

EXPLANATION OF CONSENT AGENDA ITEM E.2.c.(27) October 28, 2015

ITEM:

Consideration of approving a six month extension of The Lloyd and Agnes DeSouza 1993 Revocable Trust u/a/d 12-3-93 Thirty Year Lease dated May 1, 1995, as amended, expiring October 31, 2015, located at 750 Mullet Road, contingent upon the approval of the lease documents by General Counsel and Port Attorney.

EXPLANATION:

At the May 2015 Commission Meeting the Board approved a six month extension of said lease from April 30, 2015 to Oct 31, 2015 to provide time for the Lessee's subtenant (The Navy) to relocate.

Staff has received a request from The Navy asking if we would work with the Lessee on an extension as it would allow the Navy to continue uninterrupted service until such time as they could relocate into the new space provided by the GSA tentatively scheduled for April 1, 2016,

Staff extended an offer subject to Commission approval to grant a six (6) month extension in exchange for all sublease income being split 50/50 which is Industry standard for Lessees that sublease space and enjoy the positive income between the base lease and the rent collected for Sub-leases.

The owner's Real Estate Representative rejected the offer and is now requesting a fourteen (14) month extension in order to allow time to negotiate a new long term lease with the Port's new CEO.

Staff recommends extending the lease for six (6) with the Lease expiring on March 31, 2016 to allow the Navy time to relocate.

The extension would be subject to the current Lessee/owner:

- Providing a copy of all Sub-leases to the Port within 10 business days
- Splitting the Sub-lease income 50/50 as the new Lease payment and paying a market rent for any space the Lessee occupies
- Vacate the premises on or before April 1, 2016

Staff Recommends Approval

Prepared by Diane Denig/Scott Shepard

dd/ss

750 Mullet Drive Proposed Lease Extension

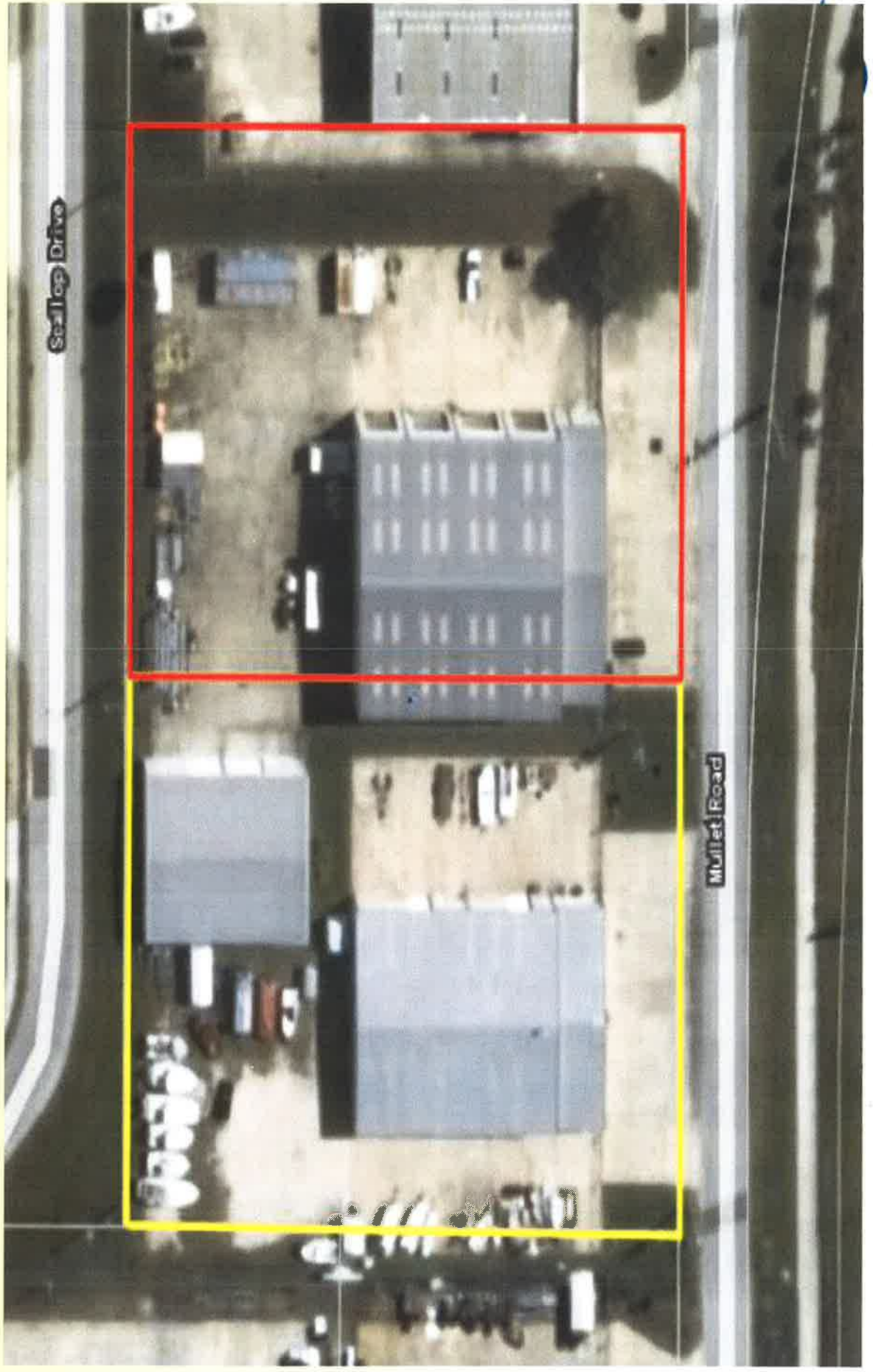
Prepared by
Scott Shepard, CCIM
Director of Real Estate
October 28, 2015



Location-----750 Mullet Drive



Location Aerial-----750 (Yellow) and 740 (Red) Mullet Dr.



Alternative Access to the NAVY building



Potential Future Cruise Terminal and/or Recreation-Event Area

--- 41 acres---



Building/Property Summary

- Address: 750 Mullet Drive
- Land: 1.28 acres
- Building: Bldg. #1---- 10,000 SF
Bldg. #2---- 4,800 SF
14,800 SF



Executive Summary

- Lease expired on **April 30, 2015**
 - Lease was extended for **six months until October 31, 2015** to provide time for the Navy to relocate
 - The Navy has requested six more months (**until April 1, 2016**).
 - Staff has “conceptually” offered to extend the lease for six additional months with 50% of the SUBLEASE rental income to be paid to the PORT as a new lease payment (subject to Commission approval).
 - **NOTE:** This type lease language is very common in the marketplace today
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- Lessee/owner now wants a 14 month extension in order to allow time to negotiate a long term lease renewal with a new CEO/Port Director



TRANSACTION-BACKGROUND

- Originally came to the Commission (1/21/2015) as a recommendation to purchase this building (750 Mullet) and the building to the east (740 Mullet) for \$1,100,000

Commission Action..... Tabled vote 4/1

- Staff met with owners Real Estate Rep on April 2, 2015
- The lease on the subject building (east building—750 Mullet---- expired on 4/1/2015)
- Staff came forward with two recommendations (Commission meeting..... 5/20/2015)
 1. Purchase the EAST Bldg. (740 Mullet) that had 10 years remaining on the lease for \$575,000.
 2. Extend the owner a six month extension on the WEST Bldg. (750 Mullet) to provide the Navy time to relocate on or before October 31, 2015.

Commission Action

- The purchase of the EAST Bldg (740 Mullet) for \$575,000 was not approved and to allow the lease to term out..... vote 5/0.
- The six month extension to the WEST Bldg. (750 Mullet) lease was approved..... vote 4/1



TRANSACTION-BACKGROUND

- Following the Commission vote to extend the lease for six months from April 1, 2015 to October 31, 2015, Staff and Legal prepared a Lease Extension.
- The Lease Extension Agreement was prepared and mailed to Lessee/owner on **June 4, 2015**
- A reminder was forwarded to the owner on **July 9, 2015**.
- Lessee/owner failed to execute the Lease Extension until **August 31, 2015**.



Timeline and Staff Action

- The lease extension on the WEST Bldg (750 Mullet) expires on **10/31/2015**
- Staff requested copies of all Subleases from the current owner
- Owner has refused to deliver copies
- Staff contacted the Sublessee's to inform them the lease is expiring and the PORT would be their Landlord as of 11/1/2015.
- The Navy has responded and asked that the PORT consider granting six months to the owner as they need additional time to relocate and a change in owners would be problematic.



Timeline and Staff Action (continued)

- Staff extended an offer “subject to Commission approval” to grant a six month extension in exchange for all sublease income being split 50/50 which is Industry standard for Lessees that sublease space and enjoy the positive income between the base lease and the rent being collected for Subleases.
- The owner’s Real Estate Rep rejected the offer and now has requested an 14 month extension until December 31, 2015 to provide time to allow negotiate a new long term lease with the PORT’s new CEO.



Staff Recommendation

- Extend the lease for six months with the Lease ending on **March 31, 2016** to allow the **NAVY** time to relocate.
- The extension would be subject to the current Lessee/owner:
 1. Providing a copy of all Subleases to the Port within 10 business days
 2. Splitting the Sublease income 50/50 as the new Lease payment and paying a market rent for any space they (Lessee/owner) uses.
 3. Lessee/owner agrees to vacate the premises April 1, 2016.



PRESENTATION TITLE

Questions??

