TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER
DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: OCTOBER 23, 2006
CMR: 398:06

SUBJECT: EARLY TERMINATION OF LEASE AGREEMENT WITH PREMIER PROPERTIES FOR THE WEBSTER/COWPER GARAGE

This is an informational report and no Council action is required.

BACKGROUND
On August 9, 1990, Council approved a 15-year lease for the air rights of the Webster/Cowper Garage with 505 Hamilton Avenue Partners. The lease required the tenant to provide for the: 1) construction of two additional levels of parking at an estimated cost to the tenant of $3,150,000; 2) prepaid rent in the amount of $150,000; and 3) total maintenance for all seven levels of the garage in exchange for 15 years of exclusive use of the spaces in the two new levels of the garage. The lease was later assigned to Premier Properties. The actual cost of construction was $3,400,000 due to the added expense of meeting more stringent structural code requirements. Premier Properties subleased the garage space to Digital Equipment Corporation and the sublease was later assigned to Alta Vista Corporation. In 2005, the sublease was terminated.

DISCUSSION
The lease term is set to expire on December 1, 2006. In order to provide much needed additional parking during the busy holiday season, Premier Properties has agreed to terminate the lease one month early on November 1, 2006 without a refund of pre-paid rent. Parking in downtown is at a premium, and the early termination will provide an additional 167 parking spaces on the upper two levels of the garage available to the public for hourly and permit parking.

RESOURCE IMPACT
The tenant has prepaid the rent and covered all construction and maintenance costs during the term of the lease; therefore, early termination will not result in revenue loss for the City. The City’s cost to maintain the garage for the additional month has not been budgeted in Fiscal Year 2006/07; however, the fiscal impact is anticipated to be minimal because the tenant has agreed to pay for the garage elevator maintenance through the end of November 2006.

POLICY IMPLICATIONS
Early termination of the lease does not represent any change to existing City policies.
ENVIRONMENTAL REVIEW

Termination of the lease will not affect the use of the facility for parking. Therefore, the lease termination is exempt from the requirements of the California Environmental Quality Act (CEQA).

PREPARED BY: ____________________________________________________________

WILLIAM W. FELLMAN
Manager, Real Property

DEPARTMENT HEAD APPROVAL: ___________________________________________

CARL YEATS
Director, Administrative Services

CITY MANAGER APPROVAL: ________________________________________________

EMILY HARRISON
Assistant City Manager