

**OFFICE OF THE
WASHINGTON STATE LIQUOR CONTROL BOARD
Board Meeting /June 21, 2006**

The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, June 21, 2006 in the Board conference room, 3000 Pacific Avenue S.E., Olympia, Washington, by Chairman Merritt Long. Board Member Vera Ing was present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

Licensing and Regulation Division – Recognition

Lorraine Lee, Director

Ms. Lee recognized Connie DeRouen, Customer Service Specialist for her 10 years of dedicated service to the Washington State Liquor Control Board.

Enforcement & Education Division – Swearing In

Pat Parmer, Chief

Chief Parmer sworn in Ken Scott, Captain (Region 2).

Retail Services Division – Liquor Store Lease Proposal, Store #173, Vancouver

Suzanne Lewis, Store Leasing Manager

The lease for Store No. 173, located in Cascade Marketplace shopping center at 13875 SE Mill Plain Boulevard #109, Vancouver, will not expire until April 30, 2010.

BACKGROUND

Store #173 was relocated to its current location in 2000. This store remains the busiest liquor store in Vancouver even though 2 new liquor stores have been opened recently in the general area. When the building was constructed, there was additional unfinished space left behind the liquor store. This space is empty and is now needed to increase the storage capacity at Store #173. The landlord is willing to finish the space and incorporate it into the liquor store lease for no more than the amount per square foot that the LCB currently pays. To make this cost effective for him, however, the landlord is also proposing that the lease be extended now for an additional 5 years beyond its expiration date of April 30, 2010.

This location has been extremely successful with Safeway and Office Max as neighbors. The airport across the street was recently sold and will be redeveloped

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into a large housing development, resulting in additional traffic in the shopping center.

PROPOSAL

The rent at Store #173 is currently \$7,791.67 per month, or \$17.00 per square foot per year, for a 5,500 square foot space. The Lessor, Graham Bryce of Cascade Park LLC, has proposed to lease an additional 850 square feet of space for \$1,204.17 per month, or \$17.00 per square foot per year. The new rental rate will be \$8,995.83 per month for the newly enlarged 6,350 square foot space, effective August 1, 2006. Per current lease terms, the Board would pay its pro rata share of any tax increases above the 2000 base year plus \$1.38 per square foot for common area maintenance (CAM).

Commencing May 1, 2010, the lease for the 6,350 square foot space will be renewed for an additional five (5) years. The new rental rate at that time will be \$10,583.34 per month, or \$20.00 per square foot per year. In addition, the Board will pay its pro rata share of tax increases above the 2010 base year plus \$1.60 per square foot for CAM charges.

The Lease may not be terminated, 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 plus the work needed to incorporate the additional storage space into the current store at this time. Additional improvements requested, including new flooring, will be completed at the beginning of the new lease in 2010. He has also agreed to the provisions of Appendix A, "Areas of Responsibility".

SALES HISTORY

Recent sales history for Store No. 173 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$4,582,442	\$1,541,937	\$6,124,379
FY2004	\$4,570,261	\$1,420,817	\$5,991,077
FY2003	\$4,014,485	\$1,240,482	\$5,254,967

Sales/sq ft: FY05 = \$1,114 (average for all state liquor stores was \$677 for FY05)
NOTE: Sales increase has slowed with opening of 2 additional stores, but are still anticipated to increase as the area continues to grow.

Profitability: FY05 = 13.95% while the average profit for all state stores was 11.0%.
NOTE: Increase in the rent will only reduce the fully loaded profit rate to 13.7%, still well above the state average, even without any sales increase.

ADDITIONAL DATA:

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Current rental rates in the Vancouver area are in the mid to high \$20s per sq ft + triple net charges.

Comparable lease rates in area:

#168 Vancouver-SE – 4,852 sq ft @ \$10,512.67/mo, or \$26.00/sq ft/yr, in Yrs 1-3
\$11,301.12/mo, or \$27.95/sq ft/yr, in Yrs 4-6
\$12,148.70/mo, or \$30.05/sq ft/yr, in Yrs 7-10

#188 Vancouver-Burton Rd – 5,831 sq ft @ \$10,204.25/mo, or

\$21.00/sq ft/yr, in Yrs 1-3

\$11,297.56/mo, or \$23.25/sq ft/yr, in Yrs 4-6

\$12,633.83/mo, or \$26.00/sq ft/yr, in Yrs 7-10

NOTE: Store #168 is in a new grocery-anchored center (QFC), along with many other busy retailers in a rapidly growing upscale housing area. Store #188 is located in a new Safeway-anchored shopping center in a planned development which is growing. A new planned freeway interchange off I-205 will result in increased traffic to the center.

SUMMARY

Summary of the lease proposal for Store #173:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
5,500 sq ft	6,350 sq ft	+15.5%
\$7,791.67	\$8,995.83 Yrs 7-10	+15.5%
\$17.00/sq ft/yr	\$17.00/sq ft/yr	0%

Lease renewal - Effective May 1, 2010:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
6,350 sq ft	6,350 sq ft	
\$8,995.83	\$10,583.34	+17.7%
\$17.00/sq ft/yr	\$20.00/sq ft/yr	

Ms. Lewis recommended approval of this lease proposal for Store #173.

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

Retail Services Division – Liquor Store Lease Proposal, Store #069, Seattle Suzanne Lewis, Store Leasing Manager

The lease for Store No. 069, located in 5th Avenue Plaza at 10744 – 5th Avenue NE, Seattle, expired on March 31, 2006. The Board was notified that the landlord

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would be demolishing the building in 2006 and the liquor store could remain in its current location, if needed, until demolition began.

BACKGROUND

The Northgate liquor store was relocated to its current site 10 years ago when the Board was told that the former location would be redeveloped. Then, as now, suitable retail space in this busy commercial area was difficult to locate. Our current site will be demolished in January 2007 for a new mixed-use development with ground-floor retail, underground parking and several stories of apartments, opening in 2008. Retail lease rates are projected to start at \$32 per square foot plus \$6/sq ft triple net charges. The landlord did offer temporary space in another nearby center, but the space was too small, parking was minimal and street exposure was poor.

Staff has located a large space in an existing center approximately one-half block south of the current location, directly across from Northgate Mall. The space was formerly occupied by Olympic Sports and features approximately 8,000 square feet on street level with excellent exposure. Due to the proliferation of licensee accounts in the area, plans call for transfer of several licensee accounts in North Seattle to the new site.

PROPOSAL

The Lessor, Einar Pedersen of Northgate Olympic Properties, represented by Eric Bissell of First Western Properties, has proposed a ten (10) year lease in a 7,772 square foot space. The new rental rate will be \$18,137.67 per month, or \$28.00 per square foot per year, during Years 1-3, \$19,430.00 per month, or \$30.00 per square foot per year, during Years 4-6, \$20,725.33 per month, or \$32.00 per square foot per year, during Years 7-9, and \$22,020.67 per month, or \$34.00 per square foot per year, during Year 10. In addition, the Board will pay its pro rata share of any property tax increases over the 2006 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.

The Lessor has agreed to remodel the premises per the Board's "General Specifications..." plus a floor plan and additional specifications provided by Store Development. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

SALES HISTORY

Recent sales history for Store No. 069 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$2,456,529	\$1,480,246	\$3,936,775
FY2004	\$2,386,832	\$1,355,971	\$3,742,803
FY2003	\$2,207,645	\$1,149,092	\$3,356,737

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Sales/sq ft: FY05 = \$899 (average for all state liquor stores was \$677 for FY05)
NOTE: Sales increased with the closure of the Lake City store in June 2005, but are anticipated to continue increasing with new development in the area.

Profitability: FY05 = 10.4% while the average profit for all state stores was 11.0%.

NOTE: Lease proposal = 9.6% without any sales increase. It is anticipated that sales will increase significantly with a more visible location and an influx of additional licensee accounts.

ADDITIONAL DATA:

Current rental rates in the area range from the low \$20s per square foot for older sites to over \$30 per square foot for the new developments + triple net charges.

Comparable lease rates in area:

#191 Seattle-15th NE – 6,045 sq ft @ \$12,594.00/mo, or \$25.00/sq ft/yr, in Yrs 1-3
\$13,349.00/mo, or \$26.50/sq ft/yr, in Yrs 4-6
\$14,105.00/mo, or \$28.00/sq ft/yr, in Yrs 7-10

#187 Seattle-Ballard – 6,290 sq ft @ \$14,650.46/mo, or \$27.95/sq ft/yr, in Yrs 1-3
\$16,222.96/mo, or \$30.95/sq ft/yr, in Yrs 4-6
\$18,319.63/mo, or \$34.95/sq ft/yr, in Yrs 7-9
\$19,630.04/mo, or \$37.45/sq ft/yr, in Yr 10

NOTE: Both stores are in stand-alone buildings in busy Seattle neighborhoods with other retail businesses nearby.

SUMMARY

Summary of the lease proposal for Store #069:

<u>Current Rent</u>	<u>Proposed Rent-#1</u>	<u>Change</u>
4,380 sq ft	7,772 sq ft	+77% size increase
\$5,292.50	\$18,137.67 Yrs 1-3	+243%
\$14.50/sq ft/yr	\$28.00/sq ft/yr	+93%
	\$19,430.00 Yrs 4-6	+7%
	\$30.00/sq ft/yr	
	\$20,725.33 Yrs 7-10	+7%
	\$32.00/sq ft/yr	
	\$22,020.67 Yrs 7-10	+6%
	\$34.00/sq ft/yr	

Ms. Lewis recommended approval of Lease Proposal to relocate Store #069 to former Olympic Sports site.

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

Retail Services Division – Liquor Store Lease Extension, Store #001, Seattle
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 001, located in One Union Square at 1302 Sixth Avenue, Suite 3B, Seattle WA, will expire on June 30, 2006.

The Lessor, Arne Gillam, Vice President of Washington Holdings, has agreed to a month-to-month extension of our current lease, effective July 1, 2006. During this extension period, the rental rate will be \$8,086.00 per month, or \$29.70 per square foot per year, a 5.7% increase. All other terms and conditions of the current lease shall remain the same.

We currently pay \$7,651.05 per month, or \$28.10 per square foot per year, for a 3,267 square foot space. Gross sales for FY 2005 were \$1,485,385 with Class H Sales at \$309,115, or 20.8%.

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

Board – Approval of Minutes

Board Member Ing reviewed the minutes of March 21, April 4, April 5, April 11, April 12, April 19, and May 3 and moved for approval. Chairman Long seconded the motion, and it was passed.

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

Merritt D. Long
Chairman

Vera Ing
Board Member

Roger Hoen
Board Member

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