

Union Station Lease

Economic Development & Housing
Committee

June 18, 2007



Briefing Purpose

- To review with the committee the restated and amended Union Terminal lease, including revised business terms.
- The City Auditor, John Bromberg and our City Attorney's office have provided invaluable input, advice and guidance in reaching the final restated and amended lease. Mr. Bromberg has been our lead attorney in this process.

Restated & Amended Lease Goals

- Simplify the lease and clarify confusing language
- Enhance the City's financial return
- Redevelop Union Station and return it to its original grandeur
- Permit major investment in Union Station, providing significant economic development in the center city

Site Location

- Union Station is approximately 104,000 square foot facility located in downtown Dallas at 400 S. Houston St. between Wood St. and Young St. circled by Reunion Blvd.



Union Station - History

- Opened in 1914 by Union Terminal Company as Dallas Union Station
- Built to consolidate five rail stations scattered around the City, making Dallas a major transportation center in the Southwestern United States
- 1954- served as a temporary library while the City built the new central library to replace the Carnegie Library
- Union Station was acquired by the City in 1973 to be preserved as a historic structure and for future use as a transportation center
- 1996- DART Light Rail and Trinity Railway Express began service

Union Station – History_{cont}

- Included in the National Register of Historic Places
- Designated a Recorded Texas Historic Landmark
- Designated a Dallas Historic Landmark

Union Station-Today

- Today, Union Station serves principally as a multimodal transportation hub with limited office uses, meetings, some social events attraction and tourism appeal
- Transportation hub uses include DART light rail and bus services, Trinity River Express rail transportation and Amtrak, which all serve the greater Dallas area from Union Station
- The Grand Hall at Union Station continues to serve as venue for large group functions, weddings and parties
- More than 9,000 daily visitors pass through this Dallas landmark

Union Station Current Lease

- Subject to the first floor use for transportation purposes, and the City's recall rights on the second and third floors, Union Station is currently leased to Hunt-Woodbine Realty Corporation ("WDC") for a 50-year primary term with five 10-year renewal options. First renewal option can be exercised in 2025. 32 years of the primary lease term have transpired.
- The non-public areas of Union Station contain 58,213 square feet of rentable space out of a gross building area of approximately 104,000 square feet. Of the rentable space over 80% is sub-leased.
- Union Station's design does not lend to a cost efficient office or special use facility.

Union Station Current Lease cont

- Minimum Rent to City
 - \$100.00 each calendar year
 - \$2.80 per sf times the number of sf rented
- Additional Rent
 - 25% of net revenue (defined as cash rentals less operating costs) until no un-recovered costs: then 50% of net revenue
- Operating expenses incurred by lessee
 - Rental paid to lessor, taxes paid by lessee, lessee maintenance costs, insurance premiums, management expenses, janitorial, leasing commissions and similar or related expenses actually incurred.
 - For purposes of calculating net revenue, Lessee's operating expenses are capped, and total deductions shall not exceed during any rental period an amount approximately equal to twice the fixed minimum rent paid the Lessor.
- Utility Expense
 - Lessor shall furnish all lessee's normal and standard requirements for water, gas, electricity, sewage, garbage, HVAC and other utility services

Union Station Current Lease_{cont}

- Lessee's Costs
 - Added to the lessee's cost is their pro rata share of common area associated with the amount of sub-lease space
- Maintenance
 - Lessee shall maintain all tenant lease areas
 - Lessor shall maintain all common areas or non-tenant lease space
- Parking
 - Lessee has the right to use up to 50% of the parking spaces.
 - Lessor is entitled to the exclusive parking concessions

New Tenant Business Plan

- Expand current DRM lease space from 23,000 sf to almost 42,000 sf
- Woodbine Development Corp (WDC) to invest over \$20.0m in new tenant improvements
- Through a third party operator, develop a major food service program for both on and off premise catering
- Enhance current function and office spaces on the second and third floors
- WDC's proposed operator estimates in stabilized third year of operation \$8.50m gross food/beverage revenues can be realized.
- The \$20.0m planned investment by WDC in Union Station is also part of an additional \$20.0m planned investment in the Reunion Tower for a total planned \$40.0m private sector investment.

Union Terminal Restated & Amended Lease Business Structure

- LEASE STRUCTURE
 - DRM sublease structure remains intact but rent structure is independent of other leases.

Union Station Lease Modification Business Points Discussion List_{cont}

- **SPACE PLANS**
 - Leased area (1st Floor, Grand Hall, Loggia and other second floor function spaces, 3rd Floor) has been recalculated and mutually agreed to based upon updated information.
 - Common areas (Lobbies and Loading Dock) have been modified within the building to reflect adjusted janitorial responsibilities.
 - Loggia has been added to DRM lease, but City retains shell capital maintenance responsibilities, and Hunt-Woodbine will take over event-related maintenance

Union Station Lease Modification Business Points Discussion List_{cont}

- LEASE ECONOMICS
 - DRM lease rental:
 - \$180,000 per annum, CPI adjusted every 5 years (subject to cap on CPI of 4% in any year), commencing earlier of Certificate of Occupancy or 14 months
 - Until \$180,000 annual rent commences, interim rent of \$115,000 per annum pro-rated for actual period
 - Lease term matches operator term (10-year primary term plus 5-year options)
 - Utility costs sharing methodology has been agreed – Lessee will pay for the additional incremental utility usage associated with the tenant improvement area.

Union Station Lease Modification Business Points Discussion List_{cont}

- All other subleases:
 - Fixed Minimum Rent remains \$2.80/SF
 - Additional Rent of 20% of the difference obtained by subtracting the amount of Fixed Minimum Rent for each sublease from all rental and other gross revenue derived by Lessee from such sublease
- Un-recovered Cost calculation/methodology is deleted from lease agreement.
- Calculations are based on gross, rather than net, sublease revenues
- All Union Station sub-tenant lease rental payable to City will be pooled and offset by common area maintenance performance by Hunt-Woodbine on behalf of City, if requested

Union Station Lease Modification

Business Points Discussion List_{cont}

- **OPERATIONS**
 - City R&M responsibilities will generally continue as outlined in existing lease, reduced by janitorial responsibilities taken on by Hunt-Woodbine with respect to Grand Hall, second and third floor, loggia, stairways and loading docks.
 - Security will be shared as outlined in existing lease, although the addition of the Grand Hall to the DRM lease should reduce City's security staffing requirements
 - City common area maintenance limited to the first floor (exclusive of DRM sub-lease space on first floor), pedestrian tunnel, and stairwells.

Union Station Lease Modification

Business Points Discussion List_{cont}

- **RENOVATION**
 - Hunt-Woodbine and City have agreed upon an outside completion date, but the new rent structure will be implemented no later than 14 months after the Effective Date
 - Hunt-Woodbine permitted to make exterior landscaping modifications to enhance landscaping on Houston Street frontage provided it takes on associated maintenance

Union Station Lease Modification

Business Points Discussion List_{cont}

- **CITY APPROVALS**
 - City waives recall right associated with space designated as catering sublease, for the term of the catering sublease.
 - City will provide a 1st Floor transportation restriction waiver to allow DRM lease to occupy defined portion of 1st floor
 - City access to Grand Hall will continue to be granted subject to coordination with DRM space operator at no space rental fee charge to the City. City would be responsible for any fees for set up, housekeeping and food/beverage costs attendant for its activities.
 - Sublease approval rights will remain as stated under existing lease

Economic Impact of Proposed Tenant Improvements

- Proposed tenant improvement projected to add 153 new jobs to downtown.
- Incremental sales and mixed beverage taxes to the City from new operation in stabilized 3rd year of operation (\$8.50m gross revenues) are estimated to be:
 - City share - Alcohol Beverage Tax (estimated annual) - \$26,749
 - City share – Sales Tax (estimated annual) - \$60,132
 - Note: the preceding City tax revenue estimates refer only to Union Station operations.
- \$20.0m in private dollar improvements will be made to city owned facility in addition to the \$3.960m city funding for major maintenance needs at Union Station.
- Re-establish Union Station to its original grandeur as a significant higher quality venue in downtown Dallas.

Economic Impact of Proposed Tenant Improvements_{cont}

- The City's financial position for Union Station operations to include both revenue enhancements and cost reductions has been improved by an estimated \$190k to \$200k annually.
- Further, the improvements for the Reunion Tower are estimated to provide approximately \$140k in new property tax revenues to the General Fund in addition to the estimated \$60k in sales tax and estimated \$26k in mixed beverage tax. Total tax revenue to the City estimated to be \$226k annually (not adjusted for inflation or growth in revenues or values).
 - Note: the preceding estimates for sales and mixed beverage tax do not include sales generated from a successful Reunion Tower operation.
- City's utility (power, water/sewer, natural gas) consumption exposure has been capped based upon an agreed-to baseline consumption reflecting the prior 3 year use average.
- Further, the City and WDC will continue to aggressively pursue food service opportunities for the transportation lobby in an on-going effort to improve the customer/visitor experience for Union Station.

How did we address our goals

- Union Station will be returned to its original grandeur.
- The Grand Hall will be a great venue for group, corporate and social events for both Dallas visitors and Dallas residents.
- It will enhance our goals for economic development in the center city through a private sector investment in Reunion Tower of \$20.0m and creation of 153 new jobs through the Union Station tenant improvement and planned new operations.
- The City's financial support to Union Station has been improved.
- Operating costs will be reduced and building efficiency will be increased.
- The City's \$3.960m capital improvement is facilitating a private sector \$20.0m investment in a city owned venue.
- Restated and amended lease will improve transparency, significantly reduce complexity and simplify the respective roles/responsibilities and economics for all parties.

Recommendation

- Staff recommends approval of the restated and amended Union Terminal lease.

Schedule

- City Council consideration of the amended and restated Union Terminal lease – June 20, 2007