Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

Metro

Board Report

File #: 2020-0459, **File Type:** Agreement **Agenda Number:** 5.

FINANCE, BUDGET AND AUDIT COMMITTEE
SEPTEMBER 16, 2020

SUBJECT: LEASE AGREEMENT WITH WETZEL'S PRETZELS FOR KIOSK K-1 AT LOS ANGELES UNION STATION

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer (CEO) to execute a lease agreement with Wetzel's Pretzels ("Wetzel's") for Kiosk K-1 in Union Station West and a vending cart located in the East Portal at a monthly rent of $28,292 with annual increases of three-percent (3%), plus common area maintenance fees, eight-percent (8%) of gross sales above the natural breakpoint, as well as provisions related to COVID-19 for an initial term of five-years and a tenant-initiated five-year extension at fair market value.

ISSUE

The 2009 tenant lease with Wetzel's for the K-1 kiosk (see Attachment A for location), will expire on November 12, 2020. Union Station Management working with its broker CBRE, Inc. placed the K-1 kiosk on the market for several months. Two offers were submitted with Wetzel's being the more competitive of the two. Board approval is required to enter into the lease as both the total dollar amount and the amount of time exceeds the CEO's authority.

BACKGROUND

As the owner of Union Station, Metro is responsible for approving all dining amenities offered at Union Station brought forward for approval by its third-party property management firm Morlin Asset Management. Many of the tenants presently occupying the Passenger Concourse on the Westside of the station (Starbucks, Ben & Jerry's, and Subway) predate Metro's ownership and were assigned to Metro as tenants upon purchase of the station from Catellus (prior ownership).

All rental rates have been negotiated using underlying values taken from professional appraisals provided by third-party appraisers hired to assess rental rates by location at Union Station.

DISCUSSION

Considering the ongoing COVID-19 pandemic, station management is assured in Union Station's

long-term real estate value given the number of operators considering a lease at the station in the current market. Wetzel's has made a competitive offer for the kiosk and provided financial information to ensure they have the necessary capital to move forward within the market conditions of COVID-19. Additionally, the Real Estate staff has negotiated near-term provisions in the lease to ensure Wetzel's can maintain its operations within the span of time between commencement of sales at Union Station and increased station patronage (additional details on Attachment B).

In addition to the kiosk, Union Station has agreed to allow Wetzel's to operate a vending cart in the East Portal of Union Station. Final authorization to operate the cart is subject to agreement on design, location and business plan for the vending cart. Both Metro and Wetzel's will have the right to terminate the cart if sales do not exceed $300,000 in a 12-month rolling period.

Equity Platform

This project addresses Metro's equity platform by partnering with a locally-owned business which will improve access to affordable dining amenities for Metro's ridership.

DETERMINATION OF SAFETY IMPACT

The execution of a lease with Wetzel's will have no impact on Metro safety.

FINANCIAL IMPACT

It is expected that the lease with Wetzel's will bring a minimum base rent of approximately $339,000 annually to Metro once final negotiations of lease terms and conditions are determined (exclusive of initial term provisions for market conditions related to COVID-19). Additional revenues for the agency can be realized if sales targets are met under agreed percentage rent terms and are outlined on Attachment B.

Impact to Budget

The lease with Wetzel's will have no impact on Metro's operating or capital budgets.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This lease addresses strategic goal #2 to provide "outstanding trip experiences for all" by increasing ridership's access to dining amenities at the station.

ALTERNATIVES CONSIDERED

The Board could choose not to move forward with the lease. This action is not recommended as the agency would not realize additional revenues and customer amenities provided by Wetzel's operation.

NEXT STEPS

Upon Board approval, staff will execute the lease with Wetzel's.

ATTACHMENTS

Attachment A - Location Map
Attachment B - Deal Points

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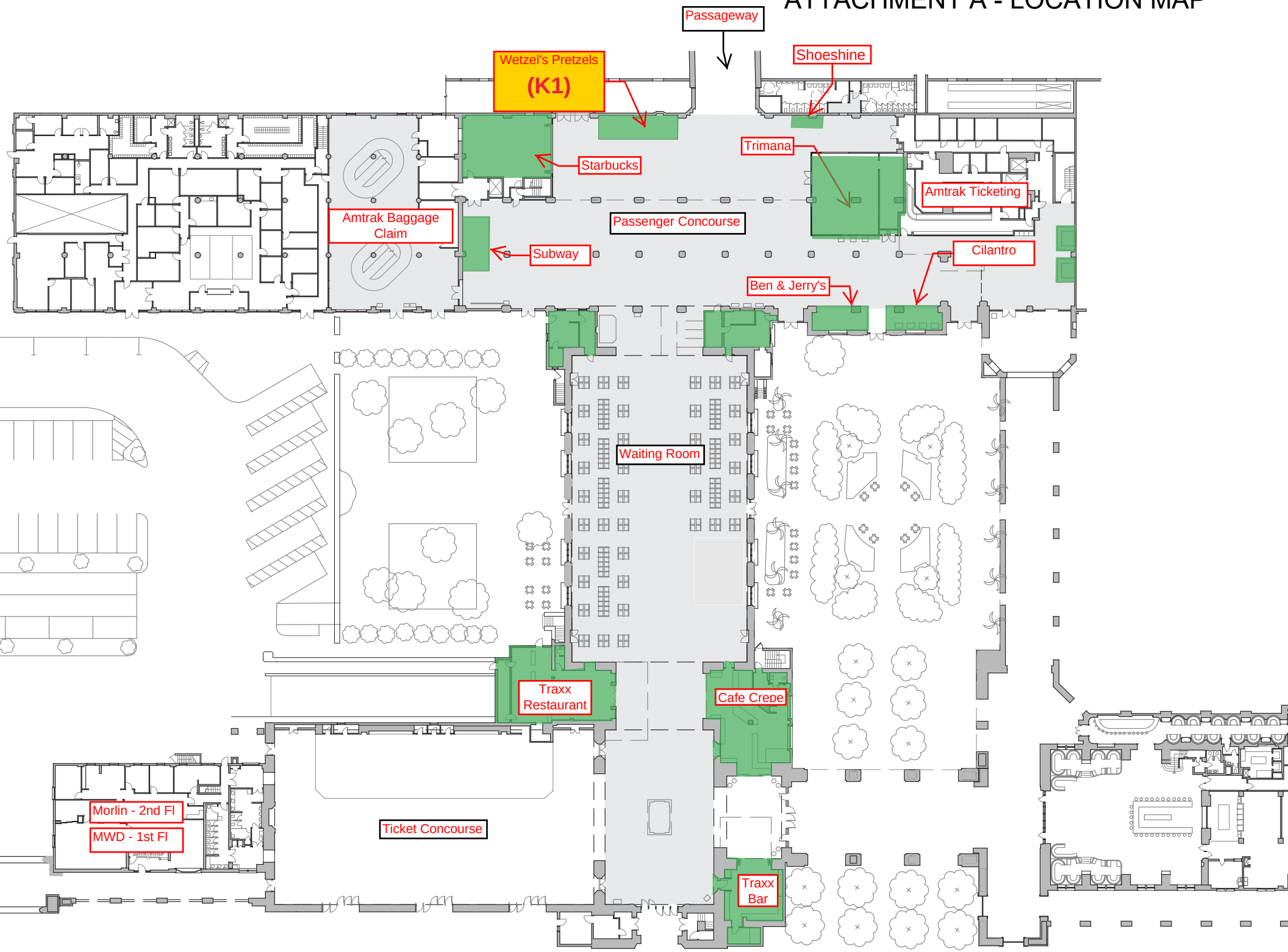
Phillip A. Washington
Chief Executive Officer

ATTACHMENT A - LOCATION MAP



ATTACHMENT B –DEAL POINTS

NEW/RENEWAL	• Existing tenant's lease expired with no remaining extensions. Space was listed on open market and upon review of offer submitted by existing tenant, new lease terms have been negotiated.
TENANT	• Pretzel Factory, Inc. (dba Wetzel's Pretzels)
LOCATION/ FOOTPRINT	• Kiosk K-1 in Union Station Passenger Concourse. • 350 square feet of retail space and 200 square feet of storage. See Attachment A.
PURPOSE	• Station Dining Amenity—Revenue Generating.
DURATION	• Initial term of five years with tenant's option to extend an additional five years with fair market value assessment.
ANTICIPATED REVENUE	• Base rent of $28,292 per month or $339,504 annually. • Annual rent increases shall increase at a fixed 3% compounded annually. • Additional rent of eight percent (8%) of gross sales above the natural breakpoint. • Common area maintenance fees of $10,500 per year.
EARLY TERMINATION CLAUSES	• Metro can relocate tenant to another location upon 30 days' notice with compensation. • Metro has right to terminate in connection with any future developments at Union Station.
DETERMINATION OF VALUE	• CBRE Appraisal and exposure to market.
BACKGROUND WITH TENANT	• Pretzel Factory, Inc. (Wetzel's franchisee) has been a tenant of the station since 2009. Franchisee is a local small business.
SPECIAL PROVISIONS	• Authorization to operate an additional cart in the East Portal. • In consideration of COVID-19 impacts, if sales at the main store do not exceed $120,000 for any month for the period of December 2020 through June 2022, base rent will be adjusted to 17% of sales with a minimum base rent of $5,000 per month..