



Memorandum

To: Mayor Nelson and Members of the City Council

From: Daniel R. Buchholtz, MMC, Administrator, Clerk/Treasurer

Date: December 1, 2020

Subject: Lease Amendment Request – RS Properties

The City of Spring Lake Park has received a request from Ray McManus, RS Properties, for a new lease covering City owned property at 8466 Highway 65 NE. Mr. McManus operates the Sunset Grill from that property.

The current lease is a 5 year lease began on January 15, 2018 and expires on January 14, 2023. There is one 5 year extension on the lease. The current monthly lease rate is \$5,600 per month or \$67,200 per year. The tenant is responsible for property taxes and insurance, which is an additional ____/month. Utilities are the responsibility of the tenant. On January 15, 2023, the monthly lease rate will increase to \$7,000/month, plus property taxes and insurance.

History

The building was acquired in April 2014 from Bill & Libby's Building Account, LLC after the passing of Bill Nicklow and the closure of Nicklow's. The City paid for the building with funds from its allocation from the Anoka County Housing and Redevelopment Authority as part of a broader strategy to acquire the remaining properties on the south east corner of Highway 65/85th Street NE for a future redevelopment project. There is no debt service on the building.

The City entered into a lease with PNN Café, LLC in September 2014 for operation of a restaurant (the Laddie Lake Pub). After that lease was terminated in 2017 due to the tenant unable to cure a default of the lease, the City entered into a lease with RS Properties in 2018.

Proposal

Mr. McManus is proposing cancellation of the current lease and execution of a new long-term lease with the following terms:

2021	Free rent. RS Properties will be responsible for typical maintenance.
2022	Monthly rent will be equal to the property taxes for the year
2023	Monthly rent is ½ of current rent (\$2,800/mo or \$33,600/yr)
2024	Monthly rent will increase by \$500/month (\$3,300/mo or \$39,600/yr)
2025	Monthly rent will increase by \$500/month (\$3,800/mo or \$45,600/yr)

The proposal also includes two 5-year lease options where that same monthly increase would be implemented each year until the rent returns to current level of \$67,200/year. Below is how that would be projected.

2026	\$4,300/mo or \$51,600/yr
2027	\$4,800/mo or \$57,600/yr
2028	\$5,300/mo or \$63,600/yr
2029 and beyond	\$5,600/mo or \$67,200/yr

Analysis

The City has provided assistance to RS Properties since the start of the COVID-19 pandemic, including 1 month free rent and a \$10,000 business assistance grant utilizing the City's Coronavirus Relief Fund allocation from the State of Minnesota. RS Properties is current on the lease and has paid the lease for the free month previously offered by the City.

Staff is sympathetic to the pain that all businesses, particularly bars/restaurants, have suffered during the COVID-19 pandemic. With no debt on the building, the City has flexibility on the lease rate. However, the City shouldn't be expected to carry all of the burden of carrying this business through the COVID-19 pandemic.

Staff reached out to Marty Fisher, realtor at Premier Commercial Properties, to find out how other landlords are dealing with situations such as this. He said that retail landlords have deferred the rent during the shutdown over the remainder of the lease or over the last three months. He stated that no landlords that he works with have granted rent relief.

With that said, the City Council has several options:

1. The City Council keeps the current lease in full force and effect.
2. The City Council accepts the terms offered by RS Properties (or a variant of those terms)
3. The City Council defers the rent for a period of time determined by the Council and amortize the deferred rent over the remainder of the lease (or the final months of the lease)
4. The City Council offers a short-term relief package and reevaluates business conditions at the end of that timeframe to determine if more rent relief is warranted.

Recommendation

RS Properties has been a good tenant at the property. They have made many improvements to the building, paid their rent on time and been a good corporate citizen. With the struggles of bars/restaurants, it would be difficult to find another tenant in this environment to fill the building. That being said, as the economy improves, the ability to attract a new tenant improves.

City Staff would recommend the City Council consider either Option 3, a rent deferral, or Option 4, a short-term relief package. Regardless of which option is chosen, staff recommends ensuring the collection of the property taxes and insurance obligations from the Tenant.

If you have any questions, please don't hesitate to contact me at 763-784-6491.