City of Arts & Innovation

City Council Memorandum

TO: **HONORABLE MAYOR AND CITY COUNCIL** **DATE: JANUARY 10, 2023**

FROM: **PUBLIC UTILITIES DEPARTMENT** **WARD: 1**

SUBJECT: **SECOND AMENDMENT TO LEASE AGREEMENT WITH THE IG GROUP, LLC OPERATING AS SLATER'S 50/50 – MISSION SQUARE OFFICE BUILDING, 3750 UNIVERSITY AVENUE, SUITE 125 – FOR A 15-YEAR TERM**

ISSUE:

Approve a Second Amendment to Lease Agreement to extend the lease to a 15-year term and adjust the Rent Commencement date from August 22, 2019, to January 1, 2021, between The IG Group, LLC operating as Slater's 50/50 and the City of Riverside for approximately 5,982 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 125.

RECOMMENDATIONS:

That the City Council:

1. Approve the Second Amendment to the Lease Agreement with The IG Group LLC operating as Slater's 50/50 to extend the Lease Agreement to a 15-year term from January 1, 2021, to December 31, 2036, and adjust the Rent Commencement date from August 22, 2019, to January 1, 2021; and

2. Authorize the City Manager, or designee, to execute the Second Amendment, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BOARD RECOMMENDATION:

On December 12, 2022, the Board of Public Utilities with seven members present, voted unanimously to recommend that the City Council approve the Second Amendment to extend the Lease Agreement to a 15-year term and adjust the Rent Commencement date from August 22, 2019, to January 1, 2021, with The IG Group, LLC operating as Slater's 50/50 for the Mission Square Office Building located at 3750 University Avenue.

BACKGROUND:

On October 13, 2015, the City acquired the Mission Square Building at 3750 University Avenue (Property), which was funded by Riverside Public Utilities (RPU). As such, RPU is now the Landlord of the Property. The Property consists of approximately 127,533 square feet of rentable office and retail space in a six-story building, plus a basement level and a 490-parking stall garage situated on approximately 2.5 acres of land.

On January 26, 2016, the City Council approved an Exclusive Authorization of Lease Agreement with Newmark of Southern California, Inc. dba Newmark Knight Frank (NKF) for a five-year term to provide broker leasing services for the Property. On January 5, 2021, the City Council approved a First Amendment to California Exclusive Authorization of Lease Agreement with Newmark of Southern California, Inc., dba Newmark Knight Frank (NKF) which extended the Agreement through December 31, 2025. RPU staff has been coordinating the leasing process for the Property with the Real Property Services Division of the Community & Economic Development Department and NKF as the broker for the Property.

On July 2, 2018, the City entered into a ten-year Lease Agreement with The IG Group, LLC operating as Slater's 50/50. The Board of Public Utilities approved the Lease on June 11, 2018, and the City Council approved the Lease on June 26, 2018.

On July 7, 2020, the City entered into a First Amendment with The IG Group, LLC operating as Slater's 50/50 which adjusted the following Lease Agreement terms:

- Total square footage of the suite from 5,700 to 5,982;
- Increased the Tenant Improvement Allowance from $108.95 to $156.27 per square foot;
- Adjusted the Rent Commencement date from May 22, 2019, to August 22, 2019;
- Memorialized the Landlord's Delivery of Possession on August 22, 2018; and
- Amended the Tenant's Due Diligence period from 270 days to 365 days from the date of Landlord's Delivery.

The Board of Public Utilities approved the First Amendment on June 8, 2020, and the City Council approved the First Amendment ton June 16, 2020.

DISCUSSION:

Slater's 50/50 has been a tenant in the Property since 2018 and the Tenant has requested the City to revise the current Lease terms.

Staff has reviewed the proposed Second Amendment to Lease Agreement and recommends the terms summarized below:

1. Basic Lease Information:
    a. Section 11. Tenant's Proportionate Share of Building: 4.78%
    b. Section 11: Tenant's Proportionate Share of Retail Area Common Area: 28.78%

2. Term: January 1, 2021, through December 31, 2036.

3. Rent Commencement Date: Section 2.1.1., amended from August 22, 2019, to January 1, 2021.

4. Amortization of Past Due Rent: Section 3.8 is added, with both parties agreeing to amortize unpaid rent from January 1, 2021 – May 31, 2021, into a new 15-year term ($14,955 Rent + $2,392.80 CAM) = $17,347.80 x 5 Months = $86,739.

5. Amortization of Tenant Improvement: Section 3.7.1 is added with both parties agreeing to amortize the entire balance of the $250,000.00 in additional Tenant Improvements provided by the Landlord to Tenant under Section 3.7 into the new 15-year term of the lease with a 4% interest rate added to the Base Rent.

6. Tenant's Share of Common Area Maintenance Costs: Tenant agrees to pay the Landlord its proportionate share of all Building Area and Retain Area Common Area Maintenance Costs ("CAM" or "CAM Charges"). CAM Charges are currently estimated at Forty Cents ($0.40) per square foot.

7. Rules and Regulations (Exhibit "B"): is amended and replaced in its entirety and replaced with the attached Exhibit "B."

8. Base Rent Schedule (Triple Net Lease):

Base Rent Schedule: Months	Regular Monthly Base Rent	Deferred Rent Amortization	Total Regular and Deferred Rent	Tenant Improvement Amortization	Monthly Total Rents and All Amortization
1-12	$14,955.00	$641.60	$15,596.60	$1,849.22	$17,445.82
12-24	$15,254.10	$641.60	$15,895.70	$1,849.22	$17,744.92
25-36	$15,559.18	$641.60	$16,200.78	$1,849.22	$18,050.00
37-48	$15,870.36	$641.60	$16,511.96	$1,849.22	$18,361.18
49-60	$16,187.77	$641.60	$16,829.37	$1,849.22	$18,678.59
61-72	$16,511.53	$641.60	$17,153.13	$1,849.22	$19,002.35
73-84	$16,841.76	$641.60	$17,483.36	$1,849.22	$19,332.58
85-96	$17,178.60	$641.60	$17,820.20	$1,849.22	$19,669.42
97-108	$17,522.17	$641.60	$18,163.77	$1,849.22	$20,012.99
109-120	$17,872.61	$641.60	$18,514.21	$1,849.22	$20,363.43
121-132	$18,230.06	$641.60	$18,871.66	$1,849.22	$20,720.88
133-144	$18,594.66	$641.60	$19,236.26	$1,849.22	$21,085.48
145-156	$18,966.55	$641.60	$19,608.15	$1,849.22	$21,457.37
157-168	$19,345.88	$641.60	$19,987.48	$1,849.22	$21,836.70
169-180	$19,732.80	$641.60	$20,374.40	$1,849.22	$22,223.62

9. Options to Extend: The monthly base rent for the Tenant's two (2) five-year options to extend will be 105% of the previous years' rent. Each subsequent year will be increased by 2% on each yearly anniversary of the Rent Commencement Date.

10. Broker: Pursuant to the existing Exclusive Authorization to Lease Agreement with NKF, City to pay NKF a leasing commission equal to 2.5% of the lease consideration in the amount of $28,460.99.

11. Other: All other terms of the original lease shall remain unmodified and in full force.

STRATEGIC PLAN ALIGNMENT:

This item contributes to the **Strategic Priority 3 – Economic Opportunity** and **Goal 3.3** – Cultivate a business climate that welcomes innovation, entrepreneurship, and investment.

The item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The City conducted business with transparency and good faith. By bringing the Agreement before the Board of Public Utilities, the City is providing a space for open dialogue between the Board and community stakeholders regarding all lease terms.

2. **Equity** – The City acted with inclusion in reviewing the Tenant's proposal. Additionally, the City is ensuring that business conducted by The IG Group, LLC provides equal access and benefits that all members of the community can utilize.

3. **Fiscal Responsibility** – The City being a prudent steward of public funds, negotiated in good faith and the lease rates are consistent with the current fair market value for comparable commercial space.

4. **Innovation** – The City recognizes the need for accessible small businesses to community stakeholders. This City will continue to be cognizant of the community's changing needs and will continue to be adaptive to the future by engaging in collaborative partnerships.

5. **Sustainability & Resiliency** – Committed to the needs of community stakeholders, the City is devoted to identifying, attracting, and retaining businesses that assist the community to preserve, adapt, and grow during a diverse array of economic cycles.

FISCAL IMPACT:

The total fiscal impact of the lease revenue over the 15-year term will generate an estimated $3,103,439.36. All revenue will be deposited into the Mission Square Building Property Management Trust Account controlled by RPU and used to pay operating expenses for the Property, including the lease commission of $28,460.99 to NKF.

Prepared by:	Todd M. Corbin, Utilities General Manager
Certifies availability of funds:	Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer
Approved by:	Kris Martinez, Assistant City Manager
Approved as to form:	Phaedra A. Norton, City Attorney
Concurs with:	Chris Christopoulos, Acting Community and Economic Development Director

Attachments:
1. Second Amendment to Lease Agreement – The IG Group, LLC operating Slater's 50/50
2. Presentation