



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

R-16

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

April 14, 2009

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 Amended and Restated Lease No. WDL-96 with Kilroy Realty, L.P., a Delaware Limited Partnership, to continue negotiations for the proposed development of property owned by the City of Long Beach and the Water Department at the Long Beach Airport in the Kilroy Airport Center. (District 5)

DISCUSSION

On May 21, 2002, pursuant to Ordinance No. C-7808, the City Council authorized the General Manager of the Water Department to execute Amended and Restated Lease No. WDL-96 (Lease) with Kilroy Realty, L.P., a Delaware Limited Partnership (KRC), for property owned by the City of Long Beach (City) and the Water Department at the Long Beach Airport. On September 3, 2002, the City Council authorized the execution of a Memorandum of Understanding between the Water Department and the City authorizing the City to act as the administrator of the Lease. Effective as of April 1, 2003 and expiring on July 16, 2084, the Lease sets forth terms and conditions for the development of approximately 9.16 acres of land located adjacent to and westerly of Phase I through III of Kilroy Airport Center. The 9.16-acre site comprises a 5.1-acre City-owned parcel at the Long Beach Airport formerly leased to the California National Guard (Parcel 7) and a 4.06-acre Water Department-owned parcel (Parcel 9), which together with an adjoining 2.92-acre Water Department-owned parcel (Parcel 10), are considered Phase IV of development of the Kilroy Airport Center and the subject of this lease amendment. Please see the attached Exhibit "A".

As set forth in the Lease, KRC has paid holding rent in the amount of \$12,500 per month since the date that Parcel 7 was delivered to KRC (on or about April 15, 2003). The Lease stipulates that the City and KRC would determine the Initial Ground Rent for the site through negotiations over a six-month period commencing on or about April 14, 2007, and ending on or about October 14, 2007 (54 months after delivery of Parcel 7).

At the end of this process, KRC would (i) commence the construction of improvements, (ii) commence payment of Initial Ground Rent, or (iii) terminate the current Lease. The City and KRC engaged in negotiations regarding the Initial Ground Rent; however,

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because of the complexity of the various issues concerning the development of the site and then existing market conditions, the Initial Ground Rent negotiation and appraisal process had not been concluded. Therefore, on October 9, 2007, the City Council authorized the First Amendment to the Lease, which provided for Holding Rent in the amount of \$12,500 per month to continue until completion of the office building(s) on the site by KRC or sixty-three (63) months after delivery of the CNG Parcel to KRC (July 14, 2008), whichever occurs first. The Board of Water Commissioners approved a similar recommendation at its meeting of October 4, 2007.

The City and KRC continued to negotiate the proposed development of the Phase IV Site. However, as changing market conditions further affected the potential use of the property, the City ordered a new appraisal report for Parcels 7, 9 and 10. In order to allow additional time to conclude the Initial Ground Rent negotiation and appraisal process, the City Council authorized the Second Amendment to the Lease, which provided for Holding Rent in the amount of \$12,500 per month to continue until completion of the office building(s) on the site by KRC, or seventy-two (72) months after delivery of the CNG Parcel to KRC (April 14, 2009), whichever occurs first. The other terms and conditions remained unchanged. The Board of Water Commissioners approved a similar recommendation at its meeting on June 12, 2008.

The City and KRC continue to negotiate the proposed development of the Phase IV Site. A Third Amendment to the Lease is now recommended to conclude the Initial Ground Rent negotiation and appraisal process as provided under the Lease. Holding Rent shall remain in the amount of \$12,500 per month, which shall continue to October 1, 2009. All other terms and conditions of the Lease shall remain unchanged.

This letter was reviewed by Principal Deputy City Attorney J. Charles Parkin on March 23, 2009 and Budget and Performance Management Bureau Manager, David Wodynski, on March 24, 2009.

TIMING CONSIDERATIONS

City Council action is requested on April 14, 2009 in order to execute the Third Amendment in a timely manner.

FISCAL IMPACT

Total monthly Holding Rent in the amount of \$12,500 shall continue to accrue in the amount of \$6,963 to the Airport Enterprise Fund (EF 320) in the Long Beach Airport (AP) and to the Water Fund (EF 310) in the Water Department (WA) in the amount of \$5,537. There is no impact to the General Fund.

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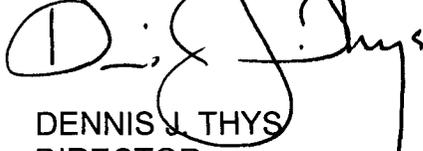
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SUGGESTED ACTION

Approve recommendation.

Respectfully submitted,



DENNIS J. THYS
DIRECTOR
DEPARTMENT OF COMMUNITY DEVELOPMENT



MARIO RODRIGUEZ
DIRECTOR
LONG BEACH AIRPORT

DJT:MR:MB:lnw

4-14-09 Third Amend to Kilroy Realty v2.doc

Attachment: Exhibit "A" - Kilroy Airport Center Parcels - Phase IV

APPROVED:



PATRICK H. WEST
CITY MANAGER



s.smith/public works/engineering - 5/20/08

CITY OF LONG BEACH - CALIFORNIA
DEPARTMENT OF PUBLIC WORKS

Kilroy Airport Center Parcels
Phase IV
Exhibit "A"