

REPORT

DATE ISSUED: March 2, 2007

REPORT NO: HAR07-11

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of March 23, 2007

SUBJECT: Starbucks Coffee - Smart Corner Leasing Arrangements

REQUESTED ACTION:

Approval by the Housing Commission and the Housing Authority of the proposed leasing arrangement between the San Diego Housing Commission and Starbucks Corporation (“Starbucks”) to lease space at the Smart Corner building.

STAFF RECOMMENDATION:

That the President & Chief Executive Officer (CEO) be authorized to execute lease documents between the Housing Commission and Starbucks, for retail space at the Smart Corner building located at 1122 Broadway, on terms set forth in this report and Attachment 1 and in a lease form as approved by General Counsel to the Commission. The lease would have a ten year initial term and three 5-year options to renew.

BACKGROUND:

On July 23, 2003 and July 29, 2003 the Housing Commission and the Housing Authority, respectively, approved a Purchase and Sale Agreement (PSA) between the Housing Commission and Lankford & Associates, Inc., for the Housing Commission’s new office facility to be located at 1122 Broadway in San Diego. Further, the Housing Authority delegated responsibility for all cardinal issues related to the acquisition of the office facility to the Housing Commission.

On November 1, 2006, the Housing Commission took title to the parking garage and office building on time and on budget. The Housing Commission occupies three of the five floors in the Smart Corner building. The ground floor is available for lease to retail businesses and the second floor is available for lease to other organizations. The Housing Commission retained the leasing services of CB Richard Ellis to negotiate leasing arrangements with potential tenants.

DISCUSSION:

Attachment 1 is a term sheet for the proposed lease between the San Diego Housing Commission (“Landlord”) and Starbucks (“Tenant”), a Washington corporation. Starbucks will lease approximately 1,825 square feet of space on the first floor of the Smart Corner building located at 1122 Broadway in San Diego. The initial term of the lease will be for ten (10) years; the lease includes three successive options to extend the term of the lease for five (5) years for each option for a total potential lease term of twenty-five (25) years.

The per square foot (P.S.F.) rent for the first three (3) years of the lease term will be \$3.25 (on a triple net basis), equaling a monthly rent of \$5,931.25 (\$71,175.00 annually). During years four and five (4-5) the rent P.S.F. increases by \$.35 to \$3.60 for a monthly rent of \$6,570.00 (\$78,840.00 annually). In years six to ten the rent increases by another \$.35 p.s.f. to \$3.95 with a monthly rent of \$7,208.75 (\$86,505.00 annually).

Each 5 year option includes an increase in rent culminating with a monthly rent of \$9,161.50 (\$5.62 P.S.F. or \$109,938.00 annually) for years 21 through 25. Taking into account the tenant improvement allowance (monies paid by the Housing Commission to Starbucks in the amount of \$160,123 upon completion of the work by Starbucks) and amortizing the cost over the ten years of the initial lease term equates to a rent of \$2.49 P.S.F. This compares favorably to the original project pro forma rent of \$2.00 per square foot. Space is being rented on a "triple net" basis, meaning that, in addition to rent, Tenant will also pay a share of the ongoing operating costs of the building (janitorial service, utilities, taxes).

Starbucks is required to provide commercial general public liability and property damage insurance of not less than \$2,000,000 per single occurrence and the Housing Commission and the Housing Authority of the City of San Diego will be named as additional insureds (with cross liability endorsements).

The lease allows Starbucks the use of up to 5 parking spaces for employees at an initial rate of \$125 per month.

The proposed lease terms have been negotiated by CB Richard Ellis and Housing Commission staff and the form of lease will be as approved by General Counsel to the Housing Commission. The Commission is requesting that the authority approve the form of the lease, provided that it meets the deal points outlined in Attachment 1 be delegated to the CEO and the General Counsel of the Commission.

FISCAL CONSIDERATIONS:

Funding for the tenant improvement allowance payment to Starbucks of \$160,123 is included in the FY07 Housing Commission budget previously approved by the Housing Commission on April 14, 2006 and the Housing Authority on May 2, 2006.

ENVIRONMENTAL REVIEW: This action is categorically exempt from the provisions of CEQA pursuant to State CEQA Article 19 Guidelines, Section 15301 (existing facilities).

Respectfully submitted,

Approved by,

Steven Snyder
Director, Facilities

Elizabeth C. Morris
President & Chief Executive Officer