



# CITY OF DEL REY OAKS

650 CANYON DEL REY BLVD., DEL REY OAKS, CALIFORNIA 93940  
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**DATE:** December 16, 2025

**TO:** Honorable Mayor and City Council

**FROM:** John Guertin, City Manager

**SUBJECT:** Information Item: Conclusion of Lease Renewal Discussions with Hana Gardens and Findings from City Due Diligence

**CEQA:** Not applicable.

## Summary

This report provides an update on the status of lease renewal negotiations with Hana Gardens and outlines significant issues identified during the City's due diligence review of the existing lease, which is scheduled to terminate on December 31, 2025.

## Background

Over the past several months, the City engaged in discussions with Hana Gardens regarding a possible extension of the current lease. As part of this process, the City initiated due diligence activities to evaluate conditions at the property and assess compliance with existing lease requirements.

## Discussion

During its review, the City became aware of significant and material breaches of the lease and Conditional Use Permit by the lessee. Some of the breaches include:

- During a site visit, the City discovered that the lessee, without permission from the City and without providing any notice, had physically cut and capped the CalAm water supply line that services the building.
- Further investigation revealed that the lessee had instead plumbed water from the City-owned irrigation well to supply water to the building. Lessee is/was aware that water produced from this well is non-potable and not approved for human consumption.
- Additionally, the lessee failed to post the required non-potable water notice in the restrooms, as mandated by the County of Monterey Environmental Health Department.
- As a result, employees and members of the public were placed at risk, as non-potable water was being used to serve the restrooms. The City is not aware that anyone got sick because of drinking the non-potable water.

These actions constitute material breaches of the lease. Under the terms of the lease, the City has the right to immediately terminate the agreement and require the lessee to vacate the premises at once.

Given that the lease term ends in less than 30 days, the City has decided to refrain from exercising this immediate-termination right. However, the seriousness of the violations necessitates clear action regarding the future of the tenancy.

#### Conclusion of Negotiations:

The City and Hana Gardens were unable to reach consensus on acceptable terms for a renewed lease. In light of both the inability to agree on terms and the material breaches identified, the City Council has determined not to renew the lease. On December 2, 2025, Hana Gardens received the Notice of Lease Nonrenewal & Vacation of Premises.

The existing lease will expire on December 31, 2025, and the tenant has been informed to vacate the premises by that date. Staff will coordinate with the tenant to ensure an orderly and compliant move-out.

#### Next Steps:

- Monitor and verify the tenant's move-out process and ensure compliance with lease requirements.
- Evaluate conditions on the premises following vacancy.
- Return to the Council at a future meeting with options and recommendations regarding the property's disposition or potential re-use.

#### Attachments

- Notice of Lease Nonrenewal & Vacation of Premises

Respectfully submitted,

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John Guertin  
City Manager

# FENTON & KELLER

A PROFESSIONAL CORPORATION

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### VIA HAND DELIVERY AND CERTIFIED MAIL

Mitsugu Mori  
Del Rey Oaks Garden Center  
899 Rosita Road  
Del Rey Oaks, CA 93940

Re: Notice of Lease Nonrenewal & Vacation of Premises  
Our File: 34837.33652

Dear Mr. Mori,

This letter is to inform you that the City of Del Rey Oaks ("City") will not be renewing your lease of the property and buildings at the Del Rey Garden Center ("Premises") at the end of its current term due to your significant and material breaches of your lease with the City. You are to vacate the premises by the end of the lease term, December 31, 2025.

#### A. MATERIAL BREACHES OF THE LEASE

Further to the City's recent discussions with you regarding extending your lease for the Premises ("Lease"), the City visited the Premises and became aware that you had - without permission from the City or notice to the City - physically cut and capped the CalAm water supply line servicing the Premises (see Attachment "A"). Upon further investigations, the City discovered that you had plumbed water from the City-owned irrigation well on the Premises to instead supply water to the Premises (see Attachment "B"). As you are well aware, water produced from the City-owned well is not potable.

As a result of these actions, you endangered the health and safety of your employees and the public by having non-potable water serve the bathrooms on the Premises. Attachment "C" shows a CalAm employee testing sink water and confirming non-potable water was supplied to restrooms. Moreover, you failed to post notice of non-potable water in the restrooms, as required by the County of Monterey Environmental Health Department.

Accordingly, you are in material violation of the following provisions of the Lease:

- **Section 3**, which prohibits using the Premises in a manner that causes a nuisance, and requires your use of the Premises to comply with all applicable federal, state, and local laws, rules, and regulations.
- **Section 6**, which limits the allowable use of the well water to only irrigation and property maintenance, and requires you to comply with local, state, and federal law for well operation.

- **Section 7(A)**, which prohibits alterations to the Premises without the express written consent of the City, and requires full compliance with all applicable laws, rules, and regulations (including the proper issuance of permits).
- **Section 8(A)**, which requires the Premises be maintained in good repair.
- **Section 8(E)**, which requires you to immediately report to the City, in writing, anytime something occurs that may reasonably be estimated to cause more than \$10,000 worth of property damage or cause any serious injury to person or to the Premises.
- **Section 9**, which requires your use of the Premises to comply with all local, state, and federal laws.
- **Section 15**, which requires the business conduct its use of the property so as not to create a nuisance, and requires compliance with local, state, and federal law. Importantly, this section requires the Premises to be maintained in a *sanitary* manner.

### **B. NOTICE TO VACATE AT END OF LEASE TERM**

Pursuant to the Lease terms, the City has the right to immediately terminate the Lease and demand you vacate the Premises at once. However, given the Lease term ends in less than 40 days, the City will refrain from exercising this right. The City will NOT be renewing the Lease, and with this letter terminates all negotiations regarding its renewal or extension.

Please ensure you fully vacate the Premises by December 31, 2025. The City expects the Premises to be returned in the same condition as it was leased to you. Specifically, this means that the unpermitted truck scale must be removed, all unpermitted improvements and items (i.e., fences, storage buildings, storage bins, etc.) be removed, all hardscape removed, and all property of the business removed from the Premises.

Also, consistent with the terms of the Encroachment Permit for the Premises expiring on December 31, 2025, the haul road must also be removed. In short, as provided for in the Lease, the City expects you to return the property to the original footprint of the leased area and in a neat and clean condition. Failure to return the property in the same condition you received it in will result in the City removing the offending property modifications and billing you for said removal. Note that the City will allow the existing pavers to remain on the Premises.

Please contact me with any questions you may have.

Sincerely,

FENTON & KELLER  
A Professional Corporation



Alex J. Lorca

AJL:rjm  
Enclosures  
cc: John Guertin, City Manager

Attachment "A"  
Severed CalAm Supply Line



Attachment "B"  
Line from Well to Garden Center Building



Attachment "C"  
CalAm Employee Confirming Non-potable Water in Bathroom Sink

