



**DEPARTMENT OF
NATURAL RESOURCES**

**OFFICE OF THE
COMMISSIONER OF PUBLIC LANDS**
1111 WASHINGTON ST SE
MS 47001
OLYMPIA, WA 98504-7001

October 10, 2023

The Honorable Bernard Dean
Chief Clerk of the House
338B Legislative Building
Olympia, WA 98504

The Honorable Sarah Bannister
Secretary of the Senate
312 Legislative Building
Olympia, WA 98504

Dear Chief Clerk Dean and Secretary Bannister:

In 2022, the Washington State Legislature amended [RCW 79.13.060](#) through HB 1430 to provide longer terms for specific types of leases from a maximum of 55 years to 99 years. As part of this extension, the statute requires the Department of Natural Resources (DNR) to report to the Office of Financial Management (OFM) and appropriate committees of the legislature within 30 days of the date of execution of the lease. The report must include a financial analysis that justifies the financial benefit for the added term and schedule for periodic rental adjustment.

DNR's Commercial Real Estate staff received a request from one of our commercial lessees in compliance with RCW 79.13.060 (b) (ii and iii). Below is a short summary justifying the financial benefit for the added terms and schedule for periodic rental adjustments.

Surestay Best Western/Moses Lake

The original Ground Lease commenced August 1, 1988, expiring on July 31, 2043, for a total term of 55 years. Effective January 13, 2023, the Ground Lease was assigned to Grace Hotel Management, Inc. The new Lessee, Grace Hotel Management, Inc., wishes to renovate and expand the facilities. To obtain the necessary long-term financing and justify the expense, the Lessee has requested an extension of the lease term for an additional 44 years through July 31, 2087.

Without being able to obtain the necessary financing for redevelopment, the property will continue to deteriorate lowering the market value of DNR's asset. With the lease extension of 44 years, the new Lessee can obtain financing and invest in and make the necessary capital improvements to the property that will increase the value of DNR's asset and provide economic viability for this new Lessee as well as for the surrounding commercial community.

The lease extension provides for 5-year periodic rental reevaluations and adjustments via either a CPI increase or a fair market value (FMV) appraisal at DNR's sole discretion. The current base annual lease rate for Grace Hotel Management, Inc. is \$66,000.00 per annum with the next increase scheduled for January 1, 2024. With a lease extension, DNR anticipates that development of the subject property will attract new awareness and increase the rental stream. An added benefit should be a higher property valuation when the next FMV appraisal is performed.

Should you have any questions, please contact me at 360-486-3469 or Brian.Considine@dnr.wa.gov.

Sincerely,



Brian Considine
Legislative Director
Office of the Commissioner of Public Lands

Enclosed: Third Amendment to Ground Lease (DNR Lease #39-068485)

Cc: House Rural Development, Agriculture, & Natural Resource Committee
Senate Agriculture, Water, Natural Resources, & Parks Committee
Jim Cahill, Senior Budget Assistant, Natural Resources, OFM
Lisa Borkowski, Budget Assistant, Natural Resources, OFM
Brian Considine, Legislative Director, Office of the Commissioner of Public Lands
Todd Welker, Deputy Supervisor, State Lands, Dept. of Natural Resources
Michael Kearney, Division Manager, Product, Sales, and Leasing, Dept. of Natural Resources
Kari Fagerness, Commercial Real Estate Program, Dept. of Natural Resources



HILARY S. FRANZ
COMMISSIONER OF PUBLIC LANDS

DNR Lease #39-068485

THIRD AMENDMENT TO GROUND LEASE

THIS THIRD AMENDMENT TO GROUND LEASE is made this 27 day of September 2023 by and between State of Washington, by and through its Department of Natural Resources ("State/Lessor"), Grace Hotel Management, LLC, a Washington limited liability company ("Lessee") and Reza Firouzi, as Guarantor.

WHEREAS, that certain Ground Lease was entered into by and between the State of Washington, by and through its Department of Natural Resources, as Lessor, and Shilo Inn Moses Lake, Inc., a Washington corporation, as Lessee, dated August 1, 1988, then amended by that First Amendment to Lease dated July 26, 1990, then subsequently assigned to Somnath Motel, LLC, by that Lease Assignment and State's Consent to Assignment and fully executed on October 4, 2016, which was then amended by that that Second Amendment to Ground Lease dated September 10, 2021 and subsequently assigned to Grace Hotel Management, LLC by that Assignment, Assumption and Consent Agreement dated January 13, 2023 ("Lease"), for that certain real property located at the commonly known address of 1819 E Kittleson Road, Moses Lake, Grant County, Washington 98837, as more fully described in the Lease and the attached Exhibit A-1; and

WHEREAS, Lessee desires to extend the Lease term as permitted by and subject to the conditions of RCW 79.13.060, and Lessor is agreeable to these modifications of the Lease, and the parties desire to modify the Lease accordingly;

NOW THEREFORE, in consideration of the covenants and agreements contained herein, the parties hereby mutually agree as follows:

DNR Lease #39-068485

Grace Hotel Management, LLC
Third Amendment to Ground Lease

1. Extension Term and Expiration Date: The term of the Lease, as set forth in Section 2 of the Ground Lease shall be amended to extend the term by forty-four (44) years commencing on August 1, 2043 and expiring on the new Expiration Date of July 31, 2087. (the "Extension Term").
2. Extension Term Annual Rent: A new annual rent will be determined by a fair market value appraisal as outlined under Method B in attached Exhibit B which will take effect August 1, 2043. Then, commencing on August 1, 2048, and at intervals of five (5) years thereafter, a new annual rental will be established as specified in said attached Exhibit B, Rental Adjustment, and by reference incorporated herein.
3. Option to Extend: As a condition of Lessor granting the least extension, all of Section 2.2 of Lessee's Ground Lease Agreement dated August 1, 1988, shall be deleted with no further options to extend. Instead, the lease term shall become fixed through July 31, 2087, subject to all other terms and conditions of said Lease which shall remain in full force and effect.
4. Pollution Legal Liability Insurance: As an additional provision of Lessor granting this lease extension, Lessee shall be required to carry pollution liability insurance cover coverage for both above ground fuel storage tanks and underground fuel storage tanks (USTs) and related issues. As such, the following language shall be added in its entirety to Lessee's Ground Lease as new lease Section 8.3(e) under Types of Insurance Required:

8.3(e) Pollution Legal Liability Insurance.

- (1) Lessee shall procure and maintain for the duration of this Lease pollution legal liability insurance, including investigation and defense costs, for bodily injury and property damage, including loss of use of damaged property or of property that has not been physically injured or destroyed. At all times during this Lease, Lessee shall include State as an additional insured with respect to its pollution legal liability insurance as described herein. Such coverage must also provide for both on-site and off-site cleanup costs, cover gradual and sudden pollution, and include in its scope of coverage natural resource damage claims. Such coverage must also include any underground or above ground fuel storage tanks located on the leased Property and any additional fuel storage tanks installed on the Property. The Insurance Certificate must state that the insurer is covering Hazardous Substance removal. Tenant shall maintain coverage in an amount of at least:
 - (i) Two Million Dollars (\$2,000,000) each occurrence for Lessee's operations at the Property identified above, and
 - (ii) at least Two Million Dollars (\$2,000,000) general aggregate or policy limit, if any.

(2) Such insurance may be provided on an occurrence or claims-made basis. If such coverage is obtained as an endorsement to the CGL or is provided on a claims-made basis, the following additional conditions must be met:

- (i) The policy must contain a retroactive date, that is on or before the date the Third Amendment to Ground Lease is fully executed.
- (ii) Coverage must either be continuously maintained for a period of five (5) years following the Termination Date of the Lease, or an extended reporting period of at least five (5) years following the Termination Date of the Lease shall be purchased.

- 5. Property Condition End of Lease: As a condition of Lessor granting the lease extension, all of Section 9.4 of Lessee’s Ground Lease Agreement dated August 1, 1988, shall be deleted, and replaced in its entirety with the following language: “Upon vacating the Property and by the Termination Date, Lessee shall at Lessee’s sole expense remove all improvements constructed upon the Property (including without limitation the Project, all fixtures, equipment, and all underground improvements such as fuel storage tanks and lines) and return the Property to grade level free of all debris. Further, by the Termination Date, Lessee shall at its sole cost and expense and to the extent required by applicable law complete the closure process for the underground tanks and piping and submit to State (without representations or warranties of any kind) a closure and removal notice or other similar indicia that any underground storage tanks and piping have been properly closed and removed.”
- 6. Guarantor: Reza Firouzi agrees to continue as Guarantor on the subject Ground Lease as stipulated in Section 1 of the Guarantee of Lease Rider attached thereto.

All other terms and conditions of said Ground Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

LESSOR

STATE OF WASHINGTON BY THE DEPARTMENT OF
NATURAL RESOURCES

By: Michael Kearney

Its: Division Manager

Signatures continued on following page

LESSEE

GRACE HOTEL MANAGEMENT, LLC

By: Reza Firouzi

Its: president

GUARANTOR

REZA FIROUZI

By: Reza Firouzi

Reza Firouzi, as Individual

STATE ACKNOWLEDGMENT

STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

On this 27 day of September, 2023, personally appeared before me Michael Kearney _____, to me known to be the Division Manager _____ for the State of Washington, that he/she executed the within and foregoing instrument on behalf of the State of Washington, and acknowledged said instrument to be the free and voluntary act and deed of the State of Washington for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument.

WITNESS my hand and official seal hereto affixed the day and year first above written.

KELLI PINCHAK
Notary Public
State of Washington
Commission # 22032957
Commission Expires 10/26/2026

Kelli Pinchak

Notary Public in and for the State of Washington,
residing at 1111 Washington Street SE

My commission expires: 10/26/2026
kelli pinchak

[Type or Print Notary Name]

(Use This Space for Notarial Seal Stamp)

DNR Lease #39-068485

Grace Hotel Management, LLC
Third Amendment to Ground Lease

LESSEE ACKNOWLEDGMENT

STATE OF WASHINGTON)
) ss.
COUNTY OF Thurston)

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

On this 27 day of September, 2023, before me personally appeared Reza Firouzi, to me known to be the President of Grace Hotel Management, LLC, the company that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that (s)he was authorized to execute said instrument.

WITNESS my hand and official seal hereto affixed the day and year first above written.

Kelli Pinchak

KELLI PINCHAK
Notary Public
State of Washington
Commission # 22032957
Commission Expires 10/26/2026

Notary Public in and for the State of Washington,
residing at 1111 Washington Street SE
My commission expires: 10/26/2026
kelli pinchak

[Type or Print Notary Name]

(Use This Space for Notarial Seal Stamp)

Acknowledgements continued on next page

GUARANTOR ACKNOWLEDGEMENT

STATE OF WASHINGTON)
) ss.
COUNTY OF Thurston)

I certify that I know or have satisfactory evidence that Reza Firouzi is the person who appeared before me. I further certify that said person acknowledged the foregoing instrument to be [his/her] free and voluntary act for the uses and purposes mentioned in the instrument.

DATED: 9/27/2023

Kelli Pinchak

kelli pinchak

(Type/Print Name)

KELLI PINCHAK
Notary Public
State of Washington
Commission # 22032957
Commission Expires 10/26/2026

Notary Public in and for the State of Washington

residing at: 1111 washington Street SE.

My Commission Expires: 10/26/2026.

EXHIBIT A

Lot 2 – Shilo Short Plat
(SureStay Best Western)

A leasehold described as follows:

Lot 2, Shilo Short Plat, according to the plat thereof recorded in Volume 3 of Short Plats, page 42, records of Grant County, Washington, being a portion of Farm Unit 124. Irrigation Block 41, Columbia Basin Project, and a portion of the Northwest quarter of the Northeast quarter of Section 36, Township 19 North, Range 28 E. W. M., described as follows:

Commencing at the North quarter corner of said Section 36; thence South 89°20'15" East, 702.37 feet along the North line of said Section 36; thence South 00°39'45" West, 30 feet to the True Point of Beginning; thence South 00°39'45" West, 468.82 feet to a point on the Northerly right of way of S.R. 90 Highway; thence Westerly 140.61 feet along a 375 feet radius curve to the left (whose long chord bears South 79°52'18" West, 139.79 feet); thence North 80°52'21" West, 43.75 feet to a point 75 feet perpendicular to the center line of S.R. 17 Highway; thence North 35°52'41" West, 287.31 feet; thence South 89°20'15" East, 73.17 feet; thence North 00°39'45" East, 182.99 feet; thence North 03°42'02" West, 59.91 feet; thence North 00°39'45" East, 15 feet to a point on the Southerly right of way line of Kittleson Road; thence along said right of way line South 89°20'15" East, 283.04 feet to the True Point of Beginning.

EXHIBIT B
RENTAL ADJUSTMENT

Beginning on August 1, 2048, the sixtieth anniversary of the Commencement Date, and at intervals of five (5) years thereafter, a new annual rental will be established (the "Adjustment Date"). Failure on the part of State to establish a new rental on any anniversary of the Commencement Date of this Lease on which adjustment is to be made shall not preclude State from doing so anytime thereafter, and the new rental shall be due retroactive to the Adjustment Date. The new annual rental shall be established by the State using either one of the following two methods selected by State in State's sole and absolute discretion:

METHOD A - CPI With No Maximum.

When the annual rent is to be adjusted based on the CPI, the annual rent shall be the sum computed by increasing the annual rent paid during the prior five (5) year period by the percentage increase in the United States Department of Labor, Bureau of Labor Statistics, "All Items" Consumer Price Index for All Urban Consumers ("CPI"), United States City Average (1982-84=100) from the level of said CPI five years prior to the Adjustment Date to the level of the CPI as of the Adjustment Date, or as a formula:

$$\text{New annual rent} = \text{previous annual rent} \times \frac{(\text{CPI as of Adjustment Date})}{(\text{CPI five years prior to Adjustment Date})}$$

In the event the change in the CPI for such period is a negative value, the annual rent shall in no event be less than the annual rent for the preceding five year period. In the event such price index ceases to be published, the most nearly comparable price index then published by the United States Government shall be substituted in its place. If State and Lessee cannot agree as to a substitute index, then a new index shall be determined through arbitration in accordance with Section 14 above. In the event a computation of an adjustment in the annual rent requires the use of published information which is not available as of the effective date of such rental adjustment, the adjustment shall be determined as soon as practical after the adjustment date, and Lessee shall continue to make periodic rental payments equal to the annual rent previously applicable. Any adjustment in such payments shall be paid by Lessee within thirty (30) days after a determination of the proper adjustment has been made.

METHOD B - Periodic Reappraisal.

When the annual rent is to be adjusted based on appraisal, the new annual rental shall be the appraised fair market value of the Property multiplied by the then current 5-Year Treasury Note Rate plus 275 basis points (5-Year Treasury Note Rate + 2.75%). The term "5-Year Treasury Note Rate" shall mean the interest rate on 5-year promissory notes issued by the United State Treasury, any change in such 5-Year Treasury Note Rate to effect a change in the rate charged hereunder on the date of each such change. If the United States Treasury ceases to issue such 5-year Treasury Notes, then State shall designate another comparable index rate which, in the reasonable opinion of State, represents a comparable financial instrument as the "5-Year Treasury Note Rate" as defined herein.

In no event will the adjusted annual rental be less than the previous annual rental. The fair market value will be determined, exclusive of Lessee's improvements and as though the ownership were in fee simple, by State's appraiser. The fair market value will be established as of the beginning of the rental adjustment period. In the event that agreement cannot be reached between the parties on the fair market value of the Property, such valuation shall be submitted to a panel of three appraisers (qualified as defined in Section 14 above). One

appraiser shall be selected by Lessee and this expense shall be borne by Lessee; one appraiser shall be selected by State and this expense shall be borne by State; these appraisers so selected shall mutually select a third appraiser and such expenses shall be shared equally by Lessee and State. The majority decision of this panel of appraisers shall be binding and conclusive upon State and Lessee. Notwithstanding submission of the evaluation to the appraisers, Lessee shall pay the rental amount as proposed by State on the due dates as required if no decision by the panel of appraisers has been made or if the panel has not yet been formed. If additional payments or refunds are required as a result of this review, such monies shall be due and payable within thirty (30) days after such decision.

On those Adjustment Dates that State notifies Lessee of a rent adjustment based on Method A (CPI index) above, Lessee shall have the right to notify State that Lessee desires that the new Rent be established by appraisal of the Property in accordance with Method B. Lessee must notify State in writing within 5 business days after receipt of State's notification of a rent adjustment. Lessee shall pay the cost of said appraisal and such appraisal shall establish the new annual rent for the next 5-year period. In no event will the adjusted annual rental be less than the previous annual rent.