



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL

MARTIN L. ADAMS
Interim Chief Operating Officer

DAVID H. WRIGHT
General Manager

DATE: September 29, 2016

SUBJECT: Approval of a Lease Between the City of Los Angeles and LADWP for Office Space at 221 North Figueroa Street, Los Angeles, California (Real Estate File J-100184)

SUMMARY

The proposed lease for office space at 221 North Figueroa Street, Los Angeles, California (Figueroa Plaza) is for a term of 10 years commencing on or after October 1, 2016 to September 30, 2026, with the option to terminate without penalty after the eighth year. The full service lease is for four floors (two improved, two unfinished) totaling 82,900 square feet (sq. ft.) and up to 207 parking spaces. The total cost is \$40,835,130 (budgeted) for the full term lease and tenant improvements (\$33,383,816 if terminated in year eight). A third party certified general appraiser has reviewed the proposed lease and concluded that the lease is competitive (lowest cost quartile) to other recent leases in the Civic Center area (see Financial Information). The proposed lease provides:

- Flexible office space for:
 - Over 370 employees. LADWP has funded 1,025 additional positions above current occupancy to be filled for accelerated infrastructure investments related to rate case metrics, customer service, Settlement Operations, Corporate Performance, and the Financial System/Human Resources Management System Replacement Project.
 - Succession planning by hiring replacement employees in advance of employee retirements for training and knowledge transfer. Thirty two percent of LADWP's employees are eligible to retire.
- A location closest to the John Ferraro Building (JFB) with DASH access to minimize employee travel time and transit expense, while leveraging use of the JFB for additional parking and fleet vehicle services.
- Network cable speed ten times faster than the JFB for improved productivity with connectivity to existing LADWP fiber avoiding a costly build out.

City Council approval of the lease is required, with the Lessor as City of Los Angeles, acting by and through its Department of General Services.

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners adopt the attached Resolution authorizing the execution of the Lease for office space at Figueroa Plaza.

ALTERNATIVES CONSIDERED

The following alternatives were considered:

- Do not acquire any additional office space. New employees will only be hired as office space becomes available when current employees retire or terminate. This option could result in the loss of institutional knowledge and result in delayed hiring of the funded positions above current occupancy. Support for infrastructure and other important projects would be negatively impacted.
- Moving office employees to operating facilities. Some office employees have already been moved to operating facilities. However, having additional employees also requires additional parking, which reduces parking for operating equipment necessary for infrastructure work and operations.
- Purchase a building. There are no buildings available in close proximity to the JFB. Further, the purchase of a building would incur significant cost to relocate existing tenants, and additional building operations and maintenance expenses including tenant improvements.
- Expand the JFB. The JFB is designated as a historical-cultural monument and cannot expand on its current site.
- Sell the JFB and use the proceeds for reserves to offset rent for 1 million sq. ft. office space in another building in the Civic Center.
- Relocate functions away from the Civic Center to less expensive or more appropriate locations. LADWP is already relocating the data center and a portion of the call center. However, many functions need to be near City Hall and the JFB. The non-productive work hours while employees commute to meetings offsets much of the cost benefit. In addition, significant relocation of employees may result in the need to meet-and-confer with labor partners.

FINANCIAL INFORMATION

The total lease cost is \$40,835,130 (budgeted) for the full term, ten years with the option to terminate after the eighth year (\$33,383,816). The Lease consists of 82,900 sq. ft. at \$2.48 per sq. ft. with 3 percent annual escalations. It also includes 207 parking spaces at \$145 per space with 3 percent annual escalations. LADWP pays for its proportional share of the incremental increases in operating costs over the base year 2016. Included in this total lease cost LADWP makes a one-time payment of \$3,733,816 that consists of \$3,083,816 for tenant improvements and \$650,000 for furniture for two improved floors (floors 15 and 16) estimated to be a 30 percent discount off the market rate of the build out and furniture. Additional tenant improvements (TIs) include \$5,000,000 which consists of \$4,091,430 for TIs for two unfinished floors (floors 9 and 10), and contingencies of \$908,570 for as-needed required modifications on all floors over the term of the lease only if necessary.

LADWP is receiving approximately \$1.6 Million (M) in credits and rent abatement, 8 months of rent abatement on floors 15 and 16 (1 month in each of the first 8 years) and up to 6 months of no rent on floors 9 and 10 (during the TI build out period). In addition, approximately \$1.65M will be returned to LADWP by its share of the water and power bill. Due to the proximity to JFB, LADWP is estimated to realize approximately \$3.5M in efficiencies related to transportation time for employees and \$1M by leveraging JFB parking and fleet vehicles thus not needing to pay for parking for fleet vehicles or to house fleet vehicle staff at an additional location.

APPRAISAL FINDINGS

LADWP engaged a third party to evaluate the appropriateness of the lease terms compared to the market on a total occupancy cost basis. The appraisal was performed by Mr. Bradley E. Lofgren, a principal with Peregrine Realty Partners in Los Angeles. Mr. Lofgren is a California Certified General Real Estate Appraiser and is qualified as an expert witness in the Superior Courts of San Bernardino and Los Angeles counties and the U.S. Bankruptcy Court for the Central District of California. He has performed appraisals on a number of major office buildings in downtown Los Angeles, Century City and West Los Angeles. His clients have included major banks and investment companies. **Peregrine Partners appraisal report concluded that on a full cost of occupancy basis, the Lease negotiated by LADWP is competitive.**

Peregrine Partners was selected off a pre-approved, as-needed list of Real Property and Personal property appraisers based on their extensive 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.
- In the February 16, 2016, board meeting, the board unanimously approved the contract for the list of "as-needed" Appraisal Services including Peregrine Partners.

Goldman Sachs (Goldman [LADWP's banker]) performed additional due diligence by analyzing the deal points against Goldman's databases of average full service gross (FSG) rent for the area surrounding Figueroa Plaza, Goldman found that \$38.54 to \$43.68 was the average range per sq. ft. per year **without** parking (Goldman does not have data for parking rates).

- The total cost of occupancy **without** parking proposed for Figueroa Plaza is \$43.27 (\$29.76 base rent, \$48.76 total cost of occupancy **with** parking).
- Parking at Figueroa Plaza is \$145 a space compared to the average cost of \$335 a space for recently executed comparable leases in the area.
- The average cost of parking at a comparable building was 230 percent higher than parking at Figueroa Plaza.

- The significantly lower cost of parking more than off sets the slightly higher base rent and ensures the total cost of occupancy at the Figueroa Plaza is among the lowest recently executed leases in the area.

Comparable Lease Transactions

#	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	Boston Conuslting Group	500&515 S. Flower	A	0.6	45,476	1/1000 SF	12.25	\$30.66 NNN	\$365	\$67.04	\$5.59
2a	Munger, Tolles, Olson	300 & 350 S. Grand	A	0.6	152,306	1/1000 SF	15.00	\$41.40 FS	\$375	\$65.34	\$5.45
2b	AECOM	300 & 350 S. Grand	A	0.6	121,330	1/1000 SF	16.00	\$19.50 NNN	\$375	\$56.62	\$4.72
2c	City of Los Angeles	300 & 350 S. Grand	A	0.6	114,591	1/1000 SF	2.00	\$35.00 FS	\$375	\$47.46	\$3.96
3	Cross Campus	800 Wilshire Blvd	A	0.9	32,262	.86/100 SF	11.00	\$35.37 SF	\$250	\$50.79	\$4.23
4	Golin Harris	700 S Flower	A	0.9	42,097	1.5/100 SF	11.00	\$36.60 FS	\$240	\$50.01	\$4.17
5	Lewis Brisbois	633 W 5th St	A	0.6	215,000	1/1000 SF	15.00	\$21.00 NNN	\$363	\$57.18	\$4.77
	Subject Property	221 N. Fig	A	0.3	82,900	2.5/1000 SF	10.00	\$29.76 FS	\$145	\$49.62	\$4.04
	Subject Property	221 N. Fig	A	0.3	82,900	2.5/1000 SF	8.00	\$29.76 FS	\$145	\$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

Comparable Rent for Available Space

#	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	3/1000 SF	10.00	\$30 FS	\$150	\$39.53	\$3.29
2	Fig @ Wilshire	601 S Fig	A	0.8	75,000	1/1000 SF	10.00	\$28NNN	\$350	\$63.52	\$5.29
3	Wells Fargo Center South	355 S Grand Ave	A	0.5	75,000	1/1000 SF	10.00	\$28NNN	\$381	\$63.38	\$5.28
4	Brunsqig Square	360-374 2nd S	B	1	75,000	2/1000 SF	10.00	\$48FS	\$150	\$59.17	\$4.93
5	The Bloc	700 S Flower	A	0.9	75,000	1.5/1000 SF	10.00	\$42FS	\$240	\$53.03	\$4.59
6	Aon Center	707 Wilshire Blvd	A	0.9	75,000	1/1000 SF	10.83	\$23NNN	\$255	\$55.18	\$4.60
7	U.S. Bank Tower	633 W 5th St	A	0.6	75,000	1/1000 SF	11.00	\$43.2FS	\$363	\$61.80	\$5.15
8	L.A. World Trade Center	350 S Fig	A	0.4	75,000	4/1000 SF	10.00	\$32FS	\$220	\$44.67	\$3.72
	Subject Property	221 N. Fig	A	0.3	82,900	2.5/1000 SF	10.00	\$29.76 FS	\$145	\$49.62	\$4.04
	Subject Property	221 N. Fig	A	0.3	82,900	2.5/1000 SF	8.00	\$29.76 FS	\$145	\$48.76	\$4.06

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**Distance is measured to JFB VIA google Maps

ACCOUNTING TREATMENT

LADWP is entering into this Lease to create additional office space for staff performing engineering, design, project management and other responsibilities for work being driven by the metrics of the rate case. As such, the Lease is budgeted for and through the infrastructure and other pass through portions of the rate case.

New staff may be located in the leased property or current staff may be displaced from JFB and moved to this leased space to create more space at JFB, or a combination there of.

BACKGROUND

LADWP is expecting a medium-term surge in hiring to meet infrastructure goals associated with the recently adopted 5-year rate case, to comply with the class action settlement, upgrade Information Technology systems to meet our customer demands and the changing needs of our employees, and for vitally needed succession planning.

Thirty two percent of LADWP's 9,576 employees are eligible for retirement and succession planning and knowledge transfer effort requires having replacement employees in the office in advance of retirements.

To do this LADWP is expecting to hire additional employees in Power, Water, Financial Services, Sustainability and Economic Development, Customer Service, and Information Technology Services over the next 5 years. LADWP expects this staffing surge to level out with attrition over the next 8 to 10 years.

The recently adopted 5-year rate case provides LADWP with much needed funding to accelerate the replacement of aging infrastructure, protect against drought conditions, transform water and energy supplies while meeting mandates, and improving customer service. This means ramping up infrastructure spending in the water system by over \$2 Billion (B) and in the Power system by close to \$5B.

The operating organizations have already submitted 687 requests for office space that we simply do not have room for at JFB. The lease at Figueroa Plaza offers LADWP room for 370+ LADWP employees with 207 parking spaces it also provides for the closest available office space to JFB and the option that offers the most operational efficiencies for LADWP and our employees.

ENVIRONMENTAL DETERMINATION

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the Lease and interior modifications of an existing building without expansion of size or use is categorically exempt pursuant to Class 1 Exemptions as described in CEQA Guidelines Section 15301(a). Class 1 consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public

or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination. The key consideration is whether the project involves negligible or no expansion of an existing use. Examples include but are not limited to: (a) interior or exterior alterations involving such things as interior partitions, plumbing, and electrical conveyances.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Agreement and Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Agreement
- Supporting Documents