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Title: Report regarding a resolution authorizing the City Manager to execute an amendment to the Sublease Agreement with Fitness Therapy, LLC. for the commercial space located at 634 El Camino Real, Suite C, in South San Francisco for the purpose of continuing an existing commercial use. (Katie Donner, Management Analyst I)

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Attachments: 1. Attachment 1 - Sublease Agreement, 2. Attachment 2 - February 8, 2021 Letter, 3. Attachment 3 - Amendment to Sublease Agreement

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Report regarding a resolution authorizing the City Manager to execute an amendment to the Sublease Agreement with Fitness Therapy, LLC. for the commercial space located at 634 El Camino Real, Suite C, in South San Francisco for the purpose of continuing an existing commercial use. (Katie Donner, Management Analyst I)

RECOMMENDATION

Staff recommends that the City Council adopt a resolution authorizing the City Manager to execute an amendment to the Sublease Agreement with Fitness Therapy, LLC. for the commercial space located at 634 El Camino Real, Suite C, in South San Francisco for the purpose of continuing an existing commercial use.

BACKGROUND

634 El Camino Real is a mixed-use affordable housing development constructed by Mid-Peninsula Housing Coalition (Mid-Pen) and sponsored by the former Redevelopment Agency of the City of San Francisco (RDA). To assist with making the project affordable to lower income households, the RDA contributed land and a \$9.9 million loan to Mid-Pen. These were RDA assets until redevelopment was abolished by the State of California. Pursuant to the dissolution statutes, the California Department of Finance (DOF) authorized the transfer of the land and Mid-Pen’s \$9.9 million load to the city as housing successor. Mid-Pen, as the developer, owns the building improvements. Based on the Master Lease Agreement between Mid-Pen and the City, the City subsequently entered into sub-lease agreements and completed tenant improvements in the three commercial spaces.

In January 2019, the City Council adopted a resolution authorizing the City Manager to execute a Sublease Agreement with Fitness Therapy at 634 El Camino Real, Suite C (the “Property”). Fitness Therapy is a health and wellness company that began in Daly City and has provided group fitness classes in the Bay Area for nearly 11 years. The company works with and trains individuals to provide customized training programs and a high level of care. From sports-specific training to weight loss and metabolic conditioning as well as geriatrics

and preventative care, the company has the talent to provide services to a variety of populations. The company also works with non-profit sports organizations, local companies, and governments in which the company provides both personal training services and group classes. Group fitness classes are designed to accommodate 10-12 people and the classes are typically 45 to 60 minutes long. The business owner, Ryan Dantes, is a South San Francisco resident who earned a bachelor's degree in Kinesiology at San Francisco State University and a Masters in Kinesiology from A.T. Still University in Arizona.

On February 15, 2019, the City and Fitness Therapy entered into the Sublease Agreement, included as Attachment 1 to this staff report. In a letter dated February 8, 2021 ("Letter"), included as Attachment 2 to this staff report, the City and Fitness Therapy agreed to amend the Sublease, including an amendment to the Rent Schedule, extension of the Sublease Term until January 31, 2026, and permission for Fitness Therapy to extend the Sublease Term for an additional six (6) months, as long as Fitness Therapy is not in default at the end of the initial Term.

DISCUSSION

The City Council approved the Sublease with Fitness Therapy believing that the company would provide an essential service to the community. Prior to approval of the Sublease, the community lost a major gym facility at the Safeway Shopping Center located at 180 El Camino Real. It was understood that Fitness Therapy, unlike a large gym, would operate small classes with a physical training emphasis. Additionally, the Council was interested in supporting a local resident and El Camino High School graduate expand a startup business.

Fitness Therapy began tenant improvements in late 2019 and did not finish the work until August 2020, in the midst of the COVID-19 pandemic. Mr. Dantes indicates that he invested over \$200,000 in tenant improvement work during this period. Fitness Therapy began classes in late summer 2020. However, a resident tenant located above the business complained about noise and building vibrations from the training sessions. City staff worked with Mid-Pen, Mr. Dantes and the residential tenant to mitigate the causes of the complaint. The mitigation included constructing ceiling panels to muffle the noise and reducing class sizes to reduce the building vibration. Throughout this process, Mr. Dantes expressed his willingness to be a good neighbor and initiated all mitigation measures.

Mr. Dantes has not been able to achieve the revenues he originally anticipated. At this time, Fitness Therapy is losing revenue due to both pandemic-driven economic hardships and the mitigation measures imposed on his business related to neighbor complaints. Therefore, Mr. Dantes is requesting a modification to the rent structure of the Sublease Agreement which, he has stated, will allow him to operate a smaller training program and keep Fitness Therapy afloat.

Staff is recommending that City Council approve an amendment to the Sublease to reduce the Base Rent because commercial rents have gone down, Fitness Therapy is unable to operate at full capacity, and because of the economic hardships caused by the COVID-19 pandemic since March 2020. In October 2021, the City also approved a rent reduction for Milk Tea in Suite A, from \$3,800/month to \$3,500/month because commercial rents have gone down due to pandemic-driven economic hardships since March 2020.

Staff recommend the proposed Amendment to the Sublease Agreement, attached as Attachment 3, which includes the negotiated terms with Fitness Therapy, including a retroactive reduction in the Base Rent from \$5,300/month to \$3,000/month for December 1, 2021 to January 31, 2022; from \$5,459/month to \$3,000/month for February 1, 2022 to September 30, 2022. Moving forward, the Base Rent would be reduced from \$5,459/month to \$3,000/month for October 1, 2022 to September 30, 2023. As of October 1, 2023, the monthly Base Rent would resume to the original monthly Base Rent schedule, as amended by the Letter, which would be a Base Rent consistent with the existing market rate for commercial space in South San Francisco. Other

minor amendments have been included in the Sublease Agreement as well.

FISCAL IMPACT

The Total Rent would be reduced from \$341,676 to \$286,584 at the end of a five-year and sixth-month term, with a difference of \$55,092.

RELATIONSHIP TO STRATEGIC PLAN

Amending the sublease agreement to Fitness Therapy meets the City's priority of economic vitality to help create a foundation for a sustainable community and retaining businesses.

CONCLUSION

Fitness Therapy adds a service that is needed in the community. Fitness Therapy has not been able to achieve the revenues originally anticipated. At this time, Fitness Therapy is losing revenue due to both pandemic-driven economic hardships and the mitigation measures imposed on the business related to neighbor complaints. Given the current climate in the commercial real estate market, where vacancies are rising and retail businesses are closing, the City would find it difficult to find a replacement business quickly. Fitness Therapy has stated that the business would be able to continue operating under the amendments to the Sublease Agreement, as proposed. It is recommended that the City Council adopt a resolution authorizing the City Manager to execute an Amendment to the Sublease Agreement with Fitness Therapy, LLC. for the commercial space located at 634 El Camino Real, Suite C, in South San Francisco for the purpose of continuing an existing commercial use.

Attachments:

1. Sublease Agreement
2. February 8, 2021 Letter
3. Amendment to Sublease Agreement