

Memorandum

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: August 22, 2012

Reference No.: 2.4c.(4)
Action Item

From: NORMA ORTEGA
Chief Financial Officer

Prepared by: Mark L. Weaver
Acting Chief
Division of Right of Way
and Land Surveys

Subject: **AIRSPACE LEASE – REQUEST TO DIRECTLY NEGOTIATE WITH THE JEWELRY SQUARE ASSOCIATES**

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 the Jewelry Square Associates (Associates) for a freeway lease area (FLA) that the Associates 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 performed by the Department's District staff.

BACKGROUND:

The FLA SF-101-43 is located under State Route 101, an elevated freeway structure in downtown San Francisco (City) at San Bruno Avenue and Division Street. The FLA is a 56,000 square foot (s.f.) lot used by the Associates for employee and customer parking for the Jewelry Square Associates' businesses as shown in Exhibit B. The existing two-year lease was established via an oral bid public auction in May 2012.

Jewelry Square Associates

The Associates consists of seven independent jewelry businesses formed in 1982 that operates within the building across the street from the subject FLA known as the Jewelry Mart. The Associates first leased the FLA in 1984 and has consistently attended the Department's oral bid public auctions for the past 28 years. The Associates has continuously been the successful high bidder and has always been a tenant in good standing for the past 28 years. In 1984 the FLA was a dirt and unpaved site. The Associates, at its own expense, paved and fenced the lot upon obtaining its first lease in 1984 and has continued to maintain the property in good condition. Approximately 200 people are employed within the Jewelry Mart building. Ever since the first lease in 1984 the Associates has never charged the employees or customers for parking, which is an integral part of the success of the Jewelry Mart.

SF-101-43 Property Condition

The FLA requires certain age-related maintenance repairs: the existing paving is dated and crumbling and in need of re-paving, the original chain link fencing requires repair, and the landscaping that circles the lot requires updating. The Associates is prepared, at its own cost, to perform all the necessary maintenance of the FLA including new landscaping to meet the City's newly adopted ordinances.

Freeway Corridor Local Improvements

The City is implementing a new landscape plan for this neighborhood, and the Associates will be re-landscaping the sidewalk areas of the FLA by removing old shrubbery 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. These improvements will be coordinated with neighbors 888 Brannan, which leases Department FLA SF-80-02 across the street and Euromotors San Francisco Mercedes Benz, which leases FLA SF-80-04 two blocks away.

Directly Negotiated Long Term Lease Benefits to the State

- The Department has no budget to maintain or improve its airspace properties. Entering into a directly negotiated long-term lease with an association of businesses that has been a neighborhood anchor for over 25 years 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 the Department, the tenant, and the surrounding neighborhood.
- Recent changes in the City's public parking regulation 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, like the Associates, 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 and the value-added improvements received on the airspace properties, the Department would receive rent based on the properties' highest and best use as employee/customer parking instead of the typical general public parking use, which necessarily supports a lower rental rate due to the "middle-man" parking operator profit and the added expense of the City's 25 percent public parking tax and costly permitting requirements.

SUMMARY

The ability to directly negotiate with the Associates is in the best interest of the Department for the reasons stated above. The Associates has, over the past 28 years, demonstrated its commitment to the local community and has been a reliable and conscientious Department tenant. The FLA requires certain expensive repairs and the Department does not have the budget to make these necessary repairs. The Associates is prepared to make the required repairs and also construct a number of aesthetic improvements that will benefit 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 association of businesses, such as the Associates, which has been a State tenant and has maintained an active presence in the neighborhood for 28 years, is much more motivated to demand quality improvements, work with the City to facilitate the new streetscape plan, and better maintain the improvements over the life of the lease term, than is a generic public parking business that would be the typical tenant for such a site had the Associates' use not historically been the highest and best use.

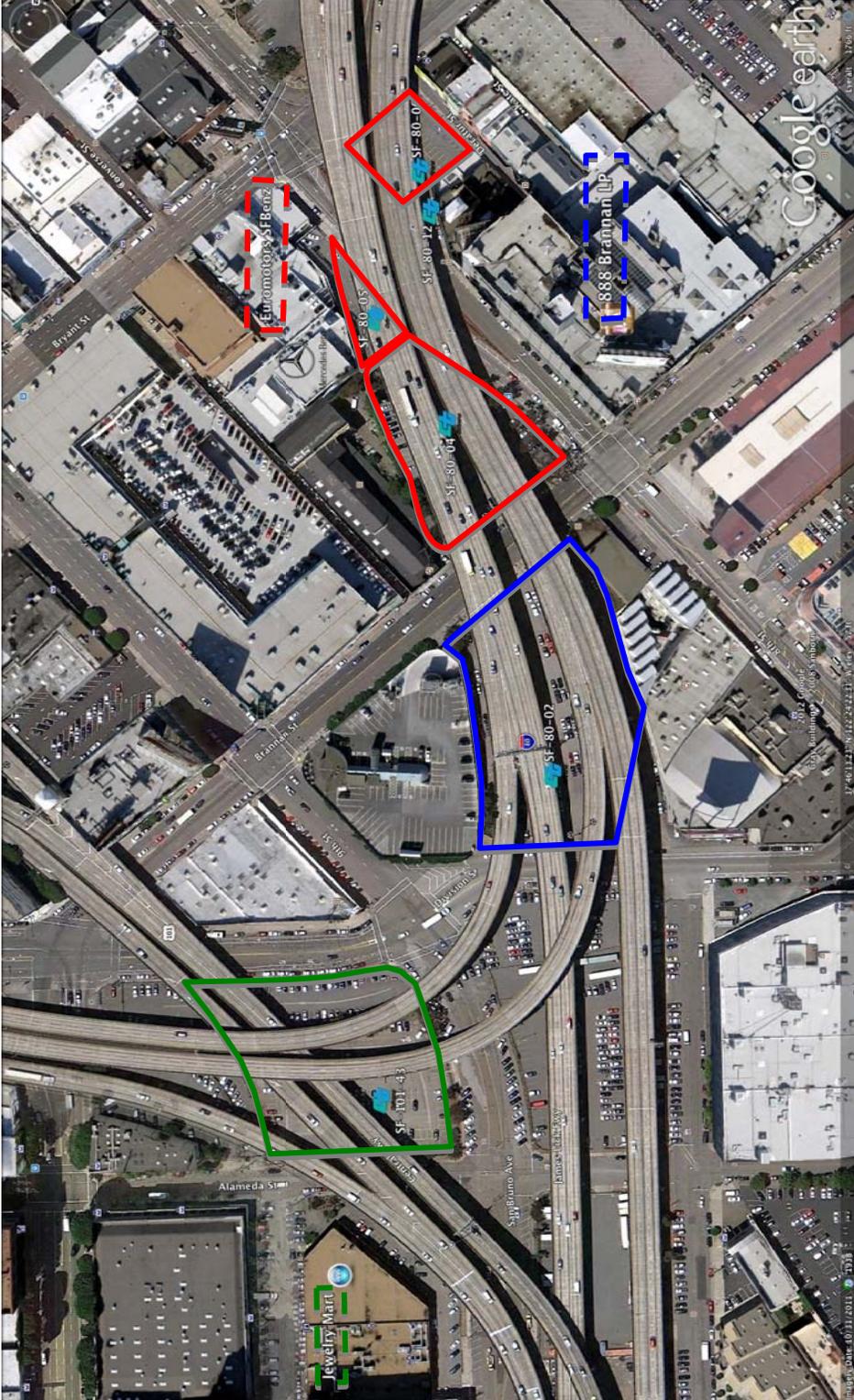
Attachments

Exhibit A: SF-80 Bryant Street– Division Street Corridor

Exhibit B: SF-101-43 location maps and photos

Exhibit C: Sample of required repairs

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

SF-101-43 at Division Street and San Bruno Avenue and Alameda Street



Looking west from San Bruno Avenue

EXHIBIT B

“Caltrans improves mobility across California”

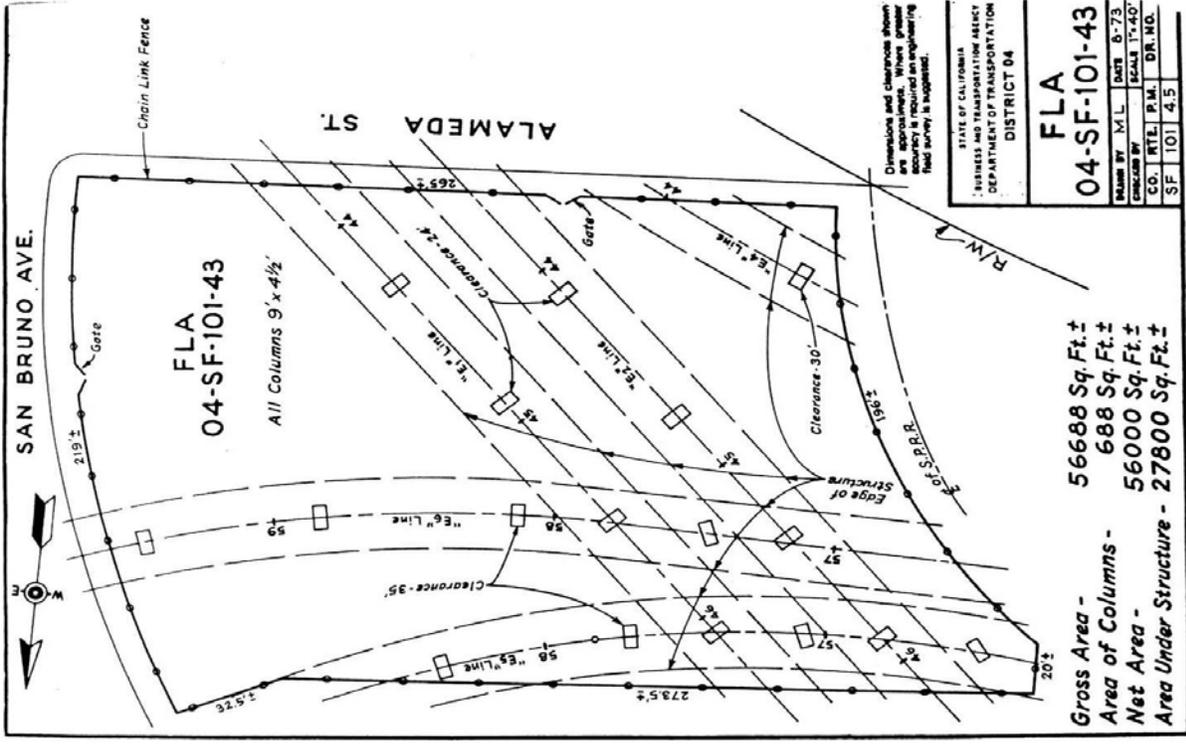
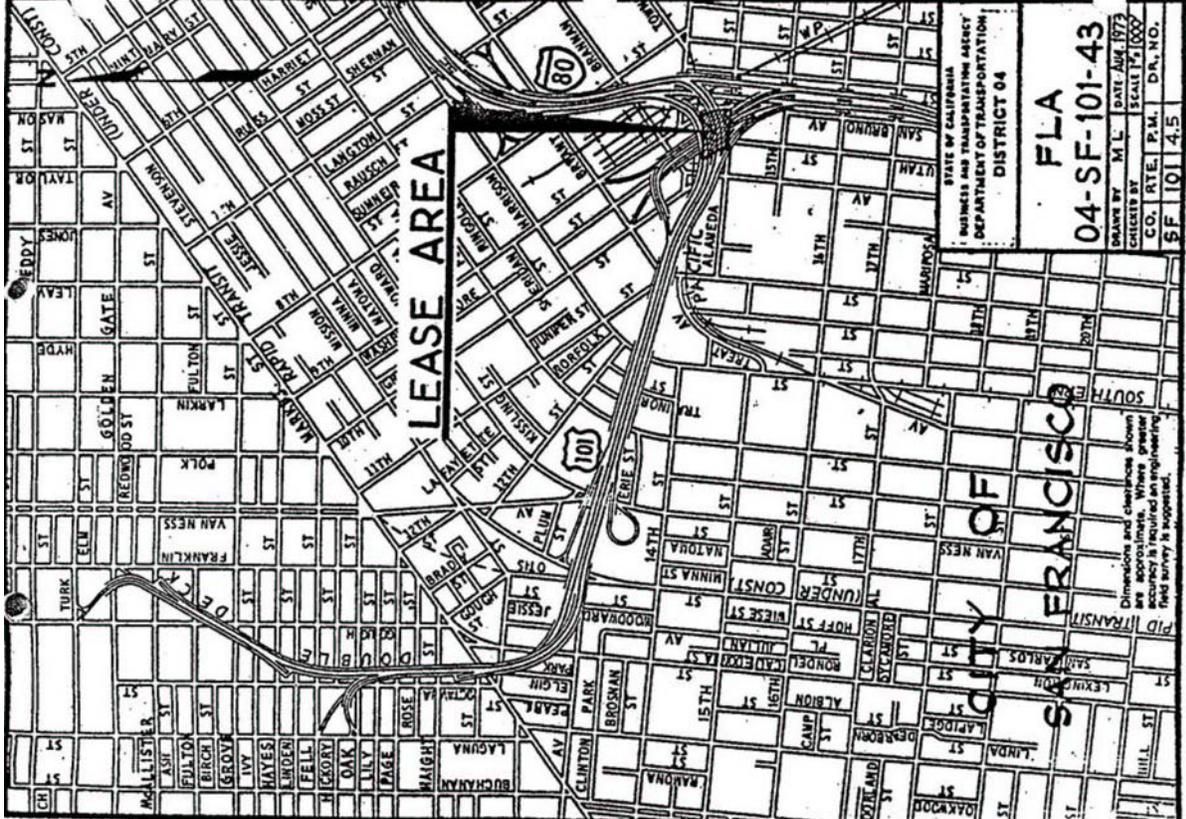


EXHIBIT B

Sample of Required Repairs



Dated landscaping and rusty chain link fence



Deteriorated and crumbling paving

EXHIBIT C