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P&P8

PLANNING AND PROGRAMMING COMMITTEE
October 20, 2010

MEASURE R PROJECT DELIVERY COMMITTEE
October 21, 2010

SUBJECT: LEASE FOR INTEGRATED PROJECT MANAGEMENT OFFICE

ACTION: APPROVE LEASE AGREEMENT FOR 777 FIGUEROA STREET

RECOMMENDATION

- A. Authorize the leasing of office space to provide an Integrated Project Management Office (IPMO) to support the Westside Extension Subway and Regional Connector Transit Corridor Projects;
- B. Authorize the Chief Executive Officer (CEO) to execute a one year sub-lease agreement, including up to six (6) one year options, with Marsh USA, Inc., for the rental of approximately 41,628 rentable square feet of office space in an office building located at 777 Figueroa Street, Los Angeles, CA commencing January 1, 2011 at an estimated initial annual rental cost of \$999,072 or \$83,256 per month; and
- C. Increase the FY11 budget to include \$499,536 in State Repayment of Capital Project Loan, TCRP Funds, dollars in Cost Center 8510, Projects 865518 and 860228.

Approval of this item is contingent upon Board approval of related items for consultant services to perform Advanced Conceptual Engineering and Preliminary Engineering for both the Westside Subway Extension and Regional Connector Transit Corridor Projects.

RATIONALE

The Board Reports for both the Westside Subway Extension and Regional Connector Transit Corridor Projects are being presented for approval to allow the two separate consultant teams to perform Advanced Conceptual Engineering and Preliminary Engineering. Both Projects will be managed by the MTA utilizing the IPMO approach, which will require leased office space so that consultants, MTA staff and Third Party Agency/Utility staff can be co-located in the same building for efficient execution of the Projects.

In preparation for the commencement of consultant work involving Advanced Conceptual Engineering and Preliminary Engineering for both the Westside Subway Extension and Regional Connector Transit Corridor Projects, staff has identified office space within Downtown Los Angeles that is suitable to house both Projects. The space has two connecting floors and has existing enclosed offices, open office furniture work stations, conference rooms, storage space and other amenities that are appropriate for the work that will be performed by the IPMO Teams.

The consultant teams are separate entities for each Project. However, because there are overlaps of MTA project management and technical staff that are common to both Projects, it is recommended that both Projects be housed in one building during the Advanced Conceptual Engineering and Preliminary Engineering Phases, which run practically concurrently for both Projects.

The lease agreement is based on an initial 12-month lease with additional one-year lease options. This will provide MTA with the flexibility to renew the lease subject to the availability of funding for the subsequent phases of each Project beyond Preliminary Engineering.

ALTERNATIVES CONSIDERED

The consultant cost proposals and negotiated amounts for both the Westside Subway Extension and Regional Connector Transit Corridor Projects include the costs for the consultants to provide office space for the IPMO. However, the Recommended Action is preferred because the office space will be leased directly by MTA, giving us the flexibility to extend the lease beyond the Preliminary Engineering Phase of the Projects to make the space available for contractors and staff during the Construction Phase. If this recommended action is approved, the consultant cost proposals will be adjusted accordingly.

FINANCIAL IMPACTS

The total lease cost for the first year is estimated to be approximately \$999,072. The base rent is \$24.00 per square foot, per annum (\$2.00/sq.ft/month), on a full service gross basis. There will be no pass thru of operating expenses or taxes. The premises will be in its "As-Is" condition and "As-Built" configuration which is very conducive to the operation of the IPMO. The lease will include use of the existing furniture for the duration of the Term. If upon expiration of the sixth extension, the furniture will be owned by MTA. The lease will provide six options to extend the Term for a period of 12 months each. The base rent will increase by 4% during each of the option periods. If all six options are exercised, the total cost of the lease will be approximately \$6,626,820.00 over the next six years.

The FY 11 Budget will be amended to add \$334,689 and \$164,847 in State Repayment of Capital Project Loans, TCRP Funds, to Project 865518 (Westside Subway Extension) and to Project 860228 (Regional Connector Transit Corridor); respectively, in Cost Center 8510 (Construction Project Management), and Account 51201 (Lease and Rental Property and Facilities). Since both are multi-year projects, the cost center manager and the Deputy Chief Capital Management Officer will be accountable for budgeting the cost in future years.

Impact to Bus and Rail Operating and Capital Budget

The funding for these options is our State Repayment of Capital Project Loans, TCRP Funds, account which are funds derived from previous reimbursements to us from State Letters of No Prejudice agreements on various capital projects, which we are free to use on other capital projects. Although eligible for bus and rail operating and capital expenditures, these funds are recommended since both projects are not eligible for Propositions A and C funding (due to the proposed tunneling element of the project) and are not eligible for Measure R funding at this time. Other potentially eligible sources (TDA Article 4 and State Transit Assistance) are used for bus and rail operations and were, therefore, not considered.

Rental Value

The space available for lease in the 777 Figueroa Building is currently leased to Marsh USA, Inc., and the Building is owned by Maguire Properties, Inc. Marsh USA, Inc. is willing to sublease two floors of their total space for a one-year term with MTA, having an option to renew the lease on a year-to-year basis for up to

six years. The lease will include existing furniture systems which will save the Projects from having to acquire furniture. The sublease rental rate is very competitive as it relates to other space in the subject building and to other available office space in the general downtown area.

The proposed lease rate has been compared to other comparable office buildings located in Downtown Los Angeles. Rental rates for Class A office space currently range from \$36.00 per square foot to \$42.00 per square foot on annual basis and rental rates for Class B office space currently range from \$24.00 per square foot to \$30.00 per square foot. A total of five buildings were viewed in the vicinity of the 7th and Metro Red Line Station and the Wilshire/Normandie Red Line Station, and the 777 Figueroa Building offered the most competitive and cost effect proposal when taking into account rental rate and the existing conditions of each space. 777 Figueroa is built with a combination of perimeter offices, workstations and conference rooms that ideally suit the needs of the IPMO and includes furniture and technology infrastructure. The other four buildings toured would require renovations that could delay occupancy, require significant capital for construction, purchase of furniture and cabling expenses for technology. Attached is a list of the buildings inspected and other office buildings in the downtown area, including an analysis of rental rates (See Attachments).

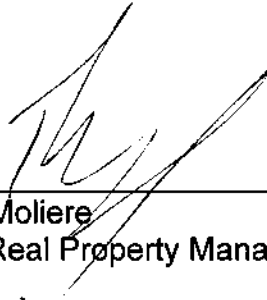
NEXT STEPS

Staff will complete negotiations of a lease agreement through the broker, Studley, subject to review and approval by County Counsel.

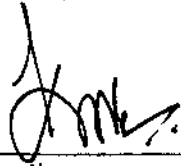
ATTACHMENTS

- A. List of Buildings Inspected
- B. Additional Alternatives (Not Inspected)

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Attachment A

List of Buildings Inspected

Building Address (Building Name)	Building Class	Space Available	Asking Rate	Comments
600 Wilshire Blvd. (Wishire Grand)	B	1st - 5th Floors 18,416 RSF per floor	\$28.00 psf FSG	30 year old Bank of America Space. Moderate construction required and new furniture would need to be purchased. Landlord is requiring a minimum lease term of 3 years.
777 S Figueroa St. (777 Tower)	A	10th - 12th Floors 20,000 RSF per floor 35th - 39th Floors 20,000 RSF per floor	\$27.00 psf FSG \$39.00 psf FSG	No construction required, furniture and cabling already in place. Floors connected via internal stairwell. Negotiated reduced rate of \$24 psf FSG.
1200 West 7th St. (The Garland Center)	B	3rd Floor 43,000 RSF	\$27.00 psf FSG	Wide open space that would require construction of offices and the purchase of new furniture.
1055 West 7th Street	B	32nd - 33rd Floors 20,411 RSF per floor	\$28.50 psf FSG	Wide open space that would require construction of offices and the purchase of new furniture.
3470 Wilshire Blvd.	B	2nd - 4th & 7th Floors 22,761 RSF per floor	\$19.20 psf FSG	Wide open space that would require construction of offices and the purchase of new furniture. Significant capital would be required for technology/cabling expenses.

Attachment B

Additional Alternatives (Not Inspected)

Building Address (Building Name)	Building Class	Space Available	Asking Rate	Comments
633 West 5th St. (US Bank Tower)	A	36th - 45th Floors 24,750 RSF per floor	\$39.00 psf FSG	Former law space built with perimeter offices and interior workstations. Furniture available and cabling in place.
445 S Figueroa St. (Union Bank Tower)	A	30th - 31st Floors 16,000 RSF per floor	\$36.00 psf FSG	Former law space built with perimeter offices and interior workstations. Furniture available and cabling in place.
601 S Figueroa St. Figueroa at Wilshire	A	6th - 11th Floors 22,175 RSF per floor	\$42.00 psf FSG	Open space plan that would require construction and furniture purchase.
801 S Figueroa St. (801 Tower)	A	22nd - 25th Floors 188,840 RSF per floor	\$38.00 psf FSG	Former professional service space, some furniture in place.
515 S Flower St. (City National Plaza)	A	43rd - 44th Floors 27,255 RSF per floor	\$33.00 psf FSG	Sublet from an internet company, furniture and cabling in place.
300 S Grand Ave. (California Plaza)	A	40th - 41st Floors 25,000 RSF per floor	\$39.00 psf FSG	Former professional service space, some furniture in place.
520 S Grand Ave. (Biltmore Plaza)	B	2nd Floor 41,840 RSF per floor	\$26.00 psf FSG	Former professional service space, furniture would need to be purchased.
400 S Hope St. (Mellon Bank Center)	A	7th - 8th Floors 27,411 RSF per floor	\$37.00 psf FSG	Former professional service space, some furniture in place.
1150 S Olive St. (AT&T Center)	B	20th - 21st Floors 19,070 RSF per floor	\$34.00 psf FSG	Former professional service space, furniture would need to be purchased.
707 Wilshire Blvd. (AON Center)	A	55th - 60th Floors 19,200 RSF per floor	\$37.00 psf FSG	Shell space that would require significant construction, furniture purchase and significant capital for cabling/technology.
1000 Wilshire Blvd.	A	18th - 19th Floors 24,000 RSF per floor	\$36.00 psf FSG	Shell space that would require significant construction, furniture purchase and significant capital for cabling/technology.

