


CITY COUNCIL ACTION REQUEST

Department: Office of Economic Development and Cultural Affairs	CEQA: Categorical Exemption, File No. ER22-224, Exempt pursuant CEQA Guidelines Section 15301 (a) for Existing Facilities	Coordination: PBCE, ESD, CAO, and CMO - Budget Office	Dept. Approval: /s/ Nanci Klein
Council District: 2			CMO Approval:  9/20/22

SUBJECT: LEASE AGREEMENT WITH NORTHERN TRUST BANK CA FOR SAN JOSE MUNICIPAL WATER OFFICES LOCATED AT 3870 CHARTER PARK DRIVE

RECOMMENDATION:

Adopt a resolution authorizing the City Manager, or her designee, to negotiate and execute an AIR CRE Gross Lease between Northern Trust Bank CA, trustee, and the City of San José, a municipal corporation, for use of the property located at 3870 Charter Park Drive for a period of four years, with a one-year City option to extend, for a total cost over five years of \$1,672,377.79.

BASIS FOR RECOMMENDATION:

San José Municipal Water (Muni Water) is seeking a temporary location for its operations and management staff during redevelopment of its permanent offices along Tuers Road. Muni Water's operations and management staff require a site that will accommodate approximately 31 City-owned vehicles, 10 towable equipment trailers, miscellaneous equipment storage, suitable connections for a Supervisory Control and Data Acquisition (SCADA) communication system, and office space for approximately 20-30 staff.

The property located at 3870 Charter Park Drive (Property) is improved with a 15,000 square foot building containing 3,750 square feet of office space and 11,250 square feet of industrial shop space and has an approximately one-acre fenced yard. The Property is currently listed for lease by Ritchie Commercial. The Property is located in an area that provides Muni Water the ability to maintain a reliable communications connection with its service areas in North San José and the Edenvale area via its SCADA system.

The City has executed a non-binding letter of intent agreement with the Northern Trust Bank CA, trustee (Landlord) outlining the following key terms:

- Lease Term: initial four-year term with option to extend an additional one year.
- Lease Rate: \$1.75 per square foot, industrial gross, escalating 3% annually.
- Industrial Gross: The City will pay all metered utilities such as gas, electric, water and direct expenses such as telephone, internet, garbage, and any increases in property taxes and insurance above the base year amount. Landlord shall pay for insurance and taxes, up to the base year amount for the duration of the term. Base year shall be the fiscal year during which lease commencement occurs.
- Lease Commencement: Upon execution, no later than October 15, 2022.
- Rent Commencement: November 1, 2022, or date City is given possession with tenant improvement work substantially completed.
- Tenant Improvements: Landlord will replace all carpeting, paint walls, and remove soundproofing material from offices.
- Maintenance and Repairs: Landlord shall be responsible for all maintenance and repair of structural elements of the Property, including but not limited to roof structure and membrane, foundation, exterior walls, etc. City shall be responsible for preventative maintenance and minor repairs within interior of building, including but not limited to, lamp replacement and non-structural elements.

- **Condition of Leased Premises:** All building systems, including but not limited to, mechanical, electrical, plumbing, lighting, and overhead doors are to be delivered in good working order and in accordance with all local codes. Latent defects will be addressed to Landlord in writing within 30 days of the rent commencement date (with the exception of HVAC, which shall have a 90-day warranty period), with the problem components to be repaired or replaced by the Landlord (provided such is a Landlord responsibility) at the Landlord's sole cost and expense.

Muni Water staff toured the property and determined it to be suitable for its operations and maintenance staff during redevelopment of its permanent offices on Tuers Road. While Charter Park will accommodate all of Muni Water's industrial-space needs, roughly 25 staff will require additional office space at another location.

Climate Smart San José: The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

Commission Recommendation/Input: No commission recommendation or input is associated with this action.

COST AND FUNDING SOURCE:

This recommendation is funded by the Water Utility Fund (Fund 515) Non-Personal/Equipment Appropriation (0762). First year rent totals \$315,000.00 and increases by 3% on each anniversary of the lease commencement. The total cost of the five-year term, including the option period, is \$1,672,377.79.

The Rent Schedule is as follows:

Year	1	\$26,250.00/ month	\$315,000.00 annual
Year	2	\$27,037.50/ month	\$324,450.00 annual
Year	3	\$27,848.63/ month	\$334,183.50 annual
Year	4	\$28,684.08/ month	\$344,209.01 annual
Option Year	5	\$29,544.61/ month	\$354,535.28 annual

FOR QUESTIONS CONTACT: Kevin Ice, Senior Manager, Real Estate Services at kevin.ice@sanjoseca.gov.