



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: OCTOBER 5, 2016

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - PROPOSED LEASE AGREEMENT
WITH PACIFIC PLACE OFFICE LLC**

SUMMARY:

Staff requests approval of a lease for approximately 14,819 square feet (SF) of Class A office space for sixty-four and one half months (64½) with Pacific Place Office LLC for the Topaz building located at 222 W. Sixth Street, 9th Floor, San Pedro, CA. The proposed Lease Agreement includes an option to cancel after the third year. The Lease Agreement is required due to space constraints at the Harbor Administration Building (HAB) that has resulted in the need for additional working space for the Environmental Management Division (EMD). First year base rent will be \$34,084 per month at \$2.30 per SF per month, totaling approximately \$409,008 for the base year before taking into consideration free rent for the first four months. Additionally, there is a \$2,000 monthly fee for 40 unreserved parking spaces (\$50 per parking space per month) and a \$300 monthly fee for 5 reserved parking spaces (\$60 per parking space per month).

Rent will be adjusted by three percent for each subsequent year of the term. Rent will be \$35,121 per month at \$2.37 per SF per month for the second year, and \$36,058 per month at \$2.44 per SF per month for the third year. Parking fees will remain constant over the term of the lease.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f), of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Lease Agreement with Pacific Place Office LLC;
3. Direct the Board Secretary to transmit the Lease Agreement to City Council for its approval pursuant to Section 373 of the City Charter;

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4. Authorize the Executive Director and the Board Secretary to attest to the Lease Agreement upon approval by City Council; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background - The HAB is and has been operating under space constraints for both office space and parking facilities since 2007. In March 2007, Lease Agreement No. 09-2513 between the City of Los Angeles Harbor Department (Harbor Department) and Pacific Place Associates (a predecessor to the current owner) was executed to accommodate office space for EMD staff on the 10th floor of the Topaz building. After the relocation of EMD to Topaz, Lease Agreement No. 09-2746 between both parties was executed in September 2009 to provide additional office space for staff from the Real Estate, Marketing, and Planning Divisions (collectively, Business Development Bureau, or BDB) on the 9th floor of the Topaz building.

Concurrently with Lease Agreement No. 09-2513 expiring on May 14, 2014, BDB staff relocated back to the 5th floor of HAB after it was reconfigured to accommodate approximately 50 employees. EMD then relocated to the 9th floor of the Topaz building under Lease Agreement No. 09-2746, which expired on September 13, 2016 and is currently on holdover. Staff is currently analyzing options to locate HAB staff into one location. Execution of this plan will take at least three years to complete.

Proposed Lease Terms - It is necessary to pursue a new lease at the Topaz building to accommodate approximately 40 EMD staff members including full-time staff, consultants, professional student workers, and interns. The proposed Lease Agreement (Transmittal 1) is for a term of 64½ months and is for the same 14,819 SF of office space located on the 9th Floor of the Topaz building that is currently being occupied by EMD under Lease Agreement No. 09-2746. The proposed Lease provides for a free rental period lasting four months beginning on the lease commencement date of December 14, 2016. The effective rent commencement date will be April 15, 2017. The Lease Agreement also provides an allowance to the Harbor Department in the amount of \$15.00 per rentable square foot, for a total of \$222,285 to defray rental costs and potential refurbishment costs. The entire allowance will automatically be applied as rent credit immediately after the initial four-month free rental period if the Harbor Department elects not to refurbish the premises. In the event that the Harbor Department does perform any refurbishment, the Harbor Department, by the authority of the Executive Director through notice, may elect to apply the remaining allowance after refurbishment costs against monthly rent immediately after the four-month free rental period. The Lease Agreement allocates a total of 45 assigned and unassigned parking spaces.

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The proposed Lease Agreement has an option for the Harbor Department to cancel the Lease Agreement at the completion of the thirty-sixth month (third year). In order to exercise this option, the Executive Director of the Harbor Department or designee will provide written notice to Pacific Place Office LLC of its intent to cancel the Lease Agreement no later than nine (9) months prior to the completion of the thirty-sixth month. If this early termination option is exercised, the Harbor Department will pay to Pacific Place Office LLC an amount equal to the unamortized portion of the refurbishment allowance funds paid by Landlord, the initial four-month free rent period, and the brokerage commissions paid by Pacific Place Office LLC, amortized at an eight percent annual interest rate. This cancellation fee amount at thirty-six months will be \$219,804.49.

Over the past few years, various alternatives have been considered as a solution for the additional requirement of office space for Harbor Department employees, and leasing space at the Topaz building has been found to be the best short-term solution due to its availability of sufficient office space, parking, and proximity to HAB. There are no other viable commercial office buildings in the area that offer the same advantages and features.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a lease with Pacific Place Office LLC involving office space at 222 W. Sixth Street, 9th Floor, San Pedro, California. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f), of the City of Los Angeles CEQA Guidelines.

FINANCIAL IMPACT:

The rent value of this new Lease Agreement, which is to begin on December 14, 2016, is estimated at \$221,546 for Fiscal Year 2016-2017 (FY 16/17) at \$2.30 per SF per month, totaling \$34,084 a month. Under current agreement terms, the Harbor Department is currently paying \$40,604 per month at a rate of \$2.74 per SF per month for the same premises and square footage. After taking consideration of a negotiated four months of free rent, the actual rent paid for FY 16/17 will be \$85,210. The remaining cost for FY 16/17 is \$14,950 for 45 parking spaces over 6½ months. Funds have been included in FY 16/17 budget in Account 59955, Center 0429. Funding for future years, subject to Board approval, will be budgeted annually pursuant to the Lease Agreement.

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CITY ATTORNEY:

The Lease Agreement is subject to approval as to form and legality by the Office of the City Attorney.

TRANSMITTAL:

1. Lease Agreement

FIS Approval: myB (initials)
CA Approval: MB (initials)


MICHAEL J. GALVIN II
Director of Real Estate


MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:


EUGENE D. SEROKA
Executive Director

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