

Lease Extension Policy

City of Redondo Beach – Harbor Enterprise Lease Extension Policy

I. Background Statement

The Primary Rationale for granting a lease term extension is redevelopment of the property to higher economic and physically competitive uses in order to generate higher economic returns to the City and to avoid deterioration of older improvements. *

It is anticipated that lessees will be requesting lease term extensions in order to refinance or sell leasehold interests. This may or may not be in the City's best interest, since any transaction which withdraws equity and increases debt on a leasehold could impair the City's lease position. That is not to say that such extensions cannot be granted. However, the City will be very sensitive to such requests and require lessees to submit economic projections upon which the City can judge the extent to which a lease term extension will achieve meaningful revenue enhancement or at least preservation and not merely facilitate cash realization by the lessee.

The issue of redevelopment can become blurred if in fact properties require substantial modernization or major rehabilitation but not redevelopment to a different or higher use. In such cases, lease term extensions may be granted since modernization or rehabilitation without a change in use might be so extensive as to basically represent a new improvement on the property. However, it is not the City's policy to grant lease term extensions beyond what can be considered the useful or functional life of the improvements. The City will evaluate requests for lease term extension on a case-by-case basis, recognizing it is not the policy of the City to automatically grant lease term extensions simply to enable lessees to withdraw equity capital from their leaseholds.

II. Statement of Purpose And General Policy

II.A Purpose of Policy

The purpose of a leasehold term extension policy is to provide a basis for dealing with requests for lease term extensions and to ensure that the City receives a fair and reasonable economic return on its leased properties for any lease term extension.

II.B General Policy

Lessees may request lease term extensions for a variety of reasons, including the lessee's desire to sell, refinance, assign or redevelop the leasehold property. Lessees will require a sufficient lease term to accomplish these objectives.

* The word "redevelopment" in the context of this policy statement means demolition of all or part of existing structures on a leasehold and construction of new structures.

It is the policy of the City of Redondo Beach that redevelopment of a leasehold will be the primary reason for granting a lease term extension. Lease term extensions may be granted for reasons other than redevelopment of leaseholds, but should not be granted for terms exceeding the useful or functional life of existing improvements without, (1) a firm commitment by the lessees to redevelop the leasehold, or (2) submission of a plan to redevelop the leasehold at some agreed upon date.

III. Statement of Goals, Objectives And Specific Policies

III.A Goals and Objectives

The goals and objectives of the City of Redondo Beach relative to granting lease term extensions to lessees of property controlled by the City of Redondo Beach Harbor Department are as follows:

1. The primary objective of a leasehold term extension is redevelopment of the leaseholds to enhance their economic performance and to ensure the quality and competitive character of the property improvements during the extended lease term.
2. A parallel purpose is to ensure the long-term economic viability of development while at the same time providing increased revenue to the City, continuity of revenue flow, and additional public facilities and benefits.

III.B Specific Policy Guidelines

1. The City is not obligated in any way to agree to lease term extensions for any lessee of City property regardless of the reason for the extension request.
2. Redevelopment in this context is not meant to incorporate standard deferred maintenance, refurbishing or decoration improvements to any property.
 - a. However, the City will consider granting leasehold term extensions in instances not related to total redevelopment of a leasehold.
 - b. Such consideration will be given only when the long-term useful life and economic viability of the improvements is assured without redevelopment, and when it is in the long-term economic best interest of the City to consider such request for extension.
3. The City will require receipt of fair economic consideration for any leasehold term extension, including an extension fee based on the value of extending the lease. In addition to the lease extension fee, fair consideration will include the following:
 - a. Establishment of fair market rents consistent with the new value of the lease including its term extension.

- b. City financial participation in defined proceeds from any future sale, assignment or refinancing of leasehold interest.
 - c. Payment of City administrative costs associated with processing lease term extension requests.
4. In situations where redevelopment of the leasehold is not physically or legally possible, or where it is not warranted for other reasons, the City will consider alternative requirements for lease extension under the following circumstances:
 - a. The current use meets the objectives and permitted uses set forth by the City for the leasehold.
 - b. The improvements are of such a quality that, in the judgment of the City, the economic viability of the leasehold is assured during the extended lease term.
 - c. The lessee provides assurance that future required periodic rehabilitation will not be deferred on grounds of economic hardship.
5. The City will require various guarantees that property redevelopment or other improvements will occur within specific pre-established time periods. In this regard, the City may grant various rent credits equal to a portion of the lease extension fee for redevelopment within an agreed upon time period, with any rent credits determined by the City based on rental income generated by the leasehold.
6. All lease extensions will be contingent on lessee resolving any and all regulatory procedures relative to the city, county, state and other agency laws and statutes.
7. The City as landlord only will consider economic rent and direct rental revenues paid to the City under a lease term extension, and such rents will not be adjusted or modified because of higher property or possessory interest taxes that may result from a lease extension.

IV. Guidelines For Lease Term Extension Request

The City will require various submittals from lessees who are requesting lease term extensions, which submittals will follow a format and terms established by the Harbor Department in accordance with the following guidelines:

IV.A Submittals to Harbor Department

All requests for lease term extension shall be submitted in writing to the Director of the Harbor Department and shall include supporting documents describing the following:

1. The purpose of the lease term extension
2. Current appraisal of the value of the leasehold
3. Construction scheduling for improvements, if proposed
4. Total construction costs for improvements, if proposed
5. Economic projections of future annual revenues and income from operations for the leasehold.

6. Financial statements on the leasehold entity together with the identity and personal financial statements of the lessees and partners, shareholders or any person having a direct or indirect financial interest in the lessee entity.

IV.B Other Submittal Requirements

If any part of the redevelopment plan involves renovation or rehabilitation, as distinguished from new construction, the lessee also shall comply with the following requirements:

1. Furnish a deferred maintenance audit identifying all deferred maintenance costs included in or obviated by the renovation.
2. Agree to reimburse the City for its own deferred maintenance audit if any renovation or rehabilitation costs are to be considered a future credit against lease extension fees.

IV.C Application Fee

The lessee shall pay an application fee for City administrative costs associated with review of the application by City staff, City consultants and legal staff.

IV.D Lease Extension Fee

The lessee requesting a lease term extension will be required to pay an extension fee to the City predicated on the value of granting the extension.

IV.E Other Financial Terms

1. Minimum and Percentage Rents. Minimum and percentage rents will be revised to reflect fair market value as of the date a lease term extension is granted. Payment of any retroactive rent will be made based on the pre-existing percentage rent terms, with the provision that all retroactive rent must be paid prior to the City considering any request for lease term extension.
2. Participation Rents. The City will participate in any proceeds from sale or transfer of the leasehold interest, and the City will participate in any proceeds from refinancing of the leasehold interest to the extent such proceeds are not used for leasehold improvements.
3. Administrative Costs. Lessees shall agree to pay for various special administrative costs incurred by the City, which costs might include special environmental studies, rent payment penalties, rent audit costs, increased security deposits, increased insurance requirements, and other costs associated with preparing and/or reviewing any and all documents related to the request for the lease term extension including sale, transfer or assignment, and financial documents.