

**Board Report**

File #: 2016-0553, **File Type:** Policy**Agenda Number:** 9.

**FINANCE, BUDGET AND AUDIT COMMITTEE
AUGUST 17, 2016****SUBJECT: LEASE OF OFFICE SPACE FOR OFFICE OF INSPECTOR GENERAL****ACTION: CONSIDER APPROVING A NEW LEASE FOR 818 WEST 7TH STREET****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to execute a **five-year lease agreement**, including one (1) five (5) year option, with Downtown Properties effective March 1, 2017 for the rental of approximately 12,912 square feet of **office space in an office building located at 818 West 7th Street, 5th Floor, Los Angeles**, at an estimated rental cost of \$2,055,891.59 over the term of the lease.

BACKGROUND

The Office of the Inspector General ("OIG") has occupied office space in the 818 W. 7th Street Building since 1998. This space is used by 24 OIG staff and OIG consultants also use the space from time to time. The current lease was originally executed effective March 1, 2007. The lease covered the use of 12,912 square feet for a term of five (5) years ending February 28, 2012, with one (1) five-year option. The option to extend was exercised effective March 1, 2012 and will expire on February 28, 2017. Metro has an option to extend the lease for an additional five years by providing notice between June 1, 2016 and August 31, 2016. Instead of exercising the option, staff has negotiated new lease terms effective March 1, 2017 pending Board approval. Early negotiations regarding the lease renewal provided the opportunity to negotiate free rent, establish a new 2017 base year for expense purposes and obtain tenant improvements provided by the landlord.

DETERMINATION OF SAFETY IMPACT

This Board Action will not have an impact on safety standards for METRO operations.

FINANCIAL IMPACT

Current funding for the payment of rent for the OIG space is included in the FY17 budget in cost center 0651, Non-Departmental Real Estate, under project number 100002, Governmental Oversight and Activities. The total rental cost for the OIG to occupy the 818 Building for the term covering March 1, 2017 to February 28, 2021 is estimated to be \$2,055,891.59. The cost center manager, DEO of Real Estate, will be accountable for budgeting the cost in future years.

Impact to Budget

The source of funds is Proposition A and C and TDA administration budget. This fund is not eligible for bus/rail operating or capital expense.

Rental Value

The current rental rate for the period of March 1, 2016 - February 28, 2017 is \$28.61/PSF plus approximately \$0.94/PSF in pass through expenses above the 2012 base year for a total rent of \$29.55 psf. The rental rate for the new term commencing March 1, 2017 will be \$32.00/PSF on a full service gross ("FSG") and rentable square foot ("RSF") basis and shall increase by three percent (3%) per annum thereafter. There will be no obligation to pay Base Rent during the initial four (4) months of the Lease Term or pass through expenses during calendar year 2017. The effective start rent for Year One of the new lease term will be \$29.97/PSF, when factoring in the free rent provided, which is substantially similar to the current rent paid for the OIG space. In addition, the landlord has committed to making certain tenant improvements as requested by the OIG at the landlord's sole cost. The improvements include new carpet throughout the Premises, painting in select portions of the Premises and addressing several miscellaneous alterations to the space as requested by the OIG staff.

The proposed lease rate has been compared to other comparable office buildings located in Downtown Los Angeles. Rental rates for nearby Class A office space currently range from \$39.00 per square foot to \$48.00 per square foot on an annual basis and rental rates for Class B office space currently range from \$34.00 per square foot to \$45.00 per square foot. Attachment A is a list of rental rates in comparable buildings located in the general vicinity of the 818 Building. Current asking rent at 818 West 7th Street is \$36.00 psf. OIG's rent compares favorably at \$32.00 psf. In a relocation to a comparable building shown on the attachment, the OIG would pay a similar or more expensive rent plus incur considerable out of pocket capital costs related to a new build-out, furniture, fixtures, equipment and moving costs.

ALTERNATIVES CONSIDERED

Do not extend the term and relocate to another downtown location. This alternative is not cost effective. The time and resources required to select another downtown office location, negotiate a favorable lease rate, construct tenant improvements and communications facilities and relocate the staff from the existing space would far exceed the rental payment required to remain in the existing location.

Exercise the existing option. This alternative is less cost effective than the recommendation. The lease provides that if the option is exercised, the rent will be adjusted to fair market value for similar office buildings in the area which is estimated at \$36.00 per square foot.

Do not extend the term and relocate the OIG staff to Gateway. It would not be feasible to relocate this function into Gateway as there is insufficient vacant space available without relocating other functions from the building.

NEXT STEPS

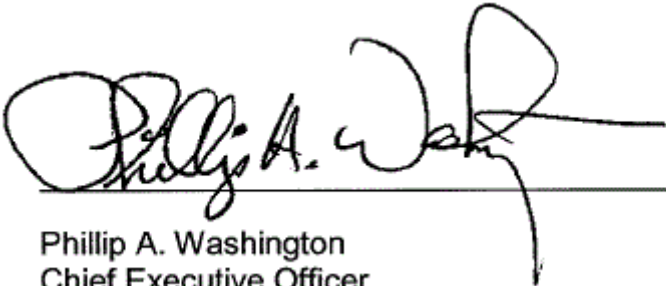
Staff will complete negotiations of a lease agreement through the broker subject to review and approval by County Counsel.

ATTACHMENTS

Attachment A - Rental Rates of Comparable Properties in the Vicinity of 818 West 7th Street

Prepared by: Calvin E. Hollis, Executive Officer, (213) 922-7319
Velma C. Marshall, Deputy Executive Officer, (213) 922-2415

Reviewed by: Therese W. McMillan, Chief Planning Officer, (213) 922-7077



Phillip A. Washington
Chief Executive Officer

ATTACHMENT A

Office Rental Properties in the Vicinity of 818 W. 7th Street

Building Address (Building Name)	Building Class	Space Available	Asking Rate
611 W 6 th Street	B	Suite 1500 – 12,000 SF	\$39.00-\$42.00 FSG
523 W 6 th Street (Pacific Center)	B	11 th floor – 10,020 SF	\$48.00 FSG
888 W 6 th Street	B	Suite 600 – 6,398 SF	\$39.00 FSG
617 W 7 th Street	B	11 th Floor – 10,000-16,000 SF	\$42.00 FSG
601 S Figueroa Street (Figueroa at Wilshire)	A	Suite 4350 10,418 SF	\$45.00 FSG
660 S Figueroa Street (Figueroa Tower)	B	Suite 800 – 15,679 SF	\$34.00 FSG
725 S Figueroa Street (Ernst & Young Plaza)	A	Suite 2600 – 12,000-23,000 SF	\$42.00 FSG
777 S Figueroa Street (777 Tower)	A	Suite 500 – 12,851 SF	\$44.00 FSG
801 S Figueroa Street (801 Tower)	A	3 rd Floor – 11,986 SF	\$43.20 FSG
865 S Figueroa Street	A	23 rd floor – 10,782 SF	\$41.00 FSG
888 S Figueroa Street	B	Suite 1500 – 12,000–18,000 SF	\$36.50 FSG
555 S Flower Street (City National Plaza)	A	7 th Floor – 13,402 SF	\$45.00 FSG
700 S Flower Street (MCI Center)	B	Suite 1801 – 13,942 SF	\$43.20 FSG
550 S Hope Street	A	4 th floor – 10,000-19,722 SF	\$39.00 FSG
600 Wilshire Boulevard (Wilshire Grand)	B	Suite 400 – 18,853 SF	\$34.00 FSG
707 Wilshire Boulevard (Aon Center)	A	Suite 1000 – 12,000-19,000 SF	\$40.00 FSG
800 Wilshire Boulevard	B	Suite 800 – 7,966 SF	\$35.00 FSG