

1 [Lease Amendment - Hudson 1455 Market Street, LLC - 1455 Market Street - \$14,487,462
2 Base Rent Second Year, Not to Exceed \$10,760,600 Available Operating Budget]

3 **Resolution approving and authorizing the Director of Real Estate, on behalf of the**
4 **following City Departments: San Francisco Municipal Transportation Agency, Police**
5 **Accountability, Human Resources, Office of the City Administrator, Mayor’s Office of**
6 **Housing and Community Development, Office of Community Investment and**
7 **Infrastructure, Office of Economic and Workforce Development, Technology, Public**
8 **Works, Civil Service Commission, Human Rights Commission, and City Attorney, to**
9 **execute a Second Amendment to the lease agreement with Hudson 1455 Market Street,**
10 **LLC, as Landlord, to expand the premises to include an additional 502,082 rentable**
11 **square feet of office space at 1455 Market Street, for an initial term of 21 years, and**
12 **terminating on April 30, 2049, with two five-year options to extend the lease term with**
13 **an annual base rent of \$14,487,462 (year two), and resetting the rent to \$40.00 per**
14 **square foot beginning January 1, 2027, with 1% annual increases until year four and**
15 **then 3% annually thereafter; to expend an amount not to exceed \$10,760,600 for digital**
16 **technology costs, tenant improvements and furniture, fixtures and equipment to the**
17 **extent of available operating budget and to the extent not covered by the tenant**
18 **improvement allowance; affirming the Planning Department's determination under the**
19 **California Environmental Quality Act; adopting the Planning Department's findings of**
20 **consistency with the General Plan, and the eight priority policies of the Planning Code,**
21 **Section 101.1; and authorizing the Director of Real Estate to execute any amendments,**
22 **options to extend the lease term, make certain modifications and take certain actions**
23 **that do not materially increase the obligations or liabilities to the City, do not materially**
24 **decrease the benefits to the City and are necessary or advisable to effectuate the**
25 **purposes of the Second Amendment or this Resolution.**

1 WHEREAS, The City Administrator directed the Real Estate Division (“RED”) to
2 develop a strategic Civic Center space plan that supports long-term operational needs,
3 improves efficiency through consolidation of City offices, and identifies competitively priced
4 leasing opportunities to reduce overall occupancy costs; and

5 WHEREAS, Under the leadership and direction of the City Administrator, RED
6 identified 1455 Market Street (the “Property”), a 22-story property totaling 1,123,876 rentable
7 square feet (RSF) (the “Building”) as an opportunity for the City to meet both its long-term goal
8 of consolidating assets through long-term leasing or purchase and short-term cost savings
9 goals while consolidating Civic Center operations into a modern, resilient building with large
10 floor plates and favorable market-driven lease terms; and

11 WHEREAS, On April 23, 2024, the Board of Supervisors by Resolution No. 192-24
12 authorized the Director of Real Estate to execute an initial Lease with Hudson 1455 Market
13 Street, LLC, a Delaware limited liability company, on behalf of multiple City departments
14 (“Lease”) for approximately 157,154 RSF within the Building (“Phase 1 Premises”) for an initial
15 term of 21 years, terminating on April 30, 2045, with two five-year options to extend the term,
16 an option to lease additional premises (“Lease Option”) and a purchase option (“Purchase
17 Option”); and

18 WHEREAS, The Lease provides the City with an Additional Premises Option, in which
19 the City has the right on one or more occasions to lease any additional or vacant full floor
20 office space in the Building on the then same terms and conditions, provided that the City may
21 exercise the Additional Premises Option by providing notice to the Landlord on or before
22 December 31, 2027; and

23 WHEREAS, On March 30, 2025, the Director of Real Estate on behalf of the City
24 provided an Additional Premises Notice for a second phase, adding 232,162 RSF to the
25

1 Premises (the “Phase 2 Premises”) to be occupied by the Human Services Agency and San
2 Francisco Public Library - IT; and

3 WHEREAS, On April 29, 2025, the Board of Supervisors by Resolution No. 194-25
4 authorized the Director of Real Estate to execute the First Amendment to the Lease for the
5 “Phase 2 Premises” to be occupied by the Human Services Agency and San Francisco Public
6 Library - IT; and

7 WHEREAS, The City Administrator has directed the Real Estate Division to evaluate
8 the City’s Civic Center real estate portfolio with the goals of reducing reliance on costly and
9 inefficient facilities and leveraging favorable market conditions to improve long-term
10 operational efficiency; and

11 WHEREAS, The Real Estate Division has identified three Civic Center area assets that
12 present significant operational, financial, or facility condition challenges to continued City use;
13 and

14 WHEREAS, One South Van Ness Avenue, a City-owned facility, is overcrowded,
15 operationally inefficient, and contains major building systems at or near end-of-life, resulting in
16 significant deferred capital needs and making continued occupancy cost-prohibitive; and

17 WHEREAS, A partial exit of 25 Van Ness Avenue provides for a consolidation of
18 administrative functions into an appropriately sized footprint that meets business needs, while
19 enabling essential building improvements that are more feasible to complete when the facility
20 is not fully occupied; and

21 WHEREAS, 1390 Market Street, a leased property currently providing office space for
22 a portion of the City Attorney’s Office, is operating at above-market rental rates under a lease
23 that expires in April 2028; and

24 WHEREAS, Relocating City departments from these three locations to 1455 Market
25 Street will reduce reliance on aging Civic Center facilities that require significant capital

1 investment, avoid substantial deferred maintenance costs, improve operational efficiency
2 through consolidation into a modern, resilient building, and allow the City to take advantage of
3 current favorable market conditions by exiting above-market leased space at 1390 Market
4 Street; and

5 WHEREAS, On March 26, 2026 the Director of Real Estate on behalf of the City
6 provided an Additional Premises Notice for a third phase of the Lease, adding 502,082 RSF to
7 the Premises to be occupied by the San Francisco Municipal Transportation Agency,
8 Department of Police Accountability, Department of Human Resources, Office of the City
9 Administrator, including the divisions of 311, DataSF, Digital Services, the Committee on
10 Information Technology, Real Estate and Risk Management, Mayor’s Office of Housing and
11 Community Development, Office of Community Investment and Infrastructure, Office of
12 Economic and Workforce Development, Department of Technology, Department of Public
13 Works, Civil Service Commission, and City Attorney (together, the “Phase 3 Premises”); and

14 WHEREAS, The proposed third phase will facilitate the consolidation of departments
15 currently located within the Phase 1 Premises, including Human Resources and the San
16 Francisco Municipal Transportation Agency, thereby freeing space presently allocated to
17 Human Resources and allowing the Human Rights Commission to occupy that space upon
18 completion of the consolidation;

19 WHEREAS, RED negotiated additional material economic benefits to the City under
20 the proposed Second Amendment to the Lease; and

21 WHEREAS, Under the Second Amendment, the Base Rent amount for all City-
22 occupied premises under the Lease will be reset to \$40 per square foot (“PSF) starting
23 January 1, 2027 (“Reset Date”), resulting in reduced rent obligations compared to the
24 scheduled rates for the Phase 1 and Phase 2 Premises; and

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1 WHEREAS, Beginning in 2028, Base Rent escalations will be reduced to 1% annually
2 until the fifth anniversary of the Reset Date and will increase at 3% annually thereafter; and

3 WHEREAS, Under the Second Amendment, the Base Year for operating expenses will
4 be adjusted from 2027 to 2028, delaying the commencement of operating expense
5 pass-throughs and generating annual operating cost savings for the City; and

6 WHEREAS, The Second Amendment also establishes a Base Year reset every ten
7 years, with the next reset occurring in 2038, providing improved long-term cost predictability;
8 and

9 WHEREAS, Under the Second Amendment, the City negotiated additional
10 tenant-beneficial provisions, including caps on controllable operating expenses, three years of
11 property tax protection, installation of additional electric-vehicle chargers at no cost to the City,
12 continued rights to parking, and a landlord-provided shared conference room facility; and

13 WHEREAS, Under the Second Amendment, the Landlord will increase the tenant
14 improvement allowance from \$100 PSF to \$180 PSF for a total of approximately \$90,374,760
15 (“Tenant Improvement Allowance”) and a moving allowance in the amount of \$15 PSF for a
16 total of approximately \$7,531,230 (“Moving Allowance” and collectively with the Tenant
17 Improvement Allowance the “Allowances”), the unused balance of the Moving Allowance can
18 be applied to tenant improvements, and Landlord will also perform, at its cost, capital
19 improvements to the Building which will benefit the City as tenant; and

20 WHEREAS, The City’s estimated tenant improvement and technology costs
21 contribution will be \$10,760,600; and

22 WHEREAS, Under the Second Amendment, the expiration date of the Lease will be
23 extended from April 30, 2045, to April 30, 2049; and

24 WHEREAS, The Second Amendment, if approved, will add a total of approximately
25 502,082 rentable square feet of additional Phase 3 Premises to the Lease, for final space

1 allocations for individual departments will be determined during a City-approved design and
2 programming process following approval of the Second Amendment; and

3 WHEREAS, The Landlord estimates that the tenant improvements for the Phase 3
4 Premises will be completed and ready for occupancy during the first half of Fiscal Year 2027-
5 2028, with the exception of the City Attorney's office space, which is anticipated to be
6 delivered by May 2028, thereby allowing the City to coordinate a timely and seamless
7 relocation from its above-market lease at 1390 Market Street; and

8 WHEREAS, Under the Purchase Option the City has the right, but not the obligation, to
9 purchase the Property if the City has leased a total of 400,000 RSF within the Building; and

10 WHEREAS, With the addition of the Additional Premises, the City will occupy
11 approximately 930,292 RSF in the Building and be eligible to exercise the Purchase Option in
12 its sole and absolute discretion; and

13 WHEREAS, Under the Lease, the City has until March 1, 2027, to timely give notice of
14 its intent to exercise the Purchase Option and until December 31, 2027, to close escrow on
15 the purchase; and

16 WHEREAS, Under the Second Amendment to the Lease, if the Purchase Option
17 expires, the City will have a Right of First Offer to Purchase throughout the initial term of the
18 Lease; and

19 WHEREAS, The City's exercise of the Lease Option, Purchase Option or Right of First
20 Offer to Purchase requires separate Board of Supervisors and Mayoral approval in their
21 respective sole and absolute discretion; and

22 WHEREAS, RED determined that the Second Amendment provides short-term and
23 long-term monetary savings and best meets the long-term strategic goals of the City and is in
24 the best interest of the City; and

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1 WHEREAS, The Planning Department, through an email dated February 8, 2024,
2 determined that no General Plan Referral was required; a copy of the Planning Department's
3 email is on file with the Clerk of the Board of Supervisors in File No.240312; and

4 WHEREAS, The Director of Property has determined that the base rent is below fair
5 market value for similar properties and has confirmed this through an independent appraisal
6 under Chapter 23; now, therefore, be it

7 RESOLVED, That in accordance with the recommendation of the Director of Real
8 Estate, the Board of Supervisors approves the Second Amendment and authorizes the
9 Director of Real Estate to take all actions necessary to enter into and perform the City's
10 obligations under the Second Amendment; and, be it

11 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of Real
12 Estate to 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 \$10,760,600 for digital
14 technology costs, tenant improvements and furniture, fixtures and equipment; and be it

15 FURTHER RESOLVED, That the Board of Supervisors hereby affirms the Planning
16 Department's determination under the California Environmental Quality Act, and adopting the
17 Planning Department's findings of consistency with the General Plan, and the eight priority
18 policies of the Planning Code, Section 101.1; and, be it

19 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of Real
20 Estate to execute any amendments, options to extend the Lease term, make certain
21 modifications and take certain actions that do not materially increase the obligations or
22 liabilities to the City, do not materially decrease the benefits to the City and are necessary or
23 advisable to effectuate the purposes of the Second Amendment or this Resolution and are in
24 compliance with all applicable laws; and, be it

