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

Metro

Board Report

File #: 2020-0460, **File Type:** Agreement **Agenda Number:** 6.

FINANCE, BUDGET & AUDIT COMMITTEE
SEPTEMBER 16, 2020

SUBJECT: LEASE AGREEMENT WITH CILANTRO FRESH MEXICAN GRILL FOR KIOSK K-5 AT LOS ANGELES UNION STATION

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer (CEO) to execute a lease agreement with Cilantro Fresh Mexican Grill for Kiosk K-5 at Los Angeles Union Station at a monthly rent of $5,100 with annual increases based on CPI of no less than three-percent (3%) and no more than five-percent (5%), exclusive of common area maintenance fees, gross sales rent of eight-percent (8%) above the natural breakpoint, as well as provisions related to COVID-19 for an initial term of five years with a tenant-initiated five-year extension at fair market value.

ISSUE

Union Station Management, working with its broker CBRE, Inc. placed kiosk K-5 (see Attachment A for location) on the market after the existing tenant T&Y Bakery informed management of its intent to vacate the space in October 2019. After several months, multiple offers were received and evaluated by management. Cilantro Fresh Mexican Grill ("Cilantro") was found to provide the best fit for Union Station amid its existing dining options, as well as provide a financial benefit to the station. Cilantro operates six locations throughout the greater Los Angeles Area with a menu consisting of a price point of around six to eight dollars per ticket. 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 west side 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 owner).

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

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DISCUSSION

Considering the ongoing COVID-19 pandemic, station management is assured of Union Station's long-term real estate value given the number of operators considering a lease at the station in the current market.

Cilantro has made a fair 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 Cilantro 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).

Equity Platform

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

DETERMINATION OF SAFETY IMPACT

The execution of a lease with Cilantro will have no impact on Metro safety.

FINANCIAL IMPACT

It is expected that the lease with Cilantro will bring a minimum annual base rent of approximately $61,200 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 in Attachment B.

Impact to Budget

The lease with Cilantro 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 Cilantro's operation.

NEXT STEPS

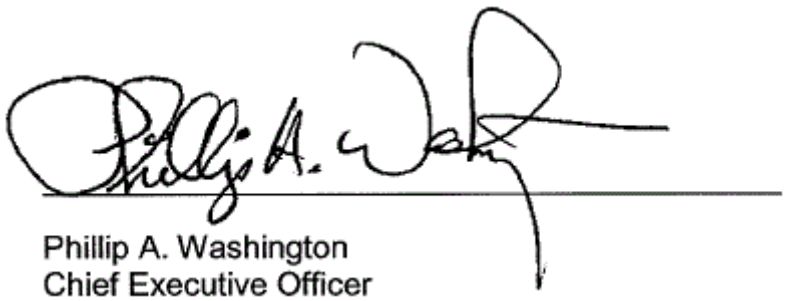
Upon Board approval, staff will execute the lease with Cilantro.

ATTACHMENTS

Attachment A - Location Map
Attachment B - Deal Points

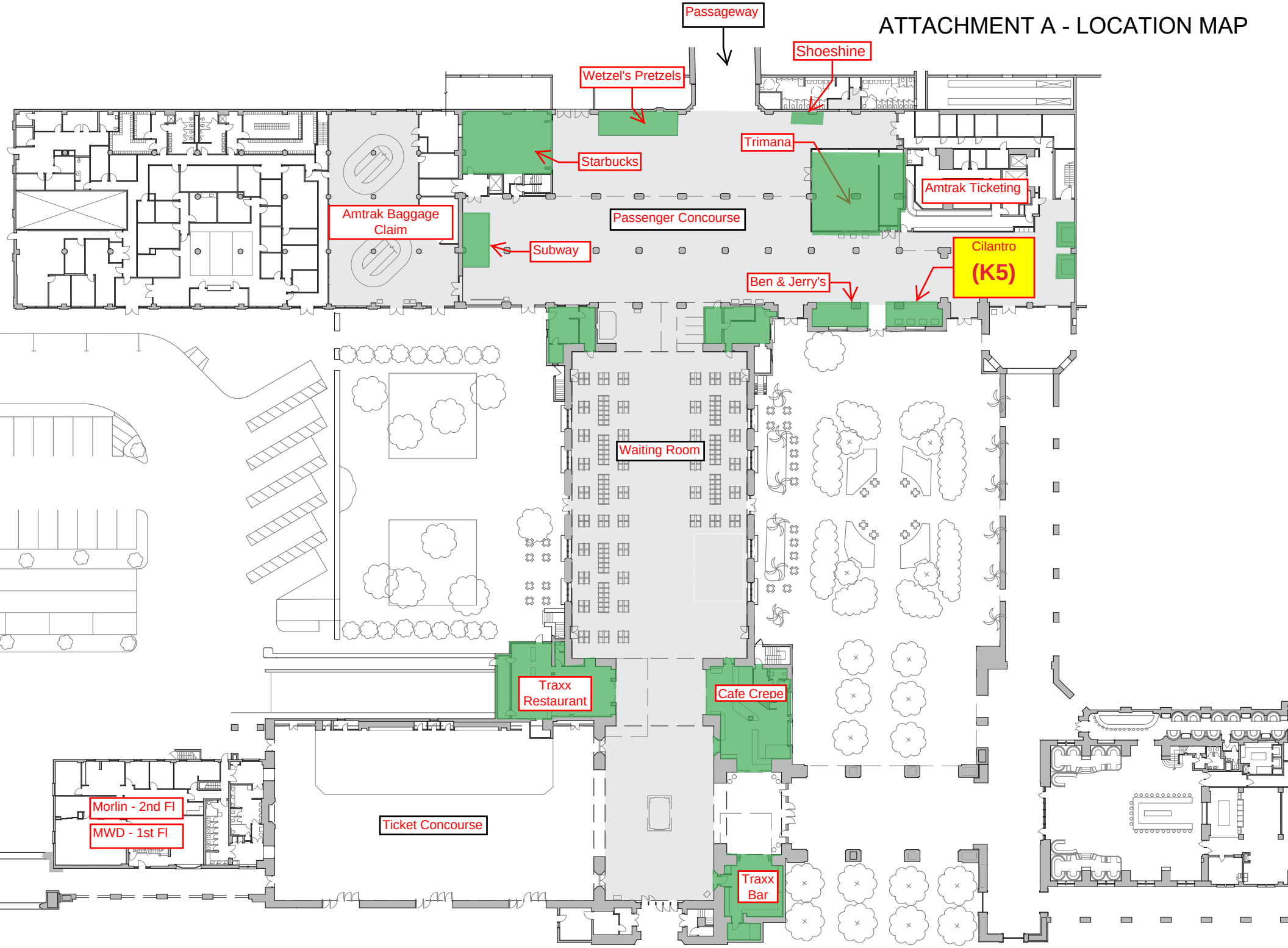
Prepared by: Ken Pratt, DEO, Countywide Planning & Development, (213) 922-6288
John Potts, Executive Officer, Countywide Planning & Development, (213) 928- 3397
Holly Rockwell, SEO - Real Estate, Transit Oriented Communities and Transportation Demand Management, (213) 922-5585

Reviewed by: James de la Loza, Chief Planning Officer, (213) 922-2920



Phillip A. Washington
Chief Executive Officer

ATTACHMENT A - LOCATION MAP



ATTACHMENT B –DEAL POINTS

NEW/RENEWAL	• New lease upon competitive process conducted by CBRE.
TENANT	• Cilantro Fresh Mexican Grill
LOCATION/ FOOTPRINT	• Kiosk K-5 in Union Station Passenger Concourse. • 262 square feet of retail space and 100 square feet of storage. See Attachment A.
USE	• 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 $5,100 per month or $61,200 annually. • Annual increases to base rent based on CPI with a minimum of three percent (3%) and a maximum of five percent (5%) per year. • Additional rent of eight percent (8%) of gross sales above the natural breakpoint. • Common Area Maintenance fees of $8,640 per year • Storage rent of $100 per month
EARLY TERMINATION CLAUSES	• Metro can relocate tenant to another location. • Metro has right to terminate with 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	• New tenant with no existing history with Union Station or LA Metro. Operator has several locations in Downtown Los Angeles.
SPECIAL PROVISIONS	• In consideration of COVID-19 impacts, initial rent to be the greater of eight percent (8%) of monthly sales or one-half (1/2) monthly rent for first six months after first full month of operations.