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April 3, 1997

Los Angeles County
Metropolitan
Transportation
Authority

TO: BOARD OF DIRECTORS
FROM: LINDA BOHLINGER, *Linda Bohlinger* INTERIM CHIEF EXECUTIVE OFFICER

SUBJECT: LEASE OF ± 57,000 SQUARE FEET OF OFFICE SPACE

One Gateway Plaza
Los Angeles, CA
90012

213.922.6000

RECOMMENDATION

- A. Authorize execution of a 5-year lease with four, 2-year options-to-extend with Downtown Properties, LLC for approximately 57,000 usable square feet of office space located at 818 West Seventh Street (the "818 Building"), for an estimated lease cost of \$4,421,344 over the initial 5-year term.
- B. Waive the requirement that the construction contract bid for the tenant improvements follow the public bid process and comply with procurement policies and procedures.

ORGANIZATIONAL IMPACT

The leased facility will provide office space for a total of 202 staff from the following departments and contract groups: the Office of Inspector General, the Co-located Office for the Metro Red Line's East Side Project, Construction Safety, Construction Project Management Assistance (currently conducted by MTA contractor, Fluor Daniel) and the Los Angeles Neighborhood Initiative.

BUDGET IMPACT

The total occupancy cost for the 818 Building over the initial 5-year term of the lease is estimated to be \$5,707,344. This amount includes \$4,421,344 in rent and operating expense pass-throughs, and \$1,286,000 in one-time, move-related expenses (i.e.; furniture, office equipment, telecommunications/data equipment, and direct moving costs). Of this amount, \$2,104,634 would be funded from the Board-approved East Side Extension Project budget, and the remaining \$3,602,710 would be funded from the general operating budget. Staff will return to the Board at a later date to request approval for the one-time, move related expenses over \$100,000.

ALTERNATIVES CONSIDERED

No alternatives to this recommendation were considered. This recommendation will permit MTA to occupy the space in the 818 Building one to two months earlier than would be possible if the owners were required to follow the public bid process. In addition, this recommendation reduces the MTA's early termination cost under the lease to a total of \$2,000, as it eliminates the previous requirement that unamortized tenant improvements also be paid. MTA's ability to terminate is now limited to 818 Building staff occupying space in any new building to be constructed at Gateway Plaza, however.

BACKGROUND/DISCUSSION

On March 26, 1997, the Board approved final lease negotiations and execution of a lease with Downtown Properties, LLC. The approval was subject to the following conditions: (1) the lease provide the MTA with an option-to-terminate commencing with its third year, (2) the penalty for such early termination be equal to \$2,000 plus the value of the unamortized tenant improvements to be constructed by Downtown Properties as part of the lease, (3) the tenant improvement plans be approved by the MTA, (4) the construction contract bid for the tenant improvement construction follow the public bid process and comply with procurement policies and procedures, and (5) final lease document come before the Board for approval.

Since the March 26th Board Meeting, Downtown Properties has agreed to drop its requirement that it be reimbursed for the value of the unamortized tenant improvements, if the MTA agrees that it will only terminate the lease to occupy office space in a new building to be constructed at Gateway Plaza. With this revision, the MTA will be required to pay only \$2,000 to exercise its option-to-terminate under the lease. Executing the lease now will allow Downtown Properties to deliver the leased premises one to two months earlier than they would be able to deliver the space under a public bid process, at no additional cost to the MTA. Staff will review and approve the tenant improvement plans for the leased space prior to lease execution.

The owners of the 818 Building have submitted adequate evidence that the 818 Building meets the MTA's structural/seismic standards.

Major characteristics of the subject lease are set forth on Attachment "A".

ATTACHMENTS

Attachment "A" - Major Characteristics of the 818 Building Lease

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Director of Real Estate

TERRY MATSUMOTO
Interim Deputy Chief Executive Office

MAJOR CHARACTERISTICS OF THE 818 BUILDING LEASE

<u>COST ELEMENTS</u>	
5-Year Lease Cost/Effective Rate ¹	\$4,421,344 (\$1.27/s.f.)
2-Year Extension Period Cost/Effective Rate ¹	\$2,188,065 (\$1.57/s.f.)
Other Concessions	(\$ 671,846) ²
<u>OTHER CHARACTERISTICS</u>	
Lease Term:	5 years
Options-to-Extend	Four, 2-year options to extend
Options-to-Terminate	(a) Commencing with the lease's third year and ending with the expiration of the first 2-year option-to-extend, the lease can be terminated, upon payment of a \$2,000 early termination penalty, only if staff relocate to a new building to be constructed at Gateway Plaza. (b) Commencing with the second 2-year option-to-extend and continuing thereafter, the lease can be terminated for any reason at no cost to the MTA.
Leasehold Size	58,141 useable square feet
Number of Floors	3
Location	½ block from 7 th & Metro Station
First-class Office Similar to Gateway	Yes
Full-Service Lease	Yes
24-hr. Parking for 36 MTA Vehicles	Yes
Fully Sprinklered Facility	Yes
Structurally Safe Facility	Yes
Environmentally Safe Facility	Yes, pending favorable, pre-occupancy, asbestos air monitoring.
Estimated Occupancy	10/1/97
Waiver of Security Deposit	Yes
Right to Assign or Sublease	Yes
Refurbishment Allowance	Upon exercise of first option-to-extend - up to \$174,423 at no additional cost to MTA..

Notes:

1. All costs and rates include: (i) full-service rent; (ii) operating expense pass-throughs; (iii) construction of all necessary tenant improvements (except for systems furniture partitions); and (iv) on-site parking for 36 MTA vehicles.
2. Represents the value of offered rental reductions under the *existing* 818 Building lease over the six-month period commencing April 1, 1997 and ending with the estimated October 1, 1997 occupancy date for the new leased space.

ATTACHMENT "A"