

OFFICE OF THE WASHINGTON STATE LIQUOR CONTROL BOARD MEETING

January 12, 2005

The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, January 12, 2005 in the Board conference room, 3000 Pacific Avenue S.E., Olympia, Washington, by Board Member Roger Hoen. Board Member Vera Ing was present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

Board – Approval of Minutes

Board Member Ing reviewed the minutes of December 1, December 8, and December 14. Board Member Ing moved for approval. Board Member Hoen seconded the motion, and it was carried.

Retail Services Division – Lease Proposal, Store No. 018, Mt. Vernon

Suzanne Lewis, Store Leasing Manager

The lease for Store No. 018, located in Mt. Vernon Plaza at 526 College Way, Mt. Vernon, will expire on September 30, 2005.

BACKGROUND

Store No. 018 has been located in Mt. Vernon Plaza since August 1985. The shopping center, located on the south side of College Way, was once one of 2 main centers in Mount Vernon, but is now a “tired” center with no real anchor. There are several vacancies at the prime corner of College Way and Riverside Drive supposedly due to Rite Aid’s interest in that site. The landlord for the center where Rite Aid is currently located, however, says they have done some recent remodeling and don’t plan to relocate. Our current landlord is tentatively planning some upgrades to the center after the possible Rite Aid move but has no timetable for such.

Skagit Valley Mall, also located on the south side of College Way next to I-5, is undergoing some changes and includes Albertson’s, Rite Aid, Hallmark, Craft Outlet and several other smaller tenants. G.I.Joes will be going into the former Ernst space. The landlord has proposed a space for a liquor store on the west end of G.I.Joes (Proposal #2). The site will be somewhat “hidden” by G.I.Joes and will present some challenges to customers trying to access the liquor store due to traffic speeding around the end of the center. Site lines to the center are also blocked by other retailers located right along College Way.

In the last several years, there has been much commercial development on the north side of College Way. There is a Safeway-anchored center with several

other national tenants. There are no anticipated vacancies in the center, however. Market Street, which runs north and south on the west side of Safeway, has been extended north to the Skagit River and is now a secondary arterial used by many local residents. WalMart is located between Market Street and I-5, just north of Office Depot and Petco.

A site for a new building has been identified across from WalMart on the northeast corner of Commercial and Market Streets. At present, a 6,000 square foot building is the maximum size that can be built on the site as Safeway and WalMart control the covenants for the area. This will leave plenty of parking and access and provides good visibility to surrounding property and I-5. The Mount Vernon sign code currently allows more signage than many jurisdictions. The property owner has proposed a new building per WSLCB specifications (Proposal #1).

PROPOSAL #1 – 1930 MARKET ST.

The Lessor, Smiley Properties LLC, represented by Clay Learned of North West Properties, has proposed a ten (10) year lease in a new 5,831 square foot building. The rental rate will be \$10,204.25 per month, or \$21.00 per square foot per year, during the first 5 years, and \$11,176.08 per month, or \$23.00 per square foot per year, during the second 5 years. It is anticipated that the building will be finished by July 2005.

The Lease may not be terminated during the ten (10) years of the lease term, except pursuant to Paragraph 2, if applicable, or if Lessor(s) is in default under this agreement and fails to cure such default within 30 days after receipt of written notice of the default.

At the Board's option, the lease may be renewed for a further period of 10 years with rent to be negotiated at least 90 days prior to expiration of the initial lease term.

The Lessor has agreed to construct the building per the Board's "General Specifications...", including a fire sprinkler system and a new 30' tall pole sign in addition to 2 large signs on the building. They have also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

PROPOSAL #2 – SKAGIT VALLEY MALL (nee Skagit Valley Square)

The Lessors, Real Property Investors LLC et al, represented by Peter Joufflas, have proposed a ten (10) year lease in a 5,500 square foot space at Skagit Valley Square. The rental rate would be \$8,708.33 per month, or \$19.00 per square foot

per year, during the first 5 years, and \$9,579.17 per month, or \$20.90 per square foot per year, during the second 5 years. It is anticipated that the space could be ready in 4 – 6 months.

The lease may not be terminated during the first 3 years, except pursuant to Paragraph 2, if applicable, or if Lessor(s) is in default under this agreement and fails to cure such default within 30 days after receipt of written notice of the default. Thereafter, the lease may be terminated by the Board only in the event of a loss of funding and with agreement not to relocate within a 2 mile radius in the event of termination.

At the Board's option, the lease may be renewed for a further period of 5 years with rent to be negotiated at the time the option is exercised.

The Lessors have agreed to remodel the premises per the WSLCB's "General Specifications...", including sprinklers and space on the new shopping center pylon sign. They have also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

SALES HISTORY

Recent sales history for Store No. 018 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2004	\$2,372,475	\$885,641	\$3,258,116
FY2003	\$2,245,310	\$861,738	\$3,107,048
FY2002	\$2,037,318	\$762,302	\$2,799,620

Sales/sq ft: FY03 = \$538 (average for all state liquor stores was \$607 for FY03)

NOTE: Sales increased another 5% in 2004 and have averaged a 6% increase over that last 3 years. Licensees account for approximately 27% of the sales total.

Profitability: FY04 = 11.6% while the average profit for all state stores was 11.3%.

NOTE: Relocation per Proposal #1 = 9.5% without any sales increase.

ADDITIONAL DATA:

Lease rates for the most recent leases north of Seattle were:

#048 Bellingham-South (new construction)

4,806 sq ft @ \$8,300.00/mo, or \$20.72/sq ft/yr, in Yrs 1-5
\$9,212.00/mo, or \$23.00/sq ft/yr, in Yrs 6-10

#144 Lynnwood-West (existing center)

5,512 sq ft @ \$8,038.34/mo, or \$17.50/sq ft/yr, in Yrs 1-5
\$8,957.00/mo, or \$19.50/sq ft/yr, in Yrs 6-10

#087 Bothell-Thrasher's Corner (existing center)

5,680 sq ft @ \$8,993.00/mo, or \$19.00/sq ft/yr, in Yrs 1-5
\$9,940.00/mo, or \$21.00/sq ft/yr, in Yrs 6-10

NOTE: All 3 stores are in grocery-anchored centers (Albertson's). Stores #144 and #087 have several other retailers in the center. Store #048 will be located in a prime site on a busy arterial.

SUMMARY

Summary of the lease proposals for Store #018:

<u>Current Rent</u>	<u>Proposed Rent-#1</u>	<u>Change</u>
5,774 sq. ft.	5,831 sq. ft.	
\$4,402.68	\$10,204.25 Yrs 1-5	+132%
\$9.15/sq ft/yr	\$21.00/sq ft/yr	
	\$11,176.08 Yrs 6-10	+9.5%
	\$23.00/sq ft/yr	
	<u>Proposed Rent-#2</u>	
	5,500 sq. ft.	
	\$8,708.33 Yrs 1-5	+98%
	\$19.00/sq ft/yr	
	\$9,579.17 Yrs 6-10	+10%
	\$20.90/sq ft/yr	

Ms. Lewis recommended approval of Lease Proposal #1, relocation to new building at NEC of Commercial & Market Streets.

Board Member Ing moved for approval. Board Member Hoen seconded the motion, and it was carried.

The Meeting was adjourned at 10:10 A.M.