



**January 27, 2015**

**The Honorable Members of the Board of Supervisors  
City and County of San Francisco  
1 Dr. Carlton Goodlett Place, Room 244  
San Francisco, CA 94102**

***Subject: Request for Authority to enter into a Lease Agreement with Tanforan Industrial Park, LLC, for SFMTA Bus Operator Training Courses and other transit-related uses at 30 Tanforan Avenue, South San Francisco.***

**Honorable Members of the Board of Supervisors:**

The San Francisco Municipal Transportation Agency (SFMTA) request that the San Francisco Board of Supervisors authorize the SFMTA to execute a nine-and-one-half-year Industrial Lease with a Purchase Option, Extension Option and a Right of First Refusal (Lease) with Tanforan Industrial Park, LLC, a California limited liability company (Owner) for 30 Tanforan Avenue, South San Francisco, at an initial annual base rent of \$2,480,304, with annual increases of two percent, together with all leasehold improvements for the provision of SFMTA Bus Operator training courses and other transit-related uses.

**Background**

The SFMTA is experiencing significant demands on its transportation system as the need to provide safe, reliable and efficient transit service continues to expand in concurrence with a growing population and economic base. Currently, there are approximately 2,500 Muni operators and 1,400 of those operators are in service in any given day. To fill vacancies due to retirements and attrition and to meet the increasing demands, the SFMTA has hired 585 Muni Operators in the past 14 months, and those new hires require 44 days of training for skill development and DMV testing. This training involves classroom training as well as behind-the-wheel Operator course training, the latter of which involves both on- and off-street experience. In addition, training is not limited to new hires, as it is a continuous process for all SFMTA personnel who operate revenue vehicles, including: Operator refresher training; requalification training for Operators resulting from long term leaves of absence; line trainer training; collision prevention training, and finally, maintenance employee Commercial Driver's License training. The Lease is to support the motor coach and trolley bus training programs; training on and for light rail vehicles is on different equipment in rail locations.

With all the training needs, a dedicated facility is needed year round. For years, the Training section has conducted its behind-the-wheel training on either licensed, rented, and in some cases, free land, typically marginally improved but large enough to accommodate a training class of approximately 40 trainees. Behind-the-wheel training requires six to eight acres of improved land, in order for trainees and trainers to safely navigate the training courses with up to 16 buses at a time. Land at

the Port of San Francisco, Port of Oakland, City of Alameda, Candlestick, the Cow Palace, and Islais Creek has been used intermittently because of availability and adequacy. However, most of these properties are minimally improved, are not available for the SFMTA to lease long term, and/or are being redeveloped. The SFMTA identified, evaluated and discussed more than 25 potential sites over the last five years, but with the exception of 30 Tanforan, the locations reviewed were either not consistently available, were too small, or became development sites.

When 30 Tanforan Ave. became available, the SFMTA began discussions regarding a lease with an option to purchase the property in order to improve the SFMTA's Muni Bus Operators training program. The Owner, Tanforan Industrial Park, LLC, will demolish the entire site of 30 Tanforan, South San Francisco, San Mateo County Assessor's Parcel Number 014-250-090 (Property) and improve the site to accommodate the requisite motor and trolley coach training courses, consisting of an approximate 7.3 acres of a flat, paved structural concrete pad, access to standard utilities to support two trailers that will serve as a break room, restroom facility and modular classroom, associated landscaping and security features.

The subject Property is 10.9 miles from 1 South Van Ness Avenue (SFMTA Headquarters), and 5.6 miles from the San Francisco County line. The 7.3 acres are zoned Business Professional (i.e., office and industrial use), with an 85 foot height limit. The San Bruno BART Station, Caltrain and Tanforan Shopping Center are within walking distance from the Property. The expansion potential, however, will only be revisited and assessed when financially feasible, and if warranted. The enclosure provides an overview of the Property site area and training course design (Leasehold Improvements).

The Landlord, in cooperation with the SFMTA, will manage the full entitlement approval process, including design review, planning and building permitting with the City of South San Francisco, and any other applicable regulatory bodies or approval authorities including, but not limited to, San Mateo County.

The cost of the improvements to the Property is estimated at \$12 million for both soft and hard costs, including demolition, remediation and various related charges. It should be noted that the fair market value of the property in its highest and best use would likely command greater values in the current real estate market than what was concluded in the Property appraisal as discussed in the following section, if the land was developed to such use and if there was a willing, ready and able tenant or purchaser available for such a transaction. Since the appraisal date, the value of the property may have increased, as land values are not decreasing at this time in the greater San Francisco Bay Area marketplace.

The Lease enables the SFMTA to have access year round to a training resource that can accommodate four outdoor, off-street Operator training courses, each 140 feet by 400 feet, including the on-site parking of training buses and the installation of the aforementioned trailers. The SFMTA will be able to train up to 40 new Operators per class at any given time throughout the year, and will be able to supply the necessary number of Operators to meet current and future transit demands that are anticipated to impact the SFMTA's service delivery system over the next 20 years. The Training

Division of the SFMTA is very pleased with the Property and looks forward to many years of valuable training as a result of this reliable resource.

### **Industrial Lease Terms**

The monthly base rent starts at \$206,692 (\$0.65 per square foot, s.f.), or \$2,480,304 for the first year, with annual increases of two percent over the nine-and-one-half-year term of the lease. The term of the lease is predicated on a Development Agreement between the Owner and the City of South San Francisco. That Development Agreement allows the SFMTA training use until March 1, 2026. As a gross industrial lease, the SFMTA does not pay property taxes or insurance (Operating Expenses) and is only responsible for costs associated with utilities, maintenance, janitorial and security. The SFMTA anticipates additional costs typically related to the operations and maintenance of the Property, conservatively estimated to range between one percent to three percent of the annual base year rent of \$2,480,304 or \$24,803 to \$74,409, respectively. Such aforementioned charges, if applied and spread over the term of the Lease as estimated, in aggregate, would bring the effective rate of the Lease to between \$0.66 and \$0.67 per s.f. per month.

As part of the due diligence process, the SFMTA conducted an appraisal of the Property, which concluded on August 28, 2014 that the value of the land, as if vacant and unimproved, was \$17,489,340 or \$55.00 per s.f. The price per square foot of the special purpose site improvements (demolition, remediation and construction of the Leasehold Improvements) was valued at \$35.64 per s.f.. When this amount is combined and spread over the entire 317,988 s.f. area (7.3 acres), the estimated overall value of the training resource improvements and land equates to \$28,822,432. The Lease and corresponding leasehold improvements represent an annual gross return to the landlord of approximately 8.6 percent of and on capital for the proposed training resource. This return is consistent with various government land leases, including the Port of San Francisco, which consistently uses an eight percent rate of return on Seawall lots, and Caltrans who traditionally use between nine percent and ten percent, depending on the interest rate environment. Thus the subject Lease is in line with the appraised market and rental value (Value in Use) of the Property as adjusted (without an office building), thereby representing a fair and equitable transaction for both parties to the Lease. The SFMTA will have a right to exercise a Purchase Option to acquire the Property beginning in year seven and continuing through year nine of the Lease, at fair market value, and in its highest and best use. If not exercised, SFMTA will maintain a Right of First Refusal to acquire the Property throughout the entire term of the Lease.

### **Option to Extend Term of Lease**

As mentioned above, the Property Owner entered into a development agreement with the City of South San Francisco, related to the development and use of the Property. Pursuant to the Development Agreement, SFMTA's right to use the Property as permitted under the Lease expires on March 1, 2026. In the event the term of the Development Agreement is extended, SFMTA will have the option, exercisable in its sole discretion, to extend the term of the Lease, on the same terms and conditions, for a period of time commensurate with the extension of the Development Agreement. If the term of the Lease is extended, the Base Rent payable to Owner will be consistent with the rent schedule set forth in the Lease Exhibit G.

## **Public Outreach**

The City of South San Francisco City Council determined that the Project is categorically exempt from CEQA, unanimously approved the design, Use Permit, and approved the Owner's Development Agreement, at a publicly noticed City Council meeting and Public Hearing on September 23, 2015. The City of South San Francisco posted the Public Notices for the aforementioned in the area newspaper, on the City's Web page, at City Hall, and at both City libraries. In addition, all property owners and tenants within 300 feet of the Property were mailed notification of the Public Hearing. The Permitted Use, Design Review, CEQA determination and Development Agreement were not contested during the approval process by any member of the general public, during both the City Planning Commission and City Council public hearings. The City of South San Francisco and City Council did not require additional outreach beyond that which was conducted interdepartmentally, amongst the council members and to the surrounding industrial property owners, tenants, and residents. Prior to the SFMTA Board meeting on January 19, 2016, beginning in December 2015, SFMTA conducted its own outreach to the community pursuant to the Agency's public outreach guidelines and noticed nearby residents and business of the proposed future use and opportunity to provide comments and get more information at the SFMTA Board of Directors meeting. The Lease was not contested by any member of the public at the January 19, 2016 SFMTA Board meeting. Nearby residents and business were also provided notice of impending Board of Supervisors meetings as well. The City's Department of Real Estate is aware of this proposed lease acquisition and has been supportive.

## **Alternatives Considered**

As previously discussed, SFMTA real estate evaluated over 25 sites and all were deemed infeasible for a variety of reasons. Consequently, the search continued until the subject Property was discovered. Property assessments and valuations were conducted and organizational concurrence ensued and concluded that the subject Property met all of SFMTA's Bus Operator training needs. The improved site will provide a permanent training resource for the SFMTA and as such adds to the successful attainment of SFMTA Strategic Goals. Any alternative to this training resource is not in the SFMTA's best interest considering the limited supply of industrial real estate within the San Francisco and North Peninsula areas that meet the training needs of the SFMTA and correspondingly would dissuade the successful attainment of strategic goals, organizational development efforts and therefore potentially impact the service delivery system.

The only other alternative considered, however, would be to continue to provide training on a sporadic basis when useable land to adequately meet the SFMTA's comprehensive training needs is available as is the case currently. This would continue to mean short-term leases and or licenses, and although the cost is less, the benefits realized because of lower costs do not in any reasonable way justify not having a dedicated resource designed to provide training adequately and on a timely and consistent basis. Short term, intermittent solutions do not assure Goal attainment (creating a safer transportation experience for everyone) and is not a recommended alternative for the long term.

## **Funding Impact**

The annual cost of short term leases and licenses for off-street training related activity, when and if land is available, is currently \$155,000. The base rent of the subject Lease starts at \$206,692 (\$0.65 per s.f.), or \$2,480,304 annually, with annual increases of two percent over the nine and one-half years term of the lease with the option to extend pending an extension of the Development Agreement. This represents an approximate fifteen hundred percent increase (1500%) of the current real estate cost for training.

The increased Lease cost, however, significantly outweighs the short-term cost associated with sporadic leasing of land (if available), because the intrinsic value derived from having a dedicated new training resource is incomparable to the existing way of conducting training related business. Operating funds will be used for the Lease payments and those funds will need to be identified in the SFMTA's 2015-16 year budget and going forward. Rent commences on delivery and acceptance of the improved Property by the SFMTA.

## **Environmental Review**

The proposed Lease is subject to CEQA and the South San Francisco City Council is the responsible agency in taking the first approval action by approving the Project's Conditional Use Permit, Development Agreement, and Design Review application as required in the Lease.

On September 23, 2015, the City of South San Francisco determined that the SFMTA Operator Training use and associated Leasehold improvements is categorically exempt from environmental review under CEQA Guidelines Section 15303 New Construction or Conversion of Small Structures and approved the conditional use permit and a Development Agreement between the Owner and the City of South San Francisco.

SFMTA's execution of the Lease consists of a subsequent discretionary approval of said Project, and thus South San Francisco's Project approval on September 23, 2015 is the Approval Action as defined by S.F. Administrative Code Chapter 31. A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors.

## **SFMTA Board Action**

On January 19, 2016, the SFMTA Board of Directors adopted Resolution 16-011 which authorized the Director of Transportation to execute a nine-and-one-half-year term Industrial Lease with a Purchase Option, a Right of First Refusal, and an Extension Option with Tanforan Industrial Park, LLC, a California limited liability company, for 30 Tanforan Avenue, South San Francisco, comprised of 317,988 square feet (7.3 acres), at an initial annual base rent of \$2,480,304, with annual increases of two percent, together with all Leasehold Improvements for the provision of SFMTA bus operator training courses upon approval by the San Francisco Board of Supervisors and Mayor.

**Recommendation**

The SFMTA requests that the San Francisco Board of Supervisors authorize the SFMTA to execute a nine-and-one-half-year Industrial Lease with a Purchase Option, Extension Option and a Right of First Refusal (Lease) with Tanforan Industrial Park, LLC, a California limited liability company (Owner) for 30 Tanforan Avenue, South San Francisco, at an initial annual base rent of \$2,480,304, with annual increases of two percent, together with all leasehold improvements for the provision of SFMTA Bus Operator training courses and other transit-related uses.

Thank you for your time and consideration of this proposed Lease agreement. Should you have any questions or require more information, please do not hesitate to contact me at any time.

Sincerely,



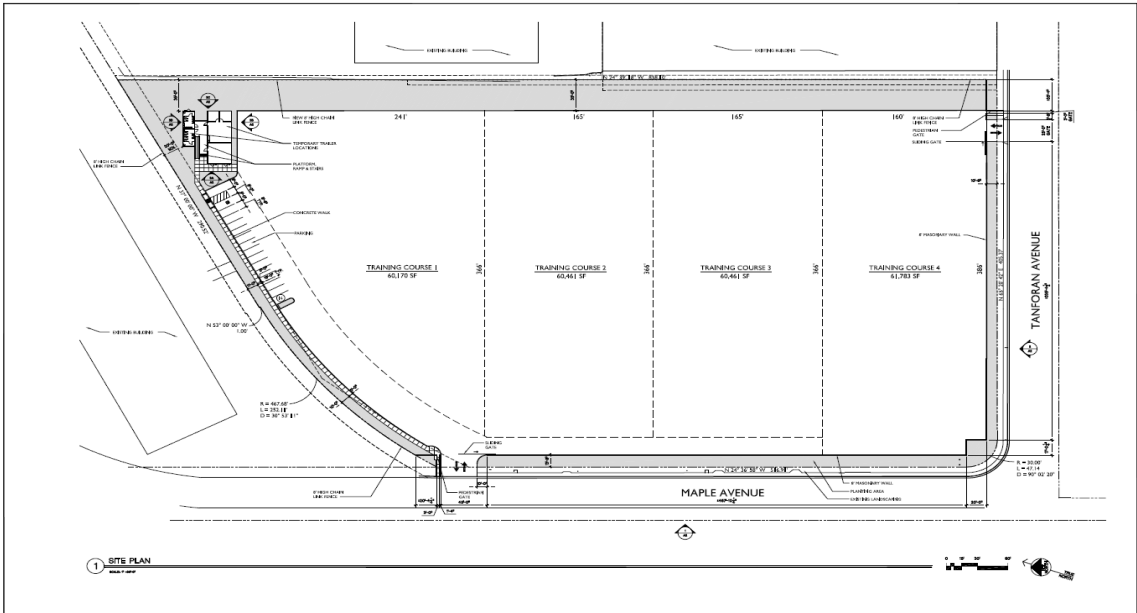
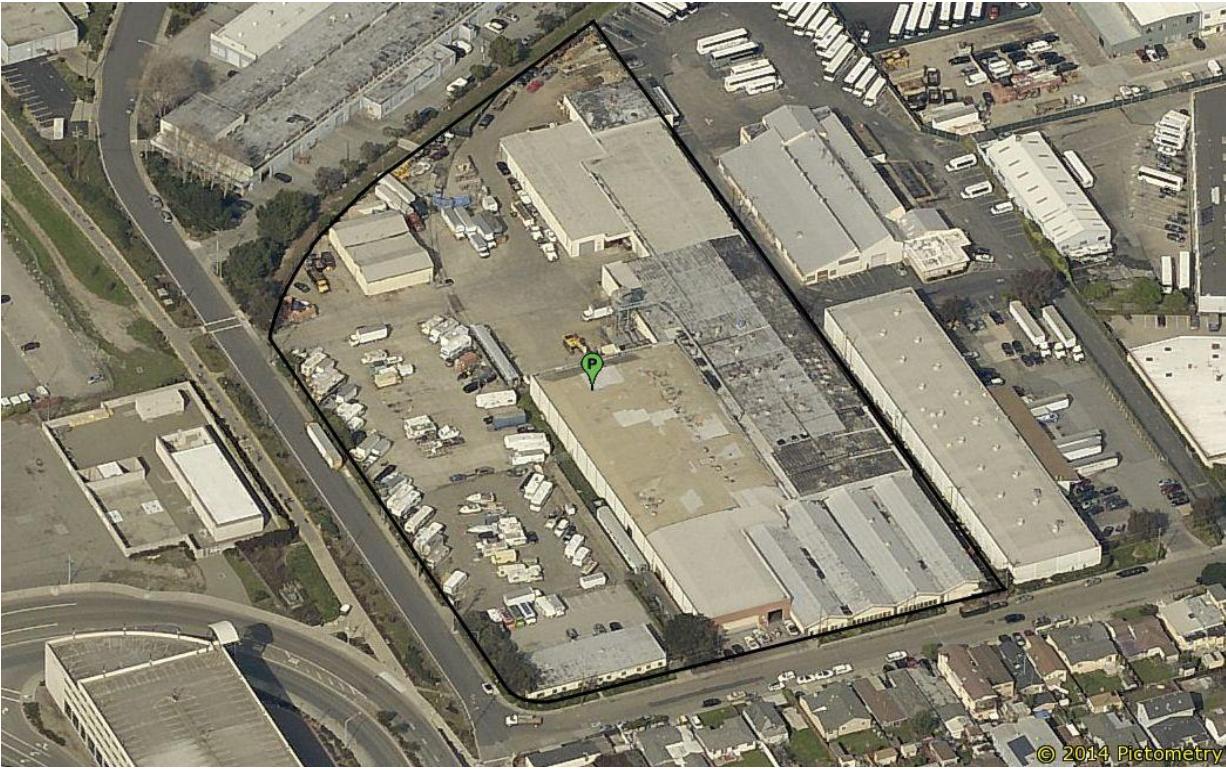
**Edward D. Reiskin**  
**Director of Transportation**

Enclosure: 30 Tanforan Site and Training Course Diagram





# 30 Tanforan Site and Training Course Diagram



**SFMTA**  
30 TANFORAN AVE  
SOUTH SAN FRANCISCO

**LEGEND**

- PROPERTY LINE
- IN TRAINING COURSE
- NEW LANDSCAPE AREA - SEE LANDSCAPE COURSE

**SITE PLAN**

DATE: [REDACTED]

VICINITY MAP - NTS	PROJECT DATA		SHEET INDEX	LEGEND
	<p><b>AREA</b></p> <ul style="list-style-type: none"> <li>270,832 SF</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> </ul>	<p><b>CONSTRUCTION</b></p> <ul style="list-style-type: none"> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> </ul>	<p><b>CONSTRUCTION</b></p> <ul style="list-style-type: none"> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> </ul>	<p><b>CONSTRUCTION</b></p> <ul style="list-style-type: none"> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> <li>270,832 SF (NET AREA)</li> </ul>