

**REQUEST FOR CONSENT TO DIRECTLY NEGOTIATE AND APPROVAL OF LEASE  
TERMS AND CONDITIONS (AAC)**

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State of California  
**M e m o r a n d u m**

**Business, Transportation and Housing Agency**

**To:** CHAIR AND MEMBERS  
Airspace Advisory Committee

**Date:** March 19, 2003

**File:** FLA-07-010-0048,0050, 0090

**From:** DEPARTMENT OF TRANSPORTATION  
SOUTHERN R/W REGION  
DISTRICT -07 FIELD OFFICE

**Subject:** Request for Consent to Directly Negotiate and Approval of Lease Terms and Conditions  
-McCall Family Trust

**RECOMMENDATION**

It is requested that the Airspace Advisory Committee (AAC), recommend to the California Transportation Commission (CTC) that it consider and approve a request to directly negotiate and approve lease terms and conditions at the same time. It is in the best interest of the State to lease this proposed site by direct negotiations and not bid the 3 sites publicly since the tenant is prepared to lease them at a premium rental rate and there is no significant interest in the market for these sites.

**BACKGROUND**

The tenant currently owns a large retail development called Toyota Central, which has been located in Downtown Los Angeles for 33 years. McCall has been leasing or subleasing the sites, for as long as 24 years. The business has limited parking on its own property, so it utilizes these airspace sites for the sale and display of its new and used car inventory. They have 24-hr security for these sites, which not only protects their inventory, but also our structure. In order for the lessee to have continued business success of its new and used car sales and provide substantial and expensive remodeling of its own facility McCall needs assurance that they will have a long term tenancy on the sites to justify these anticipated improvements to the business. Although they do not want to vacate these airspace sites, if they do not have the assurances that they can lease these sites for an extended period they may move their operations into Orange County. They have been a responsible tenant and a good neighbor to the community. The tenant has been on time with payments throughout their occupancy and also brings revenue to the State and other municipalities through taxes levied on their car sales. In 2002, they paid \$6,693,357 in sales taxes and the State's share was \$4,902,100. In an area, which has a high percentage of minority residents, over 90% of the employees are minorities.

The combined area of the 3 airspace sites total approximately 125,319 sf and are located across the street from the main sales lot. The airspace sites are bounded by Georgia Street and Flower Avenue beneath the Santa Monica Freeway (I-10) (Note various site maps). The topography of the sites is level. They all are paved, lighted and have independent street access. The tenant has kept the sites in immaculate condition. The past rental history of the said parcels is as follows:

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### **FLA-010-0048 (Flower/Venice) 53,508 sf**

The site was originally leased to Los Angeles Community Colleges (LACC) from July 1, 1992 at \$4,400 per month for parking. LACC subleased a portion to McCall in December of 1999 for \$2,500/month. LACC vacated the entire site in January of 2001 since they were able to lease another airspace parcel next to their property. During January 2001 a short-term lease for 6 months was directly negotiated with McCall for \$3,700 per month. In March of 2001, the site went out to bid at which time McCall was the winning bidder at \$10,100 per month.

### **FLA-010-0050 (Figueroa/Venice) 46,506 sf**

The site was originally leased along with FLA10-0051 to Nickolas Shammass by direct negotiations from March 1976 to February 1991. During this time McCall was the sublessee of Mr. Shammass from July 1976 to February 1991. Upon Mr. Shammass' request to renegotiate the terms of the lease, FLA-10-50 and FLA-10-51 were split into separate lease agreements. Prior to the segregation of these properties, the lease rate was \$3,954 per month. The State then directly negotiated a short term (3 years) lease agreement for FLA10-0050 for \$4,000 per month with McCall. In January of 2000, the site went out to bid at which time McCall was the winning bidder at \$14,600 per month for a period of 2 years. The site went out to bid again in April of 2002, where the McCall was the only qualified bidder. The site was leased out for the minimum bid amount of \$14,600 for a period of 2 years.

### **FLA-0010-90 (Venice/Georgia) 25,305 sf**

The site area was also a part of the original lease with Mr. Shammass for FLA10-0051, which was directly negotiated in March of 1976. This area was subleased to Pena Trucking, a used truck sales operation until the renegotiation of Mr. Shammass' lease. The State negotiated a short-term lease (13 months) agreement for \$1,800 per month with Pena Trucking. In December of 1999, the site was put out to bid for a 2-year lease term at which time, Morvis Corvis, an automobile parking company, was the winning bidder at \$3,500. After Morvis Corvis' lease expired, the site was only leased out once for special event parking (4-day lease) until the next bid auction in April of 2002. McCall was the only bidder for the site. The site was leased out for the minimum bid amount of \$1,500 per month for a period of 2 years.

We anticipated placing the sites out to bid this year, but our fair market appraisal for the sites done in February 2003 indicated that the market value of these sites was 32% lower than the present combined monthly rent of these parcels. At the present the combined monthly rental amount for these sites is \$26,200 (\$0.21 per sf), compared to our appraisal, which is at \$17,700 per month (\$0.14 per sf). The present rents charged for both FLA 10-0048 and FLA 10-0050 are abnormally high compared to other properties in the same area at \$0.19 per sf and \$0.27 per sf respectively. Based on previous auctions, airspace sites in this area paid in a range between \$0.05 per sf to \$0.12 per sf per month. Below are comparable lease sites:

- FLA010-0044 (18<sup>th</sup> Street and Flower, L.A.)- Parcel auctioned on 1-23-01 for \$0.10 per sf. (14,726 sf)
- FLA010-0058 (Toberman St., L.A.)- Parcel auctioned on 1-12-00 for \$0.05 per sf. (79,272 sf)
- FLA010-0065 (1823 Oak St., L. A.)- Parcel auctioned on 7-12-00 for \$0.06 per sf. (6,329 sf)
- FLA010-0069 (824 Venice Blvd, L. A.)- Parcel auctioned on 4-10-02 for \$0.05 per sf. (10,441 sf)
- FLA010-0098 (Lemon and Olympic St., L.A.)-Parcel auctioned on 1-23-01 for \$0.12 per sf. (22,394 sf)

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**TERMS AND CONDITIONS**

Term:	15 years with (2) 5 year options.
Area:	125,319 SF
Use:	New and Used Car Sales/Display.
Consideration:	\$26,200/Month (\$314,400.00/Year), based on a present rental rate
Adjustment:	Annual Consumer Price Index adjustment, with a minimum annual adjustment of 2.00% and a maximum annual adjustment of a 7.00%.
Reevaluation:	Every fifth year.

**AIRSPACE APPRAISAL SUMMARY**

**LOCATION OF SITE AND BRIEF AREA DESCRIPTION**

The proposed airspace sites area located within the right of way at I-10 Freeway between Georgia and Flower Streets. They are south of the Staples Center, in the City of Los Angeles, County of Los Angeles, California. This is an older commercial/industrial area of the City of Los Angeles, which services tourists and the residents who live within the city, or in the surrounding communities. The services include restaurants, retail, banks, movie theaters, etc.

**BRIEF PROPERTY DESCRIPTIONS**

FLA’s 10-48, 50, and 90 are all level, asphalt paved sites that are mostly located underneath the elevated Santa Monica Freeway, just east of the of the Harbor Freeway, in the southwest quadrant of the City of Los Angeles “downtown” area.

FLA-48, a somewhat rectangular shaped parcel, fronts the west side of Flower Street, between Venice Boulevard and 18<sup>th</sup> Street, and measure approximately 53,508 SF.

FLA 10-50, somewhat of a horseshoe shaped parcel, fronts on the west side of Figueroa Street, between Venice Boulevard and 17<sup>th</sup> Street, and measures approximately 46,506 SF.

FLA10-90, a long, relatively narrow parcel, fronts on the south side of Venice Boulevard, just west of Figueroa Street, and measures approximately 25,305 SF. All three sites are used for storage, display, and sales of vehicles.

**ZONING**

The zoning for the subject properties, as are all freeway structure property in the City of Los Angeles are designated “Public Facilities”. Allowable uses in this zoning include public parking facilities, police

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stations, and government buildings. The surrounding private property is within the City of Los Angeles and have a number of zoning designations from commercial to residential.

## **HIGHEST AND BEST USE**

Given Caltrans does not allow any new structures to be constructed under freeways, the highest and best use for all of the FLA's is deemed to be for the continued use by the current lessee for the storage, display, and sales of new and used cars.

## **BASIS FOR ESTIMATING LAND VALUE**

The sales comparison approach was used to establish a value for commercial land utilized for selling used/new cars. The land value of the combined subject parcels is \$3,132,975.00. Due to the lack of available rental comparables available, similar in location and utility to the subject properties, the rental rate was derived via a "return on investment approach". The yield rate of 6.79% was based on the recent yield on 5- year treasury bonds (2.79%) and 4% for risk management, therefore, resulting in a fair market rent of \$17,7000. per month (rounded).

## **ANALYSIS**

The optimum return for these 3 airspace sites would be realized through a direct lease with McCall for automobile parking and display purposes, which is the highest and best use. There are limited alternative uses for the site due to heightened security requirements under the freeway structure. As parking and display purposes the proposed sites would not only add revenue to the State from premium rental rates and by way of sales tax revenues. As discussed, the annual sales taxes, which were paid to the State in 2002 was over \$4.9 million dollars, which indirectly adds income. The negotiated rental rate will be based upon a present rental amount paid by the tenant, which is 32% above the appraised fair market rate. The tenant has had a spotless payment record with the State for several years and was cooperative during the seismic retrofit program. It is requested that the Airspace Advisory Committee grant permission to directly negotiate a long-term lease and approve the described terms and conditions with this proposed lessee, as it would be in the best interest of the State.

Approval is hereby recommended.

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DAVID PATLER, Senior R/W Agent  
Southern R/W Regional Airspace Development/Wireless Communication