

**Board Report**

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**File #:** 2022-0625, **File Type:** Agreement**Agenda Number:** 14.

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**FINANCE, BUDGET & AUDIT COMMITTEE  
JANUARY 18, 2023****SUBJECT: LEASE AGREEMENT OPTION WITH ANDY AZAD 2002 IRREVOCABLE TRUST  
FOR A LOGISTICS WAREHOUSE LOCATED AT 2950 E. VERNON AVENUE IN  
VERNON****ACTION: APPROVE RECOMMENDATIONS****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer (“CEO”), or their designee, to execute a five-year option to extend the existing lease agreement with Andy Azad 2002 Irrevocable Trust (“Landlord”) for the use of 44,964 rentable square feet (“RSF”) of warehouse and office space located at 2950 East Vernon Avenue in Vernon (“Vernon Warehouse”), commencing August 1, 2023, at a monthly rental rate of \$46,391.78 with fixed annual increases of approximately three percent (3%) for a total of \$2,955,603 over the five-year option term. The annualized rental rate over the initial term, including the option increases the total amount of the lease from \$2,189,247 to \$5,144,850.

**ISSUE**

The Board approved the current lease on January 17, 2019 (File#2018-0748). Metro Supply Chain Management/Logistics and Metro Facilities Maintenance currently lease the Vernon Warehouse under an existing four-year and nine-month lease agreement. The lease will expire on July 31, 2023. Metro has one (1) option to extend the lease for an additional five-year term (“Lease Extension”) with at least six months’ notice which must be exercised by February 1, 2023. The lease option requires Board approval as the total annual lease expense exceeds the CEO authority of \$500,000 annually.

**BACKGROUND**

The four-year and nine-month lease term commenced on May 1, 2019, will expire on July 31, 2023, for a total amount of \$2,189,247. Metro has one (1) option to extend the term for five (5) additional years.

Since the construction of the Blue Line, all Metro Rail projects have included contractual spares used to repair or replace components on Metro rail cars and mainline systems. It is the responsibility of Supply Chain Management/Logistics to house and secure these high-dollar rail assets to support the daily operation of Metro’s rail fleet and maintain a State of Good Repair. The Vernon Warehouse is used to store some of these components.

## **DISCUSSION**

### **Findings**

With the lease term set to expire on July 31, 2023, Supply Chain Management/Logistics and Facilities Maintenance is requesting to execute the five-year option for the Vernon Warehouse. The warehouse portion of the leased property is currently at 75% capacity.

Other existing Supply Chain Management/Logistic Rail warehouses have reached 95% capacity to securely store large Light Rail Vehicle, Heavy Rail, and Wayside material. These items include transformers, mainline switches, multiple large spools of copper cable, rail HVAC systems, pantographs, windshields, axles, train trucks, large body parts, etc.

### **Considerations**

Supply Chain Management/Logistics has received unprecedented contractual spares to support the P3010 LRVs. In addition, contractual spares will be received to support the Crenshaw/LAX (Metro K) Line, Gold (Metro L) Line Extensions, Purple (Metro D) Line Extension (I, II, & III), Regional Connector, HRV 4000s, Division 20 Portal Widening, East San Fernando Valley (ESFV), P2000 overhaul project, and all future Rail capital projects and stored at the Vernon Warehouse.

The Vernon Warehouse has a 26-ft clearance with dock high and ground level loading. It is centrally located on Vernon Avenue between Santa Fe and Soto Avenue, four blocks east of Metro's Vernon Yard Facility - Location 34. The proximity to downtown Los Angeles continues to provide ideal central access to support Rail Fleet Services, Wayside Operations, and Facilities Maintenance for the deployment of Rail Custodial Services and secure the storage of large high-dollar rail assets critical to the safe and effective operation of Metro's Rail fleet.

The Lease Extension is for five years pursuant to the terms of the lease, which does not have an option to purchase. When the additional term approaches expiration Metro will determine if a lease is needed or if the owner is willing to sell the building should Metro continue to find this location essential.

## **DETERMINATION OF SAFETY IMPACT**

The proposed Lease Extension will complement Metro's commitment to a safe, clean, on-time, and reliable transportation system by safely securing Metro rail replacement parts.

## **FINANCIAL IMPACT**

The rental rate per the lease extension terms will increase from the existing \$1.00 per SF to \$1.03 per SF. It includes a monthly payment of \$46,391.78 (annually \$556,701.36) commencing August 1, 2023, and will cost \$2,955,603 over the five-year option term, including annual fixed increases of approximately three percent (3%). See Attachment C for the rent schedule.

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The rental rate is modified gross in which the Landlord is responsible for the property taxes, Vernon Warehouse Parcel Tax, and property insurance. Metro is responsible for utilities, at an estimated cost of \$400-\$600 per month, and for any damage caused to the premises.

Metro Real Estate staff has determined that the rental rate and increases are in line with the fair market for warehouse rent costs in the Vernon Warehouse area (See Attachment B).

#### Impact to Budget

Funding for the payment of rent for the Vernon Warehouse will be budgeted and paid from Supply Chain/Logistics Cost Center 6350 project number 300040 for fiscal year 2023. It will be budgeted in future years in the Real Estate cost center 0651.

#### **EQUITY PLATFORM**

This Lease Extension will not have any specific equity benefits or impacts.

#### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

Approval of this recommendation supports Strategic Plan Goal 5: Provide responsive, accountable, and trustworthy government by securing Metro Rail investments and supporting Vision 2028.

#### **ALTERNATIVES CONSIDERED**

Alternatives considered would be a combination of storing large material down the aisles of existing Supply Chain Management/Logistics warehouses, which are currently at 95% capacity and in Metro Rail Operations & Maintenance Facilities parking lots. This is not recommended as this would leave high-dollar rail assets unprotected and exposed to the elements, increase labor costs, delay servicing our customers, and create an extremely inefficient inventory management.

#### **NEXT STEPS**

Upon Board authorization, Metro Real Estate staff will notify the Landlord of Metro's election to exercise the option to extend the term of the current lease agreement for an additional five-years. All other terms and conditions of the lease remain the same and there are no additional options remaining.

#### **ATTACHMENTS**

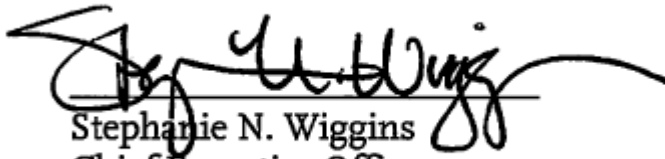
Attachment A - Location Map  
Attachment B - Rental Rate Survey  
Attachment C - Rent Schedule

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