



Board Report

File #: 2021-0518, File Type: Agreement

Agenda Number: 12.

FINANCE, BUDGET AND AUDIT COMMITTEE OCTOBER 20, 2021

SUBJECT: EIGHTH AMENDMENT TO LEASE AGREEMENT WITH DOWNTOWN PROPERTIES, LLC FOR THE OFFICE OF INSPECTOR GENERAL

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer or their designee to execute a 65-month (5 years, 5 months) lease amendment commencing March 1, 2022 with Downtown Properties, LLC (“Lessor”), for the Office of the Inspector General (“OIG”) located at 818 West 7th Street in Los Angeles at a rate of \$38,736 per month with 3% annual escalations for a total of \$2,486,730 over the 65-month term.

ISSUE

The current lease term pursuant to the Seventh Amendment to Lease, will expire on February 28, 2022 unless the term is extended. The Office of the Inspector General (“OIG”) has a continued need for space at 818 West 7th Street in Los Angeles (“OIG Office”) to provide ongoing oversight duties. OIG continues to need offices separate from Gateway Headquarters in order to maintain oversight independence and avoid outside influence.

BACKGROUND

The OIG has occupied office space at 818 West 7th Street in Los Angeles since 1998. The original lease was for 55,560 square feet (SF), but has been reduced 77% over time to the current size of 12,912 SF. The space is used by OIG staff and OIG consultants. It is strategically located directly across from the Metro 7th Street subway station. The lease term under the current amendment covers the use of 12,912 SF for a term of five (5) years and was extended commencing March 1, 2017 and will expire on February 28, 2022. Real Estate staff has negotiated new lease terms effective March 1, 2022, which included a new rental rate lower than the previous rate, upgrades including a security system and CAT6 cabling with the Lessor reimbursing Metro for all costs incurred and five months of free rent.

DISCUSSION

Findings

The current OIG Office location has adequately served the needs of the OIG since 1998. It is ideal to continue operations at the OIG Office to provide the least interruption to OIG services. The Lessor has shown a willingness to work with Metro to reduce costs. For example, in 2020, the Inspector General negotiated a temporary rent reduction of 30% for four months. This laid the groundwork for current negotiations. The Lessor has now agreed to further concessions accepting a rental rate of \$36 per SF (\$33 effective rate after taking into consideration free rent) which is below the average fair market rental rate of \$41.59 per SF based on a survey of recent activity in 21 other similar Downtown Los Angeles office buildings. Metro's new rental rate represents an almost 20% savings from the current rental rate, which does not take into consideration the additional savings from avoiding moving costs (i.e. new furniture, fixtures and IT installation and phone equipment) and service interruption by extending the current lease.

Considerations

The OIG Office required some upgrades to restore functionality and comfort for optimal working conditions. Real Estate staff was able to negotiate with the Lessor to make needed improvements while also providing a substantial reduction in the rental rate. This was the optimal outcome and will allow Metro to reevaluate the market again in five years at the expiration of the proposed term.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The proposed rent for FY22 lease obligations is \$116,206 (\$38,736 per month for three months April 1, 2022- June 30, 2022 with March 2022 rent-free) which is currently budgeted in 0651.100002.01.51201 Rent Property/Facilities. The total cost of this lease amendment is \$2,486,730 over the 65-month term. Future lease obligations will be included in annual budget preparation by Real Estate staff.

Impact to Budget

The funding for the proposed lease is the general fund, right of way. The funding source is eligible for bus & rail operations and capital projects.

EQUITY PLATFORM

There are no anticipated equity impacts identified as a result of this action.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This recommendation supports the following Metro strategic plan goals:

5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

ALTERNATIVES CONSIDERED

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

There is no available space at Gateway Headquarters that would insure complete and separate operations of the OIG.

NEXT STEPS

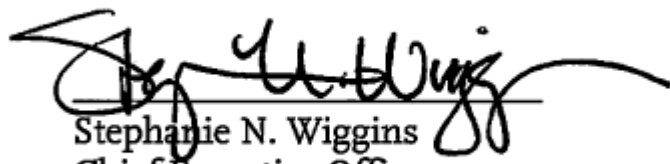
Execute the Eighth Amendment to Lease Agreement with Downtown Properties, LLC for the Office of Inspector General located at 818 West 7th Street in Los Angeles as reviewed and approved by County Counsel.

ATTACHMENTS

Attachment A - Location Map
Attachment B - Deal Points
Attachment C - Rent Comparison

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