



Cover Memorandum/Staff Report

File #: 18-0360 CRA

Agenda Date: 6/11/2019

Item #:

TO: CRA Board of Commissioners
FROM: Jeff Costello, CRA Executive Director
DATE: June 11, 2019

GROUND LEASE AGREEMENT - HATCHER CONSTRUCTION & DEVELOPMENT, INC. - 20 - 26 NW 6TH AVENUE

Recommended Action:

Approve the attached Ground Lease Agreement with Hatcher Construction & Development, Inc. for the properties located at 20 and 26 NW 6th Avenue.

Background:

At the CRA Board meeting of December 11, 2018, the Board considered a letter of interest from Hatcher Construction & Development, Inc. ("Hatcher"), a local general contractor whose business is currently located at 700 W. Atlantic Avenue, to develop the vacant CRA-owned properties located at 20 & 26 NW 6th Avenue (approximately 0.45 acres) in the NW 600 Block of West Atlantic Avenue. Hatcher seeks to develop a 6,000 square foot building, of which Hatcher will occupy 2,000 square feet and the remaining 4,000 square feet may be used as rental space for retail business or office space for a small business or non-profit organization. The Proposal also included the following:

- Land lease for the properties and utilize the Land Value Investment Program ("LVI") with an option to buy the land at any time during the lease agreement.
- Purchase the land at the market value of the year the initial lease was signed.
- Utilize CRA's parking lot incentive (Development Infrastructure Assistance Program - DIA) for funding the construction of the parking lot, which would be available for public parking after 5:00 p.m. on weekdays and on weekends.
- Utilize the CRA's incentive programs: LVI and DIA with Local Hiring Bonus Program.

The proposal provides an opportunity for a local small business owner to participate in the redevelopment effort and provide a permanent business location within the West Atlantic Corridor, while providing space for other local small businesses.

Ground Lease Agreement:

Hatcher proposes to lease the land from the CRA for 40 years through the Land Value Investment (LVI) program, with options for renewal and/or future purchase. Hatcher's proposal is a modified version of the LVI, offering a slightly lower payment than provided by the program formula.

LVI (Land Lease) Program- Hatcher will lease the site under a modified version of the terms outlined in the standard LVI guidelines. The Lease terms state that during the initial five-year lease term the Tenant will pay \$1 per year. In subsequent years (Years 6 - 40) the Base Rent shall be adjusted based on a percentage of the appraised value of \$650,000.00 as determined by the appraisal prepared by Parrish & Edwards, Inc. dated January 18, 2019. The lease payment schedule is provided in detail in Section 2.2 of the Lease Agreement. The Lease is a "triple net" lease. Thus, in addition to the Base Rent, the Tenant will be responsible for all other

charges due under the Lease term including all taxes insurance, maintenance, etc.

Reduced Rental Rate for Tenants - Pursuant to Section 25 of the Lease, in consideration of a base rental payment that is less than a fair market rate, Tenant agrees and acknowledges that it shall offer to potential tenants to be located in a minimum of twenty-five (25%) percent of the net square feet of rental space in the Improvement a base rent of thirty (\$30.00) dollars or less per square foot inclusive of any and all common area maintenance (CAM) for no less than seven (7) years subsequent to Tenant obtaining a Certificate of Occupancy for the Improvement. The failure of Tenant to offer the reduced rental rate referenced above for the seven (7) year period shall constitute an event of default under Section 15.1.

Purchase and Sale Agreement - It is noted, the Tenant will have the option to purchase the Property from the DBCRA during the term of the Lease as provided for in Section 20 of the Agreement and the lease also contains a purchase and sale agreement between the parties (Exhibit B), which establishes the specific terms under which the Tenant may subsequently purchase the land being leased to them. Pursuant to Section 20, provided Tenant is not then in default of any terms or provisions of this Lease, the Tenant shall have the option at any time after the Commencement Date and the first seven (7) years of the Term to purchase the Property for a purchase price of two hundred thousand (\$200,000.00) Dollars and consistent with upon the terms and conditions set forth in a Purchase and Sale Agreement to be entered into between the Tenant and Landlord herein (the "Option"). Landlord agrees not to offer the Property for sale for the first seven (7) years of the Term. Landlord does grant to the Tenant a one-time Right of First Refusal effective upon the eighth (8th) Anniversary of the Commencement Date. In addition, beginning on the eight (8th) anniversary date of the Commencement Date of this Agreement, if the Landlord desires to convey the property to a third party, the Tenant will have the right of first refusal to purchase the property on the same terms than those proposed by the proposing party.

Other Provisions - As part of this Ground Lease Agreement, the Tenant shall have an eighteen (18) month "Site Analysis Period" in which to ascertain whether the Property is acceptable to Tenant and to obtain all necessary approvals, permits and licenses necessary for the development of the Property in substantial conformance with the Conceptual Plan. In the event the necessary approvals are not obtained within the Site Analysis Period either party may terminate the lease. The Lease also includes provisions as they relate to obtaining financing to construct the project and bonding. It is anticipated that during the Site Analysis Period, a separate Development Infrastructure Assistance Program application will be submitted to assist with public infrastructure improvements associated with the project (currently up to \$250,000 maximum grant), including public parking.

Attachments(s): Exhibit A -Location Map; Exhibit B - Hatcher Ground Lease Agreement

CRA Attorney Review:

The CRA General Counsel has prepared the attached Ground Lease Agreement to form and determined it to be acceptable.

Finance Review:

N/A

Funding Source/Financial Impact:

N/A

Timing of Request:

N/A