



Edwin M. Lee, Mayor
Naomi M. Kelly, City Administrator



John Updike
Director of Real Estate

December 8, 2016

Through Naomi Kelly,
City Administrator

Human Services Agency
1440 Harrison St. Lease
Assignment # 7049

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

Re: Lease of 1440 Harrison St. San Francisco

Dear Board Members:

Attached for consideration is a Resolution authorizing the Sublease renewal of approximately 56,788 rentable square feet of office space located at 1440 Harrison Street, for continued use by the Human Services Agency ("HSA") for their Medi-Cal and Cal-Fresh (food stamp) Programs.

The proposed Sublease is with Harrison Assets LLC the successor in interest to 1440 Harrison Street Development Group LLC. Harrison Assests LLC has a long-term master lease on the property from the San Francisco Unified School District, owners of fee title to the property.

The City has occupied 1440 Harrison Street since August 1986. The existing Sublease expires on June 30, 2017. 1440 Harrison Street is a three story and basement office building including a yard area used for 31 parking stalls. The property was re-measured in 2016 using Building Owners and Managers Association ("BOMA") standards.

The Human Services Agency reports that 1440 Harrison is one of two major sites for Medi-Cal and Cal-Fresh (food stamps) eligibility determination and serves more than 330 people each day. Since the implementation of the Affordable Care Act, the Medi-Cal eligible population has increased by 92% to 195,000 individuals.

Medi-Cal provides over 195,000 San Franciscans with health services, which accounts for more than 22% of the population. Between October 2013 and October 2016, the number of Medi-Cal enrollees rose by 93,367, a 92% increase. The Medi-Cal households (HHs) rose by 85% (56,377) between Oct 2013 and Oct 2016, to 122,599 households.

The City is currently paying rent at \$101,268.00 per month industrial gross (approximately \$21.40 per square foot annually on the Building area only) plus operating expenses amounting to approximately \$54,275 per month.

The term of the proposed Sublease renewal will be for eight (8) years, three (3) months, commencing upon July 1, 2017 and expiring on September 30, 2025. Under the proposed Sublease the City has (2) 5 year options to renew the term (subject to further Board of Supervisors approval). Base Rent during the Option Terms are at 95% of the then fair market value considering all factors.

The Base Rent for the proposed Sublease shall be \$298,137 per month for Year 1 (approximately \$63.00 per square foot annually measured on the building area only), with 3% annual increases for Years 2 through 8. The City will continue to pay for repairs, utilities, janitorial services and security.

The proposed rental rate has been validated by a MAI appraisal by CBRE, Inc. and the CBRE appraisal has been approved using USPAP guidelines by Clifford & Associates.

The Human Services Agency reports that the funding source for 1440 Harrison Street is approximately 63% from the General Fund, 37% from State and Federal Funds.

We recommend approval of the proposed Sublease. If you have any questions regarding this matter, please contact Charlie Dunn of our office on 554-9861.

Respectfully,



John Updike
Director of Property

Attachments

cc: Trent Rhorer, Executive Director, HSA
Dan Kaplan, Deputy Director of Admin and Finance, HSA
Robert Walsh, Director of Facilities and Operations, HSA

Attachment #1
1440 Harrison Lease

	Current	Proposed
Premises	52,200 SF plus 31 car parking	56,788 SF** plus 31 car parking **The building was measured using BOMA standards
Base Rent	\$101,268 monthly	\$298,137 monthly
Operating Expenses	\$54,275 monthly	\$54,275 monthly
Base Rent Increase Date	NA	Annually on February 1
Base Rent Increase Amount	NA	3%
Term	June 30, 2017	September 30, 2025
Options to Extend	NA	Two (2) five year options at 95% FMR