



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: October 23, 2015
Board Meeting Date: November 17, 2015
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: Amendment to Lease Agreement at 1950 and 2000 Alameda de las Pulgas

RECOMMENDATION:

Adopt a resolution authorizing the Board President to execute an amendment to the lease agreement with Hines REIT 1900/2000 Alameda de las Pulgas LLC, a Delaware limited liability company for an early extension of a ten-year term beginning October 1, 2017, for the lease of 81,223 square feet of office space for the Health Department at 2000 Alameda de las Pulgas, San Mateo, California, at a monthly rent before expenses of \$2.27 per square foot or \$183,739.

BACKGROUND:

On June 5, 2007 the County entered into a Lease Agreement with Hines REIT 1900/2000 Alameda de las Pulgas LLC, a Delaware limited liability company for 81,223 square feet of office space at the office project at 2000 Alameda de las Pulgas in San Mateo. The premises include a separate two-story building commonly known as 1950 Alameda de las Pulgas consisting of 22,333 square feet, and multiple suites in adjacent 2000 Alameda de las Pulgas, consisting of an additional 58,890 square feet.

The lease is a “net lease”, with payments by the County calculated based on “net” rental rates plus a proportionate share of the operating costs of the project, including janitorial service, maintenance, insurance, utilities, and real estate taxes. The current monthly rent of \$256,905.72 is expressed as a “full service” rent, including all operating costs. The calculation of the full service rent includes net rent at the current blended rate of \$2.27 per square foot, plus operating expenses at the rate of \$1.30 per square foot per month for a total of \$3.57 per square foot per month.

DISCUSSION:

Real Property services has negotiated an early extension of the Lease Agreement at the 2000 Alameda de las Pulgas office project scheduled to expire on September 30, 2017. Commencing on October 1, 2017, the rate will be \$2.27 NNN per rentable square

foot per month. The rent shall be increased annually by 3%. A determination of the fair market rent of the space yielded \$2.25 per square foot. The County had two options to extend for five years each at 95% of market rent, reducing the rent down from \$2.25 to \$2.14 per square foot. This amount was then increased by 3% for years 2016 and 2017, to derive the extension rental rate \$2.27.

The landlord has agreed to provide to the County a tenant improvement allowance of \$10.00 per square foot (i.e., \$792,210.00) to cover the cost of any improvements needed to the space over the term of the lease. The landlord has agreed to provide an additional \$5.00 per square foot of the leased premises to offset a portion of any increase in real property taxes resulting from the sale of the property. The County pays a pro-rata share of property taxes as a pass-through expense. For example, in the event of an immediate sale of the property, the County could pay approximately .10 cents more per square foot per month as a pro-rata share of property taxes. The \$5 per square foot offset would reduce this increase in expenses by about .035 cents to slightly under .07 cents per square foot. The property was last on the market for sale in August of 2012.

The landlord has agreed to address ADA issues at the property. The landlord will also supply ten reserved parking spaces to assist the County with a new car-sharing program.

County Counsel has reviewed and approved the amendment and resolution as to form. The Director of the Health Department and the ADA Compliance Committee concur in this recommendation.

Approval of the amendment contributes to the Shared Vision 2025 outcome of a Healthy Community by continuing to provide an affordable, accessible and convenient location where members of the public can access resources and obtain necessary services.

PERFORMANCE MEASURE(S):

Real Property Services strives to maintain an average cost of leased facilities that compares favorably with the average rate for comparable facilities in the County. The full service rental rate for the leased area in 2017 discounted by 3% for years 2016 and 2017 is approximately \$3.51 per square foot per month. This is substantially below the San Mateo 3rd Quarter 2015 average asking rates of \$4.63 per square foot per month, full service.

Measure	FY 2015-2016 Actual	Avg. Asking Rate San Mateo Q3-2015
Monthly Cost per square foot:	\$3.51	\$4.63 (full service)

FISCAL IMPACT:

The Health Department now has rents that are fixed by the Amendment through 2027. The rent of \$2.27 per square foot represents an increase based on ongoing annual escalations of 3% and is included in the proposed Health Department budget.