



CITY OF SANTA BARBARA
PARK AND RECREATION COMMISSION REPORT

AGENDA DATE: February 27, 2008
TO: Park and Recreation Commission
FROM: Business Services, Parks and Recreation Department
SUBJECT: East Beach Grill Ownership Transfer

RECOMMENDATION: That the Commission recommend approval to City Council the assignment of the lease agreement for the East Beach Grill, from John K. Williams, Inc., the sole shareholder, to Francisco Aguilera, for the restaurant located at the Cabrillo Bathhouse.

DISCUSSION:

John Williams has operated East Beach Grill at the Cabrillo Bathhouse since 1984. Mr. Williams also has lease agreements with the Waterfront Department for Char West at 221 Stearns Wharf, and the Great Pacific Ice Cream Company at 219-A Stearns Wharf. The current lease for East Beach Grill will expire on December 31, 2012. A five year lease term extension was granted to Mr. Williams effective January 1, 2008.

The monthly base rent for East Beach Grill is currently \$6,573.24. The East Beach Grill lease requires a percentage rent of 11.4% of gross sales, or the base rent, whichever is greater. Total rent paid for 2007 (base + percentage) was \$100,344.94.

The permitted uses under the leases are described as follows:

Tenant shall use the Site only for the operation of an East Beach Grill Restaurant, serving breakfast, lunch and dinner, with beer and wine service only, and for no other purpose without the prior written consent of Landlord. Sale of shirt and caps imprinted with the Tenant's logo is an approved exception. All sales and displays must be conducted inside the building.

As stated above, the current lease extension for East Beach Grill was granted on January 1, 2008. Normally the Department does not recommend approval of lease assignments within two years of lease execution to prevent lessees from negotiating a lease solely for the purpose of selling the business and capitalizing on the additional value of a new, long-term lease. In this case, the Department is recommending the approval of the lease assignment due to the unique circumstances of this transaction, including:

- John Williams has been a tenant in good standing for 24 years;

- The leases are being assigned to his longtime employee and current manager; Francisco Aguilar; therefore the transition will be seamless and there will be no changes in management or operations;
- The current lease is essentially an extension of the original lease that commenced 24 years ago;
- The approval of the lease assignment now will enable the parties to close the transaction to coincide with the end of the company's fiscal year on April 1, 2008, which has implications on the company's defined benefit retirement plan and income tax reporting;
- Mr. Aguilera has signed the City's personal guarantee for the duration of lease. Additionally, Mr. Williams will personally guarantee the leases for 3 years following the lease assignment.

John Williams is considered a tenant in good standing by the Department as he has no default notices on file and is always prompt with rent payments. Gross sales for East Beach Grill increased 18.5% over the past four years. The business was audited successfully in April 2006.

In accordance with the Department's lease assignment procedure, no changes to the business terms of the leases will occur as part of these lease assignments.

BUDGET/FINANCIAL INFORMATION:

No changes in the base or percentage rent or terms and conditions of the lease affecting the calculation of the rent will occur; so there is no impact to the lease revenue received by the Department.

PREPARED BY: Nancy Woods, Parks and Recreation Business Manager

APPROVED BY: Nancy L. Rapp, Parks and Recreation Director