

## ALAMITOS BAY MARINA CENTER / SEAL BEACH YACHT CLUB

### BACKGROUND

- The Seal Beach Yacht Club (SBYC) has been in existence since 1961.
- In 1971, the City of Long Beach leases SBYC its present location at 255 Marina Drive (the former Marine Bazaar building).
- On February 1, 1994, the City Council approves a 25-year Master Lease with BANCAP Marina Center, Inc., (BANCAP), for the remodeling, expansion, renegotiation of leases, and ongoing management of the building. BANCAP invests \$1.85 million in improvements which is recouped through rent credits by October 2005.
- Concurrently, the City authorized BANCAP to enter into a new lease with SBYC and other tenants of the building.
- The base rent paid to the City escalates from \$100,000 to \$400,000 per year and is adjusted annually based upon the percentage increase in Net Operating Income (NOI). The current base rent is \$453,636. In addition, the City receives 70% of the residual NOI (i.e., income after expenses including base rent).
- BANCAP receives 6% of the gross revenues plus 30% of the residual NOI amounting to \$61,503 in 2009.
- BANCAP essentially acts in a property management capacity and has the right to cancel the Master Lease upon 60-day notice.

### SBYC MEMBERSHIP & FINANCIALS

Over the past few years, SBYC's membership levels have been as follows:

Club Charter	500 Max. Allowed
2005-2007	350+
2007	257
2008	244
Jan. 2010	222 (represents a nearly 40% reduction since 2005)

From a financial standpoint, SBYC is currently operating in the red. In 2008 and 2009, operating expenses exceeded revenues for a combined deficit of approximately \$28,373.

For a comparison of the SBYC to other yacht clubs in the Alamitos Bay Marina, please refer to **Attachment A**.

### PROPOSED RENTAL REDUCTION FOR THE SBYC

In November 2009, BANCAP informed the City of the economic hardships facing the SBYC and the possibility of defaulting on their lease if the current financial situation persisted. BANCAP recommended to the City a temporary two-year rental reduction of \$3,000 per month in the SBYC lease along with a commensurate two-year reduction of \$3,000 per month in the base rent paid to the City by BANCAP under the Master Lease. Staff proposes that the reduction in the rent should reflect the percentage breakdown of residual lease revenue (i.e., City receives 70% and BANCAP receives 30% of residual NOI). Both parties tentatively agreed to the proposed structure whereby the monthly reduction in base rent payments are partially offset by priority payments reimbursed to the City by BANCAP.

In order to further determine the prospective financial impacts of the proposed deal, staff tested the marketability of the space through an independent evaluation prepared by one of the City's brokerage firms (Cushman & Wakefield), as well as an evaluation by BANCAP (**Attachments B and C**). The analysis determined the City would lose significantly more revenue by not providing the requested assistance (approximately \$110,387 on a best case scenario), assuming no assistance would lead to a lease default by SBYC and temporary vacancy of the space. The relative economic impact is illustrated in the attached spreadsheet (**Attachment D**).

YACHT CLUB COMPARISON

	<u>Seal Beach Yacht Club (SBYC)</u>	<u>Alamitos Bay Yacht Club (ABYC)</u>	<u>Long Beach Yacht Club (LBYC)</u>
<b>Lease Type:</b>	Sublease to BANCAP Lease.	Ground lease.	Ground lease.
<b>Term:</b>	Expires June 30, 2019. 25-year term executed in 1994.	Expires October 31, 2047. Lease extension granted in 2009.	Expires January 19, 2050. Lease extension granted in 2007.
<b>Premises:</b>	Two story facility (5,925 sf).	102,279 sf of land.	70,557 sf of land.
<b>Improvements:</b>	\$95,000 in capital improvements required and completed in 1994.	\$940,000 in capital improvements required throughout the term.	\$430,000 in capital improvements required and completed in 2007.
<b>Rent:</b>	\$94,860 per year (\$7,905/mo.).	\$15,000 per year (\$1,250/mo.).	\$10,705 per year (\$892/mo.).
<b>Rental Increases:</b>	CPI increases annually.	Compound CPI every five years.	Compound CPI every five years.
<b>Additional Rent:</b>	None.	Fair market rent is offset through required annual junior sailing instruction.	Lease extension payments totaling \$250,000 and \$1,000,000 in long dock improvement fees through 2011.
<b>Membership:</b>	222 regular members.	405 regular members.	1,000 regular members.
<b>Dues:</b>	\$75 per month.	\$84 per month plus \$14 monthly capital contribution.	\$165 per month plus \$60 per month food and beverage obligation.
<b>Initiation Fees:</b>	\$100 (reduced down from \$400).	\$1,000	\$9,000
<b>Revenue Sources:</b>	Membership.	Membership, racing events and mooring rentals.	Membership, restaurant/bar sales, facility rentals (i.e., weddings, etc.), and catering sales.
<b>Boat Facilities:</b>	None.	Dry boat storage and adjoining slip rentals through PRM.	Adjoining slip rentals through PRM.
<b>*Total Rent:</b>	\$948,600	\$640,000	\$607,050

\* Total Rent includes rental payments, capital improvements, and lease extension payments over the next 10 years.

Robert S. Garey  
Senior Director



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February 17, 2010

Mr. Matt Brookes  
Development Project Manager  
CITY OF LONG BEACH  
333 W. Ocean Blvd., 3<sup>rd</sup> Floor  
Long Beach, CA 90802

RE: Seal Beach Yacht Club Lease

In reference to your inquiry about potentially marketing the Seal Beach Yacht Club space in Long Beach, we offer our comments in this letter.

The property located at 241-244 Marina Drive and more commonly known where the Schooner or Later Restaurant is located is a desirable area along the Long Beach marina. Normally, we would anticipate that prospective tenants would be interested in this location for available space. However, given there are use restrictions that apply to this property (maritime related), this could severely limit the potential pool of prospective tenants. In addition, the current economic environment has had a negative impact on many tenants and the vacancy trend is growing. We anticipate this trend will continue for the next 12 to 18 months with a further decline in rental rates.

In the event the Seal Beach Yacht Club space which consists of approximately 5,925 square feet were to become vacant, we anticipate the following assumptions to find a new tenant for the space:

- Time period to find a new tenant for the space could range from 2 to 12 months (Typically, it takes approximately 6 to 8 months in a normal market).
- Anticipated rent in the \$1.25 to \$1.75 per square foot per month on a NNN basis.
- Tenant improvements needed for a new tenant space could range from \$10.00 to \$30.00 per square foot.
- Typically it takes approximately 30 to 45 days for planning and permitting and 90 to 120 days for construction.
- Lease terms are generally 3 to 5 years.
- Concessions offered are typically one (1) month of free rent for each year of the lease.

Excluding the rent that you may be able to achieve for the subject space, the "downtime" that the space is dark, the tenant improvement costs and the free rent concessions can be substantial. The following is a "best case" scenario of downtime, tenant improvements and free rent for the space:

1. Six (6) months to find a new tenant.

2. Four (4) months for permitting and constructing the improvements.
3. Three (3) months of free rent (3-year lease).
4. \$10.00 per square foot for tenant improvements (\$59,250).


The total economic value of items 1 – 4 above is approximately \$162,015 (13 months of rent at \$7,905 per month, plus \$59,250 for the tenant improvements). Of course these time frames can be longer and the costs higher given the uncertain market conditions we are currently experiencing.

The current sentiment with owners/landlords of properties in the current and foreseeable market is to retain existing tenants as long as they are potentially viable in meeting their future commitments, and many landlords are restructuring leases for existing tenants if the evidence is compelling to make such a decision.

We hope you find the above helpful with this matter. Please let me know if you have any further questions.

Sincerely,

CUSHMAN & WAKEFIELD OF CALIFORNIA, INC. – LIC.#00616335



Robert S. Garey  
Senior Director  
Lic.# 01019650

RSG:rg

**BANCAP MARINA CENTER, INC.  
(Alamitos Bay Marina Center)**

February 23, 2010

Mr. Matthew Brookes  
Development Project Manager  
Department of Community Development  
CITY OF LONG BEACH  
333 W. Ocean Boulevard (3<sup>rd</sup> floor)  
Long Beach, CA 90802

Re: SEAL BEACH YACHT CLUB

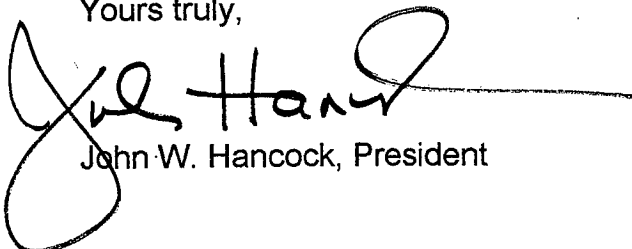
Dear Matthew:

We do not believe the question raised by the City Manager's office is unreasonable nor do we think the evaluation/response to the question supports any change in the action which we have jointly negotiated and tentatively agreed to. We believe Mr. Garey's analysis of the situation and response to it is reasonable and also supports moving forward as recommended.

The current negative economic environment substantially impacts this situation as we know. Alternative potential users for this property seem fairly limited in this market (especially for desired retail or restaurant usage) and are further adversely affected by (1) the difficulty of finding another Marine-related user and (2) it being a two-story building which, while o.k. for the current Yacht Club usage, has limited appeal to other potential users. Rental for office purposes as an option is not consistent with the property's intended usage nor likely with the Marine usage constraints which exist.

Therefore, based upon our current experience and activities in the Marina area, we do not believe there is a suitable replacement tenant for that space at this time without incurring a substantial rent reduction and loss of rental income due to time delays in finding a new tenant. In addition, we believe it is most likely that a significant capital investment in the facility would be necessary in order to find an alternative tenant in this market environment.

Yours truly,

A handwritten signature in black ink, appearing to read "John W. Hancock", with a long horizontal line extending to the right.

John W. Hancock, President

Cc: Victor Grgas (Community Development Dept.)

192 Marina Drive

Long Beach, CA 90803

Bancap Amendment Analysis - SBYC

	Prior Two Years	Reduced (1)	C&W Analysis*
Project Revenue	1,260,025	1,188,025	1,166,295
Operating Expenses	(152,436)	(148,116)	(216,401)
NOI	1,107,589	1,039,909	949,894
Fixed Rent - City	(907,272)	(835,272)	(907,272)
Residual NOI	200,317	204,637	42,622
City (70%)	140,222	143,246	29,835
Bancap (30%)	60,095	61,391	12,787
Total City Return (2)	1,047,494	1,000,118	937,107
Total Bancap Return (3)	135,697	111,073	82,764
Priority Payment to City from Bancap (4)		21,600	

<b>Dollar Loss to City</b>	<b>47,376</b>	<b>110,387</b>
Dollar Loss to Bancap	24,624	52,932
<b>Total Project Loss</b>	<b>72,000</b>	<b>163,319</b>

**\*C&W Assumptions**  
 Six (6) months to find a new tenant.  
 Four (4) months for permitting and constructing the improvements.  
 Three (3) months of free rent based on a 3-year lease  
 Tenant improvements at \$59,250 (\$10.00 psf).  
**Total Project Loss of \$163,319.**

- (1) Proposed Amendment to Lease - 2 year rent reduction of \$3,000/mo. (\$72,000 total).
- (2) Fixed Rent to City plus 70% of Residual NOI
- (3) 6% of Rent Collected (Management Fee) plus 30% of Residual NOI
- (4) \$900 monthly priority payments back to City x 24 months.