

Gensler Moves Downtown

Global architecture firm Gensler and Thomas Properties Group, Inc. (TPGI) both had incentive to enter into an unusual relationship in negotiating a lease for TPGI's top two floors of the pre-1973 "jewel box" building, a three-story building in between the twin 52-story towers at City National Plaza.



The bottom floor of the building had been leased to retail tenants (a bank branch and two restaurants), but the top two floors of the building had proved difficult to lease as the uppermost floor didn't have any windows. TPGI understood that this unusual space would require a special type of tenant, and in late-2010, identified Gensler as that tenant. However, the parties would have to be creative as Gensler's lease in Santa Monica, which included a very unfavorable holdover provision, was scheduled to expire in late 2011 and the building would require extensive renovations in order to meet Gensler's needs. In October 2010, *David Lambert* of Gilchrist & Rutter PC was brought on to facilitate negotiations and legally document the creative risk sharing approach that the parties were pursuing. In February 2011, Gensler and TPGI entered into a lease agreement for the top two floors of the building.

In addition to the substantial tenant improvement work that would be required by Gensler, the project involved substantial landlord work including modifications to

the shell and core of the building, such as the installation of a large skylight and numerous structural modifications that were required to reconfigure the space in the manner that Gensler needed. Gensler acted as the architect with respect to all types of work and TPGI retained the contractor to perform both types of work. Given the age of the building, and the fact that the applicable floors of the building had not been occupied since the original tenant had vacated the space, there were significant concerns regarding risks associated with unknown conditions. Weekly coordination meetings were held concurrently with lease negotiations in order to review and revise design documents, value engineer preliminary designs and establish scheduling requirements. At one point, the construction schedule had to take precedence as, in order to meet the required completion date, more than \$1 million worth of steel had to be ordered before the deal was formally inked. Accordingly, in order to make the transaction work for both parties, the typical allocation of risk between a landlord and a tenant was a non-starter, and with very few exceptions the parties agreed to share risks relating to cost overruns and delays.

Gilchrist & Rutter (together with Gensler's in-house counsel) was faced with developing lease documents that correctly reflected the sequencing of design and construction and the manner in which the parties had agreed to share and allocate risks. In order for this to work, the lease documents could not become the figurative tail that wagged the dog, and a premium

was placed on correctly documenting the deal that the parties had struck and were continuing to adjust up until the very last minute.

Gilchrist & Rutter is pleased that it could facilitate this transaction providing Gensler with a greater presence in downtown Los Angeles and an office that is a striking example of its creative prowess. In addition, as a result of the transaction, city of Los Angeles is now able to showcase its downtown as home to more than just law and financial services firms.



David B. Lambert is an associate at Gilchrist & Rutter in Santa Monica, Calif. His practice focuses on all aspects of real estate, corporate transactions, land use and environmental issues.