



Legislation Text

File #: 23-0731, **Version:** 2

Recommendation to authorize City Manager, or designee, to execute the Second Amendments to the Leases for Parcels 4, 5, and 6 of Map No. 17454 with 4900 Long Beach Office, LLC, a Delaware limited liability company, a single purpose entity wholly owned by Starwood Property Trust, Incorporated, for City-owned property at the Long Beach Airport Business Park at 4900 and 4910 Airport Plaza Drive. (Districts 4,5)

Levine Act: Yes

On April 21, 1981, the City Council authorized the execution of Master Lease No. 15383 with Long Beach Airport Business Park, a California general partnership (Developer), composed of Signal Development Corporation and Carlton Browne and Company, Inc., for the development of the Long Beach Airport Business Park (Business Park) on City-owned property at the southeast corner of Lakewood Boulevard and Spring Street. The Master Lease provided for a 50-year term with a termination date of July 7, 2032.

The Business Park was divided into 16 parcels, each with its own lease, which mirror the Master Lease. The Developer constructed the improvements, acquired subtenants, and subsequently assigned the leasehold interest in the parcels, thus creating multiple master tenants. There are currently nine master tenants in the Business Park. The approximately 45-acre Business Park is composed of eight multi-story buildings containing approximately 842,000 square feet of office space, a 311-room full-service hotel, and structured parking.

Parcels 4, 5, and 6 of Map 17454 (Leases or Leased Premises) were previously leased to Arden Realty Partnership and consist of two office buildings and a parking structure. On December 18, 1995, a First Amendment for Parcels 4 and 5 was executed to extend those Leases for an additional 18-year period, with a new termination date of December 31, 2050. Subsequently, Parcel 6 was also amended in a similar manner on September 11, 2006. The Leases have been subsequently assigned to several different entities with the most recent assignment occurring in 2017 to 4900 Long Beach Office, LLC (Lessee), a Delaware limited liability company.

Prior to the COVID-19 pandemic, Lessee approached City staff with interest in extending the Leases for an additional 23 years. The proposed extension would allow Lessee to effectively operate and maintain the two existing offices and parking structure totaling 238,616 square feet. A financial analysis of rental revenue under the existing rent structure was completed by City staff and determined that the current ground rent is below fair market value (FMV). Under the current terms, the rent is adjusted every five years based on the change in the Consumer Price Index (CPI) and does not provide for periodic FMV adjustments.

Consequently, there is currently no opportunity to achieve market rate for the current remaining Lease term.

The Airport is an enterprise fund department of the City of Long Beach (City) and is responsible for ensuring the generation of sufficient revenues to cover its expenses. In negotiations with the Lessee, the Airport was amenable to a lease extension subject to immediate rent increases over the current remaining term and FMV/CPI adjustments over the proposed extended term. This provides a structural change in rental revenue to ensure increased future fair-market-rate revenue streams for the Airport.

The proposed Second Amendments to the Leases have been negotiated containing the following major terms and provisions:

- Lease Term: The term of the Leases shall be extended approximately 23 years (from existing termination date of December 31, 2050) through December 31, 2073.
- Monthly Ground Rent: Effective August 1, 2023, the initial monthly ground rent for the Leased Premises shall be \$17,896 per month and shall increase annually thereafter by an additional \$0.0075 per square foot per month through August 1, 2027. Effective August 1, 2028, the monthly ground rent shall increase annually by an additional \$0.01 per square foot per month through August 1, 2037.
- Fair Market Rental Adjustments: Effective August 1, 2038, and every 10 years thereafter, the Monthly Ground Rent will be adjusted to reflect the FMV of the Leased Premises in lieu of scheduled annual increases.
- Annual Rental Adjustment: Effective August 1, 2039, and every year thereafter that is not subject to an FMV adjustment, the Monthly Ground Rent for the Leased Premises will be subject to annual increases based on the change in the CPI. In no event will the annual increase be less than two percent per year nor more than five percent per year.

A conservative projection of the increase in total revenues to the Airport over the term of the modified Leases is \$31.5M; a projected increase from \$20M (for December 31, 2050 termination date) to \$51.5M over the extended term (revised termination date of December 31, 2073).

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on June 15, 2023 and by Budget Analysis Officer Greg Sorensen on June 22, 2023.

LEVINE ACT

This item is subject to the Levine Act. The Mayor, Councilmembers, and Commissioners who have received a contribution of more than \$250 within 12 months prior from a party, participant, or their representatives involved in this proceeding may do either of the following:

(1) disclose the contribution on the record and recuse themselves from this proceeding; OR
(2) return the portion of the contribution that exceeds \$250 within 30 days from the time the elected official knew or should have known about the contribution and participate in the proceeding.

All parties, participants, and their representatives must disclose on the record of this proceeding any contribution of more than \$250 made to the Mayor or any Councilmembers within 12 months prior to the date of the proceeding. The Mayor, Councilmembers, and Commissioners are prohibited from accepting, soliciting, or directing a contribution of more than \$250 from a party, participant, or their representatives during a proceeding and for 12 months following the date a final decision is rendered.

City Council action is requested on July 18, 2023, to execute the Second Amendment to Leases in a timely manner.

The City currently receives \$203,804 in annual lease revenues. Under the Second Amendments, the annual lease revenues will increase by \$10,950 for the initial year for an annual total of \$214,754 (\$17,896 per month) beginning August 1, 2023. The revenue shall accrue to the Airport Fund Group in the Airport Department and be subject to annual specified rental adjustments and periodic fair market value/consumer price index adjustments. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

CYNTHIA GUIDRY
DIRECTOR, LONG BEACH AIRPORT

APPROVED:

THOMAS B. MODICA
CITY MANAGER