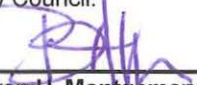


STAFF REPORT

Approved and Forwarded to
City Council:


Bryan H. Montgomery, City Manager

Date: January 10, 2016
To: Bryan H. Montgomery, City Manager
From: Dwayne Dalman, Economic Development Manager
Subject: **Authorization to negotiate for the Future Lease of Property located at 3070 Main Street, Oakley, California**

Background and Analysis

The two-story commercial building at 3070 Main Street is located in downtown Oakley on the corner of Main Street and Vintage Parkway, across from City Hall. The building was constructed in 2013 by the Oakley Redevelopment Agency and was being purchased Manuel's Five Star Restaurant, Inc., who operates the Carpaccio's restaurant. The building is owned by the City.

The restaurant has had periods of profitability, but has also experienced periods of low declining profitability. In 2015, the City assisted the restaurant owner/operator, Manuel Munoz, by hiring a restaurant consultant to help identify ways to increase efficiency, sales and profitability. Mr. Munoz implemented some of the recommended changes, but continued to experience a decline in sales and profitability. In fall 2016, Mr. Munoz approached the City to discuss the termination of his agreements and a closing date for the restaurant. At the time, Mr. Munoz stated his desire to stay open during the holidays and through February 15th, in order to accommodate numerous events and parties that had already been scheduled.

Termination Agreement

At the time that the restaurant was constructed, numerous agreements were entered into between the City and Mr. Munoz, including Loan Agreements, Promissory Notes and Development and Disposition Agreements. As Mr. Munoz was making mortgage, rather than lease payments, foreclosure would be the typical mechanism to terminate the agreements. However, Mr. Munoz agreed to a Deed in Lieu of Foreclosure to avoid a drawn out process as well as the effect that a public foreclosure would have on employee retention and the holiday events that were already scheduled.

Another item on this City Council Meeting agenda is the Termination Agreement and the associated Deed in Lieu of Foreclosure document to be executed by Mr. Munoz. This clears the path for another restaurant operator to utilize the building, and we have had significant interest from other restaurant operations.

Lease Proposals

As was the case when Republic of Cake was replaced by Mr. Pickles in the Downtown, the City received interest from a number of restaurant operators that desired to be located in the downtown. After initial discussions with these interested parties, staff has narrowed down the interest list and received formal proposals from three experienced restaurant operators. The proposals consist of two Italian restaurant concepts and one bar & grill concept as follows:

Buon Appetito

Buon Appetito currently has two Italian restaurants, one in Hayward and the other in Benicia. The operator has extensive restaurant experience, starting his career at Il Forno and then opening an Italian restaurant (Mangia Bene) in Martinez. The operator lives in East County and has already been looking to locate an Italian restaurant in this area. A review of the operators financial statements and tax returns show strong profitability for the last three years.

The proposal from this operator would be for an Italian restaurant that has a similar menu as the existing Buon Appetito restaurants, which feature homemade pastas and fresh ingredients. This operator would use the downstairs as a restaurant and the upstairs as an event space, and be open for lunch and dinner. Buon Appetito would offer a seamless transition with a similar Italian restaurant concept and a short turn-around time between Carpaccio's closing and this restaurant opening. They are also in agreement with the proposed lease terms.

La Veranda

The second Italian restaurant proposal is from a restaurant owner who currently owns and operates La Veranda in Pittsburg. This operator also has extensive restaurant experience, having been a part of the opening of the first La Veranda in Clayton in 2002. The proposed menu offerings would be similar to La Veranda in Pittsburg. This operator would also use the downstairs as a restaurant and the upstairs as an event space, and be open for lunch and dinner. This proposal did not include financial statements or tax returns, as the owner would prefer to provide these as a condition of approval.

This proposal would require more extensive negotiations with the City, as the owner is looking for rent waivers and reductions, as well as tenant improvement concessions. If negotiations were successful, this concept would also be a seamless transition with a short turn-around time between Carpaccio's closing and their restaurant opening.

Gaby's Bar & Grill

The third proposal is from an operator that has owned and operated La Strada Italian restaurant in San Pablo for 20 years. The operator has a partner that has owned and operated the Union Hotel and Restaurant & Bar in Benicia for 18 years. Though the partners both have experience operating Italian restaurants, they have proposed a bar & grill concept for this location. They believe a strong bar and grill would be popular and successful in Oakley.

This proposal includes approximately \$100,000 to \$150,000 in modifications to the space that would be funded by the operators. They wish to make three changes as follows:

- Sports Bar – They propose to change the bar area to a sports bar theme, by adding TV screens and by removing the wine bottle wall by the bar to expand the bar area.
- Ground-floor patio - They propose to enclose the ground-floor outdoor patio with an overhead awning and tent-like walls, similar to the Dead Fish restaurant in Crocket.
- 2nd Floor -They propose to use the second floor for events and parties, but plan to add an elevated stage to accommodate live music and acts. They also propose to remove the upstairs bar and replace it with a portable bar located at the top of the stairs.

It is anticipated that the remodeling under this proposal would take approximately six to eight weeks, If this proposal were approved, they would immediately start up a marketing and outreach program.

As opposed to the other two proposals, Gaby's Bar & Grill would only be open for a happy hour and dinner at the start (not lunch). In addition, they are proposing free rent for four months on the ground floor and for one year on the second floor. Their proposal included financial statements and tax returns for two years, which showed profitability for both years.

Potential Lease Terms

In order to retain more control of the property, the City intends on leasing the building to a future tenant. The following lease scenario is recommended by staff for the next operator. It should be noticed that the lease acknowledges the difference in income potential between the upstairs space, which will primarily be used for events, and the ground floor space. If this resolution is adopted, a formal Lease Agreement will be negotiated and bought back to the City Council for consideration at a future meeting.

0 – 6 months	\$4,500/mo.	\$1.20 downstairs/ \$.675 upstairs
6 months – 1 year	\$5,000/mo.	\$1.25 downstairs/ \$.83 upstairs
Year 2	\$6,000/mo.	\$1.45 downstairs/ \$1.05 upstairs
Year 3	\$7,000/mo.	\$1.65 downstairs/ \$1.25 upstairs
Year 4	\$7,500/mo.	\$1.80 downstairs/ \$1.30 upstairs
Year 5	\$8,000/mo.	\$2.00 downstairs/ \$1.30 upstairs

In addition to rent, the tenant would also pay a monthly common area maintenance charge (CAM of approximately \$800/mo), sewer, water, garbage and electrical charges for the space.

Fiscal Impact

The City will receive lease income from the property based on terms to be negotiated and brought back to the Council for approval.

Recommendation

Based on an initial review of the proposals, staff feels that Buon Appetito offers the most seamless transition, is most suited for the space, and is a strong, experienced operator. Staff awaits further input from the Council regarding the proposals and, based on the direction from Council, will bring back a proposed lease agreement for final consideration at a future Council Meeting.