

## Consent Item (C) 07-25-2019

Washington Metropolitan Area Transit Authority

### Board Action/Information Summary

☒ Action ☐ Information

MEAD Number:  
202097

Resolution:  
☒ Yes ☐ No

#### TITLE:

Ground Lease amendment – Farragut North

#### PRESENTATION SUMMARY:

Staff seeks Board approval to execute an amendment to an existing ground lease at Farragut North Metro Station. In accordance with Board Resolution #2018-22, the Board shall approve ground leases that exceed \$1 million in annual payments (or receipts).

Metro currently receives \$900,000 in annual base rent, with no rental escalations provided. Under the proposed ground lease amendment, Metro would receive a minimum of \$1.6 million annually, escalated annually thereafter.

#### PURPOSE:

Staff requests Board approval of a ground lease valued in excess of \$1 million in revenue to Metro per year, at 1101 Connecticut Avenue, N.W.

#### DESCRIPTION:

Metro executed a ground lease in 1975 for its 0.4-acre property located at 1101 Connecticut Avenue N.W. (at the Farragut North L Street entrance). An office building was constructed in the 1970's and continues to operate today. Penzance Properties, LLC (the ground lease tenant) has requested that Metro amend the existing ground lease to restructure and improve the ground rent payments received by Metro, in exchange for a 44-year extension to the existing lease. The ground lessee desires to make major capital improvements to the existing building, which would be difficult to finance with 55 years remaining on the existing ground lease and with the existing rent reset due to take place in 2025.

#### Key Highlights:

- This action will increase the annual rent paid to Metro for the land it owns at Farragut North Metro Station in excess of \$1 million per year, with annual rent increases thereafter.
- As a result of this action, in addition to the improved economics to Metro, the ground tenant (i.e. developer) will make improvements in the building,

which will contribute to the vitality of the central business district of Washington, DC.

**Background and History:**

This ground lease is the oldest executed by Metro, signed in 1975 prior to the initiation of Metrorail service. This project predates Metro’s Joint Development program, but it is consistent with that program’s policy goals. It includes the integration of transit facilities and private development. The private development generates Metro ridership, as well as real estate revenues. Metro’s facilities are protected through easements.

Through this ground lease, a building was constructed over the Metro station entrance at the northeast corner of Connecticut Avenue N.W. and L Street N.W. A chiller serving the Farragut North and Dupont Circle Metro Stations was installed on the roof. The development is a 188,722 square foot, 12-story office building with ground floor retail.

**Discussion:**

Metro staff expects multiple benefits for amending the ground lease. First and foremost, Metro will receive greater annual rent payments. The current year’s base rent is \$900,000, with no rent escalations provided. The new rent under the ground lease amendment will be the greater of \$1.6 million or a percentage of the building’s net operating income, whichever is greater, plus the rent rate will be escalated annually thereafter. Over the next six years, for example, Metro will receive over \$3.6 million more in rent income with the amendment than without.

Also, the amendment will allow the ground lessee to improve and modernize their building to attract the office tenants they seek, which contributes to Metro ridership, ensures proper operations, protection and access to the Farragut North L Street entrance and Metro’s chillers on the roof of the building. Improvements to the building also contribute to the vitality of the central business district of Washington, D.C.

No new risks accrue to Metro for approving this ground lease amendment.

**FUNDING IMPACT:**

The amendment will result in increased annual operating revenues, which will escalate over time.

Project Manager:	Andy Scott
Project Department/Office:	Office of Real Estate and Parking

**TIMELINE:**

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<b>Previous Actions</b>	The Ground Lease was executed June 26, 1975
<b>Anticipated actions after presentation</b>	Summer 2019: Execute ground lease amendment

**RECOMMENDATION:**

Board approval of a ground lease valued in excess of \$1 million in revenue to Metro per year at 1101 Connecticut Avenue, N.W.

SUBJECT: APPROVAL OF AMENDMENT TO GROUND LEASE OF PROPERTY LOCATED  
AT 1101 CONNECTICUT AVENUE, N.W., WASHINGTON, DC

RESOLUTION  
OF THE  
BOARD OF DIRECTORS  
OF THE  
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, Resolutions 2011-30 and 2018-22 require approval of the Board to lease or rent property when the annual rent is greater than \$1 million; and

WHEREAS, WMATA owns 0.4 acres of land located at 1101 Connecticut Avenue, N.W., DC, which is leased to CT Property Owners LLC (the "Tenant"), an affiliate of Penzance Properties, LLC, pursuant to a ground lease dated June 26, 1975 (the "Ground Lease"); and

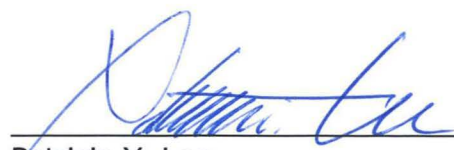
WHEREAS, Staff and Tenant have negotiated an amendment of the Ground Lease, which will result in an annual rent payment from Tenant to WMATA in excess of \$1 million;

NOW, THEREFORE, be it

*RESOLVED*, That the Board approves the execution of an amendment to the Ground Lease upon the terms and conditions acceptable to the General Manager/Chief Executive Officer or his designee; and be it finally

*RESOLVED*, That, in order to timely execute the Ground Lease amendment, this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

  
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Patricia Y. Lee  
General Counsel