



MEMORANDUM

TO: Mayor and Council

FROM: Ed Van Eenoo, Chief Financial Services Officer

THROUGH: Veronica Briseño, Assistant City Manager

DATE: May 18, 2022

SUBJECT: May 19, 2022 Agenda Item #17: Updated Terms for Retail Leases Located at 405 and 407 Red River Street

On May 19th, 2022, Council will consider a Request for Council Action (RCA) to extend and modify a current lease with the tenant, The Escape Game Austin, LLC. The proposed agreement will replace the previously proposed terms, extend the lease term for the property located at 405 Red River St., and initiate the leasing of the property located at 407 Red River St. The RCA as posted mistakenly reflects the previously proposed terms from the April 7th, 2022 agenda. As we are unable to replace that RCA in its entirety, this memo serves to clarify the current proposed terms.

Council Resolution 20210610-095 instructed staff to research if the current real estate market supports rent abatement. The market rent study conducted for this location supported rent abatement for six months based on a lease with a term of 10 years.

The initial April 7th RCA proposed a rent abatement for six months, a base rental rate of \$19.00 per sq. ft. for both spaces, and no annual base rent escalations, as indicated in Table 1 below. Additionally, the tenant would pay for utility charges as sub-metered and invoiced separately by the City. The lack of a rent escalator in the original proposal reflected that the agreement would impose an immediate increase of 10% in the tenant's base rent for space already secured at a lower rate under their lease through 2025.

Table 1. April 7th RCA (PREVIOUS PROPOSED TERMS)

Term	Base Rent per Square Foot (7,110 SF)	Annual Base Rent	Monthly Base Rent	Total Base Rent
Months 1-6	\$0.00	\$0.00	\$0.00	\$0.00
Months 7-12	\$19.00	\$67,545	\$11,258	\$67,548
Months 13-120	\$19.00	\$135,090	\$11,258	\$1,215,810
			Total:	\$1,283,358

Given the inquiries and questions received in response to the initial April 7th RCA, the staff reapproached the tenant and renegotiated new lease terms to secure a better value for the City and taxpayers. The tenant has continued to express an ongoing interest in leasing the space next door at 407 Red River St., which is the former Texas Reds and White space. The space has been vacant since Texas Reds and Whites terminated their lease with the City on 1/18/2022. During the negotiations, the tenant emphasized that The Escape Game has been a tenant at 405 Red River St. since 6/30/2015, and the current lease term expires on 6/30/2025 and guarantees a rental rate of \$17.25 per sq. ft. Additionally, the tenant was current on its deferred rent payment schedule related to the COVID pandemic and made its final deferred payment on May 4th, 2022, bringing its outstanding balance to zero. It is also worth noting that the existing lease provides the tenant the **unilateral** right to extend the lease for two 5-year terms. The first 5-year term (7/1/2025 through 6/30/2030) would be at \$19.83 per sq. ft. and the second 5-year term (7/1/2030 through 6/30/2035) would be at \$22.81 per sq. ft.

Under the new proposed terms, the staff was able to negotiate no rent abatement or tenant improvement allowance for either space, a 3% annual rent escalation, and a higher rental rate for 407 Red River St. in Year 1 and 405 Red River St. in Year 4. The Escape Game would continue to pay the current base rent of \$17.25 per square foot at its existing space at 405 Red River St. until July 2025, when the base rent would increase to \$21.00 per square foot with a 3% annual escalation. The new lease rates are substantially higher over the 10-year term compared to the existing lease agreement. The base rent at 407 Red River St. would start at \$21.00 per square foot with a 3% annual escalation. Rent payments at 407 Red River St. would commence upon issuance of a Temporary Certificate of Occupancy (TCO), which is estimated to be issued by November 2022, as presented in Table 2 below.

Table 2. May 19th RCA (UPDATED NEW PROPOSED TERMS)

405 Red River St. (5,070 SF)	Base Rent per Square Foot	Annual Base Rent	Monthly Base Rent	Total Base Rent
Years 1 through 3	\$17.25	\$87,458	\$7,288	\$262,374
Year 4	\$21.00	\$106,470	\$8,873	\$106,470
Year 5	\$21.63	\$109,664	\$9,139	\$109,664
Year 6	\$22.28	\$112,960	\$9,413	\$112,960
Year 7	\$22.95	\$116,357	\$9,696	\$116,357
Year 8	\$23.64	\$119,855	\$9,988	\$119,855
Year 9	\$24.35	\$123,455	\$10,288	\$123,455
Year 10	\$25.08	\$127,156	\$10,596	\$127,156
			Total:	\$1,078,291
407 Red River St. (2,040 SF)	Base Rent per Square Foot	Annual Base Rent	Monthly Base Rent	Total Base Rent
Year 1	\$21.00	\$42,840	\$3,570	\$42,840
Year 2	\$21.63	\$44,125	\$3,788	\$44,125
Year 3	\$22.28	\$45,451	\$3,788	\$45,451
Year 4	\$22.95	\$46,818	\$3,902	\$46,818
Year 5	\$23.64	\$48,226	\$4,019	\$48,226
Year 6	\$24.35	\$49,674	\$4,140	\$49,674
Year 7	\$25.08	\$51,163	\$4,264	\$51,163
Year 8	\$25.83	\$52,693	\$4,391	\$52,693
Year 9	\$26.60	\$54,264	\$4,522	\$54,264
Year 10	\$27.40	\$55,896	\$4,658	\$55,896
			Total:	\$491,150
			Grand Total:	\$1,569,441

The tenant has also agreed to invest \$750,000 on the build-out and general contractor fees for the 407 Red River St. space and an additional \$200,000 in fixtures. If exercised, the proposed agreement offers two 5-year renewal options to continue the lease with a 3% annual escalation through 2035. The new proposed terms provide the City with additional rent revenue of \$286,083 versus the previous proposed terms of April 7th and \$950,000 in upgrades to the retail spaces.

Please contact Deputy CFO Kim Olivares or Interim Real Estate Services Officer Michael Gates if you have any questions.

xc: Spencer Cronk, City Manager
 Veronica Briseño, Assistant City Manager
 Kimberly Olivares, Deputy Chief Financial Officer
 Michael Gates, Interim Real Estate Services Officer