



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 16-756

Board Meeting Date: 11/21/2017

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: Lease Agreement with the City of Daly City for office space at 271 92nd Street to support the Human Services Agency (Lease #1327)

RECOMMENDATION:

Adopt a resolution authorizing:

- A) The President of the Board of Supervisors to execute a Lease Agreement with the City of Daly City for 20,910 square feet of office space at 271 92nd Street in the City of Daly City, at an initial monthly rent before expenses or rent abatement of \$42,865.50, and for a term of twelve years with one five-year option to extend; and
- B) The County Manager, or his designee, to accept or execute on behalf of the County, any and all written notices, options, consents, approvals and documents in connection with the Lease Agreement including, but not limited to, extension or termination of the Lease Agreement under the terms set forth therein.

BACKGROUND:

In September of 1992, the County entered into an 18-year Lease Agreement with the City of Daly City ("City") for a portion of the 20,910 square foot office building located at 271 92nd Street in the City of Daly City ("Property"). The office space was needed so the Job Training and Economic Development Division of the Human Services Agency ("Agency") could provide services to residents in Northern County. The Property was selected, in part, due to its proximity to public transportation. The lease allowed the County to increase the square footage occupied from 10,360 square feet to 20,910 square feet ("Premises") after 57 months. The County exercised this option for the entire Premises.

The lease expired by its own terms in 2010. With the consent of the City, the County has continued to occupy the Premises in a holdover capacity since this time.

In 2012, an effort was made to move the Workforce Investment Act program from the Agency's Employment Services Unit to the Workforce Development Unit within the County Manager's Office.

This proposed consolidation of economic development functions called for the relocation of staff to a more centralized location. The Real Property Services Division was tasked with locating new office space in Central County. This consolidation plan was later abandoned causing the Agency to re-evaluate the merits of moving to a newer facility. Because residents of Daly City represent the largest constituency for Agency, it is essential that services be provided from a location within Daly City.

The only viable alternative in Daly City was significantly more expensive per square foot. Agency then began a lengthy due diligence process to ascertain the condition of the 75-year old Property. City and Agency shared the cost of a Property Condition Report and Agency requisitioned a Hazardous Materials Report, ADA Commission Report, and update of a Seismic Retrofit Evaluation Report that had been completed in 2006. Meetings with the City led to a mutually agreeable plan wherein City would complete certain deferred maintenance and capital improvements identified in the Property Condition Report, including work to the roof, windows and exterior of the building.

DISCUSSION:

The Agency has occupied the Premises for twenty-five years and expects to continue to provide client-facing services in Northern County for the foreseeable future. Given the up-front capital costs needed to update the building and meet programmatic demands, the Real Property Services Division has negotiated a long-term lease to better amortize improvement costs. Once executed, the new lease will supersede and terminate the existing lease.

City will be contributing approximately \$50.00 per square foot as a Tenant Improvement Allowance ("Allowance"), to cover the cost of improvements not identified in the Property Condition Report, including hazardous materials abatement and accessibility enhancements. The Allowance totals approximately \$1,046,240, which amount County will recover in abated rent over the term of the lease. The County will manage the completion of this work along with the alterations to update the Premises. Total costs to relocate staff, set up temporary facilities, and remodel and furnish the space to maximize use for Agency's purposes are estimated to cost an additional \$5,000,000. Some staff will be relocated into temporary on-site modular facilities during the construction and others will be moved to temporary space. The County will also receive a six-month rent abatement, the equivalent of \$257,193.00, to offset costs. This brings Daly City's contribution in the form of rent abatement to \$1,303,433.81.

The Real Property Services Division has negotiated an initial monthly rent before expenses of \$2.05 per square foot, or \$42,865.50 with an annual escalation of 3%. However, the monthly rent will be reduced by \$0.50 per square foot per month, or \$10,455, until the total rent abatement of \$1,303,433.81 is recovered by the County. The reduction results in the County paying an initial monthly rent of \$1.55 per month, or \$32,410.50 per month for the first ten years of the term

The County will pay utility service providers directly for services furnished to the Premises and provide necessary janitorial services. City will make the agreed upon improvements to the Premises and maintain the Premises at its sole cost and expense. The calculation of the full service rent before abatement is estimated to be approximately \$2.70 per square foot per month.

The Property requires accessibility enhancements both inside and outside. County Counsel has reviewed and approved the Lease and Resolution as to form. The Director of the Human Services Agency concurs 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:

Measure	FY 2017-18 Actual	Average Asking Rate Daly City Q2-2017
Monthly Cost per square foot	\$2.70 (full service approximate)	\$2.79 (full service)

The Real Property Services Division 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 equivalent rental rate of approximately \$2.70 per square foot (rental rate of \$2.05 and operating expenses of approximately .70 amount) is below the Daly City 2nd Quarter 2017 average asking rates of \$2.79 per square foot per month, full service.

FISCAL IMPACT:

The rent and ongoing 3% annual escalations are included in the proposed Human Services Agency Department budget.