



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: SEPTEMBER 13, 2021

SUBJECT: SEVENTH AMENDMENT TO LEASE AGREEMENT WITH WELLS FARGO BANK, NATIONAL ASSOCIATION – MISSION SQUARE OFFICE BUILDING, 3750 UNIVERSITY AVENUE, SUITE 150 – FIVE YEAR TERM FOR \$1,329,473.40 IN REVENUE

ISSUE:

Consider recommending that the City Council approve a Seventh Amendment to Lease Agreement to extend the lease for an additional five-year term between Wells Fargo Bank, National Association and the City of Riverside for approximately 7,766 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 150.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that the City Council:

1. Approve the Seventh Amendment to the Lease Agreement with Wells Fargo Bank, National Association to extend the Lease Agreement for an additional five-year term from August 1, 2022 through July 31, 2027; and
2. Authorize the City Manager, or his designee, to execute the Seventh Lease Amendment, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BACKGROUND:

On October 13, 2015, the City acquired the Mission Square 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 with Newmark of Southern California, Inc. dba Newmark Knight Frank (NKF) for a five-year term to provide broker leasing services for the Property. On January 5, 2021, the City Council approved a First Amendment to California Exclusive Authorization of Lease Agreement with Newmark of Southern California, Inc., dba Newmark Knight Frank (NKF) which extended the Agreement through December 31, 2025. 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 broker for the Property.

On November 15, 2016, the City Council approved the Sixth Amendment to the Lease Agreement with Wells Fargo Bank, National Association, for 7,766 square feet of rentable space in the Mission Square Building located at 3750 University Avenue, Suite 150 for an additional five-year term which expires on July 31, 2022.

DISCUSSION:

Wells Fargo Bank, National Association (WFB) has been a tenant in the Property since 1987 when it was initially operating as First Interstate Bank, which was subsequently merged into WFB. The existing lease with WFB expires on July 31, 2022. Under the terms of the lease agreement, WFB has two remaining five-year options to renew through July 31, 2032.

WFB retained SVN Commercial Real Estate as its leasing broker to represent them in the renewal of their lease agreement. WFB through SVN expressed a desire to downsize but determined that it was not viable due to the office layout and diminution of useable space. The retention of the original space layout is desirable to the City as it avoids significant downtime and costs associated with finding new tenant(s). Additionally, WFB had been paying above market rent and will subsequently experience a decrease in their monthly base rent to a rate that represents the current fair market value. The City is represented by NKF, which negotiated on its behalf.

Staff has reviewed the proposed Seventh Amendment to Lease Agreement and recommends renewal under the terms summarized below:

1. **Term:** August 1, 2022 through July 31, 2027.
2. **Premises:** Approximately 7,766 rentable square feet of space located at 3750 University Avenue, Suite 150.
3. **Base Rent Schedule (Modified Gross Lease):**

Months	Monthly Base Rental Rate/Sq. Ft.	Monthly Base Rent	Annual Base Rent
8/1/2022 – 1/31/2025	\$2.75	\$21,357.00	\$256,284.00
2/1/2025 – 7/31/2027	\$2.96	\$22,958.78	\$275,505.36

4. **Tenant Improvements:** Landlord will grant Tenant a one-time tenant improvement allowance of \$10.00 per square foot not to exceed a total amount of \$77,660.00 for Tenant to make improvements to the space.
5. **Options to Renew:** Tenant will have two options to extend the lease for an additional five-years each at the prevailing market rent at the time of exercising the options to extend.
6. **Broker:** Pursuant to the existing Exclusive Authorization to Lease Agreement with NKF, City to pay NKF a leasing commission equal to 2.5% of the lease consideration in the amount of \$33,236.84, plus 2.0% of the lease consideration to Tenant's broker, SVC Commercial in the amount of \$26,589.47 for total leasing commissions of \$59,826.31 to be paid upon mutual execution of this Seventh Lease Amendment.
7. **Other:** All other terms of the original lease and subsequent six amendments shall remain unmodified and in full force.

STRATEGIC PLAN ALIGNMENT:

This item contributes to the Envision Riverside 2025 City Council Strategic Priority 3 – Economic Opportunity and Goal 3.3 – Cultivate a business climate that welcomes innovation, entrepreneurship, and investment.

The item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The City conducted business with transparency and good faith. By bringing the Agreement before the Board of Public Utilities, the City is providing a space for open dialogue between the Board and community stakeholders regarding all lease terms.
2. **Equity** – The City acted with inclusion and is adhering to lease terms for renewal options. Additionally, the City is ensuring that business conducted by WFB provides equal access and benefits that all members of the community can utilize.
3. **Fiscal Responsibility** – The City being a prudent steward of public funds, negotiated in good faith and the lease rates are consistent with the current fair market value for comparable commercial space.
4. **Innovation** – The City recognizes the need for accessible financial institutions to community stakeholders. This City will continue to be cognizant of the community's changing needs and will continue to be adaptive to the future by engaging in collaborative partnerships.
5. **Sustainability & Resiliency** – Committed to the needs of community stakeholders, the City is devoted to identifying, attracting, and retaining businesses that assist the community to preserve, adapt, and grow during a diverse array of economic cycles.

FISCAL IMPACT:

The lease revenue over the five-year term will generate an estimated \$1,329,473.40. All revenue will be deposited into the Mission Square Building Property Management Trust Account controlled by RPU and used to pay operating expenses for the Property, including the lease commission of \$33,236.84 to NKF and \$26,589.47 to SVN for this transaction.

Prepared by:	David Welch, Community & Economic Development Director
Approved by:	Todd M. Corbin, Utilities General Manager
Approved by:	Al Zelinka, FAICP, City Manager
Approved as to form:	Phaedra A. Norton, City Attorney

Certifies availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
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Attachments:

1. Seventh Amendment to Lease Agreement – Wells Fargo Bank
2. Presentation