



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL** **DATE: JULY 16, 2019**

**FROM: COMMUNITY & ECONOMIC DEVELOPMENT** **WARD: 1**  
**DEPARTMENT**

**SUBJECT: FIRST AMENDMENT TO COMMERCIAL MULTI-TENANT LEASE – TRIPLE NET AT MISSION SQUARE WITH SWEET TRIO INCORPORATED DBA THE DONUT BAR – 3750 UNIVERSITY AVENUE, SUITE 175 OF APPROXIMATELY 2,292 SQUARE FEET OF RENTABLE SPACE FOR AN ESTIMATED \$820,719.36 OVER A TEN YEAR TERM**

## **ISSUE:**

Approve the First Amendment to Commercial Multi-Tenant Lease – Triple Net at Mission Square with Sweet Trio Incorporated of Corona dba The Donut Bar, for a ten-year term with two options for five-year extensions, for approximately 2,292 square feet of rentable space located at 3750 University Avenue, Suite 175.

## **RECOMMENDATIONS:**

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 an estimated \$820,719.36 in revenue over a ten-year term with two options for five-year extensions, for approximately 2,292 square feet of rentable space located at 3750 University Avenue, Suite 175; and
2. Authorize the City Manager, or his 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 the two optional five-year extensions and to sign all documents and instruments necessary to complete the transaction.

## **BOARD RECOMMENDATION**

On June 24, 2019, the Riverside Public Utilities unanimously voted to recommend that City Council 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 with two options for five-year extensions, for approximately 2,292 square feet of rentable space located at 3750 University Avenue, Suite 175.

## **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 Sweet Trio Incorporated dba The Donut Bar was approved by the City Council with an Effective Date of September 18, 2018. This agreement allowed six months for the Tenant to perform its due diligence necessary to obtain City permits to be open for business or cancel the Lease. Rent payments were set to commence on June 22, 2019 and the Tenant did not exercise its right to cancel the Lease even though it was not ready to be open for business by the deadline of March 11, 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, which is anticipated to be 2,292 square feet. 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 \$119,000.00 shall be increased to \$311,712.00 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 \$311,712.00 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 \$311,712.00 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 be 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 Lease.

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

### **Attachments:**

1. First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square
2. RPU Board Meeting Minutes – June 24, 2019