



City Council

Date: June 8, 2026
To: City Council
Through: Scott Butler, City Manager
From: Jeffrey McVay, Manager of Downtown Transformation
Subject: Lease Agreement for 111 W. Main Street
District 4

Purpose and Recommendation

The purpose of this report is to provide information for the City Council to review and consider a Lease Agreement between the City of Mesa and Local First for Business (Local First). The Lease Agreement will allow the operation of a restaurant and food incubator, known as Main Street Market to be operated by Local First at the City-owned property located at 111 W Main Street (APN 138-42-048).

Staff recommends City Council approve the Lease Agreement.

Background

In 2022, City Council approved the use of ARPA funding to purchase and renovate the property located at 111 W. Main Street (the "Property") for the operation of a Restaurant and Food Business Incubator (the "Incubator"). Council further directed staff to negotiate a Lease Agreement with Local First for Business (Local First) to program and operate the Incubator and maintain the Property. The City purchased the Property for the appraised value of \$1.6M in August 2022 and staff worked closely with Local First on final design for the Incubator. With a Council approved budget of \$4.57M for design and construction, final design of all interior (1st floor and basement) and exterior improvements was completed and construction all 1st floor and exterior improvements are projected to be completed in October 2026. Due to construction costs improvement to the basement was limited to a warm-shell condition. Construction of the full basement improvements (est. \$650k-\$1.0M), which includes classroom, production, packaging, and marketing space may be completed in a future phase.

Discussion

City Council approved utilizing ARPA funding for development of the Incubator with the goal of developing resilient, local restaurant and food businesses that will support the local economy and be better prepared to respond to significant events, such as COVID-19. A key component of the vision for the Incubator was the inclusion of a "modern food court" open to the public where diverse, local restauranteurs being incubated would learn to operate a restaurant in a low-risk environment that allows constant improvement leading to "graduation" to a stand-alone restaurant in Mesa. The improvements to the Property being constructed include this component. Future build-

out of the basement would allow additional Incubator programming that supports the development of food businesses, such as food production for retail sales, catering, and food trucks, as well as classroom space for supporting all programming.

The proposed Lease Agreement provides the terms necessary for Local First to operate the Incubator and maintain the Property as developed, while allowing growth of the Incubator programming with future build-out of the basement. Below is a summary of the proposed Lease Agreement.

Lease Term and Rent:

Initial Term: 10 years

Rent rate: \$10,000/year (\$100,000 total)

First renewal: 5 years

Rent rate: \$15,000/year (\$75,000 total)

Second renewal: 5 years

Rent rate: \$20,000/year (\$100,00 total)

Third renewal: 5 years

Rent rate: \$25,000/year (\$125,000 total)

Local First Obligations:

Provision of all incubator programming and staffing, including:

- Minimum of five, and up to eight, annual Program Participants (first floor)
 - Min. 4 Program Classes quarterly with 20+ participants
- Minimum of 80 annual Program Participants (upon build-out of basement)
- Food Court open minimum 6 days/week (8 hours/day), with minimum of four vendors operating during open hours
- Mesa resident/business preference
- Quarterly reporting to City

LFA to reinvest any profit back into program

Maintenance and operation responsibilities typical of a tenant in a commercial lease, such as security, supplies, cleaning/janitorial, interior painting, furniture repair and replacement, and pest control.

City Obligations:

Full design of improvements to support restaurant and food business incubator programming

- Full build-out of 1st floor and exterior improvements
- Warm shell for basement
- Mechanical, electric, and plumbing to support full build-out of first and second floor

Maintenance responsibilities typical of a landlord in a typical commercial lease, such as

roof and structural elements; major HVAC, plumbing, and electrical; and exterior. It is important to note that build-out of the Incubator included a new roof, structural improvements, new electric and gas service, and new HVAC system, among other system improvements that are typical of landlord responsibilities. It is expected that annual “landlord” costs to the City will be offset by the annual rent, which will be held in reserve for typical system maintenance costs, while creating a reserve and replacement fund for potential future costs during the full 25-year term of the lease.

Alternatives

Modify terms to the proposed Lease Agreement or denial of the proposed Lease Agreement.

Alternatives are not recommended as this would limit or prohibit Local First from providing the Restaurant Incubator programming as envisioned and planned.

Fiscal Impact

Total rental revenue of \$400,000 over 25-year term of Lease (Rent revenues will be held to offset any cost to City as landlord)

Restaurant Incubator will also generate sales tax revenue from food court activity through term of lease and future new brick-and-mortar locations of restaurants “graduating” from restaurant incubator program.

Coordinated With

The terms of the lease agreement were coordinated with the City Attorney’s Office.