



**DEPARTMENT OF  
NATURAL RESOURCES**

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

December 21<sup>st</sup>, 2022

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.

REEF/Eastgate

This ground lease was originally entered into on May 31, 1997 with a 55 year term set to expire May 31, 2052. A lease extension has been granted for an additional 44 years now set to expire on May 31, 2096. This ground lease currently has no vacancies, but with less than 30 years remaining the lessee foresees challenges finding and keeping tenants as they will not be able to plan for long-term tenancy. Lessee has also indicated that with less time to amortize costs capital improvements will be hard to justify which will lead to decreased asset value and future increased capital improvements costs for DNR. With the lease extension for another 44 years, landlord is able to attract new tenants and invest in capital improvements, including roof and HVAC replacements, increasing the value of the asset and providing economic value to the community.

The lease extension will continue to follow the previous terms of the ground lease with provisions for rental adjustments every five years based on either CPI changes or reappraisal.

Should you have any questions, please contact me at 360-486-3469 or [Brian.Considine@dnr.wa.gov](mailto:Brian.Considine@dnr.wa.gov).

Sincerely,



Brian Considine  
Legislative Director  
Office of the Commissioner of Public Lands

Enclosed: First Amendment to Ground Lease (DNR Lease #39-069982)

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 #39-069982

### **FIRST AMENDMENT TO GROUND LEASE**

THIS FIRST AMENDMENT TO GROUND LEASE is made this 21st day of November 2022 by and between State of Washington, by its Department of Natural Resources ("State/Lessor"), and REEF Eastgate, LLC, a Washington limited liability company ("Lessee").

WHEREAS, Lessor and Lessee entered into a Ground Lease (Lease) dated May 23, 1997, by and between State of Washington, by its Department of Natural Resources (State) and Touchstone Corporation (Lessee), which Lease was subsequently assigned to Touchstone Partners I, LLC, by that certain Lease Assignment approved June 10, 1998, then subsequently assigned to Touchstone 111-302, LLC, by that certain Lease Assignment dated December 14, 1999, and then amended to reflect a name change from Touchstone 111-302, LLC, to REEF Eastgate, LLC, as set forth by that Amended Certificate of Formation/Registrations dated July 7, 2015 (collectively, the "Lease"), for that certain real property known as the Eastgate Building located at the commonly known address of 15500 SE 30<sup>th</sup> Place, Bellevue, Washington 98007 (the "Premises"), as more fully described in the Lease and the attached Exhibit A; 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:

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 June 1, 2052 and expiring on the new Expiration Date of May 31, 2096 (the "Extension Term").

DNR Lease #39-069982

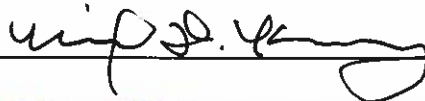
REEF Eastgate, LLC  
First Amendment to Ground Lease

2. Annual Rent: Section 3.1. of the Lease is hereby amended to add the following language as new subsection 3.1(d): Commencing on June 1, 2052, and at intervals of five (5) years thereafter, a new annual rental will be established as specified in attached Exhibit B, Rental Adjustment, and by reference incorporated herein.

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.

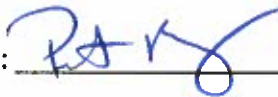
LESSOR  
STATE OF WASHINGTON BY THE WASHINGTON  
STATE DEPARTMENT OF NATURAL RESOURCES

By: 

Its: ACTING DIVISION manager

LESSEE  
REEF EASTGATE, LLC

By: Washington Capital Management, Inc.  
Its Manager/Authorized Agent

By: 

Its: SVP, Portfolio Manager, Real Estate  
Equity

*Acknowledgements follow on next pages.*

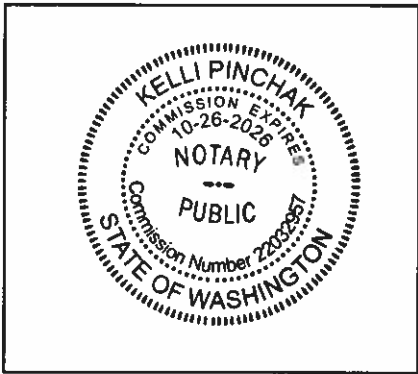
STATE ACKNOWLEDGMENT

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 21 day of November, 2022, personally appeared before me Michael Keanevey, to me known to be the Acting Division Mgr for the State of Washington, that he 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 in and for the State of Washington,  
residing at Olympia, WA  
My commission expires: 10-26-26  
KELLI PINCHAK  
[Type or Print Notary Name]

(Use This Space for Notarial Seal Stamp)

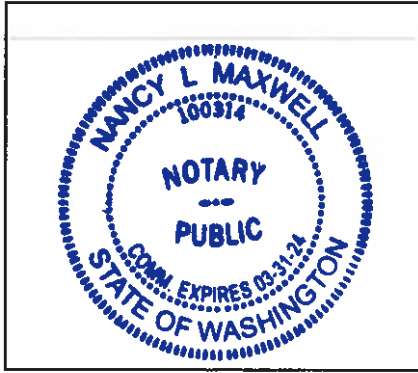
LESSEE ACKNOWLEDGMENT

STATE OF WA )  
 ) ss.  
COUNTY OF KING )

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 18 day of NOVEMBER, 2022, before me personally appeared PETER BURY, to me known to be the SUPPORFOLIO MGR of REEF Eastgate, 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.



Nancy L. Maxwell

Notary Public in and for the State of WA,

residing at RENTON

My commission expires: MARCH 31, 2024

Nancy L. Maxwell

[Type or Print Notary Name]

(Use This Space for Notarial Seal Stamp)



EXHIBIT A  
Property Description

Legal Description:

Lot 3 Block 5, CC&F I-90/Bellevue Business Park Division Number 2, according to the plat thereof recorded in Volume 120 of Plats, pages 78 through 80, inclusive, in King County, Washington; EXCEPT that portion of said Lot 3 lying northwesterly of the following described line:

Beginning at a point on the north line of said Lot 3 distant south  $88^{\circ}51'40''$  east 427.0 feet from the northwest corner of Lot 4 of said Block 5; thence south  $1^{\circ}08'20''$  west 61.04 feet; thence south  $40^{\circ}38'00''$  west along a prolongation of the southeasterly line of said Lot 4 a distance of 662.07 feet to the most southerly corner of said Lot 4 and the end of said described line.

(ALSO KNOWN AS a portion of City of Bellevue Lot Line Adjustment Number LLA 83-23, recorded under Recording Number 8307069013).

[Sketch of Property]

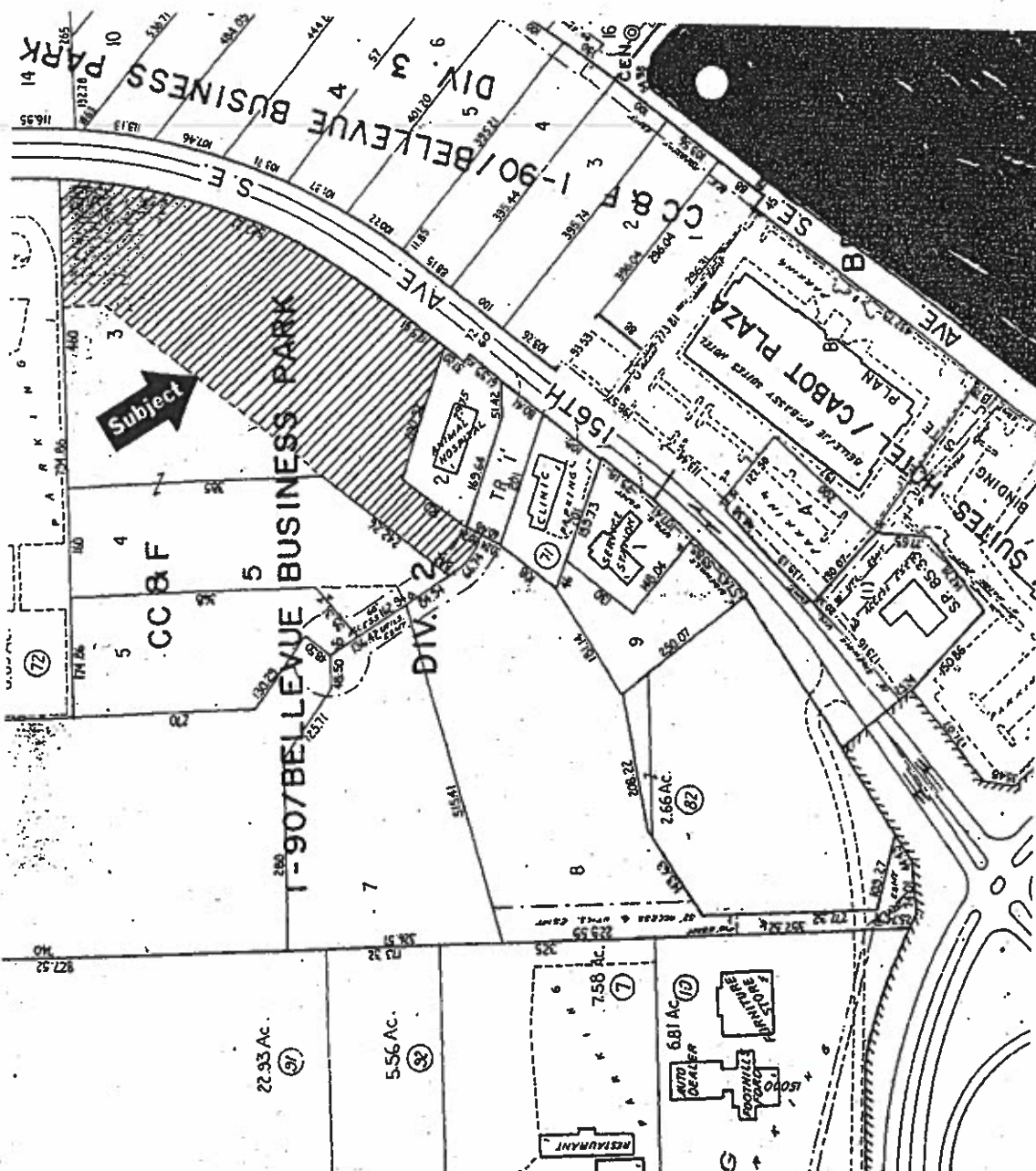


EXHIBIT B  
RENTAL ADJUSTMENT

Beginning on June 1, 2052 the fifty-sixth 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