

File No. 150006

Committee Item No. 7

Board Item No. 15

# COMMITTEE/BOARD OF SUPERVISORS

## AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date January 28, 2015

Board of Supervisors Meeting

Date February 3, 2015

### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form                            |
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Completed by: Linda Wong Date January 23, 2015

Completed by: L.W. Date January 29, 2015

1 [Real Property Lease - Tenant Improvements - Raychris, LLC - 2 Gough Street (aka 86 Otis  
2 Street) - \$243,915 Base Rent for Remainder of FY2014-2015 - \$610,695 Estimated Tenant  
3 Improvement Cost]

4 **Resolution authorizing the lease of 13,938 square feet at 2 Gough Street (aka 86 Otis**  
5 **Street), with Raychris, LLC, for the first and second floors, commencing upon approval**  
6 **by the Board of Supervisors and Mayor, in their sole and respective discretion, at the**  
7 **monthly rent of \$40,652.50 after substantial completion of the tenant improvements for**  
8 **a Base Rent for the remainder of FY2014-2015 of \$243,915; and construction of tenant**  
9 **improvements at an estimated cost to the City of \$610,695.**

10  
11 WHEREAS, The Human Services Agency (the "HSA") provides valuable services to  
12 adults with disabilities and seniors through its Department of Aging and Adult Services; and

13 WHEREAS, The Real Estate Division on behalf of HSA has negotiated a lease to meet  
14 the needs of the HSA's Department of Aging and Adult Services on the first and second floors  
15 of 2 Gough St., aka 86 Otis St., totaling approximately 13,937 square feet, substantially in the  
16 form on file with the Clerk of the Board of Supervisors in File No. 150006, which is hereby  
17 declared to be a part of this resolution as if set forth fully herein; and

18 WHEREAS, The term of the lease shall be for five (5) years commencing upon  
19 approval of the lease and substantial completion of the tenant improvements; and

20 WHEREAS, The City shall have one additional five (5) year option term to extend the  
21 lease at 95% of the then prevailing fair market rent, subject to the enactment of a resolution  
22 by the Board of Supervisors and the Mayor, in their respective sole and absolute discretion,  
23 approving and authorizing the same; and

24 WHEREAS, The base monthly rent shall be \$40,652.50 subject to annual three (3%)  
25 percent rent adjustments; and

1 WHEREAS, The HSA shall be responsible for utilities and janitorial services; and

2 WHEREAS, The Base Year for operating expenses shall be 2015; and

3 WHEREAS, The Landlord shall construct the premises through its general contractor in  
4 accordance with approved plans and specifications in compliance with LEED Gold  
5 Certification as required by the Green Building Ordinance, and

6 WHEREAS, The Landlord shall provide a tenant improvement allowance of \$117,079,  
7 or approximately \$8.40 psf to improve the premises for City's use; and

8 WHEREAS, The City shall be responsible for all costs in excess of the allowance  
9 estimated to be \$610,695; now, therefore, be it

10 RESOLVED, That in accordance with the recommendation of the Director of the  
11 Human Services Agency and the Director of Property, the Director of Property is hereby  
12 authorized to take all actions, on behalf of the City and County of San Francisco, as Tenant,  
13 to enter into the Lease for the first and second floors at 2 Gough St., aka 86 Otis St., San  
14 Francisco, California, comprising approximately 13,938 square feet on file with the Clerk of  
15 the Board of Supervisors in File No. 150006, which is hereby declared to be a part of this  
16 resolution as if set forth fully herein; and, be it

17 FURTHER RESOLVED, The monthly base rent shall be \$40,652.50 (\$2.92 per square  
18 foot) commencing upon substantial completion of the tenant improvements, net of utilities and  
19 janitorial services, with a base year of 2015 for operating expenses, subject to three (3%)  
20 percent annual adjustments for the initial five (5) year term; and, be it

21 FURTHER RESOLVED, The City shall have one additional option term of five years at  
22 95% of the then prevailing fair market rent subject to the enactment of a resolution by the  
23 Board of Supervisors and the Mayor, in their respective sole and absolute discretion,  
24 approving and authorizing the same; and, be it

1 FURTHER RESOLVED, The City will pay the verified leasehold improvement costs in  
2 excess of the Landlord's tenant improvement allowance of \$117,079 estimated to be  
3 \$610,695; and, be it

4 FURTHER RESOLVED, The City agrees to indemnify, defend, and hold harmless  
5 Landlord and its agents from and against any and all claims, costs, and expenses, including  
6 without limitation, reasonable attorney fees, incurred as a result of (a) City's use of the  
7 Premises, (b) any default by the City in the performance of any of its obligations under the  
8 Lease, or (c) any acts or omissions of City or its agents, in, on or about the Premises or the  
9 property on which the Premises are located, provided however City shall not be obligated to  
10 indemnify Landlord or its agents to the extent any claim, cost and expense arises out of  
11 active gross negligence or willful misconduct of Landlord or its agents; and, be it

12 FURTHER RESOLVED, That any action heretofore taken by any City employee or  
13 official with respect to the exercise of the Lease as set forth herein is hereby approved,  
14 confirmed and ratified; and, be it

15 FURTHER RESOLVED, The Board of Supervisors approves the Lease in substantially  
16 the form in the Board's File and authorizes the Director of Property to take all actions, on  
17 behalf of City, to enter into any amendments or modifications (including without limitation, the  
18 exhibits) to the Lease on the terms and conditions herein and form approved by the City  
19 Attorney that the Director of Property determines, in consultation with the City Attorney, are in  
20 the best interest of the City, do not increase the rent or otherwise materially increase the  
21 obligations or liabilities of the City, are necessary or advisable to effectuate the purposes of  
22 the lease and are in compliance with all applicable laws, including City's Charter; and, be it.

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

1 to Landlord. Such termination shall then be effective upon surrender of the Premises. Said  
2 lease shall be subject to certification as to funds by the Controller pursuant to Section 3.105 of  
3 the Charter of the City and County of San Francisco; and be it

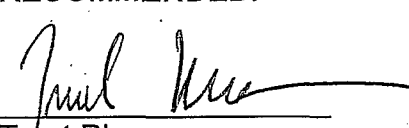
4 FURTHER RESOLVED, That within thirty (30) days of the agreement being fully  
5 executed by all parties the Director of Property shall provide the agreement to the Clerk of the  
6 Board to include into the official file.

7  
8 RECOMMENDED:

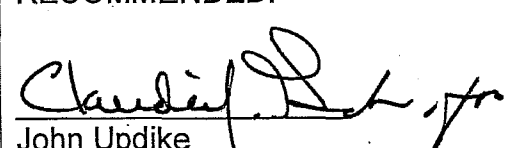
9 \$854,610 Available for Fiscal Year 2014-2015  
10 Index Code No. 45ADOH

11   
12 Controller

13  
14 RECOMMENDED:

15   
16 Trent Rhorer  
17 Director, Human Services Agency

18 RECOMMENDED:

19   
20 John Updike  
21 Director of Property  
22 Real Estate Division

<b>Item 7</b> <b>File 15-0006</b>	<b>Department:</b> Human Services Agency (HSA)
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>The proposed resolution authorizes the Human Services Agency (HSA) to lease 13,938 square feet on the first and second floors at 2 Gough Street (which is also referred to as 86 Otis Street) from Raychris, LLC. HSA will pay annual rent of \$487,830, equal to \$35 per square foot.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>Through the proposed lease, HSA plans to develop a service hub for the Department of Aging and Adult Services (DAAS) located at 2 Gough Street that will include: 1) an office for seniors and persons with disabilities to access medical benefits, 2) various services for veterans, and 3) an intake office for other DAAS services.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>Under the terms of the proposed lease, the base annual rent for 13,938 square feet of office space at 2 Gough Street will be \$487,830, or \$35 per square foot. Payment of a monthly rent of \$40,652.5 will commence after the substantial completion of tenant improvements in early March, 2015. The base rent will be subject to annual three percent rent adjustments over the course of the lease.</li> <li>An estimated \$727,774 in tenant improvements will be completed, of which \$117,079 will be covered by a landlord allowance, and \$610,695 will be paid for by the City.</li> <li>Annual operating expenses are estimated to be \$10 per square foot, or a total of \$139,380. The HSA will pay 49% of any operating costs which exceed this base year estimate during the remaining four years of the lease.</li> <li>Utilities and janitorial fees combined are estimated to be \$5 per square foot/year. All costs associated with the lease will be paid for by 55 percent General Fund revenue and 45 percent state and federal reimbursements.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

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

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of \$5,000 or more and where the City is the tenant is subject to Board of Supervisors approval.

**Background**

The Human Services Agency's (HSA) Department of Aging and Adult Services has historically provided services to seniors by contracting with community-based organizations. The main office for the Department of Aging and Adult Services is currently located at 1650 Mission Street.

Through the proposed lease, HSA plans to develop a service hub for the Department of Aging and Adult Services (DAAS) located at 2 Gough Street that will include: 1) an office where seniors and persons with disabilities can obtain access to medical benefits, 2) various services for veterans, and 3) an intake office for other DAAS services. The new location, 2 Gough Street, was selected based upon its proximity to existing HSA offices located at 1650 Mission Street and 170 Otis Street.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution authorizes a new five-year lease with one five-year option to renew between the Human Services Agency (HSA), as tenant, and Raychris, LLC, as landlord, for 13,938 square feet on the first and second floors at 2 Gough Street (which is also referred to as 86 Otis Street). HSA will pay annual rent of \$487,830, equal to \$35 per square foot. Lease terms are summarized in Table 1 below.

**Table 1: Proposed Lease Terms for 2 Gough Street**

Square Feet	13,938
Term	Five years beginning with Board of Supervisors approval and substantial completion of tenant improvements in early March, 2015 and terminating in March, 2020
Options to Extend	One five-year option exercisable by the City
Base Rent	\$35 per square foot per year
Increases to base rent	3% per year
Option Period Rent	95% of Fair Market Value (as determined by the Real Estate Division)
Property Taxes and Operating Expenses	Pro-rata share paid by City
Utilities and Janitorial Services	Paid by City

Source: Proposed Lease between City and Raychris, LLC.

The term of the lease will be five years, beginning upon Board of Supervisors' approval of the lease and the substantial completion of tenant improvements in March of 2015. The City will have one additional five-year option term to extend the lease at 95 percent of the prevailing fair market rent, subject to approval by the Board of Supervisors. The 13,938 square feet at 2 Gough Street will be utilized by 68 staff, for an average of 205 square feet per employee.

## FISCAL IMPACT

### Base Rent

Under the terms of the proposed lease, the base rent for 13,938 square feet of office space at 2 Gough Street for first lease year will be \$487,830, or \$35 per square foot. Payment of a monthly rent of \$40,652.50 will commence after the substantial completion of tenant improvements. The base monthly rent of \$40,652.50 will be subject to annual three percent rent adjustments. According to the Real Estate Division, the \$35 per square foot base rent is slightly below the market range of \$39-\$52 for comparable office rentals.

### Tenant Improvements

An estimated \$727,774 in tenant improvements will be completed, of which \$117,079 will be covered by a landlord allowance, and \$610,695 will be paid for by the HSA, as shown in Table 2 below.

**Table 2: Proposed Tenant Improvements at 2 Gough Street**

Category	Estimated Cost
Construction	
Demolition	\$ 25,000
Walls, Doors, FLS	\$ 97,566
Electrical	\$ 111,504
Flooring	\$ 69,690
LEED & Other	\$ 153,318
Plumbing and Restrooms	\$ 100,000
<i>Subtotal: Construction Costs</i>	\$ 557,078
Contingency (10% of subtotal)	\$ 55,709
Permits	\$ 31,361
Soft Costs	\$ 83,628
Estimated Total	\$ 727,774
Landlord Allowance	\$ 117,079
Estimated City Cost	\$ 610,695

Source: Human Services Agency



Operating Expenses

The Human Services Agency will pay 49% of any operating expenses which exceed base year operating costs of \$139,380 during the remaining four years of the lease. Operating costs are estimated to increase by 2-3 percent per year to adjust for inflation.

Utilities and Janitorial Services

Utilities and janitorial costs combined are estimated to be \$5 per square foot/year, for a total cost of \$69,690 for the first lease year. These costs are also estimated to increase by 2-3 percent annually with inflation.

Total Estimated Annual Lease Costs

Table 3 below summarizes the total estimated annual costs for the lease, including operating expenses, utilities, and janitorial services. Excluding tenant improvements, as shown in Table 3 below, the total estimated cost over the five-year lease term is \$2,967,071.

**Table 3: Total Annual City Cost for 2 Gough Street Lease**

Lease Year	Base Rent	Operating Costs*	Utilities, Janitorial and blank Costs**	Total Cost (Annual)
One	\$487,836	\$ -	\$69,690	\$557,526
Two	\$502,471	\$1,707	\$71,781	\$575,959
Three	\$517,545	\$1,750	\$73,934	\$593,229
Four	\$533,072	\$1,794	\$76,152	\$611,018
Five	\$549,064	\$1,839	\$78,437	\$629,340
Total Estimated Costs	\$2,589,988	\$7,090	\$369,994	\$2,967,072

Source: HSA and Real Estate Division

\*The City will pay 49% of any operating costs which exceed the base year cost estimate of \$139,380. Operating costs are anticipated to increase by 2-3 percent annually.

\*\*Utilities and janitorial costs are anticipated to increase 2-3 percent annually.

Funding Source

The monthly rent, operating costs, utilities and janitorial fees, as well as the cost of services to be located at 2 Gough Street, will be paid for through a funding mix of 55 percent General Fund revenue and 45 percent state and federal reimbursements, subject to Board of Supervisors appropriation approval.

**RECOMMENDATION**

Approve the proposed resolution.



Edwin M. Lee, Mayor  
Naomi M. Kelly, City Administrator

December 23 2014

John Updike  
Director of Real Estate

Through Naomi Kelly,  
City Administrator

Honorable Board of Supervisors  
City and County of San Francisco  
City Hall, 1 Dr. Carlton B. Goodlett Place  
San Francisco, California 94102

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2014 DEC 23 PM 3:11  
H

Re: Proposed lease of 2 Gough St., aka 86 Otis St., San Francisco

Dear Board Members:

Attached for your consideration is a Resolution authorizing the lease of 2 Gough St., aka 86 Otis St. comprising approximately 13,938 square feet on the first and second floors for the Human Services Agency's Department of the Aging and Adult Services serving adults with disabilities and seniors.

The proposed lease is for an initial term of five (5) years commencing upon approval of the transaction and substantial completion of the tenant improvements discussed below. City shall have one five (5) year option term to extend the lease term based on the same terms and conditions except that the rent shall be adjusted to 95% of the then prevailing rent for similar Premises.

On behalf of the Human Services Agency, the Real Estate Division negotiated a lease at a fair market rent of \$40,652.50 per month (\$2.92 psf), subject to 3% annual rent adjustments. The base fair market monthly rent is net of utilities and janitorial services with a 2015 base year for operating expenses.

Upon approval of the lease, Landlord shall construct the premises through its general contractor in accordance with approved plans and specifications in compliance with LEED Gold Certification as required by the Green Building Ordinance. Landlord shall provide a tenant improvement allowance of \$117,079, or approximately \$8.40 psf to improve the premises for City's use. City shall be responsible for all costs in excess of the allowance estimated to be \$610,695.

The Human Services Agency and Real Estate Division recommend approval of the proposed lease. We are advised that funds are available in Appropriation No. 45ADOH for fiscal year 2014-2015.

150006

If you have any questions in this regard, please contact Claudine Venegas of my staff at 554-9872 or David Curto with the Human Services Agency at 557-5587.

Respectfully,

A handwritten signature in cursive script, appearing to read "Claudine Venegas for John Updike".

John Updike  
Director of Property

cvh:\86 Otis bos final cvr ltr

Attachments

cc: David Curto, Human Services Agency

OFFICE LEASE

between

RACHRIS, LLC  
as Landlord

and

CITY AND COUNTY OF SAN FRANCISCO,  
as Tenant

For the lease of  
2 Gough Street, also known as 86 Otis Street,  
San Francisco, California

November 17, 2014

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**LIST OF EXHIBITS**

- EXHIBIT A – Floor Plan(s) of Premises
- EXHIBIT B – Notice of Commencement Date
- EXHIBIT C – Exclusions From Operating Costs
- EXHIBIT D – Rules and Regulations
- EXHIBIT E – Work Letter
- EXHIBIT F – Form of Lender Consent



## OFFICE LEASE

THIS OFFICE LEASE (this "Lease"), dated for reference purposes only as of November 17, 2014, is by and between RACHRIS, LLC, a California limited liability company ("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 17, 2014
Landlord:	RACHRIS, LLC
Tenant:	CITY AND COUNTY OF SAN FRANCISCO
Building ( <u>Section 2.1</u> ):	Building located at 2 Gough Street, also known as 86 Otis Street, San Francisco, CA
Premises ( <u>Section 2.1</u> ):	Ground floor (comprising approximately 6,138 s.f.) and 2 <sup>nd</sup> floor (comprising approximately 7,800 s.f.)
Rentable Area of Premises ( <u>Section 2.1</u> ):	Approximately 13,938 rentable square feet
Term ( <u>Section 3</u> ):	Five years
	Estimated Commencement Date: January 1, 2015
	Expiration Date: The fifth anniversary of the day immediately before the Commencement Date
Extension Options ( <u>Section 3.4</u> ):	One (1) additional term of five (5) years, exercisable by City by notice to Landlord given not less than 365 days in advance, with Base Rent for such extended term determined pursuant to <u>Section 4.10</u>
Base Rent ( <u>Section 4.1</u> ):	Initial annual Base Rent: \$487,830 (\$35 per sq. ft.)  Initial monthly Base Rent payments: \$40,652.50 (\$2.92 per sq. ft.)
Adjustment Dates ( <u>Section 4.2</u> ):	On each anniversary of the Commencement Date, or if the Commencement Date is not the first day of a month, on each anniversary of the

	first day of the month immediately following the Commencement Date (each an "Adjustment Date"), the Base Rent will be increased by three percent (3%).
Additional Charges ( <u>Section 4.3</u> ):	City shall pay to Landlord any charges or other amounts required to be paid by City to Landlord under this Lease as additional rent.
Base Year ( <u>Section 4.4 (a)</u> ):	January 1 – December 31, 2015
City's Percentage Share ( <u>Section 4.4(a)</u> ):	49%
Use ( <u>Section 5.1</u> ):	Clinic services provided by the City's Department of Aging and Adult Services to adults with disabilities and seniors, and general office use
Leasehold Improvements ( <u>Section 6</u> ) and Work Letter ( <u>Exhibit E</u> ):	Landlord to perform the improvements described in Section 6 and the Work Letter attached as <u>Exhibit E</u> to this Lease
Utilities ( <u>Section 9.1</u> ):	Landlord to provide, with City paying City's Percentage Share for all such provided utilities other than electricity. City to pay for its separately metered electricity provided to the Premises.
Services ( <u>Section 9.2</u> ):	City to provide, at its own cost, any janitorial services it desires for the Premises.
Notice Address of Landlord ( <u>Section 23.1</u> ):	2 Gough St., Suite 300 San Francisco, CA 94103 Attn: Chris Yowell Fax No.: (415) 986-8851
Key Contact for Landlord:	Chris Yowell
Landlord Contact Telephone No.:	(415) 986-8850
Notice Address for Tenant ( <u>Section 23.1</u> ):	Real Estate Division 25 Van Ness Avenue, Suite 400 San Francisco, CA 94102 Attn: John Updike, Director of Property Re: 2 Gough St., aka 86 Otis St. Fax No.: (415) 552-9216
with a copy to:	Human Services Agency 170 Otis Street San Francisco, CA 94103 Attn: David Curto Fax No.: (415) 431-9270

and to:

Office of the City Attorney  
City Hall, Room 234  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4682  
Attn: Special Projects Team  
Deputy City Attorney  
Re: 2 Gough St., aka 86 Otis St.  
Fax No.: (415) 554-4755

Key Contact for Tenant:

David Curto  
170 Otis Street  
San Francisco, CA 94103

Tenant Contact Telephone No.:

(415) 557-5581

Alternate Contact for Tenant:

Alternate Contact Telephone No.:

Brokers (Section 23.8):

Tim Garlick, Cassidy Turley Commercial Real  
Estate Services

Other Noteworthy Provisions (Section 22):

NONE

## 2. PREMISES

### 2.1 Lease Premises

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 (the "Building") and shown on the floor plan(s) attached hereto as Exhibit A (the "Premises"). The Premises contain the rentable area and are located on the floor(s) of the Building specified in the Basic Lease Information. 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 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 entrances to the Building and the Property.

### 2.3 Disability Access

California Civil Code Section 1938 requires commercial landlords to disclose to tenants whether the property being leased has undergone inspection by a Certified Access Specialist ("CASp") to determine whether the property meets all applicable construction-related accessibility requirements. City is hereby advised that the Premises have not been inspected by a CASp on behalf of Landlord.

### **3. TERM**

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

The Premises are leased for an initial term (the "Initial Term") commencing on the date specified in the Basic Lease Information as the estimated commencement date (the "Estimated Commencement Date"), or such later date or earlier date, with City's written acceptance, which shall not be unreasonably withheld, as Landlord shall have delivered the Premises to City with the Leasehold Improvements (as defined below) having been substantially completed by Landlord and accepted by City pursuant to Section 6.1 (Landlord's Obligation to Construct Improvements), and City's Mayor and Board of Supervisors shall have approved the transaction contemplated by this Lease, in their respective sole and absolute discretion, as further provided in this Lease. The Initial 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 extend the Initial Term pursuant to Section 3.4 (Extension Option), below. The word "Term" as used herein shall refer to the Initial Term and any Extended Term if City exercises the Extension Option as provided below.

#### **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 reasonable commercial efforts to deliver possession of the Premises with all of the Leasehold Improvements Substantially Completed (as defined in the Work Letter attached as Exhibit E) and accepted by City's Director of Property pursuant to Section 6.1 (Landlord's Obligation to Construct Improvements) on or before the Estimated Commencement Date. However, if Landlord is unable to deliver possession of the Premises as provided above, 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 sooner terminated pursuant to the provisions under this Lease. If Landlord is unable to deliver possession of the Premises to City as required hereunder within one hundred twenty (120) days after the Estimated Commencement Date, then City may, at its option, terminate this Lease at any time thereafter, but before the Leasehold Improvements are Substantially Completed, without any further liability of either party to the other under this Lease, upon written notice to Landlord.

#### **3.4 Extension Option**

City shall have the right to extend the Initial 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 the Base Rent for the first year of the Extended Term shall be adjusted as provided in Section 4.10 below. City may exercise the Extension Option, if at all, by giving written notice to Landlord no later than three hundred sixty-five (365) days prior to expiration of the Term to be

extended; provided, however, if City is in default under this Lease on the date of giving such notice, and Landlord delivers written notice thereof to City and City fails to cure such default within the time period as provided in this Lease, Landlord may reject such exercise by delivering written notice thereof to City promptly after such failure to timely cure. Landlord acknowledges and agrees that City's notice of its intent to exercise an Extension Option shall be subject to enactment of a resolution by the Board of Supervisors and the Mayor, in their respective sole and absolute discretion, approving and authorizing the same, within sixty (60) days after the date such notice of exercise is given.

#### **4. RENT**

##### **4.1 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"). 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 or notice 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.

##### **4.2 Adjustments in Base Rent**

Except for the first year of any Extended Term, on each date specified in the Basic Lease Information for the adjustment of Base Rent (an "Adjustment Date"), Base Rent payable under Section 4.1 shall be adjusted to equal one hundred three percent (103%) of the Base Rent for the twelve (12) month immediately preceding such Adjustment Date.

##### **4.3 Additional Charges and Services**

City shall pay to Landlord any charges or other amounts required under this Lease as additional rent ("Additional Charges"), including the charges for Real Estate Taxes and Operating Costs provided for hereinbelow. 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 and Additional Charges are sometimes collectively referred to below as "Rent."

City (acting through the Director of Property) reserves the right to request that Landlord perform, at City's cost, lease related services or incur additional expenses not covered under this Lease. If City requests any such additional services, Landlord and City shall agree in writing and in advance of any work, on the charges or amounts City shall reimburse Landlord for Landlord's performance of such work. If the parties do not agree upon such amount in writing, then Landlord shall not be required to perform the requested work. If the parties do agree on the amount in writing, then Landlord shall perform the requested work and City shall reimburse Landlord the agreed upon costs within thirty (30) days of Landlord's completion of the requested work and delivery of an invoice for the completed work, together with reasonable supporting documentation.

##### **4.4 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. "City's Percentage Share" means the percentage specified in the Basic Lease Information.

(b) "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.

(c) "Operating Costs" means the total reasonable 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 electricity, gas, 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 pursuant to this Lease or by the terms of any deed of trust encumbering the Property, (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 (at least in part) 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 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 or in any Expense Year the Building is less than one hundred percent (100%) occupied, the Operating Costs shall be appropriately adjusted to reflect a one hundred (100%) 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.

(d) "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, 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, gross receipts, or capital stock taxes or income taxes 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.

(e) "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.

#### **4.5 Payment of Percentage Share of 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. Landlord may revise such estimates of Operating Costs from time to time and City shall thereafter make payments on the basis of such revised estimates, provided that no such revisions shall be retroactive and Landlord may not make any such revisions more than twice in any given Expense Year and no such revision may be made any earlier than four (4) months subsequent to the prior estimate for such Expense Year. With reasonable promptness not to exceed ninety (90) days after the expiration of each Expense Year, Landlord shall furnish City with a statement (herein called "Landlord's Expense Statement"), prepared by an independent certified public accountant, setting forth in reasonable detail the Operating Costs for such Expense Year and City's Percentage Share thereof. If City's Percentage Share of the actual Operating Costs for such Expense Year exceeds the estimated 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 Operating Costs paid by City and City's Percentage Share of the actual Operating Costs within thirty (30) days after the receipt of Landlord's Expense Statement. If the total amount paid by City for any such Percentage Share of Operating Costs exceeds City's Operating Costs Share of the actual Operating Costs for such Expense Year, such excess shall be credited against the next installments of Operating Costs due from City to Landlord hereunder, or refunded to City, at City's option.

#### **4.6 Payment of Percentage Share of 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 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 Real Estate Taxes for such Tax Year exceeds the estimated 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 Real Estate Taxes within thirty (30) days after the receipt of Landlord's Tax Statement. If the total amount of estimated Real Estate Taxes paid by City for such Tax Year exceeds City's Percentage Share of the actual 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.

#### **4.7 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.

#### **4.8 Audits**

City shall have the right, upon not less than ten (10) 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 an increase in or a reduction of City's Percentage Share of Operating Costs for any Expense Year, the owing party shall promptly pay to the owed party the amount owed; provided, however, that Landlord acknowledges that any such payment to be made by City to Landlord must be paid through City's customary process for such reimbursements. 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 five percent (5%) or more for any Expense Year, then Landlord shall pay the actual, reasonable costs of such audit.

#### **4.9 Records**

Landlord shall maintain at its office in San Francisco, California, 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 4.8 above.

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

At the commencement of the Extended Term, the Base Rent shall be adjusted to equal the 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 Mission submarket area of San Francisco ("Reference Area"); provided, however, in no event shall the Base Rent be reduced below the Base Rent for the lease year prior to



commencement of such Extended Term. 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) floor 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, and (v) 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. 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 this thirty (30)-day period Landlord and City cannot reach agreement as to the prevailing market rate, they shall each select one appraiser or commercial real estate broker to determine the prevailing market rate. Each such appraiser or 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 appraisal is submitted within the requisite time period, it shall be deemed to be the prevailing market rate. If both appraisals are submitted within such time period, and if the two appraisals so submitted differ by less than or equal to ten percent (10%) of the higher of the two, then the average of the two shall be the prevailing market rate. If the two appraisals differ by more than ten percent (10%) of the higher of the two, then the two appraisers shall immediately select a third appraiser or commercial real estate broker who will within thirty (30) days of his or her selection make a determination of the prevailing market rate and submit such determination to Landlord and City. This third appraisal will then be averaged with the closer of the two previous appraisals and the result shall be the prevailing market rate.

(d) If City's Director of Property does not approve of the prevailing market rate as determined by the appraisal procedure specified above, the Director of Property shall revoke the exercise of the Extension Option by City.

(e) All appraisers and brokers specified herein shall be "MAI" designated members of the Appraisal Institute or hold a State of California real estate broker license, and have not less than five (5) years' experience appraising leases of commercial properties similar to the Premises in the Mission submarket area. Landlord and City shall pay the cost of the appraiser or broker selected by such party and one-half of the cost of the third appraiser plus one-half of any other costs incurred in the arbitration.

## **5. USE**

### **5.1 Permitted Use**

City may use the Premises for general office uses 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 shall not allow, suffer or permit the Premises or any use thereof to constitute a nuisance or materially interfere with the safety or enjoyment of the Building by Landlord or any other occupants of the Building;

provided, however, that Landlord agrees that City's use of the Premises as a clinic for adults with disabilities or seniors that is operated in compliance with all applicable Laws (as defined in Section 10.1) shall not be deemed a nuisance or material interference.

## **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"). 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 which 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 endeavor to 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**

Subject to the provisions of this Lease, Landlord shall provide to City access to the Building and the Premises twenty-four (24) hours per day, seven (7) days per week, together with uninterrupted access thereto to the maximum extent reasonably possible, including, without limitation, during any power outages affecting the Premises or any portion of the Building, except to the extent beyond the reasonable control of Landlord; provided, however, that Landlord may, after consultation (or attempted 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, then Landlord shall immediately undertake all necessary steps to correct such condition to the extent that Landlord is reasonably able to do so. In the event Landlord is reasonably able to correct such condition but such condition continues for three (3) business days and materially 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 Landlord is reasonably able to correct such condition but such condition continues for sixty (60) days or more after City's use is interrupted and materially 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 ninety (90) days of the date City's use was interrupted, and such use is actually restored within such 90-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 Construction of Leasehold Improvements**

Landlord shall construct the Premises, perform the work and make the installations in the Premises and the Common Areas pursuant to the Work Letter attached hereto as Exhibit E (the "Work Letter"). All work and installations performed pursuant to the Work Letter are referred to as the "Leasehold Improvement Work" and "Leasehold Improvements."

### **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. City, at its cost, 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. City shall have the right to enter the Premises and such other portions of the Building at reasonable times during the course of construction of the Leasehold Improvements in order to install such facilities and equipment, provided that no such entry or access shall interfere with the business of Landlord or other occupants of the Building. City and Landlord shall use their good faith efforts to coordinate any such activities to allow the Leasehold Improvements and the installation of such facilities and equipment to be completed in a timely and cost-effective manner.

### **6.3 Construction of Improvements that Disturb or Remove Exterior Paint**

Landlord, on behalf of itself and its successors, assigns and agents, shall comply with all requirements of the San Francisco Building Code Chapter 34 and all other applicable local, state, and Federal laws, including but not limited to the California and United States Occupational and Health Safety Acts and their implementing regulations, when the work of improvement or alteration disturbs or removes exterior or interior lead-based or "presumed" lead-based paint (as defined below). Landlord and its Agents shall give to City three (3) business days' prior written notice of any disturbance or removal of exterior or interior lead-based or presumed lead-based paint. Landlord acknowledges that the required notification to the Department of Building Inspection regarding the disturbance or removal of exterior lead-based paint pursuant to Chapter 34 of the San Francisco Building Code does not constitute notification to City as Tenant under this Lease and similarly that notice under this Lease does not constitute notice under Chapter 34 of the San Francisco Building Code. Further, Landlord and its Agents, when disturbing or removing exterior or interior lead-based or presumed lead-based paint, shall not use or cause to be used any of the following methods: (a) acetylene or propane burning and torching; (b) scraping, sanding or grinding without containment barriers or a High Efficiency Particulate Air filter ("HEPA") local vacuum exhaust tool; (c) hydroblasting or high-pressure wash without containment barriers; (d) abrasive blasting or sandblasting without containment barriers or a HEPA vacuum exhaust tool; and (e) heat guns operating above 1,100 degrees Fahrenheit. Landlord covenants and agrees to comply with the requirements of Title 17 of the California Code of Regulations when taking measures that are designed to reduce or eliminate lead hazards. Under this Section, paint on the exterior or interior of buildings built before January 1, 1979 is presumed to be lead-based paint unless a lead-based paint test, as defined by Chapter 34 of the San Francisco Building Code, demonstrates an absence of lead-based paint on the interior or exterior surfaces of such buildings. Under this Section, lead-based paint is "disturbed or removed" if the work of improvement or alteration involves any action that creates friction, pressure, heat or a chemical reaction upon any lead-based or presumed lead-based paint on a surface so as to abrade, loosen, penetrate, cut through or eliminate paint from that surface.

## **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 or exterior or structural integrity of the Building, and the 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 the next Section), the Leasehold Improvements and all appurtenances, fixtures, improvements, equipment, additions and other property and installed in the Premises by Landlord 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 in writing 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 reasonable 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 by the Expiration Date (but if it does not remove City's Personal Property by 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.

### **7.4 Alteration by Landlord**

Landlord shall use reasonable 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 endeavor to 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 (collectively, the "Building Structure"), including, without limitation, the roof, foundation, bearing and exterior walls and subflooring, and the heating, ventilating, 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, except to the extent any repair or maintenance is necessitated by the negligent act or willful misconduct of City or any employee, agent or contractor of City. Without limiting the foregoing, Landlord shall maintain the Building Structure, the Building Systems, and the Common Areas in a clean, safe and attractive manner and shall use reasonable efforts to prevent (i) any other tenant in the Building from disturbing or interfering with City's use of the Premises, and (ii) any activities in or about the Building that are illegal, dangerous to persons or property, or that constitute a nuisance.

### **8.2 City's Repairs**

Subject to Landlord's warranty under Section 10.1 (Premises Condition), any construction warranties or guaranties received in connection with Landlord's completion of the Leasehold Improvements, and Landlord's repair and maintenance obligations hereunder (as set forth in, and subject to, Section 8.1 and Section 12), City shall repair and maintain at its cost the interior portions of the Premises and shall keep the Premises in good working order and repair 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 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 and the underlying real property 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 shall furnish the following utilities and services to the Premises: (a) heating and ventilation in amounts reasonably required for City's use and occupancy of the Premises, during the period from 8:00 a.m. to 6:00 p.m., Monday through Friday, except holidays generally recognized in San Francisco; (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; and (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 Mission District. City shall pay for separately metered electricity servicing the Premises.

## **9.2 Janitorial and Security Services**

City shall provide at its cost any janitorial service it requires for the Premises, and shall provide and maintain throughout the Term, at its sole cost, two (2) security guards at the Premises during normal business hours to monitor (i) the main entrance to the Premises from Gough Street, (ii) the client area within the Premises, and (iii) the sidewalk areas abutting the Building.

## **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, 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 materially impairs City's ability to carry on its business in the Premises for a period of three (3) or more consecutive business days if such failure is in 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 actual, 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 diligent, good faith efforts to restore disrupted Essential Services as soon as possible. However, if such failure to provide any Essential Services is in the reasonable control of Landlord and continues for ninety (90) consecutive days and such failure materially 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 one hundred eighty (180) days of the date City's use was interrupted, and the Essential Services are actually restored within such 180-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 to the acts, omissions or negligence of City or its Agents or is otherwise outside the reasonable control of Landlord.

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

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

Landlord shall close out all Building permits with City's Department of Building Inspection that remain open as of the Effective Date. Landlord represents and warrants to City, and covenants with City, as follows: to the best of Landlord's knowledge without investigation or inquiry: **(a)** the physical structure, fixtures and permanent improvements of the Premises (including, without limitation, the Leasehold Improvements) and all portions of the Property and the Building along the path of travel to the Premises (including, but not limited to, the Building entrances, Common Areas, restrooms, elevators, lobbies, telephone banks and drinking fountains) as of the Commencement Date will be in compliance with the requirements of the Americans With Disabilities Act of 1990 and Title 24 of the California Code of Regulations and all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements intended to provide equal accessibility for persons with disabilities (collectively, "Disabilities Laws"); **(b)** the Building is an unreinforced masonry building that 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"); **(c)** the Building, the Common Areas and Building Systems serving the Premises as of the Commencement Date will be in full compliance with all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to fire and life safety (including, without limitation, the San Francisco High-Rise Sprinkler Ordinance) (collectively, "Life Safety Laws"); **(d)** the Building, the Common Areas and Building Systems serving the Premises as of the Commencement Date will be in compliance with all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements; and **(e)** as of the Commencement Date there will not be any 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 (subject to the provisions of Section 4.5), the Building Structure, the 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, to the extent within Landlord's reasonable control. Without limiting Section 16.2 (Landlord's Indemnity), Landlord shall Indemnify City against any and all Claims arising out of any failure of the Building Structure, or the Common Areas or the Building Systems serving the Premises, 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 and maintain, at its cost, the Premises during the Term in compliance with applicable Laws, except that City shall not be required to make any structural alterations in order to comply therewith except to the extent such alterations are necessary because of any Alterations to the Premises made by City pursuant to Section 7 hereof. City shall be responsible for complying with any requirement of the Disabilities Laws relating 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 the physical structure of the Premises or 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

(a) Prior to the Commencement Date, Landlord shall deliver to City a completed consent, non-disturbance and attornment agreement in the form attached to this Lease as Exhibit F ("Lender Consent"), duly signed and acknowledged by Landlord and each beneficiary to any deed of trust encumbering record title for the Property as of the Commencement Date.

(b) Without the necessity of any additional document being executed by City for the purpose of effecting a subordination, and subject to subsection (c) below, this Lease shall be subject and subordinate at all times to the following (each an "Encumbrance"): (i) 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 (ii) 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 lease or underlying lease, or Landlord's interest or estate therein is subject. At City's request, the holder of the senior Encumbrance shall enter into a subordination, attornment and nondisturbance agreement with City in a form reasonably acceptable to City evidencing such subordination of this Lease. Notwithstanding the foregoing, if the ground lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have City's interest in this Lease be superior to any such instrument, then upon notice thereof to City, this Lease shall be deemed superior, whether this Lease was executed before or after the date of said instrument or the recording thereof. At City's request, the holder of the junior Encumbrance shall enter into a subordination agreement with City in a form reasonably acceptable to City evidencing such superiority of this Lease.

(c) In the event any mortgage or deed of trust to which this Lease is subordinate is foreclosed or a deed in lieu of foreclosure is given to the mortgagee or beneficiary, or in the event any ground lease or underlying lease to which this Lease is subordinate is terminated, this Lease shall not be barred, terminated, cut off, or foreclosed nor shall the rights and possession of City hereunder be disturbed if City shall not then be in default in the payment of rental or other sums due hereunder or otherwise be in default under the terms of this Lease. City shall attorn to and become the tenant of the successor-in-interest to Landlord, provided that City has received proper written notice of such succession and the name and address of the successor landlord. City's covenant under subsection (a) above to subordinate this Lease to any Encumbrance or other hypothecation hereafter executed is conditioned upon each such senior instrument containing the commitments specified in this subsection (b). 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.



## 12. DAMAGE AND DESTRUCTION

If the Premises, the Building or any Building Systems are damaged by fire or other casualty required to be insured against by Landlord hereunder, Landlord shall repair the same without delay (and if Landlord is then carrying insurance on the Leasehold Improvements or if City at its sole option makes funds available to Landlord, Landlord shall also repair the Leasehold Improvements to the extent of such insurance or funds), provided that such repairs can be made under applicable laws within one hundred eighty (180) 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 thirty (30) 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 forty-five (45) 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 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 damage that Landlord would be required to repair hereunder and that Landlord estimates would take more than thirty (30) days to repair (or the repair of which would extend beyond the Term), 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.

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, subdivision 2, Section 1933, subdivision 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 Termination of Lease; Rent and Award**

Upon termination of this Lease in its entirety pursuant to Section 13.3, or 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, 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 one hundred eighty (180) 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**

Except as provided in this Section below, City shall not directly or indirectly sell, assign, encumber, pledge or otherwise transfer or hypothecate all or any part of its interest in or rights with respect to the Premises or its leasehold estate hereunder or permit all or any portion of the Premises to be occupied by anyone other than itself or sublet all or any portion of the Premises, without Landlord's prior written consent in each instance, which shall not be unreasonably withheld or delayed. City shall have the right from time to time, upon notice to but without the consent of Landlord, to transfer this Lease or use and occupancy of all or any of the Premises to any department, commission or agency of the City and County of San Francisco for uses permitted under this Lease. In the event of any profit from an assignment or sublease or other transfer, Landlord and City shall divide evenly such profit after City recovers its costs incurred with respect to such assignment or sublease. No assignment or sublet or other transfer shall release City from its obligations hereunder.

## **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 or any other amounts owing hereunder 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 or any Adjustment Date, City shall have twenty (20) days to cure any such nonpayment after written notice thereof from Landlord;

(b) City's abandonment of 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 thirty (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.

(c) The right to terminate this Lease by giving notice to City in accordance with applicable Laws.

Landlord's exercise of any remedy available pursuant to any applicable Laws or this Lease shall not exclude any other remedies available to Landlord, except to the extent they are expressly excluded by this Lease or by any applicable Laws. Any notice given or required to be given by Landlord to City under this Lease may be combined with or include any statutory notice required in connection with the exercise by Landlord of any of its available remedies. City hereby waives any right of redemption or relief from forfeiture following the lawful termination of, or lawful exercise of any remedy by Landlord with respect to, this Lease.

### **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 notice to Landlord of City's intention to perform such cure. 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 ten (10)-day period, such ten (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 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 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 sixty (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 Services), shall not limit in any way any of its other rights and remedies hereunder or at law or in equity.

#### **15.4 Recovery Against Landlord**

City shall look solely to Landlord's insurance policies and its interest in the Property (and the proceeds thereof) for the recovery of any judgment against Landlord. Landlord's members shall never be personally liable for any such 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 obligations under this Lease or any breach of any representations or warranties made by City 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.

### **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. All insurance policies required to be maintained by Landlord hereunder shall be endorsed to provide for thirty (30) days' prior written notice of cancellation for any reason, intended non-renewal, or reduction in coverage to Landlord.

### **17.3 Waiver of Subrogation**

Notwithstanding anything to the contrary in this Lease, Landlord hereby waives any right of recovery against City for any loss or damage relating to the Building or the Premises or any operations or contents 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 that Landlord is required to purchase under this Lease or is otherwise actually recovered from insurance held by Landlord or its agents. Landlord agrees to obtain a waiver of subrogation endorsement from applicable insurance carriers issuing policies relating 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, if reasonably practicable under the circumstances), 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 utility or 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 or other notices required or

permitted by law, 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 City's use shall not be materially interfered with, except to the extent reasonably necessitated by the nature or character of such work or structures.

## **19. ESTOPPEL CERTIFICATES**

Either party, from time to time during the Term upon not less than twenty (20) 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, condition and repair, reasonable wear and tear and damage by fire or other casualty excepted. City shall have the right to leave any or all of its telecommunications, data and computer facilities at the Premises, and if it elects to leave such facilities, they shall be deemed to be Landlord's property on the expiration or sooner termination of this Lease. Within ten (10) days after the Expiration Date, City shall remove from the Premises all of City's Personal Property and any Alterations City desires and is permitted or 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. Section 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 without investigation or inquiry, the following statements 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 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 in violation of any Environmental Laws, with the exception of exterior lead-based paints; (e) there 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 in violation of any Environmental Laws, except to the extent any such presence or Release arose out of or in connection with any act or omission of City or its Agents.

## **21.4 City's Covenants**

Neither City nor its Agents shall cause or permit any Hazardous Material to be brought upon, kept, used, stored, generated, disposed of or Released 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**

Without limiting City's Indemnity in Section 16.1 [City's Indemnity], above, City shall Indemnify Landlord 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 City's obligations contained in the preceding Section, or (b) in connection with the presence or Release of Hazardous Material from, in, on or about the Premises or the Property to the extent arising from any act or omission of City or its Agents. 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. [Intentionally deleted]

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, including but not limited to the exercise of any option granted to City, 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.

#### **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 pursuant to a separate written agreement between Landlord and such broker, 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 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, except to the extent that enforcement of this Lease without the invalidated provision would be unreasonable or inequitable under all the circumstances or would frustrate a fundamental purpose of this Lease.

### **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 one hundred fifty percent (150%) of the monthly Base Rent in effect during the last month of the Term of this Lease, 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, City shall Indemnify Landlord and its Agents against any and all Claims arising therefrom.

### **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 and the exterior of the Building at the entrance of the Premises subject to Landlord's prior written approval. Landlord reserves the right to review the placement, design, materials 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 actual, 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 accruing from and after such date.

### **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 Public Work**

Landlord agrees that any person performing labor for any public work at the Premises, which includes the Leasehold Improvements, other improvements, and certain demolition, installation, and repair work that is paid for in whole or part out of public funds, shall be paid not less than the highest prevailing rate of wages consistent with the requirements of Section 6.22(E) of the San Francisco Administrative Code, and 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 County. The terms "public work" and "paid for in whole or part out of public funds", as used in the foregoing sentence, shall be as defined in California Labor Code Section 1720 *et seq.* Landlord shall include, in any contract for such labor, 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 in the construction of any Leasehold Improvements 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 of this Lease, in any of its operations in San Francisco, on real property owned by City, or where the work is being performed for the City or elsewhere within 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 or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the 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 conditions set forth in Section 12B.2(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 Improvements 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 Parking Facilities**

Article 1.5, Section 155.3, of the San Francisco Planning Code (the "Planning Code") requires the provision of bicycle parking at City-leased buildings at no cost to Landlord. During the Term, City shall have the right to install and maintain, at its sole cost, all Class 1 Bicycle Parking Spaces (as defined in the Planning Code) and all Class 2 Bicycle Parking Spaces (as defined in the Planning Code) in the Building locations required under the Planning Code.

**23.28 Resource-Efficient City Buildings**

Landlord acknowledges that the City and County of San Francisco has enacted San Francisco Environment Code Sections 700 to 713 relating to green building requirements for

the design, construction and operation of City buildings. 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 their sole and absolute discretion, adopt 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 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.

### **23.33 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.

### **23.34 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.

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

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.

### **23.37 Criminal History in Hiring and Employment Decisions**

Unless exempt, Landlord agrees to comply with and be bound by all of the provisions of San Francisco Administrative Code Chapter 12T (Criminal History in Hiring and Employment Decisions), which are hereby incorporated as may be amended from time to time, with respect to applicants and employees of Landlord who would be or are performing work at the Premises. Landlord's failure to comply with the obligations in this Section shall constitute a material breach of this Lease.

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 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 MAYOR AND BOARD OF SUPERVISORS APPROVE THIS LEASE, IN THEIR

RESPECTIVE SOLE AND ABSOLUTE DISCRETION, AND IN ACCORDANCE WITH ALL APPLICABLE LAWS. APPROVAL OF THIS LEASE BY ANY DEPARTMENT, COMMISSION OR AGENCY OF CITY SHALL NOT BE DEEMED TO IMPLY THAT SUCH RESOLUTION WILL BE ADOPTED NOR WILL ANY SUCH APPROVAL CREATE ANY BINDING OBLIGATIONS ON CITY.

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

LANDLORD:

RACHRIS LLC,  
a California limited liability company

By: *Richard Pyperwell*

Its: CEO

CITY:

CITY AND COUNTY OF SAN FRANCISCO,  
a municipal corporation

By: JOHN UPDIKE  
Director of Property

RECOMMENDED:

HUMAN SERVICES AGENCY

APPROVED AS TO FORM:

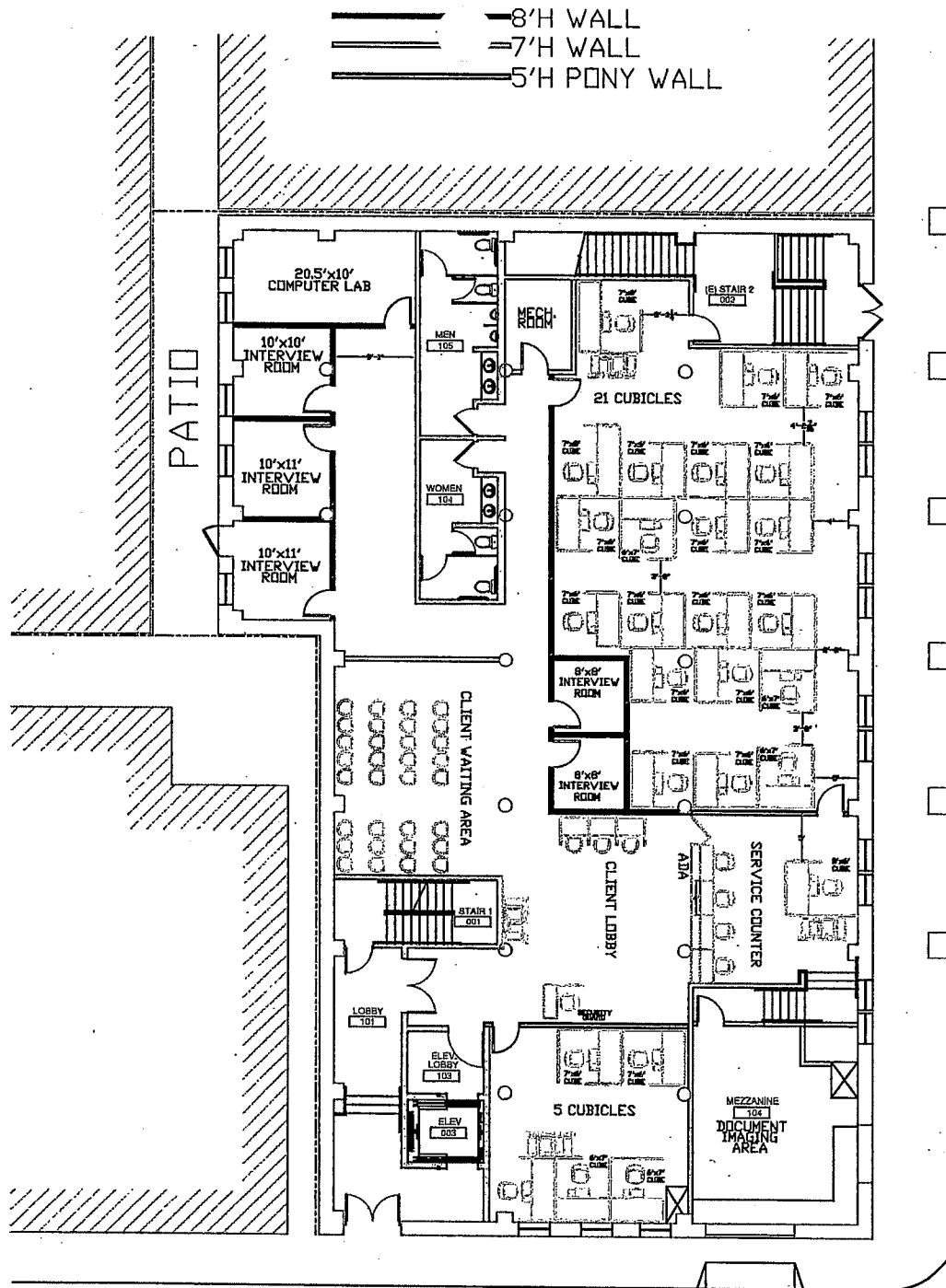
DENNIS J. HERRERA, City Attorney

By: Carol Wong  
Deputy City Attorney

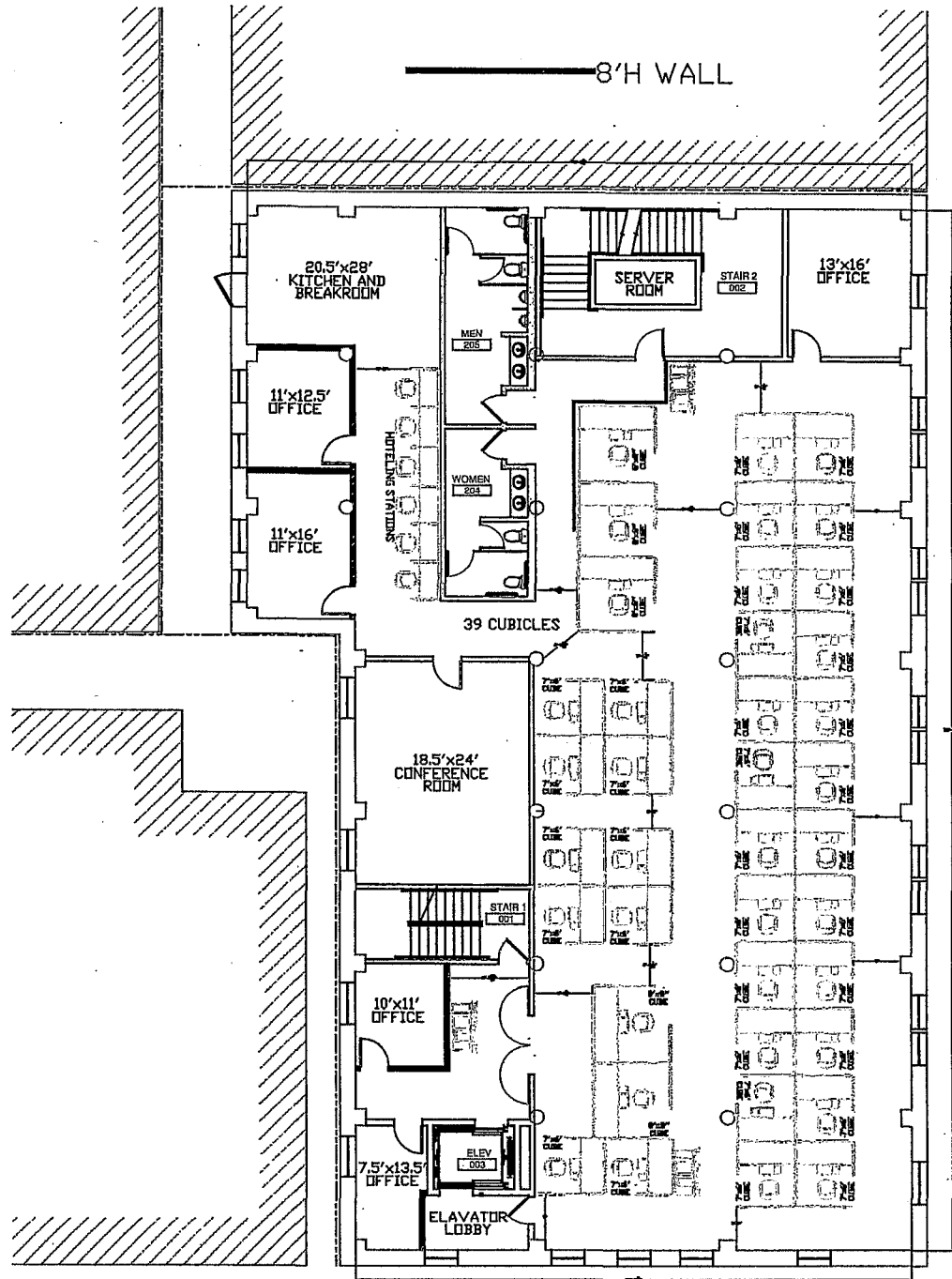
**EXHIBIT A**

**FLOOR PLAN(S)**

**CONSISTING OF TWO PAGES**



86 OTIS - 1ST FLOOR  
 PROPOSED PLAN - VERSION 2  
 UPDATED: 06-16-14



86 OTIS - 2ND FLOOR  
 PROPOSED PLAN - VERSION 2  
 UPDATED: 06-10-14

**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 Commencement Date, Lease Between RACHRIS, LLC (Landlord), and the CITY AND COUNTY OF SAN FRANCISCO (Tenant), for premises known as the ground floor and 2<sup>nd</sup> floor of the Building located at 2 Gough St., aka 86 Otis St., San Francisco, CA

Dear Mr. Updike:

This letter will confirm that for all purposes of the Lease, the Commencement Date (as defined in Section 3.2 of the Lease) is \_\_\_\_\_, 20\_\_.

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 repairs, 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 repairs or 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 generally accepted accounting principles would not be considered a maintenance or operating expense.

## EXHIBIT D

### BUILDING RULES AND REGULATIONS

1. The sidewalks, halls, passages, exits, entrances, elevators and stairways of the Building shall not be obstructed by Tenant or its employees, guests, customers or invitees or used by any of them for any purpose other than for ingress to or egress from the Premises. The halls, passages, exits, entrances, elevators and stairways are not for the use of the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom Tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. Tenant and its employees, guests, customers and invitees shall not go upon the roof of the Building, except in areas that Landlord may designate from time to time. Tenant shall not penetrate the roof of the Building. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises. No curtains, draperies, blinds, shutters, shades, screens, sunscreens or other coverings, hangings or decorations shall be attached to, hung or placed in or used in connection with any window of the Building other than the windows of the Premises without the prior written consent of Landlord. Except with the prior consent of Landlord or as permitted in the Lease, no awning, canopy or other projection of any kind over or around the windows or entrances of the Premises shall be installed by Tenant.

2. The Premises shall not be used for lodging or sleeping, for washing clothes or for any improper or objectionable purposes, and, unless ancillary to a restaurant or other food service use specifically authorized in the Lease, no cooking shall be done or permitted by Tenant in the Premises, except that the preparation of coffee, tea, hot chocolate and similar items and the preparation of food in a microwave, toaster, or toaster oven for Tenant and its employees shall be permitted, provided that Tenant uses Underwriter's Laboratory-approved equipment in accordance with all applicable laws and codes.

3. All janitorial work for the Premises shall be contracted and paid for by Tenant. Any person or persons employed by Tenant to do janitorial work shall be subject to prior approval by Landlord and subject to and under the reasonable control and direction of Landlord's representative while in the Building and outside the Premises.

4. Tenant's obligations under the Lease to maintain the Premises shall include, without limitation and at Tenant's cost and expense, maintenance and cleaning of all interior plate glass, stone and other interior surfaces of the Premises, to preserve them in good order, condition and appearance, subject to such cleaning and maintenance guidelines, if any, as provided to Tenant by Landlord.

5. The toilet rooms, toilets, urinals, wash bowls and other plumbing facilities and apparatus shall not be used for any purpose other than that for which they were constructed, no grease or other foreign substance of any kind whatsoever shall be deposited therein, and the expense of any breakage, stoppage or damage resulting to such facilities (whether on or off the Premises) from violation of this rule by Tenant or its employees or invitees shall be paid for by Tenant.

6. The requirements of Tenant will be attended to only upon application by telephone or in person at the office of the Landlord's authorized representative. Employees of Landlord and Landlord's authorized representative shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord.

7. Upon the termination of its tenancy, Tenant shall deliver to Landlord all keys to doors in the Building and the Premises.

8. Tenant shall close and securely lock all doors and windows of the Premises and shut off all water faucets, water apparatus and utilities at such time as Tenant's employees leave the Premises so as to prevent waste or damage for any failure or carelessness in this regard, and Tenant shall make good all injuries sustained by other tenants or occupants of the Building or Landlord to the extent resulting from such failure or carelessness.

9. Tenant shall not use or keep or suffer to be used or kept in the Premises or the Building any kerosene, gasoline or flammable or combustible fluids or materials other than a normal supply of chemicals for office machines and for cleaning. Tenant shall install and maintain within the Premises, at Tenant's cost and expense, visibly marked, properly operational fire extinguishers next to all duplicating or photocopy machines, and any other heat producing equipment.

10. No boring or cutting for telephone, telegraph or electric wires, or for any pipes, plumbing, ventilation or for any other similar intrusions will be allowed without the consent of Landlord, and such intrusions permitted shall be introduced at the place and in the manner approved by Landlord. The location of telephones, call boxes and all other equipment affixed to the Premises shall be subject to the approval of Landlord, which shall not be unreasonably withheld.

11. Except with the prior consent of Landlord or as permitted in the Lease, Tenant shall not sell, or permit the sale from the Premises of, or use or permit the use of any sidewalk adjacent to the Premises for the sale of, newspapers, magazines, periodicals, theater tickets or any other goods, merchandise or service, nor shall Tenant carry on, or permit or allow any employee or other person to carry on, business in or from the Premises for the service or accommodation of occupants of any other portion of the Building, nor shall the Premises be used for manufacturing of any kind, or for any business or activity other than that specifically provided for in the Lease. Tenant shall not display or sell merchandise, or allow carts, portable signs, devices or any other objects to be stored or to remain, outside the defined exterior walls, roof and permanent doorways of the Premises or the Building without the prior consent of Landlord.

12. Tenant shall not permit the use or operation of any vending machines (except by employees of Tenant), video or mechanical games on the Premises.

13. Except with the prior written consent of Landlord or as expressly permitted in the Lease, no sign, placard, picture, advertisement, name or notice shall be inscribed, displayed, printed or affixed on or to any part of the outside or inside of the Building, 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. As used herein, the term "sign" shall include window graphics, advertising placards, names, insignia, descriptive materials and any similar items.

14. Tenant shall not install any radio or television antenna, loudspeaker or other device on the roof or exterior walls of the Building. No advertising method shall be utilized by Tenant in the Premises which can be heard or perceived outside the Premises, including without limitation flashing lights, searchlights, loudspeakers, phonographs, radios or television equipment.

15. Canvassing, soliciting, peddling or distribution of handbills or any other written material on the Real Property is prohibited, and Tenant shall cooperate to prevent such acts.

16. Tenant and its employees and invitees shall not use in any space in the Building any handtrucks except those equipped with rubber tires and side guards or such other material-handling equipment as Landlord may approve. No other vehicles of any kind shall be brought by Tenant or its employees or invitees into the Building or kept in or about the Premises.

17. All loading, unloading and delivery of merchandise, supplies, materials, garbage and refuse shall be made only through such entryways and elevators and at such times as Landlord shall designate. While loading and unloading, Tenant and its employees and invitees shall not obstruct or permit the obstruction of the entryways to the Building or any tenant's space therein. Tenant expressly assumes (i) all risk of damage to any and all articles so loaded, unloaded or delivered, and (ii) all risk of injury incidental to any such loading, unloading or delivery, whether or not such injured person is engaged in such activity, and Tenant shall repair at its cost and expense any damage to the Building resulting from such activities.

18. Landlord shall have the right to prescribe the weight, size and position of all equipment, materials, supplies, furniture or other property brought into the Building by Tenant. Heavy objects shall, if reasonably considered necessary by Landlord, stand on wood strips of such thickness as is necessary to properly distribute the weight of such objects. Landlord will not be responsible for loss of or damage to any such property from any cause, and all damage to the Building by moving or maintaining Tenant's property shall be repaired at the cost and expense of Tenant.

19. Tenant shall store all trash and garbage within the Premises until removal. All trash placed on any portion of the Real Property for pick-up shall be placed in locations and containers approved by Landlord. No material shall be placed in trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage without being in violation of any law or ordinance governing such disposal. All garbage and refuse disposal shall be made only through entry ways and elevators provided for such purpose and at such times as Landlord shall designate.

20. Landlord may reasonably direct the use of all pest extermination and scavenger contractors for the Premises at such reasonable intervals as Landlord may require, at Tenant's cost and expense.

21. No birds, fish or animals of any kind shall be brought into or kept in, on or about the Premises, except seeing eye dogs required for individuals with visual impairments, hearing ear dogs required for individuals with hearing impairments or other service dogs required for individuals with other disabilities.

22. Tenant shall not (i) use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, (ii) permit or suffer the Premises to be occupied or used in any manner offensive or objectionable to Landlord and other tenants of the Building by reason of noise, odors, fumes, smoke, vapors or unusual lights, including without limitation spotlights and/or vibrations, or (iii) interfere in any way with other tenants in the Building.

23. Tenant shall immediately, upon request from Landlord (which request need not be in writing), reduce its lighting in the Premises for temporary periods designated by Landlord, when required in Landlord's judgment to prevent overloads of the mechanical or electrical systems of the Building.

24. Landlord reserves the right to select the name of the Building and to make such change or changes of name as it may deem appropriate from time to time, and Tenant shall not refer to the Building by any name other than: (i) the name as selected by Landlord (as it may be changed from time to time), or (ii) the postal address, approved by the United States Post Office.

Tenant shall not use the name of the Building in any respect other than as an address of its operation in the Building without the prior written consent of Landlord.

25. Landlord may waive any one (1) or more of these rules and regulations for the benefit of any particular Building tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of these rules and regulations in favor of any other Building tenant or tenants, nor prevent Landlord from thereafter enforcing any rule or regulation against any or all of the tenants of the Building.

26. These rules and regulations are in addition to, and shall not be construed in any way to modify, alter or amend, in whole or part, the remaining provisions of the Lease.

27. Landlord reserves the right to modify or rescind any of these rules and regulations and to make future rules and regulations as in its reasonable judgment may from time to time be necessary or desirable for the safety, care or cleanliness of the Building, or for the preservation of good order therein. Such rules and regulations, when made and written notice thereof is given to Tenant, shall be binding as if originally included in this Exhibit C.

\* \* \* \* \*

## EXHIBIT E

### WORK LETTER

2 Gough Street/86 Otis Street, San Francisco, California

This Work Letter is part of the Office Lease dated as of \_\_\_\_\_, \_\_\_\_\_ (the "Lease"), executed concurrently herewith, by and between RACHRIS, LLC, as landlord ("Landlord"), and the City and County of San Francisco, as tenant ("City"), covering certain premises described in the Lease. All terms that are capitalized but not defined herein shall have the same meanings given to them in the Lease.

Landlord, at its sole cost and expense (except as otherwise specifically set forth herein), and through its general contractor approved by City (the "Contractor"), shall furnish and install within the Premises the improvements (the "Leasehold Improvements") shown on the Construction Plans (as defined in paragraph 2.b below, in accordance with the provisions of this Work Letter.

1. Plans and Specifications

a. Schematic Design Documents. City and Landlord hereby approve the schematic design plans for the Leasehold Improvement Work attached as Exhibit 1 to this Work Letter (the "Schematic Design Documents"); provided, however, that such approval shall not limit Landlord's obligations under this Work Letter.

b. LEED Gold Certification. Landlord acknowledges that the San Francisco Environment Code Sections 700 to 713 requires the Leasehold Improvements to obtain a LEED ID+C Gold certification from the U.S. Green Building Council ("USGBC") and agrees to cooperate with such requirement for the Leasehold Improvements. All costs, including the contracting with a LEED accredited professional consultant, shall be included in the Final Construction Cost (as defined in paragraph 4.d) and deducted from the Allowance (as defined in paragraph 4.c below) as provided below. Such USGBC certification is one of City's program requirements.

c. Design Development Documents. Promptly following the Effective Date, based on the approved Schematic Design Documents, City's program requirements, and any adjustments approved by City, Landlord shall cause its architect or space planner reasonably approved by City (the "Architect") and its qualified and licensed engineer reasonably approved by City (the "Engineer") to prepare and submit to City for its approval plans and specifications expanding in greater detail the representations of the Schematic Design Documents and fixing and describing the size and character of the Leasehold Improvements, including, without limitation, architectural, structural, LEED, mechanical, electrical, fire and life safety systems, materials and such other elements as may be appropriate, together with fully developed floor plans, interior elevations, reflected ceiling plans, wall and building sections (collectively, the "Design Development Documents"). The Design Development Documents shall be subject to approval by City in accordance with Paragraph 1.f below.

d. Construction Documents. Based on the approved Design Development Documents and any further adjustments approved by City, promptly following City's approval, Landlord shall cause its Architect and Engineer to prepare and submit to City for its approval final plans, specifications and working drawings for the Leasehold Improvements, setting forth in detail all aspects of the design, function and construction of the Leasehold Improvements, in form sufficient for bidding of all elements of construction, and in conformity with all of the requirements of this Work Letter (collectively, the "Construction Documents"). Such

Construction Documents shall be subject to approval by City in accordance with Paragraph 1.f below.

e. Design in Accordance with City's Requirements. Landlord's Architect shall consult and hold periodic meetings with City in the preparation of the Design Development Documents and Construction Documents.

f. City's Approval of Plans. The Design Development Documents and Construction Documents (and any Landlord Change Orders thereto, as described below) shall be subject to approval by City, which approval shall not be unreasonably withheld or delayed, in accordance with the following procedure. After submission of the Design Development Documents, Construction Documents or proposed Change Order by Landlord to City, City shall have five (5) days to disapprove any element thereof. If City does so, then City shall notify Landlord within such period of its disapproval and of the revisions that City reasonably requires in order to obtain approval consistent with the terms of this Work Letter. As soon as reasonably possible thereafter, but in no event later than five (5) days after receipt of such notice, Landlord shall submit to City documents incorporating the required revisions. Such revisions shall be subject to approval by City, which shall not be unreasonably withheld or delayed. Such revisions shall be deemed approved by City if City fails to notify Landlord of any objection within five (5) days after receipt of the revision.

g. City Approval of Budgetary Costs. In addition to routine and customary exchanges of information, once City approves the Design Development Documents, Landlord's Architect shall submit the Design Development Documents to City, Landlord, and Contractor for preliminary pricing. Within ten (10) business days of Contractor's receipt of the Design Development Documents, Contractor shall submit to City and Landlord for comment a Rough Order of Magnitude ("ROM") budget based on the Design Development Documents (the "ROM Budget"). The ROM Budget shall include an appropriate contingency for further drawing details and unexpected conditions. In the event such ROM Budget exceeds \$750,000 (the "Maximum Construction Cost"), all parties shall cooperate in good faith to identify and implement mutually-agreeable changes to the Design Development Documents as required to satisfactorily reduce the ROM Budget to below such Maximum Construction Cost.

Then, within fifteen (15) business days of Contractor's receipt of the Construction Documents, Contractor shall submit to City and Landlord for review and comment an update of the ROM Budget based on the Construction Documents (the "Estimated Construction Cost"). City shall have 10 days to review and approve the Estimated Construction Cost. In the event such Estimated Construction Cost exceeds the Maximum Construction Cost, all parties shall cooperate in good faith to identify and implement mutually-agreeable changes to the Construction Documents as required to satisfactorily reduce the Estimated Construction Cost to that of the Maximum Construction Cost, except as otherwise acceptable to City in writing.

h. Changes to Approved Construction Documents.

i. City Change Orders. If following its approval of the Construction Documents, City requests any change, addition or alteration thereto relating to the design or specifications of the Leasehold Improvement Work ("City Change Order"), Landlord shall cause Contractor to provide a good faith ROM estimate of the cost and potential construction delay, if any, that would result from the proposed City Change Order. If City decides to pursue a City Change Order after receiving such information from Contractor, City shall notify Landlord in writing and Landlord shall cause the Architect or Engineer, as applicable, to promptly prepare plans and specifications with respect to such City Change Order. Within five (5) days of the later of City's written request and receipt of City Change Order plans and specifications in sufficient detail to provide pricing, Landlord shall notify City of the updated estimate cost that that would be incurred by reason of such proposed City Change Order and any delay in the

anticipated date of Substantial Completion (as defined in paragraph 5.b below) that would result from such City Change Order. If City approves the cost and delay (if any) of the City Change Order within five (5) days of receipt of such updated estimate cost and delay information from Landlord, then Landlord's Contractor shall proceed with such City Change Order as soon as reasonably practical thereafter. If City does not approve such cost in writing or delay within the above-mentioned five (5) day period, construction of the Premises shall proceed in accordance with the original completed and approved Construction Documents. City shall be responsible for the reasonable cost actually incurred by Landlord in the preparation of the plans and specifications relating to any City Change Order, as evidenced by invoices or other substantiation reasonably required by City.

ii. Landlord Change Orders. If following City's approval of the Construction Documents, Landlord requests or is required to make any change, addition or alteration thereto relating to the design or specifications of the Leasehold Improvement Work ("Landlord Change Order"), Landlord shall provide City with proposed plans and specifications with respect to such change, addition or alteration, together with notice of any delay in the anticipated date of Substantial Completion that would result from such Landlord Change Order. Any such Landlord Change Order shall be subject to City's prior written approval, in accordance with Paragraph 1.f above. No approval by City of any such Landlord Change Order shall relieve or modify Landlord's obligations hereunder to complete the construction of the Leasehold Improvements in accordance with the approved Construction Schedule (as defined in paragraph 3.b below), nor shall any such approval limit any of City's rights or remedies hereunder or under the Lease. Landlord shall be solely responsible for the cost of the Landlord Change Order, including, without limitation, the costs of preparing the plans and specifications relating thereto, and no such amount shall be paid or deducted from the Allowance.

iii. Appointment of Representatives. City and Landlord shall each designate and maintain at all times during the design and construction period a project representative ("Representative"), and an alternate for such Representative ("Alternate"), each of whom shall be authorized to confer and attend meetings and represent such party on any matter relating to this Work Letter. The initial Representatives and Alternates shall be:

City:	Representative – David Curto Alternate -- _____
Landlord:	Representative – Chris Yowell Alternate -- _____

Each party may at any time and from time to time change its Representative or Alternate by written notice to the other party. Each party's Representative or Alternate shall be available during ordinary business hours so that questions and problems may be quickly resolved and so that the Leasehold Improvements may be completed economically and in accordance with the Construction Schedule. All approvals made by City's Representative or Alternate shall be made in writing.

## 2. Regulatory Review; Permits

a. MOD Review and Construction Plans. Landlord acknowledges that City requires that the Construction Documents must 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 before they are submitted to the San Francisco Department of Building Inspection for construction permits. Landlord shall cause the Architect to submit the Construction Documents to MOD for review promptly following City's approval of the Construction Documents. If MOD approves of the Construction Documents, they shall be deemed to be the "Construction Plans". If MOD requires revisions to the Construction



Documents or modifications or additional improvements to the Premises or the Building necessary, Landlord shall cause Architect to revise the Construction Documents and/or design and prepare all additional plans and specifications as required by such MOD review and in conformity with ADA and other legal requirements. Such MOD-approved revised Construction Documents 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").

b. Permits and Inspections. Landlord shall secure obtain and pay for all building and other government permits, approvals, fees, licenses and inspections necessary for the commencement, proper performance and completion of the Leasehold Improvement Work shown on the Construction Plans. Promptly following MOD's approval of the Construction Plans and City's approval of the final construction budget, as provided below, Landlord shall apply for any government permits, approvals or licenses necessary to complete the construction shown on the Construction Plans (the "Required Permits") and shall provide copies to City promptly following receipt thereof. Landlord shall be responsible for arranging for all inspections required by the San Francisco Department of Building Inspection.

### 3. Construction

a. Construction of Leasehold Improvements. Following City's approval of the Construction Plans and Landlord's receipt of Required Permits, Landlord shall cause the Leasehold Improvements to be constructed and installed in a good and professional manner in accordance with sound building practice and in conformity with the Construction Plans, as revised by any Change Orders, and the terms of this Work Letter. City shall not have any obligation with respect to any such work other than as provided herein.

b. Construction Schedule. Landlord shall commence construction of the Leasehold Improvements within \_\_ days after approval of all Required Permits, and shall diligently pursue construction to completion, all in accordance with the construction schedule attached hereto as Exhibit 2 (the "Construction Schedule").

c. Status Reports; Inspections. Landlord shall keep City apprised of the status of permit approval and the progress of construction. Landlord or its Contractor shall furnish City with biweekly reports on 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.

d. General Conditions. The performance of all Leasehold Improvement Work by Landlord shall be subject to the following terms and conditions:

i. All of the Leasehold Improvement Work shall be performed in compliance with all laws, codes, regulations and building requirements (collectively, "Laws") bearing on construction of the Leasehold Improvements;

ii. Without limiting the foregoing, the construction of the Leasehold Improvements shall comply with all requirements of the ADA and Title 24 of the California Code of Regulations and all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements intended to provide equal accessibility for persons with disabilities (collectively, "Disabled Access Laws"),

iii. Landlord and its Contractor shall be responsible for all required insurance; and

iv. At City's request, Landlord shall require at least three (3) competitive bids from subcontractors in each trade in connection with all work performed by Landlord or its Contractor hereunder.

e. Cooperation. Landlord shall cooperate at all times with City in bringing about the timely completion of the Leasehold Improvements. Landlord shall resolve any and all disputes arising out of the construction of the Leasehold Improvements in a manner which shall allow work to proceed expeditiously.

f. Telecommunications, Data and Computer Cabling Installation Work to be Performed by City: City, or its consultants and contractors, shall, at City's cost, perform surveys and develop plans and specifications for the installation of telecommunications, data and computer cabling for City's occupancy of the Premises. As part of the Leasehold Improvements, Landlord shall be responsible for providing such cabling up to the point where it is stubbed out in the Building's core area. Beyond that point, City shall be responsible for installing such cabling at its expense. Landlord shall cause the Contractor to reasonably cooperate with City and its consultants, contractors and subcontractors (the "City Parties") during all surveying and installation work for such cabling and to coordinate such work with the Leasehold Improvement Work. The foregoing obligation shall include, without limitation, providing City and the City Parties with access and entry to the Premises and sufficient opportunity and time during each work day, without separate charge therefor, to enable City and the City Parties to install such cabling. Such access shall include reasonable access to the elevator in the Building designated for freight use (i) on a non-exclusive basis during normal business hours and (ii) on an exclusive basis after hours as reasonably needed from time to time. Landlord understands that the conduit for such cabling shall be included in the Construction Documents and installed by Contractor.

g. Furniture Workstations to be Installed by City. City, or its consultants and vendors, shall, at City's cost, develop plans and specifications for the installation of furniture workstations at the Premises. As part of the Leasehold Improvements, Landlord shall be responsible for providing electrical connections (wire whip installation) to such workstations. Beyond that point, City shall be responsible for procuring and installing such workstations at its expense. Landlord shall cause the Contractor to reasonably cooperate with the furniture installation work performed by City and the City Parties, and coordinate such work with the Leasehold Improvement Work. The foregoing obligation shall include, without limitation, an obligation to give City and the City Parties access and entry to the Premises and sufficient opportunity and time during each work day, without separate charge therefor, to enable City and the City Parties to install such workstations, provided however, such installation shall not unreasonably impede Landlord's completion of the Leasehold Improvements. Such access shall include reasonable access to the elevator in the Building designated for freight use (i) on a non-exclusive basis during normal business hours and (ii) on an exclusive basis after hours as reasonably needed from time to time.

h. Asbestos Related Work. In the event that City, its consultants, contractors or subcontractors encounter any asbestos containing materials ("ACM") in the Building in connection with the installation of City's telecommunications, data and computer cabling, Landlord agrees to be responsible for all legally required work or other work necessary relating to the proper containment, abatement, removal and disposal of such ACM and all costs thereof. In no event shall any such costs be deducted from the Allowance or otherwise be City's responsibility. Any delay due to the presence of unknown ACM in the Building shall be considered a Landlord Delay.

i. Construction Improvements that Disturb or Remove Exterior Paint.

Landlord, on behalf of itself and its agents, employees, officers and contractors, shall comply with all requirements of the San Francisco Building Code Chapter 34 and all other applicable local, state, and Federal laws, including but not limited to the California and United States Occupational and Health Safety Acts and their implementing regulations, when the work of improvement or alteration disturbs or removes exterior or interior lead-based or "presumed" lead-based paint (as defined below). Landlord, its agents, employees, officers and contractors shall give to City three (3) business days prior written notice of any disturbance or removal of exterior or interior lead-based or presumed lead-based paint. Landlord acknowledges that the required notification to the Department of Building Inspection regarding the disturbance or removal of exterior lead-based paint pursuant to Chapter 34 of the San Francisco Building Code does not constitute notification to City as Tenant under the Lease and similarly that notice under the Lease does not constitute notice under Chapter 34 of the San Francisco Building Code. Further, Landlord and its agents, employees, officers and contractors, when disturbing or removing exterior or interior lead-based or presumed lead-based paint, shall not use or cause to be used any of the following methods: (a) acetylene or propane burning and torching; (b) scraping, sanding or grinding without containment barriers or a High Efficiency Particulate Air filter ("HEPA") local vacuum exhaust tool; (c) hydroblasting or high-pressure wash without containment barriers; (d) abrasive blasting or sandblasting without containment barriers or a HEPA vacuum exhaust tool; and (e) heat guns operating above 1,100 degrees Fahrenheit. Landlord covenants and agrees to comply with the requirements of Title 17 of the California Code of Regulations when taking measures that are designed to reduce or eliminate lead hazards. Under this Paragraph, paint on the exterior or interior of buildings built before January 1, 1979 is presumed to be lead-based paint unless a lead-based paint test, as defined by Chapter 34 of the San Francisco Building Code, demonstrates an absence of lead-based paint on the interior or exterior surfaces of such buildings. Under this Section, lead-based paint is "disturbed or removed" if the work of improvement or alteration involves any action that creates friction, pressure, heat or a chemical reaction upon any lead-based or presumed lead-based paint on a surface so as to abrade, loosen, penetrate, cut through or eliminate paint from that surface.

4. Payment for Work; Allowance

a. Accessibility Improvements. Landlord shall cause Contractor to furnish and install all improvements that are required to bring the Premises and the Common Areas serving the Premises, 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, as determined by MOD in accordance with Paragraph 2 above. All costs of such work shall be performed by Landlord and such costs shall be deducted from the Allowance.

b. Payment for Plans, Permits and Fees. The costs of (i) preparing the Schematic Design Documents, Design Development Documents, the Construction Documents, and the Construction Plans, (ii) cost associated with LEED certification, and (iii) any Required Permits shall be paid by Landlord and shall be deducted from the Allowance, subject to City's prior approval of such costs as provided in paragraph 4.c below. Landlord shall evidence such costs by invoices and other substantiation as City may reasonably require.

c. Allowance; City Share. Landlord shall pay for the cost of constructing and installing the Leasehold Improvements (as defined below) up to a total sum of One Hundred Seventeen Thousand Seventy-Nine Dollars (\$117,079.00), which is based on approximately \$8.40 per rentable square foot of the Premises (the "Allowance"). In the event that the actual costs to construct and install the Leasehold Improvement Work incurred by Landlord exceed the amount of the Allowance, to the extent such costs are reflected in the Final Construction Cost or City otherwise agree in writing to pay for such costs, City shall pay such excess costs upon receipt of required documentation in accordance with subparagraph d below. City's share of the

Leasehold Improvement Work costs in excess of the Allowance hereunder shall in no event exceed One Million Dollars (\$1,000,000). City shall not be responsible for, and the Allowance shall exclude, 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, and any charges for parking or use of hoists or freight elevators. City shall be solely responsible for the costs of its installation of workstations, furniture, and telecommunications, data and computer cabling at the Premises except as otherwise provided hereinabove.

d. City's Approval of Costs. Prior to the start of any construction for the Leasehold Improvement Work, Landlord shall provide City with a detailed construction budget for its approval. Such budget shall be based on the Estimated Construction Cost and include (i) all hard and soft costs and (ii) a reasonable contingency amount (the "Construction Contingency") and, once approved by City in writing, shall be the "Final Construction Cost". If the Leasehold Improvements cannot be completed in strict conformity with the most recently approved Final Construction Cost, 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, and with City's reasonable approval of such changes, and costs resulting from such changes shall be deducted from the Construction Contingency. If further changes are required, Landlord shall seek City's approval, following the same procedures. No costs shall be included in the Allowance, and City shall not be obligated to pay any costs in excess of the Allowance, unless and until it approves the Final Construction Cost and any revisions thereto. City shall have the right to approve or disapprove the Final Construction Cost and any revisions thereto in its reasonable judgment. No such approval or disapproval shall be unreasonably delayed. The most recently approved Final Construction Cost shall supersede all previously approved versions.

e. Required Documentation of Costs. Landlord shall provide City with copies of (i) all invoices received by Landlord from the Contractor, Architect or Engineer in connection with the construction of the Leasehold Improvements, (ii) satisfactory evidence of payment of such invoices, and (iii) such additional supporting data substantiating such party's right to payment as City may reasonably require, such as copies of requisitions from subcontractors and material suppliers.

## 5. Substantial Completion

a. Compliance with Construction Schedule. Landlord and City agree to use best efforts to complete the Leasehold Improvement Work pursuant to the Construction Schedule. 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 in the following paragraph) in accordance with the approved Construction Plans and the provisions hereof. Landlord shall notify City when the Leasehold Improvement Work is in fact Substantially Completed and the Premises are ready for occupancy by City, and City or its representatives shall be permitted to accompany Landlord or its architect on an inspection of the Premises on such date or other mutually agreeable date soon thereafter.

b. Substantial Completion. The Leasehold Improvements shall be deemed to be "Substantially Completed" or have "Substantial Completion" for purposes hereof when the Leasehold Improvements are sufficiently complete in accordance with the Construction Plans and the terms of this Work Letter so that City can occupy the Premises and conduct its business and (i) all necessary inspections required for occupancy of the Premises have been completed and signed off as approved by the appropriate governmental authority(ies), (ii) a temporary certificate of occupancy with respect to City's occupancy of the Premises has been issued by the appropriate governmental authority, and (iii) the Architect reasonably determines and certifies in writing to City that the Leasehold Improvements have been Substantially Completed in

accordance with the Construction Plans to the extent necessary to enable City to occupy the Premises and to conduct its normal business operations therein without unreasonable impairment or interference, but subject to "punchlist" items, the completion of which will not unreasonably interfere with City's normal business operations therein. City may, at its option, approve the Leasehold Improvements even though there remain minor 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 and the terms of this Work Letter. Landlord shall promptly complete all defective or incomplete items identified in such punchlist, and in any event within thirty (30) days after the delivery of such list. City's failure to include any item on such list shall not alter Landlord's responsibility hereunder to complete all Leasehold Improvement Work in accordance with the Construction Plans and the provisions hereof, nor constitute a waiver of any latent defects.

6. Delays in Construction

a. Unavoidable Delays. For purposes hereof, "Unavoidable Delays" shall mean any delays by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain labor or materials after using diligent and timely efforts, enemy action, civil commotion, protests, riots, demonstrations, or by any other reason without fault and beyond the reasonable control of the party obligated to perform. In the event of any such delay, the party affected by such delay shall give prompt written notice to the other of the occurrence of such event and the projected delay in performance, and thereafter shall keep the other party regularly informed of the status of such Unavoidable Delay. Under no circumstances shall the number of days of Unavoidable Delays exceed a total of one hundred sixty (160) days without City's prior written consent.

b. Tenant Delays. Subject to any Unavoidable Delay, City shall be responsible for any delay in the construction of the Leasehold Improvements due solely and directly to any of the following (collectively, "Tenant Delays"): (i) a delay in granting its reasonable approval of plans and specifications (beyond the period granted therefor), (ii) City Change Orders to the Construction Documents or the Construction Plans, provided such delay shall be limited to the number of days consented to by City, and (iii) City's delay in granting its reasonable approval of any costs to be included in the Allowance (beyond the period granted therefor). Such Tenant Delays in the completion of construction of the Leasehold Improvement Work shall extend the date for Substantial Completion hereunder. Notwithstanding the foregoing, City shall be responsible and the date for Substantial Completion shall be extended only to the extent any delays are actually and directly caused by Tenant Delays.

7. General Provisions

a. Notices. Except as may be otherwise specifically provided herein, any notice given under this Work Letter shall be in writing and given by delivering the notice in person, by commercial courier or by sending it by first class mail, certified mail with a return receipt requested, or Express Mail, return receipt requested, with postage prepaid, and addressed to the parties as follows:

City: Real Estate Division  
25 Van Ness Avenue, Suite 400  
San Francisco, CA 94102  
Attn: Director of Property

with a copy to: Human Services Agency  
170 Otis Street

San Francisco, CA 94103  
Attn: David Curto

Landlord: Rachris, LLC  
c/o Celerity Consulting, Inc.  
2 Gough St.  
San Francisco, CA 94103  
Attn: Chris Yowell

or such other address as a party may designate to the others as its new address for such purpose by notice given to the others in accordance with the provisions of this paragraph. 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 overnight courier, or upon the date personal delivery is made. Neither party may give official or binding notice by facsimile.

b. Landlord's Duty to Notify City. Landlord shall promptly notify City in writing of (i) any written communication that Landlord may receive from any governmental, judicial or legal authority, giving notice of any claim or assertion that the Property, Building or Leasehold Improvements fail in any respect to comply with applicable laws, rules and regulations; (ii) any known material adverse change in the physical condition of the Property, including, without limitation, any damage suffered as a result of earthquakes; and (iii) any known default by the Contractor or any subcontractor or material supplier, or any known material adverse change in the financial condition or business operations of any of them.

c. Prevailing Wages for Labor. Landlord agrees that any person performing labor for the construction, alteration, demolition, installation, or repair of the Leasehold Improvements which Landlord is obligated to provide under this Work Letter shall be paid not less than the highest prevailing rate of wages and that Landlord shall include, in any contract for such labor, 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. The terms "construction" and "installation" in the foregoing sentence shall be as defined in California Labor Code Section 1720(a). Landlord further agrees that, as to the Leasehold Improvement Work, Landlord shall comply with all the provisions of subsection (b) of San Francisco Charter Section A7.204 and Section 6.22(E) of the San Francisco Administrative Code.

d. Tropical Hardwood and Virgin Redwood Ban.

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 Improvements or otherwise in the performance of this Lease which are tropical hardwood, tropical hardwood wood products, virgin redwood, or virgin redwood wood products.

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

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 any 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.

e. Days. Unless otherwise provided herein, all periods specified by a number of days shall refer to business days. Saturdays, Sundays and recognized City holidays shall not constitute business days.

f. Approvals. Landlord understands and agrees that City is entering into this Work Letter in its proprietary capacity and not as a regulatory agency with certain police powers. Notwithstanding anything to the contrary herein, no approval by City of the plans for the Leasehold Improvements (including the Design Development Documents, Construction Documents, or Construction Plans), completion of the Leasehold Improvement Work nor any other approvals by City hereunder shall be deemed to constitute approval of any governmental or regulatory authority with jurisdiction over the Premises. All approvals or other determinations of City as tenant hereunder may be made by City's Director of Property unless otherwise specified herein.

8. Time of the Essence. Time is of the essence with respect to all provisions of this Work Letter in which a definite time for performance is specified, including, without limitation, the date for Substantial Completion.

The parties have executed this Work Letter as of the date of the Lease.

**LANDLORD:**

RACHRIS, LLC  
a California limited liability company

By: *[Signature]*  
Its: CEO

**CITY:**

CITY AND COUNTY OF SAN FRANCISCO,  
a municipal corporation

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

RECOMMENDED:

\_\_\_\_\_  
Human Services Agency

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: \_\_\_\_\_  
Carol Wong, Deputy City Attorney

EXHIBIT 1

Schematic Design Documents



EXHIBIT 2

Construction Schedule

**EXHIBIT F**

**FORM OF LENDER CONSENT**

RECORDING REQUESTED BY, AND  
WHEN RECORDED, MAIL TO:

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

FOR RECORDER'S USE ONLY

**CONSENT, NON-DISTURBANCE AND ATTORNMENT AGREEMENT**

This Consent, Non-Disturbance and Attornment Agreement (this "Agreement") is entered into as of \_\_\_\_\_ (the "Effective Date"), between \_\_\_\_\_, a \_\_\_\_\_ ("Lender"), and the City and County of San Francisco, a municipal corporation ("Tenant").

**RECITALS**

A. RACHRIS LLC, a California limited liability company ("Landlord"), owns the improved real property located at 2 Gough Street (also known as 86 Otis), San Francisco, California (the "Property"), as more particularly described on Exhibit A attached hereto.

B. Lender is the holder of a loan (the "Loan") to Landlord, which is secured, in part, by that deed of trust that encumbers the Property and is dated \_\_\_\_\_, in favor of Lender (as amended, increased, renewed, extended, spread, consolidated, severed, restated or otherwise changed from time to time, the "Deed of Trust"), recorded in the Official Records of San Francisco County as Document No. \_\_\_\_\_ on \_\_\_\_\_.

C. Pursuant to that certain lease between Landlord and Tenant, dated as of \_\_\_\_\_, 2014 (the "Lease"), Landlord will lease the Premises to Tenant for a five (5) year term, with one option to extend such term by an additional five (5) years, for the uses permitted under the Lease (the "Permitted Uses").

D. Tenant wishes to obtain Lender's consent to the Lease and the Permitted Uses and its agreement on their respective rights and obligations if certain events occur.

**AGREEMENT**

NOW, THEREFORE, for good and sufficient consideration, Tenant and Lender agree:

1. Consent. Lender acknowledges it has received a copy of the Lease and consents thereto and to the Permitted Uses. Lender agrees that Tenant's performance of all or any of the Permitted Uses shall not be deemed to be a default of Landlord's obligations under the Loan, the Deed of Trust, or any other document executed by Landlord or Landlord's predecessor in interest in favor of Lender with respect to the Loan (collectively, the "Loan Documents").

2. Non-Disturbance, Recognition and Attornment

2.1 No Exercise of Deed of Trust Remedies Against Tenant. So long as the Lease has not been terminated, Lender shall not name or join Tenant as a defendant in any exercise of Lender's rights and remedies arising upon a default under the Deed of Trust or any of the Loan Documents unless applicable law requires Tenant to be made a party thereto as a condition to proceeding against Landlord or prosecuting such rights and remedies. In the latter case, Lender may join Tenant as a defendant in such action only for such purpose and not to terminate the Lease or otherwise adversely affect Tenant's rights under the Lease or this Agreement in such action.

2.2 Non-Disturbance and Attornment. If the Lease has not been terminated when Successor Landlord (as defined in Section 3) takes title to the Landlord's Premises or succeeds to Landlord's interest in the Lease: (a) Successor Landlord shall not terminate nor disturb Tenant's possession of the Premises under the Lease; (b) Successor Landlord shall be bound to Tenant under all of the terms and conditions of the Lease; (c) Tenant shall recognize and attorn to Successor Landlord as Tenant's direct landlord under the Lease; and (d) the Lease shall continue in full force and effect as a direct lease in accordance with its terms between Successor Landlord and Tenant.

2.3 Further Documentation. The provisions of this Article shall be effective and self-operative without any need for Successor Landlord or Tenant to execute any further documents. Tenant and Successor Landlord shall, however, confirm the provisions of this Article in writing upon written request by either of them, provided that any such writing is reasonably acceptable to Tenant and Successor Landlord.

3. Successor Landlord. A "Successor Landlord" means any party that becomes owner of Landlord's Premises or successor to Landlord's interest in the Lease as the result of any of the following events: (a) foreclosure under the Deed of Trust; (b) any other exercise by Lender of rights and remedies (whether under the Deed of Trust or under applicable law, including bankruptcy law) as holder of the Loan and/or the Deed of Trust, as a result of which Successor Landlord becomes owner of Landlord's Premises; or (c) delivery by Landlord to Lender (or its designee or nominee) of a deed or other conveyance of Landlord's interest in Landlord's Premises in lieu of any of the foregoing.

4. Miscellaneous.

4.1 Notices. All notices or other communications required or permitted under this Agreement shall be in writing and given by certified mail (return receipt requested) or by nationally recognized overnight courier service (next business day service requested) that regularly maintains records of items and shall be delivered to Lender or Tenant (applicable) at the addresses set forth below. Notices shall be effective upon receipt.

If to Tenant:                      Director of Property  
   Real Estate Division  
   City and County of San Francisco  
   25 Van Ness Avenue, Suite 400  
   San Francisco, CA 94102  
   Re: 2 Gough (86 Otis)

With a copy to:                      Office of the City Attorney  
   City Hall, Room 234  
   1 Dr. Carlton B. Goodlett Place  
   San Francisco, CA 94102-4682  
   Attn: Real Estate/Finance Team

Re: 2 Gough (86 Otis)

If to Lender:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4.2 Successors and Assigns. This Agreement shall bind and benefit the parties, their successors and assigns, any Successor Landlord and its successors and assigns.

4.3 Entire Agreement. This Agreement constitutes the entire agreement between Lender and Tenant regarding the subordination of the Lease to the Deed of Trust and the rights and obligations of Tenant and Lender as to the subject matter of this Agreement.

4.4 Interaction with Lease. If this Agreement conflicts with the Lease, then this Agreement shall govern as between the parties and any Successor Landlord, including upon any attornment pursuant to this Agreement.

4.5 Lender's Rights and Obligations. Except as expressly provided for in this Agreement, Lender shall have no obligations to Tenant with respect to the Lease. If an attornment occurs pursuant to this Agreement, all rights and obligations of Lender under this Agreement shall terminate, without thereby affecting in any way the rights and obligations of Successor Landlord provided for in this Agreement.

4.6 Interpretation; Governing Law. The interpretation, validity and enforcement of this Agreement shall be governed by and construed under the internal laws of the state where the Landlord's Premises is located excluding its principles of conflict of laws.

4.7 Amendments. This Agreement may be amended, discharged or terminated, or any of its provisions waived, only by a written instrument executed by the party to be charged.

4.8 Execution. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

4.9 Lender's Authority. Lender represents that Lender has full authority to enter into this Agreement, and Lender's entry into this Agreement has been duly authorized by all necessary actions.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

IN WITNESS WHEREOF, this Agreement has been duly executed by Lender and Tenant  
as of the Effective Date.

LENDER: \_\_\_\_\_, a \_\_\_\_\_

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

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

TENANT: CITY AND COUNTY OF SAN FRANCISCO, a  
municipal corporation

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

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: \_\_\_\_\_  
Carol Wong, Deputy City Attorney

EXHIBIT A

LEGAL DESCRIPTION OF PROPERTY