Approval of 10-year lease with Prometheus Real Estate Group at the San Carlos Caltrain Station

JPB WPLP Committee
May 26, 2021
Items to be Discussed

- Recommended Board Actions
- Background
- High-Level Lease Terms
- RCUP Review and Approval (Sebastian)
- Lease Business Terms
- Alternative Approach
- Questions
Recommended Board Actions

- Staff recommends that the Board:
  - Find a proposed lease of the San Carlos Caltrain Station depot building, and surrounding area to be compatible with the railroad’s current and future needs; and
  - Authorize the Executive director to enter into a ten-year lease, with two five-year mutual options with PREG SC Transit Village, LP, a California limited partnership
San Carlos Depot was constructed in 1888

Listed on the National Register of Historic Places database in 1984
  – The South Bay Historical Railroad Society is the supervisor of the property's historic preservation covenant

Since June 1983, the Depot has been leased to various tenants for restaurant purposes.
  – The most recent lease term ended approximately four years ago.
In 2019 staff conducted a study of each of its 7 historic station buildings to assess cost to conduct deferred maintenance at each site.

The assessment stated that the cost to cure deferred maintenance in San Carlos was estimated to be $194K to $270K, in 2019 dollars.
- The work includes improvements to the building envelope, fire-life safety, utilities systems, interiors and other professional services.

To date such work has occurred at only the Santa Clara Station.
- A former member of the historical society dedicated funds from his estate to help off set maintenance costs.
- In other cases, funds would need to come from the capital budget or through grants.
Background: The Development

- Prometheus has developed the San Carlos Transit Village, a Transit Oriented Development on the property surrounding the Depot and plaza area.
  - Prometheus rebuilt the plaza area.

- Due to its proximity to the surrounding TOD project, staff recommends that Prometheus should participate in the tenant relationship for the Depot building as a master lessee.
  - Prometheus will enter into a sublease with BareBottle brewing company to operate a taproom in the Depot building.
  - The South Bay Historical Railroad Society already approved the proposed use of the Depot as a taproom in December 2019.
Picture of Plaza
High-Level Lease Terms

- To maximize lease benefits and revenue, Real Estate staff recommends a 10-year lease to enable Prometheus to amortize its improvements to the Depot building.

- If approved, Prometheus will enter into a 10-year lease with JPB, with two mutual options of 5-years each
  - Pre-approved sublease with BareBottle brewing company to operate a taproom

- Under the proposed lease, Prometheus, BareBottle and JPB will split the cost to cure deferred maintenance and Tenant Improvements (TIs)
  - JPB’s cost is capped and paid through its deferral of the first three years of rent under the lease, totaling just over $150,000
The Rail Corridor Use Policy (RCUP) is a Board-adopted policy to guide use of the agency’s property and ensure compatibility with current and future rail needs.
- RCUP’s compatibility approval is first step in reviewing any proposed use of agency property – including public and private uses.

For RCUP review of this proposed use, staff determined:
- In RCUP maps, the proposed lease is within Service Vision Capital Project Overlay, indicating that the area could experience change from a potential future capital project.
- The potential future capital project in this area is passing tracks that would only be needed to grow service beyond the minimum level of service identified in Caltrain’s Long-Range Service Vision.
  - They are not required to accommodate CHSRA service on the corridor.
  - They are not required to reach the total 12 trains per peak hour per direction (Caltrain’s Long-Range Service Vision).
  - There is no feasible scenario that staff is aware of where these passing tracks would reach construction within the next ten years.
Project Review and Approval

Baseline option considered (consistent with CHSRA EIR)

Core, adopted 2040 Service Vision

“High Growth” Expansion option
Project Review and Approval: Recommendation

- Staff recommends that Board find the 10-year lease to be compatible with the railroad’s current and future needs
  - The lease would not preclude the agency from achieving the Long-Range Service Vision or the specified passing tracks from being built if and when they are needed.

- Engineering staff has determined that the proposed lease is compatible with Caltrain's operational, regulatory, and engineering requirements.
Lease: Business Terms

- The Historic Depot is approximately 1,078 square feet and there is an approximately 351 square foot ancillary Baggage Building
  - Includes use of area for outdoor eating area/patio space.

- The initial lease rate is $3.25/sf, with 3% increase yearly
  - Plus, $1.625/sf for the Baggage building

- If the option is exercised, rent goes to market starting in year 11

- Payment of rent will commence in Year 4 at $53,419.60
  - In addition lessee’s payment of maintenance costs, total rent collected over the first 10 years is expected to be approximately $409K
Lease: Alternative Approach

- JPB could conduct deferred maintenance itself
  - Would need to identify funds (up to $270K in 2019 dollars)

- Advertise the site for lease

- Negotiate new leases terms
  - Would include a “TI Allowance” paid by JPB and time to build TI’s

- Such a process would likely take over three years before rent could be collected
Actions

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Questions?