



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: SEPTEMBER 17, 2019

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1
DEPARTMENT

SUBJECT: LEASE AGREEMENT WITH GREENBERG & GREENBERG, A
PROFESIONAL LAW CORPORATION – MISSION SQUARE OFFICE
BUILDING, 3750 UNIVERSITY AVENUE, SUITE 550 & A PORTION OF 560 –
TEN-YEAR TERM FOR \$1,184,117.88 IN REVENUE

ISSUE:

Approve a Lease Agreement with Greenberg & Greenberg, a Professional Law Corporation of Riverside, California for approximately 3,188 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 550 & a portion of 560, for a ten-year term with the option to extend the lease for one additional five-year term to generate revenue in the amount of \$1,184,117.88 during the original term.

RECOMMENDATIONS:

That the City Council:

1. Approve the Lease Agreement (Attachment 1) with Greenberg & Greenberg, a Professional Law Corporation for approximately 3,188 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 550 & a portion of 560, for ten-year term with the option to extend the lease for one additional five-year term to generate revenue in the amount of \$1,184,117.88;
2. Authorize the City Manager, or his designee, to execute the Lease Agreement, including the one optional five-year extension, along with making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction; and
3. Authorize the City Manager, or his designee to waive the holdover rent from January 1, 2019 through the new Lease execution date, which currently totals an amount of \$14,416.20 as of June 30, 2019.

BOARD RECOMMENDATION

On August 12, 2019, the Board of Public Utilities unanimously voted to recommend that the City Council approve the Lease Agreement with Greenberg & Greenberg, a Professional Law Corporation of Riverside, California, for a ten year term with one optional five year extension,

for approximately 3,188 square feet of rentable space located at 3750 University Avenue, Suite 550 and a portion of Suite 560.

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 489 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, currently known as 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:

Greenberg & Greenberg was a sub-tenant of Best, Best and Krieger in the Property since 2004 and subsequently became a sub-tenant of the City in 2013. This sub-lease agreement expired on December 31, 2018. Greenberg & Greenberg is currently on a month-to-month holdover basis with the City as the Landlord. The holdover language in the sub-lease agreement requires that Greenberg & Greenberg pay 125% of the rent due the City for the first three (3) months and then 150% of the rent due to the City thereafter. As of June 30, 2019, the total amount due to the City for the holdover rent portion was \$14,416.20. Since Greenberg & Greenberg has been actively negotiating with the City for a new direct lease, staff recommends that the City waive the entire outstanding holdover amount until the new Lease is executed.

Through its leasing broker, NKF, the City negotiated a lease renewal with Greenberg & Greenberg. Staff has reviewed the proposed Lease Agreement and recommends approval. The basic deal points of the proposed Lease are summarized below:

1. Term: Ten-year lease to commence upon City Council approval.
2. Premises: Approximately 3,188 rentable square feet of space located at 3750 University Avenue, Suite 550 & a portion of 560.
3. Base Rent (Full Service Gross Lease):

Period	Monthly Base Rent	Per Sq. Ft.
Year 1	\$8,607.60	\$2.70
Year 2	\$8,865.83	\$2.78
Year 3	\$9,131.80	\$2.86
Year 4	\$9,405.76	\$2.95

Year 5	\$9,687.93	\$3.04
Year 6	\$9,978.57	\$3.13
Year 7	\$10,277.92	\$3.22
Year 8	\$10,586.26	\$3.32
Year 9	\$10,903.85	\$3.42
Year 10	\$11,230.97	\$3.52

4. Security Deposit: Tenant shall deposit with Landlord a Security Deposit equal to 100% of the last month's rent of \$11,230.91.
5. Option to Extend: Landlord shall provide Tenant with one (1) 5-year option to extend the Term of the Lease provided Tenant notifies Landlord no earlier than twelve (12) months and no later than six (6) months prior to the expiration of the Term.
6. First Right of Refusal: Tenant shall be granted a one (1) time First Right of Refusal on Suite 560.
7. Sublease: Tenant shall have the right to sublease the Premises subject to Landlord's prior written consent.
8. Rent Abatement: Provided Tenant is not in default under the Lease at the time of Commencement, Tenant's rent shall be abated for a total of eight (8) months to be credited in months two (2) through nine (9) after Commencement Date.
9. Tenant Improvement Allowance: Tenant is currently occupying Suite 550 and will be expanding into a portion of Suite 560. Tenant accepts the premises as is. Landlord shall provide a one-time financial assistance to Tenant in an amount up to \$70.00 per square foot.
10. Possessory Interest Taxes:
 - a. The City will be responsible for payment of any possessory interest taxes assessed to Greenberg & Greenberg provided that the tenant is current in payment of its monthly rent obligations to the City; and
 - b. Greenberg & Greenberg must submit the request for payment within 30 days of the due date. Otherwise, the City will not be responsible for payment of any penalties or late collection charges imposed by the County Treasurer.
11. Broker: Pursuant to the existing Exclusive Authorization to Lease Agreement with NKF, City to pay NKF leasing commissions as follows:
 - a. 5% for years 1 through 5 and 2.5% for years 6 through 10 of the lease consideration paid for the expansion portion of the deal in the amount of \$11,355.58. The expansion portion is based on 908 rentable square feet (RSF) for a period of 10 years. An additional 2.5% for years 1 through 5 and 1.25% for years 6 through 10 of

the lease consideration is to be paid for the renewal portion of the transaction in the amount of \$14,257.

- b. The renewal portion is based on 2,280 RSF for a period of ten (10) years. The total commission to be paid in the amount of \$25,612.58 is due upon full execution of this lease Agreement.

FISCAL IMPACT:

The lease revenue over the ten-year term will generate an estimated gross revenue of \$1,184,117.88. 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 lease commission of \$25,612.58 to NKF for this transaction and the Landlord Tenant Improvement allowance of \$70.00 per square foot which is estimated to equal \$223,160.00 to the Tenant as part of this transaction. Sufficient funds are available in Public Utilities Professional Services Account 6000030-421000 because the City will need to put forth the improvement allowance up front.

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

Attachment: Lease Agreement – City and Greenberg & Greenberg