Council Meeting of
February 7, 2006

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

Members of the Council:

SUBJECT: Amended and Restated Lease Agreement for property located at 24751 Crenshaw Boulevard in the City of Torrance (C-03).

RECOMMENDATION

It is the recommendation of the Land Management Team that the City Council authorize the Mayor to Execute and the City Clerk to Attest to:

- A resolution of the City Council of the City of Torrance determining certain city-owned property is not required for city purposes and that leasing the property is in the public interest (RESOLUTION); and

- an Amended and Restated Lease ("Lease"), by and between the CITY OF TORRANCE, a municipal corporation, as Lessor, hereinafter referred to as the "City", and WILLIAM J. ADKINS, TRUSTEE OF THE ADKINS FAMILY TRUST ESTABLISHED APRIL 16, 1991, hereinafter referred to as "Lessee" for City-owned property located at 24751 Crenshaw Boulevard, Torrance.

FUNDING

There is no funding required for this action. Approval of this Lease will result in increased rental revenue from $3,837 annually to $523,177 annual rent commencing October 2007.

BACKGROUND

The subject Lease was originally entered into December 9, 1954 with an expiration of November 30, 2004. Subsequent Lease amendments have set the expiration of Lease for September 16, 2007, with three additional ten-year Options that could be exercised by the Lessee. Exercising the Options could extend the Lease to September 16, 2037. Those Options, if extended, require a Fair Market Valuation of the property at each Option period, which would in turn adjust the rent.

The subject site is approximately 9.42 acres and is improved as an industrial use.

The current rent is $319.80 per month.

In October 2005 the Lease was Assigned from JOSHMO LLC, an Oregon limited liability company, to William J. Adkins, Trustee of the Adkins Family Trust established April 16, 1991. William Adkins is the current owner of South Bay Lexus. The Lexus dealership at 3215 Pacific Coast Highway is, at 1.36 acres, undersized by the current needs of the Lexus franchise.

The subject site was acquired by Mr. Adkins in order to develop the site as a parts service center, vehicle storage and future body shop. The development of this site will allow for expansion of sales capacity for the Pacific Coast Highway site.

ANALYSIS

Excellon Automation, the former tenant at the subject site was a manufacturer. Over the years the employment at the facility dwindled and the need to consolidate the use became apparent. The leasehold and improvements were put up for sale. The current tenant, Bill Adkins, purchased the Leasehold and improvements for 4 million dollars. That transaction was concluded once the City and Mr. Adkins negotiated deal points for a new Lease. Once concluded, a draft Lease was circulated and upon agreement on those points has been forwarded for review with a recommendation for approval this evening.

The subject site is of an odd configuration with frontage limited to approximately 300 feet. The site is deep with an "L" shaped dogleg at the back of the property that has no visibility from Crenshaw Boulevard. The configuration of the site reduced the actual value of the parcel and allowed for a blended valuation looking at a small portion of the property as retail and the balance as industrial. The use of the site is restricted per the Lease for Service, Parts, Storage and Body Shop. If the tenant wishes to change the use to sales it would require an Amendment to Lease, as well as a reevaluation of the rental rate so as to properly reflect a retail operation.

The initial rental rate reflects the use restrictions, as well as the required capitalization of the site to make it usable for the new tenant. The proposed rent structure will assist the tenant in capitalizing the property and reinvesting in improvements. As noted earlier, the leasehold purchase came in at 4 million dollars and the retrofit and upgrades to the current facility will be at a minimum of 4 million dollars.

The terms of the proposed Lease are as follows:

Lease adoption through September 16, 2007 $319.80 per month

Each Option Period is ten years.

First Option Period. The annual rent is Five Hundred Twenty Three Thousand One Hundred Seventy-Seven Dollars ($523,177.00) per year. The rent is calculated at a value of Seventeen Dollars ($17.00) per square foot, multiplied by a Seven and One-Half Percent (7.5%) annual rate of return.

Second Option Period. The annual rent will be calculated after a Fair Market Valuation is conducted. The value of the property is set using the land value as it is currently being used, pursuant to the uses outlined in the Lease. Rent will be

calculated at a 7.5% rate of return, rent adjustment is capped at 150% of the previous months rent.

Third Option Period. Fair Market Value will be set with no cap on increase. Rate of return is set at 7.5%.

Fourth Option Period. Fair Market Value will be set with no cap on increase. Rate of return is set at 7.5%.

CPI Adjustments during the Option Periods. Each year where a Fair Market Value is not set will be adjusted by CPI with a minimum of 2% and maximum of 5% annually.

The Lease also allows for subletting a portion no greater than 30% of the site to a like user (vehicle storage, parts service). The tenant has been working with Torrance Toyota to sublease a portion of the site for vehicle storage. The sublease will solve another capacity issue along Pacific Coast Highway, and because Toyota and Lexus are under the same manufacturing umbrella, the use will be approved by the factory. The sublease request will be brought before the City Council for review.

The Lease before Your Honorable Body will allow for significant increase in rent stream from this property. The project, which has already been granted a CUP, will result in significant upgrades to the property, as well as aesthetic enhancements. Finally, the Lease before you will allow for capacity and sales growth of the Lexus Dealership on Pacific Coast Highway, another City-owned parcel.

Respectfully submitted,

LeROY J. JACKSON

By: _____
Brian K. Sunshine
Assistant to the City Manager

CONCUR:

_____
LeRoy J. Jackson
City Manager

Attachments:
a) Resolution of surplus property
b) Amended and Restated Lease

Attachment A

RESOLUTION NO. 2006-__

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TORRANCE DETERMINING CERTAIN CITY-OWNED PROPERTY NOT REQUIRED FOR CITY PURPOSES AND THAT LEASING THE PROPERTY IS IN THE PUBLIC INTEREST.

WHEREAS, the City of Torrance (City) is the owner in fee of approximately 9.42 acres of real property (PROPERTY) described in Exhibit A; and

WHEREAS, the PROPERTY has been leased since December 9, 1954 for use as a manufacturing facility; and

WHEREAS, the lease of the PROPERTY by City has and will continue to benefit the City by providing services, jobs, and revenue to the City;

WHEREAS, the City has negotiated a lease (LEASE) of the PROPERTY with William J. Adkins, Trustee of the Adkins Family Trust Established April 16, 1991. (LEASEE).

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF TORRANCE HEREBY FIND AND DETERMINE AS FOLLOWS:

1. The PROPERTY is not required for City purposes.

2. It is in the public interest that the LEASE between City and William J. Adkins, Trustee of the Adkins Family Trust Established April 16, 1991 be executed by the City and delivered to the LESSEE.

3. The Mayor is authorized to execute the LEASE on behalf of the City and the City Clerk shall attest to the Mayor's signature and deliver the LEASE to the LESSEE.

INTRODUCED, APPROVED AND ADOPTED this _____ day of _____ 2006.

_____
Dan Walker,
Mayor of the City of Torrance

ATTEST:

_____
Sue Herbers,
City Clerk of the City of Torrance

APPROVED AS TO FORM:

JOHN L. FELLOWS III
City Attorney

By _____
Ronald T. Pohl
Assistant City Attorney