



THE PORT
OF LOS ANGELES
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: AUGUST 6, 2024

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ – ORDER RESETTING
COMPENSATION UNDER PERMIT NO. 896 WITH CRAFTED AT THE
PORT OF LOS ANGELES

SUMMARY:

Staff requests approval of an Order resetting compensation for Permit No. 896 (P896) with Crafted at the Port of Los Angeles (Crafted), a visitor-serving arts and crafts public marketplace and tourist attraction. P896 has a 25-year term that commenced December 16, 2011, with two five-year options to extend. The proposed Order recommends compensation be reset for Period 2 of the bifurcated Fourth Compensation Period, effective September 1, 2020, through August 31, 2028. If approved, Period 2 compensation covering the five-year period of September 1, 2023, through August 31, 2028, will be increased on a tiered-basis.

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 for the five-year period of September 1, 2023, through August 31, 2028, under Permit No. 896;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the Order resetting Permit No. 896; and
4. Adopt Resolution No. _____ and Order No. _____.

DISCUSSION:

Background - P896 was granted to Crafted for use of City of Los Angeles Harbor Department (Harbor Department) property as a sublandlord of a visitor-serving arts and crafts public marketplace and tourist attraction with incidental specialty commercial uses, including but not limited to, a brewery, food carts, parking, special events and other ancillary uses effective December 16, 2011, for a 25-year term.

Crafted has invested \$5,100,000 in capital improvements in their World War II era warehouses which were not useable for any purpose at the time the Harbor Department decided to solicit proposals for their future use. Through their anchor tenant, Brouwerij

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West, Crafted has successfully activated this site making it a well-known location in the regional microbrewery industry with a brewer that distributes their beer statewide and beyond. However, overall revenues and the initial proposed development scope have not come close to the initial financial or scale projections and attraction of additional larger tenants has not occurred since the development pivoted from the original craft market scope in 2015. Based on current occupancy, Crafted has a total of 134,550 square feet available for rent of which 79,443 square feet are vacant.

Under P896, Crafted's obligation to pay rent, including minimum rent and percentage rent, is divided into five separate compensation periods. The Board approved a Second Amendment to P896 in July 2022 which amended the Fourth Compensation period from five years to eight years and bifurcated the Fourth Compensation Period into two subperiods. Period 1 runs from September 1, 2020, through August 31, 2023; and Period 2 runs from September 1, 2023, through August 31, 2028. Additionally, the Second Amendment pushed back the Fifth Compensation period to begin on September 1, 2028. The adjustment of the compensation periods through the Second Amendment was intended to give Crafted additional time to recover from pandemic related economic conditions before significant rental increases in line with market conditions were implemented.

Crafted's Fourth Compensation Period 2 is currently subject to a compensation reset. Crafted's Fourth Compensation Period 2 covers the compensation year beginning September 1, 2023, through and including August 31, 2028. Pursuant to Section 5.3.4.2 of the Second Amendment to P896, Crafted shall pay Minimum Rent or Percentage Rent, whichever is greater. Currently Crafted's minimum annual rent is set at \$70,474.20. Percentage Rent is as follows: 3.5 percent of gross receipts up to \$4,999,999; 6.5 percent of gross receipts exceeding \$5,000,000 and up to \$6,999,999; and 7.5 percent of gross receipts exceeding \$7,000,000. These tiered percentage rent rates are preset in the permit and are also subject to compensation reset at this time. Crafted's total Gross Revenue for 2023 was \$1,320,009, which would amount to \$46,200 per year in percentage rent, which is well below the current minimum rent of \$70,474.20.

Minimum Rent - To ensure that Crafted's rent is reset to an appropriate market rate but also allows for a gradual increase over time, staff is recommending that minimum rent be reset utilizing a tiered increase to the following amounts:

- Years 1 to 3 - \$118,620 annually or \$9,885.00 per month
- Year 4 - \$177,924 annually or \$14,827.00 per month
- Year 5 - \$237,231 annually or \$19,769.25 per month

This proposed reset calculates rent utilizing a \$12.30 per square foot land value and the Board policy of a minimum 10 percent rate of return on a land value. Annual tiers include a 50 percent discount from market rent being applied for years 1-3; a 25 percent discount being applied for year 4; and no discount being applied for year 5.

Percentage Rent – Percentage rent is considered to be set at market rates and no adjustments are being proposed at this time. Crafted will pay the greater of minimum rent or 3.5 percent of gross receipts up to \$4,999,999; 6.5 percent of gross receipts exceeding \$5,000,000 up to \$6,999,999; and 7.5 percent of gross receipts exceeding \$7,000,000.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order resetting compensation for P896 with Crafted, 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 reset compensation for P896 with Crafted for the period of September 1, 2023 through August 31, 2028. Under the proposed Order, minimum rental amounts will be as follows:

- Years 1 to 3 - \$118,620 annually or \$9,885.00 per month
- Year 4 - \$177,924 annually or \$14,827.00 per month
- Year 5 - \$237, 231 annually or \$19,769.25 per month

Crafted will be financially responsible for paying the greater of minimum rent or 3.5 percent of gross receipts up to \$4,999,999; 6.5 percent of gross receipts exceeding \$5,000,000 up to \$6,999,999; and 7.5 percent of gross receipts exceeding \$7,000,000.

CITY ATTORNEY:

The proposed Order resetting compensation under Permit No. 896 has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Site Map
2. Order

FIS Approval: JS
 CA Approval: BO

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APPROVED:

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