◆	✘	◆	◆	◆	◆
<b>Construction</b>	●	✘	●	●	✘	✘	✘
<b>Operation / maintenance of the facility</b>	●	●	◆	●	●	◆	●

- Legend**
- ◆ Landlord Favored
  - ✘ Tenant Favored
  - Neutral

Contract Summary for Parks Department

DPR Lease: Cascade Bicycle Club – Magnuson Park  
 Building 11  
 7777 Sand Point Way NE, Seattle WA 98115



**Ordinance**

Authorizing the Superintendent to enter into a lease agreement with Cascade Bicycle Club to occupy and use a portion of Building 11 at Warren G. Magnuson Park

**Property Information**

<b>Building</b>	Building 11
<i>JLL Comments</i>	
<b>Premises / RSF / Description</b>	9,050 square feet located on the first floor
<i>JLL Comments</i>	Well defined
<b>Expansion</b>	None provided
<i>JLL Comments</i>	

**General Details**

<b>Ordinance Number</b>	124455	
<b>Council Bill</b>	118065	
<b>Ordinance Date Passed</b>	4/21/2014	
<b>Lease Execution Date</b>	4/28/2014	
<b>Contract Type</b>	Lease	
<b>Contract Description</b>	Modified Gross Rent	Lessee doesn't have base year, pays janitorial

**Lease Contract Review**

Description	Content	Section
<b>Rent Commencement</b>	Rent Commencement Date: November 15, 2014, expiring November 30, 2024	Article 1: 1.3
<i>JLL Comments</i>	10 year term, common to long for typical contract	
<b>Rent Schedule</b>	Rent: \$15 RSF / YR Modified Gross, excepting janitorial	Article 1: 1.5
<i>JLL Comments</i>	Below market, pending inspection of interior	
<b>Security Deposit</b>	None	Article 1: 1.8
<i>JLL Comments</i>	Typically one month minimum	
<b>Premises</b>	"as is" condition	Article 2: 2.4
<i>JLL Comments</i>	Typical	
<b>Parking</b>	No parking right are associated with this Agreement. Parking shall be available on a first come/first served, unreserved basis	Article 2: 2.4
<i>JLL Comments</i>	Uncommon to not have allocation, listing agent showing parking ratio in facility next door	
<b>Use</b>	Exclusive to use: classrooms, meeting rooms, storage and administrative offices related to the general operations of Lessee as a nonprofit organization dedicated to promoting the use of bicycles through advocacy, education and bicycle focused events and activities.	Article 2: 2.5
<i>JLL Comments</i>	Typically more broad in favor of Tenant	
<b>Use</b>	Commitment to continue public benefits through bicycle-related public programming at Magnuson Park	Article 2: 2.6
<i>JLL Comments</i>	Needs to be reconciled in rent	
<b>Extended Term</b>	Four (4) successive individual extended term(s) of five (5) years each (each an "Extended Term") on the same terms and conditions set forth herein Written notice 90 days prior to the last day of the then-current Term  Fair market rent, Applicable any Extended Terms, in no event shall Rent be adjusted, upward or downward, more than twenty (20) percent of the amount Rent due as of the last day of the then-current Term (no cumulative cap)	Article 3: 3.2 / 4: 4.3
<i>JLL Comments</i>	Very uncommon to have more than two, typically 9 months, uncommon to see any "downward" language	
<b>Extended Term Condition</b>	Lessee's right to any extension of the Initial Term conditioned upon Lessee making capital improvements to the Premises or Magnuson Park, or both, which are determined by the Superintendent to cost One Million Two Hundred Fifty Thousand dollars (\$1,250,000)	Article 3: 3.3
<i>JLL Comments</i>	Transaction specific	
<b>Lease Term</b>	Lessee shall be solely responsible for all costs of any Lessee improvements, regardless of whether the costs exceed the amount required under Section 3.3	Article 3: 3.5



Lease Contract Review		
Description	Content	Section
JLL Comments	Typical	
Annual Rent increases	Three percent (3%) of the Rent then due.	Article 4: 4.1
JLL Comments	Typical	
Surrender	City has the right to cause Lessee to remove improvements	Article 10.0
JLL Comments	Typically not seen in this product class	
Tenant Improvement Allowance	They City will allow Lessee a Tenant Improvement Allowance of up to \$20 per square foot for that portion of the Premises comprising Offices 143 and 144 (1,100 square feet), and up to \$10 per square foot for the remainder of the Premises (7,950 sq. ft.) (Collectively, the "TIA"). The TIA will be in the form of an offset against Rent for actual costs associated with Lessee's pre-approved improvements.	Article 10: 10.2
JLL Comments	Below market	
Surrender of Premises	Lessee shall return the Premises to City in the same condition in which received on the Commencement Date, or with alterations	Article 13: 13.1
JLL Comments	Uncommon in this product class	
Surrender of Premises	Lessee shall remove all voice and data communication and transmission cables and wiring	Article 13: 13.2
JLL Comments	Preference is that City has right to cause to restore	
Termination for Convenience	City may terminate this Lease for any or no reason for City's convenience City will pay to Lessee a termination fee that is greater of: (i) the dollar amount of the previous 12 months' Rent from the notice date that the lessee paid to the City	Article 23
JLL Comments	Should be considered when reconciling	
Holding Over	Either party may terminate any holdover tenancy by written notice delivered to the other party not later than one hundred-twenty (120) day prior to first day of the final month	Article 26
JLL Comments	Typically no holdover with consent, there should be a penalty imposed	
Broker's Commission	None	Article 31
JLL Comments	Typical for Landlord to pay commissions	

	Tenant Favored	Landlord Favored	Neutral
Rent Schedule			●
Improvement Allowance			●
Concessions		●	
Security Deposit	●		
Renewal Language	●		
Restoration Obligations			●
Construction			●
Operation/maintenance of the facility			●

Summary	
Starting Rental Rate	\$15.00 SF / Year
JLL Comments	Low given the TI contribution
Rent Type	Modified Gross
JLL Comments	Not typically seen, would recommend NNN lease for this
Annual Escalator	3%
JLL Comments	Common
Abated Rent	None
JLL Comments	Typically a few months provided
Improvement Allowance	\$20 / SF
JLL Comments	Normal for market, high given circumstance
Other Concessions	None
JLL Comments	
Security Deposit	None
JLL Comments	Typically one month minimum especially when TI involved
Renewal Number of Options	4
JLL Comments	Extremely high for a tenant of this size with little capital contribution
Renewal Term Length	5 years
JLL Comments	Typical

Renewal Rental Rate	FMV – with a not less than / not greater than 20% variance
JLL Comments	Unusual to have any less than language at all
Renewal Notice Period	3 months
JLL Comments	Extremely short amount of time, which benefits the tenant in negotiations
Restoration Obligations	Current condition
JLL Comments	Better to have the ability to cause Tenant to remove its equipment
Construction Period	Not defined
JLL Comments	4 to 6 month period would be standard
Operations / Management	Tenant minor / landlord major
JLL Comments	Typical

**JLL General Comments**

- JLL preliminary-assessment: Class C plus / B minus office / flex
- Area is not otherwise considered commercially viable from a real estate perspective apart from Marine and Public use