

DATE: JULY 11, 2023

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ – ORDER RESETTING
COMPENSATION UNDER CONCESSION AGREEMENT NO. 521 WITH 2500 VIA
CABRILLO MARINA, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY**

SUMMARY:

Staff requests approval of an Order resetting compensation under Concession Agreement No. 521 (CA 521), which grants 2500 Via Cabrillo Marina, LLC, a California Limited Liability Company (Via Cabrillo) the use of approximately 39,531 square feet of City of Los Angeles Harbor Department (Harbor Department) land at 2500 Via Cabrillo Marina, San Pedro, for constructing, operating and maintaining facilities for a convenience restaurant, charter vessel facility, vessel brokerage and insurance offices, other marine-related offices, marina-related retail sales, and incidental purposes. Via Cabrillo owns the improvements located within the premises and remits ground lease payments to the Harbor Department as rent for the land upon which the improvements are located.

Under the proposed Order, effective compensation as of September 1, 2022, will remain at \$88,485 per year which is consistent with the annual rent calculated using the change in the Consumer Price Index for all Items, All Urban Consumers for Los Angeles-Long Beach-Anaheim (CPI) as of July 1, 2022. Effective July 1, 2023, and annually thereafter over the five-year reset period, rent will continue to be adjusted by the annual change in CPI.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order resetting compensation under Concession Agreement No. 521 for the five-year period from September 1, 2022, through August 31, 2027;
3. Authorize the Board Secretary to attest to the Order resetting compensation to be paid by 2500 Via Cabrillo Marina, LLC pursuant to Section 4(1) of Concession Agreement 521; and
4. Adopt Resolution No. _____.

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Background – On September 1, 1987, the Harbor Department entered into CA 521, which has a 50-year term, with Via Cabrillo for land located at 2500 Via Cabrillo Marina in San Pedro. The leasehold premise is inclusive of a 39,531 square foot site that is divided into two parcels. The first parcel encompasses 34,531 square feet of land, which contains tenant-owned improvements that include a 25,115 square foot office building. The second parcel encompasses 5,000 square feet of land that is accessible to the public and is also utilized by the adjacent DoubleTree by Hilton San Pedro (DoubleTree) hotel. This parcel, which is at no charge to the tenant, has been proposed to be removed from CA 521; however, any removal of this 5,000 square foot parcel will be addressed as part of a separate Board item at a later date.

Pursuant to CA 521, compensation was set for the initial ten-year period and was to be reset for each of the subsequent eight five-year periods thereafter over the agreement's 50-year term. Effective September 1, 2007, compensation was converted from a percentage rent framework to the existing fixed rent framework whereby fixed rent for the ground lease is determined every five years based upon prevailing market conditions and adjusted annually by CPI leading up to the next compensation reset date. The following table summarizes the annual rent levels determined under each of the prior resets dating back to September 1, 2007 as well as the corresponding rent per square foot:

	As of 09/01/07	As of 09/01/12	As of 09/01/17	Proposed for 09/01/22
Annual Ground Lease Rent	\$62,156	\$66,526	\$72,329	\$88,485
Divide by: Applicable Square Footage	34,531	34,531	34,531	34,531
Equals: Rent psf	\$1.80	\$1.93	\$2.09	\$2.56

Proposed annual rent of \$88,485 for the ground lease was benchmarked relative to market by first calculating Via Cabrillo's ground lease rent as a percentage of total revenues (Ground Lease Ratio) earned by Via Cabrillo's landlord and comparing this percentage to other similar ground lease arrangements in the local market. The following table summarizes the Ground Lease Ratio paid by Via Cabrillo during calendar year 2017 and 2022:

	Calendar Year 2017	Calendar Year 2022
Annual Ground Lease Rent	\$71,447	\$85,322
Divide by: Total Rent Revenues	\$414,687	\$530,520
Equals: Ground Lease Ratio	17.2%	16.1%

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As a note, the ground lease rent calculated for calendar year 2022 utilizes the effective annual ground lease rent of \$82,158.48 paid through June 30, 2022, and effective annual ground lease rent of \$88,484.68 paid from July 1, 2022, through December 31, 2022. As noted above, the Ground Lease Ratio has declined from 17.2 percent for calendar year 2017 to 16.1 percent for calendar year 2022. This decrease occurred as Via Cabrillo's landlord increased occupancy from 76 percent in 2017 to 99 percent in 2022 which resulted in a corresponding increase in total rent revenues.

Based upon discussions with Jones Lang LaSalle (JLL), the market range for the Ground Lease Ratio is typically 6 – 8 percent. Therefore, although the Ground Lease Ratio has declined from 17.2 percent to 16.1 percent over the past five years, it still remains well above market. Therefore, staff has determined that annual ground rent of \$88,485 as of September 1, 2022, adequately reflects market conditions, and no further upward adjustments are necessary at this time.

Compensation Reset – The proposed Order (Transmittal 1) resets compensation for Via Cabrillo for the five-year period from September 1, 2022 to August 31, 2027. Staff requests that Year 1 compensation will remain at \$88,485 which is consistent with the annual rent calculated using the change CPI as of July 1, 2022. Effective July 1, 2023, and annually thereafter over the five-year reset period, rent will continue to be adjusted by the annual change in CPI.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the order resetting compensation under CA 521 with Via Cabrillo, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed Order will set rent under CA 521 at \$88,485 per year as of September 1, 2022. Effective July 1, 2023, and annually thereafter over the five-year reset period, rent will increase by the year-over-year change in CPI.

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CITY ATTORNEY:

The proposed Order has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTAL:

1. Order to Reset Compensation for CA 521

FIS Approval: MB
CA Approval: SO

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APPROVED:

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