



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 26, 2018

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1
DEPARTMENT

SUBJECT: COMMERCIAL MULTI-TENANT LEASE-TRIPLE NET - MISSION SQUARE WITH THE IG GROUP, LLC DBA SLATERS 50/50 - 3750 UNIVERSITY, SUITE 125, FOR A TEN-YEAR TERM WITH TWO FIVE YEAR OPTIONS TO EXTEND - IN THE TEN YEAR AMOUNT OF APPROXIMATELY \$1,872,402 AND THE GUARANTY OF LEASE WITH ALBERTO GARCIA FOR THE FULL PERFORMANCE OF THE OBLIGATIONS UNDER THE LEASE

ISSUES:

Approve a Commercial Multi-Tenant Lease-Triple Net Agreement to lease Mission Square to IG Group, LLC of Riverside dba Slaters 50/50, for a ten-year term with two options for five-year extensions, for approximately 5,700 square feet of rentable space located at 3750 University Avenue, Suite 125, in the ten year amount of approximately \$1,872,402; and the Guaranty of Lease with Alberto Garcia for the full performance of the obligations under the Lease.

RECOMMENDATIONS:

That the City Council:

1. Approve the Commercial Multi-Tenant Lease-Triple Net Agreement to lease Mission Square to IG Group, LLC dba Slaters 50/50, for a ten-year term with two options for five-year extensions, for approximately 5,700 square feet of rentable space located at 3750 University Avenue, Suite 125;
2. Approve the Guaranty of Lease with Alberto Garcia for the full performance of the obligations under the Lease; and
3. Authorize the City Manager, or his designee, to execute the Commercial Multi-Tenant Lease-Triple Net Agreement, with IG Group, LLC dba Slaters 50/50 and the Guaranty of Lease with Alberto Garcia, including making minor, non-substantive changes, to sign all documents and instruments necessary to complete the transaction, and execute the additional two five-year extensions.

BOARD RECOMMENDATION:

On June 11, 2018, the Board of Public Utilities voted with seven ayes and one nay to recommend approval of the Commercial Multi-Tenant Lease-Triple Net Agreement to lease Mission Square to IG Group, LLC dba Slaters 50/50, for a ten-year term with two options for five-year extensions and the Guaranty of Lease for approximately 5,700 square feet of rentable space located at 3750 University Avenue, Suite 125.

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 125,020 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 Knight Frank (NKF) 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 NKF as the broker for the Property.

DISCUSSION:

Suite 125, which is currently 7,365 square feet, was formerly occupied by Best, Best and Krieger who vacated the space in January 2016.

NKF recently received a proposal to open a Slaters 50/50 restaurant in an approximately 5,700 square foot portion of Suite 125. The actual size may be slightly larger or smaller, depending upon the final location of the demising wall to convert the existing 7,365 square foot space into two separate suites. The City engaged its leasing broker, NKF, who negotiated on behalf of the City with Premier Agency Network, the Tenant's leasing broker.

The basic deal points of the proposed Lease are summarized below:

- 1) Term: Ten-year lease to commence upon 270 days from Landlord's delivery of the Premises to Tenant after full lease execution or upon the Tenant's opening for business, whichever is earlier.
- 2) Premises: Approximately 5,700 rentable square feet of space located at 3750 University Avenue, Suite 125.
- 3) Parking: Tenant shall be entitled to a total of twenty-three (23) parking spaces to be either reserved or unreserved, at Tenant's discretion. Tenant shall be responsible for payment of all parking fees to the operator of the parking garage. The parking rates for said parking will be the prevailing rates for reserved and unreserved parking at the Building, which rates are subject to increase from time to time.

4) Base Rent (Triple Net):

Months	Monthly Base Rental Rate/ Square Foot	Estimated Monthly Base Rent	Estimated Annual Base Rent
1 - 12	\$2.50	\$14,250.00	\$171,000.00
13 – 24	\$2.55	\$14,535.00	\$174,420.00
25 – 36	\$2.60	\$14,825.70	\$177,908.40
37 – 48	\$2.65	\$15,122.21	\$181,466.57
49 – 60	\$2.71	\$15,424.66	\$185,095.90
61 - 72	\$2.76	\$15,733.15	\$188,797.82
73 – 84	\$2.82	\$16,047.81	\$192,573.77
85 – 96	\$2.87	\$16,368.77	\$196,425.25
97 - 108	\$2.93	\$16,696.15	\$200,353.75
109 - 120	\$2.99	\$17,030.07	\$204,360.83

The base rent shown above was calculated based upon the anticipated 5,700 square feet to be occupied. However, the final base rent will be calculated using the actual square footage of occupancy once the space has been demised, which may be slightly more or less than 5,700 square feet. The base rent shall be adjusted annually by two percent (2%) as shown in the estimate above. The Tenant will be responsible for payment of its proportionate share of all common area maintenance costs, property insurance and taxes on a monthly basis for the duration of the Lease including any options to extend, if exercised by Tenant.

- 5) Possessory Interest Taxes: The Tenant will be responsible for payment of any possessory interest taxes assessed to Tenant for Tenant's use of the Premises.
- 6) Security Deposit: Tenant shall pay a security deposit of Seventeen Thousand (\$17,000.00) to City upon Lease execution.
- 7) Options to Extend: The Tenant shall have two options to extend the Lease for additional five-year terms provided the Tenant is not in default of the Lease. The Base Rent for the extended terms shall be at one-hundred five percent (105%) of the previous years' rent in the first year of each option period and shall be increased by two percent (2%) annually thereafter.
- 8) Tenant Improvement Allowance: Tenant will accept the premises in an as-is condition. Landlord shall provide financial assistance to Tenant in an amount up to \$108.95 per square foot for Tenant to demolish the existing structures in Suite 125 and to install a new demising wall to separate Suite 125 into approximately 5,700 square feet of space, leaving approximately 1,665 square feet of available space adjacent to the existing T-Mobile store for lease. Furthermore, Tenant will be responsible for installing a grease interceptor along with kitchen exhaust venting and any other improvements such as installing new ceiling, lighting, electrical, gas line, heating, ventilation, air conditioning, and fire, life safety systems as required to meet current building codes. The Tenant will be responsible for payment of any other tenant improvements at its sole cost and expense and anticipates spending approximately \$1 million in addition to Landlord's Tenant

Improvement Allowance to build out the space for occupancy.

- 9) Broker: Pursuant to the Exclusive Authorization to Lease Agreement with NKF, City to pay NKF a leasing commission equal to 6.5% of the lease consideration for the first five years and 3.25% for years six through ten, estimated to be a total amount of \$89,774.53 to be shared with Tenant's broker, Premier Agency Network. The final commission will be calculated based upon the actual square footage of the space to be occupied, which may cause the lease commission to be slightly more or less than the above estimate.

The Guaranty of Lease with Alberto Garcia covers the total obligations of the Tenant under the Lease.

FISCAL IMPACT:

The lease revenue over the ten-year term will generate an estimated \$1,872,402. 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 estimated tenant improvement allowance of \$621,015 and the estimated lease commission of approximately \$89,774.53 (may be slightly more or less depending upon the final square footage of the space for occupancy) to NKF for this transaction.

Prepared by: David Welch, Interim Community & Economic Development Director
Certified as to
availability of funds: Adam Raymond, Chief Financial Officer/City Treasurer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Commercial Multi-Tenant Lease-Mission Square Agreement
2. Guaranty of Lease with Alberto Garcia
3. Public Utilities Board Minutes