



**Board of Administration Agenda**

**SPECIAL MEETING**

**THURSDAY, OCTOBER 31, 2019**

**TIME: 9:00 A.M.**

**MEETING LOCATION:**

LACERS Ken Spiker Boardroom  
202 West First Street, Suite 500  
Los Angeles, California 90012-4401

Live Board Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

President:	Cynthia M. Ruiz
Vice President:	Michael R. Wilkinson
Commissioners:	Annie Chao Elizabeth Lee Sandra Lee Nilza R. Serrano Sung Won Sohn
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghokassian
Legal Counsel:	City Attorney's Office Public Pensions General Counsel Division

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169.

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION
- II. [NOTIFICATION OF PURCHASE OF REAL PROPERTY LOCATED AT 977 N. BROADWAY IN LOS ANGELES, CALIFORNIA, FOR \\$33,750,000](#)
- III. [FINALIST FIRM FOR ASSET MANAGEMENT REAL ESTATE SERVICES SEARCH AND POSSIBLE BOARD ACTION](#)
- IV. ADJOURNMENT



# LACERS

LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM



REPORT TO BOARD OF ADMINISTRATION

MEETING: OCTOBER 31, 2019

From: Neil M. Guglielmo, General Manager

ITEM: II

*Neil M. Guglielmo*

SUBJECT: NOTIFICATION OF PURCHASE OF REAL PROPERTY LOCATED AT 977 N. BROADWAY IN LOS ANGELES, CALIFORNIA, FOR \$33,750,000

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

### Recommendation

That the Board receive and file this notification of purchase of real property located at 977 N. Broadway in Los Angeles, California, for \$33,750,000.

### Discussion

On October 9, 2019, the Board, in closed session pursuant to Government Code Section 54956.81, approved a purchase price not to exceed \$34,000,000 for a commercial office building and underground parking structure located at 977 N. Broadway in Los Angeles, California. The final negotiated price was \$33,750,000 and the investment closed on October 23, 2019. Board vote: Ayes 7 (Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Ruiz, Wilkinson), Nays 0.

### Strategic Plan Impact Statement

Investment in 977 N. Broadway will allow LACERS to maintain exposure to diversified real estate, pursuant to the Real Estate Investments Fiscal Year 2019-2020 Strategic Plan, which is expected to help LACERS optimize long-term risk adjusted investment returns (Goal IV).

Prepared By: Wilkin Ly, Investment Officer III, Investment Division

RJ/BF/WL:sg



**REPORT TO BOARD OF ADMINISTRATION**

**MEETING: OCTOBER 31, 2019**

**From: Neil M. Guglielmo, General Manager**

**ITEM: III**

*Neil M. Guglielmo*

**SUBJECT: FINALIST FIRM FOR ASSET MANAGEMENT REAL ESTATE SERVICES SEARCH AND POSSIBLE BOARD ACTION**

**ACTION:**  **CLOSED:**  **CONSENT:**  **RECEIVE & FILE:**

**Recommendation**

That the Board approve:

- 1) Awarding contract to Invesco Real Estate for the Asset Management Real Estate Services search; and
- 2) Authorizing the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

**Executive Summary**

The Board approved a Request for Qualification (RFQ) process to seek out a full service vendor to conduct real estate asset management services on October 8, 2019. Invesco Real Estate, CIM Group, and Jamestown responded to the RFQ. After reviewing each of the respondent's qualifications, staff and the Townsend Group are recommending Invesco Real Estate as the finalist for this RFQ.

**Discussion**

LACERS recently acquired a commercial office building and underground parking structure to serve as a headquarters building. As part of the purchasing process for real property, LACERS wishes to engage the expertise of a full service vendor to conduct real estate asset management services. The vendor will primarily provide investment management oversight, set portfolio strategy for the asset, and execute the appropriate business plan.

On September 16, 2019, the Townsend Group (Townsend) issued a preliminary indication of interest to all core real estate managers within LACERS real estate portfolio to gauge their level of interest in taking on such an assignment. Subsequently, the competitive procurement process for the Request for Qualification (RFQ) was approved by the Board and launched on October 8, 2019; the RFQ closed on October 22, 2019. Invesco Real Estate, CIM Group, and Jamestown were respondents to the RFQ. After reviewing all of the detailed responses from the respondents, staff and Townsend recommend

Invesco Real Estate as the finalist due to their expertise in the Los Angeles office market, favorable pricing structure, and in-depth knowledge of the LACERS real estate portfolio. Given that LACERS closed on the purchase of this property on October 23, 2019, the contract for the asset manager will be executed as soon as practicable. Services will be performed prior to the execution of the contract due to the immediate need of the asset manager's services.

*Real Estate Fund Consultant Opinion*

The Townsend Group, LACERS' Real Estate Consultant concurs with this recommendation.

**Strategic Plan Impact Statement**

The Request for Qualifications (RFQ) for Real Estate Asset Management Services will assist the fund to optimize long-term risk adjusted investment returns (Goal IV). Implementing a competitive bidding process by issuing an RFQ is in line with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared By: Wilkin Ly, Investment Officer III

RJ/BF/WL:sg

Attachment: 1. Appointment of Asset Manager for Owner-Occupied Building – The Townsend Group  
2. Proposed Resolution



## Memorandum

**To:** Los Angeles City Employees' Retirement System  
**From:** The Townsend Group  
**Date:** October 2019  
**Re:** Appointment of Asset Manager for Owner-Occupied Building

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### Recommendation

The Townsend Group recommends that the Los Angeles City Employees' Retirement System ("LACERS" or the "System") appoint Invesco Real Estate ("IRE") as Asset Manager for the LACERS Owner-Occupied Building. Townsend issued a Request for Qualifications approved by the LACERS Board on October 8, 2019 and received three responses before the deadline of October 22, 2019. All three parties are qualified and capable of performing the services sought for this assignment.

### Respondents

1. CIM Group
2. Invesco Real Estate
3. Jamestown

### Rationale for IRE Selection

1. **Existing Relationship.** Invesco is an existing manager in the LACERS Core Portfolio. IRE is familiar with the needs of the LACERS program and the needs of its constituents. IRE is also familiar with the history of this acquisition, having assisted LACERS throughout the process. Enlisting the asset management services of IRE will ensure a smooth transition on a time-sensitive project.
2. **Experience.** In addition to its vast global investment portfolio, IRE currently asset manages eight office projects (single building and portfolios) in the Los Angeles Metropolitan Statistical Area. The buildings total approximately \$1 billion of Assets under Management.
3. **Proposed Fees for Asset Management Services.** As compared to the two other respondents, the fees proposed by IRE are more favorable and more in line with market comparables.
  - a. *Fee proposal for the asset management services described.* IRE proposed a fee of \$15,000 per month for the first 24 months while construction oversight is needed, or \$180,000 per year. After the first 24 months, IRE's fee decreases to \$12,000 per month, or \$144,000 per year. This fee proposal for asset management services (which begins at approximately 53 basis points

and scales down to 43 basis points based on the purchase price) is the most favorable of the three fee proposals received. Though this may be negotiable, the other two bids averaged over 70 basis points for comparable services.

- b. *Estimate for property management fees associated with the project, which may be paid separately to a selected party or third-party.* IRE proposed a fee for property management of \$8,000 per month, plus salary reimbursement. Townsend observes that the market rate (and other bids) for these services are typically 3% of gross property revenues, plus on-site management costs. IRE explained that the reimbursable salaries are in addition to the management fee proposed and are for one-half of a property manager one building engineer. Once LACERS is occupying the building and the current leases expire, IRE will revisit the calculation and expects such fees to be between 2% and 3%. Given the process and timing, LACERS executed a Property Management Agreement prior to closing. Once there is a plan in place for LACERS transition to the asset, IRE plans to re-evaluate the management fee. IRE believes that the salaries are typical and their reimbursement is market. The tenants in occupancy will pay their pro-rata share of these fees. Note that IRE uses third-party property managers to provide local leasing and management expertise. The firm hires property management firms it considers to be qualified in a given market and emphasizes accountability using 30-day cancellable contracts. IRE seeks an optimal fee structure for property management services through a competitive bidding process. Townsend recommends that IRE continually evaluate the fee being paid for such services to reduce overall costs to LACERS and insure that LACERS is paying market rate and receiving the best possible service. Townsend emphasizes the importance of formally evaluating the property management services on at least an annual basis going forward.
- c. *Other fees that LACERS should expect to accompany the project.* IRE noted that the property management company will receive a construction management fee between 3% to 5% for any construction related services including renovation, capital maintenance and tenant improvements. Townsend encourages IRE competitively bid these services to limit costs for LACERS. These fees are in line with the other two bids, but Townsend notes that depending on market conditions 5% may be considered on the higher end of the market-rate range for such services.

#### **Concerns**

1. **Location.** The two other respondents have representatives in Los Angeles. Invesco has proposed Kristina Lewison as the Asset Manager for this assignment and she is based in Newport Beach. She will be supported by other members of IRE's Asset Management team and receive back-office support at the firm level.
2. **Cost Management.** LACERS Staff should retain approval and periodic review rights over the payment of fees to third party property management and construction service providers. LACERS and IRE should be cognizant that all proposed fees are expected to be in line, or more favorable, than market comparables and negotiated where necessary to limit expenses incurred by LACERS over the hold period.

**CONTRACT AUTHORIZATION  
INVESCO REAL ESTATE  
ASSET MANAGEMENT REAL ESTATE SERVICES**

**PROPOSED RESOLUTION**

WHEREAS, on October 8, 2019, the Board of Administration (Board) authorized a Request for Qualification for the Asset Management Real Estate Services; and,

WHEREAS, staff and the Townsend Group conducted further due diligence on the three finalist candidates; and,

WHEREAS, on October 31, 2019, the Board awarded a five-year contract to Invesco Real Estate; and,

WHEREAS, LACERS purchased a commercial office building and underground parking structure that requires Asset Management Services prior to execution of the contract with Invesco Real Estate;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby authorizes a contract with Invesco Real Estate for asset management real estate services; and, authorizes the General Manager to execute the necessary documents, subject to satisfactory business and legal terms.

October 31, 2019