



# City Council Memorandum

## *City of Arts & Innovation*

**TO: HONORABLE MAYOR AND CITY COUNCIL DATE: OCTOBER 4, 2016**

**FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1**

**DEPARTMENT**

**SUBJECT: LEASE AGREEMENT WITH RIVERSIDE FOOD HALL, LP FOR THE VACANT FOX ENTERTAINMENT PLAZA RESTAURANT SPACE LOCATED AT 3605 MARKET STREET TO FACILITATE THE DEVELOPMENT OF A FOOD AND BEVERAGE MARKET AND GENERATE AN ESTIMATED MINIMUM LEASE REVENUE OF \$4,204,800 OVER THE 55 YEAR TERM OF THE LEASE**

## **ISSUE:**

Approve a 55 year Lease Agreement with Riverside Food Hall, LP of Pomona, California, to facilitate the development of a food and beverage market for the vacant Fox Entertainment Plaza Restaurant space located at 3605 Market Street to generate an estimated minimum lease revenue of \$4,204,800 over the 55 year term of the lease.

## **RECOMMENDATIONS:**

### That the City Council:

1. Approve a 55 Year Lease Agreement with Riverside Food Hall, LP for the vacant Fox Entertainment Plaza Restaurant space located at 3605 Market Street, to facilitate the development of a food and beverage market and to generate an estimated minimum lease revenue of \$4,204,800; and
2. Authorize the City Manager, or his designee, to execute the Lease Agreement, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

## **BACKGROUND:**

On December 8, 2015, the City Council approved an Exclusive Negotiation Agreement (ENA) with Artec Partners (now Riverside Food Hall, LP) in order to further define the potential terms of a long-term lease agreement and project scope. The term of the current ENA is for one year with one 3-month extension and expires on December 8, 2016.

## **DISCUSSION:**

Completed in late 2013, the Fox Entertainment Plaza (FEP) includes a 12,000 square foot restaurant space, 10,000 square feet of museum and trade show exhibit space (aka the Showcase), a 4,000 square foot black box theater (aka the Box), and a 400 space parking garage.

Since completion of the FEP, staff has marketed the restaurant space to potential restaurant users and on October 23, 2015, staff received a Letter of Intent to lease the vacant restaurant space from Riverside Food Hall, LP (Riverside Food Hall). Riverside Food Hall, has proposed developing the vacant restaurant space into a food and beverage market with multiple restaurants, commercial vendors.

Staff have been in negotiations with Riverside Food Hall to develop a mutually beneficial long-term ground lease agreement. A summary of the Lease Agreement terms, is summarized as follows:

**Use:** Food and beverage market, restaurants, and related retail and for no other purpose.

**Term:** 55 years from the Effective Date of the Lease Agreement.

**Premises:** 12,000 square feet of interior restaurant space, approximately 2,546 square feet of interior storage space and 325 square feet of additional storage space for a cumulative total of 14,871 square feet.

**Base Rent:** \$60,000 annually commencing on the 49<sup>th</sup> month of the Lease. Commencing in Year 16, Base Rent will increase on an annual basis by an amount equal to the annual percentage increase change of the Consumer Price Index (CPI) for the Los Angeles-Riverside-Orange County area.

**Rent Credit:** The City grants to Riverside Food Hall 48 months free rent from the effective date of the Lease.

**Percentage Rent:** Commencing the 13<sup>th</sup> month of the Lease, Riverside Food Hall, shall pay Riverside Food Hall 3% of Riverside Food Hall's on-site gross sales for sales in excess of Two Million Dollars. Percentage Rent will be paid on an annual basis subject to an annual audit.

**Percentage Rent Abatement:**

Commencing on the 13<sup>th</sup> month of the Lease, the City shall credit Riverside Food Hall against percentage rent due towards the entire amount of percentage rent until such time as the total credit granted by the City to Riverside Food Hall equals the total financial amount of Riverside Food Hall's Shell and Tenant Improvement work (estimated to be year 15 of the Lease).

**Shell Work:** Work required to bring the Premises to a "grey shell" condition with all utilities inside the Premises. This includes, but is not limited to, electrical service to sub-panels, HVAC systems, at-grade concrete slab, modifications to storefront system, façade and colonnade roof cover, plaza fountain, wet utility work, relocation of storage facility and related construction and administration plans.

Riverside Food Hall's shell work shall not exceed \$550,000. Shell work in excess of \$550,000 shall require approval by the City Council.

**Tenant** The City shall provide Riverside Food Hall with a rental credit in a not-to-

exceed amount

**Improvement Work:** of \$479,480 for Riverside Food Hall's Tenant Improvement work to the Premises. The rental credit shall, in lieu of being paid directly to Riverside Food Hall, be offset in accordance with the aforementioned Percentage Rent Abatement.

**Designated Parking:** Commencing at the opening of business, the City's Parking Authority shall designate 40 spaces in the FEP parking structure for the non-exclusive use of Riverside Food Hall that will be time restricted to 90 minutes.

**Exclusive Parking:** Commencing at the opening of business, Riverside Food Hall shall rent, for exclusive use, a minimum of thirty parking spaces in the FEP parking structure. Moreover, Riverside Food Hall shall have the right to rent for exclusive use an additional thirty parking spaces in the FEP parking structure. The price for exclusive spaces shall be \$60 per month for the initial 60 months of the Lease. After 5 years from opening of business, the exclusive parking rate shall be paid at the current prevailing City rate for unreserved parking spaces.

**Utilities:** Riverside Food Hall shall be solely responsible for payment for all utilities including:

Trash, water, gas, power, electricity, lighting, heating, telephone, internet, and other utilities and communication services used by Riverside Food Hall on the Premises. Additionally, Riverside Food Hall shall be responsible to reimburse the City for its share of Common Area Maintenance (CAM) costs related to the FEP parking garage, patio areas, colonnade area, and telephone room.

**Possessory Interest** Riverside Food Hall shall be solely responsible for payment of tax:

All possessory interest taxes levied or assessed against the Premises.

**Completion Guarantee:**

Arteco Partners (Riverside Food Hall's parent organization) has guaranteed completion of the aforementioned shell and tenant improvement work. The guarantee will commence at issuance of a building permit and will terminate upon issuance of a Certificate of Occupancy (C of O).

Moreover, should the shell and tenant improvement work be dormant for more than 90 consecutive days (subject to force majeure), the City may issue a notice of default. In the event of a default, Arteco Partners shall be responsible for completing the improvements or returning the Premises to its original condition.

Staff's estimation of revenue is based on an annual base rent of \$60,000 for 51 years (base rent is abated for the initial four years of the lease) totaling \$3,060,000 plus exclusive parking revenue for 53 years (parking revenue commences at business opening) totaling \$1,144,800 for a combined sum of approximately \$4,204,800. Staff's estimation does not include future base rent CPI increases, percentage rent and potential additional exclusive parking revenue. The project is

estimated to create 75 full and part-time jobs and 25 construction jobs.

As the FEP Garage is owned and operated by the City's Public Works Department, the Public Works Director has reviewed this report and concurs with the recommendation.

**FISCAL IMPACT:**

Based on the terms of the proposed agreement, the City will not begin to receive revenue until year FY 2017-18; however, the City will not incur any additional expenses over the course of the agreement. For years two through five of the agreement, the City will receive a minimum of \$21,600 in revenue to the Parking Fund; this amount will increase in year six based on current market rates. Beginning in year five of the agreement, the City will receive \$60,000 in rental revenue, which will continue throughout the term of the agreement. Over the course of the Lease, staff anticipates the Lease to generate minimum revenues in the amount of approximately \$4.2 million. This amount will be increased with CPI escalations (e.g. rent), additional percentage rent revenue (e.g. food sales), potential parking revenue, and future tax growth.

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

Attachments:

1. Site Map
2. Lease Agreement
3. Presentation