CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 16, 2025 Budget and Finance Committee Meeting

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Item 3 **File 25-0058**	**Department:** Recreation and Park Department

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed hearing would release $1,493,692 in grant revenues from Budget & Finance Committee reserve.

Key Points

- The Twin Peaks Promenade Project is converting a portion of Twin Peaks Boulevard into a linear park. Construction is anticipated to begin in mid-2025 and conclude in late 2026.
- In January 2025, the Board of Supervisors and Mayor enacted a resolution that approved the Recreation and Parks Department to accept $1,496,692 in grant revenues and an associated grant agreement with the California Department of Parks and Recreation (File 24-1174). The grant is funded by the Federal Highway Administration. The funds were placed on Budget & Finance Committee reserve.

Fiscal Impact

- The total project cost for the Twin Peaks Promenade Project is $5,243,692, with $1,493,692 in proposed grant funds covering 28 percent of costs. The grant's matching fund requirement of $1,596,108 will be provided by other grant funds, previously approved by the Board of Supervisors, and 2020 Health & Safety Bond proceeds.

Recommendation

- Approve the requested release of reserve funds.

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

BACKGROUND

Twin Peaks Promenade Project

The Recreation and Park Department's (REC) Twin Peaks Promenade Project is converting a portion of the Twin Beaks Boulevard into a linear park (or promenade). It is part of a larger project to address erosion of steps and trails and a lack of trail wayfinding signage at Twin Peaks. Construction of the promenade is expected to begin in mid-2025 and to end in late 2026.

Recreational Trails Program Application and Award

In September 2023, REC applied for grant funding from the Recreational Trails Program, a federally funded and state-administered program under the U.S. Department of Transportation's Federal Highway Administration. The California Department of Parks and Recreation administers Recreational Trails Program funds for non-motorized trail projects on behalf of the Federal Highway Administration. In February 2024, the California Department of Parks and Recreation awarded $1,493,692 in funding to the Project.

Prior Board of Supervisors Action

In October 2022, the Board of Supervisors authorized RPD to accept and expend grant funding up to $1.9 million from the California Department of Parks and Recreation to partially fund the Project (File 22-1006).

In January 2025, the Board of Supervisors and Mayor enacted a resolution that approved the Recreation and Parks Department to accept $1,496,692 in grant revenues and an associated grant agreement with the California Department of Parks and Recreation (File 24-1174). The grant agreement requires the City to provide matching funds exceeding $200,000 per year and, as a result, the grant has "fiscal impact," as defined in Administrative Code Section 2.6-1, and therefore required a hearing before a fiscal committee of the Board of Supervisors and a report from the Budget & Legislative Analyst. Because that did not happen, the resolution placed the revenues on Budget & Finance Committee reserve, pending a report from our office.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release $1,493,692 in grant revenues from Budget & Finance Committee reserve.

Grant Program

The proposed funds would fund REC's Twin Peaks Promenade Project. The grant performance period spans from September 20, 2024, to March 15, 2027. The grant is backdated to September 20, 2024, which is the date the Federal Highway Administration approved the grant contract.

The grant is administered as a pass-through grant from CDPR and includes the following requirements:

- REC must maintain the developed area for public recreation for 20 years after project completion.
- The property must remain public open space in perpetuity, and any changes to land ownership require FHWA approval.
- Income from non-recreational uses of the property must be used for recreational purposes at the project site or elsewhere within the City, subject to State approval.
- Materials used in the project (iron, steel, manufactured products, and construction materials) must be produced in America unless an approved waiver is granted.
- If program funding is reduced or eliminated in any fiscal year, the State retains the right to cancel the contract or amend it to reflect the reduced funding amount.

Progress Reports and Payment Requests

The grant requires semi-annual reporting to the California Department of Parks and Recreations, including progress reports detailing project progress, potential delays, grant expenditures, and anticipated future expenditures. Payment requests must also be submitted semi-annually once the contract is executed.

FISCAL IMPACT

The total project cost for the Twin Peaks Promenade Project is $5,243,692, with $1,493,692 in proposed grant funds covering 28 percent of costs. The grant's matching fund requirement of $1,596,108 will be provided by other grant funds previously approved by the Board of Supervisors, and 2020 Health & Safety Bond proceeds, as shown below in Exhibit 1.

Exhibit 1: Total Twin Peaks Promenade & Trail Improvement Project Budget

Project Budget	Amount
Sources	
Regional Park Program Grant	$1,900,000
Regional Trail Program Grant (Proposed Release of Reserves)	1,493,692
2020 Health & Safety Bond	1,000,000
Priority Conservation Area Grant	500,000
Habitat Conservation Fund Grant	350,000
Total Sources	**$5,243,692**
Uses	
Construction Costs	$4,113,692
Soft Costs	1,130,000
Total Uses	**$5,243,692**

Source: REC

RECOMMENDATION

Approve the requested release of reserved funds.

Item 4 **File 25-0194**	**Department:** Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve a lease for non-congregate shelter use between the Department of Homelessness and Supportive Housing (HSH) and Roshan Investments LLC for the Adante Hotel at 610 Geary Street, for a term of one year, with a one-year option to extend, and initial annual base rent of $1,484,280, with three percent escalation.

Key Points

- In 2020, the City entered into a booking agreement with the Adante Hotel, located at 610 Geary Street, to use as a non-congregate shelter. The booking agreement has since been amended five times and expired March 31, 2025. HSH has determined that leasing the hotel provides a more cost-efficient option, and the Real Estate Division (RED) has negotiated a lease with the hotel owner. The original lease included in the legislative file was for one year with four one-year options to extend. HSH and RED have renegotiated the Monarch Hotel lease to eliminate three options to extend, and HSH plans to request an amended resolution, retroactive to April 1, 2025.
- The lease would have an initial term of one year from April 2025 through March 2026, with a one-year option to extend, and three percent annual escalation. The fair market rent was determined by estimating the landlord's revenues and costs that the hotel would generate if it were operated as a tourist hotel. HSH has contracted with Five Keys Schools and Programs (Five Keys) to provide supportive services at the hotel.

Fiscal Impact

- The proposed lease would have initial annual rents of $1,484,280 with three percent annual escalation. If the option to extend is exercised, the City would pay $3,013,088 in rent over two years. Rent would be paid by the City's General Fund. HSH would also pay a termination fee of $100,000 if terminated after one year or $90,000 if terminated after two years.
- HSH estimates that by converting from the booking agreement to a lease, HSH would save approximately $1.3 million per year, or approximately $43 room per night.

Recommendation

- Approve the proposed resolution, as amended.

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

In 2020, the City entered into a booking agreement with the Adante Hotel, located at 610 Geary Street, to use as a non-congregate shelter in response to the COVID-19 pandemic. The Department of Homelessness and Supportive Housing (HSH) and Human Services Agency (HSA) identified the property through a Request for Information (RFI) issued in February 2020. The booking agreement has since been amended five times, most recently by the Board of Supervisors in July 2024 (Files 24-0633), and expired March 31, 2025.

Due to the ongoing need for shelter capacity, HSH wishes to continue non-congregate shelter operations at the Adante Hotel. HSH has determined that leasing the hotel provides a more cost-efficient option than extending the booking agreement. In addition, a lease would clarify the owner's responsibility and timing for maintenance and repairs, insurance requirements, methodology for calculating rent increases, and responsibility of taxes and expenses. The lease structure could also allow HSH to utilize services (such as meals and laundry) through existing grant agreements with non-profit operators rather than through the hotel operator, which may reduce operating costs. The Real Estate Division (RED) has negotiated a lease on behalf of HSH with the owner of the Adante Hotel.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a non-congregate shelter lease between HSH and Roshan Investments LLC for the Adante Hotel, for a term of one year, with a one-year option to extend, and initial annual base rent of $1,484,280, with three percent annual escalation.

The lease was originally negotiated to have an initial term of one year from April 2025 through March 2026, with four one-year options to extend, and three percent annual escalation. HSH and RED have renegotiated the lease to eliminate three options to extend beyond one year. HSH plans to request an amended resolution at the April 16, 2025 Budget and Finance Committee meeting, retroactive to April 1, 2025, to reflect the lease changes. The proposed lease also provides the City right of first refusal if the landlord receives an offer to purchase to the property.

Key terms of the proposed lease are shown in Exhibit 1 below.

Exhibit 1: Key Terms of Proposed Lease

	Adante Hotel (File 25-0194)
Address	610 Geary Street
Premises	39,800 Square Feet
Units	93 Units (86 Shelter Units, 7 Office and Storage Units)[1]
Initial Term	1 Year
Options to Extend	One 1-Year Options
Initial Annual Base Rent	$1,484,280 ($15,960 per Unit, $37.22 per Square Foot)
Rent Escalation	3% Annually
Utilities	Paid by City
Janitorial, Security, & Program Services	Paid by City
Building Systems Maintenance	Paid by Landlord, unless damage is caused by City or its clients
If Property Is for Sale	City has right of first refusal
Termination Fee	City pays landlord $100,000 if terminated after one year or $90,000 if terminated after two years

Source: Proposed lease

An appraisal for the hotel was not required under Administrative Code Section 23.27 because the proposed annual rent is less than $45 per square foot. However, Colliers International conducted an appraisal for RED in 2024 for the Stanford Hotel, and RED used the methodology from that appraisal to determine the fair market rent for the Adante Hotel. The methodology involved identifying an average nightly rate per room for the hotel to determine a monthly rate for the entire hotel, then reducing that amount to account for expected vacancies and hotel operating costs, to estimate the monthly net revenue for the hotel. Using this methodology, RED determined that the negotiated annual rent of $15,960 per unit was reasonable fair market rent.

Service Provider

HSH has contracted with Five Keys Schools and Programs (Five Keys) to provide supportive services at the Adante Hotel. Services include guest intake, entry and exit, wellness checks, room inspections, habitability checks, room turnover, referrals and coordination of services, support groups and activities, building maintenance, and exit planning. The grant funds approximately 47.46 full-time equivalent (FTE) employees.

HSH is in the process of negotiating a new contract with Five Keys to commence in April 2025. The estimated annual cost of the new grant agreements, including meals, is approximately $5.4 million. The grant will not require Board of Supervisors approval because the initial agreement is not expected to exceed 10 years or $10 million.

[1] Of the Adante's 86 shelter units, 35 are dedicated for the RESTORE program, which offers short-term stays to stabilize homeless adults with opioid use disorders, and 14 are overflow units for COVID-19 isolation and clients awaiting travel through the Journey Home program.

Performance and Fiscal Monitoring

HSH staff conducted a site visit of Five Keys in July 2024. HSH determined that Five Keys generally met its service requirements for the Adante Site but identified three findings.[2] In December 2024, Five Keys responded that corrective actions were taken to address the findings.

HSH staff reviewed Five Keys' financial documents as part of the FY 2022-23 Citywide Fiscal and Compliance Monitoring Program and identified no findings. Because there were no findings and Five Keys met other requirements, Five Keys was granted a waiver of fiscal monitoring in FY 2023-24.

FISCAL IMPACT

The proposed lease would have an initial annual base rent of $1,484,280, with three percent annual escalation. If the one-year option to extend is exercised, the City would pay $3,013,088 in rent over two years.

As noted above, HSH would also pay a termination fee of $100,000 if the lease is terminated after one year or $90,000 if terminated after two years.

Rent and termination fees would be paid by the General Fund.

Costs Compared to Booking Agreement

HSH estimates that by converting from the booking agreement to a lease, HSH would save approximately $1.3 million per year, or approximately $43 per room per night. This includes both savings in the rent, as well as moving certain costs (such as meals, janitorial costs, and security) from the booking agreement to HSH service agreements. The comparison of costs is shown in Exhibit 3 below.

[2] The Five Keys findings were (1) 100 percent of shelter staff must complete all required training – actual in FY 2023-24 was 95 percent; (2) reporting must include metrics that clearly define compliance with contractual obligations; and (3) 100 percent of shelter clients must be referred to Coordinated Entry for an assessment within one week of placement.

Exhibit 2: Cost Comparison, Booking Agreement vs. Lease

Annualized Cost, Booking Agreement	
Room Rent	$2,979,546
Meals	1,085,143
Services and Operations	4,188,696
Total Budget	**$8,253,385**
Number of Shelter Rooms	86
Nightly Room Rate	$263

Annualized Cost, Proposed Lease	
Room Rent	$1,484,280
Meals	577,459
Services and Operations	4,857,290
Total Budget	**$6,919,029**
Number of Shelter Rooms	86
Nightly Room Rate	$220

	Adante Hotel
Annual Cost Savings	**$1,334,356**
Nightly Rate Savings	$43

Source: HSH. Totals may not add due to rounding.

RECOMMENDATION

Approve the proposed resolution, as amended.

Items 5 & 6 Files 25-0265 & 25-0258	Department: Real Estate Division (RED), Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (File 25-0265) would authorize the Director of Property to execute the First Amendment to the City's lease with Hudson 1455 Market, LLC (Hudson) for office space at 1455 Market Street, expanding the leased premises by 225,883 square feet of office space and 6,279 square feet of basement storage, for total leased office space of 383,037 square feet, and increasing the annual base rent by $9,306,380, for total annual base rent of $15,781,124. The proposed ordinance (File 25-0258) would appropriate $8,500,00 from projected revenue surplus, de-appropriate $3,346,898 from capital renewal projects, and appropriate $11,846,898 for rent paid to Real Estate, and tenant improvements in the Human Services Agency's (HSA) FY 2024-25 budget for the move to 1455 Market Street.

Key Points

- The City's lease with Hudson at 1455 Market Street includes an option to expand to other spaces in the building. HSA occupies office space in a City-owned building at 170 Otis Street and a leased building at 1235 Mission Street. The buildings are both seismically unsafe, and HSA has determined that rather than retrofitting the buildings, it would be preferable to move staff to another location. The proposed lease expansion would accommodate HSA, the Library IT unit, and consolidate a separate lease for the San Francsico County Transportation Authority (SFCTA) into the same lease.
- RED and HSA, in consultation with Hudson, have determined that the estimated tenant improvements cost exceeds the lease allowance for tenant improvements by $15.5 million. To fund this cost, HSA has proposed appropriating surplus revenues, de-appropriating $3,346,898 in building improvements, and using other FY 2024-25 savings.

Fiscal Impact

- The proposed lease amendment would increase the annual base rent by $9,306,380, for total annual base rent of $15,781,124. Over the initial 21-year term of the lease, the proposed amendment would increase the total rent paid by $243,924,739, for total rent of $417,903,557. With the savings from terminating existing leases, the total additional cost to the City from the proposed lease amendment is approximately $126 million over 20 years.
- The tenant improvement cost could potentially be reduced by re-designing the office plans and/or by using existing or used furniture, instead of buying new furniture.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

In April 2024, the Board of Supervisors approved a lease with Hudson 1455 Market, LLC (Hudson) for approximately 157,154 square feet of office space, storage, and parking at 1455 Market Street, for a term of 21 years from May 2024 through April 2045, with two five-year options to extend through April 2055, and annual base rent of $6,286,100 ($40 per square foot) with three percent annual escalation (File 24-0312). The lease includes an option to expand to other spaces in the building under the same terms of the original lease through December 2027.

The Human Services Agency (HSA) occupies office space in a City-owned building at 170 Otis Street and a building owned by the San Francisco Unified School District (SFUSD) at 1235 Mission Street. The Department of Public Works (DPW) has evaluated the buildings and found them both to be seismically unsafe, with moderately high to high potentials of collapse in an earthquake. In 2017, DPW estimated that the cost for a potential retrofit of 170 Otis Street was approximately $13.6 million, excluding soft costs and escalation. The retrofit would require relocating all staff, tearing the walls and flooring apart, and significant improvements to occupy the building again. HSA determined that the total cost may be approximately $75 million and could take five years to complete. DPW did not estimate the costs for retrofitting 1235 Mission Street, but the City does not own the building, it is aging and difficult to maintain, and it has been impacted by poor street conditions outside. HSA has determined that rather than retrofitting the buildings, it would be preferable to move staff to another location.

After exploring other options in the Civic Center area, HSA decided to move its staff into available space at 1455 Market Street.[1] Additionally, the Library would like to move its Information Technology (IT) unit out of the Main Library building at 100 Larkin Street to free up space for core programs and library services. The Real Estate Division (RED) has notified Hudson that the City wishes to exercise its option to expand to accommodate HSA and the Library IT unit. The lease expansion would also consolidate approximately 27,234 square feet occupied by the San Francsico County Transportation Authority (SFCTA) under a separate lease into the same lease.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 25-0265) would authorize the Director of Property to execute the First Amendment to the City's lease with Hudson at 1455 Market Street, expanding the leased

[1] According to RED, DPW has not evaluated 1455 Market for seismic or other long-term maintenance needs. However, the Real Estate Director reports that the building exceeds current building code requirements, including for structural safety.

premises by 225,883 square feet of office space and 6,279 square feet of basement storage, for total leased office space of 383,037 square feet, and increasing the annual base rent by $9,306,380, for total annual base rent of $15,781,124. The resolution also affirms the Planning Department's determination under the California Environmental Quality Act (CEQA), adopts the Planning Department's findings of consistency with the General Plan and Planning Code, and authorizes the Director of Property to make further immaterial amendments to the lease.

The proposed ordinance (File 25-0258) would appropriate $8,500,00 from projected one-time State and Federal revenue surpluses, de-appropriate $3,346,898 from building and structure improvements and capital renewal projects, and appropriate $11,846,898 to interdepartmental services, rent paid to Real Estate, and tenant improvements in the Human Services Agency's (HSA) FY 2024-25 budget for the move to 1455 Market Street.

Under the option to expand, the newly leased space is rented under the same terms as the original lease. The key terms of the proposed First Amendment are shown in Exhibit 1 below.

Exhibit 1: Key Terms of Proposed Lease Amendment

Premises	Approximately 383,037 square feet of office space, including Phase I premises (157,154 square feet on Floors 7, 12, 13, 16, & 17) and Phase II premises (225,883 square feet on the sublevel floor and Floors 4, 8, 18, & 22), and 6,279 square feet of basement space
Term	21 years, from approx. May 2024 through April 2025.
Annual Base Rent	$15,781,124 ($41.20 per square foot, Lease Year 2)
Basement Space Rent	$194,021 ($30.90 per square foot, Lease Year 2)
Rent Escalation	3% annually
Rent Start	Phase I: May 1, 2025 Phase II: The earlier of the date when City first occupies Phase II space or tenant improvements are substantially complete
Option to Expand	City may expand premises in the building under the same terms of the lease through December 2027
Option to Purchase	Because the City has rented over 400,000 square feet in the building, City has the option to purchase the building at appraised fair market value if provided notice by March 1, 2027. City must close escrow 255 days after notice or by December 31, 2027.
Parking	City may lease one parking space per 3,000 square feet at a rate of $350 per space per month (subject to adjustment based on market rates)
Tenant Improvement Allowance	$100 per square foot, or $22,588,300 for Phase II premises
Moving Allowance	$15 per square foot, or $3,388,245 for Phase II premises
Electrical Costs	City pays Landlord as a passthrough cost without markup
Operating Costs	City pays percentage share of increase in operating costs over base year, which starts in 2027 with Phase II. Operating costs include heat, water, HVAC, janitorial services, and security.
Furniture Purchase	City may purchase existing furniture for $1 per floor
Communications Equipment	City may install communications equipment on roof with Landlord approval.

Source: Proposed Lease Amendment

The initial annual base rent of $41.20 per square foot for the Phase II premises is derived from the initial annual base rent of $40 per square foot, escalated by three percent, as stated in the lease.

Tenant Improvements

According to Dan Kaplan, HSA Deputy Director of Administration and Finance, HSA anticipates that the moving allowance of $15 per square foot will be sufficient to cover all costs associated with the move, but the tenant improvement allowance of $100 per square foot will not be sufficient to build out the space. RED and HSA, in consultation with the building owner, have determined that the estimated tenant improvements cost is approximately $32.1 million, or approximately $9.6 million greater than the allowance of $22.8 million. With new furniture, the additional amount needed is approximately $15.5 million.

According to Andrico Penick, Director of Property, the tenant improvements exceed the allowance because of the unique space needs of building out a service center on the sublevel floor, which previously housed a WeWork location. Additionally, the 4th and 22nd floor were previously occupied by Uber and Square, which used open floorplans, which would not be conducive to HSA operations. HSA plans to have mostly cubicle space on the 4th floor with more private offices on the 18th floor. The tenant improvement, furniture, and total project costs are shown below in Exhibit 2.

Exhibit 2: HSA 1455 Market Improvement Costs

		Construction	Soft/Direct Costs	Furniture	Total Cost
Sublevel Floor	HSA Service Center	$14,185,000	$2,181,128	$2,000,000	$18,366,128
Floor 4	Eligibility Workers	8,465,000	1,974,671	2,900,000	13,339,671
Floor 18	HSA Executives, Budget, and Planning	4,715,000	785,702	950,000	6,450,702
Total		**$27,365,000**	**$4,941,501**	**$5,850,000**	**$38,156,501**

Source: HSA, RED

Tenant improvement work will be carried out by the landlord's contractors.

To fund this anticipated cost, HSA has proposed appropriating $8.5 million in surplus State and Federal revenues and de-appropriating $3,346,898 in building improvements at 1235 Mission Street that will no longer be needed due to HSA moving out of the building, for a total proposed appropriation of $11,846,898. To fund the remaining approximately $3.65 million, HSA plans to request the Controller authorize a surplus transfer of $4 million in unspent funds from Family and Child Services, Care Not Cash, Community Based Organization (CBO) Services, and Aid Assistance programs, which will also cover a pending work order with the Department of Technology (DT) for wiring.

Space Plan

According to Deputy Director Kaplan, HSA plans to operate a service center on the sublevel floor (ground floor facing Mission Street) to connect residents to programs such as Medi-Cal, CalFresh, County Adult Assistance, and Welfare to Work. The 4th Floor would be used for back-office eligibility workers, relocated from 1235 Mission Street and 1440 Harrison Street, which frees up space at 1440 Harrison Street to relocate some employees from 170 Otis Street. The 18th floor would be used for the HSA executive team and administrative and operations functions. HSA plans to begin occupying the building in early 2026. In total, HSA plans to move approximately 730 full-time equivalent (FTE) employees into the building. The building floor plan is shown in Exhibit 3 below.

Exhibit 3: 1455 Market Street Floor Plan

Phase I Premises	City Department	Square Footage
Floor 7	SFMTA	51,789
Floor 12	Department of Human Resources (DHR)	16,507
	General Services Agency (GSA) Human Resources	8,719
	Floor 12 Subtotal (Includes 1,126 sf Shared Space)	*26,352*
Floor 13	Department of the Environment	22,074
	Mayor's Office of Disability	4,265
	Floor 13 Subtotal	*26,337*
Floor 16	Treasurer-Tax Collector (TTX)	17,565
	Contract Monitoring Division (CMD)	7,713
	Floor 16 Subtotal (Includes 1,059 sf Shared Space)	*26,337*
Floor 17	Assessor-Recorder	16,291
	Department of Children, Youth & their Families (DCYF)	10,046
	Floor 17 Subtotal	*26,637*
Phase I Total		**157,154**

Phase II Premises	City Department	Square Footage
Sublevel Floor	HSA (Service Center)	66,056
Floor 4	HSA (Back-Office Eligibility Workers)	97,718
Floor 8	Library IT	7,660
Floor 18	HSA (Executive Team, Administrative and Operations Functions)	27,215
Floor 22	San Francisco County Transportation Authority (SFCTA)	27,234
Phase II Subtotal		225,883
Total		**383,037**

Source: RED, HSA

In addition to the 1455 Market Street lease, HSA plans to move some staff from 170 Otis Street into leased offices at 1440 Harrison Street and 1640/1650 Mission Street. HSA and RED are also pursuing the purchase of a building in the Bayview area to operate a service center. The Capital Plan includes $55 million for the purchase of a building and tenant improvements.

The incorporation of the SFCTA premises on the 22nd floor would begin after the current lease expires on July 1, 2025. RED also anticipates that the Library IT unit would move into the 8th floor space on July 1, 2025.

Any expanded space over the three-year option to expand would be rented at the same rate per square foot. If an option to extend the term is exercised, the rent for the extended term would be set at 95 percent of appraised fair market rent at that time.

City Option to Purchase

The lease contains an option for the City to purchase the building if it has rented at least 400,000 square feet in the building, which would be met with the proposed amendment, as the City also rents 38,894 square feet for the San Francisco Municipal Transportation Agency (SFMTA) under a separate lease. The City must provide notice to Hudson by March 1, 2027 and close escrow within 255 days of notice, or by December 31, 2027. The purchase price would be determined by an appraisal conducted at that time by a firm mutually agreed upon by the City and Hudson, but for no less than $200 per square feet, or $225,000,000. The option window provides an opportunity for RED and the Capital Planning Committee to analyze the feasibility of purchasing the building and to incorporate the potential purchase into the Capital Plan, which currently does not provide any funding during the ten-year planning horizon.

After the Phase II premises are occupied, approximately 700,000 square feet in the building would remain vacant and available for the City to further expand. According to Director Penick, RED is considering moving other City departments into the building after their current leases expire.

FISCAL IMPACT

Rent

The proposed lease amendment would increase the annual base rent by $9,306,380, for total annual base rent of $15,781,124. Over the initial 21-year term of the lease, the proposed amendment would increase the total rent paid by $243,924,739, for total rent of $417,903,557.[2] In addition, the City would pay $5,213,420 in rent for the basement space, for a total rent increase of approximately $249.1 million over the next 20 years. However, the proposed lease would allow the City to terminate HSA's lease at 1235 Mission Street and SFCTA's existing lease at 1455 Market Street, with combined annual rent of approximately $4.4 million. Assuming three percent escalation, the total rent that would be paid for these leases over 20 years is approximately $123.1 million. Therefore, with the savings from terminating these leases, the total additional cost to the City from the proposed lease amendment is approximately $126 million, as shown in Exhibit 3 below.

Exhibit 3: Net Rent Increase to City over 20 Years

1455 Market Rent Increase, 20 Years	$249,138,159
Savings from Terminating HSA & SFCTA Leases, 20 Years	(123,088,430)
Net Rent Increase	**$126,049,729**

Source: BLA Estimates

[2] This assumes rent commencement dates of July 1, 2025 for the SFCTA and Library IT floors and February 1, 2026 for the HSA floors.

Although the City is increasing the amount of leased versus City-owned space in this transaction, it will save money from reduced maintenance costs on the obsolete 170 Otis building and at 1235 Mission (for which the lease with SFUSD requires the City to pay for building maintenance). The transaction also provides the City with the option to purchase 1455 Market at a later date, though at market rate. Once HSA moves out of 170 Otis, the site could be sold to offset City costs or redeveloped for another public purpose.

Rent Funding Source

According to Celia Pedroza, HSA Budget Director, HSA's rent is paid approximately 72 percent by the General Fund and approximately 28 percent by State and Federal sources. SFCTA and Library rents are paid by their respective funds.

Tenant Improvements

As mentioned above, the additional City cost for tenant improvements above the allowance is approximately $15.5 million. This amount is offset by the defunding of $3,346,898 in building improvements to 1235 Mission Street, and one-time savings in HSA's FY 2024-25 due to higher revenues and underspending in the General Fund.

During the FY 2024-25 budget process, HSA estimated that the additional cost to move into 1455 Market Street would be approximately $11.6 million. These estimates were based on HSA's experience during previous projects in which it remodeled existing spaces to fit current needs. This amount increased to $15.5 million once architectural designs were developed that more fully reflected client service needs within the spaces available at 1455 Market and more rigorously cost out the changes.

The total cost per square foot (excluding furniture) is $248 for the service center, $107 for the fourth floor, mostly cubicle office design, and $202 for the 18th floor, which has more private offices and therefore is more expensive. These costs are within the range of recent office conversion projects. According to RED, the District Attorney office conversion for 350 Rhode Island cost $281 per square foot (in 2024 dollars) and a similar office conversion in San Jose cost $188. According to a report by Cushman and Wakefield, a real estate services firm, the average hard and soft costs for office tenant improvements in San Francisco in 2025 is $240 per square foot.

Potential Cost Savings

HSA may be able to reduce the City's cost for tenant improvements by redesigning the sublevel floor and/or the 18th floor spaces. For example, changing the 18th floor design to include more cubicles and fewer private offices could potentially save $1.0 - $1.4 million, but may not be suitable for HSA operations.

HSA notes that it is pursuing price reductions, such as bidding out the furniture package, but these are not expected to yield significant savings. Given historically high office vacancies, the City could also consider buying used furniture or using existing furniture from 170 Otis, rather than new furniture, for this new office space. HSA plans on spending $5.85 million on new furniture for 1455 Market.

HSA's FY 2024-25 budget includes $3.5 million related to the move out of 170 Otis Street, but this will be used for moving and set-up costs into other locations, such as 3125/3127 Mission Street, 1640/1650 Mission Street, and 1440 Harrison Street.

Operating Costs

Under the lease, the City pays its percentage share (34.07 percent) of the increase in the building's operating expenses over the base year. The proposed amendment would delay the base year from calendar year 2025 to 2027, so the City would begin paying operating costs in 2028, rather than 2026. RED cannot estimate the operating costs at this time. The City also pays electrical costs as a direct passthrough from the landlord, which are estimated at approximately $1 per square foot, or $383,037.

RECOMMENDATION

Approve the proposed resolution.