

0150-12255-0000


TRANSMITTAL

TO Council	DATE 01-17-23	COUNCIL FILE NO. 14-1315-S1
FROM Municipal Facilities Committee		COUNCIL DISTRICT 2

At its meeting held on December 15, 2022, 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 execute a new lease agreement between the City of Los Angeles and Milan Rei VIII for continued use of office space located at 6400 Laurel Canyon, Suite 610 (CD 2).

GSD previously obtained MFC approval of the proposed lease terms at its meeting held on April 19, 2022. However, the prior action required additional clarification to include a two percent rent credit and revised rentable square footage (sf). During the first two years of the lease, the City will only be charged for the use of 6,317 sf (out of a total of 8,661 sf). The term of the lease agreement is for five years, with one five-year renewal option and a base year reset to occur in 2026.

There is no General Fund impact as the leasing expenses will be paid directly by the Los Angeles Housing Department using monies available within the Rent Stabilization Trust Fund (Fund No. 440) and Systematic Code Enforcement Fee Fund (Fund 41M), which are budgeted for this purpose.



Matthew W. Szabo
Chair, Municipal Facilities Committee

CITY OF LOS ANGELES

CALIFORNIA

TONY M. ROYSTER
GENERAL MANAGER
AND
CITY PURCHASING AGENT



ERIC GARCETTI
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

December 15, 2022

Honorable City Council
City of Los Angeles
C/o City Clerk
Room 305, City Hall
Los Angeles, CA. 90012

Attention: Michael Espinosa, Legislative Assistant

REQUEST AUTHORITY TO NEGOTIATE AND EXECUTE A NEW LEASE AGREEMENT WITH MILAN REI VIII FOR OFFICE SPACE AT 6400 LAUREL CANYON, SUITE 610, LOS ANGELES

The Department of General Services (GSD) requests authority to negotiate and execute a lease agreement with the Milan Rei VIII (Milan) for 8,661 rentable square feet (sf) of space at 6400 Laurel Canyon, Suite 610, Los Angeles for use by the Los Angeles Housing Department (LAHD) formerly known as Housing and Community Investment Department.

Authority for this lease was previously approved by Council (CF 14-1315-S1), however, the attached term sheet clarifies business terms regarding expenses that were not included in the previous report.

BACKGROUND

On August 26, 2016, the City of Los Angeles executed lease agreement C-126153, (CF 14-1315) for office space at 6400 Laurel Canyon for five years from August 26, 2016 to August 25, 2021. The lease contained a five-year option to extend effective August 26, 2021 to August 25, 2026. In August 2021, while LAHD was deciding on the amount of space they needed in light of possible telecommuting and other factors, the original contract went into holdover status and so a new one is now needed.

The terms and conditions agreed upon were finalized in late January 2022. The office is used for Housing Department's investigation operations.

Business terms clarified under this new agreement include rent abatement and rent credit.



TERMS AND CONDITIONS

The new proposed lease will change rentable square footage use from 8,457 to 8,661. However, the City will be charged for use of only 6,317 sf from September 1, 2021 to August 31, 2023 as a courtesy rent reduction. The rent reduction will now be a one time amount when the lease is executed that is amortized over twelve months. From September 1, 2023 through August 31, 2026, the City will be charged for the actual use of 8,661 sf. Annual increases will be 3% of the Monthly Rental Rate. Current rent is \$16,336.15 at \$1.93 per sf. New proposed rental terms are as follows:

Lease Term	Monthly Rent Rate	Total sf	Total Monthly Rent
9/1/21-8/31/22	\$2.50	6317	\$15,792.50
9/1/22-8/31/23	\$2.58	6317	\$16,297.86
9/1/23-8/31/24	\$2.65	8661	\$22,951.65
9/1/24-8/31/25	\$2.73	8661	\$23,644.53
9/1/25-8/31/26	\$2.81	8661	\$24,337.41

MARKET ANALYSIS

Lease comparables for this location are included in the table below.

Note: Comparative rates are within one mile of the location evaluated from 2019 to present.

6400 Laurel Canyon, Suite 610	Monthly Rent (per sf)
6350 Laurel Canyon 4 th floor	\$2.50
6260 Laurel Canyon 2 nd floor	\$2.50
6400 Laurel Canyon, 2 nd floor	\$2.50
12150 Hamlin Street	\$1.87
Total Average	\$2.34
Proposed Rent*	\$2.50

*Proposed Rent is less than 7% above market range of comparables

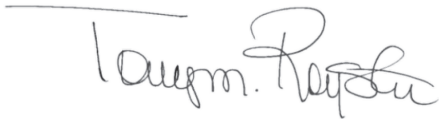
FISCAL IMPACT

There is no impact to the City's General Fund. The Los Angeles Housing Department is budgeted to pay the lease directly. Fiscal Year 2022-23 costs were anticipated to be \$196,033.80. Estimated monthly costs are \$15,792.50 for two months and \$16,297.86 for ten months, \$194,563.60 for FY 2022-23, resulting in a nominal surplus of \$1,470.20. There will also be a one-time rent reduction credit covering the period from September 1, 2021 to the lease execution date.

	Monthly Proposed Costs	2022-23 Estimated Expense	2022-23 Available Funding	2022-23 Estimated Surplus
Rent (2 mo)	\$15,792.50	\$31,585.00		
Rent (10 mo)	\$16,297.86	\$162,978.60		
TOTAL		\$194,563.60	\$196,033.80	\$1,470.20

RECOMMENDATION

That the Los Angeles City Council, subject to the approval of the Mayor, authorize GSD to negotiate and execute a lease agreement with Milan Rei VIII, LLC for the continued use of office space located at 6400 Laurel Canyon Blvd, Los Angeles, California 91606 for LAHD use under the terms and conditions substantially outlined in this report.



Tony M. Royster
General Manager

Attachment: Term Sheet

LEASING TERM SHEET

MFC DATE	12/15/2022
LANDLORD	Milan REI VIII, LLC
ADDRESS	701 S. Parker Street Suite 5200 Orange, CA 92868
TENANT	Los Angeles Housing Department
ADDRESS	1200 West 7th Street, Los Angeles, Suite 100, CA 90017
LOCATION	6400 Laurel Canyon, Suite 610, Los Angeles, CA 90037
AGREEMENT TYPE	Full Service Gross Office Lease with 2022 Base Year at 95% Gross Up
USE	Office Space
SQUARE FEET	8,661 rentable square feet & 7,056 useable square feet
TERM	60 months
RENT START DATE	9/1/21
LEASE START DATE	9/1/21
OPTION TERM	One (1) five (5) year option at "Fair Market Value" with a 2026 Base Year reset.
HOLDOVER	150%
SUBLET/ ASSIGNMENT	Right to Sublease - Landlord approval
TERMINATION	8/31/2026
RENTAL RATE	Year 1-2: \$15,792.50 w/ 3% annual bumps, Year 3 - 5: \$22,951.65 w/ 3% annual bumps
ESCALATION	Year 1 - 2: 3% annual bumps on 6,317 rsf, Year 3 - 5: 3% annual bump on 8,661 rsf w/ 3% including the Option Term.
RENTAL ABATEMENT	None
ADDITIONAL RENT	**Starting on 13th month, City pays prorata share of increase over 2022 Base Year
PROPERTY TAX	**Starting on 13th month, City pays prorata share of increase over 2022 Base Year
OPEX	**Starting on 13th month, City pays prorata share of increase over 2022 Base Year
CAM	**Starting on 13th month, City pays prorata share of increase over 2022 Base Year

OTHER	None
SECURITY DEPOSIT	Zero
MAINTENANCE/ REPAIR	Landlord <input type="text"/>
MAINTENANCE/ REPAIR DETAILS	Landlord fixes all common areas and general maintenance at site as billed to City through Operating Expenses.
TENANT IMPROVEMENTS	Any Tenant Improvements are at City's sole cost. City has not requested any Tenant Improvements.
PARKING	32 parking spaces included in the Base Rent
UTILITIES	**Starting on 13th month, City pays prorata share of increase over 2022 Base Year
CUSTODIAL	**Starting on 13th month, City pays prorata share of increase over 2022 Base Year
SECURITY	**Starting on 13th month, City pays prorata share of increase over 2022 Base Year
PROP 13 PROTECTION	Landlord will NOT provide Prop 13 protection. <input type="text"/>
INSURANCE	City shall indemnify and hold harmless Landlord <input type="text"/>
OTHER:	<p>City will be charged on 6,317 rsf the first two (2) years and from year 3 - 5 City shall be charged on 8,661 rsf. Landlord will provide a lump sum credit that is approximately \$6,678.96 that may be used when lease is fully executed to account for the overpayment towards Base Rent or Additional Rent starting 9/1/21 through new lease extension. Tenant's Pro-rata share of expenses will be based on 6,317 rsf (7.05%) for the first two (2) years and then 8,661 square feet (9.66%) for the remainder of the initial Term and the Option Term (if the 5 - year option is exercised). The denominator of the Building is 89,607 RSF.</p> <p>Furthermore, Landlord shall provide a one time credit equal to 2% of the total Gross Base Rent which is approximately \$24,725.75 or \$2,060.48/per month, when the lease is fully executed to be amortized over twelve months commencing when the lease is fully executed.</p>