



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 4, 2014

TO: Mayor and Councilmembers

FROM: Business Services Division, Waterfront Department

SUBJECT: Introduction Of Ordinance For A Lease Agreement With Shoreline Beach Café

RECOMMENDATION:

That Council introduce and subsequently adopt, by reading of title only, an Ordinance of the Council of the City of Santa Barbara Approving a Ten-Year Lease Agreement with Two Five-Year Options Dated as of March 11, 2014, with Kevin Boss, Steve Marsh, and Beachrok, Inc, a California Corporation, Doing Business As Shoreline Beach Café, at an Average Initial Base Rent of \$14,342.06 per Month, Allocated Seasonally, for the 5,095 Square Foot Restaurant Located at 801 Shoreline Drive, Effective April 11, 2014.

DISCUSSION:

Shoreline Beach Café (SBC) has operated at 801 Shoreline Drive since 1997. Prior to that, it was known as the Leadbetter Beach Grill. The current lease dates back to 1994 and expires on May 23, 2014. The lease format is outdated and lacks current insurance requirements and lease assignment provisions, as well as maintenance and default clauses. Additionally, the lease has been assigned once and amended three times. The proposed lease modernizes those provisions and brings the lease into compliance with current City of Santa Barbara practices.

The current lease requires a percentage rent of 11.4% of gross sales, more than any other Waterfront full-service restaurant. The tenant requested a flat 10% of gross sales. Staff is recommending a percentage rent of 10% of gross sales up to \$1,250,000 and 11.4% on any sales above that amount. This percentage rent structure is similar to other Waterfront full-service restaurant leases (Attachment 1).

The percentage rent escalation at \$1.25 million is identical to the rent for Santa Barbara Shellfish Company, which operates at similar sales volumes as Shoreline Beach Café.

The lease with SBC is a ground lease, meaning SBC is responsible for all maintenance, repair and replacement on the property. Shoreline Beach Café has significantly improved the lease space area by installing a well-designed shade canopy for patrons,

new artistic deck railings, an improved deck heating system and most recently a completely renovated outdoor deck. As a result, patronage has increased and annual rent payments to the City have increased by 92% over the past 10 years. This increase justifies the minor percentage rent concession staff is recommending.

The business terms of the proposed lease are as follows:

- **Term:** Ten-year initial term with two, five-year options
- **Base Rent:** An average of \$ 14,342.06 per month allocated seasonally
- **Annual Rent Adjustment:** Cost of Living increases based on the Consumer Price Index (CPI)
- **Percentage Rent:** Ten percent (10%) of Tenant's Gross Receipts up to and including \$1,250,000 and 11.4% of Tenant's Gross Receipts in excess of \$1,250,000 per calendar year.

Shoreline Beach Café is considered a tenant in good standing by the Department as they have no outstanding default notices on file and have been prompt with rent payments.

The Harbor Commission recommended that the City Council approve the lease agreement at their January 23, 2014, meeting. A copy of the lease is available for review at the Waterfront Administration office.

BUDGETARY IMPACT:

The 1.4% rent reduction for the first \$1,250,000 million of gross sales is equivalent to a rent concession of \$17,500 annually. This is a minor concession considering the tenant's rent payments have nearly doubled in 10 years. For example, rent payments increased by \$30,000 between 2010 and 2011, \$25,000 between 2011 and 2012, and \$31,000 between 2012 and 2013. Staff is also recommending the change since the proposed rent structure is equitable with other Waterfront full-service restaurant tenants and the Department is not responsible for any maintenance expenses associated with the property.

ATTACHMENT: 1. Waterfront Full-Service Restaurant Percentage Lease Rates
2. Lease Area

PREPARED BY: Brian J. Bosse, Waterfront Business Manager

SUBMITTED BY: Scott Riedman, Waterfront Director

APPROVED BY: City Administrator's Office

ATTACHMENT 1

Waterfront Department Full-Service Restaurant Percentage Lease Rates

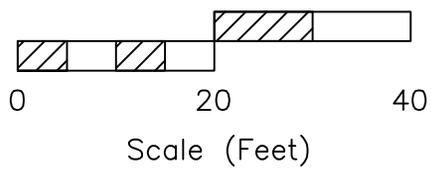
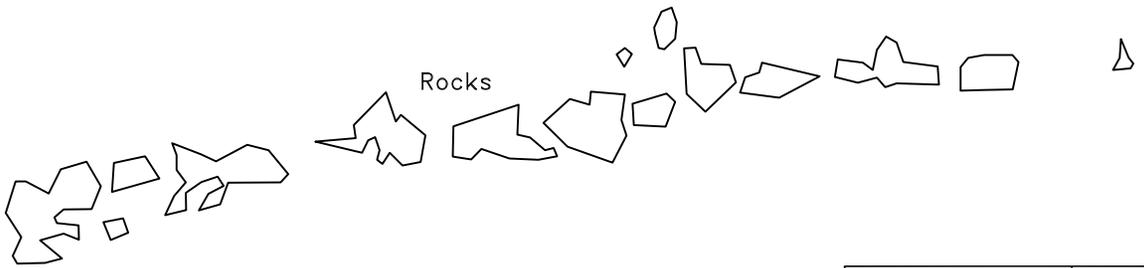
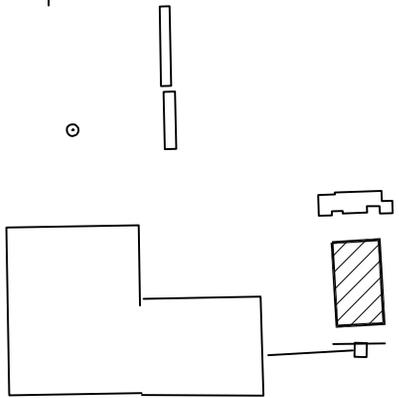
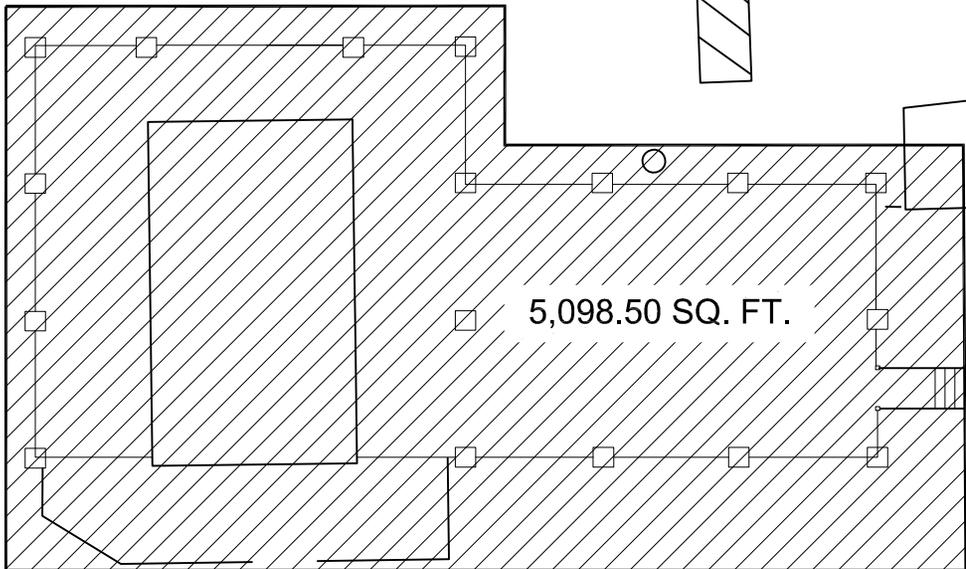
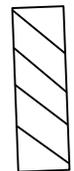
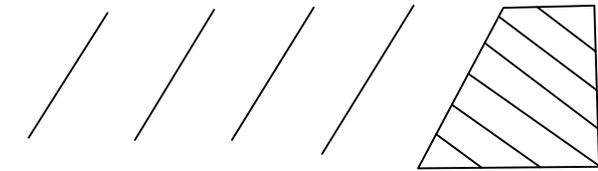
| Restaurant | Percentage Rent |
|-----------------------|---|
| Brophy's | 10%, escalates to 11% after \$3 million |
| Breakwater Restaurant | 10%, escalates to 11.4% after \$1 million |
| Char West | 11.4% |
| Sushi Go Go | 11.4% |
| Harbor Restaurant | 10%, escalates to 11% after \$3 million |
| Moby Dick | 10% |
| SB Shellfish Co. | 10%, escalates to 11.4% after \$1.25 million |
| Shoreline Beach Café* | 10%, escalates to 11.4% after \$1.25 million* |
| Waterfront Grill | 10%, escalates to 11% after \$3 million |

*Staff recommendation

LEASE AREA PLAN
 801 Shoreline Drive
 (Shoreline Beach Cafe)

Exhibit "A"
 Total Area = 5,098.50 SQ. FT.

Project North



| | | | |
|------------|----|------------------------------------|---|
| REVISIONS | | Shoreline Beach Cafe Lease Area | |
| 12/31/2013 | TL | SCALE: 1" = 20' | APPROVED BY: B. Bosse, Business Manager |
| | | DATE: 7/20/1998 | ADDRESS: 801 Shoreline Drive |
| | | City of Santa Barbara | |
| | | Waterfront Department | |
| | | DRAWN BY: T. Lawler | DRAWING NO.: 3020-003A |
| | | SHEET NO.: 1 of 1 | |