



Metro

Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.9200 Tel
213.922.9201 Fax
metro.net

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**OPERATIONS COMMITTEE
SEPTEMBER 18, 2008**

SUBJECT: LEASE AGREEMENT IN SUPPORT OF UNION DIVISION

ACTION: APPROVE LEASE AGREEMENT FOR 410 CENTER STREET

RECOMMENDATION

Authorize the Chief Executive Officer to execute a ten-year lease with Bennett Greenwald, Trustee of the Bennett Greenwald Trust ("Landlord") for the rental of an approximately 66,540 square foot site located at 410 Center Street, Los Angeles, CA (the "Property"). The term of the proposed lease would commence on October 1, 2008 and end on September 30, 2018, at an estimated total rental cost of \$3.3 million over the ten year term, plus additional monthly rent to cover the cost of tenant improvements (TI's) which are estimated to range between a total of \$1.5 to \$2.0 million and will be amortized over the first five years of the lease. Also included is an option for an additional five-year lease term under the same rental provisions, excluding TI costs, and an option to purchase the Property for \$6 million if the option is exercised on or before October 1, 2010. Inclusive of the monthly rent, the amortized monthly payments for TI's, and consideration of the purchase option, the total cost of the lease is estimated not to exceed \$5.3 million over the life of the ten year lease.

RATIONALE

Staff presented to the Board a receive and file report in June 2008 summarizing the results of a bus division capacity assessment report. The results of that assessment showed that current constraints on bus operations, especially lack of space, are at the root of many problems plaguing our bus divisions, including poor circulation of buses, inadequate parking and building space, and the fact that most divisions were designed for standard size buses (40-feet in length) rather than our present configuration (40-, 45- and 60-foot buses). We have no available capacity system-wide to support the new buses that we anticipate will be required over the next three years. In 2008 alone, there is currently a storage deficit of 249 buses to meet ridership demands, without consideration of longer term growth requirements. By 2011, we will acquire 161 additional 40-foot equivalent buses creating an operating storage need for 410 buses, further exacerbating the existing capacity problem. Due to all of these issues, significant investment in our bus operations and maintenance facilities, including the construction of two new divisions, will be required in the near future.

The Property is recommended for lease to facilitate construction of the proposed Union Division project ("Project") which will house and operate a mixed fleet of approximately 200

CNG buses. The Project will include three levels of bus and automobile parking, plus an administrative building, maintenance shop, and all associated maintenance equipment. The proposed Project will be located on an approximate 8.25-acre site utilizing all of the Terminal 31 facility, a portion of the Material Support and Services Center (MSSC) and property derived from the partial vacation of Lyon Street, which passes through Terminal 31 and MSSC. These properties are generally located at the intersection of Cesar Chavez Boulevard and Vignes Street. Currently, Terminal 31 is used as a layover facility and as a bus operator training facility for our Office of Central Instruction (OCI). During construction of the Union Division project, the layover facility will be temporarily relocated to our Temple/Beaudry location, and the OCI facility will be temporarily relocated to the proposed 410 Center Street location. Upon completion of the Union Division, the layover spaces will be accommodated within the new facility; however, due to property constraints with the Union Division, it is expected that the OCI training facility may remain at the 410 Center Street location (hence the purchase option).

The leased Property will provide space for OCI bus and vehicle storage, training courses for Department of Motor Vehicles certification of bus operators, as well as vehicle and equipment storage space for our Security and Facilities Maintenance departments. The Property is located approximately one-half mile from the MSSC, immediately adjacent to the north end of the existing Division 20 Metro Red Line Yards, and is also less than one-half mile from our headquarters and the Patsaouras Bus Plaza. As such, this location is convenient and accessible for many functions that support bus and rail operations. (See attached aerial photograph – Exhibit “A”).

The Property contains in the aggregate, approximately 66,540 square feet of land, a building containing approximately 9,500 square feet of space which is to be demolished to make room for bus parking, and a building containing approximately 5,261 square feet of space to be used for vehicle and equipment storage, office facilities, dressing rooms, locker space, and showers. The unique advantage to leasing, and eventually purchasing, this site is that it can be integrated with an existing 15,150 square foot vacant lot owned by LACMTA thereby providing a parcel containing a total of approximately 76,500 square feet of land area.

In an effort to maximize the utility of this property and leverage this resource, staff is also recommending that this parcel be co-occupied by Transit Security for use as a Security Training Support and Operations Base. This facility will be used to house the recently acquired Metro Security HiRail Emergency Response Vehicle (ERV), the HiRail trailer, and all of the substantial associated emergency equipment and tools. Other grant funded emergency vehicles and equipment that may be obtained in the future would also be housed at this facility. The facility would also be used to support regional transit security and law enforcement training and specifically homeland security training in support of mass transit. By combining this homeland security and emergency response use with that of Central Instruction, we will be acquiring and developing a cost effective multi-use facility and thereby the utility of this facility will be of greater value.

FINANCIAL IMPACT

The total lease cost over the ten year period is estimated to be approximately \$3.3 million (including annual Cost Price Index increases estimated at 3% per year). The rental rate effective at the commencement date of the lease term (October 1, 2008) is \$15,000 per month, and will be paid commencing December 1, 2008 until the TI work is completed. It is expected that the TI work will be completed by February 1, 2008. The initial full base monthly rent of \$23,500 per month will commence upon completion of the TI work. In addition to the monthly rental rate, we will reimburse the Landlord for the actual cost of the TI's requested by us by means of a monthly payment of "additional rent". The total cost of the requested TI's is currently estimated to range between \$1.5 and \$2.0 million and will be amortized over the first five years of the lease. Staff and the Landlord will continue to refine the required work and cost estimate to reduce the costs as much as possible. The cost of the TI's will include all hard and soft costs incurred by the Landlord plus a construction management fee equal to 5% of the approved "hard" costs. The TI's include building demolition, grading and paving, fencing, interior and exterior painting, lighting improvements, installation of a CCTV system, remodeling of restrooms and shower facilities, and other various interior improvements. The wall between the leased property and our existing property will also be demolished so that the properties can be joined into one 77,000 square foot parcel.

In order to provide us the option to purchase the facility if a permanent arrangement is desired in the future, the lease includes an exclusive, irrevocable, non-assignable Option to Purchase, which may be exercised no later than the fourth anniversary of the commencement date, subject to approval by the Board. If the Option is exercised prior to November 1, 2010, the purchase price for the Property shall be \$6 million. This price has been determined to represent the current fair market value and is considered a fair and reasonable price to pay for the property within the next two years. The proposed purchase price equates to a land value of \$90.00 per square foot which is considered to be comparable to other properties in the area, based on market sales data for industrial properties ranging from \$75 to \$105 per square foot. Consideration for the granting of the Option is \$15,000 and is payable at the time of the execution of the lease.

The lease of the 410 Center Street site will only be required should the Board decide to move forward with the Union Division project (separate agenda item). If the Union Division Life of Project budget is approved, funds will be available in Cost Center 3340, Project No. 202001 to pay the rent, additional rent and option consideration that will be due and payable during the remainder of FY09 which is estimated to be approximately \$300,000. Estimated costs for the subsequent fiscal years during construction of Union Division will be budgeted in Cost Center 0651 – Non-Departmental Real Estate, Project No. 202001. After completion of construction for the Union Division, the lease costs will be budgeted as an operating expense by the Office of Central Instruction and Security Departments. Further, if desired in the future, funds will be requested to complete the purchase of the Property prior to November 1, 2010 in order to exercise the Option to Purchase at the established price of \$6 million. If required, staff will initiate the required environmental clearances required to proceed with acquisition in advance of 2010.

Rental Value Analysis

The subject property, 410 North Center Street, was evaluated in comparison to four other potential sites in terms of location, shape, size, and rental rate, exclusive of TI's. The available sites ranged in size from 1.6 acres to 4.99 acres and rental rates from \$.25/sq. ft to \$.40/sq. ft. A summary of the sites considered is attached as Exhibit "B".

The monthly rental of \$23,500 (\$.35 per sq. ft.) for 410 North Center is considered to offer the best value for two reasons: 1) The site has substantial existing brick exterior walls and gates and an existing brick building which can be remodeled at a moderate cost to provide the necessary TI's (office, kitchen, bathroom, locker, and shower facilities) at a much lower cost than the other sites, and 2) the site is located adjacent to an existing and under-utilized 15,150 square foot lot we already own which will increase the usable property size to 76,500 square feet of land area.

ALTERNATIVES CONSIDERED

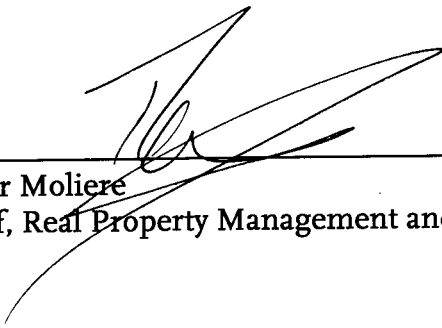
As discussed above, staff conducted a review of available sites within the vicinity of the proposed Union Division and the general downtown area to locate an available property that would meet the needs of Central Instruction and bus storage. Five potential properties were identified; however, all but the subject were found to be either too small or too expensive to meet our needs. The Property at 410 Center Street is ideally located about one half mile from the existing OCI facility, adjacent to our existing unused property, and the proposed rental rate is within the market rate for comparable properties.

ATTACHMENTS

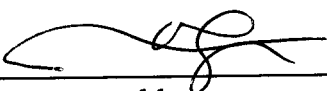
Exhibit A: - Aerial Photograph

Exhibit B: Summary of Comparable Rental Properties

Prepared by: Velma C. Marshall, Deputy Executive Officer – Real Estate
Tim Lindholm, Director of Capital Projects, Facilities-Operations



Roger Moliere
Chief, Real Property Management and Development



Roger Snoble
Chief Executive Officer

EXHIBIT "A"

410 North Center Street

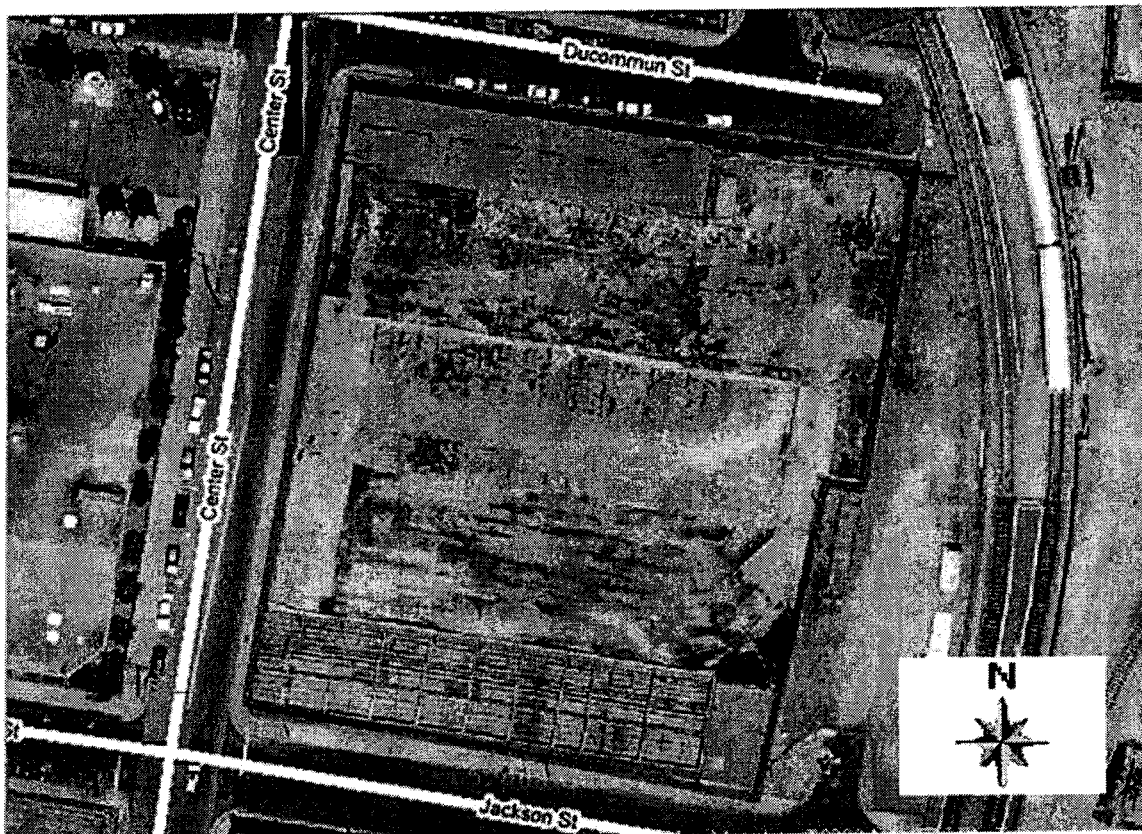


EXHIBIT "B"

SUMMARY OF COMPARABLE RENTAL PROPERTIES

Site	Location	Size	Monthly Rental	Comments
A	1251 N. Spring Street	2.297 acres	\$23,640 \$.25/sq. ft	Site is long and narrow and unsuitable for intended use
B	129 college Street	4.99 acres	\$85,000 \$.30/sq. ft	The site was too large and too expensive and would have required extensive TI's. Owner was only willing to rent entire site.
C	1000 Alhambra Avenue	3.99 acres	\$56,000 \$.32/sq. ft	Site would require major TI's and was still undergoing site remediation.
D	516 Aliso Street	1.60 acres	\$28,000 \$.40/sq. ft.	Site had no improvements and would require extensive improvements to accommodate intended use.
E	410 Center Street	1.5 acres	\$23,500 \$.35/sq. ft.	Site is ideally located adjacent to existing Metro facilities and has useable improvements that require moderate modifications.

