

MEMORANDUM

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DATE: DECEMBER 17, 2009

TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CALVIN E. HOLLIS, INTERIM CHIEF EXECUTIVE OFFICER

RESPONSIBLE PARTIES: KEVIN SULLIVAN, DEPUTY CHIEF OF OPERATIONS - ADMINISTRATIVE SERVICES
PHILIP TONDREAU, DEPUTY DIRECTOR OF REAL ESTATE

SUBJECT: AUTHORIZATION TO NEGOTIATE AND EXECUTE A LEASE AGREEMENT WITH CHARTER HOLDINGS, INC. TO LEASE OFFICE SPACE LOCATED AT 1200 WEST SEVENTH STREET AT AN APPROXIMATE COST OF \$20,061,100 OVER THE TERM OF THE LEASE
(CD1)

RECOMMENDATION

That the CRA/LA Board of Commissioners authorize the Interim Chief Executive Officer, or designee, to negotiate and execute a Lease Agreement with Charter Holdings, Inc. to lease office space located at 1200 W. Seventh Street (the "Garland Center") for an initial term of approximately 104 months ending on February 28, 2019 with an option to renew for two additional five-year terms, and to take all actions necessary to implement the lease and effectuate the relocation of the CRA/LA Central Office. The cost of the lease over the term of the lease is estimated to be approximately \$20,061,100.

SUMMARY

The recommended action will result in CRA/LA leasing 95,994 rentable square feet (RSF) of office space in the Garland Center located at 1200 W. Seventh Street and the relocation of the CRA/LA Central Office to that location. The agreement will allow CRA/LA to lease approximately 3,500 RSF of storage space and allows for the leasing of an additional 5,123 RSF of office space on the ground floor of the Garland Center when it becomes available. The lease also provides adequate parking for CRA/LA staff and guests.

The initial term of the lease will expire on February 28, 2019 with two options to extend for five years each. Charter Holdings, Inc. ("Charter") holds a leasehold interest in the property and the CRA/LA will be a sublessee to Charter's sublease. The initial term of the CRA/LA agreement corresponds to the term of Charter's sublease with the Master Lessor, Wells Fargo Bank, N.A. Charter's sublease agreement includes an option period which must be exercised before CRA/LA will be able to exercise the option to extend its sublease.

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Initial Action

SOURCE OF FUNDS

General Administration Funds

PROGRAM AND BUDGET IMPACT

Central Office lease costs for the period covered under the agreement will be included in the FY 2010-2011 and subsequent fiscal year budgets. There is no impact on the City General Fund as a result of this action.

ENVIRONMENTAL REVIEW

The tenant improvements are categorically exempt from the CRA/LA's CEQA Guidelines pursuant to Section 15301(a).

BACKGROUND

This office lease is for the relocation of the CRA/LA Central Office, currently located at the Banco Popular Building ("Popular Center"), at 354 S. Spring Street. Popular Center is an 8-story historic building that has served CRA/LA's needs for nearly 30 years. As an early government tenant on Spring Street, CRA/LA helped stabilize the Downtown Historic Core which has now developed into a thriving mixed-use community.

The Downtown Regional Office is also housed in Popular Center and is part of the current lease; however under the current plan the Downtown Regional Office will be looking for space within one of its project areas and will not be moving to the Garland Center. The current lease will expire on June 30, 2010 with monthly options to renew for an additional 12 months (through June 30, 2011). Staff has been in negotiations with Jamison Services, Inc. ("Jamison") to renew the lease at Popular Center since June 2008. Jamison is the leasing and management company hired by the building's owner, Popular Center, LLC.

Concurrent with the Jamison lease negotiations, staff took the opportunity to identify other available office space, and compared such terms as rental rates, tenant improvement allowances, parking, operating expense pass-through and ability to comply with environmental sustainability initiatives (e.g. Healthy Neighborhood Program), to those being proposed by the current Landlord. Staff also took into consideration such factors as location, proximity of other City offices and overall condition of the buildings.

Buildings with adequate available space that were reviewed by staff were the Title Guarantee Building located at 433 S. Spring Street, the Garland Center, the L.A. Times building at Broadway and First Street and the office building located at 611 W. 6th Street. The L.A. Times building was dropped from consideration due to difficulties negotiating an adequate tenant improvement allowance because of the Bankruptcy status of the parent company. Discussion with the owner of the 611 W. 6th Street building never proceeded beyond a very initial proposal

due to a much higher rental rate (\$2.67 RSF with no tenant improvement allowance) than the rates proposed at the remaining buildings.

Discussions with the owner of the Title Guarantee Building were extensive and included preparation of a draft lease, and reviewing plans, schedules and budgets for a potential move to that building. However, during its due diligence CRA/LA staff became aware of building conditions that made that building infeasible for relocation of the CRA/LA Central Office.

As part of this search, staff received a very attractive proposal from Charter the superior tenant of the Garland Center. An inspection of the building revealed that it is a well maintained, modern office building, and many of the building's common areas have been recently refurbished. The building also houses other City departments including the Los Angeles Housing Department and the Community Development Department.

The fact that the building is well maintained is an important factor since the Popular Center has not been maintained in an acceptable manner, with a number of outstanding deferred maintenance items that would have to be addressed as part of any new lease with Jamison. The building core and shell deferred maintenance items were discussed with Jamison as were a number of health and safety issues that have adversely affected CRA/LA employees. However, staff did not receive a satisfactory response on how Jamison intended to remedy these problems. The Popular Center issues and problems are more fully discussed in subsequent sections of this memorandum.

In reviewing alternate office locations, the Garland Center has the following advantages:

- The building has sufficient space to house the CRA/LA Central Office, the Commission Hearing and Executive Session Rooms and allow some room for growth;
- The building has a public auditorium that can be reserved and rented as needed for the Commission Hearing Room resulting in lower space requirements;
- The building has a freight elevator and loading dock, neither of which exist at the Popular Center;
- The building owner is willing to provide a turn-key office and will construct all necessary tenant improvements based upon CRA/LA's plans;
- Tenant improvements will meet the standards required for LEED Silver certification for commercial interiors;
- The owner has committed to pay prevailing wage on all construction.
- Maintenance, janitorial and security staff are covered under the terms of collective bargaining agreements and will be compensated pursuant to those agreements;
- The owner will abide by all current building codes, fire, life safety and ADA requirements;
- Adequate parking for CRA/LA staff and visitors is available in the adjacent 6-story parking garage which is owned by the landlord; and
- Based on the terms and conditions negotiated with Charter, CRA/LA will obtain a better financial package and safer working environment than from the proposal submitted by Jamison (the landlord of Popular Center).

As indicated in the table below, the financial terms of the Garland Center proposal were also the lowest in terms of out-of-pocket costs to CRA/LA:

Financial Comparison – Key Business Terms			
	Popular Center	Title Guarantee Building	Garland Center
Address	354 S. Spring St.	433 S. Spring St.	1200 W. 7 th St.
Available Space ¹	94,674	102,047	95,994
Annual Lease Rate	\$1.46/rsf/mo	\$1.55/rsf/mo	\$1.50/rsf/mo
Lease Term	10 years	15 years	8.7 years
TI Allowance ²	\$22/rsf	\$65/rsf	\$75/rsf
CRA/LA Up-Front Costs ³	\$3,557,327	\$1,480,630	none
Total Cost (Normalized) ⁴	\$22,758,929	\$21,559,770	\$20,061,096
NPV of Normalized Costs	\$17,356,416	\$15,918,194	\$14,390,697

A final Lease Agreement has not yet been executed by the proposed landlord and is subject to final negotiations. The intended goal is that the final form of the lease will be substantially consistent with the CRA/LA lease template and must be acceptable in final form and content by the Office of the City Attorney. Any substantial deviation from the CRA/LA's lease template and negotiated business terms will have to be brought back to the Board for final approval. The terms to be included in the final lease document shall be as follows:

- Approximately 95,994 RSF of office space, including the entire 2nd and 5th floors, and approximately 3,500 RSF of storage space.
- The term of the lease shall commence on the later of July 1, 2010 or substantial completion of the Tenant Improvements.
- The annual base rent for the office space shall be \$18.00 per RSF on a Full Service Gross basis which shall increase at 3% annually commencing on the 1st anniversary of the Commencement Date.
- The annual base rent for the storage space shall be \$12.00 per RSF with 3% annual increases.
- CRA/LA will be responsible for its pro-rata share of standard operating expenses and taxes above the 2010 base year.
- CRA/LA will receive a "build-to-suit" Tenant Improvement Allowance of \$75 per rentable square foot which can be used for hard construction costs, soft costs (moving costs, design, consulting, engineering, space planning) furniture, fixtures and equipment. The TI allowance may also be applied to the Building Auditorium upgrades to make it acceptable for use as the Commission Hearing Room.
- Tenant Improvements shall meet the standards required for LEED Silver certification for commercial interiors.

¹ Rentable square feet of office space. CRA/LA will also require ancillary storage space. More detail information is available in Attachment B – Financial Comparison Chart.

² In addition to the TI allowance, the owner of the Title Guarantee Building agreed to pay \$639,342 (\$6.27/rsf) in direct costs above the base building work and identified tenant improvements. For Garland Center, a 3% supervision fee for hard construction costs will be deducted from the TI allowance.

³ CRA/LA and Popular Center have been unable to agree upon a base building definition and this cost estimate includes assumptions of CRA/LA paying for some base building costs. The Title Guarantee cost is based on a detailed construction budget with a \$237,069 contingency built into CRA/LA's cost. For the Garland Center, the TI allowance is adequate to cover all costs including moving costs.

⁴ For comparative purposes, costs have been normalized to reflect the Garland Center term (8 years and 8 months) and square footage. The Total Cost also includes storage and parking costs not shown in Key Business Terms.

- CRA/LA shall be obligated to purchase 98 unreserved parking spaces (1/1,000 RSF) and have the right to purchase an additional 294 unreserved parking spaces. The rate for the obligated parking spaces shall be \$80 per month for the first five years increasing to \$88 per month in the sixth year through the remainder of the lease term. The rate for the optional spaces shall be \$120 per month for the first year escalating thereafter at an annual rate not to exceed 3%.
- CRA/LA shall have the option to extend the term of the lease for two additional 5-year terms; however the options to extend the term are subject to and conditioned upon the master landlord exercising its right to extend the master lease. The rental rate for the extension periods will be set at the then current fair market rental rate.
- The Building Auditorium shall be reserved for CRA/LA public and non-public use on the 1st and 3rd Thursdays of each month.
- Landlord will not have the right to prohibit use of the auditorium for "controversial" topics, but the parties will include provisions requiring advance notice, additional security at CRA's cost as needed and compliance with other reasonable procedures to minimize the impact on building operations and other tenants.
- All applicable CRA/LA policies shall apply including Prevailing Wage, Equal Opportunity and Affirmative Action, Living Wage, Worker Retention, Equal Benefits and Contractor Responsibilities policies.

Popular Center Building Conditions

CRA/LA initially relocated from office space in the financial district to Popular Center in 1980 as part of an effort to spur the revitalization of the Downtown Historic Core. When it did so, the building was owned by Banco Popular who, as an owner and major tenant, ensured that the building was maintained in a first class manner. The building has been sold several times since then. The current owner, Popular Center, LLC has allowed the building to fall into disrepair and has been slow to make even basic repairs and ordinary, needed improvements or those repairs/improvements requested by CRA/LA. As previously informed, Jamison is the leasing and management company hired by Popular Center, LLC.

Popular Center has violated Los Angeles City Fire Department and Building and Safety codes by not obtaining permits and by failing to have improvements inspected and approved. Consequently, the Department of Building and Safety issued Popular Center a 30-day notice to comply for various code violations in February 2009 and they have yet to comply. On October 7, 2009, HVAC contractors hired by the landlord performed faulty work causing a release of fumes that resulted in the evacuation of the building for several hours. As recently as December 2009 the building owner removed the building's fire/life safety system from operation without providing fire-watch services placing CRA/LA staff in jeopardy.

CRA/LA's workers compensation claims and injuries to employees have significantly risen in the past few years compared to that during any other time in CRA/LA's recent history. Many recent claims and injuries are attributable to the health and safety hazards associated with Jamison's lack of maintenance of the Popular Center.

Among the common Popular Center deficiencies are:

1. Health and Safety Issues Impacting CRA/LA Employees

- Constant HVAC system problems in regulating the office temperature to the

point that some staff members use portable heaters and fans to regulate the temperature of their work areas;

- Uneven flooring and worn carpet that have caused “trip and fall” incidents and various injuries to staff;
- Unexplained fumes within the building, have caused headaches and other physical irritations to employees, and have often resulted in staff members evacuating their work areas;
- Air quality issues such as inadequate ventilation in some areas, causing the air to become stagnant, in violation of Cal OSHA regulations;
- Various windows do not close uniformly, thereby letting outside air in. For example in arecent fire nearby, at Broadway and 4th Street, the CRA/LA offices were filled with smoke, causing CRA/LA to evacuate its offices); and
- Pest control and rat infestation problems.

2. Deferred Maintenance

- Rotting window frames need to be replaced;
- The A/C system requires major upgrades and/or replacement;
- The electrical system does not distribute electricity evenly throughout the building and is subject to power surges which can damage equipment and can lower staff productivity; and
- Torn carpet must be repaired or replaced.

3. Elevators

The freight elevator was removed several years ago, so staff is required to use a passenger elevator for all deliveries. The size of the passenger elevators are inadequate for certain deliveries so the bulky/large items are left in the common main lobby and CRA/LA staff must physically carry the items up the stairs. In addition, staff has experienced the following problems:

- The passenger elevators often malfunction resulting in floor leveling problems, and doors that injure employees and visitors because they close with considerable force;
- Due to the lack of a freight elevator, a passenger elevator was converted to a freight elevator and that elevator was not operational for an extended period of time; and
- The elevators have been previously red tagged and taken out of operation because of the consistent malfunctioning.

4. Parking

Staff with monthly parking passes for the parking lot adjacent to Popular Center are often unable to park in the lot because the parking lot owner rents out excessive space to other users (primarily for filming) during the week and on the weekends. For example, when CRA/LA employees come into work over the weekend, the employees are kicked out of the lot and threatened that their cars will be towed if they park in the lot, thereby forcing CRA/LA employees to park in surrounding lots and pay for said use (again). Parking in the subterranean building garage has become inefficient to due

inadequate parking attendants resulting in extended delays waiting for personal and fleet cars to become available.

5. "Green" Sustainability Initiatives

Measures to make the building more energy efficient, ecologically friendly and/or LEED certified have been proposed to and rejected by the Popular Center landlord. The CRA/LA would like to establish a standard of LEED Silver or better.

6. Quality of Workmanship

Because the landlord and its contractors' work on the building has been consistently substandard, CRA/LA has suggested, to no avail, that the landlord consider using other contractors committed to higher standards. The issue of quality of workmanship (unlicensed and inexperienced work force, poor materials, projects left unfinished, failure to obtain necessary building permits, and the alleged failure to pay prevailing and living wage), puts in doubt the Landlord's commitment to resolve the building's deferred maintenance items and construct the required tenant improvements in an acceptable manner.

For the reasons outlined above, and to verify market conditions, CRA/LA staff felt it was necessary to identify other available office space.

Calvin E. Hollis
Interim Chief Executive Officer
By:

Glenn F. Wasserman
Chief Operating Officer

There is no conflict of interest to me which exists with regard to any CRA/LA officer or employee concerning this action.

Attachments:

Attachment A - "Site Map"
Attachment B - Financial Comparison Chart