

## AGENDA



Thursday, August 27, 2009

**Contract and Land Management  
RECOMMENDATION FOR COUNCIL ACTION****Item No. 8**

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**Subject:** Authorize the City Manager to negotiate and execute an amendment to the retail lease agreement with RunTex, Incorporated to reduce the rental rate to reflect current market conditions.

**Amount and Source of Funding:** Rental income will be approximately \$25,000 lower on an annual basis. This will be reflected in the FY 2009-2010 Operating Budget of the Financial & Administrative Services Department.

**For More Information:** Lauraine Rizer 974-7078; Tom Nuckols 974-2568; April Thedford 974-7141

**Prior Council Action:** January 10, 2008 - Council authorized the negotiation and execution of the lease agreement.

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The national recession and decline in retail sales activity continues to impact Austin's retail real estate market. Average retail rates are down by 12% since December 2008; that is in addition to the a 6% decline between June and December of 2008, according to Capitol Market Research (CMR), who also anticipate wide-spread rental rate concessions in the form of "free rent."

In April 2008, operating under the name Fit City, RunTex, Incorporated opened a retail fitness store in one of Austin City Hall's two 2nd Street retail spaces. Store sales started slow and have declined since opening due to an overall slowdown in the local economy. In addition, construction of the W Hotel on the block directly north of Fit City has curtailed pedestrian activity on that portion of 2nd Street. Pedestrian activity is anticipated to increase once ground floor sections of the W Hotel open in late 2010.

A temporary change in rent structure from a square foot plus percentage rent basis to square foot only basis will help Fit City maintain its 2nd Street presence during the current economic slowdown and construction activity.

Discussions with 2nd Street Retail District leasing agents indicate a similar trend of declining sales, renegotiated leases and temporary rent adjustments to provide economic relief to 2nd Street businesses and to avoid storefront vacancies.

This amendment would provide for a temporary change in rent structure from \$28 per square foot per year plus 6% of sales over \$645,750 to \$10.50 per square foot, for August 2009 monthly rent through January 2011 monthly rent, plus a one-time rent credit of \$8,370. Rent structure will increase to the original contract amount, phased-in from February 1st, 2011 until March 31st, 2013, which is the end of the first five year term of the contract.