

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: December 10-11, 2008

Reference No.: 2.4c
Action Item

From: CINDY McKIM
Chief Financial Officer

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Chief
Division of Right of Way and
Land Surveys

Subject: **AIRSPACE LEASE TERM EXTENSION – CITY OF SACRAMENTO**

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve an extension to the existing airspace lease for Parcel 03-SAC050-0006. The City of Sacramento (City) is the current leaseholder of this 20-year lease that expires May 31, 2027. The City is requesting a 35-year extension to the current lease in order to support transit-friendly development and revitalization in the downtown Sacramento area, by facilitating and providing parking for an adjacent redevelopment project. The lease extension would result in a new expiration date of May 31, 2062.

BACKGROUND:

The subject property consists of 61,358± square feet and is located under the Route 50 viaduct at the corners of W and X Streets and 19th Street in downtown Sacramento. (See attached Exhibit A for the airspace parcel map.) The Department entered into this lease with the City in May 2007. The parcel's current leased use is for parking purposes in order to support downtown redevelopment and revitalization. The current material condition of the subject parcel is poor and it needs major rehabilitation in order to function as a viable parking lot. Prior to the current lease with the City, the subject parcel was vacant for three years (June 2004 to April 2007), despite two Department public bid offerings in May and September 2004. No bids were received for this parcel during either public offering.

Direct negotiations for this parcel commenced with the City in 2006. Negotiations resulted in an agreement between the Department and the City that sub-leasing would be approved for this parcel, contingent upon Department approval of each sub-lessee. During the term of the lease, the Department will receive a base rent, which is currently \$2,700 a month from the City, in addition to 50 percent of the rent that the City collects from any sub-lease. Per the terms of the lease, the City is obligated to provide written disclosure to the Department of all rent charged by the City for each approved sub-lease.

The initial intent of this sub-lease arrangement was that the City would sub-lease parking to a series of sub-lessees. After the lease was executed, however, the current sub-leasing concept evolved and the City requested and received approval to sub-lease this parcel to a single sub-lessee

to support parking for an adjacent infill development project sponsored by Millennium Real Estate Services, Inc. In February 2008, the Department consented to a request for a sub-lease with Millennium Real Estate Services, Inc., with the understanding that a portion of the parking on the subject airspace site would be reserved for public use. Currently, 50 to 60 parking spaces on the parcel are set aside for public use out of the total planned 146 parking spaces.

SUMMARY:

Proposed adjacent development consists of mixed retail and residential use. This development will include 109 apartments (22 percent of which will be classified as affordable housing), 7,000 square feet of retail, and 22,000 square feet of office space for which the Department's airspace parcel will provide parking.

The City is requesting an extension of the current lease from a 20-year lease to a 55-year lease because their sub-lessee is seeking a longer lease term to support entitlements and favorable financing for their adjacent infill development project, construction of which is slated to begin sometime in the first quarter of 2009.

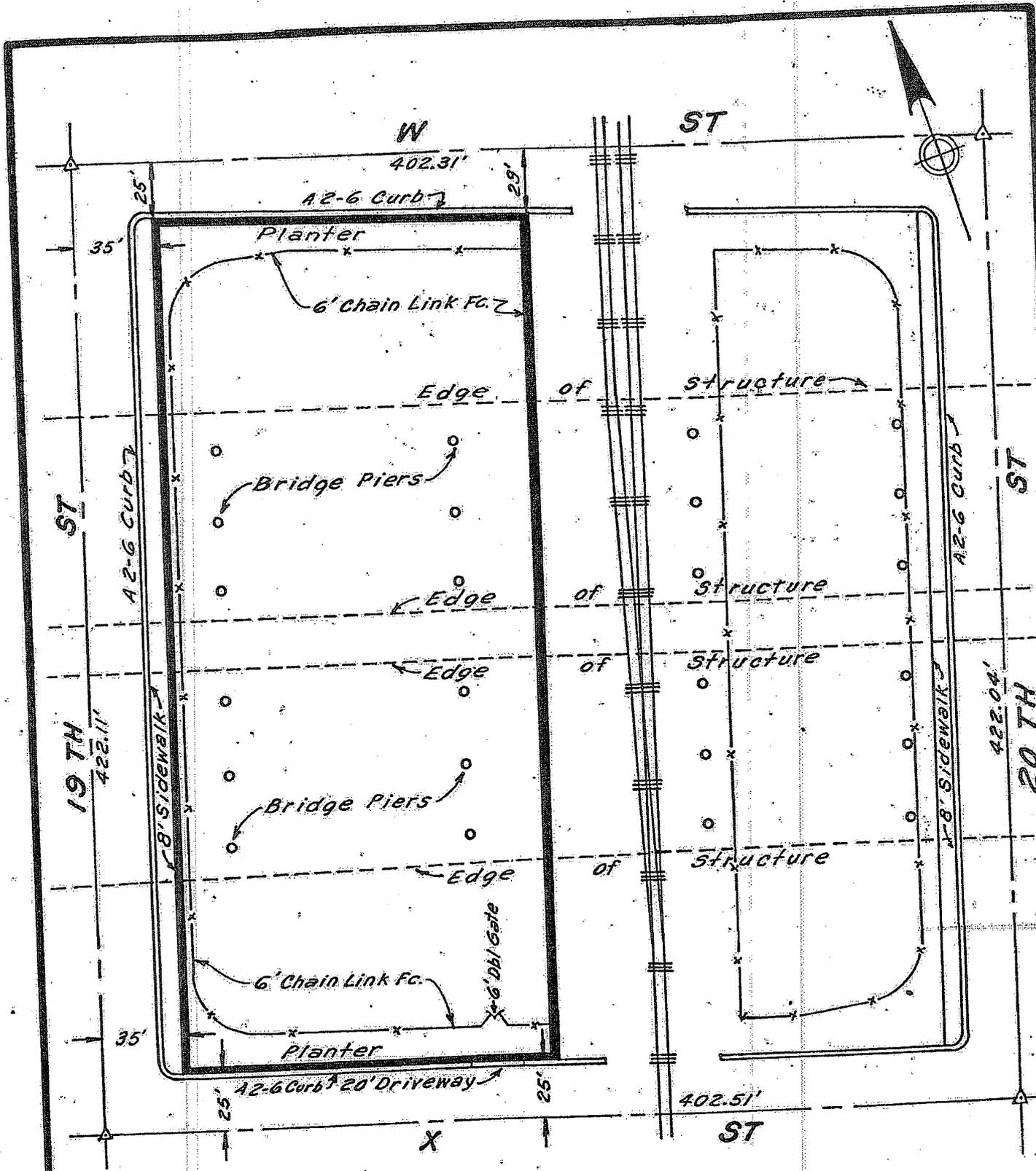
Per the terms of the current lease, the lease rate charged to the City is subject to Consumer Price Index (CPI) adjustment every five years and a reevaluation at the ten-year mark in lieu of a CPI adjustment if a reevaluation is deemed necessary and appropriate by the State. As a condition of lease extension, the Department will carry forward the same rent escalation convention by requiring CPI adjustments every five years with the option, if market conditions dictate, of imposing reevaluations every ten years. In addition, as stated above, the Department will receive 50 percent of any revenues that the City receives over and above their lease rate.

It is in the Department's best interest to approve this lease extension because approval will result in increased future lease earning potential due to collection of sub-lease rents over and above the base rent currently received from the City. Failure to approve this lease extension will jeopardize the future movement of the sub-lessee's adjacent development project. In addition, approving the lease extension in support of revitalization and redevelopment of this area has the potential to increase demand for Department-owned airspace parcels in this vicinity, thereby decreasing the vacancy rate and raising lease rates overall in this transportation corridor.

Attachment



SACRAMENTO



GROSS AREA: 61,510 SF
 LESS PIER AREA: 152 SF
 NET AREA: 61,358 SF

BRIDGE PIERS SHOWN THUS: ○
 MAXIMUM and MINIMUM CLEARANCE: 27' and 24'

PA SAC050-0006			
DIST	CD	RTS	PM
03	SAC	80	1.7