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Approved on 8-27-09 by
The Municipal Facilities Committee

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

Attention: Adam Lid, Legislative Assistant

**REQUEST FOR AUTHORIZATION TO NEGOTIATE AND EXECUTE A NEW LEASE
FOR OFFICE SPACE AT 1200 WEST 7TH STREET FOR THE OFFICE OF FINANCE**

The Department of General Services (GSD) requests authority to negotiate and execute a new lease for office space at 1200 West 7th Street, Los Angeles, California for the Office of Finance.

BACKGROUND

In March 1990, staff of the Office of Finance (Finance) moved into leased space within the Wilshire Park Place building located at 3700 Wilshire Boulevard. Beginning in March 2000, the lease agreement was amended three times to now include five office suites on four different floors to accommodate an expanded Finance workforce collecting revenue for the City.

Since July 2006, Finance added 19 employees in the Administration, Audit, LA Tax, and Tax and Permit Field Enforcement divisions at Wilshire Park Place. In Fiscal Year 2009-10, Finance is authorized to hire an additional 12 employees also to be located at Wilshire Park Place. During this continual period of expansion, employees have been placed as space allowed within an office layout that has become increasingly inefficient for the staff of the four divisions. The space now includes numerous workstations that are not to City standard. Many units that coordinate similar work tasks are not within close proximity to each other and supervision is divided among various units that are separated among different floors.

Finance staff has also experienced continuous years of poor upkeep and maintenance of its offices and the building at Wilshire Park Place that has adversely affected staff morale. This has included ceiling leaks, on-going problems with bathroom plumbing, and substandard air conditioning that has caused periodic crashes to computer servers, among many other issues. Despite requests from Finance that no major cleaning be performed during business tax renewal season, the building management scheduled carpet cleaning in the middle of this period causing major disruption to Finance workflow. Building maintenance problems are not resolved quickly, and often GSD Asset Management staff must contact the landlord's representatives repeatedly to achieve even limited results.

As traffic in mid-Wilshire has increased over the years, the Tax and Permit Enforcement staff has found it more difficult and time-consuming to deploy to the field because Wilshire Park Place, although centrally located in the Wilshire corridor, is not within close proximity to freeways. The result has been fewer client visits scheduled during a typical workday. Furthermore, the building offers limited on-site parking with a third of the parking located across the street, requiring additional time to and from staff vehicles. Since the building is located beyond any DASH routes, staff attending meetings in the Civic Center must take more expensive subway rides or use City vehicles.

Today's commercial real estate market offers the City an opportunity to negotiate for greatly improved office space at extremely favorable lease rates. The City's real estate broker for this project has capitalized on these conditions and the fact that the City already occupies 170,000 square feet at the Garland Building, located at 1200 West 7th Street, to achieve an excellent deal to relocate this Finance group to the Garland Building. The landlord's proposal, negotiated by the City's project broker, contains an excellent package of rental concessions and a sufficient tenant improvement allowance to build out the space to meet Finance's requirements for space and proper adjacencies, with no out-of-pocket costs to the City.

The City also asked the landlord of Wilshire Park Place to provide similar improvements to the City's space there to make it more serviceable and useful for Finance's continued operation and tenancy within the building. That landlord has offered to make such improvements, but at a considerably higher rental rate and greater parking expense than offered at the Garland Building. Furthermore, the improvements would need to be done in phases requiring staff to be moved to temporary workspaces within the building during construction work. Considering the offer, the disruption to staff during construction, and the age, condition, and maintenance history of Wilshire Park Place, GSD is recommending relocation of this Finance office to the Garland Building.

The Housing Department and Community Development Department already occupy leased office space at the Garland Building and have received excellent service from the landlord and its building management. Relocating the Office of Finance staff to the Garland Building will provide better working conditions for Finance employees and the opportunity to substantially improve morale of a workforce that is important to the City's revenue collection.

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The benefits of relocating to the Garland Building include:

- The majority of Finance staff located on one full floor and a portion of another floor
- An opportunity to create an efficient office layout conducive to coordinating the work functions of the four divisions, with appropriate adjacencies between units for greater synergy and easier supervision
- All workstations conform to City standards, providing employees with a proper and adequate work space to allow maximum efficiency and productivity
- Cost for all improvements, including tenant build-outs, communications, furniture, and moving costs paid out of the landlord's tenant improvement allowance which is based on a budget prepared by the City's consultant
- No disruption to staff during tenant improvement construction as work would be completed prior to moving
- Freeway access for swift field staff deployment one block from the building
- All parking conveniently located on-site in a covered and secured structure
- DASH stop on Civic Center route directly across the street from the building
- Metro Rail access three blocks from Garland Building; bus routes just outside
- Garland Building newer (built 1983) versus Wilshire Park Place (built 1967)
- Building is well-maintained; tenant requests addressed promptly by landlord's professional management team
- Upgraded air conditioning and data centers for computer servers
- On-site full time security staff

As relating to the proposed City of Los Angeles 2009 Strategic Real Estate Plan (Strategic Plan), the use of the Office of Finance space currently at 3700 Wilshire Boulevard and proposed herein to be moved to the Garland Building is as a field office. At either location, the intent of the Strategic Plan is to keep this field office function in leased space until such time as city-owned space might become available. One benefit of having Office of Finance at the Garland Building is that it is easier for GSD to administer one less lease.

Long-term, the Strategic Plan calls for Community Development (CDD) and Housing (LAHD) departments, both now in leased space at the Garland Building, to move into Figueroa Plaza, as time and space permit. LAHD is expected to move to Figueroa Plaza in 2014. CDD will likely not move until 2023. CDD and Office of Finance would therefore remain in leased space at the Garland Building for the near-term.

TERMS AND CONDITIONS

The lease agreement contains the following terms and conditions:

LOCATION: 1200 West 7th Street, Los Angeles, California

USE: Office space

SQUARE FEET: 52,607 rentable square feet

TERM: Approximately nine (9) years, commencing on or about March 1, 2010, to be co-terminus with existing City lease for Housing and Community Development departments which expire February 28, 2019

OPTION TERM: One (1) five-year option to renew at fair market rate if sub-landlord renews its master lease with landlord

RENTAL RATE: \$1.75 per rentable square foot with annual 3% increase, plus operating expense pass-through with 2010 base year

PARKING: Right to use up to 184 spaces: required minimum of 125 spaces at \$78.00 per space per month, annual 4% increase; plus up to an additional 59 spaces per month at prevailing market rate, currently \$135.00; 50 spaces per month at no charge from 6:00 AM to 9:00 AM (for field personnel)

TENANT IMPROVEMENTS: Sub-landlord to pay all costs of tenant improvements for 1st Floor space plus provide a \$46.03 per rentable square foot tenant improvement allowance for the 7th Floor space to be used at City's direction for all build-out costs, communications, furniture, and moving expenses; balance if any can be used by City for any Garland lease purpose including payment of rent

FISCAL IMPACT

The Asset Management Division (AMD) approved FY 09-10 budget already includes an increase in the 6030 Leasing Account for the anticipated renewal of the Wilshire Park Place lease. AMD and its project broker explored three scenarios for the continued operation of Finance staff. Given the approved budget of \$1.2 million for this lease/renewal for FY 2009-10, each scenario has a different fiscal impact, as follows:

Option 1: Remain at Wilshire Park Place with NO Renovation
 FY 09-10 6030 Savings: \$85,000
 FY 10-11 6030 (Shortage): (\$3,000)

This is the least desirable option as it does nothing to address the sub-standard working conditions, adjacency and supervision issues.

Option 2: Remain at Wilshire Park Place WITH Renovation
 FY 09-10 6030 Savings: \$40,000
 FY 10-11 6030 (Shortage): (\$140,000)

This option addresses workspace standards and adjacencies, but not the on-going maintenance requirements of an older building. Construction of tenant improvements would require some Finance groups to be moved to temporary works areas. Distance

from freeways, off-site parking, and lack of DASH routes remain time-consuming issues affecting productivity and morale of field staff and managers attending Civic Center meetings.

Option 3: Relocate to Garland Building


FY 09-10 6030 Savings: \$81,000
FY 10-11 6030 (Shortage): (24,000)

Moving to Garland (Option 3) provides almost identical savings this fiscal year to staying at Wilshire Park Place with no renovations (Option 1), \$81,000 vs. \$85,000, with minimal impact to the Leasing Account in FY 10-11 (FY 09-10 lease amount of \$1.2 million will need to be increased by only \$24,000 in FY 10-11). Moving to Garland also provides the greatest benefit to the Finance unit and City revenue collection as detailed elsewhere in this report.

The \$46.03 per rentable square foot tenant improvement (TI) allowance from the Garland sub-landlord for the 7th Floor space covers all expenses as budgeted by the City's project management consultant, including a 4½% contingency line item. The sub-landlord is paying for all tenant improvements to the 1st Floor space over and above the 7th Floor TI allowance. This will result in a build-out and move with no out-of-pocket expense to the City.

RECOMMENDATION

That the Los Angeles City Council authorize the Department of General Services to negotiate and execute a new lease for office space at 1200 West 7th Street, Los Angeles, California for use by the Office of Finance under the terms and conditions as substantively outlined in this report.


Tony M. Royster
General Manager

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