



CITY OF LONG BEACH

R-35

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

September 19, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the Third Amendment to Lease No. 23509 with BANCAP Marina Center, Inc., a California corporation, for City-owned property at 241 - 255 Marina Drive to decrease the annual base rent to \$360,000 and increase the percentage rent to 75 percent. (District 3)

DISCUSSION

On February 1, 1994, the City Council approved Master Lease No. 23509 between the City and BANCAP Marina Center, Inc., (BANCAP), for the remodeling, renovation and management of City-owned property and improvements at 241 - 255 Marina Drive (Site). The Master Lease provides for a 25-year term and will expire on June 30, 2019. The Site (see Exhibit "A") is fully occupied with the following subtenants: Stan Miller Yachts (boat broker); Seal Beach Yacht Club (social club); Stoll Engine (Marine engine sales); Alan Andrews (custom yacht design); West Marine Products (marine hardware sales); Scuba Duba (a boat hull cleaning and maintenance service); and the Schooner or Later Restaurant.

In 1995, BANCAP completed the remodeling and renovation of the Site at a cost of approximately \$1,850,000. The Master Lease allowed these costs to be recouped by BANCAP in the form of a rent credit. The annual base rent was set at \$100,000 and was scheduled to increase to \$400,000 per year following the full amortization of the project costs, which occurred in October 2005. In January 2007, the annual base rent will increase four percent to \$416,000. In January 2008, the annual base rent will again increase four percent to \$432,460 and remain at this amount through the end of the term of the lease. In addition to annual base rent, BANCAP also provides annual percentage rent equal to 70 percent of its net operating income (NOI). The City anticipates receiving approximately \$30,000 in percentage rent for FY 2006.

Subtenants' business has not increased at the rate anticipated in 1994, resulting in lower than expected NOI for the Site. Consequently, the project has become uneconomical due to the recent significant increase in the annual base rent. In order to

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allow for continued successful operation of the Site, staff is recommending a reduction in the annual base rent and an increase in the annual percentage rent. This will allow BANCAP to more accurately budget for proper operation and management of the Site and allow the City to participate at a higher level in any future success of the project. As contemplated, the current annual base rent of \$400,000 would be reduced 10 percent to \$360,000 effective September 1, 2006. Effective September 1, 2007, annual base rent would increase four percent to \$374,400. Effective September 1, 2008 annual base rent would increase four percent to \$389,376 through the end of the term of the lease. In addition, annual percentage rent payments would increase to 75 percent effective September 1, 2006.

The terms and conditions of the proposed Third Amendment are as follows:

- Base Rent: Effective September 1, 2006, the annual base rent of \$400,000 (\$33,333 per month) will be reduced to \$360,000 (\$30,000 per month) effective September 1, 2007, annual base rent shall increase four percent to \$374,400 (\$31,200 per month). Effective September 1, 2008, annual base rent shall increase to \$389,376 (\$32,448 per month) for the remainder of the term of the lease.
- Percentage Rent: Effective September 1, 2006, annual percent rent payments will be increased to 75 percent for the remainder of the term of the lease.
- Insurance: Insurance requirements will be updated as required by Risk Management.

This letter was reviewed by Deputy City Attorney Donna F. Gwin on August 17, 2006 and Budget Management Officer David Wodynski on September 6, 2006.

TIMING CONSIDERATIONS

City Council action is requested on September 19, 2006 in order to execute the Third Amendment (to be effective September 1, 2006) in a timely manner.

FISCAL IMPACT

Minimum annual revenues of \$360,000 for FY 07 will accrue to the Tidelands Fund (TF 403) in the Department of Community Development (CD).

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SUGGESTED ACTION:

Approve recommendation.

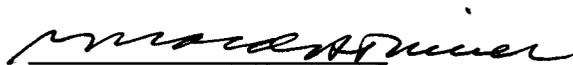
Respectfully submitted,



PATRICK H. WEST
DIRECTOR OF
COMMUNITY DEVELOPMENT

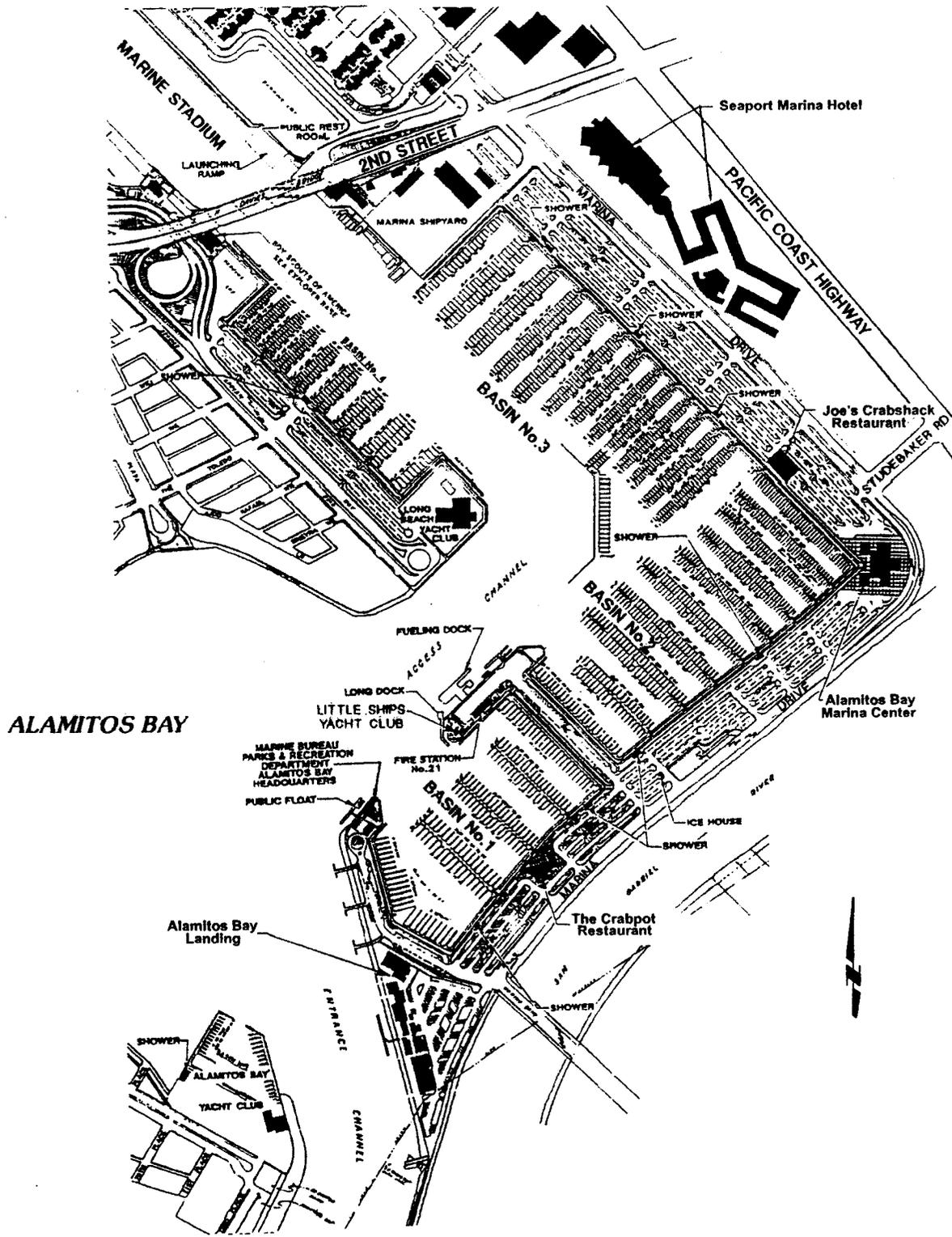
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Attachment: Exhibit "A" – Alamitos Bay Marina
9.19.06 CC Ltr BANCAP

APPROVED:



GERALD R. MILLER
CITY MANAGER

EXHIBIT "A"



CITY OF LONG BEACH - CALIFORNIA
DEPARTMENT OF PUBLIC WORKS, ENGINEERING BUREAU

VICINITY MAP
ALAMITOS BAY MARINA
BASINS 1,2,3