



Metro

Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.2000
metro.net

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**FINANCE, BUDGET AND AUDIT COMMITTEE
JULY 16, 2014**

SUBJECT: LOS ANGELES UNION STATION

ACTION: AUTHORIZE THE CHIEF EXECUTIVE OFFICER TO EXECUTE A REAL ESTATE LEASE TRANSACTION

RECOMMENDATION

Authorize the Chief Executive Officer (CEO) to negotiate and execute a revenue producing lease for the former "Union Bagel" location in Union Station.

ISSUE

We have concluded negotiations with a successful restaurateur, Mr. Kerry Bonnis, Café Crepe, to open a new restaurant in the space formerly occupied by Union Bagel. Over the proposed 15 year term (10 years plus one five year option, the option dependent on performance), this lease is anticipated to generate \$1.41 million in base rent on the current market rate, and up to an additional \$850,000 based on potential sales volume, which exceeds the CEO's current authority of \$500,000. The proposed tenant is expected to invest between \$400,000 and \$500,000 in tenant improvements. Occupancy is expected within the next year to fourteen months, dependent upon city permitting and licensing.

DISCUSSION

Metro has engaged a commercial real estate broker specializing in downtown Los Angeles retail and restaurant leases. Along with Metro executives and Morlin Asset Management (Union Station Property Manager), the broker has completed a market analysis of the current proposal. The lease not only meets appropriate market conditions but promises to exceed other current Union Station lease arrangements.

The positive factors for accepting this proposal are the following:

- Reflects current market value for the space to be leased
- The anticipated cost to Metro for the "stub in" of utilities, framing of a doorway and a re-configuring of a vent system would approximate \$60,000. These costs would be handled by Morlin Management as normal leasing costs from operating capital.
- Proposer is very financially capable

- Provides for future revenue growth in base rent escalations and percentage rents as the restaurant business increases
- Tenant has agreed to make substantial tenant improvements to the premises that will maintain the historic Union Station while improving the existing location
- Proposal is a full service restaurant that will appeal to passengers and attract people to Union Station as a dining experience
- Proposed restaurant has a broad appeal of offerings for breakfast, lunch and early evening.

With the acquisition of Union Station in April 2011, Metro is evolving new opportunities to enter into longer term, commercial/retail leases in the East Portal, passenger Concourse, Waiting Room, the Fred Harvey Restaurant and potentially the Ticket Concourse areas of the station. Additional opportunities will emerge as the Union Station Master Plan moves into the development stage.

DETERMINATION OF SAFETY IMPACT

Increasing occupancy and services will have a positive impact for safety and security of the station and our patrons.

FINANCIAL IMPACT

The proposed action is expected to generate between \$ 1.41 million base rent and \$700,000 additional revenue over the initial 10 year term of the lease and 5 year option.

ALTERNATIVES CONSIDERED

Other proposals for the former Union Bagel space have been reviewed by the broker and Metro leasing team but were rejected because they were not financially attractive, or did not demonstrate sufficient business capabilities, or did not provide the ambiance desired for Union Station.

NEXT STEPS

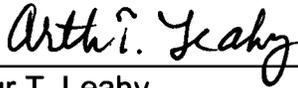
Upon approval, staff will continue to work to conclude negotiations and execute a lease for the former "Union Bagel" location at Union Station.

Prepared by: Kenneth E. Pratt, Director Union Station Property Management
(213) 922-6288

Calvin Hollis, Managing Executive Officer, Countywide Planning
(213) 922-7319



Martha Welborne, FAIA
Chief Planning Officer



Arthur T. Leahy
Chief Executive Officer