



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: February 13, 2013
Board Meeting Date: February 26, 2013
Special Notice / Hearing: Publication one time
Vote Required: Majority

To: Honorable Board of Supervisors
From: John L. Maltbie, County Manager
Subject: Lease of One Circle Star Way, San Carlos (Lease No. 5357)

RECOMMENDATION:

Adopt a Resolution authorizing:

- A) The County Manager or the Deputy County Manager for Community Services to execute a Lease Agreement pursuant to Uncodified Ordinance No. 04618 with Starburst 1, Inc., a corporation organized under the laws of the State of Delaware, as tenant, at One Circle Star Way, San Carlos at initial monthly rents of \$233,833.00 for 103,948 square feet increasing to \$271,304.28 in year six, with an option to extend for an additional 36 months at a rent adjusted to 100% of prevailing market rates; and
- B) Payment of a Real Estate Broker's Commission; and
- C) 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 Lease Agreement, that further the intent of the Resolution and the Board.

BACKGROUND:

In January of 2011 the County acquired One and Two Circle Star Way in San Carlos, commonly known as Circle Star Plaza (CSP). Although initially intended for County occupancy, reassessment of Department needs resulted in the decision to lease some or all of CSP. On June 5, 2012, the Board granted the County Manager authority to enter into an agreement with a commercial broker, Cornish & Carey Commercial Newmark Knight Frank (C&CNKF) to assist the County in marketing and leasing the property.

DISCUSSION:

With the assistance of C&CNKF, a Lease Agreement has been negotiated with Starburst 1 Inc, a corporation organized under the laws of the State of Delaware, for One Circle Star Way. The lease, for the entire building which is 103,948 square feet, includes associated parking spaces. The term is seventy-five months. It is anticipated that the tenant will immediately begin work on its tenant improvements with full occupancy by November of 2013. The lease expires on June 30, 2019. The tenant will have an option to extend the lease an additional 36 months at a rent adjusted to 100% of prevailing market rates at the time the option is exercised.

Consistent with market practices, the Tenant will be provided with a rent credit applicable to the first nine months of the lease. Starting in January 2014, rent will be \$233,833.00 per month and will increase approximately 3% annually to \$271,304.28 in year six of the lease. This is a “triple net” lease, so the tenant will pay for taxes and insurance as well as utilities and services related to the use and occupancy of the building.

The County will provide a tenant improvement allowance of \$25 per square foot or \$2,589,700. All additional tenant improvement costs will be paid by the tenant. In addition, to prepare the building for occupancy, the County will spend approximately \$200,000 on deferred maintenance to ensure all building systems are tenant ready. An ATR for the tenant improvement allowance will be brought to the Board after the lease is signed.

The County will pay a broker’s commission of \$1,299,350. An ATR for the broker fees will also be brought to the Board after the lease is signed.

The Clerk of this Board has published a Notice of the intent to lease the Property once in the San Mateo Times and posted that notice in the Clerk’s Office. Pursuant to Government Code Section 25351, Redwood City and San Carlos have been notified of the proposed lease.

County Counsel has reviewed and approved the Lease and Resolution as to form.

This action promotes the County’s vision of a livable community by providing temporary office space for businesses in San Mateo County and generating revenue for the County General Fund.

FISCAL IMPACT:

It will take about 18 months to recoup the up-front costs of the lease which include the tenant improvement allowance, broker fees and capital improvement costs. Once these costs are re-paid, the lease will provide a rental income stream averaging approximately \$250,000 per month or \$3,000,000 per year.