



City Council Report

City Council Meeting: May 10, 2016
Agenda Item: 8.A

To: Mayor and City Council
From: Elaine Polachek, Asst. City Manager, City Manager's Office, Administration
Subject: Office Space Lease at 2772 and 2800 Donald Douglass Loop North, and Second Modification to Professional Services Agreement No.10248 (CCS) for Commercial Real Estate Leasing Services for the Santa Monica Airport

Recommended Action

Staff recommends that the Council

1. Authorize the City Manager to negotiate and execute a Lease with Snapchat, Inc. (Snapchat) for office space located at 2772 and 2800 Donald Douglas Loop North, and 8 hangars, reflecting the general terms and conditions below.
2. Authorize the City Manager to negotiate and execute a second modification to professional services agreement No.10248 (CCS) in the amount of \$744,844 with Corporate Realty Group ("CRG"), a California-based corporation, to provide additional commercial real estate leasing services for the Santa Monica Airport. This will result in a (3) three-year amended agreement expiring on June 30, 2018 for a total amount not to exceed \$1,104,834 with future year funding contingent on Council budget approval.
3. Authorize budget changes as outlined in the Financial Impacts & Budget Actions section of this report.

Executive Summary

In accordance with the recently adopted Santa Monica Airport (SMO) Leasing Policy, the City is moving forward with leasing city-owned properties, including those that were formerly the subject of subleases. The City owns the two office buildings located at 2772 and 2800 Donald Douglas Loop North and eight hangars. The combined square footage is as follows: 2772 Donald Douglas has 47,343 and 2800 Donald Douglas has 23,130, for a total of 70,473. The eight hangars are small and total 8,900 square feet. Snapchat is an innovator in the creative space realm, with a specialty in image messaging. The proposed lease agreement with Snapchat is for a period of five years, with an option for an additional five year period. The base rent at full occupancy begins at \$3.07 per square foot and includes an annual escalator of 3%.

A real estate commission fee of \$804,834 based on 5% of the value of the total 5-year lease term, would be due to Corporate Realty Group (CRG) for the proposed lease agreement should the lease be executed on July 1, 2016. The commission would

exceed the funding currently authorized in CRG's agreement No. 10248(CCS) with the City. Staff anticipates the use of CRG to negotiate additional lease agreements at the Airport during FY2016-17 and FY2017-18. The anticipated commissions through June 30, 2018 would be in an amount not-to-exceed \$1,104,834.

Background

On June 9, 2015 (Attachment A), Council authorized the City Manager to negotiate and execute a month-to-month lease with Milstein Adelman LLP for 23,130 square feet on the second and third floors at 2800 Donald Douglas Loop North and a three year lease agreement with Volkswagen Group of America (Volkswagen) for 43,471 square feet of office space and 8,900 square feet of hangar space at 2772 Donald Douglas Loop North. Milstein Adelman LLP vacated the premises in December 2015. Volkswagen gave notice that it will be vacating the premises at 2772 Donald Douglas Loop North on December 31, 2016.

On February 9, 2016 (Attachment B), the City approved a first modification to increase Agreement No.10248 (CCS) with CRG by \$180,000 expiring on June 30, 2016 with two annual renewals of \$50,000, for a total agreement amount not to exceed \$359,990 to provide assistance to City staff in negotiating leases for properties located at Santa Monica Airport, including brokerage services for vacancies that might arise within the contract period.

Discussion

In April, 2016 CRG notified staff that it had an offer from Snapchat to lease the subject property. Snapchat is an innovator in the creative space realm, with a specialty in image messaging. Snapchat is currently headquartered in Venice, California. Due to significant growth, Snapchat seeks additional office space in Santa Monica. Snapchat proposes to lease both buildings, with a combined square footage of 70,473 for five years, plus eight small abutting hangars for a period of five years plus one option of five years.

It should be noted that the subject buildings were and/or are currently occupied by office users, (attorneys and auto designers) hence there is no change in use. Although Snapchat will modify the building with minor interior tenant improvements, Snapchat does not propose to expand the buildings. Accordingly, the proposed project is exempt from CEQA pursuant to CEQA Guidelines Section 15301. Additionally, the proposed project is exempt pursuant to CEQA Guidelines Section 15061(b)(3) in that it can be seen with certainty that the proposed project does not have the potential to significantly impact the environment, since the new and existing uses are largely the same. Snapchat will employ approximately 300 workers on site. Therefore, it should be noted that Snapchat will be subject to the transportation demand management (TDM)

\$3.16/SF Modified Gross

January 2019 – December 2019: \$258,718.39/ month or \$3.26 SF Modified Gross

January 2020 – December 2020: \$266,479.95/ month or \$3.36/SF Modified Gross

January 2021 – December 2021: \$274,474.34/ month or \$3.46/SF Modified Gross

January 2022 \$282,708.57/ month or \$3.56/SF Modified Gross

Escalations 3% per year starting January 2018. Parking is not subject to escalators.

Tenant Improvement Allowance Tenant shall receive a rent credit that is equivalent to Five (5) Months' rent, with one month payable on January of each year, for a total of (\$1,402,784.99)

Parking at full occupancy 133 parking spaces at \$150 per month equals to \$19,950 per month.

Modification to CRG Contract

Should the proposed lease be approved and executed, the real estate commission fee due to CRG would exceed the current amount authorized in the City's Agreement No. 10248(CCS). CRG's real estate commission fee is based on 5 percent of the initial 67 months term. The commission for this proposed lease is estimated to be \$804,834.

Staff anticipates CRG will negotiate additional leases in FY 2016-17 and FY 2017-18. Staff anticipates \$150,000 in commissions to be paid in each of the fiscal years.

Therefore, staff recommends a second modification to increase the professional services agreement with CRG by \$744,844 for a total agreement amount not to exceed \$1,104,834 expiring on June 30, 2018 for additional commercial lease brokerage and negotiation services for the Santa Monica Airport.

It should be noted should Snapchat exercise its option to renew for an additional five-year lease at fair market value, the City would have a future commission obligation to CRG. This obligation would be based on 3% of the value of the total lease term for years six through ten.

Financial Impacts & Budget Actions

The recommended lease with Snapchat Inc. will generate an estimated \$1,782,225 in Airport revenues for FY2016-17, at account 33431.402120. Revenue increases associated with the new lease agreements will be included in the FY 2016-17 Proposed Budget and FY 2017-19 Proposed Biennial Budget.

The agreement modification to be awarded to CRG is \$744,844 for an amended agreement total not to exceed \$1,104,834. In addition to the current budget of \$259,990, award of the agreement modification requires an appropriation of \$844,844 from the Airport Fund to account 33431.555060 in FY 2015-16.

Prepared by:

Nelson Hernandez, Senior Advisor to the City Manager

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Approved

Forwarded to Council



Elaine M Polachek, Asst. City Manager 5/2/2016



Rick Cole, City Manager 5/5/2016

Attachments:

- A. Staff Report June 9, 2015
- B. Staff Report February 9, 2016
- C. Written comments
- D. Powerpoint