



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** February 10, 2015

**TO:** Mayor and Councilmembers

**FROM:** Business & Property Division, Airport Department

**SUBJECT:** Introduction Of Ordinance For Access License And Lease Agreement With High Sierra Grill Santa Barbara, Inc. And Rehabilitation Funding For 521 Norman Firestone Road

**RECOMMENDATION:** That Council:

- A. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Approving and Authorizing the Airport Director to Execute An Access License and Ten-Year Lease Agreement, with Three Five-Year Options, with High Sierra Grill Santa Barbara, Inc., a California Corporation, for 79,752 Square-Feet of Land, Including 8,695 Square-Feet of Building 252, at 521 Norman Firestone Road, at the Santa Barbara Airport, Effective Upon the Earlier of the Completion of the "City Improvements" or Nine Months after the License Commencement Date, for a Monthly Rental of \$12,694; and
- B. Increase appropriations by \$750,000 in the Airport's Capital Fund for Rehabilitation of 521 Norman Firestone Road to be funded from Airport Capital Fund reserves.

### **DISCUSSION:**

#### Background

The subject Premises is located south of Hollister Avenue in an Airport Industrial (AI-2) zone. The use conforms to existing zoning.

The Premises was occupied by the Elephant Bar & Grill until September 2013. Several Elephant Bar locations, including Santa Barbara, were closed as part of a restructuring of the Santa Barbara Restaurant Company, Inc.

City Council approved an exclusive listing agreement with the Radius Group, Inc. in January 2014 for the Airport properties at 521 Norman Firestone Road and 6010 Hollister Avenue. A proposal from the High Sierra Grill Santa Barbara, Inc. was received and vetted by the Radius Group, and presented to the Airport. Subsequent negotiations

facilitated by the Radius Group resulting in the terms of this proposal submitted for Airport Commission approval.

### Proposer's Qualifications

The High Sierra Grill Santa Barbara, Inc. (HSG) partners have extensive restaurant experience, operating five restaurants in Fresno, one in Merced and Mulligan's Café in Santa Barbara. HSG's financial statements have been reviewed by both the Radius Group and Airport Staff. A site visit to Fresno was conducted in September, one High Sierra Grill House restaurant and three Yosemite Falls Café locations were inspected. The quality of the food, presentation, and service were good and the ambiance was very warm and pleasant. Each location was busy and had developed a regular clientele.

### Proposed Services

HSG plans to serve breakfast, lunch, and dinner and provide live music on Friday and Saturday nights. In addition, they will pursue catering and event opportunities and actively pursue hosting local civic organization's regular monthly meetings and functions. The menu features a variety of appetizers, burgers, pizza, sandwiches, wood-smoked barbeque, salads, seafood, steaks, ribs, and specially themed "Gaucho" entrees and desserts. HSG will have a full bar. They also feature a full breakfast menu, including a Sunday buffet.

HSG also plans an aggressive marketing campaign, including giving discount coupons to local businesses during their "soft" opening.

### Tenant Improvements

HSG plans a modest remodel of the interior and exterior to freshen up the building and bring it in to conformance with the High Sierra's theme prevalent at its other locations. Improvements include:

- Re-upholstery of dining booths
- Demolish exterior storage closet and repair wall
- Paint interior and exterior
- Remove existing carpet and replace with new carpet or tile
- Provide new French door to existing patio
- Install new gas fire pit on existing patio
- Existing wood columns to be stone veneered
- Existing non-native plants to be removed and replaced by drought tolerant varieties

### Airport Improvements

During the tenure of the previous tenant, interior and exterior maintenance was the responsibility of the tenant. When the building was returned to the Airport, an inspection of the structure and all building systems was conducted. The following code updates and repairs were determined to be needed to get the space into rentable condition:

- Roof replacement
- Electrical code upgrades
- Sewer – new waste lines for the kitchen and employee restroom
- HVAC – replacement of the air-conditioning system and all roof top heating duct work, registers and connections
- Replacement of exterior termite damaged woodwork, including perimeter and screen walls
- Termite Tenting
- ADA upgrades as required
- Fire sprinkler system (if required). Tenant will pay for replacement of kitchen suppression equipment
- Repair of existing irrigation and building exterior where soil/irrigation has caused water damage, including removal of one Saga palm
- Roof lighting and parking lot lights will be delivered in good working order
- Mold and lead inspections, including mitigation if required
- Leveling of floor as required

Staff estimates the cost of improvements at \$750,000. Staff will conduct bidding processes for the repairs and improvements. Funds in the amount of \$750,000 are available in the Airport's Capital Fund reserves for Fiscal Year 2015 for this work.

### Rental

The proposed monthly rental is scheduled for the first ten years of the lease as follows:

Year 1-3	\$1.46 per square foot per month or \$12,694
Year 4-5	\$1.61 per square foot per month or \$13,999
Year 6-8	\$1.71 per square foot per month or \$14,868
Year 9-10	\$1.81 per square foot per month or \$15,738

At the beginning of each five-year option period, there will be an adjustment to "Fair Market Rent". The Fair Market Rent will be determined by mutual agreement or appraisal. At no time will the Fair Market Rent so determined be less than that of the previous year.

The Access License allows HSG onto the Premises to begin work on the tenant improvements during the time that the City is also undertaking the City Improvements. Lease Term and rental payments do not commence until after completion of the City Improvements.

Brokerage Fees

The Airport will pay to the Radius Group fees for services rendered as follows:

<b>521 Firestone Road: Commission Payable</b>					
Year	Base Rent/SF	Monthly Base Rent	Base Rent for Period	Total Base Rent	Brokerage Fee
Years 1-3	\$1.46	\$12,695	\$457,009		
Years 4-5	\$1.61	\$13,999	\$335,975		
<b>Total Years 1-5</b>				<b>\$792,984</b>	
<b>Commission Percentage (Years 1-5):</b>			<b>6%</b>		<b>\$47,579</b>
Years 6-8	\$1.71	\$14,868	\$535,264		
Years 9-10	\$1.81	\$15,738	\$377,711		
<b>Total Years 6-10</b>				<b>\$912,975</b>	
<b>Total Commission Percentage (Years 6-10):</b>			<b>3%</b>		<b>\$27,389</b>
<b>Total Base Rent Received:</b>				<b>\$1,705,959</b>	
<b>Commission Payable to Lessee's Broker:</b>				<b>\$37,484</b>	
<b>Commission Payable to Lessor's Broker:</b>				<b>\$37,484</b>	
<b>Total Commission Payable to Lessee's and Lessor's Broker:</b>					<b>\$74,968</b>

Fees will be paid upon execution of the lease. Funding for the brokerage fees is included in the Airport Operating Fund.

The proposed Access License and Lease Agreement has been reviewed and determined to be exempt from environmental review. Airport Commission recommended approval January 21, 2015.

**PREPARED BY:** Rebecca Fribley, Sr. Property Management Specialist

**SUBMITTED BY:** Hazel Johns, Airport Director

**APPROVED BY:** City Administrator's Office