



DATE: July 12, 2006

TO: Honorable President and Members of the Board of Directors

FROM: Public Works Department

SUBJECT: **APPROVAL TO ENTER INTO NEGOTIATIONS WITH THE MARINA DEL MAR COMMUNITY ASSOCIATION TO DETERMINE THE PARAMETERS AND FEASIBILITY OF AN EXTENSION TO THE LEASE AGREEMENT**

SYNOPSIS

Staff recommends that the Harbor Board of Directors approve entering into negotiations with the Marina Del Mar Community Association to extend the term of the Lease Agreement between the Oceanside Small Craft Harbor District and the Marina Del Mar Community Association in order to determine the parameters and feasibility of a lease extension.

BACKGROUND

The Marina Del Mar real property ("Property") consists of approximately 1.8 acres. See attachment for a general description of the Property. The Property is currently ground leased to the Marina Del Mar Community Association, formerly the Marina Del Mar Homeowner's Association ("Marina Del Mar"). The ground lease between the Oceanside Small Craft Harbor District ("District") and Marina Del Mar commenced on or about March 1, 1974, and expires December 31, 2045. Marina Del Mar improved the Property with a four-story building containing seventy-eight condominium units, parking spaces and other residential-related improvements.

ANALYSIS

Marina Del Mar has formally requested an extension of the term of the lease agreement. Marina Del Mar's request is primarily based upon the increased difficulty in obtaining thirty year conventional mortgages. The typical residential mortgage lender, when lending against residential units upon ground-leased property, generally looks to have a period of at least ten years beyond the term of the mortgage. Inasmuch as there is just a little more than thirty years remaining on the ground lease, some lenders have expressed reservations about issuing thirty-year mortgages.

Potential difficulty in obtaining conventional mortgages for the resale or transfer of residential condominium units, when compared to other similar products without a ground-lease encumbrance, affects the marketability of such an encumbered product. In addition, the incentive of a condominium owner to upgrade the condominium unit is typically lessened when the length of ownership interest is also lessened. Both of these factors could have a negative effect on the value of the condominium units, which in turn affects the amount of the rental revenue that is paid to the District.

Notwithstanding whether it is the intention of the District to continue to ground lease the Property to Marina Del Mar, it would be prudent to analyze an extension of the lease and other terms to determine potential rental revenue and value under an extension scenario. If authorized to renegotiate the length of the lease and other terms, staff will obtain an appraisal of the Property and/or other relevant studies in order to analyze different length lease extensions terms, rental rates and other lease conditions to determine the viability of their request or modifications thereto.

FISCAL IMPACT

During Fiscal Year 2004-05, Marina Del Mar paid \$134,327 in rental revenue. Rental was paid in the form of minimum annual rent, a guaranteed percentage of gross rent from Marina Del Mar's unit rental program and transfer fees for units resold or transferred. Should the lease term remain the same, the likelihood is that the rental revenue paid to the District will begin to diminish in the near future as the expiration date of the lease draws closer. However, at this time, it would be difficult to determine the future ratio of diminishing rental revenue without an appraisal and subsequent analysis.

Conversely, also at this time, without an appraisal and/or other studies to determine the current fair market value and the subsequent analysis thereof, it would be difficult to ascertain, with any reasonable certainty, the fiscal impact of any renegotiated lease extension, changes to other terms and/or any increase in the rental rate. In all probability an extension of the lease term, given the current condominium unit sales and rental markets and absent future negative market variables, would at least maintain the current rental revenue figures paid to the District.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

Does not apply.

RECOMMENDATION

Staff recommends that the Harbor Board of Directors approve entering into negotiations with the Marina Del Mar Community Association to extend the term of the Lease Agreement between the Oceanside Small Craft Harbor District and the Marina Del Mar Community Association in order to determine the parameters and feasibility of a lease extension.

PREPARED BY:



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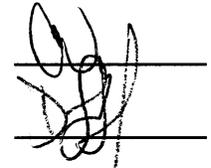
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