

**TRANSMITTAL**

TO Council	DATE  01-08-18	COUNCIL FILE NO.
FROM Municipal Facilities Committee		COUNCIL DISTRICT 4

At its Special meeting held on December 21, 2017, the Municipal Facilities Committee (MFC) adopted the recommendations of the attached General Services Department (GSD) report, which is hereby transmitted for Council consideration. Adoption of the report recommendations would authorize GSD to negotiate and execute a new billboard lease between the City and Clear Channel Outdoor, Inc. for City-owned property located at 1901 North Highland Ave. The new lease will replace the original lease that has been on a month-to-month holdover since the term expired on October 23, 1984. The new lease agreement includes provisions to ensure the appropriate rental increase would apply for conversion to a digital sign, if permitted, based on the final policy adopted by the City for offsite digital signs (CF11-1705). The General Fund will receive annual rental revenues at a base rate of \$14,550, with three percent annual escalations.

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

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December 21, 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 NEGOTIATE AND EXECUTE  
A NEW LEASE AGREEMENT WITH CLEAR CHANNEL OUTDOOR**

The Department of General Services (GSD) requests authority to negotiate and execute a new lease with Clear Channel Outdoor, Inc. (CCO) for a double-sided billboard on City-owned vacant property located at the intersection of Highland and Franklin Avenues.

**BACKGROUND**

The property is located at 1901 North Highland Avenue, Los Angeles, California 90068 with two billboard signs. The property is located in a tourist area with major attractions, shopping and entertainment venues in the vicinity. The 101 freeway is easily accessible via two access points within one-half mile of the property along Highland to the north & Franklin to the east. The property sits outside of the Hollywood Signage Supplemental Use District and the Community Redevelopment Agency Hollywood Redevelopment Area. Therefore, the use of the signs for off-premise advertising is considered to be a legal non-conforming use of the property.



CCO has a ground lease on which they own and operate a double-sided 12' X 25' illuminated billboard on the property. The billboard signs are back-to-back, lighted, and supported by a steel I-beam structure in good to fair condition. The billboard faces are perpendicular to Highland allowing for north and south facing advertising. The north face is a right-hand read and has fair visibility and read-time for southbound drivers. The south face is a left-hand read and has good visibility and read-time due to the curvature of Highland to the south of the site.

The weekly Traffic Audit Bureau (TAB) Eyes On Impressions (EOI) for the south face is 171,756. The weekly TAB EOI for the north face is 246,942. These EOI's are considered very high for surface street adjacent billboards. There are a number of billboards located in the immediate vicinity, including The Lamar Companies' sign on the property, a larger south facing bulletin and a double-faced junior poster on the adjoining property to the north. To the south of the site on Highland Avenue there are multiple large format bulletins, wallscapes and spectaculars; bulletins are the largest and among the most impactful standard sized media formats; wallscapes are elaborate ads that are either painted or attached directly to exterior building surfaces; spectaculars are unique advertising structures and solutions that are erected in mass consumer locations such as Times Square and Atlantic City. All of these signs are considered to be higher quality due to their larger size than the CCO poster.

A short term renewal of this lease is recommended. Council District 4 (CD 4) staff has advised that two projects are planned for the site commencing within a three to six year timeline. The first, to enhance traffic flow, is a road widening project of Highland Avenue where 12 feet of frontage would be taken from the sidewalk extending into the lot. The second project is to convert the lot into a cul-de-sac that would further enhance the Franklin and Highland intersections. Both projects will render this on-site billboard to be unusable as it will have to be removed for either project. CD 4 advises that funding has not yet been secured for either project so that lease renewal needs to contain flexible terms for extension and termination.

The term proposed to CCO is for a month-to-month rolling renewable lease with a termination clause of not more than 30 days available to both the City of Los Angeles (City) and CCO. The lease would contain a provision requiring CCO to vacate and remove the billboard structure at their own cost upon termination of the lease. Renewing the lease will allow the City to continue to generate revenue and establish a provision that ensures the City captures site remediation costs specifically related to the billboard structure.

The original lease agreement commenced on October 24, 1974 and expired in October 23, 1984 and is now in month-to-month holdover status. There has been no renewal or renegotiation of the original terms and conditions since it expired. The current lease rate is \$166.67/month (\$2,000/year).

As part of the appraisal process to determine a new rental rate for these billboards, the net advertising income generated by the sign faces during the last three years is as follows:

Year	North Face	South Face	Total 12 Month Income
Aug 1, 2014 – Jul 31, 2015	\$44,111	\$13,985	\$58,096
Aug 1, 2015 – Jul 31, 2016	\$43,843	\$14,950	\$58,793
Aug 1, 2016 – Jul 31, 2017	\$17,940	\$10,700	\$28,640
<b>Average Annual Income</b>	<b>\$35,298</b>	<b>\$13,212</b>	<b>\$48,510</b>

Billboard faces are sold to advertisers as a Premier Panel or as part of a package of billboard locations. Premier Panels are sold as a stand-alone advertising location. Packages are sold in a group of billboards to cover a broader region. During the last fiscal year, the sign faces were predominately sold to advertisers in packages, resulting in a lower income than was generated in prior years.

The industry standard for appraising a billboard is to review the ground lease revenues, apply a 30 percent rate to the three year average billboard revenue, resulting in income rate received by the lease holder.

### BILLBOARD ORDINANCE

Due to the location of the billboard, the current ordinance prohibits alterations, enlargements, and conversion to a digital display of legally existing off-site signs. The Department of City Planning advises a proposed revision to the existing Billboard Ordinance is being developed to allow for digital conversion. If the proposed revision is approved and this billboard becomes eligible for digital conversion, GSD will initiate a lease amendment at fair market value and bring the proposed amendment back for Municipal Facilities Committee, Council and Mayor approval.

### MARKET ANALYSIS

GSD ordered an appraisal review for CCO's double-sided billboard on the property in August 2017. The appraisal reviewed 13 billboard faces within one mile of the property. All the comparable sites were on high traffic surface streets similar to the subject property and are considered to be of equivalent quality. They also varied by being either single or double sided billboards. Their historical advertising income, ground rent and ground rent as a percentage of income are as follows:

Location	Description	3 Year Average Advertising Income	Lease Effective Date	Current Ground Rent	Ground Rent as a % of Advertising Income
Cahuenga north of Selma	Double-faced	\$41,965	6/2013	\$3,600 or 30%	30%
Fountain west of La Brea	Double-faced	\$33,306	5/2004	\$4,800	14%
Fountain west of Highland	Double-faced	\$26,630	8/2000	\$6,000	23%
Fountain east of Cahuenga	Single-faced	\$52,542	9/1998	\$1,200 or 15%	15%
Highland north of De Longpre	Double-faced	\$21,835	12/2000	\$4,800	22%
Highland south of Lexington	Single-faced	\$5,349	3/2014	Trade or \$2,400	45%
La Brea north of Lexington	Double-faced	\$19,202	2/2015	\$14,400	75%
La Brea north of Lexington	Single-faced	\$5,013	2/1990	\$1,368	27%
Selma west of Hudson	Double-faced	\$11,634	1/1999	\$1,200 or 20%	20%
Sunset east of Gardner	Double-faced	\$23,603	5/2017	6750	29%
Sunset west of Poinsettia	Single-faced	\$12,275	2/2017	3619	29%
Yucca east of Wilcox	Single-faced	\$6,275	12/2016	2400	38%
Hollywood west of Las Palmas	Single-faced	\$9,700	11/2016	2200	23%
<b>Average % of Advertising Income</b>					<b>30%</b>

All the comparable leases outlined above were CCO sites. In addition, eight other high quality billboard leases were reviewed that are not included in the CCO portfolio. These eight other leases are superior and of higher quality due to their location and size. See chart below.

Location	Owner/Operator	Description	Ground Rent	
			% Rent	Base Rent
Ventura Blvd. Encino - shows to Ventura Blvd.	Unknown Outfront Media	Single-Face 14'x 48' Bulletin	40%	\$14,000 annual
N. Myers, LA - shows to 101 Freeway	American Outdoor Outfront Media	Single-Face 14'x48'	30%	\$12,000 annual
E. Olympic Blvd. - shows to 10 Freeway	American Outdoor Regency Outdoor	Single-Face 14'x 48' Bulletin	30%	Unknown
Riverside Drive, N. Hollywood - shows to 134 Freeway	American Outdoor Regency Outdoor	Back-to-Back 14' x 48' Two-Faced Bulletin	30%	Unknown
Olympic Boulevard, LA - Shows to 10 Freeway	American Outdoor Regency Outdoor	14'x48' Bulletin w/ 12' x 24' poster backup	30%	Unknown
Eagle Rock, Glendale - Shows to 2 Freeway	American Outdoor Regency Outdoor	Back-to-Back 14'x 48' Bulletin	30%	Unknown
S. Sante Fe Ave, LA - Shows to 10 Freeway	American Outdoor Regency Outdoor	Back-to-Back 14'x48' Bulletin	30%	Unknown
W. Centinela Ave, Culver City - Shows to 405 Freeway	Fox Hills Auto Clear Channel Outdoor	V-Structure Double- Faced 14' x 48' Bulletin & Double- Faced 12' x 24'x Poster	30%	\$12,500 per month

As previously discussed, based on the market data, the standard advertising industry ground lease rate is 30 percent of the three year average revenue generated by each billboard face. Applying the 30 percent rate to CCO's billboard three year average advertising revenue of \$48,510 resulted in an annual lease income of \$14,550 (\$1,212.50/month). [ $\$48,510 \times .30 = \$14,550$ ].

The proposed lease agreement will contain the following:

#### TERMS AND CONDITIONS

LOCATION:	1905 N. Highland Ave
LANDLORD:	City of Los Angeles
TENANT:	Clear Channel Outdoor, Inc.
USE:	Double-sided billboard
SQUARE FEET:	N/A
TERM	Month-To-Month
OPTION TERM:	N/A
RENTAL RATE:	\$1,212.50/month (\$14,550 annually)
ESCALATIONS:	3% annually increases on lease anniversary date.
ADDITIONAL RENT:	N/A
HOLDOVER OPTION:	N/A
SECURITY DEPOSIT:	No security deposit required.
UTILITIES:	All utilities will be paid by tenant and separately metered.

- TENANT IMPROVEMENTS:** Any Tenant Improvements will be at the sole cost of the tenant.
- MAINTENANCE:** All maintenance, custodial & utility costs are the tenant's responsibility.
- TERMINATION:** 30-day termination by either party requiring lessee to vacate and remove billboard structure at the lessee's sole costs.
- DIGITAL CONVERSION OPTION:** Pursuant to any changes and/or updates to the City's Billboard Ordinance allowing static billboard conversion to digital billboard, the City will consider an amendment to the lease, subject to Council approval, converting the monthly rental rate to a fair market value digital billboard rate(s).

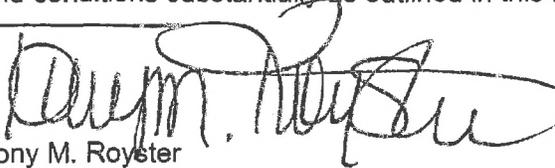
Under the current lease terms, the tenant pays an annual rent of \$2,000 (\$166.67/month).

FISCAL IMPACT

The current revenue generated to the General Fund is \$2,000 per year (\$166.67/month). The new lease will generate \$14,550 (\$1,212.50/month) to the General Fund. This represents an over 627 percent increase over the current rate.

RECOMMENDATION

That the Los Angeles City Council authorizes the Department of General Services to execute a new lease agreement with Clear Channel Outdoor, Inc. to operate a double-sided advertising billboard located at 1901 North Highland Ave, Los Angeles, California 90068 under the terms and conditions substantially as outlined in this report.

  
Tony M. Royeter  
General Manager