



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** FEBRUARY 19, 2016

**ITEM NO:** 8

File ID – 16-0195 – C

**SUBJECT:** GROUND LEASE AGREEMENT BETWEEN CITY OF RIVERSIDE PUBLIC UTILITIES AND DRIVETIME CAR SALES COMPANY, LLC FOR 1388 SOUTH E. STREET, SAN BERNARDINO, CALIFORNIA, FOR \$800,000 NET WITH A FIVE YEAR INITIAL TERM

**ISSUES:**

The items for Board of Public Utilities consideration is the approval a Ground Lease Agreement with DriveTime Car Sales Company, LLC for the Water Utility owned property located at 1388 South E. Street, San Bernardino.

**RECOMMENDATIONS:**

That the Board of Public Utilities:

1. Recommend that the City Council approve the Ground Lease Agreement with DriveTime Car Sales Company, LLC, of Phoenix, Arizona, including payment of a broker commission of 6% to Marc J. Piron of NAI Capital, Ontario, California; and
2. Authorize the City Manager, or his designee to execute all necessary documents, including making minor non-substantive changes to those documents.

**BACKGROUND:**

Riverside Public Utilities (RPU) owns the 4.2-acre parcel of vacant land at 1388 South E Street, San Bernardino, located adjacent to the 215 Freeway south of Orange Show Road ("Property"). For approximately 37 years, the Property was leased from RPU as an auto dealership, first to Holiday Oldsmobile and subsequently to Center Chevrolet. The most recent lease terminated in 2008 under its own terms. Upon Center Chevrolet's vacancy, the buildings, which were in need of repair, became a magnet for graffiti, vagrancy and vandalism. In an effort to mitigate the various issues, RPU had the structures demolished in 2010 and Property has remained vacant.

DriveTime Car Sales Company, LLC, ("DriveTime") a licensed national used car dealership headquartered in Arizona, seeks to enter into a Ground Lease with the City for use of the Property. DriveTime's proposed use of the Property is for the construction of a retail automobile dealership, including operation, sales, financing, retail sales, repair and storage uses. If approved, this location will become Drive Time's 130<sup>th</sup> dealership within 24 states nationwide. DriveTime estimates that over \$750,000 will be spent for the building construction and site improvements. All improvements shall be approved by the City and will be constructed in compliance with all applicable laws and codes of the City of San Bernardino Building and Safety Department.

The proposed Ground Lease is for an initial five-year term with four 5-year extensions. As determined by City's Fair Market Rental Appraisal dated June 1, 2015, DriveTime shall pay a Base Rent of \$15,000 per month ("Base Rent") and will be adjusted at a rate 2.5% annually for each year thereafter. For the first 180 days after the Commencing Date, the Base Rent, but not the Property Expenses shall be abated, to allow DriveTime to construct its improvements to the Property and commence its operation of the

business (“Rent Abatement”). This transaction was introduced to RPU by commercial real estate broker Marc Piron of NAI Capital, Ontario CA. The Property Service Manager recommends payment of a standard 6% broker commission. The above lease terms are standard practice in commercial real estate transactions.

LEASE TERM	BASE RENT	REVENUE
Year One – First 180 Days	ABATED	\$0
Year One – last 6 Months	\$15,000	\$90,000
Year Two	\$15,375	\$184,500
Year Three	\$15,759	\$189,112
Year Four	\$16,153	\$193,840
Year Five	\$16,557	\$198,686
Total Base Rent (5 Years)		\$856,138

Along with the Ground Lease revenue generated by this proposed lease, the RPU will reduce minor costs of property maintenance at this site, including annual property tax reimbursement.

**FISCAL IMPACT:**

The fiscal impact to RPU by entering into the lease agreement is new net revenue of \$800,000 for the initial five year term and \$6,000,000 if the lease is extend through all of the optional years. RPU would pay a Broker fee of 6% of the base rent for the initial lease term or \$51,400.

Prepared by: Kevin S. Milligan, Public Utilities Deputy General Manager  
Approved by: Girish Balachandran, Public Utilities General Manager  
Approved by: John A. Russo, City Manager  
Approved as to form: Gary G. Geuss, City Attorney

Attachments: 1. Ground Lease Agreement  
2. Presentation