

AGENDA ITEM #6 – MERCER ARENA / SEATTLE OPERA GROUND LEASE AMENDMENT

AN ORDINANCE relating to the Seattle Center Department; authorizing execution of an amendment to the Mercer Arena Ground Lease between the City of Seattle and Seattle Opera.

DISCUSSION AND POSSIBLE VOTE

Presenters: Robert Nellams and Kerry Smith, Seattle Center
Kelly Tweeddale, Seattle Opera
Kieu-Anh King, Council Central Staff

LEGISLATION SUMMARY:

This legislation authorizes the execution of the first amendment to the Mercer Arena Ground Lease between the City of Seattle and Seattle Opera. The amendment has three components:

- (1) It increases, from two to five, the number of annual option periods for Lease Commencement,
 - (2) It reduces the Seattle Opera’s annual fees for each such option, from \$110,000 to \$55,000.
 - (3) It eliminates a \$60,000 rent credit to the Seattle Opera in the year rent commences.
- To ensure adequate time for the Opera to reach their financial goals, the proposed amendment increases the number of annual option periods from two to five.
 - As an alternative to modifying the option periods and associated fees, the Opera or Seattle Center could have terminated the lease.

Timeline:

February 2008	Initial ground lease agreement approved in 2008 via Ordinance 122630
July 1, 2009	Original Rent Commencement Date
July 1, 2009 to June 30, 2010	First Annual Option to delay Rent Commencement (EXISTING)
July 1, 2010 to June 30, 2011	Second Annual Option (EXISTING)
July 1, 2011 to June 30, 2012	Third Annual Option (NEW)
July 1, 2012 to June 30, 2013	Fourth Annual Option (NEW)
July 1, 2013 to June 30, 2014	Fifth Annual Option (NEW)
June 30, 2071 or June 30, 2074	Potential End-date for Ground Lease of Mercer Arena Site

BACKGROUND AND DETAILS:

Mercer Arena, built in 1927 as the Civic Ice Arena, has been closed to public assembly use since 2003 due to seismic and related code deficiencies. In 2008 the Seattle Opera entered into a lease for the site, intending to raise \$40 million to redevelop and use the site for their rehearsal spaces, costume and set construction facilities and administrative offices.

Location:	SW corner of 4 th Ave No. & Mercer Street, approx. 59,000 SF (see attached map)
Annual Rent:	\$220,000, commencing upon execution of Construction Agreement
Rent Escalator:	10% per five years
Lease Period:	30 years, with one option to renew, under renegotiated terms
Holding Fee:	\$110,000 (Existing) / \$55,000 (Proposed for Year 2 – 5) per year, collected until Construction Agreement signed

City retains ownership of the land and improvements and is responsible for major maintenance of building shell, including exterior walls and roof. Opera is responsible for all other building operations and maintenance expense.

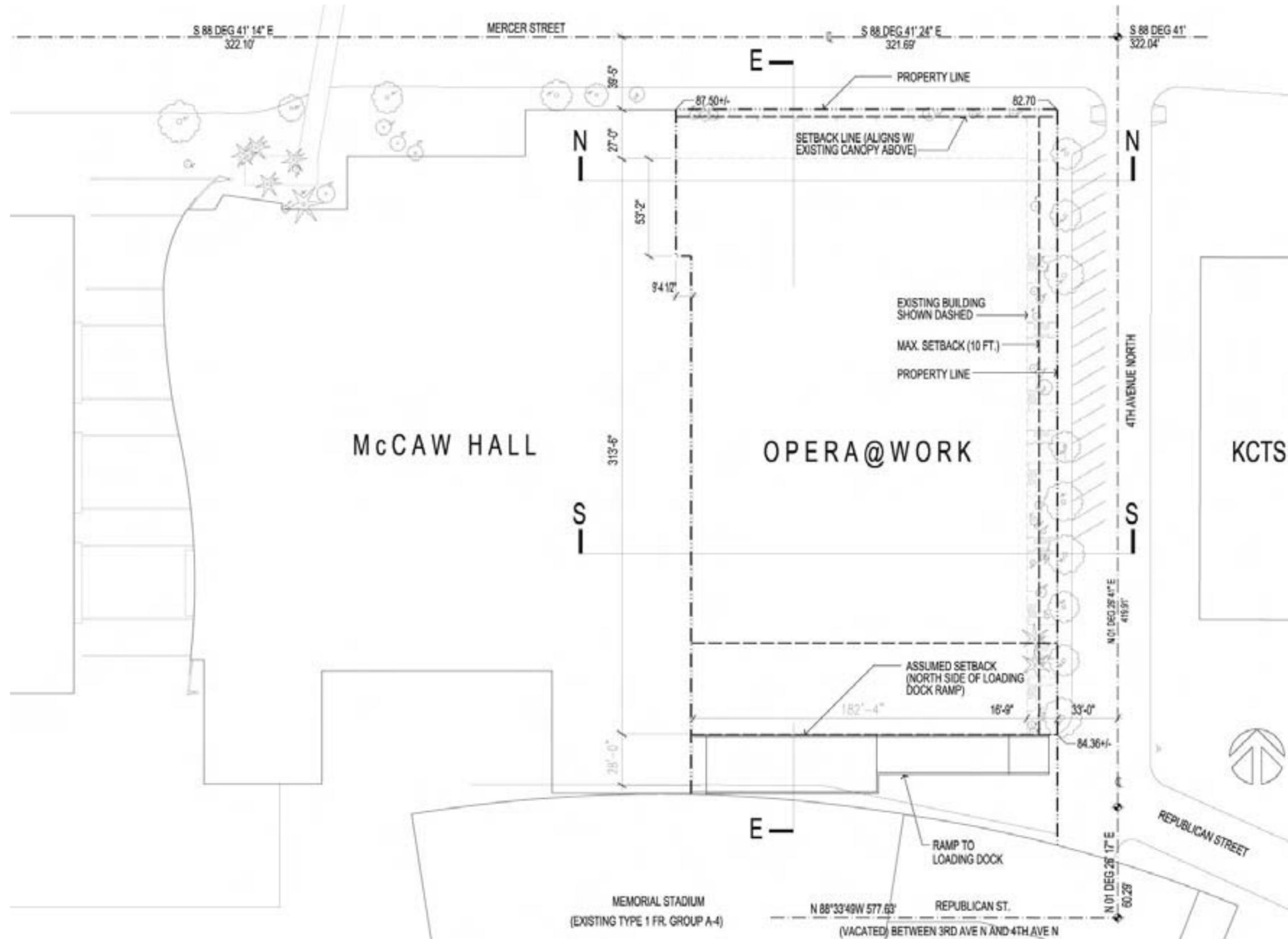
SUMMARY OF PUBLIC BENEFITS:

- a. Opera's capital investment in the Premises.
- b. The sustainable technologies that will be utilized in development of the site.
- c. The expected LEED certification for the Premises.
- d. Education programs for students.
- e. Education events, activities and outreach efforts provided to the public.
- f. Opera employment.
- g. To the extent possible, provision of office and rehearsal space to other arts-related groups.

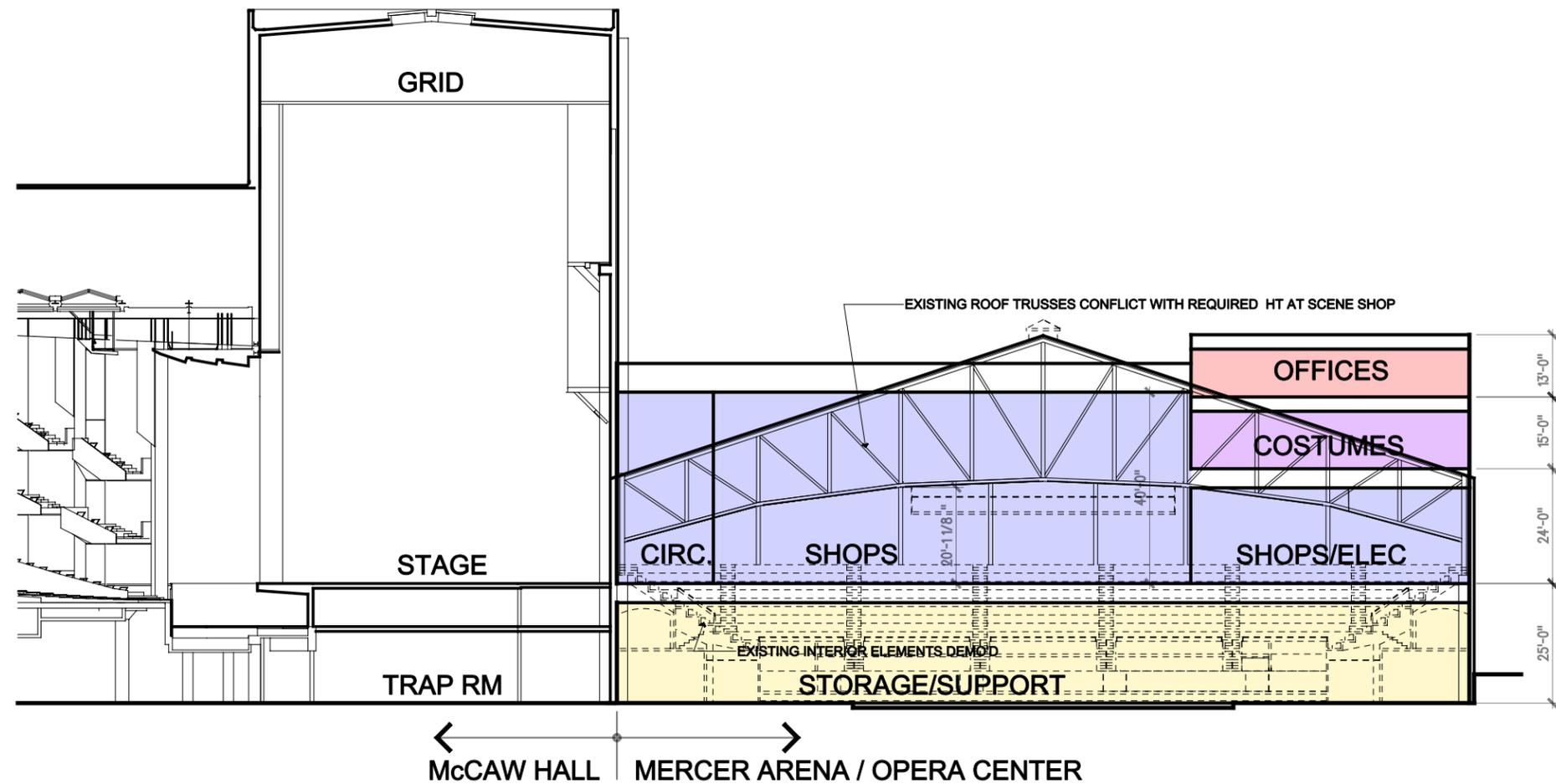
ISSUES AND QUESTIONS:

1. **Accompanying Resolution No. 31040.** Requested that the Seattle Center Director:
 - a. Provide the Council with a copy of the Construction Agreement, before approving it.
 - b. Provide the Council with a report detailing proposed enhancement and activation of the Mercer Street streetscape.
 - c. Provide the Council with a report detailing the Seattle Opera's proposed public benefits.
 - d. Develop a plan and a schedule for timely Council review of project design, financing and construction progress.
2. **Alternate Site Use.** What process did the Seattle Center undertake to develop options for the initial use of this site, aside from the Seattle Opera Lease? Did the Seattle Center undertake a similar space-use and space-planning process for this renewal period?
3. **Alternate Site Use.** Should the City Council not approve this amendment to the Mercer Arena Ground Lease, what alternative use might the Seattle Center foresee for this site?
4. **Enhanced Public Benefits.** Will the Seattle Opera provide any additional public benefits, in consideration of the longer lease-holding term and the reduced annual rate to delay the Rent Commencement Date? What benefits might the Seattle Opera and the Seattle Center propose?

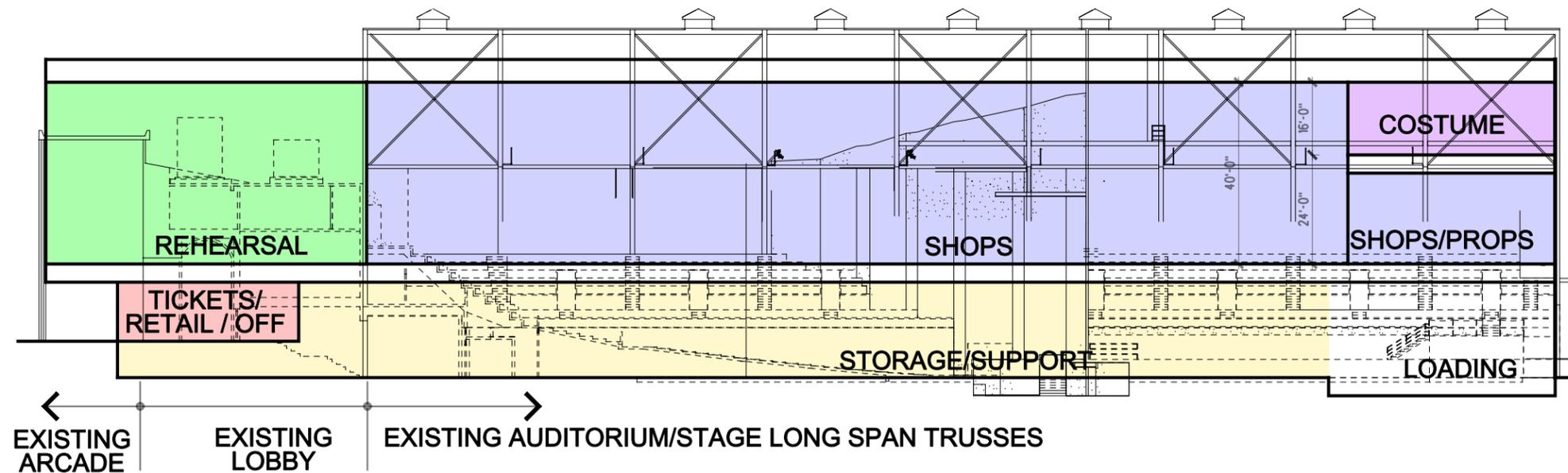
OPERA AT WORK



SITE PLAN



SECTION LOOKING NORTH



SECTION LOOKING EAST

MERCER ARENA RENOVATION ANALYSIS: PROGRAM OVERLAID ON EXISTING BUILDING