



FINANCE & BUDGET COMMITTEE
JANUARY 21, 1998

Los Angeles County
Metropolitan
Transportation
Authority

**SUBJECT: COMMERCIAL BROKER TO MARKET AND LEASE MTA'S
SURPLUS OFFICE SPACE**

**ACTION: AUTHORIZE AWARD OF CONTRACT TO COMMERCIAL
BROKER TO MARKET AND LEASE SURPLUS OFFICE SPACE**

One Gateway Plaza
Los Angeles, CA
90012
213.922.6000

RECOMMENDATION

Authorize the CEO to execute a two year contract with Daum Commercial Real Estate Services to act as the MTA's Exclusive Agent to market and lease MTA's surplus office space located at 818 W. 7th Street and 707 Wilshire Boulevard in Los Angeles.

RATIONALE

MTA has approximately 67,000 square feet of potential surplus office space in the downtown area. The use of a Exclusive Agent (commercial broker) to market and lease the excess space will permit the availability of the space to be advertised to a wider audience and increase the likelihood of obtaining a subtenant to offset MTA's lease costs.

FINANCIAL IMPACT

This transaction, subleasing excess office space in the 818 Building and the 707 Wilshire Building over the remaining 50 and 37 months respectively, is estimated to gross approximately \$2,487,062 to \$2,703,133 in combined revenue based on an estimated sublease rental rate of \$12.00 to \$13.00/square foot/year. This gross revenue will be reduced by the cost of paying an Exclusive Agent's commission and/or a Cooperative Broker's commission (for marketing and locating a tenant). The commission, which is based on the total value of the subleases contract, will be 6% if the space is subleased by Daum exclusively, and 9% if a Cooperating Broker is involved. (See Attachment "1")

Funds are not included in the FY'99 budget to cover the commission payment. The Board will be requested to approve any sublease proposal and to authorize a budget adjustment to increase the Non-Department Rental and Lease budget to cover commission payments. The funds to pay the commission will ultimately be offset by the rent received when the space is subleased. No funds will be expended until a lease agreement has been executed.

The Exclusive Agent will be paid when the subtenant takes occupancy of the subleased space. The MTA may pay the Exclusive Agent in a lump sum or may make monthly payments until the total commission is paid. If a Cooperating Broker is involved, one half of their commission will be paid upon signing the sublease document and the other half will be paid when the subtenant takes occupancy of the subleased space. The gross revenue to the MTA for this transaction is estimated to range from \$2,487,062 to \$2,703,133. The actual revenue received will offset the estimated \$4.3 million the MTA is currently paying for excess office space under the existing leases. (See Attachment"2")

ALTERNATIVES CONSIDERED

The alternative to retaining a commercial broker would be to use existing staff. This alternative is not recommended since the subleasing of commercial office space requires a great deal of marketing and specialized advertising to attract a quality tenant capable of assuming the financial commitment involved in the MTA leases. MTA staff 's time is committed to managing and leasing the extensive right of way owned by MTA.

BACKGROUND

The MTA is currently leasing office space at 818 West 7th Street and 707 Wilshire Boulevard in the City of Los Angeles. The suspension of rail projects (i.e., East Side Extension, Mid City and Pasadena Blue Line) and the subsequent reduction of both EMC and MTA staff resulted in approximately 67,000 square feet of potential excess space. MTA entered into a five year lease for approximately 64,268 square feet in the 818 Building in February 1998. One entire floor of the space was scheduled to be occupied by the East Side Extension Project Team. Approximately 32,782 square feet of the space is occupied by the Inspector General and Management Audit; the remainder of the space is vacant and available for sublease. The Board authorized the assignment of the lease between the EMC and the owners of the 707 Wilshire Building at its November 1998 meeting. As guarantor of EMC's financial obligations under the lease, MTA paid the EMC rental payments directly to the landlord to avoid the overhead that EMC would charge if they made the payments. The 707 lease premises include approximately 117,233 square feet covering seven floors. With the reduction in the rail projects, EMC's operations has been compressed into three floors and Parsons Dillingham (PD) has been relocated into the space and occupies two floors. The remaining space (approximately 35,538 square feet) is available for sublease.

PROCUREMENT SUMMARY

A Request for Proposal (RFP) #RE651099001 was issued on October 6, 1998 to ninety-three local commercial real estate brokers and/or firms. A Pre-Proposal Conference was held at the MTA's office on Tuesday, October 20, 1998, and was attended by four brokerage firms. A walk-through to view the available space was held on Wednesday, October 28, 1998. Responses to the RFP were due on November 16, 1998.

Three firms responded to the RFP: Grubb & Ellis Company, Daum Commercial Real Estate Services, and Julien J. Studley, Inc. In accordance with MTA's Procurement Policy and

Procedures, the Source selection Committee met on November 30, 1998 to review the proposals in accordance with established evaluation criteria, and to determine which proposals fell within the competitive range. The proposals submitted by Daum Commercial Real Estate Services and Grubb & Ellis were judged to be responsive to the RFP. The proposal submitted by Daum Commercial Real Estate Services was determined to be the most advantageous to the Authority.

COST/PRICE ANALYSIS

PROPOSER	PROPOSED COMMISSION RANGE
Daum Commercial Real Estate Services	\$149,224 or \$229,836
Grubb & Ellis	\$166,506 or \$249,760

The proposal submitted by Daum was determined to be fair and reasonable based upon current industry commission rates.

SMALL BUSINESS PARTICIPATION

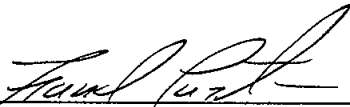
The Contract Compliance Unit waived the goal on this procurement due to the lack of subcontracting opportunities.

ATTACHMENTS

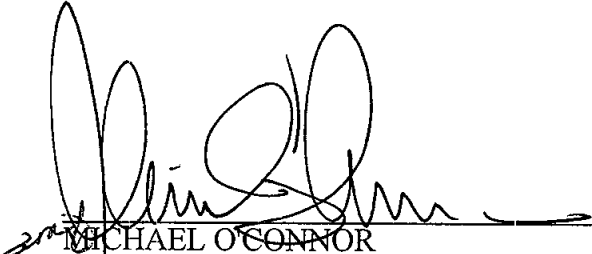
- Attachment 1 - Commission/Net Revenue
- Attachment 2 - Summary of Office Space Lease Payments

Prepared by: **Velma C. Marshall**
Director of Real Estate

Leyton Morgan
Contract Administrator, Procurement



FRANK CARDENAS
Executive Officer, Administration



MICHAEL O'CONNOR
Executive Officer, Procurement



ALLAN LIPSKY
Office of the Chief Executive Officer

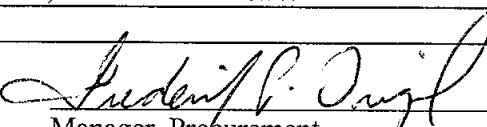
Procurement: RFP RE651099001

Board Date: January 21, 1999

**BOARD REPORT ATTACHMENT "A"
PROCUREMENT SUMMARY
NEGOTIATED PROCUREMENT**

1.	Recommended Vendor: DAUM Commercial Real Estate Services (213) 626-9101						
	Name: Michael D. Foxworthy, Sr, Senior Vice President						
	City: Los Angeles, CA						
	Total Dollar Amount: \$149,224 or \$229,836 (Depending upon the value of the executed sublease and if a Cooperative Broker is involved in the Transaction)						
2.	Description of Contract Services:						
	Contractor will act as the MTA's Exclusive Agent to market and lease MTA's surplus office space located at 818 W. 7th Street and 707 Wilshire Boulevard in Los Angeles.						
3.	Contract Type: Commission Rate Agreement - 2 years						
4.	RFP Issued:						
	October 6, 1998						
5.	Advertise Date: N/A						
6.	DBE Participation Goal: Goal Waived						
	Responsive? N/A						
7.	No. of Notifications sent to Vendors: 93						
8.	No. of Proposals Picked up by Vendors: 93						
9.	Pre-proposal conference date: October 20, 1998						
10.	No. of proposals submitted: 3						
11.	Date proposals received: November 16, 1998						
12.	Negotiation Record:						
	<table><thead><tr><th><u>Proposer names/offer:</u></th><th><u>Price Proposal</u></th></tr></thead><tbody><tr><td>Daum Real Estate Services</td><td>\$149,224 or \$229,836</td></tr><tr><td>Grubb & Ellis</td><td>\$166,506 or \$249,760</td></tr></tbody></table>	<u>Proposer names/offer:</u>	<u>Price Proposal</u>	Daum Real Estate Services	\$149,224 or \$229,836	Grubb & Ellis	\$166,506 or \$249,760
<u>Proposer names/offer:</u>	<u>Price Proposal</u>						
Daum Real Estate Services	\$149,224 or \$229,836						
Grubb & Ellis	\$166,506 or \$249,760						
	Source Selection committee analysis: Daum Real Estate Services rated highest by SSC.						
	Proposer BAFO: N/A						
	Recommendation: Award to Daum Real Estate Services						
13.	Protest Received: None						
14.	Disposition of Protest/Appeal: N/A						
15.	Pre-Qualification Completed? N/A						
16.	Conflict of Interest Certifications Submitted to Ethics? Yes						
17.	Audit Report Completed: N/A						
18.	EO Evaluation Completed? N/A						
19.	Contract Administrator Leyton Morgan						
	Tel: 922-4114						
20.	Project Manager: Velma Marshall, Director Real Estate						
	Tel: 922-2415						

Concur:


Manager, Procurement

Concur:


Director, Procurement

Concur:


Executive Officer, Procurement

COMMISSION/NET REVENUE

Proposer: DAUM

Analysis:

With Cooperating Broker:

<u>Bldg.</u>	<u>Surplus Square Footage</u>	<u>Estimated Rent/s.f</u>	<u>Remaining Term (mos.)</u>	<u>Total Rent for remainin Term</u>	<u>Commission Percentage</u>	<u>Base Commission</u>	<u>Additional Commission*</u>	<u>Total Commission</u>	<u>Net Rev. to MTA</u>
818	31,486	\$1.00	44	\$1,385,384	9%	\$124,685	\$3,000	\$127,685	\$1,257,699
707	35,538	\$1.00	31	\$1,101,678	9%	\$99,151	\$3,000	<u>\$102,151</u>	<u>\$999,527</u>
				\$2,487,062				\$229,836	\$2,257,226

Without Cooperating Broker:

818	31,486	\$1.00	44	\$1,385,384	6%	\$83,123	\$0	\$83,123	\$1,302,261
707	35,538	\$1.00	31	\$1,101,678	6%	\$66,101	\$0	<u>\$66,101</u>	<u>\$1,035,577</u>
				\$2,487,062				\$149,224	\$2,337,838

Footnotes:

*Estimated value of a 3 day/4 night Hawaiian vacation (one vacation per building) The above vaction is only paid to cooperating brokers

Assumptions:

Assumes sublease term commencing July 1, 1999

Sublease of 31,486 s.f. of space at 818 Bldg. (all of 6th floor) and 35,538 s.f. of space at the 707 Bldg. (2 floors)

818 Sublease expiration on 2/28/2003

707 Sublease expiration 1/31/02

Sublease rental level at \$1/s.f./mo. for each bldg.

RFP NO. RE651099001 - COMMISSION/NET REVENUE ANALYSIS

Proposer: Grubb & Ellis

Assumptions:

Sublease term commencing July 1, 1999

Sublease of 31,486 s.f. of space at 818 Bldg. (all of 6th floor) and 35,538 s.f. of space at the 707 Bldg. (2 floors)

818 Sublease expiration on 2/28/2003

707 Sublease expiration 1/31/02

Sublease rental level at \$1/s.f./mo. for each bldg.

Analysis:

With Cooperating Broker:

<u>Bldg.</u>	<u>Surplus Square Footage</u>	<u>Estimated Rent/s.f</u>	<u>Remaining Term (mos.)</u>	<u>Total Rent for remaining Term</u>	<u>Commission Percentage</u>	<u>Base Commission</u>	<u>Additional Commission*</u>	<u>Total Commission</u>	<u>Net Rev. to MTA</u>
818	31,486	\$1.00	44	\$1,385,384	6%	\$83,123	\$47,229	\$130,352	\$1,255,032
707	35,538	\$1.00	31	\$1,101,678	6%	\$66,101	\$53,307	<u>\$119,408</u>	<u>\$982,270</u>
								\$249,760	\$2,237,302

Without Cooperating Broker:

818	31,486	\$1.00	44	\$1,385,384	4%	\$55,415	\$31,486	\$86,901	\$1,298,483
707	35,538	\$1.00	31	\$1,101,678	4%	\$44,067	\$35,538	<u>\$79,605</u>	<u>\$1,022,073</u>
								\$166,506	\$2,320,556

Footnotes:

* \$1.50 per square foot subleased

** \$1.00 per square foot subleased

SUMMARY OF OFFICE SPACE LEASE PAYMENTS

LOCATION	REMAINING RENTAL TERM	TOTAL LEASED SQ. FT.	RENT/SQ.FT	MONTHLY RENTAL PAYMENT	REMAINING RENTAL PAYMENTS	EXCESS SPACE	PORTION OF RENT ATTRIBUTED TO EXCESS SPACE
818 WEST 7TH STREET	50 MONTHS	64,268	\$1.14	\$73,266	\$3,663,276	31,486	\$1,794,702
707 WILSHIRE BOULEVARD	37 MONTHS	117,223	\$1.91	\$223,896	\$8,284,149	35,538	\$2,511,470
TOTALS		181,491		\$297,161	\$11,947,425	67,024	\$4,306,172

TOTAL LEASE PAYMENTS **\$11,947,425.41**

AMOUNT ATTRIBUTED TO EXCESS SPACE **\$4,306,172.00**

PAYMENT FOR MTA OCCUPIED SPACE OVER REMAINING TERM **\$7,641,253.41**