M e m o r a n d u m

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: October 24, 2012

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

From: NORMA ORTEGA
Chief Financial Officer

Prepared by: Brent Green
Chief
Division of Right of Way
and Land Surveys

Subject: **AIRSPACE LEASE – REQUEST TO DIRECTLY NEGOTIATE WITH EUROMOTORS, INC.**

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve a request to directly negotiate a 15-year lease with Euromotors, Inc. (Euromotors) (doing business as Mercedes-Benz of San Francisco) for three freeway lease areas (FLAs) that Euromotors is currently leasing from the Department. The lease would include an annual escalation as well as lease rate re-evaluations every five years. The initial lease rate will be at fair market value as determined by an appraisal by the Department's District staff.

BACKGROUND:

Euromotors currently leases three FLAs under the State Route 80 an elevated freeway structure in downtown San Francisco (City) at 8th Street between Bryant and Brannan Streets:

1. SF-80-04 is a 41,000 square foot (s.f) lot used by Euromotors to park customer vehicles being serviced by the dealership, and for new vehicle inventory storage as shown in Exhibit B. The existing two-year lease was established via an oral bid public auction in January 2010. Euromotors continues to possess this FLA on a holdover basis pending the long-term lease proposal.

2. SF-80-05 is a 7,752 s.f. lot directly adjacent to the SF-80-04 and contains a curb cut used by Euromotors customers as the entrance access to their service department and for short term customer parking as shown in Exhibit C. Euromotors owns an access easement over a portion of this FLA. The existing short-term lease covering the balance of the FLA was directly negotiated with Euromotors in May 2010 as this FLA is similar to a "landlocked" property due to the easement encumbrance.

3. SF-80-06 is a 17,800 s.f. lot across the street from SF-80-05 used by Euromotors for new vehicle inventory storage as shown in Exhibit D. The existing two-year lease was established via an oral bid public auction in June 2011.

Euromotors employs over 135 people and is a very successful business that contributes to the tax revenues of the State and the City and County of San Francisco.

Euromotors has continually leased SF-80-05 since the dealership began operations at this current site in 2004, and has subsequently competitively bid for and won short term leases for SF-80-04 and SF-80-06. Euromotors has maintained all three FLAs in excellent condition and is considered a tenant in good standing who has never missed a lease payment.

As a premium brand car dealership, Euromotors requires that its parking and storage facilities be adequately improved such that the lots are fully functional year round and the aesthetics match the adjoining dealership building. Without the security of a long term lease for its building, parking and storage space, an auto dealership is at risk of relocating to a new location with more secure terms. It is anticipated that the Department would be able to find other tenants for these FLAs if they became vacant but it is highly likely that any new tenant would not be as motivated as a high-end auto business to expend the hundreds of thousands of dollars required to maintain and improve these FLAs.

These FLAs require certain grading and drainage work to correct standing water issues, new paving, new and updated fencing, and required lighting for safety. Additionally, the City is implementing a new landscape plan for this neighborhood, and Euromotors will be re-landscaping the sidewalk area of the FLAs. Euromotors will be removing several old eucalyptus trees that have caused property damage and will be planting City and Department approved landscaping that will better suit the neighborhood and be in compliance with the City's new landscape plan. Euromotors is prepared, at its own cost, to perform all the necessary maintenance for all three FLAs. Euromotors has requested a longer lease term in order to amortize the costs over a longer period of time.

<u>Directly Negotiated Long Term Lease Benefits to the State</u>

- The Department has no budget to maintain or improve its airspace properties. Entering into a directly negotiated long-term lease is the most beneficial method for the Department to implement necessary but expensive long-term maintenance repairs, ensure quality improvements, and guarantee tenant motivation to maintain the improvements in first class condition, which benefit not only the Department, the tenant, and the surrounding neighborhood.
- Recent changes in public parking regulation by the City have substantially increased the costs of obtaining annual public parking permits, and require a six to eight week processing and formal hearing period during which Department properties must remain vacant. Private no-fee parking uses do not require public parking permits. Directly negotiating a long term lease with a tenant that will be using the airspace site for private no-fee parking decreases the risk that the airspace site will remain vacant for months due to annual permitting related issues.
- In addition to the value of the necessary long term maintenance repairs and the value-added improvements received on the airspace properties, the Department would receive rent based on the properties' highest and best use as parking and storage extensions of the dealership's showroom and service facility instead of the typical general public parking use, which necessarily supports a lower rental rate due to the added expense of the City's 25 percent parking tax ordinance. Private free parking or storage uses are not subject to the City's high parking tax; therefore, tenants such as Euromotors could afford to pay a higher rent since they are not burdened by the additional tax.

SUMMARY

The ability to directly negotiate with Euromotors is in the best interest of the Department. Euromotors has for many years been a reliable and conscientious tenant for the Department and a solid supporter of the local community. The subject FLAs require certain expensive repairs and the Department does not have the budget to make these necessary repairs. Euromotors is prepared to make the required repairs and also construct a number of aesthetic and safety improvements that will benefit both the Department and the surrounding neighborhood. Such repairs and improvements are not financially feasible without the tenant's ability to amortize the costs over a longer term. A long term lease would allow the Department to receive fair market rent for an extended period of time with the ability to increase rent as the market changes, and would allow for the required repairs. A well respected high end auto dealership is much more motivated to construct quality improvements, work with the City to facilitate the City's new streetscape plan, and better maintain the improvements over the life of the lease term, than is a generic public parking business. This directly negotiated long term lease with Euromotors is supported by the Mayor of San Francisco, the President of the San Francisco Board of Supervisors, and the San Francisco Public Works Director, who have provided letters of support requesting that the Department execute long term leases for the subject airspace properties so to secure for a longer term the substantial tax revenue, jobs, and site-specific improvements that incorporate the City's new streetscape plan that will benefit the 8th Street neighborhood and all the parties involved.

Attachments
Exhibit A: SF-80 Bryant Street – Division Street Corridor
Exhibit B: SF-80-04 location maps and photos
Exhibit C: SF-80-05 location maps and photos
Exhibit D: SF-80-06 location maps and photos

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Exhibit A

SF-80/101 Bryant Street to Alameda Street Corridor

RED
Euromotors SF Benz
Dealership and
3 Airspace Sites
SF-80-04
SF-80-05
SF-80-06

BLUE
888 Brannan LP
Building and
Airspace Site
SF-80-02

GREEN
Jewelry Mart Building
and Airspace Site
SF-101-43

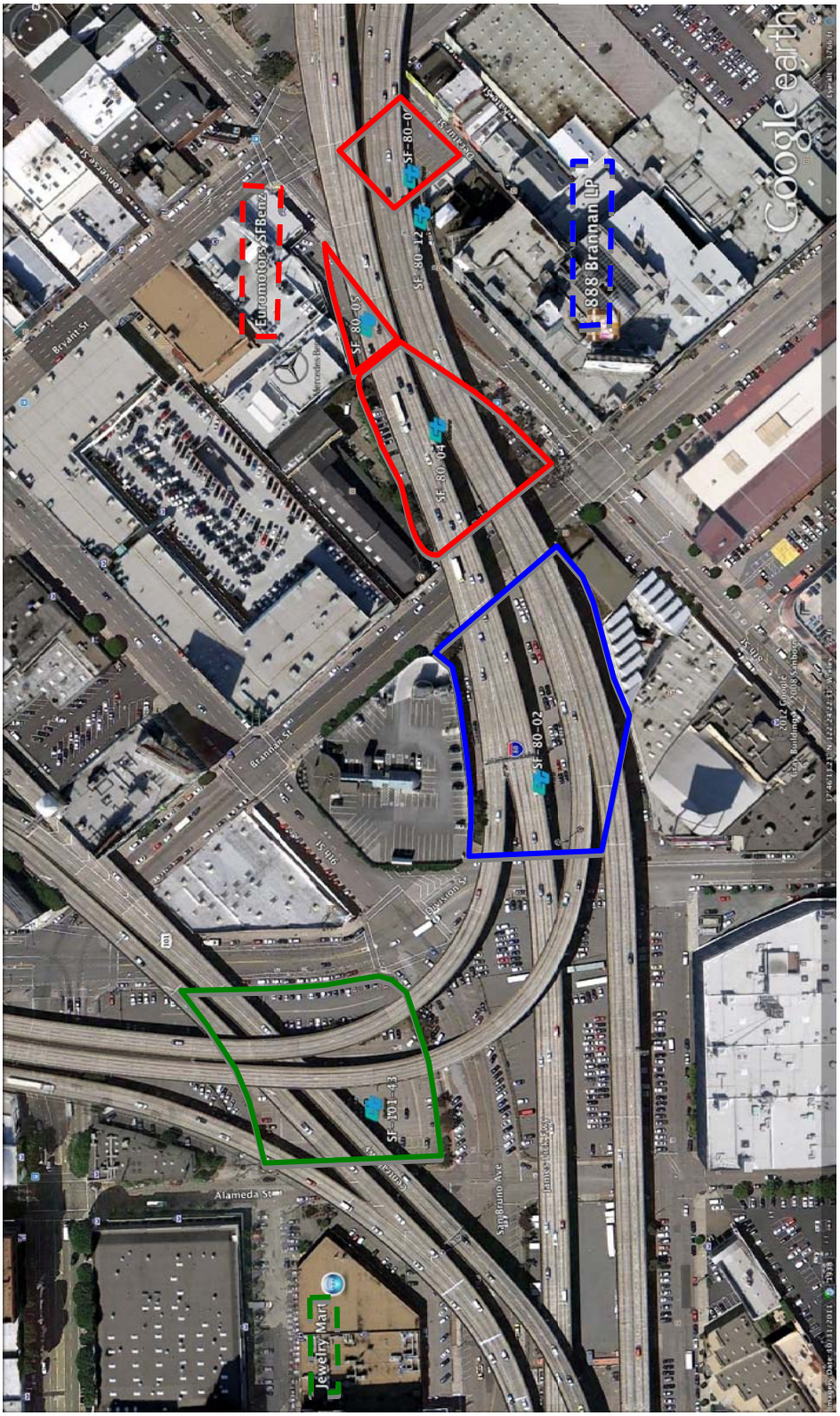
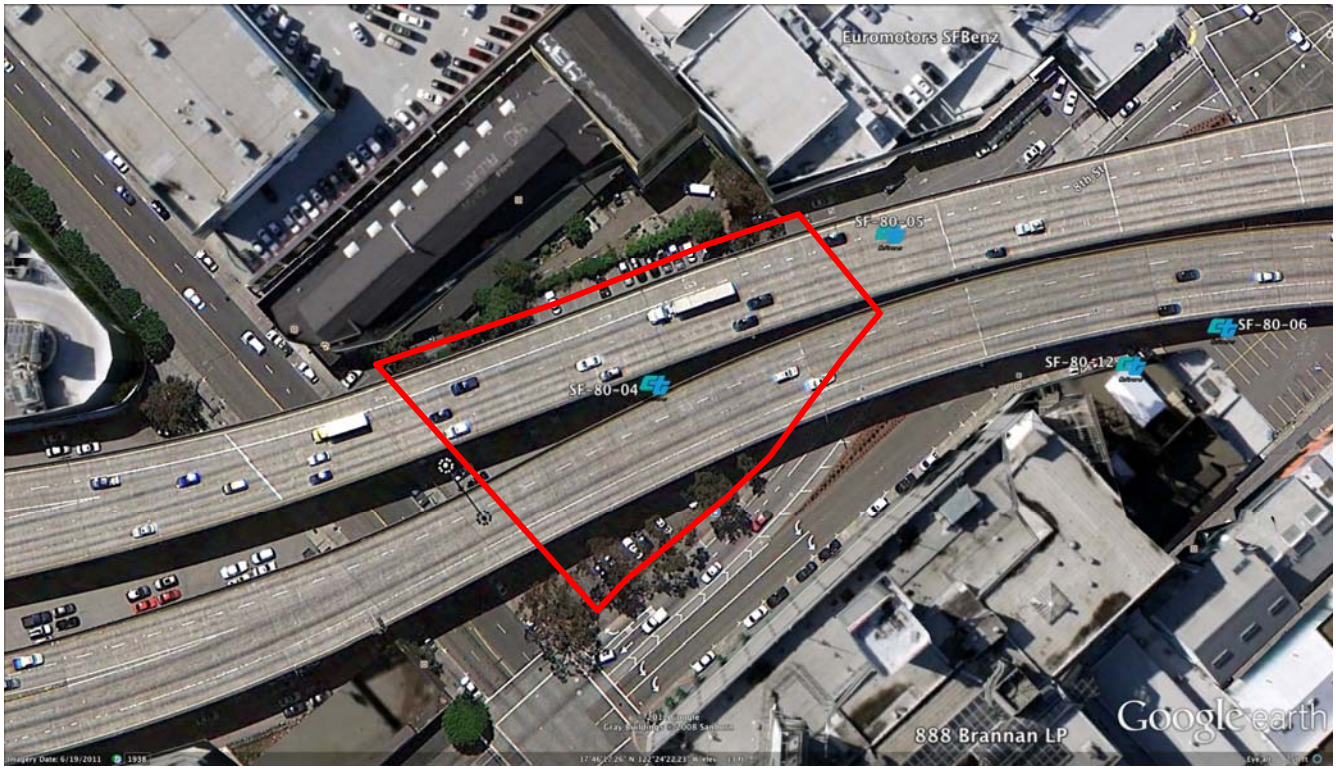


EXHIBIT A

Reference No.: 2.4c.(3)
October 24, 2012
Exhibit B

SF-80-04 at 8th Street & Brannan Street



Looking southwest from corner of Brannan and 8th Streets

EXHIBIT B

"Caltrans improves mobility across California"

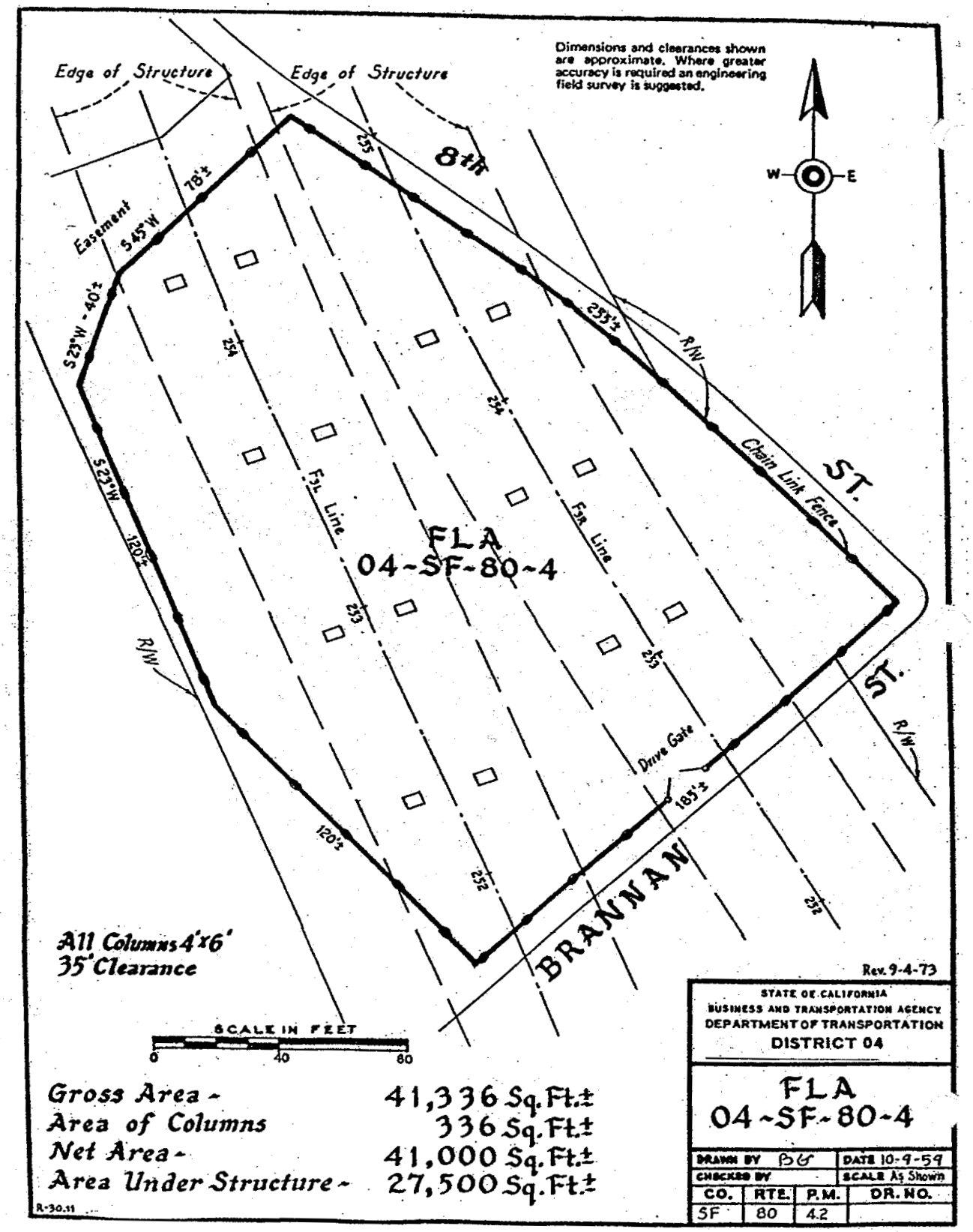
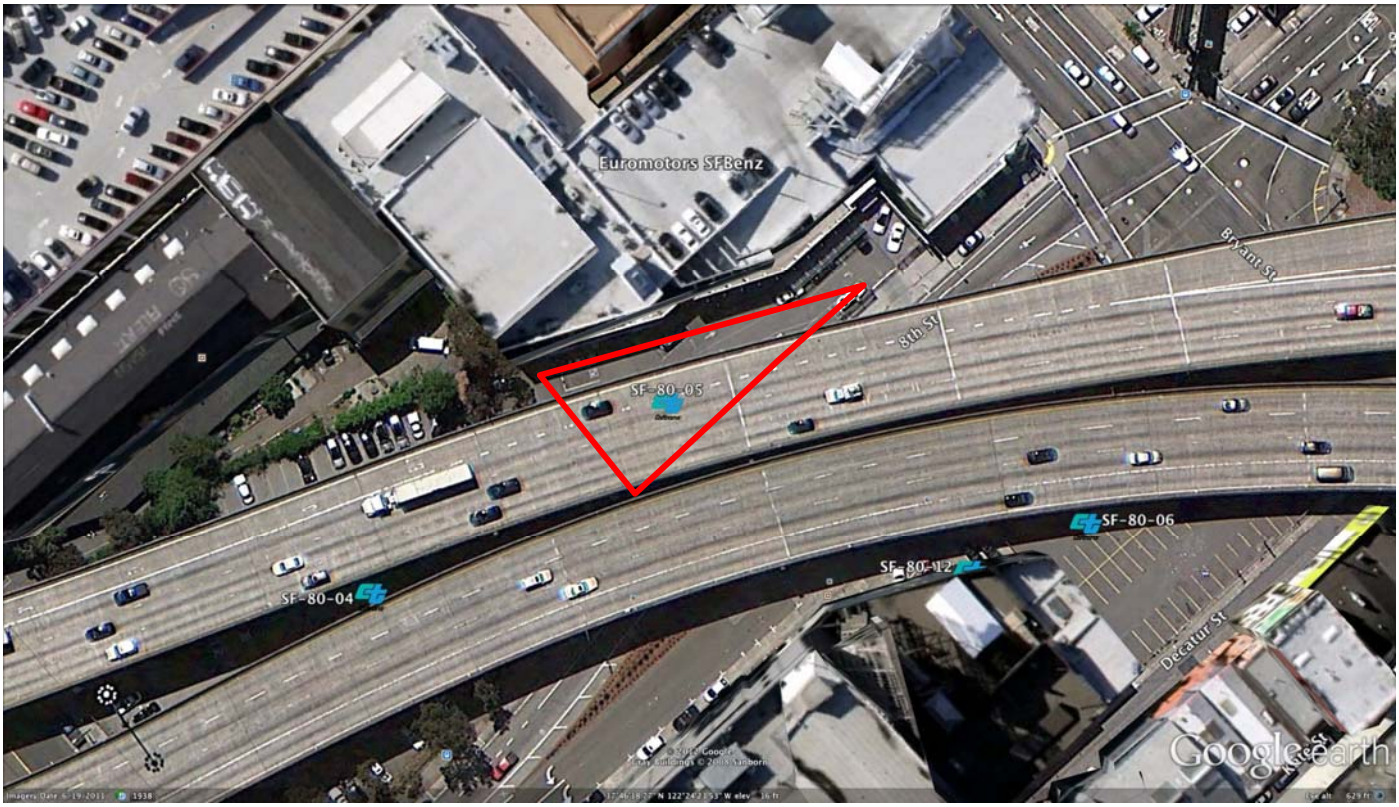
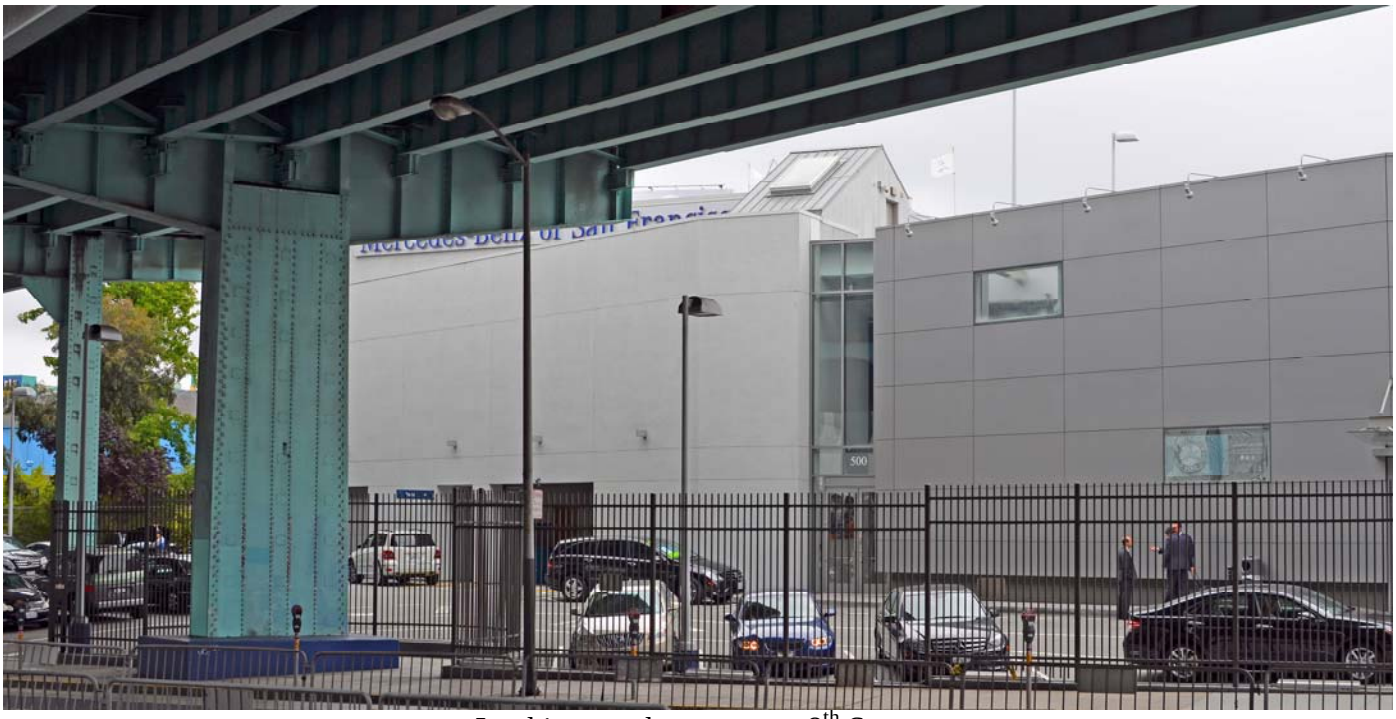

Dimensions and clearances shown are approximate. Where greater accuracy is required an engineering field survey is suggested.
Edge of Structure
Edge of Structure
8th
ST.
ST.
BRANNAN
Easement
S45°W
78'±
S23°W - 40'±
S23°W
120'±
120'±
255'±
185'±
R/W
R/W
R/W
Chain Link Fence
Drive Gate
F3L Line
F3R Line
FLA
04-SF-80-4
All Columns 4'x6'
35' Clearance
SCALE IN FEET
0
40
80
Gross Area - 41,336 Sq.Ft.±
Area of Columns 336 Sq.Ft.±
Net Area - 41,000 Sq.Ft.±
Area Under Structure - 27,500 Sq.Ft.±
Rev. 9-4-73
STATE OF CALIFORNIA
BUSINESS AND TRANSPORTATION AGENCY
DEPARTMENT OF TRANSPORTATION
DISTRICT 04
FLA
04-SF-80-4
DRAWN BY BG
DATE 10-9-59
CHECKED BY
SCALE As Shown
CO. SF
RTE. 80
P.M. 4.2
DR. NO.
R-30.11

EXHIBIT B

Reference No.: 2.4c.(3)
October 24, 2012
Exhibit C

SF-80-05 at 8th Street & Bryant Street

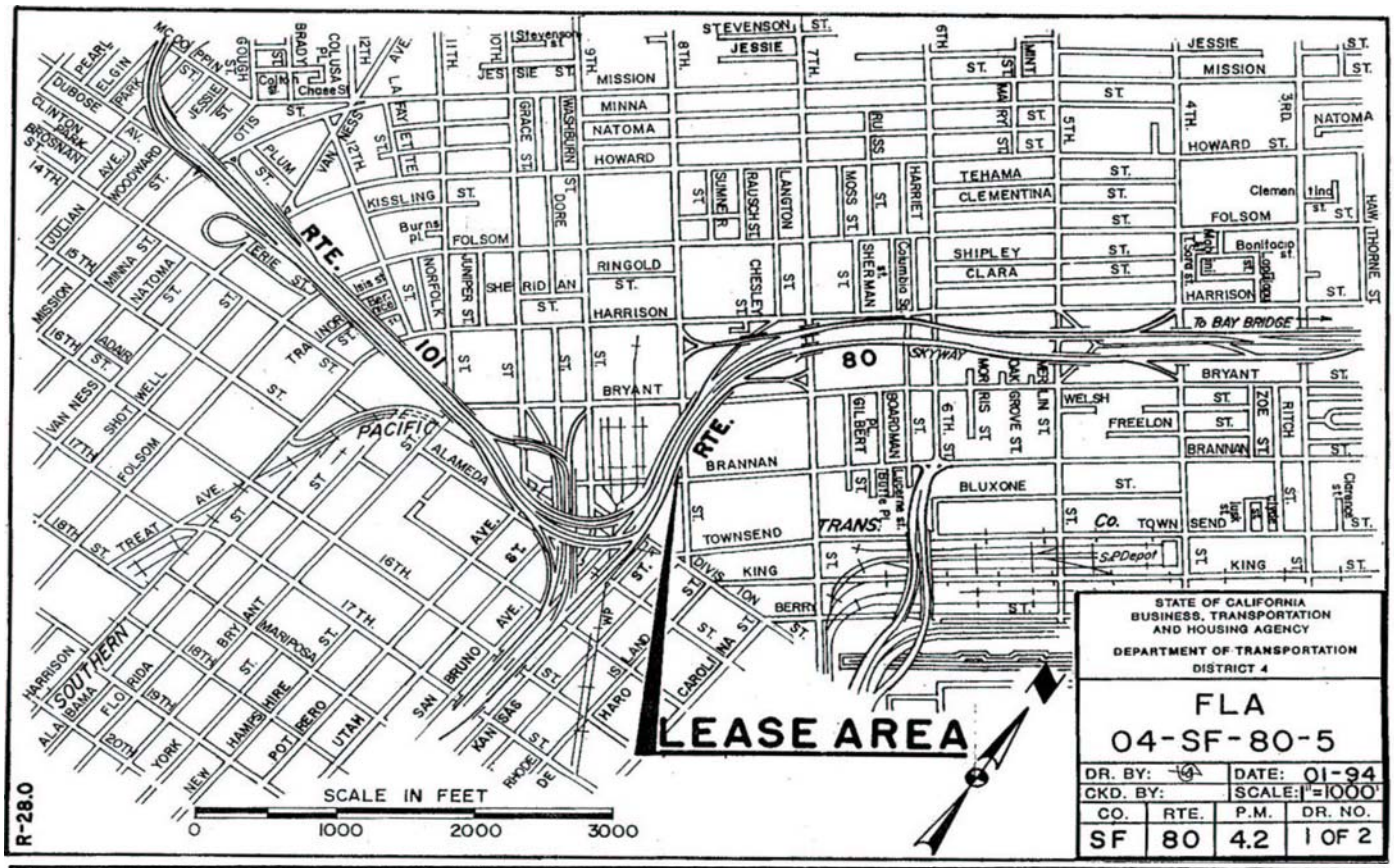




Looking southeast across 8th Street

EXHIBIT C

"Caltrans improves mobility across California"


LEASE AREA
SCALE IN FEET
0 1000 2000 3000
R-28.0
STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF TRANSPORTATION
DISTRICT 4
FLA
04-SF-80-5
DR. BY:
DATE: 01-94
CKD. BY:
SCALE: 1"=1000'
CO. RTE. P.M. DR. NO.
SF 80 4.2 1 OF 2

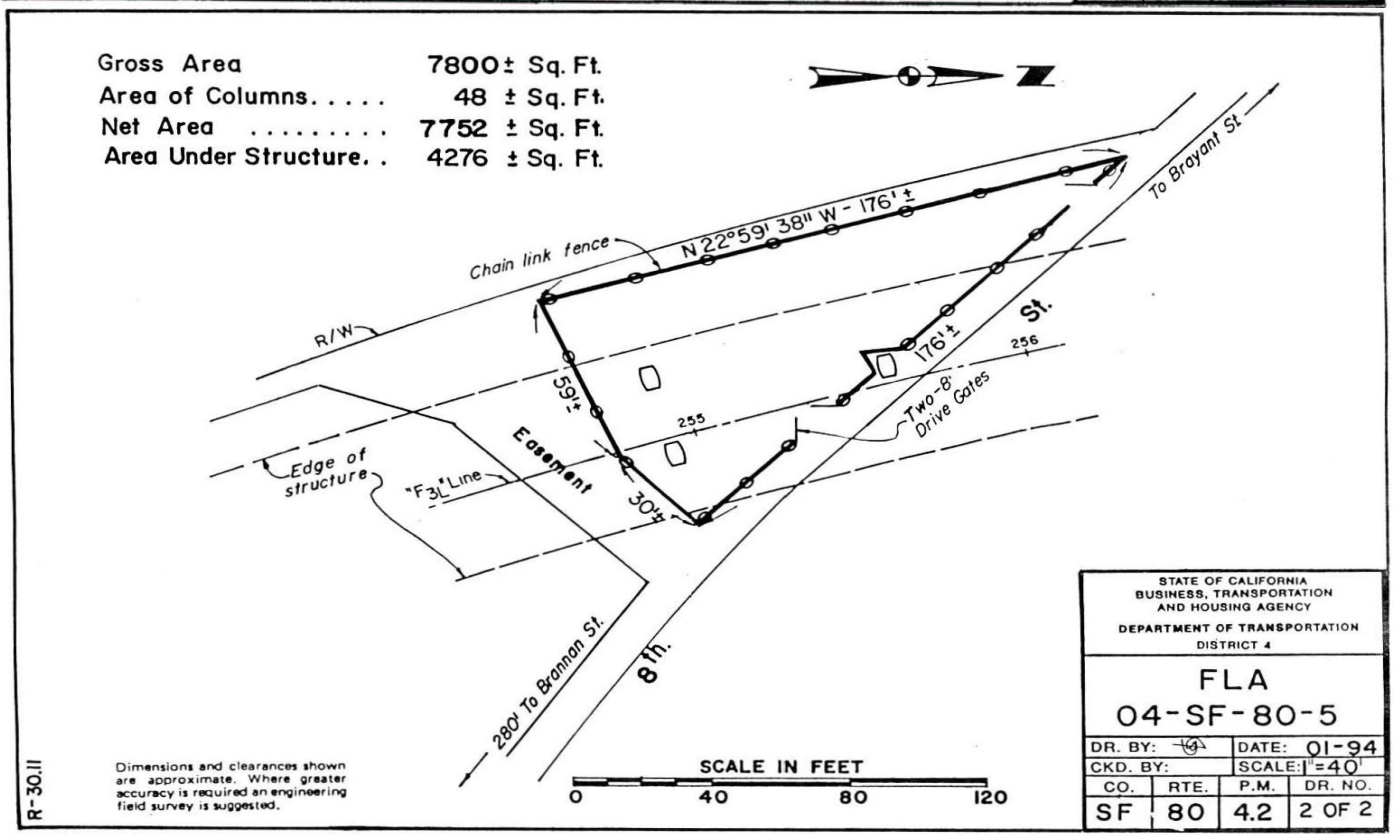
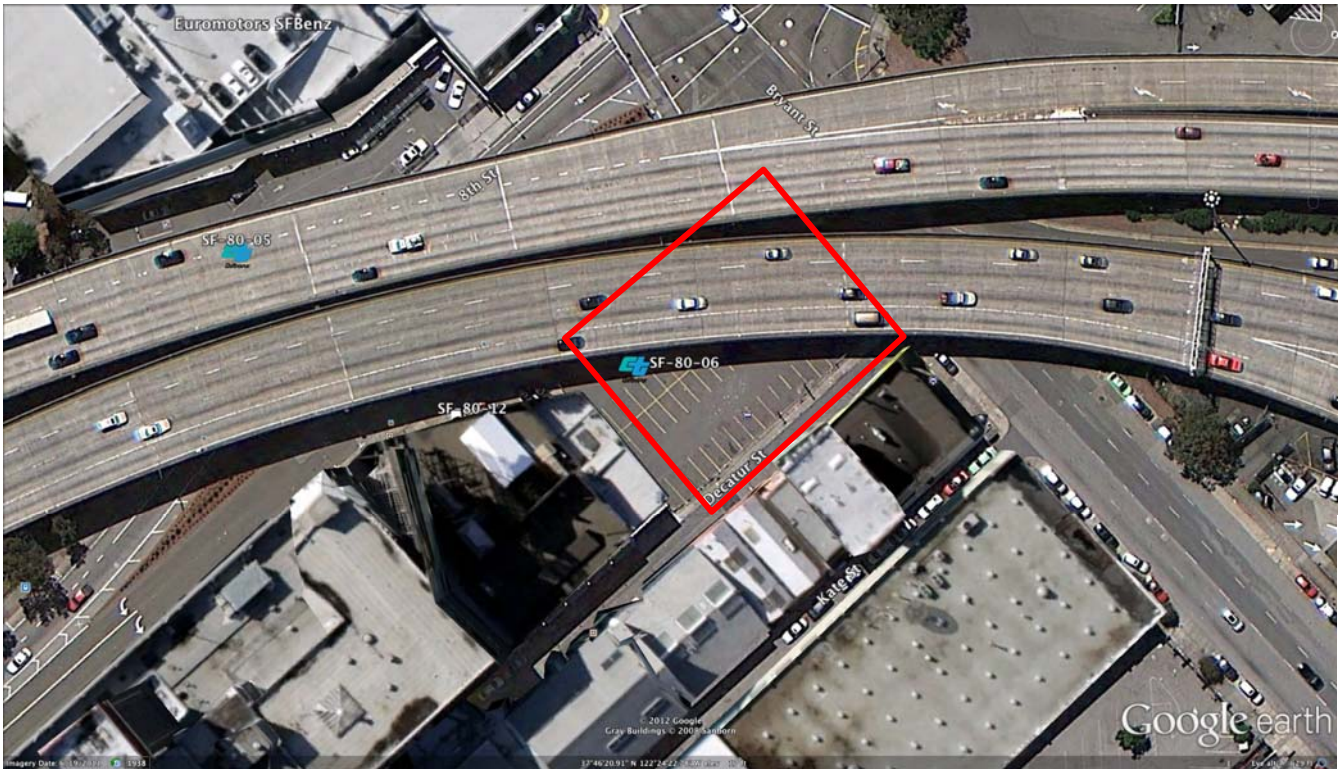

Gross Area 7800± Sq. Ft.
Area of Columns..... 48 ± Sq. Ft.
Net Area ..... 7752 ± Sq. Ft.
Area Under Structure.. 4276 ± Sq. Ft.
N 22°59' 38" W - 176' ±
Chain link fence
R/W
To Bryant St
176' ±
256
255
59' ±
Two-8' Drive Gates
Edge of structure
"F3L" Line
Easement
30'±
280' To Brannan St.
8th.
SCALE IN FEET
0 40 80 120
Dimensions and clearances shown are approximate. Where greater accuracy is required an engineering field survey is suggested.
R-30.11
STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF TRANSPORTATION
DISTRICT 4
FLA
04-SF-80-5
DR. BY:
DATE: 01-94
CKD. BY:
SCALE: 1"=40'
CO. RTE. P.M. DR. NO.
SF 80 4.2 2 OF 2

EXHIBIT C

Reference No.: 2.4c.(3)
October 24, 2012
Exhibit D

SF-80-06 at 8th Street & Bryant Street



Looking west from Decatur Street

EXHIBIT D

"Caltrans improves mobility across California"

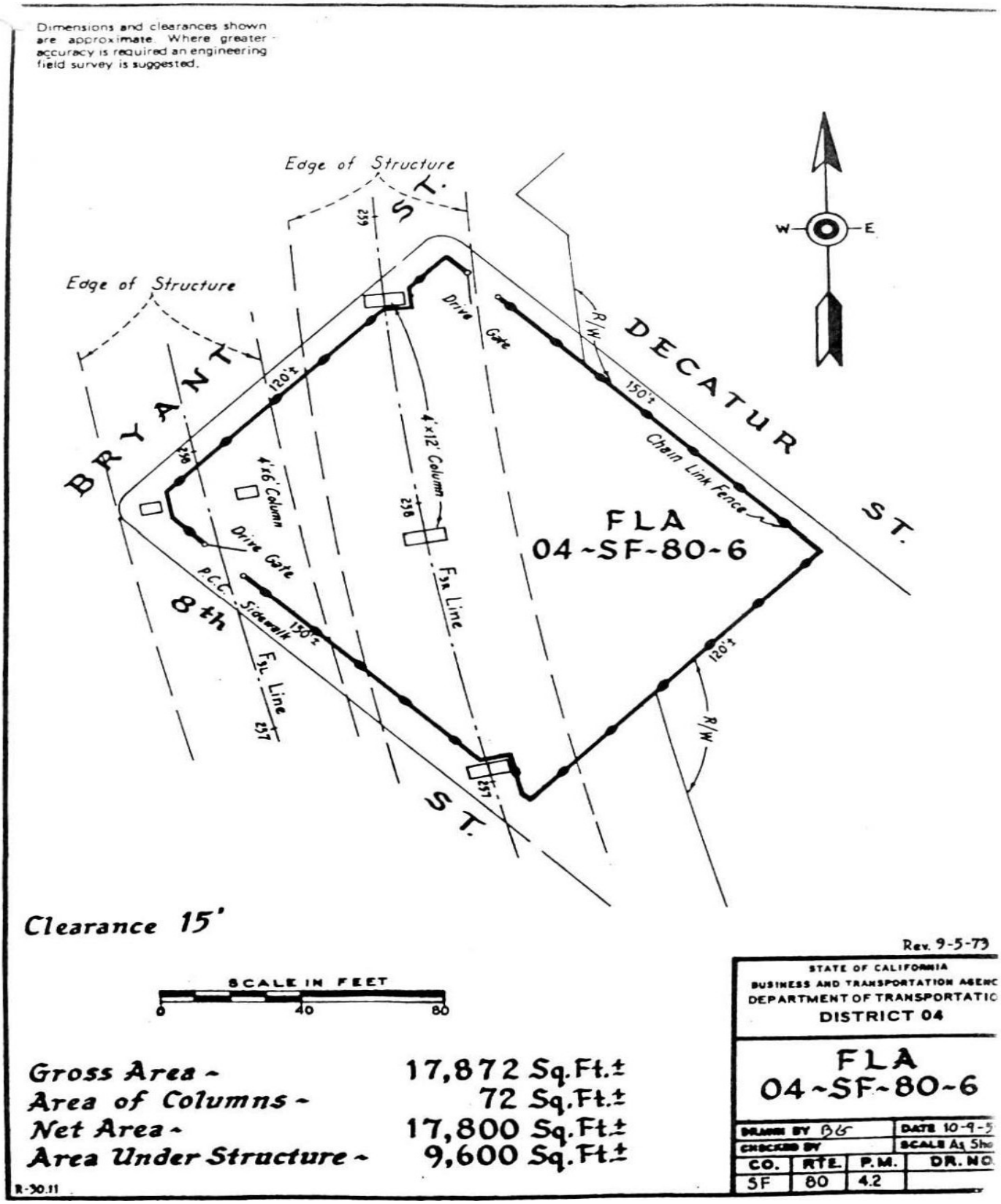

Dimensions and clearances shown are approximate. Where greater accuracy is required an engineering field survey is suggested.
Edge of Structure
Edge of Structure
BRYANT ST.
DECATUR ST.
8th ST.
Drive Gate
Drive Gate
4'x6' Column
4'x12' Column
Chain Link Fence
P.C.C. Sidewalk
F3R Line
F3L Line
R/W
R/W
120'±
150'±
150'±
120'±
258
259
257
257
FLA
04-SF-80-6
W
E
Clearance 15'
SCALE IN FEET
0
40
80
Gross Area - 17,872 Sq.Ft.±
Area of Columns - 72 Sq.Ft.±
Net Area - 17,800 Sq.Ft.±
Area Under Structure - 9,600 Sq.Ft.±
Rev. 9-5-73
STATE OF CALIFORNIA
BUSINESS AND TRANSPORTATION AGENC
DEPARTMENT OF TRANSPORTATIC
DISTRICT 04
FLA
04-SF-80-6
DRAWN BY BG
DATE 10-9-5
CHECKED BY
SCALE As Sho
CO.
RTE.
P.M.
DR. NO.
SF
80
4.2
R-30.11

EXHIBIT D