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REVISED
FINANCE, BUDGET AND AUDIT COMMITTEE
SEPTEMBER 17, 2014

SUBJECT: LOS ANGELES UNION STATION LEASE APPROVAL

ACTION: AUTHORIZE THE CHIEF EXECUTIVE OFFICER TO EXECUTE A REAL ESTATE LEASE TRANSACTION – “FRED HARVEY RESTAURANT SPACE”

RECOMMENDATION

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

ISSUE

Staff have concluded negotiations with successful restaurateurs, Mr. Cedd Moses and Mr. Eric Needleman, Spirited Group, to open a new restaurant in the space formerly occupied by Fred Harvey. Messrs. Moses and Needleman are noted in Los Angeles as owner/operators of Seven Grand, Honeycut, ~~The Edison~~ Casey’s Irish Pub, Broadway Bar and Varnish. Moses and Needleman have gained a respected reputation for the rehabilitation/ restoration of architecturally significant properties in downtown. The Los Angeles Conservancy awarded the gentlemen with a Preservation Award for their restoration of the Pacific Electric Lofts and Cole’s P.E. Buffet. Over the proposed 20 year term (10 years plus one ten year option, the option dependent on performance), this lease is anticipated to generate \$7.75 million 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 \$1.0 and 1.5 million in tenant improvements. Occupancy is expected within the next year to fourteen months, dependent upon city permitting and licensing. The operator will, in consultation with Metro’s historic preservation architect, maintain the historic ambience of the restaurant and bring it in to the current day as an American brew pub with a hometown menu.

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, installation of a grease interceptor system and a re-configuring of a vent system will be approximately \$400,000. 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 respect the historic designation of the property.
- Proposal is for 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 lunch and evenings.

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 \$ 7.75 million base rent, percentage rent and CAM charges over the initial 10 year term of the lease and 10 year option.

ALTERNATIVES CONSIDERED

Other proposals for the former Fred Harvey 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.

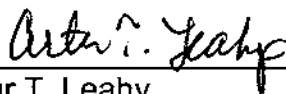
NEXT STEPS

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

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