

**Addendum to Sublease Agreement for 1440 Harrison Street, San Francisco,  
between Harrison Assets, LLC, Sublessor, and  
City and County of San Francisco, a municipal corporation, Sublessee**

This Addendum to Sublease Agreement for 1440 Harrison Street, San Francisco, between Harrison Assets, LLC, Sublessor, and City and County of San Francisco, a municipal corporation, Sublessee, is dated for reference purposes November 14, 2016.

**Recitals**

**A.** On or about October 15, 1985, the San Francisco Unified School District, a political subdivision of the State of California (“Master Lessor”), and Sublessor’s predecessor in interest, 1440 Harrison Development Group, LLC, as the tenant, entered into a October 15, 1985 Master Lease (attached as Exhibit A) for that certain real property commonly known as 1440 Harrison Street in the City and County of San Francisco, California, being Lot 51 of Assessor’s Block 3520, a three story and basement brick building (the “Building”) containing approximately 56,788 rentable square feet and a paved and fenced outdoor area including 31 parking stalls (hereafter the “Subleased Premises”).

**B.** On August 3, 2005, 1440 Harrison Development Group, LLC, Sublessor Harrison Assets, LLC (“Sublessor”) predecessor in interest, and Sublessee City and County of San Francisco, a municipal corporation (“City”), entered into a Sublease Agreement attached hereto as Exhibit B, for the Subleased Premises.

**C.** On or about February 28, 2007, Sublessor’s predecessor in interest, 1440 Harrison Development Group, LLC, assigned to Sublessor all of its right, title and interest as a Tenant under the Master Lease (attached as Exhibit A) with the San Francisco Unified School District, a political subdivision of the State of California (“Master Lessor”), in a Consent and Assumption Agreement with Limited Release recorded as Document No. 2007, I348269-00, at Reel J341, Image 0206.

**D.** City timely provided notice of exercise of its option to extend the term of the Sublease for an additional five years from July 1, 2012 to June 30, 2017.

**E.** City and Sublessor want to enter into this Addendum to Sublease Agreement to extend the term of the Sublease commencing July 1, 2017, on the terms and conditions stated below.

**F.** City and Sublessee have measured the Subleased Premises, and the rentable square footage is 56,788. The Premises includes an adjacent parking lot consisting of 31 stalls. A plan of the Subleased Premises is attached as Exhibit C.

**AGREEMENT**

It is hereby agreed:

**1. Recitals Incorporated as Contractual Terms.** The Recitals stated above are incorporated into this Addendum, not as terms of recital, but as contractual terms.

**2. Amendment to Sublease Agreement.** The Sublease Agreement is amended as follows:

**A.** The above Recitals A through F inclusive shall replace the Recitals in the Sublease Agreement.

**B.** The “Basic Sublease Information” on pages 2, 3 and 4 of the Sublease Agreement are deleted and replaced by the following:

**“Basic Sublease Information.**

The following is a summary of basic sublease information (the "Basic Sublease Information" or the "Summary") in the Addendum to Sublease. Each item below shall be deemed to incorporate all of the terms in this Addendum to Sublease pertaining to such item. In the event of any conflict between the information in this Section and any more specific provision of this Addendum to Sublease, the more specific provision shall control. Capitalized terms not defined elsewhere shall have the meanings given below or in the Sublease, or in the Addendum to Sublease, as the case may be.

Sublease Reference Date:	November 14, 2016.
Sublessor:	Harrison Assets, LLC.
City: corporation.	City and County of San Francisco, a municipal
Building (Recital A):	1440 Harrison Street, San Francisco, California.
Subleased Premises (Recitals A & E):	The entire property consisting of approximately 56,788 rentable square feet of office space in the Building, and the Outdoor Area as shown on <u>Exhibit C</u> , attached hereto.
Initial Term: (Section 2(a)):	8 years, 3 months Commencing on July 1, 2017.
Extension Options: (Section 2(c)):	Two (2) additional terms of five (5) years each.
Commencement Date:	July 1, 2017.
Rent Commencement Date:	July 1, 2017

Base Rent: (Section 3(a))	\$298,137 per month industrial gross for Year 1, with 3% annual increases for Years 2 through 8.
Permitted Use (Section 4(a)):	Cal-Win and other public programs, general office space and City administrative or business related purpose in accordance with the provisions of the Master Lease.
Tenant Improvements (Section 5):	None.
Utilities and Services (Section 8):	Provided and paid by City.
Address for Rent Payments:	Harrison Assets, LLC c/o Ronaldo Cianciarulo 827 DeHaro Street San Francisco, CA 94107.
Notice Address of City (Section 23):	Phil Arnold Department of Human Services 170 Otis Street, 8 <sup>th</sup> Floor San Francisco, CA 94103
and copy to:	Attn: Director of Property Real Estate Division 25 Van Ness Avenue, Suite 400 San Francisco, CA 94102 Fax No.: (415) 552-9216
and copy to:	Office of the City Attorney City Hall, Room 234 1 Dr. Carlton B. Goodlett Place San Francisco, CA 94102-4682 Attn: Eileen M. Malley Deputy City Attorney.
Key Contact for City:	Phil Arnold
Telephone No.:	(415) 557-5641
Notice Address for Sublessor (Section 23):	Harrison Assets, LLC c/o Ronaldo Cianciarulo 827 DeHaro Street San Francisco, CA 94107.
Key Contact for Sublessor:	Ronaldo Cianciarulo
Telephone No.:	(415) 793-3200

Alternate Contact for Sublessor: Bill Cianciarulo

Telephone No.: (415) 515-4922

**C.** Section 2(a) Term of Sublease is revised by deleting the first two sentences, and replacing it the following: “The term of the Sublease is eight years, three months, commencing on July 1, 2017 (the “Commencement Date”) and ending on September 30, 2025 (the “Expiration Date”). From and after the Commencement Date, the terms of this Addendum to Sublease Agreement supercede the corresponding terms of the Sublease Agreement.”

**D.** Section 2(b) Commencement Date Memorandum is deleted.

**E.** Section 2(c) Extension Options is revised by deleting the first sentence, and replacing it with the following: “City shall have the right to extend the Initial Term of this Sublease (the “Extension Option(s)”) for two additional terms of five (5) years each.” In the second sentence after “Section 3(b) of this Sublease”, the words “and (ii) Sublessor shall make the improvements described in Section 5(e) of this Sublease” are deleted.

**F.** Section 3(a) Initial Term is deleted and replaced by the following:

“(a) Initial Term. The monthly Base Rent for the Initial Term shall be as follows:

Year 1 - July 1, 2017 to June 30, 2018	\$298,137.00
Year 2 - July 1, 2018 to June 30, 2019	\$307,081.11
Year 3 - July 1, 2019 to June 30, 2020	\$316,293.54
Year 4 - July 1, 2020 to June 30, 2021	\$325,782.35
Year 5 - July 1, 2021 to June 30, 2022	\$335,555.82
Year 6 - July 1, 2022 to June 30, 2023	\$345,622.49
Year 7 - July 1, 2023 to June 30, 2024	\$355,991.17
Year 8 - July 1, 2024 to September 30, 2025	\$366,670.90

**G.** Section 3(b)(iii) is deleted and replaced by the following:

“(iii) 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 ten percent (10%) or less 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 ten percent (10%) of the higher of the two, then the two appraisers shall immediately select a third appraiser. Within thirty (30) days after the appointment of the third appraiser, a majority of the appraisers shall determine the prevailing market rate which shall be the Base Rent for the first year of the Extended Term.

The Base Rent for years 2 through 5 of each Extended Term shall increase three percent (3%) over the rent for the immediate prior year.”

**H.** Section 3(b)(v) deleted and replaced by the following:

(v) All appraisers specified herein shall be members of the American Institute of Real Estate Appraisers (MAI) with not less than five (5) years' experience appraising leases of commercial properties similar to the Subleased Premises in the South of Market area of San Francisco. Sublessor 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. The third appraiser shall not have served as an appraiser, or have been otherwise employed, on behalf of or by either Sublessor or City.

**I.** Section 3(c) No Additional Rent or Additional Charges is deleted.

**J.** Sections 5 Tenant Improvements is deleted in its entirety.

**K.** Paragraph 7(a). Paragraph 7(a) is amended by deleting the words “including graffiti removal from the exterior of the Building and the fences”. Paragraph 7(a) is further amended by adding the words “the elevators” after the words “drainage systems”.

**L.** Paragraph 7(b) City’s Repairs is amended to insert in the first sentence after “Subleased Premises” the following words: including graffiti removal from the exterior of the Building and the fences,”.

**M.** A new Paragraph 7(d) is added, as follows:

7(d). Increases in Taxes, Insurance Premiums, and Operating Expenses over Year 1. Sublessee shall pay the increases in Taxes, Insurance Premiums and Operating Expenses for the Subleased Premises over the Year 1 expenses.

(a) A. “

(b) Definitions

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

- i) "Base Year" means the calendar year 2017
- ii) "City’s Percentage Share" means the one hundred percent (100%).
- iii) "Expense Year" means each calendar year commencing January 1st of each year during the Term, including any partial year in which this Lease commences; provided that Landlord, upon advance written notice to City, may change the Expense Year to any other twelve (12) consecutive month period and, in the event of any such change, City’s Percentage Share of Operating Costs shall be equitably adjusted for the Expense Years involved in any such change. Expense Year shall not include the Base Year.

- iv)** "Operating Costs" means the total reasonable and prudent costs and expenses actually paid or incurred by Landlord in connection with the management, operation, maintenance and repair of the Building, including, but not limited to: 1) the cost of repairs and all labor and material costs related thereto, and the cost of general maintenance, cleaning and service contracts and the cost of all supplies, tools and equipment required in connection therewith, (2) the cost incurred by Landlord for the insurance required to be carried on the Building by this Sublease, (3) wages, salaries, payroll taxes and other labor costs and employee benefits relating to employees of Landlord or its agents engaged in the repair or maintenance of the Building, allocated in proportion to the percentage of such person's working time actually spent working in connection with the Building, (4) fees, charges and other costs of all independent contractors engaged by Landlord, allocated in proportion to the percentage of such person's working time actually spent working in connection with the Building, (5) the cost of capital improvements made to the Building as a labor-saving or energy saving device or to effect other economies in the operation or maintenance of the Building and which benefit the Premises, or made to the Building after the Effective Date of this Lease that are required under any governmental law or regulation that was not applicable to the Building on the Effective Date, unless caused by Landlord's deliberate or negligent violation of such law, rule or regulation, and (6) other expenses reasonably incurred in connection with the operation, maintenance or repair of the Building (other than Real Estate Taxes and any services for which Landlord is separately and directly reimbursed by City) which would, under generally accepted accounting principles, be considered an operating expense. The computation of Operating Costs shall be made in accordance with generally accepted accounting principles. With respect to the costs of items included in Operating Costs under (5), such costs shall be amortized over the useful life thereof, together with interest on the unamortized balance at a rate per annum equal to three (3) percentage points over the Treasury Rate charged at the time such item is constructed, but not more than the maximum rate permitted by law at the time such item is constructed.
- v)** All Operating Costs shall be reasonable and if necessary, equitably adjusted. In no event shall Landlord recapture more than one hundred percent (100%) of the Operating Costs in any Expense Year.
- vi)** Notwithstanding the foregoing, "Operating Costs" shall exclude the items described on the attached Addendum Exhibit A.
- vii)** "Real Estate Taxes" means all taxes, assessments and charges levied upon or with respect to the portion of the Building owned by Landlord, or Landlord's interest in the Building. 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.
- viii)** Notwithstanding the foregoing, Real Estate Taxes shall exclude (1) franchise, transfer, inheritance, gross receipts, or capital stock taxes or income taxes 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, (3) any personal property taxes payable by City hereunder or by any other tenant or occupant of the Building, or (4) any increase in Real Estate Taxes due to any reassessment upon a transfer of any of Landlord's interest in the Building or the real property on which the Building is located.

- ix)** "Tax Year" means each calendar year during the Term, including any partial year during which this Lease may commence; provided that Landlord, upon notice to City, may change the Tax Year from time to time to any other twelve (12) consecutive month period and, in the event of any such change, City's Percentage Share of Real Estate Taxes shall be equitably adjusted for the Tax Year involved in any such change. Tax Year shall not include the Base Year.

**(c) Payment of Percentage Share of Operating Costs**

During the Term, commencing after the end of the Base Year, City shall pay to Landlord each month, as Additional Charges, one twelfth (1/12) of City's Percentage Share of the amount, if any, by which Operating Costs for each Expense Year exceed the Operating Costs for the Base Year. City shall make such payments, in advance, in an amount estimated by Landlord in reasonable detail in a writing delivered to City. Landlord may revise such estimates of Operating Costs from time to time and City shall thereafter make payments on the basis of such revised estimates, provided that no such revisions shall be retroactive and Landlord may not make any such revisions more than twice in any given Expense Year and no such revision may be made any earlier than four (4) months subsequent to the prior estimate for such Expense Year. With reasonable promptness not to exceed sixty (60) days after the expiration of each Expense Year, Landlord shall furnish City with a statement (herein called "Landlord's Expense Statement"), prepared by an independent certified public accountant, setting forth in reasonable detail the Operating Costs for such Expense Year and City's Percentage Share thereof. If City's Percentage Share of the actual Operating Costs for such Expense Year exceeds the estimated Operating Costs paid by City for such Expense Year, City shall pay to Landlord (whether or not this Lease has terminated) the difference between the amount of estimated Operating Costs paid by City and City's Percentage Share of the actual Operating Costs within thirty (30) days after the receipt of Landlord's Expense Statement. If the total amount paid by City for any such Percentage Share of Operating Costs exceeds City's Operating Costs Share of the actual Operating Costs for such Expense Year, such excess shall be credited against the next installments of Operating Costs due from City to Landlord hereunder, or refunded to City, at City's option.

**(d) Payment of Percentage Share of Real Estate Taxes**

During the Term, commencing after the end of the Base Year, City shall pay to Landlord each month, as Additional Charges, one twelfth (1/12) of City's Percentage Share of the amount, if any, by which Real Estate Taxes for each Tax Year exceed Real Estate Taxes for the Base Year. City shall make such payments, in advance, in an amount estimated by Landlord in reasonable detail in a writing delivered to City. With reasonable promptness not to exceed thirty (30) days after Landlord has received the tax bills for any Tax Year, Landlord shall furnish City with a statement ("Landlord's Tax Statement") setting forth the amount of Real Property Taxes for such Tax Year and City's Percentage Share thereof. If City's Percentage Share of the actual Real Estate Taxes for such Tax Year exceeds the estimated Real Estate Taxes paid by City for such Tax Year, City shall pay to Landlord (whether or not this Lease has terminated) City's Percentage Share of the actual Real Estate Taxes within thirty (30) days after the receipt of Landlord's Tax

Statement. If the total amount of estimated Real Estate Taxes paid by City for such Tax Year exceeds City's Percentage Share of the actual Real Estate Taxes for such Tax Year, such excess shall be credited against the next installments of Real Estate Taxes due from City hereunder, or at City's option, such excess shall be refunded to City.

(e) Proration

If the Commencement Date or Expiration Date shall occur on a date other than the first or last day of a Tax Year or Expense Year, City's Percentage Share of Real Estate Taxes or Operating Costs for the Tax Year or Expense Year in which the Commencement Date or Expiration Date occurs, shall be prorated based on a three hundred sixty-five (365)-day year.

(f) Audits

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 Operating Costs and Real Estate Taxes. If such audit discloses any discrepancies which would result in a reduction of City's Percentage Share of Operating Costs for any Expense Year, Landlord shall immediately refund to City the amount of any overpayment by City. City shall pay the cost of such audit, provided that if such audit discloses any discrepancies which result in a reduction of City's Percentage Share of Operating Costs of three percent (3%) or more for any Expense Year, then Landlord shall pay the costs of such audit.

(g) Records

Landlord shall maintain at its offices in San Francisco in a safe, complete and organized manner all of its records pertaining to this Lease and Real Estate Taxes, Operating Costs and any other charges paid by City pursuant hereto, for a period of not less than three (3) years following expiration of 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 subsection (e) above.]

**N.** Paragraph 8(d) Janitorial and Security is amended by adding after "janitorial services" the words "(and graffiti removal)", and deleting the second and third sentences.

**O.** .

**P.** Paragraph 14(b) Sublessor's Default is changed as follows: In the first and second sentence, the word and number "ten (10)" are deleted and replaced with the word and number "thirty (30)". In addition, the word "substantially" is inserted before the word "interferes" in the third sentence from the end of this paragraph. In addition, the word "substantially" is inserted before the word "impairs" in the next to last sentence.

**Q.** Paragraph 22 Brokers is deleted and replaced by the following:

"22. Brokers. City agrees that it has not used any real estate broker in connection with the procuring, execution of delivery of this Addendum to Sublease Agreement. Sublessor is



represented by Mike McCarthy, Colliers International Group, Inc. Each party hereto agrees to indemnify and hold the other harmless against any claims by any broker for services rendered to the indemnifying party in connection to this Addendum to Sublease Agreement.”

R. In paragraph 23 Notices, the Sublessor’s address is deleted, and replaced by the following:

Sublessor: Harrison Assets, LLC  
c/o Ronaldo Cianciarulo  
827 DeHaro Street  
San Francisco, CA 94107.

3. Exhibits Attached. All exhibits described herein are attached to this Agreement.

ADDENDUM EXHIBIT A - EXCLUSIONS FROM OPERATING COSTS

4. Other Sublease Agreement Terms Not Changed By This Addendum to Sublease Agreement Shall Remain in Effect. All other terms and conditions of the Sublease Agreement that were not changed by this Addendum to Sublease Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Addendum to Sublease Agreement on the date first above written.

SUBLESSOR: HARRISON ASSETS, LLC,  
a California limited liability company,  
by Baker Hamilton Properties, Inc.,  
Its sole member

By: \_\_\_\_\_  
Ronaldo Cianciarulo  
Its President

CITY: CITY AND COUNTY OF SAN FRANCISCO,  
a municipal corporation

By: \_\_\_\_\_  
John Updike  
Director of Property

RECOMMENDED:

\_\_\_\_\_  
Director, Department of Human Services

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: \_\_\_\_\_  
Heidi Gewertz  
Deputy City Attorney

## ADDENDUM EXHIBIT A

### EXCLUSIONS FROM OPERATING COSTS

1. Costs of capital repairs, capital improvements and equipment, except for those (i) required by laws enacted on or after the date of the Lease amortized over the useful life of the improvement and/or equipment, together with interest at the actual interest rate incurred by Landlord in connection with such capital improvements, or (ii) acquired to cause, in Landlord's good faith judgment, an immediate (i.e., commencing within the first year after completion of such repairs or improvements or installation of such equipment) reduction in other Operating Costs, amortized over the useful life of such improvements at an annual rate reasonably calculated to equal the amount of Operating Costs to be saved in each calendar year throughout the Term (as determined at the time Landlord elected to proceed with the capital improvement or acquisition of the capital equipment to reduce operating expenses), together with interest at the actual interest rate incurred by Landlord;
2. Rentals and other related expenses for items (except when needed in connection with normal repairs and maintenance of permanent systems) which if purchased rather than rented, would constitute a capital improvement which is specifically excluded in item 1 above (excluding, however, equipment not affixed to the Building which is used in providing janitorial or similar services);
3. Costs incurred by Landlord for the repair of damage to the Building, to the extent that Landlord is reimbursed by insurance proceeds (excluding any deductible) and costs occasioned by the exercise of the right of eminent domain;
4. Intentionally omitted;
5. Depreciation, amortization and interest payments, except to the extent provided herein pursuant to items 1(i) and 1(ii) above and except on materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, all as determined in accordance with generally accepted accounting principles, consistently applied (as applied to commercial real estate), and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life (as reasonably determined by Landlord);
6. Leasing commissions, attorneys' and other professionals' fees, space planning costs and all other costs and expenses in connection with negotiations with prospective tenants or other occupants in the Building or any present or future ground lessors or holders of any mortgages or other encumbrances affecting any of the Building or the defense of Landlord's title to the Building or the real property on which it is located;
7. Intentionally deleted;
8. Costs incurred by Landlord due to violation by Landlord of applicable laws, rules or regulations, the terms and conditions of any lease, ground lease, mortgage or deed of trust, or other covenants, conditions or restrictions encumbering the Building or the real property on which it is located;

9. Overhead and profit increments paid to Landlord or to subsidiaries or affiliates of Landlord;
10. Any ground lease rental or rental under any other underlying leases;
11. Except as specifically permitted by items 1(i) and 1(ii) above, interest, principal, points and fees on debts or amortization on any mortgage, deed of trust or any other debt instrument encumbering any of the Building or the real property on which it is located;
12. Advertising or promotional expenditures, and the costs of acquiring and installing signs in or on any of the Building
13. Intentionally omitted;
14. Intentionally omitted;
15. Intentionally omitted;
16. Tax penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments when due;
17. Costs arising from the presence of Hazardous Material in or about the Building including, without limitation, groundwater or soil conditions, except if such Hazardous Material is brought onto the Premises or Property by City or its Agents;
18. Landlord's charitable or political contributions;
19. To the extent the following costs arise during any applicable warranty periods, costs as a result of repairs of latent defects in the Building core and shell or improvements installed by Landlord or in the Building Systems, and any costs incurred by Landlord in the event any portion of the Building is made untenable by fire or other casualty required to be insured against pursuant to the terms of the Lease;
20. Capital costs for sculpture, paintings or other objects of art;
21. Costs (including, without limitation, all attorneys' fees and costs of settlement, judgments and payments in lieu thereof) arising from claims, disputes or potential disputes, including, without limitation, tax disputes, except to the extent that such dispute results in a cost savings with respect to Operating Costs;
22. All direct cost of refinancing, selling, exchanging or otherwise transferring ownership of the Building or the real property on which it is located or any interest therein or portion thereof, including broker commissions, attorney's fees and closing costs;
23. Reserves for bad debts, rent loss, capital items or further Operating Costs; and
24. Landlord's general corporate overhead and general and administrative.
25. Any other expense that under generally accepted accounting principles would not be considered a maintenance or operating expense.

