

**Board Report**

File #: 2016-0804, **File Type:** Contract**Agenda Number:** 30.

**EXECUTIVE MANAGEMENT COMMITTEE
FEBRUARY 16, 2017****SUBJECT: EXTENSION OF REVENUE LEASE AGREEMENT AND TEMPORARY REDUCTION
OF MONTHLY RENT****ACTION: AUTHORIZE TEN-YEAR LEASE EXTENSION AND REDUCTION OF MONTHLY
RENT BY \$1,800 FOR 24 MONTHS****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to execute a **lease amendment with Camille's Inc. (Camille's or tenant), dba Denny's Restaurant, to extend the term of the lease for ten years, terminating January 31, 2034, and to reduce the monthly rental amount from \$18,000 to \$16,200 effective March 1, 2017 for a two-year period.**

ISSUE

Camille's has operated the Denny's Restaurant for approximately forty-five years on a property currently owned by Los Angeles County Metropolitan Transportation Authority (Metro). The existing lease will expire on January 31, 2019. The tenant has an option that would extend the term until January 31, 2024. The long-term lease is in keeping with the Metro's goal of generating revenue from its real property assets.

Authorization to extend the lease term for ten years and to reduce the monthly rental amount temporarily to \$16,200 requires Board approval.

DISCUSSION

The property is located at 530 Ramirez Street (Property), diagonally across the street from the Gateway Building. Metro terminated the use of approximately 25,143 square feet of the parking area from the leasehold for use by Metro as a laydown yard for the Patsaouras Plaza Busway Station (PPBS) project. The PPBS project will require the continued use of this area for construction staging until approximately November 2018.

The loss of this parking has resulted in a reduction in the tenant's potential revenue and they have requested a ten percent or \$1,800 monthly reduction in rent for the two-year period. Metro staff has reviewed this request and determined that a temporary rent reduction is warranted. Staff is also working with the City of Los Angeles to assist the tenant in obtaining replacement parking for its

employees at Piper Tech to partially mitigate the loss of parking. City staff has responded favorably to this request and is drafting a lease agreement.

Camille's is also seeking a ten-year lease extension to finance remodeling of building improvements that are required by the franchisor. The remodeling project will include refurbishment of the interior of the restaurant, upgrades to restrooms to meet compliance with new American Disability Act (ADA) requirements, and parking lot improvements. The estimated investment is \$400,000 and will provide the restaurant with a fresh and upgraded appearance which is anticipated to increase sales revenue. The remodel of two other locations owned by Camille's increased their sales by ten percent.

The proposed extension will provide Camille's the assurance that the lease will remain in effect to amortize their investment over a seventeen-year period.

The current lease provides that Metro can cancel the lease if the Property is required for a public project, at no cost to Metro, with twelve months' notice. Metro will reimburse the tenant the unamortized cost of the proposed improvements if Metro cancels the lease prior to January 31, 2034. There are no pending public projects at this time that would require the use of the entire parcel.

Staff has negotiated an amendment to the lease that provides that the rent is reduced to \$16,200 per month beginning March 1, 2017 for two years. On March 1, 2019, the rent will be adjusted to the fair market rental value of the property as an operating restaurant at that time.

DETERMINATION OF SAFETY IMPACT

The recommended action will have no impact on safety.

FINANCIAL IMPACT

The lease is currently generating \$216,000 annually based on a monthly rental amount of \$18,000. The rental payment under the lease amendment will be reduced to \$16,200 per month or \$194,400 annually for the first two years of the lease extension after which time the rent will go to market rents.

Impact to Budget

Adoption of the recommended action will have no impact to the FY 17 budget for bus operations.

ALTERNATIVES CONSIDERED

The alternative to extending the current lease would be to do nothing and let the lease expire in 2024. This alternative is not recommended as the current tenant is an excellent tenant who provides a needed amenity to the area. There are no other restaurant chains in the immediate vicinity.

Another alternative would be to sell the property or enter into a long-term ground lease. This alternative is not recommended at this time, since a portion of the site is needed for the Patsaouras Fast Lane Project. Retaining the Property provides Metro with continued control over a key parcel of land located across the street from Metro Headquarters Building while also providing a significant income stream.

NEXT STEPS

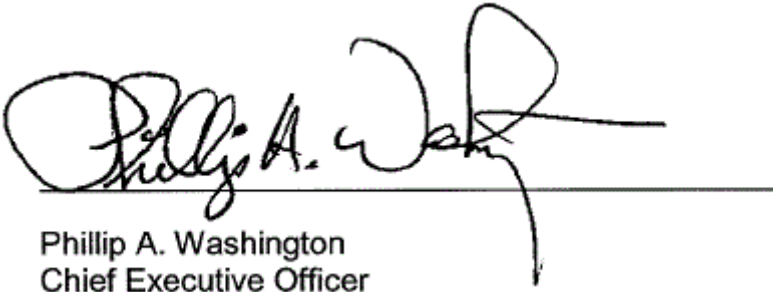
Execute the lease amendment with Camille's, subject to approval as to form by County Counsel.

ATTACHMENTS

- A. Denny's Plat Plan
- B. Summary of Lease Amendment Key Terms

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Phillip A. Washington
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