



*City of Arts & Innovation*

# City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JANUARY 24, 2017

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT WARD: 1

SUBJECT: THIRD AMENDMENT TO LEASE AGREEMENT WITH VARNER & BRANDT, LLP– MISSION SQUARE OFFICE BUILDING, 3750 UNIVERSITY AVENUE, SUITE 610 – FIVE YEAR TERM FOR \$2,278,320 IN REVENUE

## **ISSUE:**

Approve a Third Amendment to Lease Agreement for an additional five years between Varner & Brandt, LLP of Riverside, California and the City of Riverside for approximately 13,936 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 610.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the Third Amendment to the Lease Agreement with Varner & Brandt, LLP; and
2. Authorize the City Manager, or his designee, to execute the Third Lease Amendment, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

## **BOARD RECOMMENDATION:**

On January 9, 2017, the Riverside Board of Public Utilities with seven of eight members present, unanimously recommended that City Council approve the Third Amendment to the Lease Agreement with Varner & Brandt, LLP, for 13,936 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 610.

## **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, 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 489 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.

## **DISCUSSION:**

Varner & Brandt, LLP, has been a tenant in the Property since 1998 when it was initially operating as Varner, Saleson & Dobler, LLP, which was subsequently merged into Varner & Brandt, LLP (VB). The existing lease with VB expires on February 28, 2017. Under the terms of the lease agreement, VB is exercising its last remaining five-year option to renew through February 28, 2022.

The City engaged its leasing broker, Newmark Grubb Knight Frank (NGKF), who negotiated on behalf of both the City and VB.

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

1. Term: March 1, 2017 through February 28, 2022.
2. Premises: Approximately 13,936 rentable square feet of space located at 3750 University Avenue, Suite 610.
3. Base Rent (Full Service Gross Lease):

Period	Monthly Base Rent	Per Sq. Ft.
3/1/2017 – 2/28/2018	\$35,761.00	\$2.57
3/1/2018 – 2/28/2019	\$36,834.00	\$2.64
3/1/2019 – 2/28/2020	\$37,939.00	\$2.72
3/1/2020 – 2/28/2021	\$39,077.00	\$2.80
3/1/2021 – 2/28/2022	\$40,249.00	\$2.89

4. Rent Abatement: VB shall granted two months of Base Rent abatement to be credited in month one (1) and two (2) of the Lease extension in lieu of Landlord performing tenant improvements to the Premises.
5. Option to Extend: VB shall have one five (5) year option to extend the Lease at prevailing market rent to be negotiated between City and VB at the time of exercising the option to extend.
6. Signage: VB shall have the right to install a building-top sign subject to City of Riverside sign regulations and Mission Square Building signage criteria.
7. Possessory Interest Taxes:
  - a. The City will be responsible for payment of any possessory interest taxes assessed

to VB provided that the tenant is current in payment of its monthly rent obligations to the City; and

- b. VB must submit the request for payment within 30 days of the due date. Otherwise, the City will not be responsible for payment of any penalties or late collection charges imposed by the County Treasurer.
8. Broker: Pursuant to the existing Exclusive Authorization to Lease Agreement with NKGF, City to pay NGKF a leasing commission equal to 2.5% of the lease consideration in the total amount of \$56,958.00 upon full execution of this Third Lease Amendment.
9. Other: All other terms of the original lease and subsequent two amendments not inconsistent with this Third Lease Amendment will remain the same.

### **FISCAL IMPACT:**

There is no impact to the General Fund. The lease revenue over the five-year term will generate an estimated \$2,278,320. 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 \$56,958.00 to NGKF for this transaction.

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

### **Attachments:**

1. Third Amendment to Lease Agreement
2. PUB, January 9, 2017, draft minutes