



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: FEBRUARY 6, 2018

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1
DEPARTMENT

SUBJECT: SIXTH AMENDMENT TO LEASE AGREEMENT MISSION SQUARE WITH
RAINCROSS HOSPITALITY CORPORATION DOING BUSINESS AS RIVERSIDE
CONVENTION & VISITORS BUREAU FOR THE MISSION SQUARE OFFICE
BUILDING, 3750 UNIVERSITY, SUITE 570, FOR A FIVE-YEAR TERM WITH AN
OPTIONAL ONE FIVE YEAR EXTENSION - IN THE AMOUNT OF \$714,387.52

ISSUE:

Approve a Sixth Amendment to Lease Agreement Mission Square with Raincross Hospitality Corporation doing business as Raincross Convention & Visitors Bureau, of Riverside, California, for a five-year term with one option for a five-year extension, for approximately 4,488 square feet of rentable space located at 3750 University Avenue, Suite 570.

RECOMMENDATIONS:

That the City Council:

1. Approve the Sixth Amendment to Lease Agreement Mission Square with Raincross Hospitality Corporation doing business as Raincross Convention & Visitors Bureau, of Riverside, California, for a five-year term with one option for a five-year extension, for approximately 4,488 square feet of rentable space located at 3750 University Avenue, Suite 570; and
2. Authorize the City manager, or his designee, to execute the Sixth Amendment to Lease Agreement and the one optional five-year extension, with Raincross Hospitality Corporation doing business as Raincross Convention & Visitors Bureau, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BOARD RECOMMENDATION:

On January 22, 2018, the Board of Public Utilities with 6 of 8 members present, voted unanimously approve to recommend that City Council approve the Sixth Amendment to Lease Agreement with Raincross Hospitality Corporation doing business as Raincross Convention & Visitors Bureau for a five-year term with one option for a five-year extension, for approximately 4,488 square feet of rentable space located at 3750 University Avenue, Suite 570.

BACKGROUND:

On October 13, 2015, the City acquired the Mission Square Office Building at 3750 University Avenue (Property), which was funded by Riverside Public Utilities (RPU). As such, the City 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 Grubb Knight Frank (NGKF) to provide broker leasing services for the Property. RPU staff has been coordinating the leasing process for the Property with the Real Property Services Division of the Community & Economic Development Department and NGKF as the broker for the Property.

Suite 570, which is currently 3,556 square feet was formerly occupied by Vivian Younger who defaulted on the lease, that does not expire until February 28, 2019, by failing to pay three months of delinquent rent owed to the City. The City filed an unlawful detainer action against Vivian Younger. Through a mutually agreed settlement with Ms. Younger, the City obtained a Notice of Entry of Judgment from Court in July 2017. Ms. Younger agreed to pay the City the delinquent rent in two installments. Ms. Younger vacated the space in July 2017 and her subtenant Garcia & Reed, vacated the space in June 2017.

DISCUSSION:

Raincross Hospitality Corporation, doing business as Raincross Convention & Visitors Bureau (RCVB), has been a tenant in the Property since 2001. The existing lease with RCVB for Suite 175, which is approximately 2,292 square feet, expires on February 28, 2020. NGKF recently received a proposal from RCVB to expand and occupy all of Suite 570 plus an additional 932 square feet of the adjacent Suite 560, to be merged into Suite 570, for a total of approximately 4,488 square feet.

Staff has reviewed the proposed Sixth Amendment to Lease Agreement and recommends approval. The basic deal points of the proposed Lease are summarized below:

- 1) Term: Five-year lease to commence upon City Council approval. The remaining lease term for Suite 175 which expires on February 28, 2020 shall be voided upon full execution of the Sixth Amendment to Lease Agreement.
- 2) Premises: Approximately 4,488 rentable square feet of space located at 3750 University Avenue, Suite 570.
- 3) Parking: Tenant shall be entitled to a total of eighteen (18) parking spaces to be either reserved or unreserved, at Tenant's discretion. Tenant shall be responsible for payment of all parking fees to the operator of the parking garage. The parking rates for said parking will be the prevailing rates for reserved and unreserved parking at the Building, which rates are subject to increase from time to time.

4) Base Rent (Full Service Gross):

Months	Monthly Base Rental Rate	Monthly Base Rent	Annual Base Rent
1	\$2.76	\$12,379.00	\$148,548.00
2 – 7	Abated	\$0	\$0
8 – 12	\$2.76	\$12,379.00	\$148,548.00
13 – 24	\$2.84	\$12,750.37	\$153,004.44
25 - 36	\$2.93	\$13,132.88	\$157,594.57
37 - 48	\$3.01	\$13,526.87	\$162,322.40
49 - 60	\$3.10	\$13,932.68	\$167,192.11

RCVB will receive a total of six months of rent abatement in lieu of the City providing a tenant improvement allowance as discussed in item 8 below. The base rent shall be adjusted annually by three percent (3%). The Tenant will be responsible for payment of any increase in its proportionate share of all common area maintenance costs, property insurance and taxes on a monthly basis beyond the calendar base year of 2018 for the duration of the Lease including any options to extend, if exercised by Tenant.

- 5) Possessory Interest Taxes: The Tenant will be responsible for payment of any possessory interest taxes assessed to Tenant for Tenant's use of the Premises.
- 6) Security Deposit: The existing security deposit of Four Thousand Five Hundred Ninety dollars (\$4,590.00) shall remain on deposit and no additional deposit is required at this time.
- 7) Options to Extend: The Tenant shall have one option to extend the Lease for an additional five-year term provided the Tenant is not in default of the Lease. The Base Rent for the extended term shall be at the prevailing market rent to be negotiated between the City and RCVB at the time of exercising the option to extend.
- 8) Tenant Improvements: RCVB will accept the premises in an as-is condition and will be responsible for installing a new demising wall to accommodate the expansion component of Suite 560 into Suite 570 along with removing and replacing the ceiling, lighting, heating, ventilation, air conditioning, and fire, life safety systems as required to meet current building codes. RCVB will be responsible for payment of any other tenant improvements at its sole cost and expense.
- 9) Broker: Pursuant to the Exclusive Authorization to Lease Agreement with NGKF, City to pay NGKF a leasing commission equal to 5% of the lease consideration, less a credit for commissions already paid on the existing lease, in the total amount of \$17,776.00.

FISCAL IMPACT:

The lease revenue over the five-year term will generate an estimated \$714,388. All revenue will be deposited into the Mission Square Building Property Management Trust Account managed by RPU and used to pay operating expenses for the Property, including the lease commission of \$17,776.00 to NGKF for this transaction.

Prepared by:	Rafael Guzman, Community & Economic Development Director
Certified as to availability of funds:	Adam Raymond, Chief Financial Officer/City Treasurer
Approved by:	Al Zelinka, FAICP, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachments:

1. Sixth Amendment to Lease Agreement
2. Utilities Board meeting minutes of 1/22/18