Agenda Report

Fullerton City Council

MEETING DATE: **AUGUST 18, 2026**

TO: **CITY COUNCIL / SUCCESSOR AGENCY**

SUBMITTED BY: **SUNAYANA THOMAS, DIRECTOR OF COMMUNITY AND ECONOMIC DEVELOPMENT**

PREPARED BY: **JAMES WURTZ, ECONOMIC DEVELOPMENT MANAGER**

SUBJECT: **SECOND ADDENDUM TO STANDARD INDUSTRIAL / COMMERCIAL LEASE FOR THE OLD SPAGHETTI FACTORY AT 110 EAST SANTA FE AVENUE**

SUMMARY

Staff requests City Council approval of a Second Addendum to the lease with OSF International, LLC for The Old Spaghetti Factory at 110 East Santa Fe Avenue. The Addendum formalizes the revised lease terms previously reviewed by City Council in Closed Session on July 21, 2026, including an initial five-year term and two additional five-year extension options.

PROPOSED MOTION

1. Adopt Resolution No. 2026-XXX.

   RESOLUTION NO. 2026-XXX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, APPROVING A SECOND ADDENDUM TO STANDARD INDUSTRIAL / COMMERCIAL SINGLE TENANT LEASE

ALTERNATIVE OPTIONS

- Approve the Proposed Motion
- Decline to adopt the resolution
- Other options brought by City Council.

CITY MANAGER REMARKS

None.

PRIORITY POLICY STATEMENT

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

FISCAL IMPACT

The second addendum with Old Spaghetti Factory (OSF) will generate additional lease revenue to the Geneal Fund (Fund 10) from the existing lease.

Under the existing lease the City received the following:

Year	Total Rent Paid to City	$/SF/Month
2024	$225,093	$1.30
2025	$227,961	$1.31

The new negotiated lease with OSF includes a Guaranteed Base Rent that tiers up from $260,000 for the first year and $275,000 annually for years two (2) through five (5), with higher Base Rent during the option periods and 2.5% annual Consumer Price Index (CPI) adjustments as provided in the agreement. Percentage Rent will also increase from 4% to 6.25% of Gross Receipts above the applicable natural breakpoint, ensuring that annual rent is never less than the applicable Base Rent while preserving the City's participation in future sales growth.

Revised Proposal as follows:

Rental Period	Annual Base Rent	Natural Breakpoint	Average Gross Sales	Average % Rent Above Breakpoint	Average Total City Revenue	$/SF/ Month
Jun 2026 – May 2027	$260,000	$4,160,000	$5,627,313	$91,707	$351,707	$2.03
Jun 2027 – May 2031 (4 years)	$275,000	$4,400,000–$5,120,000	$5,796,133–$6,333,591	$75,849–$87,258	$356,553 average	$2.06
Jun 2031 – May 2036 (5 years)	$352,000	$5,632,000–$6,216,672	$6,523,599–$7,342,368	$55,725–$70,356	$415,040 average	$2.39
Jun 2036 – May 2041 (5 years)	$387,200–$427,396 2.5% Yearly CPI	$6,195,200–$6,838,336	$7,562,639–$8,511,817	$85,465–$104,592	$500,278 average	$2.88
15-Year Total					$6,495,369	

Common Area Maintenance (CAM) of $15,000/year not included above. Grand total including CAM = $6,720,369 over 15 years. Total assumptions may vary and we are *assuming $5.6 million conservatively. Actual percentage of rent will depend on future gross receipts.*

	Legacy Annual	New Year 1	New Year 15
City Receives	$225,092	$351,707	$500,278
$/SF/Month	$1.31	$2.03	$2.88
Increase vs. Legacy	—	+54%	+119%

Overall, the revised agreement provides the City with a substantially higher guaranteed rental return than the existing lease, increases the Percentage Rent rate, modernizes the revenue and audit provisions and provides for additional rent growth over the potential 15-year term.

BACKGROUND AND DISCUSSION

The City entered into a long-term lease with The Old Spaghetti Factory in 1983 in connection with the relocation and restoration of the Historic Depot. Under the current lease structure established in 2010, monthly base rent operates as an advance toward the annual percentage rent obligation, with the City ultimately receiving four percent of Gross Receipts. The 2010 lease also contemplated that a successor lease would be negotiated at fair market rental value when the agreement matured.

Staff and OSF reached a compromise that materially improves the City's financial and contractual position while recognizing the unique characteristics of the Historic Depot property. On July 21, 2026, City Council reviewed the revised negotiated terms in Closed Session and directed staff to proceed with the negotiated framework. This item is returned to City Council in open session for formal approval of the Second Addendum.

The negotiated lease terms include:

- An initial five-year term from June 1, 2026, through May 31, 2031, with two additional five-year extension options.
- Guaranteed Base Rent that tiers up from $260,000 for the first year and $275,000 annually for years two (2) through five (5), with higher Base Rent during the option periods and 2.5%annual Consumer Price Index (CPI) adjustments as provided in the agreement.
- Percentage Rent increased from 4% to 6.25% of Gross Receipts above the applicable natural breakpoint, ensuring that annual rent is never less than the applicable Base Rent while preserving the City's participation in future sales growth.
- Updated Gross Receipts provisions to capture modern sales channels, strengthened audit rights and underpayment remedies, continuation of the triple-net lease structure and a new $15,000 annual contribution toward common area maintenance and repair.

Staff evaluated CoStar lease data, comparable restaurant lease transactions, restaurant occupancy-cost benchmarks, Placer.ai data, broker opinions, historical sales and comparable Old Spaghetti Factory locations. The average restaurant space available for lease in Fullerton is approximately 4,382 square feet, with the largest available being 6,840 square feet. OSF at 14,436 square feet is more than three times the average available restaurant space and has no true market equivalent, which both limits alternative tenant options and supports positioning the negotiated rate at the lower end of the market range. Independent market data for comparable restaurant properties in Orange County supports a lease rate range of approximately $2.00 - $4.50+ per square foot per month triple net (NNN) (average 1,000 - 4,000 square feet).

Staff also confirmed our approach by consulting Cushman & Wakefield (in addition to other brokers) for a cursory review of the City's approach and the challenges specific to this property. They confirmed the proposed terms are reasonable given the property's unique characteristics, including its 14,436 square foot footprint, historic preservation restrictions, limited replacement tenant pool and the potential improvement costs if re-leased.

The revised agreement provides the City with a substantially higher guaranteed rental return than the existing lease, increases the Percentage Rent rate, modernizes the revenue and audit provisions and provides for additional rent growth over the potential 15-year term. The negotiated structure balances the City's objective of improving the financial return on a public asset with the practical benefits of retaining a stable, proven tenant at the Historic Depot.

Attachments:

- Attachment 1 – Draft City Council Resolution No. 2026-XXX
- Attachment 2 – Original Lease (1983)
- Attachment 3 – First Addendum to Lease
- Attachment 4 – Second Addendum to Lease

cc: City Manager Eddie Manfro