





1 [Real Property Lease - Employees' Retirement System - 1145 Market Street - \$119,228.21  
2 Monthly]

3 **Resolution authorizing a 10-year lease of 37,289 sq. ft. at 1145 Market Street, for office**  
4 **space for the Employees' Retirement System from 1145 Market Street, LP, a California**  
5 **Limited Partnership, for \$119,228.21 monthly for the period of July 1, 2014, through**  
6 **June 30, 2024.**

7 WHEREAS, The San Francisco Employees' Retirement System ("SFERS") is currently  
8 located at 30 Van Ness Ave on the third floor and has been in its current location since 1999;  
9 and

10 WHEREAS, SFERS managed approximately \$10.9 billion in Trust assets in 1999 and  
11 currently manages \$18.4 billion in employer and member funds; and

12 WHEREAS, SFERS current facilities were designed to handle approximately 40,000  
13 members; and

14 WHEREAS, SFERS members have grown over 30 percent from approximately 43,000  
15 members in 1999 to approximately 59,400 members in 2013; and

16 WHEREAS, Currently, retirement counseling is provided in adjacent open cubicals with  
17 limited privacy; and

18 WHEREAS, Retirement dates, payouts and options are of a very confidential and  
19 personal nature to the SFERS members; and

20 WHEREAS, SFERS desires to provide better service to its members by providing  
21 private retirement counseling and by expanding its waiting areas, presentation rooms, and  
22 other member areas to adequately accommodate the approximate 38% increase in the  
23 number of members it serves; and

24 WHEREAS, An increase in client service areas from its current 4,196 sq. ft. to a  
25 proposed 8,814 sq. ft. will allow SFERS to provide private closed door counseling to its





1 members, consolidate member service areas for SFERS members and the City's Deferred  
2 Compensation Plan participants, provide adequate reception and waiting areas, provide  
3 appropriate public space to accommodate larger seminar classes and allow greater public  
4 seating for Retirement Board meetings; and

5 WHEREAS, 30 Van Ness Ave is 100% occupied by other City Departments and cannot  
6 accommodate an expansion of SFERS; and

7 WHEREAS, The Health Service System (HSS) is located on the 1<sup>st</sup> and 3<sup>rd</sup> floors at  
8 1145 Market Street in a 10-year lease authorized by Board Resolution 0191-13; and

9 WHEREAS, There is a synergy between SFERS and HSS and co locating SFERS and  
10 HSS would have substantial benefits to City employees and retirees; and

11 WHEREAS, After exploring the costs and rental rates at alternative sites, SFERS  
12 desires to co locate into leased space at 1145 Market Street; and

13 WHEREAS, The Director of Property has negotiated a new lease for a term of  
14 approximately 10 years commencing upon Substantial Completion of Tenant Improvement  
15 (anticipated Commencement Date of July 1, 2014) and terminating on June 30, 2024, (a copy  
16 of the proposed Lease is on file with the Clerk of the Board in File No. 131218; the "Lease ");  
17 and

18 WHEREAS, The Director of Property has determined that the proposed rental rate for  
19 the ten (10) year term as set forth in the Lease is equal to or less than fair market rent for the  
20 Premises; now, therefore, be it

21 RESOLVED, That in accordance with the recommendation of the SFERS Executive  
22 Director and the Director of Property, the Board approves the Lease in substantially the form  
23 in the Board's File and authorizes the Director of Property to execute and deliver the Lease,  
24 and authorizes City staff to take all actions, on behalf of the City, to perform its obligations and  
25 exercise its rights under the Lease; and, be it



1           FURTHER RESOLVED, As set forth in the Lease: (i) the Lease shall terminate  
2 approximately ten (10) years after Substantial Completion of the Tenant Improvements  
3 (anticipated Commencement Date of July 1, 2014) and Termination Date of June 30, 2024; (ii)  
4 the initial annual rent (net of electricity) shall be \$1,430,738.50 (approximately \$38.37 per  
5 square foot per year); (iii) the base rent shall increase at a rate of 3% annually; (iv) City shall  
6 have an early Lease Termination Right exercisable by City after July 1, 2017; and (v) the  
7 Landlord shall provide a tenant allowance of \$2,040,335 (approximately \$54.72 per square  
8 foot) ( the "Tenant Improvement Allowance") and SFERS shall be responsible for the costs  
9 exceeding the Tenant Improvement Allowance and for other typical tenant related moving  
10 costs; and, be it

11           FURTHER RESOLVED, As set forth in the Lease, SFERS shall pay for its prorata  
12 share of operating expenses over a 2013 base year and for other typical tenant expenses;  
13 and, be it

14           FURTHER RESOLVED, That all actions heretofore taken by the offices of the City with  
15 respect to the Lease are hereby approved, confirmed and ratified; and, be it

16           FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of  
17 Property to enter into any amendments or modifications to the Lease (including without  
18 limitation, the exhibits) that the Director of Property determines, in consultation with the City  
19 Attorney, are in the best interest of the City, do not materially increase the obligations or  
20 liabilities of the City, do not materially decrease the benefits to the City, or are necessary or  
21 advisable to effectuate the purposes of the Lease or this resolution, and are in compliance  
22 with all applicable laws, including City's Charter; and, be it

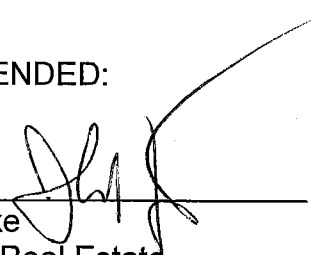
23           FURTHER RESOLVED, That the City shall occupy the entire Premises for the full term  
24 of the Lease unless funds for the City's rental payments are not appropriated in any  
25 subsequent fiscal year at which time City may terminate the Lease with reasonable advance



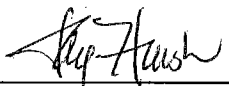
1 written notice to Landlord. Such termination shall then be effective upon surrender of the  
2 Premises. Said Lease shall be subject to certification as to funds by the Controller, pursuant  
3 to Section 3.105 of the Charter.

4 FURTHER RESOLVED, That within thirty (30) days of the agreements being fully  
5 executed by all parties, the Director of Property shall provide the agreements to the Clerk of  
6 the Board for inclusion into the official file.

7  
8 RECOMMENDED:

9  
10   
11 \_\_\_\_\_  
12 John Updike  
13 Director of Real Estate

14 RECOMMENDED:  
15 SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM

16   
17 \_\_\_\_\_  
18 Jay Huish  
19 Executive Director




**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

January 23, 2014

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** January 29, 2014 Budget and Finance Committee Meeting

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<b>Item 1</b> <b>File 13-1218</b> <i>(Continued from January 15, 2014)</i>	<b>Departments:</b> San Francisco Employees' Retirement System (SFERS)
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## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would approve a lease between the City and 1145 Market St, LP to provide office space for the San Francisco Employees' Retirement System (SFERS) staff for an initial term of ten years.

### Key Points

- The SFERS staff currently occupies 23,241 square feet of office space at 30 Van Ness Ave, a City-owned building. Since 1999, SFERS staff numbers have increased from 61 to 97 budgeted positions and the current space at 30 Van Ness Ave is reportedly insufficient to accommodate the number of employees.
- SFERS advises that the current leased space also does not provide adequate room to: offer private retirement counseling, conduct retirement seminars to groups greater than 30, or accommodate full public participation in monthly Retirement Board meetings.
- The proposed resolution would approve a new lease for 37,289 square feet of space on three floors at 1145 Market Street for SFERS office space, which would accommodate current staff as well as the activities listed above.

### Fiscal Impacts

- The proposed lease includes a first-year rent amount of \$1,311,510.31, or \$119,228.21 per month for 11 months. Per the provisions of the lease, SFERS will not pay rent in the first month.
- The proposed lease requires that the landlord pay \$2,040,335 toward tenant improvements. In addition, the landlord will pay up to \$1,112,910, for a total amount of \$3,153,245, toward the tenant improvements, which SFERS will reimburse to the landlord in monthly installments over the initial 10-year term of the lease at 8 percent annual interest for a total of \$1,620,320.32.
- Based on the Budget and Finance Committee's concerns reflected on January 15, 2014, the Director of Real Estate is currently renegotiating the proposed lease at 1145 Market Street, to potentially reduce the amount of space, rental costs and required tenant improvements.

### Recommendation

- Continue the proposed resolution to the Call of the Chair, pending renegotiation of the new lease by the Real Estate Division.



**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

San Francisco Administrative Code Section 23.27 requires Board of Supervisors approval by resolution for all leases on behalf of the City as tenant.

**Background**

The San Francisco Employees' Retirement System (SFERS) has occupied 23,241 square feet of space at 30 Van Ness Ave, a City-owned building, since 1999. Mr. John Updike, Director of Real Estate, advises that the current space at 30 Van Ness is insufficient to accommodate:

- Current and future staffing levels: In 1999, when SFERS first moved into the current space at 30 Van Ness Ave, SFERS employed 61.00<sup>1</sup> Full-Time Equivalent (FTE) staff. The FY 2013-14 Annual Salary Ordinance shows that the number of FTE staff increased by 59.8 percent, or 36.46 FTE, from 61.00 in FY 1998-99 to 97.46<sup>2</sup> in FY 2013-14.
- Private retirement counseling: SFERS staff currently conducts retirement counseling in the general working area with little to no privacy for the clients receiving counseling.
- Seminars: SFERS staff currently conducts seminars for clients in the boardroom, which limits the number of attendees to no more than 30.
- Board meetings: The Retirement Board meets in the boardroom, which is not always large enough to accommodate the Board and members of the public.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a ten-year lease between the City (the tenant) and 1145 Market Street, LP (the landlord) for SFERS to lease office space at 1145 Market Street. The lease terms and provisions are shown in Table 1 below.

**Table 1: Summary of Lease Terms and Provisions**

Term	Ten-years
Premises	37,289 square feet at 1145 Market St
Commencement Date	July 1, 2014
Option to Terminate	At City discretion after July 1, 2017
Option to Extend	One City option to extend the lease by five years
Monthly Rent	\$119,228.21
First Year Total Rent (First month abated)	\$1,311,510.31
Rent Increase	Three percent annual increase

<sup>1</sup> The 1998-99 Annual Salary Ordinance lists 61.00 permanent staff and 5.19 temporary staff.

<sup>2</sup> The 2013-14 Annual Salary Ordinance lists 97.46 permanent staff and 6.67 temporary staff.



Table 1 above includes the first-year rent amount of \$1,311,510.31, which represents 11 months of rent. Per the provisions of the lease, SFERS will not pay first-month rent to the landlord.

The subject lease includes provisions that require the landlord to make tenant improvements. Mr. Updike advises that the tenant improvements will include improvements to: the HVAC system, the electrical system, the fire and life-safety systems, and other improvements to make space usable for the SFERS staff. Additionally, the lease states that the improvements must be up to a LEED Gold standard<sup>3</sup>.

Mr. Updike advises that that the proposed 37,289 square feet at 1145 Market St is large enough for SFERS to: accommodate current staffing levels, conduct client retirement counseling in private, offer seminars to 60 people at a time, and to accommodate attendance at Retirement Board meetings.

***Lease Will Be Updated After Board Approval***

Several of the provisions included in the proposed resolution are different from provisions in the draft lease submitted by the Real Estate Division. Mr. Updike confirms that the provisions of the lease will be updated to reflect the terms and provisions approved by the Board in the proposed resolution. The Budget and Legislative Analyst’s report is based on the provisions in the proposed resolution.

**FISCAL IMPACT**

***Rent Payments***

Currently, SFERS pays \$524,317 in annual rent for the City-owned building at 30 Van Ness Avenue. As shown in Table 2 below, under the proposed lease, SFERS will increase their office space by 60 percent and their rent by 173 percent.

**Table 2: Comparison of Current and Proposed Lease**

	<b>Current Lease at 30 Van Ness</b>	<b>Proposed Lease at 1145 Market Street</b>	<b>Increase</b>	<b>Percent</b>
Annual Rent	\$524,317	\$1,430,739	\$906,422	173%
Square Feet	23,241	37,289	14,048	60%
Annual Rent/ Square Foot	\$22.56	\$38.37	\$15.81	70%

According to Mr. Updike, the increase in square footage is necessary to accommodate the increase in SFERS staff between 1999 and 2014, and the services provided to SFERS members, as noted above. Additionally, according to Mr. Updike, SFERS pays less than market rate for the

<sup>3</sup> The LEED (Leadership in Energy and Environmental Design) program provides third party verification of the environmental efficiency of buildings, which includes access to public transit, water efficiency, lighting and energy efficiency and other standards.



City-owned building at 30 Van Ness because the City's costs to operate and maintain City owned buildings are less than commercial buildings.

Mr. Updike advises that staff from the Recreation and Park Department (RPD) and the Department of Public Works (DPW) will occupy the space at 30 Van Ness Ave being vacated by SFERS. Currently, the RPD staff share office space with DPW staff at 30 Van Ness Avenue but RPD and DPW require the additional space as new, bond-funded positions are being hired.

The proposed resolution would approve a new ten-year lease between SFERS and 1145 Market Street, LP, in which SFERS will pay to 1145 Market Street, LP, first-year rent of \$1,311,510.31, or \$119,228 per month for 11 months. Per the provisions of the lease, the rent amount will increase annually by three percent, resulting in total estimated rent paid by SFERS to 1145 Market Street, LP of \$16,282,525.51 over the 10-year term of the lease as shown in Table 3 below.

**Table 3: Total Rent to be Paid by SFERS to 1145 Market Street, LP  
Includes Three Percent Annual Increase**

	Monthly Rent	Annual Rent
Year 1 (11 Months)	\$119,228.21	\$1,311,510.31
Year 2	122,805.06	1,473,660.68
Year 3	126,489.21	1,517,870.50
Year 4	130,283.88	1,563,406.61
Year 5	134,192.40	1,610,308.81
Year 6	138,218.17	1,658,618.07
Year 7	142,364.72	1,708,376.62
Year 8	146,635.66	1,759,627.91
Year 9	151,034.73	1,812,416.75
Year 10	\$155,565.77	\$1,866,789.25
<b>Total Rent to be Paid</b>		<b>\$16,282,585.51</b>

**Tenant Improvement Costs**

The estimated costs of tenant improvements under the proposed lease are up to \$3,153,245, of which \$2,040,335 are the landlord's responsibility and up to \$1,112,910 are SFERS responsibility. The estimated costs for the tenant improvements are shown in Table 4 below.

**Table 4: Estimated Tenant Improvement Costs**

Tenant Improvement	Estimated Cost (Rounded)
HVAC, Electrical, Fire/Life Safety, and General Improvements	\$2,200,000
Architect, Engineer, Project Manager, LEED Fees and Permits	300,000
Data and Telecommunication Infrastructure	600,000
<b>Total</b>	<b>\$3,100,000</b>

Under the proposed lease, the landlord will make all tenant improvements and SFERS will reimburse the landlord for the City's share of tenant improvement costs up to \$1,112,910.





These reimbursements will be made over the ten-year term of the lease at 8 percent annual interest. Based on tenant improvement costs of \$1,112,910, reimbursable by SFERS to the landlord at 8 percent annual interest, the Budget and Legislative Analyst calculates that SFERS will pay the landlord \$1,620,320.32 over the initial 10-year term of the lease. According to Mr. Updike, the Real Estate Division evaluated the use of Certificates of Participation (COPS) to pay for the tenant improvements, rather than reimbursing the landlord for tenant improvements at 8 percent annual interest, but the Controller’s Office determined that the use of COPS for this purpose is constrained by City’s debt limit. The Real Estate Division also evaluated a one-time budget appropriation but determined that annual payments of \$162,032 per year distributed over ten years (\$1,620,320 over ten years) was preferable to a one-time, upfront appropriation of \$1,112,910.

Mr. Updike advises that the tenant improvements should be completed prior to the lease commencement date of July 1, 2014. As such, SFERS should know the full cost of the tenant improvements as well as the amortized amount to include in the SFERS FY 2014-15 budget subject to Board of Supervisors approval.

**Additional Costs**

SFERS will also be responsible for the following variable costs:

- 100 percent of the electricity used by SFERS at the premises,
- 115 percent (includes a 15 percent administrative fee) of the cost of lighting and HVAC use on Saturdays,
- 27.5 percent of any annual increase in costs required to operate the building, and
- 27.5 percent of any annual increase in real estate taxes.

**POLICY CONSIDERATION**

The proposed lease for 1145 Market Street increases the square footage of leased space for SFERS by 60 percent, from 23,241 square feet under lease to 37,289 square feet under the proposed lease, which increases the square footage per employee from 238 square feet to 383 square feet as shown in Table 4 below.

**Table 4: Allocated Space per Employee Current vs. Proposed Office Space<sup>1</sup>**

	Current Lease at 30 Van Ness	Proposed Lease at 1145 Market Street	Increase	Percent
Total Square Feet	23,241	37,289	14,048	60%
Number of Employees	97.46	97.46	0	0%
Square Feet per Employee	238	383	144	60%

<sup>1</sup> Numbers in the table may not add due to rounding.

Mr. Updike advises that the Real Estate Division works with client departments to achieve a square footage to employee ratio of 250 square feet, but accepts rates as high as 350 square feet. According to Mr. Updike, the Real Estate Division considers 383 square feet per employee



at 1145 Market Street to be reasonable because the space will be used for member counseling, seminars and Retirement Board meetings, all of which are space-intensive activities.

Mr. Updike states that DPW and RPD do not currently have sufficient space to accommodate the hire of new bond-funded employees. Mr. Updike advises that allowing DPW and RPD to expand into the space being vacated by SFERS and other available space at 30 Van Ness Avenue will provide sufficient space to accommodate these new employees for DPW and RPD, as shown in Table 5 below.

**Table 5: RPD and DPW Office Space Expansion at 30 Van Ness Avenue**

Department	Current Employees	Current Square Footage	Current Square Feet per Employee	Proposed Square Footage	Proposed Square Feet per Employee
Recreation and Park	26.00	4,420.00	170.00	7,750.00	298.08
Public Works	327.00	84,000.00	256.88	110,571.00	338.14
<b>Combined</b>	<b>353.00</b>	<b>88,420.00</b>	<b>250.48</b>	<b>118,321.00</b>	<b>335.19</b>

***Renegotiated New Lease***

On January 15, 2014, the Budget and Finance Committee met to consider the proposed resolution and recommended that the resolution be continued until January 29, 2014, in order to provide additional time to review the subject lease and potentially reduce the need for the expanded space and related cost increases. Based on the Budget and Finance Committee's concerns on January 15, 2014, the Director of Real Estate advises that he is currently renegotiating the proposed lease at 1145 Market Street, to potentially reduce the amount of space, rental costs and required tenant improvements.

**RECOMMENDATION**

Continue the proposed resolution to the Call of the Chair, pending renegotiation of the new lease by the Real Estate Division.





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.

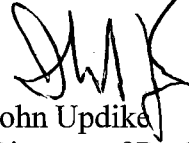




Lastly, the proposed lease includes a purchase option for the City in the form of a first right of refusal to purchase, should the owner decide to sell the property.

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,

A handwritten signature in black ink, appearing to read 'J. Updike', with a long, sweeping line extending from the top right of the signature.

John Updike  
Director of Real Estate

cc: Jay Huish, SFERS, Executive Director



OFFICE LEASE

between

1145 MARKET STREET, LP, a California limited partnership  
as Landlord

and

CITY AND COUNTY OF SAN FRANCISCO,  
as Tenant

For the lease of  
the entire 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> floors, and a portion of the 1<sup>st</sup> floor of  
1145 Market Street  
San Francisco, California

November 22, 2013



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## OFFICE LEASE

THIS OFFICE LEASE (this "Lease"), dated for reference purposes only as of November 22, 2013, is by and between 1145 MARKET STREET, LP, a California limited partnership ("Landlord"), and the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("City" or "Tenant").

Landlord and City hereby agree as follows:

### 1. BASIC LEASE INFORMATION

The following is a summary of basic lease information (the "Basic Lease Information"). Each item below shall be deemed to incorporate all of the terms in this Lease pertaining to such item. In the event of any conflict between the information in this Section and any more specific provision of this Lease, the more specific provision shall control.

Lease Reference Date:	November 22, 2013
Landlord:	1145 MARKET STREET, LP, a California limited partnership
Tenant:	CITY AND COUNTY OF SAN FRANCISCO
Building ( <u>Section 2.1</u> ):	12 story office building located at 1145 Market Street, San Francisco, California (the "Building").
Premises ( <u>Section 2.1</u> ):	The entire rentable area of the fifth (5 <sup>th</sup> ), sixth (6 <sup>th</sup> ) and seventh (7 <sup>th</sup> ) floors, and the "Bike Room" Premises consisting of approximately 200 square feet of the first (1 <sup>st</sup> ) floor of the Building, all as shown on the attached <u>Exhibit A</u> (together, the "Premises").
Rentable Area of Premises ( <u>Section 2.1</u> ):	Approximately 37,097 rentable square feet of office space plus 200 square feet of 1 <sup>st</sup> floor bicycle space.
Term ( <u>Section 3</u> ):	Approximately ten (10) years, commencing on the Commencement Date and ending on the Expiration Date (as such terms are defined in <u>Section 3.2</u> ) (sometimes referred to as the "Initial Term"), subject to the Early Termination Option set forth in <u>Section 3.4</u> below and the Extension Option set forth in <u>Section 3.5</u> below. The Premises shall be delivered to City upon completion of the Leasehold Improvement Work (as defined in <u>Section 6.1(a)</u> , below).  Estimated Commencement Date: March 1, 2014  Expiration Date: February 28, 2024 subject to possible early termination pursuant to the Early Termination Option set forth in <u>Section 3.4</u> and



	subject to City's Extension Option as set forth in <u>Section 3.5</u> .
Termination Option ( <u>Section 3.4</u> ):	After July 1, 2017, City shall have the right to terminate the Lease early by written notice to Landlord given not less than three hundred sixty five (365) days in advance, as provided in <u>Section 3.4</u> .
Extension Option ( <u>Section 3.5</u> ):	City shall have the right to extend the Term for an additional term of five (5) years (the "Extended Term"), by providing not less than one (1) years' prior written notice of exercise to Landlord, on the terms and conditions set forth in <u>Section 3.5</u> .  Base Rent for the Extended Term shall be 95% of the then fair market rent as provided in <u>Section 4.9</u> .
Base Rent ( <u>Section 4.1</u> ):	Annual Base Rent shall be as follows, subject to adjustment as provided in <u>Section 4.2</u> .  Base Rent shall commence upon the Commencement Date (as defined in <u>Section 3.1</u> below), provided however, that Base Rent shall not commence before the Estimated Commencement Date.  Annual Base Rent: \$1,428,434.50; Monthly payments: \$119,036.20.
Base Rent Abatement ( <u>Section 4.1</u> )	The first month of Base Rent commencing on the Commencement Date shall be abated.
Adjustment to Base Rent ( <u>Section 4.1</u> )	Commencing on March 1, 2015, and annually on each March 1 thereafter during the Initial Term (each, an "Adjustment Date"), the Base Rent rate shall be increased by 3%, as provided in <u>Section 4.1</u> .
Additional Charges ( <u>Section 4.2</u> ):	Throughout the Term, City shall pay, in addition to Base Rent, the Additional Charges described in <u>Section 4.2</u> , including City's Percentage Share of increases in Operating Costs and Real Estate Taxes over the relevant Base Year Operating Costs and Base Year Real Estate Taxes.
Base Year ( <u>Section 4.3</u> )	The calendar year 2014.
City's Percentage Share ( <u>Section 4.3</u> ):	27.50%
Amortization of Additional Construction Allowance ( <u>Section 6.1(k)</u> ):	City shall pay the cost to amortize the Additional Construction Allowance utilized for the Leasehold Improvements, if any, on a straight-line basis with interest at 8% per



	annum, as provided in <u>Section 6.1(k)</u> .
Use ( <u>Section 5.1</u> ):	Administrative/general offices of the City.
Leasehold Improvement Work ( <u>Section 6.1</u> ):	Landlord shall cause the Leasehold Improvement Work to be performed to the Premises pursuant to <u>Section 6.1</u> .
Allowance ( <u>Section 6.1(i)</u> ):	Landlord shall provide an Allowance of \$2,040,335.00 for the construction of the Leasehold Improvements in the Premises, as provided in <u>Section 6.1(i)</u> . City shall be responsible for the cost of the Leasehold Improvement Work to the extent the cost thereof exceeds \$2,040,335.00.
Additional Construction Allowance ( <u>Section 6.1(k)</u> ):	Landlord shall make available an Additional Construction Allowance in the amount of \$1,112,910.00 for the construction of the Leasehold Improvements as provided in <u>Section 6.1(k)</u> . City shall repay the Additional Construction Allowance in the manner described in <u>Section 6.1(k)</u> .
Utilities ( <u>Section 9.1</u> and <u>Section 9.2</u> ):	Landlord, at its sole expense, shall provide services to the Premises, including water, electricity and HVAC, Monday through Friday, 7:00 a.m. to 6:00 p.m.; provided City shall be responsible for its separately submetered electrical costs. At City's election and at City's cost, Landlord shall provide ventilation and other services to the Premises Saturdays 7:00 a.m. to 6:00 p.m.
Services ( <u>Section 9.2</u> ):	Landlord, at its sole expense, shall provide janitorial services in accordance with specifications attached to this Lease as <u>Exhibit E</u> .
Notice Address of Landlord ( <u>Section 23.1</u> ):	1145 Market Street, 12 <sup>th</sup> Floor San Francisco, California 94103 Attn: Trinity Management Services Fax No.: (415) 864-5188
Key Contact for Landlord:	Walter Schmidt
Landlord Contact Telephone No.:	(415) 864-1111
Notice Address for Tenant ( <u>Section 23.1</u> ):	Real Estate Division 25 Van Ness Avenue, Suite 400 San Francisco, California 94102 Attn: Director of Property Fax No.: (415) 552-9216





with a copy to:	San Francisco Employees' Retirement System 1145 Market Street, 6th Floor San Francisco, California 94103 Attn.: Executive Director Fax No.: (415) TBD
and to:	Office of the City Attorney City Hall, Room 234 1 Dr. Carlton B. Goodlett Place San Francisco, California 94102-4682 Attn: Real Estate/Finance Team Fax No.: (415) 554-4755
Key Contact for Tenant:	John Updike
Tenant Contact Telephone No.:	(415) 554-9860
Alternate Contact for Tenant:	Charlie Dunn
Alternate Contact Telephone No.:	(415) 554-9861
Brokers ( <u>Section 23.8</u> ):	Landlord's Broker: None City's Broker: None  See <u>Section 23.8</u>
Special Provisions ( <u>Section 22</u> ):	City shall have a one time right of first offer to purchase the Building as provided in <u>Section 22.1</u> .

**2. PREMISES**

**2.1 Lease; Premises; Rentable Area and Property**

Landlord leases to City and City leases from Landlord, subject to the provisions of this Lease, those premises in the Building identified in the Basic Lease Information and shown on the floor plan attached hereto as Exhibit A as the "Premises." Where used in this Lease, the term "rentable area" shall mean that measurement of interior floor area computed in accordance with the "Standard Method for Measuring Floor Area in Office Buildings, the American National Standard" (Z65.1-1996), adopted by the Building Owners and Managers Association (BOMA). The Building, land upon which the Building is located and all other improvements on or appurtenances to such land are referred to collectively as the "Property."

**2.2 Common Areas**

City shall have the non-exclusive right to use, together with other tenants in the Building, the lobbies, corridors, elevators, stairways, bike parking, and other public areas of the Building and the Property (collectively, the "Common Areas"), and the non-exclusive right of access to and from the Premises by the main entrance to the Building and the Property.

**2.3 Loading Dock**

City shall have non-exclusive right to reasonable shared proportional use of the Building loading dock and freight elevator, together with other tenants in the Building, during the period from 8:00 a.m. to 5:00 p.m., Monday through Friday, except holidays officially recognized by



City. Reasonable use shall require that the City coordinate its deliveries and not have more than one delivery per day which requires items to be placed in the loading dock area without Landlord's reasonable consent. In the event normal operations of the Building prevent reasonably prompt use of the freight elevator, deliveries may be temporarily left in the loading dock area provided they are promptly removed at such time as the freight elevator is available. City shall provide reasonable advance notice (given City's advance notice) of the anticipated delivery of any items which cannot be transported promptly by hand truck or cart to the Premises, and Landlord and City shall cooperate to schedule such delivery at a time that would be convenient for City but would minimize interference with the use of the freight elevator by Landlord and other tenants. The loading dock area is generally closed and secure, but any items left there are the responsibility of Tenant and Landlord does not warrant the security or safety of the area.

### **3. TERM**

#### **3.1 Term of Lease**

The Premises are leased for a term commencing on the date (the "Commencement Date") which is the later of (a) the date on which Landlord shall have delivered the Premises to City with the Leasehold Improvement Work (as defined below) having been substantially completed and accepted by City pursuant to Section 6.1 (Leasehold Improvement Work) or (b) the date on which the Board of Supervisors and Mayor have authorized the transaction contemplated by this Lease, in their sole and absolute discretion, as further provided in this Lease, and this Lease has been duly executed and delivered by the parties. The Term of this Lease shall end on the expiration date specified in the Basic Lease Information, or such earlier date on which this Lease terminates pursuant to the provisions of this Lease, provided that City shall have the right to (A) terminate this Lease early pursuant to Section 3.4 (Early Termination Option), below and (B) extend the Term as set forth in Section 3.5 (Extension Option). The word "Term" as used herein shall refer to the Initial Term, and, if City exercises the Extension Option, the Initial Term together with the Extended Term.

#### **3.2 Commencement Date and Expiration Date**

The dates on which the Term commences and terminates pursuant hereto are referred to respectively as the "Commencement Date" and the "Expiration Date." If the Commencement Date occurs on a date other than the Estimated Commencement Date, then promptly thereafter Landlord shall deliver to City a notice substantially in the form of Exhibit B attached hereto, confirming the actual Commencement Date, but Landlord's failure to do so shall not affect the commencement of the Term.

#### **3.3 Delay in Delivery of Possession**

Landlord shall use commercially reasonable efforts to deliver possession of the Premises with all of the Leasehold Improvement Work substantially completed and accepted by the City's Director of Property pursuant to Section 6.1 (Leasehold Improvement Work) on or before the Estimated Commencement Date. However, if Landlord is unable to deliver possession of the Premises by the Estimated Commencement Date, then, subject to the provisions of this Section below, the validity of this Lease shall not be affected by such inability to deliver possession, except that City's obligations to pay Base Rent or any other charges shall not commence until such time as Landlord has delivered the Premises as required under this Lease. If the Term commences later or earlier than the Estimated Commencement Date, this Lease shall nevertheless expire on the Expiration Date, unless extended or sooner terminated pursuant to the provisions of this Lease. If Landlord is unable to deliver possession of the Premises to City as required hereunder within one hundred eighty (180) days after the Estimated Commencement



Date then City may, at its option, terminate this Lease, without any further liability under this Lease, upon written notice to Landlord.

### **3.4 Early Termination Option**

In the event that City constructs a new city owned building for the purpose of housing the San Francisco Employees' Retirement System, City shall have the right (the "Early Termination Option") to terminate this Lease early effective as of any date (the "Early Termination Date") after July 1, 2017, provided that (A) City provides Landlord with not less than three hundred sixty five (365) days prior written notice (the "Early Termination Notice") of such early termination, which Early Termination Notice shall specify the Early Termination Date and shall be accompanied by reasonable substantiation that the termination conditions have been satisfied, and (B) City pays to Landlord all unamortized actual expenses incurred by Landlord in connection with the Lease including but not limited to the cost of the Leasehold Improvement Work paid by Landlord, the Base Rent abated pursuant to the second grammatical paragraph of Section 4.1 below, commissions up to \$140,000, and outside legal fees (which legal fees shall be subject to a cap of \$5,000). In determining the unamortized portion of the subject costs, the amortization of the costs shall be on a straight line basis, including interest at seven percent (7%). The amortization period shall be the ten (10) year Initial Term. City's obligation to reimburse Landlord for such unamortized costs is conditioned upon Landlord's provision to City of a detailed accounting of such costs and reasonable supporting documents, such as receipts and construction invoices. The Early Termination Option shall be exercisable by the City's Director of Property.

### **3.5 Extension Option**

City shall have the right to extend the Term of this Lease (the "Extension Option") for the additional term specified in the Basic Lease Information (the "Extended Term"). Such Extension Option shall be on all of the terms and conditions contained in this Lease, except that Base Rent at the beginning of the Extended Term shall be adjusted in accordance with Section 4.9 (Determination of Base Rent for Extended Term). City may exercise the Extension Option, if at all, by giving written notice of exercise to Landlord no later than three hundred and sixty five (365) days before the end of the Initial Term; provided, however, if City is in material default under this Lease on the date of giving such notice and fails to cure such default as and when required under this Lease, Landlord may reject such exercise by delivering written notice thereof to City promptly after such failure to cure. Landlord acknowledges and agrees that City's notice of exercise shall be subject to the provisions of Section 4.9 and the subsequent enactment of a resolution by the Board of Supervisors and the Mayor, in their respective sole and absolute discretion, approving and authorizing the extension (the "Extension Authorizing Resolution"). If the Board of Supervisor approval and authorization is not given within ninety (90) days after the date the Base Rent is determined under Section 4.9, the exercise notice shall be deemed null and void.

## **4. RENT**

### **4.1 Base Rent; Base Rent Abatement, Adjustment to Base Rent**

Beginning on the Commencement Date, City shall pay to Landlord during the Term the annual Base Rent specified in the Basic Lease Information. The Base Rent shall be payable in equal consecutive monthly payments on or before the first day of each month, in advance, at the address specified for Landlord in the Basic Lease Information, or such other place as Landlord may designate in writing upon not less than thirty (30) days' advance notice. City shall pay the Base Rent without any prior demand and without any deductions or setoff except as otherwise provided in this Lease. If the Commencement Date occurs on a day other than the first day of a calendar month or the Expiration Date occurs on a day other than the last day of a calendar



month, then the monthly payment of the Base Rent for such fractional month shall be prorated based on a thirty (30)-day month.

The first one (1) month of Base Rent shall be abated.

On each date specified in the Basic Lease Information for the adjustment of Base Rent (an "Adjustment Date"), the Base Rent payable shall be increased to one hundred three percent (103%) of the Base Rent in effect immediately prior to such adjustment.

#### **4.2 Additional Charges**

City shall reimburse Landlord, on a monthly basis upon receipt of appropriate invoices, for the following as additional Rent: (i) electrical charges payable by City as set forth in Section 9.2(c) (Electricity), and (ii) the after-hours or excess services and utilities costs as set forth in Section 9.2(e) (After Hours and Additional Services). In addition, City shall pay to Landlord as additional Rent, City's Percentage Share of increases in Real Estate Taxes and Operating Costs as provided in Section 4.3 through Section 4.8 below. All of the reimbursements, payments and charges referred to in this Section 4.2 are collectively referred to in this Lease as the "Additional Charges." All such Additional Charges shall be payable to Landlord at the place where the Base Rent is payable. Landlord shall have the same remedies for a default in the payment of any Additional Charges as for a default in the payment of Base Rent. The Base Rent, Additional Charges, and Additional Construction Allowance Amortization Payments, if any, are sometimes collectively referred to as "Rent."

#### **4.3 Definitions**

For purposes hereof, the following terms shall have the meanings hereinafter set forth:

- (a) "Base Year" means the year specified in the Basic Lease Information.
- (b) "City's Percentage Share" means the percentage specified in the Basic Lease Information.
- (c) "Expense Year" means each calendar year commencing January 1st of each year during the Term, including any partial year in which this Lease commences; provided that Landlord, upon advance written notice to City, may change the Expense Year to any other twelve (12) consecutive month period and, in the event of any such change, City's Percentage Share of Operating Costs shall be equitably adjusted for the Expense Years involved in any such change. Expense Year shall not include the Base Year.
- (d) "Operating Costs" means the total reasonable and prudent costs and expenses actually paid or incurred by Landlord in connection with the management, operation, maintenance and repair of the Building, including, but not limited to: (1) the cost of air conditioning, electricity, steam, water, heating, mechanical, telephone, ventilating, escalator and elevator systems and all other utilities, (2) the cost of repairs and all labor and material costs related thereto, and the cost of general maintenance, cleaning and service contracts and the cost of all supplies, tools and equipment required in connection therewith, (3) the cost incurred by Landlord for all insurance required to be carried on the Building or the use or occupancy thereof, (4) wages, salaries, payroll taxes and other labor costs and employee benefits relating to employees of Landlord or its agents engaged in the operation, repair, or maintenance of the Building, allocated in proportion to the percentage of such person's working time actually spent working in connection with the Building, (5) reasonable management fees, (6) fees, charges and other costs of all independent contractors engaged by Landlord, allocated in proportion to the percentage of such person's working time actually spent working in connection with the Building, (7) accounting and legal expenses, (8) depreciation on personal property, including, without limitation, carpeting in public corridors and Common Areas and window coverings provided by Landlord, (9) the fair market rental value of offices in the Building for the property





manager, (10) the cost of capital improvements made to the Building after completion of its construction as a labor-saving or energy saving device or to effect other economies in the operation or maintenance of the Building and which benefit the Premises, or made to the Building after the date of this Lease that are required under any governmental law or regulation that was not applicable to the Building at the time that permits for the construction thereof were obtained, unless caused by Landlord's deliberate or negligent violation of such law, rule or regulation, and except to the extent such improvements are attributable to or are made for the primary benefit of a tenant or occupant other than City, and (11) any other expenses reasonably incurred in connection with the management, operation, maintenance or repair of the Building (other than Real Estate Taxes and any services for which Landlord is separately and directly reimbursed by City or other tenants in the Building) which would, under generally accepted accounting principles, be considered an operating expense. The computation of Operating Costs shall be made in accordance with generally accepted accounting principles. With respect to the costs of items included in Operating Costs under (10), such costs shall be amortized over the useful life thereof, together with interest on the unamortized balance at a rate per annum equal to three (3) percentage points over the Treasury Rate charged at the time such item is constructed, but not more than the maximum rate permitted by law at the time such item is constructed.

In the event that in the Base Year for Operating Costs or in any Expense Year the Building is less than ninety-five percent (95%) occupied, the Operating Costs shall be appropriately adjusted to reflect a ninety-five percent (95%) occupancy level. In no event shall Landlord recapture more than one hundred percent (100%) of the Operating Costs in any Expense Year.

Notwithstanding the foregoing, "Operating Costs" shall exclude the items described on the attached Exhibit C.

(e) "Real Estate Taxes" means all taxes, assessments and charges levied upon or with respect to the portion of the Building owned by Landlord, or Landlord's interest in the Building. Real Estate Taxes shall include, without limitation, all general real property taxes and general and special assessments, fees or taxes imposed upon or levied against rents, charges, fees, or assessments for transit, housing, police, fire, or other governmental services thereof, service payments in lieu of taxes that are now or hereafter levied or assessed against Landlord by the United States of America, the State of California or any political subdivision thereof, public corporation, district, or any other political or public entity, and shall also include any other tax, fee or other excise, however described, that may be levied or assessed as a substitute for, or as an addition to, in whole or in part, any other Real Estate Taxes.

Notwithstanding the foregoing, Real Estate Taxes shall exclude (1) franchise, transfer, inheritance, or capital stock taxes or income taxes measured by the net income of Landlord from all sources unless, due to a change in the method of taxation, any of such taxes is levied or assessed against Landlord as a substitute for, or as an addition to, in whole or in part, any other tax that would otherwise constitute a Real Estate Tax, (2) any penalties, fines, interest or charges attributable to the late payment of any taxes, except to the extent attributable to City's failure to pay its portion of Real Estate Taxes hereunder, (3) any personal property taxes payable by City hereunder or by any other tenant or occupant of the Building, or (4) any increase in Real Estate Taxes due to any reassessment upon a transfer of any of Landlord's interest in the Building or the real property on which the Building is located.

(f) "Tax Year" means each calendar year during the Term, including any partial year during which this Lease may commence; provided that Landlord, upon notice to City, may change the Tax Year from time to time to any other twelve (12) consecutive month period and, in the event of any such change, City's Percentage Share of Real Estate Taxes shall be equitably adjusted for the Tax Year involved in any such change. Tax Year shall not include the Base Year.



#### **4.4 Payment of Percentage Share of Increases in Operating Costs**

During the Term, commencing after the end of the Base Year, City shall pay to Landlord each month, as Additional Charges, one twelfth (1/12) of City's Percentage Share of the amount, if any, by which Operating Costs for each Expense Year exceed the Operating Costs for the Base Year. City shall make such payments, in advance, in an amount estimated by Landlord in reasonable detail in a writing delivered to City by November of the previous year (e.g., by November 2014 for the calendar year 2015 payments). Landlord may revise such estimates of Operating Costs during an Expense Year if done in a writing delivered to City prior to May 1st, and City shall thereafter make payments on the basis of such revised estimates, commencing on the first day of the calendar month which is thirty days after City's receipt of the revised estimate. With reasonable promptness not to exceed sixty (60) days after the expiration of each Expense Year, Landlord shall furnish City with a statement (herein called "Landlord's Expense Statement") setting forth in reasonable detail the Operating Costs for such Expense Year and City's Percentage Share of increases therein. If City's Percentage Share of the actual increase in Operating Costs for such Expense Year exceeds the estimated increase in Operating Costs paid by City for such Expense Year, City shall pay to Landlord (whether or not this Lease has terminated) the difference between the amount of estimated increase Operating Costs paid by City and City's Percentage Share of the actual increase in Operating Costs (the "Expense Shortfall") as follows: the amount of the Expense Shortfall up to five percent (5%) of the total amount of estimated Operating Cost increase paid by City for such Expense Year shall be payable within thirty (30) days after Landlord's delivery of Landlord's Expense Statement to City, and the balance of the Expense Shortfall, if any, shall be paid at the beginning of City's next fiscal year. If the total amount paid by City for any such Percentage Share of increases in Operating Costs exceeds City's Operating Costs Share of the actual increase Operating Costs for such Expense Year, such excess shall be credited against the next installments of increases in Operating Costs due from City to Landlord hereunder, or refunded to City, at City's option.

#### **4.5 Payment of Percentage Share of Increases in Real Estate Taxes**

During the Term, commencing after the end of the Base Year, City shall pay to Landlord each month, as Additional Charges, one twelfth (1/12) of City's Percentage Share of the amount, if any, by which Real Estate Taxes for each Tax Year exceed Real Estate Taxes for the Base Year. City shall make such payments, in advance, in an amount estimated by Landlord in reasonable detail in a writing delivered to City. With reasonable promptness not to exceed thirty (30) days after Landlord has received the tax bills for any Tax Year, Landlord shall furnish City with a statement ("Landlord's Tax Statement") setting forth the amount of Real Property Taxes for such Tax Year and City's Percentage Share thereof. If City's Percentage Share of the actual increase in Real Estate Taxes for such Tax Year exceeds the estimated increases in Real Estate Taxes paid by City for such Tax Year, City shall pay to Landlord (whether or not this Lease has terminated) City's Percentage Share of the actual increases in Real Estate Taxes within thirty (30) days after the receipt of Landlord's Tax Statement. If the total amount of estimated increases in Real Estate Taxes paid by City for such Tax Year exceeds City's Percentage Share of the actual increases in Real Estate Taxes for such Tax Year, such excess shall be credited against the next installments of Real Estate Taxes due from City hereunder, or at City's option, such excess shall be refunded to City.

#### **4.6 Proration**

If the Commencement Date or Expiration Date shall occur on a date other than the first or last day of a Tax Year or Expense Year, City's Percentage Share of Real Estate Taxes or Operating Costs for the Tax Year or Expense Year in which the Commencement Date or Expiration Date occurs, shall be prorated based on a three hundred sixty-five (365)-day year.



#### **4.7 Audits**

City shall have the right, upon not less than five (5) business days' notice to Landlord, to audit the books and records of the Building related to Operating Costs and Real Estate Taxes. If such audit discloses any discrepancies which would result in a reduction of City's Percentage Share of Operating Costs for any Expense Year, Landlord shall immediately refund to City the amount of any overpayment by City. City shall pay the cost of such audit, provided that if such audit discloses any discrepancies which result in a reduction of City's Percentage Share of Operating Costs of three percent (3%) or more for any Expense Year, then Landlord shall pay the costs of such audit.

#### **4.8 Records**

Landlord shall maintain at the Building or at its offices in San Francisco in a safe, complete and organized manner all of its records pertaining to this Lease and Real Estate Taxes, Operating Costs and any other charges paid by City pursuant hereto, for a period of not less than three (3) years following expiration of the Term. Landlord shall maintain such records on a current basis and in sufficient detail to facilitate adequate audit and review thereof. All such books and records shall be available for inspection, copying and audit by City and its representatives, at City's expense, subject to the provisions of Section 4.7 above.

#### **4.9 Determination of Base Rent for the Extended Term**

At the commencement of the Extended Term, the Base Rent shall be adjusted to equal ninety five percent (95%) of the then prevailing market rate for space of comparable size and location to the Premises then being offered for rent in other buildings similar in age, location and quality to the Premises situated within the Civic Center area of San Francisco ("Reference Area"). As used herein, the term "prevailing market rate" shall mean the base rental for such comparable space, taking into account (i) any additional rental and all other payments and escalations payable hereunder, (ii) location and size of the premises covered by leases of such comparable space, (iii) the duration of the renewal term and the term of such comparable leases, (iv) free rent given under such comparable leases and any other tenant concessions, (v) credit worthiness of the tenant, and (vi) building standard tenant improvement allowances and other allowances given under such comparable leases.

Within thirty (30) days following City's exercise of the Extension Option, Landlord shall notify City of Landlord's determination of the prevailing market rate for the Premises along with substantiation for such determination. If City disputes Landlord's determination of the prevailing market rate, City shall so notify Landlord within fourteen (14) days following Landlord's notice to City of the prevailing market rate and such dispute shall be resolved as follows:

(a) Within thirty (30) days following Landlord's notice to City of the prevailing market rate, Landlord and City shall attempt in good faith to meet no less than two (2) times, at a mutually agreeable time and place, to attempt to resolve any such disagreement.

(b) If within such thirty (30)-day period Landlord and City do not reach agreement as to the prevailing market rate, they shall each select one commercial real estate broker to determine the prevailing market rate. Each such commercial real estate broker shall arrive at a determination of the prevailing market rate and submit his or her conclusions to Landlord and City within thirty (30) days of the expiration of the thirty (30) day consultation period described in (a) above.

(c) If only one determination is submitted within the requisite time period, it shall be deemed to be the prevailing market rate. If both determinations are submitted within



such time period, and if the two determinations so submitted differ by less than ten percent (10%) of the higher of the two, then the average of the two shall be the prevailing market rate. If the two determinations differ by more than ten percent (10%) of the higher of the two, then the two commercial real estate broker shall immediately select a third appraiser who will within thirty (30) days of his or her selection make a determination of which of the two submitted prevailing market rates closest reflects its determination and submit such determination to Landlord and City.

(d) If City's Director of Property does not in good faith believe that the prevailing market rate as determined by the appraisal procedure specified above will be approved by the City's Board of Supervisors and Mayor in their sole and absolute discretion, the Director of Property shall revoke the exercise of the Extension Option by City by delivering written notice of such revocation within ten (10) days after such determination.

(e) All commercial real estate brokers specified herein shall have not less than five (5) years' experience with leases of commercial properties similar to the Premises in the Reference Area. Landlord and City shall pay the cost of the commercial real estate broker selected by such party and one-half of the cost of the third commercial real estate broker, if any.

#### **4.10 Amortization of Additional Construction Allowances**

City shall pay Landlord on a monthly basis concurrently with Base Rent, as additional Rent, the Additional Construction Allowance Amortization Payments, if any, calculated in accordance with Section 6.1(k), during the payment period specified therein.

### **5. USE**

#### **5.1 Permitted Use**

City may use the 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> floor Premises for administrative and/or general office uses by the San Francisco Employees' Retirement System and such other uses as may be specified in the Basic Lease Information, and for no other use without the prior written consent of Landlord, which shall not be unreasonably withheld or delayed. City may use the approximately 200 square foot Bike Room Premises on the 1<sup>st</sup> floor for a bicycle storage room. City shall not use the Premises for any medical treatment, parole offices, youth counseling, public access to social services, or any other high traffic use without Landlord's prior written consent, which Landlord may withhold in its sole discretion.

#### **5.2 Observance of Rules and Regulations**

City shall observe Landlord's reasonable rules and regulations for the Building subject to the provisions of this Lease. City acknowledges and agrees to the current Building rules and regulations attached hereto as Exhibit D (the "Rules and Regulations"). City acknowledges that all visitors to the Premises must sign in at the Security Desk, and agrees to indemnify Landlord against any lawsuits, claims or judgments resulting from the imposition of such security requirement, except to the extent that Landlord or Landlord's security personnel are found to have engaged in willful misconduct. Landlord may make reasonable additions or modifications thereto, which shall be binding upon City within a reasonable implementation period upon Landlord's delivery to City of a copy thereof, provided that such additions or modifications shall not reduce Landlord's obligations hereunder nor interfere with City's business in the Premises, and such additions or modifications must be applicable to the other Building tenants, are not in conflict with the provisions of this Lease, do not materially increase the burdens or obligations upon City, do not impose a charge upon City for services that this Lease expressly states are to be provided to City at no charge, and do not materially adversely affect the conduct of any business in the Premises which City is permitted to conduct pursuant to Section 5.1 hereof.





Landlord shall administer the Rules and Regulations in a fair and nondiscriminatory manner and use reasonable efforts to cause other Building tenants to comply with them. City shall be entitled upon request to any waiver or special dispensation granted by Landlord to any other tenant in the Building with respect to the Rules and Regulations, and Landlord shall notify City of any such waiver or special dispensation.

### **5.3 Interference with Access**

Landlord shall provide to City at all times use of the Premises and uninterrupted access thereto to the maximum extent possible, including, without limitation, during any power outages affecting the Premises or any portion of the Building; provided, however, that Landlord may, after consultation with the City's Administrator, interrupt City's access to the Premises or the Building in the event of an immediate threat of the Premises, the Common Areas or any other portion of the Building being rendered unsafe for human occupancy. If City's use of any of the Premises or access thereto is interrupted as a result of the Premises, the Common Areas or any other portion of the Building being rendered unsafe for human occupancy due to Landlord's failure to comply with its obligations under this Lease or for any other reason other than City's default hereunder, then Landlord shall immediately undertake all necessary steps to correct such condition. In the event such condition continues for five (5) or more consecutive days and impairs City's ability to carry on its business in the Premises, the Rent payable hereunder shall be abated based on the extent to which such default interferes with City's ability to carry on its business at the Premises. If any such default by Landlord shall continue for thirty (30) days or more after City's use is interrupted and impairs City's ability to carry on its business in the Premises, then City shall have the right, without limiting any of its other rights under this Lease to terminate this Lease, unless Landlord supplies City with evidence reasonably satisfactory to City that City's normal and safe use will be restored within sixty (60) days of the date City's use was interrupted, and such use is actually restored within such 60-day period. Nothing in this Section shall limit City's rights with respect to any disruption due to casualty pursuant to Section 12 (Damage and Destruction) hereof.

## **6. LEASEHOLD IMPROVEMENTS**

### **6.1 Leasehold Improvement Work - Landlord's Obligation to Construct Improvements**

#### **(a) Generally**

Landlord shall demise the Premises, and, through Landlord's general contractor approved by City ("Contractor"), shall perform the work and make the installations in the Initial Premises and Additional Premises pursuant to the Construction Plans (as defined below in this Section) approved by City, and in accordance with the provisions of this Section. Such work and installations are referred to as the "Leasehold Improvement Work" and "Leasehold Improvements."

#### **(b) Plans and Specifications**

Prior to the reference date of this Lease, Landlord has caused ASD to prepare and submit to City for its approval an architectural plan and power and signal plan for the Leasehold Improvement Work, based on City's program requirements for use of the Premises, and in form and detail sufficient for purposes of contractor pricing. City hereby approves the plans and specifications prepared by ASD, dated \_\_\_\_\_, 2013 (the "Preliminary Construction Plans"). Landlord shall cause ASD or another architect or space planner selected by Landlord and approved by City to promptly prepare construction drawings and specifications suitable for permitting and constructing the Leasehold Improvements ("Construction Plans") consistent with the Preliminary Construction Plans, in accordance with the provisions of this Article 6. Landlord and City shall cooperate in good faith in the review and completion of the construction drawings



and specifications required to expeditiously finalize the Construction Plans. ADS or such other architect or space planner selected by Landlord and approved by City is referred to herein as "Architect."

**(c) Mayor's Office of Disability Review; Permits**

Landlord shall secure and pay for any building and other permits and approvals, government fees, licenses and inspections necessary for the proper performance and completion of the Leasehold Improvement Work shown on the approved Construction Plans.

Landlord acknowledges that City requires that the Construction Plans be reviewed by the San Francisco Mayor's Office of Disability ("MOD") for compliance with the American With Disabilities Act of 1990 ("ADA") and other related laws prior to submittal to the San Francisco Department of Building Inspection for construction permits. Landlord shall cause the Architect to submit the Construction Plans to the MOD for review promptly following execution and delivery of this Lease. If MOD requires revisions to the Construction Plans or modifications or additional improvements to the Premises or the Building, Landlord shall cause Architect to revise the Construction Plans and/or design and prepare all additional plans and specifications as required by such MOD review, in conformity with ADA and other legal requirements. Such revised plans and additional plans shall thereafter to be referred to as the "Construction Plans." Upon MOD's approval of the Construction Plans, Landlord shall cause Architect to notify Landlord and City that the Construction Plans have been approved and to identify the additional work, if any, specified therein as a result of the MOD review (such work being referred to as the "MOD Identified Work").

Promptly following MOD's approval of the Construction Plans and City's approval of the construction budget, as provided below, Landlord shall apply for any permits, approvals or licenses necessary to complete the construction shown on the Construction Plans and shall provide copies to City promptly following receipt thereof. Landlord shall be responsible for arranging for all inspections required by the San Francisco Bureau of Building Inspection.

**(d) City's Approval of Costs**

As soon as practicable and prior to permit submittal, Landlord shall provide to City, for City's approval, a good faith initial construction budget ("ROM") based on the Preliminary Construction Plans. City shall have five (5) business days to review and approve or disapprove the ROM. If City desires to reduce the ROM, Landlord and City shall work in good faith to promptly reduce the scope of work and the ROM, and the Construction Plans shall be revised as required to reflect such changes.

Prior to commencing construction of the Leasehold Improvement Work, Landlord shall prepare and submit to City, based on the Construction Plans, a not to exceed cost for the Leasehold Improvement Work, showing all costs to be paid from the Allowance (as defined below) or by City, including a Contractor contingency of five percent (5%). City shall have five (5) business days to review and approve or disapprove the not to exceed cost construction budget.

If during the course of construction, the Leasehold Improvements cannot be completed in strict conformity with the most recently City approved construction budget, Landlord shall immediately submit to City for its approval a revised construction budget and shall identify to City changes in line items and the reasons for the changes. If further changes are required, Landlord shall seek City's approval, following the same procedures. No costs shall be charged against the Allowance, and City shall not be obligated to pay any costs in excess of the Allowance, unless and until City approves the construction budget and any revisions thereto. City shall have the right to approve or disapprove any construction budget or revisions in its



reasonable judgment. No such approval or disapproval shall be unreasonably delayed. The most recently approved construction budget shall supersede all previously approved budgets.

**(e) Construction**

Immediately upon Landlord's procurement of all necessary permits and approvals, and City's approval of the budget for the Leasehold Improvement Work, Landlord shall cause Contractor to commence construction and shall cause the Leasehold Improvements to be completed in a good and professional manner in accordance with sound building practice. Landlord shall comply with and give notices required by all laws, rules, regulations, ordinances, building restrictions and lawful orders of public authorities bearing on construction of the Leasehold Improvements. Without limiting the foregoing, construction of the Leasehold Improvements shall comply with all applicable disabled access laws, including, without limitation, the most stringent requirements of the Americans With Disabilities Act of 1990, Title 24 of the California Code of Regulations (or its successor) and City's requirements for program accessibility. Landlord shall pay prevailing wages in connection with construction of the Leasehold Improvement Work as further provided in Section 23.24 (Prevailing Wages for Construction Work), below, and shall not use tropical hardwood wood products, or virgin redwood wood products as further provided in Section 23.26 (Tropical Hardwood and Virgin Redwood Ban), below.

**(f) Construction Schedule; Substantial Completion**

Landlord shall keep City apprised on a regular basis of the status of plan preparation, permit issuance and the progress of construction. From time to time during the design and construction of the Leasehold Improvements, City shall have the right upon reasonable advance oral or written notice to Landlord to enter the Premises at reasonable times to inspect the Premises, provided such inspections do not unreasonably interfere with the construction. Landlord or its representative may accompany City during any such inspection. When construction progress so permits, but not less than fifteen (15) days in advance of completion, Landlord shall notify City of the approximate date on which the Leasehold Improvement Work will be Substantially Completed (as defined below) in accordance with the Construction Plans. Landlord shall revise such notice of the approximate Substantial Completion date as appropriate from time to time and shall immediately notify City when the Leasehold Improvement Work is in fact Substantially Completed and the Premises are ready for occupancy by City. On such date or other mutually agreeable date as soon as practicable thereafter, City and its authorized representatives shall have the right to accompany Landlord or its architect on an inspection of the Premises.

The Leasehold Improvement Work shall be deemed to be "Substantially Completed" for purposes of this Lease when (i) the Leasehold Improvements shall have been sufficiently completed in accordance with the approved Construction Plans so that City can occupy the Premises and conduct its business for its intended uses, (ii) Landlord has procured a temporary or final certificate of occupancy for the Premises, (iii) Landlord has delivered an HVAC Air Balance Report to City detailing that the HVAC system performs as designed, (iv) Landlord has run the HVAC so as to have performed a three (3) day "burn off," (v) the exterior windows have been cleaned or are scheduled to be cleaned within 30 days, (vi) the Base Building work as described in Section 6.4 is Substantially Complete, and (vii) City, through City's Director of Property, shall have approved the Leasehold Improvements. City may, at its option, approve the Leasehold Improvements even though there may remain details that would not interfere with City's use. Landlord shall diligently pursue to completion all such details. Notwithstanding the foregoing, City shall have the right to present to Landlord within thirty (30) days after acceptance of the Premises, or as soon thereafter as practicable, a written punchlist consisting of any items that have not been finished in accordance with the Construction Plans. Landlord shall promptly complete all defective or incomplete items identified in such punchlist, and shall in any event complete all items within thirty (30) days after the delivery of such list. City's failure to



include any item on such list shall not alter the Landlord's responsibility hereunder to complete all Leasehold Improvement Work in accordance with the approved Construction Plans, nor constitute any waiver of any latent defects.

Substantial Completion shall be determined separately for the Initial Premises and the Additional Premises.

**(g) Changes to Leasehold Improvement Plans and Documents; Tenant Delay**

If City inquires (orally or in writing) about any change, addition or alteration relating to the design or specifications of the Leasehold Improvement Work (a "Change Order"), Landlord shall cause its Architect and Contractor to promptly supply a good faith not to exceed change order cost estimate. In the event that a City requested Change Order would delay Substantial Completion (as defined below), Landlord shall also provide its good faith estimate of such a delay. Within five (5) business days of receipt of such cost and delay estimates, City shall notify Landlord in writing whether City approves the proposed. If City approves the proposed change within the five (5) business day period, then Contractor shall proceed with such City Change Order as soon as reasonably practical thereafter. If implementation of the Change Order results in a delay in Substantial Completion of the Leasehold Improvements (a "Tenant Delay") to the Initial Premises or to the Additional Premises, City's obligation to pay Base Rent for such increment of the Premises (the Initial Premises or the Additional Premises, as applicable) shall commence as of the date the Leasehold Improvements to such increment of the Premises would have been Substantially Complete had it not been for the Tenant Delay. Notwithstanding the foregoing, City shall be responsible, and the date for Base Rent commencement shall be accelerated, only to the extent any delay in Substantial Completion is actually and directly caused by Tenant Delays.

**(h) Required Documentation of Costs**

Landlord shall provide City with copies of (i) all invoices received by Landlord from the Architect or the Contractor in connection with the preparation of the Construction Plans or the Change Order or construction of the Leasehold Improvement Work, (ii) satisfactory evidence of payment by Landlord of the Architect's or Contractor's invoices, and (iii) upon City's request, such documentation as the Contractor may have provided to Landlord pursuant to the contract for the Leasehold Improvement Work, including copies of any and all unconditional lien waivers, or if contractors have not been paid, conditional lien waivers, and such additional supporting data substantiating the Architect's or Contractor's right to payment as the Architect or Contractor may have delivered under the contract for the Leasehold Improvement Work, such as copies of requisitions from subcontractors and material suppliers.

**(i) Payment for Work; Allowance**

Landlord shall pay for all cost of planning, constructing and installing the Leasehold Improvements (as defined below) up to a total sum of \$2,040,335.00, (the "Allowance"). Unused portions of the Allowance may not be credited against Base Rent or other obligations due and payable under this Lease, and shall not be payable to City. In the event that the actual costs to construct and install the Leasehold Improvements incurred by Landlord exceed the amount of the Allowance, City shall pay such excess costs at the time of Substantial Completion upon receipt of required documentation in accordance with Section 6.1(h), subject to City's right to request the Additional Construction Allowance(s) pursuant to Section 6.1(k) below.

**(j) Inclusions and Exclusions of Costs Paid from the Allowance or by City**

The Leasehold Improvement costs shall include all actual and reasonable hard and soft costs of the Leasehold Improvements. Such costs shall include but not be limited to architectural fees, engineering fees, consulting fees, project manager fees up to a maximum of





three percent (3%) of the total Leasehold Improvement cost, costs of permits, application fees, testing and inspection fees, and Contractor and vendor costs for the Leasehold Improvement Work, including for improvements that are required to bring the Premises and the Common Areas serving the Premises into compliance with all Disabled Access Laws and other laws and codes. Pricing plan costs incurred prior to September 25, 2013 will not be included, and those incurred on or after September 25, 2013 will be included.

City shall not be responsible for, and the Allowance shall not be used for, any review, supervision, administration or management fees of any person or entity, any overhead or other general expenses of Landlord, or any other person or entity other than a Construction/Project Manager at a cost not to exceed 3% of the Leasehold Improvement cost, or any charges for parking or use of hoists or freight elevators.

#### **(k) Additional Construction Allowance**

At City's request, in addition to the Allowance, Landlord shall provide an additional allowance for construction of the Leasehold Improvements (an "Additional Construction Allowance"). The Additional Construction Allowance shall be in the amount of \$1,112,910.00 Dollars. Commencing on the Commencement Date, and continuing until such sum is repaid in full, City shall pay Landlord on a monthly basis, as additional Rent, the sum required to amortize the Additional Construction Allowance on a straight-line basis with interest on unpaid sums at seven percent (8%) per annum, over the period commencing on the Commencement Date and ending on the Expiration Date (without regard to the Extension Option) (each such monthly payment, an "Additional Construction Allowance Amortization Payment"). Landlord and City shall confirm in writing the amounts of the Additional Construction Allowance disbursed hereunder and the amounts of the Additional Construction Allowance Amortization Payment(s). City may prepay part or all of the Additional Construction Allowance at any time without pre-payment penalty.

#### **(l) Import of Approvals**

No approval by City or any of its Agents of the Construction Plans, any other construction documents or completion of the Leasehold Improvement Work for purposes of this Lease shall be deemed to constitute approval of any governmental or regulatory authority with jurisdiction over the Premises, and nothing herein shall limit Landlord's obligations to obtain all such approvals.

### **6.2 Installation of Telecommunications and Other Equipment**

Landlord and City acknowledge that the Leasehold Improvement Work shall be completed by Landlord exclusive of the installation of telecommunications, data and computer cabling facilities and equipment but potentially inclusive of certain data and telephone wiring. City shall be responsible for installing such facilities and equipment, provided that Landlord shall furnish access to City and its consultants and contractors to the main telephone service serving the floor(s) on which the Premises are located and all other parts of the Building for which access is needed for proper installation of all such facilities and equipment including, but not limited to, wiring and fiber optic cable through the basement to the street or into 1155 Market Street, and roof mounted telecommunications equipment as may be agreed. City shall have the right to enter the Premises and such other portions of the Building at reasonable times during the course of performance of the Leasehold Improvement Work or during the Term in order to install such facilities and equipment. City and Landlord shall use their good faith efforts to coordinate any such activities to allow the Leasehold Improvement Work and the installation of such facilities and equipment to be completed in a timely and cost-effective manner.



### **6.3 LEED Certification**

Landlord shall reasonably cooperate (at no additional cost and without liability to Landlord) with City's efforts to seek a minimum of LEED Gold certification, as outlined by the U.S. Green Building Council, with respect to the Leasehold Improvements. Landlord shall engage LEED professional(s) to consult with Landlord in connection with the design and construction of the Leasehold Improvements, provided that City shall pay all fees and costs of such LEED professionals and all costs incurred in connection with LEED documentation and the filing of all LEED applications. Landlord shall provide to City, for City's approval or disapproval, a budget or other satisfactory estimate of the fees of such professionals prior to engaging them. The foregoing LEED costs may be paid out of the Allowance or Additional Construction Allowance, and the costs for improvements related to LEED certification shall be treated as part of the Leasehold Improvement Work, and shall be paid out of the Allowance or Additional Construction Allowance (to the extent funds are available therefor), regardless of the location of the improvement in the Building (including, but not limited to, improvements to the Common Areas or Building Systems); provided, with respect to Landlord's Base Building Improvements, Landlord shall use good faith efforts to perform such work in furtherance of the proposed LEED certification to the extent commercially reasonable, but Landlord shall not be obligated to perform any specific work, install any material, or take any other action to the extent it would increase the cost of design or construction to Landlord unless City agrees to pay for the increased cost, and Landlord reasonably determines that sufficient funds are available from the applicable Allowance in which event such costs shall be deducted from the Allowance, as incurred. Further, the above notwithstanding, Landlord shall not be obligated to make improvements or changes to Building Systems or operations which directly and adversely impact Landlord's operation of the Building. Any delay in Substantial Completion resulting from City's election to seek LEED certification shall constitute a Tenant Delay, except to the extent such delay results from a Landlord Delay. After Landlord becomes aware of any factor that will, or is likely to, result in a Tenant Delay due to City's election to seek LEED certification, Landlord shall use reasonable good faith efforts to promptly notify City of such occurrence, together with Landlord's then good faith estimate of the probable duration of such Tenant Delay, but failure to provide such notice shall not constitute a waiver of such Tenant Delay. Landlord shall cooperate with City to minimize, to the extent reasonably possible, the Tenant Delay resulting from City's election to seek LEED Gold certification. Failure to obtain LEED certification shall not impose any liability on Landlord or diminish City's obligations under this Lease.

### **6.4 Base Building Work.**

Landlord shall be solely responsible for the base, core, shell of the Premises and provision of Building Systems stubbed into the Premises including, without limitation, earthquake, fire and life safety and other work, and no portion of the Allowance shall be applied to any such costs. Landlord shall promptly commence construction of the following improvements to the Building ("Base Building Work" or "Base Building Improvements") after the later of the Effective Date and the date of approval of all required permits for construction in accordance with the Base Building construction documents reasonably approved by City, and shall diligently pursue construction to completion. Landlord shall cause the Base Building Improvements to be constructed and installed in a good and professional manner in accordance with sound building practice and in conformity with such approved Base Building construction documents, as revised by any approved Change Orders, and the terms of this Section 6.4. City shall not have any obligation with respect to any such work other than as provided herein.

#### **(a) Accessibility Improvements.**

Landlord shall through its approved Contractor furnish and install all improvements that are required to bring the Premises and the Common Areas serving the Premises (Floors 1-7),



including, without limitation, the lobbies, corridors, telephone banks, drinking fountains, elevators, elevator vestibules, stairs, stair vestibules and restrooms, and signage in all such areas, into full compliance with all Disabled Access Laws. All costs of such work to the Common Areas up to \$371,000 shall be performed at Landlord's sole cost and expense, and no such costs shall be deducted from the Allowance. The cost, if any, in excess of \$371,000 shall be paid by City. City may apply unused amounts (if any) from the Allowance to this obligation.

**(b) Balconies**

Landlord shall through its Contractor furnish and install all improvements as shown on the Preliminary Construction Plans and provide mutually agreeable synthetic plants for the planter boxes. Landlord shall complete such work and all costs of such work shall be performed at Landlord's sole cost and expense, and no such costs shall be deducted from the Allowance.

**(c) 1<sup>st</sup> -7<sup>th</sup> Floor Common Area Upgrade Improvements.**

Landlord shall be responsible for any upgrades to the Common Areas serving the Premises, including, without limitation, the lobbies, corridors serving the Premises, elevator exteriors, elevator vestibules, lighting, paint, ceiling treatment, artwork, building security, restrooms, and signage. All costs of such work shall be performed at Landlord's sole cost and expense, and no such costs shall be deducted from the Allowance.

**(d) Code Required Improvements.**

Landlord shall through its Contractor furnish and install all improvements that are required to bring the Common Areas, and the Building Systems serving the Premises into full compliance with all Laws and Building Codes. By way of an example, if the Buildings Fire and Life Safety equipment needs to be upgraded to obtain a building permit, Landlord shall complete such work and all costs of such work shall be performed at Landlord's sole cost and expense, and no such costs shall be deducted from the Allowance.

**(e) HVAC Zoning.**

Landlord shall through its Contractor furnish and install all Building improvements including ducting and VAV boxes/ Heat Pumps that are required to provide 40 HVAC zones to the Premises. Landlord shall complete such work and all costs of such work shall be performed at Landlord's sole cost and expense, and no such costs shall be deducted from the Allowance. However, any CRAC ("Computer Room Air Conditioning") for the Premises shall be at City's cost and shall be deducted from the Allowance.

**(f) Useful Life Improvements.**

All existing improvements shall be delivered upon Substantial Completion to City in good working order, including but not limited to window blinds and HVAC units. Landlord shall, through its approved Contractor, furnish and install all Building System improvements that are required so that such systems and equipment serving the Premises, in Landlord's reasonable judgment, has a remaining useful life of more than the initial Lease term. By way of an example, if an existing HVAC unit (but not a CRAC unit) is original equipment and likely will not last another 10 years before needing replacement or major extended repairs, Landlord shall furnish and install a new unit and all costs of such work shall be performed at Landlord's sole cost and expense, and no such costs shall be deducted from the Allowance.



**(g) Separately Metering of Electricity.**

Landlord shall through its Contractor furnish and install load side separate electrical metering for the 7<sup>th</sup> Floor Premises. Such electrical metering shall be an E-Mon D-Mon Class 3000 or equivalent reasonably acceptable to City. Landlord shall complete such work and all costs of such work shall be performed at Landlord's sole cost and expense, and shall be deducted from the Allowance.

**6.5 Leasehold Improvement Work at the Start of the Extended Term**

Within one hundred eighty (180) days of City's delivery of the Extension Authorizing Resolution, and provided that the conditions for effective exercise of the right to extend have been met, Landlord shall repaint and recarpet the Premises using materials of the substantially the same quality as the initial installation and in colors approved by City. City's only responsibility with respect to the performance of such work shall be to make the premises available, clear all desktops and floor areas, and remove other loose materials which would interfere with the efficient movement of furniture to facilitate work. Landlord will perform such work after hours and on weekends and coordinate the scheduling of such work with City and cause such work to be performed in a professional manner so as to minimize disruption to City's operations.

**7. ALTERATIONS**

**7.1 Alterations by City**

City shall not make or permit any alterations, installations, additions or improvements (collectively, "Alterations") to the Premises without first obtaining Landlord's written consent, which Landlord shall not unreasonably withhold or delay. However, the installation of furnishings, fixtures, equipment or decorative improvements, none of which affect the Building Systems (as defined in Section 8 below) or structural integrity of the Building, and any repainting and recarpeting of the Premises shall not constitute Alterations requiring Landlord's consent. Any Alterations permitted hereunder shall be made at City's cost in compliance with applicable Laws (as defined below). Landlord shall, without cost to itself, cooperate with City in securing building and other permits and authorizations needed in connection with any permitted Alterations. Landlord shall not be entitled to any construction or other administrative fee in connection with any Alteration. City shall not be required to remove any Alterations upon the expiration or sooner termination of this Lease unless Landlord notifies City in writing at the time Landlord approves such Alterations that they must be removed at the Expiration Date.

**7.2 Title to Improvements**

Except for City's Personal Property (as defined in Section 7.3 below), all appurtenances, fixtures, improvements, equipment, additions and other property permanently installed in the Premises as of the Commencement Date or during the Term shall be and remain Landlord's property. City may not remove such property unless Landlord consents thereto.

**7.3 City's Personal Property**

All furniture, furnishings, equipment, trade fixtures and articles of movable personal property installed in the Premises by or for the account of City and that can be removed without structural damage to the Premises (collectively, "City's Personal Property") shall be and remain City's property. At any time during the Term or at the expiration thereof, City may remove any of City's Personal Property, provided City shall repair any damage to the Premises resulting





therefrom. Upon the expiration or earlier termination of this Lease, City shall remove City's Personal Property from the Premises in accordance with Section 20 (Surrender of Premises), below. Landlord acknowledges that some of City's Personal Property may be financed by an equipment lease financing otherwise subjected to a security interest, or owned by an equipment company and leased to City. Landlord, upon City's reasonable request, shall execute and deliver any document required by any supplier, lessor, or lender in connection with the installation in the Premises of any items of City's Personal Property, pursuant to which Landlord waives any rights it may have or acquire with respect to City's Personal Property, so long as the supplier, equipment lessor or lender agrees that it (i) will remove the Property from the Premises within thirty (30) days after the Expiration Date (but if it does not remove City's Personal Property within such time it shall have waived any rights it may have had to City's Personal Property), and (ii) will repair any damage caused by the removal of City's Personal Property. Landlord shall recognize the rights of any supplier, lessor or lender who has an interest in any items of City's Personal Property to enter the Premises and remove such property at any time during the Term or within thirty (30) days after the Expiration Date.

#### **7.4 Alteration by Landlord**

Landlord shall use its best efforts to minimize interference with or disruption to City's use and occupancy of the Premises during any alterations, installations, additions or improvements to the Building, including without limitation any leasehold improvement work for other tenants in the Building. Landlord shall promptly remedy any such interference or disruption upon receiving City's notice thereof.

### **8. REPAIRS AND MAINTENANCE**

#### **8.1 Landlord's Repairs**

Landlord shall repair and maintain, at its cost and in first-class condition, the exterior and structural portions of the Building, including, without limitation, the roof, foundation, bearing and exterior walls and subflooring, and the heating, ventilating, air conditioning, plumbing, electrical, fire protection, life safety, security and other mechanical, electrical and communications systems of the Building (collectively, the "Building Systems") and the Common Areas. Without limiting the foregoing, Landlord shall maintain the Building in a clean, safe and attractive manner, provide exterior graffiti removal with reasonable frequency and shall not permit any other tenants of the Building to disturb or interfere with City's use of the Premises or permit to be done in or about the Building or the Common Areas anything that is illegal, is dangerous to persons or property or constitutes a nuisance.

In the event that City believes that Landlord is not providing maintenance and repair commensurate with first class buildings in the Civic Center, the Director of Property shall notify Landlord and City and Landlord shall meet promptly in good faith to resolve such issues. Following such meeting, if the same maintenance and repair issues continue to occur, City may at its sole election notify Landlord that City will pursue self help for the issue. Provided (i) City obtains and closes out all permits for all work which requires permits (and provides Landlord with copies of such documents), (ii) the work is done by licensed and insured contractors and or union engineers, as generally applicable to such category of work, and (iii) the work does not involve the Building Systems or common areas other than rest rooms on a floor exclusively occupied by City, City may correct such deficiency. City shall notify Landlord of the schedule for all such work and Landlord shall have the right but not obligation to inspect and/or supervise the work, and in such event of supervision City shall pay Landlord a supervision fee of \$100.00 per hour for any hours actually spent by Landlord. City shall indemnify Landlord for all damage and or liability resulting in, around or from such work, except for Landlord's gross negligence or willful misconduct.



## **8.2 City's Repairs**

Subject to Landlord's warranty under Section 10.1 (Premises Condition and Landlord's Compliance with Laws; Indemnity), any warranties or guaranties received in connection with the performance of the Leasehold Improvement Work, and Landlord's repair and maintenance obligations hereunder, City shall repair and maintain at its cost the interior portions of the Premises and shall keep the Premises in good working order and in a safe and sanitary condition, except for ordinary wear and tear and damage by casualty. City shall make any such required repairs and replacements that Landlord specifies in writing **(i)** at City's cost, **(ii)** by contractors or mechanics selected by City and reasonably approved by Landlord, **(iii)** so that same shall be at least substantially equal in quality, value and utility to the original work or installation prior to damage thereof, **(iv)** in a manner and using equipment and materials that will not materially interfere with or impair the operations, use or occupation of the Building or the Building Systems, and **(v)** in compliance with all applicable Laws, including, without limitation, any applicable contracting requirements under the City's Charter and Administrative Code. At all times during the Term of this Lease, Landlord shall, upon reasonable notice by City, afford City and its Agents with access to those portions of the Building which are necessary to maintain or repair the telecommunications and data and computer cabling facilities and equipment installed by City.

## **8.3 Liens**

City shall keep the Premises free from liens arising out of any work performed, material furnished or obligations incurred by City during the Term. Landlord shall have the right to post on the Premises any notices permitted or required by law or that are needed for the protection of Landlord, the Premises, or the Building, from mechanics' and material suppliers' liens. City shall give Landlord at least ten (10) days' prior written notice of commencement of any repair or construction by City on the Premises.

## **9. UTILITIES AND SERVICES**

### **9.1 Landlord's Provision of Utilities**

Landlord, at its sole cost, shall furnish the following utilities and services to the Premises: (a) heating, air conditioning and ventilation in amounts required for City's comfortable use and occupancy of the Premises, during the period from 7:00 a.m. to 6:00 p.m., Monday through Friday, except holidays officially recognized by City; (b) electric current in amounts required for normal lighting and for the operation of personal computers and other normal office machines and equipment, on a twenty-four (24) hours-a-day, three hundred sixty-five (365) days-a-year basis ("Daily Basis"); (c) elevator service on a Daily Basis; (d) water for lavatory, kitchen and drinking purposes on a Daily Basis. During the Term, Landlord shall provide freight elevator service upon City's reasonable request. Without limiting Landlord's obligations hereunder, Landlord shall furnish all utilities and services required under this Lease in a manner consistent with such utilities and services normally provided in other first class buildings similar to the Building in the San Francisco Civic Center District.

### **9.2 Services**

#### **(a) Janitorial Service.**

Landlord shall provide at its cost janitorial service in accordance with the specifications contained in Exhibit E attached hereto.



**(b) Security Service.**

Landlord, without any responsibility for the efficacy thereof, shall provide at its cost security measures for the Building in accordance with and at a level comparable to security services normally provided in other first-class office buildings similar to the Building in the San Francisco Civic Center District. Such security measures shall include, at a minimum, a uniformed security guard on site 24 hours per day, 7 days per week, and 24 hours per day, 7 days per week monitoring and recording by video camera of all entrances to the Building, the loading dock/Bike Room, and the elevator lobby (with a recording of such monitoring kept available to the City for a minimum of two (2) weeks following the date of recording).

**(c) Electricity.**

Landlord shall provide electricity to the Premises as described in Section 9.1 above. City shall pay the actual cost (without mark-up) of electricity use within the Premises, as measured by submeters, to Landlord on a monthly basis, as additional Rent, within thirty (30) days after presentation of an invoice showing the usage and the charge therefor. City shall not connect any apparatus or device with wires, conduits or pipes, or other means by which the services are supplied, for the purpose of using extraordinary amounts of the services (in excess of the amount required for use of the Premises for ordinary general office purposes) without the prior written consent of Landlord. At all times, City's use of electric current shall not exceed the capacity of feeders to the Building or the risers or wiring installation, except as provided in working drawings approved by Landlord and City.

**(d) Balcony Cleaning and Maintenance.**

Landlord, at its sole cost, shall provide regular balcony maintenance, including but not limited to keeping all drains free and clear. Landlord at its sole cost shall provide professional cleaning as needed but in no event shall such cleaning be less than semiannually to keep a first class appearance.

**(e) Plant Maintenance Services.**

Landlord, at its cost, shall provide reasonable service and replacement for the synthetic plants in the balcony areas. In the event that City elects to have live plants in the balcony planter boxes, Landlord shall provide, at City's cost, plant maintenance service acceptable to City.

**(f) Other Services**

Landlord shall provide at its cost other typical office building services including but not limited to pest control, refuse removal, signage for the Building in accordance with and at a level comparable to security services normally provided in other first-class office buildings similar to the Building in the San Francisco Civic Center District.

**(g) After Hours and Additional Services**

At City's request Landlord shall provide lighting and ventilation in amounts required for City's comfortable use and occupancy of the Premises, during the period from 7:00 a.m. to 6:00 p.m. on Saturdays, and City shall reimburse Landlord for Landlord's cost of providing such services (as reasonable estimated by Landlord) together with an administration fee of fifteen percent (15%) of such cost, all as further provided on Exhibit F hereto. Landlord shall provide City with invoices for all Saturday heating, air conditioning and ventilation services and other additional services in a format reasonably approved by City. City shall not alter, adjust or tamper with the installations or facilities supplying climate control to the Building or the Premises.

Further, City shall have the right to request that Landlord perform Lease related services or incur additional expenses not covered under this Lease that the City may require from



time to time as requested by City's Real Estate Division in writing. City shall reimburse Landlord for such expenses, at rates agreed-upon in advance. In accordance with any such agreement, the cost of the additional services shall be reimbursed by City when incurred by Landlord.

#### **(h) Parking Spaces and Services**

Landlord shall use best efforts to provide City, at City's cost, with the right to rent up to 3 car monthly parking at the then fair market rent for such spaces if and when such spaces become available in the building commonly known as 1188 Market Street, San Francisco presently under construction, if it is still owned by Landlord. (Expected date of completion is January 2016). If not used by the City, the rights to such monthly parking shall be assignable to City employees working within the Premises. In addition, Landlord shall use reasonable efforts to provide City, at City's cost, with validated visitor parking, at City's additional expense for payment of parking validation and processing costs, if attendant hourly public parking should be made available at 1188 Market Street, San Francisco, if it is still owned by Landlord. Nothing in the foregoing sentence shall be construed to imply that Landlord will provide hourly attendant parking at 1188 Market Street or that if validated parking is available that it will continue for the full Term of this Lease

#### **9.3 Conservation**

Landlord may establish reasonable measures to conserve energy and water, including automatic light shut off after hours and efficient lighting forms, so long as these measures do not unreasonably interfere with City's use of the Premises.

#### **9.4 Disruption in Essential Utilities or Services**

In the event of any failure, stoppage or interruption of any utilities or services to be furnished by Landlord hereunder, Landlord shall immediately notify City of such failure, stoppage or interruption, diligently attempt to restore service as promptly as possible and shall keep City apprised of its efforts. In the event Landlord is unable to supply any of the Building's sanitary, electrical, heating, air conditioning, water, elevator, fire protection and security, audio, video or electronic communications, hazard detection and alarm, or other essential services serving the Premises (collectively, "Essential Services") and such inability of Landlord substantially impairs City's ability to carry on its business in the Premises for a period of one (1) or more business days if such failure is in the reasonable control of Landlord or a period of five (5) or more consecutive business days if such failure is not within the reasonable control of Landlord, then the Rent shall be abated based on the extent such inability of Landlord impairs City's ability to carry on its business in the Premises, or, alternatively at City's election, City shall have the option to provide such services and offset the reasonable cost thereof against the Rent next due under this Lease. Such abatement, or right to provide the services and offset against Rent, shall continue until the Essential Services have been restored so that the lack of any remaining services no longer materially impairs City's ability to carry on its business in the Premises. Landlord shall use its best efforts to restore disrupted Essential Services as soon as possible. However, if such failure to provide any Essential Services continues for any reason for thirty (30) days and such failure substantially interferes with City's ability to carry on its business in the Premises, then City may, without limiting any of its other rights or remedies hereunder or at law or in equity, terminate this Lease upon written notice to Landlord, unless Landlord supplies City with evidence reasonably satisfactory to City that the Essential Services will be restored within sixty (60) days of the date City's use was interrupted, and the Essential Services are actually restored within such 60-day period. City shall not be entitled to any abatement of Rent or right to terminate if Landlord's inability to supply Essential Services to City is due solely to the acts, omissions or negligence of City and its Agents.





## **10. COMPLIANCE WITH LAWS; PREMISES CONDITION**

### **10.1 Premises Condition and Landlord's Compliance with Laws; Indemnity**

Landlord represents and warrants to City, and covenants with City, as follows to the best of Landlord's knowledge but without the obligation to investigate: (a) the Building is not an unreinforced masonry building, and is now, and as of the Commencement Date will be, in compliance with all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to seismic safety (collectively, "Seismic Safety Laws"); (b) Landlord is not aware of any violation by the Building, the Common Areas and Building Systems serving the Premises that as of the Commencement Date will not be, in full compliance with all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements, as generally applied, relating to fire and life safety (including, without limitation, the San Francisco High-Rise Sprinkler Ordinance) (collectively, "Life Safety Laws"); (c) Landlord is not aware of any violation by the Building, the Common Areas and Building Systems serving the Premises that as of the Commencement Date will not be, in compliance with all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements, as generally applied; and (d) there are not now, and as of the Commencement Date will not be, any major material physical or mechanical defects in the Premises, Building or the Building Systems that would materially adversely affect City's intended use of the Premises. Landlord shall at all times during the Term maintain, at its cost, the Property, Building, Common Areas and the Building Systems serving the Premises in compliance with applicable present or future federal, state, local and administrative laws, rules, regulations, orders and requirements (collectively, "Laws"), including, without limitation, Disabilities Laws, Seismic Safety Laws, and Life Safety Laws, as generally applied. Without limiting Section 16.2 (Landlord's Indemnity), Landlord shall Indemnify City against any and all Claims arising out of any failure of the Property, Building, Common Areas, Building Systems, or any portion thereof, to comply with applicable Laws as provided in this Section or any misrepresentation by Landlord under this Section.

### **10.2 City's Compliance with Laws; Indemnity**

City shall use the Premises during the Term in compliance with applicable Laws, except that City shall not be required to make any structural alterations, additions or other modifications in order to comply therewith unless such modifications are necessary solely because of any Alterations to the Premises made by City pursuant to Section 7 hereof and such modifications are not otherwise Landlord's responsibility under this Lease. City shall be responsible for complying with any requirement of the Disabilities Laws relating to the Premises including but not limited to the placement of City's furniture or other City Personal Property and the operation of any programs in the Premises, other than any requirement relating to portions of the Property or Building along the path of travel to the Premises, which are Landlord's obligation as provided in Section 10.1 above. Without limiting Section 16.1 (City's Indemnity), City shall Indemnify Landlord against any and all Claims arising out of City's failure to comply with all applicable Laws as provided in this Section.

### **10.3 City's Compliance with Insurance Requirements**

City shall not conduct any use in or about the Premises that would: (a) invalidate or be in conflict with any fire or other casualty insurance policies covering the Building or any property located therein, (b) result in a refusal by fire insurance companies of good standing to insure the Building or any such property in amounts reasonably satisfactory to Landlord or the holder of any mortgage or deed of trust encumbering the Building, (c) cause an increase in the fire insurance premium for the Building unless City agrees to pay such increase, or (d) subject Landlord to any liability or responsibility for injury to any person or property by reason solely of any business operation being conducted by City in the Premises; provided, however, Landlord



shall provide City with reasonable prior written notice of any applicable insurance requirements and no such insurance requirements shall materially and adversely interfere with City's normal business in the Premises.

## **11. SUBORDINATION**

Without the necessity of any additional document being executed by City for the purpose of effecting a subordination, and subject to subsection (b) below, this Lease shall be subject and subordinate at all times to the following (each an "Encumbrance"): (a) any reciprocal easement agreements, ground leases or other underlying leases that may hereafter be executed affecting Landlord's interest in the Property, or any portion thereof, and (b) the lien of any mortgages or deeds of trust and renewals, modifications, consolidations, replacements and extensions of any of the foregoing that may hereafter be executed by Landlord in any amount for which any part of the Property, any ground leases or underlying leases, or Landlord's interest or estate therein is specified as security; provided that as a condition to any such Encumbrance, the holder of the Encumbrance shall, at City's request, enter into a subordination and nondisturbance agreement with City in a form then commercially reasonable. Notwithstanding the foregoing, Landlord shall have the right to subordinate or cause to be subordinated to this Lease any Encumbrance. In the event that any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, City shall pay subsequent Rent and attorn to and become the tenant of such successor landlord, at the option of such successor-in-interest, provided that City has received proper written notice of such succession and the name and address of the successor landlord, and further provided that, in the case of any Encumbrance hereafter executed, as a condition to such attornment the holder of such Encumbrance shall, at City's request, agree that so long as City is not in default hereunder, such holder shall recognize this Lease and shall not disturb City in its possession of the Premises for any reason other than one that would entitle Landlord to terminate this Lease or otherwise dispossess City of the Premises in accordance with the terms hereof. The provisions of this Section shall be self-operative and no further instrument shall be required other than as provided in this Section. City agrees, however, to execute upon request by Landlord and in a form reasonably acceptable to City, any additional documents evidencing the priority or subordination of this Lease with respect to any such Encumbrance as provided herein.

Landlord shall use its best efforts to provide to City, before the Effective Date, executed non-disturbance and attornment agreements from the holder of any existing Encumbrance. The form of such agreement shall be subject to City's reasonable approval.

## **12. DAMAGE AND DESTRUCTION**

If the Premises, the Building or any Building Systems are damaged by fire or other casualty, Landlord shall repair the same without delay, provided that such repairs can be made under applicable laws within sixty (60) days after Landlord obtains all necessary permits for such repairs but not later than two hundred ten (210) days after the date of such damage (the "Repair Period"). In such event, this Lease shall remain in full force and effect, except that City shall be entitled to an abatement of Rent while such repairs are being made. Such abatement in Rent shall be based upon the extent to which such damage and the making of such repairs interfere with City's business in the Premises. Landlord's repairs shall not include, and the Rent shall not be abated as a result of, any damage by fire or other cause to City's Personal Property or any damage caused by the negligence or willful misconduct of City or its Agents.

Within twenty (20) days after the date of such damage, Landlord shall notify City whether or not, in Landlord's reasonable judgment made in good faith, such repairs can be made within the Repair Period. If such repairs cannot be made within the Repair Period, then either party hereto may, by written notice to the other given within thirty (30) days after the date of such damage, terminate this Lease as of the date specified in such notice, which date shall be not



less than thirty (30) nor more than sixty (60) days after notice is given by Landlord. In case of termination, the Rent shall be reduced by a proportionate amount based upon the extent to which such damage interferes with the conduct of City's business in the Premises, and City shall pay such reduced Rent up to the date of termination. Landlord shall refund to City any Rent previously paid for any period of time subsequent to such date of termination.

Notwithstanding the foregoing, in the event the Premises are damaged or destroyed by reason of flood or earthquake, and such damage or destruction is not fully covered by insurance proceeds payable under the insurance policies Landlord is required to carry hereunder (excluding any deductible, for which Landlord shall be responsible), Landlord may terminate this Lease by written notice to City within thirty (30) days of the date Landlord receives written notice that such damage is not covered by insurance. Such notice from Landlord shall include adequate written evidence of the denial of insurance coverage. If Landlord does not elect to terminate this Lease as provided above, this Lease shall remain in full force and effect, and Landlord shall repair and restore the Premises as provided above.

If at any time during the last six (6) months of the Term of this Lease there is substantial damage that Landlord would be required to repair hereunder, Landlord or City may, at the respective option of each, terminate this Lease as of the date such damage occurred by giving written notice to the other party of its election to do so within thirty (30) days after the date of such damage; provided, however, Landlord may terminate this Lease only if it would take more than thirty (30) days to repair such damage.

The parties intend that the provisions of this Section govern fully their rights and obligations in the event of damage or destruction, and Landlord and City each hereby waives and releases any right to terminate this Lease in whole or in part under Section 1932.2, Section 1933.4, and Sections 1941 and 1942 of the Civil Code of California or under any similar law, statute or ordinance now or hereafter in effect, to the extent such rights are inconsistent with the provisions hereof.

### **13. EMINENT DOMAIN**

#### **13.1 Definitions**

(a) "Taking" means a taking or damaging, including severance damage, by eminent domain, inverse condemnation or for any public or quasi-public use under law. A Taking may occur pursuant to the recording of a final order of condemnation, or by voluntary sale or conveyance in lieu of condemnation or in settlement of a condemnation action.

(b) "Date of Taking" means the earlier of (i) the date upon which title to the portion of the Property taken passes to and vests in the condemnor or (ii) the date on which Tenant is dispossessed.

(c) "Award" means all compensation, sums or anything of value paid, awarded or received for a Taking, whether pursuant to judgment, agreement, settlement or otherwise.

#### **13.2 General**

If during the Term or during the period between the execution of this Lease and the Commencement Date, there is any Taking of all or any part of the Premises or any interest in this Lease, the rights and obligations of the parties hereunder shall be determined pursuant to this Section. City and Landlord intend that the provisions hereof govern fully in the event of a Taking and accordingly, the parties each hereby waive any right to terminate this Lease in whole



or in part under Sections 1265.110, 1265.120, 1265.130 and 1265.140 of the California Code of Civil Procedure or under any similar law now or hereafter in effect.

### **13.3 Total Taking; Automatic Termination**

If there is a total Taking of the Premises, then this Lease shall terminate as of the Date of Taking.

### **13.4 Partial Taking; Election to Terminate**

(a) If there is a Taking of any portion (but less than all) of the Premises, then this Lease shall terminate in its entirety if all of the following exist: (i) the partial Taking, in City's reasonable judgment, renders the remaining portion of the Premises untenable or unsuitable for continued use by City for its intended purposes or otherwise materially adversely affects City's normal operations in the Premises, (ii) the condition rendering the Premises untenable or unsuitable either is not curable or is curable but Landlord is unwilling or unable to cure such condition, and (iii) City elects to terminate.

(b) In the case of a partial taking of a substantial portion of the Building, and if subsection (a) above does not apply, City and Landlord shall each have the right to terminate this Lease by written notice to the other within thirty (30) days after the Date of Taking, provided that, as a condition to City's right to terminate, the portion of the Building taken shall, in City's reasonable judgment, render the Premises unsuitable for continued use by City for its intended purposes or otherwise materially adversely affect City's normal operations in the Premises.

(c) Either party electing to terminate under the provisions of this Section 13.4 shall do so by giving written notice to the other party before or within thirty (30) days after the Date of Taking, and thereafter this Lease shall terminate upon the later of the thirtieth (30<sup>th</sup>) day after such written notice is given or the Date of Taking.

### **13.5 Rent; Award**

Upon termination of this Lease pursuant to an election under Section 13.4 above, then: (a) City's obligation to pay Rent shall continue up until the date of termination, and thereafter shall cease, except that Rent shall be reduced as provided in Section 13.6 below for any period during which this Lease continues in effect after the Date of Taking, and (b) Landlord shall be entitled to the entire Award in connection therewith, except that City shall receive any Award made specifically for City's relocation expenses or the interruption of or damage to City's business or damage to City's Personal Property.

### **13.6 Partial Taking; Continuation of Lease**

If there is a partial Taking of the Premises under circumstances where this Lease is not terminated in its entirety under Section 13.4 above, then this Lease shall terminate as to the portion of the Premises so taken, but shall remain in full force and effect as to the portion not taken, and the rights and obligations of the parties shall be as follows: (a) Rent shall be reduced by an amount that is in the same ratio to the Rent as the area of the Premises taken bears to the area of the Premises prior to the Date of Taking, and (b) Landlord shall be entitled to the entire Award in connection therewith, provided that City shall receive any Award made specifically for City's relocation expenses or the interruption of or damage to City's business or damage to City's Personal Property.





### 13.7 Temporary Taking

Notwithstanding anything to contrary in this Section, if a Taking occurs with respect to the Premises for a limited period of time not in excess of sixty (60) consecutive days, this Lease shall remain unaffected thereby, and City shall continue to pay Rent and to perform all of the terms, conditions and covenants of this Lease. In the event of such temporary Taking, City shall be entitled to receive that portion of any Award representing compensation for the use or occupancy of the Premises during the Term up to the total Rent owing by City for the period of the Taking.

### 14. ASSIGNMENT AND SUBLETTING

(a) In entering into this Lease for the term and on the provisions of this Lease, Landlord has relied upon City's business reputation and experience. Accordingly, City agrees that it will not mortgage or hypothecate this Lease or any interest therein without Landlord's prior written consent in each instance, which shall not be unreasonably withheld or delayed. City may not assign this Lease or sublet the Premises without first having obtained the written consent of the Landlord. Such consent by Landlord shall not be unreasonably withheld. Notwithstanding anything to the contrary in the foregoing, no consent of Landlord shall be required for a transfer of use of any department, commission or agency of the City and County of San Francisco, provided, however, that such transfer to use shall be subject to and comply with the following formula: (i) a density of no more than one employee for each 175 square feet of the Premises, and (ii) a daily visitor frequency of no more than one visitor for each 175 square feet of the Premises. City agrees that should City assign this Lease or sublet all or a portion of the Premises, City will remain fully liable on and responsible for payment of the Base Rent and any other charges under this Lease and the other lease terms, conditions, covenants and duties of this Lease. City shall not sublet all or portion of the Premises for any period of time extending beyond the period of this Lease or any renewal thereof. The City agrees that reasonable grounds for the Landlord's refusal to consent shall include, but not be limited to: (1) financial instability of the proposed subtenant, and (2) credit rating of the subtenant.

No permitted subtenant shall assign, mortgage, pledge, encumber, transfer, modify, extend or renew its sublease or further sublet all or any portion of its sublet space, or otherwise permit any portion of the sublet space to be used or occupied by others, without the prior written consent of Landlord first had and obtained in each instance, which consent shall not be unreasonably withheld or delayed. Any mortgage, pledge, hypothecation, encumbrance or transfer or any such assignment, subletting, occupation or use without the consent of Landlord as aforesaid shall be void and, at the option of Landlord, constitute a default entitling Landlord to terminate this Lease. For purposes of this Section 14(a), the following events shall be deemed an assignment of this Lease or a sublease, as appropriate: (i) the issuance of equity interests in any assignee of this Lease or any subtenant (whether stock or partnership interests or otherwise) to any person or group of persons in a single transaction or a series of related or unrelated transactions, such that, following such issuance, such person or group shall have control of any assignee of this Lease or such subtenant; or (ii) a transfer of control of any assignee of this Lease or of any subtenant in a single consolidation, merger or reorganization), except that the transfer of the outstanding capital stock of any assignee of this Lease or subtenant (by persons or parties other than "insiders" within the meaning of the Securities Exchange Act of 1934, as amended) through the "over-the-counter" market or any recognized national or international securities exchange shall not be included in the determination of whether control has been transferred. "Control" shall mean ownership of not less than fifty percent (50%) of all of the voting stock of such corporation or not less than fifty percent (50%) of all of the legal and equitable interest in any other business entity. If this Lease is assigned, whether or not in violation of the terms of this Lease, Landlord may collect rent from the assignee. If the Premises or any part thereof is sublet or is used or occupied by anybody other than City, Landlord may, after default by City, collect rent from such subtenant or occupant. In either event, Landlord may apply the next



amount collected to the rents herein reserved. The consent by Landlord to an assignment, transfer, encumbering or subletting pursuant to any provision of this Lease shall not relieve City or any assignee or subtenant from obtaining the express prior written consent of Landlord to any other or further assignment, transfer, encumbering or subletting. Neither any assignment of this Lease or any interest created hereby or any interest of City in any sublease, nor any subletting, occupancy or use of the Premises or any part thereof by any person other than City, nor any collection of rent by Landlord from any person other than City, nor any application of any such rent as provided in this subparagraph (a) shall be deemed a waiver of any of the provisions of this subparagraph, or (b) relieve, impair, release or discharge City of its obligation fully to perform the terms of this Lease on City's part to be performed, and City shall remain fully and primarily liable thereunder.

(b) City agrees to pay to the Landlord the amount of the Landlord's cost of processing every proposed subletting, subject to a maximum of One Thousand Dollars (\$1,000) per proposed subletting (including, without limitation, the costs of attorneys' and other professional fees and administrative, accounting and clerical time of the Landlord), and the amount of all direct expenses incurred by the Landlord arising from any sublessee taking occupancy (including, without limitation, freight elevator operation for moving furnishings and trade fixtures, security service, janitorial and cleaning service and rubbish removal service). Notwithstanding anything herein to the contrary, the Landlord shall have no obligation to process any request for such consent prior to the Landlord's receipt of payment by the City of the amount of the Landlord's estimate of the processing costs and expenses and all other direct and indirect costs and expenses of the Landlord and its agents arising from such proposed subletting.

(c) In no event shall the City assign this Lease or sublet the Premises or any portion thereof to any then existing or prospective tenant of the Building. However, City shall have the right to assign this Lease or sublet the Premises or any portion thereof to an existing tenant of the Building if (i) the sublease or the assignment is for less than the entire balance of the term or extended term of the Lease and the City will re-occupy the subleased or assigned space once the sublease or the assignment is over, or (ii) only part of the Premises is to be sublet or assigned and no dividing walls are to be built between the space retained by City and the sublet or assigned space.

(d) In the event of (i) any permitted subletting at a greater rental rate than the Base Rent payable by the City hereunder or (ii) any permitted subletting providing for payment of any consideration (including, without limitation, payment for leasehold improvements) by the sublessee to the City, the amount of all such sublease rental and/or consideration which is in excess of the Rent payable plus the recapture of City's actual and reasonable subleasing costs shall be paid 50% to Landlord.

## **15. DEFAULT; REMEDIES**

### **15.1 Events of Default by City**

Any of the following shall constitute an event of default by City hereunder:

(a) City's failure to make any timely payment of Rent and to cure such nonpayment within five (5) business days after receipt of written notice thereof from Landlord, provided that for the first two (2) monthly payments of Rent at the beginning of the Term and for the first monthly payment of Rent after the beginning of each new fiscal year for City, City shall have twenty (20) days to cure any such nonpayment after written notice thereof from Landlord;

(b) City's abandons the Premises (within the meaning of California Civil Code Section 1951.3); or



(c) City's failure to perform any other covenant or obligation of City hereunder (not involving the payment of money) and to cure such non-performance within thirty (30) days of the date of receipt of notice thereof from Landlord, provided that if more than 30 days are reasonably required for such cure, no event of default shall occur if City commences such cure within such period and diligently prosecutes such cure to completion.

## 15.2 Landlord's Remedies

Upon the occurrence of any event of default by City that is not cured within the applicable grace period as provided above, Landlord shall have all rights and remedies available pursuant to law or granted hereunder, including the following:

(a) The rights and remedies provided by California Civil Code Section 1951.2 (damages on termination for breach), including, but not limited to, the right to terminate City's right to possession of the Premises and to recover the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of rental loss for the same period that City proves could be reasonably avoided, as computed pursuant to subsection (b) of such Section 1951.2.

(b) The rights and remedies provided by California Civil Code Section 1951.4 (continuation of lease after breach and abandonment), which allows Landlord to continue this Lease in effect and to enforce all of its rights and remedies under this Lease, including the right to recover Rent as it becomes due, for so long as Landlord does not terminate City's right to possession, if City has the right to sublet or assign, subject only to reasonable limitations.

## 15.3 Landlord's Default

If Landlord fails to perform any of its obligations under this Lease, then (without limiting any of City's other cure rights under this Lease) City may, at its sole option, cure such default at Landlord's expense if such default continues after ten (10) days from the date City gives written notice to Landlord of City's intention to perform such cure provided such failure materially interferes with City's ability to carry on its business from the Premises. However, in the case of a default which for causes beyond Landlord's control (excluding any financial inability to perform) cannot with due diligence be cured within such 10-day period, such 10-day period shall be extended if Landlord, promptly upon receipt of City's notice, advises City of Landlord's intention to take all steps required to cure such default, and Landlord promptly commences such cure and diligently prosecutes the same to completion. Subject to the other provisions of this Lease relating to abatement of Rent, if Landlord fails to cure any default within the cure period provided above, then, whether or not City elects to cure Landlord's default as provided herein, the Base Rent and any other charges hereunder shall be abated based on the extent to which such default materially interferes with City's ability to carry on its business at the Premises. Notwithstanding the foregoing, if any such default by Landlord continues for sixty (60) days and if Landlord fails to promptly commence a cure and to diligently prosecute such cure to completion as provided above and such failure impairs City's ability to carry on its business in the Premises, then City shall have the right to terminate this Lease upon written notice to Landlord within thirty (30) days after the expiration of such 60-day period. City's rights hereunder and under Section 3.3 (Delay in Delivery of Possession), Section 5.3 (Interference with Access), and Section 9.4 (Disruption in Essential Utilities or Services), shall not limit in any way any of its other rights and remedies hereunder or at law or in equity. In the event that Landlord shall be liable to City for any damages sustained by City as a result of Landlord's breach, it is expressly understood and agreed that, if not satisfied by the companies that provide insurance coverage in favor of Landlord, any judgment resulting from any default or other claim arising under this Lease, shall be satisfied out of Landlord's right to receive the income from operation of the Building including, but not limited to, all receipts, rents, profits or other income produced by or resulting from the Building and out of Landlord's equity interest in the Building



(collectively called "Landlord's Interest") and no other real, personal or mixed property of the Landlord wherever situated shall be subject to levy on such judgment obtained against Landlord. If Landlord's Interest is insufficient for the payment of such judgment, City will not institute any further action, suit, claim or demand, in law or in equity, against Landlord for or on account of such deficiency and City hereby waives, to the extent waivable under law, any rights to satisfy said money judgment against Landlord except from Landlord's Interest. City shall have the right to cause the Building and Landlord's Interest therein to be sold to satisfy any such money judgment

## **16. INDEMNITIES**

### **16.1 City's Indemnity**

City shall indemnify, defend and hold harmless ("Indemnify") Landlord and its Agents from and against any and all claims, costs and expenses, including, without limitation, reasonable attorneys' fees (collectively, "Claims"), incurred as a result of (a) City's use of the Premises, (b) any default by City in the performance of any of its material obligations under this Lease, or (c) any negligent acts or omissions of City or its Agents in, on or about the Premises or the Property; provided, however, City shall not be obligated to Indemnify Landlord or its Agents to the extent any Claim arises out of the negligence or willful misconduct of Landlord or its Agents. In any action or proceeding brought against Landlord or its Agents by reason of any Claim Indemnified by City hereunder, City may, at its sole option, elect to defend such Claim by attorneys in City's Office of the City Attorney, by other attorneys selected by City, or both. City shall have the right to control the defense and to determine the settlement or compromise of any action or proceeding, provided that Landlord shall have the right, but not the obligation, to participate in the defense of any such Claim at its sole cost. City's obligations under this Section shall survive the termination of the Lease.

### **16.2 Landlord's Indemnity**

Landlord shall Indemnify City and its Agents against any and all Claims incurred as a result of (a) any default by Landlord in the performance of any of its obligations under this Lease or any breach of any representations or warranties made by Landlord under this Lease, or (b) any negligent acts or omissions of Landlord or its Agents in, on or about the Premises or the Property; provided, however, Landlord shall not be obligated to Indemnify City or its Agents to the extent any Claim arises out of the negligence or willful misconduct of City or its Agents. In any action or proceeding brought against City or its Agents by reason of any Claim Indemnified by Landlord hereunder, Landlord may, at its sole option, elect to defend such Claim by attorneys selected by Landlord. Landlord shall have the right to control the defense and to determine the settlement or compromise of any action or proceeding, provided that City shall have the right, but not the obligation, to participate in the defense of any such Claim at its sole cost. Landlord's obligations under this Section shall survive the termination of this Lease.

## **17. INSURANCE**

### **17.1 City's Self-Insurance**

Landlord acknowledges that City maintains a program of self-insurance and agrees that City shall not be required to carry any insurance with respect to this Lease. City assumes the risk of damage to any of City's Personal Property, except for damage caused by Landlord or its Agents. In the event City assigns this Lease or sublets the Premises, Landlord may require such transferee to maintain such insurance as Landlord or its affiliates typically requires of office tenants for buildings in the San Francisco Civic Center or Financial District area.





## **17.2 Landlord's Insurance**

At all times during the Term, Landlord shall keep the Building (excluding the land upon which it is located) insured against damage and destruction by fire, vandalism, malicious mischief, sprinkler damage and other perils customarily covered under a cause of loss-special form property insurance policy in an amount equal to one hundred percent (100%) of the full insurance replacement value (replacement cost new, including, debris removal and demolition) thereof. Landlord shall, upon request by City, provide to City a certificate of insurance issued by the insurance carrier, evidencing the insurance required above. The certificate shall expressly provide that the policy is not cancelable or subject to, reduction of coverage or otherwise subject to modification except after thirty (30) days prior written notice to City. Landlord hereby waives any rights against City for loss or damage to the Premises or any other part of the Property, to the extent covered by Landlord's property insurance.

In addition, Landlord, at no cost to City, shall procure and keep in effect at all times during the Term insurance as follows: **(a)** Commercial general liability insurance with limits not less than Two Million Dollars (\$2,000,000) each occurrence combined single limit for bodily injury and property damage, including contractual liability, independent contractors, broad-form property damage, fire damage legal liability (of not less than Fifty Thousand Dollars (\$50,000)), personal injury, products and completed operations, and explosion, collapse and underground (XCU); and **(b)** Worker's Compensation Insurance with Employer's Liability Limits not less than One Million Dollars (\$1,000,000) each accident.

## **17.3 Waiver of Subrogation**

Notwithstanding anything to the contrary contained herein, Landlord hereby waives any right of recovery against City for any loss or damage sustained by Landlord with respect to the Building or the Premises or any portion thereof or the contents of the same or any operation therein, whether or not such loss is caused by the fault or negligence of City, to the extent such loss or damage is covered by insurance which Landlord is required to purchase under this Lease or is otherwise actually recovered from valid and collectible insurance covering Landlord. Landlord agrees to obtain a waiver of subrogation endorsement from each insurance carrier issuing policies relative to the Building or the Premises; provided, Landlord's failure to do so shall not affect the above waiver.

## **18. ACCESS BY LANDLORD**

Landlord reserves for itself and any designated Agent the right to enter the Premises at all reasonable times and, except in cases of emergency (in which event Landlord shall give any reasonable notice), after giving City at least twenty four (24) hours' advance written or oral notice, for the purpose of **(a)** inspecting the Premises, **(b)** supplying any service to be provided by Landlord hereunder, **(c)** showing the Premises to any prospective purchasers, mortgagees or, during the last six (6) months of the Term of this Lease, tenants, **(d)** posting notices of non-responsibility, and **(e)** altering, improving or repairing the Premises and any portion of the Building, and Landlord may for that purpose erect, use and maintain necessary structures in and through the Premises where reasonably required by the character of the work to be performed, provided that the entrance to the Premises shall not be blocked thereby, and further provided that Landlord shall use commercially reasonable efforts to insure that City's use shall not be unreasonably interfered with.

## **19. ESTOPPEL CERTIFICATES**

Either party, from time to time during the Term upon not less than ten (10) days' prior written notice from the other party, may reasonably request the other party to execute, acknowledge and deliver to such persons or entities designated by such other party a certificate



stating: **(a)** the Commencement Date and Expiration Date of this Lease, **(b)** that this Lease is unmodified and in full force and effect (or, if there have been modifications, this the Lease is in full force and effect as modified and stating the modifications), **(c)** that there are no defaults under this Lease (or if so, specifying the same), **(d)** the date to which Rent has been paid, and **(e)** any other information that may be reasonably required.

## **20. SURRENDER OF PREMISES**

Upon the expiration or sooner termination of this Lease, City shall surrender the Premises to Landlord in good order and condition, reasonable use and wear and damage by fire or other casualty excepted. By the Expiration Date, City shall remove from the Premises all of City's Personal Property and any Alterations City desires or is required to remove from the Premises pursuant to the provisions of Section 7.1 (Alterations by City), above. City shall repair or pay the cost of repairing any damage to the Premises or the Building resulting from such removal. Notwithstanding anything to the contrary in this Lease, City shall not be required to demolish or remove from the Premises any of the leasehold improvements. City's obligations under this Section shall survive the expiration or earlier termination of this Lease.

## **21. HAZARDOUS MATERIALS**

### **21.1 Definitions**

As used in this Lease, the following terms shall have the meanings hereinafter set forth:

**(a)** "Environmental Laws" shall mean any federal, state, local or administrative law, rule, regulation, order or requirement relating to industrial hygiene, environmental conditions or Hazardous Material, whether now in effect or hereafter adopted.

**(b)** "Hazardous Material" shall mean any material that, because of its quantity, concentration or physical or chemical characteristics, is deemed by any federal, state or local governmental authority to pose a present or potential hazard to human health or safety or to the environment. Hazardous Material includes, without limitation, any material or substance defined as a "hazardous substance," or "pollutant" or "contaminant" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA", also commonly known as the "Superfund" law), as amended (42 U.S.C. Sections 9601 et seq.), or pursuant to Section 25316 of the California Health & Safety Code; any "hazardous waste" listed pursuant to Section 25140 of the California Health & Safety Code; any asbestos and asbestos containing materials whether or not such materials are part of the structure of the Building or are naturally occurring substances on or about the Property; and petroleum, including crude oil or any fraction thereof, natural gas or natural gas liquids.

**(c)** "Release" when used with respect to Hazardous Material shall include any actual or imminent spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into or inside the Building, or in, on, under or about the Property.

### **21.2 Landlord's Representations and Covenants**

Landlord represents and warrants to City that, to the best of Landlord's knowledge, the following statements are true and correct and will be true and correct as of the Commencement Date: **(a)** the Property is not in violation of any Environmental Laws; **(b)** the Property is not now, nor has it been, used for the manufacture, use, storage, discharge, deposit, transportation or disposal of any Hazardous Material, except for the use of such substances in such limited quantities as are customarily used in offices, which limited use has been and is in compliance with Environmental Laws; **(c)** the Property does not consist of any landfill or contain any



underground storage tanks; (d) the Building does not consist of any asbestos-containing materials or building materials that contain any other Hazardous Material, nor do the Premises or the common areas of the Building contain any lead-based paints; (e) there has been and is no Release of any Hazardous Material in the Building or in, on, under or about the Property; and (f) the Property is not subject to any claim by any governmental regulatory agency or third party related to the Release of any Hazardous Material, and there is no inquiry by any governmental agency (including, without limitation, the California Department of Toxic Substances Control or the Regional Water Quality Control Board) with respect to the presence of Hazardous Material in the Building or in, on, under or about the Property, or the migration of Hazardous Material from or to other real property. Subject to City's obligations under this Section below, Landlord shall maintain the Property throughout the Term in compliance with all Environmental Laws that could affect the health, safety and welfare of City's employees or City's use, occupancy or enjoyment of the Premises for their intended purposes.

### **21.3 Landlord's Environmental Indemnity**

Without limiting Landlord's Indemnity in Section 16.2 (Landlord's Indemnity), above, Landlord shall Indemnify City and its Agents against any and all Claims arising during or after the Term of this Lease (a) as a result of any breach of any of Landlord's representations, warranties or covenants in the preceding Section, or (b) in connection with any presence or Release of Hazardous Material in the Building or on, under or about the Property, unless City or its Agents caused such Release.

### **21.4 City's Covenants**

Neither City nor its Agents shall cause any Hazardous Material to be brought upon, kept, used, stored, generated or disposed of in, on or about the Premises or the Property, or transported to or from the Premises or the Property, in violation of any Environmental Laws, provided that City may use such substances in such limited amounts as are customarily used in offices so long as such use is in compliance with all applicable Environmental Laws.

### **21.5 City's Environmental Indemnity**

If City breaches its obligations contained in the preceding Section 21.4, or if City or its Agents cause the Release of Hazardous Material from, in, on or about the Premises or the Property, then City shall Indemnify Landlord against any and all Claims arising during or after the Term of this Lease as a result of such Release, except to the extent Landlord or its Agents is responsible for the Release. The foregoing Indemnity shall not include any Claims resulting from the non-negligent aggravation by City, its Agents or Invitees of physical conditions of the Premises, or other parts of the Property, existing prior to City's occupancy.

## **22. SPECIAL PROVISIONS**

### **22.1 First Right of Refusal to Purchase.**

If Landlord decides to sell or transfer the Property to an unrelated third party, as described below, during the Term of this Lease, Landlord shall first offer the Property to the City at the purchase price that Landlord will offer the Property to third parties. Such proposed purchase price shall be set forth in a written notice ("Sale Notification") from Landlord to City and shall be subject to adjustment as provided below. City shall have thirty (30) days from the date of the Sale Notification to submit to Landlord in writing (i) an offer to purchase the Property at the price specified in the Sale Notification and otherwise upon the other business terms contain herein or (ii) a counter offer to purchase the Property at a lesser price and otherwise upon the other business terms contain herein (the "Counter Offer"). If Landlord elects to accept City's Counter Offer, Landlord shall provide City with written notice of such election within fifteen



(15) days of receipt of City's Counter Offer.

If City offers to purchase the Property for the price in the Sale Notification, or if Landlord elects to accept City's Counter Offer, Landlord and City shall promptly enter into a purchase and sale agreement for the Property at the agreed price and on the terms and conditions specified in this Section 22.1. City's offer or Counter Offer to purchase the Property shall be subject to the following conditions precedent: (i) approval of the Board of Supervisors and the Mayor, in their respective sole discretion, given within seventy five (75) days of execution of a purchase and sale agreement (the "Approval Deadline"), incorporating the terms herein, (ii) the title company being willing to issue ALTA Title Insurance acceptable to City, and (iii) City's successful issuance of debt to fund the purchase. If City's Board of Supervisors, fails to approve the purchase transaction by the Approval Deadline, City may withdraw the offer or Counter Offer by written notice to Landlord.

Within (3) days of the execution of a purchase and sale agreement, Landlord shall deliver to City copies of all reports, appraisals and other documents in Landlord's possession, not previously delivered to City. Landlord shall cooperate with the City in its due diligence investigation.

Close of escrow shall occur on or before the date that is one hundred and fifty five (155) days after the date of City's notice of the approval by City's Board of Supervisors and Mayor of the purchase.

At closing, City shall pay for the cost of the premium of the extended coverage title insurance policy, one half the escrow fees, and one half of the other typical closing expenses such as notary fees and overnight express charges. Landlord shall pay transfer taxes, one half the escrow fees and one half the other typical closing expenses. At closing Landlord shall deliver the following (among other customary items) through a mutually agreeable escrow company:

- a grant deed conveying ALTA insurable title subject only to taxes not yet due and payable, and other exceptions acceptable to City,
- a bill of sale for all personal property on the Property, and
- a written disclosure of all known facts (including any and all property inspection reports) which would affect the marketability of the Property or City's intended use of the Property.

If City does not agree to purchase the Property for purchase price contained in the Sale Notification or make a Counter Offer within the thirty (30) day period specified above, then this right of first refusal shall terminate and Landlord shall be free to sell the Property to any person whomever and upon any terms whatsoever without any obligation to City. If, however, City, while not accepting the purchase price set forth in the Sale Notification, made a Counter Offer within the thirty (30) day period and such Counter Offer was not accepted by Landlord, then Landlord may sell the property, free of any claim of City, only to a buyer who agrees to pay a gross purchase price (i.e. an amount determined without regard to any brokerage commission liability, but reduced by any Landlord credits or give backs to the potential buyer for such items as existing building conditions or improvements) exceeding the purchase price proposed in City's Counter Offer. Good faith negotiations with such a buyer may result in credits or reductions during the due diligence period, provided such credits or reductions are made reasonably and in good faith during the due diligence period (and not in an effort to circumvent City's rights hereunder) such contact adjustments shall not serve to trigger a further right of first refusal for City, even if the final effective sales price is below the City's Counter Offer, so long as that buyer proceeds to consummate that purchase.

In the event Landlord is unable to sell the Property for more than proposed purchase price





specified in City's Counter Offer but continues to desire to sell the Property, Landlord shall give City another Sale Notification with a reduced purchase price and the above procedure for City's first right of refusal shall be repeated.

This first right of refusal shall terminate and be of no further effect if a sale of the Property to an arms length third party is consummated in accordance with the foregoing provisions.

For purposes of this Section 22.1, the following events shall not be deemed a sale or transfer of the Property to an unrelated third party triggering City's rights hereunder: (i) the conveyance of entity membership interests, stock or partnership interests within the Landlord entity, or (ii) a transfer of Landlord or the holders of interests in the Landlord entity to another entity or trust with essentially the same holders of interests, or (iii) dissolution of the Landlord entity upon the death of some or all of the holders of interests therein, or (iv) the addition of family related holders of interests or beneficiaries of a trust or change of administrator of the trust or general partner of a limited partnership, or (v) any other transfer of any kind where the recipient of the interest being transferred is a relative of Angelo Sangiacomo or a spouse of such relative or an entity or trust owned or controlled by such relative or spouse. The term "unrelated third party" shall mean any other transferee.

## **23. GENERAL PROVISIONS**

### **23.1 Notices**

Except as otherwise specifically provided in this Lease, any notice given under this Lease shall be in writing and given by delivering the notice in person or by commercial courier, or by sending it by first-class mail, certified mail, return receipt requested, or Express Mail, return receipt requested, with postage prepaid, to: (a) City at Tenant's address set forth in the Basic Lease Information; or (b) Landlord at Landlord's address set forth in the Basic Lease Information; or (c) such other address as either Landlord or City may designate as its new address for such purpose by notice given to the other in accordance with this Section. Any notice hereunder shall be deemed to have been given and received two (2) days after the date when it is mailed if sent by first-class, certified mail, one day after the date when it is mailed if sent by Express Mail, or upon the date personal delivery is made. For convenience of the parties, copies of notices may also be given by telefacsimile to the telefacsimile number set forth in the Basic Lease Information or such other number as may be provided from time to time; however, neither party may give official or binding notice by facsimile.

### **23.2 No Implied Waiver**

No failure by either party to insist upon the strict performance of any obligation of the other party under this Lease or to exercise any right, power or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or of such term, covenant or condition. No acceptance of full or partial Rent by Landlord while City is in default hereunder shall constitute a waiver of such default by Landlord. No express written waiver of any default or the performance of any provision hereof shall affect any other default or performance, or cover any other period of time, other than the default, performance or period of time specified in such express waiver. One or more written waivers of a default or the performance of any provision hereof shall not be deemed to be a waiver of a subsequent default or performance. The consent of Landlord or City given in one instance under the terms of this Lease shall not relieve the other party of any obligation to secure the consent to any other or future instance under the terms of the Lease.



### **23.3 Amendments**

Neither this Lease nor any terms or provisions hereof may be changed, waived, discharged or terminated, except by a written instrument signed by the party against which the enforcement of the change, waiver, discharge or termination is sought. No waiver of any breach shall affect or alter this Lease, but each and every term, covenant and condition of this Lease shall continue in full force and effect with respect to any other then-existing or subsequent breach thereof. Whenever this Lease requires or permits the giving by City of its consent or approval, the Director of Property, or his or her designee, shall be authorized to provide such approval, except as otherwise provided by applicable law, including the Charter of the City and County of San Francisco. Any amendments or modifications to this Lease, including, without limitation, amendments to or modifications to the exhibits to this Lease, shall be subject to the mutual written agreement of City and Landlord, and City's agreement may be made upon the sole approval of the Director of Property, or his or her designee; provided, however, material amendments or modifications to this Lease (a) changing the legal description of the Premises, (b) increasing the Term, (c) increasing the Rent, (d) changing the general use of the Premises from the use authorized under Section 5.1 of this Lease, and (e) any other amendment or modification which materially increases City's liabilities or financial obligations under this Lease shall additionally require the approval of City's Board of Supervisors.

### **23.4 Authority**

Landlord represents and warrants to City that the execution and delivery of this Lease by Landlord has been duly authorized and does not violate any provision of any agreement, law or regulation to which Landlord or the Property is subject.

### **23.5 Parties and Their Agents; Approvals**

If applicable, the word "Landlord" as used in this Lease shall include the plural as well as the singular. As used in this Lease, the term "Agents" when used with respect to either party shall include the agents, employees, officers and contractors of such party, and the term "Invitees" when used with respect to City shall include the clients, customers, invitees, guests, licensees, assignees or subtenants of City. All approvals, consents or other determinations permitted or required by City under this Lease shall be made by or through City's Director of Property unless otherwise provided in this Lease, subject to any applicable limitations in the City's Charter and Administrative Code.

### **23.6 Interpretation of Lease**

The captions preceding the articles and sections of this Lease and in the table of contents have been inserted for convenience of reference only and such captions shall in no way define or limit the scope or intent of any provision of this Lease. This Lease has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with herein and shall be interpreted to achieve the intent and purposes of the parties, without any presumption against the party responsible for drafting any part of this Lease. Except as otherwise specifically provided herein, wherever in this Lease Landlord or City is required or requested to give its consent or approval to any matter or action by the other, such consent or approval shall not be unreasonably withheld or delayed and the reasons for disapproval of consent shall be stated in reasonable detail in writing. Provisions in this Lease relating to number of days shall be calendar days, unless otherwise specified, provided that if the last day of any period to give notice, reply to a notice or to undertake any other action occurs on a Saturday, Sunday or a bank or City holiday, then the last day for undertaking the action or giving or replying to the notice shall be the next succeeding business day. Use of the word "including" or similar words shall not be construed to limit any general term, statement or other matter in this Lease, whether or not language of non-limitation, such as "without limitation" or similar words, are used.



### **23.7 Successors and Assigns**

Subject to the provisions of Section 14 relating to assignment and subletting, the terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of Landlord and City and, except as otherwise provided herein, their personal representatives and successors and assigns. There are no third-party beneficiaries to this Lease.

### **23.8 Brokers**

Neither party has had any contact or dealings regarding the leasing of the Premises, or any communication in connection therewith, through any licensed real estate broker or other person who could claim a right to a commission or finder's fee in connection with the lease contemplated herein, except for the broker, if any, identified in the Basic Lease Information, whose commission, if any is due, shall be the sole responsibility of Landlord, and City shall have no liability therefor. In the event that any other broker or finder perfects a claim for a commission or finder's fee based upon any such contact, dealings or communication, the party through whom the broker or finder makes his claim shall be responsible for such commission or fee and shall indemnify the other party from any and all Claims incurred by the indemnified party in defending against the same. The provisions of this Section shall survive any termination of this Lease.

### **23.9 Severability**

If any provision of this Lease or the application thereof to any person, entity or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons, entities or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each other provision of this Lease shall be valid and be enforceable to the full extent permitted by law.

### **23.10 Governing Law**

This Lease shall be construed and enforced in accordance with the laws of the State of California and the City's Charter.

### **23.11 Entire Agreement**

The parties intend that this Lease (including all of the attached exhibits, which are made a part of this Lease) shall be the final expression of their agreement with respect to the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous written or oral agreements or understandings. The parties further intend that this Lease shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever (including prior drafts hereof and changes therefrom) may be introduced in any judicial, administrative or other legal proceeding involving this Lease.

### **23.12 Attorneys' Fees**

In the event that either Landlord or City fails to perform any of its obligations under this Lease or in the event a dispute arises concerning the meaning or interpretation of any provision of this Lease, the defaulting party or the non-prevailing party in such dispute, as the case may be, shall pay the prevailing party reasonable attorneys' and experts' fees and costs, and all court costs and other costs of action incurred by the prevailing party in connection with the prosecution or defense of such action and enforcing or establishing its rights hereunder (whether or not such action is prosecuted to a judgment). For purposes of this Lease, reasonable attorneys' fees of the City's Office of the City Attorney shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law



for which the City Attorney's services were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the Office of the City Attorney. The term "attorneys' fees" shall also include, without limitation, all such fees incurred with respect to appeals, mediations, arbitrations, and bankruptcy proceedings, and whether or not any action is brought with respect to the matter for which such fees were incurred. The term "costs" shall mean the costs and expenses of counsel to the parties, which may include printing, duplicating and other expenses, air freight charges, hiring of experts, and fees billed for law clerks, paralegals, and others not admitted to the bar but performing services under the supervision of an attorney.

### **23.13 Holding Over**

Should City hold over in possession of the Premises after the expiration of the Term with Landlord's consent, such holding over shall not be deemed to extend the Term or renew this Lease, but such tenancy thereafter shall continue as a month-to-month tenancy. Such tenancy shall be on all the terms and conditions set forth in this Lease and at the monthly Base Rent in effect during the last month of the Term of this Lease or such other rental as Landlord and City may mutually agree in writing as a condition to Landlord's consent to such holding over, and City shall continue as a month-to-month tenant until the tenancy shall be terminated by Landlord giving City or City giving Landlord at least thirty (30) days' prior written notice of termination. Should City hold over without Landlord's consent, the rent payable by City during the first two months period of such holding over shall be one hundred twenty-five percent (125%), and commencing the third month of holding over, shall be two hundred percent (200%) of the monthly Base Rent in effect during the last month of the Term of this Lease, and such tenancy shall otherwise be on the terms and conditions contained herein.

### **23.14 Cumulative Remedies**

All rights and remedies of either party hereto set forth in this Lease shall be cumulative, except as may otherwise be provided herein.

### **23.15 Time of Essence**

Time is of the essence with respect to all provisions of this Lease in which a definite time for performance is specified.

### **23.16 Survival of Indemnities**

Termination of this Lease shall not affect the right of either party to enforce any and all indemnities and representations and warranties given or made to the other party under this Lease, nor shall it affect any provision of this Lease that expressly states it shall survive termination hereof. Each party hereto specifically acknowledges and agrees that, with respect to each of the indemnities contained in this Lease, the indemnitor has an immediate and independent obligation to defend the indemnitees from any claim which actually or potentially falls within the indemnity provision even if such allegation is or may be groundless, fraudulent or false, which obligation arises at the time such claim is tendered to the indemnitor by the indemnitee and continues at all times thereafter.

### **23.17 Signs**

City may erect or post signs on or about the Premises subject to Landlord's prior approval. Landlord reserves the right to review the placement, design, and plan for any such sign prior to its erection or posting and agrees that the approval thereof shall not be unreasonably withheld or delayed.





### **23.18 Quiet Enjoyment and Title**

Landlord covenants and represents that it has full right, power and authority to grant the leasehold estate hereunder, and covenants that City, upon paying the Rent hereunder and performing the covenants hereof, shall peaceably and quietly have, hold and enjoy the Premises and all appurtenances during the full Term of this Lease as against all persons or entities claiming by and through Landlord or on account of any action, inaction or agreement of Landlord or its Agents. Without limiting the provisions of Section 16.2 (Landlord's Indemnity), Landlord agrees to Indemnify City and its Agents against Claims arising out of any assertion that would interfere with City's right to quiet enjoyment as provided in this Section.

### **23.19 Bankruptcy**

Landlord represents and warrants to City that Landlord has neither filed nor been the subject of any filing of a petition under the federal bankruptcy law or any federal or state insolvency laws or laws for composition of indebtedness or for the reorganization of debtors, and, to the best of Landlord's knowledge, no such filing is threatened. Landlord and City agree that City's leasehold estate created hereby includes, without limitation, all rights to receive and enjoy all services, facilities and amenities of the Premises and the Building as provided herein, and that if any of such services, facilities or amenities are terminated, or materially limited or restricted on account of any such case or proceeding, or for any other reason, City shall have the right to (a) contract directly with any third-party provider of such services, facilities or amenities to obtain the same, and (b) offset against the Base Rent or other charges payable hereunder any and all reasonable costs and expenses incurred by City in obtaining such services, facilities or amenities.

### **23.20 Transfer of Landlord's Interest**

Landlord shall have the right to transfer its interest in the Property, the Building or this Lease to any other financially responsible person or entity. In the event of any such transfer, Landlord shall be relieved, upon notice to City of the name and address of Landlord's successor, of any obligations accruing hereunder from and after the date of such transfer and upon delivering to City an express assumption by the transferee of all of Landlord's obligations hereunder.

### **23.21 Non-Liability of City Officials, Employees and Agents**

Notwithstanding anything to the contrary in this Lease, no elective or appointive board, commission, member, officer, employee or agent of City shall be personally liable to Landlord, its successors and assigns, in the event of any default or breach by City or for any amount which may become due to Landlord, its successors and assigns, or for any obligation of City under this Lease.

### **23.22 MacBride Principles - Northern Ireland**

The City and County of San Francisco urges companies doing business in Northern Ireland to move toward resolving employment inequities and encourages them to abide by the MacBride Principles as expressed in San Francisco Administrative Code Section 12F.1 et seq. The City and County of San Francisco also urges San Francisco companies to do business with corporations that abide by the MacBride Principles. Landlord acknowledges that it has read and understands the above statement of the City and County of San Francisco concerning doing business in Northern Ireland.



### **23.23 Controller's Certification of Funds**

The terms of this Lease shall be governed by and subject to the budgetary and fiscal provisions of the City's Charter. Notwithstanding anything to the contrary contained in this Lease, there shall be no obligation for the payment or expenditure of money by City under this Lease unless the Controller of the City and County of San Francisco first certifies, pursuant to Section 3.105 of the City's Charter, that there is a valid appropriation from which the expenditure may be made and that unencumbered funds are available from the appropriation to pay the expenditure. Without limiting the foregoing, if in any fiscal year of City after the fiscal year in which the Term of this Lease commences, sufficient funds for the payment of Rent and any other payments required under this Lease are not appropriated, then City may terminate this Lease, without penalty, liability or expense of any kind to City, as of the last date on which sufficient funds are appropriated. City shall use its reasonable efforts to give Landlord reasonable advance notice of such termination.

### **23.24 Prevailing Wages for Construction Work**

Landlord agrees that any person performing labor for the construction of the Leasehold Improvement Work or other improvements to the Premises, which Landlord provides under this Lease, shall be paid not less than the highest prevailing rate of wages as required by Section 6.22(E) of the San Francisco Administrative Code, shall be subject to the same hours and working conditions, and shall receive the same benefits as in each case are provided for similar work performed in San Francisco, California. Landlord shall include, in any contract for improvements to the Premises, a requirement that all persons performing labor under such contract shall be paid not less than the highest prevailing rate of wages for the labor so performed. Landlord shall require any contractor to provide, and shall deliver to City upon request, certified payroll reports with respect to all persons performing labor for any Leasehold Improvement Work or other improvements to the Premises.

### **23.25 Non Discrimination in City Contracts and Benefits Ordinance**

#### **(a) Covenant Not to Discriminate**

In the performance of this Lease, Landlord agrees not to discriminate against any employee of, any City employee working with Landlord, or applicant for employment with Landlord, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

#### **(b) Subcontracts**

Landlord shall include in all subcontracts relating to the Premises a non-discrimination clause applicable to such subcontractor in substantially the form of subsection (a) above. In addition, Landlord shall incorporate by reference in all subcontracts the provisions of Sections 12B.2(a), 12B.2(c)-(k) and 12C.3 of the San Francisco Administrative Code and shall require all subcontractors to comply with such provisions. Landlord's failure to comply with the obligations in this subsection shall constitute a material breach of this Lease.



**(c) Non-Discrimination in Benefits**

Landlord does not as of the date of this Lease and will not during the Term, in any of its operations in San Francisco or where the work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits specified above within the United States, between employees with domestic partners and employees with spouses, and/or between domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the condition set forth in Section 12.B2(b) of the San Francisco Administrative Code.

**(d) HRC Form**

As a condition to this Lease, Landlord shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (Form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission (the "HRC"). Landlord hereby represents that prior to execution of the Lease: **(a)** Landlord executed and submitted to the HRC Form HRC-12B-101 with supporting documentation, and **(b)** the HRC approved such form.

**(e) Incorporation of Administrative Code Provisions by Reference**

The provisions of Chapters 12B and 12C of the San Francisco Administrative Code relating to non-discrimination by parties contracting for the lease of property to City are incorporated in this Section by reference and made a part of this Lease as though fully set forth herein. Landlord shall comply fully with and be bound by all of the provisions that apply to this Lease under such Chapters of the Administrative Code, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, Landlord understands that pursuant to Section 12B.2(h) of the San Francisco Administrative Code, a penalty of Fifty Dollars (\$50) for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Lease may be assessed against Landlord and/or deducted from any payments due Landlord.

**23.26 Tropical Hardwood and Virgin Redwood Ban**

**(a)** Except as expressly permitted by the application of Sections 802(b) and 803(b) of the San Francisco Environment Code, neither Landlord nor any of its contractors shall provide any items to City in the construction of the Leasehold Improvement Work or otherwise in the performance of this Lease which are tropical hardwood, tropical hardwood wood products, virgin redwood, or virgin redwood wood products.

**(b)** The City and County of San Francisco urges companies not to import, purchase, obtain or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood, or virgin redwood wood products.

**(c)** In the event Landlord fails to comply in good faith with any of the provisions of Chapter 8 of the San Francisco Environment Code, Landlord shall be liable for liquidated damages for each violation in an amount equal to Landlord's net profit on the contract, or five percent (5%) of the total amount of the contract dollars, whichever is greatest. Landlord acknowledges and agrees that the liquidated damages assessed shall be payable to the City and County of San Francisco upon demand and may be set off against any monies due to Landlord from any contract with the City and County of San Francisco.



### **23.27 Bicycle Storage Facilities**

(a) Article 1.5, Section 155.1, of the San Francisco Planning Code (the "Planning Code") requires the provision of bicycle storage at City-leased buildings at no cost to Landlord and if funds are available. In the event public and/or private donations, grants or other funds become available, at any time during the Term of this Lease including any extension thereof, City may, by giving a 60-day advanced written notice to Landlord, install compliant bicycle storage in acceptable location to Landlord. City shall pay the monthly fair market rent value for any such bike location not within the Premises. Landlord also agrees that, should it be legally required to do so, City may install bicycle racks in other location(s) in front of the Building, which are required to meet the Class 1 and/or Class 2 requirements of the Planning Code. Landlord, at no cost to Landlord, shall reasonably cooperate with City regarding the location of such spaces in furtherance of the implementation of such requirements of the Planning Code. However, design, color and placement shall be subject to Landlord's approval.

(b) The above notwithstanding, Landlord hereby grants to City the right to use the bicycle racks in the Bike Room located adjacent to the Building's ground floor loading dock (the "Bicycle Room") solely for the purpose of storing bicycles used by employees of City to commute to and from the Building. All of the terms and conditions set forth in this Lease applicable to the Premises and City's use thereof, including without limitation, City's indemnity and repair obligations, shall also apply to the Bicycle Room and City's use thereof. To the extent City or any of its Agents damages the common areas or any of the Building Systems located in or about the Bicycle Room, Tenant shall pay Landlord, within ten (10) days after demand by Landlord, for any and all costs incurred by Landlord to repair such damage. Landlord reserves for itself and any designated Agent the right to enter the Bike Room or the loading dock area adjacent to the Bicycle Rack without notice to City for any purpose whatsoever.

(c) Further, any costs incurred by or on behalf of Landlord to remodel the Bike Room, the area in which the Bicycle Rack is located or to make a new compliant bike room necessary to meet any applicable Code or Law shall be applied against the Allowance.

### **23.28 Resource-Efficient City Buildings and Pilot Projects**

Landlord acknowledges that the City and County of San Francisco has enacted San Francisco Environment Code Sections 700 to 707 relating to resource-efficient City buildings and resource-efficient pilot projects. Landlord hereby agrees that it shall comply with all applicable provisions of such code sections.

### **23.29 Counterparts**

This Lease may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

### **23.30 Effective Date**

The date on which this Lease shall become effective (the "Effective Date") is the date upon which : (a) City's Mayor and Board of Supervisors, in its sole and absolute discretion, adopts a resolution approving this Lease in accordance with all applicable laws, and (b) this Lease is duly executed by the parties hereto.

### **23.31 Certification by Landlord**

By executing this Lease, Landlord certifies that neither Landlord nor any of its officers or members have been suspended, disciplined or disbarred by, or prohibited from contracting with,





any federal, state or local governmental agency. In the event Landlord or any of its officers or members have been so suspended, disbarred, disciplined or prohibited from contracting with any governmental agency, it shall immediately notify the City of same and the reasons therefore together with any relevant facts or information requested by City. Any such suspension, disbarment, discipline or prohibition may result in the termination or suspension of this Lease. Landlord acknowledges that this certification is a material term of this Lease.

### **23.32 Notification of Limitations on Contributions**

Through its execution of this Lease, Landlord acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the selling or leasing of any land or building to or from the City whenever such transaction would require approval by a City elective officer, the board on which that City elective officer serves, or a board on which an appointee of that individual serves, from making any campaign contribution to (a) the City elective officer, (b) a candidate for the office held by such individual, or (c) a committee controlled by such individual or candidate, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. Landlord acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. Landlord further acknowledges that the prohibition on contributions applies to each Landlord; each member of Landlord's board of directors, and Landlord's chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in Landlord; any subcontractor listed in the contract; and any committee that is sponsored or controlled by Landlord. Additionally, Landlord acknowledges that Landlord must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. Landlord further agrees to provide to City the name of each person, entity or committee described above.

### **23.33 Sunshine Ordinance**

In accordance with Section 67.24(e) of the San Francisco Administrative Code, contracts, contractors' bids, leases, agreements, responses to Requests for Proposals, and all other records of communications between City and persons or firms seeking contracts will be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person's or organization's net worth or other proprietary financial data submitted for qualification for a contract, lease, agreement or other benefit until and unless that person or organization is awarded the contract, lease, agreement or benefit. Information provided which is covered by this Section will be made available to the public upon request.

### **23.34 Conflicts of Interest**

Through its execution of this Lease, Landlord acknowledges that it is familiar with the provisions of Section 15.103 of the San Francisco Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 *et seq.* and Section 1090 *et seq.* of the Government Code of the State of California, and certifies that it does not know of any facts which would constitute a violation of said provisions, and agrees that if Landlord becomes aware of any such fact during the Term of this Lease, Landlord shall immediately notify City.

### **23.35 Preservative-Treated Wood Containing Arsenic**

As of July 1, 2003, Landlord may not purchase preservative-treated wood products containing arsenic in the performance of this Lease unless an exemption from the requirements of Environment Code, Chapter 13 is obtained from the Department of Environment under Section 1304 of the Environment Code. The term "preservative-treated wood containing



arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniac copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. Landlord may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of Environment. This provision does not preclude Landlord from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

### **23.36 Cooperative Drafting**

This Lease has been drafted through a cooperative effort of both parties, and both parties have had an opportunity to have the Lease reviewed and revised by legal counsel. No party shall be considered the drafter of this Lease, and no presumption or rule that an ambiguity shall be construed against the party drafting the clause shall apply to the interpretation or enforcement of this Lease.

[No further text this page.]



NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE, LANDLORD ACKNOWLEDGES AND AGREES THAT NO OFFICER OR EMPLOYEE OF CITY HAS AUTHORITY TO COMMIT CITY HERETO UNLESS AND UNTIL CITY'S BOARD OF SUPERVISORS AND MAYOR SHALL HAVE DULY ADOPTED A RESOLUTION APPROVING THIS LEASE AND AUTHORIZING CONSUMMATION OF THE TRANSACTION CONTEMPLATED HEREBY. THEREFORE, ANY OBLIGATIONS OR LIABILITIES OF CITY HEREUNDER ARE CONTINGENT UPON ADOPTION OF SUCH A RESOLUTION, AND THIS LEASE SHALL BE NULL AND VOID UNLESS CITY'S BOARD OF SUPERVISORS AND MAYOR APPROVES THIS LEASE, IN ITS SOLE AND ABSOLUTE DISCRETION, AND IN ACCORDANCE WITH ALL APPLICABLE LAWS.

Landlord and City have executed this Lease as of the date first written above.

LANDLORD:

1145 MARKET STREET LP, a California limited partnership

By: 1145 Market Street LLC,  
a California limited liability company  
Its general partner

By: Trinity Management Services,  
a California corporation  
Its Managing Agent

By: \_\_\_\_\_  
Mia Sangiacomo  
Its: President

CITY:

CITY AND COUNTY OF SAN FRANCISCO,  
a municipal corporation

By: \_\_\_\_\_  
JOHN UPDIKE  
Director of Property



RECOMMENDED:

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San Francisco Employees' Retirement  
System  
Executive Director

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By:

---

Anita L. Wood  
Deputy City Attorney





**EXHIBIT A**

**FLOOR PLAN**

CONSISTING OF FOUR PAGES

[Attach]



**EXHIBIT B**

**NOTICE OF COMMENCEMENT DATE**

[Date]

John Updike  
Director of Property  
Real Estate Division  
City and County of San Francisco  
25 Van Ness Avenue, Suite 400  
San Francisco, CA 94102

RE: Acknowledgement of Premises Commencement Date, Lease between 1145 MARKET STREET, LP, a California limited partnership (Landlord), and the CITY AND COUNTY OF SAN FRANCISCO (Tenant), for premises known as the 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> floors, located at 1145 Market Street, San Francisco, California

Dear Mr. Updike:

This letter will confirm that for all purposes of the Lease, the Commencement Date (as defined in Section 3.1 of the Lease) is \_\_\_\_\_, 2014.

Please acknowledge your acceptance of this letter by signing and returning a copy of this letter.

Very truly yours,

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Accepted and Agreed:

By: \_\_\_\_\_  
John Updike  
Director of Property

Dated: \_\_\_\_\_



## EXHIBIT C

### EXCLUSIONS FROM OPERATING COSTS

1. Costs of capital improvements and equipment, except for those (i) required by laws enacted on or after the date of the Lease amortized over the useful life of the improvement and/or equipment, together with interest at the actual interest rate incurred by Landlord in connection with such capital improvements, or (ii) acquired to cause, in Landlord's good faith judgment, an immediate (i.e., commencing within the first year after completion of such improvements or installation of such equipment) reduction in other Operating Costs, amortized over the useful life of such improvements at an annual rate reasonably calculated to equal the amount of Operating Costs to be saved in each calendar year throughout the Term (as determined at the time Landlord elected to proceed with the capital improvement or acquisition of the capital equipment to reduce operating expenses), together with interest at the actual interest rate incurred by Landlord;
2. Rentals and other related expenses for items (except when needed in connection with normal repairs and maintenance of permanent systems) which if purchased rather than rented, would constitute a capital improvement which is specifically excluded in item 1 above (excluding, however, equipment not affixed to the Building which is used in providing janitorial or similar services);
3. Costs incurred by Landlord for the repair of damage to the Building, to the extent that Landlord is reimbursed by insurance proceeds (excluding any deductible) and costs occasioned by the exercise of the right of eminent domain;
4. Costs, including, without limitation, permit, license and inspection costs, incurred with respect to the installation of improvements made for other tenants or occupants of the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for other tenants or occupants in the Building;
5. Depreciation, amortization and interest payments, except to the extent provided herein pursuant to items 1(i) and 1(ii) above and except on materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, all as determined in accordance with generally accepted accounting principles, consistently applied (as applied to commercial real estate), and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life (as reasonably determined by Landlord);
6. Leasing commissions, attorneys' and other professionals' fees, space planning costs and all other costs and expenses in connection with negotiations with present or prospective tenants or other occupants in the Building or any present or future ground lessors or holders of any mortgages or other encumbrances affecting any of the Building or the defense of Landlord's title to the Building or the real property on which it is located;
7. Expenses in connection with services or other benefits which are not offered to City or for which City is charged directly but which are provided to another tenant or occupant of the Building;
8. Costs incurred by Landlord due to violation by Landlord or any other tenant or occupant of the Building of applicable laws, rules or regulations, the terms and conditions of any lease,



ground lease, mortgage or deed of trust, or other covenants, conditions or restrictions encumbering the Building or the real property on which it is located;

9. Overhead and profit increments paid to Landlord or to subsidiaries or affiliates of Landlord, or to any party as a result of a non-competitive selection process, for management, or other services, supplies or materials, to the extent the same exceed the costs of such goods and/or services rendered by unaffiliated third parties on a competitive, arms-length basis;

10. Any ground lease rental or rental under any other underlying leases;

11. Except as specifically permitted by items 1(i) and 1(ii) above, interest, principal, points and fees on debts or amortization on any mortgage, deed of trust or any other debt instrument encumbering any of the Building or the real property on which it is located;

12. Any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord or in the parking garage in the Building;

13. All items and services for which City or any other tenant or occupant of the Building separately reimburses Landlord (other than through such tenant's or occupant's proportionate share of operating expenses), or which Landlord provides selectively to one or more other tenants or occupants without reimbursement, or which are not provided in reasonable proportion to the space leased by City but which Landlord provides to another tenant or other occupant of the Building;

14. Advertising or promotional expenditures, and the costs of acquiring and installing signs in or on any of the Building identifying the owner of the Building or any other tenant or occupant of the Building;

15. Electric power costs for which any tenant or occupant directly contracts with the local public service company (provided that the charge for such services shall be computed for purposes of the gross-up provision of the Lease (i.e., expenses to be grossed up to reflect full occupancy of the Building) to reflect an average charge for power costs);

16. Services provided, taxes attributable to, and costs incurred in connection with the operation of retail, restaurant and garage operations in the Building;

17. Costs incurred in connection with upgrading the Building to comply with disabled access, life, fire and safety codes in effect prior to the date of the Lease, and costs incurred in connection with upgrading the Building to comply with the Americans with Disabilities Act of 1990 and Title 24 of the California Code of Regulations (or its successor), the San Francisco Sprinkler Ordinance and the San Francisco Unreinforced Masonry Building Ordinance;

18. Tax penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments when due;

19. Costs arising from the presence of Hazardous Material in or about the Building including, without limitation, groundwater or soil conditions, except if such Hazardous Material is brought onto the Building by City in violation of applicable laws;

20. Landlord's charitable or political contributions;

21. To the extent the following costs arise during any applicable warranty periods, costs as a result of repairs of latent defects in the Building core and shell or improvements installed by Landlord or in the Building Systems, and any costs incurred by Landlord in the event any portion





of the Building is made untenable by fire or other casualty required to be insured against pursuant to the terms of the Lease;

22. Capital costs for sculpture, paintings or other objects of art;

23. Costs (including, without limitation, all attorneys' fees and costs of settlement, judgments and payments in lieu thereof) arising from claims, disputes or potential disputes, including, without limitation, tax disputes where the tenants of the Building would receive benefits if Landlord prevails) in connection with potential or actual claims, litigation or arbitrations pertaining to Landlord or the Building;

24. All direct cost of refinancing, selling, exchanging or otherwise transferring ownership of the Building or the real property on which it is located or any interest therein or portion thereof, including broker commissions, attorney's fees and closing costs;

25. Reserves for bad debts, rent loss, capital items or further Operating Costs;

26. Landlord's general corporate overhead and general and administrative expenses not related to the operation or management of the Building; and

27. Any other expense that under customary real estate management accounting practices would not be considered a maintenance or operating expense.



## EXHIBIT D

### BUILDING RULES AND REGULATIONS

1. Except as provided, required or permitted by Landlord in accordance with the Building standards, no sign, placard, picture, advertisement, name or notice shall be inscribed, displayed, painted or affixed by Tenant on or to any part of the Building or exterior of the Premises leased to tenants or to the doors or door thereof without the written consent of Landlord (which may be withheld in Landlord's sole discretion) first obtained as to all matters pertaining thereto, including without limitation dimensions, material, content, location and design, and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant. In no event whatsoever shall Tenant install any signage on any exterior or interior door of the Premises; if Tenant shall nonetheless do so, Tenant shall replace or, at Landlord's option, pay Landlord for the replacement of each door on which any signage has been installed.

2. Except as provided, required or permitted by Landlord in accordance with Building standards, no draperies, curtains, blinds, shades, screens or other devices shall be hung at or used in connection with any window or exterior door or doors of the Premises.

3. The bulletin board or directory of the Building, if any, shall be used primarily for display of the name and location of tenants and Landlord reserves the right to exclude any other names therefrom, to limit the number of names associated with tenants to be placed thereon and to charge for names associated with tenants to be placed thereon at rates applicable to all tenants. Without additional cost, Landlord shall provide one listing on the Building directory in Building standard format pursuant to this Lease.

4. The sidewalks, doorways, vestibules, halls, passages, exits, entrances, loading areas, elevators and stairways of the Building shall not be obstructed by Tenant or used by it for any purpose other than for ingress to and egress from the Premises. Landlord in all cases reserves the right to control the halls, passages, exits, entrances, loading areas, elevators, stairways and balconies of the Building and prevent access thereto by all persons whose presence, in the judgment of Landlord, is or may be prejudicial to the safety, character, reputation or interests of the Building and its tenants. No person shall go upon the roof of the Building unless expressly so authorized by Landlord.

5. Tenant shall not alter any lock nor install any new or additional locks or any bolts on any interior or exterior door of the Premises, except for interior locks which (i) do not interfere with the security system of the Building, if any, (ii) have been approved by Landlord and a key thereof has been provided to Landlord, and (iii) comply with all fire and other governmental requirements. Tenant shall be responsible for the cost of restoring any locks, and the repair of any damage to doors and the like associated with restoring the doors and locks, upon expiration or earlier termination of this Lease.

6. The doors, windows, light fixtures and any lights or skylights that reflect or admit light into the halls or other places of the Building shall not be covered or obstructed. The toilet rooms, toilets, urinals, wash bowls and other plumbing facilities shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown or placed therein. The expense of any breakage, stoppage or damage



resulting from the violation of this rule shall be borne by Tenant if it or its employees or invitees caused such expense.

7. Tenant shall not mark, drive nails, screw or drill into the walls, woodwork or plaster of or in any way deface the Building or the Premises, except that within the Premises Tenant may affix to non-supporting partitions pictures, paintings, whiteboards, bulletin boards, shelving and other similar items.

8. General deliveries of furniture, freight, equipment or merchandise of every kind shall be moved into or out of the Building only at such times during regular business hours and in such manner as Landlord shall reasonably designate. Delivery of significant amounts of furniture, freight, equipment or merchandise shall be moved into or out of the Building only at such times and in such manner as Landlord shall reasonably designate. Tenant shall be responsible for all damage to common areas caused by its vendors, movers, and deliveries. Landlord may prescribe and limit the hours of access to, and appropriate uses of the freight elevator, and the weight, size and position of all equipment to be carried in the elevator or used by Tenant in the Premises. Tenant shall not cause or permit the use of any elevator for the transporting of furniture, freight, equipment or merchandise other than the designated freight elevator(s) and only then if proper protection is used to prevent damage to interior surfaces of the elevator. Tenant shall not place a load on any floor exceeding the floor load per square foot which such floor was designed to carry. Tenant shall not install, operate or maintain any heavy item or equipment in the Premises, except in such manner as to achieve a proper distribution of weight. All damage to the Building or the Premises caused by moving or maintaining any property of Tenant shall be repaired at the expense of Tenant.

9. Tenant shall not employ any person, other than the janitor provided by Landlord, for the purpose of cleaning the Premises unless otherwise agreed to by Landlord. Except with the written consent of Landlord, no person shall be permitted to enter the Building for the purpose of cleaning the same. Tenant shall not cause any unnecessary labor by carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for loss of property on the Premises, however occurring, or for any damage to the property of Tenant caused by the employees or independent contractors of Landlord or by any other person. Except as otherwise set forth in this Lease, including Exhibit E attached hereto, janitor service shall not include shampooing of carpets or rugs, moving of furniture or other special services; janitor service will not be furnished when rooms are occupied during the regular hours when the janitor service is provided; and window cleaning shall be done only at the regular and customary times determined by Landlord for such services.

10. Tenant shall not sweep or throw or permit to be swept or thrown any dirt or other substance into any of the corridors, halls or elevators or out of the doors or stairways of the Building; use or keep or permit to be used or kept any foul or noxious gas or substance; permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord, other tenants or guests of the Building by reason of noise, odors or vibrations; use any advertising medium which may be heard or experienced outside the Premises; interfere in any way with other tenants or persons having business in the Building; or bring or keep or permit to be brought or kept in the Building any animal life form, other than human, except seeing-eye dogs or other assistance animals when in the company of their masters.



11. Subject to Landlord's janitorial obligations under this Lease, Tenant shall keep the Premises (including interior portions of all windows, doors and all other glass) in a neat and clean condition. Tenant shall not permit the accumulation (unless in concealed metal containers) or burning of any rubbish or garbage in, on or about any part of the Premises or the Building. Further, Tenant shall permit supplies and equipment required to operate the Premises and any rubbish or other waste to be disposed of from the Premises to be transported only through the rear door to the Premises and to the area designated by Landlord for trash disposal service. The designated area is subject to change by Landlord.

12. No coin- or token-operated vending machine or similar device for the sale of any merchandise or services (including, without limitation, pay lockers, pay toilets, scales, amusement devices and machines for the sale of cigarettes or other commodities) may be operated in the Premises, except that vending machines for the sale of beverages, foods, and candy may be operated in any break room or kitchenette areas located within the Premises for use by Tenant and its employees and invitees.

13. With the exception of coffee pots, refrigerators, and microwave ovens, no cooking or preparation of food shall be done or permitted by Tenant in the Premises, nor shall the Premises be used for the storage of merchandise, washing clothes, lodging, or any improper, objectionable or immoral purposes. Tenant shall not conduct any restaurant, luncheonette or cafeteria for the sale or service of food or beverages to its employees or to others, except as provided above in Section 12.

14. Tenant shall not use or keep in the Building any kerosene, gasoline or inflammable or combustible fluid or material.

15. No boring or cutting for telephone, data or electric wires shall be allowed without the consent of Landlord and any such wires permitted shall be introduced at the place and in the manner prescribed by Landlord. The location of telephones, utilities outlets, speakers, fire extinguishers and all other equipment affixed to the Premises shall be subject to the approval of Landlord. Tenant shall pay all expenses incurred in connection with the installation, and, upon expiration or earlier termination hereof, the removal, of its equipment, including any telephone, data and electricity distribution equipment, and repair and replacement, as necessary, of any parts of the Premises and the Building affected thereby. In no event whatsoever shall Landlord be responsible to do any cabling or installation or other work for Tenant's telephone and data systems.

16. Card-keys for access to the Premises has previously been furnished by Landlord, and any additional card-keys required by Tenant must be obtained from Landlord at a cost \$10 per card-key. Tenant shall pay the same charge for any card keys not returned at expiration of this Lease. Tenant shall immediately report to Landlord any lost keys or card-keys, and shall bear the cost of any lost keys and card-keys and any lock changes or repairs required by Tenant. No keys or card-keys for access to the Building shall be copied without Landlord's written consent. Upon termination of occupancy of the Building, Tenant shall deliver to Landlord all keys and card-keys furnished by Landlord, and any reproductions thereof made by or at the direction of Tenant.





17. Tenant shall not affix any floor covering in any manner except as approved by Landlord. The expense of repairing any damage caused by removal of any such floor covering shall be borne by Tenant if it or its contractors, employees or invitees caused the damage.

18. No mail, furniture, packages, supplies, equipment, merchandise or deliveries of any kind will be received in the Building or carried up or down in the elevators except between such hours and in such elevators as shall be reasonably designated by Landlord.

19. Landlord reserves the right to close and keep locked all entrances and existing doors of the Building at all hours and to provide for access during regular business hours by Tenant and its employees by means of a card-key or other access system, and to provide for access by Tenant's invitees and guests by an intercom or other access system. Use of the Building daily between 6:00 p.m. and 8:00 a.m. or at any time during Saturdays, Sundays and legal holidays shall be subject to the rules and regulations Landlord may reasonably prescribe, including but not limited to use of key-cards, at no additional cost to Tenant. Tenant, Tenant's employees, agents or associates, or other persons entering or leaving the Building at any time, when it is so locked, may be required to sign the Building register, and any security guard or other person designated by Landlord (if posted by Landlord in its discretion) shall have the right to refuse admittance to any person into the Building without satisfactory identification showing such person's right to access to the Building at such time. Landlord assumes no responsibility and shall not be liable for any loss or damage resulting from the granting or refusing of admission to any authorized or unauthorized person to the Building. Tenant shall be responsible for the cost of any false discharge of Building security alarm system caused by the gross negligence or willful misconduct of Tenant, its agents, employees or invitees.

20. Tenant shall exercise reasonable care and caution to see that the exterior doors of the Premises are closed and securely locked on Saturdays, Sundays, legal holidays and after 6:00 P.M. daily. Tenant shall exercise reasonable care and caution that all water faucets or water apparatus are entirely shut off each day before the Premises are left unoccupied and that all electricity or gas shall likewise be carefully shut off so as to prevent waste or damage to Landlord or to other tenants of the Building.

21. Landlord may exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

22. The requirements of Tenant will be attended to promptly only upon application to Landlord. Employees of Landlord shall not perform any work outside of their regular duties unless under special instructions from Landlord.

23. Landlord, without notice and without liability to Tenant, at any time may change the name or the street address of the Building; provided, however, Landlord shall use its good faith effort to give reasonable prior notice to Tenant of any such change.

24. The word "Building" as used in these rules and regulations means the building in which the Premises are located.



**EXHIBIT E**

**STANDARDS FOR JANITORIAL SERVICE**

**1145 MARKET STREET, SAN FRANCISCO**

**I. SPECIFICATION OF SERVICES TO BE PERFORMED - SCOPE OF WORK**

- A. Landlord's contractor shall furnish all labor, materials and equipment required to perform exterior and interior janitorial service five (5) days a week, Monday through Friday, excluding holidays, at the location specified above in accordance with these specifications.
- B. All windows and glass broken by Landlord's contractor will be replaced at its expense.
- C. Landlord's contractor must, at all times, maintain adequate staffing that meets these specifications. All employees must wear uniforms (see Section II below). All written notices are to be submitted to:

City and County of San Francisco  
Real Estate Division  
25 Van Ness, 4<sup>th</sup> Floor  
San Francisco, California 94102  
Attn.: Director of Property

With copy to:

San Francisco Employees' Retirement System  
1145 Market Street, 6th Floor  
San Francisco, California 94103  
Attn.: Executive Director

- D. All services must be performed after 5:00 p.m.
- E. All employees of Landlord's contractor shall be fully trained and experienced in the custodial service trade.
- F. Landlord will assign space in the Building to contractor for the storage of supplies and equipment. Materials and equipment shall be neatly stored only in areas provided by Landlord. No supplies or equipment will be stored in the Premises without the prior approval of City.
- G. City's Recycling Program includes recycling materials from offices in the Building. Bins for recyclable materials can be obtained from City.
- H. Landlord's contractor will provide, upon Lease Commencement, a schedule for all periodic services specified herein.
- I. Janitorial Service Specifications for Offices and Common Areas.
  - 1. Nightly Services
    - a. Secure all lights as soon as possible each night.



- b. Vacuum all carpets. Move electric cords to prevent damage to the corner bead.
- c. Dust mop all resilient and composition floors with treated dust mops. Damp mop to remove spills and water stains as required.
- d. Spot clean any stains on carpet.
- e. Dust all desks and office furniture with treated dust cloths.
- f. Papers and folders on desks are not to be moved.
- g. Sanitize all telephone receivers.
- h. Empty all waste paper baskets and other trash containers and remove all trash from floors to the designated trash areas. Sort and put ALL RECYCLABLE MATERIAL into bins provided by City.
- i. Remove fingerprints, dirt smudges, graffiti, etc., from all doors, frames, glass partitions, windows, light switches, and walls.
- j. Return chairs and waste baskets to proper positions.
- k. Clean, sanitize and polish drinking fountains.
- l. Dust and remove debris from all metal door thresholds.
- m. Wipe clean smudged brightwork.
- n. Spot clean resilient and composition floors as required.
- o. Service all walk-off mats as required.
- p. Upon City's request, check for burned out lights and replace from building stock (supplied by Landlord).
- q. Remove debris and spot clean balconies

2. Weekly Services

- a. Dust all low reach areas including, but not limited to, chair rungs, structural and furniture ledges, baseboards, window sills, door louvers, wood paneling, molding, etc.
- b. Dust inside of all door jambs.
- c. Clean and polish all metal door thresholds.
- d. Wipe clean and polish all brightwork
- e. Sweep the service stairwell.
- f. Damp mop all vinyl bases.
- g. Edge all carpeted areas.



3. Monthly Services

- a. Dust all high reach areas including, but not limited to, tops of door, frames, structural and furniture ledges, air conditioning diffusers and return grilles, tops of partitions, picture frames, etc.
- b. Vacuum upholstered furniture.
- c. Move all plastic carpet protectors and thoroughly vacuum under and around all desks and office furniture.
- d. Clean and buff all building standard resilient and/or composite flooring.

4. Quarterly Services

- a. Shower-scrub or otherwise recondition all resilient or composition flooring to provide a level of appearance equivalent to a completely refinished floor.

5. Semi-Annual Services

- a. Vacuum all window coverings.
- b. Dust light diffusers.

6. Annual Services

- a. At City's cost, shampoo carpets in offices (schedule to be approved in advance), using products and methods recommended by manufacturer and/or carpet installation contractor.

J. Rest Room Service Specifications

1. Daily Service

- a. Re-stock all rest rooms with supplies from the Landlord's stock, including paper towels, toilet tissue, seat covers and hand soap, as required.
- b. Re-stock all sanitary napkin and tampon dispensers from contractor's stock, as required.
- c. Wash and polish all mirrors, dispensers, faucets, flushometers and brightwork with non-scratch disinfectant cleaner. Wipe dry all sinks.
- d. Wash and sanitize all toilets, toilet seats, urinals and sinks with non-scratch disinfectant cleaner.
- e. Remove stains, scale toilets, urinals and sinks, as required.
- f. Mop all rest room floors with disinfectant, germicidal solution, include scrubbing of all base, inside corners and hard to reach areas.





- g. Empty and sanitize all waste and sanitary napkin and tampon receptacles.
- h. Remove all rest room trash.
- i. Spot clean fingerprints, marks and graffiti from walls, partitions, glass, aluminum and light switches as required.
- j. Check for burned out lights and replace from building stock (supplied by Landlord).
- k. Ventilate rest rooms.

2. Weekly Services

- a. Dust all low reach and high reach areas, including but not limited to, structural ledges, mirror tops, partition tops and edges, air conditioning diffusers and return air grilles.

3. Monthly Services

- a. Wipe down all walls and metal partitions. Partitions shall be left clean and not streaked after this work.
- b. Clean all ventilation grilles.
- c. Dust all doors and door jambs.

4. Quarterly Services

- a. Thoroughly clean and reseal all ceramic tile floors, using approved sealers.

K. Main Floor Elevator Lobbies and Public Corridors Specifications

1. Nightly Services

- a. Spot clean all glass including low partitions and the corridor side of all windows and glass doors to tenant premises.
- b. Spot clean all chrome brightwork including swinging door hardware, kick plates, base partition tops, handrails, waste paper receptacles, planters, elevator call button plates, hose cabinets and visible hardware on the corridor side of tenant entry doors.
- c. Thoroughly clean all door saddles of dirt and debris.
- d. Empty, clean and sanitize all waste paper baskets and refuse receptacles as required.
- e. Vacuum and spot clean all carpets as necessary.
- f. Spot clean all elevator doors and frames.



L. Exterior Structure and Grounds Services Specifications

1. Daily Service

- a. Spot clean accumulations of dirt, papers and leaves in all corner areas where winds tend to cause collections of debris.
- b. Spot clean all exterior glass at building entrances.
- c. Lift nap on all entry walk-off mats as necessary with a heavy bristle brush and vacuum.
- d. Empty all waste receptacles and remove trash to designated trash areas.
- e. Clean sidewalk, steps and landscaped area, walks and benches; including gum removal.

2. Monthly Weekend Services

- a. Steam clean exterior sidewalk and walk way areas.

M. Carpet Cleaning

1. Upon City's request and at Landlord's cost, provide spot cleaning to tenant space as necessary.
2. Provide spot cleaning of all common areas in the Building, as necessary, and clean carpets in all common areas in the Building at lease once a year, at Landlord's cost.
3. Upon City's request and cost, clean carpets in City's premises office space once each year (exact schedule to be approved in advance by City), using products and methods recommended by manufacturer and/or carpet installation contractor.

N. Window Cleaning

1. All work to be performed in accordance with generally accepted industry standards.
2. Proper safety standards are to be maintained at all times, including but not limited to, use of proper warning signs and clean up of water in compliance with all City, State and Federal laws (OSHA).
3. Window cleaning standards are to include clean up of water, wipe down of adjacent window mullions and ledges to prevent streaking, spotting, and excessive runoff.
4. When necessary, drop cloths are to be used to prevent damage to floors and adjacent surfaces.
5. Interior glass shall be cleaned not less than once per year. Exterior glass shall be cleaned as needed, but not less than twice per year.



6. Contractor to notify the City for specific scheduling of window washing one week prior to scheduled cleaning.
7. Contractor will be responsible for removing paint and putty etc. from both glass and plastic windows.
8. Exterior surfaces of windows are not to be washed when it is raining.
9. The words "window" and "light" as used herein are synonymous and are to be construed to mean any pane of glass, or glass substitute.

O. Balcony Cleaning

1. All work to be performed in accordance with generally accepted industry standards.
2. Proper safety standards are to be maintained at all times, including but not limited to, use of proper warning signs and clean up of water in compliance with all City, State and Federal laws (OSHA).
3. When necessary, drop cloths are to be used to prevent damage to floors and adjacent surfaces.
4. Pressure wash to remove pigeon droppings as needed, but not less than twice per year.
5. Landlord to notify the City for specific scheduling of one week prior to scheduled cleaning.

II. RECYCLING

Landlord's contractor shall nightly pick up all recycled materials from vendor supplied bins in the Premises and deposit appropriately in the Building's central recycling area. Such recycling shall include separate compost, battery disposal, recycled materials and landfill.

III. UNIFORMS

- A. Janitors must wear their uniforms whenever on duty.
- B. All personnel, including the coordinator and supervisors, will be uniformed. All personnel shall have a visible company name, logo, badge, etc., on their uniform.

IV. EMPLOYEE SAFETY

Landlord's contractor shall accept responsibility for determining that all necessary safeguards for protection of contractor's employees are available, or will be furnished. All work performed must conform to CAL-OSHA standards.

V. SUPPLIES

Landlord or its contractor shall supply floor wax, wax stripper, and other expendable supplies required for daily cleaning and maintenance, as well as janitorial supplies such



as hand soap, paper hand towels, paper toilet tissue, paper seat covers and deodorants. Furthermore, Landlord or its contractor shall supply all equipment including, but not limited to, ladders, vacuum cleaners, extractors, floor machines, mops and buckets.

#### VI. APPROVAL OF PRODUCTS

City shall have the right to prohibit the use of any product proposed or being used by Landlord's contractor should the City deem the product to be unsafe or harmful to those items being cleaned or to City's staff. In this regard, Landlord must provide upon request a complete list of products to be used in the course of this contract, together with Material Safety Data Sheets for each cleaning chemical.

#### VII. DISPOSITION OF REFUSE

All trash and refuse collected by the custodians shall be deposited in a debris box as designated by the Landlord. Landlord will pay for debris box service.

#### VIII. MAINTENANCE PROBLEMS

Employees of Landlord's contractor shall note maintenance problems (such as broken glass, light bulbs missing or burned out, inoperative fixtures, etc.) and report them to Landlord. Any problem which prevents performance must be noted in the log (Section VIII) before the end of the shift. Contractor shall not claim, and City will not entertain, any claim that such problems prevented contractor's performance if said claim is not entered in the log.

#### IX. JANITORIAL LOG

Landlord's contractor shall provide, and City shall keep, a janitorial log on which deficiencies in performance, special problems or instructions shall be noted. Landlord's contractor shall check the log daily, as arranged with City, and correct any deficiencies in service within twenty-four (24) hours of the log entry. Contractor shall initial and date each entry when deficiency has been corrected.

#### X. EMERGENCY CONTACT

Landlord's contractor shall provide City with an emergency telephone number where contractor may be reached at any time during normal business hours (Monday through Friday, 8:00 a.m. to 5:00 p.m.). Contractor must respond to emergency calls relating to deficiency of service by correcting said deficiency within two hours of receipt of the call.

#### XI. PERFORMANCE

Landlord and its contractor shall guarantee that workmanship required for the performance of this contract shall be in accordance with the highest level of workmanship and accomplished according to the highest professional standards. The determination as to the adequacy of performance shall be made by City or the Director of Property, City and County of San Francisco. Contractor or contractor's agent must be available at reasonable intervals during regular business hours as requested by City, to participate in inspection walk-throughs. Contractor will supervise all janitors during all shifts.





XII. VERIFICATION OF SERVICE

City may provide, install, or establish a system of sign off slips, service receipts, or room service sign off cards. Landlord's contractor shall faithfully comply with same by initialing, dating, and indicating time at which service was completed. It is agreed that no such service has been completed unless signed off by contractor and countersigned by City if said system so requires.

XIII. HOLIDAY SCHEDULE FOR CITY

New Year's Day  
Martin Luther King Day  
President's Day  
Memorial Day  
Independence Day  
Labor Day  
Columbus Day  
Veteran's Day  
Thanksgiving Day  
Friday after Thanksgiving Day  
Christmas Day



## **EXHIBIT F**

### **PROVISIONS FOR SATURDAY LIGHTING AND VENTILATION**

City shall have the right, by giving notice as described herein, to elect to have certain building services provided for Saturday use and operation of the Premises, which will be referred to as "Saturday Services." Such services shall be limited to access, lighting and ventilation only, and shall not include heat, air conditioning, janitorial or any other services.

To commence Saturday Services, City must give written notice of the election to do so no less than 30 days prior to the scheduled commencement of Saturday Services. The notice must state City's election to commence Saturday Services and the effective start date, and must designate the hours of requested lighting and ventilation, between 7:00 a.m. to 6:00 p.m. on Saturdays. Saturday Services shall be charged as a minimum of 5 hours per Saturday if they are provided at all.

Once commenced, Saturday Services will continue, and City will be responsible for the charges therefor, until City terminates such Saturday Services by giving written notice to Landlord terminating the request not less than 30 days in advance of termination.

Once Saturday Services commence, City shall pay a constant monthly charge for such Saturday Services until service is terminated as provided above, computed at the rate of Eighteen Dollars (\$18.00) per hour of requested service per Saturday (with a minimum charge of 5 hours per Saturday), multiplied by 4.33 (which is the average the number of Saturdays per month). Minimum Monthly charge is \$389.70.



AMENDED IN COMMITTEE

6/5/13

FILE NO. 130466

RESOLUTION NO. 191-13

1 [Real Property Lease - 1145 Market Street - Health Service System - \$743,280 Annually]

2  
3 **Resolution authorizing a 10 year Lease of 19,560 sq. ft. at 1145 Market Street for office**  
4 **space for the Health Service System from 1145 Market Street LP, for an initial annual**  
5 **rent of \$743,280.**

6  
7 WHEREAS, The City, for the Department of Human Resources, entered into a lease of  
8 approximately 18,254 square feet of office space at 1145 Market Street on the second and  
9 seventh floors, which commenced on February 14, 1997; and

10 WHEREAS, By a first Amendment to Lease, authorized by the Board of Supervisors,  
11 the Lease was extended to December 31, 2006 and the premises reduced to approximately  
12 13,576 square feet on the second floor only; and

13 WHEREAS, On July 1, 2005, the Health Service System ("HSS") was separated from  
14 the Department of Human Resources and became a City Department; and

15 WHEREAS, By a second Amendment to Lease, authorized by the Board of  
16 Supervisors, the Lease was extended to March 31, 2012; and

17 WHEREAS, The Lease for HSS at 1145 Market Street expired on March 31, 2012 and  
18 is holding over on a month to month basis at the current rate; and

19 WHEREAS, After exploring the costs and rental rates at alternative sites, HSS desires  
20 to remain at 1145 Market Street and lease additional space to incorporate the Wellness  
21 Center into their lease premises; and

22 WHEREAS, The Director of Property has negotiated a new lease for a term of  
23 approximately 10 years commencing upon Substantial Completion of Tenant Improvement  
24 (anticipated Commencement Date of September 1, 2013) and Terminating on August 31,  
25



1 2023, (a copy of the proposed Lease is on file with the Clerk of the Board in File No. 130466;  
2 the "Lease "); and

3 WHEREAS, The Director of Property has determined that the proposed rental rate for  
4 the ten (10) year term as set forth in the Lease is equal to or less than fair market rent for the  
5 Premises; now, therefore, be it

6 RESOLVED, That in accordance with the recommendation of the City Attorney and the  
7 Director of Property, the Board approves the Lease in substantially the form in the Board's  
8 File and authorizes the Director of Property to execute and deliver the Lease, and authorizes  
9 City staff to take all actions, on behalf of the City, to perform its obligations and exercise its  
10 rights under the Lease; and, be it

11 FURTHER RESOLVED, As set forth in the Lease: (i) the Lease shall terminate ten (10)  
12 years after Substantial Completion of the Tenant Improvements (anticipated Commencement  
13 Date of September 1, 2013 and Termination Date of August 31, 2023); (ii) the initial annual  
14 rent (net of electricity) for the period from September 1, 2013 to August 31, 2014 shall be  
15 \$743,280 (approximately \$38.00 per square foot per year); (iii) the base rent shall increase at  
16 a rate of 3% annually; (iv) City shall retain an early Lease Termination Right exercisable by  
17 City after 7.5 years; and (v) the City shall be entitled to a Tenant allowance not to exceed  
18 \$53.00 per square foot; and, be it

19 FURTHER RESOLVED, As set forth in the Lease, the City shall pay for its prorata  
20 share of operating expenses over a 2013 base year and for other typical tenant expenses;  
21 and, be it

22 FURTHER RESOLVED, That all actions heretofore taken by the offices of the City with  
23 respect to the Lease are hereby approved, confirmed and ratified; and, be it

24 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of  
25 Property to enter into any amendments or modifications to the Lease (including without





1 limitation, the exhibits) that the Director of Property determines, in consultation with the City  
2 Attorney, are in the best interest of the City, do not materially increase the obligations or  
3 liabilities of the City, do not materially decrease the benefits to the City, or are necessary or  
4 advisable to effectuate the purposes of the Lease or this resolution, and are in compliance  
5 with all applicable laws, including City's Charter; and, be it

6       FURTHER RESOLVED, That the City shall occupy the entire Premises for the full term  
7 of the Lease unless funds for the City's rental payments are not appropriated in any  
8 subsequent fiscal year at which time City may terminate the Lease with reasonable advance  
9 written notice to Landlord. Such termination shall then be effective upon surrender of the  
10 Premises. Said Lease shall be subject to certification as to funds by the Controller, pursuant  
11 to Section 3.105 of the Charter; and, be it

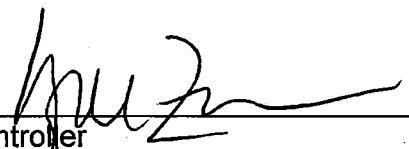
12       FURTHER RESOLVED, That if it is determined that there are no suitable uses for the  
13 property currently designated for the Health Service System Wellness Center, upon  
14 completion of the wellness study by the Controller's Office, the Director of Real Estate shall  
15 find alternative or interim uses of the space; and, be it

16       FURTHER RESOLVED, That within thirty (30) days of the lease being fully executed  
17 by all parties, the Director of Property shall provide the final lease to the Clerk of the Board for  
18 inclusion into the official file (File No. 130466).

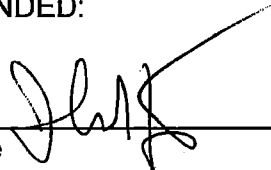


\$433,584.56 Available

Index Code: \* \_\_\_\_\_

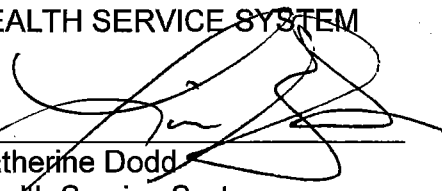
  
\_\_\_\_\_  
Controller

RECOMMENDED:

  
\_\_\_\_\_  
John Updike  
Director of Real Estate

\* Funds available pending  
approval of the PY 13/14  
annual appropriation ordinance

RECOMMENDED:  
HEALTH SERVICE SYSTEM

  
\_\_\_\_\_  
Catherine Dodd  
Health Service System

Lisa Ghobis  
Acting Director

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**City and County of San Francisco**  
**Tails**  
**Resolution**

City Hall  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4689

**File Number:** 130466

**Date Passed:** June 11, 2013

Resolution authorizing a 10-year lease of 19,560 sq. ft. at 1145 Market Street for office space for the Health Service System from 1145 Market Street, LP, for an initial annual rent of \$743,280.

June 05, 2013 Budget and Finance Committee - AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE


June 05, 2013 Budget and Finance Committee - RECOMMENDED

June 11, 2013 Board of Supervisors - ADOPTED

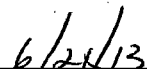
Ayes: 11 - Avalos, Breed, Campos, Chiu, Cohen, Farrell, Kim, Mar, Tang, Wiener and Yee

File No. 130466

I hereby certify that the foregoing Resolution was ADOPTED on 6/11/2013 by the Board of Supervisors of the City and County of San Francisco.

  
Angela Calvillo  
Clerk of the Board

  
Mayor

  
Date Approved



# Introduction Form

By a Member of the Board of Supervisors or the Mayor

Time stamp  
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee.  
An ordinance, resolution, motion, or charter amendment.
- 2. Request for next printed agenda without reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [ ] inquires"
- 5. City Attorney request.
- 6. Call File No. [ ] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. [ ]
- 9. Request for Closed Session (attach written motion).
- 10. Board to Sit as A Committee of the Whole.
- 11. Question(s) submitted for Mayoral Appearance before the BOS on [ ]

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission       Youth Commission       Ethics Commission
- Planning Commission       Building Inspection Commission

**Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative**

**Sponsor(s):**

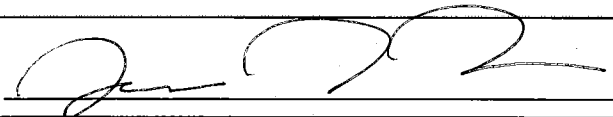
Supervisor Kim; Supervisor Cohen

**Subject:**

Lease of Real Property for 10 years for \$1,430,738.50 in initial year for San Francisco Employees' Retirement System at 1145 Market Street, 5th, 6th and 7th Floors

**The text is listed below or attached:**

Resolution authorizing a 10 year Lease of 37,289 sq ft at 1145 Market Street for office space for San Francisco Employees' Retirement System from 1145 Market Street, LP, a California Limited Partnership for \$119,228.21

Signature of Sponsoring Supervisor: 

For Clerk's Use Only:

13/2/18





<b>Item 5</b> <b>File 13-1218</b>	<b>Department:</b> San Francisco Employees' Retirement System (SFERS)
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>• The proposed resolution would approve a lease between the City and 1145 Market St, LP to provide office space for the San Francisco Employees' Retirement System (SFERS) staff for an initial term of 10 years.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• The SFERS staff has occupied 23,241 square feet of office space at 30 Van Ness Ave, a City-owned building, since 1999.</li> <li>• Since 1999, SFERS staff numbers have increased from 61 to 97 budgeted positions and the current space at 30 Van Ness Ave is insufficient to accommodate the number of employees.</li> <li>• The current leased space also does not provide adequate room to: offer private retirement counseling, conduct retirement seminars to groups greater than 30, or accommodate full public participation in monthly Retirement Board meetings.</li> <li>• The proposed resolution would approve a new lease for 37,289 square feet of space at 1145 Market Street for SFERS office space, which would accommodate current staff as well as the activities listed above.</li> <li>• Certain terms and provisions of the proposed lease differ from the draft lease on file with the Board of Supervisors. These terms and provisions will be updated to reflect the terms and provisions in the resolution after approval by the Board of Supervisors.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• The proposed lease includes a first-year rent amount of \$1,311,510.31, or \$119,228.21 per month for 11 months. Per the provisions of the lease, SFERS will not pay rent in the first month.</li> <li>• The proposed lease requires that the landlord pay \$2,040,335 toward tenant improvements. In addition, the landlord will pay up to \$1,112,910, for a total amount of \$3,153,245, toward the tenant improvements, which SFERS will reimburse to the landlord in monthly installments over the initial 10-year term of the lease at 8 percent annual interest for a total of \$1,620,320.32.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	



## MANDATE STATEMENT / BACKGROUND

### Mandate Statement

San Francisco Administrative Code Section 23.27 requires Board of Supervisors approval by resolution for all leases on behalf of the City as tenant.

### Background

The San Francisco Employees' Retirement System (SFERS) has occupied 23,241 square feet of space at 30 Van Ness Ave, a City-owned building, since 1999. Mr. John Updike, Director of Real Estate, advises that the current space at 30 Van Ness is insufficient to accommodate:

- Current and future staffing levels: In 1999, when SFERS first moved into the current space at 30 Van Ness Ave, SFERS employed 61.00<sup>1</sup> Full-Time Equivalent (FTE) staff. The FY 2013-14 Annual Salary Ordinance shows that the number of FTE staff increased by 59.8 percent, or 36.46 FTE, from 61.00 in FY 1998-99 to 97.46<sup>2</sup> in FY 2013-14.
- Private retirement counseling: SFERS staff currently conducts retirement counseling in the general working area with little to no privacy for the clients receiving counseling.
- Seminars: SFERS staff currently conducts seminars for clients in the boardroom, which limits the number of attendees to no more than 30.
- Board meetings: The Retirement Board meets in the boardroom, which is not always large enough to accommodate the Board and members of the public.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a ten-year lease between the City (the tenant) and 1145 Market Street, LP (the landlord) for SFERS to lease office space at 1145 Market Street. The lease terms and provisions are shown in Table 1 below.

**Table 1: Summary of Lease Terms and Provisions**

Term	Ten-years
Premises	37,289 square feet at 1145 Market St
Commencement Date	July 1, 2014
Option to Terminate	At City discretion after July 1, 2017
Option to Extend	One City option to extend the lease by five years
Monthly Rent	\$119,228.21
First Year Total Rent (First month abated)	\$1,311,510.31
Rent Increase	Three percent annual increase

<sup>1</sup> The 1998-99 Annual Salary Ordinance lists 61.00 permanent staff and 5.19 temporary staff.

<sup>2</sup> The 2013-14 Annual Salary Ordinance lists 97.46 permanent staff and 6.67 temporary staff.



Table 1 above includes the first-year rent amount of \$1,311,510.31, which represents 11 months of rent. Per the provisions of the lease, SFERS will not pay first-month rent to the landlord.

The subject lease includes provisions that require the landlord to make tenant improvements. Mr. Updike advises that the tenant improvements will include improvements to: the HVAC system, the electrical system, the fire and life-safety systems, and other improvements to make space usable for the SFERS staff. Additionally, the lease states that the improvements must be up to a LEED Gold standard<sup>3</sup>.

Mr. Updike advises that that the proposed 37,289 square feet at 1145 Market St is large enough for SFERS to: accommodate current staffing levels, conduct client retirement counseling in private, offer seminars to 60 people at a time, and to accommodate attendance at Retirement Board meetings.

***Lease Will Be Updated After Board Approval***

Several of the provisions included in the proposed resolution are different from provisions in the draft lease submitted by the Real Estate Division. Mr. Updike confirms that the provisions of the lease will be updated to reflect the terms and provisions approved by the Board in the proposed resolution. The Budget and Legislative Analyst’s report is based on the provisions in the proposed resolution.

**FISCAL IMPACT**

***Rent Payments***

Currently, SFERS pays \$524,317 in annual rent for the City-owned building at 30 Van Ness Avenue. As shown in Table 2 below, under the proposed lease, SFERS will increase their office space by 60 percent and their rent by 173 percent.

**Table 2: Comparison of Current and Proposed Lease**

	<b>Current Lease at 30 Van Ness</b>	<b>Proposed Lease at 1145 Market Street</b>	<b>Increase</b>	<b>Percent</b>
Annual Rent	\$524,317	\$1,430,739	\$906,422	173%
Square Feet	23,241	37,289	14,048	60%
Annual Rent/ Square Foot	\$22.56	\$38.37	\$15.81	70%

According to Mr. Updike, the increase in square footage is necessary to accommodate the increase in SFERS staff between 1999 and 2014, and the services provided to SFERS members, as noted above. Additionally, according to Mr. Updike, SFERS pays less than market rate for the

<sup>3</sup> The LEED (Leadership in Energy and Environmental Design) program provides third party verification of the environmental efficiency of buildings, which includes access to public transit, water efficiency, lighting and energy efficiency and other standards.



City-owned building at 30 Van Ness because the City’s costs to operate and maintain City owned buildings are less than commercial buildings.

Mr. Urdike advises that staff from the Recreation and Park Department (RPD) and the Department of Public Works (DPW) will occupy the space at 30 Van Ness Ave being vacated by SFERS. Currently, the RPD staff share office space with DPW staff at 30 Van Ness Avenue but RPD and DPW require the additional space as new, bond-funded positions are being hired.

The proposed resolution would approve a new ten-year lease between SFERS and 1145 Market Street, LP, in which SFERS will pay to 1145 Market Street, LP, first-year rent of \$1,311,510.31, or \$119,228 per month for 11 months. Per the provisions of the lease, the rent amount will increase annually by three percent, resulting in total estimated rent paid by SFERS to 1145 Market Street, LP of \$16,282,525.51 over the 10-year term of the lease as shown in Table 3 below.

**Table 3: Total Rent to be Paid by SFERS to 1145 Market Street, LP  
Includes Three Percent Annual Increase**

	Monthly Rent	Annual Rent
Year 1 (11 Months)	\$119,228.21	\$1,311,510.31
Year 2	122,805.06	1,473,660.68
Year 3	126,489.21	1,517,870.50
Year 4	130,283.88	1,563,406.61
Year 5	134,192.40	1,610,308.81
Year 6	138,218.17	1,658,618.07
Year 7	142,364.72	1,708,376.62
Year 8	146,635.66	1,759,627.91
Year 9	151,034.73	1,812,416.75
Year 10	\$155,565.77	\$1,866,789.25
<b>Total Rent to be Paid</b>		<b>\$16,282,585.51</b>

**Tenant Improvement Costs**

The estimated costs of tenant improvements under the proposed lease are up to \$3,153,245, of which \$2,040,335 are the landlord’s responsibility and up to \$1,112,910 are SFERS responsibility. The estimated costs for the tenant improvements are shown in Table 4 below.

**Table 4: Estimated Tenant Improvement Costs**

Tenant Improvement	Estimated Cost (Rounded)
HVAC, Electrical, Fire/Life Safety, and General Improvements	\$2,200,000
Architect, Engineer, Project Manager, LEED Fees and Permits	300,000
Data and Telecommunication Infrastructure	600,000
<b>Total</b>	<b>\$3,100,000</b>

Under the proposed lease, the landlord will make all tenant improvements and SFERS will reimburse the landlord for the City’s share of tenant improvement costs up to \$1,112,910.





These reimbursements will be made over the ten-year term of the lease at 8 percent annual interest. Based on tenant improvement costs of \$1,112,910, reimbursable by SFERS to the landlord at 8 percent annual interest, the Budget and Legislative Analyst calculates that SFERS will pay the landlord \$1,620,320.32 over the initial 10-year term of the lease. According to Mr. Updike, the Real Estate Division evaluated the use of Certificates of Participation (COPS) to pay for the tenant improvements, rather than reimbursing the landlord for tenant improvements at 8 percent annual interest, but the Controller's Office determined that the use of COPS for this purpose is constrained by City's debt limit. The Real Estate Division also evaluated a one-time budget appropriation but determined that annual payments of \$162,032 per year distributed over ten years (\$1,620,320 over ten years) was preferable to a one-time, upfront appropriation of \$1,112,910.

Mr. Updike advises that the tenant improvements should be completed prior to the lease commencement date of July 1, 2014. As such, SFERS should know the full cost of the tenant improvements as well as the amortized amount to include in the SFERS FY 2014-15 budget subject to Board of Supervisors approval.

#### **Additional Costs**

SFERS will also be responsible for the following variable costs:

- 100 percent of the electricity used by SFERS at the premises,
- 115 percent (includes a 15 percent administrative fee) of the cost of lighting and HVAC use on Saturdays,
- 27.5 percent of any annual increase in costs required to operate the building, and
- 27.5 percent of any annual increase in real estate taxes.

### **POLICY CONSIDERATION**

The proposed lease for 1145 Market Street increases the square footage of leased space for SFERS by 60 percent, from 23,241 square feet under lease to 37,289 square feet under the proposed lease, which increases the square footage per employee from 238 square feet to 383 square feet as shown in Table 4 below.

**Table 4: Allocated Space per Employee Current vs. Proposed Office Space<sup>1</sup>**

	Current Lease at 30 Van Ness	Proposed Lease at 1145 Market Street	Increase	Percent
Total Square Feet	23,241	37,289	14,048	60%
Number of Employees	97.46	97.46	0	0%
Square Feet per Employee	238	383	144	60%

<sup>1</sup> Numbers in the table may not add due to rounding.

Mr. Updike advises that the Real Estate Division works with client departments to achieve a square footage to employee ratio of 250 square feet, but accepts rates as high as 350 square feet. According to Mr. Updike, the Real Estate Division considers 383 square feet per employee



at 1145 Market Street to be reasonable because the space will be used for member counseling, seminars and Retirement Board meetings, all of which are space-intensive activities.

Mr. Updike states that DPW and RPD do not currently have sufficient space to accommodate the hire of new bond-funded employees. Mr. Updike advises that allowing DPW and RPD to expand into the space being vacated by SFERS and other available space at 30 Van Ness Avenue will provide sufficient space to accommodate these new employees for DPW and RPD, as shown in Table 5 below.

**Table 5: RPD and DPW Office Space Expansion at 30 Van Ness Avenue**

Department	Current Employees	Current Square Footage	Current Square Feet per Employee	Proposed Square Footage	Proposed Square Feet per Employee
Recreation and Park	26.00	4,420.00	170.00	7,750.00	298.08
Public Works	327.00	84,000.00	256.88	110,571.00	338.14
<b>Combined</b>	<b>353.00</b>	<b>88,420.00</b>	<b>250.48</b>	<b>118,321.00</b>	<b>335.19</b>

#### RECOMMENDATION

Approve the proposed resolution.



**FORM SFEC-126:**  
**NOTIFICATION OF CONTRACT APPROVAL**  
(S.F. Campaign and Governmental Conduct Code § 1.126)

<b>City Elective Officer Information</b> <i>(Please print clearly.)</i>	
Name of City elective officer(s): SF Board of Supervisors	City elective office(s) held: City and County of San Francisco; SF Board of Supervisors
<b>Contractor Information</b> <i>(Please print clearly.)</i>	
Name of contractor: 1145 Market Street L.P., a California Limited Partnership	
<i>Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary.</i>	
1. None 2. None. 3. Angelo Sangiacomo, managing member, (50%) and Yvonne Sangiacomo (50%) 4. None 5. None.	
Contractor address: 1145 Market Street L.P, 1145 Market Street, Suite 1200, San Francisco, CA 94103	
Date that contract was approved:	Amount of contract: \$16,401,813.49
Describe the nature of the contract that was approved: Lease of office space for San Francisco Employees' Retirement System at 1145 Market St	
Comments:	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form (Mayor, Edwin Lee)

a board on which the City elective officer(s) serves San Francisco Board of Supervisors

Print Name of Board

the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

<b>Filer Information</b> <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: 415-554-5184
Address: City Hall, Room 244 1 Dr. Carlton B. Good Pl., SF CA 94102	E-mail: Board.of.Supervisors@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer)

Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk)

Date Signed

