


0150-12378-0000

T R A N S M I T T A L

TO Council	DATE 06-08-23	COUNCIL FILE NO.
FROM Municipal Facilities Committee	COUNCIL DISTRICT 14	

At its meeting held on June 6, 2023, the Municipal Facilities Committee (MFC) approved the recommendations of the attached Department of General Services (GSD) report, which is hereby transmitted for Council consideration. Adoption of the report would authorize GSD to negotiate and execute a new lease agreement between the City and Gregg Williams, Receiver for Maguire Properties-555 West Fifth, LLC, for office space located at 555 West 5th Street, to relocate five City departments currently occupying space at 1200 West 7th Street (Garland Building). The term of the lease agreement is for fifteen (15) years with one option to extend for an additional five (5) years, subject to approval of the Mayor and Council.

There is an estimated General Fund shortfall of approximately \$74,394, which will be addressed within the existing capacity of the current year Citywide Leasing Account. There is no additional General Fund impact anticipated beyond the budgeted amount included in the 2023-24 Citywide Leasing Account.


for Matthew W. Szabo
Chair, Municipal Facilities Committee

CITY OF LOS ANGELES

CALIFORNIA

TONY M. ROYSTER
GENERAL MANAGER
AND
CITY PURCHASING AGENT



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June 6, 2023

Honorable City Council
City of Los Angeles
c/o City Clerk
Room 395, City Hall
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Assistant

**REQUEST AUTHORITY TO NEGOTIATE AND EXECUTE
A NEW LEASE AGREEMENT WITH GREGG WILLIAMS, RECEIVER FOR
MAGUIRE PROPERTIES – 555 W. FIFTH, LLC, FOR OFFICE SPACE AT
555 W. 5th STREET, LOS ANGELES**

The Department of General Services (GSD) requests authority to negotiate and execute a lease with Gregg Williams, Receiver for Maguire Properties–555 W. Fifth, LLC, a Delaware limited liability company for office space at 555 W. 5th Street, Los Angeles, CA 90013, known as the Gas Company Tower (GCT) for approximately 297,571 square feet (sf) of office space, on an estimated 13 floors, to relocate five City departments currently occupying space at 1200 West 7th Street, Los Angeles, CA 90017 (Garland Building).

BACKGROUND

The lease term at the Garland Building ends in February 2024. A summary of activities and Municipal Facility Committee direction is as follows:

Currently, five City departments occupy 228,539 sf of space at the Garland Building over six floors. These departments consist of the Housing Department (LAHD), Economic and Workforce Development (EWDD), Office of Finance (OOF), Community Investment for Families Department (CIFD), and Youth Development Department (YDD). The City initially leased 88,233 sf in the Garland Building in 2004, subsequently expanded in the building in 2008 and 2010, and from there on has substantially leased the current 228,539 sf.

In May 2019, LA Care Health Plan (LA Care) entered into a long term expansion and extension agreement with the Landlord, HRRP Garland LLC (Rising Realty) totaling 369,273 sf which encompasses all the space currently leased by the City. Consequently,



the City must vacate its current premises by February 28, 2024 or sign a sublease agreement with LA Care. In November 2022, after further review of their revised space needs, LA Care submitted a sub-lease proposal to the City and was advised the City would be issuing an RFP in the near future.

At the direction of the Municipal Facilities Committee (MFC) at its meeting on August 25, 2022, GSD solicited bids from brokerage firms on the Office of the City Administrative Officer (CAO) list of pre-qualified real estate and economic development consultants. CBRE was selected to assist the City in identifying the best possible solution to either stay under a sublease with LA Care or relocate the departments from the Garland Building to another building within the downtown area.

CBRE identified ten buildings within the requested area with enough space at the time to accommodate the City's space requirements. Requests for Proposals (RFP) were sent to each of the ten landlords, which resulted in six responses. The City's comprehensive RFP included numerous tenant-favorable terms and conditions, consistent with the market for large, sophisticated, well-advised credit tenants to ensure that the City would achieve the best terms and value, leveraging the City's credit quality and stability at this time in the market. The RFP was used to establish that competing landlords were not in default or engaging in a process to restructure their mortgage loan, to ensure they had control of sufficient capital to fund the landlord's expected new lease costs for the proposed City lease transaction, and were capable of meeting the City's occupancy date requirements. Of the six buildings that submitted responses, three buildings were selected as short-list relocation options considering, among other things, overall responsiveness, total projected occupancy cost, landlord funding of the City's capital costs, building efficiency, public transit accessibility, the landlord's ability to meet the City's employee parking requirements, proximity to City Hall, and amenities. In addition to these proposals, CBRE sent a counter-proposal to LA Care, resulting in a more comprehensive and competitive proposal than what was originally submitted to the City in November 2022.

The five City departments toured the three short-listed buildings and provided feedback which was shared with the MFC at the April 2023 meeting. In addition, test fits were completed based on the City's space program, and approved departmental headcounts prepared by ExNovo, Inc. (ExNovo), a space planning and architectural firm, for the three short-listed buildings as well as the Garland building. MFC then directed GSD to submit counter proposals to the short-listed building landlords and bring back a final recommendation to the next meeting.

The Gas Company Tower

Subsequent to the April MFC meeting, the Gas Company Tower became available to lease. When the City's initial RFP for the requirement was issued in mid-February, Brookfield Properties remained in control of GCT, and they elected to offer other buildings in their portfolio for the City's consideration. In February, the Brookfield entity that owns the building defaulted on two senior loans and subsequently the property was placed in receivership on April 19, 2023. CBRE issued the City's RFP to the Receiver for the GCT on April 26, 2023, with a response deadline seven days later on May 3, 2023. The GCT proposal received was the most responsive of all; a comprehensive proposal with highly

competitive economic terms, including all requested documents submitted within the requested time frame.

Based on the compelling GCT proposal, counter-proposals were sent to the three other short-listed building landlords as well as to LA Care, considering the total projected occupancy cost and terms offered by GCT. ExNovo then prepared an additional test-fit for GCT that was completed on May 18, 2023. In addition, four of the five City departments toured the GCT and provided feedback on their preferred location.

The Gas Company Tower is a 52-story, 749 ft. Class-A office tower on Bunker Hill located on the north side of 5th Street between Olive Street and Grand Avenue, across from the Biltmore Hotel and Pershing Square. The building serves as the headquarters for the Southern California Gas Company. The building contains approximately 1.3 million square feet on 52 floors. It is also easily accessible via public transportation as it is located one block east of Metro Red Line - Pershing Square Station and the DASH Route "B" stop is in front of the building on 5th Street. Sufficient ground floor street frontage area will be provided as required for LAHD's public counter operation.

As discussed in this report, three other offers were considered for this requirement outside of the LA Care sublease offer. Out of the other three short-listed properties, one of the properties could not accommodate the City's space needs as determined by the test fit and additional space would be needed, making that option more costly. Another option was cost prohibitive and the farthest from the Civic Center. The broker/owner of the third option or property declined to respond to the City's counter offer. To date, the sub-lease offer from LA Care has not secured necessary approvals from the building owner for the deal creating uncertainty and inability for the City to guarantee it will have sufficient time to secure and build out office space by February 2024.

Overall, the GCT offers the lowest one-time expense option, as well as the lowest year-one leasing costs, which affects the General Fund leasing account and the special funded departments' lease budgets. It provides flexibility of both expansion rights and the continuous option to give back some space later in the term. GCT has set forth solutions should there be delays in the form of free swing space and rent abatement incentives. It is also the most preferred option of the affected departments who toured the property.

TERMS AND CONDITIONS

Term

The lease term for the Gas Company Tower shall commence upon completion of certain tenant improvements to the space and will be for 15 years with a continuous City option to give back some or all of the space after 11 years, five months. This provides the City with flexibility as other City-owned options become available in the coming years. Expansion rights are also offered for future growth under the same terms, (subject to a proration of the tenant improvement allowance based on the remaining term), which will allow departments to expand as new programs are brought on line, such as during Measure ULA implementation wherein the Housing Department anticipates needing space for 140 or more employees.

Rent

Estimated lease costs for year one is \$3.40 per square foot (sf), or monthly rent of \$1,011,741 for 297,571 sf of space. Escalation is set at 3.0% annually.

As an absolute gross lease, this rate includes utilities, custodial, security, maintenance as well as future Prop 13 protection, providing the City with certainty on its ongoing costs. This absolute gross lease is preferable over a full service gross lease, which would require the City to pay for inflationary increases in operating expenses and property taxes throughout the term.

Parking

The City will have the right to lease up to three (3) unreserved parking passes per 1,000 rentable sf (893 passes), consisting of (i) one hundred six (106) passes located on-site, including six (6) reserved parking spaces, at \$200.00 per pass per month, and (ii) seven hundred eighty seven (787) located off-site at the World Trade Center Garage located at 333 S. Flower St. at \$100.00 per pass per month (served by a building shuttle every 15 minutes, from 5:00 am to 9:00 pm Monday-Friday, excluding holidays).

Tenant Improvements/Furniture/Communication/Moving Expense

A \$210 per usable sf tenant improvement allowance for the City's design, construction, furniture and relocation costs will be deposited into an escrow account upon lease execution. The City has completed an analysis and anticipates that this is sufficient funding for the improvements, furniture and moving expenses needed. Cost-saving opportunities will be considered and reviewed during the project. For example, there is likely substantial residual value of existing tenant improvements on floors formerly occupied by Southern California Gas Company and Deloitte, with unique full-floor raised access flooring on nine of the City's ten full floors resulting in City tenant improvement cost savings.

At the City's option, any unused Tenant Improvement allowance can be applied to the City's rent or to offset any swing space costs. Also, a refresh of the space, consisting of paint and floor covering replacement, will be provided at no cost to the City in year five and year 10.

Although the landlord is committed to completing the tenant improvements for occupancy by February 29, 2024, the City has the right to temporarily use six vacant floors in As-Is condition at no rent prior to substantial completion of the tenant improvements. Furthermore, if the lease is executed by July 15, 2023 and the landlord fails to deliver substantial completion of the tenant improvements for the entire premises on or before February 29, 2024, the City shall receive additional rent abatement on a day for day basis for each day of delay, and two days of rent abatement beginning on the 90th day of delay.

A complete set of terms and conditions are outlined on the attached term sheet.

MARKET ANALYSIS

Based on the recent downtown Los Angeles office market analysis, the projected monthly average total occupancy cost per sf for comparable buildings with sufficient capital and available space for occupancy in Q1 2024 ranges from \$3.72 per sf to \$6.00 per sf. The Gas Company Tower's projected monthly average total occupancy cost of \$3.93 per sf is highly competitive and the lowest average total occupancy cost per sf of all options considered with sufficient space available to accommodate the City's entire initial space requirement, together with possible near-term and future expansion space options.

Location	Property Type	Monthly Avg Total Occ Cost per sf (*See Note below)	Lease Type
1200 West 7 th St. (Existing Obligation)	Class A Office	\$3.92	Gross Lease with Base Year
Gas Company Tower (GCT) 555 West 5 th St.	Class A Office	\$3.93	Absolute Gross (Full Service w/ no base year)
<u>Other Options</u>			
1200 West 7 th St. (L.A. Care Sublease)	Class A Office	\$4.57	Absolute Gross
145 S. Spring St.	Class A Office	\$3.72	Absolute Gross
433 S. Spring St.	Class A Office	\$5.12	Absolute Gross
350 S. Grand Ave.	Class A Office	\$5.29	Absolute Gross
110 E. 9 th St.	Class A Office	\$5.36	Gross Lease with Base Year
300 S. Grand Ave.	Class A Office	\$5.98	Absolute Gross
445 S. Figueroa St.	Class A Office	\$6.00	Gross Lease with Base Year
Average Rental Rate		\$5.15	

***Note:** Based on an 11-year, 5-month analysis period for the proposed L.A. Care Sublease term at 1200 West 7th. Average Total Occupancy Cost includes all estimated capital costs (for a full buildout) and monthly parking costs. The proposed GCT Monthly Average Total Occupancy Cost of \$3.93 is 23.7% lower than the average of all competitive options considered for the requirement.

COST SUMMARY/BREAKDOWN

The cost of the new lease will be split among departments which use Special Funds and General Funds for leasing expenses. Special Funded departments will pay their pro rata share of the lease based on staff numbers and square footage assigned. The General Funded departments will be covered by the Citywide Leasing Account at 34.8% and the Special Funded portion is 65.2%, with the following breakdown:

- LAHD- 48.14% (Special Funded)
- LAHD (Fig Plaza) - 6.8%
- EWDD - 17.06% (Special Funded)
- OOF - 17.37%
- CIFD - 7.84%
- YDD - 2.79%

Estimated costs are \$4,402,556 for four months of rent and parking for 2023-24, plus one-time tenant improvement (TI) for temporary swing space, if necessary, costing \$1,261,380 for a total of \$5,663,946. The General Fund Citywide Leasing Account for Fiscal Year 2023-24 has a projected budget of \$1,896,658 for this lease while the current cost projection for the General Funded portion (34.8%) is \$1,971,053, leaving a shortfall of \$74,394. The 2023-24 pro rata share for LAHD and EWDD are respectively \$2,726,624 and \$966,269. These projections include the TIs, data cabling, moving, and temporary swing space costs which the landlord has agreed to cover almost entirely as part of the TI allotment.

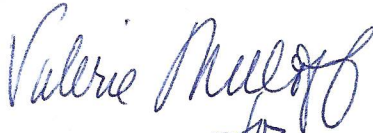
	Monthly Proposed Costs	2023-24 Estimated Expense	2023-24 Gen. Fund Expenses	2023-24 Spec. Fund Expenses	2023-24 Estimated GF (Shortfall)
Rent (4 mos)	\$1,011,741	\$4,046,966	\$1,408,344	\$2,638,622	\$0
TI Swing Space One time cost		\$1,261,380	\$438,960	\$822,420	(\$74,394)
Parking	\$88,900	\$355,600	\$123,749	\$231,851	\$0
TOTAL	\$1,100,641	\$5,663,946	\$1,971,053	\$3,692,893	(\$74,394)

FISCAL IMPACT

The General Funded Citywide Leasing Account impact for 2023-24 has a projected budget shortfall of \$74,394 for this lease. The shortfall may be addressed through the Lease Optimization Report which helps reassess lease expenses periodically throughout the fiscal year. Special Funding from LAHD and EWDD may also need to be addressed through the CAO Financial Status Report process in the event of a shortfall.

RECOMMENDATION

That the Los Angeles City Council, subject to the approval of the Mayor, authorize GSD to negotiate and execute a lease agreement with Gregg Williams, Receiver for Maguire Properties—555 S. Fifth, LLC, for office space located at 555 W. 5th Street, Los Angeles, CA 90013 for use by five City departments under the terms and conditions substantially outlined in this report.



Tony M. Royster
General Manager

Attachment: Term Sheet

LEASING TERM SHEET

MFC DATE	6/6/23
LANDLORD	Gregg Williams, Receiver for MAGUIRE PROPERTIES – 555 W. FIFTH, LLC, a Delaware limited liability company
ADDRESS	555 W. Fifth Street, Los Angeles, CA 90013
TENANT	Los Angeles Housing Department (LAHD), Economic and Workforce Development Department (EWDD), Community Investment for Families Department (CIFD), Los Angeles Office of Finance (Finance), and Youth Development Department (YDD)
ADDRESS	1200 W. Seventh Street, Los Angeles, CA 90017
LOCATION	The Gas Company Tower, 555 W. Fifth Street, Los Angeles, CA 90013
AGREEMENT TYPE	Absolute Gross Lease Agreement
USE	Administrative office space, and public service counter space for the Departments located at 1200 W. Seventh Street, and for the consolidation of LAHD personnel currently located at Figueroa Plaza.
SQUARE FEET	297,571 RSF (subject to final plans and specifications), consisting of 10 full floors and 3 partial floors [Floors: Ground (partial), Concourse (partial), 6-10, 22-24, 28, 30, 31(partial)]
TERM	Fifteen (15) years (eleven (11) years and five (5) months firm term, subject to City lease termination rights).
RENT START DATE	2/29/24 (estimated - upon Landlord's Substantial Completion of the Tenant Improvements, and City's Fixturization and Move-In period). Beneficial occupancy right for any portion of the premises with no obligation to pay Rent until 2/29/24.
LEASE START DATE	2/29/24 (estimated)
OPTION TERM	One (1), five (5) year option to extend at "Fair Market Value."
HOLDOVER	125% for up to ninety (90) days, and 150% thereafter, or 110% for up to six (6) months on twelve (12) month's prior notice
SUBLET/ ASSIGNMENT	Right to Sublease/Assign, subject to Landlord consent

LEASING TERM SHEET

TERMINATION	2/28/39 (estimated) with continuous City lease termination options for the entire Premises, or any contiguous full floors beginning on 8/1/35 (estimated) upon twelve (12) months prior notice, at no termination cost to the City.
RENTAL RATE	\$3.40 per RSF/Mo. on an Absolute Gross lease basis, with 3.0% annual escalations
ESCALATION	Three percent (3.0%) per annum
RENTAL ABATEMENT	None
ADDITIONAL RENT	None (Absolute Gross lease)
PROPERTY TAX	None (Absolute Gross lease)
OPEX	None (Absolute Gross lease)
CAM OTHER	Utilities and condenser water cost for City's supplemental HVAC units separately submetered at City's cost
SECURITY DEPOSIT	None
MAINTENANCE/ REPAIR	Landlord, with City Self-Help and reimbursement rights
MAINTENANCE/ REPAIR DETAILS	Building maintenance and repair is included in the Rent
TENANT IMPROVEMENTS	\$210.00 per USF Tenant Improvement allowance (\$52,977,960) for the City's design, construction, furniture and relocation costs (deposited into an escrow account upon lease execution). Landlord shall construct the Tenant Improvements for a supervision fee not to exceed \$500,000. In addition, Landlord shall, at Landlord's sole cost and expense: (i) demolish existing improvements per City's plans, (ii) deliver elevator lobbies with building standard lighting, paint and carpeting, as required, with colors to be consistent with City's office finishes, and (iii) deliver restrooms in compliance with code, with new paint. At City's option, any unused Tenant Improvement allowance can be applied to City's Rent.
PARKING	City right to lease up to three (3) unreserved parking passes per 1,000 RSF (893 passes), consisting of (i) one hundred six (106) passes located on-site, including six (6) reserved parking spaces, at \$200.00 per pass per month, and (ii) seven hundred eighty seven (787) located off-site at the World Trade Center Garage located at 333 S. Flower St. at \$100.00 per pass per month (served by a building shuttle every 15 minutes, from 5:00 am to 9:00 pm Monday-Friday, excluding holidays). Parking rates will increase three percent (3.0%) per annum. Prior to the first anniversary of Commencement Date, the City (i) must commit leasing up to one (1) unreserved parking pass per 1,000 RSF (298 passes) for the entire remaining lease term (as determined by the City), and (ii) thereafter shall have the right to lease up to two (2) additional unreserved parking passes per 1,000 RSF (595 passes). If City does not

LEASING TERM SHEET

commit to the entire one (1) unreserved parking pass per 1,000 RSF allocation, thereafter, Landlord shall have the right to lease the balance of such parking to third parties. Throughout the term, Tenant shall have to right to request additional on-site parking passes on an availability, month-to-month basis at the same discounted parking rates. Landlord shall provide discounted visitor parking validations for the off-site World Trade Center Garage for up to two hundred (200) visitor vehicles per week at \$2.00 per 20 minutes with a daily maximum of \$30.00 (subject to 3% annual increases) at cost to the City. Tenant Parking Permit Pool Management solution to be provided by Landlord.

UTILITIES	Included in Rental Rate (Absolute Gross Lease)
CUSTODIAL	Included in Rental Rate (Absolute Gross Lease)
SECURITY	Included in Rental Rate (Absolute Gross Lease)
PROP 13 PROTECTION	Yes (included in Absolute Gross Lease structure). There are no pass-throughs for property tax escalations.
INSURANCE (City)	City right to self-insure
OTHER:	<p>Swing Space – City right to temporarily use floors 34, 39-43 in As-Is condition at no Rent prior to Substantial Completion of the Tenant Improvements.</p> <p>Landlord Completion Guarantees – If lease is executed by July 15, 2023, and Landlord fails to deliver Substantial Completion of the Tenant Improvements for the entire premises on or before February 29, 2024, City shall receive additional Rent abatement on a day-for-day basis for each day of delay, and two (2) days of Rent abatement beginning on the 90th day of delay. If Substantial Completion has not occurred by July 15, 2024, City shall have the right to terminate the lease.</p> <p>Refurbishment - Painting and floor covering replacement throughout the premises at Landlord's cost in years 5 and 10 of the lease term.</p> <p>Restoration – No City obligation to demolish standard office improvements or data cabling upon lease expiration or termination.</p> <p>Right of First Offer to Purchase the Building</p> <p>Subordination, Non-Disturbance and Attornment Agreement to be provided by lender</p> <p>Hold Space Option – Near-term City option to expand by up to 28,000 USF, on the 33rd and 34th floors, exercised up to eighteen (18) months after the Commencement Date at the same Rent and applicable terms as though the Hold Space was part of initial premises, with a prorated Tenant Improvement allowance based on a 138 month firm term.</p>

LEASING TERM SHEET

Expansion Options – City options to expand by two (2) full floors designated by landlord, exercised on twelve (12) months prior notice, delivered (i) one (1) full floor on the 5th anniversary of the Commencement Date, and (ii) one (1) full floor on the 10th anniversary of the commencement date, at the same, then applicable Rent and terms as the premises, with a prorated Tenant Improvement allowance based on a 138 month firm term. If the City exercises its second expansion option, City shall no longer have any lease termination rights.

Exterior Building Signage – City shall be permitted to install (i) the wall monument sign located on Grand Avenue, and (ii) two (2) wall monument signs located on 5th Street at City's expense.

Heating, Ventilation & Air Conditioning - Monday through Friday, 7:00 am to 6:00 pm, and Saturday, 9:00 am to 1:00 pm (as requested), except for nationally and locally recognized holidays at Landlord's cost.

Janitorial - Five (5) days per week at Landlord's cost.

Security – On-site building security, and at the off-site World Trade Center garage during shuttle service hours (currently 5:00 am – 9:00 pm, Monday – Friday (excluding holidays) provided at Landlord's cost. Employee right to move off-site vehicles to on-site garage after dusk. Employee and visitor right to request guard escort to vehicles after dusk, on-site and off-site (during shuttle service hours only).

Data/Phone Providers – Verizon, AT&T, Cogent & Lumen have existing fiber infrastructure throughout the building.