



# CITY OF SAN MATEO

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## Agenda Report

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Agenda Number: 29

Section Name: {{section.name}}

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**TO:** City Council  
**FROM:** Drew Corbett, City Manager  
**PREPARED BY:** City Manager's Office  
**MEETING DATE:** August 17, 2020  
**SUBJECT:**  
City Owned Commercial Properties – COVID-19 Rent Adjustments

**RECOMMENDATION:**

Provide direction to staff on the proposed COVID-19 related rent adjustments for the commercial tenants at City-owned properties in Downtown San Mateo.

**BACKGROUND:**

The City owns and manages eight commercial properties in the Downtown. A+Mail Boxes & More, Beard Papa's, Cold Stone, Fletch's, and Red Giant Coffee are tenants at the Main Street Garage. Rise Pizzeria and Next Level Sports are retail and office tenants at the Transit Center. Century Theaters is the long-term ground lessee on the block of B Street between 2nd and 3rd Avenues.

In response to the spread of COVID-19, on March 16, 2020 the City declared a state of emergency. On March 17, 2020, the San Mateo County Health Officer issued a shelter in place order that required all non-essential businesses to close immediately to slow the spread of COVID-19. On August 2, 2020, restaurants, personal care providers, gyms, and cinemas, had to re-close or reduce its operating capacity for a second time as a consequence of the County being listed on the State's COVID-19 Monitoring registry for three consecutive days.

Due to the public health emergency, businesses of all industries, types, and sizes have had problems generating sufficient revenue to cover rent and salaries. In response to the economic damage created by the coronavirus, City Council agreed to defer rents for the City's commercial tenants for the months of April, May, June, July, and August during the City's Manager's COVID-19 updates. However, as State and County shelter in place order extends into the sixth month, staff recommends formalizing a COVID-19 rent adjustment to help our tenants remain in business and reduce the possibility of retail vacancies in the near future.

After consultations with several commercial brokers on current industry practices for COVID-19 rent relief, staff learned that there is no industry standard, as everyone is uncharted waters. Landlords and property management companies have been renegotiating each lease individually. However, staff suggests that Council create a set of standard rent relief policy for all of our commercial property tenants as follows:

- For the five months of April 2020 to August 2020, forgive all unpaid, deferred rents and convert into a rent waiver for the period.
- For businesses that are allowed to open or partially open, reduce rents by 50% starting on September 1, 2020 and continue at this reduced rate until the City's state of emergency is lifted.
- For businesses that are not allowed to open due to public health orders, continue to waive rent until they are able

to reopen, at which time reduce rent rates by 50% until the City's state of emergency is lifted.

The proposed policy was developed based on the belief that most of the businesses are experiencing significantly reduced revenue throughout the pandemic and that they are unlikely to be able to earn enough to cover back payments for the previously deferred rent. Additionally, given the number of businesses that have recently shuttered, staff recommends doing all we can to retain our current tenants since it will be challenging to find replacement tenants for any businesses that close.

The proposed rent relief policies would not apply to the City's lease with Rise Pizzeria because they are currently in a period of waived rent due to the previously negotiated terms of their lease agreement. Furthermore, on June 15th, the City Council amended Rise's lease to extend their rent commencement period by two months to offset time lost due to the commercial construction prohibition in the initial public health order.

At the present time, the only tenant that is not allowed to operate is Century Theater. They have remained closed throughout the public health emergency. When they are able to reopen again, it will likely with significant reduction in seating capacity while the public health emergency is still in place. As Century Theater is a critical attraction for Downtown restaurants, keeping the cinema in business also supports the surrounding retail businesses as well.

One of the current tenants, Red Giant Coffee, had closed prior to the COVID-19 pandemic. At the time, they were trying to sell their business to a new operator but the deal has since fallen through. Staff will work with them to see if there is any possibility of transferring the lease to a new operator.

Staff has notified tenants of the City's rent deferrals through the commercial property manager and written communications. A couple of tenants, however, have continued to pay a portion or all of the rent. The rent relief policy would not refund previously paid rent.

In order to put this policy in place, the City will need to enter into lease amendments with all of the tenants to codify the rent adjustments. All other terms of the lease such as reassignment, termination, and lease extensions will remain the same. Based on City Council direction and feedback, staff will bring the lease amendments to City Council for approval in September.

**BUDGET IMPACT:**

The amount of the proposed rent waiver for the Downtown tenants for April through August is \$200,202. The ongoing impact of monthly rent waiver for the Century Theater for the period they remain closed would be \$29,090. The monthly impact of the 50% rent reduction for all other tenants would be \$6,821. Commercial lease revenues are deposited in the Downtown Parking fund and are used to support the Downtown cleaning contract and maintenance of the parking garages.

**ENVIRONMENTAL DETERMINATION:**

This item is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

**NOTICE PROVIDED**

All meeting noticing requirements were met.

**ATTACHMENTS**

None

**STAFF CONTACT**

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