



## REPORT

**DATE ISSUED:** September 29, 2016

**REPORT NO:** HCR16-083

**ATTENTION:** Chair and Members of the San Diego Housing Commission  
For the Agenda of October 7, 2016

**SUBJECT:** Lease Approval for Adamo Dry Cleaners at Hotel Sandford

**COUNCIL DISTRICT:** 3

### **REQUESTED ACTION**

Approve a 62-month retail lease, with a retroactive Commencement Date of August 1, 2016, to occupy commercial space located at 1305 5<sup>th</sup> Avenue, San Diego, CA 92101 in the Hotel Sandford building. This lease includes two months of rent abatement and a five-year option to extend under the original terms.

### **STAFF RECOMMENDATION**

That the San Diego Housing Commission (Housing Commission) recommend the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

- 1) Approve a lease with Mrs. Shin Lee, dba Adamo Dry Cleaners, for a period of 62 months, which includes four months of abated rent, with a retroactive Commencement Date of August 1, 2016, and with one five-year extension option to occupy commercial space at Hotel Sandford, located at 1305 5<sup>th</sup> Avenue, San Diego, CA 92101; and
- 2) Authorize the President & Chief Executive Office (President & CEO), or designee, to execute all lease documents and instruments that are necessary and/or appropriate to implement these approvals, in a form approved by General Counsel, and to take such actions as are necessary and/or appropriate to implement these approvals.

### **SUMMARY**

On February 23, 2010, the Housing Authority approved the acquisition of Hotel Sandford. The four-story building, which is designated as a local historical landmark, consists of 129 affordable Single Room Occupancy (SRO) rental housing units for very low-income seniors and one manager's unit. The front of the property facing 5<sup>th</sup> Avenue includes approximately 7,734 square feet of first-floor commercial space.

On July 1, 2015, the Housing Commission received a request from P5 Martial Arts Academy (P5 Academy) to terminate their lease due to a change in the business plan. The request was approved on September 10, 2015, leaving approximately 1,876 square feet of commercial space vacant. All remaining amounts due per the terms of the lease have been placed in a collection status.

In March of 2014, the Housing Commission engaged the services of Jones Lang LaSalle (JLL) retail brokerage to locate suitable tenants. In June of 2016, JLL provided a Letter of Intent to lease a portion of the space vacated by P5 Academy to Mrs. Shin Lee, dba Adamo Dry Cleaners (Tenant), providing dry cleaning (Fluff & Fold), tailoring, and shoe repair services. All dry cleaning services will be performed off-site. Terms of the lease state that the space is offered as-is. No tenant improvements are offered, and Tenant is responsible for electrical utility usage.

Mrs. Lee has operated her business for the past 26 years just a few blocks from Hotel Sandford and has established herself within the community and with some of Hotel Sandford's residents.

Key terms of the proposed lease are as follows:

1. Initial lease term for the proposed lease is for one year, beginning on August 1, 2016, which is within the Approval Authority of the President & CEO per Housing Authority approved Procurement Policy, PO-PUR-373.01. Upon approval of the Housing Commission Board the term of the lease shall be for a total of 60 months. Upon approval of the Housing Authority, the term of the lease shall be for 62 months, plus one five-year lease extension option.
2. Rental rate at lease commencement will be \$1.45 per square foot, increasing at 3 percent annually for the term of the lease:

<b>Period</b>	<b>Monthly Rent</b>	<b>Rent/SF</b>
8/1/2016-8/30/2016	\$903.63	\$1.45
9/1/2016-12/31/2016	No Rent Due or Payable	\$0.00
1/1/2017-12/31/2017	\$903.63	\$1.45
1/1/2018-12/31/2018	\$930.74	\$1.49
1/1/2019-12/31/2019	\$958.66	\$1.54
1/1/2020-12/31/2020	\$987.42	\$1.58
1/1/2021-9/30/2021	\$1,017.04	\$1.63

3. Four months of full rent concession will be provided for the period beginning September 1, 2016, through December 31, 2016. Regular monthly rent payments will continue January 1, 2017.
4. The Tenant will have one option to extend the lease term for five years upon the same covenants and conditions of this lease, except that the Base Rent shall be increased to the then prevailing market rental rate provided that the rate is not less than 103 percent of the rent during the last month of the lease.

5. The Tenant shall be responsible for the cost of all Tenant improvements. All Tenant improvements must be approved by the Housing Commission, with the exception that the Tenant shall be allowed to paint, add interior facing signage, install removable and/or temporary flooring (e.g. removable carpeting or tiles), and window blinds without Housing Commissions consent.
6. The Tenant shall be responsible for a prorated share of Common Area Maintenance expenses to include but not limited to water, trash and electricity.
7. The Tenant is responsible for any new signage and must obtain approval from the Housing Commission, Civic San Diego and the City of San Diego prior to installation. The signage must conform to the Hotel Sandford Tenant Signage Criteria regulations dated September 27, 2010.

### **FISCAL CONSIDERATIONS**

The proposed sources requested in this report were included in the Fiscal Year (FY) 2017 Housing Commission budget approved by the Housing Authority. Annual revenue for this space was budgeted (before space subdivision) at \$35,694 (\$1.50 per square foot consistent with proposed leased).

The proposed uses requested in this report were not included in the Fiscal Year (FY) 2017 Housing Commission budget approved by the Housing Authority. The Exclusive Listing Agreement with Jones Lang LaSalle indicates that a 6 percent commission, \$3,468 for the initial lease, will be paid as a compensation for brokerage lease services, including any renewal or extension. Approving this action will increase FY2017 budgeted property expenses by \$3,468.

FY17 Funding uses approved by this action will be as follows:

Property Expenses - \$3,468

Revenue received for the duration of this lease will be as follows:

FY 2017	\$ 4,518
FY 2018	\$11,142
FY 2019	\$11,476
FY 2020	\$11,820
FY 2021	\$12,175
FY 2022	\$ 3,051
Total Lease Revenue	<u>\$54,182</u>

### **PREVIOUS COUNCIL and/or COMMITTEE ACTION**

On December 18, 2009, the Housing Commission unanimously approved the property acquisition of the Hotel Sandford (HCR09-107)

On June 10, 2011, the Housing Commission unanimously approved a five-year lease for the P5 Academy for a period of five years (HRC11-070).

**KEY STAKEHOLDERS and PROJECTED IMPACTS**

Key stakeholders related to this approval are Mrs. Shin Lee, dba Adamo Dry Cleaners, her staff, customers, as well as the residents and staff of Hotel Sandford and the Housing Commission.

**ENVIRONMENTAL REVIEW**

The proposed lease is categorically exempt from the requirements of California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15301 because Hotel Sandford is an existing facility and the proposed actions involve negligible or no expansion of the existing use. Furthermore, the project meets the criteria set forth in CEQA Section 15301, which allows for leasing activities in existing facilities and where the exceptions listed in CEQA Section 15300.2 would not apply. Processing under the National Environmental Policy Act is not required since no federal funds are involved in this action.

Respectfully submitted,

*John Mann*

John Mann  
Asset Manager  
Portfolio Management Department

Approved by,

*Michael Pavco*

Michael Pavco  
Senior Vice President  
Real Estate Division

Hard copies are available for review during business hours at the security information desk in the main lobby and the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Public Meetings" section of the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org).