



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: JUNE 16, 2020**

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

**SUBJECT: FIRST AMENDMENT TO COMMERCIAL MULTI-TENANT LEASE – TRIPLE NET MISSION SQUARE WITH THE IG GROUP, LLC DBA SLATERS 50/50, LOCATED AT 3750 UNIVERSITY AVENUE, SUITE 125, FOR APPROXIMATELY 5,982 SQUARE FEET OF RENTABLE SPACE**

## **ISSUE:**

Approve the First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square with The IG Group, LLC dba Slaters 50/50, located at 3750 University Avenue, Suite 125, for approximately 5,982 square feet of rentable space.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square with The IG Group, LLC dba Slaters 50/50 for approximately 5,982 square feet of rentable space located at 3750 University Avenue, Suite 125; and
2. Authorize the City Manager, or his designee, to execute the First Amendment to Commercial Multi-Tenant Lease – Triple Net Mission Square with The IG Group, LLC dba Slaters 50/50, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

## **BOARD RECOMMENDATION**

This report publishes on June 4, 2020 for the June 16, 2020 City Council meeting.

On June 8, 2020 the Riverside Public Utilities Board is scheduled to hear this item and vote on whether to recommend that City Council approve the First Amendment to the Commercial Multi-Tenant Lease –Triple Net Mission Square with The IG Group, LLC dba Slater's 50/50 for approximately 5,982 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 125. If the Board approves to forward this item to City Council, we respectfully request the City Council consider the item at their June 16, 2020 meeting.

## **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 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 476-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 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 leasing broker for the Property.

On June 26, 2018, the City Council approved a Lease agreement with The IG Group, LLC dba Slaters 50/50 (Tenant) for a ten-year term with two five-year extension options with an effective date of July 2, 2018 (Agreement). The Date of Delivery of Possession was August 22, 2018. Pursuant to the Agreement, the Tenant had nine months to perform its due diligence necessary to obtain City permits to open for business or to cancel the Lease. Rent payments were set to commence on May 22, 2019 and the Tenant did not exercise its right to cancel the Lease even though it was not ready to open for business by the deadline date of May 22, 2019.

Suite 125 does not presently have a commercial kitchen or is equipped with any restaurant ready fixtures to support a restaurant. Suite 125 was previously occupied by Best, Best and Krieger (BBK) who vacated the suite in 2017. 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 May 22, 2019 to August 22, 2019. The Tenant is to receive an additional 3 months of base rent abatement totaling \$44,865.00. This was due to the extensive delays associated with the mechanical, electrical and plumbing upgrades needed to convert the former office space to restaurant use.
- 2) Due Diligence Period: Shall be amended to change the Due Diligence period from 270 days to 365 days from date of Landlord Delivery (from May 22, 2019 to August 22, 2019).
- 3) Premises: Shall be amended to correct the square footage of the Premises. The square footage of 5,700 rentable space is hereby replaced with 5,982 square feet.
- 4) Base Rent: Shall be amended in its entirety to read as follows:

<u>Months</u>	<u>Monthly Base Rental Rate</u>	<u>Monthly Base Rent</u>	<u>Annual Base Rent</u>
1 - 12	\$2.50	\$14,955.00	\$179,460.00
13 – 24	\$3.01	\$18,005.82	\$216,069.84
25 – 36	\$3.06	\$18,304.92	\$219,659.04

37 – 48	\$3.11	\$18,604.02	\$223,248.24
49 – 60	\$3.17	\$18,962.94	\$227,555.28
61 - 72	\$3.22	\$19,262.04	\$231,144.48
73 – 84	\$3.28	\$19,620.96	\$235,451.52
85 – 96	\$3.33	\$19,920.06	\$239,040.72
97 - 108	\$3.39	\$20,278.98	\$243,347.76
109 - 120	\$3.45	\$20,637.90	\$247,654.80

- 5) Tenant Improvements: The original tenant improvement allowance of \$621,015.00 was based upon an estimate of 5,700 square feet. The final space was measured at 5,982 square feet resulting in an additional 282 square feet thereby increasing the allowance by an additional \$30,723.90 for a total Tenant Improvement allowance of \$651,738.90 owed to the Tenant. In addition, an unexpected construction delay and costs associated with the Mechanical, Electrical and Plumbing (MEP) upgrades, primarily related to location and installation of a grease interceptor, has resulted in an additional cost of \$33,066.90. Staff recommends increasing the Tenant Improvement allowance by this amount for a total Tenant Improvement allowance of \$684,805.80 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 leased premises. Any tenant improvement amount above \$684,805.80 shall be at the Tenant's sole cost and expense.

The Tenant is approximately 85% complete with their construction and installation of the tenant improvements. The COVID-19 pandemic is a factor in the unexpected delays that the Tenant is currently experiencing. As such, the Tenant is requesting an additional Tenant Improvement Allowance of \$250,000.00 to finish the project. Staff proposes that this amount be amortized in the monthly base rent over years two (2) through ten (10) of the lease term including a four percent (4%) interest rate. The Tenant will pay back the \$250,000.00 plus interest totaling \$48,105.92 over the remaining nine years of the lease term. The Tenant Improvement Allowance is amended to increase the original Tenant Improvement Allowance from One Hundred Eight Dollars and Ninety-Five Cents \$108.95 per square foot to One Hundred Fifty-Six Dollars and Twenty-Seven Cents \$156.27 per square foot to account for the additional Tenant Improvement allowance. The Tenant's rent will increase by slightly over fifty cents per square foot in years two through ten to reflect the payback of the increased Tenant Improvement Allowance.

- 6) Tenant's Obligations: Section 6.1.1 is amended to include the following language added to the end of the paragraph, "Tenant shall also be responsible at Tenant's sole cost and expense to cover the lobby windows with a film, approved by Landlord so that the interior improvements to the Premises cannot be seen from the lobby of the building."
- 7) 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 \$2,263,142.85. 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 \$934,805.80 Tenant Improvement allowance and \$75,963.04 of leasing commissions that have already been incurred for this transaction. An additional \$3,758.20 in lease commissions will be owed by the City due to the increased square footage for the Tenant 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

Attachment: First Amendment to Commercial Multi-Tenant Lease