



Board Report

File #: 2018-0748, File Type: Contract

Agenda Number: 23.

OPERATIONS, SAFETY AND CUSTOMER EXPERIENCE COMMITTEE JANUARY 17, 2019

SUBJECT: LEASE AGREEMENT WITH ANDY AZAD 2002 IRREVOCABLE TRUST

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to execute a four-year, three month amendment to the existing lease agreement with Andy Azad 2002 Irrevocable Trust ("Landlord") for the use of 44,964 rentable square feet ("RSF") of warehouse space located at 2950 East Vernon Ave, Vernon, commencing May 1, 2019 at a monthly rate of \$40,017.96 for the total value of \$2,189,247 including annual escalations of three percent.

ISSUE

Supply Chain Management/Logistics currently leases this property under an existing nine-month agreement. The lease will expire April 30th, 2019. The warehouse is 26' clearance with dock high and ground level loading. It was constructed in 1989 and is centrally located on Vernon Avenue between Santa Fe and Soto Avenue, 4 blocks east of Metro's Vernon Yard Facility - Location 34 (See Attachment A). The proximity to downtown Los Angeles provides ideal central access to support Rail Fleet Services and Wayside Operations for the safe and secure storage of large high-dollar assets critical to the safe and effective operation of Metro's Rail fleet.

BACKGROUND

Since the construction of the Blue Line, all Metro Rail projects include contractual spares used for the repair or replacement of failed components on Metro rail cars and mainline systems. For each rail car acquisition and mainline commissioning, a list of recommended rolling stock components is provided by the prime contractor to Metro Operations. Components and quantities are selected based on unit cost up to the original value for spare parts designated in the contract. It is the responsibility of Supply Chain Management/Logistics to house and secure these high-dollar rail assets in support of the daily operation of Metro's rail fleet and maintain a State of Good Repair.

DISCUSSION

Findings

With the term lease set to expire April 30th 2019, Supply Chain Management/Logistics is requesting to secure the warehouse located at 2950 E. Vernon Ave, Vernon for an additional four years and three months.

Supply Chain Management/Logistic warehouses have reached 95% capacity to securely store large Light Rail Vehicle, Heavy Rail, and Wayside components. These items include transformers, mainline switches, multiple large spools of cable containing copper, rail car HVAC systems, pantographs, windshields, axles, train trucks, large body parts, etc.

Supply Chain Management/Logistics is currently receiving an unprecedented amount of material in the form of contractual spares to support the P3010 LRVs. In addition, contractual spares will be received to support the LAX/Crenshaw Transit Project, Gold Line Extension, Purple Line Extension (I, II, & III), Regional Connector, HRV 4000s, Division 20 Portal Widening, and future Rail capital projects that include contractual spares.

DETERMINATION OF SAFETY IMPACT

The proposed lease will compliment Metro's commitment to a safe, clean, on-time and reliable transportation system by safely securing Metro rail assets.

FINANCIAL IMPACT

Adoption of this Board Report would have a \$2,189,247 impact to the agency.

The Amendment provides for monthly payment of \$40,017.96 (annually \$480,215) commencing April 30th, 2019 and will cost \$2,189,247 over the four-year three-month term including an annual fixed three-percent escalations in rent.

The lease rate is \$0.89/PSF, modified gross, in which the landlord is responsible for the property taxes, Vernon Warehouse Parcel Tax, and property insurance. Metro is exempt from City of Vernon Business License Tax. Metro is responsible for utilities, at an estimated cost of \$200-\$300 per month, and for any damage caused to the leased premises.

Real Estate staff anticipates a slight increase and finds it to be in line with the escalation of warehouse rent costs in the Los Angeles Region (See Attachment B).

Current year funding for the payment of rent for the warehouse is included in the FY19 budget. Future years funding will be budgeted and paid from Supply Chain/Logistics Cost Center 6350, Project number 300040. The Chief Vendor/Contract Management Officer and Cost Center manager will be responsible for budgeting costs in future years.

Impact to Budget

The current sources of funds for this action are General funds. These funds are eligible for Bus and Rail Operations and Capital expenses. Use of this funding source maximizes allowable project

funding allocations given established provisions and guidelines.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports strategic plan goal # 5.

Approval of this recommendation supports Strategic Plan Goal 5: Provide responsive, accountable and trustworthy government by securing Metro Rail investments and supporting Vision 2028.

ALTERNATIVES CONSIDERED

Kinkisharyo in Palmdale quoted a price of \$20,000 per month to house the remaining balance of P3010 contractual spares owed to Metro. This would be one-half the cost of the proposed monthly warehouse rental, however, it would not address the total need for storage space for large material for Metro's contractual spares for all projects mentioned.

Another alternative would be a combination of storing large material down the aisles of existing Supply Chain Management/Logistics warehouses, and in Metro Rail Operations & Maintenance Facilities parking lots. However, this would leave high dollar rail assets unprotected, exposed to the elements, increased labor cost, delay in servicing our customers, and create an extremely inefficient means of managing inventory, as well as create potential fire code violations.

NEXT STEPS

Upon approval as to form by County Counsel, the lease will be sent to the Landlord for execution.

ATTACHMENTS

Attachment A - Map of Property Location

Attachment B - Lease Comparable

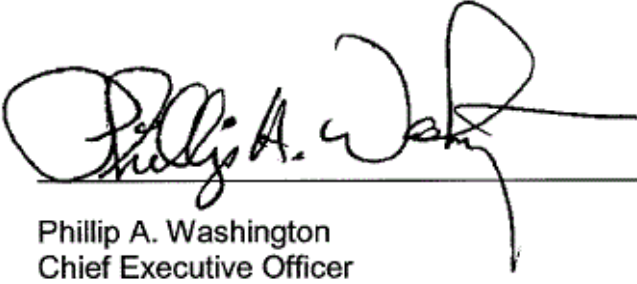
Prepared by: Greg Parvin, Materiel Manager, (213) 922-5009

Garth Garrett, Chief Admin Analyst, (213) 922-5078

Don Mendoza, DEO Logistics, (213) 922-5789

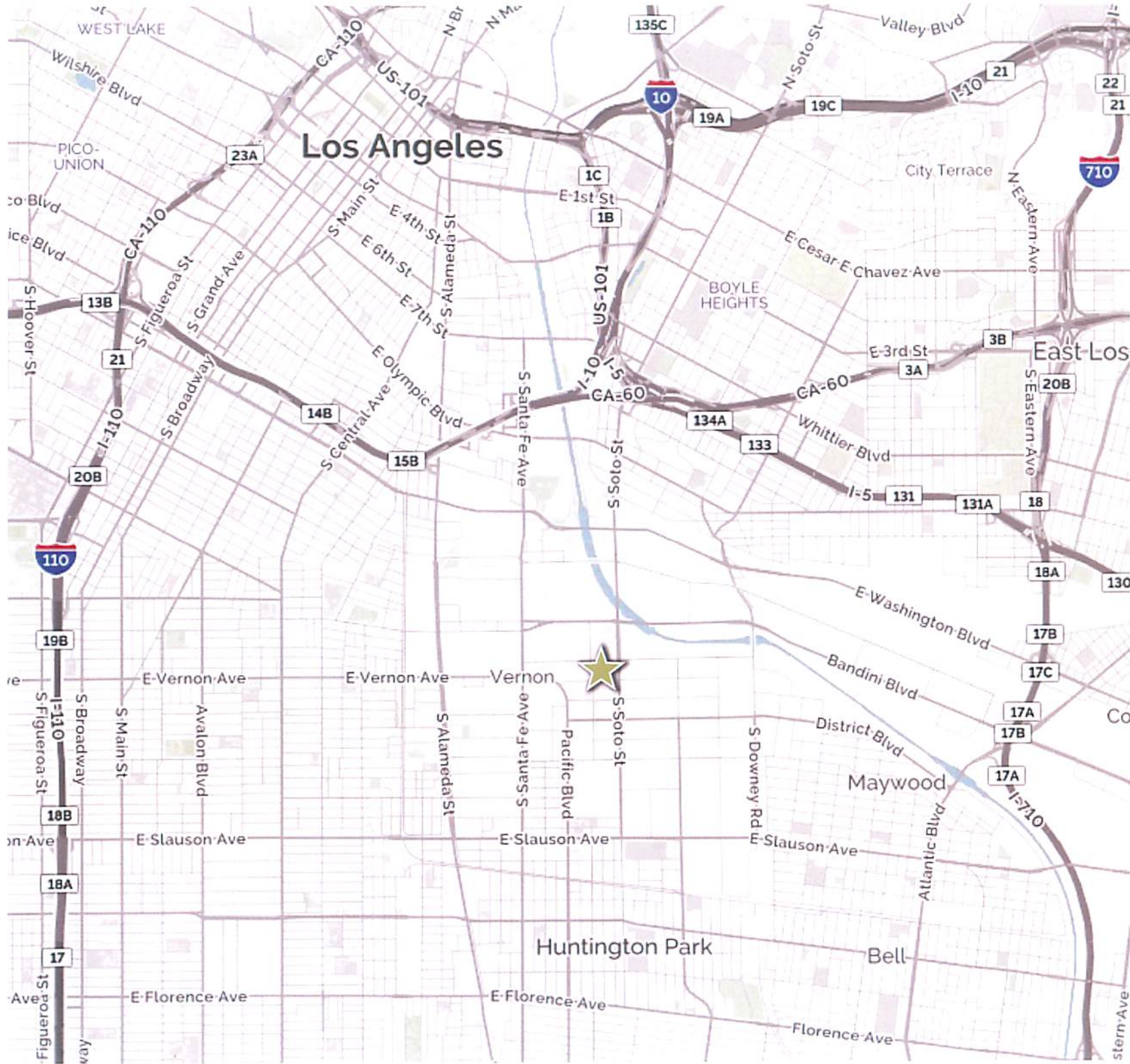
Selena Landero, Executive Officer, Supply Chain Management/Logistics (213) 418-3104






Reviewed by: Debra Avila, Chief Vendor/Contract Management Officer, (213) 418-3051



Phillip A. Washington
Chief Executive Officer

LOCATOR MAP








		Space Leased Rent/SqFt Eff. Rent Bldg SqFt	Office TI Allow Free Rent NNN Chgs	Trans. Date Expir. Date Term Occ Date	Prop. Type Subtype Bldg. Class Parking	On Mrkt Amps Mul-Ten Yr Built	DH GL POL HT	Sprk Rail Yrd Land	Lessee Lessor Space Type Options/Rent Adj
1.		PICO RIVERA COMMERCE CENTER 50,026 8825 MERCURY LN \$0.80 NNN PICO RIVERA, CA \$0.80 Mrkt: Central Los Angeles / Submrkt: Montebello/P Rivera 50,026	10,425 ** 1 mo .15	06/12/17 06/30/20 36 mos 07/01/17	Indust Light B 1.81:1	3 mos 800 N 2004	6 1 N 30	Y N Y 119,354	Hand Air Express Buick McKane Holdings Direct-New / 3% annual increases
		Proc. Brkr: Lee & Associates - Tim Cronin				List. Brkr: Lee & Associates - Jeff Hubbard			
		Comments: 36 Mos Lease Option to Extend; **TI's: Paint Offices/Clean up; Net Charges \$0.15; Warehouse is 100% climate controlled							Source: TW
									Uprd: 06/12/17 #762616
2.		VERNON DISTRIBUTION CENTER 49,250 4665 E 49TH ST \$0.84 NNN VERNON, CA \$0.96 Mrkt: Central Los Angeles / Submrkt: Vernon/Maywood/SG 49,250	2,122 ** 1 mo .245	04/11/18 08/30/28 121 mos 08/01/18	Indust Freezer/Cool B 1.81:1	2 mos 600 N 1991	8 2 N 24	Y N Y 81,008	Formosa Fresh Connection & Global Prologis Direct-New / 3% annual increases
		Proc. Brkr: Illuminant Properties - Herbert Hwang				List. Brkr: Newmark Knight Frank - John McMillan, Jeff Sanita			Source: JS
		Comments: **Tenant will install 40K SF of cooler space. Leased at asking rate. No downtime. Leased 2 months prior to current tenant's lease expiration. No options. Operating expenses= +/-\$.245psf/mo							Uprd: 05/16/18 #782757
3.		XEBEC BUSINESS CENTER 40,200 5233 ALCOA AVE \$0.75 NNN VERNON, CA \$0.75 Mrkt: Central Los Angeles / Submrkt: Vernon 118,667	1,952 None 1 mo .185	03/27/18 04/30/20 37 mos 04/01/17	Indust Dist B 1.31:1	11 mos 1,200 N 1999	4 1 Y 30	Y N Y / 3% Annual Increases	Caravan Group LLC Cadogan Tate Sublease / 3% Annual Increases
		Proc. Brkr: Lee and Associates - Andy Gage				List. Brkr: Colliers International - Matt Erickson, Scott Heaton			Source: TW
		Comments: Sublessor is responsible for paying the Vernon Parcel Tax. Net Expenses: \$.185 psf							Uprd: 04/03/18 #780452
4.		FREEWAY DISTRIBUTION CENTER 40,045 7301-7379 TELEGRAPH ROAD #7301- \$0.67 NNN MONTEBELLO, CA \$0.69 Mrkt: Central Los Angeles / Submrkt: Montebello/P Rivera 192,622	800 P&C 2 mos 0.152	12/01/17 03/14/23 62 mos 01/15/18	Indust Dist B 60sp/.31:1	4 mos 400 Y 1976	6 0 Y 24	Y N N 919,643	GVH Distribution Comref So Ca Industrial Sub G Direct-New / 3% annual increases
		Proc. Brkr: Hughes Marino - Tucker Hughes				List. Brkr: Newmark Knight Frank - John McMillan			Source: TA
		Comments: + \$.152 opex Lease Status: Executed							Uprd: 04/17/18 #780997
5.		HARRIS BUSINESS PARK 35,638 4900-5350 ZAMBRANO ST. #4900 \$0.69 NNN CITY OF COMMERCE, CA \$0.72 Mrkt: Central Los Angeles / Submrkt: Commerce 128,692	3,400 \$0.84 psf 4 mos .22	01/01/17 05/31/23 76 mos 02/01/17	Indust Dist B 1.81:1	4 mos 200 Y 1984	8 0 Y 24	Y Y N / 3.5% annual increases	Pearlman Industries dba Gran Quartz RREEF Direct-New / 3.5% annual increases
		Proc. Brkr: Wildmore Realty - Shan Morris				List. Brkr: CBRE - Cameron Merrill, Jeff Stephens			Source: TA
		Comments: ** TIs: new paint, carpet, and installed a metal ramp (estimated total cost of \$30,000). Net fees @ \$0.22 psf							Uprd: 03/23/17 #757950

LEASE COMPARABLES

 Metropolis
Industrial with Small Pictures






This information is compiled from data we believe to be correct but no liability is assumed by the company as to the accuracy of such data.

		Space Leased Rent/SqFt Eff. Rent Bldg SqFt	Office TI Allow Free Rent NNN Chgs	Trans. Date Expir. Date Term Occ Date	Prop. Type Subtype Bldg. Class Parking	On Mrkt Amps Mul-Ten Yr Built	DH GL POL HT	Sprk Rail Yrd Land	Lessee Lessor Space Type Options/Rent Adj
6.		CHELI DISTRIBUTION PARK 4811 S EASTERN AVE BELL, CA Mrkt: Central Los Angeles / Submrkt: Commerce Area	32,880 \$0.65 NNN \$0.69 32,880	3,945 ** 1 mo .22	02/15/17 04/30/22 61 mos 04/01/17	Indust Dist B 1.0:1	0 mos 800 N 1979	7 1 N 24	Y N Direct-New / 4%I annual increases
		Comments: Off-market lease ** T.I.'s= landlord's standard make-ready improvements. One (5) year option at FMV. Operating expenses= +/- \$0.22psf/mo.							
		Source: TA							
		Updt: 04/10/17 #758890							
7.		330 S ALAMEDA ST LOS ANGELES, CA Mrkt: Central Los Angeles / Submrkt: Arts District	31,456 \$1.90 NNN \$2.72 31,456	17,068 \$50,000 3 mos	04/28/17 06/30/23 72 mos 07/01/17	Indust Flex B	1,200 N 2000	4 0 N 26	Y N Y None / see comments
		List. Brkr: Lee & Associates							
		Comments: Rates:(\$1.90 for the first 18 months, \$2.90 months 19-24, and 3% escalations after. Free parking							
		Updt: 08/15/17 #762779							
8.		COMMERCE DISTRIBUTION CTR 5900-5996 E SLAUSON AVE #5900 CITY OF COMMERCE, CA Mrkt: Central Los Angeles / Submrkt: Commerce/Bell	29,225 \$0.72 NNN \$0.75 207,915	3,950 P & C 1 mo .123	06/20/17 08/30/22 61 mos 08/01/17	Indust Dist B	100 Y 1976	8 0 Y 24	Y N N / 3% annual increases
		Proc. Brkr: Penta Pacific							
		List. Brkr: Cushman & Wakefield - Dave Hess, Mike Foley							
		Comments: \$.123 net fees. paint / carpet, 1 free plus early occupancy							
		Source: Hess							
		Updt: 06/21/17 #763086							
9.		VERNON DISTRIBUTION CENTER 4575 LOMA VISTA AVE VERNON, CA Mrkt: Central Los Angeles / Submrkt: Vernon/Maywood/SG	28,875 \$0.82 NNN \$0.86 28,875	3,324 As is 1 mo .23	04/01/18 05/31/23 61 mos 05/01/18	Indust Dist B	2 mos 400 N 1987	6 0 N 24	Y N N 187,347 / 3% annual increases
		Proc. Brkr: CBRE - Jack Mergenthaler							
		List. Brkr: Newmark Knight - John McMillan, Jeff Sanita							
		Comments: Operating expenses @ \$0.23 psf. One (5) year option at FMV.							
		Source: DH							
		Updt: 05/16/18 #782399							
10.		EAVES DISTRIBUTION CENTER 6213-6247 RANDOLPH ST #6241 CITY OF COMMERCE, CA Mrkt: Central Los Angeles	28,374 \$0.78 NNN \$0.81 136,134	2,758 As is 2 mos .165	01/01/18 02/28/23 62 mos 01/01/18	Indust Dist B 1.72:1	4 400 Y 1979	4 0 Y 24	Y N N 869,828 / 3% annual increases
		Proc. Brkr: Lee and Associates							
		List. Brkr: Cushman & Wakefield - Dave Hess							
		Comments: Renewal. Net charges @ \$0.165 psf							
		Source: Hess							
		Updt: 01/23/18 #776804							

LEASE COMPARABLES

 Metropolis
Industrial with Small Pictures


This information is compiled from data we believe to be correct but no liability is assumed by the company as to the accuracy of such data.

		Space Leased Rent/SqFt Eff. Rent Bldg SqFt	Office TI Allow Free Rent NNN Chgs	Trans. Date Expir. Date Term Occ Date	Prop. Type Subtype Bldg. Class Parking	On Mrkt Amps Mul-Ten Yr Built	DH GL POL HT	Sprk Rail Yrd Land	Lessee Lessor Space Type Options/Rent Adj
11.		HARRIS BUSINESS CENTER 27,710 6000-6098 RICKENBACKER RD \$0.71 NNN CITY OF COMMERCE, CA \$0.74 Mrkt: Central Los Angeles / Submrkt: Commerce Area 183,380	950 None 3 mos .20	01/10/17 04/30/22 63 mos 02/01/17	Indust M-Ten Ind B	1 mo 200 Y 1985	5 1 Y 24	Y Y Y 48,630	Alpine RREEF Expansion None / 4% annual increases
									Proc. Brkr: Hopkins - Ryan Ramage List. Brkr: CBRE - Cameron Merrill Comments: Expansion from next door. They also extended their lease on the 89,000sf next door which in January of 2020 re sets to the rate of the 27,000 sf.
									Source: DH Udpt: 01/31/17 #754446
12.		COMMERCE INDUSTRIAL CENTER 3 26,768 5650-5668 61ST ST #5650 \$0.90 GRS COMMERCE, CA \$0.91 Mrkt: Central Los Angeles / Submrkt: Commerce/Bell 53,484	4,000 1 mo	10/25/17 04/30/21 41 mos 12/01/17	Indust Light B	8 mos 800 N 1969	4 0 N 28	Y N N 75,359	Double Zero Inc. Cristal Materials Sublease / 3% annual increases
									Proc. Brkr: Colliers International - Ken Howard List. Brkr: CBRE - Jack Mergenthaler Comments: Operating expenses = \$0.19 psf. Sublease
									Source: JS Udpt: 10/26/17 #773354
13.		6140-6160 MALBURG #6140 25,935 VERNON, CA \$0.67 NNN Mrkt: Central Los Angeles / Submrkt: Vernon/Maywood/SG \$0.71 50,080	1,200 None 4 mos .262	07/20/17 11/30/24 88 mos 08/01/17	Indust Dist B	2 200 Y 1988	2 0 Y 24	Y Y Y 83,252	CPM Onesource Direct-New None / 3% annual incerases
									Proc. Brkr: Binswanger. - Danny Reaume List. Brkr: CBRE - Cameron Merrill Comments: Landlord is fixing the loading door which wasn't on the track properly. Office was brand new in the building. Net fees @ \$0.262 psf
									Source: Hess Udpt: 07/21/17 #764602
14.		COMMERCE CENTER SOUTH 24,150 6301-6319 CHALET DR #6301 \$0.70 NNN CITY OF COMMERCE, CA \$0.74 Mrkt: Central Los Angeles / Submrkt: Commerce 72,030	4,842 ** 1 mo .24	08/16/17 01/30/23 61 mos 01/01/18	Indust Dist B	8 400 Y 1978	Y 1 Y 24	Y N N 469,185	Image Micro Systems Renewal / 3.5% annual increases
									Proc. Brkr: CBRE List. Brkr: Cushman & Wakefield - Mike Foley, Dave Hess Comments: Renewal, **TI's: landlord to replace HVAC units. Net fees @ \$0.24 psf.
									Source: Hess Udpt: 03/06/18 #770055
15.		THE BOX YARD 22,167 2445 E 12TH ST #SUITE C \$0.90 GRS LOS ANGELES, CA \$0.96 Mrkt: Central Los Angeles / Submrkt: Los Angeles 87,840	5,237 As is 0 02/01/17	01/20/17 01/30/22 60 mos 02/01/17	Indust Light B 65sp	2 400 Y 1988	Y 1 Y 24	Y N N None / 3% annual increase	Furniture Company Santa Fe Commerce Center, LLC Direct-New None / 3% annual increase
									Proc. Brkr: CIBA Real Estate List. Brkr: Lee & Associates Comments: Located 7 blocks from Arts District
									Source: ta Udpt: 08/15/17 #758118

LEASE COMPARABLES

 Metropolis
Industrial with Small Pictures

This information is compiled from data we believe to be correct but no liability is assumed by the company as to the accuracy of such data.

		Space Leased Rent/SqFt Eff. Rent Bldg SqFt	Office TI Allow Free Rent NNN Chgs	Trans. Date Expir. Date Term Occ Date	Prop. Type Subtype Bldg. Class Parking	On Mrkt Amps Mul-Ten Yr Built	DH GL POL HT	Sprk Rail Yrd Land	Lessee Lessor Space Type Options/Rent Adj
16.		MONTEBELLO COMMERCE CTR 1514-1524 GAGE RD #1514 MONTEBELLO, CA Mrkt: Central Los Angeles	20,975 \$0.68 NNN \$0.71 36,519	2,855 as is 1 mo .192	08/10/17 09/30/22 61 mos 09/01/17	Indust Light B 1.09:1	2 1 Y 24	Y N N 115,016	Discount Trophy & Co., Inc. GLP US Mgmt Direct-New / 3% annual increases
						List. Brkr: JLL - Cameron Driscoll			
									Proc. Brkr: CBRE - Dan Berkenfield, Comments: One 60-month term option. Net fees @ \$0.192 psf.

Source: TA

Updt: 09/06/17 #771001