

**Metro**Los Angeles County
Metropolitan Transportation AuthorityOne Gateway Plaza
Los Angeles, CA 90012-2952213.922.2000 Tel
metro.net**CONSTRUCTION COMMITTEE
JUNE 19, 2014****SUBJECT: LEASE OF VACANT LAND FOR STORAGE OF EXCAVATED SOILS****ACTION: APPROVE LEASE OF VACANT LAND LOCATED AT 703 E.
COMMERCIAL STREET, LOS ANGELES****RECOMMENDATION**

- A. Authorize the Chief Executive Officer to execute a one year (1) lease agreement commencing July 1, 2014, including five (5) one year options, with PBR Realty, LLC for the rental of approximately 59,076 square feet of land located at 703 E. Commercial Street, Los Angeles, at an estimated rental cost of \$1,719,575 over the potential six year term of the lease if all options are exercised.
- B. Authorize the expenditure of an additional \$235,000 in FY15 for improvements to the leased property consisting of fencing, lighting, and paving of the land to accommodate the storage of excavated soils pending disposition at an appropriate land fill site.

BACKGROUND

Metro regularly generates hazardous and non-hazardous materials during the conduct of its operational and construction activities. Of particular concern are the significant amount of potentially impacted soils that are generated from underground storage tank excavations and appurtenance piping retrofits and upgrades as required by consistently evolving regulations. In addition, our soils generation related to major capital projects are anticipated to contribute to an escalation of soils generation that will require staging prior to final disposition (i.e., recycling or disposal). Many of the current and projected capital improvement and major capital project work occur within the Central Los Angeles area. Because of the additional volume of hazardous materials soils anticipated to be generated in the short term, there is an identified need for a central facility that will handle these excess materials to ensure the least impact to operational and construction efforts. Based on these factors, Metro's existing storage facility located at 840 Commercial Street, Los Angeles, CA 90012 will be inadequate. A nearby property located at 703 E. Commercial has the land area to accommodate the Agency's additional requirements.

The option to temporarily store excavated soils prior to final disposition is a construction industry practice. Facilities in which these are done are properly developed and secured prior to soils acceptance to ensure containment of any potential chemical impacts associated with the imported soil. All storage activities are subject to applicable federal, state, and local regulations.

DETERMINATION OF SAFETY IMPACT

This Board action will not have an impact on safety standards for Metro. The lease of the property will increase safety in that it will provide sufficient space to accommodate potentially contaminated soils that are excavated from LACMTA Project sites, specifically those within Central Los Angeles.

ALTERNATIVES CONSIDERED

Staff has done its due diligence and has determined that no other location can meet the locational and space requirements provided by 703 E. Commercial Street. This property provides an opportunity for expansion if additional land area is required as it is a portion of a larger parcel that is also available for lease. The property is currently vacant and the owner does not have any immediate plans for development. The site is also located on the fringe of downtown Los Angeles and is convenient to Metro's existing storage facility and Central Los Angeles area projects.

FINANCIAL IMPACTS

The execution of the lease will require the payment of the first month's rent of \$22,153.50. A total of \$500,000 will be expended in FY15 to cover the rental payment and improvements to the site. Funds to cover these payments are available in Cost Center 8510, project number 300012, Account No. 50316. Since this is a multi-year lease, funding for each fiscal year will be included in the Operating Budget.

Lease Terms and Rental Value

The lease terms is for one (1) year commencing July 1, 2014 and includes five (5) one year options to extend. The landlord retained the right to terminate the lease upon twelve (12) months' notice in the event of a sale or redevelopment of the property. The initial lease rate is \$22,153.50/month (\$0.38/square foot) and is subject to a fixed 3% increase each year.

The proposed lease rate is based on a reasonable rate of return to the owner based on the value of the land. Land values in the general area of the property range from \$86.24 to \$100.52 per square foot as illustrated by a summary of several recent sales in the downtown area (See Exhibit B). The proposed rate is based on a land value of \$90.00/sf and a rate of return of 5% ($59,076 \times \$90.00 \times 5\% = \$265,842$ annually or \$22,153.50/month). This monthly rental rate equates to \$0.38/square foot/month. Rental rates for similarly situated sites ranged from \$0.32/square foot to \$1.00/square

foot of land. There were not available comparable rentals of completely vacant land; the comparables leased in the range of \$.38/square foot had small improvements on the site. The proposed lease rate at \$.38/square foot of land is a negotiated lease rates which takes into account the requirement to lease vacant land that is convenient to the existing storage site and projects. This rate is considered to be reasonable considering the size, location and availability of the site for the purpose MTA is seeking to use the property. The lease rate is gross to MTA and the owner is required to pay taxes and insurance on the property.

NEXT STEPS

Staff will complete negotiations of a lease agreement through the broker, Studley, subject to review and approval by County Counsel.

ATTACHMENTS

Attachment A – Location Map

Attachment B – Comparable Rental Properties in the Vicinity of
703 E. Commercial Street, Los Angeles

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DTLA Lease Comps

#	Address	Square Feet	Lease Rates
1	1441 E 16 th Street, Los Angeles	12,500 sf bldg 68,054 sf land	\$0.84 FSG
2	655 S Santa Fe Avenue, Los Angeles	62,972 sf bldg 106,213 sf land	\$1.00 FSG
3	1645 Staunton Avenue, Los Angeles	24,240 sf bldg. 17,424 sf land	\$0.72 FSG
4	1931 Mateo Street, Los Angeles	7,100 sf bldg. 30,400 sf land	\$0.362 FSG
5	2014-2020 Mateo Place, Los Angeles	9,170 sf bldg. 34,899 sf land	\$0.329 FSG

DTLA Land Comps

#	Address	Sale Date	Square Feet	Sale Price	Notes
1	695 S. Santa Fe Ave Los Angeles, 90021	June 2013	102,044	\$9.9 M \$97.51 / sf	Existing 48,402 sf Industrial building to be demolished
2	729 E. Temple Street Los Angeles 90012	Sept 2012	56,240	\$4.8 M \$86.24 / sf	Improved with 52,995 sf building
3	1st Street & Broadway	June 2013	85,378	\$3.8 M \$87.85 / sf	Recorded buyer: City of Los Angeles Recreation & Parks
4	619-535 S. Towne Avenue Los Angeles	Nov 2012	27,499	\$2.3 M \$96.37 / sf	
	703 E Commercial Street	N/A	59,242	N/A	Proposed property for MTA