

CITY COUNCIL REGULAR SESSION

Property Management Agreement with Azose Commercial Properties

STAFF CONTACT(S)

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EXECUTIVE SUMMARY

Resolution authorizing execution of a three-year professional services agreement, with an option to renew for two additional years, with Azose Commercial Properties for the management and leasing of the City's Lincoln Center property, in an amount not to exceed \$1,500,000, plus all applicable taxes.

RECOMMENDATION

Move to adopt Resolution No. 9456.

If approved, effective date: 09/10/2018

BACKGROUND/ANALYSIS

The City purchased the Lincoln Center property, located at 515 116th Avenue NE and 555 116th Avenue NE in August 2008. The property consisted of two 2-story office buildings totaling approximately 70,000 square feet on an estimated 4.32-acre site. In 2016, Sound Transit demolished the 555 116th Avenue NE building as part of East Link construction, leaving the 515 building which is approximately 41,733 square feet in size.

Under this agreement, the vendor will provide marketing, management of all leasing, and ordinary property management services of collecting rent, answering tenant requests, responding to after-hours emergencies, coordinating maintenance and repairs, and ensuring compliance with property rules and regulations. Subject to the terms of this agreement, the vendor will also pay all invoices for ongoing maintenance of the building and its repairs. The City will reimburse the vendor for these expenses based on the terms of this agreement, which make up the bulk of the expenditures (around 90 percent historically) under the agreement. The vendor will provide a monthly reconciliation of all revenues and expenditures, which will be reviewed by City staff prior to approving disbursements to the vendor.

The Lincoln Center 515 building was constructed in the early 1970's and has not had a major remodel since that time. Some of the building's infrastructure, such as the roof and HVAC system, is aged and at risk of requiring major maintenance or replacement. Much like the prior agreement, substantial contingencies are included in this agreement's not-to-exceed amount.

Procurement Process

A Request for Proposal process was completed on May 17. City staff identified Azose Commercial Properties as qualified to effectively deliver the scoped services based on the firm's experience, pricing, ability to manage the property efficiently, knowledge of the local commercial

real estate market, and its proposed management approach of continuing to maximize the asset's revenue pending construction of other projects.

The proposed agreement includes the following scope of work:

1. **Property Management & Maintenance:** Manage communication with tenants, including responding to concerns; coordinate and manage all operations, repairs, and maintenance functions; maintain lease files; collect rents, late fees and other property-related income; inform City of issues, including delinquencies, debt collection and promptly recommend solutions.
2. **Marketing and Leasing:** Market vacant space for the purpose of bringing in new tenants; negotiate new leases and lease renewals to optimize income of the property; develop and implement leasing strategy focusing both on tenant retention and on securing new tenants.
3. **Accounting and Reporting:** Establish accounts payable processes acceptable to the City; handle all vendor contracts, invoicing, and payment disbursements; develop budgets; provide property management reports in a format acceptable to City.

POLICY & FISCAL IMPACTS

Public Policy:

In 2008, the City Council authorized the purchase of the Lincoln Center property in anticipation of public uses on the property and neighboring properties.

Fiscal Impacts:

Approval of this action obligates the City to a three-year professional services agreement with an option to renew for two additional years with Azose Commercial Properties for a total agreement amount not to exceed \$1,500,000, plus all applicable taxes.

The agreement value is based on the property management company's service fee of \$2,500 per month or four percent of the gross annual rental revenue collected (whichever is higher), leasing commissions on new leases and renewals (approximately \$35,000 per year), and all operating expenses required to operate the Lincoln Center property. The majority of the total agreement value will consist of the direct property operating costs such as maintenance, repairs, and tenant services.

All anticipated costs are fully funded in the 2017-2018 Budget by lease revenue generated by this property and reserves within the Land Purchasing Revolving Fund. Additional funding will be requested in the 2019-2020 Budget and will be subject to final budget appropriation.

OPTIONS

1. Adopt Resolution No. 9456 authorizing execution of a three-year professional services agreement, with an option to renew for two additional years, with Azose Commercial Properties for the management and leasing of the City's Lincoln Center property, in an amount not to exceed \$1,500,000, plus all applicable taxes.
2. Do not adopt the Resolution and provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

A. Vicinity Map

Proposed Resolution No. 9456

Available in Council Library:

Professional Services Agreement