

THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE REPORT ISSUED: February 20, 2008 REPORT NO.: 08-016

ATTENTION: Council President and City Council
 Docket of February 26, 2008

ORIGINATING DEPT: Real Estate Assets

SUBJECT: Lease Renewal – Heartland Automotive Services at 1005 B Street

COUNCIL DISTRICT: 02

STAFF CONTACT: Jim Anthony (619-533-6509)

REQUESTED ACTIONS:

Authorize the Mayor to execute a lease agreement with Heartland Automotive Services II, Inc., a Delaware corporation, for the operation of an automotive maintenance and repair facility (Jiffy Lube) at 1005 B Street.

STAFF RECOMMENDATION:

Approve the requested actions.

PROPOSED LEASE SUMMARY:

1. Tenant: Heartland Automotive Services, the largest Jiffy Lube franchisee in the country.
2. Location: 1005 B Street, the southeast corner of 10th & B Street in downtown.
3. Lease Area: 5,000 square feet
4. Use: Operation of an automotive maintenance and repair facility (Jiffy Lube franchise).
5. Term of Lease: Year-to-year with automatic annual extensions for a maximum of ten (10) years with early termination allowed upon 180-day written notice by either party.
6. Rent: Percentage rent of twelve percent (12%) of gross income, minus certain discounts, refunds, taxes and other minor deductions, with a \$67,200 annual minimum rent to be paid in monthly installments of \$5,600. The greater of the percentage or minimum rent amounts is the actual rent realized by the City.

7. Next Rent Review: None due to year-to-year nature of the agreement.
8. Improvement Summary: 984-square foot block building with two work bays, storage and office space areas.
9. Council District: 2
10. Comments: The year-to-year lease term basis will afford the City maximum flexibility.
11. Map of Leasehold – Attached Exhibit “A”
12. Pictures of Leasehold - Attached Exhibit “B”

CURRENT LEASE SUMMARY

Same as above except:

1. Term of Lease: Seven (7) years with an 18 month notice early termination provision.
2. Lease Expiration Date: September 30, 2004. Lease currently on holdover.
3. Rent:
 - a. 10% of gross income from minor tune-ups, lubrication, repair, sale of minor automotive parts, accessories and related goods.
 - b. 50% of food and beverage machines income, and commissions from telephone equipment paid to Lessee.
 - c. 20% of income from Lessee-owned machines.
 - d. 10% of all other authorized activities.
 - e. 20% from any unauthorized activities.

Current minimum rent is \$33,140.16, adjusted every two and a half years to 80% of the annual average rent of the proceeding two years. Rent paid by Heartland to the City in fiscal year (FY) 2006 was \$70,238.48 and in FY 2007 \$60,869.82.

Although food and beverage machine income is included in the percentage rent scale, there are, in fact, no food or beverage machines on the premises. There also are no pay phones or unauthorized activities.

FISCAL CONSIDERATIONS:

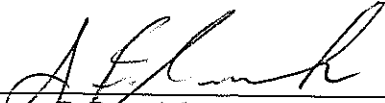
The annual minimum rent the City will receive is \$67,200, an increase of \$34,059.84 over the current annual minimum rent of \$33,140.16. The projected percentage rent in Year One is \$84,000; as compared to the previous percentage rent of \$60,869.82, an increase of \$23,130.18.

The Real Estate Assets Department projects the percentage rent will increase to over \$98,000 annually during the term of the lease, a substantial increase in rental income. The rent derived from this lease will be deposited in General Fund 100.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The City of San Diego will benefit by receipt of substantially increased annual rental proceeds. Since this is a lease renewal involving an existing facility, no new impacts are anticipated.

Respectfully Submitted,



James F. Barwick
Real Estate Assets Director

William Anderson
Deputy Chief Land Use and Economic
Development