



City Council Report

Date: October 17, 2016
To: City Council
Through: Kari Kent, Assistant City Manager
From: Beth Huning, City Engineer
Rob Kidder, Assistant City Engineer
Subject: Ground Lease for 49 West First Street to Metropolitan Youth
Symphony
Council District #4

**Strategic
Initiatives**



Purpose and Recommendation

The purpose of this report is to consider staff's recommendation to enter into a Ground Lease Agreement with Metropolitan Youth Symphony for the property located at 49 West First Street.

Background

In the mid 1980's, two historic houses were moved to a portion of the Pepper Street Parking Garage parcel as part of the Site 3 Downtown Redevelopment Project. This property abuts the north side of the Pepper Street Parking Garage on the south side of First Street, and is approximately 8,827 square feet in area.

The houses were first remodeled into a restaurant. In March 1986, the City entered into a 35-year ground lease (plus a 35 - year option) with the original developers, Mesquite Tree Corporation. In 1992, NMAZ Partners (current tenant) purchased the houses, and on September 30, 1992 the City approved a reassignment of the ground lease with a new term length of 35 years (plus a 10-year lease option). NMAZ remodeled the property as office space. There are 11 years remaining on the 35-year lease (to the year 2027), then an additional 10-years on the lease option (to the year 2037). At the end of the lease period in 2027 (2037 if the option is exercised), all rights to the leased property and the improvements revert to the City of Mesa at no cost. No financing or any other obligations of the lessee may have a term that extends beyond the lease period. The current lease rate is 10% of the appraised land value of \$13.50 per square foot. The monthly rent is \$993.00 a month, \$11,916 annually.

Discussion

NMAZ Partners have listed their improvements for sale and have an interested buyer, Metropolitan Youth Symphony (MYS). MYS was founded in 1982 and is one of the Valley's most established youth education programs dedicated to professional symphonic training for students. It is a non-profit organization. MYS offers its programs and activities to musicians in the Phoenix metropolitan area who attend kindergarten through ninth grade.

MYS has entered into a Purchase and Sale Agreement with NMAZ Partners to purchase the assets. MYS has requested that the City consider and enter into a new twenty-five (25) year lease agreement for the land. The rent would be set at 5% of the appraised land value, with the property being re-appraised every three years to capture fluctuations in the market. The lease would also require MYS to license ten (10) parking spaces from the adjacent Pepper Street Parking Garage for the duration of the lease. The lease would not be assignable, unless, the rental rate increases to 10% of market value of the land for the remainder of the twenty-five (25) year term. There is an existing Subtenant, subleasing 1,630 square feet of office space and would remain and be a Subtenant to MYS. The lease would have a provision that limits the square foot area of the subleased space to 1,630 square feet.

Alternatives

Mesa could choose to not enter into a new Lease Agreement with Metropolitan Youth Symphony for the requested term. Choosing this alternative would result in the current lease with NMAZ Partners to continue until 2027 at which time the lease would end and ownership of the assets would revert to Mesa.

Fiscal Impact

The current lease with NMAZ Partners is for 10% of land value of \$13.50 per square foot. Monthly revenue is \$993.00, \$11,916 annually. The proposed lease with MYS is for 5% of land value which is currently \$13.50 per square foot. Monthly revenue would be \$496.52, \$5,958.23 annually. The new lease would result in a revenue reduction of \$5,957 annually. The property may be re-appraised annually, but no less often than every three years in order to capture fluctuations in the market. The cost of the appraisal will be split between Mesa and MYS. Mesa will receive parking income for ten (10) parking spaces in the Pepper Street garage in the amount of \$430.00 per month for the duration of the lease.

Coordinated With

The City Manager's office concurs with this recommendation.