



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



John Updike
Director of Real Estate

December 16, 2014

**Non-Profit Office Space
167 Jessie Street (Near Third & Mission Streets)**

Through Naomi Kelly,
City Administrator

Honorable Board of Supervisors
City & County of San Francisco
1 Dr. Carlton B. Goodlett Place
City Hall, Room 224
San Francisco, CA 94102

Dear Board Members:

Attached for your consideration is a Resolution approving and authorizing the Director of Property to execute a lease ("Lease") with Third and Mission Associates, LLC ("Landlord") for the proposed City lease of approximately 4,124 square feet of office space on the third and fourth floors ("Premises") of the building located at 167 Jessie Street (commonly known as the "Jessie Hotel"). The nominal base rent under the Lease is only \$1.00 per year over 87 years, with the City being responsible, once occupied, for its actual utility, services, maintenance and repairs within the Premises along with common area maintenance costs and taxes assessed by the Landlord. If approved, the City's Real Estate Division will work with the Mayor's Office of Housing and Community Development ("MOHCD") to sublease the office space to non-profit entities through the City's Nonprofit Rent Stabilization Program.

Background

The Jessie Hotel and adjoining property was previously owned by the Former Redevelopment Agency ("OCII"). In 1990, OCII sold the parcel to Third and Mission Associates, LLC as part of a larger Yerba Buena Center Redevelopment Project. The final project, known as "The Paramount", was completed in 2002 and primarily consists of a 43-story, mixed-use residential tower and approximately 42,000 square feet of retail space. The sale and development agreement also required a reservation of approximately 15,000 sq. ft. of space within the Paramount for use by the California Historical Society ("CHS") and an additional 7,000 square feet in the Jessie Hotel building to be used by non-profit organizations.

CHS Space Reduction

In 2003, CHS and the Landlord entered into a 99-year lease agreement for the required 15,000 sq. ft. at a rate of \$1.00 per year (plus, like this Lease, utilities, services, taxes, repairs, etc.). CHS no longer needs the entire 15,000 sq. ft. and is seeking to reduce its footprint through a lease amendment. As a result of giving back nearly 10,000 sq. ft. of its space and in turn, providing the Landlord with more

usable space for its own purposes, the Landlord will pay approximately \$2.25 Million to amend that lease. A sizeable portion of that payment will be returned to CHS, which is very eager to receive the fund distribution to help supplement its operations. \$950,000 of the “buy-out” also comes back to OCII, who will in turn transfer the funds to the City, through MOHCD. OCII requires the Board of Supervisors’ approval of this Lease before it will consent to the amendment of the CHS lease.

Non-Profit Space

Understandably, there was concern that reducing 10,000 sq. ft. of space would reduce the non-profit presence in the area. As a condition of the amendment, the Landlord is willing to lease more than 4,000 sq. ft. of unimproved space within the adjoining Jessie Hotel to the City to facilitate subleasing the space to non-profit organizations. The City will receive the same benefit as the lease between the Landlord and CHS, such as no base rent for the entire 87 years. This ensures an under-served and vibrant location in the heart of Yerba Buena has a City non-profit presence for future generations.

Operating Costs

Although base rent is abated, there are still costs associated with occupancy. However, the Lease is structured so that those direct costs to the City are minimal, low-risk and only triggered while occupied. As mentioned above, the City is responsible for the costs of actually occupying the Premises. These include utilities, services, and repairs as well as costs associated with the common areas of the building. Any sublease would likely be structured so that the subtenant assumes these occupancy costs. Since there is no base rent obligation, the ongoing cost to occupy the space would still be significantly less to a non-profit vs. comparable space, elsewhere.

Tenant Improvements

The leased Premises will require a substantial upfront investment prior to any occupancy to allow for a safe and lawful occupancy. The Landlord is willing to pay for a very small portion of the improvements, but there will likely be at the very least \$500,000 in costs to bring the environmental and green building efficiency, fire/life safety, and accessibility requirements up to the standard required by the City. MOHCD intends to use a portion of the \$950,000 it receives from the CHS lease amendment to fund some or all these costs on behalf of qualified non-profits, as well as seeking other potential funding sources.

Approval of this Lease

The OCII Commission conditionally approved the lease amendment negotiated by CHS and the Landlord on August 5, 2014 through Resolution No. 62-2014. As stated above, the condition requisite of OCII’s final approval of the amendment is the Board’s approval of this Lease. Although there are some unknowns with respect to costs needed to improve the Premises, the City a) does not incur costs in the absence of a sublease; and b) retains a termination right at *any* point throughout the Lease. These conditions provide a safeguard to the City as it explores potential fits with non-profit users and can better evaluate a true cost of occupancy.

If you have questions regarding this Lease, please do not hesitate to contact me.

Respectfully,

John Updike
Director of Property