



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JUNE 24, 2019

ITEM NO: 14

SUBJECT: FIRST AMENDMENT TO COMMERCIAL MULTI-TENANT LEASE – TRIPLE NET MISSION SQUARE WITH SWEET TRIO INCORPORATED DBA THE DONUT BAR – 3750 UNIVERSITY AVENUE, SUITE 175, FOR APPROXIMATELY 2,292 SQUARE FEET OF RENTABLE SPACE FOR A FIVE-YEAR TERM AND OPTION TO EXTEND FOR TWO ADDITIONAL FIVE-YEAR TERMS

ISSUE:

Recommend that the City Council approve a First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square with Sweet Trio Incorporated dba The Donut Bar, for a ten-year term and an option to extend for two additional five-year terms, for approximately 2,292 square feet of rentable space located at 3750 University Avenue, Suite 175.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that the City Council:

1. Approve the First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square with Sweet Trio Incorporated dba The Donut Bar, for a ten-year term and an option to extend for two additional five-year terms, for approximately 2,292 square feet of rentable space located at 3750 University Avenue, Suite 175; and
2. Authorize the City manager, or designee, to execute the First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square with Sweet Trio Incorporated dba The Donut Bar, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

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 September 11, 2018, a Lease agreement with the Sweet Trio Incorporated dba The Donut Bar was approved by the City Council with an effective date of September 18, 2018. The agreement allowed six (6) months for the Tenant to perform its due diligence in obtaining City permits and open for business or cancel the Lease. Although the Tenant is not ready to open for business, they did not exercise their right to cancel the Lease by the deadline of March 11, 2019. Pursuant to the Agreement, rent payments are set to commence on June 26, 2019.

Suite 175 does not presently have a commercial kitchen nor is it equipped with any restaurant ready fixtures to support a restaurant. Suite 175 was previously occupied by Raincross Hospitality Corporation who vacated the suite in April 2018. The previous usage of the suite was commercial office space.

DISCUSSION:

Staff has reviewed the proposed First Amendment to Commercial Multi-Tenant Lease Triple Net and recommends approval. The basic deal points of the proposed First Amendment are summarized below:

- 1) **Rent Commencement Date:** Shall be amended from June 26, 2019 to November 1, 2019.
- 2) **Base Rent:** For months 1 through 12 of the Lease term, the monthly base rent shall be increased from \$2.25 to \$2.60 per square foot per month times the actual square footage of space as measured by Landlord upon Delivery of Possession to Tenant. The base rent will continue to be increased by 3% annually as shown in the table below. All other terms shall remain in place.

Base Rent (Triple Net)

Months	Monthly Base Rental Rate	Monthly Base Rent	Annual Base Rent
1-12	\$2.60	\$5,959.20	\$71,510.40
13-24	\$2.68	\$6,142.56	\$73,710.72
25-36	\$2.76	\$6,325.92	\$75,911.04
37-48	\$2.84	\$6,509.28	\$78,111.36
49-60	\$2.93	\$6,715.56	\$80,586.72
61-72	\$3.02	\$6,921.84	\$83,062.08
73-84	\$3.11	\$7,128.12	\$85,537.44
85-96	\$3.20	\$7,334.40	\$88,012.80
97-108	\$3.30	\$7,563.60	\$90,763.20
109-120	\$3.40	\$7,792.80	\$93,513.60"

- 3) **Tenant Improvements:** The original tenant improvement allowance of \$119,000 shall be increased to \$311,712 to account for the additional construction work associated with the Mechanical, Electrical and Plumbing (MEP) expenses necessary with converting commercial office space into restaurant/retail space. Upon the City's receipt of adequate documentation of Tenant's expenses for the construction of its tenant improvements, the City will provide a tenant improvement allowance of \$311,712 to Tenant or Tenants contractor(s) directly if authorized in writing by the Tenant, for actual work performed. The Tenant Improvement allowance is to be used for installing fixtures and improvements that become attached and part of the Premises. Any tenant improvement amount above \$311,712 shall be at Tenant's sole cost and expense.
- 4) **Other:** All other terms of the Lease between the parties, which are not inconsistent with the terms of this First Amendment, shall remain in full force and effect as if fully set forth herein.

FISCAL IMPACT:

The lease revenue over the ten-year term will generate an estimated \$820,719.36. 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 \$311,712.00 tenant improvement allowance and \$33,734.39 of leasing commissions that have already been incurred for this transaction. No additional lease commissions will be owed by the City as a result of this First Amendment to the Lease.

Prepared by: David Welch, Community & Economic Development Director
Approved by: Todd M. Corbin, Utilities General Manager
Approved by: Al Zelinka, FAICP, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Certifies availability
of funds: Brian Seinturier, Utilities Fiscal Manager

Attachment: First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square