



CITY OF LONG BEACH

NB-28

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

April 24, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the Third Amendment to Ground Lease No. 25418 between the City of Long Beach (Lessor) and AP-Long Beach Airport, LLC (Lessee), and all documents necessary to extend the term of the lease and modify the use provision for City-owned property at 3205 Lakewood Boulevard; and

Authorize the City Manager to execute a Sublease between the City of Long Beach (Sub-Lessee) and AP-Long Beach Airport, LLC (Sub-Lessor), and all documents necessary for approximately 114,553 rentable square feet (RSF) of hangar, warehouse and office space at 3205 Lakewood Boulevard for the relocation of Long Beach Fire Department Headquarters and Long Beach Police Department Field Services Division for a 30-year, 4-month term at the initial monthly base rent of approximately \$128,300;

DISCUSSION

Long Beach Police Department (PD) subleases approximately 15,000 square feet of hangar space and 6,000 square feet of office space with 52 parking spaces at the Long Beach Airport from Olen Properties Corporation (Olen), for PD's Field Services Division (Please see Exhibit A). PD currently pays \$252,718 per year in lease payments and approximately \$25,000 per year in utility costs. Lease No. 25952 will terminate on November 30, 2008.

Long Beach Fire Department (FD) maintains its administrative headquarters in an office building in the Port of Long Beach (Port) at 925 Harbor Plaza. This was originally intended to be a short-term tenancy and several previous efforts to locate a permanent site for FD have not been successful. One primary issue has been cost as FD has not been required to pay rent to the Port, although FD does budget \$27,389 annually for custodial costs. Currently, the Port leases trailer offices for their staff because they do not have sufficient space for these employees in their building. Consequently, the Port

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intends to build a new office building and demolish the existing structure in the near future, requiring the relocation of FD.

AP-Long Beach Airport, LLC (Abbey) leases approximately 9.95 acres of City-owned land at 3205 Lakewood Boulevard adjacent to the Airport for a 30-year term that expires January 13, 2028 (Ground Lease). The Ground Lease provides Abbey with an exclusive option to extend the term for an additional 10-year period through January 13, 2038. Abbey owns a 205,227 RSF building (the Abbey Building, also shown on Exhibit A) on the leased land that contains 96,453 RSF of office/warehouse space and 108,774 RSF of hangar space. Upon expiration of the Ground Lease, the Abbey Building will revert to City ownership.

As a result of non-certification for the manufacture of a proposed aircraft at this facility, the sole tenant, Advanced Aerodynamics & Structures, Inc., vacated the site and the facility has remained unleased since January 2003. During this four-year period, Abbey has been marketing the Abbey Building for sale or lease.

The Abbey Building is unique, not only in the Long Beach market, but in the greater Los Angeles County area. It provides a rare opportunity for the City to co-locate its public safety departments into a first-rate facility, at a location that is pivotal to prompt response and airport security. As a result, in March 2005, PD, FD and Community Development staff met to tour the Abbey Building and discuss the possibility of co-locating in the facility in order to consolidate operations, create synergistic efficiencies, and accommodate growth demands from future development.

As a result of protracted discussions, a proposed Sublease has been negotiated containing the following major provisions:

- Sub-Lessor: AP-Long Beach Airport, LLC, a Delaware limited liability company.
- Sub-Lessee: The City of Long Beach.
- Subleased Premises: Approximately 114,553 RSF of hangar, warehouse and office space located at 3205 Lakewood Boulevard.
- Term: The term of the Sublease shall commence on October 1, 2007 and shall be coterminous with the Ground Lease, expiring January 13, 2038, for a 30-year, 4-month term.
- Rent: The initial monthly base rent shall be \$0.92 per RSF or approximately \$105,389 and shall increase annually by two percent. The initial monthly common area maintenance (CAM) expenses are estimated at \$0.20 per RSF or

approximately \$22,911 for a total monthly rent payment of approximately \$128,300 or \$1,539,600 annually for the initial year.

Approximately 4,000 RSF of warehouse space will be marketed for sublease to a City or affiliated entity, offsetting the City's annual rent obligation by \$53,760.

- Tenant Improvement Allowance: The Subleased Premises shall be delivered in a turnkey condition according to design drawings developed by both the Sub-Lessee and Sub-Lessor and shall be constructed utilizing prevailing wage rates.
- Janitorial and Repairs: Sub-lessee shall be responsible for day-to-day janitorial services, repairs and maintenance of the Subleased Premises. PD and FD have budgeted \$60,000 annually for these services.
- Utilities: Currently, PD is paying \$1.16 per RSF for utility costs at its existing location at the Airport. To accommodate this additional office space, PD and FD have budgeted \$1.80 per RSF for annual utility costs, or \$206,195 annually.
- Capital Improvements: Sub-Lessor shall be solely responsible for the cost of capital improvements to the building systems, including roof, HVAC and building structure, for the first 10 years of the sublease. Sub-Lessor and Sub-Lessee shall equally share the cost of capital improvements for the second 10 years of the Lease. Sub-Lessee shall be solely responsible for the cost of capital improvements for the remainder of the Term. Under the terms of the Master Lease, the City of Long Beach shall own the building and all improvements at the expiration of the term of the sublease.

Pursuant to City Council approval of the Sublease, City staff shall actively market both PD's current lease with Olen, so as to minimize any overlapping lease obligations, and the approximately 4,000 RSF of warehouse storage space at the Abbey facility.

In order to accommodate the use of the Abbey Building by PD and FD, a proposed Third Amendment to Ground Lease No. 25418 has been negotiated containing the following major provisions:

- Lessor: The City of Long Beach.
- Lessee: AP-Long Beach Airport, LLC, a Delaware limited liability company.
- Term: Lessee exercises its exclusive option to extend the term of the Ground Lease through and inclusive of January 13, 2038.

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- Use: The Use provision of the Ground Lease shall be modified to include administrative offices and the storage of public safety equipment.

The occupancy of the subleased premises by PD and FD is considered to be an institutional use under the controlling zoning document. The Department of Planning and Building has granted approval for the proposed use.

- Ownership: The Third Amendment shall address all necessary provisions to ensure that ownership of the building and all improvements shall revert to the City of Long Beach at the expiration of the Term.

This letter was reviewed by Deputy City Attorney Richard F. Anthony on February 22, 2007, and Budget and Performance Management Officer David Wodynski on April 20, 2007.

TIMING CONSIDERATIONS

City Council action is requested on April 24, 2007 in order to allow the tenant improvement project to begin and meet the October 1, 2007 commencement date.

FISCAL IMPACT

The ongoing rent, CAM, utility and custodial costs associated with the requested lease are estimated at \$1,805,788. Both departments, based upon total occupied RSF, will share these costs. The total amount budgeted in the General Fund (GP) and the Fire Department (FD) and Police Department (PD) for these expenses is \$1,517,011, including resources made available by subleasing its current Field Support Division leasehold with Olen. Thus there is a current budget shortfall of \$288,777 for the requested lease.

In an effort to fill this funding gap, the lessor has agreed to provide two months of rent and CAM charges free during FY 08, for a value of \$256,599. Furthermore, approximately 4,000 RSF of warehouse space will be marketed for sublease to a City or affiliated entity, offsetting the City's annual rent obligation by an additional \$53,760 on an annual basis. Therefore, there will be no shortfall for FY 08.

Since the two months of free rent will only apply to the first year of the agreement, there will be at least a \$268,558 annual shortfall going forward. This gap will be filled using resources set-aside in the current fiscal year as one-time bridge financing in FY 09 and FY 10. In FY 11 and beyond, General Fund budget enhancements to cover the full ongoing costs of the requested lease will be included in the FY 11 Proposed Budget.

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Lastly, there are one-time costs associated with furniture purchases and installation, moving expenses, technology infrastructure, cable infrastructure and audio-visual equipment for the proposed re-location. Initial estimates for these one-time costs are approximately \$833,000. These and any future one-time costs will be covered using existing non-General Fund grants and other one-time resources.

SUGGESTED ACTION:

Approve recommendation.

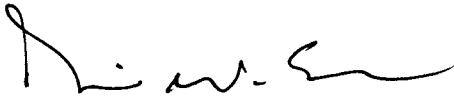
Respectfully submitted,



PATRICK H. WEST
DIRECTOR OF
COMMUNITY DEVELOPMENT



ANTHONY W. BATTIS
CHIEF OF POLICE



DAVID W. ELLIS
FIRE CHIEF

PHW:AWB:DWE:JMLR:lel

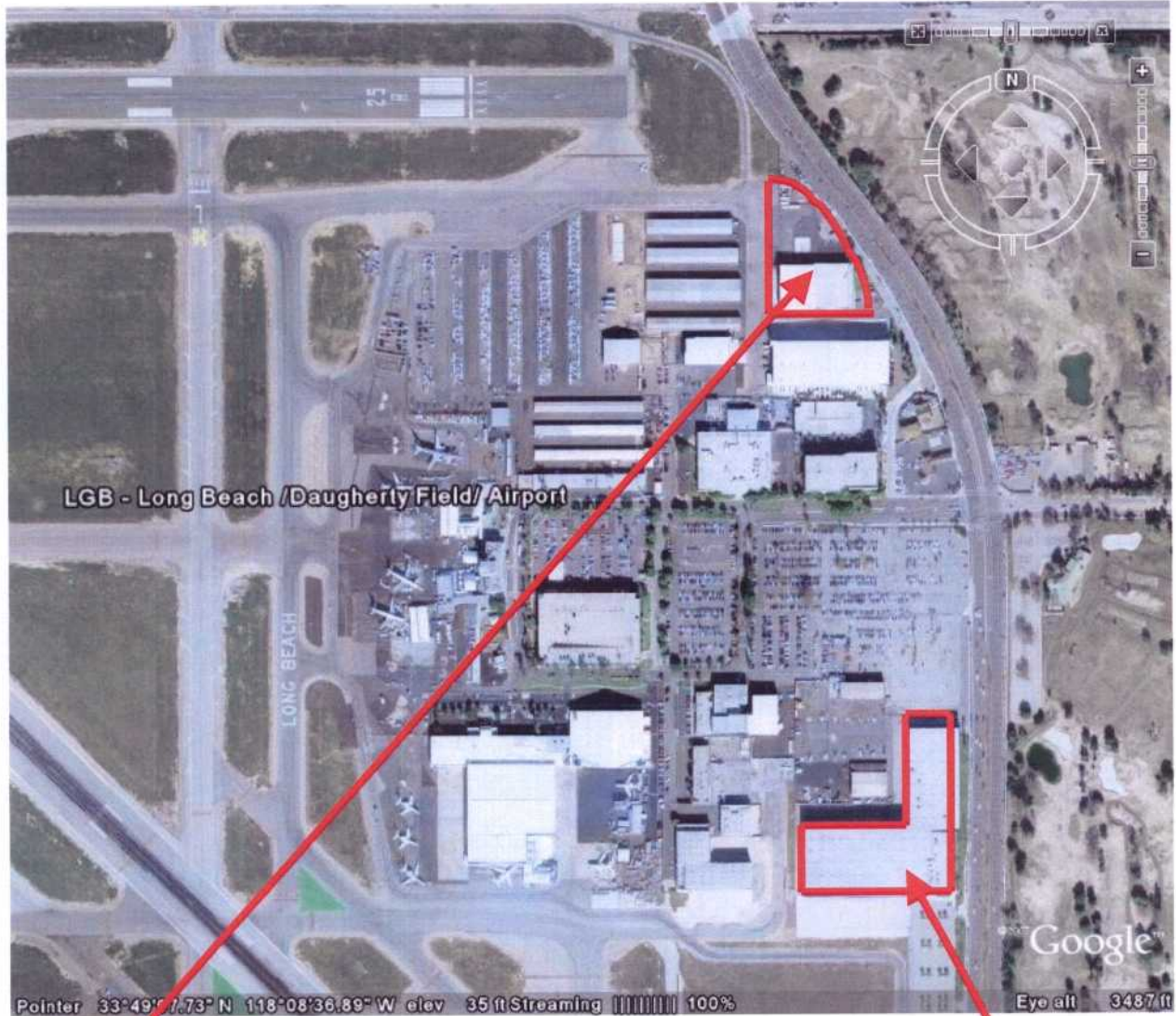
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APPROVED:



GERALD R. MILLER
CITY MANAGER

EXHIBIT A



PD Lease

Abbey Building