

<p><b>Item 6</b> <b>File 23-1197</b></p>	<p><b>Department:</b> Homelessness &amp; Supportive Housing (HSH)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve a lease between the Department of Homelessness &amp; Supportive Housing, as tenant, and the Lawrence B. Stone Properties #08, LLC, as landlord, at 2177 Jerrold Avenue. The purpose of the lease is to provide space for a new shelter program.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• HSH intends to use the site for 60 shelter cabins and 20 safe parking spots, accommodating approximately 95 guests. The site requires improvements to the two buildings and installation of bathrooms and showers, which is expected to take a year to complete. During that time, HSH will undertake a competitive solicitation to identify non-profit/s to operate the site and provide services.</li> <li>• The initial base rent is \$2.5 million and escalates three percent each year through the initial 15-year term, including a nine-month rent abatement in year one of the lease. The lease includes two five-year extension options.</li> <li>• The lease requires the landlord undertake the tenant improvements, which are valued at \$10.2 million. The City’s share of those costs is capped at \$8.6 million and includes \$0.9 million of interest costs related to a payment plan for a portion of the tenant improvements.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Total rent over the initial term would be \$44 million, which includes the nine month rent abatement in year one of the lease. The City’s share of tenant improvements would amount to \$8.6 million. The City would also incur lease costs of \$2.5 million for utilities, and real estate taxes.</li> <li>• Excluding tenant improvements, annual lease and operating costs per slot (cabin, safe parking spot) are approximately \$90,000 per year, similar to the Safe Sleep costs noted in HSH’s Place for All report but higher than the cost per slot of cabins in that report.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all Leases on behalf of the City as tenant by resolution for which the term is longer than a year or costs over \$15,000 per month.

**BACKGROUND**

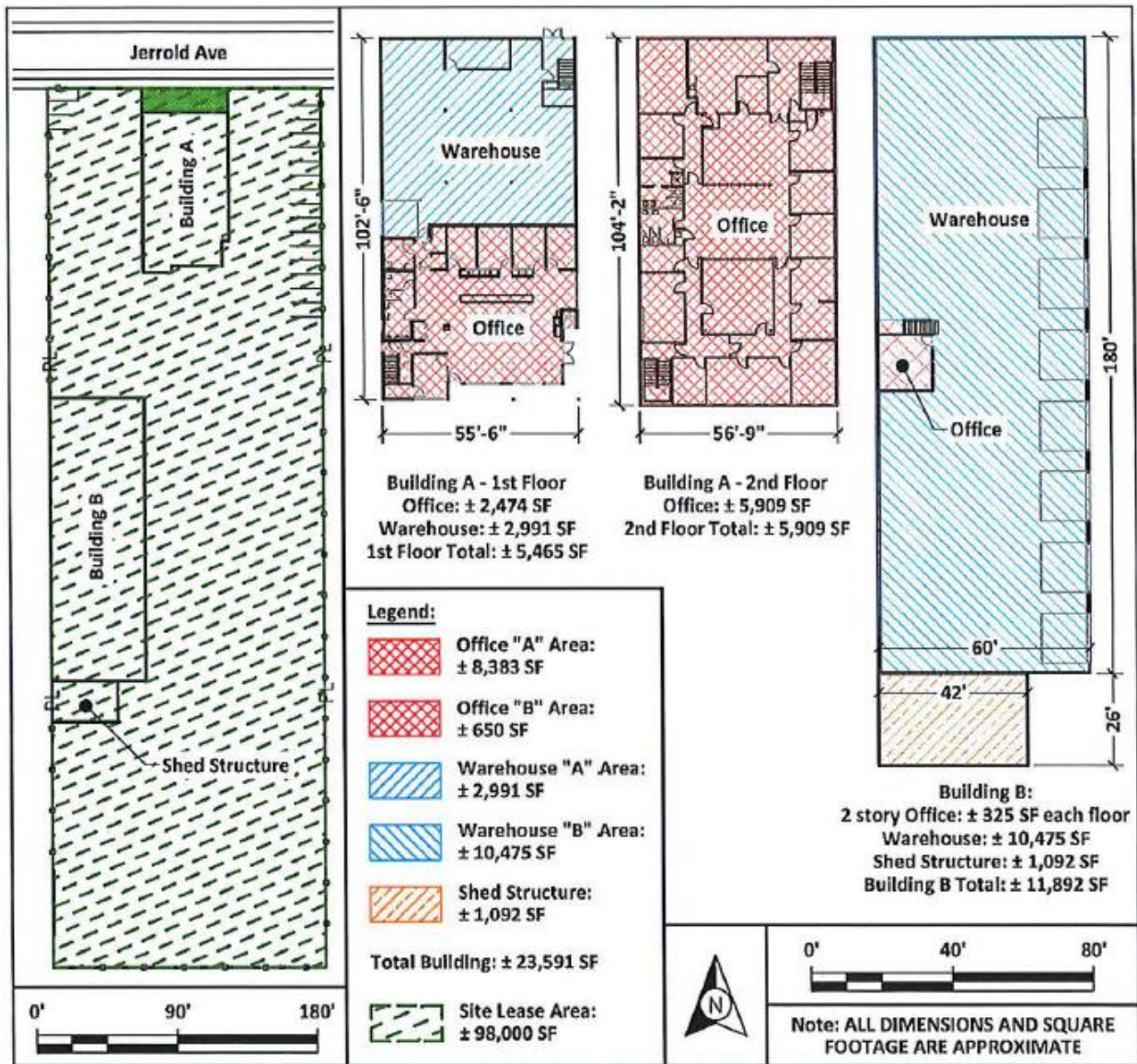
The Department of Homelessness & Supportive Housing currently operates 3,286 shelter units, including one safe parking site (at Candlestick Point, see File 23-0974) and one pilot program of cabins used for shelter at 33 Gough. The FY 2023-24 – FY 2024-25 Adopted Budget includes \$15 million over two years for a new shelter program in Supervisorial District 10.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a lease between the Department of Homelessness & Supportive Housing, as tenant, and the Lawrence B. Stone Properties #08, LLC, as landlord, at 2177 Jerrold Avenue. The purpose of the lease is to provide space for a new shelter program. Any changes to the lease that decrease benefits or increase City liabilities would be subject to Board of Supervisors' approval.

Exhibit 1 shows the proposed lease area.

**Exhibit 1: Lease Site**



Source: Exhibit A of Proposed Lease

Exhibit 2 below summarizes the terms of the proposed lease, which has an initial 15-year term and two five-year options to extend.

**Exhibit 2: Lease Terms**

Premises	98,000 square feet of land and 23,591 square feet within two buildings, at 2177 Jerrold Avenue
Commence Date	Following Board and Mayor approval of the proposed resolution
Initial Term	Approximately 15 years (ends November 30, 2038)
Extension Options	Two 5-year options
Base Rent (Year 1)	\$2,469,600 (\$25.20 per square foot)
Rent Increases	3% annually; reset to market rate at each extension
Rent Abatement	9 months in Year 1 (\$1,852,200)
Tenant Improvements	Within one year, landlord will renovate both buildings & yard area, purchase & install cabins.
Tenant Improvements Costs	Est. to be \$7,495,090; City pays maximum of \$5,866,869
Bathrooms & Showers	Landlord will construct but costs will be funded by the City at cost of \$2,711,340 (including 6% interest over 15 years).
Utilities & Janitorial	City pays
Real Estate Taxes	City pays incremental increase after 2024
Option to Purchase	City has right of first refusal if the property is sold

Source: Proposed Lease

As shown above, the initial base rent is \$2.5 million and escalates three percent each year. Because the lease is less than \$45 per square foot, it does not require an appraisal under Administrative Code Chapter 23. However, the rent is at or below fair market value according to recent real estate transactions observed by the Real Estate Division. The lease includes a nine month rent abatement in year one, which is valued at \$1.8 million.

**Site Use**

The 98,000 square foot site is primarily composed of a parking area and two buildings, as shown in Exhibit 1. Building A is two-stories and will be used for administration and as a community space and Building B will be for additional community space, storage, and will have restrooms and showers.

HSH intends to use the site for 60 shelter cabins and 20 safe parking spots, accommodating approximately 95 guests. The site requires improvements to the two buildings and installation of bathrooms and showers, which is expected to take a year to complete. During that time, HSH will undertake a competitive solicitation to identify non-profit/s to operate the site and provide services.

**Tenant Improvements**

Exhibit B of the lease requires the landlord to undertake a number of tenant improvements and other improvements to the site. Prior to the lease commencement, the landlord must repair the parking lot, remove electric fencing, replace bathrooms in Building A, install an elevator in one of the two buildings, and demolish a shed.

Section 6.1 of the lease requires the landlord, within one year, to renovate both buildings as well as purchase and install the cabins at an estimated cost of \$7.5 million, including a five percent profit fee and five percent management fee. The proposed lease requires the City to reimburse the landlord a maximum of \$5.9 million for this portion of the tenant improvements. Any costs for this portion of the tenant improvements that exceed the budget estimated in Exhibit D of the proposed lease would be paid for by the landlord.

Exhibit E of the lease also requires the landlord to install bathrooms and showers in Building B at the fixed cost of \$1.8 million. The proposed lease requires the City to pay for all of these costs (in addition to the \$5.9 million in other tenant improvements noted above) over the initial 15-year term of the lease at 6 percent interest, which amounts to monthly payments of \$180,756. The City will pay \$926,764 in interest over the fifteen year period. Exhibit F Work Letter Section 1.g.i. confirms that City change orders will be preauthorized and the price set if overages were to occur.

Together, the entire tenant improvement budget is \$10.2 million, of which the City would pay \$8.6 million and the landlord would pay \$1.6 million. The City may review and approve the landlord’s general contractor for the tenant improvement work as well as design and construction documents. Partly in consideration for the City’s investment in the site, the lease has a term of up to 25 years.

Cost estimates were developed and paid for by the landlord, who has undertaken similar work for a shelter site in Spokane, WA. The Budget & Legislative Analyst reviewed the tenant improvement costs with a capital project expert and they appear to be reasonable.

**FISCAL IMPACT**

Exhibit 2 below shows the estimated cost of the proposed lease.

**Exhibit 2: Lease Costs**

	<b>Initial Term (15 years)</b>	<b>Options (10 years)</b>	<b>Total</b>
Rent	44,079,678	44,107,921	88,187,599
Utilities	2,449,829	3,112,921	5,562,750
Tenant Improvements (Ex D)	5,866,869	0	5,866,869
Bathroom & Showers (Ex E)	2,711,340	0	2,711,340
Taxes	39,248	36,232	75,480
<b>Subtotal, Lease Costs</b>	<b>55,146,963</b>	<b>47,257,074</b>	<b>102,404,038</b>
Service Costs	78,528,746	79,695,311	158,224,057
Service Contingency (20%)	15,705,749	15,939,062	31,644,811
<b>Total</b>	<b>149,381,458</b>	<b>142,891,448</b>	<b>292,272,906</b>

Source: Proposed Lease, HSH, and BLA

Note: The proposed lease requires the City to provide janitorial services. That work will be accomplished by selected non-profit provider/s and is included in the Service costs above.

Total rent over the initial term would be \$44 million, which includes the nine month rent abatement in year one of the lease. The City's share of tenant improvements would amount to \$8.6 million. The City would also incur lease costs of \$2.5 million for utilities, and real estate taxes.

Service costs, estimated to start in year two of the lease once tenant improvements are complete, are estimated based on the cost of current HSH cabin and safe parking programs as are utility costs.

Excluding tenant improvements, annual lease and operating costs per slot (cabin, safe parking spot) are approximately \$90,000 per year, similar to the Safe Sleep costs noted in HSH's Place for All report but higher than the \$68,000 annual cost per slot of cabins in that report.

Detailed lease and service costs for the initial term are shown in Appendix A to this report.

### **Funding Source**

The adopted budget includes Our City, Our Home funds of \$8 million in FY 2023-24 and \$7 million in FY 2024-25 for a new shelter program in Supervisorial District 10, which is sufficient to cover the first two years of the lease and site operations.

## **RECOMMENDATION**

Approve the proposed resolution.

**Appendix A: Annual Lease and Program Costs (Estimated by HSH and BLA)**

	Year 1	Year 2	Year 3	Year 4	Year 5
<u>Lease</u>					
Rent	617,400	2,543,688	2,619,999	2,698,599	2,779,557
Utilities		125,000	131,250	137,813	144,703
Tenant Improvements (Ex D)	2,933,435	2,933,435			
Other Renovations (Ex E)	180,756	180,756	180,756	180,756	180,756
Taxes	0	1,696	2,558	2,609	2,661
<b>Subtotal, Lease</b>	<b>3,731,591</b>	<b>5,784,575</b>	<b>2,934,563</b>	<b>3,019,776</b>	<b>3,107,677</b>
<u>Services</u>					
Cabins (60)		3,136,000	3,230,080	3,326,982	3,426,792
Parking (20)		1,460,000	1,503,800	1,548,914	1,595,381
Contingency (20%)		919,200	946,776	975,179	1,004,435
<b>Subtotal, Services</b>		<b>5,515,200</b>	<b>5,680,656</b>	<b>5,851,076</b>	<b>6,026,608</b>
<b>Total Operating Costs</b>	<b>3,731,591</b>	<b>11,299,775</b>	<b>8,615,219</b>	<b>8,870,852</b>	<b>9,134,285</b>
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	Year 6	Year 7	Year 8	Year 9	Year 10
<u>Lease</u>					
Rent	2,862,943	2,948,832	3,037,296	3,128,415	3,222,268
Utilities	151,938	159,535	167,512	175,888	184,682
Tenant Improvements (Ex D)					
Other Renovations (Ex E)	180,756	180,756	180,756	180,756	180,756
Taxes	2,714	2,769	2,824	2,881	2,938
<b>Subtotal, Lease</b>	<b>3,198,352</b>	<b>3,291,892</b>	<b>3,388,389</b>	<b>3,487,940</b>	<b>3,590,644</b>
<u>Services</u>					
Cabins (60)	3,529,596	3,635,483	3,744,548	3,856,884	3,972,591
Parking (20)	1,643,243	1,692,540	1,743,316	1,795,616	1,849,484
Contingency (20%)	1,034,568	1,065,605	1,097,573	1,130,500	1,164,415
<b>Subtotal, Services</b>	<b>6,207,406</b>	<b>6,393,628</b>	<b>6,585,437</b>	<b>6,783,000</b>	<b>6,986,490</b>
<b>Total Operating Costs</b>	<b>9,405,758</b>	<b>9,685,520</b>	<b>9,973,826</b>	<b>10,270,940</b>	<b>10,577,134</b>

	Year 11	Year 12	Year 13	Year 14	Year 15
<u>Lease</u>					
Rent	3,318,936	3,418,504	3,521,059	3,626,691	3,735,492
Utilities	193,916	203,612	213,792	224,482	235,706
Tenant Improvements (Ex D)					
Other Renovations (Ex E)	180,756	180,756	180,756	180,756	180,756
Taxes	2,997	3,057	3,118	3,180	3,244
<b>Subtotal, Lease</b>	<b>3,696,605</b>	<b>3,805,929</b>	<b>3,918,726</b>	<b>4,035,109</b>	<b>4,155,198</b>
<u>Services</u>					
Cabins (60)	4,091,769	4,214,522	4,340,957	4,471,186	4,605,322
Parking (20)	1,904,969	1,962,118	2,020,981	2,081,611	2,144,059
Contingency (20%)	1,199,348	1,235,328	1,272,388	1,310,559	1,349,876
Subtotal, Services	<b>7,196,085</b>	<b>7,411,968</b>	<b>7,634,327</b>	<b>7,863,356</b>	<b>8,099,257</b>
<b>Total Operating Costs</b>	<b>10,892,690</b>	<b>11,217,896</b>	<b>11,553,052</b>	<b>11,898,466</b>	<b>12,254,455</b>