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CITY OF LONG BEACH

DEPARTMENT OF ECONOMIC DEVELOPMENT

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April 17, 2018

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute all documents necessary for the First Amendment to Lease No. 29263 with CDCF III Pacific Catalina Landing Long Beach, LLC, a Delaware limited liability company, for City-owned property generally located at 310-340 Golden Shore Avenue, commonly known as Catalina Landing, to extend the term of the Lease by 16 years, for a new expiration date of April 28, 2084. (District 2)

DISCUSSION

Catalina Landing is located at 310-340 Golden Shore Avenue in Downtown Long Beach. The property includes four office buildings, a parking structure, and an enclosed boat basin and landing facility adjacent to the office buildings. The property was developed under a previous ground lease with Crowley Development Corporation.

On June 27, 2000, the City Council authorized the execution of a new Lease No. 29263 (Lease), with John Hancock Realty Investment, successor-in-interest to Crowley Development Corporation. The Lease was subsequently assigned to AC-Catalina Landing, LLC, on June 25, 2002. In January of 2015, Bank of America acquired the leasehold interest through a foreclosure sale. On August 8, 2015, upon purchase, the Lease was assigned to the current lessee, CDCF III Pacific Catalina Landing Long Beach, LLC (Tenant).

The Lease established rental rates with five-year adjustments based on Consumer Price Index (CPI), while limiting that amount not to exceed 16 percent cumulative adjustment over that five-year timeframe. The ground rent under the existing terms of the Lease is currently \$1,166,400 per year, and the Lease runs through April 28, 2068.

The current Tenant has begun an ambitious and innovative Capital Improvement and Asset Enhancement Program with an estimated investment of over \$15,000,000 through 2021. The improvements will include structural and place-making improvements to the promenade, elevator and restroom; solar and battery projects; LED retrofits; electric vehicle charging stations; improved suites and common areas; landscape improvements; monument and wayfinding signage; murals and bikeshare enhancements; free public Wi-Fi; and, more. To encourage and support this level of investment, the Tenant has requested a lease extension of 16 years for a new lease expiration date on April 28, 2084.

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Notable subtenants at Catalina Landing currently include Aquarium of the Pacific, the Trustees Office of California State University, Catalina Express, and numerous law firms.

In considering this proposal, City staff evaluated the future value of the extended term based on expected cash flows, and took into consideration the lack of fair market value adjustments in the current Lease. To that end, City staff negotiated for a lease extension rental fee and other considerations for the net present value of the extended term, and for the inclusion of fair market value rental adjustments throughout the lease term.

The proposed First Amendment to Lease No. 29263 has been negotiated containing the following major amended terms and conditions:

- Landlord: City of Long Beach, a municipal corporation.
- Tenant: CDCF III Pacific Catalina Landing Long Beach, LLC, a Delaware limited liability company.
- Lease Term: The Lease is currently set to expire on April 28, 2068. The term shall be extended for an additional 16 years through April 28, 2084.
- Fair Market Rental Adjustments: On May 1, 2043 and on May 1, 2068, rent shall be adjusted to reflect the fair market value of the premises based on the existing use and improvements. Fair market value will be determined by appraisals prepared by two appraisers, one each completed by Landlord and Tenant, with provisions providing for standard methodology and potential discrepancy.
- Extension Fee: Tenant shall make a one-time lump sum payment to Landlord in the amount of \$1,900,000 due upon execution of the First Amendment.
- Wayfinding Fee: Tenant shall make a one-time lump sum payment to Landlord in the amount of \$250,000 to be used exclusively by Landlord to install and/or upgrade gateway/wayfinding signage and improvements to the general vicinity of the leased premises.

All remaining terms of Lease No. 29263 shall remain in full force and effect.

The City's fiscal consultant, Keyser Marston Associates (KMA), reviewed the proposed amended terms and associated financial assumptions and supports approval of the above.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and by Budget Analysis Officer Julissa José-Murray on March 19, 2018.

TIMING CONSIDERATIONS

City Council action is requested on April 17, 2018, to finalize and execute the First Amendment to Lease No. 29263 in a timely manner.

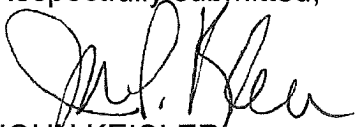
FISCAL IMPACT

Annual revenues from base rent on the Lease of approximately \$1,166,400 will continue to accrue in the Tidelands Operations Fund (TF 401) in the Economic Development Department (ED). The base rent will continue as per the existing rent provisions under the Lease. The base rent includes a CPI adjustment to the established rental rates every five years, and under the proposed amendment will also include fair market value adjustments in 2043 and 2068. Per the Economic Development Department consultant's evaluation, the value of the extension of this lease is estimated at \$1.9 million. Under the terms of the new amendment, a one-time lease extension fee of \$1.9 million will be paid to the City by the Tenant. Additionally, a one-time payment of \$250,000 will be made by the Tenant for the installation and/or upgrading of wayfinding signage and improvements near the leased premises. A total of \$2,150,000 in one-time revenue will be received and deposited in the Tidelands Operations Fund. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN KEISLER
DIRECTOR OF ECONOMIC DEVELOPMENT

JK:JMV

APPROVED:



PATRICK H. WEST
CITY MANAGER