



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JANUARY 7, 2020**

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

SUBJECT: FIRST AMENDMENT TO PROPERTY MANAGEMENT AGREEMENT WITH G&E REAL ESTATE MANAGEMENT SERVICES, INC. DBA NEWMARK KNIGHT FRANK FOR MISSION SQUARE PROPERTY LOCATED AT 3750 UNIVERSITY AVENUE FOR AMENDED COMPENSATION AND PROPERTY MANAGEMENT FEE NOT TO EXCEED 5% OF THE TOTAL PROJECT COST

ISSUE:

Approve a First Amendment to Property Management Agreement with G&E Real Estate Management Services, Inc., doing business as Newmark Knight Frank, for property management services, amending the compensation and property management fee to include additional compensation to Newmark Knight Frank not to exceed 5% of the total project cost for performing project management oversight services for the Mission Square Office Building located at 3750 University Avenue.

RECOMMENDATIONS:

That the City Council:

1. Approve the First Amendment to the Property Management Agreement with G&E Real Estate Management Services, Inc., doing business as Newmark Knight Frank for property management services, amending the compensation and property management fee to include additional compensation to Newmark Knight Frank not to exceed 5% of the total project cost for performing project management oversight services for the Mission Square Office Building located at 3750 University Avenue;
2. Authorize the City Manager, or his designee, to execute the First Amendment to the Property Management Agreement, including 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 negotiate the project management fee for projects in excess of \$1,000,000 in an amount less than 3% of the total project cost pursuant to the terms and conditions outlined in the First Amendment.

BOARD RECOMMENDATION:

On December 9, 2019, the Board of Public Utilities met with eight members present and unanimously voted to recommend that City Council approve the 1st Amendment to the Property

Management Agreement with Newmark Knight Frank to amend the compensation and property management fee to include additional compensation to Newmark Knight Frank not to exceed 5% of the total project cost for performing project management oversight services and to negotiate the project management fee for projects in excess of \$1,000,000 in an amount less than 3% of the total project cost for the Mission Square Office Building located at 3750 University Avenue.

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 and a Property Management Agreement with Newmark Knight Frank (NKF) to provide broker leasing services and property management services for the Property. RPU staff has been coordinating the leasing and property management process for the Property with the Real Property Services Division of the Community & Economic Development Department and NKF as the broker and building manager for the Property.

DISCUSSION:

The original Property Management Agreement with NKF did not include a provision to pay for project management oversight. Now that a site assessment has been completed and capital projects have been further identified for construction, a First Amendment is now necessary to assign a project management fee and clarify repairs, maintenance and construction along with monthly financial reports. A summary of the proposed changes is discussed below:

Section 9.1. Project Management Fee. The proposed fee to NKF is based on the following:

1. For projects less than \$500,000; the project management fee is equal to 5% of the total project cost; and for projects of \$500,000 or more; the project management fee is equal to:
 - a. 5% of the total project cost equal to or less than \$500,000, plus;
 - b. 4% of the total project cost in excess of \$500,000, but less than \$750,000, plus;
 - c. 3% of the total project cost in excess of \$750,000, but less than \$1,000,000, plus;
 - d. For projects that are over \$1,000,000, the Owner and Property Manager shall agree to a price in advance and shall be subject to a not to exceed 3% fee.
 - e. All applicable fees related to the capital improvements projects must be approved by RPU prior to the commencement of work.
2. Section 2.7. Repairs, Maintenance and Construction. The Property Manager shall also be responsible for the management, oversight, coordination and point of contact for all tenant improvement projects, as well as for any and all building maintenance or construction projects initiated by Owner in accordance with Section 9.1.
3. Section 4.2. Financial Reports. On or before the 15th day after the end of each month,

Property Manager shall furnish to Owner a report of all transactions occurring during such prior month, including statements of income, balance sheet and other financial statements and reports. The statement of income and expenses, the balance sheet, and all other financial statements and reports shall be prepared on an accrual basis and in compliance with all reporting requirements relating to the operating of the Property. .

FISCAL IMPACT:

Funding for project management oversight fees comes from an account held in trust for the City by our property manager, NKF, and the capital improvement budget as approved by the Board of Public Utilities.

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. Geuss, City Attorney

Attachment:

1. First Amendment to Property Management Agreement
2. Board of Public Utilities Draft Meeting Minutes – December 9, 2019