



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kim Welsh
Edgardo Garcia

SUBJECT: SEE BELOW

DATE: May 18, 2020

Approved

Date

5/21/2020

COUNCIL DISTRICT: 3

SUBJECT: LEASE EXTENSION FOR OFFICE SPACE BETWEEN CITY OF SAN JOSE AND LA FAMILIA, LP; LEASE EXTENSION FOR OFFICE SPACE BETWEEN CITY OF SAN JOSE AND 4TH STREET SAN JOSE PARTNERS, LLC

RECOMMENDATION

Adopt a resolution authorizing the City Manager to:

- (a) Negotiate and execute an agreement, and all necessary documents, with 4th Street San Jose Partners, LLC, to extend an existing lease for one additional year for the San José Police Department Gaming Control Unit located at 210 N. 4th Street, Suite 202;
- (b) Negotiate and execute an agreement, and all necessary documents, with La Familia, LP, to extend an existing lease for one additional year for the San José Police Department Children's Interview Center located at 777 N. 1st Street, Suite 320; and
- (c) Negotiate and execute an agreement, and all necessary documents, with La Familia, LP, to extend an existing lease for one additional year for the San José Police Department Professional Standards and Conduct Unit located at 777 N. 1st Street, Suites 430 & 666.

OUTCOME

Staff will negotiate and execute the above-mentioned lease extensions for three leases, covering four office suites occupied by the San José Police Department (SJPD) consistent with the terms outlined in this memo.

The lease extensions for the Police Gaming Control Unit (PGCU) at 210 N 4th Street, Suite 202, the Children's Interview Center at 777 N 1st Street, Suite 320, and the Professional Standards and Conduct (Internal Affairs) Unit at 777 N 1st Street, Suites 430 & 666 would run for one year, deferring an anticipated long-term extension until the summer of 2021 when more is known about COVID-19's impact on the office leasing market.

BACKGROUND

210 N. 4th Street, Suite 202

On May 19, 2015, the City Council approved a five-year lease, including one option to extend for an additional five years at market rate, with 4th Street San José Partners, LLC. This lease is for the PGCU's use of approximately 3,320 square feet of office space located at 210 N. 4th Street, Suite 202, in San José. The initial five-year term commenced on June 1, 2015 and will expire on May 31, 2020. The current monthly lease rate is approximately \$1.97 per square foot, or approximately \$6,540. The current PGCU office is at an ideal location approximately 2.5 miles from the local card rooms they monitor and is within 0.5 miles of City Hall.

777 N. 1st Street, Suite 320

On March 8, 2016, the City Council approved a five-year lease, including one option to extend for an additional three years at market rate, with La Familia, LP. This lease is for the Children's Interview Center's use of approximately 945 square feet of office space located at 777 N. 1st St., Suite 320, in San José. The initial five-year term commenced on August 1, 2015 and will expire on July 31, 2020. The current monthly lease rate is approximately \$2.13 per square foot, or \$2,010.52.

777 N. 1st Street, Suites 430 & 666

On March 8, 2016, the City Council approved a five-year lease, including an option to extend for an additional three years at market rate, with La Familia, LP. This lease is for the Internal Affairs Unit's use of approximately 4,113 square feet of office space located at 777 N. 1st St., Suites 430 & 666, in San José. The initial five-year term commenced on August 1, 2015 and will expire on July 31, 2020. The current monthly lease rate is approximately \$2.09 per square foot, or \$8,580.79.

Option Period Asking Rents

Per terms of each of the existing leases, the City holds an option to extend, at market rate, for an additional five years for 210 N. 4th Street, Suite 202 and an additional three years for 777 N. 1st Street, Suite 320, 430 & 460. Asking rates for these option periods are predicated on the notion that the current lease rates are below market, and the owner is seeking to bring the lease payments up to market rate. Monthly asking rents for the options are \$2.75 per square foot for 210 N. 4th Street, Suite 202 and 777 N. 1st Street suite 320, and \$2.53 per square foot for 777 N. 1st Street suite 430 & 666. Paying the asking rate for the Option period would equate to \$65,408 more in the first year of the lease term over the recommended one-year lease extensions. Staff

has determined that it is better for the city to take stock of the market after one year to account for current conditions and determine an appropriate long-term extension at that time.

ANALYSIS

Real Estate staff have spoken to leasing professionals in the Downtown San Jose area and have conducted a rental study to understand the market rents. Staff determines average monthly asking rates for office space to be \$2.60 to \$3.40 per square foot. However, the current leasing market is based on pre-COVID-19 shutdown market activities. It is unknown what effects the COVID-19 shutdown will have on the office rental market as many tenants are not currently paying rent, and demand for office space is projected to be depressed after the economy reopens. Staff does not recommend committing to current market rates by exercising the available three-year and five-year lease options, thereby locking us into the asking rates of \$2.53-\$2.75 per square foot, due to the uncertainty of the office leasing market going forward.

Accordingly, staff has negotiated the following rates for short term extensions for each of the three leases.

- **210 N. 4th Street, Suite 202:** A period of one year beginning July 1, 2020 through June 30, 2021 at \$2.00 per square foot for the use of 3,320 square feet of office space. This equates to \$6,640 monthly or \$79,680 annually. The month of June 2020 will be leased at a cost of \$6,540 under holdover terms of the current lease. The total for this thirteen-month period is \$86,220. These rates are full service, which includes operating expenses associated with the building such as insurance, maintenance, and taxes.
- **777 N. 1st Street, Suite 320:** A period of one year beginning August 1, 2020 through July 31, 2021 at \$2.00 per square foot for the use of 945 square feet of office space. This equates to \$1,890 monthly or \$22,680 over the term of the lease. This rate is full service, which includes operating expenses associated with the building such as insurance, maintenance, and taxes.
- **777 N. 1st Street, Suites 430 & 666:** A period of one year beginning August 1, 2020 through July 31, 2021 at \$2.00 per square foot for the use of 4,113 square feet of office space. This equates to \$8,226 monthly or \$98,712 annually. This rate is full service, which includes operating expenses associated with the building such as insurance, maintenance, and taxes.

CONCLUSION

Staff recommends declining to exercise the long-term renewal options for all three SJPD leases due to associated rental amounts for the option periods being set at pre-COVID-19 market rates, which would be at a monthly rate of \$2.53-\$2.75 per square foot. Staff instead recommends one-year extensions for the PGCU, Children's Interview Center, and Internal Affairs Unit leases, which will allow time for the effects of the COVID-19 emergency on the rental market to become better defined prior to committing to long-term extension. Staff plans to secure a longer-term rental period for the three leases at the end of the one-year renewal period.

EVALUATION AND FOLLOW-UP

Staff will negotiate and execute lease extensions for the PGCU, Children's Interview Center, Internal Affairs) Unit consistent with the recommendations in this memorandum. After the expiration of the one-year extension, staff will secure a longer-term rental period for the three leases and will bring recommendations forward for City Council approval.

CLIMATE SMART SAN JOSE

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

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the June 2, 2020 City Council agenda.

COORDINATION

This memorandum has been coordinated with the Police Department, the City Attorney's Office, and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

The rent for the month of June 2020 and the subsequent one-year extension, beginning July 1, 2020 through June 30, 2021, for the PGCU at 210 N 4th Street, Suite 202 is \$86,220.

The rent for the one-year extension, beginning August 1, 2020 through July 31, 2021, for the Children’s Interview Center at 777 N 1st Street, Suite 320 is \$22,680.

The rent for the one-year extension, beginning August 1, 2020 through July 31, 2021, for the Internal Affairs Unit at 777 N 1st Street, Suites 430 & 666 is \$98,712.

The 2020-2021 Proposed Operating Budget includes sufficient funding for the lease costs of all three facilities.

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the lease agreements recommended as part of this memo.

Fund #	Appn #	Appropriation Name	Total Appn.	Amt. for Lease	2019-2020 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	2064	Property Leases*	\$1,660,201	\$121,392	IX-28	06/18/2019, Ord. No. 30286
001	0502	Police Non-Personal/ Equipment**	\$28,728,779	\$86,220	VII-354	04/28/2020, Ord. No. 30403

* This appropriation will fund the lease agreements for 777 N 1st Street, Suites 320, 430 & 666.

** This appropriation will fund the lease agreement for 210 N 4th Street, Suite 202.

HONORABLE MAYOR AND CITY COUNCIL

May 18, 2020

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CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

KIM WALESH

Deputy City Manager

Director of Economic Development

/s/

EDGARDO GARCIA

Chief of Police

For questions, please contact Nanci Klein, Assistant Director of Economic Development, Director Real Estate, at (408) 535-8184.