



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: SEPTEMBER 25, 2017

ITEM NO: 8

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

ISSUES:

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

RECOMMENDATION:

That the Board of Public Utilities receive an update on operations at Mission Square, 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, 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 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 G&E Real Estate Management Services, Inc. dba Newmark Grubb Knight Frank (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:

BUILDING OPERATIONS UPDATE

LEASING

The current occupancy rate at the Property is 83%. Below is a review of each suite and current tenant or leasing interest:

1. Suite M – The City Council has approved a lease agreement for the 1,000 rentable square foot

space with Fire Up Grill. The lease is in the 6 month contingency period and is not yet reported against the occupancy rate. The tenant is expected to commence operations in early 2018.

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 – A tenant recently commenced operation of a retail T-Mobile franchise outlet. This lease expires in June 2022.
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 from multiple restaurant tenants. Staff is evaluating the costs and feasibility of dividing this space to accommodate multiple tenants.
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 City Council on February 28, 2017. 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.
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 lease for 3,296 rentable square feet with Haight Brown & Bonesteel expired on December 31, 2016. The tenant continued on a month-to-month holdover basis and vacated the space March 31, 2017. NGKF is actively marketing the space for lease.
11. Suite 570 – This suite with 3,556 rentable square feet was vacated by Vivian Younger dba Younger & Company, CPA's including sub-lessor Garcia & Reed, LLP in June 2017. The suite is currently vacant and is actively being marketed for lease by NGKF.
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 including a reimbursement resolution to allow bond financing of the asset. On the advice of the City's financial advisors and bond counsel, approximately \$27,000,000 of the purchase price and expenses were bond financed and the balance of approximately \$11,000,000 was paid from cash reserves. The City split the financing between tax-exempt bonds and cash reserves, as proceeds from tax-exempt municipal bonds cannot be used to finance the portion of an asset which will be put to private use.

At June 30, 2017, RPU recorded \$2,130,000 in revenue and \$1,448,000 in expenditures with a fund balance of \$1,336,000. Revenue was approximately 5% lower than budgeted due primarily to vacant lease space. Expenditures were lower than budget due to delays in two major capital projects: elevator replacement and accessible door modifications.

FISCAL IMPACT:

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

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

Certifies availability
of funds: Laura M. Chavez-Nomura, Utilities Assistant General Manager/Finance

Attachment: Presentation