



Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

SUBJECT: SUBLEASE AGREEMENT

ACTION: AUTHORIZE EXECUTION OF A SUBLEASE AGREEMENT WITH THE COUNTY OF LOS ANGELES COMMUNITY DEVELOPMENT COMMISSION

RECOMMENDATION

Authorize:

- A. Execution of a sublease agreement with the County of Los Angeles Community Development Commission, for the sublease of approximately 17,978 square feet of office space and existing MTA-owned and controlled furniture at 707 Wilshire Boulevard, Los Angeles, for a flat, full-service-gross rental rate of \$16,188.30 per month (\$0.90 per square foot) over an approximate 22½ month sublease term (coterminous with the MTA's existing lease term) anticipated to commence March 15, 2000.
- B. Extension of the Exclusive Listing Agreement with Daum Commercial Real Estate Services ("Daum") for one year to May 31, 2001, allowing Daum to continue to act as MTA's exclusive agent to market and lease MTA's surplus office space at 707 Wilshire Boulevard and 818 West Seventh Street under the terms and conditions of the existing contract.

RATIONALE

MTA currently leases approximately 117,234 square feet of office space at 707 Wilshire Boulevard in downtown Los Angeles. The bulk of this space is occupied by MTA staff and consultants. Currently, however, approximately 35,914 square feet of this space is surplus to the MTA's needs, and is being marketed for sublease. The proposed sublease will reduce 707 Wilshire's surplus space inventory to 17,936 square feet and reduce MTA's rental obligation at 707 Wilshire by \$342,383, after payment of brokerage commissions.

The MTA's Exclusive Listing Agreement with Daum is due to expire on May 31, 2000. If the proposed sublease is approved and executed, the MTA will still have 17,936 square feet of surplus space at 707 Wilshire and an additional 31,486 square feet of surplus space at 818 West Seventh Street. A competent brokerage firm knowledgeable in the downtown Los Angeles market is required to properly market and sublease this space. Daum has developed a marketing plan for the remaining surplus space and is poised to continue its marketing efforts during the next year.

FINANCIAL IMPACT

MTA is currently paying \$239,353 per month (\$2.04 per square foot) for the lease of approximately 117,234 square feet of office space at 707 Wilshire. This amount will increase to \$249,122 per month (\$2.13 per square foot) for the thirteen month period commencing January 1, 2001. The rental payments received from the proposed 17,978 square foot sublease will generate approximately \$364,237 over the remaining term of the lease. Out of this amount, a brokerage commission of \$21,854 is payable to Daum for brokering the sublease transaction, leaving \$342,383 to offset the MTA's monthly rental obligation over the remaining term of the lease.

Extending Daum's Exclusive Listing Agreement for an additional year will not have a financial impact until Daum consummates a sublease for any of the remaining surplus space. The existing agreement requires that a 6% commission be paid when a sublease is executed. The funds to pay the commission will be offset by the rental payments received from the sublease.

ALTERNATIVE CONSIDERED

The alternative to the proposed sublease is to reject the sublease offer and hold out for a better sublease offer. This alternative is not recommended for the following reasons: (1) Current market conditions in the downtown area and at 707 Wilshire indicate that the proposed \$0.90 per square foot rental rate is within the current market range. Space of similar size with similar remaining lease terms have been on the market from four months to four years at rental rates ranging from \$0.67 to \$1.00 per square foot per month. The MTA space has been listed for approximately eight months. (2) There is an immense inventory of office space in the downtown market competing with the MTA's surplus space. At present, approximately 1,953,880 square feet of office space is available for lease or sublease in thirty Class A buildings in downtown Los Angeles, with 288,768 square feet and twelve full floors currently available within 707 Wilshire. (3) As of March 1, 2000, the remaining term on the MTA's lease at 707 Wilshire will be only 23 months. This relatively short term impacts market interest, and with each passing month becomes more limiting factor to marketing to space. (4) The Community Development Commission has agreed to procure and pay for all cleaning, improvements and touch-up work needed for their occupancy; therefore MTA will not need to expend any funds for or offer any free rent to compensate for these services.

The alternatives to extending Daum's Exclusive Listing Agreement are: (1) commence a competitive procurement for a new broker; or (2) market the surplus space with in-house staff. These alternatives are not recommended. The time required for a competitive procurement of a broker would further diminish the time remaining to market this space. In-house staff could market the surplus space; however, properly marketing surplus space in downtown Los Angeles' extremely competitive leasing environment is better handled by a competent brokerage firm with the necessary marketing resources to locate, attract and secure subtenants.

BACKGROUND

The 707 Wilshire lease currently covers approximately 117,234 square feet on six and one-half floors. Recent reductions in the rail projects and internal staff consolidations have netted two, full floors (35,914 square feet) of surplus office space at this location, with EMC operating on two floors, Parsons Dillingham (PD) operating on two floors, and various other consultants occupying one-half of a floor. The proposed sublease will encompass one entire floor of the surplus space at 707 Wilshire.


The proposal to sublease the 27th Floor of the 707 Wilshire Building was submitted to Daum by the representative of the Community Development Commission. After brief negotiations, the terms outlined on Attachment "A" were recommended.

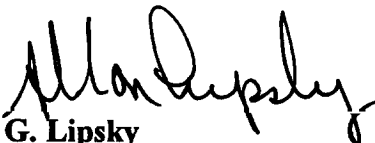
ATTACHMENT

Attachment "A" - Summary of Lease Terms

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Director of Real Estate**

APPROVED:

FOR 
Frank Cardenas
Executive Officer, Administration Officer


Allan G. Lipsky
Office of the Chief Executive Officer

SUMMARY OF LEASE TERMS

Location: 27th Floor of the 707 Wilshire Building

Purpose: General Office Use

Annual Rental Rate: \$.90/RSF/month or \$16,188.30/month

Term: March 15, 2000 (anticipated commencement date) through January 31, 2002 (expiration date of MTA's lease)

Tenant Improvements: To be provided and paid for by the Community Development Commission

Furniture: Use of existing furniture systems owned by MTA

Operating Expenses: Increases in building operating expenses attributable to the subleased space which are in excess of those expenses incurred in calendar year 2000 will be paid by the Community Development Commission.