



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: SEPTEMBER 5, 2023

FROM: PUBLIC UTILITIES DEPARTMENT WARD: 1

SUBJECT: FOURTH AMENDMENT TO LEASE AGREEMENT WITH VARNER AND BRANDT, LLP – MISSION SQUARE OFFICE BUILDING, 3750 UNIVERSITY AVENUE, SUITE 610, FOR APPROXIMATELY 15,260 SQUARE FEET OF RENTABLE SPACE – 72-MONTH TERM FOR \$2,851,392.50 IN REVENUE

ISSUE:

Consider approval of a Fourth Amendment to Lease Agreement - with Varner and Brandt, for a 72-month term with two options for five-year extensions, for approximately 15,260 square feet of rentable space located at Mission Square Office Building, 3750 University Avenue, Suite 610.

RECOMMENDATIONS:

That the City Council:

1. Approve the Fourth Amendment to the Lease Agreement with Varner & Brandt, LLP; and
2. Authorize the City Manager, or designee, to execute the Fourth Amendment to the Lease Agreement including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BOARD RECOMMENDATION:

On July 24, 2023, the Board of Public Utilities, with Board Member Crohn absent, unanimously voted to recommend that City Council approve a Fourth Amendment to the Lease Agreement with Varner and Brandt, for a 72-month term with two options for five-year extensions, for approximately 15,260 square feet of rentable space located at Mission Square Office Building, 3750 University Avenue, Suite 610.

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). 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 January 24, 2017, a Third Amendment to the Lease Agreement with Varner and Brandt, LLP was approved by the City Council with an Effective Date of February 15, 2017.

DISCUSSION:

Varner & Brandt, LLP, has been a tenant in the Property since 1998 when it was initially operating as Varner, Saleson & Dobler, LLP, which was subsequently merged into Varner & Brandt, LLP. The existing lease with Varner and Brandt expired on February 28, 2022. Under the terms of the Fourth Amendment to the Lease Agreement, Varner and Brandt is proposing to expand and occupy into 1,324 of Suite 600 which is currently occupied by Morgan Stanley.

Staff has reviewed the proposed Fourth Amendment to the Lease Agreement and recommends approval. The basic deal points of the proposed Fourth Amendment are summarized below:

- 1) Term: March 1, 2022 to December 31, 2028. For the period of March 1, 2022 through December 31, 2022, Lessee has continued to pay rent after the expiration date of their lease agreement.
- 2) Commencement Date: January 1, 2023.
- 3) Options to Extend: Lessee will have two (2) options to extend the New Lease Term for the entire Premises for a period of five (5) years each at the expiration of the New Term. Lessor will inform by written notice to Lessee 180 days prior to lease expiration.
- 4) Base Rent: For months 1 through 12 of the Lease term, the monthly base rent shall be \$2.70 per square foot per month times the actual square footage of space as measured by Landlord upon Delivery of Possession to Tenant. The base rent will continue to be increased by 3% annually as shown in the table below. In addition, the Lessee's parking rate will be added to the base rent and the Tenant will pay an initial parking charge of Twenty-Two point Five Cents (\$0.225) per square foot as further described below. All other terms shall remain in place.

Base Rent Schedule:

Period	Monthly Base Rent
January 1, 2023 – Expansion Rent Commencement Date <i>or</i> <i>December 31, 2023, whichever is earlier</i>	\$37,627.20
<i>If Expansion Commencement Date occurs in the Calendar Year 2023,</i> <i>then Expansion Rent Commencement Date – December 31, 2023</i>	\$41,202.00
<i>If Expansion Commencement Date occurs in Calendar Year 2024,</i> <i>then January 1, 2024 – Expansion Commencement Date</i>	\$38,756.02
<i>If Expansion Commencement Date occurs in the Calendar Year 2024,</i> <i>then Expansion Commencement Date – December 31, 2024</i>	\$42,438.00
January 1, 2025 – December 31, 2025	\$43,711.00
January 1, 2026 – December 31, 2026	\$45,022.00
January 1, 2027 – December 31, 2027	\$46,373.00
January 1, 2028 (expiring on December 31, 2028)	\$47,764.00

- 5) Concession: Lessor grants Lessee a total of seven and one quarter (7.25) months of free rent.
- 6) Parking: Lessee will be allowed up to sixty-three (63) total parking spaces in the parking structure attached to the Project. The cost of the initial parking spaces which includes 30 reserved at \$135.00 per stall and 11 unreserved spaces at \$70.00 per stall, (“Initial Parking Spaces”) shall be included in the Base Rental Rate.
- 7) Tenant Improvements: Lessor shall perform all work necessary to provide and grant expansion of the Current Premises into the Expansion Premises to-suit per a mutually acceptable floorplan using Class A finishes including:
 - Constructing a new demising wall and opening up certain additional space in Current Premises.
 - Connect all services but not limited to HVAC, power and other utilities between Current Premises and Expansion Premises.
 - Improvements shall include new flooring and renovating the breakrooms throughout Current Premises.
 - Lessor will incur the costs of a space planner to design the space, prepare construction drawings, and obtain all required permits from the City of Riverside, as outlined in Section 2 of the Amendment.
 - Not to exceed \$1,500,000 paid by Lessor.
- 8) Base Year: The Base Year will be reset to the calendar year 2023.
- 9) Signage: Lessor will seek to obtain a release of signage rights that were previously granted to Morgan Stanley. Should Lessor obtain those rights, Lessee will be responsible for all costs associated with any new signage to the Building.
- 10) Right of First Refusal: Lessee has been granted the Right of First Refusal on any office space that becomes available on the 6th floor. This is not a one-time offer, it will be extended to Lessee any time a space becomes available on the 6th floor for the duration of the term.
- 11) Broker: Pursuant to the existing Exclusive Authorization to Lease Agreement with NKF,

City to pay Lee & Associates (Tenant's broker) a fee equal to 4% of the lease consideration for years 1 through 5 and 2% of the lease consideration for year 6 in the amount of \$102,592 and NKF (landlord's broker) a leasing commission equal to 2.5% of the lease consideration for years 1 through 5 and 1.25% of the lease consideration for year 6 in the amount of \$64,120 for a total commission of \$166,712.

- 12) Other: All other terms of the Lease between the parties which are not inconsistent with the terms of the First, Second and Third Amendment, shall remain in full force and effect as if fully set forth herein.

The Community and Economic Development Department Director concurs with the recommendations in this report.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **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 Varner and Brandt 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 small businesses 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 total fiscal impact of the lease revenue over the 72-month term will generate an estimated gross revenue of \$2,851,392.50. 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 a total lease commission of \$166,712 to NKF and Lee & Associates.

Prepared by: Todd M. Corbin, Utilities General Manager
Certifies availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Fourth Amendment to Lease Agreement – Varner & Brandt, LLP
2. Presentation