

C-8

April 19, 2022

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute any and all documents necessary for the First Amendment to Sublease No. 34607 of Master Lease No. 9351, between Million Air North, Inc., a California corporation, and the City of Long Beach, for the continued use of office space at 4401 Donald Douglas Drive, Suites 150 and 250;

Authorize the City Manager, or designee, to execute any and all documents necessary for a new Sublease to Master Lease No. 9351 between Million Air North, Inc., a California corporation, and the City of Long Beach, for office space at 4401 Donald Douglas Drive, Suites 100 and 220; and,

Increase appropriations in the Airport Fund in the Airport Department (AP) by \$14,851. (District 5)

DISCUSSION

In January 1968, the City of Long Beach (City) executed Master Lease No. 9351 (Master Lease) with Millie and Severson, Inc., for approximately 5.7 acres of land at 4401 Donald Douglas Drive (Leased Premises), for the development of an office building for a 50-year term at the Long Beach Airport (Airport). On January 14, 2000, the City executed the First Amendment to the Master Lease and reduced the Leased Premises to approximately 3.58 acres. On November 8, 2016, the Second Amendment was executed and extended the term of the Ground Lease for an additional five years. Since its initial execution, the Master Lease has been assigned three times, most recently in 2009, to Million Air North, Inc. (MANI), the current Master Tenant.

On October 8, 2021, the City executed the Third Amendment, which extended the term of the Master Lease to January 3, 2033. In addition, the Third Amendment required certain capital improvements to be completed by MANI, including the installation of an elevator compliant with the American with Disabilities Act (ADA).

Sublease No. 34607 of Master Lease No. 9351

On October 23, 2017, the City executed Sublease No. 34607 with MANI for approximately 6,073 square feet (SF) of office space at the Leased Premises in Suites 150 and 250 (Existing Premises). The Existing Premises is utilized by the Airport's Engineering, Accounting, and Security Divisions. In addition, the Existing Premises provides the Security Division with locker and shower room facilities and serves as a secondary Airport Security Communication Center. The term of Sublease No. 34607 will expire on January 2, 2023.

Given the Airport's continued long-term need for the Existing Premises, the First Amendment to Sublease No. 34607 for Suites 150 and 250 has been negotiated and contains the following major terms and provisions:

- Master Tenant: Million Air North, Inc., a California corporation.
- Subtenant: City of Long Beach, a municipal corporation.
- Existing Sublease Term: The existing term of the sublease will be extended through January 31, 2033 and will be coterminous with the Master Lease.
- Existing Sublease Base Rent: Effective January 3, 2023, the Initial Base Rent will be \$16,276 per month (\$2.68 per SF), with annual increases based on the Consumer Price Index (CPI). In no event will the increase be less than 2 percent nor more than 4 percent per year.
- Tenant Improvements: MANI will provide the City with a Tenant Improvement Allowance of \$90,540 (\$15.00 per SF), to be used for plans, permits, and improvements to the Existing Premises.

New Sublease to Master Lease No. 9351

The Airport's Finance Division and the primary Airport Security Communications Center occupy office space on the third and fifth floors, respectively, of the Airport's historic terminal building (Terminal). This area has only one common bathroom, no breakroom space, and has limited accessibility due to the age of the Terminal. In addition, the Airport Badging Office is in a small space on the second floor of the Terminal, which is not conducive to meet the current operational requirements and needs of the Airport's badged population.

The Third Amendment to the Master Lease for the Leased Premises also provided the City with an option to sublease additional office space that was anticipated to become available in 2022. Approximately 5,712 SF of additional office space in Suites 100 and 220 has become available for sublease at the Leased Premises. Given the Airport's need for more appropriately accessible office space to relocate staff from the Terminal, negotiations commenced to secure additional office space at the Leased Premises.

MANI requested the creation of a separate sublease for the additional office space at the Leased Premises. The proposed new sublease with MANI for Suites 100 and 220 contains the following major terms and provisions:

- Landlord: City of Long Beach, a municipal corporation.
- Master Tenant: Million Air North, Inc., a California corporation.
- Subtenant: City of Long Beach, a municipal corporation.

- Subleased Premises: Suites 100 and 220 consisting of approximately 5,712 SF located at 4401 Donald Douglas Drive.
- Sublease Term: The term of the sublease will commence on the date the tenant improvements are substantially complete and will terminate on January 31, 2033, coterminous with the Master Lease. The anticipated commencement date is September 1, 2022, which provides for an approximate ten-year, five-month sublease term.
- Base Rent: The initial monthly base rent will be \$14,851 per month (\$2.60 per SF), with annual increases based on CPI. In no event will the increase be less than 2 percent nor more than 4 percent per year.
- Utilities and Janitorial: Due to the 24-hour nature of the Airport's operations, electricity and water for the Subleased Premises shall be submetered separately and reimbursed to MANI based on actual costs. The Airport will provide its own janitorial services to the Subleased Premises.
- Operating Expenses: All operating expenses, excluding electricity and water, are included in the Base Rent. The City will not be liable for any increase in operating expenses for the first 12 months of the Sublease Term, nor will it be responsible for any increase in property taxes due to sale, refinancing, or transfer of ownership. Any future escalations will be calculated using a base year of 2022 and grossed up to 95 percent occupancy. The City will not be responsible for any increase in "controllable" operating expenses that are in excess of 2 percent over CPI per year.
- Tenant Improvements: MANI will provide the City with a Tenant Improvement (TI) Allowance of \$228,480 (\$40.00 per SF) to be used for plans, permits, and construction of the Subleased Premises. The City will have the right to have the Master Tenant bid the project to three general contractors and select the contractor of its choice.
- Additional TI Allowance: If needed, the City will be entitled to an Additional TI Allowance of up to \$75,520. The Additional TI Allowance will be amortized over a 10-year period at 7.5 percent and be paid monthly to MANI as additional rent.

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on March 29, 2022 and by Budget Analysis Officer Greg Sorensen on April 4, 2022.

TIMING CONSIDERATIONS

City Council action is requested on April 19, 2022, to execute the documents in a timely manner and commence the necessary improvements to the Subleased Premises.

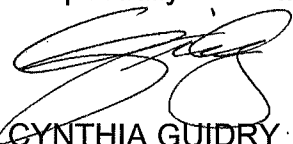
FISCAL IMPACT

The total annual base rent cost for both subleases will be \$373,524 and increase annually by the Consumer Price Index (CPI) with minimum two percent and maximum four percent annual increases. An appropriation increase is requested in the Airport Fund in the Airport Department (AP) in the amount of \$14,851, which will be offset by Airport operating revenue. Appropriation for subsequent year's rent and increases will be part of the annual budget process. 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.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CYNTHIA GUIDRY
DIRECTOR, LONG BEACH AIRPORT

APPROVED:



THOMAS B. MODICA
CITY MANAGER