

STORES BUILDING LEASE RATES



Tuesday, September 23, 2008

MEMORANDUM

To: Sawmill Cove Board of Directors
From: Garry White, Director
Subject: Stores Building lease rate discussion

Background

The Stores Building located at the Sawmill Cove Industrial Park (SCIP) was constructed by Alaska Pulp Corporation (APC) some time in the late 1950's. In 1999 when the SCIP was transferred to the city the building was appraised at \$418,168.

The building has roughly 38,347 SF of building space with 30,570 SF of rental space. (Please see attached floor plans for both floors). The building sits on a 49,846 SF lot. The building is a concrete and steel structure with some interior masonry walls. There are several overhead cranes and a service elevator in the building.

The building is not heated, but does have electricity although not subdivided for each lease area. Currently the building does not have a working sprinkler system, the roof drain system leaks, and it appears the roof needs repair as well. Additionally, the building has some holes in walls and a few outside opening that need to be repaired.

Current Tenants

Table with 3 columns: Tenant Name, SF, Monthly Rent, Annual Rent. Rows include Silver Bay Seafoods and Tongass Biofuels.

Building Expense

The total operating budget for SCIP is \$346,153, of this \$46,728 has been allocated for the Stores Building. (Please see attached Budget breakdown).

\$46,728 / 30,570 SF = \$1.529/SF/yr or \$.127/SF/month

Adjustments:

1. The building currently is not sprinkled. Estimated cost for repairs is \$45,000.

$\$45,000 @ 7\% \text{ for } 10 \text{ years} = \$6,264 \text{ in annual debt service}$

$\$46,728 + \$6,264 = \$52,992 / 30,570 \text{ SF} = \$1.733/\text{SF}/\text{yr}$ or $\$.144/\text{SF}/\text{month}$

2. A maintenance and replacement reserve should also be set for the building to keep up with improvements and maintenance on the building. Considering a \$2 per square foot on overall building square feet would equal \$76,694.

$38,347 \text{ SF} \times \$2/\text{SF} = \$76,694$

Adding additional operating expenses to operational budget would set cost per square foot at $\$.35/\text{SF}/\text{month}$.

$\$46,728 + \$6,264 + \$76,694 = \$129,686 / 30,570 \text{ SF} = \$4.242/\text{SF}/\text{yr}$ or $\$.354/\text{SF}/\text{month}$

Land Value

An estimated value of the property is currently being considered by the appraiser office. In the mean time, if we consider the value of the property is at \$5/SF and a 9% lease return, the following is the estimated value of the land associated with LOT 22.

$49,846 \text{ SF} \times \$5/\text{Sf} = \$249,230 \times .09\% = \$22,431/\text{year}$

$\$22,431 / 30,570 \text{ SF} = \$.734/\text{SF}/\text{yr}$ or $\$.061/\text{SF}/\text{month}$

Total

Land value and building value not considering adjustment total $\$2.263/\text{SF}/\text{yr}$ or $\$.189/\text{SF}/\text{month}$.

Land value and building value with sprinkler adjustment total $\$2.467/\text{SF}/\text{yr}$ or $\$.206/\text{SF}/\text{month}$.

Land value and building value with all adjustments total $\$4.976/\text{SF}/\text{yr}$ or $\$.415/\text{SF}/\text{month}$.

These rental rates would cover or break even operating costs considering the building is fully rented.

Local Market Rates

From an informal polling of assessor, appraisers, and real estate managers it was determined that warehouse space rent ranges from $\$.65/\text{SF}/\text{month}$ to $\$1.00/\text{SF}/\text{month}$.

Break Even Scenarios

The following is the estimated SF needed to be leased to break even based off the various adjusted operational costs:

Operating Budget only

$\$.50/\text{SF}/\text{month} = \$6.0/\text{SF}/\text{yr}$ $\$46,728 / \$6.0/\text{SF}/\text{yr} = 7,788$ SF to Break Even
 $\$.65/\text{SF}/\text{month} = \$7.8/\text{SF}/\text{yr}$ $\$46,728 / \$7.8/\text{SF}/\text{yr} = 5,991$ SF to Break Even
 $\$.70/\text{SF}/\text{month} = \$8.4/\text{SF}/\text{yr}$ $\$46,728 / \$8.4/\text{SF}/\text{yr} = 5,563$ SF to Break Even
 $\$1.00/\text{SF}/\text{month} = \$12/\text{SF}/\text{yr}$ $\$46,728 / \$12/\text{SF}/\text{yr} = 3,894$ SF to Break Even

Operating Budget and Sprinkler cost

$\$.50/\text{SF}/\text{month} = \$6.0/\text{SF}/\text{yr}$ $\$52,992 / \$6.0/\text{SF}/\text{yr} = 8,832$ SF to Break Even
 $\$.65/\text{SF}/\text{month} = \$7.8/\text{SF}/\text{yr}$ $\$52,992 / \$7.8/\text{SF}/\text{yr} = 6,794$ SF to Break Even
 $\$.70/\text{SF}/\text{month} = \$8.4/\text{SF}/\text{yr}$ $\$52,992 / \$8.4/\text{SF}/\text{yr} = 6,309$ SF to Break Even
 $\$1.00/\text{SF}/\text{month} = \$12/\text{SF}/\text{yr}$ $\$52,992 / \$12/\text{SF}/\text{yr} = 4,416$ SF to Break Even

Operating Budget, Sprinkle, and reserve

$\$.50/\text{SF}/\text{month} = \$6.0/\text{SF}/\text{yr}$ $\$129,686 / \$6.0/\text{SF}/\text{yr} = 21,614$ SF to Break Even
 $\$.65/\text{SF}/\text{month} = \$7.8/\text{SF}/\text{yr}$ $\$129,686 / \$7.8/\text{SF}/\text{yr} = 16,626$ SF to Break Even
 $\$.70/\text{SF}/\text{month} = \$8.4/\text{SF}/\text{yr}$ $\$129,686 / \$8.4/\text{SF}/\text{yr} = 15,439$ SF to Break Even
 $\$1.00/\text{SF}/\text{month} = \$12/\text{SF}/\text{yr}$ $\$129,686 / \$12/\text{SF}/\text{yr} = 10,807$ SF to Break Even

Considerations

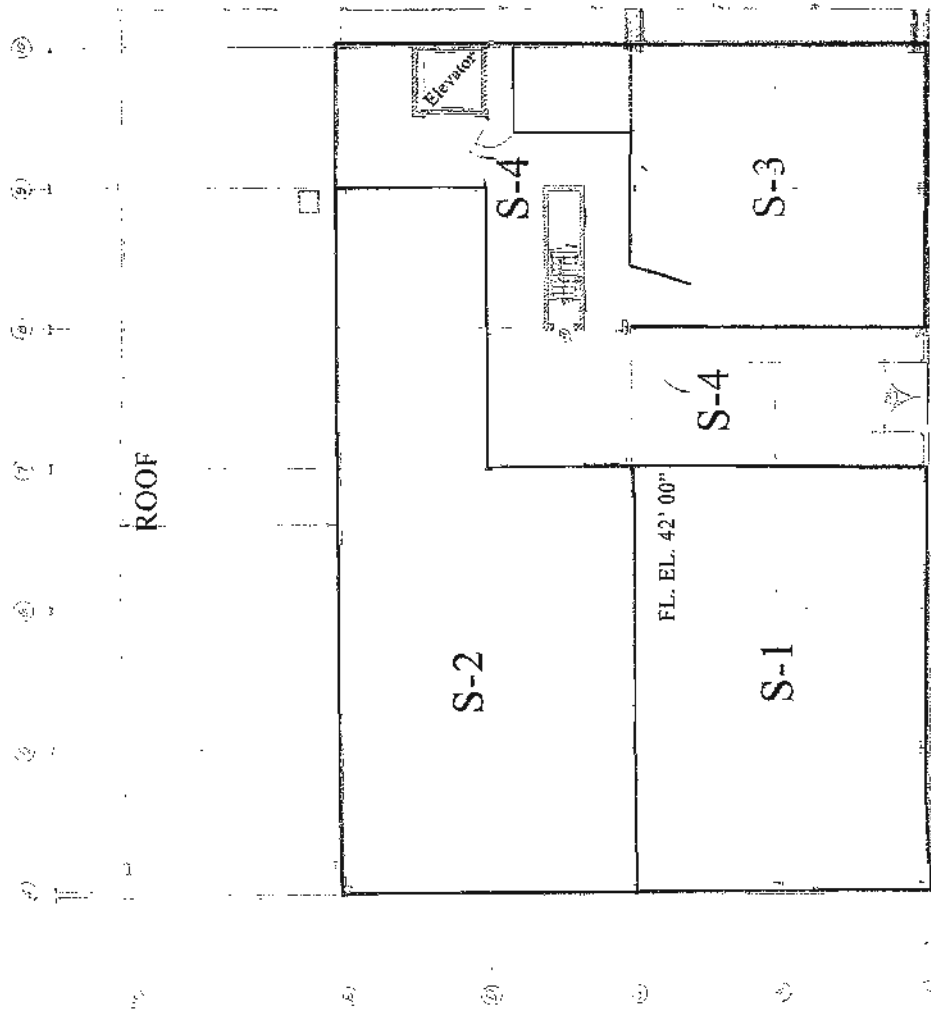
Pros

1. Overhead cranes
2. Service elevator
3. Large outside doors and loading docks

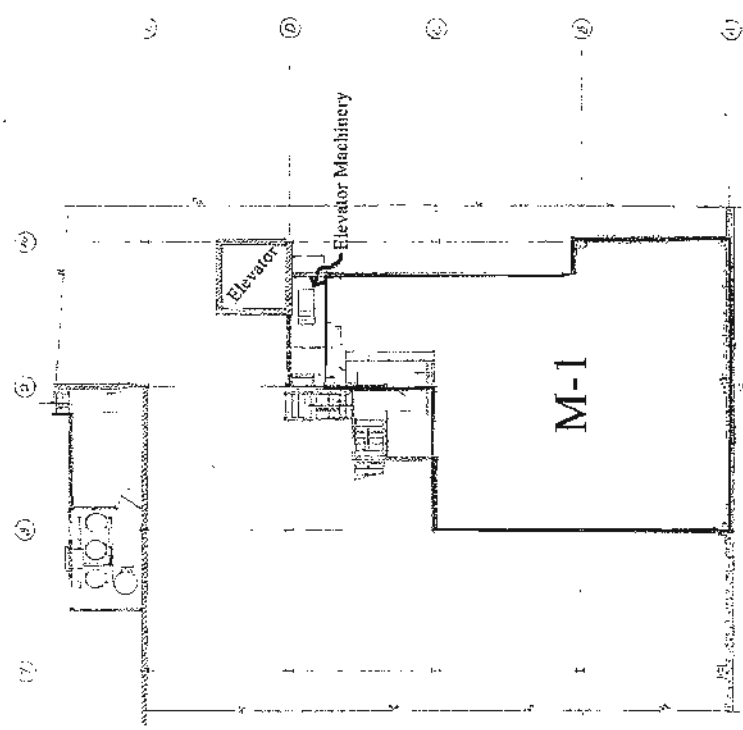
Cons

1. Building condition
 - Roof repairs needed
 - Roof drains leak
 - Openings in exterior walls
 - Currently not sprinkled
 - Not heated
2. Lease areas do not have walls to separate each area.
3. Lack of security between lease areas.
4. Electric is not subdivided to each lease area.
5. Location of site.

August 28th, 2008					
FY09 Sawmill Cove Budget Breakdown					
Operating Budget					
	Allocation of Expenses				
Category	Proposed Budget	Admin Building	Stores Building	Interior Land	Waterfront Land
Salaries & Benefits	61,284	30,642	6,128	18,385	6,128
Utilities	13,000	10,400	2,600		
Heating Fuel	13,500	13,500			
Telephone	4,000	1,200	400	1,200	1,200
Insurance	45,000	27,000	9,000	4,500	4,500
Office Supplies	6,000	1,800	600	1,800	1,800
Repair and maintenance	20,000	8,000	6,000	6,000	
Building maintenance	2,317	1,390	927		
Contract services					
landfill testing	1,000			1,000	
ADEC oversight	2,000			1,000	1,000
SEDA contract	75,000	2,508	3,358	50,331	18,803
road maintenance	5,000	500	500	4,000	
snow removal	5,000	1,500	500	3,000	
janitorial	6,000	6,000			
electrician	5,000	2,000	2,000	1,000	
surveyor	5,000			5,000	
wastewater testing	2,000	400		1,600	
sprinkler/alarm	12,000	6,000	6,000		
stormwater testing	1,000			1,000	
audit fees	2,625	656	656	656	656
Interdepartmental services	45,488	13,646	4,549	22,744	4,549
Vehicles	3,764	941	941	941	941
Tools/small equipment	9,000	2,250	2,250	4,500	
Advertising	1,000	250	250	250	250
Credit card expense	75	19	19	19	19
Other Expense	100	50	50		
Total Operating Budget	346,153	130,653	46,728	128,926	39,846
Capital Budget					
Close fire line gap	10,000	3,300	3,300	3,400	
Fiber	10,000				
Stores building sprinklers	30,000		30,000		
Total Capital Budget	50,000	3,300	33,300	3,400	0



Stores Building - Second Floor



Stores Building - Mezzanine

Stores Building Use Areas

<u>Area Number</u>	<u>Area SF</u>	<u>Comments</u>	<u>\$.50/SF/mt</u>	<u>\$.65/SF/m</u>	<u>\$.70/SF/m</u>
Ground Floor					
G-1	3,150	10 foot wide exterior door	\$1,575	\$2,048	\$2,205
G-2	3,240	10 foot wide exterior door	\$1,620	\$2,106	\$2,268
G-3	1,800	10 foot wide exterior door 5 ton bridge crane	\$900	\$1,170	\$1,260
G-4		Common areas Electrical room, elevator access, stairwell access			
G-5	5,000	2 - 10 foot wide exterior doors 3 foot wide exterior man door 5 ton bridge crane	\$2,500	\$3,250	\$3,500
G-6	7,300	14 foot wide exterior door 10 foot wide exterior door 5 ton bridge crane 10 ton bridge crane	\$3,650	\$4,745	\$5,110
G-7	970		\$485	\$631	\$679
21,460 Total Usable Area Ground Floor			\$10,730	\$13,949	\$15,022
Mezzanine					
M-1	1,730	Total Usable Mezzanine	\$865	\$1,125	\$1,211
Second Floor					
S-1	2,400	Loading dock access Elevator, stairwell access	\$1,200	\$1,560	\$1,680
S-2	3,200	Loading dock access Elevator, stairwell access	\$1,600	\$2,080	\$2,240
S-3	1,780	Loading dock access Elevator, stairwell access	\$890	\$1,157	\$1,246
S-4		Common Areas Elevator, stairwell, loading dock access			
7,380 Total Usable Area Second Floor			\$3,690	\$4,797	\$5,166
30,570 Total Usable Stores Building			\$15,285	\$19,871	\$21,399

Stores Building Use Areas

<u>Area Number</u>	<u>Area SF</u>	<u>Comments</u>	<u>\$6/SF/yr</u>	<u>\$7.8/SF/yr</u>	<u>\$8.4/SF/yr</u>
Ground Floor					
G-1	3,150	10 foot wide exterior door	\$18,900	\$24,570	\$26,460
G-2	3,240	10 foot wide exterior door	\$19,440	\$25,272	\$27,216
G-3	1,800	10 foot wide exterior door 5 ton bridge crane	\$10,800	\$14,040	\$15,120
G-4		Common areas Electrical room, elevator access, stairwell access			
G-5	5,000	2 - 10 foot wide exterior doors 3 foot wide exterior man door 5 ton bridge crane	\$30,000	\$39,000	\$42,000
G-6	7,300	14 foot wide exterior door 10 foot wide exterior door 5 ton bridge crane 10 ton bridge crane	\$43,800	\$56,940	\$61,320
G-7	970		\$5,820	\$7,566	\$8,148
21,460 Total Usable Area Ground Floor			\$128,760	\$167,388	\$180,264
Mezzanine					
M-1	1,730	Total Usable Mezzanine	\$10,380	\$13,494	\$14,532
Second Floor					
S-1	2,400	Loading dock access Elevator, stairwell access	\$14,400	\$18,720	\$20,160
S-2	3,200	Loading dock access Elevator, stairwell access	\$19,200	\$24,960	\$26,880
S-3	1,780	Loading dock access Elevator, stairwell access	\$10,680	\$13,884	\$14,952
S-4		Common Areas Elevator, stairwell, loading dock access			
7,380 Total Usable Area Second Floor			\$44,280	\$57,564	\$61,992
30,570 Total Usable Stores Building			\$183,420	\$238,446	\$256,788