

LEGISLATIVE SUMMARY  
Mayor's Office of Capital Projects  
Division of Real Estate

**AMEND LEASE FOR NORTH POINT GARAGE**

Ordinance No: 675-2019

Legislative Purpose: To authorize the Director of the Department of Public Works to amend its lease of land for the North Point Garage, PPN 102-01-013, with Hertz Cleveland North Point, LLC to increase revenue to the City and assist with refinancing of the North Point Office Complex.

Project Summary: Hertz Investment Group ("Hertz") owns the North Point Office Complex and ground leases the North Point Garage property from City per a 50 year lease. The lease expires in 2037. (18 years remaining.)

The North Point Office Complex has changed ownership over the years and the City lease has been assigned to the new owner with each transfer. Hertz and all past tenants have been in good standing and all lease payments have been made.

Original Request: City received a request from Hertz in 2017 to extend their lease through 2087 in exchange for lowering the additional rent threshold from \$1,700,000 to \$1,600,000. This represented a request for a fifty (50) year extension to the lease term beyond the current maturity date of 2037.

Hertz asserts that a lease extension is needed due to debt refinancing that is anticipated in September 2019 and so that it can secure new tenants and retain existing tenants at the North Point Office Complex. Debt was scheduled to mature in September of 2018 but Hertz negotiated a one year extension with its bank. Hertz also anticipates that additional tenants in the North Point Office Complex will increase parking revenues in the garage.

Revised Request: After much due diligence, we negotiated a revised proposed lease amendment with Hertz which, as outlined below, includes a shorter lease term than originally proposed by Hertz and more incentives to the City including adjustment of base rent by the Consumer Price Index ("CPI") each year and adjustment of the additional rent percentages so that they are more advantageous to the City.

Proposed amendment: City is seeking authorization to amend the lease with the following terms:

New lease term:

- a. Currently lease terminates November 1, 2037.
- b. Extend the term through 2059, thereby representing a forty (40) year extension to the lease term from date of lease amendment (assuming lease amendment will be finalized in 2019) which is 22 years additional length to the original term.

Base Rent Adjustment:

- a. Currently base rent is a flat \$120,000 per year.
- b. Increase the base rent by the consumer price index on an annual basis.

Lower Additional Rent Threshold:

- a. Currently Hertz would pay City a percent of profit if the tenant's adjusted gross receipts reach \$1,700,000 or above.
- b. Hertz agreed to pay a percent of profit if its adjusted gross receipts hit \$1,600,000 or above.

NOTE: Hertz has never reached the current \$1,700,000 threshold and does not anticipate reaching the new proposed \$1,600,000 threshold until 2020.

Increased Additional Rent Percentage:

- a. Currently the percent of additional rent is calculated as 7.5% at \$1,700,000 to

\$2,000,000; 10% at \$2,000,000 to \$2,500,000; 15% at \$2,500,000 to \$3,000,000; 20% at \$3,000,000 to \$3,500,000; and 25% at \$3,500,000 to \$4,000,000.

- b. Hertz agreed to increase the percent of additional rent to the following: 7.5% at \$1,600,000 to \$2,000,000; 11.25% at \$2,000,000 to \$2,500,000; 16.25% at \$2,500,000 to \$3,000,000; 21.25% at \$3,000,000 to \$4,000,000; and 26.25% at \$4,000,000 and higher.

Lessee: Founded in 1977 by Judah Hertz, Hertz Investment Group is a fully integrated real estate investment firm that acquires, markets and manages signature high-rise office properties throughout the United States. Currently, its portfolio of investment properties comprises more than 21 million square feet and spans across 25 cities.

One key to the company's success has been the adherence to its investment model of acquiring best-in-class, prestigious office buildings in the central business district of mid-sized cities across the U.S. that are positioned for growth.

Hertz's Cleveland properties are North Point Office Complex (SqFt: 873,335), Fifth Third Center (SqFt: 508,397), and Skylight Office Tower (SqFt: 340,000).

Permanent Parcel No: PPN 102-01-013

Ward: 3, Councilman Kerry McCormack

Attachments: Map and Additional Rent Threshold Calculations