



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



John Updike  
Director of Real Estate

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Through City Administrator Naomi Kelly

Honorable Board of Supervisors  
City and County of San Francisco  
City Hall, Room 244  
1 Carlton B. Goodlett Place  
San Francisco, CA 94102

Lease Extension  
DPH - CBHS  
1380 Howard Street

Dear Board Members:

Attached for consideration is a Resolution authorizing the five year extension of a lease of approximately 79,950 rentable square feet of office space located at 1380 Howard Street, for continued use by the Department of Public Health (DPH) for administrative offices, data center and Community Behavioral Health Services (CBHS).

Community Behavioral Health Services provides mental health and substance abuse treatment services to seniors, adults, youth, children and families. CBHS provides a range of treatment services including outpatient care, case management, substance abuse management, methadone maintenance and social programs to support DPH's direct treatment programs.

The City has occupied 1380 Howard Street for almost 30 years (since October 1988). 1380 Howard Street is a five story plus basement office building located on the northeast corner of 10<sup>th</sup> and Howard Streets. The existing lease expires on December 31, 2017. If approved, the City would be extending the term for an additional five (5) years and adding three (3) additional 5-year options to extend the term at 95% of the then Fair Market Rent, subject to further Board approval. The proposed renewal also includes a tenant improvement allowance of approximately \$499,000 for a refreshing of the space. The term of the proposed lease extension would commence January 1, 2018, and expire on December 31, 2022.

Before considering this lease renewal, Real Estate considered two factors. One is whether or not suitable and affordable alternative space exists in the marketplace to replace this leasehold interest, while meeting the Department of Public Health's service requirements to their clients. Not surprisingly, given the San Francisco real estate market continues to be one of the most robust in the nation, there were no suitable alternatives that could even closely compete with the deal metrics we've negotiated for a renewal of the lease at 1380 Howard St.

The other factor considered was whether acquisition of this asset was a more intelligent course of action for the City. The property is held in trust, and the Trustee does not intend to, nor desires to, sell the asset. Low risk continued monthly income from lease revenue is the goal of the Trust.

Furthermore, based on a relatively recent fair market appraisal of the property, and general guidance from the Office of Public Finance, annual debt service alone on a purchase using a 30 year Certificate of Participation instrument would be just over \$50.00/square foot. As an owner, the City would then have to add an annual cost of \$7.54/square foot for services otherwise provided by the landlord under the lease, and the City would have to allocate capital renewal dollars to the asset during that 30 year term.

Based on the above ownership costs and compared to 30 years of leasing, leasing saves the City over \$35 Million over the 30 years. Therefore, it was determined that a lease extension was in the best interest of the public.

The Base Rent under the negotiated extension would be \$284,821.88 per month (approximately \$42.75 per rentable square foot per year), fixed for the five year term. The proposed Lease will continue to be modified gross with the City paying for utilities, janitorial services and security guards, refuse and recycling costs estimated at \$28,413 per month. Attachment #1 provides a "Before and After" table.

Pursuant to the requirements of Administrative Code Chapter 23, Fair Market Rent was appraised as of July 7, 2017 at \$54.00 per square foot with 3% annual rent escalations by Clifford Advisory, John C Clifford, MAI. So the negotiated rate of \$42.75/sf/year is 21% LESS THAN MARKET RATE for the lease in year one, and given the negotiated rate is fixed for the five year term, likely further below market in subsequent years.

It should be noted that the current lease was also fixed for the past five years, since December 31, 2012, and therefore even though we have negotiated a favorable new rate, it is a substantive jump from the prior rate. This rent increase was previously anticipated in our five-year forecasting done in collaboration with the Mayor's Office of Budget and the Controller's Office.

We recommend approval of the proposed lease extension. If you have any questions regarding programs housed at 1380 Howard Street, please contact Director Barbara Garcia at 415-255-3525. If you have any questions regarding the terms of lease extension, please contact Charlie Dunn of the Real Estate Division at 554-9861.

Respectfully submitted,



John Updike, Director

cc. Barbara Garcia, Director of DPH  
Kathy Jung, DPH