



*City of Arts & Innovation*

# City Council Memorandum

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

**FROM: PUBLIC UTILITIES      WARDS: ALL**

**SUBJECT: CITY OF RIVERSIDE COMMERCIAL LEASE AGREEMENT, 4.2 ACRES VACANT LAND - E STREET, SOUTH OF ORANGE SHOW ROAD, SAN BERNARDINO, CALIFORNIA, WITH DRIVETIME CAR SALES COMPANY, LLC, FOR \$832,000 IN REVENUE FOR THE FIVE YEAR INITIAL TERM**

## **ISSUE:**

Approve the City of Riverside Commercial Lease Agreement for 4.2 Acres of Vacant Land – E Street, South of Orange Show Road, San Bernardino, California, with DriveTime Car Sales Company, LLC, of Phoenix, Arizona, for an initial term of 5 years and \$832,000 in rental revenue to the Water Utility.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the City of Riverside Commercial Lease Agreement for 4.2 Acres of Vacant Land – E Street, South of Orange Show Road, San Bernardino, California, with DriveTime Car Sales Company, LLC, for an initial term of 5 years and \$832,000 in rental revenue to the Water Utility;
2. Authorize the City Manager, or his designee, to execute the City of Riverside Commercial Lease Agreement for 4.2 Acres of Vacant Land – E Street, South of Orange Show Road, San Bernardino, California, with DriveTime Car Sales Company, LLC, and all necessary documents, including making minor non-substantive changes to those documents; and
3. Authorize the City Manager, or his designee, to execute each of the four 5-year extensions to the lease, in accord with the terms of the lease.

## **BOARD RECOMMENDATIONS:**

On January 9, 2017, the Riverside Board of Public Utilities with seven of eight members present, unanimously recommended that City Council approve the Commercial Lease Agreement for 4.2 Acres of Vacant Land – E Street, South of Orange Show Road, San Bernardino, California, with

DriveTime Car Sales Company, LLC, for an initial term of 5 years and \$832,000 in rental revenue to the Water Utility and to authorize the City Manager, or his designee, to execute the City of Riverside Commercial Lease Agreement and each of the four 5-year extensions to the Lease.

## **BACKGROUND:**

The City of Riverside, through its Public Utilities Department (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.

On February 19, 2016, the Riverside Public Utilities Board reviewed and recommended the approval of a lease with DriveTime Car Sales Company, LLC, (DriveTime) which was subsequently approved by City Council on March 22, 2016. Said lease provided a 150 day period for due diligence and permitting with the option for commencement after San Bernardino issues the required construction permits. DriveTime was unable to obtain project permits within that timeframe and the lease terminated by its own terms on August 12, 2016. A broker commission approved in the March 2016 agreement was not paid as the lease did not commence.

## **DISCUSSION:**

DriveTime, a licensed national used car dealership headquartered in Arizona, seeks to enter into a City of Riverside Commercial Lease Agreement (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 RPU, will be constructed in compliance with all applicable laws and codes of the City of San Bernardino Building and Safety Department and become the assets of RPU upon lease termination.

The proposed Lease is for an initial five-year term with four 5-year extensions. As determined by RPU'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. Commencing on the Effective Date and continuing through the Approval Period, DriveTime shall pay a monthly Interim Rent fee of \$1,500. For the first 240 days after the Commencement Date, the Base Rent, but not the Property Expenses shall be abated, to allow DriveTime to construct improvements to the Property and commence operation of the business ("Rent Abatement"). Under the prior lease agreement, RPU was to pay a broker commission. That term was renegotiated in the present lease, with DriveTime now responsible for any broker commission. That change increases net revenue by approximately \$50,000.

LEASE TERM	INTERIM RENT	BASE RENT	REVENUE
Interim Period – Effective Date through Approval Period - 4 Months	\$1,500		\$6,000
Year One—First 8 Months (240 days)		ABATED	\$0
Year One—last 4 Months		\$15,000	\$60,000
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)			\$832,138

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 for the Water Utility of \$832,000 for the initial five-year term and \$6,000,000 if the lease is extended through all of the optional years.

Prepared by: Girish Balachandran, Utilities General Manager  
 Certified as to  
 availability of funds: Scott G. Miller, PhD, Chief Financial Officer/City Treasurer  
 Approved by: John A. Russo, City Manager  
 Approved as to form: Gary G. Geuss, City Attorney

### **Attachments:**

1. Ground Lease Agreement
2. Draft January 9, 2017, Utilities Board Minutes