State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Tab 55

M e m o r a n d u m

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: May 18-19, 2016

Reference No: 2.4c.
Action Item

From: NORMA ORTEGA
Chief Financial Officer

Prepared by: Jennifer S. Lowden, Chief
Division of Right of Way
and Land Surveys

Subject: **AIRSPACE LEASE – REQUEST TO AUTHORIZE EXECUTION OF LEASE INCLUDING A 20-YEAR TERM EXTENSION WITH BASIN STREET PROPERTIES**

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) authorize the execution of a new lease including a 20-year term extension with the Department's existing tenant, Basin Street Properties (Basin).

BACKGROUND:

Basin currently leases Freeway Lease Area (FLA) MRN-101-19 located under State Route 101, an elevated freeway structure in Mill Valley, CA. The subject FLA has no direct public access and is landlocked to the adjoining property at 100 Shoreline Highway known as the Shoreline Office Center; access to the FLA only exists through the Office Center. In 1984, the Commission approved a 55-year airspace lease with the owners of the Shoreline Office Center property. In 2013, Basin acquired the Shoreline Office Center and the adjacent airspace parking lease was assigned to Basin. The FLA has been used for employee and client parking in support of Basin's adjacent office buildings.

At the January 2016 Commission meeting, Agenda Item 2.4c a "Request to Directly Negotiate with Basin Street Properties" was approved. This current request, to authorize execution of the long term lease, is a result of the previous approval. A Letter of Understanding, as required in Right of Way Manual Section 15.06.04.02, was not sent to the lessee after the previous Commission approval since the new lease is an extension of the current lease. All local permits and approvals obtained for the original lease remain in place. No new local permits or approvals are required.

LESSEE FINANCING REQUIREMENTS:

In 2013, Basin purchased the Shoreline Office Center using a three year short term loan expiring in 2016. Basin now desires to obtain standard long term financing for the property and requires a long term ground lease from the Department to be in place in order to obtain commercially reasonable finance terms.

NEGOTIATED LEASE PROPOSAL:

The existing lease term expires in 23 years (2039). For the negotiated lease, Basin requests a 20 year extension to the current existing airspace lease term through the year 2059. This extension will allow the airspace lease term to match the existing ground lease for the Shoreline Office Center which would also expire in 2059.

BENEFIT TO CALTRANS:

- Rent will immediately adjust from the current below market $6,463/month (mo.) to $8,700/mo. The current fair market lease rate as determined by an approved staff appraisal is $8,520. The current negotiated lease rate is $180 above the appraised market rate.
- Basin will execute a new lease agreement that includes updated terms in lieu of only amending the "term" provision of the existing 1980's era lease.
    - New lease will provide for a three percent (%) annual increase.
        - Existing lease provides only for Consumer Price Index (CPI) increases every five years.
    - New lease will provide for a rate reevaluation every five years.
        - Existing lease provides for rental rate reevaluation every 10 years.
    - New lease will provide the Department expanded rights of entry onto the FLA.
        - Existing lease provides insufficient rights of entry.
    - New lease will include current language controlling hazardous materials, stormwater runoff and water pollution control.
        - Existing lease includes outdated or no language on these subjects.

LEASE TERMS:

	Existing Lease	New Lease
Remaining Term:	23 years (March 31, 2039)	43 years (March 31, 2059)
Rent:	$6,463/mo.	$8,700/mo. beginning June 1, 2016
Annual Increase:	Only by CPI	3% fixed annual increase
Re-evaluation:	Every 10 years	Every five years
Next Rent Increase:	April 1, 2019	June 1, 2017
Next Reevaluation:	April 1, 2024	June 1, 2026
Appraised Value:		$8,520/mo. ($0.06/square foot/mo.)
Negotiated Rent:		$8,700/mo.

SUMMARY:

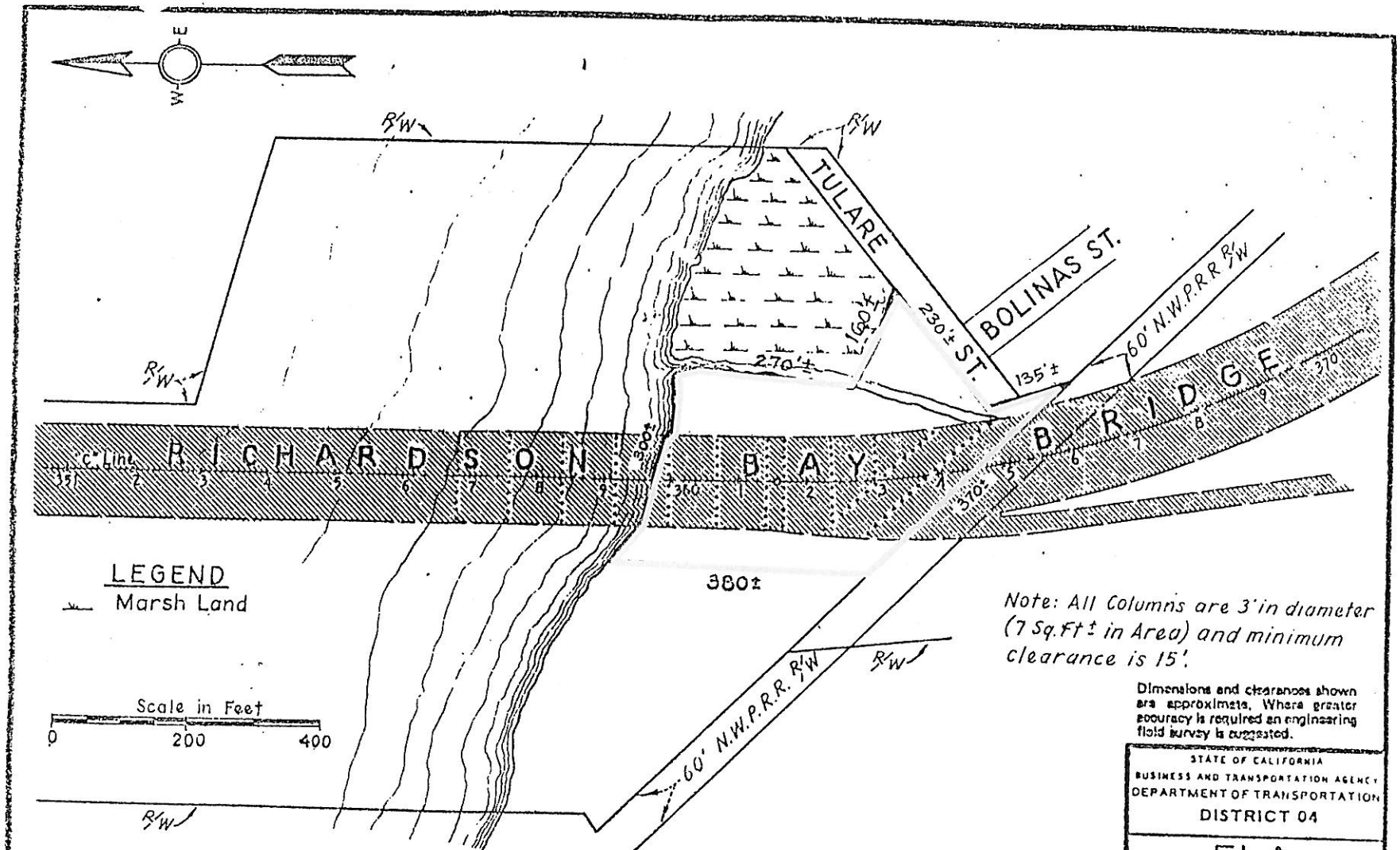
It is in the Department's best interest to authorize execution of the 20 year lease term extension proposed by Basin Street Properties. Basin's request is commercially reasonable to allow for the required refinancing of the adjacent office building improvements. The only possible tenant for this parcel is Basin. The subject FLA is landlocked and only accessible through Basin's adjacent Shoreline Office Center property. Finally, the Department will financially benefit by bringing the lease up to the market rate. The new lease ensures the rate remains at market rate. This will strengthen the State's position as lessor and reduce risk via new lease terms. We therefore request approval to authorize the lease execution as negotiated including the 20 year term extension for this FLA per the described terms.

Attachments
Exhibit A1, A2, A3 - MRN-101-19 location photos and maps
Exhibit B - Appraisal Summary
Exhibit C - Letter from Tenant's Lender

EXHIBIT A1

MRN-101-19
100 Shoreline Boulevard
Mill Valley, CA

EXHIBIT A2



Gross Area ..... 142,581 Sq.Ft.±
includes Area Under Structure.. 68,800 Sq.Ft.±
& Area of 83 Columns ..... 581 Sq.Ft.±
Net Area ..... 142,000 Sq.Ft.±

R-92.1 & R-92A.12

STATE OF CALIFORNIA
BUSINESS AND TRANSPORTATION AGENCY
DEPARTMENT OF TRANSPORTATION
DISTRICT 04

FLA
04-Mrn-101-19

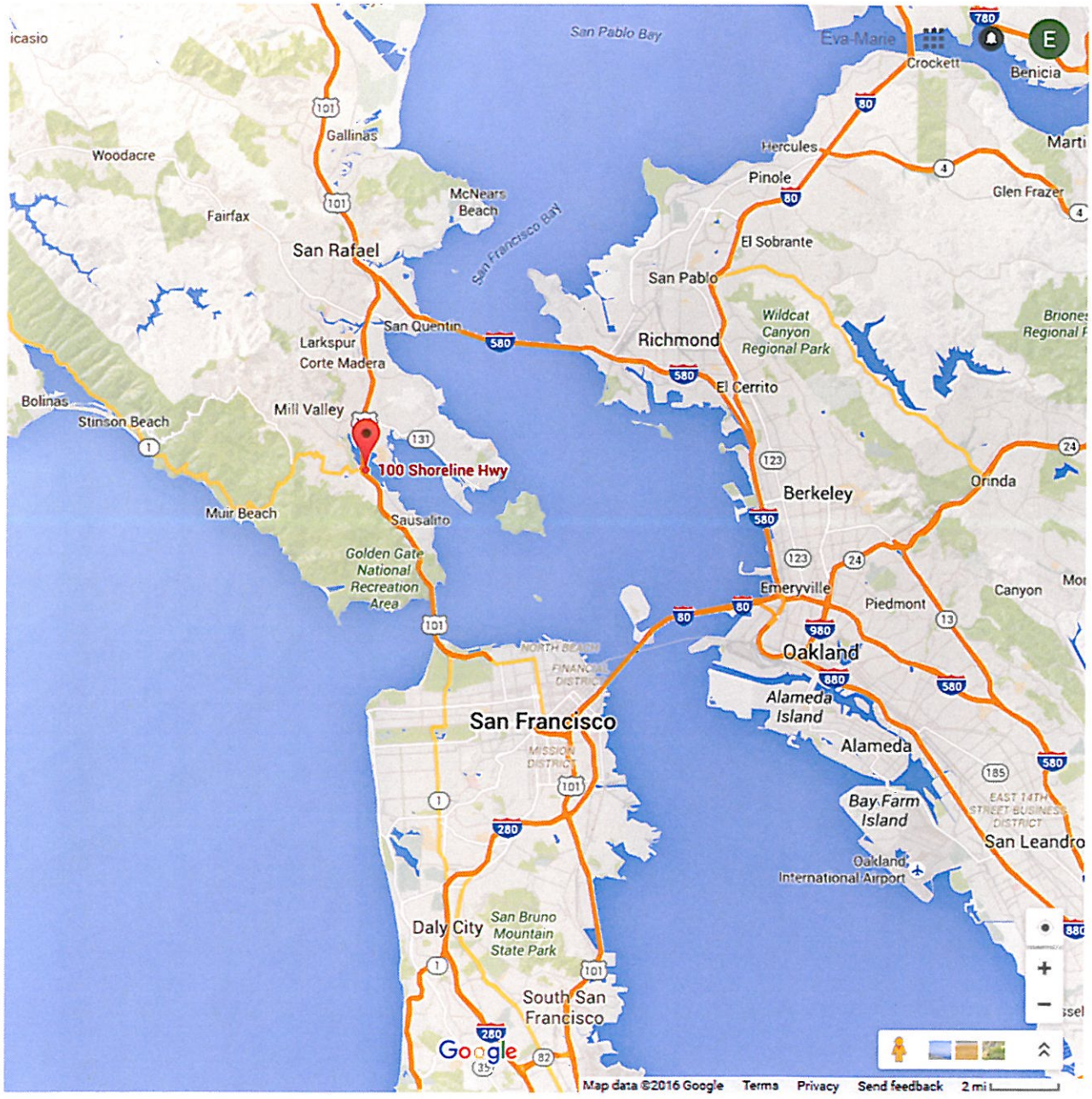
DRAWN BY PAF			DATE April 1979
CHECKED BY			SCALE As Shown
CO.	RTE	P.M	DR. NO
Mrn	101	4.2	2 of 2

Revised 6-82 -Revised 2-82-

"Provide a safe, sustainable, integrated and efficient transportation system to enhance California's economy and livability"

EXHIBIT A3

MRN-101-19
100 Shoreline Boulevard
Mill Valley, CA



California State Transportation Agency
APPRAISAL SUMMARY
RW 15-2

FLA 04-MRN-101-19
Tenant: Basin Street Properties

APPRAISAL SUMMARY

Parcel Description:

Location:	Adjacent to 100 Shoreline Hwy, Mill Valley, CA
Area:	Commercial and office space uses.
Zoning:	Unzoned, but adjacent to Planned Commercial with Bayfront Conservation
Subject:	Only access to the subject property is through the adjacent privately owned property controlled by Basin Street Properties. No other independent public access exists to the property.

Valuation:

Highest and best use:	The only allowed use by California Department of Transportation is parking. The only permitted use by the City of Mill Valley is parking. The subject property is entirely below the overhead freeway structure. No additional non-freeway structures permitted. Lease may be terminated at any time by State for project requirements or safety needs at zero cost to State. Best use is as vehicle parking.
Appraised Value:	$0.06/s.f./mo. x 142,000 s.f. = $8,520/mo.
Date of Appraisal:	February 26, 2016

Lease Agreement:

Area:	142,000 s.f. under elevated freeway structure
Negotiated Rent:	$8,700/mo
Adjustment:	Three percent annual escalation
Re-evaluation:	First at 10 years then every five years thereafter
Use:	Vehicle parking
Proposed Expiration:	March 31, 2059
Improvements:	Tenant installed and maintained asphalt surface
Termination:	By the State (Landlord) at any time in case of project requirements at zero cost to Landlord.

PREFERRED CAPITAL ADVISORS

September 11, 2015

Scott Beggs
Chief Financial Officer
Basin Street Properties
50 W. Liberty Street; Suite 900
Reno, NV 89501

Dear Mr. Beggs,

I am writing regarding your interest in refinancing the project located at 100 Shoreline Highway in Mill Valley, California otherwise known as Shoreline Office Center (Shoreline). The parking for the Shoreline project is partially provided by the State of California Department of Transportation, Airspace Ground Lease dated April 5, 1984 (the "Airspace Ground Lease" or "[04-Mrn-101-19 FLA]")

Preferred Capital Advisors ("Pref Cap") has reviewed the Shoreline project with a number of active commercial lenders and, universally, the feedback has been that additional option term is required for the Airspace Ground Lease in order to attain a loan at commercially reasonable terms.

The original term of the Airspace Ground Lease ran from April 1, 1984 to March 31, 1994 with four 10-year extension options and one 5-year extension option. Three of the four 10-year options have been exercised, leaving just one additional 10-year option and one 5-year extension option. Together, the extension options allow Basin Street Properties to extend the term of the Airspace Ground Lease out to March 31, 2039. This is simply not enough term for a market rate refinance of the asset due to future amortization concerns.

In the wake of the recent recession many lenders are extremely risk averse and generally avoid loans on projects with ground leases. With that said, lenders will look at such loans provided (1) the termination date of the ground lease is generally 30 to 50 years or more beyond the current date of the loan, or (2) there are provisions in the ground lease (i.e. options) that allow for the term of the ground lease to be extended to a term of 30 to 50 years or more.

In order for Basin Street Properties to refinance the project at market rate terms, a minimum of three additional 10-year option periods are needed on top of the remaining options contained in the existing Airspace Ground Lease, and five additional 10-year options would be ideal and allow for future refinancings as well. It is our recommendation that you work with the California Department of Transportation to secure three to five additional 10-year option periods. Without the options, the project is not readily financeable in its current state.

Should you have any questions, please do not hesitate to phone me.

Regards,

Daniel Corfee
Preferred Capital Advisors
916-669-4692

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