

C-12

May 5, 2020

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute all documents necessary for the Second Amendment to Lease No. 29143 with Cal Art Design Group, Inc., dba Malibu Ceramic Works, for City-owned property at 903 Fairbanks Avenue. (District 1)

DISCUSSION

On May 24, 2005, the City Council authorized the execution of Lease No. 29143 (Lease) with Cal Art Design Group, Inc., dba Malibu Ceramic Works (Tenant), for its tenancy of 903 Fairbanks Avenue (Premises) for the production and sale of commercial and residential tile and terra cotta products. The 1.22-acre Premises, which was originally purchased by the City of Long Beach (City) for the Drake/Chavez Greenbelt Project (Greenbelt Project), includes a single-story industrial building and employee parking lot. Malibu Ceramic Works was the tenant at the time of acquisition and the Lease allowed them to continue their tenancy on a month-to-month basis, until the commencement of the Greenbelt Project.

The first phase of the Greenbelt Project was opened in 2017, but additional funding for expansion to the Premises has yet to be identified. Concurrently, the Public Works Department identified a symbiotic use for the Premises, through its incorporation into the Long Beach Municipal Urban Stormwater Treatment (LB-MUST) project. LB-MUST, which proposes to improve water quality by intercepting and treating stormwater runoff normally discharging into the Los Angeles River, will require the demolition of the Premises to make way for the construction of a coastal wetland habitat area that is connected to the treatment facility located across the street. LB-MUST is scheduled to begin construction in 2021.

In early 2019, the Economic Development Department (ED) began discussions with the Tenant to negotiate a termination of the Lease. The Tenant is a longstanding local business with approximately 40 employees. In an effort to mitigate the anticipated impact that the termination of the Lease may have on the Tenant and to facilitate the Tenant's successful relocation, ED has negotiated an Amendment that will provide for an amicable termination of the Lease on or before December 31, 2020; and provide the Tenant with an abated rent for the remainder of its tenancy to facilitate its relocation to another space. Therefore, a Second Amendment to the Lease is required to memorialize changes to the Term and Rent sections of the Lease.

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ED has negotiated an Amendment to the Lease, which contains the following amended terms and provisions:

- Landlord: City of Long Beach, a municipal corporation.
- Tenant: Malibu Ceramic Works, a California corporation.
- Amended Term: The Lease will continue to be month-to-month through December 31, 2020 (Lease Termination Date). Tenant may vacate the Premises sooner than the Lease Termination Date, at its discretion. However, in no event, will the Term of the Lease extend beyond the Lease Termination Date.
- Amended Rent: Retroactive to February 1, 2020, and continuing through September 1, 2020, Tenant will pay an abated monthly Rent of \$500, which represents a 93 percent reduction in Rent over the current monthly Rent of \$7,500. Effective October 1, 2020, if Tenant provides Landlord with proof of tenancy or future pending tenancy at a new location, then Tenant will continue to pay a monthly Rent of \$500 for the months of October, November, December, until vacated. If Tenant is unable to provide the City with proof of tenancy or future pending tenancy at a new location on or before October 1, 2020, then monthly Rent will increase to \$2,500 for the months of October, November and December.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on April 2, 2020 and by Budget Management Officer Rhutu Amin Gharib on April 14, 2020.

TIMING CONSIDERATIONS

City Council action is requested on May 5, 2020, to execute the Second Amendment to the Lease.

FISCAL IMPACT

The amended lease will provide the tenant an abated rent from a monthly rate currently at \$7,500 to a reduced rate of \$500 a month, retroactive to February 1, 2020 through September 1, 2020. The recommended action will result in a minimum revenue shortfall of \$56,000 in Fiscal Year 2020 (FY 20) to the General Fund Group in the Parks, Recreation and Marine Department. The revenue shortfall may increase if the Tenant successfully vacates the property prior to September 2020. The lease will terminate on December 31, 2020 and any rent paid in FY 21 will be determined by the tenant's ability to successfully vacate the property early or provide the City proof of tenancy or future pending tenancy at a new location. This recommendation has no staffing impact beyond the budgeted scope of duties and is consistent with existing City Council priorities. The recommended action may result in the loss of approximately 40 local jobs, however, the exact amount is unknown at this time, as the Tenant may be able to secure tenancy elsewhere.

SUGGESTED ACTION

Approve recommendation.

Respectfully submitted,



JOHN KEISLER
DIRECTOR OF
ECONOMIC DEVELOPMENT



STEPHEN P. SCOTT
INTERIM DIRECTOR OF
PARKS, RECREATION AND MARINE

APPROVED:



THOMAS B. MODICA
CITY MANAGER