

CITY OF LOS ANGELES

CALIFORNIA



KAREN BASS
MAYOR

Agenda Item No. 4

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GENERAL MANAGER
AND
CITY PURCHASING AGENT

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December 12, 2024

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

Attention: Adam Lid, Legislative Assistant

REQUEST AUTHORITY TO NEGOTIATE AND EXECUTE A LICENSE AGREEMENT AMENDMENT WITH INDUSTRIOUS LA 444 SOUTH FLOWER ST., LLC FOR TEMPORARY OFFICE SPACE AT 444 SOUTH FLOWER STREET, LOS ANGELES, CA 90071

The Department of General Services (GSD) requests authorization to negotiate and execute a license agreement amendment (Amendment) with Industrious LA 444 South Flower St., LLC (Industrious) for temporary co-working office space located at 444 South Flower Street, Los Angeles, CA 90071 for several City departments that currently occupy the office space.

Additionally, GSD requests authority to negotiate and execute a license agreement amendment for available parking spaces on site with CVFI-444 S Flower, LP.

BACKGROUND

The Los Angeles Housing Department (LAHD), Office of Finance (OOF), Economic and Workforce Development Department (EWDD), Community Investment for Families Department (CIFD), Youth Development Department (YDD), and Personnel Department (PER) vacated the Garland Building at the end of February 2024 and currently occupy the 13th and 14th floors of the Industrious co-working office space located at 444 South Flower Street as part of the ongoing Garland Relocation Project. The Municipal Facilities Committee previously authorized the current seat count of 511, of which the City is charged for 507 seats, at Industrious to provide one seat at a desk or workstation to every employee in CIFD, YDD, OOF and EWDD. LAHD was provided with 31 desks on a temporary basis as they were slated to move to swing space at the Gas Company Tower by Spring/Summer of 2024, which did not occur and their seat count has remained at 31 while GSD continues to look for alternate swing space for 80 seats elsewhere. Prior to the authorization of this 1:1 ratio, the departments originally requested a combined total of 288 seats based on the understanding that 1) a hybrid work schedule was in effect, 2) desk-sharing was required, and 3) the Industrious swing space was a temporary short-term (12-month) solution while a long-term deal was pending execution.



The City currently pays for 507 seats at Industrious, although the actual total is 511 as a result of a minor augmentation to a conference room. However, each department is now in the process of reducing their respective seat count to appropriately reflect their actual usage rates. At least one or more department(s) will remain at Industrious until permanent or long-term office space is finalized while one (or more) department(s), such as LAHD, may relocate to a different swing space in the interim. The current Industrious license agreement terminates January 19, 2025. The proposed two-year renewal allows flexibility for a planned reduction of total seats and potential consolidation to a single floor.

GSD will continue to work with tenant departments over the coming months to reduce the number of spaces consistent with their actual usage, recommended as shown in Scenario C below, and will report back to the Municipal Facilities Committee in a subsequent report. This will include any reduction in parking costs.

PARKING

Parking for staff assigned to this location is provided for under two separate agreements at two locations for a total of approximately 350 parking spaces.

1. Onsite parking accounts for 175 spaces through a separate agreement with CVFI-444 S Flower, LP.
2. Offsite parking at the World Trade Center Garage, located at 333 South Flower Street, accounts for 175 current spaces through a separate agreement with Gregg Williams, As Receiver for Maguire Properties – 555 W. Fifth, LLC that is currently month to month.

Under the proposed license amendment, onsite parking spaces may be reduced proportionally as seats are relinquished. Additionally, the offsite parking agreement for the World Trade Center may be subject to landlord termination at any time after LA County likely purchases the property. Preliminary market indications suggest that their future parking needs may potentially exceed the capacity of the building and garage.

TERMS AND CONDITIONS

The proposed Amendment renews the term for 24 months commencing January 20, 2025 for a total of 507 seats, consisting of 232 seats on the 13th floor, and 275 seats on the 14th floor, totaling 43,789 RSF, which includes conference rooms and common areas. The original asking rate was a Monthly Licensing Fee of \$635 per seat per month; however, the fee has been successfully negotiated down to \$550 per seat at a fixed bulk rate Monthly Licensing Fee for the term, reflecting a 13% discount, and totaling \$278,850 per month for 507 seats.

Bulk License Repricing Charge (BLRC)

Given the City's plan to downsize at Industrious, this proposed Amendment offers flexibility and grants the City the continuous right to relinquish all or a portion of the 13th floor of the premises (up to 232 seats) during the first twelve (12) months (or first half) of the term upon providing 90-days written notice. Each give back seat incurs a 5% monthly Bulk License Repricing Charge (BLRC) added to the monthly licensing fee for the remaining premises until the expiration of the term or until the City terminates the agreement and vacates premises in Year 2, as further described below.

Industrious' proposed bulk Monthly License Fee pricing for the City takes into account the efficiency gained from the City exclusively occupying the entire premises, considering factors such as the number of seats, duration, and management needs. When the City returns seats,

Industrious will once again market the available seats to third parties and adjust its reservation system to allow non-City members access to the vacated space. As the City relinquishes seats and the space shifts to multi-tenant use, Industrious maintains that the justification for the City's bulk rate diminishes with each seat surrendered. Industrious argues that the proposed 5% Bulk License Repricing Charge for each returned seat ensures that it receives some additional compensation for the City premises that aligns with those changes. We have made efforts to eliminate or reduce the Bulk License Repricing Charge. Unfortunately, the 5% charge remains their final offer.

Example:

Monthly Bulk License Repricing Charge = 5% x \$550 x number of seats relinquished, or \$27.50 per seat per month.

If the City gives back 90 seats during the first 12 months, the monthly Bulk License Repricing Charge will be \$2,475 in addition to the fixed monthly license fee of \$550 per seat for the remaining 421 seats of \$231,550, with a total monthly cost of \$234,025, and a monthly savings of \$44,825.

Seat Reduction Without Bulk License Repricing Charge

In the second year (or second half) of the term, the City may relinquish more seats without additional Bulk License Repricing Charges, provided that the City must first provide a written preliminary intent to vacate notice, one hundred-fifty (150) days before the estimated date it intends to terminate the agreement and vacate the premises. Thereafter, the City shall have the right to relinquish seats on a seat-by-seat basis throughout the premises or terminate the agreement upon providing 90-days written notice without penalty.

All remaining terms and conditions not specifically mentioned in the Amendment to the License Agreement Term Sheet will remain unchanged from the initial license agreement. There is no additional rent, property tax, or operating expense pass-through costs. All custodial, building maintenance, and repairs are managed and paid by Industrious. A complete set of terms and conditions are outlined on the term sheet attached.

Amendment Execution Deadline

Industrious has set a deadline for the City to complete its City Council and Mayoral approval process for the proposed renewal term and to fully execute and deliver a binding Amendment before the expiration date of the current License Agreement on January 19, 2025. If the Amendment is not fully executed and delivered prior to the expiration date, Industrious will allow the City to continue on a month-to-month basis with a 10% monthly license fee increase effective January 20, 2025, and the terms of the proposed renewal term will need to be renegotiated.

MARKET ANALYSIS

A recent survey of alternative co-working relocation spaces for this requirement in the greater Los Angeles market indicated that monthly costs per seat range from \$530 to \$900 for comparable spaces for a minimum term of 12 months, excluding monthly parking costs. Additionally, the maximum number of near-term seat availability within any potential DTLA relocation options is limited, ranging from 30 to 100 seats. Moreover, Industrious' proposed monthly rate of \$550 per seat (the same rate as the initial term) reflects a 35% discount compared to other currently available Industrious relocation options in the greater Los Angeles market. In addition, co-working spaces offer significant advantages in terms of square footage and cost efficiency. This type of space allows higher occupancy density compared to traditional office spaces, meaning that a greater number of employees can work in a set amount of space. Additionally, co-working spaces require lower capital costs as these office spaces are furnished and plug-and-play ready.

The City’s contracted broker surveyed other available short-term sublease and direct lease swing space options throughout the downtown area and no superior options were identified considering the square footage, timing for delivery and occupancy, total projected occupancy cost, and potential transaction execution risk to the City. In addition, GSD and the City’s contracted broker have engaged in five rounds of negotiations with Industrious since the end of August, and this proposed Amendment represents their best and final offer.

SEAT REDUCTION SCENARIOS

The terms of the amended Agreement allow the City to provide 90 days notice for reducing seats down to one full floor during the first 12 months of the renewal period. This allows the City to work with departments on a revised space plan for staff, storage, IT changes and other operational requirements as needed. Departments occupying the 13th Floor will need to relocate some or all of their staff to the 14th Floor. Each scenario shows the monthly cost for the departments’ space. The following scenarios are options which were presented by GSD in the November Municipal Facilities Committee (MFC) meeting with minor modifications and one additional scenario. The additional scenario takes into account actual desk usage based on badge swipes and remote access counts that CAO presented in updates to MFC in July and August.

Scenario A: Special Fund Departments Pay Pro Rata Rent

No change to current seat count. Rent is \$278,850 per month, or \$3.4M annually. Based on current seat counts, this scenario assumes that EWDD will pay 29%, CIFD will pay 20%, and LAHD will pay 6% of the monthly licensing fee. The net General Fund obligation would decrease from \$278,850 to \$125,483 per month.

| Scenario A: Special Fund Departments Pay Pro Rata Rent | | | | | |
|---|-----------------|----------------|------------------|--------------------|---------------------------|
| FUND | DEPT. | SEATS ASSIGNED | % OF TOTAL SEATS | MONTHLY RENT | FY 24/25 RENT (JAN - JUN) |
| GENERAL FUND | OOF | 180 | 35% | \$97,598 | \$585,585 |
| | YDD | 31 | 6% | \$16,731 | \$100,386 |
| | PERSONNEL | 21 | 4% | \$11,154 | \$66,924 |
| | SUBTOTAL | 232 | 45% | \$125,483 | \$752,895 |
| SPECIAL FUND | EWDD | 145 | 29% | \$80,867 | \$485,199 |
| | CIFD | 103 | 20% | \$55,770 | \$334,620 |
| | LAHD | 31 | 6% | \$16,731 | \$100,386 |
| | SUBTOTAL | 279 | 55% | \$153,368 | \$920,205 |
| TOTAL | *511 | 100% | \$278,850 | \$1,673,100 | |

*The entire premises is billed at 507 seats.

Scenario B: Downsize to Original Seat Count of 288 (Prior to 1:1 Authorization)

Downsize and revert to the original seat counts requested by City departments prior to the 1:1 authorization. Consolidate approximately 288 seats and a PC farm on the 14th floor. Industrious will add a 5% Bulk License Repricing Charge per seat as a result of the reduction. The cost in this scenario is \$157,273 per month (only 275 seats invoiced). The PC farm and network equipment on the 13th floor will be relocated to the 14th floor. The equipment relocation cost is approximately \$4,700. Up to three small conference rooms would need to be converted to seating areas to achieve 288 seats on the floor. However, this scenario would make the floor very dense with virtually no room for storage of files needed for everyday work, and conference rooms on the floor would be significantly impacted.

| Scenario B: Reduce to Original Seat Count Prior to 1:1 (288 Seats) on One Floor | | | | | | |
|--|-----------------|----------------|------------------|------------------|----------------|------------------|
| FUND | DEPT. | SEATS ASSIGNED | % OF TOTAL SEATS | MONTHLY RENT | 5% BLR Charge | MONTHLY TOTAL |
| GENERAL FUND | OOF | 120 | 42% | \$63,021 | \$1,540 | \$64,561 |
| | YDD | 12 | 4% | \$6,302 | \$523 | \$6,825 |
| | PERSONNEL | 10 | 3% | \$5,252 | \$303 | \$5,554 |
| | SUBTOTAL | 142 | 49% | \$74,575 | \$2,365 | \$76,940 |
| SPECIAL FUND | EWDD | 80 | 28% | \$42,014 | \$1,788 | \$43,801 |
| | CIFD | 35 | 12% | \$18,381 | \$1,870 | \$20,251 |
| | LAHD | 31 | 11% | \$16,280 | \$0 | \$16,280 |
| | SUBTOTAL | 146 | 51% | \$76,675 | \$3,658 | \$80,333 |
| TOTAL | | *288 | 100% | \$151,250 | \$6,023 | \$157,273 |

*This includes converting 3 small conference rooms to achieve 288 seats. The 14th floor is billed at 275 seats.

Scenario C: Consolidate Five Departments to the 14th Floor with LAHD Remaining on the 13th Floor

In this scenario, LAHD’s absence on the 14th floor affords the allocation of 275 seats to five of the six departments at Industrious compared to Scenario B. GSD reviewed the elevator card usage data from May through July and has provided recommended seat numbers based on those results which equate to each department being assigned seats at approximately 60% of their current occupancy numbers consolidating five departments on the 14th floor.

LAHD currently occupies 31 seats on the 13th floor at Industrious. If a lease for LAHD swing space is not executed elsewhere, then LAHD’s need for a total of 80 seats can be provided at Industrious (not shown below), however, they would need to make that determination by mid January as Industrious will begin marketing the vacant space. LAHD will have the flexibility to fully vacate Industrious should another short term lease become available which may better suit their stated space needs. However, LAHD has indicated that the work spaces at Industrious do not work for them operationally and they need a more traditional office environment. LAHD prefers to have their own swing space to move their current staff from Industrious (31 seats) and the remaining displaced staff on a desk sharing basis (additional 49 seats) for a total of 80 seats needed until the long-term space is ready. They also indicated that they would pay for their separate leased space directly.

GSD is recommending this scenario as it provides a reasonable balance of reduction in costs consistent with usage yet provides LAHD with the option to think about Industrious should no other market deal become viable.

| Scenario C: Consolidate Departments to 14th Fl. with LAHD on 13th Fl. – RECOMMENDED BY GSD | | | | | | |
|---|-----------------|----------------|------------------|------------------|----------------|------------------|
| FUND | DEPT. | SEATS ASSIGNED | % OF TOTAL SEATS | MONTHLY RENT | 5% BLR Charge | MONTHLY TOTAL |
| GENERAL FUND | OOF | 108 | 35% | \$59,400 | \$1,951 | \$61,351 |
| | YDD | 13 | 4% | \$7,150 | \$235 | \$7,385 |
| | PERSONNEL | 12 | 4% | \$6,600 | \$217 | \$6,817 |
| | SUBTOTAL | 133 | 43% | \$73,150 | \$2,402 | \$75,552 |
| SPECIAL FUND | EWDD | 80 | 26% | \$44,000 | \$1,445 | \$45,445 |
| | CIFD | 62 | 20% | \$34,100 | \$1,120 | \$35,220 |
| | LAHD | 31 | 10% | \$17,050 | \$560 | \$17,610 |
| | SUBTOTAL | 173 | 57% | \$95,150 | \$3,125 | \$98,275 |
| TOTAL | | 306 | 100% | \$168,300 | \$5,528 | \$173,828 |

Scenario D: Reduce Seat Count to 421 as Proposed by the Departments in November 2024

GSD conducted an updated survey in September 2024 to collect information relative to the minimum number of seats each department requires at Industrious to maintain normal business operations. The CAO Municipal Facilities Group subsequently met with the affected General Managers in late October to refine their proposed seat count numbers. The departments provided their final proposed seat counts in November as shown in the table below. This scenario requires full occupancy on the 14th floor and partial occupancy on the 13th floor to meet the seat requirement.

| Scenario D: Reduce Seat Count to 421 | | | | | | |
|---|-----------------|----------------|------------------|------------------|----------------|------------------|
| FUND | DEPT. | PROPOSED SEATS | % OF TOTAL SEATS | MONTHLY RENT | 5% BLR Charge | MONTHLY TOTAL |
| GENERAL FUND | OOF | 150 | 36% | \$82,500 | \$825 | \$83,325 |
| | YDD | 18 | 4% | \$9,900 | \$358 | \$10,258 |
| | PERSONNEL | 21 | 5% | \$11,550 | \$0 | \$11,550 |
| | SUBTOTAL | 189 | 45% | \$103,950 | \$1,183 | \$105,133 |
| SPECIAL FUND | EWDD | 135 | 32% | \$74,250 | \$275 | \$74,525 |
| | CIFD | 66 | 16% | \$36,300 | \$1,018 | \$37,318 |
| | LAHD | 31 | 7% | \$17,050 | \$0 | \$17,050 |
| | SUBTOTAL | 232 | 55% | \$127,600 | \$1,293 | \$128,893 |
| TOTAL | | 421 | 100% | \$231,550 | \$2,475 | \$234,025 |

SEARCH FOR TEMPORARY SPACE FOR LAHD

Over the last year, GSD has reviewed 17 properties, including short-term furnished and unfurnished sublease spaces and direct spaces that would be options for LAHD's temporary space. GSD submitted 13 proposals for seven options wherein the sublandlord or the landlord decided not to pursue the LAHD requirement, due to the limited benefits of a relatively short term requirement and associated diminishing returns (from a sublease), their inability or reluctance to carry out tenant improvements, concerns about excessive wear and tear from City use, compliance with the City's Standard Provisions for Contracts, competition for the same space from competing tenants seeking longer term requirements, landlord recapture, or the space being taken off the market. Another location considered for LAHD was the City owned Mangrove site at 1st Street and Alameda. However, this option does not work for LAHD as it was not conducive to a typical office environment. A recent updated survey of swing space was provided to LAHD with six additional options to review this month. The search for temporary space will continue.

FUNDING

The current monthly licensing fee is \$550 per seat, which totals \$278,850 per month for 507 seats. However, a significant reduction of total seats is currently pending and the planned reduction will significantly reduce the monthly cost to the General Fund. In addition, the Economic and Workforce Development Department (EWDD), Community Investment for Families Department (CIFD), and Los Angeles Housing Department (LAHD) were informed they will be expected to pay their pro rata share of the monthly licensing fee in an effort to further reduce the fiscal impact on the General Fund. These special funded departments were therefore asked to begin identifying potential funding sources given that pro rata payment obligations are planned to take effect January 2025. To date, EWDD and LAHD have identified potential funding sources while CIFD is working toward this objective. At this time, the monthly General Fund obligation remains to-be-determined and is dependent on the total number of seats the City relinquishes once each department's respective seat count is reduced to appropriately reflect their actual usage rates.

FISCAL IMPACT

Funding in the amount of \$2,424,316 is budgeted in the General Funded Citywide Leasing Account for FY 2024-25 for this agreement. The monthly licensing fee is \$550 per seat, which totals \$278,850 per month for 507 seats. Payments through December total \$1,673,100 with the payment plan outlined above, the remaining costs to the Citywide Leasing Account **with no seat reduction** is projected to be \$752,895. The total projected costs to the Citywide Leasing Account will not exceed \$2,425,995 assuming the Special Funded departments cover their percentage of the lease payments beginning in January 2025.

The GSD recommended Scenario C would provide for savings of \$149,160 this FY assuming the reduction occurs in April 2025. There is no additional impact to the General Fund at this time.

| Projected Remaining FY 2024-25 Costs at Current Occupancy* | | | | | |
|--|-----------------|----------------|------------------|------------------|---------------------------|
| FUND | DEPT. | SEATS ASSIGNED | % OF TOTAL SEATS | MONTHLY RENT | FY 24/25 RENT (JAN - JUN) |
| GENERAL FUND | OOF | 180 | 35% | \$97,598 | \$585,585 |
| | YDD | 31 | 6% | \$16,731 | \$100,386 |
| | PERSONNEL | 21 | 4% | \$11,154 | \$66,924 |
| | SUBTOTAL | 232 | 45% | \$125,483 | \$752,895 |
| SPECIAL FUND | EWDD | 145 | 29% | \$80,867 | \$485,199 |
| | CIFD | 103 | 20% | \$55,770 | \$334,620 |
| | LAHD | 31 | 6% | \$16,731 | \$100,386 |
| | SUBTOTAL | 279 | 55% | \$153,368 | \$920,205 |
| TOTAL | | 511 | 100% | \$278,850 | \$1,673,100 |


*Based on current occupancy as GSD will work with departments to reduce space over the coming months.

Parking costs are excluded in projections.

RECOMMENDATION

That the Los Angeles City Council, subject to the approval of the Mayor:

1. Authorize the Department of General Services to negotiate and execute a license agreement amendment with Industrious LA 444 South Flower St., LLC for temporary co-working office space at 444 South Flower Street under the terms and conditions as substantially outlined in this report;
2. Authorize the Department of General Services to negotiate and execute a license agreement amendment with CVFI-444 S Flower, LP for monthly parking services at 444 South Flower Street under the current terms and conditions; and
3. Authorize the Department of General Services to implement the Seat Reduction plan outlined under Scenario C in this report to consolidate five departments to the 14th floor with LAHD remaining and possibly expanding on the 13th floor.


 Tony M. Royster
 General Manager

Attachment: Term Sheet

AMENDMENT TO LICENSE AGREEMENT TERM SHEET

MFC DATE 12/12/2024

LANDLORD Industrious LA 444 South Flower LLC

ADDRESS 444 S. Flower Street, Los Angeles, CA 90071

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 444 S. Flower Street, Los Angeles, CA 90071

LOCATION FourFortyFour South Flower, 444 S. Flower Street, Los Angeles, CA 90071

AGREEMENT TYPE Amendment to License Agreement dated 12/15/2023

USE Temporary administrative office space for the Departments located at 1200 W. Seventh Street.

SQUARE FEET The co-working Office Space has a total of 507 seats, consisting of 43,789 RSF, which include conference rooms and common areas. The City shall have exclusive use of the 507 seats. The seats are located in a combination of small, medium, large, and extra-large offices, all with multiple seats, and in executive suite spaces.

TERM 24 months.

RENT START DATE 01/20/2025

LICENSE START DATE 01/20/2025

OPTION TERM None

TERMINATION 01/31/2027

MONTHLY LICENSING FEE \$278,850 per Month (Five Hundred Seven (507) seats at \$550.00 per Seat on a fixed Monthly Licensing Fee basis)

REMAINING TERMS & CONDITIONS All Remaining Terms and Conditions not specially mentioned in Amendment to License Agreement Term Sheet will remain unchanged from License Agreement dated 12/15/2023

OTHER

- The City of LA may give back all or any portion of the 13th floor, which consists of 232 seats, on a seat-by-seat basis during the first year of the term, providing 90 days notice. Each seat relinquished incurs a 5% monthly Bulk License Repricing Charge

that shall be added to the monthly licensing fee for the remaining premises until the expiration of the term or until the City terminates the agreement and vacates premises.

Example: If City gave back 10 seats, the calculation would be as follows: 10 x \$550 per seat = \$5,500 rent - The Bulk License Repricing Charge would be $\$5,500 * 5\% = \275 /month

- As the City enters year two of this Agreement, the City may provide 5 months notice of their plan and estimated date that the City intends to terminate the agreement and to fully vacate the space. Thereafter, the City can provide 90 days notice to give back portions of the space on a seat-by-seat basis with no Bulk License Repricing Charges.
- All onsite parking terms would remain the same, so long as the 90 days notice is given, the numbers of spots needed can be adjusted.
- City must complete its City Council and Mayoral approval process for the proposed renewal term and fully execute and deliver a binding Amendment before the expiration date of the current License Agreement on January 19, 2025. If the Amendment is not fully executed and delivered prior to the expiration date, Industrious will allow the City to continue on a month-to-month basis with a 10% monthly license fee increase effective January 20, 2025, and the terms of the proposed renewal term will need to be renegotiated.