



Legislation Text

File #: 21-715, **Version:** 1

Report regarding a resolution authorizing the City Manager to execute a second Sublease Agreement with Milk Tea Lab to extend the lease at 630 El Camino Real for five years, with an additional five year extension. (*Mike Lappen, Economic Development Coordinator*)

RECOMMENDATION

Staff recommends that the City Council adopt a resolution authorizing the City Manager to execute a second Sublease Agreement with Milk Tea Lab to extend the existing lease at 630 El Camino Real with Milk Tea Lab for another five years, with an additional five year extension.

BACKGROUND/DISCUSSION

In July 2016, the City Council authorized the City Manager to executive a Sublease Agreement with Cool Tea Bar, LLC to operate the commercial space (Suite A) at 630 El Camino Real. In 2019, Milk Tea Lab assumed the Sublease and has continually operated at this location. The term of the original Sublease Agreement ends in September 2021 and permits the owners to extend the term for another five years. However, the owner wishes to continue operating at this location for another ten years and has requested that rather than agreeing to an automatic five year extension, that they enter into a new 10 year Sublease Agreement (an initial five years, with a five year extension).

Founded in 2016, Milk Tea Lab is a franchise with eight stores in the San Francisco Bay Area that focuses on the preparation of natural, fresh, and healthy teas and tea-based drinks. Milk Tea Lab proposes to continue to rent Suite A (1,600 square feet) at 630 El Camino Real. The initial term of the Sublease will be five years with one five-year option. The proposed base rent would start at \$3,500 per month and would increase by three percent (3%) annually over the next five years. The rent could be renegotiated for the term of the five year extension.

The proposed starting base rent (\$3,500/month) is lower than the existing rent (\$3,800/month). The City's property manager, SC Properties, has negotiated this new base rent with Milk Tea Labs based on lower retail rent rates, which have gone down due to the pandemic, and increased vacancy. The new proposed base rent is consistent with market rate retail space in South San Francisco today.

Staff believes that Milk Tea Lab has been a good tenant and a stable business anchoring the three unit commercial space at 630 El Camino Real. During the pandemic period, the tenant has stayed open and paid full rent on time. The City did grant the tenant an exemption from paying rent for two months (April and May 2020) when the business was not able to operate due to County SIP restrictions. Additionally, although the tenant has never requested any tenant improvement credits during the initial term of the Sublease, the City will work with the tenant to conduct a leak check, repair issues and replace refrigerant in the dedicated HVAC system for no more than \$3,000.

FISCAL IMPACT

The total Annual Rent to the taxing agencies will be \$222,954 at the end of the five-year term. The City would not be responsible for the construction of any future tenant improvements. However, due to the economic

hardships caused by the pandemic, City staff promised to allocate \$3,000 to check, help repair and replace the refrigerant in the dedicated HVAC system. The property manager has indicated that they can use the monthly rent distributions on the 636 El Camino property to pay for the repairs. The City can pay for the repairs without any infusions of capital from the General Fund.

RELATIONSHIP TO STRATEGIC PLAN

The proposed continuation of the Milk Tea Lab Lease Agreement is consistent South San Francisco Strategic Plan, Priority 4 and 5. The continuation of the use is consistent with the City's goal of ensuring strong, predictable city revenues, resistant to economic shocks, managed well with a system of checks/balances, transparency and accountability. It also permits the City to continue working on current and proposed private development in South San Francisco both residential and commercial.

CONCLUSION

Milk Tea Lab is an existing tenant that desires to operate its business in South San Francisco for another ten years. Staff believes that the business has demonstrated that it can operate during an extremely difficult period when many eating and drinking establishments faced economic hardships. The proposed rent is consistent with the existing market rent for commercial units in South San Francisco. Staff recommends that the City Council adopt a resolution authorizing the City Manager to execute a Sublease Agreement Milk Tea Labs for the commercial space at 630 El Camino Real.

ATTACHMENTS

1. Site plan