



M E M O R A N D U M

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**Date:** June 25, 2010

**To:** California State Lottery Commission

**From:** Joan M. Borucki  
Director

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Deputy Director, Operations

**Subject:** Item 8(b) – Van Nuys District Office Lease Extension and Amendment

**ISSUE**

Should the California State Lottery Commission (Commission) approve a lease extension and amendment for the Van Nuys District Office (VNDO) with Gausman Van Nuys, Inc. (GVN) for the term July 1, 2010 through June 30, 2017?

**RECOMMENDATION**

Staff recommends that the Commission approve the seven-year lease extension for the Van Nuys District Office. The total amount of the lease extension is \$857,088.

**BACKGROUND**

The California State Lottery (Lottery) leases space known as the Van Nuys District Office and has occupied the current 6,200 square-foot facility located at 16525 Sherman Way, Unit C10, Van Nuys, California since June 1, 1993. The space is undersized but acceptable to the Lottery Operations and Sales Divisions and continues to serve the needs of the Lottery as a District Office. The existing lease extension is due to expire June 30, 2010. The Lottery and the Lessor, GVN, have experienced a good working relationship in the past, and it is agreeable to all parties that the Lottery continues to occupy the space.

Lottery staff has negotiated new terms and reduced rates for the VNDO. The current rate is approximately \$1.62 per square foot, or \$10,095 per month. Lottery staff has negotiated a \$0.07 rate decrease reducing the cost to \$1.55 per square foot or \$9,610 per month for the first year with two percent annual increases for the term of the lease. The total cost for the seven-year lease extension will be approximately \$857,088. The Lottery maintains the right to terminate the lease with a 180-day notice to vacate anytime during the term.

In addition, GVN has agreed to amend the lease to include tenant improvements, including new flooring in the restrooms and break room and new diffusers in the lights to improve office lighting throughout the space.

**DISCUSSION**

To ensure the Lottery is still paying market rates, staff performed a market-rate analysis of the surrounding properties in the area for comparable rates. The following is an example of rents found in the area:

Property Address	Sq Ft	Rate	CAM Charges *	Sub-total Market Rent
7723 Densmore Ave	8,000sf	\$0.73	Negotiable **	\$0.73+
7040 Hayvenhurst Ave	13,278sf	\$1.15	Negotiable **	\$1.15+
7955 Haskell, Van Nuys	2,660sf	\$1.35	Negotiable **	\$1.35+
15355 Raymer Street	10,856sf	\$0.85	Negotiable **	\$0.85+
7635 Sepulveda Blvd	21,516sf	\$0.079	Negotiable **	\$0.79+

\*CAM = Common Area Maintenance charges that may be added to a lease.

\*\* Lottery staff contacted property brokers in the Van Nuys area and found that the typical CAM charges in the area of Van Nuys to be in the \$0.13 to \$0.20 per square foot range. The CAM charges would be added to the market rent.

While the Lottery’s negotiated rent includes nearly all of the operational costs or CAM charges (sewer, trash disposal, water service, gas, electricity, and daily custodial services) it is still much higher than appears to be available in the area. The issue is that through the RENEW Project, the Lottery is determining its long-range strategy for the VNDO location, and all other Lottery sales locations. Until that work is done it would not be fiscally prudent to relocate the VNDO because of the high cost associated with changing locations. For example, the total cost to move

the Sacramento District Office was approximately \$1.1 million, which included tenant improvement plans, permits and construction costs, as well as furniture, signage, warehouse racking, telecommunications, and security. Unfortunately, until the long-range strategy is defined it makes the most sense to keep the District Offices where they are, even at slightly higher rates than are available in the area. Fortunately Lottery staff was able to negotiate a reduction in rent for the VNDO and included in the new lease terms the option of a 180-day notice to vacate. This option will give us the flexibility needed when a plan is in place.