



SEATTLE CITY COUNCIL

Legislative Summary

CB 119249

Record No.: CB 119249

Type: Ordinance (Ord)

Status: Passed

Version: 1

Ord. no: Ord 125580

In Control: City Clerk

File Created: 04/12/2018

Final Action: 05/16/2018

Title: AN ORDINANCE relating to a lease agreement for warehouse space; authorizing the Director of Finance and Administrative Services to enter into a lease agreement with MB Warehouse, LLC, a Washington limited liability company, for warehouse space in the building located at 2021 22nd Avenue South; and ratifying and confirming certain prior acts.

Date

Notes:

Filed with City Clerk:

Mayor's Signature:

Sponsors: Bagshaw

Vetoed by Mayor:

Veto Overridden:

Veto Sustained:

Attachments: Att 1 - Lease Agreement

Drafter: brian.hawksford@seattle.gov

Filing Requirements/Dept Action:

History of Legislative File

Legal Notice Published:

Yes

No

Version:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:	
1	Mayor	04/24/2018	Mayor's leg transmitted to Council	City Clerk				
1	City Clerk	04/24/2018	sent for review	Council President's Office				
	Action Text:	The Council Bill (CB) was sent for review. to the Council President's Office						
	Notes:							
1	Council President's Office	04/30/2018	sent for review	Finance and Neighborhoods Committee				
	Action Text:	The Council Bill (CB) was sent for review. to the Finance and Neighborhoods Committee						
	Notes:							

Legislative Summary Continued (CB 119249)

- 1 City Council 05/07/2018 referred Finance and
Neighborhoods
Committee
- 1 Finance and 05/09/2018 pass Pass
Neighborhoods
Committee
Action Text: The Committee recommends that Full Council pass the Council Bill (CB).
In Favor: 3 Chair Bagshaw, Member Harrell, Johnson
Opposed: 0
- 1 City Council 05/14/2018 passed Pass
Action Text: The Council Bill (CB) was passed by the following vote, and the President signed the Bill:
In Favor: 8 Councilmember Bagshaw, Councilmember González , Council
President Harrell, Councilmember Herbold, Councilmember Johnson,
Councilmember Juarez, Councilmember Mosqueda, Councilmember
O'Brien
Opposed: 1 Councilmember Sawant
- 1 City Clerk 05/15/2018 submitted for Mayor
Mayor's signature
Action Text: The Council Bill (CB) was submitted for Mayor's signature. to the Mayor
Notes:
- 1 Mayor 05/16/2018 Signed
- 1 Mayor 05/16/2018 returned City Clerk
Action Text: The Council Bill (CB) was returned. to the City Clerk
Notes:
- 1 City Clerk 05/16/2018 attested by City Clerk
Action Text: The Ordinance (Ord) was attested by City Clerk.
Notes:
-

Text of Legislative File CB 119249

CITY OF SEATTLE

ORDINANCE

125580

COUNCIL BILL

119249

1
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4
5 AN ORDINANCE relating to a lease agreement for warehouse space; authorizing the
6 Director of Finance and Administrative Services to enter into a lease agreement with
7 MB Warehouse, LLC, a Washington limited liability company, for warehouse space in
8 the building located at 2021 22nd Avenue South; and ratifying and confirming certain
9 prior acts.

10
11 WHEREAS, since 1975, The City of Seattle's Communication Shop ("Comm Shop"), a business
12 unit of Seattle Information Technology ("Seattle IT") has operated out of a City-owned
13 building located at 1933 Minor Avenue; and

14 WHEREAS, the City has recently entered into a Purchase and Sale Agreement to dispose of the
15 property at 1933 Minor Avenue, authorized by Ordinance 125533; and

16 WHEREAS, the Department of Finance and Administrative Services (FAS) evaluated proposals
17 to provide new space that will better meet the operational needs of the Comm Shop in an
18 area of Seattle that is less dense; and

19 WHEREAS, the City's interdepartmental Homeless Outreach Navigation Team ("Navigation
20 Team") does not currently have designated space in a City-owned facility for its
21 operations and engaged FAS to look for leased external space; and

22 WHEREAS, it was the conclusion of FAS, Seattle IT, and the Navigation Team that their
23 collective business needs could be met via the co-location of the Comm Shop and the
24 Navigation Team space in a single larger facility that was more cost-effective for the City
25 than two smaller facilities; and

26 WHEREAS, FAS has experience with the financial administration of such co-location of diverse
27 City functions; and

1 WHEREAS, MB Warehouse is the current owner and landlord for the property located at
2 2021 22nd Avenue South in the Rainier Valley area of Seattle; and

3 WHEREAS, Seattle Municipal Code Section 3.127.020 requires City Council approval of lease
4 agreements that exceed five years, and for warehouse lease space that is greater than
5 9,000 square feet; NOW, THEREFORE,

6 **BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

7 Section 1. The Director of Finance and Administrative Services (“Director”), or the
8 Director’s designee, is authorized to execute for and on behalf of The City of Seattle (“City”) the
9 Lease Agreement between the City, as tenant, and MB Warehouse, LLC, as landlord, in the form
10 attached as Attachment 1 to this ordinance and identified as “Lease Agreement,” with such
11 minor and clarifying additions, deletions, and modifications to Attachment 1 as the Director
12 deems to be in the best interest of the City, providing for the City’s use and occupancy of a
13 portion of the real property located at 2021 22nd Avenue South in Seattle.

14 Section 2. The initial term of the Lease Agreement is for ten years, beginning on the
15 commencement date specified in the Lease Agreement. Additionally, the Director or the
16 Director’s successor is authorized to extend the term of the lease for up to two additional five-
17 year extensions, as determined by the Director to be in the best interest of the City, on the terms
18 and conditions provided in the Lease Agreement.

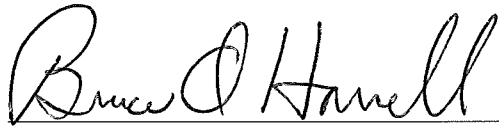
19 Section 3. The rental payments contemplated by the terms of the Lease Agreement
20 authorized in Section 1 of this ordinance shall be charged to the appropriate expenditure

1 allowance or allowances in the budget of the Department of Finance and Administrative Services
2 (FAS).

3 Section 4. Any act consistent with the authority of this ordinance taken after its passage
4 and prior to its effective date is hereby ratified and confirmed.

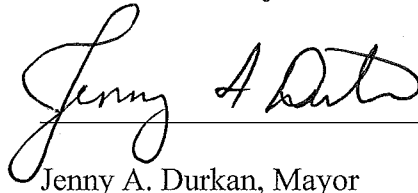
1 Section 5. This ordinance shall take effect and be in force 30 days after its approval by
2 the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it
3 shall take effect as provided by Seattle Municipal Code Section 1.04.020.

4 Passed by the City Council the 14th day of MAY, 2018,
5 and signed by me in open session in authentication of its passage this 14th day of
6 MAY, 2018.

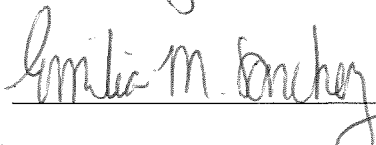
7 

8 President _____ of the City Council

9 Approved by me this 16th day of May, 2018.

10 
11 Jenny A. Durkan, Mayor

12 Filed by me this 16th day of May, 2018.

13 
14 for Monica Martinez Simmons, City Clerk

15 (Seal)

16
17
18
19 Attachments:
20 Attachment 1 – Lease Agreement

**LEASE AGREEMENT
PART A - SIGNATURE FORM**

1. PARTIES THIS LEASE AGREEMENT is entered into by and between MB WAREHOUSE LLC, a Washington limited liability company ("Lessor"), and CITY OF SEATTLE, a municipal corporation of the State of Washington ("City" or "Lessee"), WITNESSES THAT:
2. PREMISES Lessor hereby Leases to City, and City hereby Leases from Lessor, the ground floor portion of that certain real property commonly known as 2021 22ND Avenue South in Seattle, King County, Washington, consisting of approximately 15,500 square feet of interior warehouse and office space and adjoining fenced yard (such interior space and yard hereinafter collectively referred to as the "Premises"). The Premises are legally described on Exhibit "A" attached hereto.
3. PURPOSES The Premises may be used as warehouse and office space for various City Departments in City's ordinary course of business as well as any other purposes as are permitted by applicable law. City may permit other governmental agencies to use and occupy the Premises from time to time on a short-term basis without the written consent of Lessor. Lessor hereby acknowledges that Seattle Police Department employees will be using the Premises and will have weapons on the Premises in the ordinary course of business operations.
4. Commencement Date This Lease shall commence upon the first to occur of the following events: (i) ten (10) days after Lessor notifies City of substantial completion of Lessor's Work as detailed in the Work Letter attached hereto as Exhibit "B" (the "Lessor's Work"); or (ii) the date on which City takes possession of the premises for purposes other than completing tenant improvements ("Commencement Date"). The target Commencement Date shall be June 2018, but the parties acknowledge that this date is an estimate. The parties shall document the actual Commencement Date in a writing signed by each which shall be affixed to this Lease as Exhibit "C". City shall have the right to enter the Premises two weeks prior to the Commencement Date for the sole purpose of installing cabling, furniture, fixtures, and generally preparing the Premises for City's Permitted Use.; provided, however, that such entry shall not interfere with Lessor's completion of the Lessor's Work. Lessor shall notify City in writing of substantial completion.
5. TERM This Lease shall be for an initial term of ten years (the "Initial Term") beginning on the Commencement Date and ending on the last day of the calendar month that is a full 10 years after the Commencement Date. Provided City does not have an uncured Event of Default at the time for giving notice, City shall have the option to extend the Lease for two (2) successive terms of five (5) years each (each an "Extended Term") by providing Lessor with no less than nine (9) and no more than twelve (12) months' written notice. Each Extended Term shall be under the same terms and conditions herein, except for Base Rent which shall be adjusted to 100% fair market rental rates, as defined in Part B Section 11 ("Fair Market Rent").

As used herein, the words "Term" or "Lease Term" shall mean the Initial Term and any validly exercised Extended Terms.

6. Right of First Offer

City shall have the right of first offer (the "Right of First Offer") as hereinafter described to lease any space ("First Offer Space") on the second floor of the building which Lessor proposes to lease for a term commencing during the First Offer Period. For purposes of this Section, the term "First Offer Period" means the Term of this Lease and any extensions and renewals. The lease of any First Offer Space shall be for a term beginning on the Effective Date for such First Offer Space and ending contemporaneously with the expiration of the Term and any renewals or extensions, unless sooner terminated as provided in this Lease. The Right of First Offer is exercisable at the following times and upon the following conditions:

Prior to leasing any First Offer Space to a new tenant for a term commencing during the First Offer Period, Lessor shall provide written notice thereof to City ("Lessor's Notice") and shall include in Lessor's Notice an offer to City to lease such First Offer Space at the First Offer Prevailing Market Rate (as defined below). City shall have a period of five (5) business days after the date of delivery of Lessor's Notice to inspect the First Offer Space and to notify Lessor ("City's Notice") whether City elects to exercise the right granted hereby to lease such First Offer Space, and to inform the Lessor of any required repairs or clean-up to it. If City fails to give City's Notice to Lessor within the required five (5) business day period, City shall be deemed to have failed to exercise its right to lease such First Offer Space, and Lessor shall be free to lease the First Offer Space to third parties without further notice to the City.

In the event that City exercises its Right of First Offer as provided herein, Lessor and City shall enter into a written agreement modifying and supplementing this Lease and containing other appropriate terms and provisions relating to the addition to the Premises of the First Offer Space being leased. The monthly Base Rent per square foot of rentable area to be paid under this Lease for the First Offer Space so leased shall be Fair Market Rent, as described in Part B Section 11, but in no case shall the base rent per square foot be less than the rate that the Lessee is paying on the Premises space currently under lease. Monthly Base Rent for the First Offer Space for any partial month shall be prorated. The payment of the monthly Base Rent for the First Offer Space so leased shall commence on the date (the "Effective Date") which is the later of (i) one (1) day after the termination date of the term of the lease, if any, with another tenant for such First Offer Space, or (ii) when the Lessor delivers the space in as-is, but broom clean condition. The First Offer Space shall be tendered to City in an "as is" condition and Lessor shall have no obligation to alter, remodel, decorate or improve the First Offer Space (or to pay for any such work).

For purposes hereof, "First Offer Prevailing Market Rate" shall mean the prevailing market rate per square foot of rentable area for terms commencing on or about the pertinent Effective Date for space in the building and in comparable buildings in the South Seattle industrial area, which includes the areas known as SODO, Georgetown, and the Rainier Valley Business District, comparable to the First Offer Space being leased, as reasonably determined by Lessor. The determination of First Offer Prevailing Market Rate shall take into account any material economic differences between the terms of the lease of the First Offer Space pursuant to this Article and any comparison lease, such as, and the manner thereunder, if any, in which Lessor or the other lessor under any such lease is reimbursed for operating expenses and taxes.

7. RENT

In consideration of this Lease and Lessor's performance of all covenants and agreements contained herein, beginning on the Commencement Date and thereafter, in advance, on the first day of each month throughout the Term, City shall pay to Lessor monthly rental for said Premises in the amount of Thirteen Thousand Four Hundred Seventy-Five Dollars and Zero Cents (\$13,475.00) ("Base Rent"). The Base Rent shall increase by 3% annually on each anniversary of the Commencement Date; if the Commencement Date is not the 1st day of the calendar month, then the Base Rent shall be adjusted on the 1st day of the calendar month immediately following the anniversary of the Commencement Date (each such date, the "Adjustment Date.") prorated for any partial month occurring at the beginning or end of the Term.

8. TENANT
IMPROVEMENTS

Except for the tenant improvements described on the Work Letter Agreement attached as Exhibit B which are to be completed by Lessor (defined herein as "Lessor's Work"), City shall be responsible for performing any work necessary to bring the Premises into a condition satisfactory to City. By signing this Lease, City acknowledges that it has had adequate opportunity to investigate the Premises, acknowledges responsibility for making any corrections, alterations and repairs to the Premises (other than Lessor's Work), and acknowledges that the time needed for City to complete any such items shall not delay the Commencement Date.

Responsibilities for design, payment and performance of all Lessor's Work shall be as set forth on attached Exhibit B. If City fails to notify Lessor of any defect in Lessor's Work within ten (10) days of the Commencement Date, City shall be deemed to have accepted the Premises in its condition as of the Commencement Date, excepting any latent defects not discoverable by City in the exercise of diligent inspection. If City discovers any major defects in Lessor's Work during City's early occupancy of the Premises for City's move-in that would prevent City from using the Premises for its Permitted Use, City shall so notify Lessor in writing and the Commencement Date shall be delayed until after Lessor has corrected the major defects and City has had five (5) days to inspect and approve the Premises after Lessor's correction of such defects. The Commencement Date shall not be delayed if City's inspection reveals minor defects in Lessor's Work that will not prevent City from using the Premises for its Permitted Use. City shall prepare a punch list of all minor defects and provide the punch list to Lessor. Lessor shall promptly correct all punch list items.

Space planning will be provided by Wolken Architects, owned by Tom Wolken, subject property partner. City shall provide a space program within ten (10) days of agreeing to lease terms; subsequently, Lessor will prepare a preliminary space plan at no cost to City. The space plan shall be mutually agreeable.

In addition to the above, Lessor shall provide standard warehouse freeze protection throughout the entire warehouse space, including upgrading the existing heating systems if necessary Energy efficient LED warehouse lighting is currently installed throughout the warehouse areas of the Premises. The cost of these improvements shall not be included in the tenant Improvements Allowance described in Exhibit B.

9. UTILITIES
OTHER SERVICES
AND
OPERATING COSTS

- a. Notwithstanding the provisions of Part B, Section 3 hereof, City shall pay for the following utilities and other services beginning three (3) months following Lease execution directly to the utility service providers: water, sewer, natural gas, electricity (all via separate meter or submeter), and fire alarm systems, phones, data, and fire suppression systems inspection and testing.
- b. In addition, notwithstanding the provisions of Part B, Section 3 hereof, City shall pay for its prorata share of the following operating costs beginning three (3) months following Lease execution: real estate property taxes & fees, property management fee, and landlord's insurance coverages on the property. Such costs shall be paid by the Lessor and charged back to the Lessee as additional rent.
- c. The Lessee shall begin paying for the costs in subsections a & b above prior to the Commencement Date, beginning after 90 days from the time the Lease has been fully executed by the Lessee, or substantial completion of the improvements whichever is earlier. This shall include notarize Lessee signature, approval by the Seattle City Council and the Mayor of Seattle.

10. AGREEMENT
CONTENTS

This Lease consists of this Part A - Signature Form plus Part B - General Terms and Conditions, which, together, embody the entire agreement of the parties with respect to the lease of the Premises. There are no other understandings or agreements, written or oral, between the parties relating to the subject matter hereof.

11. EFFECTUATION
OF AGREEMENT

In order to be effective, this Lease must be (1) signed by an authorized representative of Lessor and returned to City at the address set forth below and (2) signed by City's Director of the Finance and Administrative Services Department pursuant to ordinance authority. The Lessee shall sign the lease prior to the Lessor.

IN WITNESS WHEREOF, the parties hereto have affixed their signature below:

LESSEE, CITY OF SEATTLE

LESSOR, MB Warehouse LLC

By _____
Fred Podesta

By _____
Tom Wolken, Manager

Director of Finance and Administrative Services

Lessor's address for all communications:

Authorizing Ordinance: _____

City's address for all communications:

MB_Warehouse LLC
c/o Wolken Architects
4411 50th Avenue S
Seattle, WA 98118

Finance and Administrative Services
Attn: Facility Management
700 5th Avenue, Suite 5200
P.O. Box 94689
Seattle, Washington 98124-4689

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that Fred Podesta is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the Director of the Department of Finance and Administrative Services of CITY OF SEATTLE to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: _____

(Notary Signature)

(Print Name)

NOTARY PUBLIC in and for the State
of Washington, residing at Seattle.
My appointment expires _____.

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that _____ is the individual who appeared before me, and said individual acknowledged that (s)he signed this instrument, on oath stated that (s)he was authorized to execute the instrument and acknowledged it as the _____ of the _____ to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: _____

(Notary Signature)

(Print Name)

NOTARY PUBLIC in and for the State
of Washington, residing at Seattle.
My appointment expires _____.

**LEASE AGREEMENT
PART B - GENERAL TERMS AND CONDITIONS**

1. POSSESSION. The Lessee shall have possession of the Premises as defined in Lease Agreement Part A- Signature Form , Section 4.

2. ACCESS. City shall allow Lessor or Lessor's agent access at all reasonable times to said Premises to inspect, clean, or make repairs, additions or alterations to the Premises or any connected property owned by or under the control of Lessor. This provision shall not be construed as an agreement on the part of Lessor to make such repairs, additions or alterations or a waiver of City's right of quiet enjoyment. All such work by Lessor shall be scheduled with City in advance and undertaken in a way so as to minimize interference with City's use of the Premises.

3. UTILITIES AND OTHER SERVICES. See Part A Section 9.

4. CARE OF PREMISES. City will not permit any waste, damage or injury to the Premises, use or permit in said Premises anything that will increase the rate of fire insurance thereon, maintain anything that may be dangerous to life or limb, with the exception that City may have weapons and ammunition as part of its course of business, permit any objectionable noise or odor to escape or to be emitted from said Premises, or permit anything to be done upon said Premises that in any way will tend to create a nuisance.

5. MAINTENANCE - REPAIRS. The Premises have been inspected by both parties and are accepted by City in their existing condition as of the Commencement Date, without reservation except for latent defects or faulty construction of the Premises not discoverable by inspection at the time of taking possession, except for the work described in the attached Work Letter Agreement and the Landlord work detailed in Part A Section 8. Except as otherwise provided for herein, Lessor shall keep and preserve the Premises in good repair, including but not limited to all structural and non-structural parts thereof, plumbing, heating, cooling, and electrical, gas and other utility systems; and other equipment and appurtenances of the Premises and the structure of which the Premises form a part. The Lessor may include City's pro rata share of any such costs into the triple net operating costs charged back to City as additional rent, determined in accordance with generally accepted accounting principles.

6. DAMAGE OR DESTRUCTION. In the event the Premises are damaged by fire, earthquake, act of war, or other extraordinary casualty to such an extent as to render the same untenable in whole or in substantial part, or are destroyed, it shall be optional with Lessor to repair or rebuild the same, and after the happening of any such event, City shall give Lessor or Lessor's agent written notice thereof within forty-eight (48) hours of such occurrence. Lessor shall have not more than thirty (30) days after the date of such notification to notify City in writing of Lessor's intentions to repair or rebuild said Premises; and if Lessor elects to repair or rebuild said Premises, Lessor shall prosecute the work of such repairing or rebuilding without unnecessary delay. During any period in which the Premises are rendered unfit for occupancy because of any such casualty, the Rent shall be abated in the same ratio that the portion of the Premises rendered for the time being unfit for occupancy bears to the whole of the Premises. In the event the building in which the Premises are located is destroyed or is damaged (even though the Premises hereby leased is not damaged thereby) to such an extent that, in the opinion of Lessor, it is not practicable to repair or rebuild, then Lessor may, at its option, terminate the Lease by providing written notice thereof to City within thirty (30) days after such damage or destruction has been determined to be irreparable.

7. COMPLIANCE WITH LAW

(a) General Requirement. Each party shall perform its obligations under this Lease in compliance with all applicable laws of the United States and the State of Washington; the Charter and ordinances of The City of Seattle; and rules, regulations, orders, and directives of their administrative agencies and the officers thereof.

(b) Licenses and Similar Authorizations. Lessor and/or City, when applicable, shall secure and maintain in full force and effect during the term of this Agreement, all required licenses, permits, and similar legal authorizations, and comply with all requirements thereof.

(c) Taxes. Unless otherwise specified in Part A. hereof, Lessor shall pay, before delinquency, all taxes, levies and assessments on the Premises.

8. INDEMNIFICATION. Lessor shall indemnify, defend and hold City harmless from all claims for accident or injury caused to persons or property to the extent caused, by the fault or neglect of Lessor or any of its employees, agents, licensees or tenants; or occurring in, on, or about any portion of the structure of which the Premises form a part that is under the control of Lessor or its employees, agents, licensees or tenants; or caused by any fault or defect inherent in said structure or any defect in or malfunction thereof not discernable by reasonable inspection. City will indemnify, defend and hold Lessor harmless from all claims for accident or injury caused to persons or property within the Premises, or caused by the fault or neglect of City or any of its employees, agents, licensees or subtenants to the extent of the fault or neglect of City. All personal property of City on said Premises shall be at the risk of and the responsibility of City.

9. SIGNS. City may place identification signs upon the Premises, subject to the prior approval of Lessor; and permission to place such signs shall not be unreasonably withheld, conditioned or delayed by Lessor. City shall be responsible for obtaining any and all necessary permits for City's signage. Lessor shall have the right to place and maintain "For Rent" signs in a conspicuous place on said Premises and to show the Premises to prospective tenants beginning 9 months prior to the expiration of this Lease with 48 hours' notice to the City.

10. ALTERATIONS, ADDITIONS AND IMPROVEMENTS.

(a) Following occupancy, City shall not make or cause to be made any alteration, addition or improvement to said Premises without first obtaining the written consent of Lessor for such work. Any alteration, addition or improvement that is made solely for the convenience of City or any of its employees or agents, or of the program to be conducted on the Premises shall be at the sole cost and expense of City or the program being conducted on the Premises except for an alteration, addition or improvement occasioned by inherent damage or a latent defect in the Premises or of the structure in which the Premises are located, the cost of which alteration, addition or improvement shall be as agreed upon by City and Lessor.

(b) Lessor shall pay the cost of all alterations, additions, and improvements initiated for Lessor's convenience, and save City free and harmless from damage, loss or expense arising out of said alterations performed by Lessor or on its behalf.

(c) At Lessor's discretion and request, all or a portion of any alterations, additions and improvements installed by City must be removed without disturbance, molestation, or injury to the Premises at City's own expense, or Lessor may request that the City surrender the same with the Premises to remain as a part thereof and to become the property of Lessor upon the expiration or termination of this Lease, without compensation. City shall not, without the written consent of Lessor, operate or install any electrical equipment or machinery (other than ordinary office equipment), or replace or relocate any electric light fixtures.

11. Definition of Fair Market Rent. As used in this Lease, “Fair Market Rent” means the rent rate then being charged by other landlords for comparable warehouse space with comparable tenant improvements in the South Seattle Industrial Area, which includes areas known as SODO, Georgetown, and the Rainier Valley Business District (the “Market Area”). The determination of Fair Market Rent shall take into consideration: location in the building, existing tenant improvements, proposed term of lease, extent of service provided or to be provided, the method of calculating Net Rentable Area in the Building verses other comparable Buildings, the time the particular rate under consideration became or is to become effective, tenant improvement and other allowances or concessions (if any) that are then typical in the market for a tenant in the same locations, the means of reimbursing Lessor for operating costs, and any other relevant terms or conditions except as provided herein. The determination of Fair Market Rent shall not consider possible down time between tenants, moving costs, costs of securing a new tenant, costs incurred in connection with the negotiation and documentation of a lease transaction, or any costs incurred by a landlord which are not paid to or for the direct benefit of the tenant. Subleases and assignments shall not be considered. The determination of Fair Market Rent shall not consider expansion transactions and renewal or extension transactions in which the rent was established at a pre-determined rate or was discounted below the fair market rate. Fair Market Rent may include periodic or annual increases if such increases are consistent with then-existing market conditions.

(i) **Lessor’s Determination.** Fair Market Rent shall be determined by Landlord with written notice given to City approximately ninety (90) days prior to the date the proposed increase is to become effective. Failure on the part of Landlord to give such notice in a timely manner shall not vitiate the right to require adjustment of Base Rent or delay the effective date of the adjustment in Base Rent. Tenant may by written notice demand arbitration within thirty (30) days after receipt of notice from Lessor of Lessor’s determination of Fair Market Rent, and if no such notice is delivered, City shall be deemed to have accepted the Fair Market Rent as determined by Lessor. Should City elect to arbitrate, and should the arbitration not be concluded prior to the beginning of the Extended Term Date, City shall pay Rent to Lessor after the Adjustment Date, including Base Rent adjusted to reflect Fair Market Rent as Lessor has so determined. If the amount of Fair Market Rent as determined by arbitration is greater than or less than Lessor’s determination, then any adjustment required to correct the amount previously paid shall be made by payment by the appropriate party within ten (10) days after such determination of Fair Market Rent.

(ii) **Arbitration of Fair Market Rent.** If City disputes the amount claimed by Lessor as Fair Market Rent, the parties shall attempt to agree on Fair Market Rent within thirty (30) days thereafter. If such dispute is not resolved by mutual agreement, City may submit the dispute to arbitration as provided below. The award rendered in any such arbitration may be entered in any court having jurisdiction and shall be final and binding between the parties. The arbitration shall be conducted and determined in the City of Seattle, Washington, in accord with the then-prevailing commercial arbitration rules of the American Arbitration Association or its successor for arbitration of commercial disputes except that the procedures mandated by said rules shall be modified as follows:

(A) City shall make demand for arbitration in writing within thirty (30) days after receipt of Lessor’s determination of Fair Market Rent. City’s arbitration demand shall specify (a) the name and address of the person to act as the arbitrator on its behalf, and (b) City’s determination of Fair Market Rent. The arbitrator shall be a real estate appraiser with at least five (5) years’ experience appraising comparable commercial warehouse space in the Market Area who would qualify as an expert witness to give testimony addressed to the issue in a court of competent jurisdiction. Failure by City to make a timely and proper demand for arbitration shall constitute a waiver of the right to arbitration. Within ten (10) business days after receipt of City’s demand for arbitration, Lessor shall have the right to give notice in writing to City of Lessor’s adjusted determination of Fair Market Rent. Within ten (10) business days following City’s receipt of such notice, if City and Lessor have not agreed upon Fair Market Rent, City shall notify Lessor in writing that City desires to renew its demand for arbitration. Failure on the part of City to give such notice

shall constitute a waiver of the right to arbitration, and City shall be deemed to have accepted Lessor's adjusted determination of Fair Market Rent. Within ten (10) business days after the receipt of a notice renewing the demand for arbitration, Lessor shall give notice to City, specifying the name and address of the person designated by Lessor to act as arbitrator on its behalf who shall be similarly qualified. If Lessor fails to notify City of the appointment of its arbitrator, within or by the time above specified, then the arbitrator appointed by City shall be the arbitrator to determine the issue.

(B) If two (2) arbitrators are chosen pursuant to the preceding Section, the arbitrators so chosen shall meet within ten (10) business days after the second arbitrator is appointed and, if within ten (10) business days after such first meeting the two arbitrators have not agreed upon a determination of Fair Market Rent, they shall appoint a third arbitrator, who shall be a competent and impartial person with qualifications similar to those required of the first two arbitrators. If they are unable to agree upon such appointment within five (5) business days after expiration of said ten (10) business day period, the third arbitrator shall be selected by the parties themselves if they can agree thereon, within a further period of ten (10) business days. If the parties do not so agree, then either party, on behalf of both, may request appointment of such a qualified person by a court of the State of Washington sitting in King County pursuant to RCW 7.04A.110. Request for appointment shall be made in writing with a copy given to the other party. Each party agrees that said court shall have the power to make the appointment, provided, however, if the court does not make a determination within ten (10) days of request by either party for the appointment of a third arbitrator, appointment of such third arbitrator shall be made in accordance with the selection procedure of the commercial arbitration rules of the American Arbitration Association or its successor for arbitration of commercial disputes. The three (3) arbitrators shall decide the dispute, if it has not previously been resolved, by following the procedure set forth below.

(C) The arbitrator selected by each of the parties shall state in writing his or her determination of the Fair Market Rent, supported by the reasons therefor, and shall deliver a copy to each party. The arbitrators shall arrange for a simultaneous exchange of such proposed determinations. The role of the third arbitrator shall be to select which of the two (2) proposed determinations most closely approximates his or her determination of Fair Market Rent. The third arbitrator shall have no right to propose a middle ground or any modification of either of the proposed determinations. The determination he or she chooses as most closely approximating his or her determination of Fair Market Rent shall constitute the decision of the arbitrators and shall be final and binding upon the parties.

(D) If any arbitrator fails, refuses or is unable to act, his or her successor shall be appointed by him or her, but in the case of the third arbitrator, his or her successor shall be appointed in the same manner as provided for appointment of the third arbitrator. The arbitrators shall attempt to decide the issue within ten (10) business days after the appointment of the third arbitrator. Any decision in which the arbitrator appointed by Lessor and the arbitrator appointed by City concur shall be binding and conclusive upon the parties. Each party shall pay the fees and costs of its own counsel and other consultants. The losing party shall pay the fees and costs of the arbitrators and of the expert witnesses (if any) of the prevailing party as well as those of its expert witnesses. For purposes hereof, the losing party shall be that party whose selected arbitrator's statement of Fair Market Rent was not selected by the third arbitrator.

(E) The arbitrators shall have the right to consult experts and competent authorities with factual information or evidence pertaining to a determination of Fair Market Rent, but any such consultation shall be made in the presence of both parties with full right on their part to cross-examine. The arbitrators shall render their decision and award in writing and shall deliver copies to each party. The arbitrators shall have no power to modify the provisions of this Lease.

12. TERMINATION.

(a) Notwithstanding any other provision herein, in the event that either party to this Lease defaults in the performance of any of the terms, provisions, covenants and agreements to be kept, observed and performed as provided in the following sections:

Part A –	TERM	Part B –	3 UTILITIES AND OTHER SERVICES
	RENT		4 CARE OF PREMISES
			5 MAINTENANCE-REPAIRS

and such default is not corrected within twenty-one (21) calendar days after the receipt of written notice delivered via certified United States mail or certified courier delivery thereof from the other party, then the non-breaching party may, at its option, immediately terminate this Lease, without notice or other proceedings, and in such event Lessor may also re-enter and take possession of the Premises. Damages may be claimed for a default in the performance of the other Lease obligations, but such default shall not be cause for termination of this Lease unless such default is repeated upon three or more occasions and a notice to comply is provided after each such instance.

13. SURRENDER OF PREMISES. Upon the expiration or termination of this Lease, including any extensions thereof, whichever is earlier, City shall quit and surrender said Premises and all keys thereto in as good condition as received at the commencement of the Term except for ordinary wear and tear; damage or destruction by fire or other casualty or circumstances uncontrollable by City; property damaged, removed, or destroyed by Lessor or its agents; latent defects or faulty construction of the structure of which the Premises comprise a part, not discoverable by inspection at the time of taking possession; and at Lessor’s discretion as outlined in Part B - Section 10 c. alterations, additions or improvements made to the Premises by City.

14. ADJUDICATION. This Lease shall be construed under all the applicable laws, statutes, ordinances, rules and regulations of the United States of America, the State of Washington, and The City of Seattle. In the case of a dispute between the parties, jurisdiction over such dispute shall be with the Superior Court of King County, Washington.

15. NOTICES. All notices to be given by either of the parties hereto to the other party, including but not limited to invoices, shall be in writing and may either be delivered personally (which delivery may be by reliable overnight courier service with evidence of delivery), or may be deposited in the United States Mail, postage prepaid, as either certified or regular mail, addressed as specified in Part A hereof or to such other respective addresses as either party may from time to time designate in writing.

16. RELATIONSHIP. In no event shall City be construed or held to have become in any way or for any purpose a partner, associate, or joint venture of Lessor or any party associated with Lessor in the conduct of Lessor’s business or otherwise. This Lease does not constitute Lessor as the agent or legal representative of City for any purpose whatsoever.

17. AMENDMENTS. The parties hereto expressly reserve the right to renegotiate any and all of the provisions hereof from time to time as may be necessary and to amend this Lease accordingly; provided, however, that no alteration or modification of the terms or conditions hereof shall be valid and binding unless made in writing and signed by the authorized representative of the parties hereto.

18. NO WAIVER OF DEFAULT. City does not waive full compliance with the terms and conditions of this Lease by the payment of rent. No waiver of default by either party of any of the terms, covenants, and conditions hereof to be performed, kept and observed by the other party shall be construed as, or operated as, a waiver of any

subsequent default or of any of the terms, covenants, and conditions herein contained, to be performed, kept and observed by the other party.

19. BINDING EFFECT. This Lease shall be binding upon the heirs, successors, assigns, and all other parties legally empowered with signatory rights of any or all of the parties hereto.

20. INVALIDITY OF PROVISIONS. Should any term, provision, condition or other portion of this Lease be held to be inoperative, invalid or void, the same shall not affect any other term, provision, condition or other portion of this Lease; and the remainder of this Lease shall be effective as if such term, provision, condition or portion had not been contained herein.

21. LESSOR'S OPTION TO TERMINATE LEASE. This Lease may, in Lessor's sole and absolute discretion, be terminated at any time after the end of the 10th year of the Lease. Lessor shall notify the City in writing at least 1 year prior to the established termination date.

Exhibit "A"
Legal Description

LOTS 1, 2, 11 AND 12 IN BLOCK 38 OF CENTRAL SEATTLE, ACCORDING TO PLAT RECORDED IN VOLUME 1 OF PLATS AT PAGE 57, IN KING COUNTY, WASHINGTON;

TOGETHER WITH VACATED ALLEY ADJOINING OR ABUTTING THEREON WHICH UPON VACATION ATTACHED TO SAID PREMISES BY OPERATION OF LAW.

Exhibit “B”

CITY IMPROVEMENT SCHEDULE

WORK LETTER AGREEMENT

This Work Letter Agreement (“**Agreement**”) is attached to and made a part of the Lease Agreement (the “**Lease**”) between **MB Warehouse LLC**, a Washington limited liability company (“**Lessor**”), and **THE CITY OF SEATTLE**, a municipal corporation of the State of Washington (“**City**”), covering certain premises (the “**Premises**”) more particularly described in the Lease. In consideration of the mutual covenants in the Lease, Lessor and City hereby agree as follows:

1. **CITY IMPROVEMENT COORDINATOR.** Within three (3) days after the Lease is executed by Lessor and City, Lessor and City shall each designate in writing the name of one person who shall be that party’s City improvement representative. All communication concerning the City improvements shall be directed to the appropriate party’s City improvement representative. City shall not have the right or authority to instruct Lessor’s contractor to take any action. Any action City desires Lessor’s contractor to take shall be communicated by City to Lessor’s City improvement representative, and Lessor’s City improvement representative shall give the necessary instructions to the contractor.
2. **PLANS AND SPECIFICATIONS.**
 - a. **SPACE PLAN.** City and Lessor shall finalize a detailed space plan (“**Space Plan**”) for modifications to the Premises which shall include without limitation, the location of doors, partitions, electrical and telephone outlets, plumbing fixtures, heavy floor loads and other special requirements. City will work with Wolken Architects as the space planner. Lessor agrees to cooperate with City and its representatives in connection with the preparation of the Space Plan.
 - b. **PLANS.** Based on the mutually approved Space Plan, Lessor shall cause to be prepared, specifications and working drawings (“**Plans**”) for the construction of City’s leasehold improvements to the Premises (“**Improvements**”). As used herein, the term “**Improvements**” shall include all work to be done in the Premises pursuant to the Plans, including, but not limited to: demolition work, full-height partitions, doors, ceilings, floor coverings, cabinets and other millwork, wall finishes including paint and wall coverings, window coverings, electrical work including light fixtures, switches, power outlets, and data & telephone raceways (mud-rings and pull-strings), plumbing, plumbing fixtures, toilet partitions, and modifications to the existing heating, ventilating and air conditioning system. Once the Plans have been completed and approved by both Lessor and City, Lessor will provide City for its approval a cost breakdown for the total cost of the Improvements (the “**Cost Breakdown**”).
3. **SPECIFICATIONS FOR BUILDING STANDARD IMPROVEMENTS.** Any existing building standard specifications and details for City improvements (“**Standards**”) shall be made available to City upon request. Except as specified in Section 5 below, the Space Plan and Plans shall be consistent with the Standards, and no deviations shall be permitted from the Standards without Lessor’s consent as set forth in Section 5 below.
4. **GROUNDINGS FOR DISAPPROVAL.** City may request deviations from the Standards for Improvements provided that the deviations (“**Non-Standards**”) shall not be of lesser quality than the Standards. Lessor shall not be required to approve any Non-Standards that are not acceptable to Lessor, in Lessor’s sole and absolute discretion.

5. IMPROVEMENT COST AND ALLOWANCE.

- a. IMPROVEMENT ALLOWANCE. Lessor hereby grants to City an “Improvement Allowance” of up to \$140,000.00, which Improvement Allowance shall be used only for, and will pay the cost of, the Improvements to the Premises, (which cost includes architectural, engineering or other soft costs, permit fees, sales tax, etc. on the foregoing to the extent applicable), as described in the Plans, except for Base Building Improvements, described below.
- b. COST IN EXCESS OF ALLOWANCE. In the event that the costs of the Improvements exceed the \$140,000 allowance described above, the City shall pay for all such costs directly to the Lessor. Such invoices shall be paid within 7 days of receipt, or interest shall accrue at 7%.
- c. CHANGE IN PLANS. In the event that City requests a change in the Plans subsequent to approval of the Cost Breakdown, Lessor shall advise City of Lessor’s estimate of any increases in the cost of the Improvements and any delay such change would cause in the construction of the Improvements (the “Estimate”). City shall approve or disapprove such change within five (5) days after receiving Lessor’s Estimate. In the event that City approves such change, City shall accompany its approval with payment in the amount of any cost increase resulting from such change; provided, however, that Lessor shall first apply toward such increase any remaining balance in the Improvement Allowance. Lessor shall have the right to decline City’s request for a change in the approved Plans if the change is inconsistent with Sections 3, 4 or 5 above.
- d. NO REFUND. If the actual cost of the Improvements, including any Lessor approved changes in the Plans, does not exceed the Improvement Allowance, the unused portion of the Improvement Allowance shall not be paid or refunded to City or be available to City as a credit against any obligations of City under the Lease.
- e. BASE BUILDING IMPROVEMENTS. In addition to the Improvement Allowance, Lessor, either prior to or in conjunction with the construction of the City Improvements, will complete the following Base Building work at Lessor’s cost and expense:

Provide standard warehouse freeze protection throughout the entire warehouse space.

Energy efficient LED lighting has been installed throughout the warehouse space

6. CONSTRUCTION OF IMPROVEMENTS.

- a. CONSTRUCTION. Within a reasonable period following approval of the Plans by City, after payment of any sum required under Section 5 above, and after full execution and City approval of the Lease, Lessor shall instruct its contractor to secure a building permit and to commence construction of the Improvements.
- b. COMPLETION. Lessor shall endeavor to cause the contractor to substantially complete construction of the Improvements in a diligent manner, but Lessor shall not be liable for any loss or damage as a result of delays in construction of the Improvements or delivery of possession of the Premises except as otherwise provided in the Lease.
- c. ACCEPTANCE OF THE PREMISES.

(1) Lessor will notify City when the Improvements are substantially complete. As use in this Agreement, “substantial completion” means that the Improvements have been completed in accordance with the Plans, excepting only minor punch list items, and that the Premises are suitable for City’s use and occupancy. Within ten (10) business days after receiving such notice, and prior to move-in of any

furniture, fixtures or equipment, City shall inspect the Premises for any deficiencies in the Improvements. A “punchlist” of all the deficiencies in the Improvements shall be prepared and agreed upon by both Lessor and City. Lessor will correct defective items stated in the punchlist which are the responsibility of Lessor or its contractor. If City does not so provide Lessor with a punchlist within ten (10) days or prior to occupying the Premises, and for purposes of the Commencement Date, the Improvements shall be deemed complete on the date of City’s occupancy or expiration of ten (10) days (whichever is earlier), and City shall be deemed to have accepted the Premises and the Improvements in their then present condition, except for latent defects not reasonably discoverable upon an inspection of the Premises. The existence of minor punchlist items shall not postpone the Commencement Date of the Lease or result in a delay or abatement of City’s obligation to pay rent or give rise to a damage claim against Lessor. Lessor agrees to complete all punchlist items which are Lessor’s or its contractor’s responsibility within forty-five (45) days after receiving the final punchlist (or longer if reasonably necessary).

(2) Notwithstanding the estimated Commencement Date set forth in the Lease, City’s obligation for the payment of Rent under the Lease shall not commence until the Improvements are substantially complete; however, if substantial completion of the Improvements is delayed because of City Delay, then City’s obligation to pay rent under the Lease, and the Term, shall commence on the date the Premises would have been substantially complete except for the delays caused by City, as reasonably determined by Architect. The phrase “City Delay” means any delay that Lessor may encounter in the construction of the Improvements as a result of (i) delays resulting from changes in or additions to the Plans or the Improvements which are requested by City after the Plans have been finalized pursuant to Section 2.2 above; (ii) delays by City in the timely submission of information required of City pursuant to this Work Letter, or the giving of authorizations or approvals within any time limits set forth in this Work Letter; (iii) delays due to the postponement of any of the Improvements at the request of City; or (iv) delays otherwise attributable to the acts or omissions of City or its employees, agents or contractors, other than delays in the Improvements requested by Lessor. As used in this Work Letter and the Lease, “City Delay” does not include any delay arising from delays in permit issuance or inspection by any City department acting in its governmental capacity.

7. APPROVALS. If either party’s consent or approval is required pursuant to this Work Letter, and such party has not notified the other party in writing within ten (10) business days after the date its approval or consent was requested in writing, that it is giving its consent or approval, or withholding its consent or approval, the party whose consent or approval is required shall be deemed to have given its consent or approval to the matter in question.
8. INCORPORATION. This Agreement is and shall be incorporated by reference in the Lease.

Rent Schedule

Term	Monthly Base Rent
Year 1	\$13,475.00
Year 2	\$13,879.25
Year 3	\$14,295.63
Year 4	\$14,724.50
Year 5	\$15,166.23
Year 6	\$15,621.22
Year 7	\$16,089.85
Year 8	\$16,572.55
Year 9	\$17,069.73
Year 10	\$17,581.82