



1455 Market Street - Hudson

NEW LEASE, LEASE OPTION, PURCHASE OPTION
FOR MULTIPLE CITY DEPARTMENTS
BUDGET AND FINANCE COMMITTEE 4/17/24

1455 Market Street









1145 Market Street - Stack

Floor	Before	After	Rentable Square Feet	Source of Tenancy
17	Owner	ASR, DCYF	10,866 RSF & 6,400 RSF	1155 Market and 1390 Market
16	Owner	CMD, TTX	4,996 RSF & 12,037 RSF	1155 Market
13	Owner	MOD, ENV	2,618 RSF & 14,917 RSF	1155 Market
12	Owner	GSA-HR, DHR	5,788 RSF & 11,146 RSF	1155 Market and 1740 Cesar Chavez
7	Owner, MTA & BoA	Owner, MTA & BoA	51,789 RSF	MTA needs new space for its Consulting Team for the Transit Center upgrade project

Total 157, 154 RSF

Moves – 1155 Market to 1455 Market - Phase I

- MOD - 1st floor @ 4,773 rsf  13th floor @ 4,265 rsf
- ENV – 2nd & 3rd floors @ 20,000 rsf  13th floor @ 22,074 rsf
- CMD – 4th floor @ 7,525 rsf  16th floor @ 7,713 rsf
- GSA-HR – 4th floor @ 6,567 rsf  12th floor @ 8,719 rsf
- ASR – 5th & 6th floors @ 14,079 rsf  17th floor @ 16,291 rsf
- TTX – 7th & 8th floors @ 25,960 rsf  16th floor @ 17,565 rsf
- Reason for move – Competitive rate, allows for additional consolidation over time and presents a buying opportunity.


Moves – 1740 Cesar Chavez to 1455 Market – Phase I

- DHR – 1st floor @ 11,000 rsf  12th floor @ 16,507 rsf
- Reason for move – Competitive rate and furthers consolidation plan.


Shared Conference Rooms at 1455 Market - Phase I

- 12th Floor Conference Room - 1,126 RSF
- 16th Floor Conference Room – 1,059 RSF

Moves – 1390 Market to 1455 Market - Phase I

- DCYF – 9th floor @ 10,846 rsf  12th floor @ 10,846 rsf
- Reason for move – Competitive rate and furthers consolidation plan.

Moves – MTA to 1455 Market - Phase I

- MTA – Need for new space  7th floor @ 51,789 rsf
- Reason for move – Competitive rate and need for space for a MTA consultant team for the Transit Center upgrade project. Also incorporating this space into the lease helps us reach our purchase option goal.

Lease Deal Points:

- Building Owner: Hudson Properties
- Total Building Size: 1,123,876 RSF
- Premises – Phase I: 157,154 RSF on Floors 7, 12, 13, 16 & 17.
- Lease Term: 20 years with two 5 year options to extend.
- Lease Start: May 1, 2024
- Lease Expiration: April 30, 2045
- Rent Rate: \$40.00 psf fully serviced, net electricity
- Rent Escalation: 3% annually

Lease Deal Points: (continued)

- Base Year: 2025 but extends to 2027 with an addition 100,000 RSF
- TI Allowance: \$100 psf or approximately \$15,715,400. Refreshes and stackable.
- Moving Allowance: \$15 psf or approximately \$2,357,310. Refreshes but is not stackable.
- Rent Credit: 12 months or \$6,286,160. (Phase I only)
- Total Credits: \$24,358,870 (Phase I)
- Additional Phases: TI Allowance, Moving Allowance and rent credit during TI buildout (about 4 months for each new phase)

Lease Deal Points: (continued)

- Swing space: 8th floor - 7,660 RSF. Available for staff use during TI buildout at no costs to City.
- Furniture Storage: As needed. Free storage of City FF&E and City personal property during TI buildout
- Furniture Purchase: City has the right but not the obligation to buy any furniture left by former Hudson tenants for \$1.00 per floor.

Lease Option Deal Points:

- Available until December 31, 2027 - Exercise is at City's option and is subject to Board and Mayor approval.
- Base Rent will match and escalate same as original Lease.
- Base Year will be the same as original Lease except that Base Year changes to 2027 for entire Lease.
- Option is for whole floor increments only.
 - Tower floor plates are approximately 27,300 RSF.
 - Podium floor plates are approximately 99,000 RSF.
- Allowances: TI Allowance, Moving Allowance and Rent Credit during TI buildout apply to each option.
- No limit on number of times we can exercise the Lease Option.
- CTA can join when their lease expires next year.

Purchase Option Deal Points:

- Opens upon 400,000 RSF of occupancy
- Available until December 31, 2027
- Exercise is at City's option and subject to Board and Mayor approval.
- Purchase Price is Fair Market Value based upon appraisal
- The City has to close escrow 255 days after Notice to Purchase or December 31, 2027 whichever occurs first

1455 Market Street – Why Move?

- Ownership Opportunity - 1,123,876 RSF over 22 floors & 350 parking spaces
- City has 8 leases in the Civic Center area expiring between now and 2028
- City has 5 City owned buildings in Civic Center, 4 of which are candidates for consolidation, 2 of which are seismic hazard rating of 4 (the worst rating).
- The total lease and owned is 1,215,250 RSF. This doesn't include 1145 Market, 1650 Mission, City Hall or 49 SVN.
- The Hudson building allows the City to solve for all of the departments in Civic Center not just the ones in 1155 Market.
- All air handling units have MERV 15 filtration (City uses MERV 13)

1455 Market Street – Why Move?

- Robust Infrastructure – Retrofitted for improved seismic performance
- Continuity of Government in an emergency
 - Redundant power - Backup Generator Power for 99% of the electrical load
 - 100,000 gallons of diesel – run time 9 – 10 days.
 - 200,000 gallons of potable water allowing for 7 -10 days of operations
- Unrivaled Scale – largest existing office building in Civic Center
- All air handling units have MERV 15 filtration (City uses MERV 13)

Thanks and Questions

- ▶ Thank you to:
 - ▶ The Mayor and City Administrator Carmen Chu for their leadership and support on this item
 - ▶ President Peskin for sponsoring this legislation
 - ▶ Betsy Dietrich from the City Attorney's Office for her legal expertise and hard work on drafting the documents.

Rent Rate Discussion & Timeline:

- ▶ 1/24/22 – City Sends written notice to exercise lease extension for 1155 Market.
- ▶ 3/4/22 – Landlord sends FMR determination to City - \$79.33 psf.
- ▶ 4/1/22 – City rejects Landlord's determination and counters at \$63.94 psf.
- ▶ 4/27/22 – Landlord is at \$69.00 - \$69.50 psf
- ▶ 6/1/22 – Landlord is at \$63.00 but for a 12 year deal
- ▶ 9/21/22 – B&F rejects 10 year deal at Fox Plaza and directs RED to only do 5 year deals due to market conditions.
- ▶ 11/1/22 – BoS approves 5 year term lease at Fox Plaza at \$66 psf, \$413,253.50 in rent credit and \$1.9 MM in TI Allowance.
- ▶ 1/31/23 – 1155 Market lease expires and City goes into holdover at \$79.33 psf.
- ▶ 8/22/23 – Landlord signs proposed Amended and Restated Lease at a compromise FMR of \$64.60.

Rent Rate Discussion & Timeline:

- ▶ During the 21 months from 1/24/22 to 8/22/23 the market conditions have fallen.
- ▶ \$64.60 psf was a competitive rate as late as November 2022 as evidenced by the Fox Plaza lease at \$66 psf.