



CITY OF SAN MATEO

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Agenda Report

Agenda Number: 15

Section Name: {{section.name}}

File ID: {{item.tracking_number}}

TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: City Manager Department
MEETING DATE: September 16, 2019

SUBJECT:
1 Transit Center Way - Lease Amendment

RECOMMENDATION:

Approve a lease amendment with Rise Wood-Fire LLC to increase the landlord assistance for the tenant improvements and to clarify other provisions of the lease and authorize the City Manager to execute the amendment in substantially the form presented, and adopt a Resolution to approve a supplemental budget appropriation of available fund balance from the Downtown Parking and Maintenance Fund.

BACKGROUND:

The City Council approved a lease with Rise Wood-Fire LLC (known as Rise Pizza) for the North Building of the Downtown San Mateo Transit Center (1 Transit Center Way) on April 15, 2019. To occupy the space, Rise Pizza needs extensive tenant improvements to the building to construct a kitchen, remove the mezzanine area, and upgrade the outdoor patio. The lease included landlord assistance in the form of a \$130,000 contribution towards tenant improvements, a \$25,000 contribution for the future replacement of the air conditioning unit, and 6 months of waived rent.

Following the execution of the lease, the tenant has hired an architect to develop the design and building permit application for the tenant improvements for the space. The City was not able to provide accurate as-built drawings for the space that showed all of the mechanical systems. As a result, the tenant and their architect determined that the best course of action would be to do the interior demolition work required to remove the mezzanine level and then complete the design drawings once the internal conditions were known.

Rise Pizza started the demolition work in June 2019. During the course of their work, they discovered that the building was not in compliance with the Fire Code and that significant work would need to be completed to relocate the building's HVAC system to a mechanical room in the clock tower portion of the building to connect with the duct work that was in place in the original design but not utilized by the last tenant. In addition, exterior stairwell access must be created to access the mechanical room in the clock tower due to the removal of the mezzanine level. Given this unanticipated work, the requirements to pay prevailing wages, and other escalations in construction costs, the hard costs of the tenant improvements needed for the restaurant have increased to \$2.1 million. This is significantly higher than Rise Pizza's initial estimate of up to \$1.5 million.

Rise Pizza is requesting an increase in the landlord assistance being provided for tenant improvements to assist in covering these cost increases. Staff has negotiated a lease amendment that would provide an additional 12-month waiver of rent (on top of the current 6 months after lease term commencement) as well as an additional cash contribution of \$145,000 for the tenant improvements. Staff believes that this increased City contribution is necessary for this project to be financially feasible for the tenant.

In addition to the changes in financial terms, the City and Rise Pizza have identified some other needed amendments to the lease to clarify specific terms which include:

- Correcting the name of “Rise Wood-Fired LLC” to “Rise Wood-Fire LLC”.
- Requiring the execution of a Memorandum of Lease Commencement to formally record the date when all interior building permits are in place, which is a key trigger for the rent commencement period and other key dates in the lease.
- Amending the description of the premises to include the mechanical room in the clock tower portion of the building in the rentable area.
- Adding provisions governing the implementation of the Tenant Improvements, including the requirements to pay Prevailing Wages.
- Including formal notice in the lease regarding the requirements to comply with the City’s Minimum Wage for any restaurant employees.
- Notifying the Tenant that they are subject to Possessory Interest Tax.

The adjusted financial terms and other clarifying amendments to the lease are outlined in the First Amendment to the Lease included as Attachment 2.

BUDGET IMPACT:

The City has already appropriated \$130,000 from the Downtown Parking and Maintenance Fund (Fund 28) to cover the landlord assistance. The additional \$145,000 in landlord assistance and the \$25,000 in funding for the air conditioning unit will be appropriated from the available fund balance in the Downtown Parking and Maintenance Fund. The City expects to earn approximately \$1.2 million in base rent over the first 10 years of the lease and has the potential to earn additional revenues during this period from the proposed profit share provision of the lease. The rental revenue is deposited in the Downtown Parking and Maintenance Fund and is used to fund operations, maintenance, and improvements to the public parking facilities, sidewalks, and landscaping in the Downtown.

ENVIRONMENTAL DETERMINATION:

This lease amendment is categorically exempt from CEQA as an “existing facility,” because it consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of use. (CEQA Guidelines Section 15301.)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – Proposed Resolution

Att 2 – First Amendment of the Lease

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