

**From:** [Mark L Hansen](#)  
**To:** [Bill Brand](#); [Laura Emdee](#); [Christian Horvath](#); [Todd Loewenstein](#); [Nils Nehrenheim](#); [Zein Obagi](#); [Mike Witzansky](#)  
**Cc:** [CityClerk](#); [julie.coll@waterfronteducation.org](mailto:julie.coll@waterfronteducation.org)  
**Subject:** Termination Option of Joe's Crab Shack Lease to Accommodate "Waterfront Education" - Recommend Agendizing  
**Date:** Tuesday, August 2, 2022 3:49:06 PM  
**Attachments:** [Termination Option Joe's CC 080619.pdf](#)

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***CAUTION: Email is from an external source; Stop, Look, and Think before opening attachments or links.***

Mayor, City Council, and City Manager,

As you have seen from its Executive Director, Julie Coll, our local "Waterfront Education" program has received a 30-day notice to vacate from the current location at AES.

In August 2019, the City Council approved a lease amendment with the current leaseholder of the Joe's Crab Shack location, which included a termination option (from attached Admin. Report):

A Termination Option that may be exercised by the City or the Tenant requiring the vacation of the premises with a 60-day notice.  
For the right to terminate the agreement the City would pay a termination fee of \$750,000 upon execution of this Lease Amendment.

At your meeting of June 7, 2022, I noted that, at the Harbor Commission meeting in April:

the Commission passed the following: Motion by Commissioner Light, Video 1:14:30:

"The commission would send a message both to the City Council and the SWA, through the subcommittee, that we're supportive of this activity and think Joe's Crab Shack should, we should be preserving that area for some sort of educational opportunity whether its this or not."

Friendly amendment by Chair Carlson, Video 1:15:20:

"Underlying that we liked to also consider Waterfront Education, Julie's Coll's program, White Sea Bass, and other local things."

And, at their meeting in May:

At the conclusion of that meeting, the commission passed several motions for recommendations to the City Council, which included activating the site now as an educational facility, with existing interested educational institutions. [https://redondo.granicus.com/player/clip/1239?view\\_id=2&redirect=true](https://redondo.granicus.com/player/clip/1239?view_id=2&redirect=true)

Time stamps 2:32:25 to 2:46:00, then 2:46:00 to 3:00:00

Staff's Administrative Report for that meeting accurately reviewed that:

Redondo Beach is in the middle of a planning effort to establish a framework

plan to improve and enhance various public amenities within the City's waterfront. One specific element of the amenities plan is to create an educational facility.

At your City Council meeting on June 7, several council members emphasized the importance of integrating our local education programs into the new educational facility.

**I recommend that tonight, the City Council agendize, at your next available meeting, a discussion to exercise the Termination Option at Joe's Crab Shack, and expedite the relocation of "Waterfront Education" to that site.**

Fraternally,

Mark Hansen  
King Harbor Boater  
Advisory Committee, Waterfront Education  
310-601-0710



# Administrative Report

N.4., File #19-0125

Council Action Date: 8/6/2019

**To:** MAYOR AND CITY COUNCIL  
**From:** STEPHEN PROUD, WATERFRONT & ECONOMIC DEVELOPMENT DIRECTOR

**TITLE**  
DISCUSSION AND POSSIBLE ACTION REGARDING A LEASE AT 230 PORTOFINO WAY

APPROVE THE FIRST AMENDMENT TO THE LEASE FOR 230 PORTOFINO WAY WITH JCS ACQUISITION, INC TO INCREASE THE BASE RENT, ADD LEASE TERMINATION PROVISIONS, AND ASSIGNMENT OF THE LEASEHOLD TO KRG JCS REDONDO BEACH, LLC

RECEIVE AND FILE THE GUARANTY FROM DEL MAR LLC FOR THE LEASE FOR 230 PORTOFINO WAY

ADOPT BY 4/5 VOTE AND BY TITLE ONLY RESOLUTION NO. CC-1908-060, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDONDO BEACH, CALIFORNIA, AUTHORIZING A FISCAL YEAR 2019-20 BUDGET MODIFICATION TO APPROPRIATE \$750,000 FROM THE HARBOR UPLANDS FUND AVAILABLE BALANCE TO THE FISCAL YEAR 2019-20 ANNUAL BUDGET FOR ADDITIONAL CONTRACTS AND PROFESSIONAL SERVICES EXPENDITURES WITHIN THE WATERFRONT & ECONOMIC DEVELOPMENT DEPARTMENT FOR THE TERMINATION FEE ASSOCIATED WITH THE FIRST AMENDMENT TO THE LEASE BETWEEN THE CITY OF REDONDO BEACH AND KRG JCS REDONDO BEACH, LLC. [JOE'S CRAB SHACK]

## EXECUTIVE SUMMARY

On September 7, 1999 the City entered into a lease with Landry's Seafood House - Redondo Beach, Inc. for the property at 230 Portofino Way, Redondo Beach, California, commonly known as Joe's Crab Shack. Over the years, the lease has been assigned to various entities and most recently the leasehold was purchased out of bankruptcy by the current leaseholder, JCS Acquisition, Inc. The current leaseholder is requesting the City's consent to assign the lease to KRG JCS Redondo Beach, LLC, an affiliate of Kelly Companies of Southern California, LLC which operates more than one hundred restaurants under various concept names throughout the United States.

In conjunction with the proposed lease assignment, the City and KRG JCS Redondo Beach, LLC negotiated a 1<sup>st</sup> Amendment to the lease which includes the following:

- An increase of the Base Rent from \$12,000 to \$16,000 per month effective immediately upon execution of the Amendment.
- A Termination Option that may be exercised by the City or the Tenant requiring the vacating of the premises with a 60-day notice. For the right to terminate the agreement the City would

pay termination fee of \$750,000 upon execution of this Lease Amendment.

- A Liquidated Damages provision requiring the payment of \$1,000 per day if the tenant fails to vacate the premises pursuant to the Termination Option.

Staff is recommending the City Council approve the 1<sup>st</sup> Amendment to the Lease which contains a provision assigning the leasehold to KRG JCS Redondo Beach LLC., accept the guaranty from Del Mar LLC for the obligations of the lease, and adopt the Budget Resolution appropriating funds from the Uplands Fund to pay the Termination Fee.

## **BACKGROUND**

On September 7, 1999 the City entered into a lease with Landry's Seafood House - Redondo Beach, Inc. for the property at 230 Portofino Way, Redondo Beach, California, commonly known as Joe's Crab Shack (attached as Exhibit A). Over the past 20 years, the lease has been assigned to various entities and in June 2017, the lease was subject to bankruptcy proceedings due to the leaseholder filing for protection under Chapter 11. The leasehold was purchased out of bankruptcy by the current leaseholder, JCS Acquisition, Inc. The current leaseholder is requesting the City's consent to now assign the lease to KRG JCS Redondo Beach, LLC, an affiliate of Kelly Companies of Southern California, LLC which operates more than one hundred restaurants under various concept names throughout the United States.

Under the terms of the lease, JCS Acquisition, Inc has the right to assign the lease to another party, subject to the City's consent, and the lease states that the City's consent "shall not be unreasonably withheld". Staff has reviewed the lease and determined that JCS Acquisition Inc is in compliance with the lease terms and there are no conditions of default that would preclude the assignment of the lease to KRG JCS Redondo Beach, LLC.

In conjunction with the proposed lease assignment, the City and KRG JCS Redondo Beach, LLC negotiated a 1<sup>st</sup> Amendment to the lease (attached as Exhibit B) which enables the City or the Lessee to terminate the leasehold after September 2020. More specifically, the 1<sup>st</sup> Amendment includes:

- An increase of the Base Rent from \$12,000 to \$16,000 per month effective immediately upon execution of the Amendment.
- A Termination Option that may be exercised by the City or the Tenant after September 2020 that requires the vacatin of the premises with a 60-day notice. For the right to terminate the agreement the City would pay KRG JCS Redondo Beach LLC a termination fee of \$750,000 at the execution of this lease amendment.
- A Liquidated Damages provision requiring the payment of \$1,000 per day if the tenant fails to vacate the premises pursuant to the Termination Option.

Given the age of the lease, the remaining financial obligations of the Lessee under the lease are fairly limited. They generally have an obligation to maintain the leasehold in a safe and orderly condition and to make any necessary repairs to the premises. Additionally, they have the obligation to make their rent payments to the City. To ensure that KRG JCS Redondo Beach LLC has the capacity to meet the obligations under the Lease, the City utilized the services of Kosmont Associates to conduct a due diligence on KRG JCS Redondo Beach LLC. Given the short existence of KRG JCS Redondo Beach LLC as an entity and the limited assets associated with a single

purpose LLC, Kosmont recommended and the City requested a guaranty of the lease obligations from the parent company. Kelly Companies agreed to the City's request and has provided a guaranty from Del Mar LLC - the parent LLC - which is attached to the Lease Amendment.

As noted above, the proposed 1<sup>st</sup> Amendment to the lease requires the payment of a Termination Fee of \$750,000, payable at the time the Amendment is executed. Attached as Exhibit C is a Resolution that appropriates \$750,000 from the Uplands Fund balance to the Uplands FY2019-2020 Contracts and Professional Services account for payment of the Termination Fee. Although the leasehold lies entirely within the Tidelands, the City will be using funds from the Uplands account to pay the fee and seeking approval from the California State Lands Commission to refund the payment from the Tidelands Fund.

### **COORDINATION**

The 1<sup>st</sup> Amendment to the Lease, which includes the assignment provision, the Guaranty from Del Mar LLC, and the Budget Resolution were drafted and reviewed by the Waterfront and Economic Development Department and the City Attorney's Office.

### **FISCAL IMPACT**

The lease with Joe's Crab Shack requires the payment of the greater of base rent or percentage rent. Increasing the Base Rent to \$16,000 and applying that figure to the 2018 sales data results in an estimate of approximately \$17,000 of additional revenue to the City per year. The projected annual lease income to the City will therefore be approximately \$210,000 per year each of the next two years.

Exercising the Termination Option requires the payment of the \$750,000 Termination Fee to KRG JCS Redondo Beach LLC at the time the lease amendment is executed. Although the leasehold is entirely within the Tidelands, the Termination Fee will be paid from the Uplands Fund and the City will seek authorization from the California State Lands Commission to reimburse the Uplands Fund from the Tidelands Fund.

### **APPROVED BY:**

*Joe Hoefgen, City Manager*

### **ATTACHMENTS**

Exhibit A - Lease for 230 Portofino Way

Exhibit B - 1<sup>st</sup> Amendment to the Lease for 230 Portofino Way and Guaranty from Del Mar LLC

Exhibit C - Resolution for Budget Appropriation