



Caring for Your Coast

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Director

**Kerry Silverstrom**  
Chief Deputy

**John Kelly**  
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Deputy Director

October 2, 2018

TO: Each Supervisor  
FROM: Gary Jones, Director   
SUBJECT: **MARINA CITY CLUB LEASE - STATUS REPORT**

### SUMMARY

During the Board of Supervisors' budget deliberations on June 25, 2018, Supervisor Hahn requested a report back regarding the Marina City Club condominiums. (See attached transcript.) The Department of Beaches and Harbors ("Department") is working with County Counsel to prepare a Board letter to address the issues raised by Supervisor Hahn during the budget deliberations.

### BACKGROUND

The Second Amended and Restated Lease ("Lease") between the County and Essex Marina City Club, L.P. ("Lessee") for Marina City Club (Parcel 1251) is the only ground lease in Marina del Rey that allows condo ownership as well as apartment rentals. At the time the condos were approved in 1988, it was agreed that condo owners would pay ground rent to the County (via Lessee) that would in effect mimic the rent County would have received if the units had remained as apartments rather than converting to condos. That Ground Rent represents a percentage of what the apartment rent would have been at market rates (called the Shadow Rent under the Lease) had the Lessee not converted it into a condo unit. The Shadow Rent itself is not paid to anyone; it is merely used as a tool to calculate the Ground Rent payable to the County. Both the Percentage Rent and the Shadow Rent are adjusted periodically pursuant to the Lease.

Lease Amendment No. 4 created two categories of condominium subleases. Category A unit owners had to modify their subleases to opt into the provisions of Amendment No. 4 which, among other things, included a temporary freeze on annual increases to the Shadow Rent, with a fixed increase (3.75%) thereafter, a mechanism for accumulated rents to fund certain repairs, and a mechanism to repay the County for advanced and deferred rent (2.5% condo transfer fee). Category B unit owners, on the other hand, would not opt in and would be subject to a variable rent increase, be assessed individually for covered repairs, and be subject to a 1 % transfer fee. There are only nine condo units (out of a total of 600) that are Category B units.

One Category B unit owner has requested to opt in so that his condo would be converted to a Category A unit, although according to the Condo Owners Association ("COA"), all nine of the Category B owners may be interested in converting.

The Lease requires the Lessee to maintain and repair all of the condo units and to set aside funds for required maintenance or capital improvements. All the maintenance costs and capital improvement contributions attributable to the condos are allowed to be passed along to the individual condo owners by Lessee.

The COA has sought County assistance to defray the costs of deferred maintenance and certain capital improvements.

### **STATUS**

Because of the unique nature of the Lease structure, as highlighted above, and the need to protect the County's interest as property owner and eventual owner of all improvements located on this parcel, the Department is working with County Counsel to prepare a Board letter to address these issues, which may include, among other things, the following recommendations:

1. Find that the proposed actions are categorically exempt from CEQA pursuant to CEQA Guidelines section 15301 (Existing Facilities).
2. Delegate authority to the Director of the Department of Beaches and Harbors to negotiate and execute an amendment to the Marina City Club Lease, which amendment shall, among other things, provide that: (a) all Category B condo owners may opt back into Category A (as defined by the Lease) so that there is only one category of condo ownership from the date of the amendment forward; (b) the Director shall review the annual increase in Shadow Rent to condominium owners and determine the feasibility of limiting or reducing the amount of Shadow Rent they pay; (c) Percentage Rent payable to the County under the Lease shall be increased pursuant to the terms of the Lease effective January 1, 2019 (i.e., from 12.5% to a maximum of 15%), but for a period of ten years thereafter, the amount of such increase shall be deposited by the Lessee into an account which shall be used to fund deferred maintenance of the Marina City Club property; and (d) after such ten-year period, the Lessee shall resume paying 100% of the Percentage Rent due under the Lease to the County and the Lessee shall continue to fund the deferred maintenance account as required by the Lease.
3. Delegate authority to the Director to negotiate any other terms necessary to effectuate the above-described Lease amendment, including without limitation provisions related to Lessee's compliance with the funding of the deferred

maintenance reserve fund and audit rights so County can monitor compliance with such funding.

4. Delegate authority to the Director to approve, on behalf of the County, the terms of any required amendment to the Master Sublease to conform it to the Lease amendment authorized hereby.
5. Delegate authority to the Director to execute any related or ancillary documentation that may be necessary in order to effectuate the actions described in this Board letter.

GJ:sp

Attachment

c: Marina Board Deputies  
Executive Office of the Board of Supervisors  
Chief Executive Office  
County Counsel