



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: April 30, 2007
BOARD MEETING DATE: May 22, 2007
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: Steve Alms, Manager, Real Property Services Division

SUBJECT: Lease agreement with Hines REIT 1900/2000 Alameda de las Pulgas LLC, a Delaware limited liability company of a portion of the office project 2000 Alameda de las Pulgas, San Mateo, for the Health Department. (Lease No. 1283)

RECOMMENDATION:

Adopt a resolution authorizing and directing:

- 1) The Board President to execute a Lease Agreement with Hines REIT 1900/2000 Alameda de las Pulgas LLC, a Delaware limited liability company of a portion of the office project at 2000 Alameda de las Pulgas, San Mateo, at an initial monthly rent of \$210,423 for a term of ten years with two options to extend for an additional five years each, and
- 2) The County Manager or his designee to execute notices, options and documents associated with the Lease including, but not limited to, extension or termination of the agreement under the terms set forth therein.

VISION ALIGNMENT:

Commitment: Ensure basic health and safety for all.

Goal(s):

Goal 5. Residents have access to healthcare and preventive care.

The Agreement contributes to this goal by consolidating administrative and service functions in a convenient location that will enable the Health Department to efficiently provide and support services to those in the central part of the County, and beyond.

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.

Measure	Lease - Actual	Avg. Asking Rate San Mateo County Q1-2007
Monthly Rate	\$2.59	\$2.63

Approximately 25% of the Premises will be improved by the landlord as mental health counseling offices. The improvements required for this purpose are similar in character and construction cost to medical office space, and such space costs more than standard office facilities. The negotiated full service rate of \$2.59 per square foot per month for the premises compares favorably with the current countywide Average Asking Rate of \$2.63.

BACKGROUND:

Since 1990, Mental Health has occupied the building at 3080 LaSelva Street as its primary central-county administrative and services facility. The monthly rental for that facility, negotiated at the height of the market in 1999, reached \$86,094 (\$5.06 per square foot) in 2005. That rate did not include taxes, insurance and services, the cost of which are paid by the County. Despite a significant reduction in rent that was negotiated in 2006 for a 2-year extension of the lease, the rental history, quality and condition of the facility indicated that it would be prudent to seek an alternative location. Mental Health facilities throughout the County are experiencing the staffing increases made necessary by the Mental Health Services Act.

The search for alternative space provided an opportunity to consolidate multiple Health Department leased facilities in a single location, and to co-locate related functions from the County-owned facility at 225 37th Avenue. Relocation of certain functions from 37th Avenue will help alleviate current conditions, and provide adequate space to accommodate changes resulting from the recent County reorganization. It will also facilitate the relocation of the Environmental Health Division from its current location at 455 County Center to more appropriately sized facilities at 225 37th Avenue.

The leased facilities involved in this consolidation, 3080 LaSelva Street and 150 W. 20th Avenue, are located in the City of San Mateo. The combined area of those facilities is 34,500 square feet and the associated monthly occupancy cost is approximately \$74,000. Efforts are underway to identify an additional 5,000 square feet at the Alameda property to accommodate the relocation of California Children's Services from 2015 Pioneer Court upon expiration of that lease.

DISCUSSION:

Real Property Services has negotiated a lease of approximately 81,223 square feet in the office project at 2000 Alameda de las Pulgas, San Mateo. The premises include a separate two-story building commonly known as 1950 Alameda de las Pulgas, consisting of 22,333 rentable square feet, and multiple suites in the adjacent 2000 Alameda de las Pulgas, consisting of an additional 58,890 square feet. The initial term commences upon completion by the landlord of leasehold improvements,

estimated to occur in October 2007, and expires September 30, 2017, subject to the County's right to extend the term for two additional five-year periods.

The total area includes an initial area of 61,428 square feet, and "expansion space" of 19,795 square feet. At this time it is anticipated that leasehold improvements to the expansion space can be completed, and that portion of the premises can be occupied, on the same schedule as the balance of the premises. Should completion of improvements to the expansion space be delayed, rent for that portion of the premises will not commence until such improvements are complete.

The lease is a "net lease", with payments by the County calculated based on "net" rental rates plus a proportionate share of the operating costs of the project, including janitorial service, maintenance, insurance, utilities, and real estate taxes. The initial monthly rent of \$210,423 is expressed as a "full service" rent, including all operating costs. The calculation of the full service rent includes net rent at the base rate of \$1.35 per square foot for the 2000 Building and \$2.00 per square foot for the 1950 Building, plus operating expenses for the initial year at the rate of \$1.085 per square foot per month. The base rent for minimally improved areas used for data facilities and storage is based on a rate of \$1.50 per square foot, which is not subject to the additional charge for operating expenses. Each of the initial rental rates is subject to an annual 3% increase on the anniversary of the rent commencement date.

In addition, the landlord has agreed to provide to the County a reimbursable allowance of \$1,000,000 to cover the initial cost of any improvements required by the County that are not part of the landlord's obligation to improve the premises. This allowance can be used to pay the cost of changes requested by the County during the course of construction. Any portion of the allowance used will be amortized over the term of the lease, and repaid as additional rent in monthly installments including principle and interest at the rate of 9% per annum.

The Health Department indicates that approximately 400 staff will be accommodated at the facility including Mental Health Administration and Services for Central County, Family Health Services and Aging and Adult Services.

The Director of the Health Department and the ADA Compliance Committee concur in this recommendation.

FISCAL IMPACT:

The rent of \$2,525,071 for the initial year of the ten-year term is included in the proposed Health Department budget for Fiscal Year 2007/2008.

cc w/enc: Lee Thompson, Deputy County Counsel
cc: Charlene Silva, Director, Health Department
Arthur Morris, Deputy Director, Health Department