

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 18, 2022

CAO File No. 0150-12076-0000

Council File No.

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Los Angeles World Airports dated April 14, 2022; referred by the Mayor for a report on April 14, 2022

Subject: **PROPOSED FIRST AMENDMENT TO LEASE LAA-8952 WITH DELTA AIRLINES, INC. TO ADJUST THE PREMISES AND EXTEND THE TERM FOR OFFICE SPACE AT 6033 WEST CENTURY BOULEVARD, NEAR LOS ANGELES INTERNATIONAL AIRPORT**

RECOMMENDATION

That the Mayor:

1. Approve the proposed First Amendment to Lease LAA-8952 with Delta Airlines, Inc., to extend the term for three years, to January 31, 2025, and incrementally reduce the combined leased spaces at 6033 West Century Boulevard, adjacent to Los Angeles International Airport, from approximately 25,000 square feet to 8,100 square feet by the end of the lease term, subject to City Attorney approval as to form and compliance with the City's Standard Provisions, including the: Living Wage Ordinance, Affirmative Action Program, Business Tax Registration Certification, Child Support Obligations Ordinance, Contractor Responsibility Program, and MLO Bidder Contributions CEC Form 50;
2. Authorize the Chief Executive Officer to execute the proposed First Amendment to Lease LAA-8952, upon approval by the Los Angeles City Council, and prior to the execution of the First Amendment, Delta Airlines, Inc. must:
 - a. Have approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports; and
 - b. Be determined by Public Works, Office of Contract Compliance to be in full compliance with the provisions of the Equal Benefits Ordinance; and
3. Return the request to the Los Angeles World Airports for further processing, including Council Consideration.

SUMMARY

The Los Angeles World Airports (LAWA) Board of Airport Commissioners (BOAC) requests approval of a proposed First Amendment to Lease LAA-8952 (Lease Agreement) with Delta Airlines, Inc. (Delta), at 6033 West Century Boulevard (Skyview Center), to extend the term of the lease through January 31, 2025. Approximately 25,000 Square Feet (SF) of leased space is divided among three suites that Delta occupies on the first and the third floor of the property. The leasehold dedicates about 15,000 SF to the first floor (Suites 100 and 150) and roughly 10,000 SF to the third (Suite 300). Delta's lease term expired on January 31, 2022 and the company has remained on the premises as a holdover tenant.

On January 10, 2017, the BOAC approved a 60-month Lease Agreement with Delta for nearly 25,000 square feet (SF) of combined space at the Skyview Center. The space was built out by Delta's project management office to support the Delta Skyway Project at Los Angeles International Airport (LAX).

The Delta Skyway Project is a joint \$2.3 billion renovation initiative between LAWA and Delta to transform Terminals 2 and 3 (T 2/3) into a modern, state-of-the-art facility to ease travel through LAX. The T 2/3 project includes upgrades such as a consolidated check-in lobby which features 32 self-serve kiosks, 46 check-in positions, and a 250-foot digital back wall that spans the entire length of the facility, displaying flight information in both English and Spanish. Upon completion of the project, Terminals 2 and 3 will be a consolidated 1.2 million SF, 27-gate complex, to increase travel efficiency. Additionally, the Skyway Project will connect to the Tom Bradley International Terminal for easy accessibility to Delta's international partner-operated flights. This consolidated effort to modernize one of Delta's key terminal hubs is part of LAWA's ongoing, multi-phased airport improvement plans that will result in significant renovations to a large segment of LAX's terminals.

As Delta moves closer to closing out the Skyway Project, the current square footage occupied in its leasehold is not essential to finalize the remaining T 2/3 upgrades. As such, Delta requests to amend its leasehold by extending the term for up to three years and progressively reducing its office square footage in the Skyview Center. The square footage reduction is phased over a three-year period and the term of the lease is expected to expire contemporaneously with the completion of Delta's Skyway Project. LAWA indicated that Delta will minimize its footprint in the Skyview Center by relinquishing Suite 300 by January 2023 and concluding its operation in Suite 150 by January 2024. The only office space to remain after year two is Suite 100. There are no imminent plans for the vacated suites, however, they both will be advertised and leased to new tenants.

According to LAWA, Delta paid approximately \$3 million in rent over the previous three years and downsizing the office space will result in a gradual, yearly revenue reduction over the extended term. The total anticipated revenue over the additional term is approximately \$1.3 million, which is nearly a \$2 million decline from the three years prior. Below is a summary of the proposed lease reduction and the expected revenue paid to LAWA for the demised premises under the proposed First Amendment.

	Current	Proposed
Expiration Date	January 31, 2022	Suite 300 – January 31, 2023 Suite 150 – January 31, 2024 Suite 100 – January 31, 2025
Premises	Suite 100 – 8,151 SF Suite 150 – 6,836 SF Suite 300 – 10,078 SF	No Change
Rental Rate	\$2.25/SF/Month	\$2.25/SF/Month through 2023 \$2.32/SF/Month through 2024 \$2.39/SF/Month through 2025
Annual Rent (Including CPI Adjustments)	\$676,755	\$676,755 through January 31, 2023 \$417,238 through January 31, 2024 \$233,771 through January 31, 2025

Approval of the proposed First Amendment will extend the Lease term by three years, allowing Delta to continue use and occupancy of the leased spaces at the Skyview Center for the purpose of completing and closing out the Terminal 2/3 project, and gradually decreasing the square footage of its leasehold.

The BOAC approved the proposed First Amendment to Lease LAA-8952 with Delta Airlines, Inc. at its meeting on April 14, 2022. Actions taken on this item by the BOAC will become final pursuant to the provisions of the Los Angeles City Charter Section 606.

FISCAL IMPACT STATEMENT

Approval of the proposed First Amendment to Lease LAA-8952 with Delta Airlines, Inc., to extend the term up to three years, and reduce its leasehold's square footage will have no impact on the City's General Fund. It is anticipated that the implementation of the proposed agreement will produce a gradual decline in rent revenue for each year of the extended period. The proposed agreement includes a \$75,000 appropriation for Broker Commission and Tenant Improvements. Funds are available in Los Angeles World Airports' Operating Budget LAX Cost Center 2001525 – Skyview Center, Commitment item 520. The action of the proposed Lease Agreement complies with LAWA's adopted Financial Policies.