

## TRANSMITTAL

TO  
Council

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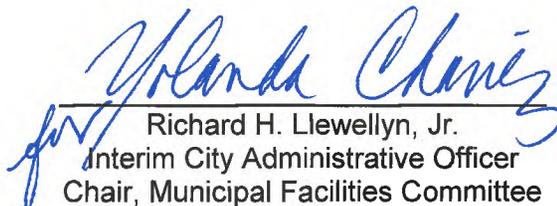
11-16-17

COUNCIL FILE NO.

FROM  
Municipal Facilities Committee

COUNCIL DISTRICT  
1

At its meeting held on November 16, 2017, the Municipal Facilities Committee adopted the recommendations of the attached Department of General Services (GSD) report, which is hereby transmitted for Council consideration. Adoption of the report recommendations would authorize GSD to negotiate and execute an amendment for the lease between the City and HRRP Garland LLC, for 222,694 square feet (228,536 square feet per new building measurement standard) of office space located at 1200 W. Seventh Street, or alternatively, to exercise a five-year extension option. This lease extension is needed to enable the City building occupants to remain at this facility until staff can be relocated to the planned Los Angeles Street Civic Center building. Any alternate leasing options are cost prohibitive based on market analysis and an \$11 million estimate for tenant improvements that would be associated with occupying a new leased facility. The City currently pays rental rates of \$24.60 to \$30.40 that will increase to \$32.40 for year one of the extension option, up to a rate of \$36.47 in year five. Over the five-year extension period, the General Fund impact ranges from \$1.4 million for monies budgeted within GSD's leasing account, and up to a total of \$4.25 million to the extent that Special Funded departments are unable to offset the annual rental increases.

  
Richard H. Llewellyn, Jr.  
Interim City Administrative Officer  
Chair, Municipal Facilities Committee

# CITY OF LOS ANGELES

CALIFORNIA

TONY M. ROYSTER  
GENERAL MANAGER  
AND  
CITY PURCHASING AGENT



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MAYOR

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November 16, 2017

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

Attention: John White, Legislative Assistant

**REQUEST FOR AUTHORIZATION TO EXERCISE A FIVE-YEAR LEASE  
EXTENSION OPTION AND TO NEGOTIATE AND EXECUTE AN ALTERNATIVE  
FIVE-YEAR LEASE EXTENSION WITH HRRP GARLAND, LLC, FOR OFFICE  
SPACE AT 1200 W. SEVENTH STREET(GARLAND CENTER)**

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The Department of General Services (GSD) requests authority to extend, through one of two alternative means, an existing lease (Contract C-107802) with HRRP Garland, LLC (landlord) for five years for approximately 222,694 square feet for four City of Los Angeles (City) departments (see attached stack plan):

- Housing and Community Investment (HCID)
- Economic & Workforce Development (EWDD)
- Office of Finance
- Los Angeles Police Department

The lease expires on February 28, 2019. Under the existing lease, City has an option to extend the lease by five additional years, and such option must be exercised by November 28, 2017. A Council action to extend must be approved and a notice sent to the landlord by November 28, 2017 or the City loses the extension option right and the right to remain on the premises after February 28, 2019. The City has no available space within a City facility for these departments and relocating to another leased location is costly.



GSD is requesting authority to: (i) extend the lease for five years by amending it at the terms and conditions as outlined in this report and (ii) alternatively, extend the lease by five years by exercising City's existing lease option to extend the lease term under the terms and conditions as outlined in the lease. GSD does not plan to exercise such lease option unless City and landlord are unable to fully negotiate and execute a binding lease amendment that contains the terms and conditions outlined in this report before November 28, 2017.

## **BACKGROUND**

The City has one five-year option in its current lease to extend the lease term at fair market value (FMV) for either the entire premises or a portion of it. This exercise notice must be delivered no later than November 28, 2017 and Council and Mayor authority is required.

Once the exercise notice is issued, the extension is binding and the City will remain at the Garland Center –and the applicable rental rate would be determined through a FMV negotiation and arbitration process outlined in the lease.

The FMV negotiation process outlined in the lease is as follows:

- After the City exercises its option in writing, the landlord has six months to provide the City with a proposed FMV rent based on comparable buildings in downtown Los Angeles
- Once the City receives the FMV, it has 30 days to accept or reasonably object to landlord's proposed FMV
- If the City objects, then within ten business days of that response, both parties must meet and make a good faith attempt to negotiate the FMV
- Five business days after that meeting, there must be final agreement on the FMV

If there is no resolution, then the FMV determination goes to arbitration. There will be three arbitrators (brokers) – one the City chooses, one the landlord chooses and a neutral broker agreed to by both parties. The determination of the arbitrators shall be limited solely to the issue of whether City's or landlord's last proposed best and final FMV for the premises is the closest to the actual FMV for the premises. The decision of the arbitrators will be binding on both the City and landlord and neither party shall have the right to reject the decision or to nullify the exercise of the extension option.

The lengthy time frame of the FMV negotiation process and the potential for arbitration creates uncertainty about the rental rate and financial implications to the City. Therefore, at its July 27, 2017 meeting the Municipal Facilities Committee (MFC) authorized a City team, comprised of staff from GSD, City Administrative Officer, Chief Legislative Analyst and the Mayor's Office, to negotiate a lease amendment prior to the expiration of the exercise notice period (November 28, 2017) and bring those terms back to MFC and Council for approval. GSD had previously engaged the services of an outside broker from CBRE for this lease extension transaction.

**PROPOSED LEASE AMENDMENT**

The landlord and the City have reached a final proposal to amend the current lease for an additional five years at an additional cost of \$38.64 million. The proposed amendment includes \$8.1 million in new rental credits of which almost \$5.6 million is for tenant improvements (TI) funding which can be converted into rental abatement, and a 15 percent discounted rate on parking. The proposal further reasonably allows the City to sublease either all or a portion of its space anytime during the five year term, thereby allowing flexibility for the City to relocate these departments into City owned space and backfill with a private tenant or another City user.

Additional specifics are provided below and in the attachment.

**CAO PROVIDED FISCAL IMPACT STATEMENT**

Under the existing Garland lease, the City pays a range of rental rates (\$24.60 - \$30.40), with space on the lower floors charged at lower rates than the upper floors. Under the proposed lease extension, the City will pay a beginning rate of \$32.40 per square foot for all floors which will escalate to \$36.47 in year five. This results in a total lease obligation of \$54.79 million, including \$16.15 million for the current remaining lease term and \$38.64 million for the five-year extension option. For comparison purposes, the City currently pays an annual cost of \$8.03 million that will increase to its highest annual level of \$9.66 million in 2022-23.

In terms of General Fund impact, a projected increase ranging from \$1.4 million to \$4.25 million will be needed to offset the increased rental costs over the remaining term. Rental costs for General Funded departments that do not have Special Funds to contribute to these costs are funded from GSD's leasing account. Currently the General Funded portion of the leased space at Garland is being charged at the lower rental rate. As such, there is a disproportionate increase to the General Fund portion of the leasing costs once the single negotiated rental rate of \$32.40 goes into effect. At a minimum, a \$1.4 million increase in General Fund monies budgeted for GSD's leasing account will be required to offset rental costs paid for space occupied by the City Finance Department and the Los Angeles Police Department. To the extent that the Special Funded departments (HCID and EWDD) are unable to offset their share of the rental increases, the additional impact to the General Fund is estimated as \$2.85 million.

Under the extension option, the owner has applied new building standards that effectively increase the City's rentable space by 6,000 square feet. Over the five year extension term, this increase in rentable space factors to a \$1 million increase in rental payments and a \$30,000 increase in operating expenses. However, these additional costs are significantly offset by an additional rental credit of \$1 million.

In total the City will receive \$8.17 million in new rental credits, with \$1 million applied to offset the measurement increases and \$2 million used to offset unanticipated costs for prior year taxes and maintenance expenses (\$1.09 million), along with resulting

escalations of these costs for the current year (\$921,431). This leaves a remaining balance of \$5,173,625 that would be used to offset rental payments over the remaining term.

We anticipate the building occupants will be relocated from the leased space at the Garland Building to occupy the new Civic Center building scheduled for completion in 2022. If the project remains on its current schedule, there will still be two years remaining under the Garland lease extension. Staff are working to explore various options to backfill the space at Garland if an early relocation occurs, including options to sublease the space to non-City occupants or to utilize the space for other City functions on a short-term basis. Going forward, staff will closely monitor these related considerations and provide recommendations on any potential backfill of the space and timing for use of the remaining rental credit in order to promote the best outcome for the City.

### **RECOMMENDATION**

That the Los Angeles City Council authorize the Department of General Services to negotiate and execute an amendment to the lease and, alternatively, to exercise the option to extend the lease (Contract #107802) with HRRP Garland LLC at the Garland Center for an additional five years under the terms and conditions as outlined in this report.



Tony M. Royster  
General Manager

Attachment: Garland Center Stack Plan  
Lease Amendment Term Sheet

**GARLAND CENTER LEASE AMENDMENT  
TERMS AND CONDITIONS**

**LOCATION:** 1200 W. Seventh Street, Floors 1 (portion), and 4,6,7,8,9 (full)  
Approximately 228,536 sq ft

**LANDLORD:** HRRP Garland, LLC

**USE:** Office

**TERM:** Five Years, commencing 3/1/2019

**HOLDOVER:** If with landlord consent then month to month only at 125% of rent only based on last month's rent. If w/o landlord consent, 125% of rent plus damages after first four months of holdover. If holdover w/o landlord's consent results in delay of space to LA Care only, City pays 125% of rent plus consequential damages caused by holdover beginning on first day of holdover.

**RENTAL RATE:** \$32.40/sf.FSG, which increases to \$36.47 by year five of the lease

**RENT ABATEMENT:** Three months as follows: January through March, 2018 for a total of \$1,629,194.28.

**ADDITIONAL RENT ABATEMENT** Annual rent abatement as follows: \$189,281 March 2019; \$194,959 March 2020; \$200,808 March 2021; \$206,832 March 2022; and \$213,037 March 2023. Aggregate total of \$1,004,917

**ANNUAL INCREASES:** 3%

**SECURITY DEPOSIT:** n/a

**UTILITIES:** As of the date of the Fourth Amendment, building services are provided during Building Hours from 7:00 a.m. to 6:00 p.m. Monday through Friday and 9:00 a.m. to 1:00 p.m. on Saturdays except for nationally recognized holidays. City pays for electrical consumption in excess of five watts per usable s.f. demand load (if any) as determined by sub-meter(s).

**PARKING:** City's parking rights remain unchanged through February 28, 2019. On March 1, 2019 the right, but not obligation, to rent up to 694 spaces but not fewer than 550 spaces. The rate shall be at then prevailing parking rate set, subject to a 15% discount, and not increase by more than 4% in any given year.

**TENANT IMPROVEMENT ALLOWANCE:**

\$5,567,350 available for disbursement to the City beginning 30 days after execution of the amendment but no later than August 31, 2020. City may convert 100% of the Tenant Improvement Allowance to a reduction of Base Rent.

**BASE YEAR:**

For purposes of calculating pass-through operating costs and taxes, the Base Year shall be calendar year 2019. City does not pay pass-through operating costs and taxes during the first 12 months of the five-year extension term.

**CUSTODIAL SERVICE:**

Per the current lease, landlord provides standard custodial service for the premises during building hours. City pays for a day porter Monday through Friday to clean and maintain portions of the common areas utilized by the City and visitors.

**MAINTENANCE:**

Per the current lease, landlord maintains the common areas, the building's exterior walls, glass, roof and foundation, building systems and facilities serving the premises and improvements included within the base building in proper working order, condition and repair. City shall make all repairs, maintenance or replacements in and to the premises, fixtures and City's property.

**LANDLORD OPTION TO SUB-LEASE:**

Tenant shall give landlord notice of intent to sub-lease any portion of the premises. Landlord shall have the option, by written notice within 20 days of tenant's notification, to recapture the contemplated space. In event of recapture, the lease shall be amended or cancelled if all space is sub-let and City is not obligated for further rent.

**LEASE MODIFICATION:**

Effective as of March 1, 2019, Costs of Operation shall be calculated in accordance with sound real estate management and accounting practices consistently applied ("REMAP") vs the GAAP standard referenced in the current lease. Upon amendment, lease language regarding protection against increased pass-through property taxes triggered by a sale reassessment is deleted.

## GARLAND BUILDING STACK PLAN

FLOOR					Total Rentable Square Feet by Floor	
9	Housing & Community Investment Department				33,278	
8	Housing & Community Investment Department				41,836	
7	Office of Finance				43,311	
6	Economic & Workforce Development Department				41,836	
5	Herbalife					
4	Housing & Community Investment Department 15,964 RSF	Los Angeles Police Department 27,217 RSF		Economic & Workforce Development Department 2,521 RSF	45,702	
3	LA Care Health Plan					
2	LA Care Health Plan					
1	Office of the Building	Cafeteria	Housing & Community Investment Department 7,435 RSF	Office of Finance 9,296 RSF	Security / Convenience Store / Meeting Room	16,731

**City's Leased Total Rentable Sq Ft 222,694**