



DATE: JANUARY 18, 2017

FROM: WATERFRONT AND COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVAL OF THE
WATERFRONT COMMERCIAL LEASING GUIDELINES**

SUMMARY:

Staff requests approval of the Waterfront Commercial Leasing Guidelines (Leasing Guidelines). The Leasing Guidelines establish criteria and procedures applicable to leasing and financing of waterfront ground lease developments. These guidelines are distinct from the Port of Los Angeles Leasing Policy (2013 Leasing Policy), which generally apply to cargo terminal related leasing practices. The Leasing Guidelines focus on lease provisions and investment proposal procedures necessary to encourage new visitor serving private developments and continual reinvestment in existing or future visitor serving developments.

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 Waterfront Commercial Leasing Guidelines; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background – The LA Waterfront has become increasingly active due to the City of Los Angeles Harbor Department's (Harbor Department) continued investment into public access infrastructure, events programming, and new private developments. In 2015, the Real Estate Division was reorganized to strategically focus on issues unique to the public access areas and build value in waterfront assets through attraction of private development in the LA Waterfront. Staff was instructed to develop Leasing Guidelines (Transmittal 1), distinct from the 2013 Leasing Policy, to establish criteria and procedures applicable to waterfront developments that rely on private developer investment and institutional financing.

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The Leasing Guidelines are distinct from the 2013 Leasing Policy in several ways. Generally, the Leasing Guidelines establish predictable leasing procedures and practices to encourage new and existing tenants and developers to propose significant investment and/or reinvestment in public access developments along the LA Waterfront. The success of the LA Waterfront depends on privately financed developments. The 2013 Leasing Policy generally applies to cargo terminal related leasing practices.

Leasing Guidelines Overview - Continued and sustainable development of the LA Waterfront requires unique leasing strategies that provide private investors with a predictable framework for how the Harbor Department will practice in a variety of transactional situations, including but not limited to, 1) solicitation of competitive proposals for vacant or occupied properties, 2) consideration of proposals from existing tenants to reinvest in their existing developments during or near the end of their lease term, 3) establishing and negotiating minimum rent and other forms of compensation, 4) establishing sub-tenancy requirements, 5) prescribing objective standards for consent to assignments of leasehold interests, and 6) providing objective standards for the approval of leasehold financing. The guidelines are further divided into four distinct areas including General Guidelines, Lease Initiation Guidelines, Lease Provision Guidelines, and Lease Performance Guidelines.

General Guidelines discuss implementation responsibility, application to new and existing leases, process to amend the guidelines, process for addressing deviations from the guidelines and frequency of review.

Lease Initiation Guidelines provide parameters for competitive processes for new developments on direct negotiations with existing tenants, Harbor Department strategic objectives for waterfront developments and leases, standards for lessees and the process for initiation of exclusive negotiations. To enter into exclusive negotiations, the existing tenant must qualify as a tenant in good standing and must provide specific requirements that justify that the proposed project meets the Harbor Department's financial and other objectives.

The *Lease Provision Guidelines* discuss specific material provisions in a proposed lease including length of term, pre-construction option periods, term extension options, and exceptions to competitive processes for existing tenants. Lease provisions highlighted in the guidelines include length of lease term, rent, subleases, assignments and property ownership. The Waterfront Commercial Leasing Guidelines will also provide guidance on negotiated provisions that are distinct in a public access-related use setting. The guidelines outlines the Harbor Department's preferred valuation methodology of using economic performance to establish the development's minimum required rent. Additionally, the guidelines will provide efficient solicitation of subtenant relationships when developers serve as master tenants, as long as they comply with the guidelines' conditions and requirements.

Lease Performance Guidelines address issues that arise during the term of the lease, including amending the lease and the process to receive consent for leasehold financing.

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The Leasing Guidelines also include a glossary of defined terms, a map and description of specific property that is subject to these guidelines, and requirements for existing tenant proposals for new leases.

The Leasing Guidelines supports the Port of Los Angeles Strategic Plan, Public Access Investment Plan, and reinforces consistency with other Board approved policies, as well as applicable laws, including the Los Angeles City Charter, Los Angeles Administrative Code, and State Tidelands Trust Grant. Comprehensive Harbor Department staff input has been included in the Waterfront Commercial Leasing Policy Guidelines and the Harbor Department has solicited feedback from private developers and financial experts that do not have a financial interest in the Harbor Department, and LA Waterfront tenants.

Process – Development of the Leasing Guidelines incorporated input from a variety of subject matter experts, including Harbor Department staff, various port agencies in the US, experts in the fields of real estate, finance, and development, and Port of Los Angeles tenants. Three drafts were publically released prior to final version presented herein. A public meeting with external stakeholders was held on November 30, 2016, and presentations were provided at publically held Board meetings on December 15, 2016, and January 12, 2017.

Proposed Action - Waterfront and Commercial Real Estate requests the Board to approve the Leasing Guidelines, which will guide leasing decisions for public access-related uses within the LA Waterfront. These Guidelines will provide an internal framework of procedures and guidelines that will improve economic value of waterfront property assets via private investment, which will improve and increase public access to the LA Waterfront. The Waterfront Commercial Leasing Guidelines do not obligate the Harbor Department to undertake any specific development project.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the Waterfront Commercial Leasing Guidelines, which guides leasing decisions for public access related uses within the LA Waterfront. 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) in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Adoption of the Waterfront Commercial Leasing Guidelines will provide a framework for leasing decisions for public access related uses in the LA Waterfront. The Waterfront Commercial Leasing Guidelines does not request approval for any specific Project, as any contemplated Project will follow established Harbor Department procedures, including requesting Board approval as appropriate.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed the Waterfront Commercial Leasing Guidelines and raises no legal issues at this time.

TRANSMITTAL:

1. Waterfront Commercial Leasing Guidelines

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



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