

0150-12519-0001


TRANSMITTAL

TO The City Council	DATE 06/18/24	COUNCIL FILE NO. 23-1239
FROM Municipal Facilities Committee	COUNCIL DISTRICT 14	

The attached report from the Department of General Services (GSD) was waived by the Municipal Facilities Committee (MFC) and is hereby transmitted to Council for consideration. The report was previously approved by MFC on October 26, 2023. The report has been revised due to recent discussions with the property owner that resulted in material changes to the lease terms and conditions, which require Council approval.

Adoption of the report recommendations would authorize GSD to modify and execute a lease agreement between the Bureau of Sanitation's Livability Services Division and JC South Central, LLC, based on the revised terms and conditions for property located at 450, 500, and 590 South Central Avenue, in Council District 14. The revised terms and conditions clarify that the JC South Central, LLC, entity will act on behalf of both Landlords. The material changes and provision clarifications that were negotiated are mutually acceptable by the City and Landlord, and are detailed in Exhibit A of the attached report.

Fiscal Impact: There is no additional impact to the General Fund. Funding for this purpose has been provided in the 2024-25 Citywide Leasing Account.


for Matthew W. Szabo
City Administrative Officer

MWS:AW:05240146

CITY OF LOS ANGELES

CALIFORNIA

TONY M. ROYSTER
GENERAL MANAGER
AND
CITY PURCHASING AGENT



KAREN BASS
MAYOR

DEPARTMENT OF
GENERAL SERVICES
ROOM 701
CITY HALL SOUTH
111 EAST FIRST STREET
LOS ANGELES, CA 90012
(213) 928-9555
FAX No. (213) 928-9515

June 11, 2024

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

Attention: Jason Lopez, Legislative Assistant

****REVISED** REQUEST AUTHORITY TO NEGOTIATE AND EXECUTE A NEW LEASE
AGREEMENT FOR THE BUREAU OF SANITATION LIVABILITY SERVICES
DIVISION AT 450, 500, and 590 S. CENTRAL AVENUE, LOS ANGELES, CA 90013**

The Department of General Services (GSD) requests approval for revisions to a previously approved authority to negotiate and execute a new lease agreement for LA Sanitation and Environment (LASAN) for their Livability Services Division (LSD) with JC South Central, LLC and 590 S Central LLC for a 9.23 acre parcel at 450, 500, and 590 S. Central Avenue, Los Angeles, CA 90013 in Council District 14.

This matter was originally considered by the Municipal Facilities Committee on October 26, 2023 and ultimately approved by City Council on December 1, 2023 (CF#23-1239). Ongoing negotiations between ownership and the City have resulted in material lease changes and therefore GSD is seeking approval from City Council for these modifications to the lease.

Listed below are the material changes and provision clarifications that City and Ownership have negotiated in order to move forward with a mutually acceptable lease agreement.

REVISED TERMS AND CONDITIONS

All previously negotiated and Council-approved material terms for the lease from GSD's prior report remain substantially the same with the exception of the following:

Landlord:

Change: JC South Central, LLC and 590 S Central LLC. Landlord appoints JC South Central, LLC as Landlord's agent and representative to act for and bind Landlord with respect to all matters covered by this lease.

Comment: Ownership has clarified that JC South Central, LLC and 590 S Central LLC are the fee owners of the properties and are affiliates of Young's Holdings, Inc. Therefore, these entities will be the "Landlord" under the Lease. For ease of administration, the JC South Central, LLC entity will act on behalf of both Landlord entities.



Use:

Change: In no event shall City use the Premises to store, treat or dispose of hazardous waste or electronic waste, as a waste and/or recycling transfer facility, landfill facility, a water reclamation and/or water recycling plant, or a wastewater sewer and treatment plant.

Comment: Ownership is requesting to include restrictions on use. This addition does not affect the City's intended use.

Square Feet (SF):

Change: Ownership remeasured the three (3) parcels of the site and found discrepancies in the square footage and are amended as follows:

450 S. Central Avenue (Land)

Previously: 93,438 SF

Now: 85,061 SF

Difference: 8,377 SF Less (1,631 sf represents a portion of the warehouse/office which is located in this parcel and 6,746 sf represents the easement for the abutting property owner)

500 S. Central Avenue (Warehouse/Office Bldg)

202,107 SF (no change)

590 S. Central Avenue (Land) - Optional

Previously: 24,472 SF

Now: 28,749 SF

Difference: 4,277 SF More

Abutting Property (Cold Storage, 400 S. Central) - Ownership has an existing lease and easement burdening 6,746 SF of land of the 450 S. Central property for the benefit of the adjacent property. This 6,746 SF of land (or portion thereof) may be added to the 450 S. Central portion of the Premises and the Lease upon expiration of those agreements and City's acceptance of such property.

Comment: Ownership remeasured the three parcels and also discovered that the abutting property owner (Cold Storage - 400 S. Central) has a lease and easement burdening 6,746 SF which upon expiration may be added to the City's Premises, subject to City's acceptance. The annual net savings from the square footage change equals \$85,445.

Rent Start Date:

Change: Rent Commencement Date shall be staggered subject to Substantial Completion of Landlord's Work and issuance of Certificate of Occupancy, if applicable, among other requirements. Landlord shall provide early access to the Premises 45 days prior to Phase I Substantial Completion and 15 days prior to Substantial Completion of the other Phases.

Comment: The original MFC report did not account for early access, the City has now negotiated an early access provision of 45 days to Phase I (2-Story Office Building) in order to allow LASAN to install furniture and ITA cabling/equipment. The other remaining Phases have a 15-day early access provision.

Option Term:

Change: Option Rent - Fair Market Value not less than four (4%) percent

*Note: Base rent shall increase annually by 4% during option term.

Comment: Ownership requested that City give at least nine (9) months advance notice of Tenant's election to exercise the extension option. Originally, the notification period was six (6) months. Option rent will be established at fair market rental rate in no event not less than 4% of the then-current rental rate. Additionally, base rent will increase annually by 4% during the option term.

Holdover:

Change: 150% of Base Rent for 3rd through 12th month of holdover, and increases to 200% for remaining holdover period if Landlord is required to cancel a successor lease due to such holdover.

Comment: The City negotiated a two (2) month grace period without a holdover penalty. After that, the holdover penalty is 150% of base rent for the 3rd through 12th month of holdover and thereafter base rent increases to 200% if the City remains in possession of the property and if the Landlord is required to cancel a successor lease due to such holdover.

Sublet/Assignment:

Change: Landlord consent required for assignments and subleases, and Landlord to receive 50% of any profit.

Comment: The City and Ownership agreed to profit sharing in the event City decides to sublet/assign lease to an outside party other than a City entity. Landlord consent is required for assignments and subleases, and Landlord will receive 50% of any profit. Currently there are no plans to sublease or assign the lease.

Termination:

Change: City shall have a right to terminate Lease if Landlord does not substantially complete Phase I of Landlord's work by the later of December 31, 2024 or 120 days after Lease execution date, subject to a 20-day notice and cure period. City has the option to accept or reject the 590 S. Central portion (Phase III) within 60 days following the Phase II rent commencement date or Phase III substantial completion.

Comment: City and Ownership agreed to a lease termination in the event the Ownership is unable to substantially complete and deliver Phase I (2-Story Office Building) due to the Ownership disclosing there is an existing tenant at the site that is scheduled to vacate by August 31, 2024.

Rental Rate:

Change: Restating revised square footages due to Ownership re-measuring parcels. Rental rate has not changed.

450 S. Central Avenue (Land)	85,061 SF	\$0.85/SF
500 S. Central Avenue (Warehouse/Office Building)	202,107 SF	\$1.65/SF
590 S. Central Avenue (Land)	28,749 SF	\$0.85/SF

***Note: Hygiene Area within 500 S. Central equates to ~15,000 sf, rather than ~30,000 sf in initial term sheet report (Phase II)**

Comment: The original report estimated the hygiene area to be approximately 30,000 square feet. Upon further evaluation using the architectural drawings, the hygiene square footage has decreased by 50% to 15,000 square feet.

Tenant Improvements:

Tenant improvement costs are projected to be approximately \$7.44 million for all the phases of the project.

Change: Landlord shall perform certain tenant improvements to the Premises. Landlord shall provide a tenant improvement allowance in the amount of \$5 Million to be used for the costs for the tenant improvement work (which costs shall include, among other things, a Landlord supervision fee of 3%). Landlord agrees that up to \$500,000 of the initial \$5 Million allowance can be used for Tenant's FF&E, subject to certain conditions to be set forth in the Lease. Additional tenant improvement costs above the initial \$5 Million allowance shall be the responsibility of Tenant, and Tenant can either elect to utilize an additional \$5 Million from Landlord to be amortized over the course of the lease period and paid back as additional rent at 6% interest rate. Another option, if the City chooses not to amortize these funds and elects to reimburse the Landlord, the Landlord will assess such costs at a rate of 7%. The additional \$5 Million allowance (at 6% interest rate) may also be utilized by Tenant for up to two alteration projects but must be used no later than two years following the Phase II rent commencement date.

Comment: This is a revision that up to \$500,000 of the initial \$5 Million dollar tenant improvement allowance can be used for FF&E (fixtures, furniture and equipment), if there is a balance left over up to \$500,000. Additionally, Landlord will be allowed a 3% supervision fee for tenant improvement work and alterations, plus a 6% interest rate amortized over the initial Lease term. For the second tenant improvement allowance of the additional \$5 Million, the City can elect to amortize at 6% or reimburse at the cost of funds fee of 7%. The cost of funds fee allows the City the flexibility to repay in lump sum for the requested improvements on items that are alternatives that are not as capital intensive and not necessarily improvements that would require a larger capital commitment. Also, the tenant improvement allowance must be utilized within two years following the Phase II rent commencement date.

Americans with Disability Act (ADA):

Change: Any ADA work recommended in the provided CASP report within the public access areas specified therein and any required ADA improvements arising from the parking lot improvements shall not be part of the TI allowance but will be the sole responsibility of the Landlord. Other required ADA improvements arising from the building improvements shall be subject to the TI allowance and cost sharing. Required ADA improvements due to Tenant's alterations or use of the Premises as a place of public accommodation will be Tenant's responsibility.

Comment: This is a further clarification on which party will be responsible for the ADA implementation. City will be responsible for ADA compliance issues due to City alterations or use of the Premises as a place of public accommodation.

Asbestos:

Change: Per the Landlord's provided asbestos report, the Landlord shall perform the recommendations concerning Asbestos-Containing Materials (ACM) set forth in the report. The City is responsible for remediation required due to any future alterations after initial tenant improvements are complete.

Comment: Clarification that Ownership will be responsible to perform at their sole cost and expense the recommendations concerning ACM areas as identified under the 2019 Asbestos Report. Asbestos was found in the building; the locations and descriptions of the ACM are noted in the report. The majority of ACM has been categorized as mid-to-low priority for abatement. For example, ACM was located in the roof mastic, roof felt, floor tile and black mastic, joint compound associated with wallboard and exterior stucco wall/ceiling. In addition, as part of the tenant improvements, the flooring in the office space, Landlord has agreed to mitigate and abate the asbestos and this work not be part of the tenant improvement allowance.

Payment for Alterations:

Change: Where alterations requested by the City are performed by the Landlord and/or Landlord's contractor, the City must reimburse the Landlord, as additional rent, for the cost incurred by the Landlord plus a Landlord supervision fee equal to 3% and cost of funds fee equal to 7%. Alterations requested by Tenant may include further parking lot improvements referenced as Phase IV work in the initial term sheet report. Tenant must pay costs for Landlord's engineers and consultants to review plans for alterations requested by Tenant. If Tenant fails to remove its alterations at the end of the term, Landlord will charge Tenant for the cost to remove plus a 3% fee.

Comment: Clarification was needed when the City requires alterations to be done by Ownership, that City will reimburse Landlord as additional rent, including a supervision fee and cost of funds fee.

Existing Tenant:

Change: Landlord represents that there is an existing lease for the Premises which expires August 31, 2024 and agrees that it shall not amend the existing lease to extend such expiration date.

Comment: Ownership has disclosed to the City that there is an existing lease agreement that expires on August 31, 2024. Tenant has indicated that they will be vacating the Premises on or before June 15, 2024. In the event Ownership is unable to achieve substantial completion of Phase I by the later of December 31, 2024 or 120 days after Lease execution date, City has the right to terminate the lease agreement, subject to a notice and cure period.

Late Charges:

Change: Subject to applicable notice and cure periods, City shall pay to Landlord a late charge equal to 10% of past due Base Rent and NNNs other than the annual NNN reconciliation charge, and a late charge equal to 5% on other past due Rent items.

Comment: City and Ownership agreed that late fees on past due rent (base rent and variable rent) and additional rent will be assessed, 10% and 5% respectively. No interest will be charged for these overdue amounts.

Mandatory Earthquake Retrofit:

Change: In the event the extension option is exercised by City, Landlord shall have the right to terminate the Lease effective not earlier than January 31, 2043 with at least two years' prior written notice to City if Landlord is required by applicable law to make any earthquake retrofits to the building prior to the expiration of the extension option term that would cost in excess of two months' Base Rent and Variable Rent for the Premises.

Comment: Ownership notified City that there is a mandatory earthquake retrofit ordinance that the Landlord will need to comply with that may occur during the City's option period. However, this building has not been identified for any earthquake retrofits currently per the LADBS website. Ownership needs to have the ability to terminate the lease in order to make any of the earthquake retrofits that may be identified per City ordinance.

Hazardous Materials:

Change: City is responsible for hazardous materials released by City or its parties on the Premises or by any other cause, except to the extent the hazardous materials existed prior to the commencement date, resulted from migration from other properties, or was released by Landlord or its parties.

Comment: City and Ownership clarified responsibility for hazardous materials.

Other:

The revised material terms and conditions are outlined in the attached revised term sheet. Other terms and conditions are to be negotiated, modified, and finalized by GSD and set forth in the Lease.

FISCAL IMPACT

Funding in the amount of \$5,776,128 was requested in the Citywide Leasing Account Budget for FY 2024-25 for this lease. Projected costs for IT installation, moving, and rent (including triple net costs) for January to June 2025 total \$3,511,089 which will be paid from the Leasing Account leaving a savings of \$2,265,039 for the fiscal year budget. Estimates listed below have changed from the last approved report as a result of the delay of this lease execution.

Subsequent fiscal year budget requests will include the 4% rent escalations and full annual costs for all phases.

Fiscal Year 2024-2025						
	Project Phase	Monthly Cost Per SF	Avg Monthly Projected Costs	2024-25 Estimated Expenses	2024-25 Requested Budget	2024-25 Estimated Surplus/ (Shortfall)
Rent 187,107 SF 6mo	Phase 1	\$1.65	\$308,727	\$1,852,359		
Rent 85,061 SF 6mo	Phase IA	\$0.85	\$72,302	\$433,811		
Rent 15,000 SF 2mo	Phase II	\$1.65	\$24,750	\$49,500		
Rent 28,749 SF 2mo	Phase III	\$0.85	\$24,437	\$48,873		
NNN Costs (a) 6mo		\$0.32	\$64,674	\$388,045		
Moving				\$50,000		
IT Costs				\$688,500		
Total		\$1.06	\$494,889	\$3,511,089	\$5,776,128	\$2,265,039

Estimated Staggered Rent Commencement Dates:

Phase 1 - 500 Building/Warehouse - January 1, 2025

Phase IA - 450 Parking Lot - January 1, 2025

Phase II - Hygiene Facility - May 1, 2025

Phase III - 590 Parking Lot - May 1, 2025

(a) NNN Costs includes, among other things: Property tax, property insurance, roof maintenance, building maintenance, engineering services, management fee, landscaping, and janitorial.

RECOMMENDATION

That the Los Angeles City Council, subject to the approval of the Mayor, authorize the Department of General Services to negotiate and execute a new lease based on the revised terms and conditions with JC South Central, LLC and 590 S Central LLC at 450, 500, and 590 S. Central Avenue, Los Angeles, CA 90013 for the centralized campus for LASAN's Livability Services Division under the terms and conditions substantially outlined in this report.



Tony M. Royster
General Manager

Attachments: Exhibit A: Revised Term Sheet
Exhibit B: Revised Site Map

REVISED - EXHIBIT A
LEASING TERM SHEET

MFC DATE

6/11/2024

***LANDLORD**

JC South Central, LLC and 590 S Central LLC
Landlord appoints JC South Central, LLC as Landlord's agent and representative to act for and bind Landlord with respect to all matters covered by this Lease.

ADDRESS

15 Enterprise, Suite 100, Aliso Viejo, CA 92656

TENANT

City of Los Angeles, Department of General Services

ADDRESS

111 E. First Street, Room 201, Los Angeles, CA 90012

LOCATION

450, 500, 590 S. Central Avenue, Los Angeles, CA 90013

AGREEMENT TYPE

No Change

***USE**

LASAN (Sanitation) Livability Services Division program for warehousing, storage of personal property, staff deployment, as well as vehicle parking. ***In no event shall City use the Premises to store, treat or dispose of hazardous waste or electronic waste, as a waste and/or recycling transfer facility, landfill facility, a water reclamation and/or water recycling plant, or a wastewater sewer and treatment plant.***

***SQUARE FEET**

One industrial facility and two additional land parcels on **9.23 Acres**

450 S. Central Avenue (Land)	93,438 SF
500 S. Central Avenue (Warehouse/Office Bldg)	202,107 SF
590 S. Central Avenue (Land) - Optional	24,472 SF

REVISED to:

450 S. Central Avenue (Land)	~85,061 SF
500 S. Central Avenue (Warehouse/Office Bldg)	~202,107 SF (no change)
590 S. Central Avenue (Land) - Optional	~28,749 SF

An additional ~6,746 SF of land may be added to the 450 S. Central portion of the Premises after expiration of an existing lease and easement burdening such area.

TERM

No Change

***RENT START DATE**

Rent Commencement Date shall be staggered subject to Substantial Completion of Landlord's Work and issuance of Certificate of Occupancy, if applicable, among other requirements. Landlord shall provide early access to the Premises for 45 days prior to Phase I Substantial Completion and 15 days prior to Substantial Completion of the other Phases.

LEASE START DATE	No Change
*OPTION TERM	Option Rent - FMV not less than four (4%) percent *Note: Base rent shall increase annually by 4% during option term.
*HOLDOVER	150% of Base Rent for 3rd through 12th month of holdover, and increases to 200% for remaining holdover period if Landlord is required to cancel a successor lease due to such holdover.
*SUBLET/ ASSIGNMENT	Landlord consent required for assignments and subleases, and Landlord to receive 50% of any profit.
*TERMINATION	City shall have a right to terminate Lease if Landlord does not substantially complete Phase I of Landlord's work by the later of 12/31/24 or 120 days after Lease execution date, subject to a 20 day notice and cure period. City has option to accept or reject the 590 S. Central portion (Phase III) within 60 days following later of Phase II rent commencement date or Phase III substantial completion.
*RENTAL RATE	<div> <div>450 S. Central Avenue (Land)</div> <div>85,061 SF</div> <div>\$0.85/SF</div> </div> <div> <div>500 S. Central Avenue (Warehouse/Office Bldg)</div> <div>202,107 SF</div> <div>\$1.65/SF</div> </div> <div> <div>590 S. Central Avenue (Land)</div> <div>28,749 SF</div> <div>\$0.85/SF</div> </div> <p>*Note: Hygiene Area within 500 S. Central equates to ~15,000 sf, rather than ~30,000 sf in initial term sheet report (Phase II)</p>
ESCALATION	No Change
RENTAL ABATEMENT	No Change
ADDITIONAL RENT OWNER CARRIED FINANCING	No Change
PROPERTY TAX	No Change
OPEX	No Change
RIGHT OF 1 ST OFFER TO PURCHASE	No Change
SECURITY DEPOSIT	No Change
MAINTENANCE/ REPAIR	No Change
LANDLORD IMPROVEMENTS	No Change

***TENANT
IMPROVEMENTS**

Landlord shall perform certain tenant improvements to the Premises for City's use. Landlord shall provide a tenant improvement allowance in the amount of \$5 Million to be used for the costs for the tenant improvement work (which costs shall include, among other things, a Landlord supervision fee of 3%). Landlord agrees that up to \$500,000 of the initial \$5 Million allowance can be used for Tenant's FF&E, subject to certain conditions to be set forth in the Lease. Additional tenant improvement costs above the initial \$5 Million allowance shall be the responsibility of Tenant, and Tenant can either elect to utilize an additional \$5 Million from Landlord to be amortized and paid back as additional rent at 6% interest rate, or reimburse Landlord for such costs plus a cost of funds fee of 7%. The additional \$5 Million allowance (at 6% interest rate) may also be utilized by Tenant for up to 2 alteration projects but must be used no later than 2 years following the Phase II rent commencement date.

Americans with Disability Act (ADA)

Any ADA work recommended in the provided CASP report within the public access areas specified therein and any required ADA improvements arising from the parking lot improvements shall not be part of the TI allowance but will be the sole responsibility of the Landlord. Other required ADA improvements arising from the building improvements shall be subject to the TI allowance and cost sharing. Required ADA improvements due to Tenant's alterations or use of the Premises as a place of public accommodation will be Tenant's responsibility.

Asbestos

Per Landlord's provided asbestos report, Landlord shall perform the recommendations concerning ACM set forth in the report. Tenant is responsible for remediation required due to Tenant's alterations.

Payment for Alterations

Where alterations requested by Tenant are performed by Landlord and/or Landlord's contractor, Tenant must reimburse Landlord, as additional rent, for the cost incurred by Landlord plus a Landlord supervision fee equal to 3% and cost of funds fee equal to 7%. Alterations requested by Tenant may include further parking lot improvements referenced as Phase IV work in the initial term sheet report. Tenant must pay costs for Landlord's engineers and consultants to review plans for alterations requested by Tenant. If Tenant fails to remove its alterations at the end of the term, Landlord will charge Tenant for the cost to remove plus a 3% fee.

UTILITIES

No Change

CUSTODIAL

No Change

SECURITY

No Change

LANDSCAPE

No Change

PARKING

No Change

PROP 13

No Change

PROTECTION

INSURANCE
(City)

***OTHER:**

Signage: City shall have the right to install signage on the building and property subject to Landlord's consent.

Building/Parking Access: City shall have access to the Premises, 24 hours a day, 365 days a year.

Existing Tenant: Landlord represents that there is an existing lease for the Premises which expires August 31, 2024 and agrees that it shall not amend the existing lease to extend such expiration date.

Late Charges: Subject to applicable notice and cure periods, Tenant shall pay to Landlord a late charge equal to 10% of past due Base Rent and NNNs other than the annual NNN reconciliation charge, and a late charge equal to 5% on other past due Rent items.

****Mandatory Earthquake Retrofit: In the event the extension option is exercised by Tenant, Landlord shall have the right to terminate the Lease effective not earlier than January 31, 2043 with at least 2 years' prior written notice to Tenant if Landlord is required by applicable law to make any earthquake retrofits to the building prior to the expiration of the extension option term that would cost in excess of 2 months' Base Rent and Variable Rent for the Premises.***

Hazardous Materials: Tenant is responsible for hazardous materials released by Tenant or its parties on the Premises or by any other cause, except to the extent the hazardous materials existed prior to the commencement date, resulted from migration from other properties, or was released by Landlord or its parties.

Other terms and conditions to be negotiated, modified, and finalized by GSD and set forth in the Lease.

PRINT:

David Solomon, President, Real Estate & Alternative Investments

SIGNATURE:

EXHIBIT B: SITE MAP

YOUNGS MARKET SITE - 450, 500, 590 S. Central Avenue
Proposed LA Sanitation Livability Campus



- CAMPUS SIZE 9.23 ACRES**
- Just north of Arts District and Historical Industrial District
 - Centrally located – 1 mile from City Hall
 - Near major freeways 5, 10, 60, 101, & 110
 - Large fenced, paved and lighted private yard
 - Update Parking: 354 spaces

500 S. Central – PHASE I
Warehouse Building
202,107 SF warehouse with dock high loading

Included in the Warehouse Building:
39,422 SF 2-Story Office Building
15,000 SF Hygiene Facility

450 S. Central – PHASE IA
85,061 SF New Parking Lot

500 S. Central – PHASE II
15,000 SF existing space within warehouse to be built out for staff hygiene shower/locker facility

590 S. Central – PHASE III (Optional)
28,749 SF New Parking Lot

400 S. Central – Neighbor Cold Storage (Optional)
6,746 SF Land Easement with abutting property owner, Cold Storage.