



City of Arts & Innovation

City Council Memorandum

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

FROM: PUBLIC UTILITIES DEPARTMENT WARD: 1

SUBJECT: SIXTH AMENDMENT TO LEASE AGREEMENT WITH MORGAN STANLEY SMITH BARNEY FINANCING LLC – MISSION SQUARE OFFICE BUILDING, 3750 UNIVERSITY AVENUE, SUITE 600 – TO EXTEND THE LEASE FOR AN 18-MONTH TERM FOR APPROXIMATELY \$310,368 IN REVENUE

ISSUE:

Consider approval of a Sixth Amendment to Lease Agreement to extend the lease for an 18-month term with an option to extend for an additional five-year term between Morgan Stanley Smith Barney Financing LLC and the City of Riverside for approximately 5,738 square feet of rentable space in the Mission Square Office Building located at 3750 University Avenue, Suite 600.

RECOMMENDATIONS:

That the City Council:

1. Approve a Sixth Amendment to the Lease Agreement with Morgan Stanley Smith Barney Financing LLC to extend the Lease Agreement for an additional 18-month term from September 1, 2025 to February 28, 2027 with an option to extend for an additional five-year term; and
2. Authorize the City Manager, or designee, to execute the Sixth 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 Sixth Amendment to the Lease Agreement with Morgan Stanley Smith Barney Financing LLC to extend the Lease Agreement for an additional 18-month term from September 1, 2025 to February 28, 2027 with an option to extend for an additional five-year term.

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 in downtown Riverside.

On January 26, 2016, 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 October 7, 2015, a Fifth Amendment to the Lease Agreement with Morgan Stanley Smith Barney, LLP was approved with an Effective Date of August 1, 2015.

DISCUSSION:

Morgan Stanley Smith Barney has been a Tenant in the Property since 1999 and the current Agreement expires on August 31, 2025.

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

1. Term: September 1, 2025 to February 28, 2027.
2. Premises: Approximately 5,738 rentable square feet (sf) of space located at 3750 University Avenue, Suite 600.
3. Base Rent Schedule:

Period	Monthly Base Rent
09/1/2025 – 09/31/2025	\$0.00 (Abated Rent)
10/1/2025 – 08/31/2026	\$18,074.70
9/1/2026 – 02/28/2027	\$18,591.12

4. Reduction of Premises: Lessee is surrendering a portion of the existing premises which consists of approximately 1,324 rentable square feet. Lessee current rentable square footage is 7,062, and the Premises will be downsized to a total of 5,738 sf.
5. Lessee's Proportionate Share: Effective as of the Retained Premises Effective Date Lessee's Share of Operating Expense Increase shall be reduced to 4.6%.
6. Base Year: Effective as of the Extended Term Commencement Date (i.e., September 1, 2025), the term "Base Year" as defined in Section 4.2(b) of the Lease is adjusted to

calendar year 2026.

7. Lessor's Work: (a) Lessor, at its sole cost and expense, shall be responsible for the permitting, performance and completion of all work associated with Lessee's surrender of the Surrender Space and continued occupancy of the Retained Space (as shown in Exhibit A.)
8. Lessor's Work: (b) Without limiting the generality of the foregoing description of Lessor's Work, Lessor's Work shall also include the following, at Lessor's sole cost and expense and may be accomplished through an agent:
 - a. Reconfigure and provide new reception area as shown on Exhibit A within the Retained Premises with finishes and standards approved by Lessee to match Lessee's finish palette.
 - b. Install and finish a demising wall to separate Lessee's Retained Premises from the Surrender Space.
 - c. Install a new single door entry into the Retained Premises.
 - d. Separate the lighting, HVAC, electrical and fire/life safety systems and components as necessary to comply with applicable laws (including but not limited to revisions to Building systems affected by the change in egress).
 - e. Convert one (1) large office into two (2) offices as shown in Exhibit A within the Retained Premises and in accordance with plans and drawings approved by Lessee.
 - f. Extend demising walls of the Retained Premises only to the underside of the deck above and patch ceiling within Retained Premises (with matching ceiling tiles) where required (which may require relocating mechanical, electrical, and plumbing ("MEP") systems that impede construction of the demising wall).
 - g. Provide Level 4 finish to only the affected walls within the Retained Premises, and Lessor shall finish such noted areas of the Retained Premises with minimal imperfections and in a condition ready to apply paint or wall covering.
 - h. Coordinate with Lessee's project management team prior to furniture removal from the Surrender Space and/or Retained Premises as needed to minimize any disruption of Lessee's conduct of business and coordinate with Lessee regarding low voltage cabling relocation and disconnect as needed.
 - i. Perform and complete all improvements, installation of fixtures, alterations and other components of Lessor's Work in compliance with all applicable laws, codes and regulations (including ADA compliance throughout the Retained Premises), obtain necessary municipality approvals for Lessor's Work, and perform all Lessor's Work in compliance with Title 24 in the Retained Premises (including without limitation, the new smaller offices being constructed).
 - j. Perform and complete all work after hours and, as reasonable, work diligently to avoid any disruption to Lessee's conduct of business.
 - k. Obtain all requisite governmental or municipal permits, inspections, and approvals for all Lessor's Work, along with an amended certificate of occupancy for the Retained Premises upon completion of Lessor's Work. Lessor shall deliver a copy of the certificate of occupancy for the Retained Premises to Lessee immediately upon receipt thereof. Lessor acknowledges and agrees that Lessee shall continue in occupancy of the Retained Premises for the conduct of business during performance of Lessor's Work. Lessor's receipt of such governmental approvals and certificate of occupancy shall in no event be deemed a minor punch list item.

9. Parking: Lessee shall be entitled to rent and use up to a total of twenty-three (23) parking spaces one (1) time per year, upon sixty (60) days' advance written notice to Lessee.
10. Signage: Lessee has an existing right to install building-top signage on the Building ("Building-Top Signage") in the location referenced in Section 10 of the Fourth Amendment and identified on Exhibit B to the Fourth Amendment ("Building-Top Signage Location"). Lessee has not exercised its right to such Building-Top Signage. Lessee agrees to exchange its right to the current Building Top-Signage Location, for the right to install its exterior Building signage (Lessee's "New Building Top and Eyebrow Signage") in the two alternate signage locations identified on Exhibit B, attached hereto, and identified as locations "1 "and "2" (the "Building's Signage Locations").
11. Options to Renew: One five-year option to extend from March 1, 2027 to February 29, 2032.
12. Broker: Pursuant to the existing Exclusive Authorization to Lease Agreement with NKF, City to pay Jones Lang LaSalle (JLL) Tenant's broker a fee equal to 4% of the lease consideration in the amount of \$12,415 and NKF a leasing commission equal to 2.5% of the lease consideration in the amount of \$7,759 for a total commission of \$20,174.
13. Other: All other terms of the original lease, the First, Second, Third, Fourth and Fifth Amendment shall remain unmodified and in full force.

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 Morgan Stanley Smith Barney 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 eighteen-month term will generate an estimated \$310,368 in revenue. 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 \$20,174 (\$12,415 to JLL (Tenant's Broker) and \$7,759 to NKF (Landlords Broker).

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. Sixth Amendment to Lease Agreement – Morgan Stanley Smith Barney Financing LLC
2. Presentation