



May 23, 2017

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute the First Amendment to the Lease for Parcel 2 of Parcel Map No. 15307, and the Second Amendments to the Leases for Parcels 3 and 5 of Parcel Map No. 15307, with Legacy Partners II LB Airport GL, LLC, a Delaware limited liability company, for City-owned property at 5000 and 5001 Airport Plaza Drive at the Long Beach Airport Business Park. (District 5)

DISCUSSION

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 seven master tenants, including the Developer, in the Business Park. The approximate 45-acre Business Park is comprised of 8 multi-story office buildings containing approximately 842,000 square feet (SF) of office space, a 311-room full service hotel, and surface and structured parking.

Parcels 2, 3 and 5 of Parcel Map No. 15307 of the Business Park (Attachment) have been subleased to various entities over the years. Parcel 3 contains a 73,817 SF office building (5000 Airport Plaza Drive) with exclusive parking located on Parcel 2. Parcel 5 contains a 52,401 SF office building (5001 Airport Plaza Drive) with exclusive parking located on Parcel 6, which is memorialized in a Parking and Development Agreement (Parking Agreement) executed in 1990. The Parking Agreement is coterminous with the Parcel 5 Lease and automatically extends when the term of the Parcel 5 Lease is extended. On March 21, 2006, the City Council authorized execution of a First Amendment to the Leases

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for Parcels 3 and 5, extending the termination date to July 7, 2050. The Lease for Parcel 2, which serves solely as exclusive parking for Parcel 3, will terminate in 2032. In March 2016, the Developer assigned all rights, title and interest in the Leases for Parcels 2, 3 and 5 to Legacy Partners II LB Airport GL, LLC, also known as SteelWave.

SteelWave has requested lease extensions for Parcels 2, 3 and 5 to market sale of the leasehold interest in the properties. The Leases lack the customary 50-year lease term sought by interested buyers. Keyser Marston Associates (KMA) was retained by the City to analyze and determine the appropriate compensation of the value for extending the term of the leases, which SteelWave has agreed to pay in a lump sum. Consistent with KMA's recommendation, a one-time payment of \$1,126,000 reflects the present day value of the extended term. This amount would be paid to the Airport Fund upon execution of the amendments.

Terms and conditions of the existing leases would generally remain the same except for modifications to the following major terms:

- Landlord: City of Long Beach, a municipal corporation.
- Master Tenant: Legacy Partners II LB Airport GL, LLC, a Delaware limited liability company.
- Leased Premises: Parcels 2 and 3 of Parcel Map 15307 located at 5000 Airport Plaza Drive and Parcel 5 of Parcel Map 15307 located at 5001 Airport Plaza Drive.
- Term: The Leases for Parcels 3 and 5 shall be extended for an additional 18-year period and the Lease for Parcel 2 shall be extended for an additional 36-year period with a collective remaining lease term of 51-years with a termination date of June 30, 2068.
- Extension Fee Payment: A one-time payment of \$1,126,000 will be provided to the Airport Fund representing the present value of the extended term of the Leases for Parcels 2, 3 and 5.
- Rent Payments: Effective July 1, 2017, monthly rent shall be due on the first day of each month. Rent payments will be deemed late on the tenth day of the month and shall bear interest until the installment is paid at 10 percent per year, provided said interest rate shall not exceed the requirements of applicable law.
- Rent Adjustments: Effective July 1, 2017, and every five years thereafter, the rent paid the previous year shall be adjusted by the percentage sum of the annual increases in the Consumer Price Index during the preceding five-year period. The maximum increase in any given year shall be 8 percent. A decrease in any given year shall result in no change or zero as part of the percentage summation. In no event shall there be a rent adjustment that results in a decrease.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on May 11, 2017 and by Revenue Management Officer Geraldine Alejo on May 3, 2017.

TIMING CONSIDERATIONS

City Council action is requested on May 23, 2017, to execute the Amendments in a timely manner.

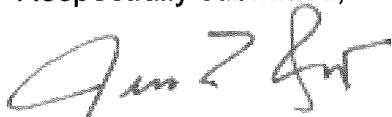
FISCAL IMPACT

Annual lease revenues of \$187,547 shall continue to accrue in the Airport Fund (EF 320) in the Airport Department (AP). Annual revenues shall continue to be subject to periodic rental adjustments as outlined in the Lease terms. One-time revenues of \$1,126,000 will accrue to the Airport Fund (EF 320) in the Airport Department (AP) for FY 17. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JESS L. ROMO, A.A.E.
DIRECTOR, LONG BEACH AIRPORT

JR:JLR:km
SICL.Legacy.Lease.Extensions.rev5

Attachment

APPROVED:



PATRICK H. WEST
CITY MANAGER

ATTACHMENT

SPRING ST

CLARK AVE

PARCEL 6

PARCEL 5

PARCEL 3

PARCEL 2



Long Beach Airport Business Park
Parcel 2/3 - 5000 Airport Plaza Drive
Parcel 5 - 5001 Airport Plaza Drive

