San Francisco International Airport

MEMORANDUM

April 3, 2018

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenhime
Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Second Amendment of Off-Airport Property Lease L09-0023 with Michael C. Mitchell, at 837 Malcolm Road, Burlingame, California, to Extend the Term and Modify the Rent

DIRECTOR'S RECOMMENDATION: APPROVE THE SECOND AMENDMENT OF LEASE L09-0023 FOR OFF-AIRPORT PROPERTY AT 837 MALCOLM ROAD, BURLINGAME, TO MODIFY THE ANNUAL RENT AND EXTEND THE TERM OF THE LEASE, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE SECOND AMENDMENT TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

Pursuant to Lease No. L09-0023 (the "Lease") between Michael C. Mitchell ("Landlord") and the San Francisco International Airport (the "Airport" or "City"), the Airport's Reprographics Department ("Reprographics") occupies approximately 6,000 square feet of off-Airport office/industrial space at 837 Malcolm Road, Burlingame ("837 Malcolm Road"), situated on approximately 10,500 square feet of land. The Lease expires on April 30, 2018, and Reprographics wishes to continue occupancy of the space until such time as it can move into the Airport's Consolidated Administration Campus, Phase II or other suitable Airport facility. The proposed Second Amendment will: 1) adjust the annual rent to $126,000, 2) extend the Term by five years, with two options to extend the Term by one-year each, 3) grant an early termination right, and 4) provide for certain tenant improvement work, collectively (the "Second Amendment"). The two one-year options and the early termination right are at the Airport's discretion.

Background

On January 20, 2009, pursuant to Resolution No. 09-0023, the Commission approved a Lease for an off-Airport facility comprised of approximately 6,000 square feet of office and industrial

THIS PRINT COVERS CALENDAR ITEM NO. 16

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

MARK FARRELL *MAYOR* | LARRY MAZZOLA *PRESIDENT* | LINDA S. CRAYTON *VICE PRESIDENT* | ELEANOR JOHNS | RICHARD J. GUGGENHIME | PETER A. STERN | IVAR C. SATERO *AIRPORT DIRECTOR*

space situated on 10,500 square feet of land located at 837 Malcolm Road, to accommodate Reprographics. The Lease provided for an initial annual rent of $84,960 and a Term of approximately five years, which expired on February 28, 2014. The Lease also obligated the Airport to pay $600 per month to reimburse the Landlord for certain tenant improvements.

In the fall of 2010, all City departments were asked to renegotiate their property leases in light of a City budget deficit at that time. On October 26, 2010, pursuant to Resolution No. 10-0325, the Commission approved the First Amendment to the Lease, which reduced the rent by $4,608 per year in exchange for a 14-month Term extension, through April 30, 2015.

The original Lease also provided for a three-year option to extend the Term, effective May 1, 2015, with a corresponding rent adjustment by cost of living increase, resulting in an annual rent of $87,212. The Airport exercised this option on October 14, 2014.

Over the years, Reprographics has expanded the services it provides to the Airport and other City departments, which requires new technology equipment and, therefore, a larger facility. The Airport contacted the City's Real Estate Department ("RED") in September 2017 to request its services to identify a larger facility for Reprographics and to negotiate a new lease. RED undertook a search for facilities in the range of 10,000 square feet; however, due to the extremely tight real estate market in the vicinity of the Airport, a suitable facility has not been identified.

The Airport and RED have concluded that the best course of action is to have Reprographics remain at 837 Malcolm Road. Therefore, the Airport authorized RED to open negotiations with the Landlord regarding an extension of the Term by a lease amendment. The structure of the proposed amendment will provide flexibility regarding the Term. In the interim, Reprographics is requesting that certain tenant improvement work be completed at 837 Malcolm Road, at the Airport's sole cost and expense, to support new equipment and the growth in operations. The preliminary cost of such work is estimated at a not to exceed amount of $669,702. RED is working with the Landlord to finalize the scope and cost of such work, which will be performed by the Landlord and reimbursed by the Airport.

Proposal

RED has negotiated a lease amendment with the Landlord wherein the City offered, and the Landlord accepted, a five-year extension of the Term, from May 1, 2018 through April 30, 2023, with two one-year options to extend the Term at the Airport's discretion. In addition, the proposed amendment includes an early termination right wherein, at the Airport's discretion, the Airport may terminate the Lease after Year Three of the extension term, to be effective April 30, 2021, conditioned upon one-year's advance written notice to the Landlord that the Airport is exercising its early termination right. RED negotiated a fair market rent of $126,000 per year based on a rate of $1.75/square foot/year. This rent will be subject to a fixed three percent increase annually. The Landlord has agreed to undertake construction and installation of the improvement work. The Airport will reimburse the Landlord by making equal monthly payments based on a payment schedule, to be agreed upon by the parties, once the cost and duration of the improvement work is finalized.

After surveying the available space market and consulting with RED, it has been determined that this lease amendment is in the City's best interest. This amendment will be approved by the City Attorney's Office as to form.

Recommendation

I recommend adoption of the accompanying resolution approving the Second Amendment to Lease L09-0023, between the Airport and Michael C. Mitchell, to: 1) adjust the annual rent to $126,000, which will be subject to a fixed three percent increase annually, 2) extend the Term by five years, with two one-year options to extend the Term, 3) grant an early termination right, and 4) provide for certain tenant improvement work. I further recommend that the Commission direct the Commission Secretary to forward the Second Amendment to the Lease to the Board of Supervisors for approval.

Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business & Finance Officer

Attachment

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 18-0105

SECOND AMENDMENT OF OFF-AIRPORT PROPERTY LEASE L09-0023 WITH MICHAEL C. MITCHELL, AT 837 MALCOLM ROAD, BURLINGAME, CALIFORNIA, TO EXTEND THE TERM OF THE LEASE AND MODIFY THE RENT, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE SECOND AMENDMENT TO THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL

WHEREAS, on January 20, 2009, pursuant to Resolution No. 09-0023, the Airport Commission approved Off-Airport Property Lease L09-0023 (the "Lease") with Michael C. Mitchell (the "Landlord"), for approximately 6,000 square feet of office and industrial space situated on approximately 10,500 square feet of land located at 837 Malcolm Road, Burlingame, California ("837 Malcolm Road"), to be occupied by the Airport's Reprographics Department; and

WHEREAS, the Lease provided for an annual Base Rent of $84,960 and a Term of five years, which expired on February 28, 2014; and

WHEREAS, on October 26, 2010, pursuant to Resolution No. 10-0325, the Commission approved the First Amendment to the Lease, which reduced the rent by $4,608 per year in exchange for a 14-month Term extension through April 30, 2015; and

WHEREAS, the original Lease also provided for one three-year option to extend the Term, which the Airport exercised on October 14, 2014, becoming effective on May 1, 2015, with a corresponding rent adjustment to $87,212 per year; and

WHEREAS, the Lease will expire on April 30, 2018; and

WHEREAS, Reprographics has expanded the services it provides to the Airport and City and wishes to relocate to a larger facility; and

WHEREAS, due to current market conditions, no suitable facilities are on the market; and

WHEREAS, it has been determined that the best course of action is for Reprographics to remain at 837 Malcolm Road for an interim period, pursuant to an amendment to the Lease; and

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 18-0105

WHEREAS, the City's Real Estate Division has negotiated a second amendment to the Lease with the Landlord that will: 1) adjust the annual rent to $126,000, 2) extend the Term by five years, with two one-year options to extend the Term at the Airport's discretion, 3) provide for an early termination right at the Airport's discretion, and 4) provide for certain tenant improvement work, collectively (the "Second Amendment"); and

WHEREAS, the proposed Second Amendment is deemed to be in the best interest of the City; now, therefore, be it

RESOLVED, that the Airport Commission hereby approves the Second Amendment to the Lease with Michael C. Mitchell to: 1) adjust the annual rent to $126,000 subject to a fixed three percent increase annually, 2) extend the Term by five years, with two one-year options to extend the Term at the Airport's discretion, 3) grant an early termination right at the Airport's discretion, and 4) provide for certain tenant improvement work at a not to exceed cost of $669,702, collectively the Second Amendment, in accordance with terms set forth above and in the Director's Memorandum; and, be it further

RESOLVED, that the Airport Commission hereby directs the Commission Secretary to forward the Second Amendment to the Lease to the Board of Supervisors for approval.

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of APR 03 2018

Jean Caramatti

Secretary