



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 11

Agenda Date: March 27, 2025

In Control: City Council A Session

DEPARTMENT: Center City Development & Operations

DEPARTMENT HEAD: John Jacks

COUNCIL DISTRICTS IMPACTED: District 1

SUBJECT:

First Amendment and Extension to Lease of Surface, Subsurface, and Air Rights for the Majestic and Brady Buildings

SUMMARY:

This ordinance approves the First Amendment and Extension to Lease of Surface, Subsurface, and Air Rights for the Majestic and Brady Buildings, located at 202 and 222 E. Houston St, with the owners of the buildings, Majestic Development Company.

BACKGROUND INFORMATION:

In 1988, the City of San Antonio (City) engaged in a coordinated effort with the Majestic Development Company (MDC) and the Foundation for Cultural Arts in San Antonio (CASAS) to preserve and revitalize downtown. The efforts focused on the redevelopment of the Majestic and Empire Theaters as well as the adjacent Majestic and Brady Buildings. The parties orchestrated a sequence of transactions to preserve and revitalize the historic buildings and facilitate the creation of workforce housing. As part of that effort, the City acquired the Majestic Theater and Empire Theater as well as the land beneath the Majestic and Brady Buildings. The City leased the buildings to CASAS who oversaw their renovation and continues to operate the facilities. The Majestic and

Brady Buildings are owned by MDC, and the City has leased the underlying land to MDC with a 50-year ground lease.

The 10-story Brady Building opened at 202 East Houston St. in 1914, and the 20-story Majestic Building opened at 222 East Houston St. in 1929. The Majestic Building stands adjacent to the Majestic Theater, while the Brady Building surrounds the Charlene McCombs Empire Theater. MDC has owned the buildings since 1987, subject to surface, subsurface, and air rights leases with the City. In 1992, the office buildings were converted to include 96 residential units at a cost of \$6.5 million. Over the past 30 years since renovation was completed, MDC has invested over \$7 million in maintenance of the historic buildings, including repairs and maintenance of buildings and capital replacement of equipment.

The ground lease for the Majestic and Brady Buildings is in effect through 2038. Rent is calculated as 33.3% of net profits, which is defined as gross receipts less 1) normal monthly operation expenses, 2) reserves for expenditures such as insurance and property tax, 3) principal payments on debt, and 4) cumulative losses. MDC submits annual financial statements which are reviewed and accepted by the City, accounting for net profits and cumulative losses. The financial statements have never shown net profits as calculated by the lease, and therefore rent has never been owed. The current lease term expires in 2038.

ISSUE:

MDC plans to invest \$10 million to renovate the Majestic and Brady Buildings. The investment will include \$1.25 million in exterior repair and improvements, \$1.65 million in HVAC replacement, \$4.17 million in interior renovations, \$1.6 million in elevator upgrades, and \$1.34 million in utilities, security, and fire protection. The investment will be made in phases, with at least \$5 million expected to be invested in the building over the next five years.

In order to facilitate financing for the renovations, MDC requests an extension of the lease term for an additional 25 years beyond the current term, plus two additional 5-year options. As is typical for a property subject to a ground lease, lenders require the borrower to hold a long-term lease of the underlying property in order to secure debt.

ALTERNATIVES:

Should City Council elect not to approve a lease extension, the MDC will be unable to secure financing needed to invest in renovation.

FISCAL IMPACT:

This ordinance approves the First Amendment and Extension to Lease of Surface, Subsurface, and Air Rights for the Majestic and Brady Buildings, located at 202 and 222 E. Houston St. with the owners of the buildings, Majestic Development Company. There is no fiscal impact resulting from the extension.

RECOMMENDATION:

Staff recommends approval of the First Amendment and Extension to Lease of Surface, Subsurface, and Air Rights for the Majestic and Brady Buildings, located at 202 and 222 E. Houston St, with the Majestic Development Company for an additional term of 25 years plus two additional 5-year options.