



1145 Market Street - Trinity

NEW LEASES AND LEASE EXTENSIONS
FOR MULTIPLE CITY DEPARTMENTS
BUDGET AND FINANCE COMMITTEE 4/17/24

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- The City has leased space at 1145 Market Street for over 10 years.
- We have 3 existing departments in the building: Law Library, Health Services System (HSS) and Retirement.
- The leases are about to expire or are in holdover.
- When Retirement proposed to move out of the building in Fall 2023, the Landlord offered an extremely competitive rent rate of \$29.95 psf to retain them.
- The Landlord extended this offer to all but the top two floors in the building.
- Before you today for consideration is a lease for floors 1 and 8 thru 11. However, I will be before you in a few weeks with similar leases for HSS and Law Library that would extend their occupancy on the 2nd and 3rd floors starting at the \$29.95 psf rate.

1145 Market Street - Stack

Floor	Before		After		sq.ft.	City Dept.	Source of Tenancy	
13	Owner		Owner			N/A	No Change	
12	Owner		Owner			N/A	No Change	
11	Owner		DPH		8,908	DPH	DPH from 101 Grove	
10	Owner		DPH		8,908	DPH	DPH from 101 Grove	
9	Owner		DPH		10,111	DPH	DPH from 101 New Montgomery (12/24)	
8	Owner		DMAC		11,358	DMACC	DPH from 1360 Mission (6/2025)	
7	Retirement		Vacant		12,430	Vacant	Vacant	
6	Retirement		Vacant		12,430	Vacant	Vacant	
5	Retirement		Vacant		12,430	Vacant	Vacant	
4	LAW		LAW		13,155	LAW	LAW Existing	
3	HSS		HSS		13,155	HSS	HSS Existing	
2	LAW	Vacant	LAW	HSS	6,185/6970	LAW/H.S.S.	LAW	HSS relocating from 1st flr
1	HSS	Café	OCEIA	Café	6,405	HSS/OCEIA	OCEIA from 1155	

Deal Points:

- ▶ Lease Term: 10 years
- ▶ Term Start: May 1, 2024 for Floors 1 and 8 (OCEIA and DMACC respectively)
July 1, 2024 for Floors 9, 10 and 11 (DPH)
- ▶ Lease Expiration: July 31, 2034
- ▶ Extension Option: Two options for 5 years each
- ▶ Premises: 45,691 rsf
- ▶ Rent Rate: \$29.95 psf (or \$1,368,445.44 for the 1st year)
- ▶ Rent escalation: 3% annually
- ▶ Services & Utilities: Fully serviced, net electric
- ▶ Base Year: 2025

Deal Points: (continued)

- ▶ TI Allowance: \$266,445 for construction, wiring and moving expenses related to Floors 1 and 8
- ▶ Additional Construction Allowance: Up to \$500,000 for TI construction at 3% per annum until repaid
- ▶ City's Percentage: 34.97% for this lease but could be over 85% with other leases
- ▶ DT estimate on Fiber: \$205,896
- ▶ TI Move costs above Allowance estimate: ???
- Estimated Rent Savings: Save \$11,549,704 based upon a rent rate starting at \$29.95 psf (\$15.6MM) vs the \$52 psf (\$27.2 MM) we were initially considering last year.

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
 - ▶ Jeff Suess, RED Transaction Manager who was the lead negotiator for this deal.
 - ▶ Nancy Taylor 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.