

**Board Report**

File #: 2017-0560, **File Type:** Project**Agenda Number:** 37.

**CONSTRUCTION COMMITTEE
SEPTEMBER 21, 2017****SUBJECT: LEASE FOR INTEGRATED PROJECT MANAGEMENT OFFICE - WESTSIDE
PURPLE LINE EXTENSION PROJECT****ACTION: APPROVE LEASE AMENDMENT FOR 777 FIGUEROA STREET, LOS ANGELES****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to approve a lease amendment to extend the term of the existing sublease with Maguire Properties - 777 Tower, LLC, to extend the term for sixty-two (62) months from May 1, 2018 to June 30, 2023 for the rental of approximately 41,628 rentable square feet of office space in an office building located at 777 Figueroa Street, Los Angeles, at an estimated rental cost of seven million, one hundred twenty-three thousand, nine hundred ninety-seven dollars (\$7,123,997.00) over the term of the lease.

RATIONALE

At its October 2010 Board meeting, the Metro Board authorized the rental of approximately 41,628 rentable square feet of office space in the office building located at 777 Figueroa Street. The original lease was a year-to-year sublease between Marsh USA, Inc. and LACMTA. In September 2011, the Board authorized an amendment to extend the term from a year-to-year lease to a fixed term that will expire on April 30, 2018. The office building was purchased by Maguire Properties-777 Tower, LLC ("Maguire Properties") in 2014 and the sublease was subsequently converted to a direct lease with Maguire Properties in December 2014 under the same terms and conditions of the original sublease with Marsh.

The office space was originally leased to house the Integrated Project Management Offices (IPMO) for the Westside Purple Line Extension and Regional Connector Transit Corridor Projects. Currently the space is occupied by the Westside Purple Line Extension Project (WPLE or Project) Sections 1, 2 and 3 staffs and consultants. The leased space has been built out with enclosed offices, open office furniture work stations, conference rooms, storage space and other amenities that are appropriate for the work that is being performed by the IPMO teams.

Now that the WPLE Section 2 is gearing up for the construction phase and WPLE Section 3 is moving toward procuring contractors to provide final design and construction, it is necessary to firm up office space for the team that will be responsible for delivering the WPLE Project, as well the engineering management support staff working on all three sections of the Project.

FINANCIAL IMPACT

The lease rate for the new lease period has been adjusted to 2017 market rents; however the landlord offered several incentives which result in a very competitive rental structure as compared to other available Class A and B buildings in the downtown area (see attached Summary of Class A & B Rental Rates in downtown Los Angeles). The basic rental structure consists of the following: (a) 62-month lease term commencing May 1, 2018; (b) \$34.0/sq. ft. (Full Service Gross) with 3% annual increases; (c) five months free rent; (d) \$12/sq. ft. tenant improvement allowance; and (f) right to terminate one floor after three years with 12 months prior written notice with a three month rent penalty. There will be no pass thru of operating expenses or taxes and the lease will continue to include use of the existing furniture for the duration of the term. The estimated rental payment over the term of the 62 months is \$ \$7,123,997.

Funds are included in the FY18 budget under Projects 865518 (WPLE Section 1), 865522 (WPLE Section 2), and 865523 (WPLE Section 3) in Cost Center 8510 (Construction Project Management), and Account 51201 (Lease and Rental Property and Facilities). The amounts allocated for Sections 1 and 2 are included in their respective Life of Project (LOP) Budgets. The amount allocated for Section 3 will be included in the respective LOP Budget when it is taken to the Board for approval. Since the lease is multi-year, the Chief Program Management Officer and the Project Managers will be responsible for budgeting the costs in future years.

Impact to Budget

The sources of funds for the recommended action are Measure R 35%, Measure M 35%, and Federal 5309 New Starts. The approved FY18 budget is designated for the WPLE Project and does not have an impact to operations funding sources. These funds were assumed in the Long Rang Transportation Plan for the WPLE Project. This Project is not eligible for Proposition A and C funding due to the proposed tunneling element of the Project. No other funds were considered.

ALTERNATIVES CONSIDERED

Several alternatives were considered to meet the future office space needs for the Project. Each alternative includes the requirement to lease office space for the Metro staff and consultants, and to occupy a construction field office in the area of Century City for the construction team. The Project is acquiring property interests in a property located at 1950 Century Park East which is owned by the Automobile Club of Southern California (“AAA”). The acquisition includes a subsurface easement for tunnel construction and a temporary construction easement over the entire surface of the property which is improved with a two-story office building. The office building cannot be demolished due to its potential historical designation; therefore, the office building will be used by the construction management team as its construction field office during the period of construction. However, the building is not large enough to accommodate the Engineering team and the full team of Metro’s Program Management staff.

Alternatives considered for providing office space included the following:

1. Relocate the entire staff at 777 Figueroa to an office space on the westside.

This alternative proved to be too expensive. Rental rates for office space on the westside near the Century City/Beverly Hills area range from \$ 47.00 to \$90.00 per rental square foot (See attached summary of rental costs in West Los Angeles). Based on a requirement for approximately 40,000 square feet of office space to house the engineering/design team, the average cost for office space would be approximately \$9,441,817 over the term of the lease. In addition to the higher rental cost, the distance from the MTA Headquarters support staff (i.e. Procurement, Legal, and Planning), expensive parking rates in nearby buildings, the extensive travel time from downtown LA where meetings are held with City of LA personnel, and travel time for staff commuting to work, locating to an office building on the westside was not considered feasible.

2. Renew the lease at 777 Figueroa (10th and 11th floors) for 62 months.

Retaining the existing space at 777 Figueroa offers the most efficient and economical alternative for a number of reasons: (a) The space is already built out and furnished, thereby eliminating additional costs for relocation, build out and disruption to existing staff; (b) the space allows for expansion due to increased staffing needs; (c) the location facilitates continued support from Metro staff located at Gateway Plaza and the City of LA staff located in downtown LA; (d) the space allows room for new projects that will come online at the time the design engineering staff will be reduced and the WPLE Sections 2 and 3 are completed; and (e) the agreement provides the ability to sublease any excess space if another Metro project is not available to use the space, and the rental terms are highly competitive with other downtown LA options as discussed below. Based on the foregoing reasons, the extension of the existing space provides the most flexible alternative for meeting the Project office space requirements.

NEXT STEPS

Staff will complete negotiations of the lease amendment through the broker, Savills Studley, subject to review and approval by County Counsel.

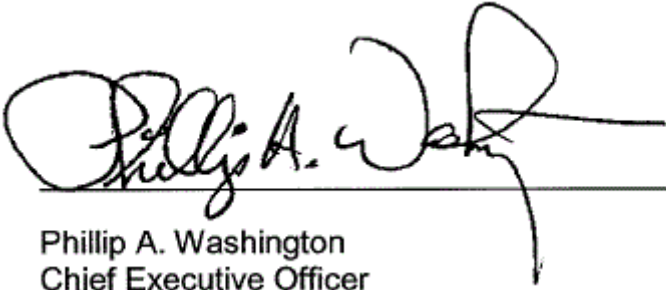
ATTACHMENTS

Attachment A - Summary of Class A & B Rental Rates in downtown Los Angeles

Attachment B - Summary of Rental Costs in West Los Angeles

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Phillip A. Washington
Chief Executive Officer

Downtown Los Angeles Comparables

Building Address	Property Type	Available Space	Rent/SF/Year FSG
555 W 5 th St	Class A Office	27,622	\$45.00
633 W 5 th St	Class A Office	23,710-77,606	\$44.00-\$47.00
515 S Figueroa St	Class A Office	22,115-31,299	\$41.00-\$43.00
601 S Figueroa St	Class A Office	22,261-44,522	\$45.00
660 S Figueroa St	Class A Office	14,242-45,546	\$37.00-\$39.00
725 S Figueroa St	Class A Office	23,427	\$44.00
777 S Figueroa St	Class A Office	21,272-82,092	\$45.00
865 S Figueroa St	Class A Office	21,214	\$41.00
444 S Flower St	Class A Office	22,286-32,177	\$43.50-\$49.00
515 S Flower St	Class A Office	24,979-71,736	\$46.00
700 S Flower St	Class A Office	13,230-62,220	\$43.80-\$49.80
300 S Grand Ave	Class A Office	25,108	\$41.00-\$43.00
333 S Grand Ave	Class A Office	26,100	\$45.00
350 S Grand Ave	Class A Office	26,987-53,400	\$42.60
355 S Grand Ave	Class A Office	26,166-52,320	\$44.00
333 S Hope St	Class A Office	25,773	\$45.00
400 S Hope St	Class A Office	27,053	\$42.00
550 S Hope St	Class A Office	23,846	\$43.00
714 W Olympic Blvd	Class A Office	20,169-40,338	\$39.00
707 Wilshire Blvd	Class A Office	18,295-153,527	\$40.00
900 Wilshire Blvd	Class A Office	21,721-271,808	\$51.00
915 Wilshire Blvd	Class A Office	30,117-78,389	\$42.00
1000 Wilshire Blvd	Class A Office	23,881	\$42.00-\$44.00

Building Address	Property Type	Available Space	Rent/SF/Year FSG
601 W 5 th St	Class B Office	24,766-43,585	\$42.00
523 W 5 th St	Class B Office	7,740-58,696	\$51.00
611 W 6 th St	Class B Office	32,000-96,000	\$39.00-\$42.00
818 W 7 th St	Class B Office	22,006-41,774	\$37.00-\$39.00
445 S Figueroa St	Class B Office	16,802-50,404	\$43.00

Century City Comparables

Building Address	Property Type	Available Space	Rent/SF/Year FSG
1999 Avenue of the Stars	Class A Office	20,000-35,000	\$54.00-\$75.00
2029 Century Park E	Class A Office	27,329-61,061	\$60.00
2049 Century Park E	Class A Office	27,311-65,807	\$60.00
10250 Constellation Blvd	Class A Office	22,920-68,296	\$66.00-78.00

Building Address	Property Type	Available Space	Rent/SF/Year FSG
1900 Avenue of the Stars	Class B Office	23,181	\$47.00-\$57.00
1901 Avenue of the Stars	Class B Office	27,132	\$54.00
1925 Century Park E	Class B Office	19,881-39,762	\$51.00

Beverly Hills Comparables

Building Address	Property Type	Available Space	Rent/SF/Year FSG
9242 Beverly Blvd	Class A Office	34,908	\$64.80
335-345 N Maple Dr	Class A Office	25,000-71,815	\$61.20-\$66.60
407 N Maple Dr	Class A Office	36,236	\$64.80
9465 Wilshire Blvd	Class A Office	22,099	\$79.80-\$90.00
9665 Wilshire Blvd	Class A Office	25,468	\$80.00

Building Address	Property Type	Available Space	Rent/SF/Year FSG
8383 Wilshire Blvd	Class B Office	22,794	\$48.00