File No. 120904 Committee Item No. 1
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Victor Young **Date** October 5, 2012
Completed by: Victor Young **Date** _____

[Real Property Lease - 2650 Bayshore Boulevard – Towed Car Operations and Other Transit Related Uses

Resolution authorizing the lease of an approximate 12.72 acre property with 255,420 rentable square feet of warehouse, office and parking lot space at 2650 Bayshore Boulevard, Daly City, California, from Prologis, L.P. for a 20-year term, plus two five-year extension options, at an initial annual base rent of $2,449,642 with annual increases, for the San Francisco Municipal Transportation Agency's towed car operations and other transit related uses.

WHEREAS, The San Francisco Municipal Transportation Agency (SFMTA) and the Port of San Francisco (Port) entered into a Memorandum of Understanding (MOU – Port Reference M-13828) on July 30, 2005, as amended, for the use of approximately 13 acres of Port property on Pier 70 for the SFMTA's towed car operations, storage and uses through July 31, 2015; and,

WHEREAS, The Port intends to develop the Pier 70 area as a mixed-use opportunity area, as highlighted in the Port's Waterfront Land Use Plan and the Port's Pier 70 Area Preferred Master Plan; and,

WHEREAS, The SFMTA has been searching for an equivalent-sized site to house its towed car operations, and the SFMTA's timely relocation from Pier 70 would allow the Port an opportunity to effectively execute part of its waterfront revitalization Master Plan and create a win-win situation for both agencies on accomplishing their respective strategic goals and objectives; and,

WHEREAS, Prologis, L.P., a Delaware limited partnership (Prologis), is willing to lease certain premises at 2650 Bayshore Boulevard, Daly City, California (Premises), for the SFMTA towed car operations and other transit-related uses for a twenty year term, subject

to two options to extend the lease term by five (5) years each, at an initial annual base rent of $2,449,642 that will increase by three percent annually, plus an additional four percent increase every five years, with Prologis paying for all operating expenses in Lease Year 1 and SFMTA paying for all operating expense increases after Lease Year 1, all on the terms and conditions contained in a lease substantially in the form of lease (Lease) on file with the Clerk of the Board of Supervisors in File No. 120904, which is incorporated herein by reference; and,

WHEREAS, The Lease requires Prologis to install, at its own cost (capped at $800,000), the initial tenant improvements described in the Lease, and provides SFMTA with the right to request that Prologis spend, subject to SFMTA's reimbursement obligations, up to $1,000,000 to install additional tenant improvements if SFMTA submits such request prior to the third anniversary of the Lease rent commencement date; and,

WHEREAS, The Lease provides SFMTA with an early termination right on the tenth anniversary of the Lease rent commencement date and the payment of a termination fee and certain reimbursable costs; and,

WHEREAS, The Daly City Planning Division, acting as a lead agency under the California Environmental Quality Act (CEQA), issued a negative declaration for the proposed Lease (CEQA Findings), and Daly City Council approved, and the City's Planning Department concurred with, the CEQA Findings; and,

WHEREAS, On August 21, 2012, the SFMTA Board of Directors adopted the CEQA Findings and approved the proposed Lease through SFMTA Board Resolution No.12-109, and directed the Director of Transportation of the SFMTA to submit the proposed Lease to the City's Board of Supervisors and Mayor for approval; now, therefore, be it

RESOLVED, That the Director of Transportation of the SFMTA is hereby authorized , on behalf of the City, to execute the Lease and to take all actions under the

Lease, including the exercise of the extension options, the right to request Prologis to perform up to $1,000,000 of additional tenant improvements, subject to SFMTA's reimbursement obligation, and the right to exercise the early termination right described in the Lease; and, be it

FURTHER RESOLVED, That all actions heretofore taken by the officers of the City with respect to the Lease are hereby approved, confirmed and ratified; and, be it

FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of Transportation of the SFMTA to enter into any amendments or modifications to the Lease (including without limitation, the exhibits) that the Director of Transportation determines, in consultation with the City Attorney, are in the best interest of the City, do not increase the rent or otherwise materially increase the obligations or liabilities of the City, are necessary or advisable to effectuate the purposes of the Lease or this Resolution, and are in compliance with all applicable laws, including City's Charter; and, be it

FURTHER RESOLVED, That the Lease shall be subject to certification as to funds by the City's Controller, pursuant to Section 3.105 of the Charter.

RECOMMENDED:
SAN FRANCISCO MUNICIPAL
TRANSPORTATION AGENCY

Edward D. Reiskin
Director of Transportation

Pursuant to SFMTA Board of Directors
Resolution No. 12-109, Adopted: August 21, 2012

Item 1 File 12-0904 *(Continued from October 3, 2012)*	**Department:** San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the execution of an Industrial Lease between the City and County of San Francisco (City), on behalf of the San Francisco Municipal Transportation Agency (SFMTA) as tenant, and Prologis, L.P. (Prologis), as landlord, of an approximately 12.72 acre property with 255,420 rentable square feet of warehouse and office space and 320 exterior parking spaces at 2650 Bayshore Boulevard, Daly City, California for the SFMTA's towed vehicle operations and other transit-related uses, for a 20-year term, plus two five-year extension options, at an initial annual base rent of $2,449,642 with annual increases.

Key Points

- The SFMTA and the Port of San Francisco (Port) entered into a Memorandum of Understanding (MOU No. M-13828) for the use of approximately 13 acres property on Pier 70 to house the SFMTA's towed vehicle operations through July 31, 2015. The Port has plans to redevelop Pier 70, and the SFMTA has been searching for an equivalent-sized site since 2004 to house its towed vehicle operations, as Pier 70 is not ideal for vehicle towing and storage functions.
- According to Ms. Sonali Bose of the SFMTA, 2650 Bayshore Boulevard is more suitable for housing the SFMTA's towed vehicle operations than alternative sites, which were evaluated by the SFMTA and found to have major issues making them unsuitable for housing the SFMTA's towed vehicle operations.
- The proposed lease has an initial term of 20 years, plus two five-year extension options and an early termination option at Year 10 that includes an early termination fee of $276,696 payable by the SFMTA to Prologis. The proposed annual base rent in Year 1 is $2,449,642 and would increase by three percent annually, plus an additional four percent increase (or a seven percent increase in total) every five years. The cumulative base rent to be paid over the initial 20-year lease term would total $70,245,708 as shown in Table 1 below.

Fiscal Impact

- The SFMTA currently pays the Port an annual rent of $1,759,572 for its use of Pier 70, which is equal to and offset by the license fee AutoReturn, the SFMTA's towed vehicle contractor, pays the SFMTA. The difference between the proposed Year 1 base rent at 2650 Bayshore Boulevard and the license fee AutoReturn currently pays the SFMTA is $690,070 ($2,449,642 minus $1,759,572). This difference of $690,070 would be paid from SFMTA revenues, unless SFMTA is able to consolidate other existing leases at 2650 Bayshore Boulevard, thus saving rent from these other leases, or is able to increase the license fee to be paid by AutoReturn. According to Ms. Bose, the base rent for 2650 Bayshore Boulevard for Years 1 and 2 has been incorporated in the SFMTA's FY 2012-2013 and FY 2013-2014 operating budgets.

Policy Considerations

- The proposed lease agreement increases the SFMTA's costs for towed vehicle operations and storage. The increased annual rent of $690,070 for leasing 2650 Bayshore Boulevard results in expenditures for the SFMTA's towed vehicle operations exceeding vehicle towing and storage fee revenues. Ms. Bose advises that the SFMTA is unlikely to consider increasing AutoReturn's license fee to cover the additional $690,070 cost of renting the property at 2650 Bayshore Boulevard because (a) only a portion of the space at 2650 Bayshore Boulevard will be used for towed vehicle operations, and (b) increasing AutoReturn's license fee would require increasing the City's vehicle towing and storage fees.
- Also, the SFMTA's expenditures for the 20-year lease totaling $70,245,708 for 2650 Bayshore Boulevard significantly exceed estimated costs for purchasing comparable property. Under the proposed lease agreement, the SFMTA's costs of $70,245,708 to lease 2650 Bayshore Boulevard for the first 20 years of the lease are an estimated $34,137,583, or 94.5 percent, more than estimated costs to purchase comparable property, including principal and interest[1]. Under the proposed lease, the SFMTA has the right of first negotiation if the landlord, Prologis, were to sell the property. However, should SFMTA locate another property to purchase for its towed vehicle operations, the SFMTA does not have the right to terminate the lease prior to Year 10. According to Ms. Bose, the SFMTA proposed, during negotiations with Prologis, that the SFMTA have termination at any time while Prologis proposed no termination rights during the 20 year term. Ms. Bose states that SFMTA and Prologis reached a compromise, allowing SFMTA lease termination rights in Year 10. Further, according to Ms. Bose, the SFMTA anticipates growth in demand for transportation services, with includes using the 2650 Bayshore Boulevard space for other SFMTA uses in addition to the towed vehicle operations and storage. Ms. Bose projects that SFMTA will need to lease or purchase further space to meet the growth in demand for transportation services in addition to the proposed lease of 2650 Bayshore Boulevard
- The proposed lease provides for high interest costs if the landlord, at the request of the SFMTA, makes improvements to the property at the landlord's expense, subject to reimbursement by the SFMTA. If Prologis were to make future tenant improvements, totaling up to $1,000,000, at its own cost, at the request of the SFMTA, the SFMTA would reimburse Prologis for the cost of these improvements over 10 years at 9 percent interest. Also, any replacement of the building systems that is required after the expiration of any warranty periods would be paid for initially by Prologis and incorporated in the excess operating expenses for which the SFMTA is required to reimburse Prologis, amortized over the lesser of (a) the useful life of the replacement system or (b) 10 years, plus 10 percent interest each year.
- Because, according to the SFMTA, the proposed 2650 Bayshore Boulevard lease between the SFMTA and Prologis is the best existing option for housing the SFMTA's towed vehicle operations, but at the same time commits the SFMTA to paying rents that significantly exceed the estimated cost of purchasing comparable property, with the option to terminate only at Year 10 of a 20-year lease, the Budget and Legislative Analyst considers approval of the proposed lease to be a policy matter for the Board of Supervisors.

[1] Estimated costs of $36,108,125 include purchase price of $21,000,000 and interest costs of $15,108,125 at an estimated interest rate of 6 percent, amortized over 20 years.

Recommendations

Amend the proposed resolution to require:

1. The SFMTA Director to report back to the Budget and Finance Committee of the Board of Supervisors on the SFMTA Real Estate and Facilities Vision for the 21st Century Report prior to December 31, 2012, and explain (a) how the SFMTA will reorganize its leased space to reduce total leasing costs; and (b) how the proposed lease fits into the SFMTA's long term space needs; and

2. That the SFMTA pay for all necessary Phase II Landlord Tenant Improvements and building systems replacements up front, rather than reimbursing Prologis at high interest rates of 9 to 10 percent.

Approval the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Section 9.118(c) of the City's Charter requires that any lease of real property for a period of ten or more years shall first be approved by resolution of the Board of Supervisors.

Background

The SFMTA and the Port of San Francisco (Port) entered into a five-year Memorandum of Understanding (MOU No. M-13828) on July 30, 2005 for the use of approximately 13 acres of Port property on Pier 70, including 406,810 square feet of paved land and 112,518 square feet of shed space, for the SFMTA's towed vehicle operations, storage, and weekly vehicle auctions. The first amendment to the MOU, enacted in 2010, extended the term to July 31, 2015 and included a one-year early termination clause with no termination fee. Under the existing MOU between the SFMTA and the Port, the SFMTA currently pays the Port monthly rent of $146,631 or $1,759,572 per year for fiscal year (FY) 2012-2013.

According to Ms. Sonali Bose, SFMTA Director of Finance and Information Technology, the SFMTA was made aware of the Port's plan to redevelop Pier 70 during negotiations in 2010 to extend the term of the MOU. Ms. Bose advises that the SFMTA and AutoReturn, the SFMTA's towed vehicle contractor, had already been searching for an equivalent-sized site to house the SFMTA's towed vehicle operations since the two parties entered into a contract in 2004, as Pier 70 is not ideal for towing and storage functions and is subject to various legal restrictions which make needed modifications very difficult.

Ms. Bose advises that several alternatives have been considered. However, Ms. Bose advises that there are few sites that are large enough and in suitable locations for towing and storing vehicles. Properties of 12 to 13 acres in San Francisco or nearby are rare and typically are

already occupied by industrial and light industrial users. According to Ms. Bose, sites considered by the SFMTA included (a) 749 Toland Street and 2000 McKinnon Avenue, which together had 12 acres of property with warehouses, (b) the former site of PG&E's Potrero Hill Power Plant, and (c) Piers 94-96. According to the August 21, 2012 SFMTA Report to the SFMTA Board of Directors on the proposed lease of the property at 2650 Bayshore Boulevard (August 21 SFTMA Report), alternative sites that were analyzed were found to have any number of major issues making them unsuitable for housing the SFMTA's towed vehicle operations, including (a) owners who did not want to sell, (b) the existence of hazardous materials that would require expensive remediation, (c) the need for infrastructure improvements that would cost the City millions of dollars, or (d) recent rezoning for uses other than industrial or light industrial use.

According to Ms. Bose, the property at 2650 Bayshore Boulevard (2650 Bayshore Boulevard) was vacated by the United States Postal Service in July of 2010 at which time the SFMTA considered a lease and option to purchase the property because the site was found to be ideal for housing the SFMTA's towed vehicle operations. However, according to Ms. Bose, Prologis, L.P. (Prologis) was able to move faster than the City and purchased the property for $21,000,000. The SFMTA then negotiated with Prologis for the lease and right of first negotiation.

According to the August 21 SFMTA Report, Prologis contracted with URS Corporation Americas and conducted a Phase I Environmental Site Assessment and limited Phase II testing on July 29, 2011. Based on the findings of the Phase II testing, URS concluded that the historical incidents and prior uses of fuel storage tanks are unlikely to pose an ongoing environmental threat. The August 21 SFMTA Report notes that the San Francisco Department of Public Works concurred with the conclusion that significant environmental concerns related to historic operations at the subject property are unlikely to exist.

Pier 70 is not ideal for the SFMTA's towed vehicle operations.

According to Ms. Bose, relocating the SFMTA towed vehicle operations and storage from Pier 70 earlier than the scheduled July 31, 2015 termination date would allow the Port to execute its waterfront revitalization plan sooner.

Furthermore, as noted above, Pier 70 is not ideal for towing and storage functions. Ms. Bose advises that the relocation of the SFMTA's towed vehicle operations, storage and vehicle auctioning to 2650 Bayshore Boulevard would enable the SFMTA and AutoReturn to improve conditions for employees and the public. While using Pier 70, AutoReturn employees have worked out of a temporary trailer and have had to use portable bathroom facilities. According to Ms. Bose, at the 2650 Bayshore Boulevard lease site, AutoReturn would have a permanent structure out of which to work with indoor plumbing and lunchroom facilities.

In addition, Ms. Bose advises that at the Pier 70 site, the SFMTA and AutoReturn have had to work around buildings and structures that do not allow modifications due to legislative and legal constraints. At 2650 Bayshore Boulevard, the SFMTA and AutoReturn would be able to design the facility to best meet vehicle towing and storage needs. Relocating to a site that is on land

would also allow the SFMTA more flexibility to design the facility for towed vehicle operations, than being located on the Pier 70 site, which has required environmental safeguards that have constrained the SFMTA's use of the site. Additionally, there would be ample space for parking at the 2650 Bayshore Boulevard site, so that parking does not spill into surrounding neighborhoods on auction days.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the execution of a new Industrial Lease between the City, on behalf of the SFMTA as tenant, and Prologis, as landlord, of an approximately 12.72 acre property, which includes warehouse and office space and 320 exterior parking spaces at 2650 Bayshore Boulevard, Daly City, for the SFMTA's towed vehicle operations, storage, vehicle auctions, and other transit-related uses to be set forth in the SFMTA Real Estate and Facilities Vision for the 21st Century Report, which Ms. Bose advises will be completed in late 2012.

The proposed lease has an initial term of 20 years, which would commence on the "rent commencement date," approximately two months after Prologis and the SFMTA execute the lease, allowing Prologis two months to complete agreed upon "Phase I Landlord Tenant Improvements" (see below). The proposed lease includes two five-year extension options beyond the initial 20-year term, for a total term of 30 years if the options are exercised. Under the proposed lease, in order to exercise these 5-year extension options, the SFMTA would be required to give Prologis notice of SFMTA's decision to exercise the options at least 12 months but not more than 18 months before the scheduled lease expiration date. The proposed lease also includes an early termination option at the end of Year 10, with one-year advance notice and an early termination fee of $276,696 payable by the SFMTA to Prologis, plus any remaining unpaid amount for "Phase 2 Landlord Tenant Improvements" requested by the SFMTA (see below).

As shown in Table 1 below, the proposed monthly base rent in Year 1 would be $204,137 or $2,449,642 per year. Average annual rent per square foot in Year 1 is $4.41, which is approximately 30 percent more than the $3.39 average annual rent per square foot in FY 2012-13 for the Pier 70 location.[2] However, as noted above, the proposed 2650 Bayshore Boulevard location is a more suitable location for towed vehicle operations than Pier 70.

The base rent would increase by three percent annually, plus an additional four percent increase (or a seven percent increase in total) every five years (in Year 6, Year 11, and Year 16). As shown in Table 1 below, the cumulative base rent paid over the initial 20-year lease term would total $70,245,708.

[2] The Pier 70 location consists of 519,328 square feet with annual rent of $1,759,572, equal to $3.39 per square foot. 2650 Bayshore Boulevard consists of approximately 2.72 acres, equal to 555,228 square feet, with annual rent of $2,449,642, equal to $4.41 per square foot.

Table 1: Proposed Base Rent[3]

Year	Monthly Base Rent	Annual Base Rent
1	$204,137	$2,449,642
2	$210,261	$2,523,132
3	$216,569	$2,598,825
4	$223,066	$2,676,790
5	$229,758	$2,757,094
6	$245,841	$2,950,090
7	$253,216	$3,038,593
8	$260,813	$3,129,751
9	$268,637	$3,223,644
10	$276,696	$3,320,353
11	$296,065	$3,552,777
12	$304,947	$3,659,361
13	$314,095	$3,769,142
14	$323,518	$3,882,216
15	$333,224	$3,998,682
16	$356,549	$4,278,590
17	$367,246	$4,406,948
18	$378,263	$4,539,156
19	$389,611	$4,675,331
20	$401,299	$4,815,591
Total		**$70,245,708**

According to an appraisal prepared for the SFMTA by Mansbach Associates, Inc. dated June 20, 2012, the monthly market rental value for the subject property is $204,336, or $199 more than the proposed initial monthly base rent of $204,137. Mansbach Associates, Inc. also advises that for leases of up to ten years, the market data show annual rent increases of three percent, which is equal to the annual rent increases in the proposed lease agreement, excluding the additional four percent every five years.

According to Ms. Bose, the proposed additional four percent annual increase every five years (in Year 6, Year 11, and Year 16), which is less common in comparable leases, is to alleviate Prologis' risk of foregoing higher rents over the next 20 years in a market where historically rents have increased in excess of three percent per year. Ms. Bose advises that the SFMTA initially tried to negotiate for a reappraisal at Year 10 instead of locking in additional four percent rent increases every five years. However, according to Ms. Bose, the SFMTA had little negotiating leverage because it was competing with other prospective tenants to lease the property and had no other suitable alternatives for housing its towed vehicle operations. Ms. Bose advises that the SFMTA does not know who the competing prospective tenants were.

[3] Addendum 1, Industrial Lease between Prologis, L.P. and the City and County of San Francisco.

Ms. Bose advises that although the SFMTA conceded the additional four percent rent increases every five years, it was also able to gain a number of concessions from Prologis, including:

1. An "industrial gross lease" structure, whereby Prologis would be responsible for base operating expenses, instead of a "triple net lease" structure, whereby the SFMTA would have been responsible for all base operating expenses (estimated to be $372,026 in Year 1 and total $7,440,520 over 20 years).

2. A Phase I Landlord Tenant Improvement allowance of $800,000, instead of only $200,000 initially offered by Prologis (see below).

3. The right of first negotiation, whereby if Prologis decided to sell the property, Prologis would be required to negotiate with the SFMTA before negotiating with other interested parties.

Reimbursement of Excess Operating Expenses after Year 1

The proposed lease is structured as an "industrial gross lease," whereby (a) the SFMTA would be responsible for all services and utilities, and (b) the SFMTA would be responsible for reimbursing Prologis for all operating expenses in excess of the base operating expenses paid by Prologis in Year 1. According to the proposed lease, operating expenses include maintenance and operation of the property, such as real estate taxes, insurance, fees payable to tax consultants and attorneys, and the maintenance and repair of all exterior portions of the building for which Prologis is responsible as set forth in the lease agreement. Prologis estimates that the total base operating expenses in Year 1 would be $372,025, and that total operating expenses would increase by two percent each year. Table 2 below shows the estimated annual total operating expenses and excess operating expenses for Years 1 through 20.

Table 2: Estimated Excess Operating Expenses

Year	Annual Operating Expenses Paid by Prologis	Excess Operating Expenses Paid by the SFMTA
1	$372,025	
2	$379,466	$7,441
3	$387,055	$15,030
4	$394,796	$22,771
5	$402,692	$30,667
6	$410,746	$38,721
7	$418,961	$46,936
8	$427,340	$55,315
9	$435,887	$63,862
10	$444,605	$72,579
11	$453,497	$81,471
12	$462,567	$90,541
13	$471,818	$99,793
14	$481,254	$109,229
15	$490,879	$118,854
16	$500,697	$128,672
17	$510,711	$138,686
18	$520,925	$148,900
19	$531,344	$159,318
20	$541,971	$169,945
Total cost to the SFMTA		**$1,598,730**

As Table 2 above shows, the estimated excess operating expenses in Year 2, for which the SFMTA would reimburse Prologis, are $7,441. By Year 20, the estimated annual excess operating expenses would increase to $169,945, such that the estimated cost to the SFMTA for excess operating expenses over the initial 20-year lease term would total $1,598,730.

Under the proposed lease, Prologis would be responsible for maintaining any portion of the building systems (heating, ventilating, air conditioning, plumbing, electrical, fire protection, life safety, and security) located outside the warehouse and office building, and for maintaining the exterior and structural portions of the building. All such costs would be considered operating expenses, and would be subject to reimbursement by the SFMTA if they result in the annual operating expenses exceeding the Year 1 base operating expenses. Under the proposed lease, the SFMTA would be responsible for maintaining the heating, ventilating, air conditioning, plumbing, electrical, fire protection, life safety, and security systems within the building. Any replacement of the building systems that is required after the expiration of any warranty periods would be paid for initially by Prologis and incorporated in the excess operating expenses for

which the SFMTA is required to reimburse Prologis, amortized over the lesser of (a) the useful life of the replacement system or (b) 10 years, plus 10 percent interest each year.

Initial and Subsequent Tenant Improvements

Under the proposed lease agreement, Prologis would expend up to $800,000 for the SFMTA's requested tenant improvements prior to the rent commencement date. These tenant improvements are referred to in the proposed lease agreement as "Phase I Landlord Tenant Improvements." The SFMTA would not be required to reimburse Prologis for the cost of any Phase I Landlord Tenant Improvements up to a maximum of $800,000. If Prologis determines that the cost of Phase I Landlord Tenant Improvements will exceed $800,000, the SFMTA would have the option of paying the excess costs. If the SFMTA elects not to pay the excess costs, Prologis would reduce the scope of the tenant improvements. The agreed upon Phase I Landlord Tenant Improvements include the construction and installation of lunchroom cabinets and countertops, doors, windows, walls, blinds, plumbing, gas lines, fire protection systems, HVAC systems, lighting fixtures, electrical fixtures, and a telephone board.[4]

Within three years after the rent commencement date, the SFMTA would have the right to request additional tenant improvements, referred to in the proposed lease agreement as "Phase II Landlord Tenant Improvements." Phase II Landlord Tenant Improvements, costing up to $1,000,000, could be paid upfront by the SFMTA, or, at the request of the SFMTA, could be paid initially by Prologis and later reimbursed by the SFMTA. Any Phase II Landlord Tenant Improvements paid for initially by Prologis would be reimbursed by the SFMTA in 120 monthly installments immediately following the completion of Phase II Landlord Tenant Improvements, at an interest rate of 9 percent per annum. After the third anniversary of the rent commencement date, the SFMTA would no longer have the right to request tenant improvements paid for initially by Prologis.

FISCAL IMPACT

As shown in Table 1 above, the annual base rent in Year 1 would be $2,449,642 and the proposed base rent over the initial 20-year lease term would total $70,245,708.

Under the existing MOU between the SFMTA and the Port for the SFMTA's use of Pier 70, the SFMTA currently pays the Port annual rent of $1,759,752.These rent payments are equal to and offset by the license fee AutoReturn, the SFMTA's towed vehicle contractor, pays the SFMTA. According to Ms. Bose, the existing agreement with AutoReturn expires July 31, 2015. AutoReturn also pays for operating and maintenance expenses at Pier 70. Ms. Bose advises that at 2650 Bayshore Boulevard, AutoReturn would pay (a) operating and maintenance expenses and (b) the excess operating expenses reimbursable by the SFMTA to Prologis, proportionate to its use of the space at 2650 Bayshore Boulevard for towed vehicle operations. The SFMTA would pay the balance of both (a) the operating and maintenance expenses and (b) the excess operating expenses not paid by AutoReturn. The estimated excess operating expenses payable

[4] Schedule 2 Finish Standards, Industrial Lease between Prologis, L.P. and the City and County of San Francisco.

by the SFMTA to Prologis over the initial 20-year term of the proposed lease are $1,598,730, as shown on Table 2 above.

The difference between the proposed base rent for 2650 Bayshore Boulevard and the rent currently paid for Pier 70 by the SFMTA and offset by AutoReturn's license fee is $690,070 ($2,449,642 minus $1,759,572). This difference of $690,070 would be paid from SFMTA revenues rather than from increasing AutoReturn's license fee.

The SFMTA FY 2012-13 budget includes six months of rent for 2650 Bayshore Boulevard ($1,224,821, or 50 percent of Year 1 rent of $2,449,642) and one year of rent for Pier 70 ($1,759,572) to account for an estimated six-month overlap in the transfer of towed vehicle storage and other functions from Pier 70 to 2650 Bayshore Boulevard. However, the SFMTA now anticipates a later rent commencement date for 2650 Bayshore Boulevard, resulting in a three-month rather than six-month overlap. Therefore, it is anticipated that the SFMTA will pay rent for both Pier 70 and 2650 Bayshore Boulevard for a period of at least three months, and AutoReturn's license fee payment will not cover any portion of the rent payments for 2650 Bayshore Boulevard until July 1, 2013.

According to Ms. Bose, the SFMTA, in addition to the vehicle towing and storage operations, is considering relocating other operations to the 2650 Bayshore property in order to economize its use of space and reduce its overall rent expenditures. According to the August 21 SFMTA report, the SFMTA can generate $368,877 in savings per year by relocating its parking enforcement operations (Enforcement) to 2650 Bayshore Boulevard and terminating Enforcement's three existing leases. Taking this action would reduce the annual fiscal burden of relocating to 2650 Bayshore Boulevard by $368,877, from $690,070 to $321,193. However there are no guarantees that the pending relocation or lease terminations to save money will in fact take place.

The SFMTA is also considering relocating training for Muni operators and maintenance from various locations to 2650 Bayshore Boulevard in order to have consolidated classrooms, offices, and space for simulators and equipment for various types of transit vehicles. Relocating the SFMTA's training activities would not generate rent savings because the City owns and thee SFMTA has jurisdiction over the buildings that house its training activities;howe ver, relocating its training activities could generate efficiency savings. Ms. Bose advises that the SFMTA Real Estate and Facilities Vision for the 21st Century Report, which will be completed in late 2012, will make final recommendations as to how the remaining space at 2650 Bayshore Boulevard should be used in order to better economize the SFMTA's use of space and reduce its overall rent expenditures.

POLICY CONSIDERATIONS

The proposed lease agreement increases SFMTA's costs for towed vehicle operations and storage

The increased annual rent of $690,070 for leasing 2650 Bayshore Boulevard results in expenditures for the SFMTA's vehicle towing and storage operations exceeding vehicle towing and storage fee revenues.P resently the SFTMA costs vehicle towing and storage operations, including rental costs, have been fully reimbursed from the license fees paid by the towing contractor AutoReturn.

Currently, the annual license fee of $1,759,572 that AutoReturn pays the SFMTA is equal to and offsets the rent that the SFMTA pays the Port for its use of Pier 70. Although the $2,449,642 rent for the proposed 2650 Bayshore Boulevard lease exceeds AutoReturn's annual license fee by $690,070, Ms. Bose advises that the SFMTA is unlikely to consider increasing AutoReturn's license fee of $1,759,572 payable to the SFMTA to cover the additional $690,070 cost of renting the property at 2650 Bayshore Boulevard because (a) only a portion of the space at 2650 Bayshore Boulevard will be used for towed vehicle operations, and (b) increasing AutoReturn's license fee would require increasing the City's vehicle towing and storage fees.

However, if the SFMTA does not reduce its rent expenditures by $690,070 to compensate fully for the higher rent at 2650 Bayshore Boulevard, the SFMTA's towed vehicle operations costs will be less than the revenues generated by towed vehicles, resulting in the SFMTA subsidizing its towed vehicle operations through other revenues.

The SFMTA's expenditures for leasing 2650 Bayshore Boulevard significantly exceed estimated costs for purchasing comparable property.

The SFMTA initially intended to purchase, rather than lease, property for towed vehicle operations and storage, but as noted above, was unable to purchase 2650 Bayshore Boulevard. According to Ms. Bose, the property at 2650 Bayshore Boulevard was vacated by the United States Postal Service in July of 2010 at which time the SFMTA considered a lease and option to purchase the property because the site was found to be ideal for housing the SFMTA's towed vehicle operations. However, according to Ms. Bose, Prologis was able to move faster than the City and purchased the property for $21,000,000. The SFMTA then negotiated with Prologis for the lease and right of first negotiation. Under the proposed lease agreement, the SFMTA's costs of $70,245,708 (see Table 1 above) to lease 2650 Bayshore Boulevard for the first 20 years of the lease are an estimated $34,137,583, or 94.5 percent, more than Prologis' purchase in 2011, including principal and interest, of $36,108,125[5].

Under the proposed lease, the SFMTA has the right of first negotiation if the landlord, Prologis, were to sell the property. However, should SFMTA locate another property to purchase for its towed vehicle operations, the SFMTA does not have the right to terminate the lease prior to

[5] Based on initial purchase price of $21,000,000 and six percent loan costs, amortized over 20 years.

Year 10. According to Ms. Bose, the SFMTA proposed during negotiations with Prologis that the SFMTA have termination at any time while Prologis proposed no termination rights during the 20 year term. Ms. Bose states that SFMTA and Prologis reached a compromise, allowing SFMTA lease termination rights in Year 10.

According to Ms. Bose, the SFMTA anticipates growth in demand for transportation services, with includes using the 2650 Bayshore Boulevard space for other SFMTA uses in addition to the towed vehicle operations and storage. Ms. Bose projects that SFMTA will need to lease or purchase further space to meet the growth in demand for transportation services in addition to the proposed lease of 2650 Bayshore Boulevard.

The proposed lease provides for high interest costs if the Prologis makes improvements to the property at the Prologis' expense, subject to reimbursement by the SFMTA.

As noted above, if Prologis were to make additional Phase II Landlord Tenant Improvements, totaling up to $1,000,000, at its own cost at the request of the SFMTA, the SFMTA would reimburse Prologis for the cost of said improvements over 10 years at 9 percent interest. Also, any replacement of the building systems that is required after the expiration of any warranty periods would be paid for initially by Prologis and incorporated in the excess operating expenses for which the SFMTA is required to reimburse Prologis, amortized over the lesser of (a) the useful life of the replacement system or (b) 10 years, plus 10 percent interest each year.

The proposed lease would result in up to a six-month overlap of the Pier 70 and 2650 Bayshore leases.

Under the existing MOU for Pier 70 between the SFMTA and the Port, the SFMTA was required to give one-year notice to terminate the MOU.The SFMTA sent the Port a notice letter on April 5, 2012, and met with the Port on April 26, 2012 regarding the SFMTA's future termination of the MOU and proposed lease of 2650 Bayshore Boulevard. The effective MOU termination date is June 30, 2013. The SFMTA FY 2012-13 budget includes one-year rent for the Pier 70 MOU with the Port ($1,759,572) and six-months rent for the proposed 2650 Bayshore Boulevard lease ($1,224,821). According to SFMTA, the actual rent commencement date is expected for approximately March 1, 2013, resulting in three-months rent for the proposed 2650 Bayshore Boulevard lease of $612,410.

Because the proposed lease significantly increases the SFMTA's rental expenditures, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

Because, according to the SFMTA, the proposed 2650 Bayshore Boulevard lease between the SFMTA and Prologis is the best existing option for housing the SFMTA's towed vehicle operations, but at the same time commits the SFMTA to paying rents that significantly exceed the estimated cost of purchasing comparable property, with the option to terminate only at Year 10 of a 20-year lease, the Budget and Legislative Analyst considers approval of the proposed lease, subject to the amendments to the proposed resolution recommended above, to be a policy matter for the Board of Supervisors.

The SFMTA Director should report back to the Budget and Finance Committee of the Board of Supervisors on the SFMTA Real Estate and Facilities Vision for the 21st Century Report prior to December 31, 2012, including (a) how the SFMTA will reorganize its leased space to reduce total leasing costs; and (b) how the proposed lease fits into the SFMTA's long term space needs.

Also, in order to avoid the high interest costs of 9 to 10 percent, the proposed resolution should be amended to require that the SFMTA pay for all necessary Phase II Landlord Tenant Improvements and building systems replacement up front, rather than reimbursing Prologis at high interest rates of 9 to 10 percent.

RECOMMENDATIONS

Amend the proposed resolution to require:

1. The SFMTA Director to report back to the Budget and Finance Committee of the Board of Supervisors on the SFMTA Real Estate and Facilities Vision for the 21st Century Report prior to December 31, 2012, and explain (a) how the SFMTA will reorganize its leased space to reduce total leasing costs; and (b) how the proposed lease fits into the SFMTA's long term space needs; and

2. That the SFMTA pay for all necessary Phase II Landlord Tenant Improvements and building systems replacements up front, rather than reimbursing Prologis at high interest rates of 9 to 10 percent.

Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

September 4, 2012

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

RE: Lease of Real Property for the SFMTA
2650 Bayshore Boulevard, Daly City, California 94014
Assessor's Parcel Number: 005-080-100

Honorable Members of the Board of Supervisors:

Attached for your consideration is a Resolution authorizing an Industrial Gross Lease with a First Right of Negotiation to Purchase (Lease) an approximate 12.72 acre property with 255,420 rentable square feet of warehouse, office and parking lot space with Prologis, L.P., a Delaware limited partnership (Prologis) at 2650 Bayshore Boulevard in Daly City (Premises), for the San Francisco Municipal Transportation Agency's (SFMTA) towed car operations and other transit related uses. The Lease has an initial 20-year term commencing on the full execution, plus two five-year extension options.

Background

The SFMTA and the Port of San Francisco (Port) entered into a Memorandum of Understanding (MOU – Port Reference M-13828) on July 30, 2005 for the use of approximately 13 acres of property on Pier 70 for the SFMTA's towed car operations, storage and uses. The First Amendment of this MOU extended the term to July 31, 2015. In concert with the Port's intention of developing the Pier 70 area as a mixed use opportunity area, as highlighted in the Port's Waterfront Land Use Plan and the Port's Pier 70 Area Preferred Master Plan, the SFMTA has been searching for an equivalent-sized site to house its towed car operations and storage. The SFMTA's timely relocation from Pier 70 would allow the Port an opportunity to effectively execute part of its waterfront revitalization Master Plan and further creates a win-win situation for both agencies on accomplishing their respective strategic goals and objectives.

Industrial Lease Terms

The proposed Lease has an initial term of twenty years that commences when both Prologis and the SFMTA have fully executed the Lease, with an initial base rent of $204,136.85 [$0.80/square foot (s.f.) per month] or $2,449,642 per year ($9.59/s.f. per year) for approximately 255,420 rentable square feet of interior warehouse and office space. Annual rent escalations will be three percent, plus an additional four percent increase every five years. Prologis will pay all operating expenses for Lease Year 1. After the Lease Year 1, the SFMTA would pay any operating expense increases, which are estimated to be approximately $7,441 in Lease Year 2 and increasing to $10,627 in

Lease Year 20 (assuming two percent increase per year due to inflation adjustments). Operating expenses include real estate taxes, insurance carried by Prologis for the Premises, Prologis's repair and maintenance costs, and Prologis's property management fee. In addition, the SFMTA would pay for Prologis's capital repair or replacement expenses for the Premises, which will be amortized over the lesser of (i) useful life based on generally accepted accounting principles and (ii) 10 years, plus seven percent interest per annum. Prologis' total capital expenses are estimated to be $1.3 million beginning Lease Year 5 through Lease Year 20. The Lease includes an early termination right at the end of Lease Year 10 with a one-year advance notice and the payment of $276,696.07 and any remaining unpaid unamortized amount of the initial tenant improvements made for SFMTA. Details of the lease terms are also contained in Attachment 1.

Due Diligence

The SFMTA has performed due diligence of the Premises. Prologis provided SFMTA with the reports (URS Reports) prepared for Prologis by URS Corporation Americas (URS), which conducted a Phase I Environmental Site Assessment and a limited Phase II testing on July 29, 2011. Laboratory analytical data showed all samples were below laboratory analytical detection limits for the compounds analyzed. Based on this information, significant environmental concerns related to historic operations at the Premises are unlikely to exist, and as such no further assessment is warranted. Due to concerns on historic spill incidents and the uses of fuel storage tanks at the Premises, URS recommended and performed limited Phase II testing at the Premises. Ground water samples indicated that any residual plume of contamination was not migrating. Based on these findings, URS concluded that the historical incidents and prior uses of fuel storage tanks are unlikely to pose an ongoing environmental liability.

The SFMTA further retained the City's Department of Public Works (DPW) to review the URS Reports. DPW concurred with the URS conclusion that significant environmental concerns related to historic operations at the Premises are unlikely to exist and no further assessment is warranted.

Per the requirements under the California Environmental Quality Act (CEQA), Prologis prepared and submitted the CEQA documents to the Daly City Planning Commission. The Daly City Planning Division, acting as a lead agency on environmental review, issued a Negative Declaration for the proposed uses of the Premises under the Lease (CEQA Findings) in its July 3, 2012 meeting. The Daly City Council approved the CEQA Findings in its July 23, 2012 meeting. SFMTA submitted the CEQA Findings to the City's Planning Department, which concurred with the CEQA findings.

If both the SFMTA and Prologis agree to a purchase agreement in the future under the terms of the First Right of Negotiation for Purchase granted in the Lease, completion of any further environmental testing, if recommended by DPW, will be performed before submittal to the SFMTA Board of Directors and the Board of Supervisors for approval.

Appraisal

The initial Lease base rent of $0.80/s.f. month or $9.59/s.f. year and SFMTA's obligation to pay for increases in operating expenses (which include capital expenses), are within the competitive fair market value range for a warehouse and office building with parking of this size and condition in the San Francisco and San Mateo County markets.

The SFMTA also had an appraisal prepared by Mansbach Associates, Inc., dated June 20, 2012. The appraisal concluded:

"The proposed rent for the subject property at $0.80 per square foot industrial gross is below the adjusted comparable range. This differential is considered warranted given the factors discussed above including large size, metal-clad construction, and proximity to residential uses. The concluded market rental value for the subject property is $0.80 per square foot, which is equivalent to the proposed contract rent. Applying this figure to the subject building area of 255,420 square feet results in the following valuation:

*$0.80 per square foot *255,420 square feet = $204,336.*

This rent is stated on a monthly basis with an industrial gross expense structure. For leases with terms of up to ten years, the market data shows annual rent escalations of three percent. Tenant improvement allowances vary, but several dollars per square foot would be expected. The proposed subject lease is also consistent with market norms for these factors.

In conclusion, it is the opinion of the undersigned, subject to the assumptions and limiting conditions stated herein, that the monthly industrial gross market rental value conclusion for the subject property, as of June 27, 2012, is $204,336."

Funding Impact

The monthly base rent under the Lease starts at $204,136.85 ($0.80/s.f. per month) or $2,449,642 per year ($9.59/s.f. per year). In Lease Year 2, the SFMTA would pay $2,523,131 in base rent and any increase in operating expenses over the Lease Year 1 operating expenses. The increase in operating expenses is estimated to be approximately $7,441 in Lease Year 2 and increasing to $10,627 in Lease Year 20 (assuming two percent increase per year due to inflation adjustments). The base rent is increased three percent annually, with an additional four percent increase every five years.

Under the SFMTA-Port MOU No: M-13828 for the use of Pier 70, SFMTA pays the Port a use fee of $142,634 per month or $1,711,608 per year for fiscal year (FY) 2011-2012; $146,913 per month or $1,762,956 per year for FY 2012-2013; and $151,320 per month or $1,815,840 per year for FY 2013-2014. These rent payments are offset by the SFMTA's towed car operations contractor - AutoReturn's license fee paid to the SFMTA for its use of Pier 70. The MOU terminates on July 31, 2015 unless it is terminated by either party under the provisions of the early termination clause.

The estimated 2012-2013 net fiscal impact between the base rent for the Premises and the license fee AutoReturn pays to SFMTA for its use of Pier 70 is $686,686. If the SFMTA moves its Enforcement section to the Premises, it would be able to terminate Enforcement's three existing leases for a savings of $368,877 per year, which would further reduce SFMTA's overall rent expenditures. The SFMTA is also considering moving Training for Muni Operators and Maintenance from various locations to the Premises in order to have consolidated classrooms, offices, and space for simulators and equipment for various types of transit vehicles. The SFMTA may also store transit and transportation equipment at the Premises to free up space at other SFMTA transit and transportation facilities and operate those facilities more efficiently. The base rent and SFMTA's anticipated payment for operating expenses for Lease Years 1-2 are included in the SFMTA's FYs 13 and 14 operating budgets.

Alternatives Considered

For several years, the SFMTA has been looking for alternatives to replace the 13 acres at Pier 70 due to the Port's long-term plans to develop that property. There are few, if any similarly-sized sites in San Francisco. Other sites analyzed and considered have major issues:

- Properties with owners who do not want to sell, and if the property was pursued, it most likely would require a long and costly eminent domain process;
- Properties that have hazardous materials that need significant, expensive remediation measures;
- Properties that were re-zoned uses other than industrial or light industrial use;
- Port properties, such as Piers 94-96 along Cargo Way south of Islais Creek, which would require millions of dollars for infrastructure improvements, are not suitable for buildings. The Port's property consists primarily of trust lands granted by the State to the City pursuant to 1968 Burton Act. These land trusts prohibit permanent transit and transportation uses. If the SFMTA wanted to swap properties with the Port, the SFMTA would have to purchase other shoreline property and begin a long, expensive land exchange and State Trust swap -- requiring equivalent fair market values appraisals, SFMTA Board of Directors and the Board of Supervisors' approvals, as well as approvals by the State Lands Commission, Legislature, and the Governor.

SFMTA Board of Directors' Approval

The SFMTA Board of Directors relied on and adopted the CEQA Findings in its consideration of the requested approval of the Lease, and authorized the SFMTA Director of Transportation to submit this Lease for approval by the City's Board of Supervisors and Mayor through its Resolution 12-109 in its August 21, 2012 meeting.

Recommendation

The SFMTA recommends that the Board of Supervisors approve this Lease.

If you have any questions regarding this matter, please contact Kerstin Magary of my staff at 701-4323.

Sincerely,

Edward D. Reiskin
Director of Transportation

cc: Monique Moyer, Port of SF Executive Director
Sonali Bose, SFMTA CFO
Kerstin Magary, SFMTA Senior Manager of Real Estate
Janet Martinsen, SFMTA Local Government Affairs Liaison

Attachment 1

Summary of SFMTA's Lease Terms for 2650 Bayshore Blvd., Daly City

The SFMTA negotiated a Lease with a First Right of Negotiation to Purchase between Prologis L.P. (Prologis), as landlord, and City and County of San Francisco (City), on behalf of the SFMTA as tenant, for 2650 Bayshore Boulevard in Daly City.

Property square feet:	The Premises is on 12.765 acres (including a strip on the north side subject to an easement for railroad and transportation purposes), for a net of approximately 12.72 usable acres. A small portion of the Premises, 2,228.8 s.f. (the northwest corner of the railroad and strip subject to the transportation easement), is in San Francisco. The Premises includes 255,420 rentable square feet (s.f.) of buildings, of which approximately two-thirds is warehouse and one-third is office, plus 320 exterior parking spaces.
Owner/Landlord:	Prologis, L.P.
Tenant:	City on behalf of the SFMTA
Rent:	The monthly base rent starts at $204,136.85 ($0.80/s.f. per month), $2,449,642 per year ($9.59/s.f. per year), with annual three percent increases, plus an additional four percent increase every five years.
Operating Expenses/Taxes:	Prologis pays operating expenses for Lease Year 1. After the Lease Year 1, the SFMTA would pay any operating expenses increases, which are estimated to be approximately $7,441 in Lease Year 2 and increasing to $10,627 in Lease Year 20 (assuming two percent increase per year).
Term:	The initial team is for 20 years, with two five-year options to extend.
Phase I Tis:	Prologis would provide an $800,000 allowance for the initial improvements SFMTA needs for its towed car operations (Phase I TIs), and Prologis will use reasonable commercial efforts to complete the Phase I TIS within two months of the full execution of the Lease. If the Phase I TI costs will exceed this allowance, SFMTA can elect to pay those additional costs or to reduce the scope of the Phase I TIs.
Phase II TIs - $1 million at 9% with notice by third anniversary	If SFMTA requests additional tenant improvements before the third anniversary of the Lease rent commencement date (Phase II TIs), Prologis would provide up to $1,000,000 to pay for the Phase II TIs. Any amount of this allowance used by SFMTA for Phase II TIs will bear interest at 9% per annum, and must be repaid by SFMTA in equal monthly installments over the first 120 months following completion of the Phase II TIs. If the Phase II TI costs exceed this allowance, SFMTA can pay such excess amount or reduce the scope of the Phase II TIs.
LEED Certification:	Prologis is to comply with all applicable provisions of City Environment Code Sections 700 to 713 in making the Phase I TIs and the Phase II TIs.
Parking:	Estimated 320 parking spaces outside the warehouse and office building.
Maintenance & Repair: Landlord	Prologis is to repair any portion of the building systems located outside of the building and the exterior and structural portions of the building, and its repair costs shall be an operating expense.

Maintenance & Repair: City	City is to repair, maintain and replace at its cost any portion of the building systems located within the building and the interior portions of the building and to keep the Premises in good working order and in a safe and sanitary condition, except for ordinary wear and tear and damage by casualty.
Hold Over:	Any holdover rent will be 150% of the base rent payable in the last month of the Lease term.
Sublease/Assignment:	City has the right to sublease all or part of the Premises with Prologis's prior written consent, which cannot be unreasonably withheld. Use of all or any part of the Premises or sublease(s) to any City department, agency or commission is not considered a sublet and is not subject to Landlord approval or profit participation. If any sublease rent exceeds the Lease base rent, City shall pay Prologis 80% of such excess amount.
Subordination and Non Disturbance:	Prologis's lender will be required to execute a Subordination and Non Disturbance Agreement.
Commissions:	Prologis shall be solely responsible for any and all leasing commissions.
Landlord Representations:	Prologis represents and warrants to City that, except as may be disclosed in that certain Phase I Environmental Site Assessment prepared by URS Corporation Americas, dated July 29, 2011, to the best of its current, actual knowledge, there are no Hazardous Materials in reportable quantities on or being released from or onto the Premises.
City Lease Form:	The Lease has been approved as to form by the City Attorney, was approved by the SFMTA Board on August 21, 2012 through SFMTA Board Resolution No.12-109, and is subject to approval by the Board of Supervisors and Mayor.
SFMTA Rent Estimate:	The estimated rent and expense projections for two Fiscal Years: • FY 2012-13 – Lease Year 1: $204,136.85 ($0.80/s.f. per month), $2,449,642 per year ($9.59/s.f. per year). • FY 2013 – 14 – Lease Year 2: the SFMTA would pay $2,523,131 in base rent and any increased operating expenses, which are estimated to be approximately $7,441 in Lease Year 2 (if estimated at two percent increase per year). • Base rent increases by three percent each year, with an additional four percent increase every five years.
Right of First Negotiation	If Prologis wishes to sell the Premises, it must first provide SFMTA with a written notice of the proposed sale price. If SFMTA wishes to offer to purchase the Premises for such price, the parties successfully negotiate a purchase and sale agreement, CEQA review is completed and SFMTA receives approval for the proposed purchase of the Premises from the SFMTA Board of Directors and the City's Board of Supervisors and Mayor, closing would occur 45 days following the full execution of the purchase and sale agreement.

MUNICIPAL TRANSPORTATION AGENCY
BOARD OF DIRECTORS
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION No. 12-109

WHEREAS, The San Francisco Municipal Transportation Agency (SFMTA) and Port of San Francisco (Port) entered into a Memorandum of Understanding (MOU – Port Reference M-13828), as amended, for the use of approximately 13 acres of property on Pier 70 through July 31, 2015, subject to any exercise of an early termination right by Port or SFMTA; and

WHEREAS, In concert with the Port's intention of developing the Pier 70 area into a mixed use opportunity area as highlighted in the Port's Waterfront Land Use Plan and the Port's Pier 70 Area Preferred Master Plan, the SFMTA has been searching for an equivalent-sized site to house its towed car operations; and

WHEREAS, The SFMTA negotiated an Industrial Lease with a First Right of Negotiation for Purchase (Lease) with Prologis, L.P. (Prologis) for a 12.72 acre site located at 2650 Bayshore Blvd., Daly City (Premises), for SFMTA's towed car operations, storage and other transit-related uses; and

WHEREAS, The Lease has an initial lease team of 20 years, with two five-year options to extend, and the Premises includes 255,420 rentable square feet of building, of which approximately two-thirds is warehouse and one-third is office, plus 320 exterior parking spaces, with monthly base rent starting at $204,136.85 ($0.80/s.f. per month) or $2,449,642 per year; and

WHEREAS, The Daly City Planning Commission, acting as a lead agency under the California Environmental Quality Act (CEQA), issued a negative declaration for the proposed uses for the SFMTA (CEQA Findings); Daly City Council approved, and the City's Planning Department concurred with, the CEQA Findings; and

WHEREAS, The SFMTA Board of Directors is relying on the CEQA Findings in its consideration of the requested approval of the Lease; and now, therefore be it

RESOLVED, That the SFMTA Board of Directors hereby adopts and incorporates herein by this reference the CEQA Findings as its own and authorizes the Director of Transportation to execute an Industrial Lease with a First Right of Negotiation to Purchase (Lease) between Prologis L.P., a Delaware limited partnership (Prologis), as landlord, and the SFMTA as tenant, for certain premises at 2650 Bayshore Boulevard, Daly City, California (Premises), for the SFMTA towed car operations, and for other SFMTA facilities, storage and uses, with an initial 20-year term that commences on the full execution of the Lease, plus two five-year extension options; and be it

FURTHER RESOLVED, That the SFMTA Board of Directors authorizes the Director of Transportation to submit the Lease to the Board of Supervisors and the Mayor for approval.

I certify that the foregoing resolution was adopted by the Municipal Transportation Agency Board of Directors at its meeting of August 21, 2012.

R. Boomer

Secretary to the Board of Directors
San Francisco Municipal Transportation Agency

INDUSTRIAL LEASE

between

PROLOGIS, L.P., A DELAWARE LIMITED PARTNERSHIP,
as Landlord

and

CITY AND COUNTY OF SAN FRANCISCO,
as Tenant

For the lease of
2650 Bayshore Boulevard, Daly City, California 94014

_____, 2012

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LIST OF ADDENDA

LIST OF EXHIBITS

INDUSTRIAL LEASE

THIS INDUSTRIAL LEASE (this "Lease"), dated for reference purposes only as of _____, 2012, is by and between PROLOGIS, L.P., a Delaware limited partnership ("Landlord"), and the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("City" or "Tenant"), acting by and through the San Francisco Municipal Transportation Agency ("SFMTA").

Landlord and City hereby agree as follows:

1. BASIC LEASE INFORMATION

The following is a summary of basic lease information (the "Basic Lease Information"). Each item below shall be deemed to incorporate all of the terms in this Lease pertaining to such item. In the event of any conflict between the information in this Section and any more specific provision of this Lease, the more specific provision shall control.

Lease Reference Date:	_____, 2012
Landlord:	PROLOGIS, L.P., A DELAWARE LIMITED PARTNERSHIP
Tenant:	CITY AND COUNTY OF SAN FRANCISCO
Building (Section 2.1):	The building ("Building") located at 2650 Bayshore Boulevard, Daly City, California 94014
Premises (Section 2.1):	The Building and the real property which is more particularly described and shown on Exhibit A, together with any other improvements located thereon
Rentable Area of Building (Section 2.1):	Approximately 255,420 rentable square feet
Term (Section 3):	Lease Commencement Date: The date this Lease is executed by Landlord and Tenant. Expiration Date: The last day of the Two Hundred Fortieth (240th) full month following the Rent Commencement Date, subject to City's exercise of its early termination right pursuant to Section 3.2. Tenant shall have two (2) 5-year renewal options as set forth in Section 23.
Base Rent (Section 4.1):	As shown on Addendum 1, commencing on the Rent Commencement Date (as defined in Section 3.2)
Adjustment Dates (Section 4.2):	As shown on Addendum 1.
Additional Charges (Section 4.3):	"Industrial gross lease" under which City is responsible for services and utilities to the Premises, performs certain repairs, and

	reimburses Landlord for Excess Operating Expenses, as provided in Section 4.
Base Year (Section 4.3):	The twelve (12) month period commencing on the Rent Commencement Date
Permitted Uses (Section 5.1):	"Permitted Uses" shall mean the following: warehousing, storage (including automobiles, trucks, motorcycles, transit vehicles, and other types of vehicles), transportation shops and other transportation needs, training and general office use.
Delivery Condition (Section 6):	Landlord shall deliver the Premises in the following condition ("Delivery Condition"): vacant and free of any tenancies, free of the personal property of Landlord and any previous tenant, broom clean, with all carpeting in the office areas freshly shampooed, with the exterior painted, the landscaping maintained in good condition, the Building and Building Systems (as defined in Section 8.1) in good working order and condition
Phase I Landlord TIs (Addendum 2)	Landlord shall perform the Phase I Landlord TIs
Utilities and Services (Section 9):	Obtained by City at City's expense
Notice Address of Landlord (Section 23.1):	Prologis, L.P. 3353 Gateway Boulevard Fremont, CA 94538
with a copy to:	Prologis, L.P. 4545 Airport Way Denver, CO 80239 Attention: General Counsel
Key Contact for Landlord:	Bayshore Boulevard Property Manager
Landlord Contact Telephone No.:	(510) 656-1900
Notice Address for Tenant (Section 23.1):	San Francisco Municipal Transportation Agency 1 South Van Ness Avenue, 8th Floor San Francisco, CA 94103 Attn: Real Estate Section Re: 2650 Bayshore Blvd. Fax No.: (415) 701-4341
with a copy to:	Office of the City Attorney City Hall, Room 234 1 Dr. Carlton B. Goodlett Place San Francisco, CA 94102-4682 Attn: Real Estate/Finance Team Re: 2650 Bayshore Blvd.

	Fax No.: (415) 554-4755
Key Contact for Tenant:	Senior Manager SFMTA Real Estate Section Finance and Information Technology Division 1 South Van Ness, 8th Floor San Francisco, CA 94103
Tenant Contact Telephone No.:	(415) 701-4323
Alternate Contact for Tenant:	Manager SFMTA Real Estate Section Finance and Information Technology Division 1 South Van Ness, 8th Floor San Francisco, CA 94103
Alternate Contact Telephone No.:	(415) 701-4794
Brokers (Section 23.8):	Landlord: Cassidy Turley Tenant: Colliers International
City Right of First Negotiation (Section 22.1):	City shall have the right of first negotiation to purchase the Premises on the terms and conditions set forth in Section 22.

2. PREMISES

2.1 Lease Premises

In consideration of the obligation of City to pay Rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to City and City leases from Landlord, subject to the provisions of this Lease, premises identified in the Basic Lease Information, which includes the Building, the real property described and shown on the attached Exhibit A, and all other improvements on or appurtenances thereon.

2.2 Delivery

On the Lease Commencement Date, Landlord shall deliver the Premises to City vacant and broom clean, free of any tenancies, free of the personal property of Landlord and any previous tenant, and with the Building and Building Systems in good working condition. Landlord shall use commercially reasonable efforts to cause the Phase I Landlord TIs to be Substantially Completed (as such term is defined in Addendum 2) within two (2) months from the date this Lease is fully executed, subject to Force Majeure and City Delay (as such term is defined in Addendum 2).

Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of City's business, and City waives any implied warranty that the Premises are suitable for City's intended purposes. In no event shall Landlord have any obligation for any limitation on the use of the Premises, unless such limitation is caused by Landlord's action or failure to act. The taking of possession of the Premises shall be conclusive evidence that City accepts the Premises and that the Premises were in good condition at the time. Landlord hereby warrants that the Phase I Landlord TIs shall be in good working order for a period of one (1) year from the date the Phase I Landlord TIs are Substantially Completed; provided, however, that such warranty shall not be effective for any maintenance, repairs or replacements necessitated

due to the misuse of, or damages caused by, City, its employees, contractors, agents, subtenants, or invitees.

3. TERM

3.1 Term of Lease

The Premises are leased for a term (the "Term") commencing on the Lease Commencement Date, and ending on the Expiration Date specified in the Basic Lease Information, or such earlier date on which this Lease terminates pursuant to the provisions of this Lease. Notwithstanding the foregoing, in no event shall the Term commence prior to the Effective Date, as defined in Section 23.30 below.

3.2 Lease Commencement Date; Rent Commencement Date and Expiration Date; Pre-Term Entry; Early Termination

The dates on which the Term commences and terminates pursuant hereto are referred to respectively as the "Lease Commencement Date" and the "Expiration Date". The date on which the Phase I Landlord TIs are Substantially Completed (as such term as defined in Addendum 2) shall be referred to as the "Rent Commencement Date". Promptly after the Rent Commencement Date, Landlord and Tenant shall execute a Rent Commencement Date Certificate substantially in the form of Exhibit B attached hereto, confirming the Lease Commencement Date, the Rent Commencement Date, and the Expiration Date, but either party's failure to do so shall not affect the commencement of the Term.

Landlord and City acknowledge that the parties anticipate that Landlord and City will enter into a license or other right of entry agreement (the "Entry Agreement") under which City will have the right to enter onto the Premises prior to the commencement of the Term hereof to perform certain environmental testing at the Premises. City's entry onto and use of the Premises prior to the Lease Commencement Date pursuant to the terms of the Entry Agreement shall be governed by the terms of the Entry Agreement and shall not affect the commencement of the Term of this Lease.

City shall have the right to terminate this Lease on the tenth (10^{th}) anniversary of the Rent Commencement Date by delivering written notice of such termination to Landlord on or before the ninth (9^{th}) anniversary of the Rent Commencement Date and paying the Reimbursable Costs to Landlord on or before such early termination date of the Lease. The "Reimbursable Costs" shall mean a termination fee equal to the sum of $276,696.07 and the total remaining unpaid unamortized amount of the Allowance and the Phase II Allowance (as such terms are defined in Addendum 2), amortized on a straight line basis with seven percent (7%) interest over a twenty (20) year period.

3.3 Delay in Delivery of Possession

Landlord shall use its best efforts to deliver possession of the Premises in the condition required by this Lease on or before the Lease Commencement Date. However, if Landlord is unable to deliver possession of the Premises as provided above, then, subject to the provisions of this Section below, the validity of this Lease shall not be affected by such inability to deliver possession.

4. RENT

4.1 Base Rent

Prior to the Lease Commencement Date, Landlord shall deliver the materials and information required by City's Office of the Controller to establish Vendor Identification Number and set up electronic payments of Base Rent through Paymode-X, a Bank of America

Merrill Lynch business-to-business electronic system. Beginning on the Rent Commencement Date, City shall pay to Landlord during the Term the annual Base Rent specified in the Basic Lease Information and Addendum 1 (the "Base Rent"). The Base Rent shall be payable in equal consecutive monthly payments on or before the first day of each month, in advance, to the bank account designated by Landlord pursuant to this Section. City shall pay the Base Rent without any prior demand and without any deductions or setoff except as otherwise provided in this Lease. If the Rent Commencement Date occurs on a day other than the first day of a calendar month or the Expiration Date occurs on a day other than the last day of a calendar month, then the monthly payment of the Base Rent for such fractional month shall be prorated based on a thirty (30)-day month. If City is delinquent in any monthly installment of Base Rent or of estimated Excess Operating Expenses (as hereinafter defined) for more than 5 days, City shall pay to Landlord on demand a late charge equal to five percent (5%) of such delinquent sum; provided, however, that Tenant shall not be obligated to pay the late charge unless and until Landlord has given Tenant 5 days written notice of the delinquent payment (which may be given at any time during the delinquency); and provided further, however, that such notice shall not be required more than twice in any 12-month period. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty or as limiting Landlord's remedies in any manner.

4.2 Adjustments in Base Rent

The Base Rent payable under Section 4.1 shall be adjusted periodically as set forth in Addendum 1.

4.3 Industrial Gross Lease; Additional Charges

This Lease is a so-called "industrial gross lease" under which City shall be responsible for services and utilities to the Premises and shall reimburse Landlord for the Excess Operating Expenses, as provided below. All charges or other amounts required to be paid or reimbursed by City under this Lease ("Additional Charges"), shall be additional rent hereunder and, to the extent payable to Landlord, shall be payable to Landlord either at the place where the Base Rent is payable or at the address specified for Landlord in the Basic Lease Information or such other place as Landlord may designate in writing upon not less than thirty (30) days' advance notice. Landlord shall have the same remedies for a default in the payment of any Additional Charges as for a default in the payment of Base Rent. The Base Rent and Additional Charges are sometimes collectively referred to below as "Rent."

4.4 Definitions

For purposes hereof, the following terms shall have the meanings hereinafter set forth:

(a) "Base Year" means the fiscal year specified in the Basic Lease Information.

(b) "Expense Year" means each fiscal year commencing July 1st of each year during the Term, and any partial fiscal year in which this Lease commences.

(c) "Excess Operating Expenses" means Operating Expenses for the applicable Expense Year in excess of Operating Expenses for the Base Year. "Operating Expenses" means all commercially reasonable and prudent costs and expenses incurred by Landlord with respect to the ownership, maintenance, and operation of the Premises including, but not limited to, costs of: Real Estate Taxes (hereinafter defined) and fees payable to tax consultants and attorneys for consultation and contesting taxes; insurance and all applicable deductibles for the insurance policies Landlord is required or permitted to maintain under this Lease; utilities; maintenance, repair and replacement of all portions of the Premises to be maintained, repaired or replaced by Landlord under Section 8.1 and Section 8.3, including without limitation, paving and parking areas, roads, structural and non-structural components of

the roofs (including the roof membrane), alleys, and driveways, mowing, landscaping, exterior painting, utility lines, lighting, electrical systems and other mechanical and building systems; amounts paid to contractors and subcontractors for work or services performed in connection with any of the foregoing; charges or assessments of any association to which the Premises is subject; property management fees payable to a property manager, including any affiliate of Landlord, or if there is no property manager, an administration fee of 15 percent of the total amount of Operating Expenses for the applicable Expense Year (provided, however, that the property management fees cannot increase over the property management fees for the Base Year); trash collection, sweeping and removal; additions or alterations made by Landlord to the Premises or the Building in order to comply with Laws (as defined in Section 10.1), other than those expressly required herein to be made by City; and the applicable monthly amortization of any capital improvement made by Landlord pursuant to Section 8.3 (such capital improvements being referred to as "Amortized Capital Improvements"), which shall be amortized over the lesser of (i) useful life based on generally accepted accounting principles ("GAAP") and (ii) 10 years, plus 10% interest per annum. Notwithstanding the foregoing, in lieu of including the amortized cost of any such capital improvement in the Operating Expenses, Tenant shall have the right at any time to pay Landlord for the cost of any such capital improvement prior to Landlord making such expenditure, or after Landlord has made any such capital improvement expenditure, Tenant may pay the then entire unamortized cost of the Amortized Capital Improvements. Operating Expenses do not include costs, expenses, depreciation or amortization for capital repairs expressly required to be made by Landlord and expressly identified as Landlord's sole cost under Section 8.1 of this Lease, debt service under mortgages or ground rent under ground leases, costs of restoration to the extent of net insurance proceeds received by Landlord with respect thereto, leasing commissions, or the costs of renovating space for tenants.

(d) "Insurance Costs" means all insurance costs, including, but not limited to, the cost of property and liability coverage and rental income and earthquake insurance applicable to the Premises which Landlord is obligated to provide pursuant to the terms of this Lease.

(e) "Real Estate Taxes" means all taxes, assessments and charges levied upon or with respect to the portion of the Premises owned by Landlord, or Landlord's interest in the Premises, or Tenant's possessory leasehold interest in the Premises (to the extent, if any, that Landlord is required to pay such possessory leasehold interest tax). Real Estate Taxes shall include, without limitation, all general real property taxes and general and special assessments, charges, fees, or assessments for transit, housing, police, fire, or other governmental services thereof, service payments in lieu of taxes that are now or hereafter levied or assessed against Landlord by the United States of America, the State of California or any political subdivision thereof, public corporation, district, or any other political or public entity, and shall also include any other tax, fee or other excise, however described, that may be levied or assessed as a substitute for, or as an addition to, in whole or in part, any other Real Estate Taxes. Notwithstanding the foregoing, Real Estate Taxes shall exclude (1) franchise, transfer, inheritance, or capital stock taxes or income taxes measured by the net income of Landlord from all sources unless, due to a change in the method of taxation, any of such taxes is levied or assessed against Landlord as a substitute for, or as an addition to, in whole or in part, any other tax that would otherwise constitute a Real Estate Tax, (2) any penalties, fines, interest or charges attributable to the late payment of any taxes, except to the extent attributable to City's failure to pay its portion of Real Estate Taxes hereunder, or (3) any personal property taxes payable by City hereunder or by any other tenant or occupant of the Building.

4.5 Payment of Excess Operating Expenses

During the Term, City shall pay to Landlord each month, as Additional Charges, one twelfth (1/12) of the Excess Operating Expenses. City shall make such payments, in advance, in an amount estimated by Landlord as provided in this Section. On or before May 1 of each calendar year during the Term of this Lease, Landlord shall provide City with written notice of Landlord's good faith estimate of the Excess Operating Expenses for the following Expense Year, which estimate shall be explained in reasonable detail. Landlord may revise such

estimates of Excess Operating Expenses from time to time, but shall use good faith efforts to provide such estimates as early as possible. Commencing on the later of July 1 of each Expense Year or the date which is sixty (60) days after City's receipt of Landlord's estimate (or revised estimate) of Excess Operating Expenses, City shall make payments to Landlord on the basis of such estimates. With reasonable promptness, and in all events within sixty (60) days after Landlord has received the invoice(s) for all Excess Operating Expenses for any Expense Year, Landlord shall furnish City with an Excess Operating Expense reconciliation invoice ("Invoice") and an Excess Operating Expense summary report listing the Excess Operating Expenses for the prior Expense Year ("Report"). If the amount of such actual Excess Operating Expenses for such Expense Year exceeds the estimated Excess Operating Expenses paid by City for such Expense Year, City shall pay to Landlord (whether or not this Lease has terminated) the shortfall within thirty (30) days after the receipt of Landlord's Invoice and Report. If the total amount of estimated Excess Operating Expenses paid by City for such Expense Year exceeds the actual Excess Operating Expenses for such Expense Year, such excess shall be credited against the next installments of Rent due from City hereunder, or at City's option, such excess shall be refunded to City if there is no existing monetary Event of Default.

4.6 Reserved

4.7 Proration

If the Rent Commencement Date or Expiration Date shall occur on a date other than the first or last day of an Expense Year, City's share of Excess Operating Expenses in which the Rent Commencement Date or Expiration Date occurs shall be prorated based on a three hundred sixty-five (365)-day year.

4.8 Audits

No later than 60 days following the first day of each Expense Year during the Term, Landlord shall deliver to City an Invoice and Report for the prior Expense Year. Provided no Event of Default exists under this Lease, City shall have the right, upon not less than five (5) business days' notice to Landlord, to audit the books and records of the Building related to Excess Operating Expenses. Such review of Landlord's property invoices may occur not more than once per year at Landlord's local market office during reasonable business hours. Landlord shall make the property invoices pertaining to those items which City reasonably believes to be in error, a copier and conference room available to City for a period not to exceed one week to examine such property invoices. In the event City desires to exercise the foregoing right, City shall deliver written notice of City's intent to review the property invoices, and shall identify the item(s) contained in the Invoice and Report which City believes to be in error, no later than ninety (90) days following City's receipt of the Invoice and Report. Time is of the essence with regards to the delivery of such notice. If such audit discloses any discrepancies which would result in a reduction of City's share of Excess Operating Expenses, Landlord shall immediately refund to City the amount of any overpayment by City. City shall keep any information gained from such examination confidential and shall not disclose it to any other party, except as required by law or for disclosures to any third party contractor performing such audit for City. Notwithstanding anything contained herein to the contrary, in no event shall City retain any person paid on a contingency fee basis to act on behalf of City with regards to the forgoing rights to review the property invoices and Landlord shall have no obligation to allow any such representative paid on a contingency fee basis access to Landlord's records. Notwithstanding anything contained in this Lease to the contrary, City hereby agrees that City's sole remedy pertaining to an error in the Invoice or Report shall be for the recovery from Landlord an amount equal to the amount overpaid by City and payment of any interest expressly provided below in the last sentence of this paragraph, and City hereby waives any right to terminate this Lease as a result of any such error in the Invoice or Report which City may have under law or equity. City shall pay the cost of such audit, provided that if such audit discloses any discrepancies which result in a reduction of City's share of Excess Operating Expenses of five percent (5%) or more for any Expense Year, then Landlord shall pay up to $5,000.00 of City's actual costs of such

audit. Additionally, if such audit discloses any discrepancies which result in a reduction of City's share of Excess Operating Expenses by more than ten percent (10%) for any Expense Year that concluded within two (2) years of the date of the audit, then Landlord shall also pay City ten percent (10%) annual interest on the amount of such overpayment made within two (2) years of the audit date, commencing on the date such overpayment was made and terminating on the date such overpayment is refunded to City.

4.9 Records

Landlord shall maintain at Landlord's regional office closest to the Building, complete and organized manner all of its records pertaining to this Lease and Excess Operating Expenses and any other charges paid by City pursuant hereto, for a period of not less than three (3) years following expiration of each Expense Year during the Term. Landlord shall maintain such records on a current basis and in sufficient detail to facilitate adequate audit and review thereof. All such books and records shall be available for inspection, copying and audit by City and its representatives, at City's expense, subject to the provisions of Section 4.8. At City's written request, Landlord shall provide copies of such records to City at the Premises or at the address for notices to City specified in Section 1.

5. USE

5.1 Permitted Use

City may use the Premises for the Permitted Uses. City shall not use the Premises for any other use without the prior written consent of Landlord, which shall not be unreasonably withheld or delayed. City will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure of the Premises. City shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would endanger Landlord. City, at its sole expense, shall use and occupy the Premises in compliance with all Laws, including, without limitation, the Americans With Disabilities Act. City shall, at its expense, make any alterations or modifications, within or without the Premises, that are required by Laws related to City's use or occupation of the Premises. Any occupation of the Premises by City prior to the Lease Commencement Date shall be subject to all obligations of City under this Lease.

5.2 Interference with Access or Use

Landlord shall not restrict access to the Premises; provided, however, that Landlord may, after consultation with the Senior Manager of SFMTA's Real Estate Section, interrupt City's access to the Premises in the event of an immediate threat of the Premises or any portion of the Building being rendered unsafe for human occupancy. If City's use of any of the Premises or access thereto is interrupted as a result of the Premises being rendered unsafe for human occupancy due to Landlord's failure to comply with its obligations under this Lease or for any other reason other than an Event of Default hereunder, then Landlord shall immediately undertake all necessary steps to correct such condition. In the event such condition continues, Tenant's remedies are set forth in Section 15.3 below with respect to Landlord defaults and in Section 9 below with respect to utility interruptions caused by Landlord. Nothing in this Section shall limit City's rights with respect to any disruption due to casualty pursuant to Section 12 (Damage and Destruction) hereof.

6. PREPARATION OF PREMISES

Prior to delivery of the Premises to City, Landlord shall satisfy the Delivery Condition.

7. ALTERATIONS

7.1 Alterations by City

City shall not make or permit any alterations, installations, additions or improvements (collectively, "Alterations") to the Premises without first obtaining Landlord's written consent, which Landlord shall not unreasonably withhold, condition or delay. If City further requests Landlord's approval to City leaving a proposed Alteration at the Premises after the expiration of the Term, or to removing a proposed Alteration from the Premises prior the expiration of the Term at the time City requests Landlord's approval to a proposed Alteration, any written consent given by Landlord for the proposed Alteration shall specify if the proposed Alteration must be removed from the Premises by City on or before the termination of the Term or shall remain at the Premises on the termination of the Term. The installation of furnishings, fixtures, equipment or decorative improvements, none of which affect the Building Systems (as defined in Section 8.2) or structural integrity of the Building, and the repainting of the interior of the Premises and recarpeting of the Premises shall not constitute Alterations requiring Landlord's consent. Any Alterations permitted hereunder shall be made at City's cost in compliance with applicable Laws. Landlord shall, without cost to itself, cooperate with City in securing building and other permits and authorizations needed in connection with any permitted Alterations. Landlord shall not be entitled to any construction or other administrative fee in connection with any Alteration. All Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used. All plans and specifications for any Alterations shall be submitted to Landlord for its approval. If Landlord reasonably determines it will need an outside consultant to review the plans and specification submitted by City for a proposed Alterations, Landlord shall deliver written notice (a "Consultant Review Notice") of such determination and the anticipated costs of such consultant review to City. Landlord shall not engage any consultant to review plans and specifications for any proposed Alterations without first obtaining City's written confirmation that Landlord shall proceed with such review. If City does not provide such written confirmation within ten (10) business days of City's receipt of a Consultant Review Notice, City shall have been deemed to withdrawn its request to have Landlord review the submitted plans and specifications that require such consultant review. Landlord may inspect and observe construction of the Alterations.

City shall reimburse Landlord for its costs in reviewing plans and specifications and in monitoring construction, provided such costs shall not exceed the actual, out-of-pocket costs paid by Landlord to third parties plus a construction management fee of (i) five percent (5%) of the actual Structural Cost (defined as follows) of such Alterations up to $200,000, (ii) four percent (4%) of the actual Structural Cost of such Alterations between $200,000 and $300,000, (iii) three percent (3%) of the actual Structural Cost of such Alterations between $300,000 and $400,000, and (iv) two percent (2%) of the actual Structural Cost of such Alterations over $400,000. The "Structural Cost" shall be an amount equal to the costs to physically alter the Premises to make an Alteration and the cost of the Alteration, but shall not include the cost of any personal property or equipment installed as part of such Alteration. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or construction comply with all Laws. City shall provide Landlord with the identities and mailing addresses of all third party contractors performing work at, or supplying materials to, the Premises, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Upon completion of any Alterations, City shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Alterations and final lien waivers from all such contractors and subcontractors.

Notwithstanding anything to the contrary herein, City shall have the right to perform the following Alterations at its sole cost, subject to Landlord's approval of the plans therefor, which shall not be unreasonably withheld, delayed or conditioned: (i) installing a pay phone for customers, (ii) installing electrical system architecture for a backup generator, (iii) installing an indoor 3-4 vehicle stack, and (iv) installing voice data and security insulation and equipment.

7.2 Title to Improvements

Except for City's Personal Property (as defined in the next Section) and any Alterations that City must remove pursuant to Section 7.1, all appurtenances, fixtures, improvements, equipment, additions and other property permanently installed in the Premises as of the Lease Commencement Date shall be and remain Landlord's property, and all appurtenances, fixtures, improvements, equipment, additions and other property permanently installed in the Premises during the Term shall be City's property until the end of the Term. City may not remove such property unless Landlord consents thereto. Upon surrender of the Premises, all Alterations and any leasehold improvements constructed by Landlord or City shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at City's expense of any such Alteration at the end of the Term pursuant to Section 7.1 or as otherwise agreed to in writing by Landlord and City. City shall repair any damage caused by the removal of such Alterations upon surrender of the Premises.

7.3 City's Personal Property

All furniture, furnishings, equipment, trade fixtures and articles of movable personal property installed in the Premises by or for the account of City and that can be removed without structural damage to the Premises (collectively, "City's Personal Property") shall be and remain City's property. At any time during the Term or at the expiration thereof, City may remove any of City's Personal Property, provided City shall repair any damage to the Premises resulting therefrom. Upon the expiration or earlier termination of this Lease, City shall remove City's Personal Property from the Premises in accordance with Section 20 (Surrender of Premises), below. Landlord acknowledges that some of City's Personal Property may be financed by an equipment lease financing otherwise subjected to a security interest, or owned by an equipment company and leased to City. Landlord, upon City's reasonable request and provided there is no monetary Event of Default, shall execute and deliver the form of landlord consent and waiver agreement attached hereto as Exhibit E with any supplier, lessor, or lender in connection with the installation or provision of any items of City's Personal Property in the Premises.

7.4 Alteration by Landlord

Landlord shall use commercially reasonable efforts to minimize interference with or disruption to City's use and occupancy of the Premises during any alterations, installations, additions or improvements to the Building. Landlord shall promptly remedy any such interference or disruption upon receiving City's notice thereof.

8. REPAIRS AND MAINTENANCE

8.1 Landlord's Repairs

"Building Systems" shall mean the heating, ventilating, air conditioning, plumbing, electrical, fire protection, life safety, security and other mechanical, electrical and communications systems located at the Premises. Landlord, subject to inclusion as an Operating Expense as set forth in Section 4.4 above, shall repair, maintain and replace, in good condition, any portion of the Building Systems located outside of the Building (such as any HVAC components located on the Building roof) and Building roof. Landlord shall further repair and maintain, in good condition, the exterior and structural portions of the Building (excluding the roof), including, without limitation, the foundation, bearing and exterior walls, subflooring, plumbing, glass windows, exterior building doors, fences, and the parking lot, and remove graffiti at the Premises. Landlord's costs to perform the maintenance and repair obligations described in the foregoing sentence shall be an Operating Expense.

8.2 City's Repairs

Subject to Landlord's obligation to deliver the Premises and the Building Systems in good working order and Landlord's repair, maintenance and replacement obligations in Sections 4.4 and 8.1 above, City shall (a) repair, maintain and replace at its cost any portion of the

Building Systems located within the Building, and (b) repair and maintain the interior portions of the Building and shall keep the Premises in good working order and in a safe and sanitary condition, except for ordinary wear and tear and damage by casualty. City shall perform any such required repairs, maintenance and replacements that are City's responsibility hereunder **(i)** at City's cost, **(ii)** by contractors or mechanics selected by City and reasonably approved by Landlord, **(iii)** so that same shall be at least substantially equal in quality, value and utility to the original work or installation prior to damage thereof, **(iv)** in a manner and using equipment and materials that will not materially interfere with or impair the operations, use or occupation of the Building or the Building Systems, and **(v)** in compliance with all applicable Laws, including, without limitation, any applicable contracting requirements under City's Charter and Administrative Code. Notwithstanding the foregoing to the contrary, City shall have no obligation to make or pay for any structural improvement or modification to the Premises unless triggered by City's Alterations or City's specific use of the Premises or changes to the Laws that take effect after the Lease Commencement Date. Landlord shall assign to City any construction warranty or other warranties or guaranties held by Landlord with respect to the Premises or any part or component thereof, other than warranties with respect to building components which Landlord is obligated to repair and maintain pursuant to the provisions of Section 8.1 above. If City fails to perform any repair or replacement for which it is responsible, Landlord may perform such work and be reimbursed by City for its reasonable costs incurred for such work within 30 days after demand therefor, provided that Landlord provided not less than ten (10) days prior written notice to City of Landlord's intent to perform such work at City's costs.

Notwithstanding anything contained herein to the contrary, Landlord warrants that the Building Systems (including any repairs or replacements to the Building Systems) shall be in a good operating condition for the ninety (90) day period immediately following the Lease Commencement Date (the "Building Systems Warranty Period"); provided, however, that such warranty shall not be effective for any repairs or replacements necessitated due to the misuse of, lack of maintenance by, or damages caused by, City, its Agents, or Invitees. Additionally, Landlord shall utilize for the benefit of Tenant any warranties provided by the contractors for the work on the Building Systems.

8.3 Landlord's Replacement of Building Systems; Reimbursement by City

Without relieving City of liability resulting from City's failure to exercise and perform good maintenance practices, if an item described in clause (a) of the first sentence of Section 8.2 cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item and the Building Systems Warranty Period has not expired, then such item shall be replaced by Landlord at Landlord's sole cost, and if the replacement costs for such item are estimated to exceed $25,000.00, then Landlord shall also provide Tenant with written notice prior to making such replacement. Such notification to City shall not give City any right to delay Landlord's work to make any such replacement. If such item is replaced after the expiration of the Building Systems Warranty Period, the cost of such replacement shall be considered a capital improvement Operating Expense and shall be amortized in accordance with the terms of Section 4.4 (c) (Standards for Landlord's Performance; City's Remedies).

In performing its obligations hereunder, Landlord shall undertake commercially reasonable measures in accordance with good construction practices to minimize damage, disruption or inconvenience caused by such work and make adequate provision for the safety and convenience of all persons affected by such work. Dust, noise, fumes, odors and other effects of such work shall be controlled using commercially reasonable methods customarily used to control deleterious effects associated with similar projects in occupied buildings (i.e., after-hours core drilling). On written or telephonic notice from City that any repair or replacement is required which is Landlord's obligation hereunder, or otherwise becoming aware of the necessity of such repair, Landlord shall proceed with reasonable diligence to perform such repair or replacement as promptly as possible and shall keep City apprised of its efforts. Without limiting the foregoing, Landlord shall in all events provide City with a written acknowledgement to a written repair or replacement request within five (5) business days of receipt thereof.

8.4 Liens

City shall keep the Premises free from liens arising out of any work performed, material furnished or obligations incurred by City during the Term. Landlord shall have the right to post on the Premises any notices permitted or required by law or that are needed for the protection of Landlord, the Premises, or the Building, from mechanics' and material suppliers' liens. City shall give Landlord at least ten (10) days' prior written notice of commencement of any repair or construction by City on the Premises. City has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or City in, the Premises or to charge the Rent payable hereunder for any claim in favor of any person dealing with City, including those who may furnish materials or perform labor for any construction or repairs. City covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expense based on or arising out of such asserted claims or liens against the leasehold estate or against the interest of Landlord in the Premises or under this Lease. City shall give Landlord immediate written notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within twenty (20) days of the filing or recording thereof; provided, however, City may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and City causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such twenty (20) day period.

9. UTILITIES AND SERVICES

City shall be responsible for all utilities and services to the Premises. Landlord shall not be liable for any failure or interruption of any utility service furnished to the Premises, and no such failure or interruption shall entitle City to any abatement in Rent or to terminate this Lease, unless such interruption is due to the negligence or willful misconduct of Landlord, and except in connection with Landlord's replacement obligations under Section 8.3 above. Landlord shall use reasonable diligence to make such replacements to Building Systems within the Premises as may be required to restore utility services. Notwithstanding the foregoing, if any interruption in services or utilities is (i) within Landlord's reasonable control and continues for three (3) or more consecutive business days, or (ii) outside Landlord's reasonable control and continues for sixty (60) or more consecutive days, and City is unable to and does not use a material portion of the Premises for City's business purposes as a result thereof, then City shall be entitled to an abatement of rent hereunder, which abatement shall be based on the extent of City's inability to use the Premises.

10. COMPLIANCE WITH LAWS; PREMISES CONDITION

10.1 Premises Condition and Landlord's Compliance with Laws; Indemnity

Landlord has provided City with the following roof and building systems inspection report: Report of Property Condition Assessment issued by CODA Consulting Group dated May 2011.

As used in this Lease, the Americans With Disabilities Act of 1990 and Title 24 of the California Code of Regulations and all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements intended to provide equal accessibility for persons with disabilities are referred to collectively as "Disabilities Laws", all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to seismic safety are referred to collectively as "Seismic Safety Laws", and all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to fire and life safety (including, if applicable, the San Francisco High-Rise Sprinkler Ordinance) are referred to collectively as "Life Safety Laws."

Without limiting the provisions of Section 8 above, in the event that Landlord receives notice that the Premises is not in compliance with applicable present or future federal, state, local and administrative laws, rules, regulations, orders and requirements (collectively, "Laws"), including, without limitation, Disabilities Laws, Seismic Safety Laws, and Life Safety Laws. existing as of the Lease Commencement Date and such non-compliance is not related to City's specific use of the Premises or Alterations to the Premises performed by City, Landlord shall make such modifications as may be required by order or directive of applicable governmental authority in order to bring the Premises into compliance with applicable Laws as of the Lease Commencement Date without cost or expense to City and without including such cost or expense as an Operating Expense. Furthermore, in the event Landlord receives notice that the Premises is not in compliance with any applicable Law which come into effect after the Lease Commencement Date and such non-compliance is not related to City's specific use of the Premises or Alterations to the Premises performed by City, Landlord shall make such modifications as may be required by order or directive of applicable governmental authority in order to bring the Premises into compliance with applicable Laws which shall be chargeable as an Operating Expense.

10.2 City's Compliance with Laws; Indemnity

City shall use the Premises during the Term in compliance with applicable Laws, except that City shall not be required to make any structural alterations, additions or other modifications in order to comply therewith unless such modifications are necessary solely because of any Alterations to the Premises made by City pursuant to Section 7 hereof and such modifications are not otherwise Landlord's responsibility under this Lease. City shall be responsible for complying with any requirement of the Disabilities Laws relating to the placement of City's furniture or other City Personal Property, City's Alterations, and the operation of any programs in the Premises, other than any requirement relating to the existing physical structure, fixtures and permanent improvements of the Premises, which are Landlord's obligation as provided in Section 10.1 above. Without limiting Section 16.1 (City's Indemnity), City shall Indemnify Landlord against any and all Claims arising out of City's failure to comply with all applicable Laws as provided in this Section.

10.3 City's Compliance with Insurance Requirements

City shall not conduct any use in or about the Premises that would: **(a)** invalidate or be in conflict with any fire or other casualty insurance policies covering the Building or any property located therein, **(b)** result in a refusal by fire insurance companies of good standing to insure the Building or any such property in amounts reasonably satisfactory to Landlord or the holder of any mortgage or deed of trust encumbering the Building, **(c)** cause an increase in the fire insurance premium for the Building unless City agrees to pay such increase, or **(d)** subject Landlord to any liability or responsibility for injury to any person or property by reason solely of any business operation being conducted by City in the Premises; provided, however, Landlord shall provide City with reasonable prior written notice of any applicable insurance requirements and no such insurance requirements shall materially and adversely interfere with City's normal business in the Premises.

11. SUBORDINATION

(a) Without the necessity of any additional document being executed by City for the purpose of effecting a subordination, and subject in all events to subsection (b) below, this Lease shall be subject and subordinate at all times to the following (each an "Encumbrance"): **(a)** any reciprocal easement agreements, ground leases or other underlying leases that may hereafter be executed affecting Landlord's interest in the Premises, or any portion thereof, and **(b)** the lien of any mortgages or deeds of trust and renewals, modifications, consolidations, replacements and extensions of any of the foregoing that may hereafter be executed by Landlord in any amount for which any part of the Premises, any ground lease or underlying lease, or Landlord's interest or estate therein is subject. Notwithstanding the foregoing, if the ground lessor, mortgagee, trustee,

or holder of any such mortgage or deed of trust elects to have City's interest in this Lease be superior to any such instrument, then upon notice thereof to City, this Lease shall be deemed superior, whether this Lease was executed before or after the date of said instrument or the recording thereof. At City's request, the holder of the Encumbrance shall enter into a subordination and nondisturbance agreement with City in a form reasonably acceptable to City evidencing such subordination or superiority of this Lease. Landlord warrants that as of the date of this Lease there is no existing mortgage or deed of trust encumbering the Premises.

(b) In the event any mortgage or deed of trust to which this Lease is subordinate is foreclosed or a deed in lieu of foreclosure is given to the mortgagee or beneficiary, or in the event any ground lease or underlying lease to which this Lease is subordinate is terminated, this Lease shall not be barred, terminated, cut off, or foreclosed nor shall the rights and possession of City hereunder be disturbed if City shall not then be in default in the payment of rental or other sums due hereunder or otherwise be in default under the terms of this Lease beyond any applicable notice and cure period. City shall attorn to and become the tenant of the successor-in-interest to Landlord, provided that City has received proper written notice of such succession and the name and address of the successor landlord. City's covenant under subsection (a) above to subordinate this Lease to any Encumbrance or other hypothecation hereafter executed is conditioned upon each such senior instrument containing the commitments specified in this subsection (b). The provisions of this Section shall be self-operative and no further instrument shall be required other than as provided in this Section. City agrees, however, to execute upon request by Landlord and in a form reasonably acceptable to City, any additional documents evidencing the priority or subordination of this Lease with respect to any such Encumbrance as provided herein.

12. DAMAGE AND DESTRUCTION

If the Premises, the Building or any Building Systems are damaged by casualty (including, but not limited to, fire), Landlord shall notify City within sixty (60) days after such damage as to the amount of time Landlord reasonably estimates it will take to restore such damage. If the restoration time is estimated to exceed six (6) months, either Landlord or City may elect to terminate this Lease upon notice to the other party given no later than thirty (30) days after delivery of Landlord's notice. If neither party elects to timely terminate this Lease or if Landlord estimates that restoration will take six (6) months or less, then Landlord shall promptly restore the Premises excluding the improvements installed by City, but including the Phase I Landlord TIs, subject to delays arising from Force Majeure (as defined in Section 33) or any delays caused by the actions of City or any of its Agents. Following Landlord's completion of such repairs, Tenant shall promptly re-enter the Premises and commence doing business in accordance with this Lease. Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last year of the Term and Landlord reasonably estimates that it will take more than one (1) month to repair such damage.

If neither party exercises its right to terminate the Lease pursuant to this Section, the Lease shall remain in full force and effect, except that if such damage interferes with City's normal operation of business at the Premises, City shall be entitled to proportionate abatement of Rent while such repairs are being made. Any proportionate abatement in Rent pursuant to this Section shall be made by multiplying the Rent payable for the month immediately preceding such casualty by a fraction that has the damaged square footage of the area of the Premises as the numerator and the square footage of the total area of the Premises as the denominator. Landlord's repairs shall not include, and the Rent shall not be abated as a result of, any damage by fire or other cause to City's property or any damage caused by the negligence or willful misconduct of City or its Agents. Such abatement shall be the sole remedy of City, and except as provided herein, City waives any right to terminate the Lease by reason of damage or casualty loss. The parties intend that the provisions of this Section govern fully their rights and obligations in the event of damage or destruction, and Landlord and City each hereby waives and releases any right to terminate this Lease in whole or in part under Section 1932, subdivision 2, Section 1933, subdivision 4, and Sections 1941 and 1942 of the Civil Code of California or

under any similar law, statute or ordinance now or hereafter in effect, to the extent such rights are inconsistent with the provisions hereof.

13. EMINENT DOMAIN

13.1 Definitions

(a) "Taking" means a taking or damaging, including severance damage, by eminent domain, inverse condemnation or for any public or quasi-public use under law. A Taking may occur pursuant to the recording of a final order of condemnation, or by voluntary sale or conveyance in lieu of condemnation or in settlement of a condemnation action.

(b) "Date of Taking" means the earlier of **(i)** the date upon which title to the portion of the Premises taken passes to and vests in the condemnor or **(ii)** the date on which Tenant is dispossessed.

(c) "Award" means all compensation, sums or anything of value paid, awarded or received for a Taking, whether pursuant to judgment, agreement, settlement or otherwise.

13.2 General

If during the Term or during the period between the execution of this Lease and the Lease Commencement Date, there is any Taking of all or any part of the Premises or any interest in this Lease, the rights and obligations of the parties hereunder shall be determined pursuant to this Section. City and Landlord intend that the provisions hereof govern fully in the event of a Taking and accordingly, the parties each hereby waive any right to terminate this Lease in whole or in part under Sections 1265.110, 1265.120, 1265.130 and 1265.140 of the California Code of Civil Procedure or under any similar law now or hereafter in effect.

13.3 Total Taking; Automatic Termination

If there is a total Taking of the Premises, then this Lease shall terminate as of the Date of Taking.

13.4 Partial Taking; Election to Terminate

(a) If there is a Taking of any portion (but less than all) of the Premises, then this Lease shall terminate in its entirety if all of the following exist: **(i)** the partial Taking, in City's reasonable judgment, renders the remaining portion of the Premises untenantable or unsuitable for continued use by City for its intended purposes or otherwise materially adversely affects City's normal operations in the Premises, **(ii)** the condition rendering the Premises untenantable or unsuitable either is not curable or is curable but Landlord is unwilling or unable to cure such condition, and **(iii)** City elects to terminate.

(b) In the case of a partial taking of over forty percent (40%) of the Building, and if subsection (a) above does not apply, City and Landlord shall each have the right to terminate this Lease by written notice to the other within thirty (30) days after the Date of Taking, provided that, as a condition to City's right to terminate, the portion of the Building taken shall, in City's reasonable judgment, render the Premises unsuitable for continued use by City for its intended purposes or otherwise materially adversely affect City's normal operations in the Premises.

(c) Either party electing to terminate under the provisions of this Section 13.4 shall do so by giving written notice to the other party before or within thirty (30) days after the Date of Taking, and thereafter this Lease shall terminate upon the later of the thirtieth (30^{th}) day after such written notice is given or the Date of Taking.

13.5 Rent; Award

Upon termination of this Lease pursuant to an election under Section 13.4 above, then: **(a)** City's obligation to pay Rent shall continue up until the date of termination, and thereafter shall cease, except that Rent shall be reduced as provided in Section 13.6 below for any period during which this Lease continues in effect after the Date of Taking, and **(b)** Landlord shall be entitled to the entire Award in connection therewith, except that City shall receive any Award made specifically for City's relocation expenses or the interruption of or damage to City's business or damage to City's Personal Property.

13.6 Partial Taking; Continuation of Lease

If there is a partial Taking of the Premises under circumstances where this Lease is not terminated in its entirety under Section 13.4 above, then this Lease shall terminate as to the portion of the Premises so taken, but shall remain in full force and effect as to the portion not taken, and the rights and obligations of the parties shall be as follows: **(a)** Rent shall be reduced by an amount that is in the same ratio to the Rent as the area of the Premises taken bears to the area of the Premises prior to the Date of Taking, and **(b)** Landlord shall be entitled to the entire Award in connection therewith, provided that City shall receive any Award made specifically for City's relocation expenses or the interruption of or damage to City's business or damage to City's Personal Property.

13.7 Temporary Taking

Notwithstanding anything to contrary in this Section, if a Taking occurs with respect to the Premises for a limited period of time not in excess of sixty (60) consecutive days, this Lease shall remain unaffected thereby, and City shall continue to pay Rent and to perform all of the terms, conditions and covenants of this Lease. In the event of such temporary Taking, City shall be entitled to receive that portion of any Award representing compensation for the use or occupancy of the Premises during the Term up to the total Rent owing by City for the period of the Taking.

14. ASSIGNMENT AND SUBLETTING

Except as provided in this Section below, City shall not directly or indirectly sell, assign, encumber, pledge or otherwise transfer or hypothecate all or any part of its interest in or rights with respect to the Premises or its leasehold estate hereunder or permit all or any portion of the Premises to be occupied by anyone other than itself or sublet all or any portion of the Premises, without Landlord's prior written consent in each instance, which shall not be unreasonably withheld or delayed (subject to Landlord's rights under Section 22.1(e)). It shall be reasonable for the Landlord to withhold, delay or condition its consent, where required, to any assignment or sublease in any of the following instances: (i) the assignee or sublessee does not have a net worth calculated according to generally accepted accounting principles at least equal to $20,000,000; (ii) occupancy of the Premises by the assignee or sublessee would, in Landlord's opinion, violate any agreement binding upon Landlord or the Premises with regard to the identity of tenants, usage in the Premises, or similar matters; (iii) the identity or business reputation of the assignee or sublessee will, in the good faith judgment of Landlord, damage the goodwill or reputation of the Premises; or (iv) in the case of a sublease, the subtenant has not acknowledged that the Lease controls over any inconsistent provision in the sublease. The foregoing criteria shall not exclude any other reasonable basis for Landlord to refuse its consent to such assignment or sublease. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease. City shall provide to Landlord all information concerning the assignee or sublessee as Landlord may reasonably request. Landlord may revoke its consent immediately and without notice if, as of the effective date of the assignment or sublease, there has occurred and is continuing any Event of Default under the Lease. City shall have the right from time to time, upon notice to but without the consent of Landlord, to transfer this Lease or use and occupancy of all or any of the Premises to any department, commission or agency of the City and County of

San Francisco for uses permitted under this Lease. City shall reimburse Landlord for all of Landlord's reasonable expenses in connection with any assignment or sublease not to exceed $3,000.00. This Lease shall be binding upon City and its successors and permitted assigns. Upon Landlord's receipt of City's written notice of a desire to assign or sublet the Premises, or any part thereof (other than to a City Affiliate), Landlord may, by giving written notice to City within 30 days after receipt of City's notice, terminate this Lease with respect to the space described in City's notice, as of the date specified in City's notice for the commencement of the proposed assignment or sublease. Notwithstanding the foregoing, City may withdraw its notice to sublease or assign by notifying Landlord within 10 days after Landlord has given City notice of such termination, in which case the Lease shall not terminate but shall continue.

Notwithstanding any assignment or subletting, City and shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of City's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignments or sublettings). In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto) exceeds the Rent payable for such period under this Lease, then after recovering its commercially reasonable costs to enter into such sublease or assignment (including commercially reasonable brokers fees and the fee paid to obtain Landlord's consent thereto) and to make any Landlord approved tenant improvements required to be made by City at the Premises under such sublease or assignment, City shall be bound and obligated to pay Landlord as additional rent hereunder eighty percent (80%) of such excess rental and other excess consideration within 10 days following receipt thereof by City; provided in the event of a sublease which is less than 100% of the Premises such excess rental and other consideration shall be applied on a square foot basis. Landlord acknowledges and agrees that from time to time City shall utilize third party operators at the Premises for towed vehicles and related operations, and agreements with such third party operators shall not be considered assignments of the Lease or subleases.

If City assigns this Lease, subleases the Premises (whether in whole or in part), mortgages, pledges, or hypothecates City's leasehold interest, grants any concession or license within the Premises to another party or permits another party to occupy the Premises in whole or in part in exchange for rental payments to City (each, a "Transfer"), then upon an Event of Default, Landlord may collect rent to be paid to City from the transferees under such Transfers and, except to the extent set forth in the preceding paragraph, apply the amount collected from such transferees to the next installment of Rent payable hereunder. Any rentals collected by City from such transferees with respect to the Premises during an Event of Default shall be held in trust for Landlord and immediately forwarded to Landlord, and Landlord shall apply such forwarded amounts to the next installment of Rent payable hereunder. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of City from the further performance by City of its covenants, duties, or obligations hereunder.

15. DEFAULT; REMEDIES

15.1 Events of Default by City

Any of the following shall constitute an "Event of Default" by City hereunder:

(a) City's failure to make any timely payment of Rent and to cure such nonpayment within five (5) business days after receipt of written notice thereof from Landlord; provided, however, that Landlord shall not be obligated to provide written notice of such failure more than 2 times in any consecutive 12-month period, and the failure of City to pay any third or subsequent installment of Base Rent or any other payment required herein when due in any consecutive 12-month period shall constitute an Event of Default by City under this Lease without the requirement of notice or opportunity to cure; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under applicable law;

(b) City's abandonment of the Premises (within the meaning of California Civil Code Section 1951.3);

(c) City's (A) making of a general assignment for the benefit of creditors; (B) commencing any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "proceeding for relief"); (C) becoming the subject of any proceeding for relief which is not dismissed within 60 days of its filing or entry; or (D) dissolution or other failure to maintain its legal existence; or

(d) City's failure to perform any other covenant or obligation of City hereunder (not involving the payment of money) and to cure such non-performance within thirty (30) days of the date of receipt of notice thereof from Landlord, provided that if more than thirty (30) days are reasonably required for such cure, no Event of Default shall occur if City commences such cure within such period and diligently prosecutes such cure to completion.

15.2 Landlord's Remedies

Upon the occurrence of any Event of Default that is not cured within the applicable grace period as provided above, Landlord shall have all rights and remedies available pursuant to law or granted hereunder, including the following:

(a) The rights and remedies provided by California Civil Code Section 1951.2 (damages on termination for breach), including, but not limited to, the right to terminate City's right to possession of the Premises. Upon such termination, Landlord may recover from City the following, as provided in Section 1951.2 of the Civil Code of California: (i) the worth at the time of award of the unpaid Rent that had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that City proves could have been reasonably avoided; (iii) the worth at the time of award by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rental loss that City proves could have been reasonably avoided, subject to Section 1951.2(c) of the Civil Code of California; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by City's failure to perform its obligations under this Lease or that in the ordinary course of things would be likely to result therefrom. As used herein, the following terms are defined: (A) The "worth at the time of award" of the amounts referred to in clauses (i) and (ii) is computed by allowing interest at the lesser of 18 percent per annum or the maximum lawful rate. The "worth at the time of award" of the amount referred to in clause (iii) is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent; (B) The "time of award" as used in clauses (i), (ii), and (iii) above is the date on which judgment is entered by a court of competent jurisdiction, City acknowledges and agrees that the term "detriment proximately caused by City's failure to perform its obligations under this Lease" includes, without limitation, the value of any abated or free rent given to City.

(b) Even if City breaches this Lease and abandons the Premises, this Lease shall continue in effect for so long as Landlord does not terminate City's right to possession, and Landlord may enforce all its rights and remedies under this Lease, including the right to recover Rent as it becomes due. This remedy is intended to be the remedy described in California Civil Code Section 1951.4, and the following provision from such Civil Code Section is hereby repeated: "The lessor has the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign subject only to reasonable limitations)." Any such payments of Rent shall be made when due and City agrees that Landlord may file suit to recover any unpaid payments of Rent that are then due. Notwithstanding any such reletting

without termination, Landlord may at any time thereafter elect in writing to terminate this Lease for such previous abandonment.

(c) Upon the termination of this Lease or termination of City's right of possession, it shall be lawful for Landlord to re-enter the Premises by summary dispossession proceedings or any other action or proceeding authorized by law and to remove City and its Agents, Invitees and property therefrom. If Landlord so re-enters the Premises, Landlord shall have the right to remove from the Premises and store all of the City's furniture, fixtures and equipment. Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, whether by agreement or by operation of law, it being understood that such surrender and/or termination can be effected only by the written agreement of Landlord and City. Any usage or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof and applicable Laws; and the failure of Landlord at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same. City and Landlord further agree that forbearance or waiver by Landlord to enforce its rights pursuant to this Lease or at law or in equity, shall not be a waiver of Landlord's right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the greatest extent permitted by law, City waives all right of redemption in case City shall be dispossessed by a judgment or by warrant of any court or judge. Any reletting of the Premises shall be on such terms and conditions as Landlord in its sole discretion may determine (including without limitation a term different than the remaining Term, rental concessions, alterations and repair of the Premises, lease of less than the entire Premises to any tenant and leasing any or all other portions of the Premises), provided such terms and conditions are commercially reasonable. Provided that Landlord has not terminated City's right to possession of the Premises, Landlord shall not be liable, nor shall City's obligations hereunder be diminished because of, Landlord's election not to relet the Premises or collect rent due in respect of such reletting.

15.3 Landlord's Default

Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 25 days after written notice from City specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 25 days, then after such period of time as is reasonably necessary if Landlord commences to cure such failure during the original 25-day period and diligently pursues such cure to completion); provided, however, that if such Landlord failure results in an emergency, Landlord shall be in default hereunder if Landlord fails to perform any of its obligations hereunder within 10 days after written notice from City specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 10 days, then after such period of time as is reasonably necessary if Landlord commences to cure such failure during the original 10-day period and diligently pursues such cure to completion). For the purposes of the foregoing sentence, an "emergency" shall mean an imminent threat of personal injury to City's employees or material damage to City's equipment or other property at the Premises.

In the event that City delivers written notice of a Landlord default and Landlord does not timely commence to cure such default within the time periods set forth above (or if Landlord timely commences such cure but fails to diligently pursue such cure to completion), City shall have the right, but not the obligation, to make any reasonable and necessary repairs to the roof, foundation, floors and exterior walls of the Premises, the roof membrane, skylights, roof vents, drains and downspouts of the Premises, and the exterior and under slab utility systems for the

Premises, as may be reasonably necessary to prevent material damage to the equipment or property of City situated in the Premises, material interference with City's operations at the Premises, or personal injury to City's employees, provided City has no reasonable alternative and has notified or attempted in good faith to notify Landlord's representative of such election by telephone (with subsequent written notice as soon as practicable). The provisions of this paragraph do not designate City as Landlord's agent for the purposes of any such repairs. Landlord shall reimburse City for the reasonable, out-of-pocket costs incurred by City in making such emergency repairs to the roof, foundation or exterior walls, as applicable, up to (but not to exceed) $125,000.00 with respect to each such occurrence, within thirty (30) days after submission by City to Landlord of an invoice therefore, accompanied by reasonable supporting documentation for the costs so incurred. In the event Landlord fails or refuses to reimburse City for such costs within such thirty (30) day period and City brings an action for recovery of such amounts from Landlord as provided for in this Lease, then City shall be entitled to recover, in addition to the amount of such costs, interest on such amounts from the date incurred by City until recovered from Landlord, at the interest rate specified in Section 23.39 below, and the reasonable attorneys' fees and other costs of court incurred by City in pursuing such action.

All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, City may not terminate this Lease for breach of Landlord's obligations hereunder. Any liability of Landlord under this Lease shall be limited solely to its interest in the Premises, and in no event shall any personal liability be asserted against Landlord in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord. City's rights hereunder shall not limit in any way any of its other rights and remedies hereunder or at law or in equity.

16. INDEMNITIES

16.1 City's Indemnity

City shall indemnify, defend and hold harmless ("Indemnify") Landlord and its Agents from and against any and all claims, costs, expenses, losses, demands, actions, suits, and damages, including, without limitation, punitive damages and reasonable attorneys' fees, consultants' fees or expert fees (collectively, "Claims"), incurred as a result of (a) City's use of the Premises, (b) any Event of Default arising from City's failure to perform any of its material obligations under this Lease, or (c) any negligent acts or omissions of City or its Agents or Invitees in, on or about the Premises; provided, however, City shall not be obligated to Indemnify Landlord or its Agents to the extent any Claim arises out of the negligence or willful misconduct of Landlord or its Agents. In any action or proceeding brought against Landlord or its Agents by reason of any Claim Indemnified by City hereunder, City may, at its sole option, elect to defend such Claim by attorneys in City's Office of the City Attorney, by other attorneys selected by City, or both. City shall have the right to control the defense and to determine the settlement or compromise of any action or proceeding, provided that Landlord shall have the right, but not the obligation, to participate in the defense of any such Claim at its sole cost. City's obligations under this Section shall survive the termination of the Lease.

16.2 Landlord's Indemnity

Landlord shall Indemnify City and its Agents against any and all Claims incurred as a result of (a) any default by Landlord in the performance of any of its obligations under this Lease or any breach of any representations or warranties made by Landlord under this Lease, or (b) any negligent acts or omissions of Landlord or its Agents in, on or about the Premises; provided, however, Landlord shall not be obligated to Indemnify City or its Agents to the extent any Claim arises out of the negligence or willful misconduct of City or its Agents. In any action or proceeding brought against City or its Agents by reason of any Claim Indemnified by Landlord hereunder, Landlord may, at its sole option, elect to defend such Claim by attorneys selected by Landlord. Landlord shall have the right to control the defense and to determine the settlement or compromise of any action or proceeding, provided that City shall have the right, but not the

obligation, to participate in the defense of any such Claim at its sole cost. Landlord's obligations under this Section shall survive the termination of this Lease. This indemnity does not cover claims arising from the presence or release of Hazardous Materials.

16.3 Indemnity Notification

If an indemnitee under either of the foregoing indemnities has a claim which the indemnitee believes to be covered by an indemnitor's indemnification obligations hereunder, the indemnitee shall promptly notify the indemnitor of the claim and, in such notice shall offer to the indemnitor the opportunity to assume the defense of the claim within twenty (20) business days after receipt of the notice (with counsel reasonably acceptable to the indemnitee). Landlord acknowledges that attorneys of the County and City of San Francisco, Office of the City Attorney shall be reasonably acceptable to Landlord if Landlord is requiring City to indemnify Landlord pursuant to Section 16.1. If the indemnitor timely elects to assume the defense of the claim, the indemnitor shall have the right to settle the claim on any terms it considers reasonable and without the indemnitee's prior written consent, as long as the settlement shall not require the indemnitee to render any performance or pay any consideration, and the indemnitee shall not have the right to settle any such claim. If the indemnitor fails timely to elect to assume the defense of the claim or fails to defend the claim with diligence, then the indemnitee shall have the right to take over the defense of the claim and to settle the claim on any terms the indemnitee considers reasonable. Any such settlement shall be valid as against the indemnitor. If the indemnitor assumes the defense of a claim, the indemnitee may employ its own counsel but such employment shall be at the sole expense of the indemnitee. If any such claim arises out of the negligence of both Landlord and City, responsibility for such claim shall be allocated between Landlord and City based on their respective degrees of negligence.

17. INSURANCE

17.1 City's Insurance and Self-Insurance Option

City, at its expense, shall maintain during the Term the following insurance, at City's sole cost and expense: (1) commercial general liability insurance applicable to the Premises and its appurtenances providing, on an occurrence basis, a minimum combined single limit of $2,000,000; (2) all risk or special form property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises by City; (3) workers' compensation insurance as required by the state in which the Premises is located and in amounts as may be required by applicable statute and shall include a waiver of subrogation in favor of Landlord; (4) employers liability insurance of at least $1,000,000, (5) business automobile liability insurance having a combined single limit of not less than $2,000,000 per occurrence insuring City against liability arising out of the ownership maintenance or use of any owned, hired or nonowned automobiles, and (6) business interruption insurance with a limit of liability representing loss of at least approximately 6 months of income. Any company writing any of City's insurance shall have an A.M. Best rating of not less than A-VIII and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over City's policies). All commercial general liability insurance policies shall name City as a named insured and Landlord, its property manager, and other designees of Landlord as the interest of such designees shall appear, as additional insureds. The limits and types of insurance maintained by City shall not limit City's liability under this Lease. City shall provide Landlord with certificates of such insurance as required under this Lease prior to the earlier to occur of the Lease Commencement Date or the date City is provided with possession of the Premises, and thereafter upon renewals at least 15 days prior to the expiration of the insurance coverage. Acceptance by Landlord of delivery of any certificates of insurance does not constitute approval or agreement by Landlord that the insurance requirements of this section have been met, and failure of Landlord to identify a deficiency from evidence provided will not be construed as a waiver of City's obligation to maintain such insurance. In the event any of the insurance policies required to be carried by City under this Lease shall be cancelled prior to the expiration date of such policy, or if City receives notice of any cancellation of such insurance

policies from the insurer prior to the expiration date of such policy, City shall: (a) immediately deliver notice to Landlord that such insurance has been, or is to be, cancelled, (b) shall promptly replace such insurance policy in order to assure no lapse of coverage shall occur, and (c) shall deliver to Landlord a certificate of insurance for such policy. The insurance required to be maintained by City hereunder are only Landlord's minimum insurance requirements and City agrees and understands that such insurance requirements may not be sufficient to fully meet City's insurance needs.

Notwithstanding anything to the contrary herein, Landlord acknowledges that City maintains a program of self-insurance and agrees that City shall not be required to carry any insurance with respect to this Lease if (i) City maintains a tangible net worth of at least $100,000,000, and (ii) City governs and manages its self-insurance program in a manner consistent with programs managed by prudent businesses, and (iii) applicable law does not prohibit or render unenforceable an indemnification of a landlord for its own negligence. Upon request City shall supply Landlord from time to time with evidence reasonably satisfactory to Landlord of City's tangible net worth and the satisfaction of the conditions set forth above. If City elects to self-insure, City shall be responsible for any losses or liabilities which would have been assumed by the insurance companies which would have issued the insurance required of City under the Lease. City will notify Landlord in advance of any period for which it intends to self insure and shall provide Landlord with satisfactory evidence that it complies with these requirements in order to give Landlord an opportunity to confirm the satisfaction of the conditions set forth above. Self-insurance does not relieve the tenant of its obligations under this Lease pertaining to the waiver of subrogation or Paragraph 16.1 pertaining to indemnification. City assumes the risk of damage to any of City's Personal Property and any Alterations constructed by City resulting from those causes for which Landlord is not required to indemnify City hereunder.

17.2 Landlord's Insurance

At all times during the Term, Landlord shall keep the Building (excluding the land upon which it is located) insured against damage and destruction by fire, vandalism, malicious mischief, sprinkler damage and other perils customarily covered under a cause of loss special form property insurance policy in an amount equal to one hundred percent (100%) of the full insurance replacement value (replacement cost new, including, debris removal and demolition) thereof. Landlord shall, upon request by City, provide to City a certificate of insurance issued by the insurance carrier, evidencing the insurance required above. The certificate shall expressly provide that the policy is not cancelable or subject to, reduction of coverage or otherwise subject to modification except after thirty (30) days prior written notice to City. Landlord hereby waives any rights against City for loss or damage to the Premises to the extent covered by Landlord's property insurance.

In addition, Landlord shall procure and keep in effect at all times during the Term insurance as follows: Commercial general liability insurance with limits not less than One Million Dollars ($1,000,000) each occurrence combined single limit for bodily injury and property damage, including contractual liability, independent contractors, broad-form property damage, fire damage legal liability (of not less than Fifty Thousand Dollars ($50,000)), personal injury, products and completed operations, and explosion, collapse and underground (XCU). The cost of the foregoing insurance may be included as an Operating Expense. The insurance maintained by Landlord during the Base Year shall include earthquake insurance and business interruption insurance, which includes flood, terrorism, and boiler and machinery coverage, and the costs thereof shall be included in the Operating Expenses for the Base Year. If Landlord elects to maintain such other insurance and additional coverages as it may deem necessary, including but not limited to, rent loss insurance, the cost of such other insurance or coverages obtained by Landlord shall be included as part of the Operating Expenses if such insurance or coverage is typically carried for similar commercial properties in San Francisco County or San Mateo County. The Premises or Building may be included in a blanket policy (in which case the cost of such insurance allocable to the Premises or Building will be determined by Landlord

based upon the total insurance cost calculations). City shall also reimburse Landlord for any increased premiums or additional insurance which Landlord's insurer reasonably deems necessary as a result of changes to the original Permitted Uses.

17.3 Waiver of Subrogation

Notwithstanding anything to the contrary contained herein, any all risk or special form property insurance obtained by Landlord or City for the Premises shall include a waiver of subrogation by the insurers and all rights based upon an assignment from its insured, against Landlord or City, their officers, directors, employees, managers, agents, invitees and contractors, in connection with any loss or damage thereby insured against. Neither party nor its officers, directors, employees, managers, agents, invitees or contractors shall be liable to the other for loss or damage caused by any risk coverable by such all risk or special form property insurance, and each party waives any claims against the other party, and its officers, directors, employees, managers, agents, invitees and contractors for such covered loss or damage. The failure of a party to insure its property at the Premises shall not void this waiver. City and its agents, employees and contractors shall not be liable for, and Landlord hereby waives all claims against such parties for losses resulting from an interruption of Landlord's business, or any person claiming through Landlord, resulting from any accident or occurrence in or upon the Premises or the Building from any cause whatsoever, including without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of City or its agents, employees or contractors. Landlord and its agents, employees and contractors shall not be liable for, and City hereby waives all claims against such parties for losses resulting from an interruption of City's business, or any person claiming through City, resulting from any accident or occurrence in or upon the Premises or the Building from any cause whatsoever, including without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of Landlord or its agents, employees or contractors.

Notwithstanding anything to the contrary contained herein, City hereby waives any right of recovery against Landlord for any loss or damage sustained by City with respect to City's Personal Property or Alterations, to the extent such loss or damage is covered by insurance purchased by City or would have been covered by insurance which would have been considered to be commercially available to City, had City not elected to self-insure.

18. ACCESS BY LANDLORD

Landlord reserves for itself and any designated Agent the right to enter the Premises at all reasonable times and, except in cases of emergency (in which event Landlord shall give any reasonable notice), after giving City at least twenty four (24) hours' advance written or oral notice, for the purpose of **(a)** inspecting the Premises, **(b)** supplying any service to be provided by Landlord hereunder, **(c)** showing the Premises to any prospective purchasers, mortgagees or, during the last twelve (12) months of the Term of this Lease, tenants, **(d)** posting notices of non-responsibility, and **(e)** altering, improving or repairing the Premises and any portion of the Building, and Landlord may for that purpose erect, use and maintain necessary structures in and through the Premises where reasonably required by the character of the work to be performed, provided that the entrance to the Premises shall not be blocked thereby, and further provided that City's use shall not be interfered with. Landlord may grant easements and create restrictions on or about the Premises, provided that no such easement or restriction interferes with City's use or occupancy of the Premises pursuant to this Lease. At Landlord's request, City shall execute such instruments as may be necessary for such easements or restrictions.

19. ESTOPPEL CERTIFICATES

Either party, from time to time during the Term upon not less than twenty (20) days' prior written notice from the other party, may reasonably request the other party to execute, acknowledge and deliver to such persons or entities designated by such other party a certificate stating: **(a)** the Lease Commencement Date, the Rent Commencement Date, and Expiration Date

of this Lease, **(b)** that this Lease is unmodified and in full force and effect (or, if there have been modifications, this the Lease is in full force and effect as modified and stating the modifications), **(c)** that there are no defaults under this Lease (or if so, specifying the same), and **(d)** the date to which Rent has been paid. City's obligation to furnish such a certificate in a timely fashion is a material inducement for Landlord's execution of this Lease. No cure or grace period provided in this Lease shall apply to City's obligations to timely deliver an estoppel certificate.

20. SURRENDER OF PREMISES

Upon the expiration or sooner termination of this Lease, City shall surrender the Premises to Landlord in the same condition received, reasonable use and wear and damage by fire or other casualty excepted. Prior to the Expiration Date, City shall remove from the Premises all of City's Personal Property and any Alterations City desires to remove from the Premises pursuant to the provisions of Section 7.1 (Alterations by City), above. City shall repair or pay the cost of repairing any damage to the Premises or the Building resulting from such removal. Notwithstanding anything to the contrary in this Lease, City shall not be required to demolish or remove from the Premises any leasehold improvements. City's obligations under this Section shall survive the expiration or earlier termination of this Lease. City shall remove any odor which may exist in the Premises resulting from City's occupancy of the Premises upon the termination of the Term or earlier termination of City's right of possession. All obligations of City hereunder not fully performed as of the termination of the Term shall survive the termination of the Term, including without limitation, indemnity obligations, payment obligations with respect to Excess Operating Expenses and all obligations concerning the condition and repair of the Premises.

21. HAZARDOUS MATERIALS

21.1 Definitions

As used in this Lease, the following terms shall have the meanings hereinafter set forth:

(a) "Environmental Laws" shall mean any federal, state, local or administrative law, rule, regulation, order or requirement relating to industrial hygiene, environmental conditions or Hazardous Material, whether now in effect or hereafter adopted.

(b) "Hazardous Material" shall mean any material that, because of its quantity, concentration or physical or chemical characteristics, is deemed by any federal, state or local governmental authority to pose a present or potential hazard to human health or safety or to the environment. Hazardous Material includes, without limitation, any material or substance defined as a "hazardous substance," or "pollutant" or "contaminant" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA", also commonly known as the "Superfund" law), as amended (42 U.S.C. Section 9601 et seq.), or pursuant to Section 25316 of the California Health & Safety Code; any "hazardous waste" listed pursuant to Section 25140 of the California Health & Safety Code; any asbestos and asbestos containing materials whether or not such materials are part of the structure of the Building or are naturally occurring substances on or about the Premises; and petroleum, including crude oil or any fraction thereof, natural gas or natural gas liquids liquefied natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Laws, during the Term, City is and shall be deemed to be the "operator" of City's "facility" and the "owner" of all Hazardous Materials brought on the Premises by City, its Agents or Invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

(c) "Release" when used with respect to Hazardous Material shall include any actual or imminent spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into or inside the Building, or in, on, under or about the Premises.

21.2 Landlord's Representations and Covenants

Except as may be disclosed in that certain Phase I Environmental Site Assessment prepared by URS Corporation Americas, dated July 29, 2011, Landlord represents and warrants to City that, to the best of Landlord's current, actual knowledge, there are no Hazardous Materials in reportable quantities on or being released from or onto the Premises. The phrase "current, actual knowledge of Landlord" shall mean and refer only to the best of the current, actual knowledge of the officers and employees of Landlord having direct, operational responsibility for the Premises, with the express limitations and qualifications that the knowledge of any contractor or consultant shall not be imputed to Landlord except to the extent disclosed to such Landlord officers or employees, and none of such officers or employees has made any special investigation or inquiry, and except for reviewing the environmental status of the Premises with Landlord contractors or subcontractors that have prepared reports of their review of the environmental condition of the Premises, none of such officers has any duty or obligation of diligent investigation or inquiry, or any other duty or obligation, to acquire or to attempt to acquire information beyond or in addition to the current, actual knowledge of such persons.

21.2 Landlord's Covenants

If Hazardous Materials are hereafter discovered on the Premises, and such Hazardous Materials either existed at the Premises prior to the Lease Commencement Date or were released by any party other than City or its Agents or Invitees, and the presence of such Hazardous Materials results in any contamination, damages, or injury to the Premises that materially and adversely affects City's occupancy or use of the Premises or human health or requires remediation under Environmental Laws, Landlord shall promptly take all actions at its sole expense as are necessary to remediate such Hazardous Materials and as may be required by the Environmental Laws. Actual or threatened action or litigation by any governmental authority is not a condition prerequisite to Landlord's obligations under this Section. Landlord's obligations under this Section shall not apply to any remediation of such Hazardous Materials to the extent released by any act or omission of City or its Agents, or Invitees. Within thirty (30) days after notification from City supported by reasonable documentation setting forth such presence or release of Hazardous Materials, and after Landlord has been given a reasonable period of time after such thirty (30) day period to conduct its own investigation to confirm such presence or release of Hazardous Materials, Landlord shall commence to remediate such Hazardous Materials within one hundred eighty (180) days after the completion of Landlord's investigation and thereafter diligently prosecute such remediation to completion. If Landlord commences remediation pursuant to this Section, the Base Rent and Excess Operating Expenses shall be equitably adjusted if and to the extent and during the period the Premises are unsuitable for City's business. Notwithstanding anything herein to the contrary, if Landlord obtains a letter from the appropriate governmental authority that no further remediation is required, Landlord's obligation to remediate as provided in this Section shall be null and void as of the date Landlord receives such letter.

21.3 City's Covenants

City and its Agents and Invitees shall not permit or cause any Hazardous Material to be brought upon, kept, used, stored, generated or disposed of in, on or about the Premises, or transported to or from the Premises, except as expressly permitted in this Section below. City, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Laws and shall remediate in a manner satisfactory to Landlord any Hazardous Materials released on or from the Premises by City, its Agents, or its Invitees. City shall complete and certify to disclosure statements as reasonably requested by Landlord from time to time relating to City's transportation, storage, use, generation, manufacture or release of any Hazardous Materials on the Premises. Without limiting the uses which are permitted under the terms of this Lease, Landlord acknowledges that City may use the Premises for the Permitted Uses and connection with such uses may use substances such as cleaning fluids, gasoline, diesel and other vehicle fluids, paints and solvents, including the materials listed on the attached

Exhibit C, so long as such use is in compliance with all applicable Environmental Laws. No cure or grace period provided in this Lease shall apply to City's obligations to comply with the terms and conditions of this Section.

Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine City's compliance with Environmental Laws, its obligations under this Section, or the environmental condition of the Premises; provided that such inspections and tests do not materially interfere with the Permitted Uses. Access shall be granted to Landlord upon not less than one (1) business days' prior notice to City and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to City's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that City has not complied with any Environmental Requirement, in which case City shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against City. Except for Hazardous Materials released by City or its Agents or Invitees, Landlord shall be the generator of, and responsible party for, any Hazardous Material released or disturbed by the performance of such Landlord inspections or tests and shall take immediate actions to stop and remediate any such release, to properly dispose of any Hazardous Material removed from the Premises as part of such Landlord inspections or tests, notify City about any such release and remediate any Hazardous Material to the extent it was released or otherwise disturbed through the performance of such Landlord inspections or tests.

21.4 City's Environmental Indemnity

If City breaches its obligations contained in the preceding Section 21.4, or if City or its Agents cause the Release of Hazardous Material from, in, on or about the Premises, then City shall Indemnify Landlord against any and all Claims (including, without limitation, diminution in value of the Premises, loss of rental income from the Premises, removal, repair, corrective action, or cleanup expenses, removal or management of any asbestos brought into the Premises or disturbed in breach of the requirements of this Section, regardless of whether such removal or management is required by Environmental Laws), arising during or after the Term of this Lease as a result of such Release, except to the extent Landlord or its Agents is responsible for the Release. The foregoing Indemnity shall not include any Claims resulting from the non-negligent aggravation by City, its Agents or Invitees of physical conditions of the Premises existing prior to City's occupancy. The obligations of City under this Section shall survive any termination of this Lease.

22. ONE-TIME FIRST NEGOTIATION RIGHT

22.1 Sale Notice; Offer

(a) Provided that, as of the date of the giving of a Sale Notice (defined as follows), (i) City is the Tenant originally named herein and (ii) no Event of Default or event which but for the passage of time or the giving of notice, or both, would constitute an Event of Default has occurred and is continuing, then subject to and in accordance with the terms of this Section, Landlord hereby grants to City an exclusive and irrevocable right of first negotiation (the "One-Time First Negotiation Right") for the purchase of the Premises. If Landlord elects to sell the Premises during the Term, Landlord shall first offer the Premises to City at the purchase price that the Premises will be offered to the real estate market. Said purchase price (the "Purchase Price") shall be contained in a written notice ("Sale Notice") from Landlord to City, and the Sale Notice shall be delivered together with a copy the following reports for the Premises (collectively, the "Due Diligence Reports"), prepared by reputable, qualified and licensed vendors and at a customary and reasonable cost for the market area:

(1) An appraisal of the fair market value of the Property, prepared by a "MAI" designated member of the Appraisal Institute and issued no earlier than the sixty (60) day period preceding such delivery;

(2) A Phase I environmental report, which shall have been issued no earlier than the sixty (60) day period preceding such delivery;

(3) An ALTA title insurance, an ALTA survey prepared no earlier than the sixty (60) day period preceding such delivery;

(4) A preliminary title report, with supporting documents, which shall have been issued no earlier than the sixty (60) day period preceding such delivery;

(5) A structural report of the Building, which shall have been issued no earlier than the sixty (60) day period preceding such delivery;

(6) A roof report for the Building, which shall have been issued no earlier than the sixty (60) day period preceding such delivery;

(b) City shall have ten (10) days from receiving the Sale Notice ("Offer Period") to submit a conditional offer to purchase the Premises for the Purchase Price (the "Offer"), subject to the timely negotiation of the final form of Purchase and Sale Agreement (defined as follows), and final approval from the SFMTA Board of Directors and, if applicable, the City's Board of Supervisors ("BOS") and Mayor. City's delivery of an Offer is irrevocable except as provided herein. If City timely delivers the Offer, then within twenty-five (25) days after the termination of the Offer Period (the "Agreement Period"), the parties shall negotiate a form of purchase and sale agreement (the "Purchase and Sale Agreement"), which shall include, but not be limited to, the terms set forth in this Section. In such negotiations, Landlord and Tenant shall use good faith, commercially reasonable efforts to negotiate the Purchase and Sale Agreement and consummate a transaction with City.

(c) In the event Landlord timely delivers the Due Diligence Reports and City elects to timely submit an Offer, City shall reimburse Landlord for the costs of such vendors (up to the amount pre-approved by the City), plus a ten-percent (10%) administrative fee payable to the Landlord. Such reimbursement shall be made whether or not City consummates the purchase of the Property, and shall be due within the sixty (60) day period immediately following Landlord's delivery of the Due Diligence Reports and commercially-reasonable invoices and supporting cost documentation evidencing the costs for such Due Diligence Reports.

22.2 Purchase and Sale Agreement Terms.

Among other things, the Purchase and Sale Agreement will include, but not be limited to, the following language:

(a) The SFMTA Board of Directors and, if applicable, the BOS and City's Mayor, shall have given final approval to the Purchase and Sale Agreement.

(b) The Earnest Money Deposit (defined below) shall be credited against the Purchase Price at the close of escrow pursuant to the Purchase and Sale Agreement ("Closing"). The Earnest Money Deposit shall be refunded to City if Closing fails to occur as a result of: (i) Landlord's failure to perform its obligations under the Purchase and Sale Agreement; (ii) any Landlord representation or warranty in the Purchase and Sale Agreement being materially untrue at the time when made or at Closing and has a material and adverse impact on City or the Premises; or (iii) a material condition to closing is not satisfied (other than those conditions within the reasonable control of City) (collectively, the "Refund Conditions").

(c) If the SFMTA Board of Directors approves a proposed Purchase and Sale Agreement before the expiration of the SFMTA Board Review Period and the BOS and City's Mayor approves a proposed Purchase and Sale Agreement before the expiration of the BOS

Review Period (as defined in Section 22.3), City shall sign and deliver the Purchase and Sale Agreement to Landlord within three (3) days of such approval and shall submit an amount equal to the Purchase Price, less the Earnest Money Deposit, to escrow within fifteen (15) business days after its delivery of the fully-executed Purchase and Sale Agreement to Landlord. Such deposited funds shall not be refunded to City unless Closing fails to occur pursuant to the Refund Conditions.

(d) Closing shall occur on or before the date that is thirty (30) days after City's delivery of the fully-executed Purchase and Sale Agreement to Landlord.

(e) City shall pay the costs of its title insurance policy, one-half (1/2) of the escrow fees, and one-half (1/2) of the other closing expenses customarily paid by buyers of commercial property in San Mateo County. If any transfer taxes are imposed in connection with the sale of the Premises to City, such transfer taxes shall be paid in accordance with the custom at the time of Closing in San Mateo County. Landlord shall pay one-half (1/2) of the escrow fees, and one-half (1/2) of the other closing expenses customarily paid by sellers of commercial property in San Mateo County.

(f) At least one (1) business day prior to the scheduled Closing, Landlord shall deliver the following (among other customary items) into escrow with a mutually agreeable escrow and title company on City's approved vendor list at the time the Purchase and Sale Agreement is negotiated: fee simple title to the Premises by special warranty deed (warranting title by, through, or under Landlord, but not otherwise) subject only to all matters of record and those matters which a correct survey would show but free and clear of any liens and any other exceptions created by, under, or through Landlord, and other exceptions City either did not object to or has accepted after objection; a bill of sale for all personal property on the Premises owned by Landlord; and an assignment of all warranties and intangible property for the Premises.

(g) The sale shall be "as-is" with no representations or warranties from Landlord, subject to satisfactory completion of any Landlord Lease obligations that arise prior to Closing. At Closing City shall waive (in writing satisfactory to Landlord and in a form reasonably acceptable to City) any, warranty or representation with respect to the Premises (other than title to the Premises as provided above) and shall release Landlord from any right or claims, known or unknown, with respect to the physical or environmental condition of the Premises or the compliance of the Premises with applicable law, but excluding any disclosures Landlord is required to make under applicable law. City is relying on its own inspection and review of the Premises.

(h) The Purchase Price shall be payable in immediately available funds at Closing. The intent of the parties is that the Purchase Price shall be absolutely net to Landlord, with the sole exception being that Landlord shall pay its attorneys' fees and brokers' fees, and its share of escrow fees and closing expenses.

(i) Taxes and other expenses and all Rent (as defined in Section 4.3) due by City to Landlord under the Lease shall be prorated to the date of Closing. The Lease Term shall be terminated as of Closing.

(j) Landlord may conduct the sale as a tax-free exchange pursuant to Section 1031 of the Internal Revenue Code. Such exchange shall be conducted through a qualified intermediary, at no cost to City and at no delay, and without affecting Landlord's obligations to City. City shall not be required to take title to any other property in connection with a Section 1031 exchange.

22.3 Approval Period

If the parties mutually agree to the form of Purchase and Sale Agreement during the Agreement Period, Landlord shall execute the proposed Purchase and Sale Agreement and, within five (5) business days of receiving such Purchase and Sale Agreement executed by Landlord, SFMTA shall submit the proposed Purchase and Sale Agreement to the SFMTA Board of Directors for approval. SFMTA shall have a thirty (30) calendar day period (the "SFMTA Board Review Period") following such submittal to have the proposed Purchase and Sale Agreement considered by the SFMTA Board of Directors; provided, however, that if the SFMTA Board of Directors does not hold all regularly scheduled open meetings during the original SFMTA Board Review Period, the original SFMTA Board Review Period shall be automatically extended through the date of the first regularly scheduled SFMTA Board meeting that immediately follows the initial SFMTA Board Review Period.

Notwithstanding anything to the contrary herein, any automatic extensions of the SFMTA Board Review Period shall be limited to 10 days.

If the SFMTA Board of Directors approves the proposed Purchase and Sale Agreement prior to the termination of the SFMTA Board Review Period (as it may be extended pursuant to the foregoing paragraph), City shall submit to escrow a deposit equal to five percent (5%) of the Purchase Price (the "Earnest Money Deposit") within five (5) business days after SFMTA Board of Directors approval and shall submit the proposed Purchase and Sale Agreement to the Clerk of the BOS. City shall have the six (6) week period (the "BOS Review Period") immediately following the SFMTA Board approval of the Purchase and Sale Agreement to have the proposed Purchase and Sale Agreement considered and approved by the BOS and the City's Mayor; provided, however, that if a regularly scheduled meeting of the BOS or the BOS committee to which the proposed Purchase and Sale Agreement is referred is not scheduled or is cancelled during the original BOS Board Review Period, the original BOS Review Period shall be automatically extended by the number of days that elapse between such unscheduled or cancelled meeting and the next regularly scheduled meeting. The Earnest Money Deposit shall be refunded to City only if the BOS or the City's Mayor does not approve the Purchase and Sale Agreement within the BOS Review Period or if the Earnest Money Deposit is refundable pursuant to the Refund Conditions of the Purchase and Sale Agreement.

Notwithstanding anything to the contrary herein, any automatic extensions of the BOS Review Period shall be limited to 10 days.

Landlord acknowledges that the SFMTA Board of Directors and, if applicable, the City's BOS and Mayor, shall each have sole discretion in approving or not approving the proposed Purchase and Sale Agreement. If City does not obtain the timely approval of the SFMTA Board of Directors and, if applicable, the City's BOS and Mayor to the negotiated form of Purchase and Sale Agreement, the Offer shall be automatically revoked. If City timely receives final approval from the SFMTA Board of Directors and, if applicable, City's BOS and Mayor, City shall execute the Purchase and Sale Agreement and deliver the fully executed Purchase and Sale Agreement to Landlord.

22.4 Waiver of One-Time First Negotiation Right

Time is of the essence with respect to City's delivery of the Offer, the parties' negotiation of a Purchase and Sale Agreement, and City's submission of the proposed Purchase and Sale Agreement for its approval process if the parties timely negotiate the final form of Purchase and Sale Agreement. If (i) City does not deliver an Offer before the above deadline set forth in this Section 22, (ii) the parties do not negotiate a final form of Purchase and Sale Agreement before the above deadline set forth in this Section 22, (iii) City does not promptly submit a Purchase and Sale Agreement for its approval process, (iv) City does not obtain final approval of a Purchase and Sale Agreement from the SFMTA Board of Directors before the above deadline set forth in this Section 22, or, (v) if applicable, (v) City does not obtain final approval of a Purchase and Sale Agreement from the BOS and City's Mayor before the above deadline set forth in this Section 22 and in accordance with the terms of the One-Time First Negotiation Right, City shall

be deemed to have irrevocably waived all further rights to the One-Time First Negotiation Right with respect to such Sale Notice, and Landlord shall be free to sell the Premises to any other party(s) subject to this Lease (but not subject to the One-Time First Negotiation Right), provided the sales price shall not be less than ninety percent (90%) of the Purchase Price. If Landlord wishes to sell the Premises for less than ninety percent (90%) of the Purchase Price, the One-Time First Negotiation Right shall apply and Landlord shall deliver a new Sale Notice with the new proposed Purchase Price to City. Landlord shall notify any other potential back-up purchaser during the Offer Period, the Agreement Period or the Approval Period that Landlord is in negotiations with City for the purchase of the Premises.

22.5 Excluded Transfers

Notwithstanding anything to the contrary herein, the One-Time First Negotiation Right shall not apply in the event of the following transfers of all or any portion of the Premises, which transfers shall be made subject to the Lease and the One-Time First Negotiation Right:

(a) transfers to Affiliates of Landlord (defined as follows). The term "Affiliates of Landlord " means any corporation (A) that owns 75% or more of the voting stock of Landlord; (B) 75% or more of whose voting stock is owned by Landlord; or (C) 75% or more of the voting stock is owned by a corporation that also owns 50% or more of the voting stock of Landlord;

(b) transfers of the Premises as collateral security;

(c) transfers to any investment funds, joint venture or partnership into which Landlord, or any Affiliate of Landlord, enters or joins;

(d) transfers in connection with any debt or equity financing, or transfers pursuant to a foreclosure or a deed in lieu thereof;

(e) transfers in connection with a sale of all or substantially all of Landlord's assets or its shares;

(f) transfers of the Premises in connection with a governmental taking or exercise of eminent domain;

(g) transfers in connection with a lease back of the Premises by Landlord; and/or

(h) transfers to a real estate investment fund in which Landlord owns a minimum of 5% interest, including, without limitation, Internal Revenue Code Section 1031 exchanges.

22.6 Due Diligence Investigation

With the Sale Notice, Landlord shall provide the Due Diligence Reports to City. City shall have forty-five (45) days following the delivery of an Offer to perform its due diligence investigation (the "Due Diligence Period"). During such Due Diligence Period, Landlord will cooperate with City. City may revoke the Offer by delivering notice of such revocation to Landlord within the Due Diligence Period if City is not satisfied with any aspect of the Premises, including the condition of title. If City timely revokes the Offer pursuant to this Section, the Lease shall continue in full force and effect and City shall be deemed to have irrevocably waived all further rights to the One-Time First Negotiation Right with respect to such Sale Notice, and Landlord may sell the Premises for no less than ninety percent (90%) of the Purchase Price. If Landlord wishes to sell the Premises for less than ninety percent (90%) of the Purchase Price, the One-Time First Negotiation Right shall apply and Landlord shall deliver a new Sale Notice with the new proposed Purchase Price to City. If City timely delivers an Offer in respect to such new

Sale Notice, City shall have a new Due Diligence Period with respect to such new Offer; provided, however, City shall only have the right to object to matters that are new and arose after the original Due Diligence Period.

22.7 Inspections and Inquiries

From and after the Lease Commencement Date and continuing through the date the One-Time First Negotiation Right becomes void or is waived pursuant to the provisions of Section 22.4 or, if City and Landlord execute the Purchase and Sale Agreement, through the termination of the due diligence period specified therein, City shall be permitted to make such examinations, tests, analyses, investigations, surveys, inquiries and other inspections in connection with City's examination of the Premises as City deems necessary or desirable. Notwithstanding the forgoing, City shall not perform any borings, samplings, soils tests, groundwater tests or other intrusive physical environmental audit procedures on the Premises without first providing Landlord a detailed work plan describing with specificity the nature, scope, location and purpose of all of such activities to be performed on the Premises and thereafter obtaining Landlord's prior written consent to such activities, it being agreed that Landlord shall consider any request by Tenant to conduct a Phase II environmental assessment of the Premises, but Landlord is not obligated to grant consent. City, at its sole expense, shall repair any and all damage resulting from any of the tests, studies, inspections and investigations performed by or on behalf of City that are permitted under this Section. In the event City timely submits the Offer, Landlord hereby irrevocably authorizes City and its Agents to make all inquiries with and applications to any regulatory authority with jurisdiction over the Premises as City may reasonably require to complete its due diligence investigations on the Premises; provided, however, that no such application shall impact Landlord's ownership of or title to the Premises in the event the Closing fails to occur, and if any such inquiries include a request to conduct a Phase II environment assessment of the Premises, Landlord shall consider such request, but Landlord is not obligated to grant consent.

23. GENERAL PROVISIONS

23.1 Notices

Except as otherwise specifically provided in this Lease, any notice given under this Lease shall be in writing and given by delivering the notice in person or by commercial courier, or by sending it by first-class mail, certified mail, return receipt requested, or Express Mail, return receipt requested, with postage prepaid, to: **(a)** City at Tenant's address set forth in the Basic Lease Information; or **(b)** Landlord at Landlord's address set forth in the Basic Lease Information; or **(c)** such other address as either Landlord or City may designate as its new address for such purpose by notice given to the other in accordance with this Section. Any notice hereunder shall be deemed to have been given and received two (2) days after the date when it is mailed if sent by first-class, certified mail, one day after the date when it is mailed if sent by Express Mail, or upon the date personal delivery is made. For convenience of the parties, copies of notices may also be given be telefacsimile to the telefacsimile number set forth in the Basic Lease Information or such other number as may be provided from time to time; however, neither party may give official or binding notice by facsimile.

23.2 No Implied Waiver

No failure by either party to insist upon the strict performance of any obligation of the other party under this Lease or to exercise any right, power or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or of such term, covenant or condition. No acceptance of full or partial Rent by Landlord while City is in default hereunder shall constitute a waiver of such default by Landlord. No express written waiver of any default or the performance of any provision hereof shall affect any other default or performance, or cover any other period of time, other than the default, performance or period of time specified in such

express waiver. One or more written waivers of a default or the performance of any provision hereof shall not be deemed to be a waiver of a subsequent default or performance. The consent of Landlord or City given in one instance under the terms of this Lease shall not relieve the other party of any obligation to secure the consent to any other or future instance under the terms of the Lease.

23.3 Amendments

Neither this Lease nor any terms or provisions hereof may be changed, waived, discharged or terminated, except by a written instrument signed by the party against which the enforcement of the change, waiver, discharge or termination is sought. No waiver of any breach shall affect or alter this Lease, but each and every term, covenant and condition of this Lease shall continue in full force and effect with respect to any other then-existing or subsequent breach thereof. Whenever this Lease requires or permits the giving by City of its consent or approval, the Director of Property, or his or her designee, shall be authorized to provide such approval, except as otherwise provided by applicable law, including the Charter of the City and County of San Francisco. Any amendments or modifications to this Lease, including, without limitation, amendments to or modifications to the exhibits to this Lease, shall be subject to the mutual written agreement of City and Landlord, and City's agreement may be made upon the sole approval of SFMTA's Director of Transportation or his or her designee; provided, however, material amendments or modifications to this Lease **(a)** changing the legal description of the Premises, **(b)** increasing the Term, **(c)** increasing the Rent, **(d)** changing the general use of the Premises from the use authorized under Section 5.1 of this Lease, and **(e)** any other amendment or modification which materially increases City's liabilities or financial obligations under this Lease shall additionally require the approval of the Board of Directors of SFMTA.

23.4 Authority

Landlord represents and warrants to City that the execution and delivery of this Lease by Landlord has been duly authorized and does not violate any provision of any agreement, law or regulation to which Landlord or the Premises is subject.

23.5 Parties and Their Agents; Approvals

If applicable, the word "Landlord" as used in this Lease shall include the plural as well as the singular. As used in this Lease, the term "Agents" when used with respect to either party shall include the agents, employees, officers, contractors and subcontractors of such party, and the term "Invitees" when used with respect to City shall include the clients, customers, invitees, guests, licensees, assignees or subtenants of City. All approvals, consents or other determinations permitted or required by City under this Lease, including but not limited to the exercise of any option granted to City, shall be made by or through City's Director of Property unless otherwise provided in this Lease, subject to any applicable limitations in the City's Charter.

23.6 Interpretation of Lease

The captions preceding the articles and sections of this Lease and in the table of contents have been inserted for convenience of reference only and such captions shall in no way define or limit the scope or intent of any provision of this Lease. This Lease has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with herein and shall be interpreted to achieve the intent and purposes of the parties, without any presumption against the party responsible for drafting any part of this Lease. Except as otherwise specifically provided herein, wherever in this Lease Landlord or City is required or requested to give its consent or approval to any matter or action by the other, such consent or approval shall not be unreasonably withheld or delayed and the reasons for disapproval of consent shall be stated in reasonable detail in writing. Provisions in this Lease relating to number of days shall be calendar days, unless otherwise specified, provided that if the last day of any period to give notice, reply

to a notice or to undertake any other action occurs on a Saturday, Sunday or a bank or City holiday, then the last day for undertaking the action or giving or replying to the notice shall be the next succeeding business day. Use of the word "including" or similar words shall not be construed to limit any general term, statement or other matter in this Lease, whether or not language of non-limitation, such as "without limitation" or similar words, are used.

23.7 Successors and Assigns

Subject to the provisions of Section 14 relating to assignment and subletting, the terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of Landlord and City and, except as otherwise provided herein, their personal representatives and successors and assigns. There are no third-party beneficiaries to this Lease.

23.8 Brokers

Neither party has had any contact or dealings regarding the leasing of the Premises, or any communication in connection therewith, through any licensed real estate broker or other person who could claim a right to a commission or finder's fee in connection with the lease contemplated herein, except for the broker, if any, identified in the Basic Lease Information, whose commission, if any is due, shall be the sole responsibility of Landlord pursuant to a separate written agreement between Landlord and such broker, and City shall have no liability therefor. In the event that any other broker or finder perfects a claim for a commission or finder's fee based upon any such contact, dealings or communication, the party through whom the broker or finder makes his claim shall be responsible for such commission or fee and shall Indemnify the other party from any and all Claims incurred by the indemnified party in defending against the same. The provisions of this Section shall survive any termination of this Lease.

23.9 Severability

If any provision of this Lease or the application thereof to any person, entity or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons, entities or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each other provision of this Lease shall be valid and be enforceable to the full extent permitted by law.

23.10 Governing Law

This Lease shall be construed and enforced in accordance with the laws of the State of California and the City's Charter.

23.11 Entire Agreement

The parties intend that this Lease (including all of the attached exhibits, which are made a part of this Lease) shall be the final expression of their agreement with respect to the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous written or oral agreements or understandings. The parties further intend that this Lease shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever (including prior drafts hereof and changes therefrom) may be introduced in any judicial, administrative or other legal proceeding involving this Lease.

23.12 Attorneys' Fees

In the event that either Landlord or City fails to perform any of its obligations under this Lease or in the event a dispute arises concerning the meaning or interpretation of any provision of this Lease, the defaulting party or the non-prevailing party in such dispute, as the case may be, shall pay the prevailing party reasonable attorneys' and experts' fees and costs, and all court costs

and other costs of action incurred by the prevailing party in connection with the prosecution or defense of such action and enforcing or establishing its rights hereunder (whether or not such action is prosecuted to a judgment). For purposes of this Lease, reasonable attorneys' fees of the City's Office of the City Attorney or in-house counsel of Landlord or its affiliates shall be based on the fees regularly charged by private attorneys with the equivalent number of years of experience in the subject matter area of the law for which the City Attorney's or Landlord attorney services were rendered who practice in the City of San Francisco in law firms with approximately the same number of attorneys as employed by the Office of the City Attorney. The term "attorneys' fees" shall also include, without limitation, all such fees incurred with respect to appeals, mediations, arbitrations, and bankruptcy proceedings, and whether or not any action is brought with respect to the matter for which such fees were incurred. The term "costs" shall mean the costs and expenses of counsel to the parties, which may include printing, duplicating and other expenses, air freight charges, hiring of experts, and fees billed for law clerks, paralegals, and others not admitted to the bar but performing services under the supervision of an attorney.

23.13 Holding Over

Should City hold over without Landlord's consent, such holding over shall not be deemed to extend the Term or renew this Lease, but such tenancy thereafter shall continue as a month-to-month tenancy. Such tenancy shall be on all the terms and conditions set forth in this Lease and the rent payable by City during the period of such holding over shall be one hundred fifty percent (150%) of the monthly Base Rent in effect during the last month of the Term of this Lease.

All other payments shall continue under the terms of this Lease. In addition, City shall be liable for all damages incurred by Landlord as a result of such holding over. No holding over by City, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Section shall not be construed as consent for City to retain possession of the Premises beyond such month to month holdover occupancy. For purposes of this Section, "possession of the Premises" shall continue until, among other things, City has delivered all keys to the Premises to Landlord, has fully vacated the Premises, and completely fulfilled all obligations required of it upon termination of the Lease as set forth in this Lease, including, without limitation, those concerning the condition and repair of the Premises.

23.14 Cumulative Remedies

All rights and remedies of either party hereto set forth in this Lease shall be cumulative, except as may otherwise be provided herein.

23.15 Time of Essence

Time is of the essence with respect to all provisions of this Lease in which a definite time for performance is specified.

23.16 Survival of Indemnities

Termination of this Lease shall not affect the right of either party to enforce any and all indemnities and representations and warranties given or made to the other party under this Lease, nor shall it affect any provision of this Lease that expressly states it shall survive termination hereof. Each party hereto specifically acknowledges and agrees that, with respect to each of the indemnities contained in this Lease, the indemnitor has an immediate and independent obligation to defend the indemnitees from any claim which actually or potentially falls within the indemnity provision even if such allegation is or may be groundless, fraudulent or false, which obligation arises at the time such claim is tendered to the indemnitor by the indemnitee and continues at all times thereafter.

23.17 Signs

Subject to all Laws and at City's sole cost, City may erect or post signs on or about the Premises subject to Landlord's prior approval. Landlord reserves the right to review the placement, design, and plan for any such sign prior to its erection or posting and agrees that the approval thereof shall not be unreasonably withheld or delayed. Upon surrender or vacation of the Premises, City shall have removed all signs installed by City and repair, paint, and/or replace any damage to the building facia surface caused by such removal. City shall obtain all applicable governmental permits and approvals for sign and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's approval, which shall not be unreasonably withheld, conditioned or delayed, and conform in all respects to Landlord's requirements.

23.18 Quiet Enjoyment and Title

Landlord covenants and represents that it has full right, power and authority to grant the leasehold estate hereunder, and covenants that City, upon paying the Rent hereunder and performing the covenants hereof, shall, subject to the terms of this Lease, peaceably and quietly have, hold and enjoy the Premises and all appurtenances during the full Term of this Lease as against all persons or entities claiming by and through Landlord or on account of any action, inaction or agreement of Landlord or its Agents. Without limiting the provisions of Section 16.2 (Landlord's Indemnity), Landlord agrees to Indemnify City and its Agents against Claims arising out of any breach of Landlord's foregoing representation that would interfere with City's right to quiet enjoyment as provided in this Section.

23.19 Bankruptcy

Landlord represents and warrants to City that Landlord has neither filed nor been the subject of any filing of a petition under the federal bankruptcy law or any federal or state insolvency laws or laws for composition of indebtedness or for the reorganization of debtors, and, to the best of Landlord's knowledge, no such filing is threatened. Landlord and City agree that City's leasehold estate created hereby includes, without limitation, all rights to receive and enjoy all services, facilities and amenities of the Premises and the Building as provided herein, and that if due to Landlord's filing of a petition for bankruptcy relief any of such services, facilities or amenities are terminated, or materially limited or restricted on account of any such case or proceeding, City shall have the right to **(a)** contract directly with any third-party provider of such services, facilities or amenities to obtain the same, and **(b)** offset against the Base Rent or other charges payable hereunder any and all reasonable costs and expenses incurred by City in obtaining such services, facilities or amenities, provided no such actions violate any rules or requirements of the bankruptcy proceeding.

23.20 Transfer of Landlord's Interest

Landlord shall have the right to transfer its interest in the Premises or this Lease. In the event of any such transfer, Landlord shall be relieved, upon notice to City of the name and address of Landlord's successor, of any obligations accruing hereunder from and after the date of such transfer and upon delivering to City an express assumption by the transferee of all of Landlord's obligations hereunder. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter, except for any monetary obligations to City incurred by Landlord pursuant to this Lease incurred during such ownership, to the extent such monetary obligation is not fully discharged during such ownership, unless the new owner of the Premises expressly assumes such monetary obligations. The term "Landlord" in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, (except for any monetary obligations to City incurred by Landlord pursuant to this Lease incurred during such ownership, to the extent such monetary obligation is not fully discharged during such ownership, unless the new owner of the Premises expressly assumes such monetary

obligations), but such obligations shall be binding during the Term upon each new owner of the Premises for the duration of such owner's ownership.

23.21 Non-Liability of City Officials, Employees and Agents of City and Trustees, Shareholders, and Officers of Landlord

Notwithstanding anything to the contrary in this Lease, no elective or appointive board, commission, member, officer, employee or agent of City shall be personally liable to Landlord, its successors and assigns, for any Event of Default or for any amount which may become due to Landlord, its successors and assigns, or for any obligation of City under this Lease.

Any obligation or liability whatsoever of Landlord which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its trustees, directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

23.22 MacBride Principles - Northern Ireland

The City and County of San Francisco urges companies doing business in Northern Ireland to move toward resolving employment inequities and encourages them to abide by the MacBride Principles as expressed in San Francisco Administrative Code Section 12F.1 et seq. The City and County of San Francisco also urges San Francisco companies to do business with corporations that abide by the MacBride Principles. Landlord acknowledges that it has read and understands the above statement of the City and County of San Francisco concerning doing business in Northern Ireland.

23.23 Controller's Certification of Funds

The terms of this Lease shall be governed by and subject to the budgetary and fiscal provisions of the City's Charter. Notwithstanding anything to the contrary contained in this Lease, there shall be no obligation for the payment or expenditure of money by City under this Lease unless the Controller of the City and County of San Francisco first certifies, pursuant to Section 3.105 of the City's Charter, that there is a valid appropriation from which the expenditure may be made and that unencumbered funds are available from the appropriation to pay the expenditure. Without limiting the foregoing, if in any fiscal year of City after the fiscal year in which the Term of this Lease commences, sufficient funds for the payment of Rent and any other payments required under this Lease are not appropriated, then City may terminate this Lease, without penalty, liability or expense of any kind to City, as of the last date on which sufficient funds are appropriated. City shall use its reasonable efforts to give Landlord reasonable advance notice of such termination. During the Term, SFMTA staff will ensure the Lease payments are included in the operating budgets submitted for approval to the SFMTA Board of Directors, City's Mayor, and City's Board of Supervisors. As of the Lease Commencement Date, Section 8A.106 of City's Charter (i) requires SFMTA to submit a two-year budget to the City's Board of Supervisors and Mayor by May 1st of even numbered years, (ii) only permits the City's Board of Supervisors to reject the full submitted budget by 7/11ths vote no later than August 1 of such even numbered year, (iii) prohibits the City's Board of Supervisors from modifying the submitted SFMTA budget, including any line item changes, and (iv) if City's Board of Supervisors rejects a budget submitted by SFMTA, requires the City's Board of Supervisors to make additional interim appropriations to SFMTA until a budget is adopted. Tenant shall not use the provisions of this Section to circumvent the early termination right and payment set forth in Section 3.2 above. Landlord acknowledges and agrees that the City Charter may be amended and Sections of the City Charter changed by a majority of the voters at any time.

23.24 Prevailing Wages for Construction Work

Landlord agrees that any person performing labor in the construction of improvements to the Premises, if any, which Landlord provides under this Lease, shall be paid not less than the highest prevailing rate of wages as required by Section 6.22(E) of the San Francisco Administrative Code, shall be subject to the same hours and working conditions, and shall receive the same benefits as in each case are provided for similar work performed in San Francisco, California. Landlord shall include, in any contract for construction of such improvements to the Premises, a requirement that all persons performing labor under such contract shall be paid not less than the highest prevailing rate of wages for the labor so performed. Landlord shall require any contractor to provide, and shall deliver to City upon request, certified payroll reports with respect to all persons performing labor in the construction of improvements to the Premises. Notwithstanding anything to the contrary in the foregoing, the requirements of this Section shall not apply to Landlord's performance of its obligations under Section 4.4(c), Section 8.1 and Section 8.3.

23.25 Non Discrimination in City Contracts and Benefits Ordinance

(a) Covenant Not to Discriminate. In the performance of this Lease, Landlord agrees not to discriminate against any employee of, any City employee working with Landlord, or applicant for employment with Landlord, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

(b) Subcontracts. Landlord shall include in all subcontracts relating to the Premises a non-discrimination clause applicable to such subcontractor in substantially the form of subsection (a) above. In addition, Landlord shall incorporate by reference in all subcontracts the provisions of Sections 12B.2(a), 12B.2(c)-(k) and 12C.3 of the San Francisco Administrative Code and shall require all subcontractors to comply with such provisions. Landlord's failure to comply with the obligations in this subsection shall constitute a material breach of this Lease.

(c) Non-Discrimination in Benefits. Landlord does not as of the date of this Lease and will not during the term of this Lease, in any of its operations in San Francisco, on real property owned by City, or where the work is being performed for the City or elsewhere within the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in Section 12B.2(b) of the San Francisco Administrative Code.

(d) HRC Form. As a condition to this Lease, Landlord shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (Form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission (the "HRC"). Landlord hereby represents that prior to execution of the Lease: (a) Landlord executed and submitted to the HRC Form HRC-12B-101 with supporting documentation, and (b) the HRC approved such form.

(e) Incorporation of Administrative Code Provisions by Reference. The provisions of Chapters 12B and 12C of the San Francisco Administrative Code relating to non-discrimination by parties contracting for the lease of property to City are incorporated in this Section by reference and made a part of this Lease as though fully set forth herein. Landlord shall comply fully with and be bound by all of the provisions that apply to this Lease under such Chapters of the Administrative Code, including but not limited to the remedies provided in such

Chapters. Without limiting the foregoing, Landlord understands that pursuant to Section 12B.2(h) of the San Francisco Administrative Code, a penalty of Fifty Dollars ($50) for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Lease may be assessed against Landlord and/or deducted from any payments due Landlord.

23.26 Tropical Hardwood and Virgin Redwood Ban

(a) Except as expressly permitted by the application of Sections 802(b) and 803(b) of the San Francisco Environment Code, neither Landlord nor any of its contractors shall provide any items to City in the construction of any leasehold improvements or otherwise in the performance of this Lease which are tropical hardwood, tropical hardwood wood products, virgin redwood, or virgin redwood wood products.

(b) The City and County of San Francisco urges companies not to import, purchase, obtain or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood, or virgin redwood wood products.

(c) In the event Landlord fails to comply in good faith with any of the provisions of Chapter 8 of the San Francisco Environment Code, Landlord shall be liable for liquidated damages for each violation in an amount equal to Landlord's net profit on the contract, or five percent (5%) of the total amount of the contract dollars, whichever is greatest. Landlord acknowledges and agrees that the liquidated damages assessed shall be payable to the City and County of San Francisco upon demand and may be set off against any monies due to Landlord from any contract with the City and County of San Francisco.

23.27 Bicycle Storage Facilities

Article 1.5, Section 155.1, of the San Francisco Planning Code (the "Planning Code") requires the provision of bicycle storage at City-leased buildings at no cost to Landlord and if funds are available. In the event public and/or private donations, grants or other funds become available, at any time during the Term of this Lease including any extension thereof, City may, by giving a 60-day advanced written notice to Landlord, install compliant bicycle storage in the Building garage or City may install bicycle racks in other location(s) in front of the Building, which are required to meet the Class 1 and/or Class 2 requirements of the Planning Code. Landlord, at no cost to Landlord, shall reasonably cooperate with City regarding the location of such spaces in furtherance of the implementation of such requirements of the Planning Code.

23.28 Environmental Design and Construction of City Buildings

Landlord acknowledges that the City and County of San Francisco has enacted San Francisco Environment Code Sections 700 to 713 relating to the environmental design and construction of City buildings. Landlord hereby agrees that it shall comply with all applicable provisions of such code sections. Notwithstanding anything to the contrary in the foregoing, the requirements of this Section shall not apply to Landlord's performance of its obligations under Section 4.4(c), Section 8.1 and Section 8.3.

23.29 Counterparts

This Lease may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

23.30 Effective Date

The date on which this Lease shall become effective (the "Effective Date") is the date upon which (a) the Board of Directors of City's SFMTA, in their sole and absolute discretion,

adopt a resolution approving this Lease in accordance with all applicable laws and (b) this Lease is duly executed by the parties hereto.

23.31 Certification by Landlord

By executing this Lease, Landlord certifies that neither Landlord nor any of its officers or members have been suspended, disciplined or disbarred by, or prohibited from contracting with, any federal, state or local governmental agency. In the event Landlord or any of its officers or members have been so suspended, disbarred, disciplined or prohibited from contracting with any governmental agency, it shall immediately notify the City of same and the reasons therefore together with any relevant facts or information requested by City. Any such suspension, disbarment, discipline or prohibition may result in the termination or suspension of this Lease. Landlord acknowledges that this certification is a material term of this Lease.

23.32 Memorandum of Lease

On the Effective Date, Landlord and City shall execute two (2) originals of the memorandum of lease in the form attached hereto as Exhibit D (the "Memorandum of Lease"), and City shall cause a Memorandum of Lease to be recorded in the Official Records of the City and County of San Francisco and a Memorandum of Lease to be recorded in the Official Records of the County of San Mateo within two (2) business days thereafter. Upon termination of the Right of First Negotiation, City shall execute in recordable form such documents as reasonably requested by Landlord to establish that the Premises is no longer subject to the option.

23.33 Sunshine Ordinance

In accordance with Section 67.24(e) of the San Francisco Administrative Code, contracts, contractors' bids, leases, agreements, responses to Requests for Proposals, and all other records of communications between City and persons or firms seeking contracts will be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person's or organization's net worth or other proprietary financial data submitted for qualification for a contract, lease, agreement or other benefit until and unless that person or organization is awarded the contract, lease, agreement or benefit. Information provided which is covered by this Section will be made available to the public upon request.

23.34 Conflicts of Interest

Through its execution of this Lease, Landlord acknowledges that it is familiar with the provisions of Section 15.103 of the San Francisco Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California, and certifies that it does not know of any facts which would constitute a violation of said provisions, and agrees that if Landlord becomes aware of any such fact during the Term of this Lease, Landlord shall immediately notify City.

23.35 Notification of Limitations on Contributions

Through its execution of this Lease, Landlord acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the selling or leasing of any land or building to or from the City whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or a board on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. Landlord acknowledges that the foregoing restriction

applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of $50,000 or more. Landlord further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of Landlord's board of directors, chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in Landlord; any subcontractor listed in the contract; and any committee that is sponsored or controlled by Landlord. Additionally, Landlord acknowledges that Landlord must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. Landlord further agrees to provide to City the names of each person, entity or committee described above.

23.36 Preservative-Treated Wood Containing Arsenic

Landlord may not purchase preservative-treated wood products containing arsenic in the performance of this Lease unless an exemption from the requirements of Environment Code, Chapter 13 is obtained from the Department of Environment under Section 1304 of the Environment Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniac copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. Landlord may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of Environment. This provision does not preclude Landlord from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

23.37 Cooperative Drafting

This Lease has been drafted through a cooperative effort of both parties, and both parties have had an opportunity to have the Lease reviewed and revised by legal counsel. No party shall be considered the drafter of this Lease, and no presumption or rule that an ambiguity shall be construed against the party drafting the clause shall apply to the interpretation or enforcement of this Lease.

23.38 Force Majeure

Neither Landlord nor City shall be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, delay in issuance of permits, enemy or hostile governmental action, civil commotion, fire or other casualty, and other causes beyond the reasonable control of such party ("Force Majeure"). "Force Majeure" shall not include any performance delays resulting from a party's failure to timely pay its monetary obligations.

23.39 Default Rate of Interest

Any amount not paid by either party within five (5) business days after its due date in accordance with the terms of this Lease shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or ten percent (10%) per year. It is expressly the intent of Landlord and City at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord's and City's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to City), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the

execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

23.40 Exhibits and Addenda

All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

23.41 Energy and Solar

City agrees and understands that Landlord shall have the right (provided that the exercise of Landlord's rights does not adversely affect City's use and occupancy of the Premises or subject City to additional costs), without City's consent, to place a solar electric generating system (a "Solar Utility System") on the roof of the Building at Landlord's sole cost or enter into a lease for the roof of the Building whereby such roof tenant shall have the right to install a Solar Utility System on the roof of the Building at the sole cost of Landlord or its roof tenant. If Landlord or Landlord's roof tenant place a Solar Utility System on the roof, Landlord shall (i) cause the Solar Utility System to remain in good condition and repair and the sole cost of Landlord or its roof tenant and (ii) promptly repair any damage to the Premises caused by the installation, maintenance, replacement or repair of the Solar Utility System at the sole cost of Landlord or its roof tenant, which costs shall not be an Operating Expense. Landlord shall not take, or permit its roof tenant to take, any action that would prevent the continued provision of electricity to the Premises by a public utility.

Upon receipt of written request from Landlord, City, at City's sole cost and expense, shall deliver to Landlord data regarding the electricity consumed in the operation of the Premises (the "Energy Data") for purposes of regulatory compliance, manual and automated benchmarking, energy management, building environmental performance labeling and other related purposes, including but not limited, to the Environmental Protection Agency's Energy Star rating system and other energy benchmarking systems. Landlord shall use commercially reasonable efforts to utilize automated data transmittal services offered by utility companies to access the Energy Data. Landlord shall not publicly disclose Energy Data without City's prior written consent. Landlord may, however, disclose Energy Data that has been modified, combined or aggregated in a manner such that the resulting data is not exclusively attributable to City. Within fifteen (15) days of Landlord's written request, City agrees to deliver to Landlord such information and/or documents as Landlord reasonably requires for Landlord to comply with California Public Resources Code Section 25402.10, or successor statute(s), and related California Code of Regulation, relating to commercial building energy ratings.

23.42 Waiver of Jury Trial

CITY AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.

23.43 Two Renewal Options at Market

(a) Provided that as of the time of the giving of the First Extension Notice (defined as follows) and the Commencement Date of the First Extension Term (defined as follows), (i) City is the Tenant originally named herein, and (ii) no Event of Default exists or would exist but for the passage of time or the giving of notice, or both; then City shall have the right (the "First Extension Right") to extend the Term for an additional term of five (5) years (such additional term is hereinafter called the "First Extension Term") commencing on the day

following the original scheduled expiration date of the Term (hereinafter referred to as the "Commencement Date of the First Extension Term"). City shall give Landlord notice (hereinafter called the "First Extension Notice") of its election to extend the term of the Term (subject to approval of such election by the SFMTA Board of Directors and the BOS and City's Mayor) at least twelve (12) months, but not more than eighteen (18) months, prior to the original scheduled expiration date of the Term.

(b) Provided that as of the time of the giving of the Second Extension Notice (defined as follows) and the Commencement Date of the Second Extension Term (defined as follows), (i) City is the Tenant originally named herein, and (ii) no Event of Default exists or would exist but for the passage of time or the giving of notice, or both and provided City has exercised its First Extension Right; then City shall have the right (the "Second Extension Right") to extend the Term for an additional term of five (5) years (such additional term is hereinafter called the "Second Extension Term") commencing on the day following the expiration of the First Extension Term (hereinafter referred to as the "Commencement Date of the Second Extension Term"). City shall give Landlord notice (hereinafter called the "Second Extension Notice") of its election to extend the term of the Term at least twelve (12) months, but not more than eighteen (18) months, prior to the scheduled expiration date of the First Extension Term.

(c) The Base Rent payable by City to Landlord during the First Extension Term shall be the greater of (i) the Base Rent applicable to the last year of the initial Term and (ii) the then prevailing market rate for comparable space in the Premises and comparable buildings in the vicinity of the Premises, taking into account the location and size of the Premises and the premises covered by leases of such comparable space, the length of the renewal term and the term of such comparable leases, rental escalations, the credit of City, and the Excess Operating Costs payable hereunder.

The Base Rent shall not be reduced by reason of any costs or expenses saved by Landlord by reason of Landlord's not having to find a new tenant for the Premises (including, without limitation, brokerage commissions, costs of improvements, rent concessions or lost rental income during any vacancy period). Within thirty (30) days following City's exercise of the First Extension Right, Landlord shall notify City of Landlord's determination of the prevailing market rate for the Premises. If City disputes Landlord's determination of the prevailing market rate, City shall so notify Landlord within fourteen (14) days following Landlord's notice to City of the prevailing market rate and such dispute shall be resolved as set forth in subsection(e) below.

(d) The Base Rent payable by City to Landlord during the Second Extension Term shall be the greater of (i) the Base Rent applicable to the last year of the First Extension Term and (ii) the then prevailing market rate for comparable space in the Premises and comparable buildings in the vicinity of the Premises, taking into account the location and size of the Premises and the premises covered by leases of such comparable space, the length of the renewal term and the term of such comparable leases, rental escalations, the credit of City, and the Excess Operating Costs payable hereunder.

The Base Rent shall not be reduced by reason of any costs or expenses saved by Landlord by reason of Landlord's not having to find a new tenant for the Premises (including, without limitation, brokerage commissions, costs of improvements, rent concessions or lost rental income during any vacancy period). Within thirty (30) days following City's exercise of the First Extension Right, Landlord shall notify City of Landlord's determination of the prevailing market rate for the Premises. If City disputes Landlord's determination of the prevailing market rate, City shall so notify Landlord within fourteen (14) days following Landlord's notice to City of the prevailing market rate and such dispute shall be resolved as set forth in subsection(e) below.

(e) If City timely notifies Landlord of its disagreement of Landlord's determination of the prevailing market rate pursuant to subsection (c) or (d) above, then:

(1) Within thirty (30) days following Landlord's notice to City of the prevailing market rate, Landlord and City shall attempt in good faith to meet no less than two (2) times, at a mutually agreeable time and place, to attempt to resolve any such disagreement.

(2) If Landlord and City cannot reach agreement as to the prevailing market rate within this thirty (30) day period, they shall each select one appraiser to determine the prevailing market rate. Each such appraiser shall arrive at a determination of the prevailing market rate and submit his or her conclusions to Landlord and City within thirty (30) days of the expiration of the thirty (30) day consultation period described in (1) above.

(3) If only one appraisal is submitted within the requisite time period, it shall be deemed to be the prevailing market rate. If both appraisals are submitted within such time period, and if the two appraisals so submitted differ by less than five percent (5%) of the higher of the two, then the average of the two shall be the prevailing market rate. If the two appraisals differ by more than five percent (5%) of the higher of the two, then the two appraisers shall immediately select a third appraiser who will within thirty (30) days of his or her selection make a determination as to which of the two rates submitted by the original two appraisers is the closest to the prevailing market rate, and such rate shall be the prevailing marking rate for the extension term. The third appraiser must chose one or the other submitted rate and shall not average the two previous appraisals.

(4) All appraisers specified herein shall be "MAI" designated members of the Appraisal Institute with not less than five (5) years' experience appraising leases of commercial properties similar to the Premises in the San Francisco Bay Area. Landlord and City shall pay the cost of the appraiser selected by such party and one-half of the cost of the third appraiser plus one-half of any other costs incurred in the arbitration.

(5) If SFMTA's Director of Transportation does not approve of the prevailing market rate for the First Extension Term as determined by the appraisal procedure specified above, the SFMTA's Director of Transportation shall revoke City's exercise of the First Extension Right and the Lease shall terminate on its original expiration date; provided, however, such revocation must be made no later than six (6) months prior to the original scheduled expiration date of the Term, otherwise such revocation right shall be null and void with no further force or effect. If SFMTA's Director of Transportation does not approve of the prevailing market rate for the Second Extension Term as determined by the appraisal procedure specified above, the SFMTA's Director of Transportation shall revoke City's exercise of the Second Extension Right and the Lease shall terminate on the termination of the First Extension Term; provided, however, such revocation must be made no later than six (6) months prior to the expiration date of the First Extension Term, otherwise such revocation right shall be null and void with no further force or effect.

(f) The determination of Base Rent does not reduce the City's obligation to pay or reimburse Landlord for Excess Operating Expenses and other reimbursable items as set forth in the Lease, and City shall reimburse and pay Landlord as set forth in the Lease with respect to such Operating Expenses and other items with respect to the Premises during the First Extension Term and Second Extension Term without regard to any cap on such expenses set forth in the Lease.

(g) Except for the Base Rent as determined above, City's occupancy of the Premises during the First Extension Term and the Second Extension Term shall be on the same terms and conditions as are in effect immediately prior to the expiration of the initial Term or the First Extension Term; provided, however, that on the commencement of the First Extension Term, if any, City shall have no further right to any allowances, credits or abatements or any options to expand, contract, renew or extend the Lease other than the Second Extension Right, and on the commencement of the Second Extension Term, if any, City shall have no further right to any allowances, credits or abatements or any options to expand, contract, renew or extend the Lease.

(h) If City timely delivers the First Extension Notice, once City and Landlord determine the Base Rent for the First Extension Term, City shall request approval from the SFMTA Board of Directors and the BOS and City's Mayor to City's exercise of the First Extension Right. If either the SFMTA Board of Directors or the BOS and City's Mayor, each acting in its sole discretion, does not approve of such exercise of the First Extension Right, the First Extension Notice shall be automatically revoked and the Lease shall terminate on its original expiration date; provided, however, such revocation must be made no later than six (6) months prior to the original scheduled expiration date of the Term, otherwise such revocation right shall be null and void with no further force or effect. If City timely delivers the Second Extension Notice, once City and Landlord determine the Base Rent for the Second Extension Term, City shall request approval from the SFMTA Board of Directors and the BOS and City's Mayor to City's exercise of the Second Extension Right. If either the SFMTA Board of Directors or the BOS and City's Mayor, each acting in its sole discretion, does not approve of such exercise of the Second Extension Right, the Second Extension Notice shall be automatically revoked and the Lease shall terminate on the expiration of the First Extension Term; provided, however, such revocation must be made no later than six (6) months prior to the expiration date of the First Extension Term, otherwise such revocation right shall be null and void with no further force or effect.

(i) If City does not give the First Extension Notice within the period set forth in paragraph (a) above, City's right to extend the Term for the First Extension Term and the Second Extension Term shall automatically terminate. If City does not give the Second Extension Notice within the period set forth in paragraph (b) above, City's right to extend the Term for the Second Extension Term shall automatically terminate. Time is of the essence as to the giving of the First Extension Notice and Second Extension Notice.

(j) Except for Landlord's obligations under Section 8.1 and Section 8.3, Landlord shall have no obligation to refurbish or otherwise improve the Premises for the First Extension Term or the Second Extension Term. The Premises shall be tendered on the Commencement Date of the First Extension Term and the Commencement Date of the Second Extension Term in "as-is" condition.

(k) If the Lease is extended for the First Extension Term, then Landlord shall prepare and City shall execute a mutually-agreeable amendment to the Lease confirming the extension of the Term and the other provisions applicable thereto (the "First Amendment"). If the Lease is extended for the Second Extension Term, then Landlord shall prepare and City shall execute a mutually-agreeable amendment to the Lease confirming the extension of the Term and the other provisions applicable thereto (the "Second Amendment").

(l) If City exercises the First Extension Right pursuant to this Section, the definition of "Term" as used in the Lease, shall be construed to include, when practicable, the First Extension Term unless City's exercise of the First Extension Right is revoked pursuant to subsection (e) or subsection (h) above. If City exercises the Second Extension Right pursuant to this Section, the definition of "Term" as used in the Lease, shall be construed to include, when practicable, the Second Extension Term unless City's exercise of the Second Extension Right is revoked pursuant to subsection (e) or subsection (h) above.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE, LANDLORD ACKNOWLEDGES AND AGREES THAT NO OFFICER OR EMPLOYEE OF CITY HAS AUTHORITY TO COMMIT CITY HERETO UNLESS AND UNTIL THE BOARD OF DIRECTORS OF CITY'S SFMTA, CITY'S BOARD OF SUPERVISORS AND CITY'S MAYOR SHALL HAVE DULY ADOPTED RESOLUTIONS APPROVING THIS LEASE AND AUTHORIZING CONSUMMATION OF THE TRANSACTION CONTEMPLATED HEREBY. THEREFORE, ANY OBLIGATIONS OR LIABILITIES OF CITY HEREUNDER ARE CONTINGENT UPON ADOPTION OF SUCH A RESOLUTION, AND THIS LEASE SHALL BE NULL AND VOID UNLESS THE BOARD OF DIRECTORS

OF CITY'S SFMTA, CITY'S BOARD OF SUPERVISORS, AND CITY'S MAYOR APPROVE THIS LEASE, IN ITS SOLE AND ABSOLUTE DISCRETION, AND IN ACCORDANCE WITH ALL APPLICABLE LAWS. APPROVAL OF THIS LEASE BY ANY DEPARTMENT, COMMISSION OR AGENCY OF CITY SHALL NOT BE DEEMED TO IMPLY THAT SUCH RESOLUTION WILL BE ADOPTED NOR WILL ANY SUCH APPROVAL CREATE ANY BINDING OBLIGATIONS ON CITY.

[No further text this page.]

Landlord and City have executed this Lease as of the date first written above.

LANDLORD:

PROLOGIS, L.P.,
a Delaware limited partnership

By: Prologis, Inc.
Its: General Partner

By: _____
Its: President, NO Region

CITY:

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation, acting by and through its
Municipal Transportation Agency

By: _____
Edward D. Reiskin
Director of Transportation
San Francisco Municipal Transportation Agency

APPROVED BY:

San Francisco Municipal Transportation Agency
Board of Directors
Resolution No: _____
Adopted: _____
Attest:

_____
Secretary, SFMTA Board of Directors

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____
Deputy City Attorney

ADDENDUM 1

BASE RENT

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED _____, 2012, BETWEEN
PROLOGIS, L.P.
and
CITY AND COUNTY OF SAN FRANCISCO

Base Rent shall equal the following amounts for the respective periods set forth below:

Year	Monthly Base Rent
1	$ 204,136.85
2	$ 210,260.96
3	$ 216,568.78
4	$ 223,065.85
5	$ 229,757.82
6	$ 245,840.87
7	$ 253,216.10
8	$ 260,812.58
9	$ 268,636.96
10	$ 276,696.07
11	$ 296,064.79
12	$ 304,946.73
13	$ 314,095.14
14	$ 323,517.99
15	$ 333,223.53
16	$ 356,549.18

17	$ 367,245.65
18	$ 378,263.02
19	$ 389,610.91
20	$ 401,299.24

ADDENDUM 2

CONSTRUCTION

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED _____, 2012, BETWEEN
PROLOGIS, L.P.
and
CITY AND COUNTY OF SAN FRANCISCO

(a) Landlord agrees to furnish or perform those items of construction and those improvements and construction drawings described and shown on the attached Schedule 1 (the "**Phase I Landlord TIs**") in compliance with final plans, specifications and working drawings (the "**Final Plans**") and construction contracts (the "**Construction Contracts**") approved by City and consistent with the finish standards attached hereto as Schedule 2 (the "**Finish Standards**"). The Final Plans shall be prepared by Landlord's licensed architect or space planner reasonably approved by City (the "**Architect**") and Landlord's licensed engineer reasonably approved by City (the "**Engineer**") and shall show, without limitation, the following:

i. location of any demolition and all partitions;
ii. location and type of all doors, with door hardware specifications;
iii. location and type of all electrical outlets, switches, telephone outlets and lights;
iv. requirements for special air conditioning or ventilation for the Premises;
v. location of all heating and air conditioning ducts;
vi. location, type and color of floor and wall coverings;
vii. ceiling plans including light fixtures;
viii. location of sprinklers;
ix. location, type and color of paint or finishing;
x. location and type of plumbing;
xi. location and type of kitchen equipment;
xiii. disabled accessibility standards, including any improvements to lobbies, corridors, drinking fountains, telephone banks, elevators, elevator vestibules, stairs, stair vestibules and restrooms on all floors of the Building;
xiii. critical dimensions for construction; and
xiv. other interior improvement work required for the furnishing or installation of the Phase I Landlord TIs.

(b) City shall respond promptly to any inquiries by Landlord during the development of the Final Plans and, to the extent requested by Landlord, shall cooperate with Landlord and Landlord's architect in developing the Final Plans. When Landlord requests City to specify details or layouts, City shall promptly specify same within ten (10) business days thereafter so as not to delay completion of the Final Plans or Substantial Completion of the Phase I Landlord TIs. Landlord shall submit the Final Plans to City for its approval and City shall advise Landlord within ten (10) business days thereafter, of its approval or disapproval of such Final Plans. City's right to disapprove the proposed Final Plans ("**Objection**") shall be limited to material inconsistencies with the drawings shown on Schedule 1, this Addendum 2, and any change orders then entered into, and noncompliance with or violation of applicable Laws. If City shall not make an Objection to the proposed Final Plans or any element or aspect thereof within the five (5) business day period set forth above, then such Final Plans or the portions not objected to by City shall be deemed approved.

(c) Landlord shall pay for the costs and expenses to furnish or install the Phase I Landlord TIs (collectively, the "**TI Costs**") up to a maximum amount of $800,000.00 (the "**Allowance**"). The Allowance shall only be available for City's use towards the cost of the Phase I Landlord

TIs until 180 days from the Lease Commencement Date, and after such date City shall have no further rights to use the Allowance. If Landlord reasonably determines the TI Costs will exceed the Allowance, Landlord shall notify City and City shall have the right to elect, at its sole option, to pay for the TI Costs that exceed the Allowance. Such election shall be made in writing within five (5) business days, and City's failure to make such election within such five (5) business day period shall be deemed to be City's election not to pay for any such excess TI Costs. If City elects to pay any such excess TI Costs, the amount of excess TI Costs that City elects to pay shall be the "**Excess Costs**"). The Excess Costs, if any, shall be paid by City before Landlord begins construction of the Phase I Landlord TIs and a final adjusting payment based upon the actual Phase I Landlord TI Costs shall be made when the Phase I Landlord TIs are complete. If City does not elect to pay the Excess Costs, then Landlord shall reduce the scope of the Phase I Landlord TIs so that the TI Costs do not exceed the Allowance.

TI Costs eligible to be reimbursed out of the Allowance shall include, without limitation, (i) all costs of preliminary space planning, interior design, finish schedule plans and specifications and final architectural and engineering plans and specifications (including as-built drawings) for the Phase I Landlord TIs, and other costs associated with completion of said plans or the Final Plans; (ii) all costs of obtaining building permits and other necessary authorizations and approvals for the Phase I Landlord TIs from the City of Daly City, California, and other applicable jurisdictions; (iii) all direct and indirect costs of procuring, constructing and installing the Phase I Landlord TIs, including, without limitation, the construction fee for overhead and profit and all labor and materials constituting the Phase I Landlord TIs; (iv) all fees payable to any third party construction manager and/or general contractors selected by Landlord to perform the Phase I Landlord TIs, provided City has approved of such selected construction manager, which approval shall not be unreasonably withheld; (v) all fees payable to the Architect and Engineer to prepare the Final Plans or to redesign the Final Plans to accommodate City's request for such change anytime after City's approval of the Final Drawings; and (vi) all work needed to cause the Premises, including the improvements and Phase I Landlord TIs, to (A) comply with ADA (including access, restrooms, and interior and exterior improvements that meet ADA access requirements), and (B) be in a safe condition that complies with all applicable building codes.

(d) If City shall desire any changes to the Final Plans, City shall so advise Landlord in writing and Landlord shall determine whether such changes can be made in a reasonable and feasible manner. Any and all costs of reviewing any requested changes, and any and all costs of making any changes to the Phase I Landlord TIs which City may request and which Landlord may agree to shall be at City's sole cost and expense and shall be paid to Landlord upon demand and before execution of the change order.

(e) Prior to constructing the Phase I Landlord TIs, Landlord shall prepare a detailed construction budget that is reasonably acceptable to City, which shall be show the costs to be included in the Allowance and any other Excess Costs to be paid by City hereunder as line items and in cost categories. If the Phase I Landlord TIs cannot be completed in strict conformity with the most recently approved construction budget, Landlord shall immediately submit to City for its approval a revised construction budget and shall identify to City changes in line items and the reasons for the changes. If further changes are required, Landlord shall seek City's reasonable approval, following the same procedures. No costs shall be included in the Allowance, and City shall not be obligated to pay any costs in excess of the Allowance and any Excess Costs previously approved by City, unless and until it approves the construction budget and any revisions thereto. City shall have the right to approve or disapprove any construction budget or revisions in its reasonable judgment. No such approval or disapproval shall be unreasonably delayed and must be approved or rejected within five (5) days of Landlord's submission to City. Failure of City to approve the budget beyond such five (5) day period shall be deemed to be a City Delay. The most recently approved construction budget shall supersede all previously approved budgets.

Landlord shall evidence the TI Costs by commercially-reasonable invoices and paid receipts. Both prior to and following the exhaustion of the Allowance, Landlord shall provide City with copies of (i) all invoices received by Landlord from the Contractor in connection with the Phase I Landlord TIs and (ii) satisfactory evidence of payment of such invoices, including unconditional lien waivers, or if such invoices have not been paid, conditional lien waivers, all such lien waivers being in the form prescribed by California Civil Code, and (iii) if requested in writing by City, Landlord shall also provide City with such additional supporting data substantiating the Contractor's right to payment as City may require, provided such request is commercially-reasonable, such as copies of requisitions from subcontractors and material suppliers.

(f) Following City's approval of the Final Plans and the construction budget, Landlord shall proceed with and complete the construction of the Phase I Landlord TIs. When construction progress so permits, but not less than fifteen (15) days in advance of completion, Landlord shall notify City of the approximate date on which the Phase I Landlord TIs will be substantially completed in accordance with the approved Final Plans, Construction Documents and the provisions hereof. As soon as such improvements have been Substantially Completed (defined as follows), Landlord shall notify City in writing of the date that the Phase I Landlord TIs were Substantially Completed, and City or its representatives shall be permitted to accompany Landlord or its Architect on an inspection of the Premises on such date or other mutually agreeable date soon thereafter. The Phase I Landlord TIs shall be deemed substantially completed ("**Substantially Completed**" or "**Substantially Complete**") when, in the opinion of the Architect, the Phase I Landlord TIs are substantially completed except for punch list items which do not prevent in any material way the use of the Phase I Landlord TIs for the purposes for which they were intended; provided such opinion is given in conjunction with a certificate of occupancy or a temporary certificate of occupancy or a permit inspection card or other documentation from the City of Daly City indicating that Premises are legal to occupy. Tenant's occupancy for the conduct of its normal business operations shall also cause the Phase I Landlord TIs to be deemed Substantially Completed. In the event of any City Delays (defined in subsection(g) below) that delays construction of the Phase I Landlord TIs, the date of Substantial Completion shall be deemed to be the date that, in the commercially reasonable opinion of the Architect, Substantial Completion would have occurred if such City Delays had not taken place.

After the date the Phase I Landlord TIs are Substantially Complete, City shall, upon demand, execute and deliver to Landlord a letter of acceptance of delivery of the Phase I Landlord TIs subject to satisfactory and timely completion of any remaining punch list items, which Landlord shall diligently pursue to completion. City shall have the right to present to Landlord within three (3) days after City's initial walk-through inspection of the Premises, a written "punchlist" consisting of any items that have not been finished in accordance with the Construction Documents and the terms of this Addendum 2. Landlord shall promptly complete all defective or incomplete items identified in such punchlist, and in any event within forty-five (45) days after the delivery of such list. City's failure to include any item on such list shall not alter Landlord's responsibility hereunder to complete all Phase I Landlord TIs in accordance with the Construction Documents and the provisions hereof.

(g) Subject to Force Majeure, City shall be responsible for any delay in the construction of the Phase I Landlord TIs to the extent due directly from any of the following (collectively, "**City Delays**"): (i) a delay in granting its reasonable approval of plans and specifications (beyond the period granted therefor), (ii) City change orders to the Construction Documents after initial approval thereof by City, provided such delay shall be limited to the number of days consented to by City, (iii) City's interference with the construction of the Phase I Landlord TIs, and (iv) City's request for long lead items, provided that Landlord notifies City that such requested item will be a long lead item prior to completion of the Final Plans. Any such City Delays shall not

cause a deferral of the Rent Commencement Date beyond what it otherwise would have been but for the City Delays.

(h) The failure of City to take possession of or to occupy the Premises after the date the date the Phase I Landlord TIs are Substantially Complete shall not serve to relieve City of obligations arising on the Lease Commencement Date or delay the payment of Rent by City. Subject to applicable ordinances and building codes governing City's right to occupy or perform in the Premises, City shall be allowed to install its tenant improvements, machinery, equipment, fixtures, or other property on the Premises during the final stages of completion of construction provided that City does not thereby interfere with the completion of construction or cause any labor dispute as a result of such installations, and provided further that City does hereby agree to indemnify, defend, and hold Landlord harmless from any loss or damage to such property, and all liability, loss, or damage arising from any injury to the Project or the property of Landlord, its contractors, subcontractors, or materialmen, and any death or personal injury to any person or persons arising out of such installations, unless any such loss, damage, liability, death, or personal injury was caused by Landlord's negligence. Any such occupancy or performance in the Premises shall be in accordance with the provisions governing Alterations in the Lease, and shall be subject to City providing to Landlord satisfactory evidence of insurance for personal injury and property damage related to such installations and satisfactory payment arrangements with respect to installations permitted hereunder. Delay in putting City in possession of the Premises shall not serve to extend the term of this Lease or to make Landlord liable for any damages arising therefrom.

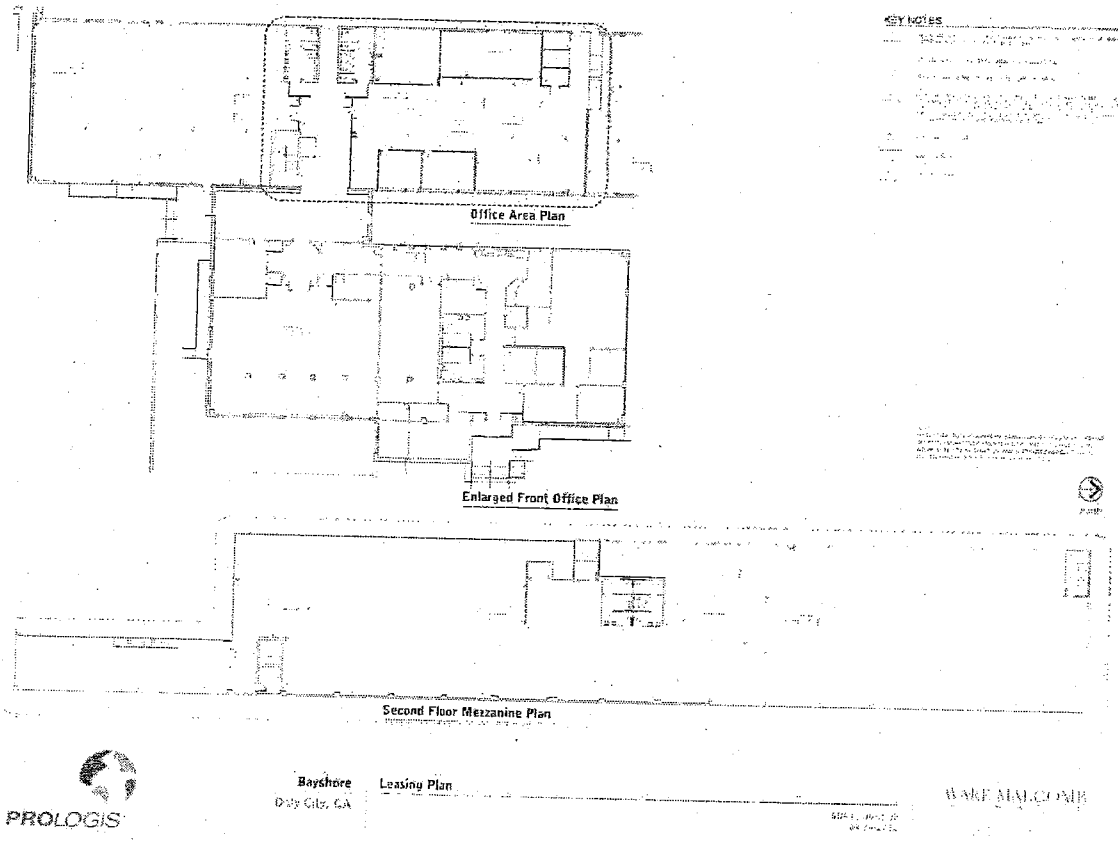
(i) Additionally, upon City's written request prior to the third (3rd) anniversary of the Rent Commencement Date, Landlord agrees to furnish or perform items of construction and improvements to the Premises mutually agreed upon by Landlord and City (the "**Phase II Landlord TIs**"), subject to the City reimbursement obligation set forth in this subsection, unless City elects to pay for the costs of such Phase II Landlord TIs at the time they are performed. If City elects to have Landlord initially pay for the Phase II Landlord TIs, Landlord shall initially pay for the Phase II Landlord TIs up to a maximum amount of $1,000,000.00 (the "**Phase II Allowance**"), and in no event shall Landlord have any obligation to pay for any costs of the Phase II Landlord TIs in excess of such amount. The Phase II Allowance shall only be available for request by City until the third (3rd) anniversary of the Rent Commencement Date, and after such date City shall have no further rights to use the Phase II Allowance. If City timely requests the Phase II Landlord TIs and the cost of the Phase II Landlord TIs would exceed the Phase II Allowance, City shall have the right to elect to pay for excess cost. If City does not elect to pay such excess cost, then Landlord shall reduce the scope of the Phase II Landlord TIs so that the costs do not exceed the Phase II Allowance. The amount of Phase II Allowance used to pay the Phase II Landlord TIs shall repaid in full to Landlord, together with interest at nine percent (9%) per annum, in equal monthly installments over the first 120 months of the Term that immediately follows the completion of the Phase II Landlord TIs. If City elects to pay for any or all of such excess cost in writing (the "**City Phase II Costs**"), City shall deliver an amount equal to the City Phase II Costs to Landlord before Landlord begins constructing the Phase II Landlord TIs. All Phase II Landlord TIs shall be performed in compliance with specifications, final drawings and construction contracts, and by engineers, architects and contractors, as applicable, reasonably approved by City. Prior to constructing any of the Phase II Landlord TIs, Landlord shall prepare a construction budget that is approved by City and shows, by line item and cost categories, the items to be covered by the Phase II Allowance and the items to be covered by the City Phase II Costs. Landlord shall not modify such budget without City's prior written consent. Upon Substantial Completion of the Phase II Landlord TIs, the parties shall make an adjusting payment between them (to the extent the actual City Phase II Costs were less than anticipated) and execute an amendment to the Lease to memorialize the amortized payments of the Phase II Allowance to be made by City for the following 120 months of the Term.

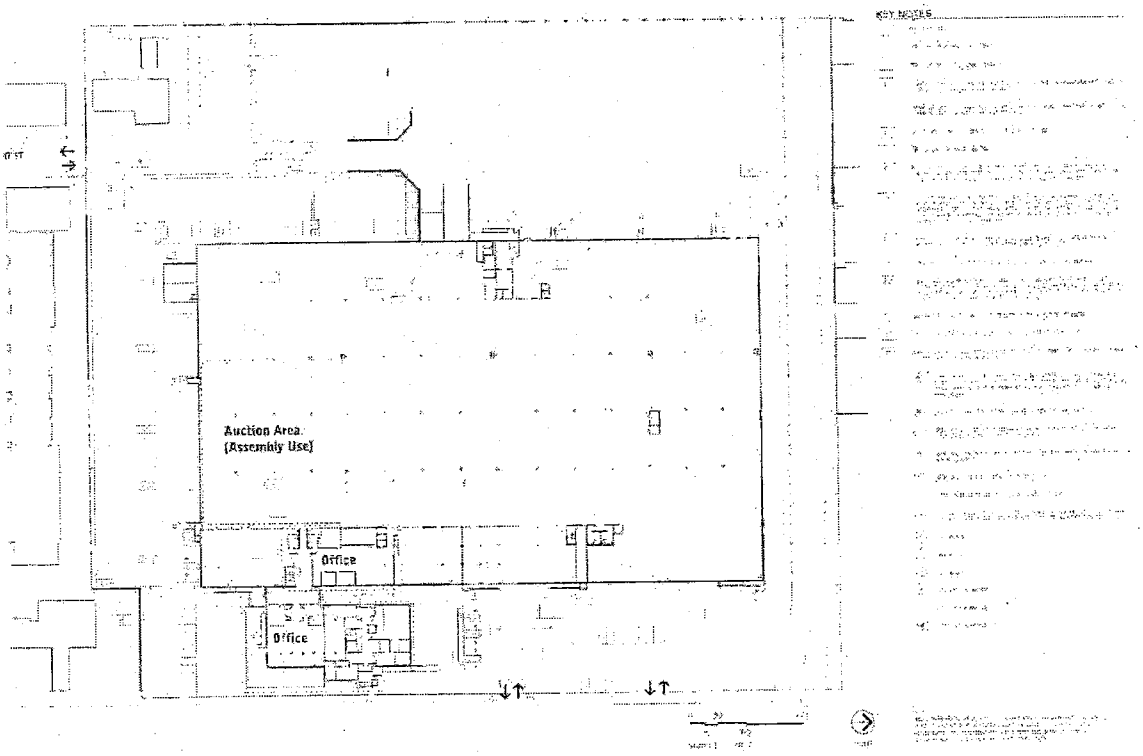
(j) Except as may be otherwise specifically provided herein, any notice given under this Addendum 2 shall be in writing and given in compliance with the requirements specified in Section 23.1 of the Lease. Landlord shall promptly notify City in writing of (i) any written communication that Landlord may receive from any governmental, judicial or legal authority, giving notice of any claim or assertion that the Premises, Building or Leasehold Improvements fail in any respect to comply with applicable laws, rules and regulations; (ii) any known material adverse change in the physical condition of the Premises, including, without limitation, any damage suffered as a result of earthquakes; and (iii) any known default by the Contractor or any subcontractor or material supplier, or any known material adverse change in the financial condition or business operations of any of them.

(k) Landlord acknowledges that the requirements of Section 23.24, Section 23.25 and Section 23.28 shall apply to the performance of the Phase I Landlord TIs and the Phase II Landlord TIs, unless City otherwise delivers written notice to the contrary before the commencement of construction of the Phase I Landlord TIs or the commencement of construction of the Phase II Landlord TIs, as applicable.

SCHEDULE 1
Scope of Phase I Landlord TIs

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED _____, 2012, BETWEEN
PROLOGIS, L.P.
and
CITY AND COUNTY OF SAN FRANCISCO





PROLOGIS

Bayshore Leasing Plan

Bay City, PA

WARE MALCOMB

SCHEDULE 2
Finish Standards

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED _____, 2012, BETWEEN
PROLOGIS, L.P.
and
CITY AND COUNTY OF SAN FRANCISCO

DIVISION 1 GENERAL REQUIREMENTS

1.1 CLOSE-OUT DOCUMENTS: Provide O & M manuals including all MSDSs and "as-built" drawings for all architectural, structural, plumbing, electrical, HVAC and fire protection work on two (2) CD's in pdf format. Provide one (1) hard copy and one electronic copy in pdf format of the stamped permit set of drawings. The value of the close-out documents shall be 10% of the value of the respective work. Provide copy of the job card as well as a copy of the Certification of Occupancy or Certification of Final Completion.

DIVISION 6 WOOD AND PLASTICS

6.1 CABINETS: Furnish and install a coffee bar and / or lunch room base cabinet. The base cabinet(s) shall be plastic laminate by Wilsonart or approved equal in the manufacturer's standard color on all exposed horizontal and vertical surfaces, including open cabinet interiors, unless otherwise noted. Semi-exposed cabinet interiors and shelves shall be white melamine with .5mm PVC edge binding. Drawers shall be Grass 6036 Zyrgon System slides or approved equal. The hardware shall be 96mm wire pulls, 125deg. Blum hinges or approved equal. The cabinet(s) shall be 6'-0" long minimum and 34" high. Each cabinet shall have one row of drawers over doors. The maximum depth for cabinet and countertop should be 24".

6.2 COUNTERTOPS: The countertops shall be plastic laminate by Wilsonart or approved equal. The coffee bar tops shall have a 2" bull nosed front edge and top edge with a 4" splash and a radiused inside and outside corner at the backsplash.

6.3 MILLWORK QUALITY: Architectural millwork and cabinetry shall be of a construction quality equal to that of the Architectural Woodwork Institute's (AWI) custom grade for flush overlay construction. MDF products shall be made with binder containing no urea-formaldehyde. Wood glues used for fastening shall have a VOC content of 30 g/L or less when calculated according to 40 CFR 59, Subpart D (EPA Method 24). Multipurpose construction adhesives shall have a VOC content of 70 g/L or less when calculated according to 40 CFR 59, Subpart D (EPA Method 24). Contact adhesives shall have a VOC content of 250 g/L or less when calculated according to 40 CFR 59, Subpart D (EPA Method 24)

DIVISION 8 DOORS AND WINDOWS

8.1 INTERIOR DOORS AND FRAMES: Furnish and install 3'-0" x 7'-0" x 1-3/4", solid core, birch, B-3 stain prefinished doors in "Timely" prefinished black steel frames (clear anodized aluminum frames by ACI, Eclipse or approved equal in the San Francisco Bay Area), with 1-1/2" pairs of butts per door U.O.N. (All office door shall receive a 2'-0" sidelight in the San Francisco Bay and Seattle Areas). Doors receiving closers shall receive ball-bearing butts. Doors and frames shall be 20 minutes rated where required. When working in an existing tenant space, the new doors and frames shall match the existing doors and frames U.O.N.

8.2 INTERIOR DOOR HARDWARE: Furnish and install Schlage AL10S Saturn passage hardware on all doors except single accommodation toilet rooms which shall receive Schlage AL40S privacy locks. The door hardware shall have a brushed chrome 626 finish U.O.N. Furnish and install weather-stripping, closers, and drop seals at doors between conditioned and non-conditioned areas. Furnish and install closers on all toilet and shower room doors. The closer shall be installed on the toilet room or warehouse side of the door. When working in an existing tenant space, the new door hardware shall match the existing door hardware U.O.N.

8.3 DOOR SIGNAGE: Include all signage per code (Handicap, Exit, etc.)

8.4 OVERHEAD DOORS: Match the existing building overhead doors and door insulation

8.5 INTERIOR WINDOW FRAMES/GLASS: Interior windows shall be 1/4" clear tempered glass set in black "Timely" frames (or anodized aluminum frames in the S.F. Bay Area) to match the interior door frames. Glazing height shall match door height, UON; width shall be as indicated on plans.

8.6 MIRRORS: Furnish and install 4' high x 1/4" thick plate glass mirrors with two coats silver and electroplated copper backing, and wiped edges at all lavatories. The mirror shall be the length of the lavatory top set directly on top of the splash and extending to the underside of the light shelf. If wall mounted lavatories are used, the mirror shall be a Bobrick 2436.

8.7 FALSE MULLIONS: Where interior drywall partitions meet the exterior window wall; furnish and install aluminum "false" mullions finished to match the existing exterior storefront.

DIVISION 9 FINISHES

9.1 FIRE RATED WALLS: Metal studs with one layer of 5/8" type "X" gypsum board on each side from the floor to the roof deck. The stud size and spacing shall be per the stud manufacturer's tables and local code requirements. Install fire safing between the gypsum board and roof deck U.O.N. Penetrations at one hour walls

shall be fire safed or caulked.

9.2 FULL HEIGHT DRYWALL PARTITIONS (including tenant demising walls): Metal studs with one layer of 5/8" type "X" gypsum board on each side from the floor to the roof deck. The stud size and spacing shall be per the stud manufacturer's tables and local code requirements. Drywall installed above an acoustical ceiling shall be firetaped and screws spotted

9.3 OFFICE DRYWALL PARTITIONS: All partitions in areas with ceilings shall be undergrid 3-5/8" or 3-1/2" x 25 GA. metal studs at 24" o.c. with 5/8" fire code type "X" gypsum board on each side. The ceiling grid shall be installed first with walls built to the grid. The intersection of the wall at the grid shall be snug and flush. Install "L" metal trim at the top of the wall. Toilet room perimeter walls shall be built to 6" above grid.

9.4 WAREHOUSE GYPSUM BOARD WALL FINISH: All drywall in the warehouse shall be fire taped only unless otherwise noted. Spot screws in firetaped areas

9.5 END CAPS: Where a partition meets a window mullion, furnish and install an aluminum "wall end cap" finished to match the storefront U.O.N.

9.6 ACOUSTIC CEILING TILE (Hallway Only): Furnish and install 24" x 48" x 5/8" USG Omni non-directional fissured tile or equal, installed at 9'-0" A.F.F., U.O.N. in all office areas except toilet and shower rooms.

9.7 ACOUSTIC CEILING TILE SUSPENSION SYSTEM (Hallway Only): Furnish and install Class "A" 15/16" exposed "T" grid system, intermediate duty (heavy duty in seismic design category "D" areas) with $1^{1/2}$" main tee, $1^{1/2}$" cross tee, and 7/8" x 7/8" wall mold as manufactured by Donn or equal. Fire rated grid and tile shall be used where code requires. The grid color shall be white to match the tile exactly.

9.8 CARPET: Carpeting shall be Designweave, Shaw (such as Lynchburg 26 series) or approved equal, loop graphic, solution dyed 100% nylon, 26 oz. per square yard average yarn weight minimum, 1/10th gauge, color to be selected from manufacturer's standard colors U.O.N. Carpet shall be direct glue down U.O.N.

9.9 VINYL COMPOSITION TILE: Furnish and install 1/8" gauge, standard grade, VCT as manufactured by Tarkett or Armstrong. Install VCT in server rooms and IT closets. No VCT shall be installed in toilet rooms.

9.10 RUBBER BASE: All areas receiving floor covering and new walls except the toilet rooms shall have 4" high topset rubber base as manufactured by Burke, Roppe, or Tarkett in a standard color. Install the rubber base on a continuously roll, not sectional.

9.11 SHEET VINYL: New toilet rooms shall receive sheet vinyl flooring with a 6" integral flashed cove base with brushed aluminum trim on the top edge. All joints

shall be heat welded and receive seam sealer. The sheet vinyl shall be Armstrong "Suffield", "Best of Both Worlds" or "Seagate" installed in all new toilet rooms.

9.12 TRANSITION STRIPS: Furnish and install black vinyl transition strips at all changes in flooring material U.O.N.

9.13 CONCRETE FLOOR SEALER: All concrete floor patches shall be resealed to match the existing concrete floor sealer / hardener. Warehouse will be sealed with ACRI-SHEEN acrylic concrete sealer, containing 30% solids, manufactured by Paul M. Wolff Co. OR equivalent.

9.14 PAINT: On walls receiving a skip trowelled finish, apply one (1) coat of interior flat latex paint, Sherwin Williams or equal in a standard light color. Lunch / break rooms, toilet and shower rooms and the wall at the coffee bar shall receive one (1) coat of latex semi-gloss enamel over one (1) coat of PVA sealer. Smooth finished walls shall receive two coats of eggshell latex paint. Paint the warehouse demising wall(s) and warehouse side of the office walls one (1) coat of interior flat latex paint.

9.15 All adhesives to be low emitting.

DIVISION 12 FURNISHINGS

12.1 BLINDS: All exterior windows, including exterior warehouse windows and windows above any acoustic ceilings, shall receive mini-blinds by Bali "Classic" or approved equal, with a valance, in a color to match the storefront aluminum color U.O.N. The blinds shall be "inside mounted" (between the vertical window mullions) flush with the inside face of the mullion. Storefront doors and any interior windows shall not receive blinds. Install blinds at all door sidelights.

DIVISION 15 PLUMBING

15.1.1 DESIGN BUILD: Unless engineered plumbing system drawings are included in the bid documents, the plumbing work shall be performed on a design-build basis. The design-build plumbing contractor shall furnish and install a complete and operative plumbing system to meet all local and state codes.

15.1.2 PLANS: Provide plumbing plans for architect's and owner's review and approval.

15.1.3 SEWER LINES: Sewer, soil and waste lines within the building below the finished floor elevation shall be schedule 40 ABS plastic or schedule 40 PVC plastic pipe. Sewer, soil and waste lines within the building above the finished floor elevation shall be standard weight cast iron. ABS piping may be used above the finished floor if permitted by code and approved by the owner.

15.1.4 GAS LINES: All gas lines shall be run under the roof above the bottom cord of the trusses perpendicular or parallel to the existing roof structure. All new and existing gas lines within a single tenant space shall be connected to a separate gas meter.

15.1.5 PIPE MATERIAL: All pipe materials shall be subject to the requirements of the City and/or governing body. All domestic water, condensate and smitty pan drain lines must be copper.

15.1.6 PLUMBING FIXTURES AND TRIM:
Coffee bar / Lunch Room sink: Elkay, model GECR 1918, stainless steel, with a Delta #100 faucet. If the Lunch Room base cabinet is 8'-0" or longer, use an Elkay model GECR 2521. Furnish and install a Handy-Shield Drain Cover #3011 White by Plumberex Specialty Products under each sink.
Water heater: The water heater shall be A.O. Smith, State or approved equal sized to meet the demand. It shall be located on the warehouse floor in a smitty pan draining into a hub drain with a trap primer. The location shall be as located by the architect or approved by the owner. All plumbing connections shall be made with dielectric unions.

15.1.7 CONDENSATE DRAINS: Furnish and install copper condensate drainage lines with proper venting for all HVAC equipment. The lines shall be no smaller than 3/4" diameter and shall be located under the roof unless prohibited by code. PVC condensate line may not be used.

15.1.8 SHUT-OFF VALVE: Furnish and install a water line shut-off valve for the Restrooms in the toilet room wall, not above the ceiling, with an 8" x 8" stainless steel access panel. Provide a typed label "Main Water Valve" on the access panel.

15.1.9 MAIN WATER LINE: If a main domestic water line is not existing above the tenant space, furnish and install a 2" diameter copper water line at the roof installed above the bottom cord of the trusses, properly braced to avoid movement. At each future tenant space that the line crosses, install a 2" "T" with 2" gate valve (one valve per storefront door). Extend the water line through the tenant demising wall into the "down stream" adjacent tenant space with a 2" diameter gate valve. Furnish and install a 2" pressure reducing valve with an access panel at the water service entrance when required.

15.1.11 CLEAN-OUTS: Furnish and install a brass floor clean-out cover at the proper finished elevation as required. If the clean-out is in the warehouse area, furnish and install a cast iron heavy duty traffic rated cover.

DIVISION 15 FIRE PROTECTION

15.2.1 DESIGN BUILD: The fire protection work shall be performed on a design-build basis. The design-build fire protection contractor shall furnish and install all modifications to the existing fire sprinkler system to meet all applicable local and state fire code requirements. Sprinkler heads shall be dropped into all suspended ceiling areas. Upgrade of existing system shall conform with a class IV occupancy. In buildings with ESFR systems, maintain the necessary clearances from all obstructions.

15.2.2 PIPE MATERIAL: All fire sprinkler piping shall be standard schedule 10 for 6" piping, and schedule 7 for 4" and 2 ½" piping U.O.N. Schedule 5 pipe may not be

used.

15.2.3 SPRINKLER HEADS: The fire sprinkler heads in areas with ceilings shall be chrome, semi-recessed, with white escutcheons. When "second look" acoustical ceiling tiles are used, sprinkler heads shall be centered on the half tile.

15.2.4 HYDRAULIC TESTING: The contractor shall include the cost of any required hydraulic testing of the fire sprinkler system.

15.2.5 FIRE EXTINGUISHERS: Fire extinguishers shall be furnished and installed per city fire code. Extinguishers may be wall hung.

DIVISION 15 HVAC

15.3.10 DUCTING: All ducting shall be galvanized spiral, or rectangular insulated with 1-1/2" wrap and vapor barrier or duct board. Any exposed duct in a conditioned warehouse area must be galvanized spiral sheet metal. Final connections to the registers shall be made with a minimum 5' soft flex duct for sound attenuation. All plenums shall be fabricated from insulated galvanized sheet metal of appropriate gauge for low pressure use. Plenums shall extend from the unit to the level of the horizontal branches. 15.3.12 GRILLES: All conditioned areas shall have a supply register and a ducted return register. Transfer grills are not permitted in the office area. Supply and return air registers shall be white baked enamel 2'x2' with a perforated face, flush mounted. Supply air registers shall have a 4-way blow.

DIVISION 16 ELECTRICAL

16.1 DESIGN BUILD: Unless engineered electrical system drawings are included in the bid documents, the electrical work shall be performed on a design-build basis. The design-build electrical contractor shall furnish and install a complete and operative electrical system to meet all local and state codes.

16.2 PLANS: Provide electrical plans for architect's and owner's review and approval.

16.3 ENERGY CALCS: Provide energy compliance code lighting calculations if required.

16.6 OFFICE LIGHTING: Furnish and install indirect fixtures in the (N) office areas by mounting an 8' Lithonia Industrial light fixture mounted upside down on a "deep" uni-strut suspended with 3/8" "All-thread" rods. Mounted at the ceiling with expansion anchors OR anchors appropriate for existing roof deck conditions. ., 50 foot candles minimum at 3' A.F.F. or maximize the luminaires permitted by the local energy code but no less than two (2) luminaires per office. Wire one (1) luminaire near the exit doors to provide 24 hour lighting. Office lighting to be zoned at least 50/50.

16.9 OUTLET BOXES: All outlet boxes for wall switches, wall receptacles, telephone, etc. shall be galvanized steel or cast type boxes.

16.10 RECEPTACLES: Furnish and install two (2) 110V duplex receptacles and one (1) telephone "ring and string" in each office.

16.11 DEDICATED RECEPTACLES: Furnish and install a dedicated 110 volt fourplex outlet at the telephone board and two dedicated 110V outlets at the coffee bar.

16.12 GFI RECEPTACLES: Provide one GFI electrical outlet in each toilet room. Install GFI receptacles wherever required by code.

16.14 ELECTRICAL CONDUIT / CONDUCTOR MATERIAL: All conduit shall be EMT. MC cable may be used in lieu of EMT where permitted by code. Romex may not be used. All conductors must be copper.

16.15 CONDUIT INSTALLATION: All conduits in areas without ceilings shall be installed at or above the bottoms of the trusses or beams. All conduits shall be run at 90 degrees or parallel to structural members, walls floors and ceilings. No conduit may be installed below the slab or on top of the roof without the owner's written permission.

16.16 TELEPHONE BOARD: Furnish and install one, 4'x8'x3/4", APA C-D plugged (paint grade), fire retardant plywood telephone backboard for mounting customer's electrical or telephone equipment. Provide No. 6 copper ground wire unless otherwise required.

16.17 TRIM COLOR: All light switches, outlets and electrical trim shall be white.

16.18 LABELING: Label all panels, control points, switches, and motors as directed. Panels shall be identified by panel number. Switches shall be labeled indicating the equipment which they control. Typed (circuit) panel directories are to be supplied and installed

EXHIBIT A

LEGAL DESCRIPTION OF PREMISES

THAT CERTAIN REAL PROPERTY SITUATION IN THE CITY AND COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATE IN THE CITY AND COUNTY OF SAN FRANCISCO AND IN THE CITY OF DALY CITY, COUNTY OF SAN MATEO, STATE OF CALIFORNIA, BEING DESCRIBED AS FOLLOWS:

PARCEL I:
LOCATED IN THE CITY OF DALY CITY, COUNTY OF SAN MATEO, STATE OF CALIFORNIA, BEING DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE SOUTHEASTERLY LINE OF SCHWERIN STREET, DISTANT THEREON THREE HUNDRED NINETY-SEVEN FEET (397') AND FOUR INCHES (4") SOUTHWESTERLY FROM THE SOUTHWESTERLY LINE OF SUNNYDALE AVENUE; THENCE SOUTH 70°36' EAST PARALLEL WITH SAID LINE OF SUNNYDALE AVENUE, 1109.789 FEET TO THE TRUE POINT OF BEGINNING, SAID TRUE POINT OF BEGINNING BEING THE NORTHEASTERLY CORNER OF THAT PARCEL OF LAND CONVEYED BY CROWN CORK & SEAL COMPANY, INC., SUCCESSOR BY MERGER TO WESTERN CROWN AND SEAL CORPORATION, A CORPORATION, TO J. & P. ENTERPRISES, A CALIFORNIA CORPORATION, BY DEED RECORDED DECEMBER 22, 1960, IN BOOK 3910, PAGE 251, OFFICIAL RECORDS; THENCE SOUTH 19°24' WEST, ALONG THE LANDS OF J. & P. ENTERPRISES 794.640 FEET TO THE SOUTHWESTERLY LINE OF LANDS NOW OR FORMERLY OWNED BY ROSE SCHINI; THENCE SOUTH 70°36' EAST, ALONG SAID SOUTHWESTERLY LINE 707.00 FEET TO THE PRESENT NORTHWESTERLY LINE OF BAYSHORE BOULEVARD; THENCE NORTH 19°24' EAST (NORTH 18°30' EAST RECORD) AND ALONG SAID LINE OF BAYSHORE BOULEVARD, 794.640 FEET; THENCE NORTH 70°36' WEST 707.00 FEET TO THE POINT OF BEGINNING.

EXCEPT THAT PORTION OF SAID LAND AS DESCRIBED IN DEED TO STANDARD OIL COMPANY OF CALIFORNIA, RECORDED AUGUST 11, 1965, IN BOOK 5006 OF OFFICIAL RECORDS, AT PAGE 676 (79526-Y), MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE WESTERLY LINE OF BAYSHORE BOULEVARD, DISTANT THEREON 100 FEET NORTHERLY FROM THE NORTHERLY LINE OF MACDONALD AVENUE; RUNNING THENCE NORTHERLY ALONG SAID LINE OF BAYSHORE BOULEVARD, 50 FEET; THENCE AT A RIGHT ANGLE WESTERLY 115 FEET; THENCE AT A RIGHT ANGLE SOUTHERLY 50 FEET; THENCE AT A RIGHT ANGLE, EASTERLY 115 FEET TO THE PONT OF BEGINNING, CONVEYED FROM CROWN CORK & SEAL COMPANY, INC., A NEW YORK CORPORATION, SUCCESSOR BY MERGER TO WESTERN CROWN AND SEAL CORPORATION, A CORPORATION;

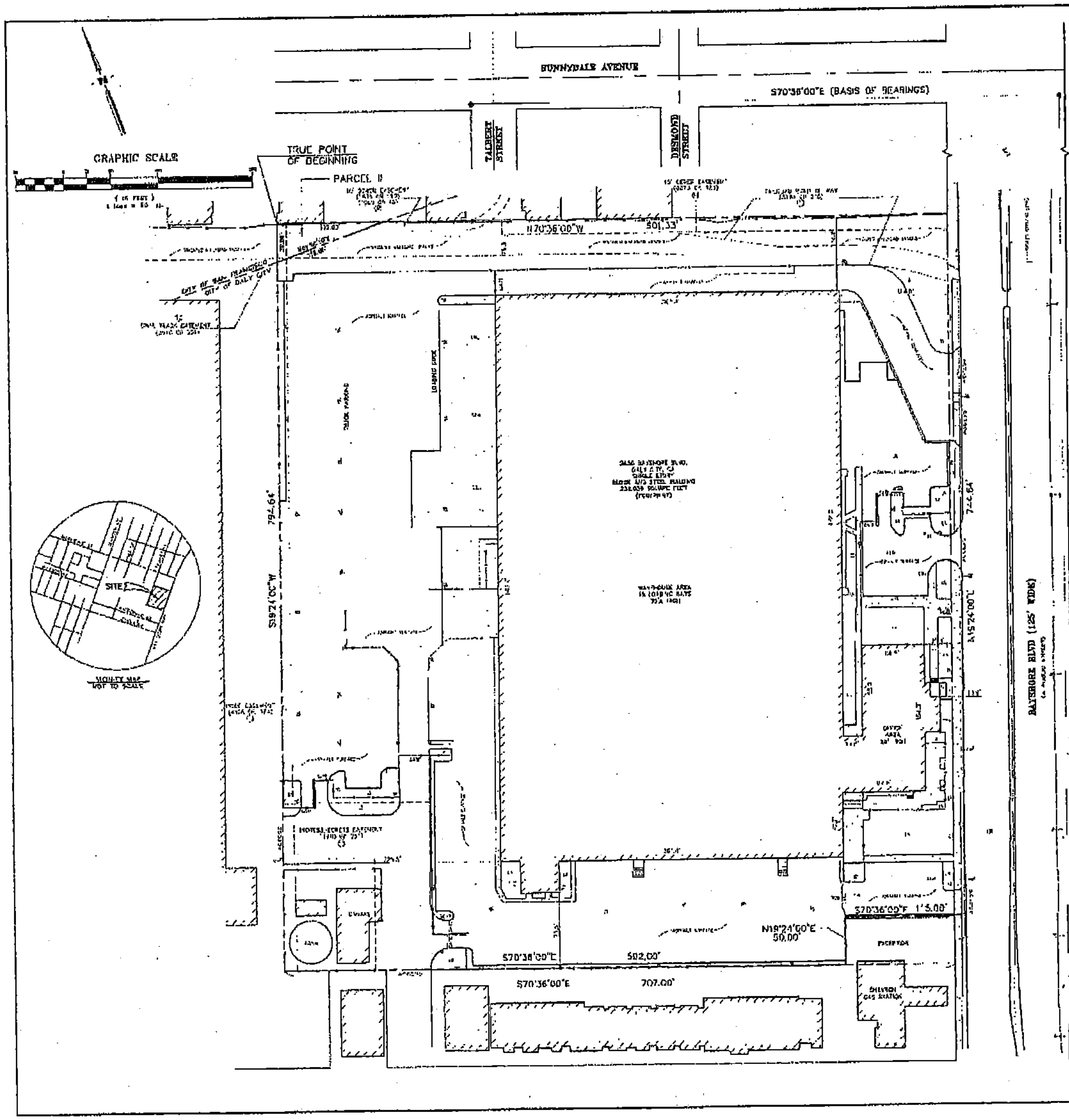
ORGANIZED UNDER THE LAWS OF THE STATE OF NEW YORK TO STANDARD OIL COMPANY OF CALIFORNIA, A DELAWARE CORPORATION.

ALSO EXCEPT THAT PORTION OF SAID LAND LYING WITHIN THE BOUNDARIES OF THE CITY AND COUNTY OF SAN FRANCISCO.

PARCEL II:
LOCATED IN THE CITY AND COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT WHICH IS PERPENDICULARLY DISTANT 397 FEET, 4 INCHES SOUTHWESTERLY FROM THE SOUTHWESTERLY LINE OF SUNNYDALE AVENUE, AND ALSO PERPENDICULARLY DISTANT 1109.789 FEET SOUTHEASTERLY FROM THE SOUTHEASTERLY LINE OF SCHWERIN STREET, SAID POINT BEING THE MOST NORTHEASTERLY CORNER OF THE PROPERTY CONVEYED BY CROWN CORK & SEAL COMPANY, INC. A CORPORATION, TO J. AND P. ENTERPRISES, A CALIFORNIA CORPORATION, BY DEED RECORDED DECEMBER 22, 1960, IN BOOK A206, PAGE 662, OFFICIAL RECORDS OF THE CITY AND COUNTY OF SAN FRANCISCO, SAID POINT BEING THE TURE POINT OF BEGINNING,; THENCE ALONG THE EASTERLY LINE OF SAID PROPERTY, SOUTH 19°24' WEST 39.80 FEET (39.555 FEET RECORD), MORE OR LESS, TO THE COUNTY LINE BETWEEN SAN FRANCISCO COUNTY AND SAN MATEO COUNTY, AS IT NOW EXISTS; THENCE ALONG SAID LINE, NORTH 89°50'10" EAST 118.86 FEET (118.05 FEET RECORD), MORE OR LESS, TO A POINT OF INTERSECTION WITH THE NORTHERLY BOUNDARY LINE OF THE DEED TO WESTERN CROWN & SEAL CORPORATION, RECORDED AUGUST 24, 1944, IN BOOK 4134, PAGE 166 OFFICIAL RECORDS OF THE CITY AND COUNTY OF SAN FRANCISCO; THENCE ALONG SAID BOUNDARY LINE, NORTH 70°36' WEST, 112.00 FEET (NORTH 71°30' WEST 105.677 FEET RECORD), MORE OR LESS, TO THE TRUE POINT OF BEGINNING.

Commonly known as 2650 Bayshore Boulevard, Daly City, California



LEGAL DESCRIPTION:

CHICAGO TITLE COMPANY
PRELIMINARY TITLE REPORT NO. 10-36908247-B-UF
SCHEDULE B – EXCEPTIONS:

LEGEND:

NOTES AND COMMENTS:

POSSIBLE ENCROACHMENTS:

SURVEYOR'S CERTIFICATION:

ALTA/ACSM LAND TITLE SURVEY

2650 BAYSHORE BLVD
DALY CITY, CA

DURYEA & ASSOCIATES, P.S.
2702 N. Perry Street, Spokane WA 99207
tel: (509) 465-8007 fax: (509) 465-8808

DATE:	MAY 2011	SHEET:
SCALE:	1" = 50'	1 of 1
PROJECT SURVEYOR:	MJB	
DRAWN BY:		
LAST DATE OF REVISION:		JOB NO.:

EXHIBIT B

NOTICE OF COMMENCEMENT DATES

[Date]

Mr. Edward D. Reiskin
San Francisco Municipal Transportation Agency
1 South Van Ness Avenue, 7th Floor
San Francisco, CA 94103

Mr. John Updike
Acting Director of Property
Real Estate Division
City and County of San Francisco
25 Van Ness Avenue, Suite 400
San Francisco, CA 94102

RE: Acknowledgement of Commencement Dates, Lease Between PROLOGIS, L.P. (Landlord), and the CITY AND COUNTY OF SAN FRANCISCO (Tenant), for premises located at 2650 Bayshore Boulevard, Daly City, California 94014

Dear Mr. Reiskin and Mr. Updike:

Welcome to your new facility. We would like to confirm the terms of the above referenced lease agreement:

Lease Commencement Date: Date

Lease Expiration Date: Date

Rent Commencement Date: Date

We are pleased to welcome you as a customer of ProLogis and look forward to working with you. Please indicate your agreement with the above changes to your lease by signing and returning the enclosed copy of this letter to me. If I can be of service, please do not hesitate to contact me.

Sincerely,

Property Manager Name
Title

Accepted by:

_____
Edward D. Reiskin
Director of Transportation
San Francisco Municipal Transportation Agency

Date: _____

_____
John Updike
Acting Director of Property

Date: _____

EXHIBIT C

HAZARDOUS MATERIALS LIST

1. Permitted Hazardous Materials and Use.

City has requested Landlord's consent to use the Hazardous Materials listed below in its business at the Premises (the "Permitted Hazardous Materials"). Subject to the conditions set forth herein, Landlord hereby consents to the Use (hereinafter defined) of the Permitted Hazardous Materials. Any Permitted Hazardous Materials on the Premises will be generated, used, received, maintained, treated, stored, or disposed in a manner consistent with good engineering practice and in compliance with all Environmental Requirements.

Permitted Hazardous Materials (including maximum quantities):

1. Used motor oil/ coolant from leaks (2 55-gallon cans)
2. Used gasoline from leaks (1 55-gallon can)
3. Used dry sweep – mixed with oil (2 55-gallon cans)
4. Propane (28 9-gallon tanks)
5. Cleaners/degreasers (6 14.1-ounce containers)
6. Spill treatment solution – FM186-2 (1 55-gallon can)
7. Hydraulic oil (10 gallons)
8. Vehicle batteries (in vehicles and up to 15 removed from vehicles)
9. Vehicle tires (in vehicles and up to 30 removed from vehicles)
10. Antifreeze (in vehicles located at Premises and up to 15 gallons removed from vehicles)
11. Paint and sealant (amounts needed for routine facilities maintenance)
12. Vehicle fuel (contained in vehicles, including gasoline and diesel fuel)

The storage, uses or processes involving the Permitted Hazardous Materials (the "Use") are described below.

Use [If limited to receiving and storage, so specify]: Cleaning, storage of vehicles, routine repairs and maintenance, painting, and operation of equipment.

2. No Current Investigation. City represents and warrants that it is not currently subject to an inquiry, regulatory investigation, enforcement order, or any other proceeding regarding the generation, use, treatment, storage, or disposal of a Hazardous Material.

3. Notice and Reporting. City immediately shall notify Landlord in writing of any spill, release, discharge, or disposal of any Hazardous Material in, on or under the Premises or the Property. All reporting obligations imposed by Environmental Requirements are strictly the responsibility of City. City shall supply to Landlord within 5 business days after City first receives or sends the same, copies of all claims, reports, complaints, notices, warnings or asserted violations relating in any way to City's use of the Premises.

4. Indemnification. City's indemnity obligation under the Lease with respect to Hazardous Materials shall include indemnification for the liabilities, expenses and other losses described therein as a result of the Use of the Hazardous Materials or the breach of City's obligations or representations set forth above. It is the intent of this provision that City be strictly liable to Landlord as a result of the Use of Hazardous Materials without regard to the fault or negligence of City, Landlord or any third party, except to the extent any spill, release, discharge, or disposal is caused by the willful misconduct of Landlord.

5. Disposal Upon Lease Termination. At the expiration or earlier termination of the Lease, City, at its sole cost and expense, shall: (i) remove and dispose off-site any drums, containers, receptacles, structures, or tanks storing or containing Hazardous Materials (or which have stored or

contained Hazardous Materials) and the contents thereof; (ii) remove, empty, and purge all underground and above ground storage tank systems, including connected piping, of all vapors, liquids, sludges and residues; and (iii) restore the Premises to its original condition. Such activities shall be performed in compliance with all Environmental Requirements and to the satisfaction of Landlord. Landlord's satisfaction with such activities or the condition of the Premises does not waive, or release City from, any obligations hereunder.

EXHIBIT D

FORM OF MEMORANDUM OF LEASE

RECORDING REQUESTED BY, AND
WHEN RECORDED, MAIL TO:

City and County of San Francisco
Real Estate Division
25 Van Ness Avenue, Suite 400
San Francisco, California 94102
Attn: Director of Property

FOR RECORDER'S USE ONLY

MEMORANDUM OF LEASE

This Memorandum of Lease ("Memorandum"), dated for reference purposes as of _____, 2012, is by and between PROLOGIS, L.P., a Delaware limited partnership ("Landlord"), and the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation, acting by and through its Municipal Transportation Agency ("City").

Recitals

A. Concurrently herewith, Landlord and City have entered into that certain Lease, dated _____, 2012 (the "Lease"), pursuant to which Landlord leased to City and City leased from Landlord the real property more particularly described in the attached Exhibit A (the "Property"), which is incorporated by this reference.

B. The Lease provides City a one-time right of first negotiation to purchase the Property (the "Right of First Negotiation") on the terms specified in Section 22.1 of the Lease.

C. Landlord and City desire to execute this Memorandum to provide constructive notice of the Lease and the Right of First Negotiation to all third parties, and all of the terms and conditions of the Lease are incorporated herein by reference as if they were fully set forth herein and reference is made to the Lease itself for a complete and definitive statement of the rights and obligations of Landlord and Tenant thereunder.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Term. Pursuant to the terms of the Lease, Landlord leased the Property to City for a term commencing on _____, 2012 (the "Lease Commencement Date"). The term of the Lease shall expire at midnight on the last day of the Two Hundred Fortieth (240th) full month following the Rent Commencement Date , unless earlier terminated or extended in accordance with the terms of the Lease. City has two 5-year options to extend the term of the Lease, and City's obligation to pay Base Rent commenced on _____, 2012.

2. Lease Terms. The lease of the Property to City is made pursuant to the Lease, which is incorporated in this Memorandum by reference. This Memorandum shall not be deemed to modify, alter or amend in any way the provisions of the Lease. In the event any

conflict exists between the terms of the Lease and this Memorandum, the terms of the Lease shall govern. Except as otherwise defined in this Memorandum, capitalized terms shall have the meanings given them in the Lease.

3. Successors and Assigns. This Memorandum and the Lease shall bind and inure to the benefit of the parties and their respective heirs, successors, and assigns, subject, however, to the provisions of the Lease.

IN WITNESS WHEREOF, Landlord and City have executed this Memorandum of Lease as of the day and year first above written.

LANDLORD:

PROLOGIS, L.P.,
a Delaware limited partnership

By: Prologis, Inc.
Its: General Partner

By: _____
Its: _____

CITY:

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation, acting by and through its Municipal Transportation Agency

By: _____
Edward D. Reiskin
Director of Transportation

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: _____
Deputy City Attorney

State of California)
)
County of _____)

On _____ before me, _____,
personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

State of California)
)
County of _____)

On _____ before me, _____,
personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

EXHIBIT A
to
Memorandum of Lease

Legal Description of Property

THAT CERTAIN REAL PROPERTY SITUATION IN THE CITY AND COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATE IN THE CITY AND COUNTY OF SAN FRANCISCO AND IN THE CITY OF DALY CITY, COUNTY OF SAN MATEO, STATE OF CALIFORNIA, BEING DESCRIBED AS FOLLOWS:

PARCEL I:
LOCATED IN THE CITY OF DALY CITY, COUNTY OF SAN MATEO, STATE OF CALIFORNIA, BEING DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE SOUTHEASTERLY LINE OF SCHWERIN STREET, DISTANT THEREON THREE HUNDRED NINETY-SEVEN FEET (397') AND FOUR INCHES (4") SOUTHWESTERLY FROM THE SOUTHWESTERLY LINE OF SUNNYDALE AVENUE; THENCE SOUTH 70°36' EAST PARALLEL WITH SAID LINE OF SUNNYDALE AVENUE, 1109.789 FEET TO THE TRUE POINT OF BEGINNING, SAID TRUE POINT OF BEGINNING BEING THE NORTHEASTERLY CORNER OF THAT PARCEL OF LAND CONVEYED BY CROWN CORK & SEAL COMPANY, INC., SUCCESSOR BY MERGER TO WESTERN CROWN AND SEAL CORPORATION, A CORPORATION, TO J. & P. ENTERPRISES, A CALIFORNIA CORPORATION, BY DEED RECORDED DECEMBER 22, 1960, IN BOOK 3910, PAGE 251, OFFICIAL RECORDS; THENCE SOUTH 19°24' WEST, ALONG THE LANDS OF J. & P. ENTERPRISES 794.640 FEET TO THE SOUTHWESTERLY LINE OF LANDS NOW OR FORMERLY OWNED BY ROSE SCHINI; THENCE SOUTH 70°36' EAST, ALONG SAID SOUTHWESTERLY LINE 707.00 FEET TO THE PRESENT NORTHWESTERLY LINE OF BAYSHORE BOULEVARD; THENCE NORTH 19°24' EAST (NORTH 18°30' EAST RECORD) AND ALONG SAID LINE OF BAYSHORE BOULEVARD, 794.640 FEET; THENCE NORTH 70°36' WEST 707.00 FEET TO THE POINT OF BEGINNING.

EXCEPT THAT PORTION OF SAID LAND AS DESCRIBED IN DEED TO STANDARD OIL COMPANY OF CALIFORNIA, RECORDED AUGUST 11, 1965, IN BOOK 5006 OF OFFICIAL RECORDS, AT PAGE 676 (79526-Y), MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE WESTERLY LINE OF BAYSHORE BOULEVARD, DISTANT THEREON 100 FEET NORTHERLY FROM THE NORTHERLY LINE OF MACDONALD AVENUE; RUNNING THENCE NORTHERLY ALONG SAID LINE OF BAYSHORE BOULEVARD, 50 FEET; THENCE AT A RIGHT ANGLE WESTERLY 115 FEET; THENCE AT A RIGHT ANGLE SOUTHERLY 50 FEET; THENCE AT A RIGHT

ANGLE, EASTERLY 115 FEET TO THE PONT OF BEGINNING, CONVEYED FROM CROWN CORK & SEAL COMPANY, INC., A NEW YORK CORPORATION, SUCCESSOR BY MERGER TO WESTERN CROWN AND SEAL CORPORATION, A CORPORATION; ORGANIZED UNDER THE LAWS OF THE STATE OF NEW YORK TO STANDARD OIL COMPANY OF CALIFORNIA, A DELAWARE CORPORATION.

ALSO EXCEPT THAT PORTION OF SAID LAND LYING WITHIN THE BOUNDARIES OF THE CITY AND COUNTY OF SAN FRANCISCO.

PARCEL II:
LOCATED IN THE CITY AND COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT WHICH IS PERPENDICULARLY DISTANT 397 FEET, 4 INCHES SOUTHWESTERLY FROM THE SOUTHWESTERLY LINE OF SUNNYDALE AVENUE, AND ALSO PERPENDICULARLY DISTANT 1109.789 FEET SOUTHEASTERLY FROM THE SOUTHEASTERLY LINE OF SCHWERIN STREET, SAID POINT BEING THE MOST NORTHEASTERLY CORNER OF THE PROPERTY CONVEYED BY CROWN CORK & SEAL COMPANY, INC. A CORPORATION, TO J. AND P. ENTERPRISES, A CALIFORNIA CORPORATION, BY DEED RECORDED DECEMBER 22, 1960, IN BOOK A206, PAGE 662, OFFICIAL RECORDS OF THE CITY AND COUNTY OF SAN FRANCISCO, SAID POINT BEING THE TURE POINT OF BEGINNING,; THENCE ALONG THE EASTERLY LINE OF SAID PROPERTY, SOUTH 19°24' WEST 39.80 FEET (39.555 FEET RECORD), MORE OR LESS, TO THE COUNTY LINE BETWEEN SAN FRANCISCO COUNTY AND SAN MATEO COUNTY, AS IT NOW EXISTS; THENCE ALONG SAID LINE, NORTH 89°50'10" EAST 118.86 FEET (118.05 FEET RECORD), MORE OR LESS, TO A POINT OF INTERSECTION WITH THE NORTHERLY BOUNDARY LINE OF THE DEED TO WESTERN CROWN & SEAL CORPORATION, RECORDED AUGUST 24, 1944, IN BOOK 4134, PAGE 166 OFFICIAL RECORDS OF THE CITY AND COUNTY OF SAN FRANCISCO; THENCE ALONG SAID BOUNDARY LINE, NORTH 70°36' WEST, 112.00 FEET (NORTH 71°30' WEST 105.677 FEET RECORD), MORE OR LESS, TO THE TRUE POINT OF BEGINNING.

Commonly known as 2650 Bayshore Boulevard, Daly City, California

EXHIBIT E

FORM OF LANDLORD CONSENT AND WAIVER AGREEMENT

CONSENT AND WAIVER AGREEMENT

THIS CONSENT AND WAIVER AGREEMENT (this "**Agreement**") is made and entered into as of the _____ day of _____, 20____ by and between _____ ("**Landlord**"), and _____ ("**Vendor**").

WITNESSETH:

Whereas, Landlord and _____ ("**Tenant**") have entered into that certain lease dated _____, 20__ (together with any amendments, modifications, or extensions, the "**Lease**") pursuant to which Tenant is leasing certain premises located at _____ ("**Premises**") from Landlord;

Whereas, Vendor is [leasing][supplying] the materials described in the attached Schedule 1 the "**Personal Property**") to Tenant at the Premises pursuant to _____ ("**Supply Agreement**"), Tenant has requested, and Landlord has agreed, subject to certain conditions, to the following matters.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for other consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Vendor hereby agree as follows:

1. Notwithstanding any provision of the Lease which may exist or any statutory lien in favor of the Landlord, any lien that Landlord might have to the Personal Property shall be subordinate and subject to the lien that Vendor has in the Personal Property pursuant to the Supply Agreement ("**Vendor's Lien**").

2. During the term of the Lease ("**Term**"), Landlord agrees not to interfere with Vendor, or Vendor's agents, in Vendor's efforts to assemble, remove or sell the Personal Property located on the Premises or otherwise hinder Vendor's actions in enforcing Vendor's Lien (including without limitation, the inspection of the Personal Property by Vendor or Vendor's agents). Notwithstanding the foregoing, if and when Vendor receives the Landlord Notice (as defined in Paragraph 3 below), the terms set forth in Paragraph 4 shall prevail.

3. If Landlord takes action to terminate the Tenant's possession of the Premises or the Lease prior to the expiration of the Term, Landlord agrees to provide Vendor with written notice upon the completion of such action by Landlord (the "**Landlord's Notice**") to the Vendor in person or by a commercially-recognized, next business day courier service at the following address:

_____

4. After Landlord has delivered the Landlord's Notice to Vendor, Landlord agrees to provide Vendor with access to the Premises for the purpose of collecting, removing and selling the Personal Property on the condition that: (i) Vendor hereby agrees that it shall not enter, occupy and/or possess the Premises for a period beyond thirty (30) days after Vendor's receipt of the Landlord's Notice ("**Disposition Period**"), and (ii) Vendor (a) will pay to Landlord the basic rent and excess operating expenses due under the Lease, pro-rated on a per diem basis determined on a 30-day month, for each day that occurs between the fifth (5^{th}) day immediately following Vendor's receipt of the Landlord's Notice and the day that Vendor removes the Personal Property from the Premises, and (b) shall retain liability and property insurance coverage in the same forms and amounts as required by Tenant under the Lease at all times that Vendor is on the Premises to remove the Personal Property. If any injunction or stay is issued (including automatic stay due to a bankruptcy proceeding) that prohibits (Y) Vendor from removing the Personal Property, and (Z) Landlord from retaking possession of the Premises, the commencement of the Disposition Period will be deferred until such injunction or stay is lifted or removed as to the Landlord and Vendor.

5. During any period of Vendor's entry on the Premises, Vendor agrees to allow Landlord full access to the Premises for the purposes of marketing the Premises for lease and making repairs and improvements to the Premises.

6. Except for matters arising from the gross negligence or willful misconduct of Landlord, and to the extent permitted by law, Vendor agrees to indemnify, defend and hold harmless Landlord, and Landlord's agents, employees and contractors, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or theft or misappropriation or loss of property occurring in or about the Premises is located and arising from the entry, use or occupancy of the Premises by Vendor or from any activity, work, or thing done, permitted or suffered by Vendor in or about the Premises when on the Premises or due to any other act or omission of Vendor, its invitees, employees, contractors and agents when on the Premises. The furnishing of insurance required hereunder shall not be deemed to limit Vendor's obligations under this Paragraph.

7. Vendor hereby agrees that Lender shall be required to repair any damage to the Premises caused by Vendor, or Vendor's agents, during the period in which Vendor (or its agents) enters or is in possession of the Premises (ordinary wear and tear excluded). Vendor shall not have any duty or obligation to remove or dispose of any Personal Property left on the Premises by Tenant.

8. Neither Vendor, nor Vendor's agents, shall hold any public auction or public sale of the Personal Property on the Premises. Landlord shall permit Vendor to hold a private sale of the Personal Property on the Premises.

9. This Agreement shall in all respects be a continuing agreement and shall expire upon the earlier of (i) the expiration of the Disposition Period, or (ii) Tenant's satisfaction in full of Tenant's obligations under the Agreement, as evidenced by written release or termination by the Vendor.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the Vendor and the Landlord as of the day and year first written above.

VENDOR:

_____

By:_____
Name:_____
Title:_____

LANDLORD:

_____

By:_____
Name:_____
Title:_____

File No. 120904

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL
(S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information *(Please print clearly.)*	
Name of City elective officer(s): **Members, San Francisco Board of Supervisors**	City elective office(s) held: **Members, San Francisco Board of Supervisors**

Contractor Information *(Please print clearly.)*	
Name of contractor: **Prologis, L. P.**	
Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary. **Please see attached.**	
Contractor address: **Pier 1, Bay 1, San Francisco, CA 94111**	
Date that contract was approved:	Amount of contract: **$70,245,708.14**
Describe the nature of the contract that was approved: **Lease for warehouse, office and parking lot space at 2650 Bayshore Boulevard**	
Comments: **None**	

This contract was approved by (check applicable):
☐ the City elective officer(s) identified on this form
☒ a board on which the City elective officer(s) serves San Francisco Board of Supervisors
Print Name of Board

☐ the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

Filer Information *(Please print clearly.)*	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: (415) 554-5187
Address: City Hall, Room 244 1 Dr. Carlton B. Goodlett Pl., San Francisco, CA 94102	E-mail: Board.of.Supervisors@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer) — Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk) — Date Signed

(1) Members of the contractor's board of directors

Hamid R. Moghadam
Chairman of the Board of Directors and Co-Chief Executive Officer
Walter C. Rakowich
Co-Chief Executive Officer
George L. Fotiades
Christine N. Garvey
Lydia H. Kennard
J. Michael Losh
Irving F. Lyons III
Jeffrey L. Skelton
D. Michael Steuert
Carl B. Webb
William D. Zollars

(2) Contractor's chief executive officer, chief financial officer and chief operating officer

Chairman of the Board of Directors and Co-Chief Executive Officer
Hamid R. Moghadam

Co-Chief Executive Officer
Walter C. Rakowich

Chief Executive Officer, Europe and Asia
Gary E. Anderson

Chief Executive Officer, Private Capital
Guy F. Jaquier

Chief Executive Officer, The Americas
Eugene F. Reilly

Chief Financial Officer
Thomas S. Olinger

Chief Operating Officer, The Americas
Larry Harmsen

(3) Any person who has an ownership of 20 percent or more in the contractor:

None

(4) Any subcontractor listed in the bid or contract:

None

(5) Any political committee sponsored or controlled by the contractor:

None