

CITY OF LOS ANGELES

CALIFORNIA

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KAREN BASS
MAYOR

December 14, 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

AMENDED REQUEST FOR AUTHORITY TO NEGOTIATE AND EXECUTE A LEASE AGREEMENT WITH GREGG WILLIAMS, RECEIVER FOR MAGUIRE PROPERTIES-555 W. FIFTH, LLC. AND REQUEST FOR AN INTERIM BUDGET APPROPRIATION CONCERNING THE PROPOSED LEASE AGREEMENT AT 555 W. 5th STREET, LOS ANGELES

The Department of General Services (GSD) requests authority to negotiate and execute a lease agreement with Gregg Williams, Receiver for Maguire Properties–555 W. Fifth, LLC, for approximately 308,791 rentable square feet (rsf) of office space at 555 W. 5th Street, Los Angeles, the Gas Company Tower (GCT) which would include approval for an Interim Budget Appropriation.

The office space is for the five City departments; Community Investment for Families (CIFD), Economic Workforce Development Department (EWDD), Housing Department (LAHD), Youth Development Department (YDD), and Office of Finance (OOF) that are scheduled to vacate 1200 W. 7th Street (the Garland Building) after the City’s lease expires on February 29, 2024.

In light of the thorough reevaluation of the market, including the issuance of a new Request for Proposal, receipt and review of new proposals, comprehensive space planning, renegotiation of transaction terms, and detailed financial analyses, the originally selected building, GCT, under the renegotiated terms, still stands as the optimal choice for the City.

GSD is requesting an Interim Budget Appropriation of approximately \$21.7 million to pay for the City’s portion of the design, tenant improvement construction, furniture and relocation costs (TI) in 2024. The majority of the appropriation would be offset through GCT’s rent and parking abatement concessions totaling approximately \$19.8 million in costs during months 2-16 of the lease term.

BACKGROUND

Five City departments (over 1,200 employees in total) currently occupy approximately 228,539 SF of office space at 1200 West 7th Street (Garland Building):



- Los Angeles Housing Department (LAHD): 672 Employees
- Office of Finance (OOF): 232 Employees
- Economic Workforce Development Department (EWDD): 178 Employees
- Community Investment For Families Department (CIFD): 114 Employees
- Youth Development Department (YDD): 34 Employees

During the past year, GSD's Real Estate Services (RES) team has been engaged with the five departments to relocate to a new office space as part of the ongoing Garland Relocation Project.

Since the lease at the Garland Building ends February 29, 2024, GSD engaged a broker, CBRE, who then issued Request for Proposals (RFP) to landlords in the downtown area in February of 2023. A total of 12 office buildings were identified and evaluated through a competitive process. Out of these, preliminary space plans were ultimately prepared for five buildings to assess their layout based on City space standards, departmental requirements, space efficiency, and flexibility to accommodate future departmental growth requirements. Comprehensive analyses of projected occupancy costs were prepared based on negotiated lease terms, detailed cost assumptions, and evaluations of space plans. With direction from the Municipal Facilities Committee (MFC) and according to feedback from the five departments, 555 W. 5th St., the Gas Company Tower (GCT) was selected as the best overall option for permanent relocation.

GSD received subsequent Council approval (CF 23-0604) on June 16, 2023 to negotiate and execute a lease agreement with Gregg Williams, Receiver for Maguire Properties—555 W. Fifth, LLC, for a proposed lease at the GCT. Due to the continued deterioration of the market, on July 10, 2023, prior to execution of the lease, a significant appraisal reduction occurred for the building, resulting in a material change in the landlord's proposed lease terms for the City in early September.

In response to the proposed restructured GCT lease terms, the MFC directed GSD on September 28, 2023 to explore all possible options, which included identifying available office spaces that met the project requirements including temporary swing space. This involved re-issuing RFPs to ten (10) viable buildings and landlords including GCT. Responses to the new RFP were analyzed and presented to the MFC on October 26, 2023.

Key staff from the five departments toured the potential locations which were determined to most favorably meet the requirements of the latest RFP.

ALTERNATE OPTIONS

Other location options were considered, however, based on the economic factors, department preferences, potential purchase options, and abbreviated project timeline, the GCT building was selected as the best location to meet the City's space needs for all of the involved departments.

PROJECT TIMELINE

Current projections show an estimated construction completion by December 2024.

TEMPORARY OFFICE SPACE

GSD worked with the five City departments on their preferred locations and number of workstations/offices to solve for their temporary space needs while their new spaces at GCT are being built out and readied for occupancy. This includes leases or space agreements that were or are being approved separately.

Also, through the agreement with GCT, free temporary office space will be made available to the City departments as soon as the lease is executed. GCT has indicated they can provide the required temporary office space, also called swing space, and two floors worth of storage space while construction is to be performed on the floors the City is leasing. Temporary space consists of 153,416 sf of office swing space and 41,000 sf of storage space available on January 1, 2024. An additional 54,284 sf of office swing space will be available for use by approximately April 2024. All swing space will be provided as-is, rent free with applicable parking charges paid by the City.

TERMS AND CONDITIONS

The term shall commence upon substantial completion of the tenant improvements and will be for 15 years with two, five-year options to extend. Expansion rights are also offered for future growth under the same terms available for delivery on the 5th anniversary and 10th anniversary of the commencement date at one full floor for each option (subject to a proration of the TI 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.

The lease rate for year one is \$4 per rsf per month with 3% annual increases. Monthly rent is estimated at \$1,235,164 for 308,791 rsf of space, or \$14,821,968 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 (further delineated in the agreement) to lease up to three (3) unreserved parking passes per 1,000 rentable sf (927) passes, consisting of (i) 109 passes located on-site, of which six (6) are reserved parking spaces, at \$220.00 per pass per month, and (ii) 818 located off-site at the World Trade Center Garage located at 333 S. Flower St. at \$100 per pass per month (excluding City parking tax), served by a building shuttle every 15 minutes, currently operating from 5:00 am to 9:00 pm Monday-Friday, excluding holidays.

GCT will provide up to 200 discounted parking validations per week for the City's visitor parking. The validations will serve to reduce the parking rate to visitors down to \$2.00 per 20 minutes and \$30 daily maximum (excluding City parking tax).

TENANT IMPROVEMENTS/ FURNITURE/ COMMUNICATION/ MOVING EXPENSE

The City has completed an analysis and anticipates that a total project cost budget of \$210 per usable sf, plus approximately \$377,000 for temporary move and decommissioning expenses for the City's current space totaling \$55.69 million is needed to fund the improvements, furniture and moving expenses. At this time, it is anticipated that the entire amount will be required to pay for all the needed tenant improvements, construction, and soft costs associated with the project. Approximately \$110 per rsf or \$33.97 million of the TI allowance for the City's design, construction, furniture and relocation costs will be provided by the landlord.

The City's portion of TI costs will total approximately \$21.72 million, and is anticipated to be covered by the Interim Budget Appropriation that is requested in this report.

PERFORMANCE GUARANTEE

The landlord is committed to deliver substantial completion of the TIs by December 18, 2024 if the lease is executed by January 31, 2024. The performance guarantee provides that if the lease is executed by that date, and the landlord fails to deliver substantial completion of the TIs for the entire premises on or before February 16, 2025, the City shall receive additional rent abatement on a day-for-day basis for each day of delay for the applicable portion of the premises for which substantial completion has not occurred, and two (2) days of rent abatement or the applicable portion of the premises for which substantial completion has not occurred beginning on May 17, 2025. If substantial completion for the entire premises has not occurred by December 1, 2025, City shall have the right to terminate the lease [subject to City caused delays (as the tenant) and/or delays caused by force majeure].

COST SUMMARY/BREAKDOWN

The cost of the new lease will be split among departments that 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 36.85% and the Special Funded portion is 63.15%, with the following breakdown:

- LAHD- 48.46% (Special Funded)
- EWDD - 14.69% (Special Funded)
- OOF - 18.14%
- CIFD - 8.75%
- YDD - 3.86%
- Common Space - 4.77%
- Unallocated - 1.33%

INTERIM BUDGET APPROPRIATION

Current funding in the Citywide Leasing Account FY 2023-24 budget is not sufficient to pay the City's portion of the TI costs totaling \$21.4 million. However, projected FY 2024-25, FY 2025-26, and FY2026-27 budget amounts for leasing would be capable of repaying the remaining amount over the next three Fiscal Years. The Landlord will provide rent and parking abatement for months 2-16 of the lease term, with an aggregate value of \$19.8 million.

For FY 2025 the Interim Budget Appropriation payments would be made from the General Fund Citywide Leasing Account and Special Funds from LAHD and EWDD. The CAO is working out a repayment plan which shows funds being repaid by the end of FY 2025-26.


FISCAL IMPACT

The FY 2023-24 Citywide Leasing Account Budget for the new permanent lease is \$1.89 million, however those funds have been approved by the MFC and City Council to pay for temporary office space for the five affected departments. Funding for TI costs remains unbudgeted this FY. An Interim Budget Appropriation will be needed to cover the \$21.4 million in upfront TI, move, and Network/ITA costs payable by the City. General Funds from the Leasing Account and Special Funds from LAHD and EWDD will repay the loan over three fiscal years.

	Monthly Proposed Costs	2023-24 Estimated Expense	2023-24 Funding Needed
Rent	\$1,235,164		
Free Rent Credit			
Parking	\$101,310		
TI/Moving		\$21,352,030	
TOTAL	\$1,336,474	\$21,352,030	\$21,352,030

RECOMMENDATION

- Authorize the Department of General Services, subject to the approval of the Mayor, to negotiate and execute a lease agreement with Gregg Williams, Receiver for Maguire Properties—555 W. Fifth at 555 W. 5th Street, Los Angeles, CA 90071 under the terms and conditions substantially outlined in this request.
- Approve \$21.35 million for an Interim Budget Appropriation from the Reserve Fund No 101/62 to the Unappropriated Balance Fund 100/58 and appropriate therefrom to the Citywide Leasing Account, Fund 100, Dept 63, Account 000024 to fund the City's portion of tenant improvement costs at 555 W. 5th Street, subject to review and approval by the CAO.



Tony M. Royster
General Manager

Attachment: Term Sheet

LEASING TERM SHEET

MFC DATE 12/14/23

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 555 W. Fifth Street, Los Angeles, CA 90013

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 308,791 RSF (subject to final plans and specifications), consisting of 11 full floors and 2 partial floors [Floors: Ground (partial), Concourse (partial), 6-10, 22-24, 28, 30 and 34].

TERM Fifteen (15) years

RENT START DATE 12/18/24 (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 12/18/24.

LEASE START DATE 12/18/24 (estimated)

OPTION TERM Two (2), five (5) year options to extend. The first option term shall be at fixed Rent of one hundred-three percent (103%) of the Rent applicable during the last year of the Lease Term, with three percent (3.0%) annual escalations thereafter. The second option term shall be at the then-prevailing fair market rate.

HOLDOVER One hundred twenty-five percent (125%) for up to ninety (90) days, and one hundred-fifty percent (150%) thereafter, or one hundred-ten percent (110%) for up to six (6) months on twelve (12) month's prior notice.

**SUBLET/
ASSIGNMENT** Right to Sublease/Assign, subject to landlord consent

TERMINATION None

LEASING TERM SHEET

RENTAL RATE	\$4.00 per RSF/Mo. on an Absolute Gross lease basis, with three percent (3.0%) per annum escalations
ESCALATION	Three percent (3.0%) per annum
RENTAL ABATEMENT	Fifteen (15) months of Rent and monthly Parking cost for up to two (2) unreserved parking passes per 1,000 of the Premises shall be abated during months two (2) through sixteen (16) of the lease term.
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	\$110.00 per RSF Tenant Improvement allowance (\$33,967,010.00) for the City's design, construction, furniture and relocation costs (deposited into an escrow account upon lease execution). Landlord shall construct the Tenant Improvements. City shall pay landlord a construction management and supervision fee equal to the actual third-party construction management fees incurred by landlord not to exceed \$500,000. In addition, landlord shall, at landlord's sole cost and expense: (i) demolish existing improvements per the 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.
PARKING	City right to lease up to three (3) unreserved parking passes per 1,000 RSF [nine hundred twenty-seven (927) passes], consisting of (i) one hundred nine (109) passes located on-site, including six (6) reserved parking spaces, at \$200.00 per pass per month, and (ii) eight hundred seventeen (817) located off-site at the World Trade Center Garage located at 333 S. Flower St. at \$100.00 per pass per month (excluding City parking tax) served by a building shuttle every 15 minutes, which currently operates 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 to leasing up to one (1) unreserved parking pass per 1,000 RSF (three hundred nine (309) 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 [six hundred-eighteen (618) passes]. If City does not commit to the entire one (1) unreserved parking pass per 1,000 RSF allocation, thereafter, landlord shall

LEASING TERM SHEET

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 rate validations on-site or off-site at the 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 (excluding City parking tax) subject to 3% annual increases, at no 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: Swing Space – City right to temporarily use Floors 39, 40, 41, 45, 46 and 50, totaling approximately 153,000 SF, available approximately January 1, 2024, Floors 42 and 43 totaling 54,000 SF available in approximately April 2024, and approximately 41,000 SF of storage space on Floors 44 and 47. The Swing Space shall be delivered in As-Is condition at no Rent to City until Substantial Completion of the Tenant Improvements. City will be responsible for parking charges.

Landlord Completion Guarantees – If the lease is executed by January 31, 2024, and landlord fails to deliver Substantial Completion of the Tenant Improvements for the entire premises on or before February 16, 2025, City shall receive additional Rent abatement on a day-for-day basis for each day of delay for the applicable portion of the premises for which Substantial Completion has not occurred, and two (2) days of Rent abatement for the applicable portion of the premises for which Substantial Completion has not occurred beginning on May 17, 2025. If Substantial Completion for the entire premises has not occurred by December 1, 2025, City shall have the right to terminate the lease (subject to City caused delays (as tenant) and/or delays caused by force majeure).

Refurbishment – One-time painting and floor covering replacement upon City request, at landlord's cost not to exceed \$15.00 per RSF between years 5-10 of the lease term.

Restoration – No City obligation to demolish standard office improvements upon lease expiration.

Right of First Offer to Purchase the Building

LEASING TERM SHEET

Subordination, Non-Disturbance and Attornment Agreement pre-approved form to be used with future financings of the building.

Hold Space Option – Near-term City option to expand by up to 28,000 USF, on the floors designated by landlord, upon City notice delivered no later than December 31, 2024, at the same Rent and applicable terms as though the Hold Space was part of initial premises, with 100% of the Tenant Improvement allowance on a per RSF basis. Landlord will use good faith efforts to designate floors contiguous to and served by same elevator banks as the initial premises.

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 and Rent abatement.

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.