The State Bar of California

Preliminary Plans for Southern California Facilities

Report to the Legislature
April 1, 2012

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INTRODUCTION

Assembly Bill No. 3049 (July 21, 2008) (Bus. & Prof. Code §6140.3) authorized a $10 increase in the State Bar's membership fee beginning in 2009, to be used for the construction, purchase or lease of a facility in southern California, upon the expiration in January 2014 of the State Bar's existing lease of its facility in Los Angeles. AB 3049 instructed the State Bar to make annual reports to the Legislature on its preliminary plans for determining whether to construct, purchase or lease a southern California facility. This report is submitted pursuant to that instruction.

BACKGROUND: THE STATE BAR'S FACILITIES

To effectively serve the public and its members throughout California, the State Bar maintains operations in San Francisco and Los Angeles.

In San Francisco, the State Bar owns 180 Howard Street, a 13-story office building in the downtown financial district. Purchased in 1997 and occupied since 1998, the building also houses several retail and office tenants.

In Los Angeles, the State Bar previously owned a building in downtown, at 1230 West Third Street. When that building was badly damaged by fire in 1986, the Bar relocated to temporary leased space at 333 South Beaudry Street. In January 1994 the Bar took occupancy of 167,000 rentable square feet of leased space at 1149 South Hill Street in the South Park section of downtown. Three connected buildings, 1149 South Hill, 1149 South Broadway and 1150 South Olive, were then known as the Transamerica Center. In 2008 the Bar consolidated operations and relinquished one floor; it now leases 143,000 rentable (approximately 120,000 usable) square feet.

As part of its original lease negotiations with Transamerica, the Bar and Transamerica agreed to a property exchange whereby Transamerica took ownership of the Bar's building at 1230 West Third Street, and the Bar took ownership of a 117,000 square foot surface parking lot one block away from 1149 South Hill Street (bounded by Olive Street, Pico Boulevard, Grand Avenue and Twelfth Street).

The Transamerica Center was sold several times. The Broadway building is now owned by the City of Los Angeles; the Hill and Olive buildings are now owned and operated by LBA Realty. Transamerica vacated much of the premises and the new major tenant, AT&T, was given naming rights. The two buildings are now known as the AT&T Center.

The Bar's lease in the AT&T Center expires in January 2014. The Bar is now faced with the decision of extending its lease in the AT&T Center, leasing space elsewhere, or acquiring space of its own.

PROJECT PARAMETERS & STATUS

The State Bar identified a number of strategic issues which have served as a framework for analysis and decision-making. The three broad classes of issues under evaluation are: occupancy alternatives (lease versus ownership; sole occupancy versus joint occupancy; new or existing building, etc.); location; and cost. The geographic division of functions and personnel

between northern and southern California is an additional parameter that has grown out of the State Bar's renewed strategic planning process.

a. Occupancy Alternatives

The major distinctions in occupancy alternatives are between lease and ownership; and between whether or not the building in question already exists as a fully functional office building, or is "coming to market," i.e., a new building being constructed, or an existing building slated for major renovation.

Ownership Options:

- Purchase existing building as sole owner
- Acquire partial interest in existing building
- Acquire total or partial interest in a building coming to market

For organizations like the State Bar, whose size and function remain relatively stable for the long-term, ownership often yields lower long-term costs than leasing equivalent space, and has the added benefit of providing a greater measure of operational stability. For this reason, the State Bar is now exploring the options for acquiring ownership interest in an existing building or a building coming to market.

Leasing Options:

- Re-lease current space
- Lease new space in an existing building
- Lease new space in a building coming to market

The State Bar does enjoy substantial leasing leverage as an "anchor" tenant, owing to its size, stability and creditworthiness. This leverage could be used to obtain favorable terms that translate into lower long-term costs via leasing. The Bar will therefore continue exploring options for extending its lease in its current building or leasing space elsewhere.

Construction Options:

- Build on current Olive Street parking lot as occupant and joint or partial owner
- Build in other selected market area as occupant and joint or partial owner

While construction of a new building remains a possibility to be analyzed, the rationale for building from the ground up is usually the desire for showcase space or the need for highly specialized space; because these are not considerations for the Bar, new construction initiated solely by the Bar is unlikely. It is possible, however that an attractive opportunity may present itself for a joint venture with a developer, where the State Bar would commit to a long term lease and participate in the equity contribution and appreciation.

A number of cost and efficiency factors will influence the final choice between these options, including:

- Current near-term cost
- Full life-cycle cost and control of future cost changes
- Cost and stress of relocation
- Transportation and parking efficiency
- Energy efficiency and environmental considerations

b. Location Alternatives

The State Bar's southern California office must be located so as to 1) maximize access and convenience for employees, members and the public; 2) provide cost-effective and efficient premises; and 3) offer an appropriate professional image.

To evaluate whether a location other than downtown Los Angeles might be feasible or desirable, the State Bar analyzed the distribution of its southern California employees and members. The employee analysis showed that current State Bar employees live in a wide radius extending from downtown. The member analysis (based on member record zip codes) showed that 55% of the Bar's southern California members are located in Los Angeles County, 16% in Orange County, 16% in San Diego County, and 13% in six other counties.

The State Bar has determined that Los Angeles County remains the most appropriate general area for its southern California operations. Within Los Angeles County are seven major office submarkets representing geographic concentrations of Class A and B office buildings which are grouped closely enough to influence each other's pricing. These submarkets are: Tri-Cities (Burbank/Glendale/Pasadena), Downtown, Wilshire Corridor, San Fernando Valley, San Gabriel Valley, South Bay, and West Los Angeles/LAX.

Each submarket offers a different set of advantages and disadvantages. Most of these areas feature freeway access, and some additionally offer varying degrees of public transit service. Further considerations include the prevailing age and type of office buildings, the range of amenities, the availability and cost of parking, and the safety and image of each area. Based on these factors, and on market conditions that have evolved over the last year, the State Bar is focusing its search on the West Los Angles/LAX area; the area including Burbank/Glendale and the eastern part of the San Fernando Valley; and on the downtown area where it is currently located.

c. Cost Analysis

The cost of purchasing a building and readying it for occupancy can only be estimated based on market conditions that currently exist. Based on those market conditions, the figure of $25 million for a hypothetical 100,000 square foot facility has been selected as a starting point, estimated as follows:

Lower purchase price, but requiring extensive renovation:
Purchase: $15 million (100,000 sf @ $150)
Renovation: $10 million (100,000 sf @ $100)

Higher purchase price, but requiring less extensive renovation:
Purchase: $20 million (100,000 sf @ $200)
Renovation: $5 million (100,000 sf @ $50)

An additional $1 million is estimated for transaction and relocation costs.

The $10 surcharge on each member's annual dues dedicated to facilities in southern California is expected to yield about $10.1 million by the time it sunsets at the end of 2013. It is expected that the remaining $16.0 million will be financed with long-term debt. Depending upon the terms and interest rate available, the annual cost of servicing such a loan would be about $1.3 million, which is less than the State Bar's current lease payments.

Another potential source of funding for this initiative would be proceeds from the sale of the parking lot which the State Bar owns in Los Angeles (adjacent to the building in which it leases office space). Estimates of the value of this property vary considerably, but if it is sold at an advantageous time, it appears likely that the proceeds would enable the State Bar to extinguish most or all of the remaining loan balance and thus own its Los Angeles facility outright.

d. Space Requirements and Staff/Functional Consolidation

As part of its strategic planning effort, the State Bar has begun evaluating the division of its functions and personnel between its northern and southern California locations. The current division is, to an extent, an inevitable consequence of the geographical distribution of the work to be done, particularly in the attorney discipline system. However, there are other functions which could potentially be consolidated into the Bar's San Francisco location. The State Bar will therefore seek to consolidate its operations, to the maximum extent feasible, in its San Francisco headquarters at 180 Howard Street, where vacant space is currently available. This effort will reduce the amount of space required in southern California, while simultaneously maximizing the use of the State Bar's existing real property assets.

In furtherance of this plan, in 2011 the State Bar initiated a space planning evaluation, with an eye towards applying best practices for space utilization, workflow and collaboration. Through this effort, the State Bar has determined that its southern California operations, as currently configured, could be housed in approximately 100,000 usable square feet, down from its current 121,000 square feet.

TIMELINE

With a two-year window in which to implement a new occupancy plan, the State Bar is now in the process of securing a real estate brokerage firm to undertake the practical search for suitable, available buildings for purchase in the identified submarkets. Leasing options will also be explored.

The State Bar plans to have its new location identified and a proposal ready for legislative approval by the end of calendar year 2012. During 2013, the Bar will then proceed with transactional implementation and a physical build-out/renovation.

REAL PROPERTY ADVISORY SUBCOMMITTEE

The Planning, Program Development & Budget Committee of the State Bar Board of Trustees formed a Real Property Advisory Subcommittee. The committee is designed as a practical working group to oversee the development and implementation of the southern California real estate plan, coordinate with constituents as appropriate, and ensure adherence to the policies and parameters set forth by the Board of Trustees. The Real Property Committee model was used successfully by the State Bar in the past, culminating in the lease of the Bar's current space in Los Angeles and the purchase of 180 Howard Street in San Francisco.

The current members of the committee are:

Gretchen M. Nelson, Chair
Member, State Bar Board of Trustees
Partner, Kreindler & Kreindler LLP (Los Angeles)

Ms. Nelson has more than 20 years of experience in the prosecution of complex business litigation, with a strong emphasis on class action cases involving securities, antitrust, employment and consumer claims as well as other litigation on behalf of individuals and small businesses. In 2003, Ms. Nelson joined the law firm of Kreindler & Kreindler LLP when it opened the firm's first California office located in Los Angeles. She continues to practice in the area of complex class action litigation. She is a past president of the Los Angeles County Bar Association, and has lectured on class and class-related litigation issues for the Consumer Attorneys Association of Los Angeles, the Association of Trial Lawyers, the Practicing Law Institute, and the National Business Institute.

Cheryl L. Hicks
Member, State Bar Board of Trustees
Principal, Law Offices of Cheryl Hicks (Oakland)

Ms. Hicks is a solo practitioner in Oakland specializing in juvenile dependency, family law and plaintiffs' personal injury law. She has been active in the Alameda County Bar Association for more than 20 years, previously serving as president, chair of its Civil Court Appointed Attorneys Program, and chair of its Judicial Mentoring Project, which guides lawyers considering a career on the bench and promotes diversity in the judicial applicant pool.

Craig Holden
Member, State Bar Board of Trustees
Partner, Lewis, Brisbois, Bisgaard & Smith LLP (Los Angeles)

Mr. Holden's practice emphasizes litigation and counseling in varied aspects of business and intellectual property law. He has successfully first-chaired jury and bench trials in federal and state court, as well as numerous arbitrations, and has handled a wide variety of complex and sensitive commercial matters, ranging from data security breach claims to defense of putative class action claims to corporate criminal investigations. Mr. Holden is an expert on e-Discovery and serves as an adjunct professor on the subject. Previously, Mr. Holden was head of litigation for a global entertainment and consumer products company. In addition to his litigation practice, Mr. Holden counsels companies and entrepreneurs as an outside general counsel. He has served on the boards of civic, community and charitable organizations, and is the immediate past Chair of the Council on Access & Fairness.

Loren Kieve
Member, State Bar Board of Trustees
Principal, Kieve Law Offices (San Francisco)

Mr. Kieve is a civil trial attorney with more than 30 years of civil litigation and trial experience. His practice focuses on complex domestic and international disputes, civil litigation, contracts and government litigation matters, including matters involving potential criminal charges, internal investigations, corporate compliance and arbitrations. Prior to founding the Kieve Law Offices in 2008, Mr. Kieve was a practicing partner with Quinn Emanuel Urquhart Oliver & Hedges LLC. Previous to moving to California, he practiced civil litigation law at Debevoise & Plimpton in Washington, D.C. and New York. He has held Leadership positions with the American Bar Association and its Section of Litigation.

Sheldon H. Sloan
Former State Bar President
Partner, Lewis, Brisbois, Bisgaard & Smith LLP (Los Angeles)

Judge Sloan specializes in governmental affairs representation before public agencies involving real estate, land use, construction, and business law. He also represents contractors, developers, brokers and operators of real property projects as well as general business clients doing business with or regulated by governmental agencies. Over the past decades he has served many roles in the public sector, including trial court judge, president of the Los Angeles County Bar Association, member of the Judicial Council, and president of the State Bar.

Michael J. Morris
Former Member, State Bar Board of Trustees
Principal, Andre, Morris & Buttery (San Luis Obispo)

Mr. Morris is the senior principal and the Chairman of the Board of Andre, Morris & Buttery. He is the Chair of the Environmental and Land Use Practice Group and a member of the Business and Real Estate Transactions and the Estate Planning, Trusts and Probate Practice Groups. He has handled a wide range of land use and development matters and has been involved in substantial acquisitions and sales of real property. During his tenure on the State Bar's Board of Trustees, he chaired the former Real Property Committee, which was instrumental in the Bar's acquisition of its headquarters building in San Francisco and its office in Los Angeles.