

**Board Report**

File #: 2017-0260, **File Type:** Contract**Agenda Number:** 22

**EXECUTIVE MANAGEMENT COMMITTEE
MAY 18, 2017****SUBJECT: LEASE OF INDUSTRIAL PROPERTY TO CALIFORNIA DROP FORGE, INC.****ACTION: APPROVAL OF 5-YEAR LEASE AGREEMENT****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to execute a **five-year lease agreement (Lease Agreement) for the property located at 203 E. College Street, Los Angeles (Property, APN# 5409-014-906) with California Drop Forge, Inc.** (Lessee) in the amount of \$7,890.84 monthly with an annual increase of four percent.

ISSUE

Lessee and Metro desire to enter into a new lease that will replace and supersede all prior agreements and understandings between the parties. The existing lease, with a current rent of \$2,904 monthly, expired at which time the agreement reverted to a month-to-month tenancy and the new rent of \$7,890.84 was put in place during the negotiation.

DISCUSSION

On June 9, 1970, Fansteel, Inc. entered into a lease for the then vacant Property with lessor, Catellus, Inc., Metro's predecessor in interest. Over the interceding years, Fansteel and Catellus amended and supplemented their lease. Fansteel constructed certain improvements to the Property, including without limitation, a building, parking lot and fencing (Existing Improvements). After Fansteel declared bankruptcy in November 2003, California Drop Forge was assigned the existing lease in bankruptcy proceedings, thereby assuming the lease obligations of Fansteel. California Drop Forge has been using the Property and Existing Improvements since then.

The Property is used to support the foundry next door and is located adjacent to the Los Angeles Union Station rail yard. The Property was included in Metro's purchase of Union Station from Catellus, Inc. It consists of approximately 21,919 square feet of land, improved with a metal industrial building containing approximately 5,200 square feet and fully enclosed by fencing. (See Attachment A)

Findings and Considerations

Based on the Metro appraisal report, Metro staff and consultants have negotiated a new base rent for

the land of \$7,890.84 monthly with annual increases of 4%. This lease payment is consistent with the results of a fair market value land appraisal prepared for the negotiations by Integra Realty Resources.

DETERMINATION OF SAFETY IMPACT

The proposed lease will have no impact on safety.

FINANCIAL IMPACT

Adoption of the proposed lease would generate \$512,872 in general fund revenue over the five-year term of the lease.

Impact to Budget

Adoption of the recommended action will have no impact on the FY18 budget for bus or rail operations.

ALTERNATIVES CONSIDERED

The Board may choose to disapprove the Lease Agreement. Staff does not recommend this since it would leave the Property vacant with no income. The Board may instead decide to go to the open market to find an alternate tenant. This is not recommended for a couple of reasons. The Property is a small, irregularly configured parcel in a secondary location. Its highest value is for continued use by the adjacent Drop Forge site. Also, this Property may be needed for the proposed Link US Project in the future which precludes offering a more lucrative long-term lease.

NEXT STEPS

The proposed terms and conditions of the Lease Agreement have been negotiated, approved by County Counsel and approved by Lessee. The remaining step is approval by the Metro Board of Directors.

ATTACHMENTS

Attachment A - Drop Forge, Inc. Plat Map and Aerial Photo

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