

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: March 14–15, 2007

Reference No.: 2.4c.
Action Item

From: CINDY McKIM
Chief Financial Officer

Prepared by: Bimla G. Rhinehart
Chief
Division of Right of Way
and Land Surveys

Subject: **AIRSPACE LEASE TERM EXTENSION - AREF SACRAMENTO, L. P.**

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve an extension of an existing airspace lease for Parcel 03-SAC051-009 located between 29th and 30th and S and T Streets in downtown Sacramento. AREF Sacramento, L. P. is the current leaseholder on this forty-five year term airspace lease with a current term expiration date of September 30, 2034. AREF Sacramento, L. P. is requesting a twenty-one year extension to the original term for a new expiration date of December 31, 2055. Please see Attachment 1 for the term extension request submitted by Mr. Phillip Viccinelli on behalf of AREF Sacramento, L. P.

ISSUE:

The optimum return for the Department's parcel would be obtained through an extension of the AREF Sacramento, L.P. lease because of the anticipated higher rate of return due to plottage value.

The Department requests permission to extend subject lease from an expiration date of September 30, 2034, to an expiration date of December 31, 2055.

BACKGROUND:

The subject property is a parcel totaling 108,795± square feet located between 29th and 30th and S and T Streets in downtown Sacramento. Please see Attachment 2 and 3 for the airspace parcel map. FG Farmers Market, LLC are the owners of all three-office buildings referenced above. The current use of the parcel is for a two-story parking facility supporting 650 parking spaces. Individuals that work in the adjacent three-building office complex utilize these parking spaces. These three-building office complex accounts total 376,000 square feet of office space. FG Farmers Market, LLC is solely requesting an extension of the lease term and is not requesting any other modifications to the original lease, which rates and terms are favorable to the Department.

It is in the Department's best interest to extend the term of this lease because the current lease rate reflects plottage value associated with adjacent office building complex owned by FG Farmers Market, LLC. Allowing the lease to expire and marketing lease of this parking structure on a stand-alone basis would result in a lower market rent. In addition, safeguards to ensure that the lease rate continually reflects the market over time are built into the lease terms because Consumer Price Index adjustments with no cap are applied every five years to this lease rate and every ten years at Lessor's discretion lease rate reevaluations may occur.

Attachments

AREF Sacramento, L.P.

2211 Norfolk, Suite 150

Houston, TX 77098

713-521-2728

September 6, 2006

California Department of Transportation

Attn: Lee Ann Halle – Right of Way

P.O. Box 911

Marysville, CA 95901

Re: State of California Department of Transportation
Airspace Ground Lease No. 03-Sac051-0009
Sacramento, California

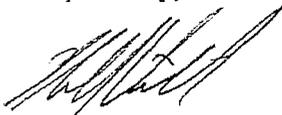
Dear Ms. Halle:

This letter is sent with respect to the above-referenced Airspace Ground Lease dated September 26, 1989 by and between the State of California (Landlord) and AREF Sacramento, L.P., as successor-in-interest to Farmers Market Project (Tenant). AREF Sacramento, L.P. also owns the buildings located at 1727 30th Street, 1801 30th Street and 1820 Alhambra Boulevard, which are near the subject ground lease property and occupied by the Department of Transportation.

AREF Sacramento, L.P. is committed to the Farmers Market project and would like to extend the term of the Airspace Ground Lease from its current expiration date of September 30, 2034 to December 31, 2055. We are not requesting any additional changes to the existing terms and conditions of the lease. We believe the extension will benefit the owner as well as the State in ensuring the long-term stability of the overall project.

We appreciate the consideration of the Airspace Advisory Committee and look forward to your response. Please feel free to contact me if you have any questions or require additional information.

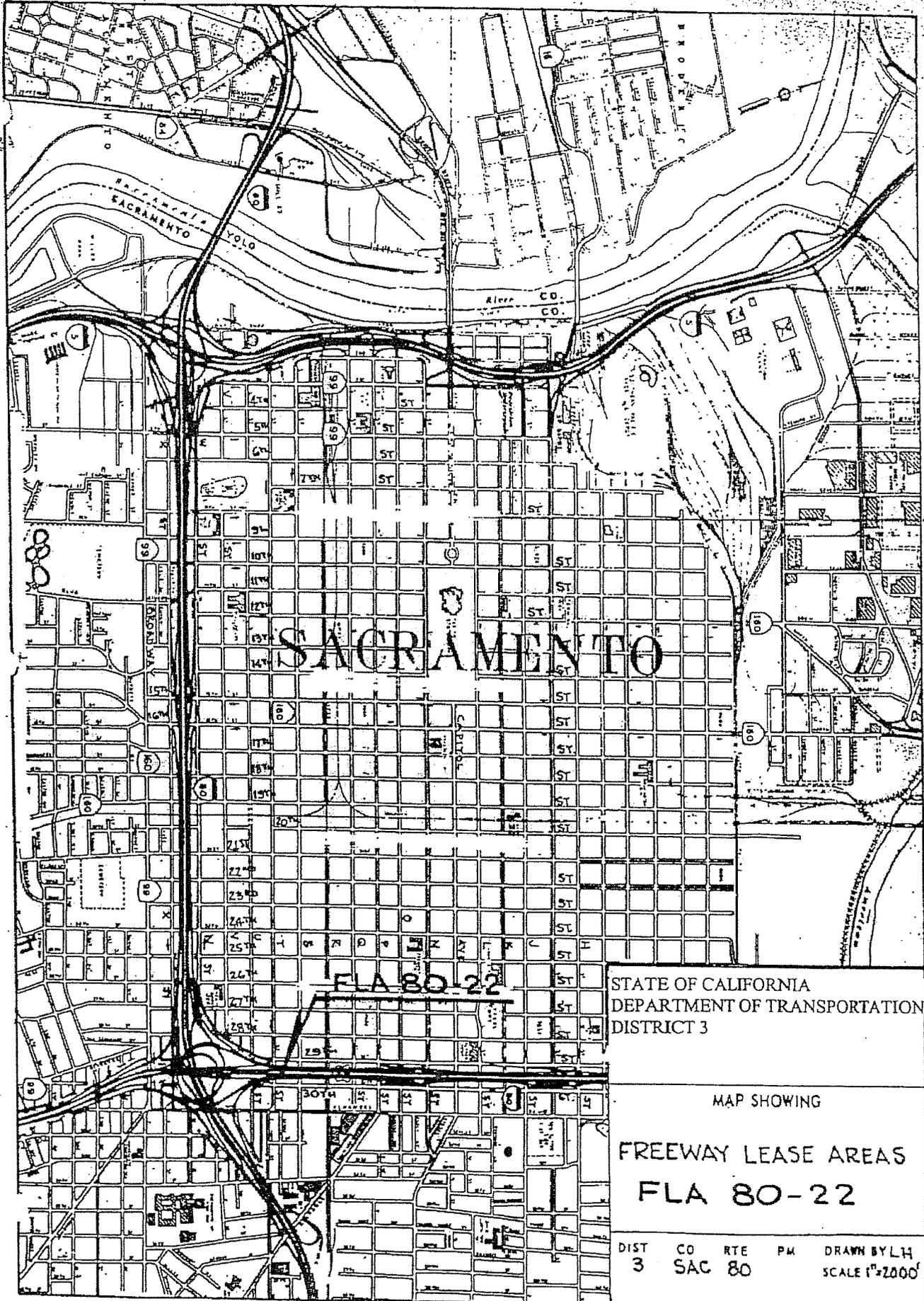
Respectfully,



Phillip Viccinelli

EXHIBIT "A"

EXHIBIT "B"

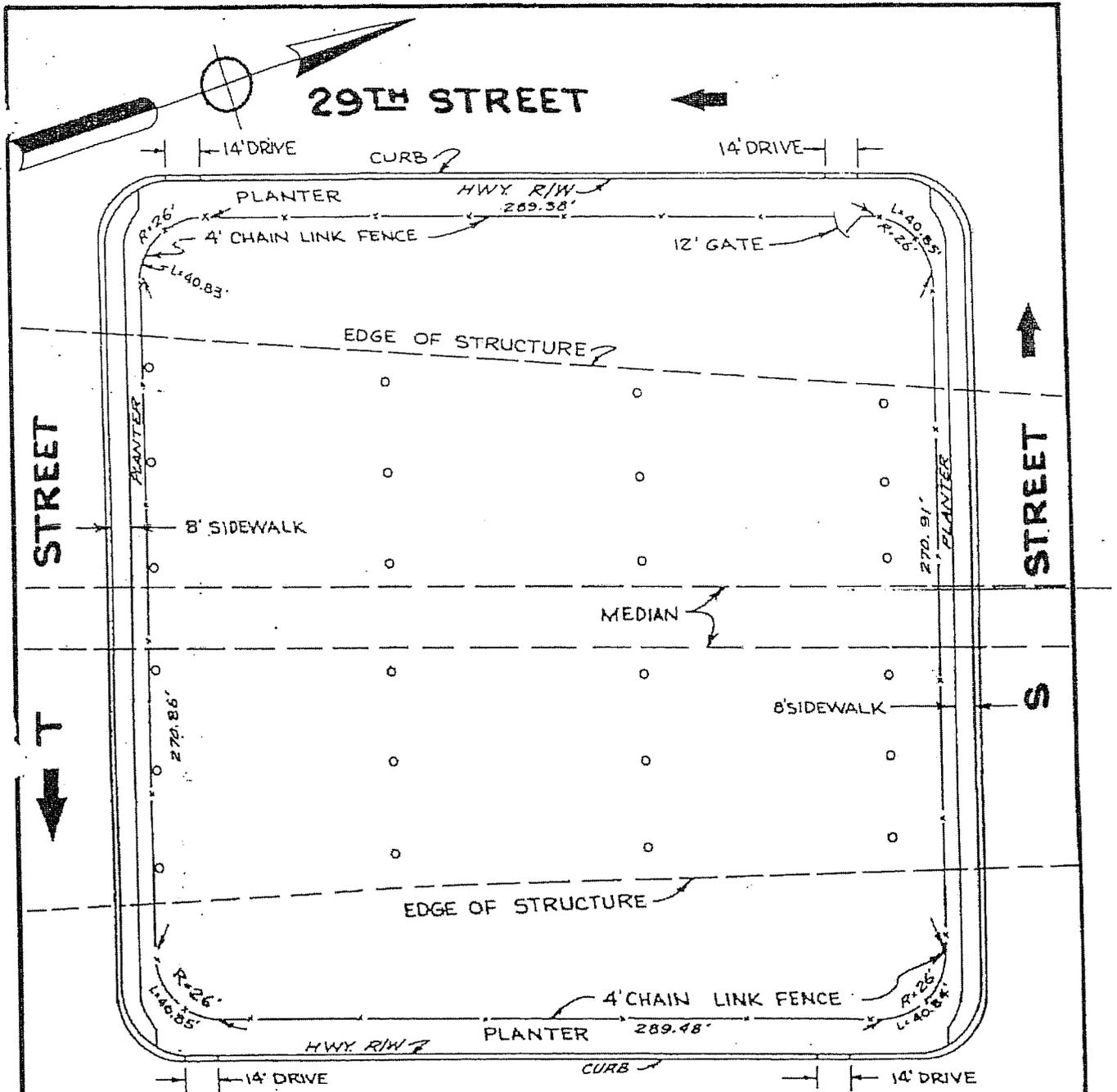


STATE OF CALIFORNIA
DEPARTMENT OF TRANSPORTATION
DISTRICT 3

MAP SHOWING
FREEWAY LEASE AREAS
FLA 80-22

DIST	CO	RTE	PM	DRAWN BY
3	SAC	80		LH
				SCALE 1"=2000'

EXHIBIT "B"



30th STREET →

GROSS AREA	109,659 SF
LESS PIER AREA	<u>900 SF</u> (37.5 SF PER PIER)
NET AREA	108,759 SF

BRIDGE PIERS SHOWN THUS: ○
 MAXIMUM AND MINIMUM CLEARANCE 26' & 23'

STATE OF CALIFORNIA
 DEPARTMENT OF TRANSPORTATION
 DISTRICT 3.

MAP SHOWING
FREEWAY LEASE AREA
 NO. 80-22

PAR. NO.

DIST CO RTE PM DRAWN BY LH
 3 SAC BO R5.0 SCALE 1"=60'