



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 08/04/2020

ITEM NO: 6

DATE: July 27, 2020
TO: Mayor and Town Council
FROM: Robert Schultz, Town Attorney
SUBJECT: Authorize the Town Manager to Execute Long Term Lease Agreements with Tait Firehouse LLC and Forbes Mill LLC for the Property Located at 4 Tait Avenue and 75 Church Ave, Los Gatos

RECOMMENDATION:

Authorize the Town Manager to execute long term Lease Agreements with Tait Firehouse LLC and Forbes Mill LLC for the property located at 4 Tait Avenue and 75 Church Ave, Los Gatos.

BACKGROUND:

The Town has been actively searching for potential tenants for the properties located at 4 Tait Avenue and 75 Church Street ("Properties") since the Museum vacated both in 2016. In 2018, Imwalle Asset Management Company ("Imwalle") approached the Town and requested that negotiations take place regarding the potential renovation, management, and master leasing of these properties. In March 2019, the Town and Imwalle entered into an Exclusive Negotiating Agreement to help guide the negotiations of a Lease Agreement. The attached draft Lease Agreements have now been negotiated between Town staff and Imwalle and are ready to be presented in open session for approval.

DISCUSSION:

The Lease Agreements for both properties are for a long term (34 years and 11 months) and creates a Master Tenant/Landlord relationship wherein Imwalle would be 100% responsible for all costs related to the project of rehabilitation, build out, leasing, and ongoing management and maintenance of the properties. Both properties need significant improvements easily in excess of \$1,000,000 each to be brought to a leasable market condition. The Lease Agreements require Imwalle to proceed with normal CEQA review and planning and development

PREPARED BY: Robert Schultz
Town Attorney

Reviewed by: Town Manager, Assistant Town Manager, and Finance Director

DISCUSSION (cont.):

application requirements and care would be taken to restore the historic aspects of both properties while delivering modern upgrades expected in the current commercial market. Pursuant to the Lease Agreements, payments to Los Gatos would be a hybrid of fixed base monthly payments and profit participation.

Imwalle has completed almost 100 small scale projects over the last 40 years and has experience with ground leases, master leases, and public private partnerships in San Jose and Morgan Hill. Staff performed a side-by-side comparison of the draft lease agreement submitted to the Town by Imwalle and that of the City of Morgan Hill who has a similar contractual relationship. Following are some key elements of the Lease Agreements that Town Staff has been able to negotiate with Imwalle:

- Percentage Rent of the Sublease Income to the Town is 60% instead of 50%.
- Master Tenant management fee equal to 3% of Sublease Income has been deleted.
- Improvement loans funded by Master Tenant shall receive 3% interest instead of 8%.
- Landlord approval required for subtenants.
- Landlord approval required for permitted uses.
- The term is 34 years and 11 months, instead of 25 years with 2 five-year options.
- Prohibition in change of Master Tenant; the Master Tenant Team now consists of Imwalle, Jim Farley and Jason Farwell.

COORDINATION:

This report was coordinated with the office of the Town Manager's Department.

FISCAL IMPACT:

There is no fiscal impact to the Town at this time. In the long term the Town will generate Lease income from the properties.

ENVIRONMENTAL ASSESSMENT:

The proposed lease agreements are exempt from the California Environmental Quality Act (CEQA) under Section 15061 (b)(3) of the CEQA Guidelines. Further environmental review will be conducted once the project at each lease site is defined and a planning permit is requested.

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SUBJECT: Lease Agreements for 4 Tait Avenue and 75 Church Ave, Los Gatos

DATE: July 27, 2020

CONCLUSION:

Staff recommends that Council authorize the Town Manager to execute long term Lease Agreements with Tait Firehouse LLC and Forbes Mill LLC for the property located at 4 Tait Avenue and 75 Church Ave, Los Gatos.

Attachments:

1. Draft Lease Agreement for 4 Tait Avenue.
2. Draft lease Agreement for 75 Church Avenue.