



DATE: July 21, 2020

TO: Mayor and City Council
Chair and Governing Board of Successor Agency of the City of Hayward

FROM: Deputy City Manager

SUBJECT: Adopt a Resolution Authorizing the City Manager to Negotiate and Execute a Letter Agreement with 1069 B Street, LLC to Defer Rent and Parking Maintenance Payments for Cinema Place

RECOMMENDATION

That Council, in its capacity as governing board of the Hayward Successor Agency, adopts a resolution (Attachment II) authorizing the City Manager to negotiate and execute a Letter Agreement with 1069 B Street, LLC that defers rent and parking maintenance payments for the Cinema Place parcels.

SUMMARY

The Hayward Successor Agency receives ground lease rent and parking maintenance fees from the tenant of Cinema Place, 1069 B Street, LLC. Due to the Covid-19 pandemic and shelter in place orders, the ten subtenants at Cinema Place, including the movie theater and several restaurants, have experienced a significant loss in revenue. 1069 B Street, LLC has requested rent deferral for the months of April through October 2020, which it will pass on to its subtenants. The rent will be paid back in 24 installments with no interest or late fees beginning January 2021. Staff is recommending that the Successor Agency approve the attached resolution authorizing the rent deferral for 1069 B Street, LLC and its subtenants.

BACKGROUND

In 2005, the Hayward Redevelopment Agency entered into a ground lease with the developer of Cinema Place. The developer then built improvements to the Cinema Place structure and adjacent parking facility, which is Municipal Lot 3. The ground lease expires in 2056.

In 2007, once the improvements to the parking structure were complete, the Redevelopment Agency and the developer entered into a Parking Lot Maintenance Agreement. Under the agreement, the tenant and Successor Agency are required to equally share maintenance costs.

When the State of California dissolved Redevelopment Agencies, the ground lease and maintenance agreement were transferred to the Hayward Successor Agency. Around the same time, the agreements transferred from the original developer to the current lease tenant, 1069 B Street, LLC.

Per the lease agreement, 1069 B Street makes annual base rent payment of \$50,000 to the Successor Agency. In addition, they make payments of approximately \$67,000 annually for parking garage maintenance, which goes to the City's General Fund. The City oversees the maintenance, including utilities, cleaning contracts, and facility updates.

DISCUSSION

There are ten subtenants at the Cinema Place property, including the downtown Movie Theater and several restaurants. Due to the Covid-19 pandemic and shelter in place orders, these businesses have experienced a significant loss of revenue.

City staff began conversations with 1069 B Street in early April 2020 about their inability to pay base rent and maintenance fees due to loss in rental revenue from their subtenants. The Hayward Successor Agency received a formal letter on May 18, 2020 with a request for rent deferral. In addition, 1069 B Street provided a summary of their collections for April, which show receipts at approximately 12% of normal.

In the letter, 1069 B Street requests deferral of rent and parking lot maintenance fees for the months of April through October 2020. They also request repayment in 24 installments with no interest or late fees beginning January 2021. 1069 B Street will pass on the same terms to all of their subtenants.

Staff recommends that the Hayward Successor Agency Board accepts the rent deferral proposal and approves the attached resolution authorizing the City Manager to negotiate and execute a Letter Agreement with 1069 B Street, LLC. The Letter Agreement will require that 1069 B Street pass the rent deferral terms to subtenants and will include terms ensuring that there are no subtenant evictions consistent with the City's eviction moratorium. Additionally, the Letter Agreement requires the following conditions: (1) all subtenants be noticed of their right to rent deferral under that agreement; and (2) if a renewal occurs with a subtenant during the two-year repayment period, 1069 B Street, LLC will use best efforts to maintain rents consistent with the terms of the previous lease.

ECONOMIC IMPACT

The COVID-19 pandemic has created financial hardship for many Hayward businesses. The recommended action will provide these businesses rent deferral, which will increase their potential to remain operational in the long term.

FISCAL IMPACT

The agreement outlined above reduces revenue to the Hayward Successor Agency and City of Hayward General Fund in FY 2020 and FY 2021 compared to a normal year. The amounts are shown in the table below and FY 2019 is provided for comparison as a normal year. In FY 2022 and FY 2023 revenue will be higher than normal.

Staff has reviewed the FY21 ROPS and feels that the reduced revenue can be absorbed into the existing budget. Staff will adjust in subsequent years to account for the changes.

Ground Lease: Successor Agency Impact

Year	FY19*	FY20	FY21	FY22	FY23
Revenue	\$50,000	\$37,500	\$40,625	\$64,583	\$57,292

Maintenance Agreement: General Fund Impact

Year	FY19*	FY20	FY21	FY22	FY23
Revenue	\$67,399	\$50,549	\$54,762	\$87,057	\$77,228

STRATEGIC ROADMAP

This agenda item is an operational item. It does not directly relate to any of the six priorities outlined in the Council's Strategic Roadmap.

NEXT STEPS

If this item is approved, staff will negotiate and execute a Letter Agreement per the terms described above.

Prepared by: Mary Thomas, Management Analyst II

Recommended by: Jennifer Ott, Deputy City Manager

Approved by:



Kelly McAdoo, City Manager