



*City of Arts & Innovation*

# City Council Memorandum

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**TO: HONORABLE MAYOR AND CITY COUNCIL**      **DATE: JANUARY 5, 2021**

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

**SUBJECT: FIRST AMENDMENT TO CALIFORNIA EXCLUSIVE AUTHORIZATION OF LEASE AGREEMENT WITH NEWMARK OF SOUTHERN CALIFORNIA, INC. DBA NEWMARK KNIGHT FRANK TO EXTEND THE TERM FOR FIVE ADDITIONAL YEARS FOR THE MISSION SQUARE OFFICE BUILDING**

## **ISSUE:**

Approve a First Amendment to California Exclusive Authorization of Lease Agreement with Newmark of Southern California, Inc. dba Newmark Knight Frank to extend the term for an additional five (5) years for the Mission Square Office Complex.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the First Amendment to California Exclusive Authorization of Lease Agreement with Newmark of Southern California, Inc. dba Newmark Knight Frank to extend the term for an additional five years to December 31, 2025; and
2. Authorize the City Manager, or his designee, to execute the First Amendment to Exclusive Authorization of Lease Agreement, including making any minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

## **BOARD RECOMMENDATION:**

On December 21, 2020, the Board of Public Utilities, unanimously voted to recommend that City Council approve the First Amendment to California Exclusive Authorization and Lease Agreement with Newmark of Southern California, Inc. dba Newmark Knight Frank to extend the term of the Agreement for an additional five years for the Mission Square Office Building located at 3750 University Avenue.

## **BACKGROUND:**

At its regular meeting on November 20, 2015, the Board of Public Utilities amended its Real

Property Financial Management Policy to reflect the commercial broker and leasing operation of the Mission Square Office Complex, including the provision of professional third-party commercial broker and leasing services.

The City's Real Property Services Manager, in consultation and coordination with Riverside Public Utilities (RPU) staff, prepared a Request for Proposals for Commercial Broker and Leasing Services (RFP 1552) for the Mission Square Building. On October 30, 2015, four (4) proposals were received. Proposals from Newmark Grubb Knight Frank (NGKF), CBRE Group, Inc., Inland Pacific Advisors, and Lee & Associates were evaluated by staff and representatives from all firms were invited for interviews that took place on December 4, 2015. A selection committee consisting of representatives from RPU and the Community & Economic Development Department recommended award of the Exclusive Authorization of Lease Agreement to NGKF.

On January 22, 2016, the Riverside Public Utilities' Board (Board) recommended to approve the Exclusive Authorization of Lease (Agreement) with NGKF for the professional third-party commercial broker and leasing services of the Mission Square Office Complex.

On January 26, 2016, the City Council approved the Exclusive Authorization of Lease (Agreement) with NGKF for the professional third-party commercial broker and leasing services commencing on January 1, 2016 and ending on December 31, 2020 for the Mission Square Office Complex. Sometime after executing the Agreement, NGKF revised its doing business as name to Newmark Knight Frank (NKF).

## **DISCUSSION:**

The existing Exclusive Authorization of Lease Agreement with NKF expires on December 31, 2020. NKF has done an exceptional job of leasing up the building during the initial five-year term of the agreement. The Mission Square Building went from approximately 92.8% percent occupancy to its current occupancy of 98.9%. There is currently only one vacant space remaining that consists of 1,383 square feet and NKF is in the process of negotiating a new lease with a prospective tenant for this space. The First Amendment to Exclusive Authorization of Lease Agreement with Newmark of Southern California, Inc. will extend the initial agreement for an additional five years which is anticipated to expire on December 31, 2025.

Other than the five-year extension for time, there are no other changes to the original five-year agreement. The basic scope of services and commission schedule is summarized below.

Under the Agreement, NKF is responsible for advertising, marketing, and listing office or retail space in multiple listing services, physically showing the space to prospective tenants, and advising the City on prospective tenants and lease terms. The term of service is five years and the City reserves the right to cancel by providing a 30 day written notice at any time after the first year.

The commission is 5% of the total rental consideration paid by new tenants for the first five years of the lease term and 2.5% for any term over the initial five year period. In cases where outside brokerage representatives are involved, the procuring broker will be paid a 4% commission fee and NKF will reduce their fee by 50%, so the total for both commissions would be 6.5% over the initial five year period. For years six through 10 of the initial term, the commission fee would be 2% to the procuring broker and 1.25% to NKF for a total of 3.25%. No brokerage commissions will be paid for any lease term exceeding 10 years. Furthermore,

all brokerage commissions will be reduced by 50% should RPU elect to utilize the services of NGKF for lease negotiations related to renewal of any existing tenants.

**FISCAL IMPACT:**

The proposed commission rates are in line with industry standards. It is anticipated that the funds will first be expended from lease revenues deposited into the Mission Square Property Management Account. In the event there are not adequate funds in the Account, then funds will be expended from RPU Account No. 6000039230-42100006.

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:	Kristi J. Smith, Interim City Attorney

Attachments:

1. First Amendment to California Exclusive Authorization of Lease Agreement
2. Exclusive Authorization of Lease Agreement