

File No. 120140

Committee Item No. 6

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance SUB-Committee Date: March 7, 2012

Board of Supervisors Meeting Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Resolution |
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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget & Legislative Analyst Report |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Ethics Form 126 |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
| <input type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
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OTHER

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Completed by: Victor Young

Date: March 2, 2012

Completed by: Victor Young

Date: _____

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

1 [Real Property Lease - 2712 Mission Street - Annual Rent of \$768,000]

2

3 **Resolution authorizing a ten-year lease of 2712 Mission Street from Redwood Mortgage**
4 **Investors VIII, A California Limited Partnership, for the Department of Public Health at**
5 **an initial annual rent of \$768,000.**

6

7 WHEREAS, The City and County of San Francisco (City) Department of Public Health
8 has leased the 32,000 rentable square foot premises located at 2712 Mission Street, San
9 Francisco, California (Premises), for its Community Mental Health Services since 2002; and

10 WHEREAS, The Real Estate Division, at the request of the Department of Public
11 Health, negotiated a renewal lease (Lease) for the Premises with the owner, Redwood
12 Mortgage Investors VIII, A California Limited Partnership (Landlord), for a ten-year term
13 commencing once the Lease is approval by the City's Board of Supervisors and Mayor and
14 executed by City; and

15 WHEREAS, The initial monthly rent for the Renewal Lease shall be \$64,000 (\$2.00 per
16 square foot), net of utilities and janitorial services, subject to annual Consumer Price Index
17 adjustments of no less than 3% and no more than 5%; and,

18 WHEREAS, The Landlord shall be responsible for maintenance and repair of the
19 building systems at the Premises, including elevator and life safety; and,

20 WHEREAS, The City shall receive a rent credit of \$216,047.64 if the Lease is approved
21 and executed on or before March 31, 2012; now, therefore, be it


22 **RESOLVED**, That the City Board of Supervisors hereby approves the Lease and
23 authorizes the Director of Property to execute the Lease and to enter into any amendments or
24 modifications to the Lease, including without limitation, any exhibits, that the Director of
25 Property determines, in consultation with the City Attorney, are in the best interest of the City,

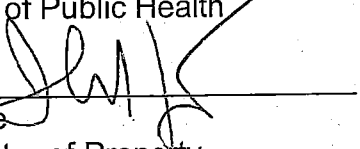
1 do not materially increase the obligations of the City, do not materially decrease the benefits
2 to the City, are necessary or advisable to consummate the performance of the Lease and the
3 purposes and intent of this Resolution, and comply with all applicable laws, including the
4 City's Charter; and be it

5 FURTHER RESOLVED, That all actions authorized by this Resolution and heretofore
6 taken by any City official in connection with the Lease are hereby ratified, approved and
7 confirmed by the Board of Supervisors; and be it

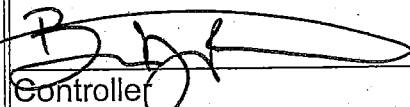
8 FURTHER RESOLVED, That the Lease shall be subject to certification of funds by the
9 Controller pursuant to Section 6.302 of the Charter.

10
11 RECOMMENDED:

12 
13 _____
14 Barbara Garcia, Director
15 Department of Public Health

16 
17 _____
18 John Updike
19 Acting Director of Property

20 \$192,000 Available
21 Appropriation No. HMHMCC730515

22 
23 _____
24 Controller

Item 6
File 12-0140

Department:
Real Estate Division, Department of Administrative Services

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new lease between the City, as tenant, and Redwood Mortgage Investors VIII, L.P., as landlord, for 32,000 square feet of office space at 2712 Mission Street for Department of Public Health (DPH) Community Mental Health Services for the ten-year period from approximately March 1, 2012 through approximately February 28, 2022.

Key Points

- The City had a prior lease for 2712 Mission Street for DPH Community Mental Health Services, which began on October 1, 2001 and expired on September 30, 2011, a period of ten years. DPH Community Mental Health Services has continued to occupy the space on a month-to-month holdover, pending negotiations to enter into the proposed new lease.
- Under the prior lease, DPH paid rent of approximately \$40.80 per square foot per year in the tenth year of the lease, totaling \$1,305,752 for the 32,000 square feet.
- Under the proposed lease, DPH will pay rent of \$24 per square foot per year, equal to \$768,000 for the 32,000 square feet, which is an annual reduction of \$537,752 or approximately 41.2 percent from the prior rent of \$1,305,752. The proposed lease provides for annual Consumer Price Index (CPI) adjustments, beginning in the second year of the lease, of not less than 3 percent and not more than 5 percent.
- Under the proposed lease, the landlord will provide a rent credit of \$216,047 to the City if the City enters into the lease prior to March 31, 2012. Therefore, first year rent under the proposed lease is reduced from \$768,000 to \$551,953.
- The landlord will pay for up to \$160,000 for tenant improvements.

Fiscal Impacts

- Over the ten year term of the proposed lease, the total rental costs to the City, net of rent credits of \$216,047, would range from \$8,588,212 if annual CPI adjustments are 3 percent, to \$9,443,774 if annual CPI adjustments are 5 percent.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Under Charter Section 9.118(c), leases exceeding ten years and/or having anticipated revenue of \$1,000,000 or more are subject to Board of Supervisors approval.

Background

In 2001, the City entered into a lease with 2712 Mission Partners, L.P., for 32,000 square feet of office space for the Department of Public Health (DPH) Community Mental Health Services for the ten year period from October 1, 2001 through September 30, 2011 (File 01-1425). The original lease provided for:

- Base rent of \$34.10 per square foot per year, equal to \$1,091,200 per year;
- Consumer Price Index (CPI) adjustments to the base rent every two years in the second, fourth, sixth, and eighth years of the lease, not-to-exceed 10 percent for each two-year adjustment (not-to-exceed 5 percent per year);
- Three 5-year options to renew the lease, with base rent set to 95 percent of fair market value for each of the options; and
- All utilities, and janitorial and other services paid by the City.

Under the original lease, the City had the option to purchase the building for \$11,500,000 if the City exercised the purchase option prior to March 1, 2003, or for \$12,000,000 if the City exercised the purchase option after March 1, 2003 and prior to January 4, 2004. According to Ms. Claudine Venegas, Real Estate Division (RED) Senior Real Property Officer, RED evaluated exercising the purchase option, but the Office of Public Finance did not recommend financing for the purchase. Therefore, the purchase option was never exercised.

The City paid annual rent of \$1,091,200 in the first year of the lease, which increased every two years by the CPI. From October 1, 2001 through February 28, 2012, the City has paid \$11,284,545 in rent, utilities, and janitorial services.

The original lease term expired on September 30, 2011. In order to obtain lower rent, the City began negotiations for a new lease rather than exercising the option to extend the lease. The City has leased 2712 Mission Street on a month-to-month holdover since October 1, 2011 during the course of negotiations with Redwood Mortgage Investors VIII, L.P., as discussed below.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease between the City, as tenant, and Redwood Mortgage Investors VIII, L.P., as landlord, for 32,000 square feet of office space at 2712 Mission Street for DPH Community Mental Health Services for the ten-year period from approximately March 1, 2012 through approximately February 28, 2022. The proposed lease provides for:

- Base rent of \$24.00 per square foot per year, equal to \$768,000 per year;

- Annual CPI adjustment to the base rent, beginning in the second year of the lease, of not less than 3 percent or more than 5 percent; and
- All utilities, janitorial services, and debris removal paid by the City.

According to Ms. Venegas, the City negotiated a rent credit of \$216,047 if the City enters into the lease prior to March 31, 2012 to reimburse the City for rent payments during the holdover period.

The rent credit will be applied to the monthly rent for the first three months of the lease (\$2 per square foot x 32,000 square feet equals \$64,000 per month, or \$192,000 for three months) with the balance of \$24,047 (\$216,047 less \$192,000) applied in the fourth month.

Additionally, the landlord will pay up to \$160,000 for tenant improvements. According to Ms. Venegas, Community Mental Health Services staff will be able to occupy the premises during the construction of tenant improvements.

FISCAL IMPACTS

Under the prior lease, DPH paid rent of approximately \$40.80 per square foot per year in the tenth year of the lease, totaling \$1,305,752.

Under the proposed lease, DPH will pay rent of \$24 per square foot per year, equal to \$768,000 for 32,000 square feet, which is a reduction of \$537,752, or approximately 41.2 percent from the prior rent of \$1,305,752 per year.

According to Ms. Venegas, first year rent of \$24 per square foot represents fair market value and is less than or equal to rent for equivalent space leased by the City, which ranges from \$24 per square foot to \$36 per square foot.

If the City enters into the lease prior to March 31, 2012, and thus receives the rent credit of \$216,047, first year rent will be \$551,953.

Over the ten year term of the proposed lease, total rental costs to the City, net of the \$216,047 in rent credits, would range from \$8,588,212 if annual CPI adjustments are 3 percent, to \$9,443,774 if annual CPI adjustments are 5 percent.

RECOMMENDATION

Approve the proposed resolution.



John Updike
Acting Director of Real Estate



February 8, 2012

File 120140

Through Naomi Kelly, City Administrator

Honorable Board of Supervisors
City and County of San Francisco
City Hall, 1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102

Re: Lease renewal of 2712 Mission Street

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2012 FEB 13 AM 11:30
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Dear Board Members:

On behalf of the Department of Public Health (DPH), attached for your consideration is a Resolution authorizing the renewal Lease for the subject property (the "Premises") for a term of 10-years, commencing once it has been approved by the Board of Supervisors and Mayor and executed by the City.

The existing Lease expired on 10/1/11, after which DPH has continued its occupancy during extended negotiations under the month-to-month holdover provision contained in the Lease. The existing Lease was initially authorized by Board of Supervisors Resolution No. 687-01.

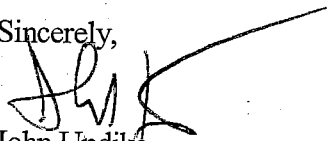
The Premises comprise approximately 32,000 square feet and are used by DPH's Community Mental Health Services. The renewal is at a fair market monthly rental rate of \$64,000 (\$2 psf), net of utilities and janitorial services. The proposed rental rate is less than the monthly lease rate for the last month of the existing Lease term, which was \$108,813 (\$3.40/psf) in addition to charges for services and maintenance.

If the Lease is executed by 3/31/12, the Landlord will provide DPH with a rent credit of \$216,047, which is equal to three months of additional rent paid by DPH after 10/1/11 under the holdover provision of the existing Lease.

The Real Estate Division and Department of Public Health recommend approval of the renewal Lease. We are advised that funds are available in Index Code No. HMHMCC730515. If you have any

questions in this regard, please contact Claudine Venegas of my staff at 554-9872 or Tyrone Navarro, Manager, Operations Team, with the Department of Public Health at 255-3405.

Sincerely,



John Updike
Acting Director of Property

cvh:\2712missioncabos

Attachments

cc: Marcellina Ogbu, Department of Public Health
Michelle Ruggels, Department of Public Health
Tyrone Navarro, Department of Public Health

LEASE

between

REDWOOD MORTGAGE INVESTORS VIII,
as Landlord

and

CITY AND COUNTY OF SAN FRANCISCO,
as Tenant

For the lease of
2712 Mission Street,
San Francisco, California

January 6, 2012

** Complete copy of document is
located in

File No. 120170

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, Board of Supervisors	City elective office(s) held: Members, Board of Supervisors
Contractor Information (Please print clearly.)	
Name of contractor: Redwood Mortgage Investors, VII, a California Limited Partnership	
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. SEE ATTACHED ADDENDUM	
Contractor address: 900 Venterns Boulevard, Suite 500, Redwood city CA 94063-1743	
Date that contract was approved: (By the SF Board of Supervisors)	Amount of contract: Initial rent of \$64,000 per month for ten years.
Describe the nature of the contract that was approved: Lease Agreement for 2712 Mission St., San Francisco, CA 94110	
Comments:	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form

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

**ADDENDUM
TO
NOTIFICATION OF CONTRACT APPROVAL**

- (1) There is no board of directors.
The General Partners are:
 - Redwood Mortgage Corp., a California corporation
 - Gymno, LLC, a California limited liability company
 - Michael Burwell
- (2) Chief Executive Officer: Michael Burwell
Chief Financial Officer: Michael Burwell
Chief Operating Officer: Michael Burwell
- (3) No person has an ownership of 20 percent or more in the contractor
- (4) None
- (5) None

