



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: FEBRUARY 2, 2021

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1
DEPARTMENT

SUBJECT: SECOND AMENDMENT TO THE PROPERTY MANAGEMENT AGREEMENT WITH G&E REAL ESTATE MANAGEMENT SERVICES, INC. DOING BUSINESS AS NEWMARK KNIGHT FRANK, TO EXERCISE A FIVE-YEAR OPTION TO EXTEND THE PROPERTY MANAGEMENT SERVICES AGREEMENT FOR THE MISSION SQUARE OFFICE BUILDING LOCATED AT 3750 UNIVERSITY AVENUE FOR APPROXIMATELY \$433,000 OVER THE FIVE-YEAR TERM

ISSUE:

Approve a Second Amendment to the Property Management Agreement with G&E Real Estate Management Services, Inc., doing business as Newmark Knight Frank, to exercise a five-year option to renew the Property Management Services Agreement for the Mission Square Office Building located at 3750 University Avenue for approximately \$433,000 over the five-year term.

RECOMMENDATIONS:

That the City Council:

1. Approve the Second Amendment to the Property Management Agreement with G&E Real Estate Management Services, Inc., doing business as Newmark Knight Frank to exercise a five-year option to extend the Property Management Services Agreement for the Mission Square Office Building located at 3750 University Avenue in the approximate amount of \$433,000 over the five-year term; and
2. Authorize the City Manager, or his designee, to execute the Second Amendment to the Property Management Agreement, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BOARD RECOMMENDATION:

This report publishes on January 21, 2021 for the February 2, 2021 City Council meeting.

On January 25, 2021, the Board of Public Utilities will hear this item for consideration to recommend that City Council approve the Second Amendment to extend the Property Management Agreement with G&E Real Estate Management Services, Inc. doing business as

Newmark Knight Frank to exercise the option to renew for a term of five (5) years for the Mission Square Office Building located at 3750 University Avenue.

If the Board of Public Utilities approves to recommend this item to City Council, we respectfully request the City Council consider the item at the February 2, 2021 City Council 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 490-parking stall garage situated on approximately 2.5 acres of land.

On January 26, 2016, 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 coordinated 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. The Board approved the recommendation to City Council to approve a 5-year extension for broker services on December 22, 2020.

On January 26, 2016, City Council approved a Property Management Agreement (Agreement) with NKF to provide property management services for the Property, which expires on February 8, 2021. The Agreement provides the ability to extend for one additional five-year term until February 8, 2026. RPU staff has coordinated the property management process with the Community & Economic Development Department's Real Property Services Division and NKF as the building manager for the Property.

On January 7, 2020, City Council approved a First Amendment to the Property Management Agreement with NKF to amend the compensation and property management fee to include additional compensation to NKF 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.

DISCUSSION:

Property Management Agreement – Scope of Services

Under the Agreement, NKF is responsible for administration of all third-party leases, including tenant relation management and collection of rents, administration of all ongoing building operation and maintenance sub-contracts, production of a monthly building operating report, and coordination of building repairs. NKF is also responsible for payment of expenses, including but not limited to salaries of personnel required to manage, operate and maintain the Property, cost of repairs and utilities. A third-party property manager is essential to the operation of the Mission Square Building by greatly reducing the amount of time necessary for RPU staff to oversee the management responsibility of the Mission Square Building as a Landlord. Some examples of the critical services provided by NKF are as follows:

- NKF pays all the bills out of a trust account on the behalf of the City. It relieves the burden of having to hire additional City staff to operate the Property. This may include

additional staff for a Building Engineer, Project Manager, Property Manager, Assistant/Administrative staff, and Accounting personnel.

- NKF collects the rents from all tenants and provides a monthly operating report with financial accounting.
- NKF uses a property management accounting software system that manages the finances and accounting for the Mission Square Building. This software program would be an additional cost the City would need to incur along with accounting personnel if the City were to manage the Property on its own.
- NKF continues to provide support for all tenants including retail and office tenants on all building related issues. NKF responds to simple Tenant inquiries ranging from adjusting the temperature to requests such as emergency repairs for plumbing/water leaks.
- NKF is the first line of communication with Tenants to inform them of the timing and need for major repairs and maintenance and/or capital improvement projects. Recent examples include the Elevator Modernization, Parking Garage Improvements, and Cooling Tower Replacement.
- NKF has assisted with Project Management oversight for tenant improvement projects necessary to lease vacant space to new tenants. This has greatly helped with some of the new ground floor retail tenants such as Slaters 50/50 and the Donut Bar who needed guidance for installing grease interceptors to open their businesses.
- NKF has ensured that all Tenants and visitors in the Mission Square Building are complying with Covid-19 guidelines and enforces those guidelines.

The existing Property Management Agreement with NKF expires on February 8, 2021. This agreement was procured through a Request for Proposals process in which two responsive bids were received from top national property management firms. NKF's Property Management division delivers superior operations and services for all classes of commercial and investment properties worldwide. NKF provides property and facilities management services for more than 400 million square feet in the United States, Europe, Latin America, Asia-Pacific, the Middle East and Africa. NKF was selected as providing the best value property management service to the City. The existing Property Management Agreement allows for one five-year extension.

Given the expiration date of February 8, 2021 and that NKF is very familiar with all facets of the Mission Square Building and has done an excellent job of managing and operating the building, staff recommends granting the renewal to extend the Property Management Agreement for an additional five-year term to expire on February 8, 2026. Other than the five-year extension for time, there are no other changes to the original Agreement.

Financial terms of the agreement include a property management fee of 2% of the monthly gross revenues with a minimum fee of \$3,200 per month plus a Property Manager Salary allocation of \$4,013 per month, for a total management fee of \$7,213 per month. Staff believes the allocation of a portion of the property manager's salary in lieu of a straight cut of monthly gross revenue is appropriate based on the City's large owner-occupied percentage of the building and the desire to maintain the facility to a Class A building standard.

FISCAL IMPACT:

The Property Management Agreement in the approximate amount of \$433,000 for the five-year extension is included in the total estimated costs for the building and maintenance and operation in the Mission Square Property Management Account. However, in the event there are not adequate reserves in the Mission Square Property Management Account, then funds will be expended from the Electric Fund RPU Administration Account No. 6000030-421000 to cover the expenditures for the Property Management Agreement with NKF.

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

Attachment:	Second Amendment to Property Management Agreement
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