STAFF REPORT

MEETING DATE:	**April 28, 2020**
SUBJECT:	**Authorize the Executive Director to Enter into an Agreement to Lease Suite 101 of the SRTA Building Located at 1255 East Street, Redding, CA.**
AGENDA ITEM:	**12**
STAFF CONTACT:	**Daniel Little, Executive Director**

STAFF RECOMMENDATION:

It is recommended that the board of directors authorize the executive director to enter into a tenant agreement to lease approximately 4,273 square feet, comprising the entire downstairs portion of the SRTA office building, to Western Physical Therapy Inc., (dba Mountain View Physical Therapy) for an initial 66-month term at a base rate of $3,632 monthly ($.85 per square foot), escalated 3% annually.

DISCUSSION:

The downstairs portion of the SRTA building has been on the market for 14 months. Staff has been in negotiations with Western Physical Therapy Inc., to lease the space and has reached an agreement pending board approval. The agreement includes an initial 66-month term that includes 12 months of free rent while the space is remodeled at the tenant's sole expense. The rate is $.85 per square foot, or $3,632 monthly. The rate would escalate 3% annually. The agreement will include options for two 5-year extensions at the same annual escalation rate.

Staff recommends approval of the agreement as the revenue will cover building maintenance and repairs as well as the two years of remaining financing from the original building purchase in 2015. Staff is not in need of the space for the foreseeable future. The current layout of the downstairs presents a challenge to interested tenants in that it was originally a bank and the floor plan has limited utility for other uses. The prospective new tenant would use the building for physical therapy and has agreed to pay for all needed remodel costs which will take some time in the current construction environment hence the free 12-month rent provision.

The final negotiated agreement is the result of several offers and counteroffers and is consistent with the current market. While the $.85 rent is $.25 per square foot lower than the listed rate, the 3% escalation rate is slightly higher than market conditions. The most advantageous aspect of the agreement is that SRTA will forgo the typical cost of a remodel which would likely be needed from any other tenant.

ALTERNATIVES:

The board of directors may decline to lease the surplus space and continue to list the property to seek a better offer.

FISCAL IMPACT:

Lease of the space would generate $3,632 monthly for SRTA after the 12-month free rent period, assumed to be from May 2020 to April 2021. The initial 66-month term would generate $206,800. If both five-year extension options are exercised, the monthly rate would peak at $5,490 after escalation and generate $786,000 over the life of the lease. In addition, there will be a customary one-time fee from the tenant's broker of 3% over the initial term, or $6,200. These figures are approximate pending final lease details.

Dan Little

Daniel S. Little, AICP, Executive Director