



August 22, 2023

Office of the Clerk of the Board of Supervisors
City Hall, Room 244
1 Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Introduction of Resolution Approving a Retroactive Amended and Restated Office Lease at 1155 Market Street

Dear Madame Clerk:

Attached for introduction is a proposed resolution authorizing a retroactive Amended and Restated Office Lease for 1155 Market Street for a new term of five (5) years, for use as office space by multiple City Departments.

The City has leased office space at 1155 Market for over 10 years and occupies approximately 103,487 rentable square feet (the "Premises"). The previous lease was entered into on November 9, 2012, has been amended four times and expired on January 31, 2023. The City timely exercised its Notice of Option to Extend the lease on January 24, 2022. However, due to extensive negotiations regarding the fair market rent rate, the proposed new Amended and Restated Lease was not signed by the landlord until August 7, 2023. As this is an extension of the previous lease, the City is bound by the terms of the original lease with the exception of the length of the extension and the rental rate. The parties agreed that the term of the lease be retroactive back to February 1, 2023 so that, if the new lease is approved, the City can take advantage of the negotiated rent rate as of that date.

The Real Estate Division negotiated the following terms:

o Rent:

Period	Annual Rate per Rentable Square Foot	Base Monthly Rent
February 1, 2023 – January 31, 2024	\$64.60	\$557,105.02
February 1, 2024 – January 31, 2025	\$66.54	\$573,835.42
February 1, 2025 – January 31, 2026	\$68.54	\$591,083.25
February 1, 2026 – January 31, 2027	\$70.60	\$608,848.52
February 1, 2027 – January 31, 2028	\$72.72	\$627,131.22

- o Rent Rate: \$64.60 psf per year
- o Rent Escalation: 3% per year
- o Term: Five (5) years retroactive from February 1, 2023 – January 31, 2028
- o Option to Extend: City has one additional 5 year extension option.
- o Premises: 103,487 rentable square feet (Floors 1 – 8, inclusively).
- o Landlord Concessions: Tenant Improvement allowance of \$15.00 psf or \$1,552,305.00
- o Base Year: 2023. The City will continue to pay the standard increases in operating expenses over a new Base Year of 2023.

The fair market rent has been appraised by MAI appraisal Nick Michael and Vathana Duong of Colliers International dated December 19, 2022. The appraisal review by MAI appraiser Ron Blum is pending. Please note that the Landlord did not accept the City's appraised value. RED followed its standard process for price reconciliation which required the Landlord to obtain its own appraisal. Since the difference in value between the two appraisals was 10% or less, the parties split the difference to come to the agreed price of \$64.60 psf.

The Premises provide nine (9) different City Departments with office space in close proximity to City Hall in the Civic Center area and is convenient to public transit. If you have any questions regarding this lease amendment, please feel free to contact me at 554-9860.

Sincerely,



Andrico Q. Penick
Director of Property