

File No. 190139

Committee Item No. 7

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date March 13, 2019

Board of Supervisors Meeting

Date _____

Cmte Board

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| <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 |
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OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong

Date March 8, 2019

Completed by: Linda Wong

Date _____

1 [Real Property Lease Extension - Prologis, L.P. - 1740 Cesar Chavez Street - \$419,760
2 Initial Annual Base Rent]

3 **Resolution authorizing the Director of Real Estate to exercise a Lease Extension for**
4 **the real property located at 1740 Cesar Chavez Street with Prologis, L.P., as**
5 **Landlord, for a five-year term to commence on April 1, 2019, through March 31, 2024,**
6 **and a five-year option to extend at the monthly base rent of \$34,980 for a total initial**
7 **annual base rent of \$419,760 with a 3% annual increase.**

8
9 WHEREAS, The City, on behalf of the Department of Human Resources ("DHR")
10 entered into a lease with Potrero I, LLC and Potrero Investor II, LLC, as "Original Landlord",
11 for the "Premises" comprising approximately 11,000 square feet of office area located at
12 1740 Cesar Chavez Street commencing on April 1, 2014 (the "Lease"); and

13 WHEREAS, The Lease includes one additional five (5) year extension period subject
14 to enactment of a resolution by the Board of Supervisors and Mayor; and

15 WHEREAS, The Original Landlord recently conveyed the building containing the
16 Premises to Prologis, L.P. (new "Landlord"), assigning Landlord all of Original Landlord's
17 roles, responsibilities and obligations under the Lease; and

18 WHEREAS, The Real Estate Division ("RED") on behalf of DHR, negotiated the 95%
19 of fair market monthly base rent of \$34,980 or \$3.18 per square foot, increasing annually at
20 three percent (3%), net of utilities and custodial services for the Premises, for the five (5)
21 year extension term; and

22 WHEREAS, RED negotiated a (i) leasehold improvement allowance of \$55,000 to
23 be provided by Landlord, (ii) an additional five (5) year extension option, and a (iii) 2019
24 base year reset for common area expenses incurred above the base year; now, therefore,
25 be it

1 RESOLVED, That in accordance with the recommendation of the Director of the
2 Department of Human Resources and the Director of Real Estate, the Director of Real
3 Estate is hereby authorized to take all actions on behalf of the City and County of San
4 Francisco, as Tenant, to exercise the five (5) year extension term commencing on April 1,
5 2019; and, be it

6 FURTHER RESOLVED, That commencing upon the lease extension period, the
7 monthly rent for the five (5) year extension term shall be \$34,980 (\$3.18 per square foot),
8 increasing annually at three percent (3%); and, be it

9 FURTHER RESOLVED, That any action taken by any City employee or official with
10 respect to the exercise of the extension provision contained in the lease is hereby ratified
11 and affirmed; and be it

12 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of Real
13 Estate to enter into any amendments or modifications to the lease (including without limitation,
14 the exhibits and exercising the additional extension option pursuant to the terms of the Lease)
15 that the Director of Real Estate determines, in consultation with the City Attorney, are in the
16 best interest of the City, do not increase the rent or otherwise materially increase the
17 obligations or liabilities of the City, are necessary or advisable to effectuate the purposes of
18 the lease or this resolution, and are in compliance with all applicable laws, including City's
19 Charter; and, be it

20 FURTHER RESOLVED, That within 30 days of the Lease Extension being fully
21 executed by all parties, the Director of Real Estate shall provide a copy to the Clerk of the
22 Board for inclusion into the official file.


\$104,940 Available


Fund ID: 10000
Department ID: 232025
PS Project ID: 10026742
Authority ID: 10000
Account ID: 530310
Activity ID: 0001


Controller

Subject to enactment of the Annual
Appropriation Ordinance for Fiscal Year
2019/2020

RECOMMENDED:


Department of Human Resources, Director


Real Estate Division, Director 1/30/19

<p>Item 7 File 19-0139</p>	<p>Department: Department of Human Resources (DHR)</p>
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed legislation would approve Amendment No. 1 to the lease between the Department of Human Resources, as tenant, and Prologis, LP, as landlord, for 11,000 square feet of space at 1740 Cesar Chavez Street. Amendment No. 1 extends the lease by five years to March 2024, and adds a second five-year extension option to March 2029. The first year rent under Amendment No. 1 would increase to \$38.16 per square foot. The landlord would provide a leasehold improvement allowance of \$55,000 to be provided by Landlord.

Key Points

- Since 2008, the Department of Human Resources has occupied space at 1740 Cesar Chavez Street to conduct civil service examinations. The site can accommodate approximately 300 test takers as well as large rating panels, and is the central civil service examination facility.
- In 2013, the Board of Supervisors approved a five year lease between the City, as tenant, and Potrero Investor, I, LLC and Potrero Investor II, LLC, as landlords, from April 1, 2014 through March 31, 2019 (File 13-0711). The approved lease had one (1) five year option to extend through March 31, 2024. Potrero Investor, I, LLC and Potrero Investor II, LLC subsequently conveyed the property and assigned the lease to Prologis, LP.

Fiscal Impact

- The first year rent of \$38.16 per square foot (effective April 1, 2019) is less than the rent determination based on comparable rents analyzed by Kidder Mathews, LLC. The City also pays all costs associated with utilities and services, estimated at \$24,552 in the first year. The landlord will pay \$55,000 for leasehold improvements that occur anytime through March 31, 2020.
- Over the five-year term of the lease, the total rent to be paid by the Department of Human Resources is \$2,228,563, based on annual increases of three percent, and the total cost for utilities and services is estimated at \$130,350.
- The total cost would be paid from the City’s General Fund, subject to Board of Supervisors appropriation approval in the Department of Human Resources annual budget. The Department of Human Resources has currently spent \$216,679 on the lease from July 2018 through February 2019 of the total \$319,944 budgeted in FY 2018-19.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, is subject to Board of Supervisors approval.

BACKGROUND

Since 2008, the Department of Human Resources has occupied space at 1740 Cesar Chavez Street to conduct civil service examinations. The site can accommodate approximately 300 test takers as well as large rating panels, and is the central civil service examination facility. The main room is used approximately 200 days per year, and the computer lab and interview rooms are used approximately between 70-150 days per year.

In 2013, the Board of Supervisors approved a five year lease between the City, as tenant, and Potrero Investor, I, LLC and Potrero Investor II, LLC, as landlords, from April 1, 2014 through March 31, 2019 (File 13-0711). Potrero Investor, I, LLC and Potrero Investor II, LLC subsequently conveyed the property and assigned the lease to Prologis, LP.

The approved lease had one (1) five year option to extend through March 31, 2024. In September 2018, the City sent the current landlord notice to exercise the option to extend the lease. According to the existing lease, the rent on exercise of the extension option will increase to 95 percent of fair market rent.

DETAILS OF PROPOSED LEGISLATION

The proposed legislation would approve Amendment No. 1 to the lease between the Department of Human Resources, as tenant, and Prologis, LP, as landlord, for 11,000 square feet of space at 1740 Cesar Chavez Street. Amendment No. 1 extends the lease by five years to March 2024, and adds a second five-year extension option to March 2029. The first year rent under Amendment No. 1 would increase to \$38.16 per square foot. The landlord would provide a leasehold improvement allowance of \$55,000 to be provided by Landlord.

Table 1 below summarizes the terms and conditions of the proposed lease extension.

Table 1. Summary of Proposed Lease Details

	Proposed Lease Terms
Lease Period	April 1, 2019 – March 31, 2024
Size of property	11,000 square feet
Base rent paid by tenant	\$419,760 per year (approximately \$38.16 per square foot)
Annual rent adjustments to base rent	3%
Options to extend the lease	One (1) five year option to extend through March 31, 2029
Rent on exercise of option	95% of fair market rent
Tenant Improvement Allowance	\$55,000 provided by landlord for discretionary improvements
Utilities and services	City pays for custodial services, property taxes, and insurance, approximately \$2,046 per month (\$24,552 per year)

FISCAL IMPACT

The first year rent of \$38.16 per square foot (effective April 1, 2019) is less than the rent determination based on comparable rents analyzed by Kidder Mathews, LLC.¹

The City also pays all costs associated with utilities and services, estimated at \$24,552 in the first year.

As shown in Table 2 below, over the five-year term of the lease, the total rent to be paid by the Department of Human Resources is \$2,228,563, based on annual increases of three percent, and the total cost for utilities and services is estimated at \$130,350.

Table 2: Total Costs by Year under Proposed Lease

	Rent	Utilities and Services*	Total
April 2019 - March 2020	\$419,760	\$24,552	\$444,312
April 2020 - March 2021	432,353	25,289	457,641
April 2021 - March 2022	445,323	26,047	471,371
April 2022 - March 2023	458,683	26,829	485,512
April 2023 - March 2024	472,444	27,633	500,077
Total	\$2,228,563	\$130,350	\$2,358,913

*Assumes annual increase of three percent

As noted above, the landlord will pay \$55,000 for leasehold improvements that occur anytime through March 31, 2020. The Department of Human Resources has not yet decided how it will use these funds, but they may be used for paint or carpets.

The total cost would be paid from the City’s General Fund, subject to Board of Supervisors appropriation approval in the Department of Human Resources annual budget. The Department of Human Resources has currently spent \$216,679 on the lease from July 2018 through February 2019 of the total \$319,944 budgeted in FY 2018-19.

RECOMMENDATION

Approve the proposed resolution

¹ As of October 2018, comparable fair market rent for property in the Dogpatch ranged from \$51 to \$74 per square foot per year. Per City Administrative Code Section 23.27, a formal appraisal is not required if the rent per square foot per year is less than \$45.

FIRST AMENDMENT TO OFFICE LEASE

This FIRST AMENDMENT TO OFFICE LEASE ("**First Amendment**") is made and entered into as of March __, 2019 (the "**Reference Date**"), by and between PROLOGIS, L.P., A DELAWARE LIMITED PARTNERSHIP ("**Landlord**"), and CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("**Tenant**").

R E C I T A L S :

A. Potrero Investor I, LLC, a Delaware limited liability company, and Potrero Investor II, LLC, a Delaware limited liability company (collectively, "**Original Landlord**"), and Tenant entered into that certain Office Lease dated as of July 5, 2013 (the "**Lease**").

B. Landlord has succeeded to the interests of Original Landlord as landlord under the Lease.

C. Pursuant to the Lease, Landlord currently leases to Tenant, and Tenant currently leases from Landlord, that certain space (the "**Premises**") containing approximately 11,000 rentable square feet located in that certain building addressed as 1740 Cesar Chavez Street, San Francisco, California 94124 (the "**Building**"), as more particularly described in the Lease. The Building is part of a multi-building project commonly known as "Potrero Business Center" (the "**Project**").

D. By letter dated September 19, 2018 (the "**Extension Notice**"), Tenant notified Landlord of Tenant's election to exercise Tenant's Extension Option to extend the Lease for the Extended Term (as such terms are defined in the Lease) pursuant to Section 3.4 of the Lease.

E. Landlord and Tenant now desire to amend the Lease to, among other things, (i) confirm the extension of the Term of the Lease for the Extended Term, (ii) memorialize certain terms of the Extended Term, and (iii) add an additional extension option, all upon the terms and conditions hereinafter set forth.

A G R E E M E N T :

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions; Effective Date. Unless otherwise defined in this First Amendment, all terms used in this First Amendment shall have the meanings assigned to such terms in the Lease. The effective date of this First Amendment (the "**Effective Date**") shall be the later of the date (i) this First Amendment is signed and executed by Landlord and Tenant, and (ii) the City's Board of Supervisors adopts a resolution approving this First Amendment, in its sole discretion. From and after the Effective Date, all references to the Lease shall mean the Lease as amended by this First Amendment.

2. Extension of Term. The Term of the Lease, which is currently scheduled to expire on March 31, 2019, is hereby extended for a period of five (5) years (the "**Extended Term**"), commencing on April 1, 2019 (the "**Extended Term Commencement Date**") and expiring on March 31, 2024, unless sooner terminated as provided in the Lease.

3. Base Rent. During the Extended Term, the Base Rent payable by Tenant to Landlord for the Premises shall be as set forth in the following schedule:

<u>Period of Extended Term</u>	<u>Annual Base Rent</u>	<u>Monthly Installment of Base Rent</u>	<u>Monthly Base Rental Rate Per Rentable Square Foot of Premises</u>
4/1/19 – 3/31/20	\$419,760.00	\$34,980.00	\$3.18
4/1/20 – 3/31/21	\$432,960.00	\$36,080.00	\$3.28
4/1/21 – 3/31/22	\$444,840.00	\$37,070.00	\$3.37
4/1/22 – 3/31/23	\$458,040.00	\$38,170.00	\$3.47
4/1/23 – 3/31/24	\$472,560.00	\$39,380.00	\$3.58

4. Base Year. Effective from and after the Extended Term Commencement Date, the Base Year for purposes of calculating City's Percentage Share of increases in Real Estate Taxes and Insurance Costs shall be revised to be the calendar year 2019.

5. Condition of Premises. Tenant is currently in possession of the Premises and shall continue its occupancy of same in its current "AS-IS" condition as of the date of execution of this First Amendment without any agreements, representations, understandings or obligations on the part of Landlord to perform or pay for any alterations, repairs or improvements to the Premises, except as otherwise expressly provided in the Lease, as hereby amended, or Section 6 below. Nothing in this Section 5 is intended to reduce or waive Landlord's repair and maintenance obligations or Landlord's obligations following any damage or destruction of the Premises.

6. Refurbishment Allowance. On the Effective Date, Tenant shall receive from Landlord a one-time refurbishment allowance (the "**Refurbishment Allowance**") in the amount of up to, but not exceeding, \$55,000.00 (i.e., \$5.00 per rentable square foot of the Premises) to help reimburse Tenant for the actual out-of-pocket costs actually incurred by Tenant (collectively, the "**Refurbishment Costs**") during the period (the "**Refurbishment Period**") from the Effective Date through and including the date that is one (1) year after the Effective Date in connection with the design, construction, acquisition and installation of any tenant improvements and alterations which are made and/or installed by or for Tenant in or to the Premises and which can be capitalized by Landlord (as opposed to repairs and maintenance to the Premises, trade fixtures, furniture or equipment) (collectively, the "**Refurbishment Work**") during the Refurbishment Period; provided Landlord agrees that painting and recarpeting the Premises are examples of acceptable Refurbishment Work. Refurbishment Costs may include payments or work orders to the City's Department of Public Works or other City departments that provide Refurbishment Work. Alternatively, Tenant may request that Landlord perform the Refurbishment Work and such costs may be paid from the Refurbishment Allowance. To the extent work is performed by Landlord or

Landlord's agents, the Refurbishment Costs shall include a construction supervision and management fee payable to Landlord in an amount equal to five percent (5%) of the Refurbishment Costs. All Refurbishment Work shall be undertaken by Tenant in compliance with Article 7 of the Lease. In no event shall Landlord be obligated to make disbursements under this Section 6 in a total amount that exceeds the Refurbishment Allowance. Landlord shall pay the requested portion of the Refurbishment Allowance within thirty (30) days after Landlord has received all of the following (collectively, the "**Refurbishment Work Draw Documents**"): (i) a request for payment by Tenant describing the Refurbishment Work that has been completed; (ii) factually correct invoices or work orders for labor and materials rendered in connection with and evidencing the Refurbishment Work and the Refurbishment Costs (iii) final, unconditional executed mechanics' lien releases from all persons or entities performing the Refurbishment Work, reasonably satisfactory to Landlord and in compliance with applicable Laws, including, without limitation, California Civil Code Sections 8132 through 8138 (unless the work was performed by Landlord or its contractors); and (iv) all other information reasonably requested by Landlord. Notwithstanding the foregoing to the contrary, Landlord shall have no obligation to pay any portion of the Refurbishment Allowance (A) for work performed prior to or after the Refurbishment Period, or (B) for Refurbishment Work Draw Documents delivered by Tenant prior to the Refurbishment Period or later than one year after the Refurbishment Period. Tenant shall not be entitled to receive any portion of the Refurbishment Allowance that is not used for Refurbishment Work performed during the Refurbishment Period, and any such unused amounts shall revert to Landlord and Tenant shall have no rights with respect thereto.

7. Address of Landlord. Effective as of the Effective Date, Landlord's address for notices shall be revised to be:

Prologis, L.P.

3353 Gateway Blvd.
Fremont, CA 94538
Attention: San Francisco 7 Property Manager

with a copy to:

Prologis, L.P.
1800 Wazee St Suite 500,
Denver, CO 80202
Attention: San Francisco 7 Legal Department

In addition, effective as of the Effective Date, Landlord's address for payment of Rent shall be revised to be:

SF Industrial 1, LLC/CBRE, Inc.
PO Box 7380
San Francisco, CA 94120-7380

8. CASp. For purposes of Section 1938(a) of the California Civil Code, Landlord hereby discloses to Tenant, and Tenant hereby acknowledges, that the Premises has not undergone

inspection by a Certified Access Specialist (CASp). In addition, the following notice is hereby provided pursuant to Section 1938(e) of the California Civil Code:

"A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or landlord may not prohibit the Tenant or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the Tenant or tenant, if requested by the Tenant or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises."

In furtherance of and in connection with such notice, Landlord and Tenant hereby agree as follows (which constitute the mutual agreement of the parties as to the matters described in the last sentence of the foregoing notice): (i) Tenant shall have the one-time right to request for and obtain a CASp inspection of the Premises, which request must be made, if at all, in a written notice delivered by Tenant to Landlord on or before the date that is thirty (30) days after the Effective Date; (ii) any CASp inspection of the Premises timely requested by Tenant shall be conducted (A) between the hours of 9:00 a.m. and 5:00 p.m. on any business day, (B) only after ten (10) days' prior written notice to Landlord of the date of such CASp inspection, (C) in a professional manner by a CASp reasonably approved by Landlord and without any testing that would damage the Premises, the Building and/or the Project in any way, and (D) at Tenant's sole cost and expense, including, without limitation, Tenant's payment of the fee for such CASp inspection, the fee for any reports prepared by the CASp in connection with such CASp inspection (collectively, the "**CASp Reports**") and all other costs and expenses in connection therewith; (iii) Tenant shall deliver a copy of any CASp Reports to Landlord within three (3) business days after Tenant's receipt thereof; (iv) Tenant, at its sole cost and expense, shall be responsible for making any improvements, alterations, modifications and/or repairs to or within the Premises to correct violations of construction-related accessibility standards disclosed by such CASp inspection; and (v) if such CASp inspection identifies any improvements, alterations, modifications and/or repairs necessary to correct violations of construction-related accessibility standards relating to those items of the Building or the Project located outside the Premises that are Landlord's obligation to repair as set forth in the Lease, then Landlord shall perform such improvements, alterations, modifications and/or repairs as and to the extent required by applicable Laws to correct such violations, and Tenant shall reimburse Landlord for ~~Tenant's Percentage Share of~~ the cost of such improvements, alterations, modifications and/or repairs within ten (10) business days after Tenant's receipt of an invoice therefor from Landlord.

9. Second Extension Option. Notwithstanding Tenant's exercise of the Extension Option pursuant to this First Amendment, during the Extended Term, Tenant shall continue to have the Extension Option set forth in Section 3.4 of the Lease with respect to the Premises; provided, however, that (i) the Extension Option shall be for a period (the "**Second Extended Term**") of five (5) years immediately following the expiration of the Extended Term (*i.e.*, April 1, 2024 through and including March 31, 2029), (ii) the references to the "Term", "Term of this

Lease" and "Initial Term" set forth in Sections 1 and 3.4 of the Lease shall mean and refer to the Extended Term, (iii) the text "by providing not less than one hundred eighty (180) days' prior written notice of exercise to Landlord" set forth in Section 1 of the Lease, and the text "by giving written notice to Landlord no later than one hundred eighty (180) days prior to the expiration of the Initial Term" set forth in Section 3.4 of the Lease shall each be deleted and each replaced with the text "by giving written notice thereof to Landlord no earlier than twelve (12) months prior to the expiration of the Extended Term and no later than six (6) months prior to the expiration of the Extended Term".

10. Miscellaneous Modification. During the Second Extended Term (i.e., from and after April 1, 2024), clause (4) in Section 4.4(e) of the Lease shall be deleted and of no further force or effect. As a result, commencing April 1, 2024 and continuing thereafter, Real Estate Taxes shall include one hundred percent (100%) of all increases in Real Estate Taxes (above the applicable Base Year) 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 that occurs from and after the applicable Base Year (whether occurring prior to April 1, 2024 or afterwards).

11. Brokers. Landlord and Tenant each hereby represents and warrants to the other party that it has had no dealings with any real estate broker or agent in connection with the negotiation of this First Amendment, and that it knows of no real estate broker or agent who is entitled to a commission in connection with this First Amendment. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, and costs and expenses (including, without limitation, reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing in connection with this First Amendment on account of the indemnifying party's contractual obligations to any real estate broker or agent.

12. Effect of Amendment. Except as modified in this First Amendment, all of 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 First Amendment, the terms and conditions of this First Amendment shall prevail.

13. Authority. Subject to the assignment and subletting provisions of the Lease, this First 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 the respective person signing below on such party's behalf is authorized to do so and to bind such party to the terms of this First Amendment (subject to Section 14 below).

14. Board of Supervisors Approval. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS FIRST AMENDMENT, LANDLORD ACKNOWLEDGES AND AGREES THAT NO OFFICER OR EMPLOYEE OF TENANT HAS AUTHORITY TO COMMIT TENANT TO THIS FIRST AMENDMENT UNLESS AND UNTIL TENANT'S BOARD OF SUPERVISORS SHALL HAVE DULY ADOPTED A RESOLUTION APPROVING THIS FIRST AMENDMENT. THEREFORE, ANY OBLIGATIONS OR LIABILITIES OF TENANT HEREUNDER ARE CONTINGENT UPON ADOPTION OF SUCH A RESOLUTION, AND THIS FIRST AMENDMENT SHALL BE NULL AND VOID IF TENANT'S MAYOR AND THE BOARD OF SUPERVISORS DO NOT APPROVE THIS

FIRST AMENDMENT, IN THEIR RESPECTIVE SOLE DISCRETION. APPROVAL OF THIS FIRST AMENDMENT BY ANY OTHER DEPARTMENT, COMMISSION OR AGENCY OF TENANT SHALL NOT BE DEEMED TO IMPLY THAT SUCH RESOLUTION WILL BE ENACTED, NOR WILL ANY SUCH APPROVAL CREATE ANY BINDING OBLIGATIONS ON TENANT.

15. Counterparts. This First Amendment may be executed in multiple counterparts, each of which is to be deemed original for all purposes, but all of which together shall constitute one and the same instrument.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, this First Amendment has been executed as of the day and year first above written.

"LANDLORD"

PROLOGIS, L.P.
a Delaware limited partnership

By: Prologis, Inc., a Maryland corporation,
its general partner

By: _____
Name: _____
Its: _____

"TENANT"

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation

By: _____
ANDRICO Q. PENICK
Director of Property

Date: _____

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____
Charles Sullivan, Deputy City Attorney

OFFICE LEASE

between

POTRERO INVESTOR I, LLC
and
POTRERO INVESTOR II, LLC,
as Landlord
and

CITY AND COUNTY OF SAN FRANCISCO,
as Tenant

For the lease of
Portion of the first floor of the building located at
1740 Cesar Chavez Street Suite E
San Francisco, California

July 5, 2013

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- EXHIBIT F – Preliminary Construction Budget
- EXHIBIT G – Janitorial Services

OFFICE LEASE

THIS OFFICE LEASE (this "Lease"), dated for reference purposes only as of July 5, 2013, is by and between POTRERO INVESTOR I, LLC, a Delaware limited liability company, and POTRERO INVESTOR II, LLC, a Delaware limited liability company (collectively, "Landlord"), and the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("City" or "Tenant", and together with Landlord "parties" or "Parties").

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:	July 5, 2013
Landlord:	Potrero Investor I, LLC, and Potrero Investor II, LLC
Tenant:	City and County of San Francisco
Building (<u>Section 2.1</u>):	1740 Cesar Chavez Street, San Francisco, California
Premises (<u>Section 2.1</u>):	A portion of the first floor of the Building, as shown on <u>Exhibit A</u> .
Rentable Area of Premises (<u>Section 2.1</u>):	Approximately 11,000 rentable square feet
Term (<u>Article 3</u>):	Five (5) years, commencing on the Commencement Date (as defined in <u>Section 3.2</u>), and ending on the date immediately preceding the fifth (5th) anniversary of the Commencement Date (the "Expiration Date") (sometimes referred to as the "Initial Term"), subject to the Extension Option set forth in <u>Section 3.4</u> below. The Premises shall be delivered to City upon completion of the Leasehold Improvement Work (as defined in <u>Section 6.1(a)</u> , below) to be performed in the Premises. Estimated Commencement Date: September 15, 2013 Estimated Expiration Date: September 14, 2018
Extension Option (<u>Section 3.4</u>):	City shall have the right to extend the Term for an additional term of five (5) years (the "Extended Term"), by providing not less than one hundred eighty (180) days' prior written

notice of exercise to Landlord, on the terms and conditions set forth in Section 3.4.

Base Rent (Section 4.1):

<u>Lease Year</u>	<u>Monthly Base Rent</u>
First Lease Year	\$21,450 (\$1.95/sf/mo)
Second Lease Year	\$22,000 (\$2.00/sf/mo)
Third Lease Year	\$23,100 (\$2.10/sf/mo)
Fourth Lease Year	\$23,650 (\$2.15/sf/mo)
Fifth Lease Year	\$24,200 (\$2.20/sf/mo)

The "First Lease Year" shall be the period commencing on the Commencement Date and ending on the date immediately preceding the one (1)-year anniversary of the Commencement Date. Each twelve (12) calendar month period thereafter shall constitute a "Lease Year."

Determination of Base Rent for the Extended Term (Section 4.2):

Base Rent for the Extended Term shall be 95% of the then fair market rent as provided in Section 4.2, but in no event less than Base Rent for the month immediately preceding Extended Term.

Additional Charges (Section 4.3):

City shall pay to Landlord any charges or other amounts required under this Lease as additional rent ("Additional Charges"), including City's Percentage Share of increases in Insurance Costs and Real Estate Taxes over the relevant Base Year Insurance Costs and Base Year Real Estate Taxes, as provided in Section 4.3.

Base Year (Section 4.4):

Calendar year 2013

City's Percentage Share (Section 4.4):

18.16% with respect to Building, which has been calculated by dividing the rentable square footage of the Premises by the rentable square footage of the Building (which Landlord represents to be 60,573 square feet).

Use (Section 5.1):

General office program use by the Department of Human Resources, including but not limited to testing, training and recruitment for public safety personnel candidates.

Leasehold Improvements (Section 6):

Landlord shall cause the Leasehold Improvement Work to be performed to the Premises as provided in Section 6.1.

Allowance (Section 6.1(a)):

Landlord shall provide an Allowance of \$575,000 for the construction of the Leasehold Improvements. City shall be responsible for the costs of the Leasehold Improvement Work to the extent the cost thereof exceeds \$575,000.

Utilities (Section 9.1):

City shall pay, directly to provider or Landlord, for all gas, electricity, water and sewer used by

City at the Premises, and for trash removal for the Premises, as provided in Section 9.1.

Services (Section 9.2):

Landlord shall provide janitorial services to the Premises at City's cost, as provided in Section 9.2.

Key Contact and Notice Address of Landlord (Section 23.1):

Morrison Street Capital
as agent for: Potrero Investors I, LLC and
Potrero Investors II, LLC
121 SW Morrison Street, Suite 1875
Portland, Oregon 97204
Attn: Greg Petry
Asset Management

With a copy to:
Kidder Mathews
100 Spear Street, Suite 2100
San Francisco, CA 94105
Attn: Nanci Vega
Fax No.: (415) 229-8987

Notice Address for Tenant (Section 23.1):

Real Estate Division
25 Van Ness Avenue, Suite 400
San Francisco, CA 94102
Attn: John Updike,
Director of Property
Fax No.: (415) 552-9216

with a copy to:

Department of Human Resources
One South Van Ness Avenue
Fourth Floor
San Francisco, CA 94103
Attn: Director
Telephone No.: (415) 557-4845
Fax No.: (415) 551-8945

and a copy to:

Office of the City Attorney
City Hall, Room 234
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4682
Attn: Real Estate and Finance Team
Fax No.: (415) 554-4755

Key Contact for Tenant:

Brent Lewis
Department of Human Resources
One South Van Ness Avenue
Fourth Floor
San Francisco, CA 94103
Telephone No.: (415) 557-4847

Brokers (Section 23.8):

Landlord's Broker: Kidder Mathews

Parking Rights (Section 2.3):

City shall have the exclusive right to eleven (11) dedicated assigned parking spaces in the

parking lot adjacent to the Building and shall have the right to use any unoccupied and unreserved spaces in the parking lot outside of Business Hours on Business Days, as provided in Section 2.3.

Existing Lease (Section 2.4):

The term of the Existing Lease (as defined in Section 2.4) shall be extended as provided in Section 2.4.

Other Noteworthy Provisions (Section 22):

Exterior Signage (Section 22.1);
Secured Area (Section 22.2)

2. PREMISES

2.1 Lease; Premises

Landlord leases to City and City leases from Landlord, subject to the provisions of this Lease, those premises in the building identified in the Basic Lease Information (the "Building") and shown on the floor plan(s) attached hereto as Exhibit A (the "Premises"). The Premises contain the rentable area and are located on the floor(s) of the Building specified in the Basic Lease Information. The Building, land upon which the Building is located and all other improvements on or appurtenances to such land are referred to collectively as the "Property."

2.2 Common Areas

City shall have the non-exclusive right to use, together with other tenants of the Property, the public areas of the Property (collectively, the "Common Areas"), and the non-exclusive right of access to and from the Premises by the main entrances to the Property.

2.3 Parking Rights

City shall have the exclusive right to eleven (11) dedicated assigned parking spaces in the parking lot adjacent to the Building. Landlord shall install a sign designating that the spaces are reserved for the use of City and City's visitors. City shall have access to such parking spaces 24 hours per day each day of the Lease Term. In addition to the foregoing, City shall have the right to use, without additional charge, any unoccupied and unreserved spaces in the parking lot adjacent to the Building Saturdays, Sundays, holidays and outside of Business Hours on Business Days (as such terms are defined in Section 9.1).

2.4 Existing Lease

City is presently in occupancy of certain premises on the second floor of the Building (the "Existing Second Floor Premises") pursuant to that certain Office Lease between City and Landlord, dated April 15, 2008 (the "Existing Lease"). City has exercised the option to extend the term of the Existing Lease, and, accordingly, the term of the Existing Lease is presently scheduled to expire on September 14, 2018 (subject to City's right to cancel the exercise of the extension option pursuant to the terms of Section 4.2(e) of the Existing Lease in the event City and Landlord do not agree upon the prevailing market rental rate for the extension term). City shall surrender the Existing Second Floor Premises to Landlord in the condition required by the Existing Lease on the Commencement Date of this Lease, and the Existing Lease shall terminate on the Commencement Date, provided, however, that Landlord and City's indemnification obligations under the Existing Lease shall survive the termination of the Existing Lease with regard to any events which took place prior to the later of (A) the Commencement Date or (B) the date on which City vacates and surrenders the Existing Second Floor Premises in accordance with the provisions of this Section.

3. TERM

3.1 Term of Lease

The Premises are leased for an initial term (the "Initial Term") commencing on the date specified in the Basic Lease Information as the estimated commencement date (the "Estimated Commencement Date"), or such later date as Landlord shall have delivered the Premises to City with the Leasehold Improvements (as defined below) having been substantially completed by Landlord and accepted by City pursuant to Section 6.1 (Landlord's Obligation to Construct Improvements), or such earlier date as Landlord shall have so delivered the Premises to City with the Leasehold Improvements having been substantially completed by Landlord and accepted by City and City shall have commenced its occupancy of the Premises, provided in no event shall the term of this Lease commence prior to the Effective Date, as defined in Section 23.30. The Initial Term of this Lease shall end on the expiration date specified in the Basic Lease Information, or such earlier date on which this Lease terminates or is terminated pursuant to the provisions of this Lease, provided that City shall have the right to extend the Initial Term pursuant to Section 3.4 (Extension Option), below. The word "Term" as used herein shall refer to the Initial Term and the Extended Term if City exercises the Extension Option as provided below.

3.2 Commencement Date and Expiration Date

The dates on which the Term commences and terminates pursuant hereto are referred to respectively as the "Commencement Date" and the "Expiration Date." If the Commencement Date occurs on a date other than the Estimated Commencement Date, then promptly thereafter Landlord shall deliver to City a notice substantially in the form of Exhibit B attached hereto, confirming the actual Commencement Date and Expiration Date, but Landlord's failure to do so shall not affect the commencement of the Term.

3.3 Delay in Delivery of Possession

Landlord shall use diligent, good faith efforts to deliver possession of the Premises with all of the Leasehold Improvements substantially completed and accepted by City's Director of Property pursuant to Section 6.1(j) (City's Acceptance of Premises) on or before the Estimated 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 except that City's obligations to pay Base Rent or any other charges shall not commence until such time as Landlord has delivered the Premises as required under this Lease. If Landlord is unable to deliver possession of the Premises to City as required hereunder by the later of (i) the date which is one hundred eighty (180) days after the Estimated Commencement Date or (ii) the date which is two hundred forty (240) days after the Effective Date, as extended in either instance for delays resulting from any changes requested by City to the scope of the Leasehold Improvement Work (as defined in Section 6.1(a)(i) below), then City may, at its option, terminate this Lease, without any further liability under this Lease, upon written notice to Landlord. In the event of such termination, Landlord shall promptly reimburse for City any and all costs City has paid for construction of the Leasehold Improvement Work prior to the date of such termination.

3.4 Extension Option

City shall have the right to extend the Term of this Lease (the "Extension Option") for the additional term specified in the Basic Lease Information (the "Extended Term"). Such Extension Option shall be on all of the terms and conditions contained in this Lease, provided that Base Rent shall be adjusted as provided in Section 4.2 below. City may exercise the Extension Option, if at all, by giving written notice to Landlord no later than one hundred eighty (180) days

prior to expiration of the Initial Term; provided, however, City may not exercise the Extension Option during any period of time that City is in default under any provision of this Lease after receipt of written notice of such default.

4. RENT

4.1 Base Rent

Beginning on the Commencement Date, City shall pay to Landlord during the Term the respective amounts of Base Rent specified in the Basic Lease Information (the "Base Rent") for the respective periods set forth therein. The Base Rent shall be payable in equal consecutive monthly payments on or before the first day of each month, in advance, 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. 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 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.

4.2 Determination of Base Rent for the Extended Term

If the Extension Option has been timely exercised by City pursuant to the terms of Section 3.4, upon the commencement of the Extended Term, the Base Rent shall be adjusted to equal the amount(s) that is calculated by taking 95% multiplied by the prevailing market rate for space of comparable size and location to the Premises then being offered for rent in other buildings similar in age, location and quality to the Premises situated within the Potrero Hill/Dogpatch/India Basin area of San Francisco ("Reference Area"), provided, however, that in no event shall the monthly Base Rent for the Extended Term be less than the Base Rent for the month immediately preceding the Extended Term. As used herein, the term "prevailing market rate" shall mean the base rental for such comparable space, taking into account (i) any additional rental and all other payments and escalations payable hereunder, (ii) floor location and size of the premises covered by leases of such comparable space, (iii) the duration of the renewal term and the term of such comparable leases, (iv) free rent given under such comparable leases and any other tenant concessions, and (v) building standard tenant improvement allowances and other allowances given under such comparable leases.

Within thirty (30) days following City's exercise of the Extension Option, 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 follows:

(a) 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.

(b) If within this thirty (30)-day period Landlord and City cannot reach agreement as to the prevailing market rate, 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 (a) above.

(c) 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 ten percent (10%) 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 who will within thirty (30) days of his or her selection make a determination of the prevailing market rate and submit such determination to Landlord and City. This third appraisal will then be averaged with the closer of the two previous appraisals and the result shall be the prevailing market rate.

(d) If City's Director of Property does not approve of the prevailing market rate as determined by the appraisal procedure specified above, the Director of Property may at his or her election revoke the exercise of the Extension Option by City by written notice to Landlord (the "Exercise Revocation Notice") given within thirty (30) days after such determination is made, and in such event (i) City shall reimburse Landlord for the reasonable costs actually paid by Landlord to Landlord's appraiser in connection with such appraisal and (ii) if the Revocation Notice is given less than ninety (90) days prior to the Expiration Date of the Lease, the Term shall be extended through the date which is ninety (90) days after the Expiration Date.

(e) 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 Reference Area. Landlord and City shall each pay the cost of the appraiser selected by such party and, if applicable, one-half of the cost of the third appraiser, plus one-half of any other costs incurred in the arbitration.

4.3 Additional Charges

City shall pay to Landlord any charges or other amounts required under this Lease as additional rent ("Additional Charges"), including the charges for all Utilities provided for in Section 9.1, Janitorial Service as provided in Section 9.2, and City's Percentage Share of increases in Real Estate Taxes and Insurance Costs as provided in Section 4.4 through Section 4.9 below. All such Additional Charges shall be payable to Landlord at the place where the Base Rent is payable. 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." Landlord shall provide City with invoices for all Additional Charges in a format reasonably approved by City.

4.4 Definitions

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

- (a) "Base Year" means the year specified in the Basic Lease Information.
- (b) "City's Percentage Share" means the percentage specified in the Basic Lease Information.
- (c) "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 Insurance Costs shall be equitably adjusted for the Expense Years involved in any such change. Expense Year shall not include the Base Year.
- (d) "Insurance Costs" means the total reasonable and prudent costs and expenses actually paid or incurred by Landlord for all insurance required to be carried on the Building or the use or occupancy thereof.

If insurance Costs vary based on the occupancy level of the Building, then in the event that in the Base Year for Insurance Costs or in any Expense Year the Building is less than ninety-five percent (95%) occupied, the Insurance Costs shall be appropriately adjusted to reflect a ninety-five percent (95%) occupancy level. In no event shall Landlord recapture more than one hundred percent (100%) of the Insurance Costs in any Expense Year.

(e) "Real Estate Taxes" means all taxes, assessments and charges levied upon or with respect to the real property on which the Building is located. 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, (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.

(f) "Tax Year" means each calendar year during the Term, including any partial year during which this Lease may commence, expire or terminate; 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.

4.5 Payment of Percentage Share of Increases in Insurance 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 Insurance Costs for each Expense Year exceed the Insurance 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 by November of the previous year (e.g., by November 2013 for the calendar year 2014 payments). Landlord may revise such estimates of Insurance Costs during an Expense Year if done in a writing delivered to City prior to May 1st, and City shall thereafter make payments on the basis of such revised estimates, commencing on the first day of the calendar month which is thirty days after City's receipt of the revised estimate. With reasonable promptness not to exceed sixty (60) days after the expiration of each Expense Year, Landlord shall furnish City with a copy of Landlord's insurance statements or invoices for such Expense Year (herein called "Landlord's Statements"), setting forth in reasonable detail the Insurance Costs for such Expense Year and City's Percentage Share thereof. If City's Percentage Share of the actual increase in Insurance Costs for such Expense Year exceeds the estimated Insurance 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 Insurance Costs paid by City and City's Percentage Share of the actual increase in Insurance Costs within thirty (30) days after the receipt of Landlord's Statements. If the total amount paid by City for any such Percentage Share of increases in Insurance Costs exceeds

City's Percentage Share of the actual increase in Insurance Costs for such Expense Year, such excess shall be credited against the next installments of Insurance Costs due from City to Landlord hereunder, or refunded to City, at City's option. Notwithstanding anything to the contrary contained herein, in no event shall any annual increase in City's Percentage Share of Insurance Costs for any Expense Year exceed five percent (5%), and the aggregate increase in City's Percentage Share of Insurance Costs over the Term shall not exceed twenty-five percent (25%).

4.6 Payment of Percentage Share of Increases in 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 with respect to the Building 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 of increases in Real Property Taxes. If City's Percentage Share of the actual increase in 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 increase 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 increase 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.

4.7 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 Insurance 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.

4.8 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 Insurance Costs and Real Estate Taxes. If such audit discloses any discrepancies which would result in a reduction of City's Percentage Share of Insurance Costs for any Expense Year, Landlord shall promptly refund to City the amount of any overpayment by City. If such audit discloses any discrepancies which would result in an increase of City's Percentage Share of Insurance Costs for any Expense Year, then upon receipt of an invoice for the amount underpaid, City shall promptly pay such sum to Landlord. 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 Insurance Costs of three percent (3%) or more for any Expense Year, then Landlord shall pay the costs of such audit.

4.9 Records

Landlord shall maintain in a safe, complete and organized manner all of its records pertaining to this Lease, Real Estate Taxes, Insurance 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 at the Building or another location in San Francisco designated by Landlord for inspection, copying and audit by

City and its representatives, at City's expense, subject to the provisions of the final sentence of Section 4.8 above.

5. USE

5.1 Permitted Use

City may use the Premises for general office uses and such other uses as may be specified in the Basic Lease Information, and for no other use without the prior written consent of Landlord, which shall not be unreasonably withheld or delayed.

5.2 Observance of Rules and Regulations

City shall observe Landlord's reasonable rules and regulations for the Building subject to the provisions of this Lease. City acknowledges and agrees to the current Building rules and regulations attached hereto as Exhibit C (the "Rules and Regulations"). Landlord may make reasonable additions or modifications thereto, which shall be binding upon City within a reasonable implementation period upon Landlord's delivery to City of a copy thereof, provided that such additions or modifications shall not reduce Landlord's obligations hereunder nor interfere with City's business in the Premises, and such additions or modifications must be applicable to the other Building tenants, are not in conflict with the provisions of this Lease, do not materially increase the burdens or obligations upon City, do not impose a charge upon City for services which this Lease expressly states are to be provided to City at no charge, and do not materially adversely affect the conduct of any business in the Premises which City is permitted to conduct pursuant to Section 5.1 hereof. Landlord shall administer the Rules and Regulations in a fair and nondiscriminatory manner and use reasonable efforts to cause other Building tenants to comply with them. City shall be entitled upon request to any waiver or special dispensation granted by Landlord to any other tenant in the Building with respect to the Rules and Regulations, and Landlord shall notify City of any such waiver or special dispensation.

5.3 Interference with Access

Tenant shall have access to the Premises twenty-four (24) hours per day, seven (7) days per week, together with uninterrupted access thereto to the maximum extent possible, including, without limitation, during any power outages affecting the Premises or any portion of the Building; provided, however, that Landlord may, after making diligent efforts to consult with the City's Administrator, interrupt City's access to the Premises in the event of an immediate threat of the Premises, the Common Areas or any other 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, the Common Areas or any other portion of the Building 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 City's default hereunder, then Landlord shall immediately undertake all necessary steps to correct such condition. In the event such condition continues for five (5) business days and materially impairs City's ability to carry on its business in the Premises, the Rent payable hereunder shall be abated based on the extent to which such interruption of access to the Premises interferes with City's ability to carry on its business at the Premises. If any such interruption of access shall continue for sixty (60) days or more after City's use is interrupted and impairs City's ability to carry on its business in the Premises, then City shall have the right, without limiting any of its other rights under this Lease to terminate this Lease, unless Landlord supplies City with evidence reasonably satisfactory to City that City's normal and safe use will be restored within ninety (90) days of the date City's use was interrupted, and such use is actually restored within such 90-day period. Nothing in this Section shall limit the rights of the Parties with respect to any disruption due to casualty pursuant to Section 12 (Damage and Destruction) hereof.

6. LEASEHOLD IMPROVEMENTS

6.1 Landlord's Obligation to Construct Improvements

(a) Leasehold Improvement Work.

(i) Leasehold Improvement Work. Landlord, through a general contractor chosen by Landlord and approved by City ("Contractor"), shall perform the work and make the installations in the Premises set forth in this Section 6.1, at Landlord's sole cost, up to \$575,000 (the "Allowance"), in accordance with the provisions of this Section. Such work and installations are sometimes referred to herein collectively as the "Leasehold Improvement Work" or the "Leasehold Improvements." The cost of the Leasehold Improvements above the \$575,000 Allowance shall be borne by the City as provided below.

(ii) Space Planning; Plans; Construction Documents. Prior to the reference date of this Lease, Landlord, at Landlord's expense as part of the Allowance, has caused Huntsman Architecture Group to prepare and submit to City for its approval a preliminary schematic space plan for the Premises, based on City's program requirements for use of the Premises, a copy of which is attached hereto as Exhibit E (the "Preliminary Space Plans"). Promptly after the Effective Date, Landlord, at Landlord's expense as part of the Allowance, shall engage Huntsman Architecture Group or another space planner chosen by Landlord and approved by City to consult with City in connection with the preparation of final schematic design plans (the "Schematic Design Documents") and preliminary working drawings for the improvements City desires to have constructed in the Premises. The space planner shall take into account Landlord's plans for the restrooms to be located within the Premises. The Schematic Design Documents shall be subject to Landlord's approval, which shall not be unreasonably withheld, conditioned or delayed. The rate charged by space planner engaged by Landlord shall be subject to approval by City. Upon approval of the Schematic Design Documents, Landlord, at Landlord's expense as part of the Allowance, shall promptly have Landlord's architect prepare an architectural plan, power and signal plan, reflected ceiling plan, floor plans and finish specifications for the work shown on the Schematic Design Documents and otherwise required by this Section 6.1 (the "Plans"). Such Plans shall be subject to City's approval, which approval shall not be unreasonably withheld or delayed. If City disapproves such Plans, or any portion thereof, then City shall promptly notify Landlord thereof and of the revisions that City reasonably requires in order to obtain City's approval. As soon as reasonably possible thereafter, but in no event later than fourteen (14) days after City's notice, Landlord shall submit to City final Plans incorporating the revisions required by City. Such revisions shall be subject to City's approval, which shall not be unreasonably withheld or delayed. The final Plans for the Leasehold Improvements approved by City shall be referred to as the "Construction Documents."

(b) Mayor's Office of Disability Review; Permits

Landlord acknowledges that City requires that the Construction Documents be reviewed by the San Francisco Mayor's Office of Disability ("MOD") for compliance with the American With Disabilities Act of 1990 ("ADA") and other related laws prior to submittal to the San Francisco Department of Building Inspection for construction permits. Landlord shall cause Landlord's architect to submit the Construction Documents to MOD for review promptly following preparation thereof. If MOD requires revisions to the Construction Documents or modifications or additional improvements to the Premises or the Building, Landlord shall cause Landlord's architect to revise the Construction Documents and/or design and prepare all additional plans and specifications as required by such MOD review, in conformity with ADA and other legal requirements. Such revised plans and additional plans shall thereafter to be referred to as the "Construction Documents." Upon MOD's approval of the Construction Documents, Landlord shall cause Landlord's architect to notify Landlord and City that the Construction Documents have been approved and to identify the additional work, if any,

specified therein as a result of the MOD review (such work being referred to as the "MOD Identified Work").

Promptly following MOD's approval of the Construction Documents and City's approval of the construction budget, as provided below, Landlord shall apply for any permits, approvals or licenses necessary to complete the construction shown on the Construction Documents and shall provide copies to City promptly following receipt thereof. Landlord shall be responsible for arranging for all inspections required by the San Francisco Bureau of Building Inspection.

(c) **Landlord's Work.** Landlord shall perform or shall cause the contractor performing the Leasehold Improvement Work to perform the following work, which shall be collectively referred to herein as "Landlord's Work," the cost of which shall be paid from the Allowance or by City, as provided in Section 6.1(f) below:

(i) Roof and Weatherproofing. Landlord shall ensure all windows within the Premises are weatherproofed, repaired and in good working order.

(ii) HVAC Repairs and Operations. Landlord shall effect mutually acceptable necessary repairs or modifications to the heating, ventilation and air conditioning ("HVAC") system elements to insure appropriate heating, cooling and ventilation is provided to the occupied spaces within the Premises. The HVAC system operations shall be, at a minimum, in conformance with ASHRAE standard 90.1-2004, and HVAC zoning shall be not less than one (1) zone per one thousand two hundred (1,200) rentable square feet. Landlord shall ensure that all thermostats and air supply and return vents are located in appropriate areas.

(d) **Budget for Leasehold Improvements.** Landlord and City have agreed upon and approved the initial construction budget attached to this Lease as Exhibit F ("Preliminary Construction Budget"), which Preliminary Construction Budget includes the estimated cost of the space planner, architect, Landlord's Work and Leasehold Improvement Work, and is subject to the conditions and limitations described in the Narrative Description of Proposed Leasehold Improvement Work attached hereto as Exhibit E, and have agreed that any costs above \$575,000 shall be borne by City. City acknowledges that the Preliminary Construction Budget is just an estimate of the Leasehold Improvements cost and that costs may increase and if costs exceed \$575,000 then City shall be responsible for all costs (including any costs relating to the MOD review and any resulting MOD Identified Work) even if City has not changed the scope of the work. If during the course of construction, the Leasehold Improvements cannot be completed in strict conformity with the Preliminary Construction Budget or the recently City and Landlord approved construction budget, as applicable, 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 approval, following the same procedures. No costs shall be charged against the Allowance, and City shall not be obligated to pay any costs in excess of the Allowance, unless and until City 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. The most recently approved construction budget shall supersede all previously approved budgets. If the budget exceeds the Allowance amount and City desires to reduce the budget, Landlord and City shall work in good faith to promptly reduce the scope of work to the extent required to reduce budget to an amount approved by City, and the Construction Documents shall be revised as required to reflect such changes. Further, if at any time the budget exceeds the Allowance amount and Landlord is unwilling to expend any monies in excess of the Allowance prior to receiving City's reimbursement for such excess cost as provided in Section 6.1(f) below, then Landlord and City shall work in good faith to promptly reduce the scope of work to the extent required to reduce budget to the Allowance amount or such greater amount approved by

Landlord and City, and the Construction Documents shall be revised as required to reflect such changes. Changes to the Leasehold Improvement Work requested by City (whether to reduce the budget or otherwise) ("City Requested Changes") shall be subject to Landlord's approval, which shall not be unreasonably withheld or delayed. In the event City requests any City Requested Changes, Landlord shall immediately submit to City a revised construction budget. The most recently approved construction budget shall supersede all previously approved budgets. City acknowledges that provided that Landlord complies with the provisions of this Section 6.1(d) regarding budget revisions and efforts to reduce the scope of the work, if requested by City, any costs above \$575,0000 shall be borne by City whether or not caused by a City Requested Change.

(e) **Required Documentation of Costs.** Landlord shall provide City with copies of (i) all invoices received by Landlord from the Contractor in connection with the construction of the Leasehold Improvements, (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 Section 3262 and executed by each subcontractor and material supplier, and (iii) such additional supporting data substantiating the contractor's or supplier's right to payment as City may reasonably require, such as copies of requisitions from subcontractors and material suppliers.

(f) **Reimbursement by City.** In the event that the actual costs to construct and install the Leasehold Improvements and to perform Landlord's Work incurred by Landlord exceed the amount of the Allowance, City shall pay such excess costs at the time of substantial completion within forty-five (45) days of City's receipt of required documentation in accordance with Section 6.1(e). At City's election, City shall establish a construction draw account through an appropriate third-party servicing entity for payment of part or all of the costs to be paid by City hereunder, and Landlord shall reasonably cooperate with the requirements for establishing and drawing from such account.

(g) **Inclusions and Exclusions of Costs Paid from the Allowance or by City.** The Leasehold Improvement costs shall include all actual and reasonable hard and soft costs of the Leasehold Improvements. Such costs shall include but not be limited to (A) space planning fees, architectural fees, engineering fees, consulting fees, and project manager fees, up to a maximum of ten percent (10%) of the total Leasehold Improvement cost, and (B) the costs of permits, application fees, testing and inspection fees, and contractor and vendor costs for the Leasehold Improvement Work, including for improvements that are required to bring the Premises and the Common Areas serving the Premises into compliance with all Disabled Access Laws and other laws and codes. City shall not be responsible for, and the Allowance shall not be used for, any review, supervision, administration or management fees of any person or entity, any overhead or other general expenses of Landlord, or any other person or entity other than a Construction/Project Manager at a cost not to exceed three percent (3%) of the Leasehold Improvement cost, or any charges for parking.

(h) **Permits.** Landlord shall secure and pay for, as part of the Allowance, any building and other permits and approvals, government fees, licenses and inspections necessary for the proper performance and completion of the Leasehold Improvement Work. Promptly following City's approval of the Construction Documents, Landlord shall apply for any permits, approvals or licenses necessary to complete such construction and shall provide copies to City promptly following receipt thereof. Landlord shall be responsible for arranging for all inspections required by City's Bureau of Building Inspection.

(i) **First Source Hiring Requirements.** City has adopted a First Source Hiring Ordinance (Board of Supervisors Ordinance No. 264-98), which establishes specific requirements, procedures and monitoring for first source hiring of qualified economically

disadvantaged individuals for entry level positions. Within thirty (30) days after the City and County of San Francisco Real Estate Division of the Department of Administrative Services adopts a First Source Hiring Implementation and Monitoring Plan in accordance with the First Source Hiring Ordinance, Landlord shall enter into a First Source Hiring Agreement that meets the applicable requirements of Section 83.9 of the First Source Hiring Ordinance in connection with certain building permit applications.

(j) **Construction.** Immediately upon approval of the final Construction Documents and the budget and Landlord's procurement of all necessary permits and approvals, Landlord shall commence construction and shall cause the Leasehold Improvements to be completed in a good and professional manner in accordance with sound building practice. Landlord shall comply with and give notices required by all laws, rules, regulations, ordinances, building restrictions and lawful orders of public authorities bearing on construction of the Leasehold Improvements. Without limiting the foregoing, construction of the Leasehold Improvements shall comply with all applicable disabled access laws, including, without limitation, the most stringent requirements of the Americans With Disabilities Act of 1990, Title 24 of the California Code of Regulations (or its successor) and City's requirements for program accessibility. Landlord shall pay prevailing wages in connection with construction of the Leasehold Improvement Work as further provided in Section 23.24 (Prevailing Wages), below, and shall not use tropical hardwood wood products, or virgin redwood wood products as further provided in Section 23.26 (Tropical Hardwood and Virgin Redwood Ban), below.

(k) **Construction Schedule; Substantial Completion.** Landlord shall keep City apprised on a regular basis of the status of plan preparation, permit issuance and the progress of construction. The Leasehold Improvement Work shall be deemed to be "substantially completed" for purposes of this Lease when the Leasehold Improvements shall have been sufficiently completed in accordance with the approved Construction Documents so that City can occupy the Premises and conduct its business for its intended uses and City, through its Director of Property, shall have approved the Leasehold Improvements. City may, at its option, approve the Leasehold Improvements even though there may remain minor details that would not interfere with City's use. Landlord shall diligently pursue to completion all such details. Notwithstanding the foregoing, City shall have the right to present to Landlord within thirty (30) days after acceptance of the Premises, or as soon thereafter as practicable, a written punchlist consisting of any items that have not been finished in accordance with the Construction Documents. Landlord shall promptly complete all defective or incomplete items identified in such punchlist, and shall in any event complete all items within thirty (30) days after the delivery of such list. City's failure to include any item on such list shall not alter the Landlord's responsibility hereunder to complete all Leasehold Improvement Work in accordance with the approved Construction Documents, nor constitute any waiver of any latent defects.

No approval by City or any of its Agents of any plans, drawings, Construction Documents or completion of the Leasehold Improvement Work for purposes of this Lease shall be deemed to constitute approval of any governmental or regulatory authority with jurisdiction over the Premises, and nothing herein shall limit Landlord's obligations to obtain all such approvals.

(l) **City's Acceptance of Premises.** Upon substantial completion of the Leasehold Improvement Work, Landlord shall deliver the Premises to City in good working order and in compliance with any and all applicable building codes. City's Director of Property shall not be required to accept Landlord's delivery of the Premises until substantial completion of the Leasehold Improvement Work as noted above, and (i) completion of a three (3) day burn off; (ii) receipt of an air balance report showing that the Building meets ASHRAE standards as built-out for the intended use and occupancy of the Premises; (iii) receipt of the results of a water test showing no leakage of the roof or windows, or other exterior points of the Building; and (iv) receipt of certification by a licensed industrial hygienist that the Property is free of mold and

other toxins. The industrial hygienist's report shall be secured and paid for by the City, and a copy of such report shall be provided to the Landlord. Any of the foregoing conditions may be waived by the City at City's sole discretion. City shall not unreasonably withhold or delay its acceptance of the Premises.

6.2 Installation of Telecommunications and Other Equipment

Landlord and City acknowledge that the Leasehold Improvement Work shall be completed by Landlord exclusive of the installation of telecommunications, data and computer cabling facilities and equipment ("Telcom Facilities"). City shall be responsible for installing such Telecom Facilities, at City's sole cost and expense, provided that Landlord shall furnish access to City and its consultants and contractors to the main telephone service serving the floor(s) on which the Premises are located and all other parts of the Building for which access is needed for proper installation of all such facilities and equipment including, but not limited to, wiring. City shall have the right to enter the Premises and such other portions of the Building at reasonable times during the course of construction of the Leasehold Improvements in order to install such facilities and equipment. City and Landlord shall use their good faith efforts to coordinate any such activities to allow the Leasehold Improvements and the installation of such facilities and equipment to be completed in a timely and cost-effective manner. Notwithstanding anything to the contrary contained in this Section 6.2, City shall not have the right to enter any portion of the Building leased to third party tenants to conduct any installation or maintenance of the Telcom Facilities, and City shall perform the installation and maintenance of the Telcom Facilities in a manner which is designed to minimize disruption to the other tenants of the Property. Landlord shall have sole power to direct electricians as to where and how telephone and other wires are to be introduced into the Building and the Premises. No boring or cutting for wires shall be allowed without the consent of Landlord, and the location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord, which consent and approval shall not be unreasonably withheld or delayed.

6.3 Construction of Improvements that Disturb or Remove Exterior Paint

Landlord, on behalf of itself and its successors, assigns and agents, shall comply with all requirements of the San Francisco Building Code Chapter 36 and all other applicable local, state, and Federal laws, including but not limited to the California and United States Occupational and Health Safety Acts and their implementing regulations, when the work of improvement or alteration disturbs or removes exterior or interior lead-based or "presumed" lead-based paint (as defined below). Landlord and its Agents shall give to City three (3) business days' prior written notice of any disturbance or removal of exterior or interior lead-based or presumed lead-based paint. Landlord acknowledges that the required notification to the Department of Building Inspection regarding the disturbance or removal of exterior lead-based paint pursuant to Chapter 36 of the San Francisco Building Code does not constitute notification to City as Tenant under this Lease and similarly that notice under this Lease does not constitute notice under Chapter 36 of the San Francisco Building Code. Further, Landlord and its Agents, when disturbing or removing exterior or interior lead-based or presumed lead-based paint, shall not use or cause to be used any of the following methods: (a) acetylene or propane burning and torching; (b) scraping, sanding or grinding without containment barriers or a High Efficiency Particulate Air filter ("HEPA") local vacuum exhaust tool; (c) hydroblasting or high-pressure wash without containment barriers; (d) abrasive blasting or sandblasting without containment barriers or a HEPA vacuum exhaust tool; and (e) heat guns operating above 1,100 degrees Fahrenheit. Landlord covenants and agrees to comply with the requirements of Title 17 of the California Code of Regulations when taking measures that are designed to reduce or eliminate lead hazards. Under this Section, paint on the exterior or interior of buildings built before January 1, 1979 is presumed to be lead-based paint unless a lead-based paint test, as defined by Chapter 36 of the San Francisco Building Code, demonstrates an absence of lead-based paint on the interior or exterior surfaces of such buildings. Under this Section, lead-based paint is "disturbed or

removed" if the work of improvement or alteration involves any action that creates friction, pressure, heat or a chemical reaction upon any lead-based or presumed lead-based paint on a surface so as to abrade, loosen, penetrate, cut through or eliminate paint from that surface.

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 or delay. However, the installation of furnishings, fixtures, equipment or decorative improvements, none of which affect the Building Systems or structural integrity of the Building, and the repainting 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 (as defined below). 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. City shall not be required to remove any Alterations upon the expiration or sooner termination of this Lease unless Landlord notifies City in writing at the time Landlord approves such Alterations that they must be removed at the Expiration Date.

7.2 Title to Improvements

Except for City's Personal Property (as defined in the next Section), all appurtenances, fixtures, improvements, equipment, additions and other property permanently installed in the Premises as of the Commencement Date or during the Term shall be and remain Landlord's property. City may not remove such property unless Landlord consents thereto.

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, shall execute and deliver any document, in a form reasonably acceptable to Landlord and any holder of an Encumbrance (defined below), required by any supplier, lessor, or lender in connection with the installation in the Premises of any items of City's Personal Property, pursuant to which Landlord waives any rights it may have or acquire with respect to City's Personal Property, so long as the supplier, equipment lessor or lender agrees that it (i) will remove the Property from the Premises within thirty (30) days after the Expiration Date (but if it does not remove City's Personal Property within such time it shall have waived any rights it may have had to City's Personal Property), and (ii) will repair any damage caused by the removal of City's Personal Property, all at the cost and expense of such supplier, equipment lessor or lender. Landlord shall recognize the rights of any supplier, lessor or lender who has an interest in any items of City's Personal Property to enter the Premises and remove such property at any time during the Term or within thirty (30) days after the Expiration Date upon delivery to Landlord of advance written notice from such supplier, equipment lessor or lender.

7.4 Alteration by Landlord

Landlord shall use its good faith 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, including without limitation any leasehold improvement work for other tenants in 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

Landlord shall repair and maintain, at its cost and in first-class condition, the exterior and structural portions of the Building, including, without limitation, the roof, foundation, bearing and exterior walls and subflooring, fire protection, life safety of the Building (collectively, the "Building Systems") and the Common Areas. Without limiting the foregoing, Landlord shall maintain the Building in a clean, safe and attractive manner, shall provide exterior graffiti removal with reasonable frequency, and shall not permit any other tenants of the Building to disturb or interfere with City's use of the Premises or permit to be done in or about the Building or the Common Areas anything that is illegal, is dangerous to persons or property or constitutes a nuisance.

8.2 City's Repairs

Subject to Landlord's warranty under Section 10.1 (Premises Condition), any construction warranties or guaranties received in connection with Landlord's completion of the Leasehold Improvements, and Landlord's repair and maintenance obligations hereunder, City shall repair and maintain at its cost the interior portions of the Premises and any exterior glass replacements required due to breakage by City or its invitees, 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 make any such required repairs and replacements that Landlord specifies in writing (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. At all times during the Term of this Lease, Landlord shall, upon reasonable notice by City, afford City and its Agents with access to those portions of the Building which are necessary to maintain or repair the telecommunications and data and computer cabling facilities and equipment installed by City.

8.3 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, alterations or construction by City on the Premises.

9. UTILITIES AND SERVICES

9.1 Landlord's Provision of Utilities

Landlord shall furnish the following utilities and services to the Premises (which costs for such utilities and services shall be billed back to City and paid by City pursuant to Section 4.3) (a) heating, air conditioning and ventilation in amounts required for City's use and occupancy of the Premises in a manner providing reasonable comfort to occupants, during the period from 8:00 a.m. to 6:00 p.m. ("Business Hours"), Monday through Friday, except holidays generally recognized in San Francisco ("Business Days"); (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"); and (c) water for lavatory, kitchen and drinking purposes on a Daily Basis. 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 first class buildings similar to the Building in the San Francisco Civic Center District. Water and electricity service to the Premises shall be separately metered or submetered, provided that if for any reason Landlord and City elect not to cause a separate utility meters or submeters servicing the Premises to be installed as part of the Leasehold Improvements, Landlord's billing for the amount of the electricity and water and sewer service used and consumed on the Premises, shall be based on Landlord's reasonable, good faith estimate of City's demand and consumption, and shall be calculated in a manner reasonably approved by City.

9.2 Services

(a) Janitorial Service

Landlord shall provide, at City's cost, janitorial service in accordance with the specifications contained in Exhibit G attached hereto and scavenger service as required by City for use of the Premises. City shall reimburse Landlord for the cost of janitorial service and scavenger service as provided in Section 4.3. All costs billed to City under this Section 9.2(a) shall be based on Landlord's actual costs without markup. City reserves the right to revise the janitorial service provided to the Premises from time to time during the Term, provided that such revised service is not unduly onerous or unreasonable and is sufficient to maintain the Premises in a clean and orderly condition.

(b) Additional Services

City reserves the right to request that Landlord, at City's cost, perform minor lease-related services or incur additional expenses not covered under this Lease that City may require from time to time, as requested by City in writing and approved by the Director of Property. City shall reimburse Landlord for such expenses as they are incurred, at rates agreed-upon in advance.

9.3 Conservation

Landlord may establish reasonable measures to conserve energy and water, including automatic light shut off after hours and efficient lighting forms, so long as these measures do not unreasonably interfere with City's use of the Premises.

9.4 Disruption in Essential Utilities or Services

In the event of any failure, stoppage or interruption of any utilities or services to be furnished by Landlord hereunder, Landlord shall immediately notify City of such failure,

stoppage or interruption, diligently attempt to restore service as promptly as possible and shall keep City apprised of its efforts. In the event Landlord is unable to supply any of the Building's sanitary, electrical, heating, air conditioning, water, elevator, fire protection and security, audio, video or electronic communications, hazard detection and alarm, or other essential services serving the Premises (collectively, "Essential Services") and such inability of Landlord impairs City's ability to carry on its business in the Premises for a period of one (1) or more business days if such failure is in the reasonable control of Landlord or a period of five (5) or more consecutive business days if such failure is not within the reasonable control of Landlord, then the Rent shall be abated based on the extent such inability of Landlord impairs City's ability to carry on its business in the Premises, or, alternatively at City's election, City shall have the option to provide such services and offset the reasonable cost thereof against the Rent next due under this Lease. Such abatement, or right to provide the services and offset against Rent, shall continue until the Essential Services have been restored so that the lack of any remaining services no longer materially impairs City's ability to carry on its business in the Premises. Landlord shall use its best efforts to restore disrupted Essential Services as soon as possible. However, if such failure to provide any Essential Services continues for any reason for thirty (30) days and such failure interferes with City's ability to carry on its business in the Premises, then City may, without limiting any of its other rights or remedies hereunder or at law or in equity, terminate this Lease upon written notice to Landlord, unless Landlord supplies City with evidence reasonably satisfactory to City that the Essential Services will be restored within sixty (60) days of the date City's use was interrupted, and the Essential Services are actually restored within such 60-day period. City shall not be entitled to any abatement of Rent or right to terminate if Landlord's inability to supply Essential Services to City is due solely to the acts, omissions or negligence of City and its Agents.

10. COMPLIANCE WITH LAWS; PREMISES CONDITION

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

Landlord represents and warrants to City, and covenants with City, as follows to the best of Landlord's knowledge: **(a)** the physical structure, fixtures and permanent improvements of the Premises (including, without limitation, the Leasehold Improvements) and all portions of the Property and the Building along the path of travel to the Premises (including, but not limited to, the Building entrances, Common Areas, restrooms, elevators, lobbies, telephone banks and drinking fountains and parking areas) are now, and as of the Commencement Date will be, in compliance with the requirements of 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 (collectively, "Disabilities Laws"); **(b)** the Building is not an unreinforced masonry building, and is now, and as of the Commencement Date will be, in compliance with all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to seismic safety (collectively, "Seismic Safety Laws"); **(c)** the Building, the Common Areas and Building Systems serving the Premises are now, and as of the Commencement Date will be, in full compliance with all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to fire and life safety (including, without limitation, the San Francisco High-Rise Sprinkler Ordinance) (collectively, "Life Safety Laws"); **(d)** the Building, the Common Areas and Building Systems serving the Premises are now, and as of the Commencement Date will be, in compliance with all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements; and **(e)** there are not now, and as of the Commencement Date will not be, any material physical or mechanical defects in the Premises, Building or the Building Systems that would materially adversely affect City's intended use of the Premises. Landlord shall at all times during the Term maintain, at its cost, the Property, Building, Common Areas and the Building Systems serving the Premises 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. Without limiting Section 16.2 (Landlord's Indemnity), Landlord shall Indemnify City against any and all Claims arising out of any misrepresentation by Landlord under this Section or any failure of the Property, Building, Common Areas, Building Systems, or any portion thereof, to comply with applicable Laws as provided in this Section, except to the extent such failure results from City's failure to comply with the provisions of Section 10.2.

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 or modifications, or any changes to the Common Areas or Building Systems, in order to comply therewith unless such alterations, modifications or changes (i) 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 or (ii) are required as a result of City's particular use of the Premises (as opposed to City's use of the Premises for general office purposes in a normal and customary manner). 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 and the operation of any programs in the Premises, other than any requirement relating to the physical structure, fixtures and permanent improvements of the Premises or portions of the Property or Building along the path of travel to 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 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 Property, 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 Property, 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.

(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. 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 fire or other casualty, Landlord shall repair the same without delay (and if Landlord is then carrying insurance on the Leasehold Improvements or if City at its sole option makes funds available to Landlord, Landlord shall also repair the Leasehold Improvements), provided that such repairs can be made under applicable laws within sixty (60) days after Landlord obtains all necessary permits for such repairs but not later than one hundred eighty (180) days after the date of such damage (the "Repair Period"). In such event, this Lease shall remain in full force and effect, except that City shall be entitled to an abatement of Rent while such repairs are being made. Such abatement in Rent shall be based upon the extent to which City cannot reasonably occupy any part of the Premises during the Repair Period. 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 Personal Property or any damage caused by the negligence or willful misconduct of City or its Agents. In the event the Building is damaged such that City cannot reasonably operate within the Premises and such damage cannot be repaired within the Repair Period, City may terminate this Lease.

Within twenty (20) days after the date of such damage, Landlord shall notify City whether or not, in Landlord's reasonable judgment made in good faith, such repairs can be made within the Repair Period. If such repairs cannot be made within the Repair Period, then either party hereto may, by written notice to the other given within thirty (30) days after the date of such damage, terminate this Lease as of the date specified in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after notice is given by Landlord. In case of termination, the Rent shall be reduced by a proportionate amount based upon the extent to which such damage interferes with the conduct of City's business in the Premises, and City shall pay such reduced Rent up to the date of termination. Landlord shall refund to City any Rent previously paid for any period of time subsequent to such date of termination.

Notwithstanding the foregoing, in the event the Premises are damaged or destroyed by reason of flood or earthquake, and such damage or destruction is not fully covered by insurance proceeds payable under the insurance policies Landlord is required to carry hereunder (excluding any deductible, for which Landlord shall be responsible), Landlord may terminate this Lease by written notice to City within thirty (30) days of the date Landlord receives written notice that such damage is not covered by insurance. Such notice from Landlord shall include adequate written evidence of the denial of insurance coverage. If Landlord does not elect to terminate this

Lease as provided above, this Lease shall remain in full force and effect, and Landlord shall repair and restore the Premises as provided above.

If at any time during the last six (6) months of the Term of this Lease there is substantial damage that Landlord would be required to repair hereunder, Landlord or City may, at the respective option of each, terminate this Lease as of the date such damage occurred by giving written notice to the other party of its election to do so within thirty (30) days after the date of such damage; provided, however, Landlord may terminate this Lease only if it would take more than thirty (30) days to repair such damage.

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 Property 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 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 untenable 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 untenable 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 a material portion 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 (30th) 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

City shall have the right to sublease or assign this Lease, or any portion of the Premises during the Term of the Lease with Landlord's prior written consent, which shall not be unreasonably withheld or delayed. 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.

In the event that City sublets, assigns or transfers this Lease, City shall pay to Landlord as additional rent an amount equal to seventy-five percent (75%) of any Increased Rent (as defined below) when and as such Increased Rent is received by City, after City has first recovered the following costs of entering into each particular sublease or assignment (with no requirement to amortize such costs): (i) the cost of tenant improvements made in connection with the particular transaction and any tenant improvement allowance paid by City in connection with the particular transaction, (ii) brokerage commissions, if any, (iii) advertising costs, and (iv) attorneys' fees (including the fees of deputy City attorneys calculated at the then applicable rate charged to City departments for such legal services. As used in this Section, "Increased Rent" shall mean the excess of (i) all rent and other consideration which City is entitled to receive by reason of any sale, sublease, assignment or other transfer of this Lease, over (ii) the rent otherwise payable by City under this Lease at such time.

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 that for the first two (2) monthly payments of Rent at the beginning of the Term and for the first monthly payment of Rent after the beginning of each new fiscal year for City or any Adjustment Date, City shall have twenty (20) days to cure any such nonpayment after written notice thereof from Landlord;

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

(c) 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 by City 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 and to recover the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of rental loss for the same period that City proves could be reasonably avoided, as computed pursuant to subsection (b) of such Section 1951.2.

(b) The rights and remedies provided by California Civil Code Section 1951.4 (continuation of lease after breach and abandonment), which allows Landlord to continue this Lease in effect and to enforce all of its rights and remedies under this Lease, including the right

to recover Rent as it becomes due, for so long as Landlord does not terminate City's right to possession, if City has the right to sublet or assign, subject only to reasonable limitations.

15.3 Landlord's Default

If Landlord fails to perform any of its obligations under this Lease, then (without limiting any of City's other cure rights under this Lease) City may, at its sole option, cure such default at Landlord's expense if such default continues after thirty (30) days from the date City gives notice to Landlord of City's intention to perform such cure. However, in the case of a default which for causes beyond Landlord's control (excluding any financial inability to perform) cannot with due diligence be cured within such thirty (30)-day period, such thirty (30)-day period shall be extended if Landlord, promptly upon receipt of City's notice, advises City of Landlord's intention to take all steps required to cure such default, and Landlord promptly commences such cure and diligently prosecutes the same to completion. Subject to the other provisions of this Lease relating to abatement of Rent, if Landlord fails to cure any default within the cure period provided above, then, whether or not City elects to cure Landlord's default as provided herein, the Base Rent and any other charges hereunder shall be abated based on the extent, if any, to which such default interferes with City's ability to carry on its business at the Premises. Notwithstanding the foregoing, if any such default by Landlord continues for sixty (60) days and impairs City's ability to carry on its business in the Premises, then City shall have the right to terminate this Lease upon written notice to Landlord within thirty (30) days after the expiration of such sixty (60)-day period. City's rights hereunder and under Section 3.3 (Delay in Delivery of Possession), Section 5.3 (Interference with Access), and Section 9.4 (Disruption in Essential Services), 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 and expenses, including, without limitation, reasonable attorneys' fees (collectively, "Claims"), incurred as a result of (a) City's use of the Premises, (b) any default by City in the performance of any of its material obligations under this Lease, or (c) any negligent acts or omissions of City or its Agents in, on or about the Premises or the Property; 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 or the Property; 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.

17. INSURANCE

17.1 City's Self-Insurance

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. City assumes the risk of damage to any of City's Personal Property, except for damage caused by the negligence of willful misconduct of Landlord or its Agents.

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 or any other part of the Property, to the extent covered by Landlord's property insurance.

In addition, Landlord, at no cost to City, shall procure and keep in effect at all times during the Term insurance as follows: (a) 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); and (b) Worker's Compensation Insurance with Employer's Liability Limits not less than One Million Dollars (\$1,000,000) each accident.

17.3 Waiver of Subrogation

Notwithstanding anything to the contrary contained herein, Landlord hereby waives any right of recovery against City for any loss or damage sustained by Landlord with respect to the Building or the Premises or any portion thereof or the contents of the same or any operation therein, whether or not such loss is caused by the fault or negligence of City, to the extent such loss or damage is covered by insurance which Landlord is required to purchase under this Lease or is otherwise actually recovered from valid and collectible insurance covering Landlord. Landlord agrees to obtain a waiver of subrogation endorsement from each insurance carrier issuing policies relative to the Building or the Premises; provided, Landlord's failure to do so shall not affect the above waiver.

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 endeavor to give reasonable notice to City), 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 six (6) 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 materially interfered with.

19. ESTOPPEL CERTIFICATES

Either party, from time to time during the Term upon not less than ten (10) 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 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. Any such statement made by City may be relied upon by any prospective purchaser or prospective holder of an Encumbrance of all or any portion of the real property of which the Premises are a part.

20. SURRENDER OF PREMISES

Upon the expiration or sooner termination of this Lease, City shall surrender the Premises to Landlord in good order and condition, reasonable use and wear and damage by fire or other casualty excepted. Within ten (10) days after the Expiration Date, City shall remove from the Premises all of City's Personal Property, City's telecommunications, data and computer facilities and any Alterations City is permitted to install under the terms of this Lease and desires to remove or is required 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 of the Leasehold Improvements. City's obligations under this Section shall survive the expiration or earlier termination of this Lease. No Leasehold Improvements or other alterations to the Premises that have been approved by Landlord shall be removed from the Premises at or prior to Tenant's surrender.

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 Property; and petroleum, including crude oil or any fraction thereof, natural gas or natural gas liquids.

(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 Property.

21.2 Landlord's Representations and Covenants

Landlord represents and warrants to City that, to the best of Landlord's knowledge, the following statements are true and correct and will be true and correct as of the Commencement Date: (a) the Property is not in violation of any Environmental Laws; (b) the Property is not now, nor has it been, used for the manufacture, use, storage, discharge, deposit, transportation or disposal of any Hazardous Material, except for the use of such substances in such limited quantities as are customarily used in offices, which limited use has been and is in compliance with Environmental Laws; (c) the Property does not consist of any landfill or contain any underground storage tanks; (d) the Building does not consist of any asbestos-containing materials or building materials that contain any other Hazardous Material, nor do the Premises or the common areas of the Building contain any lead-based paints; (e) there has not been and is currently no Release of any Hazardous Material in the Building or in, on, under or about the Property; and (f) the Property is not subject to any claim by any governmental regulatory agency or third party related to the Release of any Hazardous Material, and there is no inquiry by any governmental agency (including, without limitation, the California Department of Toxic Substances Control or the Regional Water Quality Control Board) with respect to the presence of Hazardous Material in the Building or in, on, under or about the Property, or the migration of Hazardous Material from or to other real property. Subject to City's obligations under this Section below, Landlord shall maintain the Property throughout the Term in compliance with all Environmental Laws that could affect the health, safety and welfare of City's employees or City's use, occupancy or enjoyment of the Premises for their intended purposes.

21.3 Landlord's Environmental Indemnity

Without limiting Landlord's Indemnity in Section 16.2 (Landlord's Indemnity), above, Landlord shall Indemnify City and its Agents against any and all Claims arising during or after the Term of this Lease (a) as a result of any breach of any of Landlord's representations, warranties or covenants in the preceding Section, or (b) in connection with any presence or Release of Hazardous Material in the Building or on, under or about the Property, unless City or its Agents caused such Release.

21.4 City's Covenants

Neither City nor its Agents shall cause any Hazardous Material to be brought upon, kept, used, stored, generated or disposed of in, on or about the Premises or the Property, or transported to or from the Premises or the Property, in violation of any Environmental Laws, provided that City may use such substances in such limited amounts as are customarily used in offices so long as such use is in compliance with all applicable Environmental Laws.

21.5 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 or the Property, then City shall Indemnify Landlord against any and all Claims 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, or other parts of the Property, existing prior to City's occupancy.

22. SPECIAL PROVISIONS

22.1 Exterior Signage

Pursuant to the Existing Lease, City erected signage on the exterior of the Building identifying City's premises as the "Isaac Espinoza Public Safety Testing Center" and signage depicting the seal of the City and County of San Francisco, and the symbols of the San Francisco Police Department and the San Francisco Fire Department. City shall have the right to maintain such signage throughout the Term of this Lease, or to install replacement signage, provided that all replacement signage shall be subject to Landlord's approval (which shall not be unreasonably withheld) with regard to size, design, color, material, content and location, and shall be appropriate for a first-class office building and in conformity with the overall design of the Building and the existing tenant signage on the exterior of the Building. The cost of the design, manufacture, installation and maintenance of the signage shall be borne by City. All signage must comply with applicable governmental laws and ordinances and City shall be responsible for obtaining any governmental permits or approvals required for City's signage. Upon the expiration or earlier termination of this Lease, Landlord shall have the right to remove such signage at City's expense and to repair and restore, at City's expense the affected areas of the Building to their original condition at the time the signage was installed, ordinary wear and tear excepted.

22.2 Secured Area

From time to time City may store test materials or other unusually confidential information in the conference room or another designated room in the Premises (the "Secured Area"). Accordingly, notwithstanding any provision of this Lease to the contrary, the provisions of this Section shall govern Landlord's and City's respective rights with respect to the Secured Area. City may install a separate lock or locks on the door to the conference room or other room comprising the Secured Area, and City shall have no obligation to provide Landlord with a copy of the key to such locks. Whenever the door to the Secured Area is closed and locked, Landlord shall have no obligation to provide janitorial services to the Secured Area and Landlord shall not enter the Secured Area unless accompanied by a representative of City. City shall provide Landlord with written notice if City will use any room other than the conference room as the Secured Area. Upon reasonable advance request of Landlord (which shall be at least 24-hours in advance when practicable), which request may be oral, City agrees to make such representative available to Landlord. If Landlord requires access to the Secured Area outside of business hours due to an emergency, Landlord may contact Bruce Topp at (415) 557-4847 to obtain such emergency access. Notwithstanding anything to the contrary set forth in this Lease, to the extent Landlord is unable to access or enter the Secured Area due to City's exercise of its rights under this Section 22.2, then provided that Landlord has used reasonable efforts to request access to the Secured Area as provided above, Landlord shall not incur any liability, responsibility or expense of any kind for injury to persons or damage to property arising from Landlord's inability to access or enter the Secured Area.

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 by 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 the Director of Property, 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 City's Board of Supervisors.

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 Property 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 and contractors 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 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 and Administrative Code.

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 therefore. 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 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 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 in possession of the Premises after the expiration of the Term with 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 at the monthly Base Rent in effect during the last month of the Term of this Lease or such other rental as Landlord and City may mutually agree in writing as a condition to Landlord's consent to such holding over, and City shall continue as a month-to-month tenant until the tenancy shall be terminated by Landlord giving City or City giving Landlord at least thirty (30) days' prior written notice of termination. Should City hold over without Landlord's consent, the rent payable by City during the period of

such holding over shall be one hundred twenty-five percent (125%) of the monthly Base Rent in effect during the last month of the Term of this Lease, and such tenancy shall otherwise be on the terms and conditions contained herein.

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

In addition to the exterior signage which City may erect pursuant to the terms of Section 22.1 above, City may erect or post signs on 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.

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 peaceably and quietly have, hold and enjoy the Premises and all appurtenances during the Term of this Lease, as such Term may be extended, 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 assertion 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 any of such services, facilities or amenities are terminated, or materially limited or

restricted on account of any such case or proceeding, or for any other reason, 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.

23.20 Transfer of Landlord's Interest

Landlord shall have the right to transfer its interest in the Property, the Building or this Lease to any other financially responsible person or entity. 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 such obligations of Landlord.

23.21 Non-Liability of City Officials, Employees and Agents

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, in the event of any default or breach by City or for any amount which may become due to Landlord, its successors and assigns, or for any obligation of City under this Lease.

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.

23.24 Prevailing Wages for Construction Work

Landlord agrees that any person performing labor in the construction of the Leasehold Improvements or other improvements to the Premises, 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 Leasehold Improvements or other 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 any Leasehold Improvements or other improvements to the Premises.

23.25 Non Discrimination in City Contracts and Benefits Ordinance

(a) Covenant Not to Discriminate

In the performance of this Lease, Landlord covenants and agrees not to discriminate on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, sex, sexual orientation, gender identity, domestic partner status, marital status, disability, weight, height, or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status) against any employee or, any City employee working with, or applicant for employment with, Landlord in any of Landlord's operations within the United States, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations operated by Landlord.

(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, in any of its operations in San Francisco or where the work is being performed for the City elsewhere in 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 specified above within the United States, between employees with domestic partners and employees with spouses, and/or between 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 condition set forth in Section 12.B2(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 the 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 parking lot however any parking spaces used by City shall reduce City's dedicated eleven (11) spaces for each space used for bicycle storage. Furthermore, City shall be limited to use no more than three (3) parking spaces for bicycle storage and Landlord shall be able to decide in its sole discretion the location of the bicycle storage. Landlord further agrees that City may install bicycle racks in front of the Premises, which are required to meet the Class 1 and/or Class 2 requirements of the Planning Code as long as such racks do not hinder access to any other tenants' suites in the park and subject to the foregoing regarding usage of parking spaces for bicycle storage and reduction of City parking spaces. Such installation shall be at no cost to Landlord. Landlord shall reasonably cooperate with City regarding the location of such bicycle racks in front of City's Premises in furtherance of the implementation of such requirements of the Planning Code.

23.28 Resource-Efficient City Buildings and Pilot Projects

Landlord acknowledges that the City and County of San Francisco has enacted San Francisco Environment Code Sections 700 to 707 relating to resource-efficient City buildings and resource-efficient pilot projects. Landlord hereby agrees that it shall comply with all applicable provisions of such code sections.

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; Landlord's Right to Terminate For Delay in Effective Date

The date on which this Lease shall become effective (the "Effective Date") is the date upon which (a) City's Mayor and Board of Supervisors, 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. If the Effective Date does not occur on or before July 31, 2013, Landlord shall have the right at any time thereafter, at its sole and absolute discretion, to give the City written notice of Landlord's intent to terminate this Lease. If the Effective Date does not thereupon occur by the date (the "Final Trigger Date") which is fifteen (15) days after the date City received Landlord's initial notice, then Landlord may terminate this Lease by written notice to City given within five (5) calendar days after the Final Trigger Date and this Lease shall be of no further force and effect.

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 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.

23.33 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.

23.34 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, the

board on which that City elective officer serves, or a board on which an appointee of that individual serves, from making any campaign contribution to (a) the City elective officer, (b) a candidate for the office held by such individual, or (c) a committee controlled by such individual or candidate, 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 Landlord; each member of Landlord's board of directors, and Landlord's 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 name of each person, entity or committee described above.

23.35 Preservative-Treated Wood Containing Arsenic

As of July 1, 2003, 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.

23.36 Food Service Waste Reduction

Landlord agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in the San Francisco Environment Code, Chapter 16, including the remedies provided therein, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Lease as though fully set forth herein. This provision is a material term of this Lease. By entering into this Lease, Landlord agrees that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine. Without limiting City's other rights and remedies, Landlord agrees that the sum of One Hundred Dollars (\$100.00) liquidated damages for the first breach, Two Hundred Dollars (\$200.00) liquidated damages for the second breach in the same year, and Five Hundred Dollars (\$500.00) liquidated damages for subsequent breaches in the same year is a reasonable estimate of the damage that City will incur based on the violation, established in light of the circumstances existing at the time this Lease was made. Such amounts shall not be considered a penalty, but rather agreed monetary damages sustained by City because of Landlord's failure to comply with this provision.

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 CITY'S BOARD OF SUPERVISORS SHALL HAVE DULY ADOPTED A RESOLUTION 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 CITY'S MAYOR AND BOARD OF SUPERVISORS APPROVE THIS LEASE, IN THEIR RESPECTIVE 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.

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

LANDLORD:

POTRERO INVESTOR I, LLC
a Delaware limited liability company

By: 

Rance Gregory, Authorized Signatory

POTRERO INVESTOR II, LLC,
a Delaware limited liability company

By: 

Rance Gregory, Authorized Signatory

CITY:

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation

By: 

JOHN UPDIKE *8/13/13*
Director of Property
pursuant to San Francisco Administrative
Code Section 23.26

RECOMMENDED:

 *8/13/13*

Director
Department of Human Resources

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney

By: 

Anita L. Wood
Deputy City Attorney

City and County of San Francisco
Micki Callahan
Human Resources Director



Department of Human Resources
Connecting People with Purpose
www.sfdhr.org

March 5, 2019

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

RE: Department of Human Resources – Lease Renewal – 1740 Cesar Chavez - File No. 190139

Dear Board members:

Attached for your consideration is a substitute resolution authorizing the execution of a lease amendment extending the lease of the City's Department of Human Resources testing facility located at 1740 Cesar Chavez. The existing lease expires on March 31, 2019. This proposed resolution would extend the lease by five years, terminating in 2024. The City's Real Estate Division negotiated the amendment, including an additional five-year extension option beyond 2024.

Beginning on April 1, 2019, the monthly rent for the 11,000 sq. ft. premises in the extended term will be \$34,980 (or \$3.18 per sq. ft. per year) and increase annually at 3%. At an annual rate of \$38.16 per sq. ft., it is below the threshold required for an appraisal and is an amount the Real Estate Division determines to be at or below 95% of the current fair market rent.

If you have any programmatic questions, please contact Susanna Luong at 415-557-4864. If you have any questions regarding the lease itself or deal terms, please contact Josh Keene of the Real Estate Division office by phone at 415-554-9859.

Sincerely,

Kate Howard
Managing Deputy Director
Department of Human Resources

City and County of San Francisco
Micki Callahan
Human Resources Director



Department of Human Resources
Connecting People with Purpose
www.sfdhr.org

February 12, 2019

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

RE: Department of Human Resources – Lease Renewal – 1740 Cesar Chavez

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Sincerely,

Kate Howard
Deputy Managing Director
Department of Human Resources

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2019 FEB -4 AM 11:25
BY _____

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: Prologis, L.P.	
<i>(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</i>	
(1) Hamid R. Moghadam (Chairman), Cristina G. Bitá, George L. Fotiadés, Philip L. Hawkins, Lydia H. Kennard, J. Michael Losh, Irving F. Lyons III, David P. O'Connor, Olivier Piani, Jeffrey L. Skelton, Carl B. Webb, William D. Zollars. (2): Hamid R. Moghadam (CEO), Gary E. Anderson (CEO, Europe and Asia), Eugene F. Reilly (CEO, the Americas), Thomas S. Olinger (CFO), Larry H. Harmsen (COO, the Americas). (3) Prologis, Inc., the general partner of the Contractor. (4) N/A (5) Contractor does <u>not</u> sponsor or control any political committee.	
Contractor address: Pier One, Bay One, San Francisco, CA 94111.	
Date that contract was approved:	Amount of contract: \$2,228,160 (total rent over five years)
Describe the nature of the contract that was approved: 5-year lease extension	
Comments: Extension to begin on 4/1/19 – 3/31/24	

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