



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



John Updike
Director of Real Estate

December 11, 2013

**Lease of Property
1145 Market St.
Retirement
6804**

Through Naomi Kelly
City Administrator

Honorable Board of Supervisors
City and County of San Francisco
City Hall, Room 244
#1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Board Members:

Attached for your consideration is a Resolution authorizing a lease for the City's Employees' Retirement System at 1145 Market Street.

The San Francisco Employees' Retirement System (SFERS) was officially established in April 1, 1922 and serves more than 59,000 active and retired employees of the City and County of San Francisco and their survivors. SFERS members include employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, as well as Superior Courts. The San Francisco Employees' Retirement System (SFERS) is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefits programs, and providing promised benefits to the active and retired members of the City and County of San Francisco. Under the direction of its Board, the Retirement System administers two benefit programs: a Pension Plan (defined benefit plan) and a Deferred Compensation Plan (457(b) Plan). SFERS has been nationally recognized for its many accomplishments.

SFERS is currently located at 30 Van Ness Ave., a City owned building, and has occupied space there since 1999. SFERS occupies approximately 23,241 rentable square feet.

Over the past 15 years, SFERS Trust assets managed have grown from \$10.9 billion to \$18.4 billion or approximately 68.8% and the number of SFERS members has increased approximately 38% from approximately 43,000 to approximately 59,400. SFERS reports the need to expand its client service and fund management areas. At 30 Van Ness Ave., retirement counseling is completed in adjacent and open cubicles. There is little privacy to discuss confidential issues such as finances and retirement dates. In addition, the reception area often

becomes overcrowded and unwieldy. 30 Van Ness Ave. is fully occupied and cannot accommodate a SFERS expansion requirement.

In addition to management of the SFERS Trust, the Retirement Board administers the City's Deferred Compensation Plan (SFDCP). SFDCP has grown from a \$791 million plan in 1999 to a \$2.4 billion plan in 2013 with approximately 24,600 Plan participants (a 36.7% increase from 1999).

Under the proposed lease, SFERS would expand to 37,289 SF and co-locate in the same building as the Health Service System. SFERS client service areas would be expanded from its current 4,196 sq. ft. to 8,814 sq. ft. which will allow SFERS to (i) handle more member counseling (ii) provide private closed door counseling to its members, (iii) provide adequate reception and waiting areas, (iv) provide larger seminar classes (v) allow greater public seating for Retirement Board Meetings and (vi) provide additional area for SFERS's core functions of securing, protecting and prudently investing the pension trust assets, administering mandated benefits programs, and providing promised benefits to the active and retired members of the City and County of San Francisco.

SFERS's current space would be backfilled by the Departments of Public Works (DPW) and Recreation and Parks (RPD). This vacated space will be used by DPW to 1) address staff growth over the past several months, and 2) provide improved staff training space for DPW to supplement use of modular facilities at their yard on Cesar Chavez. Accommodation of modest staff hiring associated with RPD's implementation of a recent voter-approved bond initiative will also be provided.

The proposed lease is for a term of approximately 10 years commencing upon the substantial completion of the tenant improvements (expected to be July 1, 2014 and ending on June 30, 2024). The proposed lease includes two 5-year options to extend the term at 95% of the then fair market rent. The City also has the option to terminate the lease after July 1, 2017 by providing 210 days advance written notice and reimbursing Landlord its unamortized costs in the event City constructs a new building for use by SFERS.

The rental rate for the initial year is \$119,228.21 per month (approximately \$38.37 PSF per year) and increases annually at 3%. The rental rate is fully serviced except for separately submetered electricity usage estimated to add approximately \$1,554 per month (approximately \$.50 PSF per year) to the cost. The City will be responsible for typical operating expense pass throughs over a 2013 base year.

The landlord is providing a tenant improvement allowance of \$2,040,335 (or approximately \$54.72 PSF for interior improvements) plus another approximate \$384,000 for common areas and path of travel improvements. The City is responsible for costs in excess of this allowance. While exact costs cannot be determined until full construction drawings are issued and permitted, based on the proposed space plans and the typical costs of other tenant improvement construction, the City's obligation is estimated to cost between \$30 PSF and \$35 PSF (or approximately \$1,118,670 to \$1,305,115). SFERS will budget in FY15 for other typical tenant costs such as moving expenses and one time voice and data expenses.

Lastly, the proposed lease includes a purchase option for the City in the form of a first right of refusal to purchase, should the owner decide to sell the property.

We recommend approval of the proposed lease. If you have questions regarding this matter, please contact Charlie Dunn of our office at 554-9861.

Respectfully,



John Updike
Director of Real Estate

cc: Jay Huish, SFERS, Executive Director