

FORM GEN. 160

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date:

To: The Municipal Facilities Committee

From: Lisa Johnson-Smith, CAO Staff

Subject: **AUTHORIZATION TO NEGOTIATE AND EXECUTE A NEW LEASE AT
888 SOUTH VERMONT AVENUE FOR THE LOS ANGELES
DEPARTMENT OF TRANSPORTATION (LADOT)**

SUMMARY

On March 8, 2018, the Bureau of Engineering (BOE) issued an inspection report for a City-owned facility located at 411 North Vermont Avenue, which is occupied by LADOT's Parking Enforcement and Traffic Control Unit (PETCU) for the Hollywood Enforcement Area Division. BOE's report cited significant structure deficiencies that would require \$50-70 million to renovate the facility to meet current code requirements. Since this time, the Department of General Services (GSD), LADOT and the Office of the City Administrative Officer (CAO), have worked to identify viable relocation options utilizing other City-owned facilities or suitable lease sites. After prolonged efforts, a suitable lease property located at 888 South Vermont Avenue was identified, which is 0.9 miles from LADOT's existing facility and provides a net gain of 5,176 square feet in total office space. However, options for on-site parking would only replace between 66 – 77 percent of the parking available at the current PETCU site.

At this time, LADOT and GSD have indicated concern whether all the PETCU units can be accommodated within the office space available at the lease site, despite a 28 percent increase compared to current capacity, but also due to the operational impact of reduced on-site parking. Despite these concerns, there are mitigating options for providing additional office space and parking solutions. Authority to proceed with final negotiations and execution of the proposed lease is recommended in order to address the immediate safety concern for vacating the 411 Vermont facility. Subject to final lease approval, staff would then work with a consultant to develop a detailed work space plan to determine the how many PETCU units can be relocated to the new lease space.

Staff will provide an update to the Municipal Facilities Committee to address any remaining considerations needed to effectuate the full vacation of the 411 Vermont Avenue facility. At this time, staff has confirmed availability of sufficient office space at another leased facility (1111 Mateo Street; C.F. 19-1359) to accommodate any remaining PETCU units. However, the Mateo lease option would require additional funding of up to \$1 million for associated tenant improvements. As presented in the report, potential parking solutions include the use of the existing facility for overflow parking, which involves the same distance that many City staff walk for their daily commutes between City Hall and Union Station, among other options.

RECOMMENDATIONS

The Municipal Facilities Committee approve and authorize staff to transmit the following recommendations for consideration by City Council:

1. Authorize the Department of General Services (GSD) to:
 - a. Negotiate and execute a new lease with 888 Vermont Avenue, LLC (“Landlord”) under the terms and conditions outlined in this request for office/warehouse space at located at 888 South Vermont Avenue, on behalf of the Los Angeles Department of Transportation (LADOT), for use by its Parking Enforcement and Traffic Control Unit (PETCU) for the Hollywood Enforcement Area Division; and,
 - b. Utilize a consultant to develop a workspace plan that maximizes the number of PETCU work units that can be accommodated at the 888 South Vermont Avenue lease site, in order to relocate this staff from the current City-owned facility located at 411 North Vermont Avenue, which is required due to structural deficiencies that cannot be remediated at this time due to significant costs of \$50-70 million; and,
2. Request that LADOT, GSD and the Office of the City Administrative Office, with any assistance that may be required from the Personnel Department, to develop a parking plan that would prioritize the use of on-site leased parking and any potential use of parking available at the current City-owned facility for overflow purposes, and report to the Municipal Facilities Committee with the final proposed workspace and parking plan, along with any potential relocation of impacted staff to space available at the LADOT lease site located at 1111 Mateo Street, including an analysis of associated costs and recommended funding sources.

FISCAL IMPACT STATEMENT

There is no immediate General Fund impact anticipated as a result of the report recommendations. The rental payments for the upcoming year are fully funded by monies budgeted for this purpose, as part of the General Services Department’s (GSD) 2020-21 leasing account. A portion of GSD’s projected year-end lease savings is tentatively recommended as part of the Year-End Financial Status Report, which subject to Council approval would fully offset the estimated one-time costs of moving and communication services. The ongoing leasing costs would be budgeted as part of GSD’s leasing account in future years, along with a three percent escalation factor.

There is a potential General Fund impact if there is insufficient space to fully relocate all the current LADOT operations to the new lease facility located at 888 South Vermont Avenue, of up to \$1 million for additional tenant improvement costs that would be required to relocate impacted work units to a separate LADOT lease facility, located at 1111 Mateo Street.

FINANCIAL POLICY STATEMENT

The actions recommended in this report comply with the City’s Financial Policies.

BACKGROUND

LADOT's current location, 411 N. Vermont Avenue is a City-owned facility located in Council District 13 that has approximately 38,678 square feet of office space available. The building is occupied by LADOT's Parking Enforcement and Traffic Control Unit (PETCU) that serves the Hollywood Enforcement Area Division. On April 16, 2019, the GSD consultant, ExNovo, Inc. conducted a space analysis of the 411 Vermont Avenue facility, which indicates that LADOT is currently utilizing approximately 18,383 square feet of the facility's available space. The facility was determined to be structural unsound following an inspection conducted by the Bureau of Engineering on March 8, 2018, which identified significant structural deficiencies and projected remediation costs ranging between \$50-70 million. Although there is no funding currently available for site remediation, the program management team has continued discussions with the Council Office relative to long-term plans for re-use of the site.

To address the immediate health and safety concerns for PETCU staff, the Department of General Services (GSD), the Office of the City Administrative Officer (CAO) and LADOT have worked over a two-year period to identify viable relocation options. Throughout this effort, LADOT has maintained the need to remain within the service boundaries of the Hollywood Enforcement Area to avoid adverse impact to its operations. The current facility is strategically located within a three-mile service area that includes Hollywood, Koreatown, Wilshire Center, and MacArthur Park. The need to remain within the Hollywood service area has presented significant challenges in locating suitable lease space within a high-density real estate area due to low vacancy rates, limited parking availability and relatively high rental rates.

1. Evaluation of Relocation Options

City staff began evaluating options for relocating PETCU staff to other City-owned facility, with consideration given to relocating the City Clerk Elections Division to make space available at the Piper Technical facility. However, this option proved infeasible due to insufficiency of available office space and the incompatibility of LADOT oversized vehicles with clearance and weight limits for the parking structure ramp.

During the two-year search effort, GSD evaluated 11 properties for suitability, and toured six of these sites with LADOT to further assess their logistical feasibility. None of the sites offered the required amenities to accommodate LADOT's operational needs, due to the location of the sites, an insufficient level of parking and/or insufficient workspace.

Through GSD's continued efforts, a viable office/warehouse property was recently identified, which is located at 888 South Vermont Avenue, miles, just four blocks (0.9 miles) away from the current City-owned site. The location of the facility addresses LADOT's primary concern to remain within the Hollywood service area to avoid adverse impact to its service logistics. However, as presented in Section 3 of the report, there are still challenges that need to be addressed in order to fully vacate the 411 Vermont facility, in terms of sufficient work space, to address LADOT's requests for more on-site parking, and to address needed space modifications if final costs exceed available funding resources (Refer to Section 4 for funding details).

2. GSD Market Analysis and Lease Terms

Based on recent market comparables, the price per square (PSF) foot for similar locations and type of office space, range from \$3.85 - \$5.00. GSD has negotiated of \$4.78 square foot rental rate for a gross-modified lease, which includes the cost of common area maintenance, janitorial, plumbing, and fire safety. The City will be responsible for the additional costs of utilities and proportionate share of any increases in Building Operating Expenses over the 2020-21 base year. Additional details for the proposed lease terms is provided in Attachment 1.

Market Rate – Office Comparison

The GSD has provided the rental rate, square footage and lease type for the following properties in the Hollywood area as a comparison to the 888 S. Vermont facility. This lease price of \$4.78 per square foot for a gross-modified lease is within the range of the lease price for similar properties. It should be noted that the 888 South Vermont facility in a newly constructed building whereas the other locations are older buildings. Therefore, the true market rental rates are not truly comparable.

Address	Rental Rate	Rentable Space	Lease Type
5724 W. 3 rd Street	\$5.00/ PSF	40,000 s.f.	Modified Gross
948 N. Cahuenga Blvd	\$4.50/ PSF	27,500 s.f.	NNN
6560-6562 Santa Monica Blvd	\$5.00/ PSF	24,000 s.f.	Modified Gross
5858 Hollywood Blvd	\$4.00/ PSF	30,000 s.f.	NNN
312 S. Hill Street	\$3.85/ PSF	16,476	Undeclared

Tenant Improvements

As part of the owner's letter of intent (LOI), a tenant improvement allowance of \$1.9 million will be provided at the owner's expenses (\$80 per square foot, for 23,559 square feet of total usable space). Although the leased site is in compliance with electrical, Title-24, ADA, and key access requirements, there are still considerable space modifications needed to convert the space to accommodate LADOT's operational needs. The owner's cost of tenant improvements will include associated soft costs consultant design fees, Architectural contractor, MEP Engineering (Mechanical, Electrical, and Plumbing), for the following design elements:

- 3 offices, 25 cubicle spaces and 1 conference room;
- 1 roll call room (20 plus seats);
- 1 Men's locker room (currently 103 Lockers);
- 1 Woman's Locker room (currently 80 lockers);
- 1 Kit-room and a separate bike storage room / work area;
- 2 storage rooms (1 for files and supplies and 1 for cones, flare, barricades); and,
- 1 break room (one ice machine and two of the following: refrigerator, water station, microwave, and toaster oven).

3. Potential Space Limitations and Mitigating Options

LADOT currently has an estimated 235 Parking Enforcement and Traffic Control Unit (PETCU) employees operating at the 411 Vermont Avenue facility, which has space to accommodate 178 City vehicles parked on-site. Details regarding the composition of LADOT staff assigned to the current site are provided in Attachment 2, which includes the following six work units: 1) Hollywood Parking Enforcement; 2) High Priority Scofflaw (HPS) Unit; 3) Training Unit; 4) Communications Center; 5) Crossing Guards; and, 6) Special Events.

LADOT and GSD have both expressed concerns whether there is sufficient office space and on-site parking to fully accommodate the six LADOT units. However, as reflected in the chart below, there is a net gain of 5,176 square feet of total office space between the current City-owned facility and the 888 Vermont lease space. A consultant will need to be utilized to perform a final space fit, which would only be initiated following Council approval of the recommended lease terms.

Site Amenities	Office Space (s.f.)	On-site Parking
411 Vermont Site - Current Levels	18,383	178
888 Vermont - Lease Availability	23,559	118 -138 *
LADOT - Requested Levels	--	277
<i>* There are 118 parking spaces included in the lease for no additional charge, and a total net availability of 138 on-site parking spaces.</i>		

Parking Options:

LADOT has requested 277 on-site parking spaces to accommodate City fleet vehicles (178) and employee parking (99). This request exceeds the current level of on-site parking available at the 411 Vermont site by 99 spaces. There are currently 118 on-site parking spaces included as part of the proposed lease terms at no additional cost, with a net limit of 138 parking spaces available. The option to lease the 20 additional parking spaces available is recommended for ongoing base costs of \$36,000 annually, with year-one costs to be offset by the rental abatement credit. However, an additional 139 parking spaces (40 for City fleet vehicles and 99 for employee parking) would still be required to meet LADOT's requested level.

In order to fully address LADOT identified parking needs, staff recommends exploring dual usage the full level of on-site parking available at the new lease facility and continued use of the 411 Vermont facility for overflow parking since the facility is located four blocks away, or the equivalent of 0.9 miles. This is a reasonable mitigation option to be explored, since the distance involved is the same as the walking distance between City Hall and Union Station, which is frequently used by a large number of City employees as part of their daily commute. Other mitigation options to satisfy parking needs could make use of available public transportation as an alternative to employees driving personal vehicles, use of shuttle options provided by LADOT to provide transportation between the two sites,

or through use of other off-site parking options in the area that would be paid by PETCU employees. The CAO will work with LADOT and other involved parties to fully consider these various parking options and will provide a final recommendation to the Municipal Facilities Committee in the upcoming months.

4. Funding Availability and Potential Offsets for Added Costs

As presented in the chart below, there is sufficient funding identified to fully fund rental payments in the upcoming year, along with one-time rental deposit, moving, communications and FF&E expenses. However, there is potential exposure to the extent that the \$1.9 million tenant improvement allowance is not sufficient, or if a determination is made as part of the final space planning that the 888 Vermont lease site cannot accommodate the relocation of all six LADOT work units at issue.

Cost Category	Funding Source	Available Funding	Potential Shortfall**
2020-21 Rental Payments & Security Deposit	2020-21 GSD Leasing Account	\$1,463,956	
One-time Costs: Moving, Communications and FF&E	2019-20 GSD Year-End Lease Surplus *	\$ 855,256*	
Tenant Improvements: 888 Vermont Avenue	Owner's Expense (as per LOI)	\$1,900,000	unknown
<u>Added Cost</u> : Partial relocation of 411 Vermont "overflow" to the 1111 Mateo Street site	Unfunded: Potential General Fund liability in 2020-21.	none	\$1 million (estimate)
* Reflects tentative funding recommendation, subject to Council approval as part of the 2019-20 Year-End Financial Status Report.			
** Although there is no funding currently identified for additional tenant improvements, there are potential cost offsets from the following sources: \$112,612 - rent abatement credit applied to month two of the lease term; this amount would be reduced to \$76,612 to lease the 20 additional parking spaces available. \$ 20,261 - excess funding budgeted as part of GSD's 2020-21 leasing account \$112,612 - potential 1 month savings until lease becomes effective in August 2020			

In the event that any "overflow" operations need to be relocated to the 1111 Mateo Street site, there is a potential General Fund impact estimated at up to \$1 million in additional costs for tenant improvements that would be required. Based on a preliminary space analysis, GSD has provided a preliminary estimate of \$2 million or more in tenant improvement costs if a portion of the Vermont work units were relocated to the 1111 Mateo site, which exceeds the available allowance for the Mateo site by \$1 million.

As reflected in the chart above, there are also potential cost offsets for additional tenant improvement costs that includes a rental abatement credit \$112,612, a small surplus within GSD's leasing account (\$20,261) and potential savings of \$112,612 a month until the effective start of rental payments that will not become effective until completion of the final negotiated tenant improvements.

Staff will report to the Municipal Facilities Committee once the final space analysis is complete and will provide recommendations, including the associated cost impact of relocating any of the remaining work units that cannot be accommodated at the 888 Vermont facility. LADOT has advised that the Department does not have any contributing Special Funds as the operations involved are all supported by the General Fund. To the extent that any available cost offsets are not sufficient to fully offset any additional tenant improvement needs, the remaining shortfall would become a General Fund liability. Due to the current economic conditions, staff will work to minimize this potential liability, including consideration of phasing less essential improvements over time. Any delay in relocating LADOT operations to the Mateo site would place the overall lease at risk since it has not yet been fully executed.

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Attachments:

- Attachment 1 - Letter of Intent from 888 Vermont Avenue, LLC
- Attachment 2 - LADOT staff composition at 411 North Vermont Avenue