



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JANUARY 18, 2012

FROM: REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - PROPOSED OPTION TO
EXTEND THE TERM OF OFFICE LEASE FOR AGREEMENT NO.
2513 WITH PACIFIC PLACE ASSOCIATES, LP**

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) leases 12,803 square feet (s.f.) of office space from Pacific Place Associates, LP (Pacific Place) under Agreement No. 2513 (Agreement) for a five-year period ending February 29, 2012, with an option to extend for an additional two years. It is proposed that the Option to Extend the Term of Office Lease (Option) be exercised for the additional two years at the new negotiated base rent during which time a long-term solution for office space needs of the Environmental Management Division (EMD) will be established. Approval by the Board of Harbor Commissioners (Board) is required to exercise the Option.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Option to Extend the Term of Office Lease for Agreement No. 2513 with Pacific Place Associates, LP;
2. Authorize the Executive Director to execute and the Board Secretary to attest to the Option to Extend the Term of Office Lease; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background – Agreement No. 2513 provides for the lease of office space and employee parking spaces from Pacific Place for a period of five years commencing March 1, 2007, with a two-year option to extend. The full-service lease provides 12,803 s.f. of office space on the 10th floor of the Class A building at 222 West 6th Street and 30 parking spaces for Environmental Management Division (EMD) and Homeland Security staff.

SUBJECT: PROPOSED OPTION TO EXTEND THE TERM OF OFFICE LEASE WITH PACIFIC PLACE ASSOCIATES, LP

During the first year of the Agreement No. 2513, the Harbor Department paid a base rent of \$2.15 per s.f. per month, with Pacific Place paying for tenant improvements. Every year thereafter, Agreement No. 2513 specifies a three percent increase in the base rent, pursuant to the terms of the Agreement. The Harbor Department currently pays \$2.42 per s.f. per month, plus pass-through costs such as utilities, maintenance, custodial services and parking fees.

Although the Operations Bureau has confirmed that Homeland Security will not require the space it currently occupies due to the completion of the new Port Police Building, the Development Bureau confirmed that the 2,378 s.f. space to be vacated by Homeland Security will be required since the EMD staff has increased since the inception of the Agreement and needs an additional conference room. Moreover, under the Space Needs Action Plan (SNAP), EMD will not return to the Harbor Administration Building given the limited space available in the building. No tenant improvements are required.

Section 3 of the Agreement No. 2513 provides an option to extend the term for the tenth floor for two additional years, beginning March 1, 2012, at a negotiated base rent. Approval by the Board is required in order to exercise the Option at the new negotiated annual base rent for two additional years. During this time, longer term options for EMD will be considered and established.

Rent – Research of available Class A office space within a 20-mile radius of the subject property yielded 20 comparable properties from El Segundo to Long Beach. The best available comparables based on class, age, size, and service supports a rate range from \$2.15 to \$2.75 per s.f. per month.

Based on negotiations with Pacific Place and research of comparables in the immediate area, staff recommends accepting the base rent of \$2.26 per s.f. per month for the first year and approximately \$2.33 per s.f. per month for the second year. Other costs associated with the Agreement include parking fees of up to \$20,400 annually (30 unreserved at \$40 per month and 10 reserved at \$50 per month); operating expenses of \$15,000 annually (inclusive of a 20 percent contingency cost); and recycling and utility fees at \$6,300 annually to maintain 24-hour air conditioning in the file server rooms, which may be subject to a rate increase due to changes in the electrical rate charges. All other terms and conditions of the current Agreement apply.

Other Space at Pacific Place – The Harbor Department also has a similar lease for the Business Development Bureau (Bureau) on the 9th floor for 14,819 s.f. Agreement No. 2746 is a seven-year lease expiring September 13, 2016, with an option to cancel at the end of the 5th year (with penalty of \$300,000) and an option to extend the term for one (1) two-year term. The current plan is to relocate the Bureau back to the Harbor Administration Building with timing dependent on renovation schedules.

SUBJECT: PROPOSED OPTION TO EXTEND THE TERM OF OFFICE LEASE WITH PACIFIC PLACE ASSOCIATES, LP

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the Option to Extend the Term of Office Lease for two years between the Harbor Department and Pacific Place for the Harbor Department's use of office space on the 10th floor and employee parking at 222 W. 6th Street in San Pedro. As an activity involving the extension of the Agreement to use an existing facility involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no direct employment effect.

FINANCIAL IMPACT:

The proposed annual base rent shall be \$2.26 per s.f. per month in the first year and approximately \$2.33 per s.f. per month in the second year. Estimated funds per year include office space, utilities/recycling fee, operating expenses, and parking as follows:

Current Costs

Office Space (12,803 s.f. @ \$2.42/mo.)	Utilities/Recycling (Yearly Average)	Operating Expenses Annual	Parking (Up to 42 spaces)
\$371,799.12	\$6,300	\$12,000	\$20,610

Current Annual Total: \$410,709.12

Proposed Option to Extend Agreement - Estimated Costs

Office Space (12,803 s.f. @ \$2.26/mo.)	Utilities/Recycling (Yearly Average)	Operating Expenses Annual	Parking (Up to 40 spaces)
\$347,217.36	\$6,300	\$15,000	\$20,400

Year 1 Total: \$388,917.36

Office Space (12,803 s.f. @ \$2.3278/mo.)	Utilities/Recycling (Yearly Average)	Operating Expenses Annual	Parking (Up to 40 Spaces)
\$357,633.88	\$6,300	\$15,000	\$20,400

Year 2 Total: \$399,333.87

TOTAL: \$788,251.23

SUBJECT: PROPOSED OPTION TO EXTEND THE TERM OF OFFICE LEASE WITH PACIFIC PLACE ASSOCIATES, LP

Funding in the amount of \$129,640 is available in the Fiscal Year 2011/2012 operating budget in Account 59955, Center 0424, Program 000 and will be budgeted in subsequent. The estimated annual parking cost (above) represents the maximum allocated cost per year to provide flexibility in staffing as needs change. Currently, EMD's parking roster reflects a total of 36 parking spaces, with four allocated as reserved parking spaces.

Fiscal Year 2011/2012	\$129,640	March 1, 2012 through June 30, 2012
Fiscal Year 2012/2013	\$392,390	July 1, 2012 through June 30, 2013
Fiscal Year 2013/2014	<u>\$266,222</u>	July 1, 2013 through February 28, 2014
TOTAL	\$788,252	

The expected savings in rent in the first year from current annual costs is \$24,581.76 (a savings of 6.6 percent) and in the second year \$14,165.25 (3.8 percent lower than current rental rates), representing a total savings of \$38,747.01 over the two-year period.

CITY ATTORNEY:

The proposed Option to Extend the Term of Office Lease has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTAL:

- Option to Extend Term of Office Lease

FIS Approval: KB (initials)
 CA Approval: rn (initials)


 KARL. K.Y. PAN
 Interim Director of Real Estate


 For KATHRYN McDERMOTT
 Deputy Executive Director

APPROVED:


 GERALDINE KNATZ, Ph.D.
 Executive Director