

**OFFICE OF THE WASHINGTON STATE
LIQUOR CONTROL BOARD MEETING**

April 20, 2005

The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, April 20, 2005 in the Board conference room, 3000 Pacific Avenue SE, Olympia, Washington, by Chairman Merritt D. Long. Board Member Roger Hoen was present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

Retail Services Division – Liquor Store Lease Extension, #044, Spokane
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 044, located in the Ridpath Hotel at West 505 Sprague Avenue, Spokane, WA, expired on March 31, 2005.

The Lessor, WestCoast Hospitality Limited Partnership, represented by David Peterson of G&B Real Estate Services, has agreed to a one (1) year extension of our current lease, effective April 1, 2005. During this extension period, the rent will be increased to \$4,650.00 per month, or \$12.41 per square foot per year, a 12% increase. All other terms and conditions of the current lease shall remain the same.

We currently pay \$4,150.00 per month, or \$11.07 per square foot per year, for a 4,495 square foot space. Gross sales for FY 2004 were \$2,205,709 with Class H Sales at 68%.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

Retail Services Division – Liquor Store Lease Proposal, #056, Spokane Valley
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 056, located in the Yoke's Supermarket center at 15111 E. Sprague Avenue, Spokane Valley, will expire on February 28, 2006.

BACKGROUND

In 1996, Store #056 was relocated from an old stand-alone building several miles west of its current location. At the time, this was known as the Veradale area, but became part of the City of Spokane Valley which was incorporated in March

2003. The current location is in the front corner space of a Yoke's Supermarket. In addition to its own front entrance, this store had a doorway with a turnstile so customers could move between the liquor store and the grocery store. At the request of Yoke's, however, this doorway was closed a couple of years ago. Yoke's has indicated in recent conversations that they are not sure that they will remain in their current location. In addition, the K-Mart that was located just east of the liquor store closed and a church has leased a portion of the building.

The Sullivan Road corridor, which runs north-south, has been undergoing a major retail transition over the last several years. A huge Spokane Valley Mall was built north of I-90. South of I-90, major retailers include Fred Meyer and WalMart, along with Ross, Michaels, Petco, PetSmart, and Toys R Us. There are many local and national retailers moving into the area and traffic has increased significantly. The proposed location for the liquor store is at the main entry into the WalMart Supercenter.

PROPOSAL – SPOKANE VALLEY PLAZA

The Lessor, Craig Clifford of Clifford Entities LLC et al, has proposed a ten (10) year lease in a 5,917 square foot space. The new rental rate will be \$10,353.00 per month, or \$21.00 per square foot per year, during Years 1-3, \$11,217.65 per month, or \$22.75 per square foot per year, during Years 4-6, and \$12,080.54 per month, or \$24.50 per square foot per year, during Years 7-10. Mr Clifford anticipates that he will have the premises ready for occupancy in July 2005. Since the Board must tender a 6 months' termination notice to its current landlord, Mr. Clifford has agreed to provide a rent credit equal to our current rent until the end of the termination period.

The Lease may not be terminated during the initial 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.

The Lessor has agreed to remodel the premises per the Board's "General Specifications...", including a lighted, individually-lettered sign on the storefront and sign panels on both shopping center pylon signs. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

The Board will pay its pro rata share of any property tax and L.I.D. increases over the 2005 base year.

SALES HISTORY

Recent sales history for Store No. 056 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2004	\$1,921,973	\$306,916	\$2,228,889
FY2003	\$1,717,089	\$326,334	\$2,043,423
FY2002	\$1,661,146	\$337,606	\$1,998,752

Sales/sq ft: FY04 = \$465 (average for all state liquor stores was \$650 for FY04)

NOTE: Retail sales increased 11.9% in 2004 and are anticipated to increase further in a more visible, higher traffic area.

Profitability: FY04 = 13.8% while the average profit for all state stores was 11.3%.

NOTE: Lease renewal =10.7 % without any sales increase.

ADDITIONAL DATA:

Current rental rates along the Sullivan Road corridor are low to mid \$20s per square foot + triple net charges and tenant improvements.

Comparable lease rates in Spokane:

#185 Spokane-Div & Mission –4,988 sq ft @
\$10,350.10/mo, or \$24.90/sq ft/yr, in Yrs 1-5
\$10,971.11/mo, or \$26.39/sq ft/yr, in Yrs 6-10

#186 Spokane-Shadle Center – 5,198 sq ft @
\$10,290.13/mo, or \$25.21/sq ft/yr, in Yrs 1-5
\$12,557.50/mo, or \$28.99/sq ft/yr, in Yrs 6-10

NOTE: Store #185 is in a strip center along Spokane's primary southbound arterial with visibility from the northbound arterial. Store #186 is located in a shopping center anchored by both WalMart and Safeway with many other neighborhood businesses.

SUMMARY

Summary of the lease proposals for Store #056:

<u>Current Rent</u>	<u>Proposed Rent-#1</u>	<u>Change</u>
\$4,500.00	\$10,353.00 Yrs 1-3	+130%

\$11.27/sq ft/yr \$21.00/sq ft/yr

\$11,217.65 Yrs 4-6 +8.4%
\$22.75/sq ft/yr

\$12,080.54 Yrs 7-10 +7.7%
\$24.50/sq ft/yr

Ms. Lewis recommended approval of Lease Proposal for Spokane Valley Plaza.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

Retail Services Division – Liquor Store Lease Proposal, #189, Puyallup
Suzanne Lewis, Store Leasing Manager

Store No. 189 is a proposed new store to be located in a new strip mall between an Albertson’s-anchored shopping center and a proposed new WalMart. The address of this space is 16304 Meridian Avenue East on the south hill of Puyallup.

BACKGROUND

The south hill area of Puyallup heading toward Graham has been growing at a rapid rate for the past several years. A large new Fred Meyer shopping center was recently built at the corner of Meridian Avenue East and South 176th Street. The center is almost fully leased with some small spaces still left at lease rates in the high \$20s to low \$30s per square foot.

The Albertson’s-anchored shopping center at the corner of Meridian Avenue and 160th was fully leased. Staff was approached about a new building in the center with lease rates in the mid to high \$20s per square foot. However, a large church owns the property just west of the center and was too close. A new shopping center is planned on the east side of Meridian and 160th anchored by Lowe’s and Target. Proposed lease rates will be in the mid \$20s with no frontage on Meridian while spaces with frontage will start at \$30 per square foot. All of the above lease rates will have \$3-5 per square foot triple net charges and TIs added to the quoted rates.

The new 13,000 square foot strip mall being recommended is just south of the Albertson’s center on the west side of Meridian. Heading south, there is an existing Buntz Rental business and then the proposed WalMart. All of the ditches along Meridian are being filled in and new sidewalks, curbs, and gutters are being

constructed. There is a traffic light at 160th and there will be a new traffic light at the south entrance to WalMart.

PROPOSAL – 16304 Meridian Avenue East

The Lessor, KTM LLC, represented by Jerome O’Leary of GVA Kidder Mathews, has proposed a ten (10) year lease in a new 5,600 square foot space. The rental rate will be \$11,200.00 per month, or \$24.00 per square foot per year, during the first 5 years, and \$12,880.00 per month, or \$27.60 per square foot per year, during the second 5 years. The Board will also pay its pro rata share of any property tax increases over the fully reassessed base year.

The Lease may not be terminated during the initial 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 an additional 5 year term.

The Lessor has agreed to construct the premises per the Board’s “General Specifications for Self-Service Stores” (Revised 10/02), including fire sprinklers and all exterior signage. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions. It is anticipated that the premises will be ready for occupancy in February 2006.

SALES HISTORY OF NEARBY STORES

Recent sales history for Store No. 023, Puyallup-Willows across from South Hill Mall and Contract Store No. 689, Graham, are as follows:

Store #023 (3.3 miles north):

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2004	\$3,384,771	\$957,236	\$4,342,007
FY2003	\$3,111,925	\$858,719	\$3,970,644

Contract Store #689 (3.6 miles south):

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2004	\$986,875	\$158,269	\$1,145,144
FY2003	\$878,082	\$186,242	\$1,064,324

ADDITIONAL DATA:

Sales for the first full year of operation are projected at \$1.8 million. With the development in this area and the large volume of traffic, this is a conservative projection.

Projected Sales/sq ft: FY04 = \$321 (average for all state liquor stores was \$650 for FY04)

Profitability: FY04 = 6.9% while the average profit for all state stores was 8.8%.

Traffic counts along Meridian Avenue East in this area are approximately 37,000 cars per day.

SUMMARY

Summary of the lease proposals for Store #189:

Proposed Rent

\$11,200.00 Yrs 1-5

\$24.00/sq ft/yr

\$12,880.00 Yrs 6-10

\$27.60/sq ft/yr

Ms. Lewis recommended approval of this lease proposal for Store #189.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

Retail Services Division – Liquor Store Lease Renewal, #159, Kennewick Suzanne Lewis, Store Leasing Manager

The lease for Store No. 159, located in Columbia Summit Center at 731 N. Columbia Center Boulevard, Kennewick, will expire on June 30, 2005.

BACKGROUND

The Tri-Cities is one of the fastest growing areas in the state of Washington. Since there is only 3.8 miles between the two Kennewick liquor stores, staff is recommending that Store #159 be enlarged by approximately 1,800 square feet when the lease is renewed rather than adding another store between the two. Most of the vacant space next to the Store 159 has been leased and the Lessor is proposing to do all of the tenant improvements for both tenants as one project. Due to the reconfiguration of the liquor store space, the store will be closed for 2-3 weeks. Lessor is planning to remodel the space as soon as possible so the liquor store will be back in operation before the busy summer season.

Columbia Summit Center was formerly anchored by Thriftway. A portion of the grocery store space was leased to Value Village. While part of the grocery space is still vacant, the rest of the center is leased and includes several smaller tenants

such as Color Tile and America's Mattress. Columbia Center Boulevard is the major retail area for Kennewick and there are very few vacancies.

PROPOSAL

The Lessor, Foggy/Halford Partnership, TIC, represented by Jim Quigley of Kiemle & Hagoood Company, has proposed a ten (10) year lease renewal in an enlarged 5,810 square foot space. The new rental rate will be \$7,747.00 per month, or \$16.00 per square foot per year, during the first 5 years, and \$8,521.70 per month, or \$17.60 per square foot per year, during the second 5 years, effective July 1, 2005. The Lease may not be terminated during the initial 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.

The Lessor has agreed to all requested repairs and improvements, including additional space, new office, new lunchroom, new light fixtures, new flooring and a new individually-lettered, lighted sign. The lease already includes sign panels on the shopping center pylon sign. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

SALES HISTORY

Recent sales history for Store No. 159 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2004	\$2,299,209	\$846,243	\$3,145,451
FY2003	\$2,043,586	\$849,593	\$2,893,179
FY2002	\$1,838,466	\$713,473	\$2,551,939

Sales/sq ft: FY04 = \$786 (average for all state liquor stores was \$650 for FY04)

NOTE: Over the last 3 years, sales have averaged a 12% increase and are anticipated to increase further as the area continues to grow.

Profitability: FY04 = 11.7% while the average profit for all state stores was 11.3%.

NOTE: Lease renewal = 10.4% without any sales increase.

ADDITIONAL DATA:

Other liquor store lease rates in area:

#171 Kennewick-Highlands – 5,000 sq ft @ \$5,104.17/mo, or \$12.25/sq ft/yr
(Lease expires 9/30/05 and is projected at approximately \$18.00 per square foot.)

#035 Pasco – 5,106 sq ft @ \$7,310.55/mo, or \$17.18/sq ft/yr, in Yrs 1-5
\$8,161.55/mo, or \$19.18/sq ft/yr, in Yrs 6-10

NOTE: Both of the above stores are in grocery-anchored centers, along with other national tenants and neighborhood services.

SUMMARY

Summary of the lease renewal for Store #159:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
4,000 sq ft	5,810 sq ft	
\$4,217.00	\$7,747.00 Yrs 1-5	+83.7%
\$12.65/sq ft/yr	\$16.00/sq ft/yr	
	\$8,521.70	+10%
	\$17.60/sq ft/yr	

Ms. Lewis recommended approval of this lease renewal for Store #159.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

**Retail Services Division – Liquor Store Lease Proposal, #130,
Bellingham** Suzanne Lewis, Store Leasing Manager

The lease for Store No. 130, located in Lakeway Shopping Center at 1022 Lakeway Drive, Bellingham, expired on March 31, 2005.

BACKGROUND

Store #130 has been in its current grocery-anchored location since January 1975. Lakeway Shopping Center is located near I-5 in the middle of Bellingham. Fred Meyer is located across the street and there are several motels in the neighborhood. Due to its prime location, gross sales at this store have increased

over \$1.1 million in the past 3 years.

Ennen Brothers were formerly in the grocery business and operated the supermarket. They subsequently sold their grocery stores while keeping the rest of the retail space in their centers. The supermarket is now a Cost Cutter, operated by Brown & Cole, who are planning to remodel the supermarket and change to the Food Pavilion format. As soon as Brown & Cole move forward with their plans, Ennen Brothers will renovate the rest of the shopping center. The existing, faded vinyl awnings will be removed and retail tenants will be able to install their own-lighted signs.

PROPOSAL

The Lessor, Ennen Brothers Partnership, represented by Don Wallace, has proposed a ten (10) year lease renewal in our current 4,720 square foot space. The new rental rate will be \$8,102.67 per month, or \$20.60 per square foot per year, during the first 5 years, and \$9,086.00 per month, or \$23.10 per square foot per year, during the second 5 years, effective April 1, 2005. The rent includes sign panels on the shopping center pylon sign.

The Lease may not be terminated during the initial five (5) 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. During Years 6 through 10, the Lease may be terminated by either party with a six (6) month written notice from the first of the month following.

The Lessors have agreed to all requested repairs and improvements, including new storefront glass, new light fixtures, new floor, and renovation of the restrooms to meet ADA specifications. They have also agreed to the provisions of Appendix A, "Areas of Responsibility", as attached.

The Board will pay its pro rata share of any property tax increases over the 2005 base year.

SALES HISTORY

Recent sales history for Store No. 130 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2004	\$3,852,066	\$1,337,632	\$5,189,698
FY2003	\$3,529,759	\$1,258,452	\$4,788,211
FY2002	\$3,254,755	\$1,151,312	\$4,406,067

3 year average retail sales increase = 8.1%

Sales/sq ft: FY04 = \$1,100 (average for all state liquor stores was \$650 for FY04)

NOTE: Retail sales increased another 9.1% in 2004 and are anticipated to increase further as the population continues to grow.

Profitability: FY04 = 15% while the average profit for all state stores was 11.3%.

NOTE: Lease renewal = 14% without any sales increase.

ADDITIONAL DATA:

Current rental rates in most areas of the state are near \$20.00 per square foot + triple net charges ranging from \$3.00 to \$5.00 per square foot.

Lease rates in the Bellingham liquor stores are:

#048 Bellingham-South – 4,699 sq ft @
\$8,300.00/mo, or \$21.20/sq ft/yr, in Yrs 1-5
\$8,750.00/mo, or \$22.35/sq ft/yr, in Yrs 6-10

Store #048 is new construction in a grocery-anchored center (Food Pavilion, owned by Brown & Cole), that will serve the entire south end of Bellingham and Whatcom County. The new store is scheduled to open in May 2005.

#123 Bellingham-North – 4,855 sq ft @
\$4,788.90/mo, or \$11.84/sq ft/yr, in Yrs 1-5
\$5,305.35/mo, or \$13.11/sq ft/yr, in Yrs 6-10

Store #123 is in a non-anchored shopping center in a growing area. Plans are to relocate this store when the lease expires in May 2006 to a larger, more viable retail center, preferably with a grocery anchor. It is anticipated that rents will be at least \$20.00 per square foot based on current market rates.

SUMMARY

Summary of the lease renewal for Store #130:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
\$3,914.00	\$8,102.67	+107%
\$9.95/sq ft/yr	\$20.60/sq ft/yr	
	\$9,086.00	+12%
	\$23.10/sq ft/yr	

Ms. Lewis recommended approval of this lease renewal for Store #130.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

Retail Services Division – Contract Liquor Store Manager Appointment, CLS #603

Linda Lenz, Secretary Administrative

La Conner is located in Skagit County in the Mount Vernon-Anacortes metro area. There has been a small but steady increase in the population in the last few years. The current population is 800. The gross sales in 2004 were \$538,296 and commissions were \$59,423. The nearest liquor stores are: 11 miles away #024 Anacortes, 12 miles away #152 Burlington.

Seven applications were received and five applicants were interviewed. The interview panel consisted of: Earl Hill, hiring District Manager, Lori LeMay, District Manager, and Bill DiLorenzo, Audit & Loss Prevention Manager. After the interviews were conducted, the selected candidate was Teresa A. Koke.

Teresa graduated from high school in 1972 and has taken classes in Community College in Bookkeeping, Accounting, and Spanish. She has computer skills in POS for Windows, MS Word, Excel, and Power Point. Teresa has worked as Dealer Account Manager with Ford Motor Company, Retail Sales/Design Consultant with Amenities Gallery and as a Sales and Service Representative with Alpine Fire & Safety.

Teresa will continue to run the stand-alone store currently located at 112 Morris Street, and she has assumed the lease. She has plans to upgrade the computer system, extend the existing hours, to capture the tourist trade. She is planning on building a new house in La Conner, and has an interest in becoming active in the local Chamber of Commerce.

References were checked and Teresa was described as a high energy individual, extremely smart, loves community, hard worker, takes pride in a job well done, integrity, faithful, committed community member, great customer service skills, excellent people skills, highly motivated, honest & reliable.

Ms. Lenz recommended the appointment of Teresa A. Koke as the new Contract Liquor Store Manager for the La Conner Contract Store #603, effective May 1, 2005.

Board Member Hoen moved for approval. Chairman Long seconded the motion, and it was passed.

The Meeting was adjourned at 10:20 a.m.