



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: April 2, 2014
Board Meeting Date: April 22, 2014
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: John L. Maltbie, County Manager
Subject: Lease at 550 Quarry Road in San Carlos

RECOMMENDATION:

Adopt a Resolution authorizing:

- A) The President of the Board of Supervisors to execute a Lease Agreement with 550 Quarry Road, LLC, a California Limited Liability Company, of office and warehouse space at 550 Quarry Road, San Carlos, California, for a term of ten years, with two additional five year options at a rent of \$57,988.80 per month which increases 3% annually; and
- B) The County Manager or his designee to accept or execute notices, options and documents associated with the Lease including, but not limited to, extension or termination of the Lease under the terms set forth therein.

BACKGROUND:

In December 1998, the County and 550 Quarry Road, LLC, as successor in interest to Vernazza Properties (the "Landlord") entered into a Lease Agreement of office and warehouse space at 550 Quarry Road in San Carlos, for the use of various programs of the Human Services Agency ("HSA"). The County and Landlord subsequently entered into a series of amendments to the Lease which expanded the area of the Premises, set forth improvements to be completed by the Landlord, modified the base rent, and acknowledged the new entity holding title to the property. The Lease expired on October 31, 2011 and the County has continued to occupy the space on a month to month basis in accordance with the holdover provision contained in the Lease, at the base rent of \$88,986.11 per month, which increases annually based upon changes in the Consumer Price Index.

DISCUSSION:

Real Property Services has negotiated a new lease agreement for a term of ten years, with two five-year options to extend, at the rent of \$57,988.80, which increases by 3%

annually. The landlord will make all necessary ADA-related improvements to the exterior of the premises and base building system improvements as set forth in the lease and provide an allowance of 336,800 for County's improvements to the Premises.

The County has relocated a portion of the HSA services to office space at Harbor Boulevard and therefore reduced the current need for office space. Under the proposed lease, the County will occupy all of the warehouse, cafeteria and office space on the first floor and have the option to use what will be designated "Expansion Space" on the second floor, with rent paid only if it is occupied. The Landlord will maintain the ability to lease the second floor space; however, the County will have a First Right of Refusal to occupy the space in the event the Landlord secures a tenant. If within the first four years of the lease, the County elects to occupy the Expansion Space for the remaining term of the lease, the County will receive an allowance of ten dollars per square foot for improvements.

County Counsel has reviewed and approved the Amendment and Resolution as to form. The Director of the Human Services Agency concurs in this recommendation.

Approval of the Lease Agreement contributes to the Shared Vision 2025 outcome of a Prosperous Community by establishing an agreement that allows the County of San Mateo to continue to provide human services functions from a centralized location.

Performance Measure(s):

Real Property Services strives to maintain an average cost of leased facilities that compares favorably with the average asking rate for comparable facilities in the County. The rental rate for the leased area is on a modified "triple net" basis at \$1.65 per square foot per month for the office and cafeteria space and .80 cent per square foot per month for the warehouse space; the County will be responsible for increases in taxes, utilities and operating expenses. Operating expenses are estimated to be 0.50 cents per square foot per month for the premises, which when added to the modified NNN rates compares favorably with the Countywide average asking rate of \$3.16 per month and the Belmont/San Carlos average asking rate of \$2.67 per month, and the Countywide average asking rate of \$0.77 per square foot per month.

Measure	FY 2011-12 Actual	Avg. Asking Rate Belmont/SanCarlos Q3-2011
Monthly Rate (Office):	\$1.65 (mod NNN)	\$2.67 (full service)
Monthly Rate (Warehouse):	\$0.80 (mod NNN)	\$0.77

FISCAL IMPACT:

The initial rent of \$57,988.80 per month is included in the adopted FY 2012-13 budget of the Human Services Agency. The new lease represents a reduction in the Agency's rent per square foot for office and warehouse space.