



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: DECEMBER 27, 2017

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE ORDER RESETTING
COMPENSATION UNDER CONCESSION AGREEMENT NO. 521 WITH
2500 VIA CABRILLO MARINA, LLC**

SUMMARY:

Staff requests approval of the 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 (s.f.) 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; sale of marine hardware and sundry items; rental of marine-related office space; marina-related retail sales; and incidental purposes.

The Order resetting compensation covers the five-year period of September 1, 2017 through August 31, 2022. The compensation for the five-year period is set at \$72,329.40 per year and will adjust annually based on the Consumer Price Index for All Items, All Urban Communities for the Los Angeles - Riverside and Orange Counties (CPI) adjustments each July 1.

RECOMMENDATION:

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

1. Find 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 as determined by the Director of Environmental Management;
2. Approve the Order resetting compensation under Concession Agreement No. 521 for the five-year period from September 1, 2017 through August 31, 2022;
3. Authorize the Board Secretary to attest to the Order under Concession Agreement No. 521 resetting compensation to be paid by 2500 Via Cabrillo Marina, LLC pursuant to Section 4(1) of Concession Agreement No. 521; and
4. Adopt Resolution No. _____ and Order No. _____.

SUBJECT: ORDER RESETTING COMPENSATION – 2500 VIA CABRILLO MARINA, LLC

DISCUSSION:

Background – The proposed Order (Transmittal No. 1) resets compensation for Via Cabrillo. CA 521 has a 50-year term that commenced on September 1, 1987. The leasehold premise is inclusive of a 39,531 s.f. site, 5,000 s.f. of which is at no charge as identified on Drawing No. 5-5726 (Transmittal No. 2). The no-charge parcel is accessible to the public and is also utilized by the adjacent Doubletree by Hilton Hotel. Tenant-owned improvements include a three-story office building of 25,115 s.f.

CA 521 provides that compensation be reset at a minimum of every ten years (consistent with the City Charter at that time). However, a five-year reset period is proposed at this time consistent with the previous reset period commencing September 1, 2012 through August 31, 2017. Compensation for the previous reset period that began on September 1, 2012, started at \$66,526 annually, and was based on the same rate structure established in July 2010 based on a 2008 appraisal of properties in the San Pedro Outer Harbor area. The compensation reset in 2012 also included annual CPI adjustments. Since 2010, the compensation for Via Cabrillo has increased with CPI escalations each year. The current annual base rent is \$72,392.40.

Staff consulted with Jones Lang LaSalle to determine the market ground lease and market percentage ratios for ground lease rates to gross rental revenue. The market ground lease to gross rental revenue percentage ratio is generally between 6 and 8 percent. Although Via Cabrillo has experienced inconsistent gross rental revenue since 2012 due to general market weakness for larger office suites, their current ground lease rent equates to 17 percent of gross rental revenue, which is well above market expectations for ground leases in the area. Based on the market conditions and current ground lease to gross rental revenue percentage ratio, staff recommends maintaining the current base rent subject to annual CPI increases.

Compensation Reset – Annual compensation is proposed to continue at the current rate of \$72,329.40 annually or \$6,027.45 per month, with annual CPI adjustments, the first one of which is scheduled for July 1, 2018.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the Order Resetting Compensation Agreement No. 521 with Via Cabrillo. As an administrative activity, 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.

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FINANCIAL IMPACT:

The proposed order resetting compensation of CA 521 maintains a monthly compensation of \$6,027.45 to the Harbor Department. The annual amount totals \$72,329.40. Future CPI escalations will adjust the compensation amount to the Harbor Department, with a floor of zero and no cap.

CITY ATTORNEY:

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

TRANSMITTALS:

1. Order
2. Drawing No. 5-5726

FIS Approval: MB (initials)
CA Approval: MB (initials)

for
Tricia Viola
MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate

Michael DiBernardo
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Deputy Executive Director

APPROVED:

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