

HONORABLE MAYOR, CITY
COUNCIL, AND AGENCY
BOARD

HARRY S. MAVROGENES
EXECUTIVE DIRECTOR

SEE BELOW

MAY 2, 2006

SUBJECT: ACCEPTANCE OF A SUMMARY 33433 REPORT AND
REUSE APPRAISAL AND APPROVAL OF A LEASE WITH
MESA SOFA PARTNERS, LLC FOR AGENCY-OWNED
SPACE IN THE FAIRMONT HOTEL ANNEX

RECOMMENDATION

It is recommended that:

- (a) The City Council adopt a resolution accepting the costs and findings of the Summary 33433 Report and the Estimated Reuse Valuation pursuant to the California Health and Safety Code Section 33433 for the lease to Mesa SoFA Partners, LLC of approximately 7,030 square feet of Redevelopment Agency-owned ground floor retail space located at 170 South Market Street in the Fairmont Annex, and making certain findings; and,
- (b) The City Council and Redevelopment Agency Board approve a lease with Mesa SoFA Partners for the property located at 170 South Market Street in the ground floor of the Fairmont Annex for approximately 7,030 square feet of retail space for a term of 32 months, with two six-month options to extend.

BACKGROUND

On June 21, 2005, the Redevelopment Agency and Mesa SoFA Partners (Mesa) entered into a Disposition and Development Agreement for the development of a twenty-one story mixed-use residential high-rise project named "360 Residences" at the northeast corner of Market and San Salvador at the "Dimensions" site. The project scope includes the development of 203 residential units, approximately 270 parking spaces situated in one below-grade level and a parking podium, and 11,000 square feet of retail along Market and First Street.

On January 6, 2006, a Site Development Permit for this project was issued by the Planning, Building, and Code Enforcement Department. Mesa has submitted construction plans to the Building Division for review in anticipation of securing a building permit by June 30, 2006. Construction on the high-rise project is anticipated to begin in August 2006.

As part of its marketing plan, Mesa is seeking a visible location to establish a sales office to promote the project and sell residential units to potential buyers. The proposed sales office is located on the ground floor of the Fairmont Hotel Annex at the southwest corner of the Paseo de San Antonio and First Street. The Agency is the owner of the ground floor space at the base of the Fairmont Annex. The site is ideal for a Mesa sales office due to the ample size of the space, its proximity to the project, and its location along a major paseo/pedestrian corridor that compliments Mesa's product and an urban residential lifestyle.

ANALYSIS

Mesa proposes to utilize the vacant space in the Fairmont Annex at the southwest corner of the Paseo de San Antonio as a real estate sales office in conjunction with its mixed-use high-rise residential development, the "360 Residences" located at Market and San Salvador. Mesa will occupy the entire 7,030 square foot space and will build-out the necessary landlord and tenant improvements.

The existing condition of the Fairmont Annex space requires a significant amount of work for any tenant to occupy it. There are no utilities in the premises (sewer, water, gas, or electricity), no HVAC systems currently available, no fire and/or life safety systems installed and the space requires a concrete floor throughout the space to bring it up to street level. These improvements are typically the responsibility of the landlord to either fund or construct, and in many instances, potential tenants require additional contributions for tenant improvements. Previous discussions with other potential tenants have resulted in requests for the Agency to fund more than \$100 per square foot for construction of the landlord improvements.

As part of the terms of the lease, the Redevelopment Agency will contribute \$110,450 towards the landlord improvements (i.e., \$15.71 per square foot). All other costs will be borne by Mesa which intends to invest approximately \$1.2 million in the space and perform all construction activities. The landlord improvements include: a fire suppression system; fire alarm monitoring system; electrical systems; gas line infrastructure; completion of existing wall framing; insulation and drywall, finished concrete slab flooring, and HVAC systems.

Mesa is in the process of identifying consultants and contractors to design and build the improvements. In addition to the above landlord improvements, Mesa will fund and construct the following tenant improvements: HVAC distribution duct work and supports; connections to the sanitary sewer and domestic water systems; restrooms; emergency exit lighting; all modifications to the fire suppressions system needed; and design, permitting, and inspection costs required by appropriate regulatory authorities. The Agency will review designs at the preliminary and 90% construction document stages.

Upon expiration of the lease, Mesa may remove its tenant improvements specific to the "360 Residences" project, but must leave certain identified improvements in place. These are primarily the type of improvements that would be useful to any future retail tenant.

SUMMARY OF KEY LEASE TERMS:

Use:	Real Estate Sales Office for Mesa Development.
Premises:	7,030 square foot space located at the southwest corner of First Street and the Paseo de San Antonio (Fairmont Hotel Annex).
Term:	32 months, with two six-month options to extend
Base Rent:	\$14,060 per month or \$2.00 per square foot for the Initial Term. Base rent during the option period will be adjusted by CPI during the first option extension only.
Common Area Maintenance (CAM):	\$10,545 per year, or \$1.50 per square foot as pro rata share of expenses for maintenance of the Paseo de San Antonio.
Rent Commencement:	120 days from execution of the lease.
Broker's Commission:	Ritchie Commercial represented Mesa. The Agency will pay \$9,842 of the total commission (approximately 50%) owed. Half of the Agency's share will be payable upon initiation of construction and the other half payable upon opening for business.

SCHEDULE:

It is anticipated that construction will be completed in January 2007 with a grand opening shortly thereafter.

SECTION 33433 REPORT:

The attached Summary Report, pursuant to Section 33433 of California Redevelopment Law, and an Estimated Reuse Valuation have been prepared by Keyser Marston Associates, Inc., and made available for public inspection as required by California Redevelopment Law, as was a copy of the proposed Lease. The Summary 33433 Report analyzes the project's financial structure, costs, revenues, effect on blight and contribution to the objectives set forth in the San Antonio Redevelopment Plan. It finds the consideration being paid to the Agency is not less than the fair lease value for the site given the high-quality, first-class real estate sales office that will be in the space.

A schedule of projected rent payments is attached to the 33433 Report. The report estimates the base rent over the length of the initial term of the Lease to be \$390,000 (rounded) (\$350,000 present value). The present value is determined using a 7% discount rate.

Approval of this Lease requires adoption of the findings set forth in the report that the Project will assist in the elimination of blight, is consistent with the Implementation Plan for the Project Area, and that consideration for the Lease is not less than the fair reuse value with the covenants, conditions, and costs authorized by the lease.

The Lease will assist with the elimination of blight by addressing the Agency's urban design goals of enlivening streetscapes and avoiding the aesthetic and economic barrier created by large expanses of blank streetscape by tenanting a vacant retail space and supporting a residential development project in the Market-Gateway Redevelopment Project area. The Lease provides for a retail use that is consistent with the San Antonio Project Area Implementation Plan, which encourages retail/entertainment activity. Additionally, as detailed in the attached Health and Safety Code Section 33433 Report, the fair lease value is not less than the rent required in the Lease.

COORDINATION

This report has been coordinated with the Department of Planning, Building, and Code Enforcement and the Agency's General Counsel.

FISCAL IMPACT

Funding for the lease is provided for in the Agency's Adopted FY 2005-06 Capital Budget- San Antonio Plaza: Fairmont Annex Retail.

CEQA

Exempt.

HARRY S. MAVROGENES
Executive Director

[Attachment](#)