



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 24, 2020

TO: Mayor and Councilmembers

FROM: Business Services Division, Waterfront Department

SUBJECT: Proposed Assignment Of Lease Agreement No. 23,328 – Chuck’s Waterfront Grill And Endless Summer Bar And Cafe

RECOMMENDATION:

That Council consent to the assignment of lease agreement No. 23,328 from Mr. Steve Hyslop and Mr. Larry Stone, d.b.a. Chuck’s Waterfront Grill and The Endless Summer Bar and Cafe, to Mr. Aaron Petersen for 4,888 square feet of interior space, 2,617 square feet of exterior space located at 113 Harbor Way, and 1,020 square feet of office space located at 113 Harbor Way #145 and #150.

DISCUSSION:

Mr. Hyslop and Mr. Stone have operated Chuck’s Waterfront Grill and Endless Summer (Chuck’s) since it opened its doors in 1999. The lease agreement includes Chuck’s Waterfront Grill, Endless Summer Bar and Cafe, and 1,020 square feet of office space on the south side of the 113 Harbor Way building.

In August 2019, Mr. Hyslop informed Waterfront staff of his desire to sell Chuck’s Waterfront Grill and Endless Summer and staff provided him with the Waterfront Department’s lease assignment requirements. Since that time, Mr. Hyslop has been working with a real estate consultant to find a buyer for the business.

The initial term of the lease is ten years with four, five-year options to extend the term of the Lease. Chuck’s did not timely exercise the first, five-year option to extend the term of the Lease and staff granted written waivers of the 90-day notice requirement with the understanding that Chuck’s was in the process of seeking a buyer for the restaurants. On March 31, 2020, the Lease will expire and, in accordance with express provisions of the lease, Chuck’s submitted a written request with the Waterfront Director for the Lease to continue on a month-to-month holdover status while the tenant finalizes negotiations with a buyer for the restaurants and the Lease assignment process. The Waterfront Director granted the request.

On February 26, 2020, a representative of Chuck’s submitted a buyer’s package in compliance with the Department’s lease assignment process. The Department received the lease assignment review fee, financial information, a proposed business plan, and other documentation relevant to the proposed lease assignment. The lease is proposed to be assigned to Mr. Aaron Petersen. Mr. Petersen is an experienced local businessman who has been involved in the restaurant business since 1997. Mr. Petersen currently owns and operates three restaurants in Solvang including Chomp, The Coffee House by Chomp, and Brekkies by Chomp. He is also co-owner and operator of Mortensen’s Danish Bakery located in downtown Solvang.

Mr. Petersen’s business plan includes continuing to operate the Waterfront Grill and Endless Summer Bar and Café in line with the current operation until the fall, at which time proposed upgrades to the first and second floor would commence. The second floor operation is proposed to be converted to a traditional deli café focusing on sandwiches, soups, and salads with a “grab and go” component as well. Also included would be a small gourmet grocery area for customers offering wines, beer, and prepackaged food and drinks. In the evenings, the second floor would add a dinner menu focusing on adult food and beverages including a full bar. The ground floor space is proposed to be similar to Mr. Petersen’s Chomp restaurant in Solvang and feature burgers, fries, and shakes, catering to families, young adults, and retirees. Under the current business proposal, the interior of the first floor operation would be converted to a diner type atmosphere with stools and an enlarged counter area.

The basic terms of the current lease are as follows:

- **Term:** Four, five-year options remain on the existing lease (see below)
- **Base Rent:** Seasonally adjusted base rent with an average of \$23,585 per month (\$283,030 per year)
- **Percentage Rent:** Ten percent (10%) of gross receipts up to and including three million dollars (\$3,000,000) and eleven percent (11%) of gross receipts in excess of three million dollars (\$3,000,000+)
- **Annual Rent Adjustment:** Cost of Living increases based on the Consumer Price Index (CPI)

The current owners are considered a tenant in good standing by the Department and have no outstanding default notices on file. In accordance with the Department’s lease assignment procedure, no changes to the business terms of the lease will occur as part of this lease assignment.

If the Council consents to the Lease assignment, because the current tenant did not exercise the option to extend the term of the lease, whether the lease is in holdover status or not, the new tenant will be obligated to timely exercise the first, five-year option to extend the term of the lease.

ATTACHMENT: 1. Site Map
 2. Addendum to Consent to Assignment of Lease, Assignment of
 Lease, and Acceptance of Assignment

PREPARED BY: Brian J. Bosse, Waterfront Business Manager

SUBMITTED BY: Mike Wiltshire, Waterfront Director

APPROVED BY: City Administrator's Office