



Metro

**FINANCE & BUDGET COMMITTEE
March 19, 2008**

SUBJECT: EXTENSION OF LEASE AGREEMENT

**ACTION: APPROVE EXTENSION OF EXISTING LEASE WITH CAMILLE'S INC.
(DBA DENNY'S RESTAURANT)**

RECOMMENDATION

Authorize the execution of a lease amendment with Camille's Inc. ("Camille's"), dba Denny's Restaurant, to extend the term of the lease for five years, with an option for an additional five years, commencing February 1, 2009, and to increase the monthly rental amount to \$18,000 per month effective February 1, 2009.

RATIONALE

Camille's has operated a Denny's Restaurant for approximately thirty-five years on a property currently owned by Los Angeles County Metropolitan Transportation Authority (LACMTA). The property is located at 530 Ramirez Street ("Property"), which is located diagonally across the street from the Gateway Building. The existing lease will expire on January 31, 2009. Camille's has requested an extension of the lease for five years with an option for an additional five-year term. Camille's is seeking the extension at this time so improvements required of franchisees of Denny's Restaurants can be made with the assurance that sufficient time remain on the lease to amortize the investments. The lease amendment will change the existing agreement in two ways: (1) extend the term of the lease from January 31, 2009 to January 31, 2014 with an option to extend for an additional five years; (2) increase the monthly rental rate from \$15,000 to \$18,000 effective February 1, 2009—an increase of 20% over the current rate.

The current lease and the new lease amendment will contain a provision which permits us to cancel the lease upon twelve months notice to Camille's if the Property is required for a public project. There are no pending public projects at this time that would require the use of the entire parcel. The Property has been considered as a replacement site for bus parking during construction of the proposed Union Division at Vignes and Cesar Chavez in 2010. However, the site is not adequate in size and shape and the displacement of a viable operating business was taken into consideration in rejecting this site for replacement bus parking.

POLICY IMPLICATIONS

The long-term lease of the Property is in keeping with our goal of generating revenue from its real property assets.

FINANCIAL IMPACT

The lease is currently generating \$180,000 annually based on a monthly rental amount of \$15,000. The rental payment under the lease amendment will increase to \$18,000 per month or \$216,000 annually for the first three years of the lease extension. The lease amendment will provide for triennial rental adjustments effective February 1, 2012 and every third year thereafter that are based on the then fair market rental of the property as an operating restaurant.

Rental Value Analysis

A staff appraiser conducted an in-house appraisal of the site and concluded that the market rent of the Property as a restaurant was \$216,000 annually based on \$3.50 per square foot of building space. The existing building contains approximately 5,153 square feet. Staff analyzed seven comparable rentals of freestanding restaurant sites in Los Angeles County. Rental rates ranged from \$2.34/square foot of building to \$5.32/square foot of building. Based on staff's analysis of the date of the leases, the location and other significant factors, he concluded that \$3.50/sq. ft of building was representative of the market rent for this location.

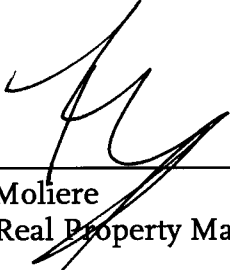
ALTERNATIVES CONSIDERED

The alternative to extending the current lease would be to do nothing and let the lease expire in 2009. This alternative is not recommended as the current tenant is an excellent tenant who provides a needed amenity to the area. There are no other restaurant chains in the immediate vicinity. Another alternative would be to sell the property or enter into a long term ground lease. This alternative is not recommended at this time, since a portion of the site is needed for any plan to construct another exit from the Gateway Transit Plaza. Retaining the Property provides us with continued control over a key parcel of land located across the street from its Headquarters Building while also providing a significant income stream.

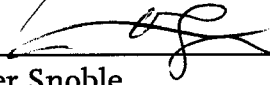
ATTACHMENT

Parcel Plat

Prepared by: Velma C. Marshall
Deputy Executive Officer – Real Estate

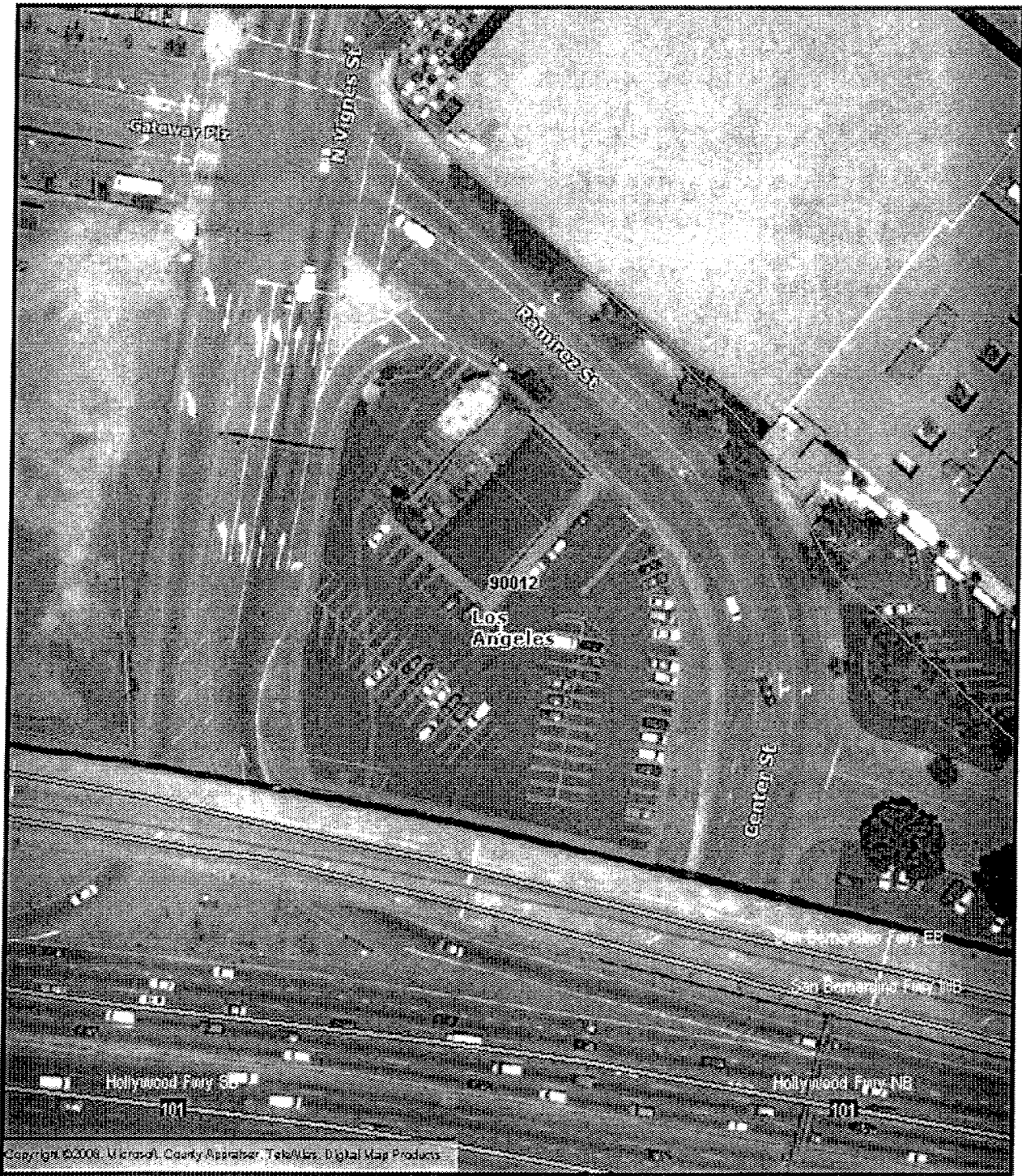


Roger Moliere
Chief, Real Property Management and Development



Roger Snoble
Chief Executive Officer

Extension of Lease Terms



Aerial Photograph of Subject Property



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