

State of California
Business, Transportation and Housing Agency
Department of Transportation

HIGHWAY RIGHT OF WAY MATTERS
Airspace Lease Direct Negotiations
Action Item

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Original Signed By _____
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AIRSPACE OPTION TO LEASE AMENDMENT – INTER-MODUL TRANSIT PARTNERS

The Department of Transportation (Department) recommends that the California Transportation Commission (Commission) authorize execution of an Option to Lease amendment between the State of California, the Department and the Optionee, INTER-MODUL TRANSIT PARTNERS.

The subject is located beneath and adjacent to the Fort Sutter Viaduct of State Route 51 in Sacramento. The city block is 121,495 ± square feet and is bounded on the east by 30th Street, on the west by 29th Street, on the south by S street and on the north by a Regional Transit Light Rail Station.

The Department entered into a three-year option beginning June 20, 1997, and obtained a one-year extension last year. The current option expires on June 19, 2001. The Optionee has paid \$100,000 in option fees.

The Optionees propose to develop a multi-story office building northeast of the subject known as Farmers Market IV. The Department, through the Department of General Services, has been negotiating with the developer for additional office space. There are three existing multi-story office buildings to the east and northeast of the subject parcel known as Farmers Market I, II, and III that are occupied by the Department. The subject parcel would provide parking for the proposed Farmers Market IV development. The proposed lease has not been finalized yet due to the inability to secure the necessary approvals from the Department of Finance and others, but the Department is still pursuing the lease.

The Option to Lease would be extended for two additional years with a fee of \$50,000 for the first year and an additional \$75,000 for the second year. The option payments are due lump sum at the beginning of the option year. There will be no prorations or credit of the option fees for early exercise of the option. Additionally, when the developers exercise their Option to Lease, a reevaluation of the lease rate would take place and be effective at the date of execution of the lease. The developers have also agreed to perform modest improvements to supply and manage approximately 40 overflow parking spaces as needed to handle special events held by the Department.

The highest and best use for this parcel continues to be plottage to the adjacent developer-owned parcels. Although independent development is feasible, due to the costs of the needed improvements and lack of income to generate profits to a developer, the lease rent would be significantly lower if the parcel was put out to bid for parking use. The “plottage” value will eventually be realized once another adjacent building is constructed.

This proposed extension of the Option to Lease is in the State's best interest as leasing this parcel to the proposed lessees will achieve the highest and best use and the greatest return to the State. Concerns regarding the current market value of the lease are also addressed with the additional reevaluation at the time of lease execution.

The Commission's Airspace Advisory Committee has reviewed and recommends approval of the proposed terms and conditions of this Option extension.

Attachments