

1 [Lease Amendment - Hudson 1455 Market, LLC - 1455 Market Street - \$897,365 (FY2024-
2 2025), \$1,853,576.27 Base Rent Initial Year (FY2025-2026), Not to Exceed \$15,470,700
3 Available Operating Budget]

4 **Resolution approving and authorizing the Director of Property, on behalf of the Human**
5 **Services Agency, County Transportation Authority and Library's Information**
6 **Technology unit, to execute a first amendment to the lease agreement with Hudson**
7 **1455 Market, LLC, as landlord, to take an additional 225,883 rentable square feet**
8 **("RSF") of office space and 6,279 RSF of basement storage at 1455 Market Street for**
9 **the balance of an initial term of 21 years, effective upon approval of the Resolution by**
10 **the Board of Supervisors and the Mayor and upon execution of the lease amendment**
11 **by the Director of Property, terminating on April 30, 2045, to expend an amount not to**
12 **exceed \$897,365 for rent, parking and electrical costs for Fiscal Year (FY) 2024-2025,**
13 **with a base rent of \$1,853,576.27 for the initial year plus \$42,611.10 of basement**
14 **storage for FY2025-2026, with two five-year options to extend and rent at \$41.20 per**
15 **square foot with 3% annual increases thereafter; authorize the Director of Real Estate**
16 **to the extent of available operating budget and to the extent not covered by the tenant**
17 **improvement allowance to expend an amount not to exceed \$15,470,700 for digital**
18 **technology costs, tenant improvements, alternatives and furniture, fixtures and**
19 **equipment; and authorizing the Director of Property to execute any amendments,**
20 **options to extend the agreement term, make certain modifications and take certain**
21 **actions that do not materially increase the obligations or liabilities to the City, do not**
22 **materially decrease the benefits to the City and are necessary or advisable to**
23 **effectuate the purposes of the lease agreement or this Resolution.**

1 WHEREAS, As a result of the global pandemic and sheltering in place, there has been
2 a dramatic shift towards remote work and telecommuting in San Francisco and elsewhere
3 resulting in an approximately 33% vacancy rate in the downtown San Francisco office market;
4 and

5 WHEREAS, The persistent office vacancy rate has forced landlords to reduce their rent
6 rates in order to attract and retain office tenants; and

7 WHEREAS, The price to purchase office buildings in the City has also dropped
8 dramatically as owners of empty buildings are forced to sell at a discount or turn the keys over
9 to their lenders to avoid foreclosure; and

10 WHEREAS, The City Administrator directed the Real Estate Division (“RED”) to identify
11 market opportunities where the City could reduce its leasing costs through competitively priced
12 leases and reduce the City’s leased footprint by a more efficient use of space in light of the
13 City’s current telecommuting policy and the Mayor’s soon to be enacted back to in office work
14 initiative; and

15 WHEREAS, The City has a significant projected budget deficit for Fiscal Years (FY)
16 2025-2026 and 2026-2027; and

17 WHEREAS, On September 20, 2023, the Budget and Finance Committee of the Board
18 of Supervisors (“Budget and Finance”) unanimously recommended that RED identify a
19 property that could be purchased at a competitive price given market conditions and that
20 would allow for consolidation of the City’s Civic Center assets in furtherance of the City’s
21 strategic plan; and

22 WHEREAS, On September 26, 2023, the Board of Supervisors, following the Budget
23 and Finance Committee recommendation, unanimously reaffirmed the Board of Supervisor’s
24 recommendation that RED return with a buying opportunity for the Board of Supervisor’s
25 consideration; and

1 WHEREAS, Under the leadership and direction of the City Administrator, RED
2 identified the property at 1455 Market Street (the “Building”) with 1,123,876 rentable square
3 feet (RSF) spread over 22 floors as a unique opportunity for the City to meet its short-term
4 cost savings goals, as well as its long-term consolidation goals through long term leasing or
5 purchase; and

6 WHEREAS, The Planning Department, through an email dated February 8, 2024,
7 determined that under the Original Lease there would be no change in use and no significant
8 construction, therefore no General Plan Referral is required; a copy of the email is on file with
9 the Clerk of the Board of Supervisors in File No. 250265; and

10 WHEREAS, The Planning Department, through a letter dated March 19, 2025,
11 determined that the proposed first amendment to lease is neither an acquisition of property
12 nor an improvement or change of use of city property and thus would not require a General
13 Plan Referral per Administrative Code, Sections 2a.52 and 2a.53; a copy of the letter is on file
14 with the Clerk of the Board of Supervisors in File No. 250265; and

15 WHEREAS, The Board of Supervisors by Resolution No. 192-24 on April 23, 2024,
16 passed a Resolution authorizing the Director of Property to execute the Original Lease for
17 approximately 157,154 RSF for an initial term of 21 years from May 1, 2024, through April 30,
18 2045, with two five-year options to extend, and with a lease option and a purchase option; and

19 WHEREAS, On April 26, 2024, Mayor Breed signed the Resolution and the Clerk of the
20 Board certified the Resolution; and

21 WHEREAS, The Landlord has made the tenant improvements required under the
22 Original Lease and City tenants have moved into the Building on the 12th, 13th, 16th, and
23 17th floors (“Phase I”); and
24
25

1 WHEREAS, The Original Lease has a 12-month rent credit that expires April 30, 2025,
2 thus requiring the City to pay rent for the Phase I City tenants for the last two months of
3 FY2024-2025 (May and June), as well as incidental parking and electrical costs; and

4 WHEREAS, Subject to Board of Supervisors and Mayoral approval, RED, on behalf of
5 the Human Services Agency ("HSA"), County Transportation Authority ("CTA") and Library's
6 Information Technology unit ("Lib IT"), gave notice to the Landlord that it would like to exercise
7 the lease option and lease an additional 225,883 rentable square feet ("RSF") of office space
8 and an additional 6,279 RSF of basement storage ("Phase II"); and

9 WHEREAS, Pursuant to the terms of the Original Lease, the rent will be \$41.20 for
10 office space and \$30.90 for basement space; and

11 WHEREAS, Under this Lease Amendment, the Landlord is providing the City with a
12 Tenant Improvement Allowance for the of \$100 PSF (approximately \$22,518,300) and a
13 Moving Allowance of \$15 PSF (approximately \$2,979,735); and

14 WHEREAS, The costs for Tenant Improvement and Alternatives for Phase II are
15 \$32,139,000 which is \$9,620,700 over the Tenant Improvement Allowance and with needed
16 furniture, the additional funds needed is \$15,470,700; and

17 WHEREAS, RED anticipates that the Moving Allowance for Phase II will be sufficient to
18 cover the anticipated move costs; and

19 WHEREAS, This Lease Amendment, if approved, adds the following new space to the
20 Original leased premises:

- 21 (1) approximately 66,056 RSF of office space on the sublevel floor in the podium for
22 HSA;
23 (2) approximately 97,718 RSF of office space on the 4th floor for HSA;
24 (3) approximately 7,660 RSF of office space on the 8th floor for Library's Information
25 Technology unit;

1 (4) approximately 27,215 RSF of office space on the 18th floor for HSA;

2 (5) approximately 27,234 RSF of office space on the 22nd floor for the County
3 Transportation Authority;

4 (6) approximately 5,200 RSF of basement storage space for HSA;

5 (7) approximately 800 RSF of basement storage space for Library IT;

6 (8) approximately 279 RSF of basement storage space for the Department of the
7 Environment; and

8 WHEREAS, CTA is an existing tenant in the building on the 22nd floor and will be
9 extending its occupancy under the City's lease as amended; and

10 WHEREAS, Library IT will be moving from the Main Library at 100 Larkin Street which
11 will free up space at Main Library for core programs and library services; and

12 WHEREAS, HSA will be moving from 170 Otis Street, a City-owned, seismically
13 challenged building and 1235 Mission Street, a School District owned, seismically challenged
14 building; and

15 WHEREAS, Pursuant to the terms of the Original Lease, when the City has leased
16 400,000 RSF or more in the Building, the City shall have the right but not the obligation to
17 purchase the property ("Purchase Option") for a price determined through an appraisal of its
18 fair market value; and

19 WHEREAS, With the addition of the Phase II office space, the City will occupy
20 approximately 422,610 RSF in the Building making the City eligible to exercise the Purchase
21 Option in its sole and absolute discretion; and

22 WHEREAS, Pursuant to the terms of the Original Lease, the City has until March 1,
23 2027, to timely give notice of its intent to exercise the Purchase Option and until
24 December 31, 2027, to close escrow on the purchase; and
25

1 WHEREAS, Each exercise of the Lease Option and/or the Purchase require separate
2 Board of Supervisor and Mayoral approval in their respective sole and absolute discretion;
3 and

4 WHEREAS, RED determined that both the Original Lease on file with the Clerk of the
5 Board of Supervisors in File No. 250265, and the First Amendment to Office Lease on file with
6 the Clerk of the Board of Supervisors in File No. 250265, both declared to be a part of this
7 Resolution as if set forth fully herein, provide short term and long term monetary savings and
8 best meet the long term strategic goals of the City and is in the best interest of the City; now,
9 therefore, be it

10 RESOLVED, That in accordance with the recommendation of the Director of Property,
11 the Board of Supervisors approves the First Amendment to Lease Agreement and authorizes
12 the Director of Real Estate to take all actions necessary to enter into and perform the City's
13 obligations under the Lease; and, be it

14 FURTHER RESOLVED, That the City's exercise of its Lease Option does not affect the
15 City's ability to exercise additional Lease Options in the future pursuant to the terms of the
16 Lease provided that each such exercise is subject to Board of Supervisors and the Mayoral
17 approval, by Resolution, in their respective sole and absolute discretion; and, be it

18 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of
19 Property, to the extent of available operating budget, to expend an amount not to exceed
20 \$897,365 for rent, parking and electrical costs for Phase I City tenants, as previously
21 approved in the FY2024-2025 City budget (as amended); and, be it

22 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of
23 Property to the extent of available operating budget and to the extent not covered by the
24 tenant improvement allowance to expend an amount not to exceed \$15,470,700 for digital
25

1 technology costs, tenant improvements, alternates and furniture, fixtures and equipment
2 (“FF&E”); and, be it

3 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of
4 Property to execute any amendments, options to extend the agreement term, make certain
5 modifications and take certain actions that do not materially increase the obligations or
6 liabilities to the City, do not materially decrease the benefits to the City and are necessary or
7 advisable to effectuate the purposes of the lease agreement or this Resolution and are in
8 compliance with all applicable laws; and, be it

9 FURTHER RESOLVED, That within 30 days of the execution of the Lease, the Director
10 of Real Estate shall provide a copy to the Clerk of the Board for the Board's file.

\$897,364.27
Phase I FY2024-2025 Costs
Index No. _____

Fund ID:	14300 – SR Real Property
Department ID:	228875 – ADM Real Estate Division
Project Authority ID:	10001302 – ADRE Real Estate Operations
Account ID:	530110 – Property Rent
Activity ID:	0066 – 1455 Market Lease
Authority ID:	17378 – Real Estate Real Property Fund

_____/s/_____
Michelle Allersma, Budget and Analysis
Division Director on behalf of
Greg Wagner, Controller

Funding for Fiscal Year 2025/2026 is subject
to the enactment of the Annual Appropriation
Ordinance for Fiscal Year 2025/2026.

RECOMMENDED:

_____/s/_____
Andrico Q. Penick
Director of Property