Los Angeles Department of Water & Power

221 NORTH FIGUEROA AVENUE (FIGUEROA PLAZA) LEASE AGREEMENT

Putting Customers First

Why LADWP Needs Additional Office Space

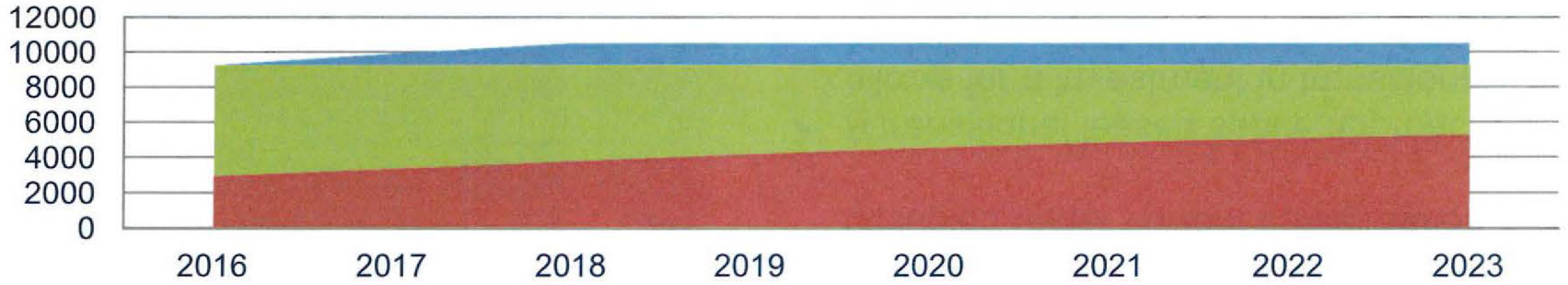
- Currently 3,000 of LADWP's 9,250 employees are eligible for retirement (32%) . By 2021, 4,700 current employees will be eligible to retire (50%).
- Succession planning and knowledge transfer requires hiring replacement employees in advance of retirements.
- Increased infrastructure projects to begin meeting realistic replacement cycles as approved in the rate case require increased staffing.
- Conversion of the IT Legacy Financial Related Systems to new Enterprise Resource Planning software is in the preplanning stage and will require office space for approximately 100 individuals.
- LADWP must hire additional employees to meet the metrics of the rate case and class action settlement and update systems:
  - Infrastructure/Reliability (Power & Water) – 547
  - Customer Service - 497
  - ITS - 65
  - Renewable Portfolio Standard - 64
  - Financial Services and other business related services- 96
  - **TOTAL - 1269**

Why LADWP Needs Additional Office Space Cont.

Request for Office Spaces	No.
Customer Service	
Subtotal	78
Financial Services	
Subtotal	20
Financial Systems /HR Replacement	
Subtotal	130
Human Resources	
Subtotal	44
ITS	
Subtotal	101
Power	
Subtotal	200
Sustainability	
Subtotal	8
Water	
Subtotal	106
TOTAL OFFICES	687

- Developing a new generation of staff, supervisors and managers is a decade long process and is faced by the entire industry
- Requires transitional office space as positions are "back filled."
- Requests for 687 new office spaces at JFB have been submitted by the operating organizations.
- JFB office space and parking is fully occupied under current configuration.
- A transitional leased space approach allows for a investment in transitional workspace while developing a strategic long range real estate solution

LADWP Retirements



	2016	2017	2018	2019	2020	2021	2022	2023
Eligble to Retire	2954	3366	3772	4160	4534	4842	5068	5289
Staffing Level w/o additional hiring	9250	9250	9250	9250	9250	9250	9250	9250
Staffing Level w/ additional hiring*	9250	9900	10500	10500	10500	10500	10500	10500

* projected

- The number of employees eligible to retire is increasing by an average of 9% annually and is expected to hit 50% in the next 7 years.

- The proposed lease of 221 Figueroa for 8 years combined with the pending purchase of 8121 Van Nuys establishes a combination of office options (LADWP-owned and leased) that provides function appropriate and flexible space to meet LADWP's operating needs under multiple future scenarios including:
  - Changing ratecase funding levels and associate metrics
  - Rate of actual retirements VS eligible retirements
  - If retiring employees require a replacement and/or transfer of knowledge
  - Availability of civil service lists for hiring

221 N Fig.

- 82,900 sq.ft on 4 floors (2 finished, 2 unfinished)
- 207 parking spaces
- CoStar Property® rated Class A, 4-star Office in latest 2016 report.
- Room for 375-400 staff
- Alleviates immediate space concerns for department

CoStar Property®

221 N Figueroa St - Figueroa Plaza North To

W Side of Figueroa St - N of 1st St/Figueroa Plaza
Los Angeles, CA 90012 - Greater Downtown Submarket
Fully Leased Building
307,556 SF Class A Office Building Renovated in 2016 Built in 19

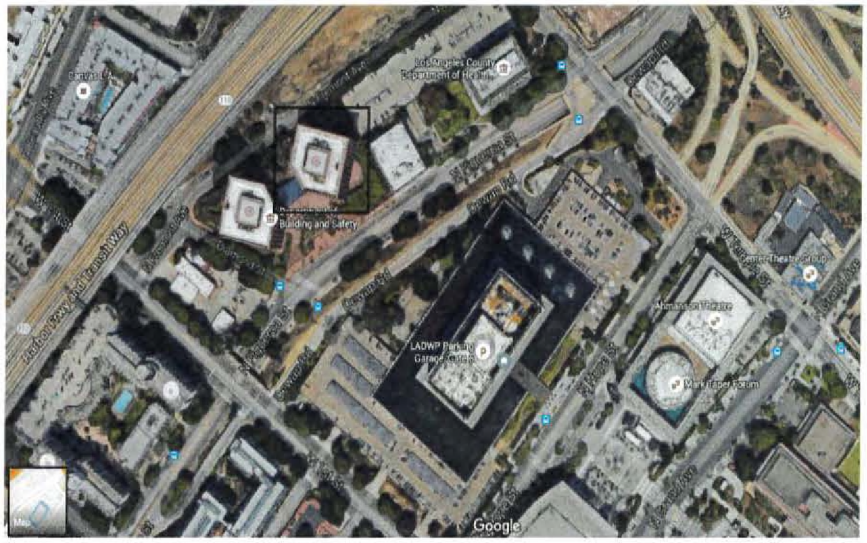
Sale

Sold Price	$109,500,000 ($356.03/SF) - Part of Portfolio		
Date	Aug 2007	Properties	2
Sale Type	Owner/User		

Building

Type	4 Star Office		
Park	Figueroa Plaza		
RBA	307,556 SF	Year Built	1990
Stories	16	Year Renov	May 2016
Typical Floor	19,222 SF	Tenancy	Multi
Class	A	Owner Occup	No
Core Factor	6.8%-9.9%	Elevators	7 with 1 frt
Construction	Steel	Slab to Slab	12'
		Sprinklers	Yes
Elevator Banks	1st-17th(6)		
Parking	100 free Covered Spaces are available; Reserved Spaces @ $180.00/mo; Ratio of 2.00/1,000 SF		
Taxes	$0.44/SF (2007)		
Walk Score®	Walker's Paradise (90)		
Transit Score®	Rider's Paradise (100)		

Operational Efficiency



- 500 yards from JFB/ One Dash stop for a six minute commute or is walkable
- City Bike-Share on site
- **3.5M in projected savings** of staff non-productive work hours due to travel time.
- **$1M in projected savings** by not needing to pay for parking for fleet vehicles or to house fleet vehicle staff, which can remain at JFB

Deal Points – Cost/Credits

- **$28,282,528** for 82,900Sq.ft @ 2.48 sq.ft. (3% annual escalation) for 10 years **($21,938,317** if terminated in year 8)
  - Com/Data cabling credit of $ **497,400**
  - 8 months of rent abatement for the finished floors **$1,828,193** and up to six months on unfinished floors **$616,776** for a total of $**2,444,969** of rent credit
  - Full service lease including security and janitorial, **($1.7M** estimated back to LADWP through power and water bills).

- **$4,129,060** for 207 parking spots @ $145 per spot per month (3% annual escalation) for 10 years (if terminated in year 8, **$3,202,841)**

- **$40,835,000** total maximum expenditure or **$4.0M** a year estimated expense to LADWP (if terminated in year 8, **$34,674,975** total or **$4.3M** a year)

- **$3.4M** a year if adjusted for efficiencies related to building proximity and full service lease (if terminated in year 8, **$3.7M)**

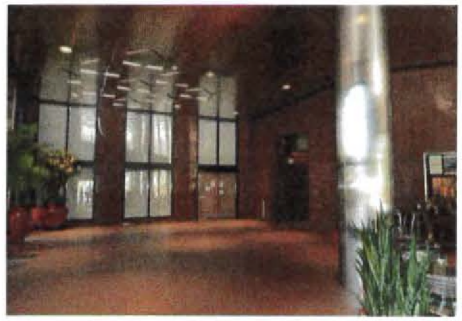
- Eight year full service lease with option to extend two additional years and the ability to sublet at anytime.

Deal Points – TI's and Expenses

- **$3,733,816** One-time payment for existing build-out and furniture of two floors finished floors, (38% discount from CBRE estimate of $5.8M for the same work due to upfront payment.

- **$5,000,000** build out done by CBRE for unfinished floors (estimated to be 25% less then LADWP build out cost and validated by Manulife Financial Insurance Company, including a $1,000,000 contingency)

- **$1,000,000** estimated tenants proportional share of building costs (10 years). Full Service Lease means we don't need to supply janitorial, building maintenance, security, or gardening service, with LADWP employees. CBRE handles.



Deal Negotiation History

- Narrowed scope of original space discussions to focus solely on immediate need for space primarily to meet rate case metrics, settlement guidelines, and succession planning.
- Does not contemplate space to relocate staff from JFB for any remodel or restacking.
- Initial terms for less space offered by landlord (8/23/16) yielded a higher occupancy cost per sq.ft. then the original lease terms discussed (5/26/16)
- Based on the third party analysis of current market rates, Department management negotiated terms that they believe reflects a competitive rate and value to ratepayers.

10 Year Analysis				
Lease Iterations	SQ.FT.	Total Consideration	$/SF/Yr.	$/SF/Mo.
Original Proposal 5/26/16	124,350	$61,132,876	$49.16	$4.10
Final LADWP Counter 8/30/16	82,900	$40,185,130	$48.47	$4.04

Market Assessment

- **Internal Analysis**
  - Used department real estate staff to asses organizational needs and do market analysis of space available.
  - Engaged outside appraiser to appraise the terms of the lease internal staff negotiated for additional due diligence
- **How We Chose the Appraiser**
  - In July 2016, Peregrine Partners was selected off an as needed list of Real Property and Personal property appraisers to complete a cost of occupancy study for proposed lease of 221 North Figueroa based on their extensive the Downtown Los Angeles office market experience.
  - In 2015 an RFP was developed that established a list of Real Property and Personal property appraisers to be used on an "as needed" basis. This list included Peregrine Partners.
  - On the February 16, 2016, board meeting, the board unanimously approved the contract for the list of "as needed" Appraisal Services including Peregrine Partners.
- **Additional Due Diligence**
  - Obtained opinion from LADWP financial advisor Goldman Sachs

About Peregrine Realty Partners

PEREGRINE
REALTY PARTNERS

- West Coast-based commercial real estate firm founded in 2009 that specializes in asset and advisory services on behalf of individual high-net-worth investors and institutional capital partners.
- Provide asset-level and loan-level valuations to financial institutions and real estate owners / operators for both single assets and portfolios.
- Services for acquisition or disposition of assets.
- Help clients assess both the economic viability and overall functionality of commercial real estate assets with a view towards maximizing the overall investment return.
- Peregrine Partners founder Bradley M. Lofgren provided primary services

Bradley M. Lofgren

Over 25 years of experience in the commercial real estate industry with specific expertise in the valuation of commercial real estate assets in California and Hawaii. Prior to forming Peregrine, Lofgren spent 12 years with CB Richard Ellis as a Senior Vice President in their Valuation & Advisory Services group. Prior to CB Richard Ellis, he was with Cushman & Wakefield for 5 years in the appraisal group. Experience in all major property types and worked on behalf of numerous institutional real estate owners and lenders.

EMPLOYMENT

- Peregrine Realty Partners - Principal - 2009 to Present
- CB Richard Ellis, Inc. – Valuation & Advisory Services Senior Vice President – 1997-2009
- Cushman & Wakefield of California, Inc. - Appraisal Associate Director 1993-1997
- CB Commercial Real Estate Group, Inc. - Appraisal Assistant Real Estate Analyst 1992-1993
- Lambert Smith Hampton - Commercial Real Estate Salesperson – 1989-1992

LICENSES/CERTIFICATIONS

- Member, Appraisal Institute (ID#: 11510)
- California Certified General Real Estate Appraiser, No. AG022415
- Hawaii Certified General Real Estate Appraiser, No. CGA 660

APPRAISALS IN DOWNTOWN LOS ANGELES

801 S. Tower MCI Center - 660 S. Figueroa Arco Plaza – 444 South Flower - Pacific Center - Union Bank Plaza – Gas Company Tower - 333 S. Hope - Figueroa Plaza - International Tower - 707 Wilshire - 818 W. 7th Street - One Bunker Hill - Fine Arts Building - Pacific Mutual Building

Appraisal Institute Courses

- Real Estate Appraisal Principles
- Basic Valuation Procedures
- Advanced Income Capitalization Report Writing
- Introduction to Valuing Green Commercial Buildings
- Apartment Appraisal, Concepts & Application
- Eminent Domain and Condemnation
- Standards of Professional Practice
- Highest & Best Use & Market Analysis
- Environmental Risks and the Real Estate Appraisal Process
- Business Practice and Ethics
- Introduction to International Valuation Standards.

Comparable Recently Executed Leases

Comparable Lease Transactions

#	Tenant	Address	Class*	Distane to JFB (Miles)**	Size	Parking Allotment	Term	Contract Rent	Parking Rate	Effective Rent + Parking $/SF/Yr.	Effective Rent + Parking $/SF/Yr.
1	Boston Consulting Group	500&515 S. FLower	A	0.6	45,476.00	1/1000 SF	12.25	$30.66 NNN	$365.00	$67.04	$5.59
2a	Munger, Tolles, Olson	300 & 350 S. Grand	A	0.6	152,306.00	1/1000 SF	15.00	$41.40 FS	$375.00	$65.34	$5.45
2b	AECOM	300 & 350 S. Grand	A	0.6	121,330.00	1/1000 SF	16.00	$19.50 NNN	$375.00	$56.62	$4.72
2c	City of Los Angeles	300 & 350 S. Grand	A	0.6	114,591.00	1/1000 SF	2.00	$35.00 FS	$375.00	$47.46	$3.96
3	Cross Campus	800 Wilshire Blvd	A	0.9	32,262.00	.86/100 SF	11.00	$35.37 SF	$250.00	$50.79	$4.23
4	Golin Harris	700 S Flower	A	0.9	42,097.00	1.5/100 SF	11.00	$36.60 FS	$240.00	$50.01	$4.17
5	Lewis Brisbois	633 W 5th St	A	0.6	215,000.00	1/1000 SF	15.00	$21.00 NNN	$363.00	$57.18	$4.77
*	**Subject Property**	**221 N. Fig**	**A**	**0.3**	**82,900.00**	**2.5/1000 SF**	**10.00**	**$29.76 FS**	**$145.00**	**$49.62**	**$4.04**
*	**Subject Property**	**221 N. Fig**	**A**	**0.3**	**82,900.00**	**2.5/1000 SF**	**8.00**	**$29.76 FS**	**$145.00**	**$48.76**	**$4.06**

*** Building Class provided by CoStar© which is the world leader in supplying this information**
****Distance is measured to JFB VIA google Maps**

- **Analysis provided by Peregrine Realty Partners shows lease competitive with recently executed leases.**

Comparable Available Spaces

Comparable Rent for Available Spaces

#	Tenant	Address	Class*	Distance to JFB (Miles)**	Size	Parking Allotment	Term	Contract Rent	Parking Rate	Effective Rent + Parking $/SF/Yr.	Effective Rent + Parking $/SF/Yr.
1	California Market Center	110 E 9th St	B	1.5	75,000.00	3/1000 SF	10.00	$30 FS	$150.00	$39.53	$3.29
2	Fig @ Wilshire	601 S Fig	A	0.8	75,000.00	1/1000 SF	10.00	$28NNN	$350.00	$63.52	$5.29
3	Wells Fargo Center South	355 S Grand Ave	A	0.5	75,000.00	1/1000 SF	10.00	$28NNN	$381.00	$63.38	$5.28
4	Brunsqig Sqaure	360-374 2nd S	B	1	75,000.00	2/1000 SF	10.00	$48FS	$150.00	$59.17	$4.93
5	The Bloc	700 S Flower	A	0.9	75,000.00	1.5/1000 SF	10.00	$42FS	$240.00	$53.03	$4.59
6	Aon Center	707 Wilshire Blvd	A	0.9	75,000.00	1/1000 SF	10.83	$23NNN	$255.00	$55.18	$4.60
7	U.S. Bank Tower	633 W 5th St	A	0.6	75,000.00	1/1000 SF	11.00	$43.2FS	$363.00	$61.80	$5.15
8	L.A. World Trade Center	350 S Fig	A	0.4	75,000.00	4/1000 SF	10.00	$32FS	$220.00	$44.67	$3.72
*	Subject Property	221 N. Fig	A	0.3	82,900.00	2.5/1000 SF	10.00	$29.76 FS	$145.00	$49.62	$4.04
*	Subject Property	221 N. Fig	A	0.3	82,900.00	2.5/1000 SF	8.00	$29.76 FS	$145.00	$48.76	$4.06

*** Building Class provided by CoStar© which is the world leader in supplying this information**
****Distance is measured to JFB VIA google Maps**

- **Analysis provided by Peregrine Realty Partners shows lease competitive with current alternative available space.**

Additional Diligence by Goldman Sachs

- Goldman Sachs (LADWP's banker) lent additional due diligence on the lease by running the deal through their databases of average full service gross (FSG) rent for the area surrounding 221 North Figueroa.

- Goldman found that $38.54 to $43.68 was the average range per square foot per year **without** parking (Goldman does not have data for parking rates).

- The total cost of occupancy **without** parking proposed for 221 N Fig is $43.27 ($29.76 base rent, $48.76 total cost of occupancy **with** parking).

- Parking at 221 N Fig is $145 a space compared to the average of $335 a space for recently executed comparable leases in the area.

- The average parking at comparable building was 230% higher then parking at 221 N Fig. This makes up for the higher range average base rent and ensures the total cost of occupancy cost at 221 N. Fig would be amongst the lowest recently executed in the area.

Next Steps/Alternatives

- Long-range Space Planning Analysis must be performed and will require 18-24 months. Should then be updated every 3-5 years.

- RFI in development for overall strategic real estate, architecture best practices, office space planning, and operational efficiency utilization across entire real estate portfolio.

- AC Martin, original architectural firm that designed JFB, engaged for strategic help to create a more productive work environment at JFB, including updated office efficiency and design. Will also review the most cost effective and efficient way to implement changes.

- Analyzing the value proposition to build out more space at 8121 Van Nuys (once purchase complete in March 2017) and siting certain department functions in less expensive areas of the City.

- Analyzing the value proposition of making a strategic acquisition to expand our Third Street site to establish a Customer Service facility.

- Analyze associated contracts (furniture, computers, etc.) for expansion/efficiencies