



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 4, 2019

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT WARD: ALL

SUBJECT: COMMERCIAL LEASE AGREEMENT WITH DRIVETIME CAR SALES COMPANY, LLC FOR THE USE OF THE PROPERTY LOCATED AT 1388 SOUTH E. STREET, SAN BERNARDINO, CALIFORNIA, FOR A TOTAL REVENUE OF \$832,128 DURING THE SIXTY MONTH TERM

ISSUE:

Approve the proposed Commercial Lease Agreement with DriveTime Car Sales Company, LLC, of Phoenix, Arizona for the use of the property located at 1388 South E. Street, San Bernardino, for a total revenue of approximately \$832,128 during the initial sixty month term.

RECOMMENDATIONS:

That the City Council:

1. Approve a Commercial Lease Agreement with DriveTime Car Sales Company, LLC, of Phoenix, Arizona, for a duration of 60 months with the option for four additional five-year extensions for a total revenue of approximately \$832,128 for the initial 60 month term; and
2. Authorize the City Manager, or his designee, to execute the Commercial Lease Agreement, including making minor, non-substantive changes, and to execute the optional four five-year extensions, if exercised, and to sign all documents and instruments necessary to complete the transaction.

BOARD RECOMMENDATION:

On May 13, 2019, the Board of Public Utilities met to consider the proposed five-year Ground Lease Agreement with Drive Time Car Sales Company for the use of the property located at 1388 South E. Street, San Bernardino, California for a duration of 60 months with the option for four additional five-year extensions for a total revenue of approximately \$832,128 during the initial five year term. Following discussion, the Board voted unanimously to recommend the City Council approve the Commercial Lease Agreement with Drive Time Car Sales Company, LLC.

BACKGROUND:

Riverside Public Utilities (RPU) owns a 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"). The site is shown in the aerial site map below. For approximately 37 years, the Property was leased from RPU as an auto dealership, first to Holiday Oldsmobile and subsequently to Center Chevrolet which was 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 the Property has remained vacant.

On February 19, 2016, the Board of Public Utilities 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. The lease provided a 150 day period for due diligence with the option for commencement after the City of San Bernardino issues the required construction permits. DriveTime was unable to obtain their project permits within the timeframe and the lease terminated by its own terms on August 12, 2016.



DISCUSSION:

On July 2018, DriveTime expressed interest in renegotiating the terms and conditions of the Property. DriveTime Car Sales Company, LLC ("DriveTime"), a licensed national used car dealership headquartered in Arizona, seeks to enter into a Commercial Lease Agreement 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. If approved, this location will become DriveTime's 145th dealership within 26 states nationwide. DriveTime estimates that over \$2,750,000 will be spent for the building construction and site improvements. All improvements shall be approved by the City and will be constructed in compliance with all applicable laws and codes of the City of

San Bernardino's Building and Safety Department. The City will retain the site improvements upon the termination of the lease.

The proposed Ground Lease is for an initial five-year term with four (4) optional 5-year extensions. DriveTime shall pay a Base Rent of \$15,000 per month ("Base Rent"), which will be adjusted at a rate of 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 four months after the Effective Date of the Lease. The \$15,000 Base Rent shall be abated for 240 days after the Commencement Date.

LEASE TERM	INTERIM RENT	MONTHLY BASE RENT	ANNUAL REVENUE
Interim Rent – Effective Date through Approval Period – 4 Months	\$1,500		\$6,000
Year One- First 8 Months (240 days) Base Rent Abated		\$0	\$0
Year One–last 4 Months		\$15,000	\$60,000
Year Two		\$15,375	\$184,500
Year Three		\$15,759	\$189,108
Year Four		\$16,153	\$193,836
Year Five		\$16,557	\$198,684
Total Base Rent (5 Years)			\$832,128

Section 1.3 of the Lease Agreement provides for DriveTime to terminate the Lease within the first four months from the Effective Date if DriveTime is unable to obtain the necessary Governmental Approvals for its use. Furthermore, Section 1.8 also provides Drive Time with two ways to terminate the Lease early by providing the City with 60 days advance notice as follows:

1. If Tenant sells an average of sixty (60) or fewer cars within a six-month consecutive period during the Lease term; or
2. Effective any time after the third anniversary of the Commencement Date of the Lease.

RPU staff believes the maintenance and revenue provided by DriveTime generates significant value compared to the maintenance cost RPU would incur absent of the proposed lease agreement.

FISCAL IMPACT:

The fiscal impact to RPU by entering into the lease agreement is a minimum of new net revenue of \$832,128 for the initial five-year term, provided DriveTime does not cancel the lease early, and significantly more if any of the four (4) five-year options to extend are exercised. The rent revenue will be deposited into the Water Fund Land and Building Rental Account No. 0000520-373100.

Prepared by: David Welch, Community & Economic Development Director
 Certified as to

availability of funds: Edward Enriquez, Chief Financial Officer / City Treasurer

Approved by: Al Zelinka, FAICP, City Manager

Approved as to form: Gary G. Guess, City Attorney

Attachments:

1. Commercial Lease Agreement
2. Board of Public Utilities Meeting Minutes – May 13, 2019