



**Metro**

Los Angeles County  
Metropolitan Transportation Authority

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**November 1, 2016**

**TO: BOARD OF DIRECTORS**

**THROUGH: PHILLIP A. WASHINGTON** *PAW*  
**CHIEF EXECUTIVE OFFICER**

**FROM: THERESE McMILLAN** *Theresa*  
**CHIEF PLANNING OFFICER**

**SUBJECT: BINDING ARBITRATION-NORTH CHANDLER ASSOCIATES**

**ISSUE**

North Chandler Associates ("Tenant") and Metro are parties to a Lease Agreement dated June 1, 1980, as amended (the "Lease"). As part of Metro's acquisition of the Burbank Subdivision right of way from the Southern Pacific Transportation Company ("SPTC") in 1990, Metro became landlord under the Lease, as successor in interest to SPTC. The Lease permits Tenant to construct, maintain and operate improvements within a portion of Metro's Burbank Subdivision right of way (the "Lease Property"). Tenant has constructed two multi-tenant industrial buildings on the Leased Property, which consists of 71,290 square feet and is located northwest of the intersection of North Chandler Boulevard and Tujunga Avenue in North Hollywood.

The Lease requires monthly rental payments and periodic adjustments to adjust the rent to the fair rental value. If the parties are unable to reach agreement on the adjusted fair rental value, the Lease provides for binding arbitration to determine the adjusted rental rate. Negotiations between the Tenant and Metro staff to adjust the rent to fair rental value have now reached an impasse.

**DISCUSSION**

The Lease commenced on June 1, 1980 for a term of 35 years, with a termination date of May 31, 2015. There are two options to extend the term. The first option is for ten (10) years and the second option is for five (5) years. Tenant has exercised the first option to extend the term until May 31, 2025.

The current annual rent is \$116,460. The Lease provides that at any time after June 1, 2015 and again on or after June 1, 2025, the rental then in effect may be revised by Metro by giving advanced notice to Tenant. The revised rental shall be the reasonable and fair rental value of the Leased Property, as determined by Metro and Tenant.

Metro staff had an appraisal prepared by an independent appraiser to determine the fair rental value of the Leased Property. Based on the data and analysis in such appraisal, Metro staff believes that the annual fair rental value for the Leased Property is approximately \$225,000. Tenant had previously provided their own appraisal with a proposed fair rental value that was lower than the current rent. Metro staff appraiser reviewed the Tenant's appraisal and determined that the value indicated by Tenant's appraisal was not supported. The offer of \$225,000 has been made to Tenant and the Tenant rejected it. Tenant's latest offer is to adjust the annual rent to \$128,106; however, they have not provided an appraisal supporting this amount.

The Lease provides that if the parties are unable to reach a negotiated agreement, Metro may cause the matter to be submitted to binding arbitration. Metro staff and Tenant have held negotiations in an attempt to reach an agreement on the fair rental value of the Lease Property since July 2015. These negotiations have been unsuccessful and have reached an impasse. Tenant has continued to pay the current annual rent. Metro staff has consulted with County Counsel and they concur that proceeding with binding arbitration is appropriate at this time. A summary of the terms of the Lease is included in Attachment A.

### **NEXT STEPS**

In order to determine the fair market rental of the Leased Property, Metro will notify Tenant that it will seek to resolve the dispute through the binding arbitration process. The parties will elect a panel of arbitrators and submit evidence supporting their opinion of the fair rental value of the Leased Property. Pursuant to the Lease, the arbitrators will make the final determination of the fair rental value which will be retroactive to June 1, 2015. There will be typical arbitration fees.

### **ATTACHMENTS**

- A. Summary of Lease Agreement Key Terms

**ATTACHMENT A**

**SUMMARY OF LEASE AGREEMENT KEY TERMS**

Leased Property	The Leased Property consists of 71,290 square feet and is located northwest of the intersection of North Chandler Boulevard and Tujunga Avenue in North Hollywood.
Term	The term of the Lease Agreement expires May 31, 2025.
Option to Extend Lease Term	Tenant has an option to extend the term for one (1) additional five-year (5-year) period.
Rent	Tenant currently pays Metro \$9,705 per month or \$116,640 per year.
Rent Adjustments	<p>The rent increases annually based on changes in Consumer Price Index.</p> <p>The rent is subject to adjustment to fair rental value on July 1, 2015 and July 1, 2025. If the parties are unable to reach a negotiated agreement on the rental adjustment, Metro may cause the matter to be submitted to binding arbitration.</p>
Tenant Improvements	Tenant has constructed two multi-tenant industrial buildings, consisting of approximately 29,000 square feet, on the Property.
Indemnification	Tenant will indemnify and hold Metro harmless from all claims, liabilities and damages resulting from its use of the Leased Property.
Operations and Maintenance	Tenant will be responsible for all operating and maintenance expenses and shall maintain the Leased Property in good condition and repair.