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16B-3

MTA BOARD MEETING
APRIL 22, 2004
CLOSED SESSION

SUBJECT: METRO ORANGE LINE WARNER CENTER PARK AND RIDE FACILITY

ACTION: APPROVAL OF ADMINISTRATIVE SETTLEMENT TO ACQUIRE PROPERTY REQUIRED FOR THE METRO ORANGE LINE WARNER CENTER PARK AND RIDE FACILITY

RECOMMENDATION

Approve an Administrative Settlement in the amount of $5,700,000 plus title and escrow fees for the acquisition of real property owned by Boeing North America, Inc., located at 6620 Canoga Avenue in Canoga Park, contingent upon successfully negotiating a contract of sale which requires Boeing (1) to demolish the existing building on the property, and (2) to remediate the property of hazardous materials to residential standards or a standard accepted by MTA's environmental staff, consultants and County Counsel and completed in a time frame acceptable to MTA.

RATIONALE

In February 2002, the MTA Board adopted the San Fernando Valley East-West Corridor Final EIR and a year later approved the award of a design-build contract for its implementation. The approved project scope did not include a park and ride at the Warner Center. As the western terminus of the Metro Orange Line, a park and ride facility at Warner Center was deemed necessary. The addition of a park and ride facility required the preparation of an addendum to the Final EIR. The Board adopted the Addendum/Modified Initial Study to the final Environmental Impact Report for the San Fernando Valley East-West Transit Corridor at its February 26, 2004 meeting. The Addendum/Modified Study recommended the development of a surface park and ride at the Boeing property located along the MTA right of way, the extension of the Metro Orange Line concept to serve the park and ride, and the acquisition of the Boeing site subject to Board approval of the final terms.

The property identified for the park and ride site is located at 6620 Canoga Avenue in Canoga Park. The property is an improved parcel of land containing approximately 156,132 square feet (3.5 acres – less area dedicated for street widening). The site is improved with a vacant 104,509 square feet one story industrial building with a mezzanine containing 26,252 square feet. An offer, contingent upon MTA Board approval, to acquire the fee simple interest in the property was made to the owner on September 3, 2003. This initial offer in the amount of $3,900,000 was based on an appraisal dated April 15, 2003. This initial MTA appraisal was based the highest and best use being commercial/industrial development or modification of the existing building. Boeing rejected this offer on the basis that they had received a number of unsolicited proposals from well-established residential developers at a price that far exceeded MTA's offer. Boeing provided a list of the developers and their offers that ranged from $5.2 million to $6.6 million. They also provided a list of recent property sales in the general area that had been sold and subsequently developed with residential units. This information was submitted to support their position that the highest and best use of the property is residential development.

MTA staff subsequently obtained an updated appraisal with a date of value of December 23, 2003. Staff also retained the services of a development consultant to conduct a special evaluation study of the Boeing property for residential development. Based on a review of the updated appraisal and the recommendation of the special residential development consultant, MTA submitted a second offer, contingent upon Board approval, in the amount of $4,650,000. The property value supported by the real estate appraisal and the special study ranged from $4,500,000 to $4,800,000. The development consultant subsequently indicated that a value in the range of $5.25 million could be supported when considering a more aggressive development market. The basis for the revised offer is discussed in Attachment 1.

Boeing rejected MTA's offer of $4,650,000 on the basis that they had obtained an appraisal that indicated a value of $6,750,000. MTA's staff appraiser reviewed a copy of the Boeing appraisal in order to determine the basis for their conclusion of value. The report supported the highest and best use as residential; however, the report contained an incomplete analysis and land sales that were either not comparable to the Boeing site or not adequately adjusted for their superior physical characteristics. Staff subsequently met with Boeing representatives in an effort to reach a negotiated settlement between MTA's offer of $4,650,000 and Boeing's appraisal of $6,750,000.

Recommended Administrative Settlement

MTA offered $5.3 million as a compromised offer after considering the range of the previous offers received by Boeing. Boeing countered at $5.7 million. After extensive negotiations, staff recommends that the property be acquired for the purchase price of $5.7 million which is an even split between the two appraisals. This recommendation is contingent upon successfully negotiating a contract of sale which requires Boeing to (1) demolish the existing building on the property, and (2) to remediate the property of hazardous materials to residential standards or a standard accepted by MTA's environmental staff, consultants and County Counsel and completed in a time frame acceptable to MTA.

FINANCIAL IMPACT

The budget for the Metro Orange Line Project includes funds for a park and ride facility at the western terminus and sufficient funds are available to acquire the Boeing site for the amount recommended. Funds to acquire this parcel are included in the approved FY-04 budget in Cost Center 8510 under Project 800112, Metro Orange Line.

ALTERNATIVES CONSIDERED

The acquisition of this parcel is required to construct the park and ride facility as recommended in the Addendum/Modified Study. The alternative to accepting the recommended settlement amount is to file a condemnation action which could result in additional delays and costs to the Project. Litigation expenses would be incurred consisting of court costs, attorney fees, witness fees, and a possible higher jury award in favor of Boeing.

ATTACHMENTS

Attachment 1 – Summary Basis for Just Compensation for the Parcel
Attachment 2 – Plat Map of the Parcel

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Director of Real Estate

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Executive Officer, Administration

Roger Snoble
Chief Executive Officer

Attachment 1

SUMMARY OF BASIS FOR JUST COMPENSATION AND ADMINISTRATIVE SETTLEMENT

Warner Center Park & Ride Facility

Address	6620 Canoga Avenue, Canoga Park
Ownership Information:	Boeing North American, Inc.

Site Description:

The subject property is an improved parcel of land containing approximately 165,528 square feet (3.80 acres gross). Of the total gross area, 9,396 square feet will be dedicated for the 10-foot widening of Canoga Avenue resulting in a net usable area of 156,132 sq. ft. The site is improved with a 104,509 square feet one story industrial building with a mezzanine containing 26,252 square feet. Yard improvements consist of asphalt/concrete paving, chain link and concrete block wall perimeter fencing, concrete parking bumpers, a guard shack and small office structure, striped parking spaces, yard lighting and minimum landscaping.

Recommended Revised Just Compensation:	$4,650,000 based on real estate appraisal $4,200,000 - $5,200,000 based on land residual method
Real Estate Appraiser: Development Consultant:	Hammad & Associates, Mo Hammad, MAI Keyser Marston Associates, Inc.
Highest and Best Use:	
Real Estate Appraiser:	As vacant land – commercial development in conformance with the Warner Center Specific Plan. As improved – to remove a portion of the over-sized building to obtain a market supported size of 78,000 sq. ft. of building area. It is the appraiser's opinion that the land to building ratio is much lower than is typical in the market place. A revised building area of 78,000 sq. ft would be more reflective of the marketplace at 2:1.
Development Consultant – sale	Development of residential units either for lease or for

Appraisal Summary – Real Property Appraisal prepared by Hammad & Associates:

The MTA's appraiser relied on two appraisal approaches in valuing the subject property as improved-- the Sales Comparison and the Income Capitalization. In all three approaches, the appraiser used a hypothetical 78,000 sq. ft. building size as concluded in this highest and best use analysis rather than the building's actual size. In the Cost Approach, the appraiser estimated replacement cost on the basis of a warehouse shell building. In the Sales Comparison and Income Approach, the appraiser estimated the value of the improved property as if it typified the marketplace, i.e. office space and interior improvements. Then as a means of adjusting the value to reflect the building "as is" shell condition, the appraiser made a deduction of $12/sq. ft for the cost associated with demolishing a portion of the existing structure (reducing from 104,509 sq. ft to 78,000 sq. ft) and completing interior improvements.

Land Only Valuation. In determining the land value, the appraiser used five comparable land sales in the vicinity of the subject property. As compared to the original appraisal, the appraiser replaced an older sale with a more recent transaction. The unadjusted prices per square foot for the comparable properties ranged from $14.87 to $24.88. The adjusted values per square foot ranged from $25.15 to $30.48/square foot. The appraiser concluded the land value of the subject property at $27.50 per square foot or $4,295,000 Rounded.

Sales Comparison Approach - Under the Market Data/Sales Comparison Approach, the appraiser used five comparable improved sales in the vicinity of the subject property. The appraiser made his comparative analysis on the basis that the subject building contained a hypothetical 78,000 sq. ft building. Under this premise, he reached a value conclusion and then deducted an estimated cost for the demolition of a portion of the existing building and for the completion of interior improvements. Based on the sales and his comparative analysis, the appraiser concluded that the total value of the subject property as indicated by the Sales Comparison Approach is $4,300,000.

Income Capitalization Approach. A rental survey of five improved properties in proximity of the subject property was conducted. The survey analyzed location, lease term, size, and monthly rental rate. The appraiser concluded that the fair market rental for the subject property is $0.58 per square foot of rental area. The appraiser's comparative analysis was based on the subject building containing a hypothetical 78,000 sq. ft. and assumed that the interior build out improvements were typical of the marketplace. The appraiser applied a capitalization rate of 8.50% to the Net Operating Income. He then deducted estimated costs attributable to the demolition of the portion of the existing building and for the completion of interior improvements. The indicated "as is" value conclusion from the Income Approach is $4,610,000.

Appraiser's Reconciliation. The appraiser placed equal emphasis on the two value indications derived from the Income and Sales Comparison Approach, leaning to the high end given the large component of value the underlying land represents. The appraiser's final conclusion of the value of the subject parcel is $4,500,000

Summary of Residual Land Value Analysis - Prepared by Keyser Marston Associates, Inc.

Keyser Marston Associates Inc. (KMA) conducted a special evaluation study of the subject property. KMA evaluated the supportable land value for the parcel located at 6620 Canoga Avenue, Canoga Park ("Site") for a residential development use.

KMA researched the development limitations of the site i.e. physical restraints due to the site's irregular shape, zoning restrictions, future street dedications, etc. In addition, they conducted a survey regarding developers' typical product mix, market price levels of finished products, construction costs, project revenues, operating expenses and other factors pertinent to the development of multi-family residential developments.

To estimate the Site's value, KMA determined its development potential based on its zoning restrictions and the guidelines of the Warner Center Specific Plan (Specific Plan). As a result of the Warner Center Guidelines, KMA determined that a multi-family development potential of 225,000 square feet over four-stories with semi-subterranean parking was feasible.

Methodology - To evaluate the value of the Site, KMA prepared two development alternatives: one ownership project and one rental project; and estimated the development cost of each. The direct construction cost estimates were based on KMA experience with similar projects in the region, and indirect/financing cost estimates were based on industry standard measures. Sale revenue and rental rate estimates were derived from current comparables in the community.

Ownership Alternative. The ownership alternative included 144 condominium units developed on four levels. The unit mix would include 70 2-bedroom 1,200 square foot units and 74 3-bedroom 1,500 square foot units. The proposed density for this alternative is 40 units per acre. The total construction cost is estimated at $35.8 million or $248,500 per unit. Based on the above information, KMA projects that the ownership unit will sell for $223 to $240 per square foot of Gross Buildable Area ("GBA"). This equates to a range of $288,000 to $334,000 per unit. The total sale revenue for the 144 units is projected to be $45.0 million. When this is reduced by KMA's $35.8 million construction cost estimate, plus a threshold developer profit equal to 10.0% of the sale revenues, the land payment supported by the ownership alternative is $4.8 million, or $30 per square foot of land area.

Rental Alternative. The rental alternative included 163 apartment units to be developed on four levels. The unit mix would include 48 1-bedroom 1,000 square foot units, 67 2-bedroom 1,200 square foot units and 48 3-bedroom 1,500 square foot units. The total construction cost is estimated at $34.0 million or $208,300 per unit. KMA estimated the gross residential income for this alternative at $4.2 million, which included laundry and miscellaneous income. When a 5.0% vacancy and collection allowance is deducted, the effective gross income (EGI) totaled $3.9 million. KMA estimated the operating expenses at $890,000. When the EGI is reduced by the operating expenses, the stabilized net operating income (NOI) is estimated at $3.1 million.

The supportable private investment is the amount of debt and equity that can be supported by the NOI. In this case, the supportable private investment is estimated at $38.2 million. The supportable land payment is equal to the difference between the estimated construction costs and the supportable private investment. The land payment is estimated to be $4.2 million, or $27 per square foot of land.

Conclusion. The Site value based on a multi-family use is between $4.2 and $4.8 million. The lower value reflects a rental project and the higher value reflects an ownership project.

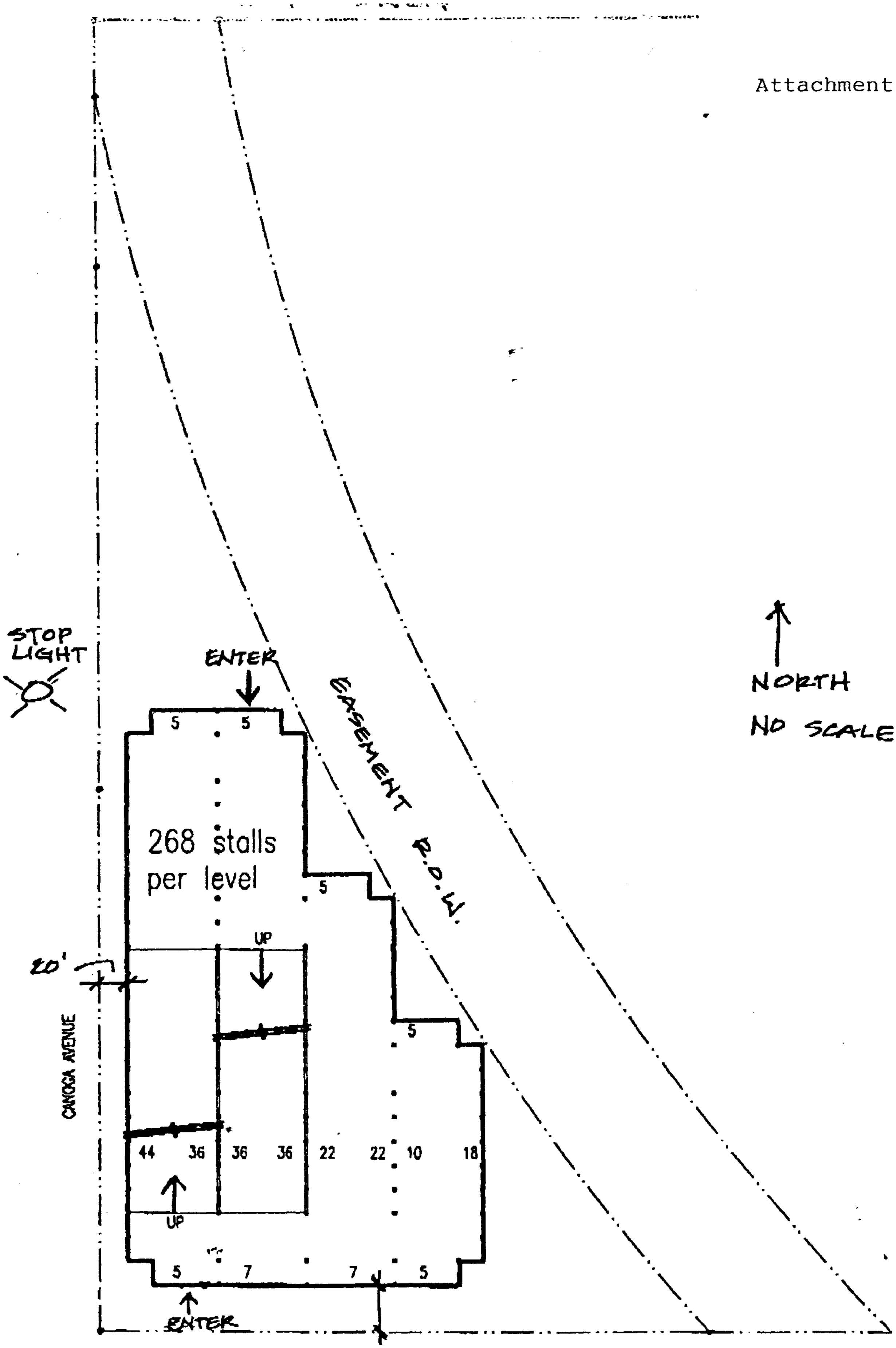
Reconciliation Between Real Estate Appraisal And Residential Financial Analysis

Multi-family residential use appears to be the subject property's highest and best use. This use is permitted under the City's current zoning, and is supported by the higher residual land value concluded by KMA.

Real Estate Appraisal Value	$4,500,000
Residential Financial Analysis	$4,200,000 - $4,800,000

As to value, primary reliance is placed on the KMA evaluation study because it directly reflected the site's potential development, projected revenues and costs. *The final estimate of just compensation is recommended at $4,650,000.*

Attachment 2



STU INC.