



**FINANCE, BUDGET AND AUDIT COMMITTEE
SEPTEMBER 17, 2014**

SUBJECT: LOS ANGELES UNION STATION

ACTION: AUTHORIZE THE CHIEF EXECUTIVE OFFICER TO EXECUTE A REAL ESTATE LEASE TRANSACTION – KIOSK 1 UNION STATION EAST

RECOMMENDATION

Authorize the Chief Executive Officer (CEO) to negotiate and execute a revenue producing lease for the “Kiosk 1” location in Union Station.

ISSUE

Staff have concluded negotiations with a successful vendor, Charm Bak, Barista Society, to open a kiosk coffee operation in the “East Portal” of Union Station. Over the proposed 10 year term (5 years plus one 5 year option, the option dependent on performance), this lease is anticipated to generate in excess of \$500,000 in base rent, percentage rent and Common Area Maintenance (CAM) charges on the current market rate, which exceeds the CEO’s current authority of \$500,000. The proposed tenant is expected to invest between \$55,000 and \$70,000 in tenant improvements. Occupancy is expected within the next six months, dependent upon city permitting and licensing.

DISCUSSION

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.

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 would approximate \$5,000. These costs would be handled by Morlin Management as normal leasing costs from Union Station operating capital.
- Proposer is very financially capable
- Provides for future revenue growth in base rent escalations and percentage rents as the restaurant business increases
- Proposed vendor will offer an alternative to existing services offered at Union Station.

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 in excess of \$500,000 in base rent, percentage rent and CAM charges over the initial 5 year term of the lease and 5 year option.

ALTERNATIVES CONSIDERED

Other proposals for the Kiosk 1 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 service desired for Union Station East.

NEXT STEPS


Upon approval, staff will continue to work to conclude negotiations and execute a lease for the “Kiosk 1” location at Union Station.

ATTACHMENTS

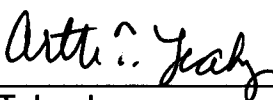
A. Location map

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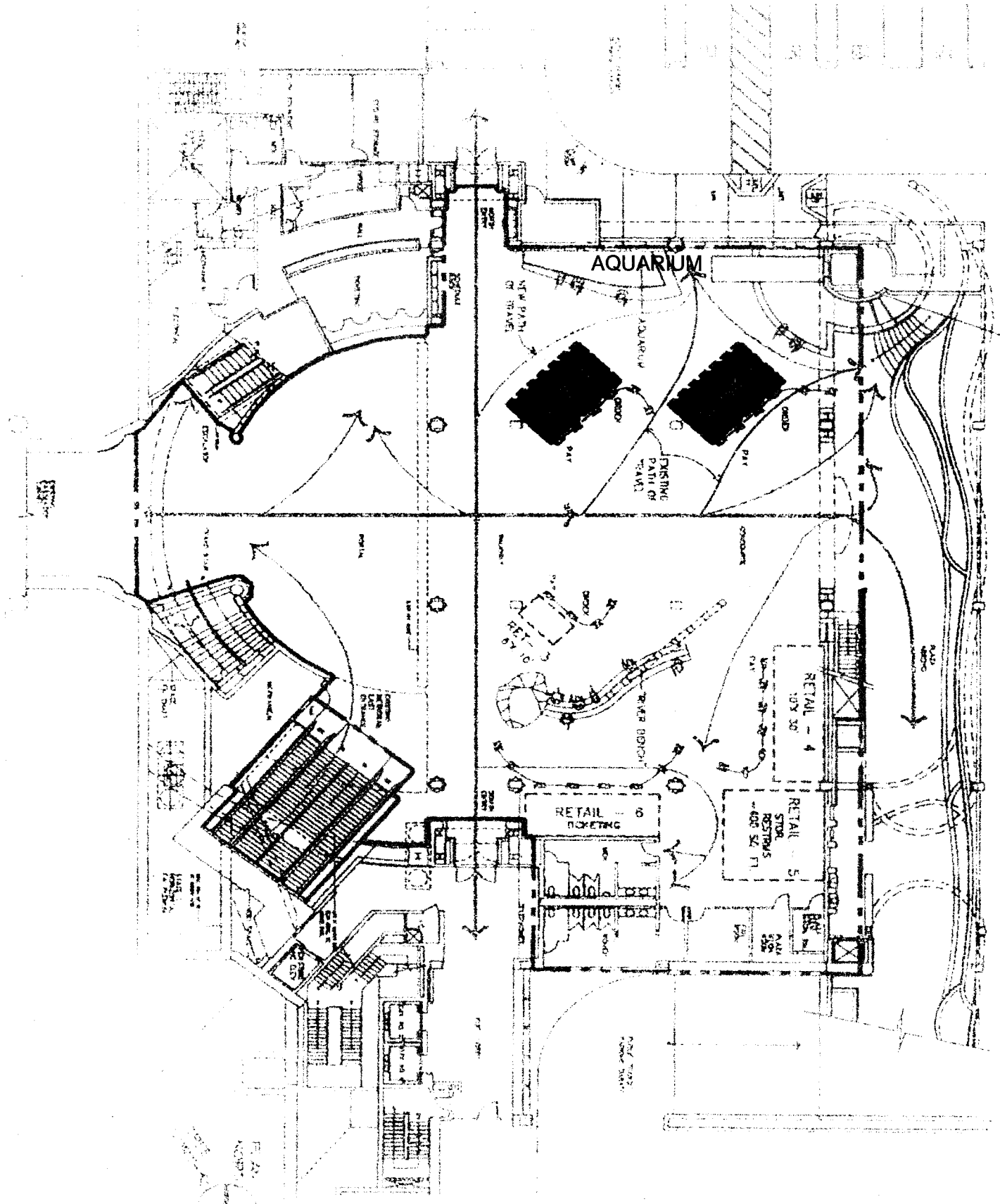
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Martha Welborne, FAIA
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Chief Executive Officer



Union Station - East Portal