



CITY OF SAN MATEO

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Agenda Report

Agenda Number: 8

Section Name: {{section.name}}

Account Number: 14-1311

File ID: {{item.tracking_number}}

TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: City Manager's Office
MEETING DATE: September 19, 2022

SUBJECT:
385 2nd Avenue and 1 Transit Center Way – Lease Amendments

RECOMMENDATION:

Approve an amendment to the lease for 385 2nd Avenue to extend the term for an additional year with a monthly base rent of \$1,305, provide a one-year renewal option, and replace Dagoberto Vasquez with Elmer Vasquez as the lessee; and approve Amendment No. 4 to the lease for 1 Transit Center Way with Rise Wood-Fire, LLC to revise the commencement date for additional rent based on a percentage of gross sales; and authorize the City Manager to execute both lease amendments in substantially the form presented.

BACKGROUND:

The City owns and manages commercial properties at the Main Street Garage and the Transit Center. Staff has negotiated lease amendments for two of our tenants with the assistance of Prodesse Property Group, our commercial property manager, as outlined below.

Fletch's Taqueria

On April 5, 2020, the City Council approved a lease with Dagoberto Vasquez and Anavela Vasequez. The tenant wishes to remove Dagoberto Vasequez from the lease and replace him with Elmer Vasquez. Prodesse Property Group has done the due diligence to review Elmer Vasquez's financial assets and determined that he possess sufficient personal credit to be a party on the lease.

In addition, the First Lease Amendment extends the lease term by one-year and provides a one-year option for renewal. Starting April 1, 2023, the monthly base rent is increased by 5% from \$1,242 to \$1,305, with an additional monthly fee of \$62.96 for maintenance of common areas. The tenant will cover all utilities, taxes, and permits. Included as Attachment 1 is the First Lease Amendment, all other terms of the lease will remain the same.

Staff recommends approving the replacement of the lessees, the new lease rate, and additional term. The short-term lease extension provides the City maximum flexibility to adjust the lease rates to reflect current market conditions while supporting a small business through the on-going pandemic.

Rise Wood-Fire Grill

On April 15, 2019, the City Council approved a long-term Lease with Rise Wood-Fire, LLC (also known as Rise Pizza) for use of the building at 1 Transit Center Way, with an initial fifteen-year lease with two additional five-year options, landlord assistance of \$130,000 towards the costs of tenant improvements, and a six-month rent commencement start date. On September 16, 2019, City Council approved the First Amendment to the lease, which increased the landlord assistance to \$275,000 and extended the rent commencement start date to eighteen months. On February 18, 2020, Council approved a Second Amendment to the lease in order to provide for minor revisions to the approved detailed floor plan for the

outdoor patio and coffee kiosk area, and allowed the City Manager to approve future adjustments valued at less than \$50,000 in tenant improvement costs, changes under 50 square feet, or substitutions in construction materials for other similar materials. On June 15, 2020, Council approved the Third Amendment to the lease to delay the start date for rent commencement from 18 months to 20 months due to the COVID-19 pandemic.

The original Lease with Rise Pizza includes a provision for the City to collect a percentage rent for any revenues in excess of \$2 million in gross sales. The percentage rent is triggered to start twelve months after the rent commencement date on October 1, 2021. However, October 1st is challenging start date to calculate a twelve-month period from an accounting perspective because it does not track with a calendar year, which is how profits are typically evaluated. Aligning the start date to correspond with a calendar year starting on January 1st through December 31st will streamline both the tenant's and the City's ability to calculate gross sales. Additionally, there is no loss in potential revenues for the City to change the start date to January 1, 2021 since Rise Pizza did not meet the gross sale threshold during this period that would have triggered the percentage rents. The Fourth Lease Amendment (included as Attachment 2) revises the commencement date for percentage rent. All other terms of the agreement remain the same.

BUDGET IMPACT:

The First Lease amendment for 385 2nd Avenue will generate \$15,660 in base rent over the next twelve months. The Fourth Lease amendment for 1 Transit Way will have no impact as it is a minor administrative change. Commercial property revenue funds the City's expenses for operations, maintenance and improvement to the Downtown parking facilities and are used for street cleaning services. This revenue is credited to the Downtown Parking and Maintenance Program.

ENVIRONMENTAL DETERMINATION:

These lease amendments are 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

Att 1 - 385 2nd Avenue 1st Lease Amendment

Att 2 - 1 Transit Center Way 4th Lease Amendment

STAFF CONTACT

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