

Committee Item No. 2
Board Item No. _____

AGENDA PACKET CONTENTS LIST

Date May 25, 2017

Date _____

<input type="checkbox"/>	<input type="checkbox"/>	Motion
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Resolution
<input type="checkbox"/>	<input type="checkbox"/>	Ordinance
<input type="checkbox"/>	<input type="checkbox"/>	Legislative Digest
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Budget and Legislative Analyst Report
<input type="checkbox"/>	<input type="checkbox"/>	Youth Commission Report
<input type="checkbox"/>	<input type="checkbox"/>	Introduction Form
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Department/Agency Cover Letter and/or Report
<input type="checkbox"/>	<input type="checkbox"/>	MOU
<input type="checkbox"/>	<input type="checkbox"/>	Grant Information Form
<input type="checkbox"/>	<input type="checkbox"/>	Grant Budget
<input type="checkbox"/>	<input type="checkbox"/>	Subcontract Budget
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Contract/Agreement
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Form 126 – Ethics Commission
<input type="checkbox"/>	<input type="checkbox"/>	Award Letter
<input type="checkbox"/>	<input type="checkbox"/>	Application
<input type="checkbox"/>	<input type="checkbox"/>	Public Correspondence

[illegible]

Completed by: Linda Wong Date May 19, 2017
Completed by: Linda Wong Date _____

1 [Real Property Lease Amendment - SFOC LLC - 711 Van Ness Avenue - \$482,160 Per Year
2 Base Rent]

3 **Resolution authorizing the Third Amendment to Lease with SFOC LLC, as Landlord,**
4 **of 9,800 square feet at 711 Van Ness Avenue, extending the Lease expiring on**
5 **January 31, 2018, through January 31, 2021, at a base rent of \$482,160 per year, plus**
6 **payment for common area expenses above Base Year 2018, for the Department of**
7 **Emergency Management, the San Francisco Public Utilities Commission, and the**
8 **interim continued use by the Office of the Assessor-Recorder, to commence upon**
9 **approval by the Board of Supervisors and Mayor, in their respective sole and**
10 **absolute discretion.**

11
12 WHEREAS, The Board of Supervisors passed and the Mayor signed Resolution
13 277-12 on July 24, 2012, on file with the Clerk of the Board of Supervisors in File No.
14 120675, authorizing an office lease ("Original Lease") of 9,800 square feet at 711 Van Ness
15 Avenue ("Premises") between the City and County of San Francisco and SFOC LLC
16 ("Landlord") for use by the Department of Emergency Management ("DEM") and the Office
17 of the Assessor-Recorder ("ASR"); and

18 WHEREAS, The Board of Supervisors passed and the Mayor signed Resolution
19 186-13 on June 21, 2013, on file with the Clerk of the Board of Supervisors in File No.
20 130362, authorizing an extension of the Original Lease through June 30, 2015 ("First
21 Amendment"); and

22 WHEREAS, The Board of Supervisors passed and the Mayor signed Resolution
23 39-15 on February 20, 2015, on file with the Clerk of the Board of Supervisors in File No.
24 150032, authorizing an extension of the First Amendment through January 31, 2018
25

1 ("Second Amendment", collectively with the Original Lease and First Amendment, the
2 "Lease"); and

3 WHEREAS, in October 2014, DEM agreed to relinquish 2,000 square feet of the
4 Premises to the San Francisco Public Utilities Commission (the "SFPUC") so to relocate the
5 SFPUC Archives within the Premises; and

6 WHEREAS, DEM and the SFPUC, along with ASR until its relocation destination is
7 identified and available in 2018, desire to amend the Lease (the "Third Amendment") to
8 extend the Lease until approximately January 31, 2021; and

9 WHEREAS, Prior to or during the term of the Third Amendment, ASR shall relocate
10 to its destination relocation office and the Real Estate Division shall promptly populate the
11 remaining Premises with another City department or through subleasing to a third-party
12 tenant; and

13 WHEREAS, Landlord and City, through its Real Estate Division and with consultation
14 from the Office of the City Attorney, have negotiated the Third Amendment, which increases
15 Base Rent under the Lease from \$38.00 per square foot per year (\$3.17 per sq. ft. per
16 month) to \$49.20 per square foot per year (\$4.10 per month), or from \$372,400 per year to
17 \$482,160 per year, with annual increases to Base Rent of three percent (3%) per square
18 foot per year on each anniversary of the Third Amendment; and

19 WHEREAS, The Third Amendment shall require Landlord to now pay the costs for
20 the City's utility usage and janitorial expenses within the Premises, which were previously
21 City's costs under the Second Amendment, as common area expenses and City to
22 reimburse Landlord for the City's pro-rata share of increases to common area expenses at
23 711 Van Ness Avenue over and above Base Year 2018; and

24 WHEREAS, All other provisions, terms and conditions of the Lease shall remain
25 unchanged and in effect; now, therefore, be it

1 RESOLVED, That in accordance with the recommendation of the Director of Property, that
2 the Director of Property on behalf of the City, as Tenant, be and is hereby authorized to take all
3 actions necessary to execute the Third Amendment (a copy of which is on file with the Clerk of the
4 Board of Supervisors in File No. 170433) at 711 Van Ness Avenue in San Francisco, California, to
5 extend the Lease until January 31, 2021, at a Base Rent of \$49.20 per square foot, per year, plus
6 reimbursement of City's common area expenses above Base Year 2018; and, be it

7 FURTHER RESOLVED, That the Director of Property shall be authorized to enter into
8 any additions, amendments or other modifications to the Third Amendment (including, without
9 limitations, the exhibits) that the Director of Property determines, in consultation with the City
10 Attorney, are in the best interests of the City, do not materially increase the obligations or
11 liabilities of the City, and are necessary or advisable to complete the transaction and effectuate
12 the purpose and intent of this resolution; and, be it

13 FURTHER RESOLVED, That the Lease contains language indemnifying and holding
14 harmless the Landlord, from and agreeing to defend the Landlord against any and all claims,
15 costs and expenses, including, without limitation, reasonable attorney's fees, incurred as a
16 result of City's use of the Premises, any default by the City in the performance of any of its
17 obligations under the Lease or any acts or omissions of city or its agents, in, on or about the
18 Premises or the property on which the Premises are located, including those claims, costs and
19 expenses incurred as a result of negligence or willful misconduct of Landlord or its agents;
20 and, be it

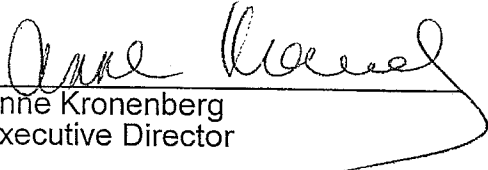
21 FURTHER RESOLVED, That any action taken by the Director of Property and other
22 officers of the City with respect to the Third Amendment are hereby approved, confirmed and
23 ratified; and be it

24 FURTHER RESOLVED, Said Second Amendment shall be subject to certification as
25 to funds by the Controller, pursuant to Charter, Section 3.105; and, be it

1 FURTHER RESOLVED, That within thirty (30) days of the agreements being fully
2 executed by all parties, the Director of Real Estate shall provide the agreements to the Clerk
3 of the Board for inclusion into the official file.
4
5
6
7

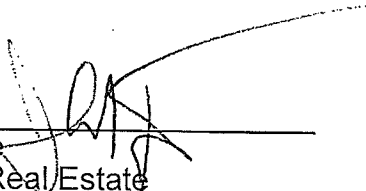
8 RECOMMENDED:

9 DEPARTMENT OF EMERGENCY MANAGEMENT
10

11 
12 Anne Kronenberg
13 Executive Director

14 SAN FRANCISCO PUBLIC UTILITIES COMMISSION
15

16 
17 Michael Carlin
18 Deputy General Manager

19 
20
21 John Updike
22 Director of Real Estate
23
24
25

Item 2
File 17-0433

Department:
Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the third amendment to the existing lease at 711 Van Ness Avenue between the City as tenant and SFOC LLC as landlord to extend the current lease for three years from February 1, 2018 through January 31, 2021.

Key Points

- Three City departments are currently located at 711 Van Ness Avenue: The Department of Emergency Management's Bay Area Urban Area Security Initiative (BAUASI), the Assessor, and the San Francisco Public Utilities Commission (SFPUC).
- The third amendment would increase the annual base rent to \$482,160 per year (\$49.20 per square foot), plus payment for common area expenses above Base Year 2018; and transfer the responsibility for utility and janitorial service costs from the City to the landlord as of February 1, 2018.

Fiscal Impact

- An appraisal estimate completed by Clifford Advisory, LLC on April 15, 2017 estimated the fair market rental value of 711 Van Ness to be \$60 per square foot per year, which is \$10.80 per square foot or 22 percent more than the first year rent under the proposed third amendment of \$49.20.
- Total costs over the three year term including a three percent annual increase are estimated to be around \$1,553,308.
- Funding sources to pay the lease and related costs in FY 2017-18 include federal grant funds in the Department of Emergency Management's budget, General Fund monies in the Assessor's budget, and SFPUC funds.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of \$5,000 or more and where the City is the tenant is subject to Board of Supervisors approval.

BACKGROUND

The Board of Supervisors approved the original lease at 711 Van Ness Avenue between the City as tenant and SFOC, LLC as landlord on July 24, 2012 for office space for the Department of Emergency Management and the Assessor-Recorder's Office (Assessor). The original lease was for 20.5 months from August 1, 2012 through April 14, 2014 for 9,800 square feet of office space. The annual base rent was \$215,600 (\$22.00 per sq. ft.) with no increases over the term of the lease.

Three City departments are currently located at 711 Van Ness Avenue. The Department of Emergency Management occupies 5,000 square feet to house the Bay Area Urban Area Security Initiative (BAUASI), a federally funded program designed to finance and manage projects that advance risk management within the region. The Assessor occupies 2,800 square feet for temporary staff assigned to process assessment appeals. Finally, the Department of Emergency Management ceded 2,000 square feet of office space to the San Francisco Public Utilities Commission (SFPUC) in October 2014, so that SFPUC could house fragile historical documents with strict HVAC (heating, ventilation, and air conditioning) and security requirements.

The Board of Supervisors authorized the first amendment to the lease on June 21, 2013 to extend the expiration date by 14.5 months from April 14, 2014 to June 30, 2015 at the same annual base rent of \$22 per square foot.

The Board of Supervisors authorized the second amendment to the lease on February 10, 2015 to extend the expiration date by just under 36 months from February 20, 2015 to January 31, 2018, increase the annual base rent to \$352,800 (\$36 per square foot), and make the City rather than the landlord responsible for utility and janitorial service costs as of February 20, 2015.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the third amendment to the existing lease at 711 Van Ness Avenue between the City as tenant and SFOC LLC as landlord to:

- (1) Extend the lease term, which currently ends on January 31, 2018, by three years from February 1, 2018 through January 31, 2021;
- (2) Increase the annual base rent to \$482,160 per year (\$49.20 per square foot), plus payment for common area expenses above Base Year 2018¹; and

¹ Common area expenses usually include the elevator operation and maintenance, lobby maintenance, security guards, custodial in non-tenant areas, property taxes, insurance, and general building utilities.

- (3) Make the landlord rather than the City responsible for utility and janitorial service costs as of February 1, 2018. The City would be responsible for incremental increases in the cost of utility and janitorial services in the second and third year of the lease.

Table 1 below summarizes the major lease terms under the proposed third amendment.

Table 1: Terms of Proposed Third Amendment

Terms of Agreement	Lease Terms
Lease Term- Three Years	February 1, 2018– January 31, 2021
Area	9,800 square feet
Base Rent per year	\$482,160
Rent per square foot per year	\$49.20
Annual Rent Increase	3 percent per year
Utilities and Janitorial	The Landlord shall furnish all the heating, air conditioning and ventilation, the electricity, non-exclusive elevator service, and water. The landlord shall also provide janitorial services. All of these will be included at Landlord's cost in the first year of the lease. Increases in the Operation Costs to be paid by City are estimated at \$6,000 in the second year and \$12,000 in the final year of the lease.
Parking (Same as existing agreement)	\$15,000 per year for 5 spaces, subject to adjustment to fair market rates (No change from the second amendment).

FISCAL IMPACT

An appraisal estimate completed by Clifford Advisory, LLC on April 15, 2017 estimated the fair market rental value of 711 Van Ness to be \$60 per square foot per year, which is \$10.80 per square foot or 22 percent more than the first year rent under the proposed third amendment of \$49.20.

First year lease costs under the proposed third amendment are \$497,160, which includes \$482,160 in base rent and \$15,000 for five parking spaces for the Department of Emergency Management. The landlord pays operating expenses in the first year, including utilities and janitorial services, and the City pays incremental increases in operating expenses in the second and third year.

Total costs over the three year term including a three percent annual increase are estimated to be approximately \$1,553,308 as shown in Table 3 below.

Table 3: Total Costs of Third Amendment during Three-Year Lease Term

	Square Feet	Base Rent Costs	Operational Costs	Parking Costs	Total Costs
Emergency Management	5,000	\$760,361	\$9,184	\$45,000	\$814,545
Assessor	2,800	425,802	5,143	-	430,945
SFPUC	2,000	304,145	3,673	-	307,818
Total	9,800	\$1,490,308	\$18,000	\$45,000	\$1,553,308

Funding sources to pay the lease and related costs in FY 2017-18 include federal grant funds in the Department of Emergency Management's budget, General Fund monies in the Assessor's budget, and SFPUC funds. All funds are subject to Board of Supervisors appropriation approval.

RECOMMENDATION

Approve the proposed resolution.

Third Amendment to Office Lease

This Third Amendment to Office Lease (the "**Third Amendment**") is made and entered into as of January 17, 2017 (the "**Effective Date**"), by and between SFOC LLC, a California limited liability company ("**Landlord**"), and the City and County of San Francisco, a municipal corporation ("**Tenant**" or "**City**").

RECITALS

A. SFOC, LLC, a California limited liability company ("**Original Owner**") and Tenant entered into that certain Office Lease dated July 27, 2012 (the "**Original Lease**") that certain First Amendment to Office Lease dated as of July 17, 2013 (the "**First Amendment**") and that certain Second Amendment to Office Lease dated as of February 20, 2015 (the "**Second Amendment**") with respect to certain premises comprised of 9,800 rentable square feet on the fourth floor ("**Premises**") and located in the building (the "**Building**") located at 711 Van Ness Avenue, San Francisco, California. The Original Lease, as modified by the First Amendment and this Second Amendment, shall be referred to in this Second Amendment as the "**Lease**".

B. The expiration date of the Lease under the Second Amendment is January 31, 2018, however, the Landlord and Tenant wish to amend the Lease such that the Lease shall expire three (3) years from the expiration date under the Second Amendment. The Third Amendment shall be effective on the date that the Third Amendment is duly executed by all parties ("**Effective Date**"), which may occur only after the City's Board of Supervisors and Mayor have enacted legislation authorizing the City's Director of Property to execute this Third Amendment.

C. Landlord and Tenant wish to amend the Lease to (1) adjust the Base Rent; (2) provide that the Landlord, not Tenant, pay costs associated with utilities and janitorial services with such costs to be included in Base Year Operating Costs; and (3) provide that the Tenant pay increases in Operating Costs and taxes over the Base Year 2018.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Landlord and Tenant agree to amend the Lease as follows:

BASIC LEASE INFORMATION

Section 1 of the Lease is amended to restate the following provisions and definitions:

Term (<u>Section 3</u>):	Expiration Date: January 31, 2021.
Base Rent (<u>Section 4.1</u>):	Annual Base Rent: \$482,160 (or \$49.20 per sq. ft.) Monthly payments: \$40,180 (or \$4.10 per sq. ft.)
Leasehold Improvements:	None, except Landlord shall provide a carpet cleaning one-time during the Term at the request of the Tenant at the expense of the Landlord and such one-time work shall not be included in Base Year Operating Costs
Base Year (<u>Section 4.6</u>):	2018
Utilities (<u>Section 9.1</u>):	Landlord shall furnish heating, air conditioning, ventilation, elevator service, electricity, and water services to the Premises in accordance

with Section 9.1 of the Lease, which costs shall be included in the Base Year Operating Costs.

Services (Section 9.2):

Landlord shall provide janitorial services to the Premises in accordance with Section 9.2 of the Lease, which costs shall be included in the Base Year Operating Costs.

PREMISES

The first three sentences of Section 2.3 of the Lease, as previously amended, shall be deleted and replaced with the following language:

“For so long as Landlord operates a self-parking system at the Building, Landlord hereby grants to City the right to lease five (5) unreserved and undesignated parking spaces (collectively, the “**Parking Spaces**”) in the parking garage located in the Building (the “**Garage**”) for the current market value for such space (the “**Parking Fees**”). If Landlord modifies the Building’s parking operations such that self-parking is no longer available (for example, if Landlord moves to a valet operation), Tenant shall no longer have the right to lease the Parking Spaces. Landlord shall use reasonable efforts to notify Tenant in advance of any changes to the parking operations.”

RENT

Section 4.2 of the Lease is deleted in its entirety and is replaced with the following language:

“Base Rent under the Lease shall be increased annually by three percent (3%) per annum, beginning on February 1, 2019 and every February 1 thereafter.”

UTILITIES AND SERVICES

Section 9.1 of the Lease is deleted in its entirety and is replaced with the following language:

“Landlord shall furnish the following utilities and services to the Premises: (a) heating, air conditioning and ventilation in amounts reasonably required for City’s comfortable use and occupancy of the Premises, during the period from 8:00 a.m. to 6:00 p.m., Monday through Friday, except holidays generally recognized in San Francisco; (b) electric current in amounts required for normal lighting and for the operation of personal computers and other normal office machines and equipment, on a twenty-four (24 hours-a-day, three hundred sixty-five (365) days-a-year basis (“**Daily Basis**”); (c) non-exclusive elevator service on a Daily Basis; and (d) water for lavatory, kitchen and drinking purposes on a Daily Basis. During the Term, Landlord shall provide freight elevator service to the extent freight service is available in the Building upon City’s reasonable request. Without limiting Landlord’s obligations hereunder, Landlord shall furnish all utilities and services required under this Lease in a manner consistent with such utilities and services normally provided in other buildings similar to the Building in the San Francisco Civic Center District. Costs described in this Section 9.1 shall be included in Operating Costs for the Base Year.”

Section 9.2 of the Lease is deleted in its entirety and is replaced with the following language:

“Landlord shall provide janitorial service during the times and in the manner that such services are customarily furnished in comparable office building in the immediate market area, which costs shall be included in Operating Costs for the Base Year. Landlord shall not be obligated to provide security services or alarm system service to the Premises.”

GENERAL PROVISIONS

1. Effect of Amendment. Except as modified herein, the terms and conditions of the Lease shall remain unmodified and continue in full force and effect. In the event of any conflict between the terms and conditions of the Lease and this Third Amendment, the terms and conditions of this Third Amendment shall prevail.
2. Definitions. Unless otherwise defined in this Third Amendment, all terms not defined in this Third Amendment shall have the meanings assigned to such terms in the Lease as amended by the First Amendment and Second Amendment.
3. Authority. Subject to the assignment and subletting provisions of the Lease, this Third Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, legal representatives, successors and assigns. Each party hereto and the persons signing below warrant that the person signing below on such party's behalf is authorized to do so and to bind such party to the terms of this Third Amendment.
4. Incorporation. The terms and provisions of the Lease are hereby incorporated in this Third Amendment.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed this Third Amendment as of
_____ 2017.

LANDLORD:

SFOC LLC, a California limited liability company

By: Michael P. Mahoney
Name: Michael P. Mahoney
Its: Chief Executive Officer
4/11/2017

TENANT:

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation

By: _____
John Updike
Director of Property

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____
Heidi J. Gewertz, Deputy City Attorney



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



John Updike
Director of Real Estate

April 17, 2017

Through Naomi Kelly,
City Administrator

Honorable Board of Supervisors
City & County of San Francisco
1 Dr. Carlton B. Goodlett Place
City Hall, Room 224
San Francisco, CA 94102

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2017 APR 17 AM 10:26
AK

RE: Third Amendment to Lease – 711 Van Ness Avenue – Lease Extension

Dear Board Members:

Attached for your consideration is a resolution approving and authorizing the Director of Property to execute the third amendment (“Third Amendment”) to the office lease (“Lease”) of 9,800 rentable square feet at 711 Van Ness Avenue (“Premises”). The Third Amendment would begin on February 1, 2018 and expire on January 31, 2021. The Lease is currently set to expire on January 31, 2018. If not approved, then the City departments must find up to three new leases before that time.

The rent due under the Third Amendment is \$49.20 per sq. ft. per year, or \$482,160 annually (increasing at 3% per year) and the Lease will be fully-serviced (aka, the City shall no longer pay for its utilities and custodial usage). An MAI fair market rental appraisal determined the rent payable under the Third Amendment to be at or below fair market rental value.

Three City departments currently occupy the Premises: i) Department of Emergency Management (its Bay Area Urban Security Initiative group, “BAUASI”); Assessor-Recorder’s Office (“ASR”); and iii) the San Francisco Public Utilities Commission. Through the execution of this Third Amendment, ASR is able to remain in its current location until its department consolidation location is identified and available, thus avoiding a potential interim relocation. If ASR vacates during the Third Amendment, its small portion of the Premises (at below-market rate rent) will be backfilled by another City agency or subleased, if necessary.

If you have questions regarding this Third Amendment, please do not hesitate to contact me.

Respectfully,

John Updike
Director of Property

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

City Elective Officer Information <i>(Please print clearly.)</i>	
Name of City elective officer(s): Members, Board of Supervisors	City elective office(s) held: Members, Board of Supervisors

Contractor Information <i>(Please print clearly.)</i>	
Name of contractor: SFOC, LLC	
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.	
1. President and Chair Bruce Spivey, MD Vice President: David D. O'Neill Treasurer: David Cuneo Secretary: Ellen Jamason Executive Director: Jo Burnett 2. CEO: Michael Mahoney 3. None 4. N/A 5. None	
Contractor address: 711 Van Ness Avenue, Suite 260, San Francisco, CA 94102	
Date that contract was approved: <i>(By the SF Board of Supervisors)</i>	Amount of contract: \$482,160 in initial year; \$1,490,308.34 for 3-year contract
Describe the nature of the contract that was approved: 3-year office lease extension; Building located at 711 Van Ness Avenue, San Francisco, CA 94102	
Comments: Lease extension shall commence on Feb. 1, 2018	

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 <i>(Please print clearly.)</i>	
Name of filer: Angela Calvillo, Clerk of the Board	Contact telephone number: (415) 554-5184
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

