

**Metro**

Metropolitan Transportation Authority

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**REVISED
SYSTEMS SAFETY AND OPERATIONS COMMITTEE
SEPTEMBER 20, 2012**

SUBJECT: OPTION TO PURCHASE 410 CENTER STREET**ACTION: AUTHORIZATION TO EXERCISE OPTION TO PURCHASE 410
CENTER STREET****RECOMMENDATION**

- A. Authorize the Chief Executive Officer to execute an option to purchase an approximately 66,540 square foot property located at 410 Center Street, Los Angeles, CA ("the Property") pursuant to a lease between Bennett Greenwald, Trustee of the Bennett Greenwald Trust ("Landlord") and LACMTA. The purchase price for the Property pursuant to the Lease is \$6,615,000, if the option is exercised on or before November 1, 2012, plus the amortized and unpaid portion of the Tenant Improvement Costs estimated to be ~~\$270,193~~ \$715,542 as of November 4, 2012.
- B. Authorize the Chief Executive Officer or his delegate to enter into a Purchase and Sale Agreement with the owner of the Property to affect the purchase of the Property pursuant to the terms of the proposed Purchase and Sale Agreement including in the original Lease Agreement during fiscal year 2013.
- C. Amend the FY13 budget for Cost Center 2610, System Security and Law Enforcement in the amount of \$7,500,000 to allow MTA to perform environmental assessment and land acquisition.

RATIONALE

MTA entered into a ten (10) year lease agreement with the Landlord effective October 1, 2008. The lease included an option for an additional five year lease term and an option to purchase the property for \$6.615 million if the option was exercised on or after November 2, 2011 but no later than November 1, 2012. At the time the lease was negotiated, the Property was needed to facilitate construction of the Division 13 project which is being constructed to house and operate a mixed fleet of approximately 200 CNG buses. The Property is also used to provide Operations Central Instruction bus and vehicle storage, training courses for Department of Motor Vehicles certification of

bus operators, and co-location of the Los Angeles Sherriff's Department Threat Interdiction Unit dedicated to MTA. The property is located adjacent to property owned by MTA which is connected to the Red Line Maintenance Yard. As such, the location is convenient and accessible for many functions that support bus and rail operations.

In FY11, MTA was awarded \$16,103,043 under Proposition 1B 2010-2011 California Transit Security Grant Program (CTSGP) to fund Phase One of three phases to construct an Emergency Operations Center to include a new Bus and Rail Operations Center. It is important to develop a central location to house these operations centers to allow centralized communications and coordination, and to improve business continuity in day-to-day operations as well as enhancing Metro's disaster and terrorism response capability. The 410 Center Street property is needed for this project. Staff has completed preliminary environmental assessment of the Property and found that, with additional environmental mitigation, the Property is suited for construction of the Emergency Operations Center.

FINANCIAL IMPACT

The funding required to exercise the Option to Purchase is in the approved FY 13 budget in Cost Center 2610, System Security and Law Enforcement under Project 212121, 53102-Acquisition of equipment.

At the time MTA entered into the lease in 2009, the Landlord obtained a loan in the amount of \$1,970,136 to pay for tenant improvements ("TIs") requested by MTA to make the Property useable for the proposed uses plus a construction management fee equal to 5% of the approved "hard" costs. The TI's included 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 costs also included the demolition of a wall between the leased property and property owned by MTA so that the properties could be joined into one 77,000 square foot parcel. The costs of the TI's have been amortized over the past fifty-one months by means of a monthly payment of "additional rent" to the Landlord.

The total financial obligation to purchase the Property is estimated to be ~~\$6,900,000~~ **\$7,400,000** including one-half of the standard escrow fees associated with purchasing the property.

Impact on Bus and Rail Operating and Capital Budget

The FY13 funding for executing Option to Purchase will be from Proposition 1B 2010-2011 Grant Program. No other sources of funds were considered for these expenses because this is the appropriate fund source for activities that benefit bus and rail operations. There will be no impact to operating expenses and Life-of-Project budget.

Property Value Analysis

The Option to Purchase established the purchase price of \$6,615,000 if the Option was exercised prior to November 1, 2012. The original Option included three opportunities for MTA to exercise the Option:

- (1) If exercised on or before November 1, 2010, the purchase price would be \$6,000,000 or \$90.17 per square foot;
- (2) If exercised on or before November 2011, the purchase price would be \$6,300,000 or \$94.67 per square foot representing a 5% increase over the 2010 option price.
- (3) If exercised on or before November 2012, the purchase price would be \$6,615,000 or \$99.41 per square foot representing a 5% increase over the 2011 option price.

Funds were not available in calendar year 2010 or 2011 to exercise the option. With the availability of funds in FY2011 and the need to construct the EOC being defined, exercising the option became feasible. Research of recent sales in the general downtown vicinity suggests a range of value from a low of \$64.38 to a high of \$166.48. The pre-established purchase price is considered within the range of values for similar property. A 5% premium was added to the option price as consideration for the three (3) year Option to Purchase. The fact that the subject Property has been environmentally cleared by the Department of Toxic-Substance Control provides a time and cost saving for proceeding with acquisition of the property and construction of the EOC facility on this Property. Other similarly available properties in the area may have significant environmental or hazardous conditions and improvements that would need to be abated; thereby increasing the acquisition cost of the property and require a longer time to be available for construction.

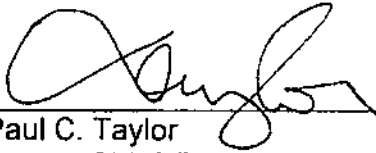
MTA is not expected to take on any environmental liability associated with the condition of the property. The owner is party to an agreement with Sempra Energy wherein Sempra Energy remains responsible for any additional clean-up associated with the Property. The agreement with Sempra will be assigned to MTA at closing. The property is subject to a Covenant to Restrict Use of Properties Environmental Restriction between the Landlord and the Department of Toxic Substances Control. The Covenant does not restrict commercial and industrial land uses on the site; however, it does prevent sensitive uses such as a hospital for humans, a public or private school for persons under 21 years of age; a day care center for children, a single family residence and a ground-floor residence (in a basement or first floor above slab on grade). None of the restrictions will have an impact on the intended uses by MTA.

ALTERNATIVES CONSIDERED

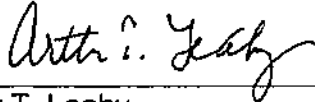
MTA could chose not to exercise the Option to Purchase at this time. This alternative is not recommended because there are limited properties that will meet staff requirements for proximity to Gateway, square footages, and price. The purchase price of properties in the area will continue to increase due to the stabilization of the economic over the next several years.

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