



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: MARCH 13, 2017

ITEM NO: 7

SUBJECT: OPERATIONS UPDATE ON MISSION SQUARE PROPERTY LOCATED AT 3750 UNIVERSITY AVENUE

ISSUE:

Receive and file an update on operations at Mission Square at 3750 University Avenue.

RECOMMENDATION:

That the Board of Public Utilities receive an update on operations at Mission Square at 3750 University Avenue.

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.

On January 26, 2016, the City Council approved a Property Management Agreement with NGKF to provide property management services for the Property. RPU staff has been coordinating the property management process for the Property with the Real Property Services Division of the Community & Economic Development Department and NGKF as the building manager for the Property.

DISCUSSION:

LEASING

The current occupancy rate at the Property is 92.8%. Below is a review of each suite and current tenant or leasing interest:

1. Suite M – L' Bistro recently vacated the 1,000 rentable square foot space in January 2017. The lease expires on July 31, 2019 and staff is working to negotiate an amicable settlement agreement with L' Bistro. NGKF is actively marketing the space for lease. There has been some preliminary interest for a deli/convenience store and an espresso coffee shop.

2. Suite 100 – Five-year lease renewal for 1,200 rentable square feet with Subway completed to generate \$264,600 in revenue. The lease expires on September 30, 2020.
3. Suite 110 – One-year temporary revocable license renewal for 1,185 rentable square feet with Best, Best and Krieger completed to generate \$31,200 in revenue. The License expires on March 22, 2017 and Best, Best and Krieger is expected to vacate at the end of the term. NGKF is actively marketing the space for lease. We recently received leasing interest for a restaurant tenant for this space. Lease negotiations are in progress.
4. Suite 125 – The space was formerly occupied by Best, Best and Krieger who vacated in January 2016. It is 7,365 rentable square feet and it is actively being marketed for lease by our NGKF broker. NGKF recently received leasing interest for a professional services/medical tenant for a 5,000 square foot portion of this space. Lease negotiations are underway.
5. Suite 150 – Five-year lease renewal for 7,766 rentable square feet with Wells Fargo Bank to generate \$1,310,000 in revenue completed. The lease expires on July 31, 2022.
6. Suite 175 – Three-year lease renewal for 2,292 rentable square feet with Raincross Hospitality Corporation dba Riverside Convention & Visitors Bureau approved by the Board of Public Utilities on January 23, 2017. This item is scheduled to be heard by the City Council on February 28, 2017. If approved by the City Council, the lease will expire on February 28, 2020.
7. Second Floor – Gresham Savage Nolan and Tilden vacated and subleased the entire second floor consisting of 20,298 rentable square feet to the City of Riverside. The City Attorney's Office now occupies Suite 200 consisting of 15,826 square feet and the sublease expires on March 31, 2019. Suite 225 consists of 1,938 rentable square feet and Suite 230 consists of 2,534 rentable square feet totaling 4,472 for both contiguous spaces. Suites 225 and 230 are currently vacant and are actively being marketed for lease by NGKF. NGKF recently received interest from a professional services tenant for all of Suite 230 and a portion of Suite 225. Lease negotiations are on-going.
8. RPU occupies 62,916 square feet, encompassing the entire third and fourth floors and Suite 500.
9. Suite 550 – the existing lease for 2,280 rentable square feet with Daniel L. Greenberg expires on December 31, 2018.
10. Suite 560 – The existing lease for 3,296 rentable square feet with Haight Brown & Bonesteel expired on December 31, 2016. They are currently on a month-to-month holdover basis and are expected to vacate around March 31, 2017. NGKF is actively marketing the space for lease.
11. Suite 570 – Two-year lease renewal for 3,556 rentable square feet with Vivian Younger dba Younger & Company, CPA's and sublease to Garcia & Reed, LLP for a small portion of the space to generate \$233,880 in revenue is pending the Board of Public Utilities consideration on February 13, 2017. The lease would expire on February 28, 2019 and there is an option to extend the lease for an additional three years which if exercised, will generate an additional \$377,804 in revenue.
12. Suites 600, 670 and 680 – Morgan Stanley recently expanded their space to include 7,062 rentable square feet. The lease expires on August 31, 2025.
13. Suites 610 and 650 – Five-year lease renewal for 13,936 rentable square feet with Varner & Brandt to generate \$2,278,320 in revenue completed. The lease expires on February 28, 2022.

FINANCIALS

On June 19, 2015, and June 23, 2015, the Board of Public Utilities and City Council respectively approved the purchase of the Property along with appropriating associated revenues (\$2,200,000) and

expenditures (\$1,200,000) for Fiscal Year 2015/16. Escrow closed on October 13, 2015, which is approximately three and one half months into the new fiscal year.

At June 30, 2016, RPU recorded \$1,501,413 in revenue and \$832,790 in expenditures with an operating income of \$668,623. Revenue was lower than estimated; however, that was due to vacant lease space. Additionally, NGKF was hired as of February 2016, and needed time to become acquainted with the building and begin their marketing efforts to lease out the vacant space. Expenditures were lower than estimated as NGKF spent several months reviewing the building assessment reports prepared in 2015 prior to RPU's purchase, while also conducting their own assessment to provide recommendations for future maintenance and capital improvement requests.

The Fiscal Year 2016/17 and 2017/18 budgets were approved by the City Council on June 21, 2016. For Fiscal Year 2016/17, revenues are estimated at \$1,994,080 and expenditures are estimated at \$1,582,500 for operating and \$500,000 for capital. Based on current projections, it is anticipated that revenue as of June 30, 2017 will be slightly higher, at \$2,170,000. Based on current projections, it is anticipated that operating expenditures will be at budget. Therefore, net operating income as of June 30, 2017 is anticipated to be at \$587,500.

Additional priority capital improvement projects have been identified totaling \$1,500,000 and are addressed in a separate report at this same meeting. While no additional fund appropriation is necessary at this time for these capital improvements projects, a budget transfer will be processed to move the identified available funds from the Building Occupancy Division budget to a separate account in the Mission Square Building Division budget to track capital projects for this facility.

FISCAL IMPACT:

There is no fiscal impact associated with this report. Future expenditures for capital improvements will be brought before the Board in separate action for consideration.

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