



Administrative Report

H.16., File # 21-2273

Meeting Date: 4/6/2021

To: MAYOR AND CITY COUNCIL

From: STEPHEN PROUD, WATERFRONT & ECONOMIC DEVELOPMENT
DIRECTOR

TITLE

ADOPT BY TITLE ONLY RESOLUTION NO. CC-2104-032, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDONDO BEACH, CALIFORNIA, LEASING CERTAIN PROPERTY TO RDR PROPERTIES, LLC

APPROVE THE 2ND AMENDMENT TO THE MASTER LEASE BETWEEN THE CITY OF REDONDO BEACH AND RDR PROPERTIES, A CALIFORNIA LLC, FOR THE LEASEHOLD COMMONLY KNOWN AS THE REDONDO PIER APPROACH LOCATED AT 100 FISHERMAN'S WHARF TO MODIFY THE CALCULATION OF PERCENTAGE RENT FOR SPACES 100 "I" AND 100 "J" FISHERMAN'S WHARF

EXECUTIVE SUMMARY

In 2008, the City executed a lease with RDR Living Trust for the area commonly referred to as the Redondo Pier Approach and/or the Redondo Landing. The lease was amended in 2012 and subsequently assigned to RDR Properties in 2015. RDR Properties is seeking a Second Amendment to the lease to modify the percentage rent applicable to the two basement spaces located at 100 "I" and 100 "J" Fisherman's Wharf.

The proposed lease amendment would modify the percentage rent calculation for the basement spaces from a 3.5% share of all gross revenues to a 12% share of all rent collected by RDR Properties from any tenant occupying the spaces. The basement rent may be comprised of base rent, percentage rent, or a combination of both. The basement spaces have been vacant for several years and the modification to the percentage rent structure is expected to enhance the marketability and occupancy of the spaces.

BACKGROUND

In 2008, the City executed a lease with RDR Living Trust for the area commonly referred to as the Redondo Pier Approach and/or the Redondo Landing. The lease was amended in 2012 and subsequently assigned to RDR Properties in 2015. The leasehold is approximately 30,000 square feet split into 14 spaces on three levels, primarily occupied by retail shops and restaurants.

The basement level of the leasehold is comprised of two spaces - 100 "I" and 100 "J" Fisherman's Wharf - both of which are fully improved nightclub spaces that have been used consistently for that

purpose since the building was constructed in 1972. The spaces have been vacant for several years, with the last two tenants to occupy the spaces being The Boogie in space 100 “I” and BriXton South Bay in space 100 “J”.

To improve the marketability of the two basement spaces, RDR Properties requested the City consider two separate actions: (i) approval of a Master Conditional Use Permit (CUP) that would apply a consistent set of operating conditions to both spaces; and (ii) an amendment to the RDR Master Lease to modify the percentage rent calculation applicable to the spaces. With regard to the CUP, the Harbor Commission took up the matter at their March 8, 2021 meeting and unanimously approved the Master CUP.

RDR Properties is now requesting the City Council approve a Second Amendment to the Master Lease to modify the percentage rent applicable to the basement spaces. Under the terms of the Master Lease, the City is entitled to collect a percentage rent of 3.5% of gross sales from any tenant occupying a basement space(s). The proposed amendment would modify the amount and method of calculation of percentage rent payable to the City by changing the 3.5% share of all gross revenues to a 12% share of all rent collected by RDR Properties from any tenant occupying the spaces. The rent collected by RDR may be comprised of base rent, percentage rent, or a combination of both. More specifically, the Amendment would establish a new defined term - Basement Subtenant Rent - which defines the rent subject to the 12% calculation.

The term of the lease with RDR Properties is for 55 years with two options to extend the lease an additional 11 years. The Lease was executed in 2008 and thus, if both options are exercised by RDR, the expiration date for the Master Lease is 2074. The proposed Lease Amendment would fix the percentage rent for the basement spaces at 12% for 30 years - at which time the City will have the option to exercise its percentage rent renegotiation rights.

COORDINATION

The Waterfront and Economic Development Department collaborated with the City Attorney’s Office on this report. The City Attorney’s Office has approved the document as to form.

FISCAL IMPACT

The spaces at 100 “I” and 100 “J” have sat vacant for several years - during which time the City has not collected any rental income. RDR Properties has indicated that the current percentage rent structure is an impediment to leasing the spaces and is requesting a modification to the percentage rent structure. It is difficult to assess the fiscal impact to the City of this proposed amendment in the abstract - as there are no current tenants or revenues. Generally, percentage rent structures that apply to gross revenues are more advantageous to the City. However, given the basement spaces have sat vacant for an extended period of time - a decision to shift the rent structure to enhance marketability and the improve the opportunity for occupancy - and thus revenue to the City - would provide a positive fiscal impact to the City’s Uplands Fund.

APPROVED BY:

Joe Hoefgen, City Manager

ATTACHMENTS

Resolution No. CC-2104-032

Lease between the City of Redondo Beach and RDR Properties

1st Amendment to the Lease between the City of Redondo Beach and RDR Properties

2nd Amendment to the Lease between the City of Redondo Beach and RDR Properties