

# Memorandum

To: CHAIR AND COMMISSIONERS  
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: October 19-20, 2016

Reference No.: 2.4c.(2)  
Action Item

From: NORMA ORTEGA  
Chief Financial Officer

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Division of Right of Way  
and Land Surveys

Subject: **AIRSPACE LEASE - HOLLIDAY DEVELOPMENT REQUEST TO DIRECTLY  
NEGOTIATE**

## **RECOMMENDATION:**

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve a request to directly negotiate a long-term airspace lease with Holliday Development (Holliday). The lease terms to be negotiated would include an annual escalation as well as a lease rate re-evaluation every five years. The initial lease rate will be at fair market value as determined by a Department staff airspace appraisal. Further, the term of the lease will be dependent upon the financing terms of the development project.

## **BACKGROUND:**

### ALA-BT-050 Lease History

The Department has actively marketed the airspace parcel for the past several years at its annual auction; however, to date, there has been no interest and it has not been leased.

### ALA-BT-050 Property Condition

The airspace parcel currently is unimproved land with limited access, as seen in Exhibit A photos.

### Holliday Proposal

The Holliday project is a new mixed-use development consisting of 235 residential units and 13,615 square feet of flex ground floor commercial space on the adjacent parcel with 239 off-street parking spaces, mostly constructed within the Airspace parcel. The development will occupy the 2.54 acre block bounded by Wood Street, 20th Street, West Grand Avenue, and Frontage Road, designated as Development Area 8 in the Oakland's Wood Street Zoning District (WSZD). The WSZD Project is a redevelopment of under-utilized industrial land with the goal of creating an active, pedestrian-oriented urban community in West Oakland. Holliday's development plans for the parcel are attached as Exhibit B.

As part of the project, Holliday proposes to improve the airspace parcel into a paved, fenced, and lit parking lot to be used by employees and customers associated with their adjacent planned mixed-use development. Holliday is requesting a long-term lease in order to amortize the improvement costs. The lease term will be determined during negotiations but could be as long as 30 years.

**SUBJECT PROPERTY ALA-BT-050:**

Airspace lease ALA-BT-050 is an existing 9,192 square foot undeveloped parcel located under Interstate 880 at Wood Street, an elevated freeway within the City (depicted in Exhibit C in yellow).

The Department plans to increase the lease area to approximately 62,000 square feet incorporating an additional 53,000 square feet of undeveloped right of way (depicted in Exhibit C in red) that has never been previously leased due to poor access and the surrounding railroad (depicted in Exhibit C in orange) and the City-owned properties (depicted in Exhibit C in green). Of the 62,000 square feet, approximately 51,345 square feet will be developed into parking spaces.

Holliday is the only adjacent private property owner to the majority of the airspace lease area, and is developing the adjacent 2.54 acre parcel (depicted in Exhibit C in blue). The City owns the property on the parcel's north side, and has shown no interest in leasing the airspace lease area. Aerial photographs are attached as Exhibit C. District 4 Right of Way Engineering and Land Surveys has not completed a right of way map of the expanded airspace parcel with an exact calculated area.

**BENEFITS TO THE STATE:**

Entering into a directly negotiated long-term lease is the most beneficial method for the Department to obtain a tenant presence on the airspace parcel. The Department saves maintenance costs to keep this site free of trash and graffiti and to prevent unauthorized access.

A directly negotiated lease with Holliday guarantees the Department a long-term fair market revenue stream with defined escalations.

The fair market value will be based on valuation to the adjoining owner, potentially yielding a higher rate of return than a public auction.

The improvements constructed on the airspace parcel will add value to the State's assets. The Department will receive rent based on the property's highest and best use as an improved parking facility and part of Holliday's mixed-use development. For 28 years, the airspace parcel has not generated revenues or even interest from other private parties. Partnering with a property developer will maximize the property's use and provide the highest return to the Department.

The Department has the opportunity to assist in improving neighborhood safety by enabling the installation of new lighting within its airspace properties.

**SUMMARY:**

Holliday's development will improve the Department's airspace parcel and rejuvenate the neighborhood. Holliday is prepared to construct a number of aesthetic and safety improvements that will benefit both Department and the surrounding neighborhood. A long-term lease is required for Holliday to amortize the construction costs. Such repairs and improvements are not financially feasible without a long-term lease to the tenant. In addition, a long-term lease would allow the Department to receive fair market rent for an extended period with the ability to increase rent as the market changes, and would allow for the required repairs.

Attachments

- Exhibit A: Photos – Street Views
- Exhibit B: Holliday development plans
- Exhibit C: ALA-BT-050 location maps

Exhibit A  
Street Views



Looking north from Wood Street



Looking southwest from Wood Street

- This photo depicts the only access gate for the Caltrans right of way
- Caltrans will retain access rights through this gate in the lease agreement to access the right of way beyond the lease premises.

Exhibit B

Depicted parking area and layout are approximate.

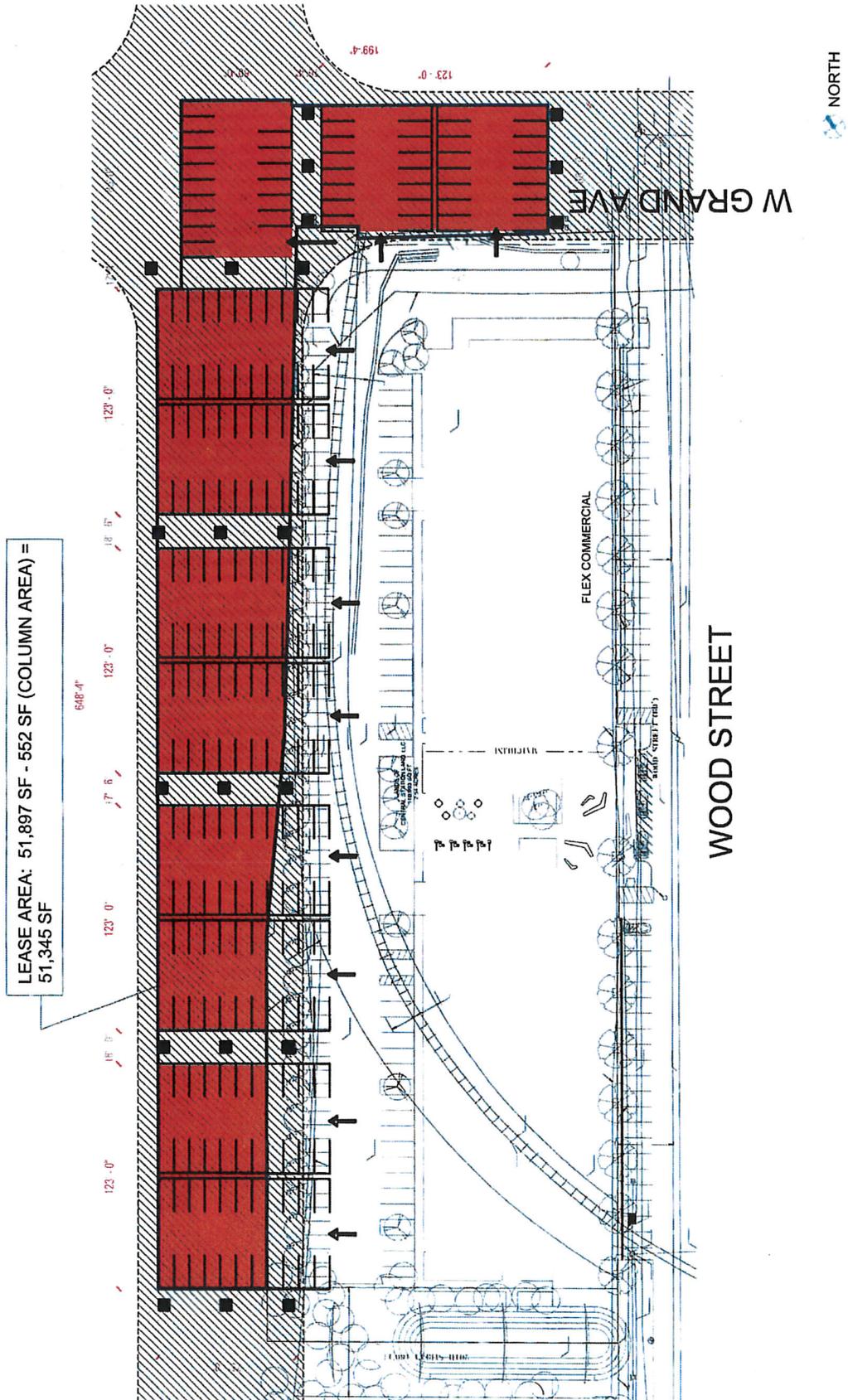
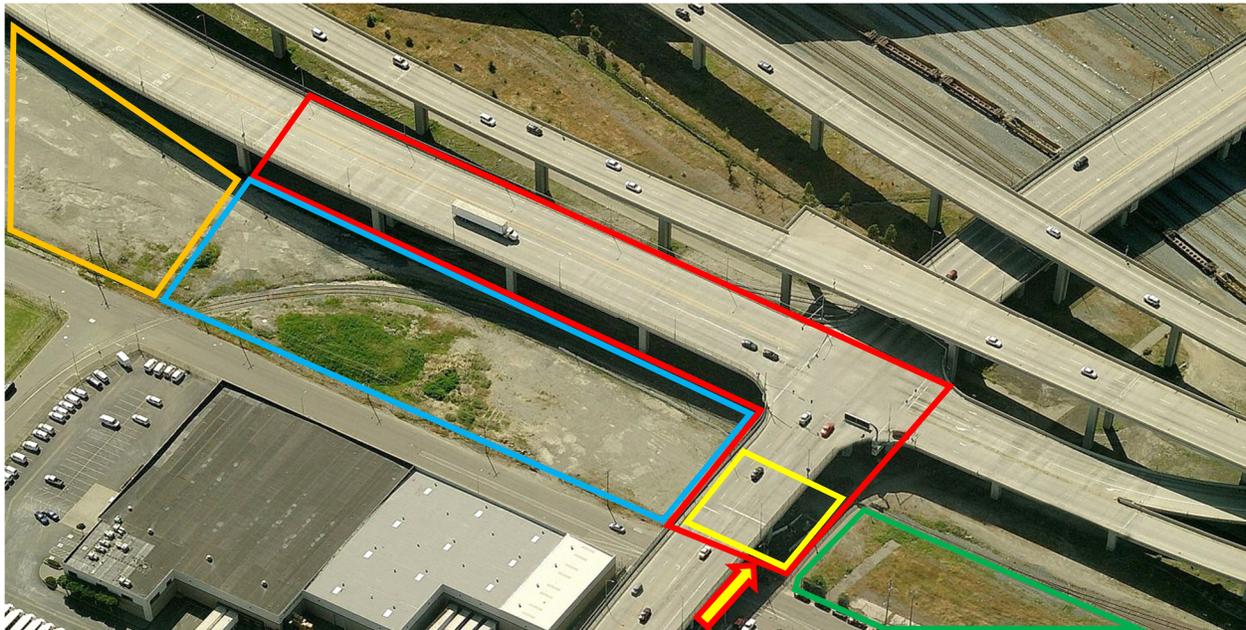
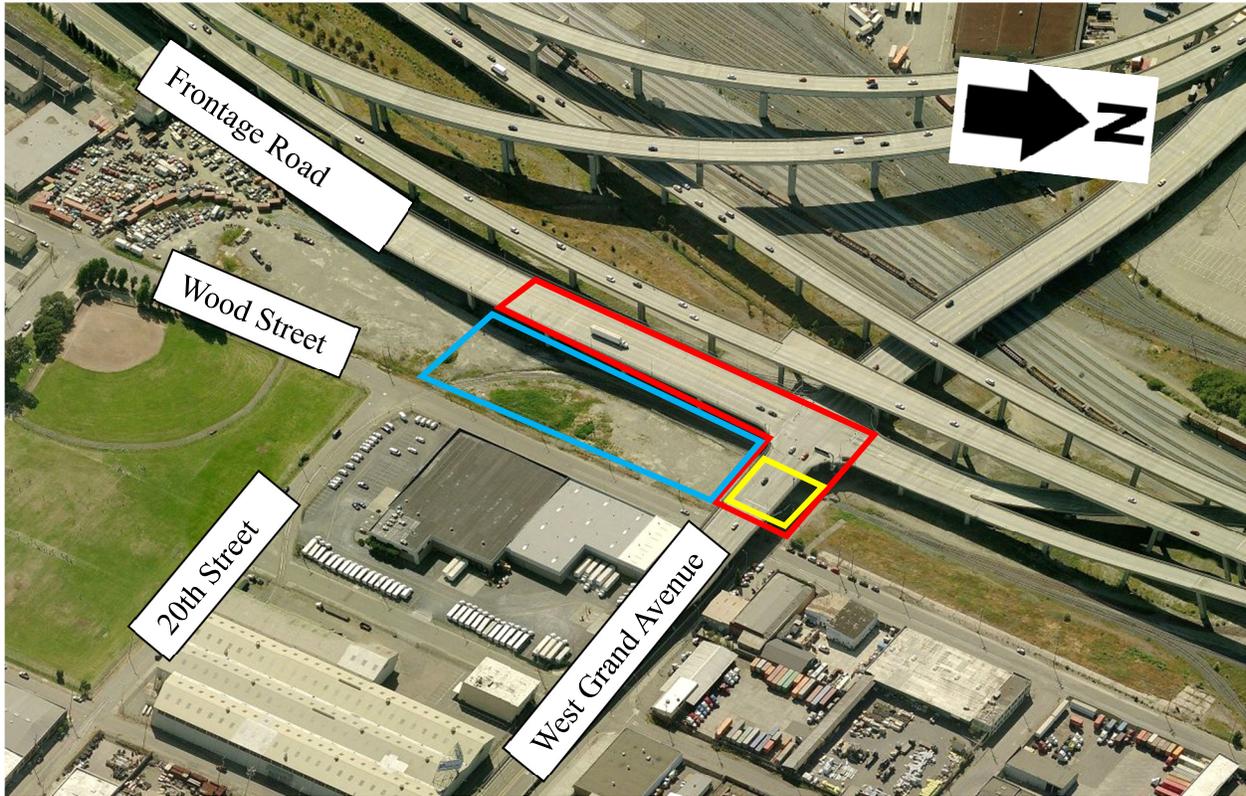


Exhibit C  
Lease Area Mapping



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|--|---|
|  Existing Caltrans Airspace |  City of Oakland Property |
|  Expanded Caltrans Airspace |  Railroad Property        |
|  Adjacent Holliday Property |  Access Gate              |