

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MAY 14, 2019

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1
DEPARTMENT

SUBJECT: LEASE AGREEMENT WITH RIVERSIDE FOOD HALL, LP FOR THE 10,000 SQUARE FOOT SHOWCASE SPACE LOCATED AT 3633 MARKET STREET, BEARING ASSESSOR PARCEL NUMBERS 213-221-008 AND -003, TO FACILITATE THE DEVELOPMENT OF AN ARCADE AND GAMING ENTERTAINMENT BUSINESS FOR AN INITIAL TERM OF SIXTY-EIGHT MONTHS AND GENERATING MINIMUM LEASE REVENUE IN THE AMOUNT OF \$293,028 OVER THE TERM OF THE AGREEMENT

ISSUE:

Approve a sixty-eight month Lease Agreement with Riverside Food Hall, LP for the 10,000 square foot Showcase space located at 3633 Market Street, bearing Assessor Parcel Numbers 213-221-008 and -003, to facilitate the development of an arcade and gaming entertainment business and to generate minimum lease revenue in the amount of \$293,028.

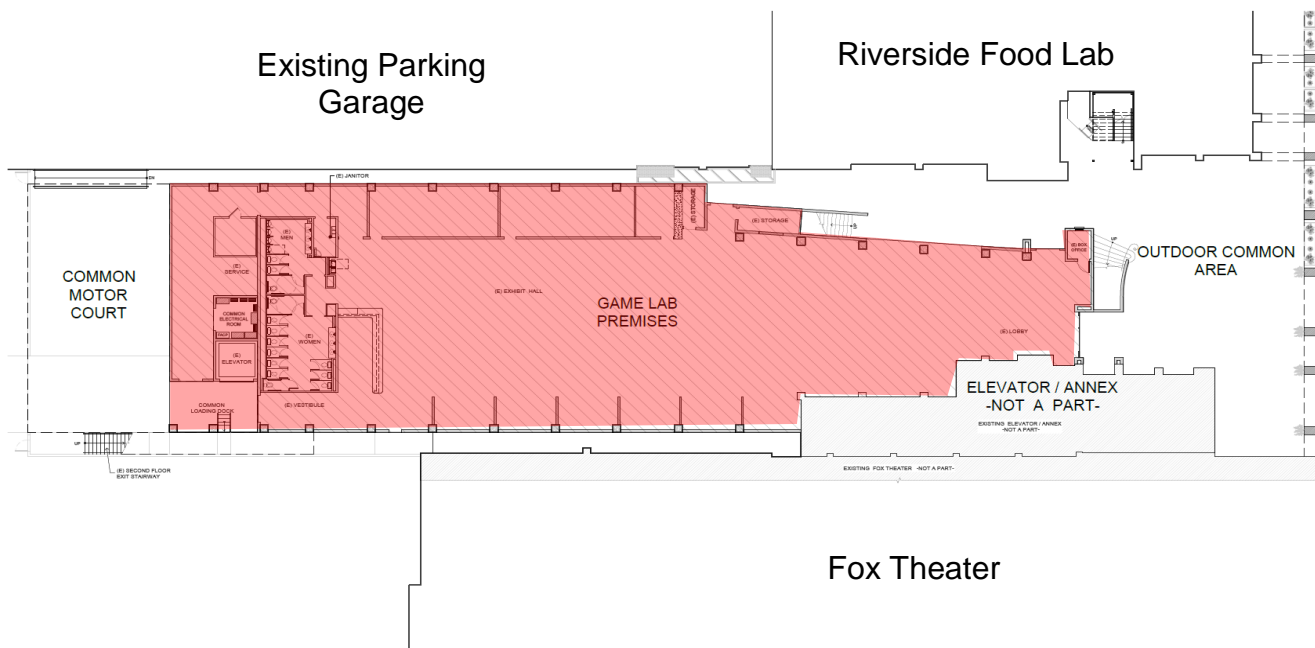
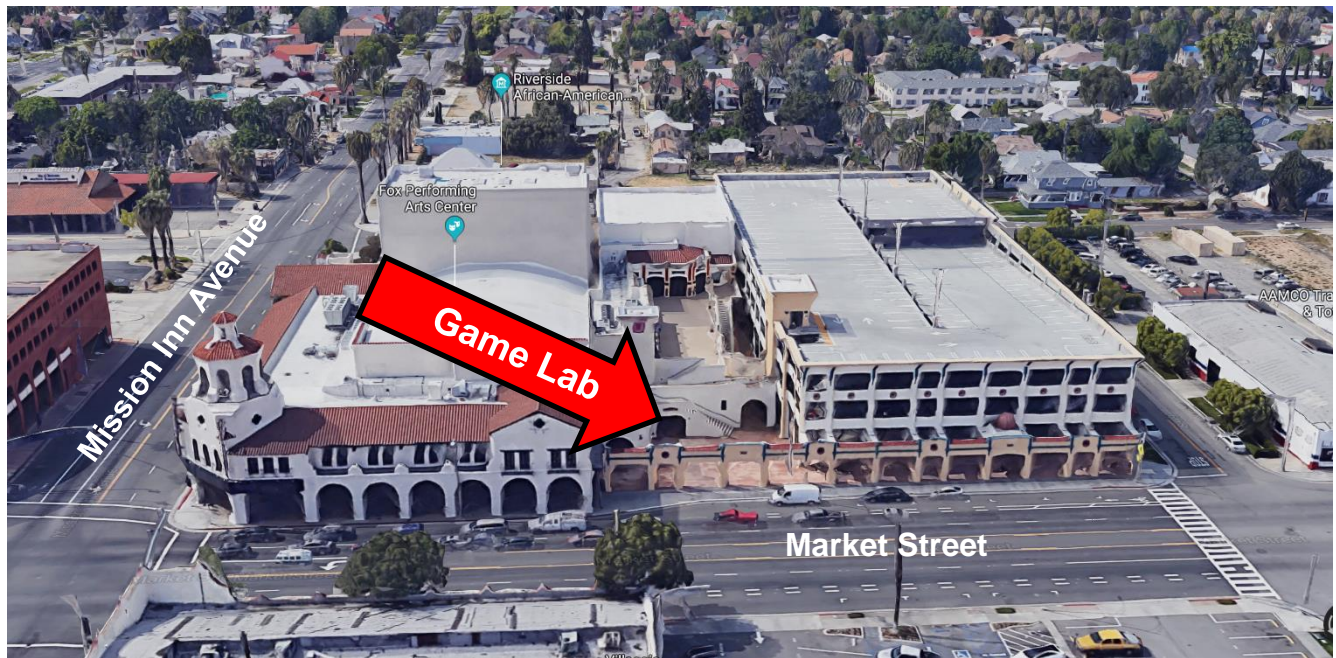
RECOMMENDATIONS:

That the City Council:

1. Approve a Lease Agreement with Riverside Food Hall, LP for the 10,000 square foot Showcase space located at 3633 Market Street, bearing Assessor Parcel Numbers 213-221-008 and -003, to facilitate the development of an arcade and gaming entertainment business for an initial term of sixty-eight months with an option to extend for three consecutive five year periods with minimum lease revenue in the amount of \$293,028 over the initial agreement term;
2. Authorize an increase in estimated revenue for Fiscal Year 2019/20 in a minimum amount of \$14,000 to account number 2815001-373100 for rent proceeds due after the 8 month rent abatement period;
3. Authorize the City Manager, or his designee, to execute the Lease Agreement, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction; and
4. Authorize the City Manager, or his designee, to execute the Guaranty of Lease Agreement with Arteco Partners, including making minor, non-substantive changes.

BACKGROUND:

Completed in 2013, at a cost of \$14.4 million, the Fox Entertainment Plaza (“FEP”) includes approximately 14,000 square feet of restaurant space, a 4,000 square foot black box theater (“The Box”), a 400-stall parking garage, and approximately 10,000 square feet of museum/exhibit and trade show exhibit space (“Showcase”) as shown on the maps in red below. The FEP was constructed with the vision of expanding the creative economy, revitalizing downtown, and promoting Riverside as a destination.



On October 4, 2016, the City Council approved a 55-year lease agreement with Riverside Food Hall, LP for the vacant FEP restaurant space, located at 3605 Market Street, for the

development of a communal food hall featuring local, artisanal eateries and bars, known as the Riverside Food Lab. The Riverside Food Lab opened in August of 2018 and has quickly become one of downtown's most popular attractions.

The Showcase, originally intended to be used as museum exhibit space, has, since 2016, hosted approximately 55 events, all of which have been non-exhibit related functions (with Live Nation being the most frequent user), and has generated very minimal revenue. The Showcase is currently operated, managed, and maintained by the City's Arts and Cultural Affairs staff and the space typically goes "dark" during November and December as staff is managing all aspects of Festival of Lights.

On June 21, 2018, staff presented to the Development Committee various development options for the Showcase and asked the Development Committee to provide feedback and direction to staff. Following discussion, a motion was made for staff to reach out to the community and discuss future uses for the Box and the Showcase.

Following the Development Committee meeting on June 21, 2018, staff discussed a myriad of potential uses for the Showcase with the local business community and downtown stakeholders. As the Fox Performing Arts Center, the Riverside Food Lab, and the Box are all entertainment venues, the consensus was that utilizing the Showcase as an entertainment/commercial venue would be a natural fit.

On January 17, 2019, staff presented to the Development Committee two unsolicited lease proposals from Riverside Food Hall, LP (for development of arcade and gaming entertainment business) and the Old Riverside Foundation (for a historic chairs exhibit) for the Showcase. Following discussion, a motion was made by Chair Gardner, and seconded by Vice-Chair Perry, directing staff to 1) work with Riverside Food, LP and the Old Riverside Foundation to explore a schedule making it feasible for both parties to utilize the Showcase; 2) negotiate a lease agreement with Riverside Food Hall, LP for the Showcase to convert the Showcase into an arcade and gaming entertainment venue; and (3) address any noise concerns associated with an arcade and gaming entertainment venue for City Council's final consideration.

Shortly thereafter, staff convened several meetings with both parties. Unfortunately, despite staff's best efforts, the parties were unable to agree on a schedule that would make it feasible for both parties to utilize the Showcase space. Staff agreed to assist the Old Riverside Foundation with identifying an alternative location for its historic chairs exhibit – these efforts are ongoing.

DISCUSSION:

Since the Development Committee meeting on January 17, 2019, staff has worked diligently to develop a mutually beneficial lease agreement. Staff has thoroughly reviewed the attached Lease Agreement and is in concurrence with the terms, which are summarized as follows:

Landlord: City of Riverside

Tenant: Riverside Food Hall, LP

Use: Arcade and gaming entertainment business with food and alcoholic beverage services (craft beer only) and for no other purpose.

Term:	Sixty-eight (68) months from the Effective Date of the Lease Agreement.
Premises:	Approximately 10,000 square feet of leasable space.
Base Rent:	For months 9-20 of the Lease Agreement, the base rent shall be \$3,500 per month. For months 21-32, the base rent shall be \$5,000 per month. Beginning in month 33, the base rent shall increase by 3% annually (including the option periods).
Rent Credit:	Landlord grants to Tenant 8 months of free rent from the effective date of the Lease in lieu of a tenant improvement allowance.
Additional Rent:	Beginning in the 21 st month of the Lease Agreement, the City shall receive additional rent in the amount of 4% of gross sales (not including sales tax), which shall be calculated on the natural break-even point of \$1,525,000 annual gross sales. Specifically, once the Tenant's gross sales exceed \$1,525,000, Tenant shall pay to the City 4% as additional rent. Additional Rent will be paid quarterly and shall be subject to an audit by City staff.
Lease Extension:	Tenant shall have three (3) five (5) year options to extend the Lease Agreement.
Condition:	Tenant accepts the Premises "AS IS" with no Tenant Improvement allowance being provided by the Landlord. Tenant will perform, at its sole cost and expense, any interior work to the Premises to accommodate Tenant's use.
Parking:	Tenant and its guests shall be entitled to use unreserved parking spaces in Public Parking Garage No. 7. Furthermore, Tenant and its guests shall be responsible for payment of all parking fees to the operator of Public Parking Garage No. 7. Additionally, Tenant shall have the right to purchase up to ten (10) monthly permits within Public Parking Garage No. 7 for use by its employees.
Utilities:	As the Showcase space is jointly metered with the adjacent Box space, the Tenant shall pay to Landlord its pro-rata share of utilities consumed.
Noise:	Tenant shall mitigate all noise emanating from the Premises so as to not interfere with the adjacent Fox Performing Arts Theater and the Box.

In conclusion, staff recommends that the City Council approve the attached sixty-eight month Lease Agreement with Riverside Food Hall, LP for the 10,000 square foot Showcase space located at 3633 Market Street, bearing Assessor Parcel Numbers 213-221-008 and -003, to facilitate the development of an arcade and gaming entertainment business and to generate minimum revenue in the amount of \$293,028.

The Public Works Director concurs with the recommendations in this report.

FISCAL IMPACT:

All lease revenue will be deposited into the General Fund Land and Building Rental account number 2815001-373100. The Lease is anticipated to generate minimum revenue in the amount of \$293,028 (as outlined below) plus additional rent (as described above).

TERM	MONTHLY RENT	TOTAL RENT
Months 9 – 20	\$3,500	\$42,000
Months 21 – 32	\$5,000	\$60,000
Months 33 – 44	\$5,150	\$61,800
Months 45-56	\$5,305	\$63,660
Months 57 – 68	\$5,464	\$65,568
TOTAL		\$293,028

Staff requests an increase in estimated revenue for Fiscal Year 2019/20 in a minimum amount of \$14,000 to account number 2815001-373100 for rent proceeds due after the 8 month rent abatement period.

Prepared by: David Welch, Community & Economic Development Director
 Certified as to
 availability of funds: Edward Enriquez, Chief Finance Officer/Treasurer
 Approved by: Rafael Guzman, Assistant City Manager
 Approved as to form: Gary G. Guess, City Attorney

Attachments:

1. Lease Agreement
2. Guaranty of Lease
3. Presentation