



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: August 28, 2012
Board Meeting Date: September 11, 2012
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: John L. Maltbie, County Manager
Subject: Property Management Agreement with Orchard Commercial, Inc.

RECOMMENDATION:

Adopt a Resolution authorizing:

- A. The County Manager or his designee to execute a Property Management Agreement with Orchard Commercial, Inc. for Circle Star Plaza, and
- B. The County Manager or his designee to accept or execute on behalf of the County any and all notices, consents, approvals, terminations, and other documents in connection with the Property Manager Agreement, that further the intent of the Resolution and the Board.

BACKGROUND:

On July 24, 2012, the Board authorized the County Manager to enter into an agreement with a commercial real estate broker to assist the County in leasing the Circle Star Plaza (CSP) property. The broker has shown the north building to several prospective tenants. In anticipation of the County's occupancy of the south building and the future lease-up of the north building, the services of a professional property management firm are required. The firm will: 1) allow the County to better compete with other high quality Class A office buildings with space for lease in the area because a future tenant will have confidence that a reputable and competent private management firm will be responsive to their needs; 2) better manage the multiple tenants that are likely to occupy the north building; and 3) use their skill, expertise, and outside resources to manage and maintain both buildings in similar condition and thereby better protect the asset over time.

To ensure that a competitive and capable firm was selected, County staff interviewed three Professional Property Management firms, requested fee schedules from each firm and also contacted references. The internal review committee recommended Orchard

Commercial, Inc. (Orchard). Orchard was recommended because they best met the evaluation criteria which included experience in maintaining Class A office space, responsiveness to property issues, ability to work with the broker and put an experienced team on the project immediately, a realistic plan for improvements, and a competitive compensation proposal.

DISCUSSION:

Based on the internal review committee's recommendation, the County Manager proposes to execute a contract with Orchard for a term of one year, which will automatically extend for successive one year terms unless terminated with sixty (60) days notice. The engagement will automatically terminate if the property is sold. In no event will the contract exceed ten (10) years. Contract terms include minimum fees of \$2,500 per month until the buildings are occupied and thereafter an additional \$1,225 per floor for the south building and 2.9% of gross monthly rent for the north building. If the north building is leased for around the mid-point of the current asking price for Class A space, the property manager's fees will be approximately \$100,000 per year. Fees for the south building, once occupied, will be \$59,000 per year. This amounts to approximately ten cents per foot per month of the total operating expenses.

Total Operating expenses will be determined after Orchard completes a comprehensive examination and evaluation of the property. The operating costs for both buildings while vacant will be approximately \$15,000 per month, which includes \$2,500 for Orchard's management services in addition to expenses for essential services such as landscaping and grounds maintenance, electricity, water, sewer, garbage, pests, and elevator maintenance.

The Property Management Services Agreement and the resolution have been reviewed and approved as to form by County Counsel.

This action promotes the County's vision of a prosperous community by providing office space for businesses to expand in San Mateo County and generating revenue for the County General Fund.

FISCAL IMPACT:

The Property Management agreement will initially cost a minimum of \$2500 per month for both CSP buildings. Funds to cover the property management fees, operating costs and initial improvement costs will come from non-departmental ERAF reserves. After the buildings are occupied, rents will cover the management fees.