

# Memorandum

**TO:** HONORABLE MAYOR,  
CITY COUNCIL AND  
SUCCESSOR AGENCY BOARD

**FROM:** Richard A. Keit  
Managing Director

**SUBJECT:** CAMERA 12 CLOSING

**DATE:** September 9, 2016

Approved



Date

9/9/16

## INFORMATION

### BACKGROUND

The former San José Redevelopment Agency and current Successor Agency to the Redevelopment Agency have made significant investments in the building and operation of Camera 12 movie theatre for the last thirteen years. In October 2003, the Redevelopment Agency negotiated a transaction with Camera Pavilion Management (Camera 12) and F. C. Pavilion, LLC (Forest City) to accommodate Camera 12 in the former United Artist Theatre located on South Second Street.

Currently, the Successor Agency manages two key components related to the Camera 12 operation and building: 1) The Successor Agency owns the land under the Camera 12 theatre complex and has a long-term ground lease (Lease) with Forest City, who owns the theatre building; and 2) the Successor Agency has a \$2,050,018 promissory note and loan agreement with Camera 12.

#### Ground Lease with Forest City

The Successor Agency's Lease with Forest City terminates in December 2041 and requires a monthly payment to the Agency of 60% of the sublease revenues as long as a movie theatre occupies the building. Camera 12 has been in default on its lease payment to Forest City for six months. However, the Successor Agency was receiving \$14,740 monthly as its 60% share in lease payments. Forest City made several attempts to restructure Camera 12's sublease agreement with a short-term reduction in rent since the sublease payments ceased. A restructured agreement was never executed.

Pursuant to the First Amendment to the Lease, the Successor Agency, as the ground lessor, has six months from the date of termination of Camera 12's sublease, to substitute a subtenant that will operate a movie theatre. If a new movie theatre tenant cannot be obtained, Forest City can lease the building with any tenant.

Promissory Note and Loan Agreement with Camera 12

In August 2015, the Successor Agency and Camera 12 executed an Amended and Restated Promissory Note and Third Amendment to Loan Agreement, approved by the Oversight Board and Successor Agency Board. The note and loan agreement was for \$2,050,018, with a 2% interest rate, payable in monthly installments at an initial amount of \$4,000 a month. This was not a new loan but a restructured loan that allowed Camera 12 to remain open after missing fifteen monthly payments to the Agency.

As of this writing, Camera 12 is not in default of the monthly promissory note payments to the Successor Agency. They have made the monthly \$4,000 payment on time through August 2016. The current balance on the loan is \$2,042,954. It remains to be seen if payments continue now that they are closed. The Successor Agency does have a Security Agreement and UCC Financing Statement filed with the Secretary of State essentially assigning to the Successor Agency all goods, materials, equipment, fixtures and furnishings.

**MOVING FORWARD**

New Subtenant Search

As disappointing as it is to have Camera 12 close, Successor Agency and Office of Economic Development (OED) staff believe the opportunities for this site are positive. Staff from Forest City, Successor Agency, OED, the Mayor's Office and Councilmember Peralez' Office have already been in direct communication and will continue to work together to find a new subtenant (preferably a movie theatre tenant). While the building does have some challenges the location is extremely desirable in the heart of Downtown. Several inquiries from movie theatre companies and real estate brokers have already been received.

Dissolution Sale

Regardless of tenancy, the Successor Agency must sell the land pursuant to Redevelopment Dissolution Legislation. The current Successor Agency Asset Disposition Schedule anticipates the sale of the property between July and December 2017. Forest City does have an option to purchase the land, but to date has chosen not to exercise its option.

/s/  
RICHARD A. KEIT  
Managing Director

For questions, please contact Richard Keit, Managing Director, at (408) 795-1849.