

Memorandum

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: August 11-12, 2010

Reference No.: 2.4c.(2)
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 FOR LEASE OPTION EXTENSION,
TRIANGLE PARTNERS, L.L.C.**

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve a lease option extension for three years with an additional two one-year options to renew for Triangle Partners, L.L.C. (Company) whose current five-year lease option will expire on December 13, 2010.

BACKGROUND:

The subject property is a vacant parcel totaling approximately 122,600 square foot (sq. ft.) adjacent to South River Road in West Sacramento, under the Highway 50 Pioneer Bridge in Yolo County. Please refer to Exhibit A for an aerial view of the property location. It is bounded on the south and north by Company-owned property, on the east by the Sacramento River and on the west by South River Road. Company plans to develop the subject property into a surface parking facility for its development, which will occur on both the north and south of the subject parcel.

Option Approval History:

The Commission approved direct negotiations at its October 30, 2003 meeting for the following reasons:

1. Subject parcel had not received any bids in three previous bid offers.
2. Subject parcel has more value as plottage to enhance Company's slated development to the north and south, than as a stand-alone parcel. While independent development is feasible, if the parcel was placed out to bid for parking purposes only, without ties to the development and its income generation, the anticipated lease rate would be significantly lower due to the costs of necessary improvements.

Upon Commission's approval to directly negotiate, the Department entered into discussions with Company in 2003-2004 and presented the negotiated terms and conditions to the Commission. In September 2004, the Commission approved execution of subject option to lease.

Option Extension Supporting Factors:

- Supporting Factor #1: Full Intent To Develop

Recent discussions with Company management indicate that they fully intend to develop the subject parcel and are requesting an extension to the option due to the fact that the unanticipated economic meltdown has slowed down project development timelines.

Company wishes to lock in long-term use of the subject parcel for development; with preference to extending the option versus exercising the option. Their preference to extend as opposed to exercising the option is due to the fact that, as a condition of exercising the option, they must obtain an approved Encroachment Permit from the Department for the surface parking plans. At present, it is premature for Company to contract for completion of surface parking plans when their efforts and resources are currently being spent to establish an infrastructure for what is being called the “Bridge District”. Relative to the current focus on infrastructure development, the City of West Sacramento, Company and other Bridge District property owners have already spent approximately \$20 million to remove railroad tracks and relocate industrial users. In addition to this \$20 million, Bridge District property owners, including Company, have formed two separate Community Facility Districts to issue and fund approximately \$15 million in bond proceeds to support the Bridge District development.

- Supporting Factor #2: Consequences of Exercising Option Versus Granting Extension

The Department has entered into a Commission-approved binding option agreement with Company for subject parcel. This option agreement has an expiration date of December 13, 2010. Company has advised the Department that they wish to perpetuate a “lock” on future leasehold rights to the subject parcel either via option extension, if granted, or exercise of subject option.

Extending the option is preferable to Company because, as explained above, exercise of the option requires that they submit detailed parking lot plans to the Department prior to issuance of a Department encroachment permit. Company advises that while they are prepared to switch gears and devote assets to prematurely developing surface parking plans, this is not an optimal situation for them to skip ahead in their development cycle because they are currently focused on infrastructure development and have not yet started the process of completing detailed plans of their proposed retail/residential complexes. They also advise that if parking lot plans are developed prematurely today, it is a certainty that these same plans will need to be updated to match specific retail/residential complex plans in the future.

Requiring exercise of the option in December 2010 will result in future re-review of revised parking lot plans by Department staff for issuance of an amended Encroachment Permit. This is an inefficient approach to doing business and would result in a waste of Department staff resources. In addition, if the Department requires exercise of the option in today’s

market, it is logical to assume that the base lease rate will be lower in today's depressed economic market as compared to a base lease rate established three to five years from today as our economy recovers.

- Supporting Factor #3: Option Extension Allows Continued Collection of Direct Lease Dollars

At the current time, the subject parcel is under option with Company for a Commission-approved \$10,000 annual fee and is also under direct lease with a tenant of Company for annual rent of \$11,760. Company is agreeable to an increase in annual option fees to \$12,000 to "match" the \$11,760 annual tenant direct lease rate should the option extension be approved. Company is also agreeable to application of annual Consumer Price Index adjustments to the \$12,000 annual base rate for succeeding option extension years. Option extension allows for continued generation of both option and lease revenue, which benefits the Department from an income generation perspective.

SUMMARY

It is requested that the Commission grant the Department permission to extend the current option for three years with provisions for an additional two one-year options to renew. This extension is in the best interest of the Department because it allows for efficient project review and maximization of future revenue streams due to the establishment of a higher base lease rate as future property values are anticipated to rise.

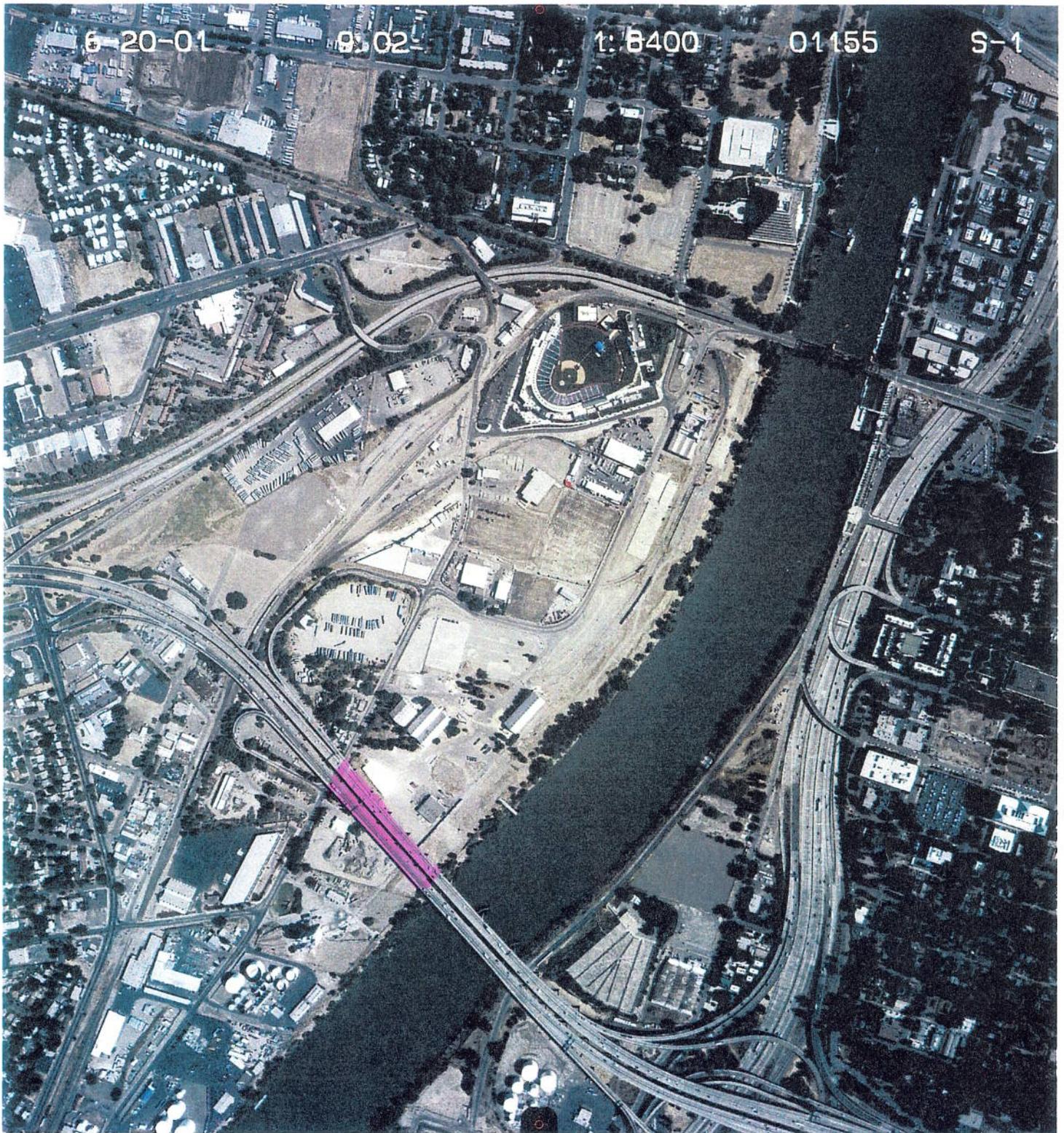
Attachments:

Exhibit A: Aerial view of subject parcel location

Exhibit B: Parcel Location Map

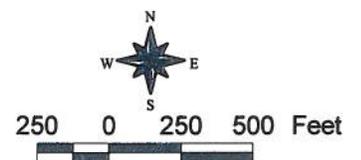
Exhibit C: Freeway Lease Area Map

HIGHLIGHTED AREA IS SUBJECT PARCEL LOCATION



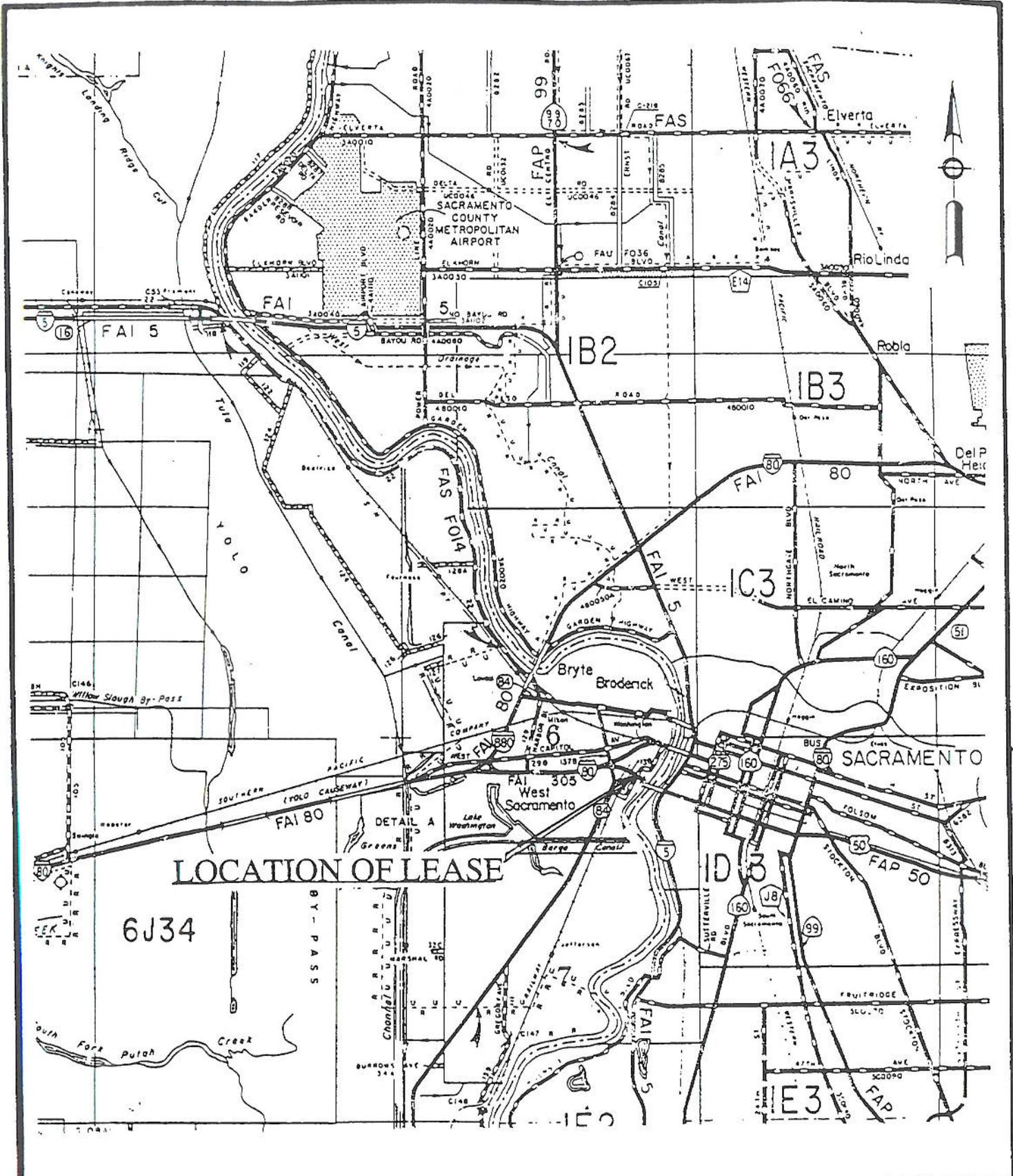
TRIANGLE AREA WEST SACRAMENTO

PHOTO DATE: JUNE 20, 2001



NOLTE
BEYOND ENGINEERING

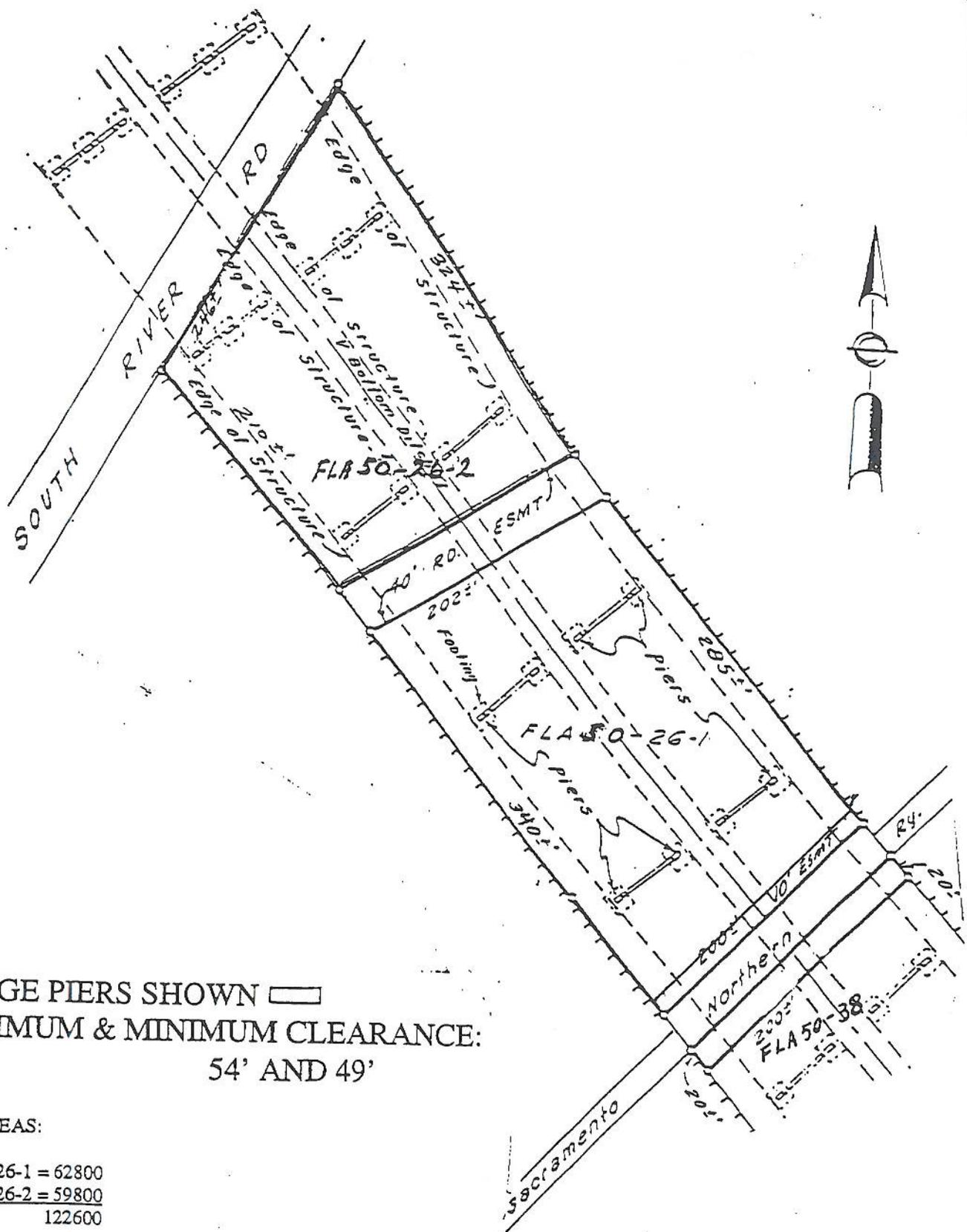
EXHIBIT A



LOCATION MAP

NOT TO SCALE

FLA 50-26-1	FLA 50-26-2		
PAR NO	016924		
DIST	CO	RTE	PM
03	YOL	50	2.93



BRIDGE PIERS SHOWN
 MAXIMUM & MINIMUM CLEARANCE:
 54' AND 49'

NET AREAS:

FLA 50-26-1 = 62800
 FLA 50-26-2 = 59800
 Total 122600

FREEWAY LEASE AREA MAP

ACCESS PROHIBITED

FLA 50-26-1	FLA 50-26-2
PAR NO 016924	FLA 50-38
03 YOL 50 2.93	