

CITY OF SANTA BARBARA WATERFRONT DEPARTMENT

MEMORANDUM

Date: March 18, 2010
To: Harbor Commission
From: John N. Bridley, Waterfront Director
Subject: Lease Agreement with Santa Barbara Yacht Club

RECOMMENDATION:

That Harbor Commission consider and recommend City Council approval of a new 25-year lease with the Santa Barbara Yacht Club at an initial rent of \$4,725 per month, retroactive to January 1, 2010, subject to annual fixed rate increases averaging 12% per year for the next 15 years of the lease and subject to annual Cost of Living increases based on the Consumer Price Index thereafter.

BACKGROUND:

The Santa Barbara Yacht Club (SBYC) has leased property in the harbor vicinity since 1950. The Yacht Club building is defined as personal property of the Club and can be removed by the tenant at the end of the lease. The current lease commenced on January 1, 1979, and the initial term expired on December 31, 1993. The current SBYC lease has a series of one-year extensions which renew automatically for 51 years beginning January 1, 1994 and ending December 2045. The lease can be terminated by SBYC or the City upon 10 years written notice of non-renewal.

SBYC leases approximately 67,500 square feet of space under a ground lease (Attachment 1 – Site Plan), meaning the Club is responsible for maintaining their building and property and the City incurs no expense from SBYC. The current rent is \$3,495 per month (\$0.05 per square foot /month). Staff believes \$0.05 per square foot is below market rent based on other Waterfront and Airport ground leases.

In 2004, Waterfront Department staff contacted SBYC representatives about staff's intention to issue the 10-year notice of non-renewal. SBYC representatives were concerned that the notice of non-renewal would have a negative effect on the Club's membership and appointed a lease negotiation team to discuss a possible new lease between the City and SBYC instead of acting on the 10-year notice of non-renewal (Attachment 2). Those lease discussions were not productive and the notice of non-renewal was sent in October 2004. Per the notice of non-renewal, the SBYC lease will expire on December 31, 2014.

DISCUSSION:

In July 2009, representatives from the SBYC expressed interest in resuming lease discussions and appointed a new lease negotiation team. Based on experience from the previous lease discussions, it was decided not to try to compare the rent to other yacht club leases. Some yacht clubs own the land they occupy and/or control/manage slips as part of their property (SBYC rents one end tie). Additionally, since the building and improvements are personal property of SBYC and can be removed at the end of the term, it was decided to base the rent on the rental value of paved or unimproved land. Currently, the Santa Barbara Sailing Club leases a 7,400 square foot yard in the harbor for \$0.19 per square foot per month. This rate is comparable to ground leases at the Airport and is consistent with an appraisal obtained by the Airport Department in July 2009.

Negotiations were based on gradually increasing the rent over time to get the SBYC rent to a market rent within 15 years, starting on January 1, 2010. A 44% inflation factor was added to the \$0.19 / square foot figure to derive a future rental value of \$0.28 per square foot in 2025. The step increases take place on January 1 of each year during the lease term, summarized as follows:

2010: 35% Rent Increases to \$56,700 / year
2011-2015: 57% Rent Increases to \$97,200 / year
2016-2025: 89% Rent increases to \$226,800 / year
2026-2035: Annual Cost of Living increases based on Consumer Price Index (CPI)

The basic terms of the proposed lease are as follows:

Term: 10 year lease with three 5-year options

Rent Increases: Step increases averaging 12% per year for 15 years (2025)

Cost of Living Increases: CPI increases - 3% min. increase / 5.5% max. after 2025

Staff recommends entering in to a new lease with SBYC now, in advance of the 2015 expiration date. The proposed new lease with SBYC will generate \$14,600 in additional rent revenue in 2010, and \$113,500 in additional rent prior to the current lease expiration date in 2015. Staff discussed the proposed lease with the Harbor Commission Budget Committee (Commissioners Kelly and Cramer) and the Committee supported the lease proposal and the gradual step rent increase approach.

Attachments: 1. Site Plan
2. 10-Year Notice of Non-Renewal
3. Harbor Commission Report

Prepared by: Scott Riedman, Waterfront Business Manager