



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 19-167

Board Meeting Date: 2/26/2019

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Michael P. Callagy, County Manager

Subject: Amendment to Lease Agreement with Harbor Belmont Associates. (Lease No. 1286)

RECOMMENDATION:

Adopt a resolution authorizing:

- A) The President of the Board of Supervisors to execute an amendment to the lease agreement with Harbor Belmont Associates; and
- B) The County Manager, or his designee, to accept or execute on behalf of the County of San Mateo any and all notices, options, consents, approvals, terminations, and documents in connection with the lease agreement.

BACKGROUND:

Since 1988, the County has leased for the use of the Human Services Agency (HSA) most of Buildings B and C of the Harbor Business Park complex, located in unincorporated Belmont. The two single story office buildings contain approximately 59,215 square feet of space. HSA's administrative headquarters are located at the Harbor Business Park and direct client services are provided there.

Pursuant to Resolution No. 69940, the Board of Supervisors approved a ten-year lease agreement and authorized the County Manager to exercise an option to extend the lease for an additional five-year term at 95 percent of the then-prevailing market rate. Real Property Services, in coordination with HSA, determined that it was appropriate to exercise the County's option to extend for an additional five years commencing March 1, 2019, and entered into discussions with the landlord on the determination of the prevailing market rate for purposes of setting the initial base rent for the extended term.

As a result of those negotiations, the Landlord has agreed to an initial base rent for the extended term of \$2.97 per square foot per month, "full service," and further agreed to provide a \$300,000 tenant improvement allowance. The Landlord will also expend approximately \$300,000 for ADA

walkway improvements and approximately \$300,000 in HVAC and roof upgrades/repairs.

As part of the negotiations, Real Property Services agreed to submit to the Board of Supervisors for its approval an amendment to the Lease to convert it to a “triple net” lease, whereby the tenant bears a greater share of operating costs in exchange for a lower base rent, as of the commencement of the extended term of the Lease.

DISCUSSION:

The proposed amendment to the Lease converts the agreed upon “full-service” rental rate of \$2.97 per month per square foot to a “triple net” equivalent. Pursuant to the original terms of the 2009 lease, the County was obligated to pay a “full service” base rent plus a proportional amount of the increase in operating expenses and property taxes on the property since the 2009 base year. The proposed amendment to the Lease would require the County to bear its percentage of the total operating expenses and property taxes in a given year, not just the increase since 2009, in exchange for a monthly base rent that has been reduced by the estimated monthly share of operating expenses (i.e., the “triple net” rate).

Effective March 1, 2019, the monthly base rent shall be \$122,575.05, or \$2.07 per square foot. The change from “full service” to “triple net” is the only proposed substantive amendment to the Lease. Under the proposed structure, the County’s total outlay (monthly base rent plus the County’s share of operating expenses) should be approximately the same as under the “full service” structure, barring circumstances that render actual operating expenses or property taxes greater than estimated.

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

Approval of this amendment contributes to the Shared Vision 2025 outcome of a Healthy Community by enabling the Human Services Agency to efficiently support services throughout the County and provide direct services.

PERFORMANCE MEASURE:

Measure	FY 2018-19 Actual	Avg. Asking Rent in San Mateo County Q4 -2018
Monthly Rental Rate:	\$2.97 FS	\$4.87 FS

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 \$2.97 per square foot per month full service, which compares favorably with the published average asking rates for Class B/C office space in Belmont/San Carlos of \$4.87 per square foot per month full service.

FISCAL IMPACT:

The monthly base rent of \$122,575.05 and estimated annual operating expenses have been budgeted in the Fiscal Year 2018-2019 Adopted Budget.