



Legislation Text

File #: 21-0275, **Version:** 1

Recommendation to authorize City Manager, or designee, to execute all documents necessary for a lease between Douglas Park Associates III, LLC (Landlord), and the City of Long Beach (Tenant), for office and warehouse space at 3861 Worsham Avenue for the Long Beach Department of Health and Human Services, for a period of five years, with the option to extend for an additional two five-year periods, at the discretion of the City Manager. (District 5)

On March 17, 2020, the City Council authorized the execution of the Second Amendment to Lease No. 30102 to expand the City's current lease area at 3205 Lakewood Boulevard to include a vacant hangar space for use by the Department of Health and Human Services (DHHS) in response to the declared local health emergency due to the COVID-19 pandemic. The current lease term is scheduled to terminate on June 30, 2021.

In any pandemic event, DHHS as the City's Public Health Agency will be tasked to provide medical countermeasures (MCM) to the local community. The use of midlevel warehouses, or Local Distribution Site(s) (LDS), enhance capabilities to rapidly deliver MCM and supplies to the local population. LDS operations are advantageous to participating jurisdictions because they provide further control of the distribution of MCM to their respective populations and/or dispensing sites. The City's early action to institute LDS operations during the COVID-19 pandemic strengthened the City's preparedness and ability to support operations critical to response. Further, maintaining a local LDS has allowed the City to emerge as a leader in the region for vaccination distribution and provide a faster response benefitting underserved communities.

To ensure continuity for LDS operations beyond the current lease term, staff from DHHS and the Economic Development Department evaluated options that would allow the City to continue the response to the COVID-19 pandemic as well as any other local health crisis that DHHS may be called upon to address. The warehouse space located at 3861 Worsham Avenue (Premises) has been identified as a suitable option for relocation of LDS operations. Relocation to the Premises would provide the use of approximately 74,478 Rentable Square Feet (RSF) of office and warehouse space at a lease rate of \$1.15 per RSF per month plus a pro-rata share of operating expenses, taxes, insurance, and management fees, currently estimated at \$0.28 per square foot/per month. Rent will increase by 3 percent annually. The Landlord will provide the City with a Tenant Improvement Allowance of \$2.30 per RSF leased and the City will be responsible for any associated build out. The Premises also includes 144 parking stalls.

The DHHS has supported LDS operations throughout the COVID-19 response with grant funding from sources such as the Los Angeles County Measure B and Epidemiology and

Laboratory Capacity for Prevention and Control of Emerging Infectious Diseases (ELC) grant funding. DHHS will continue its effort to secure funding for the ongoing LDS operations and will seek options to secure a structural funding source. Further, the Landlord has agreed to provide the City with a one-time Termination Right following the 27th month of the lease if funding is not secured in the amount of the Tenant's full-term from the County of Los Angeles to pay for continued operations at the Premises. The Termination Right requires the City to reimburse the Landlord for all unamortized leasing commissions, tenant improvements, and a lease termination penalty of \$3.00 per square-foot to address clean-up and refurbishment of the Premises, the total of which is estimated to be approximately \$530,000. Should the City receive additional grant funding, the Termination Right will become null and void.

The proposed Lease has been negotiated containing the following major terms and provisions:

- Landlord: Douglas Park Associates III, LLC, a Delaware limited liability company.
- Tenant: City of Long Beach, a municipal corporation.
- Premises: Approximately 74,478 square feet of industrial and office space and 144 parking stalls at 3861 Worsham Avenue, Long Beach, CA 90808.
- Use: General and administrative offices, warehouse, distribution, and other permitted municipal uses for the DHHS emergency response storage.
- Term: 60 months, commencing on May 1, 2021.
- Option to Renew: Tenant will have the option to extend the Lease for 2 additional 5-year periods at fair market value (FMV) rent by providing a minimum of 12 months' prior written notice.
- Base Rent: The monthly Base Rent will be \$1.15 per square-foot and will increase by 3 percent annually. Base rent will be abated for months 28 through 29, with triple net operating expenses (NNN) due and payable.
- Operating Costs: This is a triple net lease (NNN) with operating expenses charged as additional rent. Tenant is obligated to pay its pro-rata share of operating expenses, taxes, insurance, and management fees, currently estimated at \$0.28 per square-foot per month (\$20,854).
- Free Rent/Early Possession: The City will be given possession of the space upon Lease execution, delivery of proof of insurance, and other administrative requirements.
- Tenant Improvements: Tenant will accept premises in "as-is" condition. All tenant improvements will be subject to Landlord's prior approval. Tenant will contract for and manage all construction services. Landlord will provide tenant with a \$2.30 per square-

foot Tenant Improvement Allowance (\$171,299).

- Utilities, Services: Utilities will be metered separately and paid for directly by Tenant.
- Termination Right: With 6 months prior written notice, Tenant will have a one-time right to terminate following the 27th month of the Lease. This right is subject only to tenant losing funding from the County of Los Angeles. With termination notice, Tenant will include a check for all unamortized leasing commissions, tenant improvements, and a lease termination penalty of \$3.00 per square-foot to address clean-up and refurbishment of the subject building. The termination payment is anticipated to be approximately \$530,000. Tenant will work in good faith to secure full-term funding. If full-term funding is approved by the County of Los Angeles, the Termination Right will become null and void.

It is important to note that a triple net lease has certain risks where the financial burden of additional expenses rests solely on the City as the Tenant, such as maintenance, operating costs, property taxes, insurance, and management fees. The Economic Development Department anticipates an estimated annual increase in these costs may range from 2 to 3 percent, but there is no cap to these costs, which can incur unforeseen increases that cannot be determined at this time. Triple net leases are typical lease structures for this type of building, such as single tenant and stand alone building and this lease is comparable to other similar triple net leases.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and Budget Management Officer Rhutu Amin Gharib on March 24, 2021.

The Base Rent and agreed Operating Costs for FY 21 will be approximately \$532,518 with a first-year annual cost of approximately \$1,278,042. The monthly Base Rent will increase by 3 percent annually. The DHHS has supported LDS operations through the COVID-19 pandemic with funding from sources such as the Los Angeles County Measure B and ELC grant funding. The cost of the Lease, all additional operating costs and one-time start up needs for the LDS operations is currently budgeted in the Health Fund Group in the Health and Human Services Department, and is expected to cover all the costs through July 31, 2023. DHHS intends on continuing its effort to secure funding for the ongoing LDS operations and will seek options to secure a structural funding source. Further, the Landlord has agreed to provide the City with a one-time Termination Right following the 27th month of the lease if funding is not secured in the amount of the Tenant's full-term costs from the County of Los Angeles to pay for continued operations at the Premises. If the City terminates the Lease, a termination payment is due to the Landlord in the amount of approximately \$530,000. The potential termination payment needed is accounted for in the DHHS funding allocation for the Premises. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

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APPROVED:

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