



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: NOVEMBER 10, 2015

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT WARDS: ALL

SUBJECT: **SUBLEASE AGREEMENT WITH GRESHAM SAVAGE FOR THE 2ND FLOOR OFFICE SPACE LOCATED AT 3750 UNIVERSITY AVENUE - SUPPLEMENTAL APPROPRIATION OF \$281,000**

ISSUE:

The issue for City Council consideration is the approval of a Sublease Agreement between the City of Riverside and Gresham Savage for the sublease of approximately 20,298 square feet of office space in the Mission Square Building located at 3750 University Avenue and the approval of a supplemental appropriation in the amount of \$281,000.

RECOMMENDATION:

That the City Council:

1. Approve the Sublease Agreement with Gresham Savage for approximately 20,298 square feet of office space in the Mission Square Building located at 3750 University Avenue;
2. **Authorize a supplemental appropriation in the amount of \$156,000 for the increase in rental expense to an account to be established by the Finance Department;**
3. **Authorize a supplemental appropriation in the amount of \$125,000 for moving costs, furniture, fixtures, and equipment associated with the relocation of the City Attorney's office from the 5th floor of City Hall to the 2nd Floor of the Mission Square Building to an account to be established by the Finance Department;** and
4. Authorize the City Manager, or his designee, to execute the Sublease Agreement, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BACKGROUND:

The Mission Square building consists of approximately 127,533 square feet of rentable office space in a six-story building plus a basement level and a 489 parking stall garage situated on approximately 2.5 acres of land (Property). The Property was originally constructed in 1984. On June 23, 2015, City Council approved the purchase of the Property from NNN Mission Square, LLC and the City of Riverside (City) acquired the Property on October 13, 2015.

In efforts to merge their San Diego, San Bernardino, and Riverside locations, Gresham Savage is seeking to sublease their Riverside location in the Mission Square Building on the 2nd floor of the office building consisting of 20,298 square feet of office space. In April 2015, Travers Cresa, the broker representing Gresham Savage, reached out to the City to inquire whether any City departments had an interest in subleasing the space. Upon review of the available space, the City Attorney's office expressed interest. The space provides secure office space which accommodates the confidential nature of the cases the City Attorney's office handles on behalf of the City, and it also provides adequate space for future staffing needs; all of which their current location on the 5th floor of City Hall does not provide. The City has negotiated with Gresham Savage and determined the following deal points to be mutually beneficial for both parties.

A summary of the lease terms are below:

- Sublease Term: To commence on December 1, 2015, or upon vacation by Gresham Savage, whichever is later and expire on March 31, 2019.
- Premises: Approximately 20,298 rentable square feet of office space consisting of the entire 2nd floor of the building.
- Annual Rent: Calculated at \$2.25 per rentable square foot per month for a total annual amount of \$548,046 with 3% annual increases.
 - Gresham Savage is currently paying \$2.50 per rentable square foot. The City was able to negotiate the lease down to \$2.25 per rentable square foot and Gresham Savage has agreed to pay the \$0.25 per rentable square foot difference to the City (Utility Fund) as property owner
 - City Attorney's office will lease 75% of space and Public Utilities will occupy 25%
- Rent Concessions: Gresham Savage will provide four (4) months of one-half free rent during months two (2) through five (5) of the sublease term.
- Tenant Improvement: Pursuant to the Master Lease, Gresham Savage will provide the City a \$20.00 per rentable square foot tenant improvement allowance so the City can complete minor alterations including moving walls, new paint, and carpet.
- Furniture & Fixtures: City shall have the right to use all Gresham Savage furniture and fixtures currently in the 2nd floor at no additional cost throughout the sublease term. Upon expiration, City shall pay Gresham Savage one dollar (\$1.00) and all furniture and fixtures shall become property of the City.
- Parking: Pursuant to the Master Lease, the Gresham Savage space has the right to lease up to eighty-one (81) on-site parking spaces at a rate of \$85 per month for a reserved and \$60 per month for an unreserved space.

The Sublease Agreement includes a tenant improvement allowance of \$405,960, which will allow the City Attorney's office to make minor changes to the Mission Square office space, such as new paint, carpet, and office modifications. It is anticipated that this tenant improvement allowance will be sufficient for any modifications needed to the space. Additional funds to conduct the physical move and provide new furniture, fixtures, and equipment will not exceed \$125,000.

The City Attorney concurs with the recommendations.

FISCAL IMPACT:

	Current – City Attorney’s Office Occupies 5th Floor	General Fund Department Occupies 5th Floor	Non-General Fund Department Occupies 5th Floor
One-Time Cost		\$125,000	\$125,000
Building Occupancy Cost			
General Fund	\$144,379	\$493,297	\$285,258
Other Funds	\$63,660	\$125,777	\$333,816
Total	\$208,039	\$619,074	\$619,074
Incremental Cost Change			
General Fund		\$348,918	\$140,879
Other Funds		\$ 62,117	\$270,156
Total		\$411,035	\$411,035

Annual Cost

The City Attorney’s office currently pays \$208,039 for their space on the 5th floor of City Hall, which is a cost that will remain in their budget following the Office’s relocation. Accounting for the City Attorney’s lease expenses in the Mission Square Building after the move and assuming that the Office is replaced by another City department on the 5th floor of the City Hall, **the total new cost is \$619,074. An incremental annual cost increase is \$411,035 to the City’s budget.**

The net General Fund impact will vary depending on whether a General Fund or enterprise-funded department replaces the City Attorney in the City Hall. Assuming that a non-General Fund department utilizes the 5th floor space vacated by the City Attorney, the net General Fund impact is \$140,879. If a General Fund department replaces the City Attorney, the additional incremental cost to the General Fund will be up to \$348,918, with the exact amount dependent on the extent to which the new occupant’s costs could be allocated to non-General Fund cost centers.

The incremental \$140,879-348,918 cost increase will be included in future fiscal years’ budgets. For Fiscal Year 2015/16, the net additional cost would be a maximum of \$156,000, reflecting seven months’ rent.

One-Time Cost

In addition, up to \$125,000 in one-time funds will be needed to facilitate the physical move and to provide new furniture, fixtures, and equipment.

Total Net General Fund Cost for FY 2015/16

The \$156,000 additional rent expense for seven months and the \$125,000 one-time move costs total \$281,000 for FY 2015/16. This amount will be appropriated from the General Fund reserve for the current fiscal year.

It should be noted that any expansion of the space occupied by the City Attorney's Office in City Hall would also result in additional building occupancy costs. Further, the improvements required to create confidential offices in City Hall would significantly exceed the cost of a move to Mission Square. It is also anticipated that an expansion of the City Attorney's Office staff will result in a decrease in outside counsel expenses, which ultimately will benefit all City funds through decreased legal expenses. The net budgetary impact of the move in the long term is therefore not anticipated to be financially material.

Prepared by: Rafael Guzman, Community & Economic Development Director
Certified as to
availability of funds: Brent A. Mason, Finance Director/Treasurer
Approved by: Al Zelinka, FAICP, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Sublease Agreement
2. Presentation