

MLK BLVD & ALBERTA RETAIL TENANTING ADVISORY COMMITTEE

NOTES FROM RTAC MTG – 3.3.16

In Attendance – Jeana Wooley, Nita Shah, Elizabeth Nardi, Adam Miline, Tory Campbell (PDC Staff), Chris Guinn, & Andy Reed (PDC staff)

Meeting Agenda & Takeaways:

1. **Reviewed Overall Goal of RTAC**
2. **Choose Defining Objectives** – to be completed in preparation for our next committee meeting. These tasks will help lay a foundation to have a more robust conversation in determining the mixed business themes for the commercial spaces.
 - **Assess Community Need** – Elizabeth & Tory Campbell
 - **Develop Outreach Plan** – Chris Guinn
 - **Define Tenanting Process/Criteria** - Adam & Jeana
 - **Market Researcher of Area** – Nita

3. Questions to be answered by PDC Staff & Majestic Retail Broker -

- **Confirm on Co-Star commercial rental rates in area** – Will Their & Bruce Wood

Here is the lease comp analysis for the MLK corridor. The most recent lease comp for new space is the King Street Lofts at \$21-23/sf NNN. I have attached the old flyer for your information. As you will see in the analysis, current vacancy appears to be very low along MLK which may result in further escalation of rents over time. - Will

It's a good idea to start with a rate and have very good estimate of the NNN's. You will also need to have a budget for the TI's \$/sqft. the PDC is willing to pay to achieve the rate. The final rate will be a balance of the TI's amounts, the type of use, the lease structure (% percentage rent with a lower base rent sometimes makes more sense), In summary, start with a target but realize each retail deal will have a lot of negotiation before a deal is finalized. – Bruce

- **Retail Tenant Approval Process** – Steve Blank & Bruce Wood
 1. Retail Tenanting Team submits recommendation to Majestic (Will need to determine what the proposal package will consist of for Majestic and PDC to consider, i.e., letter of intent, requested PDC paid tenant improvements, business plan, financials, business license, prior landlord references, other...) – Steve B.

Upon a prospective tenant's interest we should immediately see if Majestic will approve the use, this can be as simple as sending them the LOI or a description of what they plan to do in the space. The PDC package will be far more detailed and unnecessary if Majestic doesn't approve the use. My thought is we just send them as little information as early as possible in the process to get the "okay." – Bruce Wood

2. Majestic Approves or Disapproves retail tenant recommendation
3. If Majestic approves retail tenant recommendation then PDC makes presentation to Financial Investment Committee (FIC).
4. If FIC approves, they recommend retail tenant to the PDC Executive Director for final review
5. If PDC Executive Director approves then it goes to the PDC Board of Commissioner for approval if the Initial lease terms is over five (5) years

** Estimated timeline to complete FIC & Board approval could be up to two months or greater.*

Note - Prior to this FIC meeting is where we need to finalize the lease terms and the TI's costs. - Why don't we take to FIC a recommended best case for a retail deal and get there approval? We still go back once we have the specific deal, but having a deal that conforms to the base case will help establish benchmarks and help with the approval discussions. Will also help the leasing folks to work efficiently. – Bruce W.

- **Need to know what kinds of businesses Majestic is marketing to; what exclusions are there to tenants?**

Current exclusions: Tenants selling groceries, fresh produce, or vitamins. I will receive a more extensive or detailed list soon. Most likely, each time a lease is signed the exclusions will need to be updated.

- **Is the tenant paying SDCs or is it permitted in a way that it's part of the cold shell?**

The structure of the PDC/Majestic Master Lease (attached) requires that PDC basically pay for all costs associated with the build-out of the delivered cold shell condition (See Exhibit C – Landlords' Work of the PDC/Majestic Master lease). Any subsequent cost or TI's will be negotiated between PDC and the subtenant. – Steve B.

- **NNN or modified gross rent**

Both the PDC/Majestic Master Lease (See Section 3.1 of the Master Lease) and the PDC/Subtenant Lease are triple-net (NNN) wherein the Master Lease Tenant (PDC) will pass on these expenses to our subtenants. These costs basically consist of the property operating expenses assessed by Majestic including the Common Area Maintenance (CAM), Property Insurance and Property Taxes. The Subtenant will also directly pay to the service provider for their individually metered utilities (electricity, natural gas, multi-media) – Steve B.

Majestic should have a budget for the NNN's as they will be communicating these to their tenants and are required to sign tenant leases. My guess is it will be \$10 - \$12.00 sqft. on the high side, 8 - \$10.00 sqft. on the low side. – Bruce W.

- **What is \$29---all in? is insurance, taxes, etc...on top of that – Steve Blank**

The \$29 per square foot annual lease rate (plus the scheduled increases per the Master Lease Rent Schedule per Exhibit B) is for the Base Rent only. All of the NNN expenses (as described above) are in addition to the Base Rent. The Subtenant will therefore pay the following each month - Steve B.

- *Base Rent Charge*
- *NNN Charge*
- *Tenant direct paid utilities*

Rental Scenario – 1,800 Sqft Space on Site

- *Base Rent Charge - 1,800 sqft space x \$18 a sqft *(example initial subsidy rent rate) = 32,400 per year/ \$2,700 per month*
- *NNN Charge – 1,800 sqft space x \$10 sqft = \$18,000 per year / \$1,500 per month*
- *Utilities – Electrical, Gas, Internet - \$2,400 per year/\$200 per month*
- **Total Rent** - \$52,800 for year / \$4,400 per month

- **Parking—how is it organized, what is available? 10 spaces for all slots? Are the spaces under review still? – Steven Blank & Bruce Wood**

Section 1 of The PDC/Majestic Master Lease contains the following language regarding off-street parking: **PROPERTY; COMMON AREA.** Landlord hereby leases the Property to Tenant, and Tenant leases the Property from Landlord, on the

terms and conditions set forth in this Master Lease. The Property shall be delivered to Tenant following completion of the Landlord's Work and the issuance of a Certificate of Occupancy as set forth in Exhibit C. The common areas of the Center (the "Common Area") are all areas of the Center made available by Landlord from time to time for the non-exclusive use of lessees, including but not limited to driving and parking areas and any interior common passageways. Tenant shall have the non-exclusive right to use the Common Area for its respective intended purposes in a reasonable manner, subject to the rights of other tenants and to compliance with such reasonable rules as Landlord may adopt and provide to Tenant from time to time.

Since parking is defined as a "common area" and a "non-exclusive use" this means it is up to the landlord (Majestic) to determine if any of the subtenants will be allowed assigned and/or reserved parking spaces (which I doubt they would agree to). Steve B.

I agree with Steve, parking will not be assigned, however we may get Majestic to designate some spaces as short term parking only (30 min or less for example). The center isn't large enough to establish any kind of effective enforcement. This is an issue that will need to be worked out with Majestic. I'm sure the Natural Grocers lease has language that restricts what can be done with Parking for other tenants. – Bruce W.

- **Request LOD – Lease Outlined Drawing shows how Majestic will break up their spaces so this group knows the flow of Majestic's side of the project**

They have not drafted one yet. – Alex McClean