



*City of Arts & Innovation*

# City Council Memorandum

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**TO:** HONORABLE MAYOR AND CITY COUNCIL      **DATE:** SEPTEMBER 17, 2024

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

**SUBJECT:** THIRD AMENDMENT TO COMMERCIAL LEASE AGREEMENT WITH RODNEY DANIELSON, STANDING CHAPTER 13 TRUSTEE, TO REVISE TERMINATION CLAUSE AND TO REDUCE RENTAL AMOUNT AND ANNUAL INCREASE FOR THE LAST THREE YEARS OF THE FIVE-YEAR LEASE ENDED AUGUST 31, 2024, REDUCING REVENUE BY \$87,975.30.

**ISSUE:**

Approve the Third Amendment to Commercial Lease Agreement with Rodney Danielson, Standing Chapter 13 Trustee, to revise termination clause and to reduce rental amount and annual increase for the last three years of the five-year lease ended August 31, 2024, reducing revenue by \$87,975.30.

**RECOMMENDATIONS:**

That the City Council:

1. Approve the Third Amendment to Commercial Lease Agreement (Attachment 1 – Agreement) with the Rodney Danielson, Standing Chapter 13 Trustee, to revise termination clause and to reduce the rental amount and annual increase, reducing revenue by \$87,975.30;
2. Direct staff to return to City Council with an amended lease contract with Rodney Danielson, Standing Chapter 13 Trustee for future years beginning September 1, 2024; and
3. Authorize the City Manager, or his designee, to execute the Agreement with Rodney Danielson, Standing Chapter 13 Trustee, including making minor and non-substantive changes.

**BACKGROUND:**

On April 18, 2012, City of Riverside (City), entered into a 5-year Commercial Lease Agreement with Rodney Danielson, Standing Chapter 13 Trustee (Tenant) for leased space in Garage 3 located at 3750 Market Street. This item was approved in Closed Session on September 6, 2011.

On May 22, 2017, City and Tenant entered into a First Amendment to the Commercial Lease Agreement extending the agreement an additional two years.

On August 7, 2019, City and Tenant entered into a Second Amendment to the Commercial Lease Agreement extending the agreement an additional five years. This item was approved in Closed Session on April 23, 2019.

On August 16, 2022, staff requested approval to reduce the rental amount by \$0.45 per square foot and annual increase from 4% to 3%. These terms were approved in Closed Session.

### **DISCUSSION:**

Rodney Danielson, Standing Chapter 13 Trustee, has been a tenant at Garage 3 located at 3750 Market Street since 2012. Mr. Danielson is requesting a rent reduction due to numerous factors including the impact of the COVID-19 pandemic had on his business. His current lease will expire on August 31, 2024. Mr. Danielson has been a long-term tenant and has indicated that he would like to extend his lease beyond August 31, 2024. The office space he is leasing is 6,018 sf, which is unusually large and uncommon for one tenant to occupy. However, significant resources, planning and expenses would be required to sub-divide the office space, modify the HVAC, electrical and lighting to make the property useable and attractive to a larger pool of potential tenants.

At the time this item was approved in Closed Session on August 16, 2022, the rental payment on the Agreement was \$16,274.43 per month (\$2.70/sf). Mr. Danielson requested to reduce his rental payment to \$11,735.10 per month (\$1.95/sf). Staff researched the market using comparables from CoStar and found that the market supported a range of rental values from \$1.20/sf to \$3.00/sf for Class B space. Class B was chosen due to Garage 3 not being a “high-end”, new, highest quality building that would attract the highest quality tenants as a Class A space but it’s not on the lower side of Class C where the building is in much need of renovation and targeted for redevelopment opportunities. Also, the Termination Clause of the Commercial Lease stated, “Landlord and Tenant acknowledge and agree that all of the covenants and terms of this Lease are conditions of this Lease and that any default of Tenant or Landlord in fulfilling any of the same may allow the aggrieved party at its option to forfeit and terminate this Lease.”

Staff negotiated a reduction from \$2.70/sf to \$2.25/sf and a reduction to the annual increase from 4% to 3%, which is the City’s standard rate for the last three years of the Agreement. Additionally, the Termination Clause was revised to state, “Landlord and Tenant each have a right to terminate this lease prior to the Expiration Date by providing the other party with six (6) months; prior written notice.”

Staff have determined that these terms are fair, equitable and cultivate a good business relationship for both parties.

The Public Works Department concurs with the recommendations in this report.

### **STRATEGIC PLAN ALIGNMENT:**

This item contributes to the Envision Riverside 2025 City Council Strategic **Priority No. 3 – Economic Opportunity**, specifically **Goal 3.1** – Facilitate partnerships and programs to develop,

attract, and retain innovative business sectors.

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

1. **Community Trust** – The City is transparent and makes decisions based on sound policy and inclusive community engagement with timely and reliable information. By approving the Agreement at City Council, the City serves the public interest with benefits to the City's diverse populations that results in greater public good.
2. **Equity** – The City is supportive of racial, ethnic, religious, sexual orientation, identity, geographic, and other attributes of diversity. Approving the Agreement demonstrates that the City is committed to advancing the fairness of treatment, recognition of rights, and equitable distribution of services to ensure every member of the community has equal access to share in the benefits of community progress.
3. **Fiscal Responsibility** – The City is a prudent steward of public funds and ensures responsible management of the City's financial resources while providing quality public services to all. Approving the Agreement allows a long-term tenant to remain in its occupied space and cultivates an atmosphere to negotiate a lease renewal.
4. **Innovation** – The City is inventive and timely in meeting the community's changing needs. By approving the Agreement, it demonstrates that the City prepares for the future through collaborative partnerships and adaptive processes.
5. **Sustainability & Resiliency** – The City is committed to meeting the needs of the present without compromising the needs of the future. Approving the Agreement ensures that the City's capacity to persevere, adapt, and grow during good and difficult times alike.

## **FISCAL IMPACT:**

The total fiscal impact of the action is an \$87,975.50 reduction in lease revenue in the Public Parking Fund. The reduction to revenue will be in Fiscal Year 2024/25 and will be accounted for and adjusted by Parking Services and the Finance Department. Revenue adjustments will be made in the Public Parking Fund - Garage 3 Office Lease account 0000570-322260.

Prepared by:	Sheryn Smay, Supervising Real Property Agent
Approved by:	Jennifer A. Lilley, AICP, Community & Economic Development Director
Certified as to 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. Third Amendment to Commercial Lease
2. Presentation