



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JULY 7, 2020

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1
DEPARTMENT

SUBJECT: FIRST AMENDMENT TO COMMERCIAL LEASE AGREEMENT WITH RIVERSIDE GAME LAB, LLC LOCATED AT 3633 MARKET STREET, FOR APPROXIMATELY 10,000 SQUARE FEET OF RENTABLE SPACE IN THE SHOWCASE TO CHANGE THE EFFECTIVE LEASE DATE AND RENT COMMENCEMENT DATE, AMEND THE BASE RENT AND ADDITIONAL RENT, AND REVISE THE UTILITIES

ISSUE:

Approve the First Amendment to Commercial Lease Agreement with Riverside Game Lab, LLC located at 3633 Market Street for approximately 10,000 square feet of rentable space in the Showcase to change the effective lease date and rent commencement date, amend the base rent and additional rent, and revise the utilities.

RECOMMENDATIONS:

That the City Council:

1. Approve the First Amendment to Commercial Lease Agreement with Riverside Game Lab, LLC located at 3633 Market Street, for approximately 10,000 square feet of rentable space in the Showcase to change the effective lease date and rent commencement date, amend the base rent and additional rent, and revise the utilities; and
2. Authorize the City Manager, or his designee, to execute the First Amendment, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BACKGROUND:

The Fox Entertainment Plaza ("FEP") was completed in 2013 at a cost of \$14.4 million and includes approximately 14,000 square feet of restaurant space ("Food Lab"), a 4,000 square foot black box theater ("The Box"), a 400-stall parking garage, and approximately 10,000 square feet of museum/exhibit and trade show exhibit space ("Showcase") as shown on the map below. The FEP was constructed with the vision of expanding the creative economy, revitalizing downtown, and promoting Riverside as a tourist destination.

On May 7, 2019, City Council approved a Commercial Lease Agreement with Riverside Food Hall, LP to operate the Game Lab within the Showcase space, depicted on the site map below, for a (68) sixty-eight-month lease term with three (3) five (5) year extension options. The lease was fully executed by both parties with an Effective Date of May 16, 2019.

On June 4, 2019, the City delivered possession of the space to Riverside Food Hall, LP.

On August 5, 2019, the City consented to an Assignment and Assumption of the Lease from Riverside Food Hall, LP to Riverside Game Lab, LLC (Tenant).



DISCUSSION:

The basic deal points of the proposed First Amendment are summarized below:

- 1) Effective Lease Date: Revised from May 16, 2019 to June 4, 2019 to reflect the actual delivery date of the space from the City to Tenant.
- 2) Rent Commencement: Section 2.1.1 of the Lease will revise the Rent Commencement Date from March 4, 2020 to September 1, 2020. The City originally granted 8 months of free rent to the Tenant in lieu of a cash tenant improvement allowance. The First Amendment would provide an additional 6 months of free rent for a total of 14 months of rent abatement. The Tenant originally took possession of the space in an “as is” condition and was required to make fire, life, safety and Americans with Disabilities Act (ADA) upgrades to the space in order to open for business. The Tenant would now like to install a full-service bar and commercial kitchen within the space which is estimated to be approximately \$75,000 to \$100,000. The additional 6 months of rent abatement would be in lieu of the City providing a cash tenant improvement allowance to Tenant for the additional construction work associated with the Mechanical, Electrical and Plumbing (MEP) expenses necessary with converting the commercial space into a full-service bar and commercial kitchen. These upgraded improvements will be the sole cost and responsibility of the Tenant and will become attached to and part of the space, which benefits the City.

- 3) Payment of Rent: As a result of the current COVID-19 pandemic, Section 3.2 of the Lease will be amended to provide the Tenant a one-time six-month deferral on rent to begin on September 1, 2020 if the Tenant notifies the City of its desire to defer their rental payments before September 1, 2020. Said deferral will expire on February 28, 2021.
- 4) Base Rent: Section 3.3 of the original Lease shall be revised to reflect the new rent payment schedule shown below as a result of the additional 6 months of rent abatement provided to Tenant. Other than the Rent Commencement date being delayed from March 4, 2020 to September 1, 2020, no other changes were made to this section of the Lease.

Months	Monthly Base Rent	Annual Base Rent
0-6	\$0	\$0
7-12	\$3,500.00	\$21,000.00
13-24	\$3,500.00	\$42,000.00
25-36	\$5,000.00	\$60,000.00
37-48	\$5,150.00	\$61,800.00
49-60	\$5,304.50	\$63,654.00
61-68	\$5,463.63	\$38,245.41

- 5) Additional Rent: Section 3.4 of the original Lease shall be amended from beginning in the 21st month to beginning in the 24th month of the Lease Agreement, the City shall receive additional rent in the amount of 4% of gross sales (not including sales tax), which shall be calculated on the natural break-even point of \$1,525,000 annual gross sales. Specifically, once the Tenant's gross sales exceed \$1,525,000, Tenant shall pay to the City 4% as additional rent. Additional Rent will be paid quarterly and shall be subject to an audit by City staff. Other than the additional 3-month extension, no other changes were made to this section of the Lease.
- 6) Utilities: Section 6.4.1 of the Lease requires the Tenant to pay its pro-rata share of utilities. However, due to the original construction of the building, the Showcase is jointly metered with the adjacent Box space, so the utilities are not independently metered. As such, it has been difficult to determine the Tenant's pro-rata share for payment to the City. Staff proposes to amend this section to include a flat rate of \$795.00 per month subject to annual three percent (3%) increases for all water, gas, power, electric, light, heat and other utilities used by Tenant during the term of the Lease. The City shall invoice Tenant monthly for the utilities and the Tenant shall pay the utility invoice within fifteen (15) days of receipt.
- 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.

In conclusion, staff recommends that the City Council approve the First Amendment to Lease Agreement with Riverside Game Lab, LLC for the 10,000 square foot Showcase space located at 3633 Market Street, bearing Assessor Parcel Numbers 213-221-008 and -003.

FISCAL IMPACT:

The First Amendment to Lease will decrease the projected rent revenue by \$21,000 as a result of the City providing an additional 6 months of rent abatement to the Tenant. However, the City will gain a full-service bar and commercial kitchen improvements to the space upon Lease surrender or termination. All lease revenue will be deposited into the Entertainment Fund Land and Building Rental account. The Lease is anticipated to generate minimum revenue in the amount of \$286,699.41 plus additional rent as described above.

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

Attachment:	First Amendment to Commercial Lease Agreement
-------------	---