

REPORT**DATE ISSUED:** July 15, 2008 **REPORT NO. HCR08-88****ATTENTION:** Chair and Members of the Housing Commission
For the Agenda of August 15, 2008**SUBJECT:** Smart Corner Leasing Arrangements with DAVICH, USA, a California Corporation.**REQUESTED ACTION:**

Approval by the Housing Commission and the Housing Authority of the proposed leasing arrangements on terms detailed in the executed Letter of Intent between the San Diego Housing Commission (SDHC) and DAVICH, USA, a California Corporation (DAVICH, USA) to lease space at the Smart Corner building.

STAFF RECOMMENDATION:

That the Interim President and Chief Executive Officer (CEO) be authorized to execute lease documents between the Housing Commission and DAVICH, USA, 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 (10) year initial term and one (1) five (5) year option 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 non-profit and governmental organizations. The Housing Commission retained the leasing services of CB Richard Ellis to negotiate leasing arrangements with potential tenants.

FISCAL CONSIDERATIONS:

Funding for the tenant improvement allowance payment to DAVICH, USA is included in the FY09 Housing Commission budget previously approved by the Housing Commission on April 25, 2008 and the Housing Authority on June 10, 2008.

DISCUSSION:

Attachment 1 is the Letter of Intent for the proposed lease between SDHC ("Landlord") and DAVICH, USA ("Tenant"), a California corporation. DAVICH will lease approximately 2,319

July 15, 2008

Smart Corner Leasing Arrangements with DAVICH, USA a California Corporation

Page No. 2

square feet of space on the first floor of the Smart Corner building located at 1122 Broadway in San Diego. DAVICH, USA will be allowed to sublease or assign a portion of its space to a licensed optometrist for an optical exam office to consist of approximately 800 square feet within the 2,319 square feet space. The initial term of the lease will be for ten (10) years and the lease includes an option for an additional five (5) years for a total potential lease term of fifteen (15) years.

The per square foot (P.S.F.) rent for the first three (3) years of the lease term will be \$2.55 (plus applicable Triple Net costs and Possessory Interest Taxes), equaling a monthly rent of \$5,913 (\$70,961 annually). During years four through six (4-6) the rent increases by \$0.30 to \$2.85 P.S.F. for a monthly rent of \$6,609 (\$79,309 annually). In years seven through ten, the rent increases by another \$0.35 to \$3.20 P.S.F. with a monthly rent of \$7,420 (\$89,049 annually).

At the end of the initial ten (10) year lease, the additional five (5) year option term shall be at a rate calculated at then current fair market value. Taking into account the tenant improvement allowance (monies paid by SDHC to DAVICH, USA in the amount of \$162,330 upon completion of the work by DAVICH, USA) and amortizing the cost over ten years, the initial base rate equates to a rent of \$2.06 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).

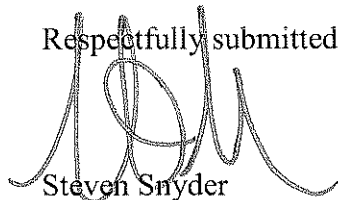
DAVICH, USA is required to provide commercial general public liability and property damage insurance of not less than \$2,000,000 per single occurrence and SDHC and the Housing Authority of the City of San Diego will be named as additional insureds (with cross liability endorsements).

The proposed lease terms have been negotiated by CB Richard Ellis and SDHC staff and the form of lease will be as approved by General Counsel to SDHC.

ENVIRONMENTAL REVIEW:

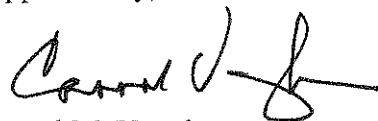
This action is categorically exempt from the provisions of California Environmental Qualities Act (CEQA) pursuant to State CEQA Article 19 Guidelines, Section 15301 (existing facilities).

Respectfully submitted,



Steven Snyder
Director of Development & Asset Management

Approved by,



Carrol M. Vaughan
Interim President & Chief Executive Officer

Attachment 1: Letter of Intent

Attachment 1

Reg Kobzi
Senior Vice President
Brokerage Services
Retail Properties

CBRE

CB RICHARD ELLIS
4365 Executive Drive, Suite 900
San Diego, CA 92121-2127

T 858 546 4604
F 858 546 4630

reg.kobzi@cbre.com
www.cbre.com

July 15, 2008

Edward K. Lee
Coldwell Bank Commercial
3055 Wilshire Boulevard, Suite 810
Los Angeles, CA 90010

**RE: COUNTER PROPOSAL
LETTER OF INTENT TO LEASE, "SMART CORNER"
SAN DIEGO, CALIFORNIA 92101**

Dear Edward,

After the Landlord's (San Diego Housing Commission) review we are pleased to present the following response with respect to the Landlord's building at 1122 Broadway (the "Building"). Landlord does not own or control the building, including without limitation the ground floor retail space, located directly northeast (across the trolley tracks) from 1122 Broadway, which is commonly known as 1080 Park Blvd. This letter is not intended to be a binding contract, a lease or an offer to lease, but is intended only to provide the basis for negotiations for lease documents between Landlord and Lessee.

**1. LESSEE: DAVICH, USA, a California Corporation.
3055 Wilshire Boulevard, Suite 860
Los Angeles, California 90010
www.davich.com**

Davich is a Korea-based client, with approximately 120 chain stores throughout South Korea. They are looking to expand and grow their presence in the American market and are targeting mainstream, high traffic locations with great visibility. Please see attached "Exhibit B" for pictures of some of their existing stores.

2. BUSINESS: Lessee shall conduct business as a one-stop optometric/optical retail and service store and will include services and items such as, but not limited to, eye examinations, contact and prescription lens fitting, eyewear/sunglasses, etc.

Landlord guarantees that Lessee shall be given the exclusive right within the Building, to sell, distribute, advertise, etc. optometric/optical services, products, and/or items affiliated or pertaining to such. Provided, however, that Lessee acknowledges and agrees that 7-Eleven is an existing tenant of the Building and that from time to time 7-Eleven may sell glasses.

Lessee shall not to use all or any portion of the premises in any manner that would violate the 7-Eleven or Starbucks uses and Lessee agrees to indemnify Landlord for any violation by the same.

- 3. PREMISES:** Approximately 2,319 rentable square feet (to be verified) of the corner space at 11th Avenue and Broadway.
- 4. BASE RENT:** \$2.55 per SF/month plus applicable Triple Net costs and applicable Possessory Interest Taxes, for the first three (3) years of the lease. \$2.85 per SF/month, plus applicable Triple Net costs and applicable Possessory Interest Taxes for the years 4 through 6. \$3.20 per SF/month, plus applicable Triple Net and applicable Possessory Interest Taxes costs for the years 7 through 10.
- 5. LEASE COMMENCEMENT:** The lease commencement date shall be October 1, 2008.
- 6. RENT ABATEMENT:** The obligation to pay rent shall commence on the earlier of: (i) the date Lessee opens for business at the premises or (ii) four (4) months from the lease commencement date.
- 7. TERM:** Initial lease term shall be ten (10) years.
- 8. OPTION:** Lessee shall be given the option to renew said lease for one (1) additional five (5) year term.

9. TENANT IMPROVEMENTS: Landlord shall give to Lessee a tenant improvement allowance of \$70 per rentable square foot for the purposes of finishing the interior of the demised space, most notably, but not only, the regarding of the floor, partitioning structures, walls, floors, etc. Lessee will receive the Improvement Allowance from Landlord in a lump sum within thirty (30) days of the last to occur of (i) completion by Lessee of the tenant improvements; (ii) written receipt by Landlord of all lien releases from materials men and contractors providing goods and services for the tenant improvements; (iii) a Certificate of Occupancy from the City of San Diego or permits required by applicable jurisdictional authorities to open for business; (iv) delivery by Lessee to Landlord of "As Built" drawings for all of work done at the Premises.

It is anticipated that Landlord shall deliver the Premises to Lessee on the lease commencement date concurrently with Landlord's execution and delivery of the Lease. Landlord shall give to Lessee the right to construct another entrance on the 11th Avenue side of the street, for Lessee's optical exam office. Please see "Exhibit A" for additional entrance location.

All plans to be provided at a later time and to be done with the prior written consent of the landlord, with all proper permits and in accordance to all applicable municipal codes and regulations. Lessee shall submit plans and specifications for Lessee's initial tenant improvements to Landlord for Landlord's reasonable approval. Thereafter, Lessee shall cause the initial tenant improvements to be constructed.

Lessee, at Lessee's sole cost and expense, shall apply for and obtain any and all final and non appealable permits and/or licenses (including but not limited to the building permits, and all other necessary approvals of the City of San Diego, the Centre City Development Corporation and any other applicable government entities) that are required by applicable laws to enable Lessee to legally construct the tenant improvements and conduct its business at the Premises.

Lessee's successful business model entails that its store interior and its contents be visible to the public, in the hopes of attracting more business. Please see attached "Exhibit C" for existing store concept. Lessee requests the right to change the opaque "green" tint window-fronts to clear see-through window-fronts at Lessee's sole cost

(subject to City and all governmental approvals). Upon end of term of lease or extension Lessee shall install green tint window fronts as necessary to match existing building glazing at its own expense.

10. SIGNAGE: Landlord shall allow Lessee the right to place signage on the premises for maximum visibility consistent with the balance of the tenants in the Building and the maximum allowable per city codes in accordance with Landlord's sign criteria. All signage shall be done at the sole cost of the Lessee, with all proper permits and in accordance to all applicable municipal codes and regulations. Lessee shall submit to Landlord proposed signage for Landlord approval prior to installation

11. POSSESSORY INTEREST TAXES: Lessee shall be liable for and agrees to pay all taxes levied upon personal property leasehold improvements, additions, alterations and fixtures including trade fixtures and inventory locations on the Premises. Lessee shall pay said taxes directly to the respective taxing authorities.

12. CONTINGENCIES: The lease of the premises from Landlord to Lessee is contingent upon: (i) Landlord reviewing and approving Lessee's financial statements; (ii) the parties agreeing to and executing a Lease; and (iii) the final Lease agreement is approved by the Board of Commissions of the San Diego Housing Commission and its counsel and the Housing Authority and the City of San Diego.

13. SEPARATE LEASES: Lessee will be allowed to sublease or assign a portion of its space to a licensed optometrist (per governmental regulations) for an optical exam office, to consist of approximately 800 SF (within the 2,319 SF space) However, Lessee shall remain liable for the lease obligation.

THIS LETTER/PROPOSAL IS INTENDED SOLELY AS A PRELIMINARY EXPRESSION OF GENERAL INTENTIONS AND IS TO BE USED FOR DISCUSSION PURPOSES ONLY. THE PARTIES INTEND THAT NEITHER SHALL HAVE ANY CONTRACTUAL OBLIGATIONS TO THE OTHER WITH RESPECT TO THE MATTERS REFERRED HEREIN UNLESS AND UNTIL A DEFINITIVE AGREEMENT HAS BEEN FULLY EXECUTED AND DELIVERED BY THE PARTIES. THE PARTIES AGREE THAT THIS LETTER/PROPOSAL IS NOT INTENDED TO CREATE ANY AGREEMENT OR OBLIGATION BY EITHER PARTY TO NEGOTIATE A DEFINITIVE LEASE/PURCHASE AND SALE AGREEMENT AND IMPOSES NO DUTY

WHATSOEVER ON EITHER PARTY TO CONTINUE NEGOTIATIONS, INCLUDING WITHOUT LIMITATION ANY OBLIGATION TO NEGOTIATE IN GOOD FAITH OR IN ANY WAY OTHER THAN AT ARM'S LENGTH. PRIOR TO DELIVERY OF A DEFINITIVE EXECUTED AGREEMENT, AND WITHOUT ANY LIABILITY TO THE OTHER PARTY, EITHER PARTY MAY (1) PROPOSE DIFFERENT TERMS FROM THOSE SUMMARIZED HEREIN, (2) ENTER INTO NEGOTIATIONS WITH OTHER PARTIES AND/OR (3) UNILATERALLY TERMINATE ALL NEGOTIATIONS WITH THE OTHER PARTY HERETO.

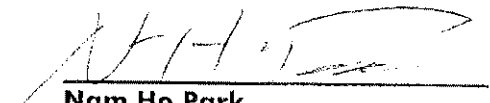
If acceptable, please have your client acknowledge their acceptance below.

Sincerely,

CB Richard Ellis, Inc.

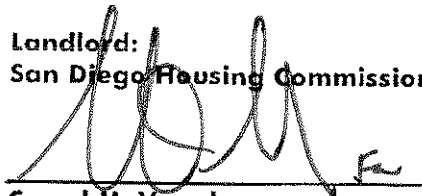
Reg Kobzi
Senior Vice President

Agreed and Accepted:
Lessee:
Davich USA



Nam Ho Park
Director, Business Development
North America

Landlord:
San Diego Housing Commission



Carrol M. Vaughan
Interim President and CEO