



March 25, 2024

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

Re: 1455 Market Street – Lease, Lease Option and Purchase Option

Dear Board Members:

Attached for your consideration is a proposed Resolution for a 21 year Lease with a three year Lease Option, and a three year Purchase Option at 1455 Market Street, San Francisco, CA 94103. This Lease of approximately 157,154 rentable square feet ("RSF") is meant to solve for the space needs of the City Departments currently located at 1155 Market Street whose lease renewal was rejected by the Board of Supervisors in September 2023 and the San Francisco Municipal Transportation Agency who needs space for their consultant team for the Transit Center upgrade project.

Hudson Properties owns the building at 1455 Market Street which has approximately 1,123,876 RSF spread over 22 floors. Much of the space was formerly leased by tech giants Uber and Square. The San Francisco Municipal Transit Agency currently leases space in the building for its Transit Monitoring Center. The County Transit Agency also has space in the building. The building is nearly empty and given current market conditions, the Lease Option and Purchase Option provide a unique opportunity for the City to meet its short term cost savings goals, as well as its long term goal of consolidation through leasing or purchase. The key terms for your consideration are as follows:

Key Lease Terms

Premises:	Approximately 157,154 RSF
Term:	21 years. Estimated start: May 2024
Option to Extend:	Two 5-year options
Rent Rate:	\$40.00 psf fully serviced net electrical.
Rent Escalation:	3% annually
Rent Credit:	12 months or approximately \$6,286,160
Base Year:	2025. If City leases an additional 100,000 RSF then Base Year extends to 2027.

- TI Allowance: \$100 psf or approximately \$15,715,400154.
- Moving Allowance: \$15 psf or approximately \$2,357,310.
- Swing space: 8th floor - 7,660 RSF. Available for City staff use during TI buildout at no costs to City.
- Furniture storage: As needed. Free storage of City FF&E and City personal property during TI buildout.
- Furniture Purchase: City has the right but not the obligation to buy any furniture left by former tenants for \$1.00.
- Electrical: Actual cost without markup starting at lease commencement - estimated at \$1 psf
- Janitorial: \$0. Included in rent
- Property Tax: City's share of actual costs without markup starting after Base Year - estimated at \$1.02 psf

Key Lease Option Terms

The City shall have the right, but not the obligation, to lease any additional vacant office space in the Building on the then same terms and conditions of the Lease.

Base Rent will match and escalate same as original Lease.

Base Year is same as original Lease except if City leases an additional 100,000 sf before December 31, 2025, the Base Year extends to 2027.

Option is for whole floor increments only.

Tenant Improvement Allowance refreshes with each move and can stack, i.e. \$100 psf for each option lease plus any unused allowance from a previous move. Unused TI allowance expires after 24 months.

Moving Allowance refreshes with each move and cannot stack, i.e. \$15 psf for each option lease.

All other lease terms identical to the original Lease.

Lease Option expires on December 31, 2027, however any Lease Option notices delivered to Landlord prior to that date will be honored.

Timing:

City gives 60 days prior written notice that it is exercising the Lease Option, identifying estimated RSF required and desired occupancy date.

Within five business days, Landlord identifies all marketable available space.

The City and Landlord have 30 days to agree on the floor(s) to be occupied and space planning. Priority given to contiguous floors adjacency to existing City occupied floors.

Within 90 days, RED will seek the Board of Supervisors' and the Mayor's approval. If approved, the new space will become part of the Lease Premise.

Key Purchase Option Terms

Provided the City has leased a total of 400,000 RSF within the Building (which includes space already leased by SFMTA and CTA), the City shall have the option to purchase the property for a price determined through a FMV appraisal process.

The City has to give written notice to Landlord on or before March 1, 2027.

The City has to close escrow 255 days after notice or December 31, 2027 whichever occurs first.

If the City fails to give timely written notice or to close escrow on or before December 31, 2027, then the Purchase Option terminates but the Lease remains in full force and effect.

If the City purchases the property, the Lease will automatically terminate in favor of the City's fee ownership.

If you have any questions regarding this matter, please contact me at 415-554-9860.

Sincerely,



Andrico Q. Penick