

1 [Lease Agreement - Hudson 1455 Market, LLC - 1455 Market Street - \$0 Base Rent Initial  
2 Year - \$6,474,744.80 Annual Base Rent Beginning Year 2]

3 **Resolution approving and authorizing the Director of Property, on behalf of multiple**  
4 **City Departments, to execute a lease agreement with Hudson 1455 Market, LLC,**  
5 **(“Hudson”) as landlord, for lease of the property at 1455 Market Street for office space,**  
6 **storage and parking for a term of 21 years, from May 1, 2024, through April 30, 2045,**  
7 **with two five-year options to extend and 12 months of rent credit with an annual base**  
8 **rent of \$6,474,744.80 (year 2) for the lease of approximately 157,154 square feet, with**  
9 **3% annual increases thereafter, and including the option to add additional leased**  
10 **space for three years and a three-year option to purchase the property subject to**  
11 **subsequent Board of Supervisors approval; authorizing the Director of Real Estate to**  
12 **the extent of available operating budget and to the extent not covered by the tenant**  
13 **improvement allowance to expend an amount not to exceed \$100,000 for digital**  
14 **technology costs, tenant improvements and furniture, fixtures and equipment;**  
15 **affirming the Planning Department's determination under the California Environmental**  
16 **Quality Act; adopting the Planning Department's findings of consistency with the**  
17 **General Plan, and the eight priority policies of the Planning Code, Section 101.1; and**  
18 **authorizing the Director of Property to execute any amendments, options to extend the**  
19 **lease term, make certain modifications and take certain actions that do not materially**  
20 **increase the obligations or liabilities to the City, do not materially decrease the benefits**  
21 **to the City and are necessary or advisable to effectuate the purposes of the lease**  
22 **agreement or this Resolution.**

23  
24 WHEREAS, As a result of the global pandemic and sheltering in place, there has been  
25 a dramatic shift towards remote work and telecommuting in San Francisco and elsewhere

1 resulting in an approximately 33% vacancy rate in the downtown San Francisco office market;  
2 and

3 WHEREAS, The persistent office vacancy rate has forced landlords to reduce their rent  
4 rates in order to attract and retain office tenants; and

5 WHEREAS, The price to purchase office buildings in the City has also dropped  
6 dramatically as owners of empty buildings are forced to sell at a discount or turn the keys over  
7 to their lenders to avoid foreclosure; and

8 WHEREAS, The Mayor and the City Administrator directed the Real Estate Division  
9 (“RED”) to identify market opportunities wherein the City could reduce its leasing costs through  
10 competitively priced leases and reduce the City’s leased footprint by a more efficient use of  
11 space in light of the City’s telecommuting policy; and

12 WHEREAS, The City has a significant projected budget deficit for Fiscal Years (FY)  
13 2024-2025 and 2025-2026; and

14 WHEREAS, On September 20, 2023, the Budget and Finance Committee of the Board  
15 of Supervisors (“Budget and Finance”) unanimously recommended that a certain lease for  
16 approximately 103,000 rentable square feet with one of the City’s current landlords (“Current  
17 Landlord”) not be renewed as the proposed rent was too high, and they recommended that  
18 RED identify a property that could be purchased at a competitive price given market  
19 conditions and that would allow for consolidation of the City’s Civic Center assets in  
20 furtherance of the City’s strategic plan; and

21 WHEREAS, On September 26, 2023, the Board of Supervisors, following the Budget  
22 and Finance recommendation, unanimously rejected the Current Landlord’s proposed lease  
23 and reaffirmed the Board of Supervisor’s recommendation that RED return with a buying  
24 opportunity for the Board of Supervisor’s consideration; and

25

1           WHEREAS, Under the leadership and direction of the Mayor and the City  
2 Administrator, RED identified the property at 1455 Market Street (the “Building”) with  
3 1,123,876 RSF spread over 22 floors as a unique opportunity for the City to meet its short  
4 term cost savings goals, as well as its long term goal of consolidation through long term  
5 leasing or purchase; and

6           WHEREAS, On November 14, 2023, RED and Hudson 1455 Market, LLC (“Hudson”),  
7 the owner of the Hudson Building, executed a letter of intent (“LOI”) for a twenty year lease  
8 with a three year lease option and a three year purchase option; and

9           WHEREAS, The parties subsequently negotiated a twenty-one year lease with two  
10 five-year options to extend the term; a three year lease option to lease additional space and a  
11 three year option to purchase the Building; and

12           WHEREAS, The City analyzed the monetary and non-monetary benefits of five  
13 counter-offers received from the Current Landlord, and the proposed lease with Hudson; and

14           WHEREAS, RED determined that the proposed lease on file with the Clerk of the  
15 Board of Supervisors in File No. 240312 (the “Lease”) provides short term and long term  
16 monetary savings and best meets the long term strategic goals of the City and is in the best  
17 interest of the City; and

18           WHEREAS, The initial premises under the Lease is of approximately 157,154 rentable  
19 square feet (“RSF”) over five floors for the benefit of the Mayor’s Office of Disability,  
20 Department of the Environment, Contract Monitoring Department, General Services  
21 Administration - Human Resources, Assessor, Tax Collector, Department of Children, Youth  
22 and Family and the Municipal Transportation Agency; and

23           WHEREAS, The Lease has an initial term of 21 years effective upon approval of this  
24 Resolution, from approximately May 1, 2024, through April 30, 2045, with two five-year  
25 options to extend; and

1           WHEREAS, Under the Lease, the annual base rent is \$6,474,744.80 beginning May 1,  
2 2025, with 3% annual increases thereafter; and

3           WHEREAS, The proposed rent of \$40 per square foot (“PSF”) escalating annually at  
4 3% with 12 months of rent credit (approximately \$6,286,160) was determined by appraisal to  
5 be at or below fair market rental value, and a second confirming appraisal was not required by  
6 Administrative Code, Chapter 23; and

7           WHEREAS, The Landlord is providing the City with a Tenant Improvement Allowance  
8 of \$100 PSF (approximately \$15,715,400) and a Moving Allowance of \$15 PSF  
9 (approximately \$2,357,310); and

10           WHEREAS, RED anticipates that the Tenant Improvement Allowance and Moving  
11 Allowance will be sufficient to cover the anticipated costs; the Lease allows the City, at its  
12 option and subject to available funding to pay an amount not to exceed \$100,000 for digital  
13 technology costs, tenant improvements and furniture, fixtures and equipment (“FF&E”); and

14           WHEREAS, The City shall have the right, but not the obligation, to lease any additional  
15 vacant office space in the Building (“Additional Space Option”) on the same terms and  
16 conditions as the Lease, at the then current base rent and the same base year; and

17           WHEREAS, The Additional Space Option includes the same rate of Tenant  
18 Improvement Allowance and replenished Moving Allowance for each exercise of the  
19 Additional Space Option; and

20           WHEREAS, Any unspent Tenant Improvement Allowance can be spent on other  
21 additional space that is added to the Lease within two years; and

22           WHEREAS, Provided the City has leased a total of 400,000 RSF within the Building  
23 (which includes space already leased by SFMTA and CTA), the City shall have the right but  
24 not the obligation to purchase the property (“Purchase Option”) for a price determined through  
25

1 an appraisal of the fair market value of the property plus any unamortized Tenant  
2 Improvement Allowance provided to the City; and

3 WHEREAS, Each exercise of the Additional Space Option and/or the Purchase require  
4 separate Board of Supervisor and Mayoral approval in their respective sole and absolute  
5 discretion; and

6 WHEREAS, The Additional Space Option and the Purchase Option each expire on  
7 December 31, 2027; and

8 WHEREAS, The Planning Department, through an email dated February 8, 2024,  
9 determined that the lease of an existing Building is consistent with the General Plan, and the  
10 eight priority policies of Planning Code, Section 101.1 ("General Plan Findings"); a copy of the  
11 General Plan Findings is on file with the Clerk of the Board of Supervisors in File No. 240312;  
12 now, therefore, be it

13 RESOLVED, That in accordance with the recommendation of the Director of Property,  
14 the Board of Supervisors approves the Lease and authorizes the Director of Real Estate to  
15 take all actions necessary to enter into and perform the City's obligations under the Lease;  
16 and, be it

17 FURTHER RESOLVED, That the City shall have the right (but not the obligation) to  
18 exercise the Additional Space Option pursuant to the terms of the Lease provided that each  
19 such exercise is subject to Board of Supervisors and the Mayoral approval, in their respective  
20 sole and absolute discretion; and, be it

21 FURTHER RESOLVED, That the City shall have the right (but not the obligation) to  
22 exercise the Purchase Option as provided in the Lease and upon the terms in the Purchase  
23 and Sale Agreement attached to the Lease, substantially in the form of Exhibit I, provided that  
24 the exercise of the Purchase Option is subject to Board of Supervisors and the Mayoral  
25 approval, in their respective sole and absolute discretion; and, be it

1           FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of  
2 Property to the extent of available operating budget and to the extent not covered by the  
3 tenant improvement allowance to expend an amount not to exceed \$100,000 for digital  
4 technology costs, tenant improvements and furniture, fixtures and equipment (“FF&E”); and,  
5 be it

6           FURTHER RESOLVED, That the Board of Supervisors hereby affirms the Planning  
7 Department's determination under the California Environmental Quality Act, and adopts the  
8 Planning Department's findings of consistency with the General Plan, and the eight priority  
9 policies of the Planning Code, Section 101.1; and, be it

10          FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of  
11 Property to execute any amendments, options to extend the Lease term, make modifications  
12 to and take actions that do not materially increase the obligations or liabilities to the City, do  
13 not materially decrease the benefits to the City, and are necessary or advisable to effectuate  
14 the purposes of the Lease or this resolution and are in compliance with all applicable laws;  
15 and, be it

16          FURTHER RESOLVED, That within 30 days of the execution of the Lease, the Director  
17 of Real Estate shall provide a copy to the Clerk of the Board of Supervisors for the Board of  
18 Supervisors' file.

19

20 RECOMMENDED:

21

22

23 \_\_\_\_\_ /s/ \_\_\_\_\_

24 Andrico Penick  
25 Director of Property