

CITY OF LONG BEACH

LONG BEACH AIRPORT

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July 16, 2019

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 Second Amendment to Lease No. 15383 (Parcel 2 of Map No. 17454) between the City of Long Beach, a municipal corporation (Landlord) and the City of Long Beach, a municipal corporation, acting by and through its Board of Harbor Commissioners (Tenant), for City-owned property at 4801 Airport Plaza Drive in 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 structured parking.

Parcel 2 of Map 17454 was previously under lease to The Boeing Company and contains an approximate 176,375 SF office building (4801 Airport Plaza Drive). On July 12, 2004, a First Amendment was executed to extend the lease term for an additional 20-year period, with a new termination date of July 7, 2052. On December 11, 2012, the City Council authorized the assignment of Lease No. 15383 (Parcel 2 of Map 17454) to the City of Long Beach, acting by and through its Board of Harbor Commissioners (Tenant). Since 2013, the property has served as the Port of Long Beach Interim Administrative Offices.

In the next few months, Tenant will be relocating its offices to the new Long Beach Civic Center and plans to sell its leasehold interest in the property. The Lease currently lacks a minimum customary 50-year lease term sought by interested buyers. Tenant has requested a lease extension to better position the leasehold for sale in the current office market.

Negotiations between the City and Tenant have resulted in a proposed Second Amendment to Lease No. 15383 containing the following major terms and conditions:

- Landlord: City of Long Beach, a municipal corporation.
- Tenant: City of Long Beach, acting by and through its Board of Harbor Commissioners (Port of Long Beach).
- Leased Premises: Parcel 2 of Map 17454 at 4801 Airport Plaza Drive in the Long Beach Airport Business Park, consisting of approximately .86 acres or 37,500 square feet of land.
- Lease Term: The term of the Ground Lease will be extended for an approximate seventeen (17) year period and will terminate on June 30, 2069.
- Ground Rent: The current monthly rental amount is \$22,949 and will remain in effect until July 1, 2022. Effective July 1, 2019, monthly ground rent payments will be due on the first day of each month. Rent payments will be deemed late on the tenth day of the month and will bear interest until the installment is paid at 10 percent per year, provided said interest rate will not exceed the requirements of applicable law.
- Rental Adjustments: Effective July 1, 2022, and every five years thereafter, Ground Rent paid the previous year will be adjusted by the percentage sum of the annual increases in the Consumer Price Index (CPI) during the preceding five-year period. The maximum increase in any given year will be 8 percent. A decrease in any given year will result in no change or zero as part of the percentage summation. In no event will there be a rent adjustment that results in a decrease.
- Extension Fee Payment: A one-time payment of \$1,000,000 shall be provided to the Airport Fund Group upon execution of the Second Amendment.

This matter was reviewed by Principal Deputy City Attorney Gary J. Anderson on June 24, 2019 and by Budget Analysis Officer Julissa José-Murray on June 27, 2019.

TIMING CONSIDERATIONS

City Council action is requested on July 16, 2019, to execute the Second Amendment in a timely manner.

FISCAL IMPACT

Annual lease revenues of approximately \$275,384 will continue to accrue in the Airport Fund Group in the Airport Department from Harbor Department lease payments, until such time as the leasehold interest is sold. At that time, the lease payments will be made by the new Tenant. Annual revenues shall continue to be subject to periodic rental adjustments as outlined in the Lease terms. One-time revenues of \$1,000,000 will accrue to the Airport Fund Group in the Airport Department in FY 19. 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,

Claudia Lewis

CLAUDIA LEWIS
INTERIM DIRECTOR, LONG BEACH AIRPORT

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APPROVED:



PATRICK H. WEST
CITY MANAGER