File No. 120583

Committee Item No. 3
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Victor Young **Date** July 13, 2012
Completed by: Victor Young **Date** _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document can be found in the file.

[Real Property Lease Expansion - KLW, LLC - 3120 Mission Street]

Resolution authorizing the amendment of an existing lease at 3120 Mission Street with KLW, LLC, to expand the premises by approximately 5,000 square feet for the Human Services Agency.

WHEREAS, The Human Services Agency (HSA) has leased approximately 37,000 sq. ft. at 3120 Mission Street (the "Premises") from KLW, LLC, a California limited liability company (the "Landlord") since July 1, 2001 (lease authorized by Board of Supervisors Resolution 413-01) to provide the public with essential job readiness, counseling and placement services; and

WHEREAS, In 2008, the lease was amended to add 2,251 sq. ft. to the Premises (lease amendment authorized by Board of Supervisors Resolution 402-08) to expand the services provided to the public; and

WHEREAS, The recession of 2009 produced unemployment rates statewide of 12% and greater in some socio economic groups; and

WHEREAS, The Federal Government, through the American Recovery and Reinvestment Act (ARRA) Program, provided funding to local agencies for subsidized employment services; and

WHEREAS, The Human Services Agency used ARRA funding to lease temporary space from Landlord at 3125 Mission Street to further augment the existing space at 3120 Mission Street to meet this increased demand for employment services; and

WHEREAS, The 3125 Mission Street facilities among other uses, provide classrooms and job fair areas and have become integral to the services provided at 3120 Mission Street; and

WHEREAS, The integrated facilities have proven highly success resulting in more than twelve hundred (1200) job placements during the first ten months in FY11-12; and

WHEREAS, The Director of Property believes the proposed lease transaction represents Fair Market Rent for the expansion area; now, therefore, be it

RESOLVED, That in accordance with the recommendation of the Director of the Human Services Agency and the Director of Property, the Director of Property is hereby authorized to take all actions on behalf of the City and County of San Francisco, as tenant, to amend the lease for the building commonly known as 3120 Mission Street, San Francisco, California (a copy of the lease amendment is on file with the Clerk of the Board of Supervisors in File No. 120583, which is hereby declared to be a part of this resolution as if set forth fully herein) and on terms contained herein; and, be it

FURTHER RESOLVED, That the Lease Amendment for 3120 Mission Street shall expand the Premises by 5,000 sq. ft. from 39,251 sq. ft. to 44,251 sq. ft. at an additional monthly rent of $10,000.00 ($2.00 per sq. ft.); and, be it

FURTHER RESOLVED, That the Lease shall continue to include the lease clause, indemnifying, holding harmless, and defending Landlord and its agents from and against any and all claims, costs and expenses, including without limitation, reasonable attorneys' fees, incurred as a result of any default by the City in the performance of any of its obligations under the Lease, or any negligent acts or omissions of the City or its agents, in, on, or about the Premises or the property on which the Premises are located, excluding those claims, costs and expenses incurred as a result of the negligence or willful misconduct of the Landlord or its agents; and, be it

FURTHER RESOLVED, That all actions heretofore taken by the officers of the City with respect to such Lease Amendment is hereby approved, confirmed and ratified; and, be it

FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of Property to enter into any amendments or modifications to the Lease Amendment (including, without limitation, the exhibits) that the Director of Property determines, in consultation with the City Attorney, are in the best interest of the City, do not increase the rent or otherwise materially increase the obligations or liabilities of the City, are necessary or advisable to effectuate the purposes of the Lease or this resolution, and are in compliance with all applicable laws, including the City Charter; and, be it

FURTHER RESOLVED, That the City shall continue to occupy the entire Premises for the full term of the Lease unless funds for rental payments are not appropriated in any subsequent fiscal year at which time the City may terminate the Lease with advance notice to Landlord. Said Lease shall be subject to certification as to funds by the Controller, pursuant to Section 6.302 of the City Charter.

$120,00.00 Available
(Additional Rent 7/1/012 to 6/30/13)
Index No. 45ADOH/03011

Controller
Subject to the enactment of the 2012/2013
Annual Appropriation Ordinance

RECOMMENDED:

Human Services Agency

Acting Director of Property
Real Estate Division

Item 3 File 12-0583	Department: Human Services Agency (HSA) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a Second Amendment to the existing lease at 3120 Mission Street between the City, as lessee, and K.L.W., LLC, as lessor, to add approximately 5,000 square feet of HSA space at 3125 Mission Street, under one consolidated lease, for the remaining approximately three-year period from August 1, 2012 through June 30, 2015, and provide two additional five-year options to extend, or through June 30, 2025.

Key Points

- In 2001, the City entered into a lease with K.L.W., LLC for 37,000 square feet and ten parking spaces at 3120 Mission Street for the Department of Human Services (DHS), currently known as Human Service Agency (HSA), from July 1, 2001 through June 30, 2008. In 2003, the Director of the Real Estate Division (RED), on behalf of HSA, entered into a month-to-month lease for 2,251 square feet at 3425 Cesar Chavez Street to provide additional space for HSA.

- In 2008, the Board of Supervisors approved a First Amendment to the lease at 3120 Mission Street in order to consolidate the two leases at (a) 3120 Mission Street and (b) 3425 Cesar Chavez Street,to provide a total of 39,251 square feet,from October 2, 2008 through June 30, 2015. As of July 1, 2012, the monthly rent was $110,444 or approximately $2.81 per square foot per month.

- In 2009, the Director of RED, on behalf of HSA, entered into a year-to-year lease of 5,000 square feet at 3125 Mission Street with K.L.W., LLC from July 1, 2010 through June 30, 2011, which was later extended through June 30, 2012. The monthly rent is currently $5,000 or $1.00 per square foot.

- The proposed Second Amendment adds the existing 5,000 square foot lease at 3125 Mission Street with the existing consolidated lease at 3120 Mission and 3425 Cesar Chavez Streets. The proposed lease will provide a total of 44,251 square feet of office space at a monthly rental rate of $120,444 or an estimated $2.72 per square foot per month ($1,445,327 or $32.66 per square foot) with CPI adjustments of no less than three percent and no more than six percent.

Fiscal Impacts

- HSA's three-year total cost of the proposed lease is estimated between $5,498,624 and $5,632,605.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 23.27, except as otherwise provided in the City's Charter or Administrative Code Section 23.26, leases, in which the City is the lessee, are subject to the Board of Supervisors approval, by resolution.

Administrative Code Section 23.26 states that the Director of Property has the authority, without the approval of the Board of Supervisors, to enter into year to year or shorter term lease agreements of $5,000 or less per month in which the City is the lessee.

Background

In 2001, the Board of Supervisors approved a seven-year lease with K.L.W., LLC for 37,000 square feet of office space and ten parking spaces at 3120 Mission Street, between Cesar Chavez and Valencia Streets, for the Department of Human Services (DHS),[1] currently known as the Human Services Agency (HSA), from July 1, 2001 through June 30, 2008 (File 01-0764) at a monthly rental rate of $98,947 or an estimated $2.67 per square foot. In accordance with Administrative Code Section 23.26, the Director of the Real Estate Division (RED), on behalf of the City as lessee, entered into a month-to-month lease agreement, with K.L.W., LLC for an additional 2,251 square feet of office space for a monthly rental rate of $4,840 or an estimated $2.15 per square foot at 3425 Cesar Chavez Street, between Mission and Valencia Streets, on May 15, 2003.

In 2008, the Board of Supervisors approved a First Amendment with K.L.W., LLC, on behalf of HSA to the lease at 3120 Mission Street (File 08-1079) to consolidate the two leases at (a) 3120 Mission Street for 37,000 square feet and (b) 3425 Cesar Chavez Street for 2,251 square feet, to provide a total of 39,251 square feet, for approximately six years and nine months from October 2, 2008[2] through June 30, 2015. The First Amendment to the lease provides:

- Base rent of $98,128 or an estimated $2.50 per square foot per month for 39,251 square feet ($1,177,536 or $30.00 per square foot annually).
- Annual CPI adjustments to the base rent on July 1 of each subsequent fiscal year, which would increase at no less than three percent and no more than six percent. As of July 1, 2012, the base rent is $110,444 or an estimated $2.81 per square foot per month.
- Janitorial services are included in the rent. Utilities and security service are paid by the City.

[1] In 2004, the Department of Human Services (DHS) and the Department of Aging and Adult Services (DAAS) merged to form the Human Services Agency (HSA).

[2] As noted above, the lease at 3120 Mission Street expired on June 30, 2008. From July, 1 2008 through October, 1, 2008, the City continued to pay the prior monthly rent, instead of the holdover rate of 110 percent.

The existing consolidated lease provides office and counseling space for HSA's Workforce Development Program. The Center provides employment services, job training, education and other services, targeted to low-income job-seekers who are part of CalWORKs and General Assistance Programs.

In 2010, in accordance with Administrative Code Section 23.26, the Director of Property, on behalf of HSA, entered in to a year-to-year lease of 5,000 square feet of additional space at 3125 Mission Street, between Cesar Chavez and Valencia Streets, from K.L.W., LLC from July 1, 2010 through June 30, 2011, which was later extended through June 30, 2012 at $5,000 or $1.00 per square foot ($60,000 annually or $12.00 per square foot). This additional 5,000 square feet of space was leased to expand HSA's Workforce Development Program to provide space for staff-facilitated group activities.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a Second Amendment to the existing lease at 3120 Mission Street between the City, on behalf of HSA, as lessee, and K.L.W., LLC, as lessor, in order to add the approximately 5,000 square feet of HSA space at 3125 Mission Street into one consolidated lease for the remaining approximately three-year term from August 1, 2012 through June 30, 2015, and provide two additional five-year options to renew, or through June 30, 2025. The proposed Second Amendment provides:

- Total of 44,251 square feet, including (a) 37,000 square feet at 3120 Mission Street, (b) 2,251 square feet at 3425 Cesar Chavez Street, and (c) 5,000 square feet at 3125 Mission Street. Therefore, the proposed Second Amendment would consolidate, under one lease, three separate lease locations.
- Base rent of $120,444 or $2.72 per square foot per month ($1,445,328 or $32.66 per square foot).
- Annual CPI adjustments to the base rent on July 1 of each subsequent fiscal year, at no less than three percent and no more than six percent.
- Janitorial services are included in the rent. Utilities and security services are paid by the City.
- Two five-year options to renew, with the monthly rent to be set at 95 percent of the then-prevailing market rate, as determined by comparable leases or independent appraisal.

Table 1 below details both the previous First Amendment, which consolidated the leases at 3120 Mission Street and 3425 Cesar Chavez Street (two separate locations under one lease) and the proposed Second Amendment, which will further consolidate the leases at 3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street (three separate locations under one lease).

Table 1: Consolidation under One Lease of Three Separate Lease Locations

Leases	Location(s)	Space size (sq. ft.)	Initial Lease Period	Monthly Base Rent*	Monthly Base Rent per sq. ft.*
Existing First Amendment	3120 Mission Street (37,000 sq. ft.) and 3425 Cesar Chavez Street (2,251 sq. ft.)	39,251	October 2, 2008 – June 30, 2015	$110,444	$2.81
Existing Annual Lease	3125 Mission Street	5,000	July 1, 2011 - June 30, 2012	$5,000	$1.00
Total Existing Leases	**3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street**	**44,251**		**$115,444**	**$2.61**
Proposed Second Amendment	**3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street**	**44,251**	**August 1, 2012 – June 30, 2015**	**$120,444**	**$2.72**

* Base rental rate is subject to CPI annual adjustments of no less than three percent and no more than six percent.

FISCAL IMPACTS

As noted above, HSA is currently paying $110,444 or an estimated $2.81 per square foot per month for a total of 39,251 square feet of office space including (a) 37,000 square feet at 3120 Mission Street and (b) 2,251 square feet at 3425 Cesar Chavez Street. In addition, HSA currently pays $5,000 or $1.00 per square foot per month for 5,000 square feet at 3125 Mission Street under a separate lease. As shown in Table 1 above, for these two leases, HSA is therefore currently paying a total of $115,444 per month, or an average of $2.61 per square foot for the total 44,251 square feet of space.

Under the proposed Second Amendment, the monthly rental rate for the additional 5,000 square feet at 3125 Mission Street would be increased from $1.00 to $2.00 per square foot, or from the current $5,000 per month to $10,000 per month, an increase of 100 percent, which would be added to the existing lease at 3120 Mission Street and 3425 Cesar Chavez Street. As a result, the square footage under the proposed consolidated lease would increase from 39,251 square feet to 44,251 square feet, an increase of 5,000 square feet. The total monthly rent for the three locations would increase from $115,444 to $120,444 per month, an increase of $5,000 or 4.3 percent, and

the average cost per square foot would increase from an estimated $2.61 to $2.72 per square foot per month, a $0.11 or 4.3 percent increase, as shown in Table 1 above.

According to Mr. John Updike, the Acting Director of the RED, while the City has previously benefited from rental rates that were significantly below market rates, the proposed rental rate represents the current fair market rate.

Table 2 below shows the (a) rents for the remaining three years of the lease, with annual CPI adjustments of three to six percent annually, (b) estimated annual costs for utilities and security services, with projected 4.5 percent annual increases, and (c) total estimated costs for each remaining lease year.

Table 2: Estimated Costs for Proposed Lease for Three Years at 3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street

	Based on three percent CPI adjustment			*Based on six percent CPI adjustment*		
Lease year	**Annual Rent**	**Utility and Security Services at 4.5% inflation**	**Total**	**Annual Rent**	**Utility and Security Services at 4.5% inflation**	**Total**
2012-13*	$1,324,884	$345,722	$1,670,606	$1,324,884	$345,722	$1,670,606
2014-15	$1,488,687	$394,123	$1,882,811	$1,532,048	$394,123	$1,926,170
2016-17	$1,533,348	$411,858	$1,945,207	$1,623,970	$411,858	$2,035,829
Total	**$4,346,919**	**$1,151,703**	**$5,498,624**	**$4,480,902**	**$1,151,703**	**$5,632,605**

* Costs based on the estimated start date of August 1, 2012 through June 30, 2013.

As shown in Table 2 above, the costs of the proposed lease for the next three years range from $5,498,624 to $5,632,605, based on the three and six percent annual adjustments, respectively.

According to Mr. Chu, proposed lease expenditures are fully budgeted for FY 2012-13 and FY 2013-14, based on a combination of Federal funds (35 percent), State funds (15 percent), and General Funds (50 percent). All funds are subject to finala ppropriation approval by the Board of Supervisors.

RECOMMENDATION

Approve the proposed resolution.

John Updike
Acting Director of Real Estate

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BY RBC

City and County of San Francisco
REAL ESTATE DIVISION

May 16, 2012

Through Naomi Kelly,
City Administrator

Amendment of Lease
3120 Mission Street (HSA)
Assign #6625

Honorable Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Board Members:

Attached for your consideration is a Resolution authorizing the amendment of a lease at 3120 Mission Street for the Human Services Agency ("HSA"). HSA has leased approximately 39,251 square feet at 3120 Mission Street since 2000 (37,000 sq. ft. leased in 2000, 2,251 sq. ft. added in 2008) for its Workforce Development Program.

According to HSA, the Workforce Development Program provides job counseling, employment assistance, assessment services, training and job placement services to job-seekers in San Francisco. These job-seekers are primarily low-income clients of the CalWORKs program and general assistance administered by HSA.

In 2009, the federal government made American Recovery and Reinvestment Act (ARRA) funds available and HSA leased temporary space under Administrative Code Section 23.26 consisting of 5,000 sq. ft. at 3125 Mission St. (from the same landlord as 3120 Mission St.) to meet the increased demand for additional employment services caused by the recession.

The additional space has served as a recruiting center matching employers and job-seekers at weekly job fairs. During other times, the space is used as an orientation-center for job-seekers and employers, a training center for job-seekers, and a resource center for job-readiness programs. According to HSA, the programs and uses of the temporary expansion space have been highly successful. Job placements have increased from approximately 800 in fiscal year 2008 to over 1,200 during the first ten months of this fiscal year.

The lease at 3120 Mission Street expires on June 30, 2015 and as of July 1, 2012, the monthly rent is $110,443.91 (or approximately $2.81 per sq. ft.). Under the proposed Amendment to Lease, the additional space consisting of approximately 5,000 sq. ft. at 3125 Mission is added to

Office of the Director of Real Estate • 25 Van Ness Avenue, Suite 400 • San Francisco, CA 94102
(415) 554-9850 • FAX: (415) 552-9216

the existing lease at 3120 Mission Street at an additional cost of $10,000 month (or approximately $2.00 per sq. ft.) All of the other terms and conditions remain unchanged.

To meet the requirements of Chapter 79 of the Administrative Code, HSA has posted the proposed expansion on its website (www.sfhsa.gov), posted the required signage at the site, and will send notices to interested parties as required.

Since the rent for the proposed additional premises are equal to or less than fair market rents of comparable space, the Real Estate Division recommends approval of the proposed legislation. If you have any question regarding this matter, please contact Charlie Dunn at 554-9861.

Respectfully,

John Updike
Acting Director of Property

cc: Trent Rhorer, Director
Phil Arnold, HSA

SECOND AMENDMENT TO LEASE

This Second Amendment to Lease (this "**Second Amendment**"), dated as of May 1, 2012 for reference purposes, is made by and between K.L.W., LLC, a California limited liability company ("**Landlord**"), and the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("**City**").

RECITALS

A. Landlord and City are parties to that certain office Lease dated as of April 24, 2001 as amended by the Amendment to Leases dated May 30, 2008 (the "**Lease**") pursuant to which Landlord leased to City the premises consisting of approximately 39,251 rentable square feet as further described in the Lease as the ground floor of the building located at 3120 Mission Street, San Francisco, California, comprising approximately 37,000 rentable square feet plus ten (10) parking stalls and the entire one (1)-story building located at 3425 Cesar Chavez Street, San Francisco, California comprising approximately 2,251 rentable square feet (the "**Existing Premises**").

B. Landlord and City desire to make certain modifications amending the Lease to expand the Existing Premises, grant to City two (2) further options to extend the term, and make certain other modifications to the Lease.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Effective Date. This Second Amendment shall become effective on, and the Lease shall be amended as of and after, the date (the "**Second Amendment Effective Date**") that is the later of (a) July 1, 2012, or (b) the date City's Mayor and Board of Supervisors enact a resolution approving this Second Amendment in their respective sole and absolute discretion in accordance with City's Charter and any other applicable laws.

2. Definitions. Capitalized terms not otherwise defined in this Amendment have the meanings set forth in the Lease.

3. Amendment to Lease. The Lease is amended as follows:

3.1 Basic Lease Information. Section 1 of the Lease is amended by deleting the current language in its entirety and replacing the deleted language with the following:

1. *BASIC LEASE INFORMATION*

*The following is a summary of basic lease information (the "**Basic Lease Information**"). Each item below shall be deemed to incorporate all of the terms in this Lease pertaining to such item. In the event of any conflict between the information in this Section and any more specific provision of this Lease, the more specific provision shall control.*

Lease Reference Date:	*April 25, 2001*
Landlord:	*K.L.W., LLC*
Tenant:	*CITY AND COUNTY OF SAN FRANCISCO*
Building (Section 2.1):	*(i) 3120 Mission Street, San Francisco, CA 94110 (the "**3120 Building**"),* *(ii) 3425 Cesar Chavez Street, San Francisco, CA 94110 (the "**3425 Building**"), and* *(iii) 3125 Mission Street, San Francisco, CA 94110 (the "**3125 Building**")* *(the 3120 Building, the 3425 Building, and the 3125 Building are sometimes collectively referred to in this Lease as the "**Building**").*
Premises (Section 2.1):	*(i) Ground Floor of the 3120 Building (the "**3120 Premises**") and ten (10) parking stalls at no additional charge,* *(ii) all rentable area in the 3425 Building (the "**3425 Premises**"), and* *(iii) Ground Floor of the 3125 Building consisting of approximately 5,000 sq. ft. (the "**3125 Premises**").* *(the 3120 Premises, the 3425 Premises, and the 3125 Premises are sometimes collectively referred to in this Lease as the "**Premises**").*
Rentable Area of Premises (Section 2.1):	*Approximately 44,251 rentable square feet, consisting of 37,000 rentable square feet in the 3120 Building, 2,251 rentable square feet in the 3425 Building, and 5,000 rentable square feet in the 3125 Building.*
Term (Section 3):	*Estimated (original) commencement date: July 1, 2001* *Estimated Second Amendment Effective Date: July 1, 2012* *Expiration date: June 30, 2015, subject to City's rights to extend the Term as provided in Section 3.4.*
Extension Options (Section 3.4):	*Two additional Option Term(s) of five (5) years (each), exercisable by City by notice to Landlord given not less than three hundred sixty-five (365) days in advance of the*

	expiration of the then-current Term.
Base Rent (Section 4.1):	*As of the Second Amendment Effective Date, Base Rent shall be:* *Annual Base Rent: $1,445,326.90 ($32.66 per rentable square foot):* *Monthly Base Rent payments: $120,443.91 ($2.72 per rentable square foot)*
Adjustment Dates (Sections 4.1 and 4.2):	*July 1 of each year during the Term (except July 1, 2012 and any year when July 1 constitutes the first day of an Option Term).*
Leasehold Improvements (Section 6)	*Landlord shall pay for required accessibility improvements if required.*
Utilities (Section 9.1):	*City is responsible for the cost of utilities.*
Services (Section 9.2):	*Landlord shall provide janitorial service as part of the Base Rent.*
Notice Address of Landlord (Section 23.1):	*180 Sansome Street, Suite 1200* *San Francisco, CA 94104* *Fax No.: (415) 643-7404*
Key Contact for Landlord:	*Brad Koch*
Landlord Contact Telephone No.:	*(415) 643-7400 x101*
Notice Address for Tenant (Section 23.1):	*Real Estate Division* *25 Van Ness Avenue, Suite 400* *San Francisco, CA 94102* *Attn: John Updike,* *Acting Director of Property* *Fax No.: (415) 552-9216*
with a copy to:	*Department of Human Services* *170 Otis Street, 8th Floor* *San Francisco, CA 94103* *Attn; Tony Lugo* *Fax No.:(415) 431-9270*
and to:	*Office of the City Attorney* *City Hall, Room 234* *1 Dr. Carlton B. Goodlett Place* *San Francisco, CA 94102-4682* *Attn: Richard Handel* *Deputy City Attorney* *Fax No.: (415) 554-4755*

Key Contact for Tenant:	*Tony Lugo* *Director – Workforce Development & CalWORKS Services* *Department of Human Services* *170 Otis Street, 8th Floor* *San Francisco, CA 94103*
Tenant Contact Telephone No.:	*(415) 557-6309*
Alternate Contact for Tenant:	*Phil Arnold* *Deputy Director for Finance and Administration* *San Francisco Human Services Agency*
Alternate Contact Telephone No.:	*(415) 557-5641*

3.2 Lease Premises.

Section 2 of the Lease is amended to increase the square footage of the Premises and incorporate the additional 5,000 square feet at 3125 Mission Street Lease thereby enlarging the Premises from 39,251 square feet to 44,251 square feet. The attached (new) Exhibit A-1 depicts the additional 5,000 square feet at the 3125 Premises. All references in the Lease to the Premises shall refer to the Premises shown on Exhibit A and the new Exhibit A-1.

3.3 Term. The Lease is further amended by adding the following language as (new) Section 3.4:

Section 3.4 ***Option Terms***

*City shall have the right to extend the existing Term of the Lease (the "**Extension Option(s)**") for two (2) additional term(s) of five (5) years each (each, an "**Option Term**"). Such Extension Option(s) shall be on all of the terms and conditions contained in this Lease, except that, in lieu of any other annual rent adjustment pursuant to this Lease that might otherwise occur on the first day of an Option Term, the Base Rent shall be adjusted as provided below. City may exercise the Extension Option(s), if at all, by giving written notice to Landlord no later than three hundred sixty five (365) days prior to expiration of the Term to be extended; provided, however, if City is in material default under this Lease on the date of giving such notice and fails to cure such default as provided in this Lease, Landlord may reject such exercise by delivering written notice thereof to City promptly after such failure to cure. Landlord acknowledges and agrees that City's notice of its intent to exercise an Extension Option shall be subject to enactment of a resolution by the Board of Supervisors and the Mayor, in their respective sole and absolute discretion, approving and authorizing the same, within ninety (90) days after the date the Base Rent for the applicable Option Term is determined.*

The Base Rent during each Option Term shall be adjusted at the start of each Option Term to ninety five percent (95%) of the then-prevailing Fair Market Rent and then, on each ensuing Adjustment Date in such Option Term, shall be adjusted pursuant

to the provisions of Section 4.2. City and Landlord hereby agree that Fair Market Rent shall be determined as follows:

(a) "Fair Market Rent" shall be the prevailing market rate for space of comparable size and location to the Premises having recently been leased to tenants of comparable credit in buildings of similar age, seismic condition, location, and quality to the Property. As used herein, the term "prevailing market rate" shall mean the rental for such comparable space, taking into account all factors to make such spaces comparable to the Premises, including but not limited to (i) any expense adjustments such as separately metered electricity, taxes, operating expenses, and maintenance paid, (ii) adjustments in base rent,(iii) condition of the premises, (iv) physical amenities and services provided, (v) location and size of the premises of such comparable leases, (vi) credit worthiness of the tenant, (vii) the duration of the renewal term and the term of such comparable space, (viii) free rent and any other tenant concessions offered under such comparable space, and (ix) tenant improvements allowances and other allowances offered by such comparable space. Fair Market Rent shall be determined on a per-square-foot basis, and may include different rates for office, ground floor, and basement space.

(b) Within thirty (30) days of Landlord's receipt of City's notice of its intent to exercise an Extension Option, Landlord shall provide written notice to City of Landlord's good faith determination of the prevailing market rate along with reasonable substantiation for such rate, including, but not limited to at least three (3) recent comparable lease transactions. If City disputes Landlord's determination of the prevailing market rate, City shall so notify Landlord of the City's determination of prevailing market rate and reasonable substantiation for such rate within fourteen (14) days following Landlord's notice to City. If City and Landlord still disagree, then the dispute shall be resolved as follows:

*(i) Within thirty (30) days following City's notice of the prevailing market rate (the "**Consultation Period**"), Landlord and City shall attempt in good faith to meet no less than two (2) times, at a mutually agreeable time and place, to attempt to resolve any such disagreement. Landlord and Tenant may agree in writing to extend the Consultation Period for a reasonable period to resolve their disagreement.*

(ii) If within this Consultation Period, Landlord and City cannot reach agreement as to the prevailing market rate, they shall each select one appraiser to determine the prevailing market rate. Each such appraiser shall be an "MAI" designated appraiser with at least five (5) years experience appraising commercial office properties in San Francisco. Each appraiser shall arrive at a determination of the prevailing market rate and submit his or her conclusions to Landlord and City within sixty (60) days of the expiration of the Consultation Period described in subsection (i) above.

(iii) If only one appraisal is submitted within the requisite time period, it shall be deemed to be the prevailing market rate. If both appraisals are submitted within such time period, and if the two appraisals so submitted differ by less than ten percent (10%) of the higher of the two, then the average of the two shall be the prevailing market rate.

If the two appraisals differ by more than ten percent (10%) of the higher of the two, then the two appraisers shall immediately select a third appraiser, with the qualifications specified above, who will, within thirty (30) days of his or her selection, choose either Landlord's or City's appraisers' determination of the prevailing market rate and provide the reasoning for such selection. All appraisals and determinations hereunder shall be in conformity with the Uniform Standards of Professional Appraisal Practice, Code of Professional Ethics and the Standards of Professional Appraisal Practice of the MAI. Landlord and City shall pay the cost of the appraiser selected by such party and one-half of the cost of the third appraiser.

3.4 Landlord's Right To Demolish 3125 Building. The following language is added to the Lease as (new) Section 3.5:

3.5 Landlord's Right To Demolish 3125 Building. If at any time during the Extended Term or any Option Term, Landlord decides to demolish the existing 3125 Building (or to so demolish the existing interior and exterior of the 3125 Building so as to have the practical effect of demolishing the existing 3125 Building), Landlord shall have the right to terminate this Lease with respect to the 3125 Premises upon at least twenty-four (24) months' advance notice of such termination. City shall vacate the 3125 Premises on or before the date specified in such notice in the same manner as if the full term had expired and the Term with respect to the 3125 Premises only shall expire upon the date City so vacates the 3125 Premises. In the event of any such termination pursuant to this Section, (a) the Base Rent then in effect shall be reduced proportionally to reflect the elimination of the 3125 Premises from the Premises and (b) within thirty (30) days of such termination, Landlord shall reimburse City for its expenses incurred in relocating from the 3125 Building to City's new location (inclusive of real estate brokers' fees and commissions, moving and packing costs, and other expenses reasonably related to such relocation) in an amount up to Twenty-five Thousand Dollars ($25,000).

3.5 Base Rent. Section 4.1 of the Lease is amended such that the monthly Base Rent, which is currently One Hundred Twenty Thousand Four Hundred Forty-three and 91/100 Dollars ($120,443.91) per month, shall be adjusted annually on July 1 of each year during the remainder of the Extended Term beginning on July 1, 2013 and on July 1 of each of the second, third, fourth, and fifth years during any Option Term (each, an "**Adjustment Date**").

3.6 Adjustments in Base Rent. Section 4.2 of the Lease is amended by deleting the current language in its entirety and replacing the deleted language with the following:

*4.2 **Adjustments in Base Rent.** The Base Rent for the Extended Term and any Option Term shall be adjusted on each Adjustment Date as follows:*

*The Consumer Price Index for All Urban Consumers (base years 1982-1984 = 100) for the San Francisco-Oakland-San Jose area, published by the United States Department of Labor, Bureau of Labor Statistics (the "**Index**"), which is published most immediately preceding the Adjustment Date (the "**Adjustment Index**"), shall be compared with the Index published most immediately preceding the Effective Date, in the case of the first Adjustment Date in the Extended Term, or, in the case of any subsequent Adjustment Date, the Index published most immediately preceding the prior Adjustment Date (the "**Base Index**").*

If the Adjustment Index has increased over the Base Index, then the Base Rent payable on and after the Adjustment Date shall be set by multiplying the Base Rent by a fraction, the numerator of which is the Adjustment Index and the denominator of which is the Base Index. In no event shall the monthly Base Rent on or after the Adjustment Date be less than three (3%) nor more than six (6%) of the monthly Base Rent in effect for the last full month immediately prior to the Adjustment Date.

If the Index is changed so that the base year differs from that used as of the date most immediately preceding the Commencement Date, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the Term, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

3.7 Notification of Limitations on Contributions. The Lease is further amended by adding the following language as (new) Section 23.34:

23.34 Notification of Limitations on Contributions.

Through its execution of this Lease, Landlord acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the selling or leasing of any land or building to or from the City whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or a board on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. Landlord acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of $50,000 or more. Landlord further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of Landlord's board of directors, chairperson, chief executive officer, chief financial officer, and chief operating officer; any person with an ownership interest of more than twenty percent (20%) in Landlord; any subcontractor listed in the contract; and any committee that is sponsored or controlled by Landlord. Additionally, Landlord acknowledges that Landlord must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. Landlord further agrees to provide to City the names of each person, entity or committee described above."

4. Miscellaneous.

4.1 Reference. No reference to this Second Amendment is necessary in any instrument or document at any time referring to the Lease. Any future reference to the Lease shall be deemed a reference to such document as amended by this Second Amendment.

4.2 Entire Agreement; No Other Amendment. Except as expressly amended as provided herein, the Lease shall continue unmodified and remain in full force and effect. The Lease as amended by this Second Amendment constitutes the entire agreement between Landlord and City with respect to the Premises and may not be modified except by an instrument in writing signed by the party to be charged. In the event of any conflict between the terms of the Lease and the terms of this Second Amendment, the terms of this Second Amendment shall control. Except for the Lease, as hereby amended by this Second Amendment, any previous oral or written agreements, contracts, or leases between Landlord and City with respect to City's occupancy or use of the Premises, or the 3120 Premises, the 3425 Premises, or the 3125 Premises, are hereby terminated as of the Second Amendment Effective Date..

4.3 Applicable Law. This Second Amendment shall be governed by, construed, and enforced in accordance with the laws of the State of California.

4.4 Further Instruments. The parties hereto agree to execute such further instruments and to take such further actions as may be reasonably required to carry out the intent of this Second Amendment.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS SECOND AMENDMENT, LANDLORD ACKNOWLEDGES AND AGREES THAT NO OFFICER OR EMPLOYEE OF CITY HAS AUTHORITY TO COMMIT CITY HERETO UNLESS AND UNTIL A RESOLUTION OF CITY'S BOARD OF SUPERVISORS AND MAYOR HAS BEEN DULY ENACTED APPROVING THIS SECOND AMENDMENT AND AUTHORIZING CONSUMMATION OF THE MATTERS CONTEMPLATED HEREIN. THEREFORE, ANY OBLIGATIONS OR LIABILITIES OF CITY HEREUNDER ARE CONTINGENT UPON ENACTMENT OF SUCH A RESOLUTION, AND THIS SECOND AMENDMENT SHALL BE NULL AND VOID UNLESS CITY'S BOARD OF SUPERVISORS AND MAYOR APPROVE THIS SECOND AMENDMENT IN THEIR RESPECTIVE SOLE AND ABSOLUTE DISCRETION, AND IN ACCORDANCE WITH ALL APPLICABLE LAWS. APPROVAL OF THIS SECOND AMENDMENT BY ANY DEPARTMENT, COMMISSION, OR AGENCY OF CITY SHALL NOT BE DEEMED TO IMPLY THAT SUCH RESOLUTION WILL BE ENACTED NOR WILL ANY SUCH APPROVAL CREATE ANY BINDING OBLIGATIONS ON CITY.

IN WITNESS WHEREOF, Landlord and City have executed this Second Amendment effective as of the Second Amendment Effective Date.

LANDLORD:
KLW, LLC

By: _____
Its: _____

CITY:
CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation

By: _____
Director of Property

RECOMMENDED:

By: _____
Director
Department of Human Resources

APPROVED AS TO FORM:
Dennis Herrera, City Attorney

By: _____
Richard Handel
Deputy City Attorney

EXHIBIT A-1

[Attach Floor Plan(s) of 3125 Premises]

File No. 120583

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL
(S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information *(Please print clearly.)*	
Name of City elective officer(s): Members, SF Board of Supervisors	City elective office(s) held: Members, SF Board of Supervisors

Contractor Information *(Please print clearly.)*	
Name of contractor: **BRCP 1390 Market, LLC**	
Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary. KLW, LLC. Richard Koch and Richard Hyde are the managing members of the LLC and the only members who own over 20% KLW, LLC does not sponsor or control any political committee	
Contractor address: 248 Homer Avenue, Palo Alto, CA 94301	
Date that contract was approved:	Amount of contract: $10,000 per month for approx. 36 months
Describe the nature of the contract that was approved: Expansion of an existing Lease at 3120 Mission St for the Human Services Agency	
Comments:	

This contract was approved by (check applicable):

☐ the City elective officer(s) identified on this form (Mayor, Edwin Lee)

☒ a board on which the City elective officer(s) serves San Francisco Board of Supervisors
Print Name of Board

☐ the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

_____
Print Name of Board

Filer Information *(Please print clearly.)*	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: (415) 554-5184
Address: City Hall, Room 244, 1 Dr. Carlton B. Goodlett Pl., San Francisco, CA 94102	E-mail: Board.of.Supervisors@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer) — Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk) — Date Signed