



Edwin M. Lee, Mayor
Naomi M. Kelly, City Administrator



John Updike
Director of Real Estate

January 4, 2018

**Lease Renewal
1390 Market St.
DPH-EHS**

Through Naomi Kelly
City Administrator

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

Dear Board Members:

Attached for your consideration is a resolution authorizing an extension of an existing lease term for the Department of Public Health's Environmental Health Section (DPH-EHS) at Fox Plaza (1390 Market Street).

The Department of Public Health's Environmental Health Section (DPH-EHS), among other public services, provides federal, state, and local mandated services including restaurant inspections and permits, , hazardous materials/waste compliance, childhood lead prevention, consumer protection (retail and wholesale food), solid waste, water recreation, asbestos, and emergency response.

DPH-EHS has occupied space at Fox Plaza for the past 20 years. The premises consist of 27,826 sq. ft. (27,413 sq. ft. of office and 413 sq. ft. of storage). City currently pays \$82,818.07 per month (approximately \$35.72 per sq. ft. annually). City also pays approximately \$722.16 average per month in separately metered utilities (approximately \$.60 psf annually) on 14,549 sq. ft. of the Premises.

The current term expires on November 30, 2018 and contains an option to extend the term for five (5) years (through November 30, 2023) on the same terms and conditions except that the Base Monthly Rental is to be adjusted to 95% of the market rental value. However, DPH-EHS is slated to move from Fox Plaza to the new City Building at 49 South Van Ness (formerly called 1500 Mission St) in mid 2020. The exercise of the option to extend would require the City to either backfill the Fox Plaza space or pay double rent.

Under the proposed lease renewal, the renewal term is for three (3) years (December 1, 2018 through November 30, 2021) with the option to terminate at anytime after November 30, 2019 during the initial term by providing 270 days advanced written notice at no cost to the City. The proposed rent beginning December 1, 2018 is \$150,093.33 per month (approximately \$64.72 per sq. ft. average annually) and is increased 3% annually. The City will continue to pay for electricity

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on the 14,549 square feet which is separately metered. City shall also pay for the standard operating expense pass throughs over a 2019 base year.

Attachment # 1 provides how the base rent is calculated.

A MAI appraisal dated December 19, 2017 of Fair Market Rent by Mateo Advisors, John Mateo, MAI, has confirmed fair market rent of \$66 per sq. ft. fully serviced for the office area, and 12.00 per sq. ft. for the storage area with 3% annual increases. The Mateo Advisors appraisal has been confirmed by an Appraisal Review dated January 4, 2018 by Clifford & Associates, MAI.

A before and after table is Attachment #2

DPH reports that the majority of EHS's programs are fee based regulatory programs and the increase in rent will be included in its 2018/2019 fiscal budget.

Given we have negotiated a fair market rental rate with flexible termination rights without additional cost, DPH and the Real Estate Division recommend approval of the extension terms. If you have questions regarding this matter, please contact Charlie Dunn of our office at 554-9861.

Respectfully,

John Updike
Director

cc: Barbara Garcia, Director, DPH
Greg Wagner, DPH
Stephanie K.J. Cushing, DPH -EHS

Attachment #1

Summary of Spaces and Proposed Base Rent

A.

Suite	Area (RSF)	Comments
210	14,549	Net of plug load electricity
410	3,247	Fully serviced
810	4,646	Fully Serviced
910	4,971	Fully Serviced
Subtotal Office	27,413	
Storage C, D, & E (the “Storage Premises”)	413	Garage level
Total Premises	27, 826	

<u>Area</u>	<u>Sq. Ft.</u>	<u>Base Annual Rent PSF</u>	<u>Base Monthly Rent</u>
Storage Premises	413 SF	\$12.00	\$413.00
Suite 210	14,549 SF	\$65.10	\$78,928.33
Suites 410, 810, 910	<u>12,864 SF</u>	\$66.00	<u>\$70,752.00</u>
Total Office and Storage	27,826 SF		\$150,093.33

Attachment #2

Table 1. Summary of Current and Proposed Lease Details

	Current Lease	Proposed Lease
Premises	27,826 square feet	No change 27,826 square feet
Base Rent (monthly)	\$82,818.07	\$150,093.33
Operating Expenses (monthly)	\$.05 for electricity on a portion of the space. Janitorial services, maintenance and all other operating costs to be paid by the landlord.	No change \$.05 for electricity on a portion of the space. Janitorial services, maintenance and all other operating costs to be paid by the landlord.
Term	December 1, 2013 to November 30, 2018	December 1, 2018 to November 30, 2021, subject to City's right to terminate
Early Termination Provision	None.	Permits early termination by City with 9 months written notice at no cost to City.
Base Rent Increase Date	NA	Annually on December 1, starting December 2019
Base Rent Increase Amount	None	3% (annually)
Extension Options	1 remaining (December 1, 2018 to November 30, 2023) at 95% of FMR	2 new for 5 years each (the first - December 1, 2021 to November 30, 2026) at 95% of FMR