


**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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**TO:** Budget and Finance Sub-Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** May 15, 2019 Budget and Finance Sub-Committee Meeting

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<p><b>Item 1</b> <b>File 19-0465</b></p>	<p><b>Department:</b> Department of Homelessness and Supportive Housing</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize the Director of Property to exercise a lease extension option for the real property located at 520 Jones Street, known as Pacific Bay Inn, with Pacific Bay Inn, Inc., as landlord, and the City, as tenant, for an annual base rent of \$1,063,632 for a ten-year term commencing on June 1, 2019 through May 31, 2029.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In 2009, the Board of Supervisors approved a lease between the City of San Francisco, as tenant, and Pacific Bay Inc., as landlord, for the Pacific Bay Inn for a ten year term from May 1, 2009 through April 31, 2019. The lease had two (2) 10-year options to extend.</li> <li>• Upon creation in 2016, all of the Department of Public Health’s supportive housing assets, including the master lease for Pacific Bay Inn, were transferred to the jurisdiction of the Department of Homelessness and Supportive Housing (HSH).</li> <li>• The Pacific Bay Inn building contains 75 residential units, and nine converted units serving residential needs. Residential units are filled through the Housing Referral team, which prioritizes people experiencing homelessness with the highest degree of vulnerability. Residents have individual leases with the City, as master leaseholder, and pay a percentage of their income in rent.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• According to the original lease, rent during an extended term will be calculated using 51 percent of the monthly allowance for a zero bedroom rental unit in the most recently published governmental rent index. Based on this calculation, rent in the first year is \$1,063,632, equal to \$29.33 per square foot per year for 36,264 square feet of building space.</li> <li>• Over the ten-year term of the lease, the total rent to be paid by HSH is \$12,193,343 based on annual consumer price index (CPI) increase of three percent. Tenants pay 50 percent of their income on rental units. The average rent is approximately \$477.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The lease for the Pacific Bay Inn is currently in holdover status. In December 2018, the City notified the landlord of HSH’s intention to exercise the first option to extend the lease by ten years. The landlord did not respond to the fair market determination in a timely fashion.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

Administrative Code Section 23.27 requires Board of Supervisors approval by resolution of leases, in which the City is the tenant.

**BACKGROUND**

In 2009, the Department of Public Health created a “Direct Access to Housing” program, designed to secure supportive housing for chronically homeless San Francisco residents by having the City master lease privately owned buildings and then sublease residential units in those buildings to individuals.

In 2009, the Board of Supervisors approved a lease between the City of San Francisco, as tenant, and Pacific Bay Inc., as landlord, for the Pacific Bay Inn for an initial annual rent of \$554,400, for a ten year term from May 1, 2009 through April 31, 2019 (File 09-0262). The lease had two (2) 10-year options to extend. The building is located at 520 Jones Street.

In 2016, the City established the Department of Homelessness and Supportive Housing (HSH). Upon creation, all of the Department of Public Health’s supportive housing assets, including the Pacific Bay Inn, were transferred to the jurisdiction of HSH.

**Pacific Bay Inn**

The Pacific Bay Inn building contains 75 residential units, and nine converted units serving residential needs.<sup>1</sup> In addition, the building contains office space, storage space, and basement space, for a total area of approximately 36,264 square feet.

Residential units are filled through the HSH Housing Referral team, which prioritizes people experiencing homelessness with the highest degree of vulnerability. Residents have individual leases with the City, as master leaseholder, and pay a percentage of their income in rent. The on-site case managers work with residents on a care plan and housing stability and connect them with off-site services as necessary. Currently, 73 residents reside in the building.

As mentioned previously, the building also contains office space, storage space and basement space. HSH has a support services team stationed at Pacific Bay Inn, including office space for one (1.0) FTE Behavioral Health Clinician to oversee the program and two (2.0) FTE health worker staff. The building has on-site property management. The basement is part of the master-lease and used for garbage, laundry and some program and property management storage.

The lease term ended in April 30, 2019, and is currently in holdover status. The City is paying the tenant 1.5 times the previous monthly rent for the month of May (See Policy Considerations).

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<sup>1</sup> The nine units were converted to case management and property management offices, a small meeting room, and a community kitchen for the tenants.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize the Director of Property to exercise a lease extension option for the real property located at 520 Jones Street, known as Pacific Bay Inn, with Pacific Bay Inn, Inc., as landlord, and the City, as tenant, for an annual base rent of \$1,063,632 for a ten-year term commencing on June 1, 2019 through May 31, 2029.

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

**Table 1. Summary of Proposed Lease Extension Details**

	<b>Proposed Lease Terms</b>
Lease Period	June 1, 2019 – May 31, 2029
Size of property	approximately 36,264 square feet
Base rent paid by tenant	\$1,063,632 per year (approximately \$29 per square foot)
Annual rent adjustments to base rent	Consumer Price Index (between 2 and 6 percent)
Remaining options to extend the lease	One (1) ten year option to extend through May 31, 2039
Rent on exercise of option	Calculated based on governmental rate index (see Fiscal Impact)
Tenant Improvement Allowance	None
Utilities and services	City's responsibility

**FISCAL IMPACT****Rent**

According to the original lease, rent during an extended term will be calculated using 51 percent of the monthly allowance for a zero bedroom rental unit in the most recently published governmental rent index.<sup>2</sup> The most recent governmental index determination was \$2,069 for a zero bedroom per month.

As shown in Table 2 below, over the ten-year term of the lease, the total rent to be paid by HSH is \$12,193,343 based on annual consumer price index (CPI) increase of three percent.

<sup>2</sup> The United States Department of Housing and Urban Development annually estimates the fair market rent for defined metropolitan areas. The fair market rents are used to determine payment standard amounts for Federal housing programs. Fair market rent is calculated as follows: \$2069 x 0.51 = \$1055; \$1055 x 84 units (75 residential + 9 service units) x 12 months = \$1,063,632.

**Table 2: Total Costs by Year under Proposed Lease**

	<b>Rent</b>
June 2019 - May 2020	\$1,063,632
June 2020 - May 2021	1,095,540
June 2021 - May 2022	1,128,407
June 2022 - May 2023	1,162,259
June 2023 - May 2024	1,197,127
June 2024 - May 2025	1,233,040
June 2025 - May 2026	1,270,032
June 2026 - May 2027	1,308,133
June 2027 - May 2028	1,347,377
June 2028 - May 2029	1,387,798
<b>Total</b>	<b>\$12,193,343</b>

\*Assumes annual CPI of three percent

This is the maximum cost to the City for the rent of the Pacific Bay Inn. According to Ms. Gigi Whitley, Deputy Director for Administration and Finance, tenants pay 50 percent of their income on rental units. The average rent is approximately \$477, and tenants are able to apply for rental assistance for back rent owed.

The total rental cost would be paid from the City’s General Fund, subject to Board of Supervisors appropriation approval in the HSH annual budget. HSH has currently spent \$645,207 on the lease from June 2018 through May 2019 of the total \$709,728 budgeted in FY 2018-19.

**POLICY CONSIDERATION**

The lease for the Pacific Bay Inn is currently in holdover status. In December 2018, the City notified the landlord of HSH’s intention to exercise the first option to extend the lease by ten years. According to Mr. Joshua Keene, Special Projects and Transactions Manager, the landlord did not respond to the fair market determination in a timely fashion.

The lease term ended on April 30, 2019, and the landlord required monthly hold over rent of \$87,982.82, or approximately 50 percent greater than the current monthly rent of \$58,655.21. The holdover rent in May 2019 is less than the new monthly rent under the proposed lease extension of \$88,636.

**RECOMMENDATION**

Approve the proposed resolution

<p><b>Item 4</b> <b>File 19-0405</b></p>	<p><b>Department:</b> Sheriff's Department (Sheriff)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution authorizes the Director of Real Estate to exercise a second amendment to the lease for 70 Oak Grove Street between the Sheriff's Department, as tenant, and Ruth Mellinger, as landlord, to (i) revise the end date of the existing lease from May 30, 2019 to May 31, 2019, (ii) exercise the second option to extend the lease term by five years from June 1, 2019, through May 31, 2024, and (iii) add a third five-year option to extend through May 31, 2029.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Sheriff's Department uses the facilities at 70 Oak Grove St (1) for alternatives-to-incarceration programs, including the Sheriff's Work Alternative Program and electronic monitoring; and (2) for reentry programs for released offenders including the Five Keys Charter School, the No Violence Alliance and Post-Release Educational Programs.</li> <li>• The original lease, approved by the Board of Supervisors in 2004, was for ten years with two five-year options to extend the lease. In May 2014, the Board approved the first five-year extension to May 2019 (File 14-0249).</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The annual rent in the existing lease is \$446,496, equal to approximately \$44.65 per square foot per year for approximately 10,000 square feet. The lease provides for rent to increase to 95 percent of fair market rent when the extension option is exercised. Under the proposed lease extension, the rent would increase by 7.3 percent to an annual base rent of \$479,050.80 equal to approximately \$47.91 per square foot per year.</li> <li>• In February 2019, an independent appraiser, Mateo Advisors, estimated fair market rent to be \$53.30 per square foot per year. The Real Estate Division negotiated an annual rent of \$47.91 per square foot, equal to 90 percent per square foot, in exchange for foregoing tenant improvements (repainting and re-carpeting the premises) to be provided by the landlord. There will be no annual escalations in the rent over the five-year term of the lease extension.</li> <li>• Total rent and estimated operating expenses over the five-year lease extension from June 1, 2019, through May 31, 2024 are \$2,447,254.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The Real Estate Division and Department of Public Works evaluated a facility master plan for the Sheriff's Department that considered the space needs for the Sheriff's Department's programs in 2014. According to Mr. Keene, there are currently ongoing discussions regarding the Sheriff's Department's facilities, and no final decisions have been made.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

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

**BACKGROUND**

In March 2004, the Board of Supervisors approved a ten-year lease between the Sheriff's Department, as tenant, and Ruth Mellinger, as landlord, for the building located at 70 Oak Grove Street (File 04-0015). In May 2014, the Board of Supervisors approved a resolution authorizing the exercise of the first of two five-year options to extend the term of the original lease between the Sheriff's Department, as tenant, and Ruth Mellinger, as landlord, for 70 Oak Grove Street from May 31, 2014 through May 30, 2019 (File 14-0249).

The Sheriff's Department uses the space located at 70 Oak Grove Street for (1) alternatives-to-incarceration programs for low-risk offenders, (2) education programs and services to ex-offenders, and (3) educational programming services such as Alcoholics Anonymous and Narcotics Anonymous. The programs offered at 70 Oak Grove Street include:

- 1) The Five Keys Charter School, which offers education programs to incarcerated, paroled, and offenders on probation, as well as anyone who needs or desires it;
- 2) The No Violence Alliance, which focuses on reducing recidivism for violent ex-offenders upon re-entry;
- 3) Post-Release Educational Programs, which provides services to ex-offenders during re-entry;
- 4) The Sheriff's Work Alternative Program, which is an alternative-to-incarceration where offenders serve on work crews provided they meet certain release criteria;
- 5) Electronic monitoring, which is an alternative-to-incarceration where offenders are monitored electronically to ensure they adhere to the terms of their release; and
- 6) Additional programming such as mentoring and employment workshops and classes

**Alternatives-to-Incarceration**

The Sheriff's Work Alternative Program (SWAP) and the Sheriff's Department's electronic monitoring program are alternatives-to-incarceration programs. These programs offer low-risk offenders who meet the eligibility criteria the opportunity to serve the duration of their sentence outside the county jail system.

The offenders who are serving their sentence under the SWAP program report to 70 Oak Grove Street in the morning on the day of their service and are assigned to work crews at various locations throughout the City. The Sheriff's Department transports the offenders to and from the various work locations and provides supervision during service.

The Sheriff's Department's electronic monitoring program requires several deputy sheriffs and four contract employees employed by Leaders in Community Alternatives, Inc. (LCA), to administer the monitoring system. Offenders referred to electronic monitoring rather than

incarceration report to 70 Oak Grove Street for their initial orientation, at the end of their sentence and periodically throughout the sentence as required by the electronic monitoring program. According to the Sheriff's Department, pre-trial clients encompass over 85 percent of the caseload.

### Five Keys Charter School

The Five Keys Charter School (Five Keys) provides access to education to offenders, currently incarcerated in the county jail system, and ex-offenders at either 70 Oak Grove Street or one of the various satellite offices located throughout the City. Currently, the director of the school and administrative staff occupy space at 70 Oak Grove Street.

According to Mr. Crispin Hollings, Chief Financial Officer at the Sheriff's Department, the existing lease uses the space at 70 Oak Grove Street for 25 Sheriff's Department staff members. In addition, approximately 20 staff members from community-based organizations (Five Keys, No Violence Alliance, Post-Release Educational Programs, and SWAP) also occupy space in the building.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the Director of Real Estate to exercise a second amendment for the real property located at 70 Oak Grove Street with Ruth Mellinger, as landlord, for use by the Sheriff's Department, as tenant, to (i) revise the end date of the existing lease from May 30, 2019 to May 31, 2019, (ii) exercise the second option to extend the term by five years from June 1, 2019, through May 31, 2024, and (iii) add a third five-year option to extend through May 31, 2029. The annual rent for the 10,000 square feet of office space at 70 Oak Grove Street will be \$479,050.80, or approximately \$47.90 per square foot. Table 1 below summarizes the terms and conditions of the proposed second amendment.

**Table 1. Summary of Proposed Lease Details**

	<b>Proposed Lease</b>
Premises	Approximately 10,000 square feet
Base Rent (monthly)	\$39,920.90 (Annual \$479,050.80)
Operating Expenses (monthly)	Estimated cost of utilities approximately \$833.33 (Approximately \$10,000 annually)
Base Rent Increase Amount	No annual escalations
Term of Five Year Extension	May 31, 2019 – May 31, 2024
Options to Extend the Lease	One additional 5-year option to extend through May 31, 2029
Tenant Improvement Allowance	None

According to Mr. Joshua Keene, Special Projects and Transactions Manager at the Real Estate Division, the request for a third option to extend the lease an additional five years through May 31, 2029 was negotiated to ensure the Sheriff's Department's ability to continue their stay at 70 Oak Grove Street and avoid the possibility of being issued a termination notice upon the May



31, 2024 expiration date of the existing lease. Mr. Keene states that the City can negotiate a new lease in the future rather than exercising the third option, if at such time, there are advantageous reasons for doing so.

Under the first amendment of the existing lease, the City negotiated with the landlord to cover costs to upgrade the restrooms to meet Americans with Disabilities Act (ADA) standards and install an elevator in lieu of repainting and re-carpeting the building.

Under the proposed second amendment, the City elected to forego tenant improvements to be provided by the landlord in exchange for a reduction of \$1.00 per square foot per year in rent. According to Mr. Keene, the Sheriff’s Department is the primary tenant at 70 Oak Grove Street and has over the term of their lease been able to maintain the building in good condition, thus not requiring new carpet and/or repainting. As a result, the proposed second amendment reduces the rent by \$1.00 per square foot per year, which is equal to the cost of repainting and re-carpeting the premises.

**FISCAL IMPACT**

The Sheriff Department’s existing annual rent for 70 Oak Grove Street from May 31, 2018 through May 30, 2019 is \$446,496 equal to approximately \$44.65 per square foot per year for approximately 10,000 square feet. The existing lease provides for rent to increase to 95 percent of fair market rent when the extension option is exercised. Under the proposed lease extension, the rent would increase by 7.3 percent to an annual base rent of \$479,050.80 equal to approximately \$47.91 per square foot per year.

In February 2019, an independent appraiser, Mateo Advisors, estimated fair market rent to be \$53.30 per square foot per year using the direct comparison method and based on recent comparables. According to Mr. Keene, the Real Estate Division negotiated a base annual rent fixed at \$47.91 per square foot per year, which is less than 95 percent of the prevailing fair market rental rate, in exchange for electing to forego tenant improvements (repainting and re-carpeting the premises) to be provided by the landlord. There will be no annual escalations over the five-year term of the lease extension.

As shown in Table 2 below, over the five-year term of the lease extension from June 1, 2019, through May 31, 2024, total rent to be paid by the Sheriff’s Department is \$2,395,254 and the total cost for utilities and operating expenses is estimated at \$52,000, resulting in a total cost of \$2,447,254 for the proposed five-year lease extension. This total cost, including utilities and operating expenses, would be paid from the City’s General Fund, subject to Board of Supervisors appropriation approval in the Sheriff’s Department’s annual budget.

**Table 2: Total Costs by Year under Proposed Lease Extension**

<b>Lease Year</b>	<b>Base Rent (per sq. ft. per year)</b>	<b>Annual Rent</b>	<b>Annual Operating Costs<sup>1</sup></b>	<b>Total Cost</b>
Year 1	\$47.91	\$479,050.80	\$10,000	\$489,050.80
Year 2	\$47.91	\$479,050.80	\$10,200	\$489,250.80
Year 3	\$47.91	\$479,050.80	\$10,400	\$489,450.80
Year 4	\$47.91	\$479,050.80	\$10,600	\$489,650.80
Year 5	\$47.91	\$479,050.80	\$10,800	\$489,850.80
<b>Total</b>		<b>\$2,395,254</b>	<b>\$52,000</b>	<b>\$2,447,254</b>

### **POLICY CONSIDERATION**

The 2014 resolution approved by the Board of Supervisors included a recommendation to request the Controller's Office to evaluate if reentry programs provided by the Sheriff's Department, the Adult Probation Department, the Public Defender's Office and the District Attorney's Office could be consolidated in order to reduce lease and other costs (File 14-0249). According to Mr. Hollings, the Controller's Office is currently auditing the overall programs and is expected to have a report available by the end of this fiscal year.

The Real Estate Division and Department of Public Works evaluated a facility master plan for the Sheriff's Department that considered the space needs for the Sheriff's Department's programs in 2014. According to Mr. Keene, there are currently ongoing discussions regarding the Sheriff's Department's facilities, and no final decisions have been made. In addition, no alternative spaces have been identified. If an alternative space is identified, under the existing and proposed lease, the City has the right to terminate the lease at any time by providing no less than 210 days prior written notice of the early termination date.

### **RECOMMENDATION**

Approve the proposed resolution.

<sup>1</sup> According to the Sheriff's Department, operating costs include electricity, gas, water and sewer. The increase in cost per year is due to inflation. Cleaning/maintenance services are provided by individuals participating in the Sheriff's Work Alternative Program (SWAP). The program allows these individuals to perform work in lieu of serving jail time, at no cost to the Sheriff's Department.

<b>Item 5</b> <b>File 19-0387</b>	<b>Department:</b> General Services Agency - Department of Technology (DOT), Real Estate Division (RED)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve the second amendment to the lease between PPF Paramount One Market Plaza Owner, L.P. as landlord and the City as tenant, to be used for telecommunications equipment.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The City has leased space at One Market Plaza since 1997 to install and use an 800 MHz radio system. The radio system is used for emergency communications to provide coverage for the City and used by various departments. The lease expired April 30, 2013 and has been in holdover status for six years, due to numerous delays and complications with the lease negotiations.</li> <li>• The San Francisco Municipal Transportation Agency (SFMTA) was added to the lease in 2015, increasing the telecommunications equipment located in the leased space. At that time, the Real Estate Division negotiated preliminary lease provisions, but never finalized the lease.</li> <li>• The proposed second amendment to the lease would extend the lease by one year to May 2020, and provide two five-year options to extend the lease through May 2030.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• In the initial one-year term of the lease extension, the annual rent would be \$185,709. If the options to extend are exercised, the rent would increase three percent annually. Over the full 11-year term of the lease extension, the City would pay \$2,378,523 in total rent.</li> <li>• The Real Estate Division determined the proposed first-year rent of \$185,709 to be fair market rent based on comparisons of other telecommunications leases in which the City is either the landlord or the tenant. The Real Estate Division requested CBRE, a commercial real estate firm, to research comparable telecommunications sites; CBRE identified one site on Market Street that had comparable rent to the rent in the proposed second amendment to the City's lease at One Market Street.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The lease has been in holdover status since 2013, a period of six years. According to Real Estate Division staff, although the Real Estate Division attempts to avoid holdovers as much as possible, it may be financially beneficial in some instances to hold over while negotiating a lease, when the holdover rent is less than what the fair market rent would be, and the landlord may be amenable to negotiating a favorable rent to the City.</li> <li>• However, because the Administrative Code requires Board of Supervisors approval for leases with a term of one year or more, remaining in hold over status for more than a year is not compliant with the Administrative Code.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

Administrative Code Section 23.27 requires Board of Supervisors approval by resolution of leases, in which the City is the tenant. The Director of Real Estate is to determine the market rent of the lease based on a review of available and relevant data.

**BACKGROUND**

In August 1997, the Board of Supervisors approved a lease to install and use an 800 MHz radio system on the roof of the Spear Tower at One Market Street, including occupancy of a 350 square foot radio room (Resolution 805-97). The radio system is used for emergency communications to provide coverage for the City and used by the Department of Emergency Management (DEM), San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD), San Francisco Sheriff's Department (SFSD), and Department of Public Health (DPH). The lease was for a term of ten years, from May 1998 through April 2008, with two five-year options to extend through April 2018. The City's Real Estate Division exercised the first option to extend the lease through April 2013. The City originally paid \$48,000 in annual rent, adjusted annually based on the Consumer Price Index (CPI).

In March 2010, the Board of Supervisors retroactively approved the first amendment to the lease, incorporating additional telecommunications equipment that had been installed on site, for a term of four years, from July 2009 through April 2013, and increasing the annual rent to \$78,876.

The lease expired April 30, 2013 and has been in holdover status for six years. According to Ms. Claudia Gorham, Real Estate Division Deputy Managing Director, the Real Estate Division did not enter into a lease amendment to extend the lease term because of numerous delays and complications with the lease negotiations, including changes in management on both sides and changes in scope.

The San Francisco Municipal Transportation Agency (SFMTA) was added to the lease, increasing telecommunications equipment and occupying a second radio room in 2015. Due to the additional equipment, as well as the holdover status of the lease<sup>1</sup>, the annual rent was increased to \$165,000. The rent has since increased three percent annually, to a current annual rent of \$180,300. The lease premises currently includes two 350 square foot radio rooms and 29 antennas of various types, with 23 operated by the Department of Technology (DT), on behalf of the various departments for emergency response, and six operated by SFMTA.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the second amendment to the lease between PFF Paramount One Market Plaza Owner, L.P. as landlord and the City as tenant, extending the lease by one year, from June 2019 through May 2020, with two five-year options to extend the

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<sup>1</sup> The original lease allowed the rent to double during the holdover period. The increase in rent from \$78,876 to \$165,000 was a combination of holdover rent and added equipment and space.

lease through May 2030, and increasing the rent by 12.6 percent, from \$165,000 to \$185,709, with annual 3 percent rent increases beginning in the second year.

According to Ms. Gorham, the initial term of the lease extension is only one year because many of the provisions in the proposed second amendment to the lease were originally negotiated in 2015. At that time, the proposed extension was a five-year term, expiring in 2020. As the negotiations continued, the Real Estate Division staff strived to minimize changes to the lease provisions originally discussed in 2015 to prevent further delays.

According to Ms. Gorham, telecommunication facilities lease rents are determined by the number of equipment placed in the leased space. The Real Estate Division determined the proposed annual rent of \$185,709 to be fair market rent based on comparisons of other telecommunications leases in which the City is either the landlord or the tenant. According to Ms. Gorham, the Real Estate Division requested CBRE, a commercial real estate firm, to research comparable telecommunications sites; although most telecommunications sites have less equipment or are located in a less desirable location, CBRE identified one site on Market Street that had comparable rent to the proposed second amendment to the City’s lease at One Market Street.

**FISCAL IMPACT**

Over the initial one-year term of the lease extension, the City would pay \$185,709 in rent. Should the City exercise the options to extend the lease, the rent would increase three percent annually. Over the total 11-year term of the lease extension, the City would pay \$2,378,523 in total rent. Annual rent paid by the City is shown in Table 1 below.

**Table 1: Annual Rent Paid by City for One Market Lease**

<b>Year</b>	<b>Rent</b>
Lease Year 1 (June 2019 – May 2020)	\$185,709
Lease Year 2 (June 2020 – May 2021)	191,280
Lease Year 3 (June 2021 – May 2022)	197,019
Lease Year 4 (June 2022 – May 2023)	202,929
Lease Year 5 (June 2023 – May 2024)	209,017
Lease Year 6 (June 2024 – May 2025)	215,288
Lease Year 7 (June 2025 – May 2026)	221,746
Lease Year 8 (June 2026 – May 2027)	228,399
Lease Year 9 (June 2027 – May 2028)	235,251
Lease Year 10 (June 2028 – May 2029)	242,308
Lease Year 11 (June 2029 – May 2030)	249,577
<b>Total</b>	<b>\$2,378,523</b>

According to Ms. Gorham, approximately 76 percent of the rent is paid by DT, and approximately 24 percent is paid by SFMTA.

**POLICY CONSIDERATION**

The lease has been in holdover status since 2013, a period of six years. According to Ms. Gorham, the Real Estate Division attempts to avoid holdovers as much as possible. However, it may be financially beneficial to hold over while negotiating a lease, when the holdover rent is less than what the fair market rent would be, and the landlord may be amenable to negotiating a favorable rent to the City. At times, a City department may need additional time to move, decide on relocating, or wait for other space to become available, and it is beneficial to remain in holdover status rather than commence a new long-term or even shorter-term lease.

According to Ms. Gorham, the location at One Market is critical for DT's telecommunications, due to the coverage it provides. It would not have been feasible to relocate antennas to avoid holdover status.

However, because the Administrative Code requires Board of Supervisors approval for leases with a term of one year or more, remaining in hold over status for more than a year is not compliant with the Administrative Code.

**RECOMMENDATION**

Approve the proposed resolution.