



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

R-21

April 20, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute any and all documents necessary for 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 monthly base rent from \$37,803 to \$34,803, for a two-year period, commensurate with an equivalent two-year reduction in the monthly rent paid to BANCAP by the Seal Beach Yacht Club. (District 3)

DISCUSSION

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

In 1995, BANCAP completed the remodeling and renovation of the Premises at a cost of approximately \$1,850,000. The Master Lease allowed these costs to be recovered by BANCAP in the form of a rent credit until such amount was fully amortized, which occurred in October 2005. At that time, the annual base rent increased from \$100,000 to \$400,000 and is currently at \$453,636 per annum (\$37,803 per month). BANCAP is also required to make percentage rental payments equal to 70 percent of its Net Operating Income (NOI). Despite the success of the project over the years, the current negative economic environment has placed significant financial strain on one of the major subtenants, the Seal Beach Yacht Club (SBYC).

In February 1994, the City executed a lease with the SBYC and immediately assigned said lease to BANCAP (SBYC Sublease), for an approximate 5,925 square foot facility,

for a term of 25 years. The current rent paid by SBYC, inclusive of common area maintenance charges, is \$94,860 per year (\$7,905 per month). A loss of membership levels of nearly 40 percent since 2005 and the resulting reduction in revenues generated from dues, initiation and activities, has made the current rental payment of \$7,905 per month unsustainable.

Since yacht clubs are one of the key types of uses for public recreational marinas (such as the Alamitos Bay Marina), discussions with BANCAP have occurred regarding strategies for assisting with the retention of SBYC on the Premises. As a result of said discussions, BANCAP has recommended a temporary two-year rental reduction to the SBYC Sublease of \$3,000 per month along with a commensurate two-year reduction of \$3,000 per month in the base rent paid by BANCAP to the City under the Master Lease. However, to ensure both parties receive an equitable share of the revenue reduction and to offset the \$3,000 monthly reduction in rent paid to the City, BANCAP shall make monthly reimbursement payments to the City (in addition to monthly base rent and percentage rent payments, otherwise due), equal to the lesser amount of 30 percent of its percentage rent income or \$900. This rental reduction structure is consistent with the percentage breakdown of project revenue (City receives 70 percent and BANCAP receives 30 percent of net operating income).

In order to determine the prospective financial impacts of the proposed amendment, staff tested the marketability of the space through an independent study completed by one of the City's brokerage firms, as well as an evaluation by BANCAP. The result of this analysis determined the City would lose significantly more revenue by not entering into the proposed temporary rental reduction, assuming that not reducing the rent would lead to a sublease default by SBYC and temporary vacancy of the space. Specifically, the analysis projected the City would likely expect to lose \$110,387 in future revenue from the project by not providing the requested assistance versus \$47,376, which is the City's total share of the cost of the two-year rental reduction.

After considerable negotiation with BANCAP, staff proposes a Third Amendment to Master Lease No. 23509 under the following major terms and provisions:

- Lessor: City of Long Beach.
- Master Lessee: BANCAP Marina Center, Inc., a California corporation.
- Rent: Effective January 1, 2010 through December 31, 2011, the base rent of \$37,803 per month shall be reduced to \$34,803 per month for a two-year period.
- Reimbursement Payments: Master Lessee shall make monthly reimbursement payments to the Lessor equal to the lesser amount of 30 percent of Master Lessee's percentage rent income or \$900. If in any given month there is insufficient percentage rent available to make the \$900 reimbursement, the difference shall be carried over to the following month.

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All remaining terms and provisions of Master Lease No. 23509 shall remain in full force and effect.

This letter was reviewed by Deputy City Attorney Richard Anthony on March 31, 2010 and Budget Officer Victoria Bell on March 31, 2010.

TIMING CONSIDERATIONS

City Council action on this matter is requested on April 20, 2010 in order to execute the Third Amendment (to be effective January 1, 2010) in a timely manner.

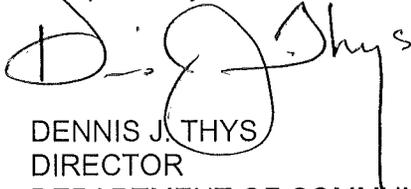
FISCAL IMPACT

Minimum annual base rent in the amount of \$417,636 shall continue to accrue to the Marina Fund (TF 403) in the Department of Community Development (CD). The \$3,000 monthly reduction in rent paid to the City will be offset in part by a payment from the Master Lessee of 30 percent of its percentage rent income or \$900, whichever is less.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



DENNIS J. THYS
DIRECTOR
DEPARTMENT OF COMMUNITY DEVELOPMENT

DJT:PTH:VSG:MTB
4-20-10 BANCAP Third Amendment v4

Attachment

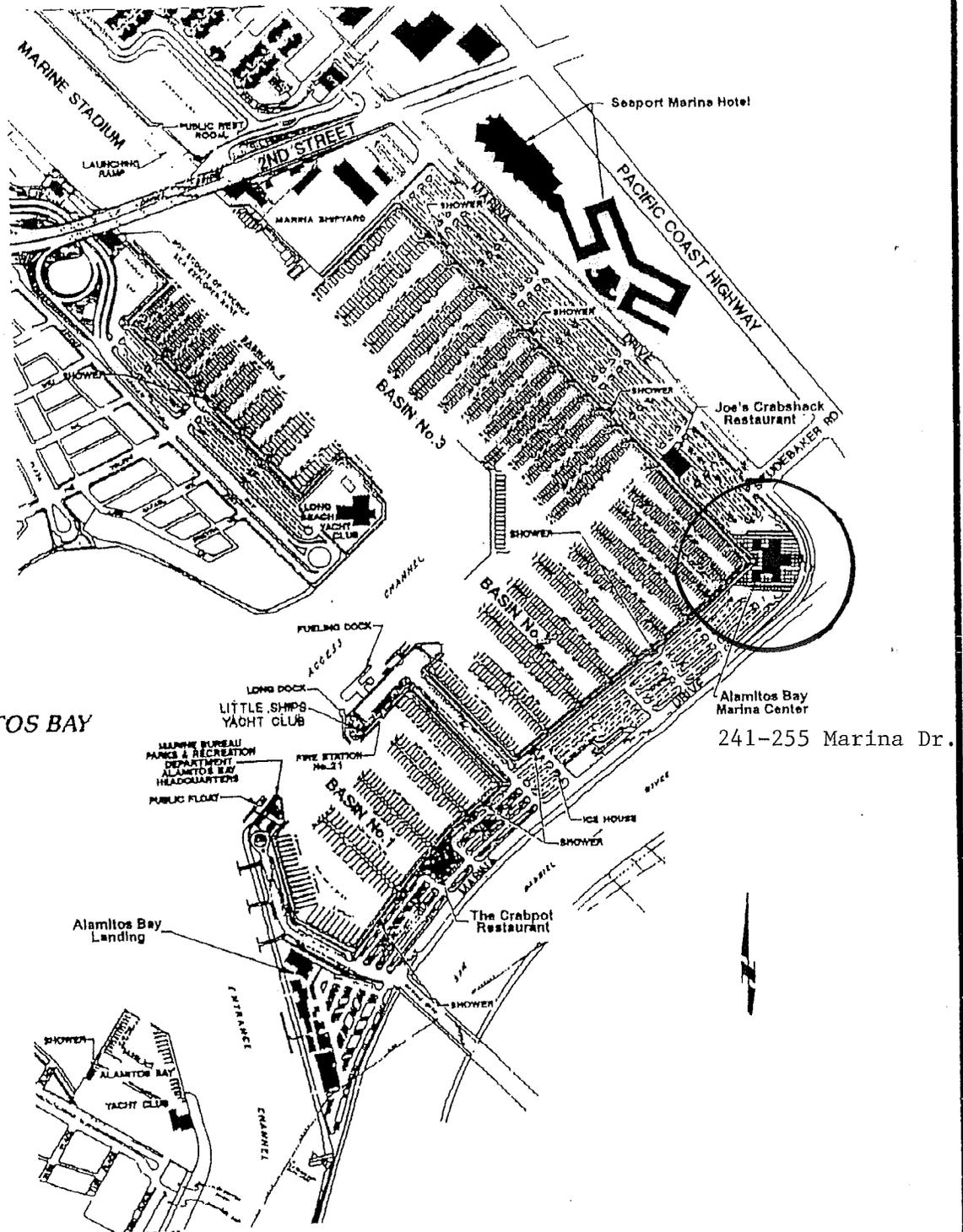


PHIL T. HESTER
DIRECTOR
DEPARTMENT OF PARKS,
RECREATION, AND MARINE

APPROVED:



PATRICK H. WEST
CITY MANAGER



ALAMITOS BAY

Alamos Bay
Marina Center
241-255 Marina Dr.

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

VICINITY MAP
ALAMITOS BAY MARINA
BASINS 1,2,3