

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: June 30-July 1, 2010

Reference No.: 2.4c.(3)
Action Item

From: NORMA ORTEGA
Chief Financial Officer

Prepared by: Tony Tavares
Chief
Division of Right of Way and
Land Surveys

Subject: **AIRSPACE LEASE – REQUEST TO DIRECTLY RENEGOTIATE THE FORT SELF SERVICE LEASE**

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve the lease renegotiation with Fort Self Storage Inc. (LA-101-0024) to lower the percent of gross rent received by the Department from 15 percent to 10 percent for a period of five years.

BACKGROUND:

This airspace parcel is located within the right of way at I-10 freeway between Essex and Central Streets. It is southeast of the Convention Center in the city of Los Angeles. This is an older industrial area, which serves the businesses and residents who live within downtown Los Angeles and the surrounding communities.

In March 1989, Mr. Azarmi was the winning bidder for a long-term development lease on an airspace parcel. His proposed use, as a 1,019-unit mini-storage facility, was seen to provide a higher overall return to the Department in comparison to the other bid proposals received. Terms of the 50-year lease included a \$6,101 monthly minimum payment or 15 percent of gross income, whichever was higher.

In June 1989, Mr. Azarmi was informed that he could not proceed with his proposed development until the seismic retrofit work was completed for the I-10 flyway over this airspace parcel. The seismic retrofit project was completed on June 29, 1999. At that time, Mr. Azarmi was asked if he still desired to proceed with the project as it had been bid, he chose to proceed. Fort Self Storage Inc. opened for business on April 18, 2002. Fort Self Storage Inc. has been a responsible tenant and paid the rents due in a timely manner. Mr. Azarmi, however, has continually complained that the business is losing money. A review of the annual Profit and Loss Statements shows consistent losses.

In August 2005, Mr. Azarmi's lender, Midland Loan Services, placed his loan in a lockbox account. All payments received are to be placed in this account and all payable accounts will be

paid from the same account. An analysis points to two critical issues, which have troubled the Fort Self Storage business.

- Over the eight years that Mr. Azarmi's Fort Self Storage project was held up because of the Department's seismic retrofit project, his construction cost escalated. Final construction costs increased \$3,235,600 over the original cost estimate.
- In addition, 14 other self-storage locations opened within a five-mile radius during this period, substantially increasing competition by the time Mr. Azarmi was able to open for business.

These two issues alone are not the cause of this company's distress. However, these have significantly limited Mr. Azarmi's ability to adjust to the changes within the market.

Mr. Azarmi has contributed \$126,500.00 of his personal funds since February 2009 to keep Fort Self Storage Inc. afloat. Mr. Azarmi has submitted a business plan demonstrating how the business can become profitable with the temporary reduction in rent.

Once Department staff determined that a temporary rent reduction was a viable solution to this problem, determining the correct type and length of rent reduction became paramount. Rent reductions reviewed were: a five percent reduction for a 10-year period; the proposed five percent, five-year rent reduction; or a variable reduction based on increasing rent revenue and measures against the profit and loss statement. In the end, the proposed five percent rent reduction for a five-year term was selected.

SUMMARY:

The intent of this rent reduction is to allow the tenant to become profitable and prevent a potential lender foreclosure. Should some relief not be given, the business's future looks grim. If the rent is not renegotiated, Mr. Azarmi has indicated that he will allow the property to go into foreclosure. If that were to happen, the Department and the lender would be forced to find a viable tenant in these tough economic times. It is the Department's position that a known and viable business operator at a reduced rent is a more desirable and prudent alternative than attempting to find a qualified tenant in today's uncertain economy. If the rent reduction is approved, the Department will continue to audit Fort Self Storage Inc. business accounts, and after five years the base rent will be increased.

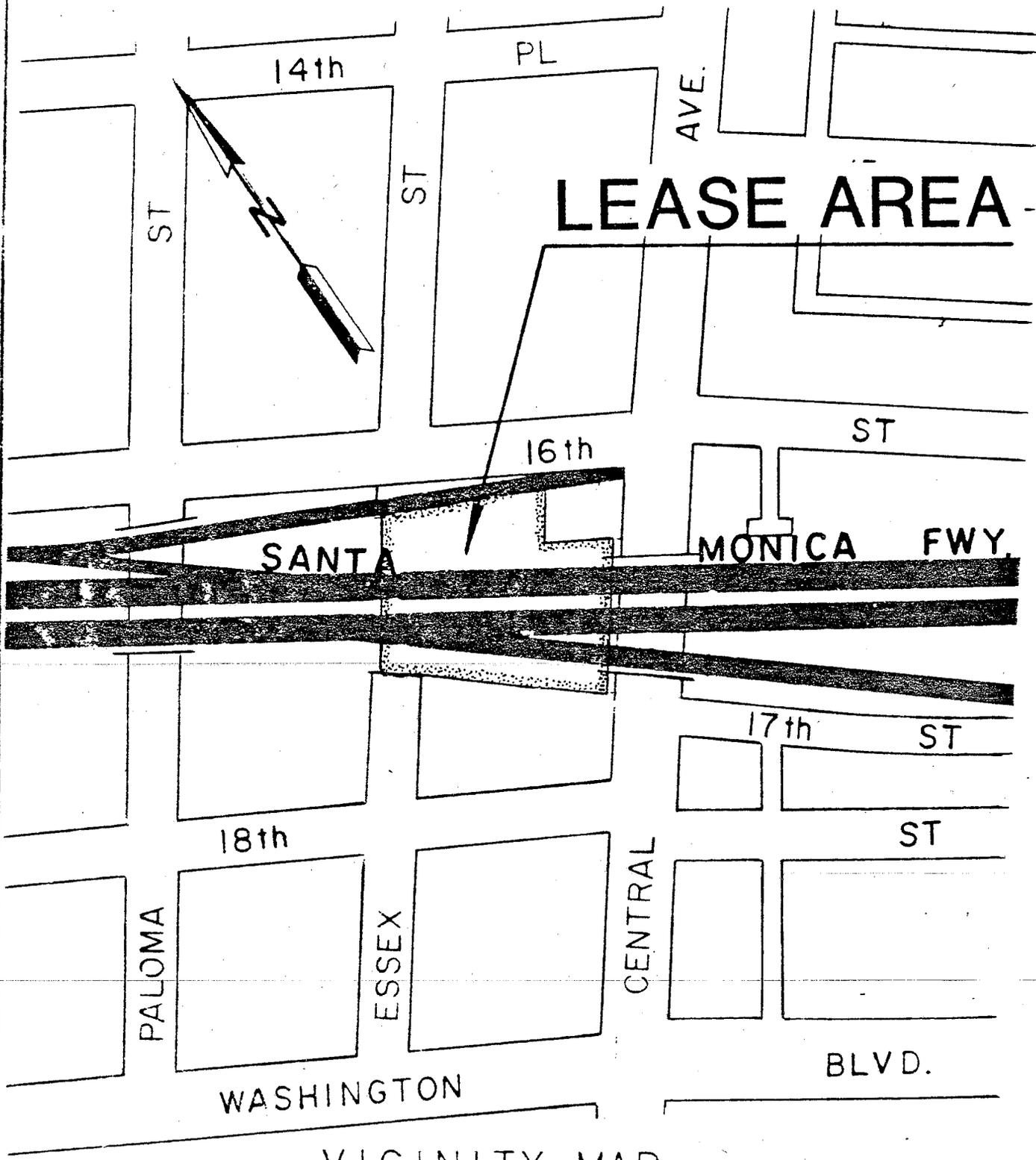
Attachments

Exhibit A: Location Map

Exhibit B: Site Plan

CITY OF LOS ANGELES

DIST.	COUNTY	RTE.	P.M.
07	LA	10	16.4



VICINITY MAP

STATE OF CALIFORNIA- DEPARTMENT OF TRANSPORTATION- DISTRICT 07

FLA
07-10-24

SCALE: NONE
DRAWN: CHKD:
DATE: 5-16-89

