

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292  
FAX (415) 252-0461

July 9, 2021

**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** July 15, 2021 Government Audit and Oversight Committee Meeting

**TABLE OF CONTENTS**

<b>Item</b>	<b>File</b>	<b>Page</b>
9	21-0772 Purchase of Real Property - TC II 888 Post, LLC - 888 Post Street - Homelessness and Supportive Housing - \$29,000,000 .....	1
10	21-0773 Real Property Lease Extension - Opera Plaza, L.P. - Administrative Offices - 601 Van Ness Avenue - \$363,132 Annual Base Rent.....	4

<b>Item 10</b> <b>File 21-0773</b>	<b>Department:</b> Homelessness & Supportive Housing
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve the five-year Lease Extension Option for a City as tenant lease at 601 Van Ness Avenue, Suite P., with Opera Plaza L.P. starting August 1, 2021.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The space is currently occupied by Human Services Agency staff in the San Francisco Benefit Network program. Those staff are scheduled to move to the City-owned office at 1650 Mission Street by July 30, 2021.</li> <li>• The proposed FY 2021-22 – FY 2022-23 budget includes fifty additional permanent HSH staff, which cannot be accommodated at the Department’s main office at 440 Turk Street. HSH intends to repurpose the office space for temporary and permanent staff, starting in August 2021, with an expected capacity of fifty people at approximately 173 square foot per person, including common space.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed lease extension’s base rent is \$42 per square foot, escalating by \$1 per square foot per year. The total cost of the five-year extension term is \$1.9 million.</li> <li>• The proposed lease extension also includes Additional Charges for which the City pays a proportional share of 8.27% of operating costs and real estate taxes relative to 2021 values.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all Leases on behalf of the City as tenant by resolution for which the term is longer than a year and costs over \$15,000 per month.

**BACKGROUND****Existing Lease**

In July 2016, the Board of Supervisors approved a City as tenant lease at 601 Van Ness Avenue with Opera Plaza L.P. as landlord (File 16-0428). The existing lease expires on July 31, 2021 but has an optional five-year extension for which the Real Estate Division is now seeking Board of Supervisors' approval.

**Proposed Use**

The space is currently occupied by Human Services Agency staff in the San Francisco Benefit Network program. Those staff are scheduled to move to the City-owned office at 1650 Mission Street by July 30, 2021. The Department of Homelessness and Supportive Housing (HSH) plans to move staff into the space starting August 1, 2021. According to HSH, the Department is absorbing thirty temporary staff from the COVID Command Center, which closed in June, for the remaining duration of their employment through FY 2021-22. In addition, the proposed FY 2021-22 – FY 2022-23 budget includes fifty additional permanent HSH staff, which cannot be accommodated at the Department's main office at 440 Turk Street. HSH intends to repurpose the office space for these temporary and permanent staff, with an expected capacity of fifty staff at approximately 173 square foot per person, including common space.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the Lease Extension Option for a City as tenant lease at 601 Van Ness Avenue, Suite P. Exhibit 1 below summarizes the proposed lease extension terms.

**Exhibit 1: Proposed Lease Extension Terms**

	<b>Current Lease</b>	<b>Proposed Extension</b>
Premises	601 Van Ness Avenue, Suite P	
Landlord	Opera Plaza L.P.	
Square Footage	8,646	
Lease Term	July 31, 2016 – July 31, 2021	August 1, 2021 – July 31, 2026
Base Rent	\$46 per square foot, escalated by \$1 annually	\$42 per square foot, escalating by \$1 annually
Utilities, Operating Costs, and Taxes	City provides electricity and pays proportional share (8.27%) of building operating costs and real estate taxes above 2021 values	

Source: Current Lease and Proposed Lease Extension

As shown above, the existing lease costs \$46 per square foot and provided for the base rent of the extension option to be reset to fair market value. The Real Estate Division negotiated an initial base rent of \$42 per square foot for the proposed lease extension, which was the initial base rent of the original lease, to escalate by \$1 per square each year. According to the Director of Real Estate, the proposed base rent is at or below market rent, based on a survey of similar properties.

**FISCAL IMPACT**

The total cost of proposed lease extension’s base rent is \$1.9 million, as shown in Exhibit 2.

**Exhibit 2: Proposed Lease Extension Base Rent**

Year 1	\$363,132
Year 2	371,778
Year 3	380,424
Year 4	389,070
Year 5	397,716
<b>Total</b>	<b>\$1,902,120</b>

Source: Proposed Lease Extension

The proposed lease extension also includes Additional Charges for which the City pays a proportional share of 8.27% of operating costs and real estate taxes relative to 2021 values. The cost of the proposed lease extension is included in HSH’s proposed General Fund budget for FY 2021-22 and FY 2022-23.

**RECOMMENDATION**

Approve the proposed resolution.