



Information Item

Date: April 28, 2009

To: Mayor and City Council
From: Andy Agle, Director of Housing and Economic Development
Subject: Leases for City Office Space

Introduction

At its March 24, 2009 meeting, the City Council asked for additional information regarding leases for private office space to serve City needs in light of previous Council direction to demolish an existing City-owned building.

Background

On [July 8, 2008](#), Council endorsed strategies related to offices for City administrative functions. Those strategies included that whenever a lease expires, locations in or adjacent to the Civic Center should be explored to identify opportunities to move staff closer to City Hall, reducing staff travel time and providing an improved customer service experience.

On [March 3, 2009](#), Council authorized staff to pursue permits and bids for the future demolition of a 25,335-square foot, City-owned building located at 1324 Fifth Street. The staff report explained that the property would likely be developed for a public purpose within the next five years and that the expense of renovating the building, estimated at \$400,000, would not be recouped within the building's time horizon and that use of the site as a public parking lot during the interim would be more beneficial.

On [March 24, 2009](#), Council authorized negotiations and execution of a lease for 21,123 square feet on the first and second floors of the office building at 1717 Fourth Street. The annual rent for this space is \$689,943. At that meeting, Council requested

additional information regarding the decision to lease private office space while demolishing City-owned space.

Discussion

Due to a lack of available space in City Hall, certain City administrative functions are currently located in leased, private office buildings, in the Pier Carousel and in park buildings. Currently, the City leases a total of 70,394 square feet in eight private buildings, requiring a monthly rent of \$222,547.

In evaluating potential locations for City offices, staff is guided by an objective to locate City offices within walking distance of City Hall, as directed by Council on July 8, 2008. Locating offices within walking distance of City Hall not only enhances customer service for members of the public who have to interact with multiple City offices, it also enhances staff productivity by reducing travel times and reduces the City's carbon footprint by minimizing the need for auto trips between sites.

The City's Finance and Risk Management functions have been located at 1717 Fourth Street for over fifteen years. The building is located across from the core Civic Center buildings, facilitating easy walking trips for customers and employees and allowing use of the centralized Civic Center parking resources. By contrast, 1324 Fifth Street is approximately 2/3 of a mile away from City Hall, greater than the ¼-mile walking range that is generally considered acceptable before people choose to take vehicles between destinations.

While it may be cheaper to rent space, or use City-owned space that is a greater distance from City Hall, leasing office space in close proximity to City Hall has great value in terms of customer service, productivity and sustainability.

In addition to proximity considerations, there are also financial considerations with respect to occupancy timeframes. If the property at 1324 5th Street was not anticipated to be redeveloped for public parking or other public uses within the near term, it could have been reasonable for the City to invest in the building's renovation for City or other

uses. However, a time horizon of five years does not give the City enough time in occupancy to warrant the expense, as it would likely take 18 to 24 months to design, bid and construct the tenant improvements. New leased space for City operations would need to be found at such time that 1324 5th Street is ready for redevelopment, with the prospect that additional tenant improvements would be required in a new space. The space across the street from the Civic Center may no longer be available at that time, and the City may not be able to secure the same attractive rent that it recently negotiated for 1717 4th Street. By contrast, 1717 Fourth Street is available now for a ten-year term and a considerable portion of the tenant improvement investments for the second floor were already completed in the late 1990's under initial occupancy. With the new lease, the Landlord has agreed to contribute \$360,000 in tenant improvements through rent credits. Allowing offices to remain at 1717 Fourth Street also minimizes the need to move City operations, as moving is costly, stressful and reduces productivity.

The chart below lists the factors that can be quantified currently. The chart does not include the cost associated with lost productivity from moving the entire Finance Department (est. 70 employees) twice versus moving the Revenue Division (est. 20 employees) only once to 1717 4th Street. Additionally, it does not include the City's increased maintenance responsibility and costs associated with City ownership of property, nor the expected increase in office lease rates in five years.

	Move to 1324 5th Street for Five Years	Remain at 1717 4th Street
Structural Improvements	\$600,000*	\$0
Tenant Improvements (excludes basement)	\$40/sf x 20,000 sf= \$800,000 (est. is low given short term tenancy)	\$400,000 less rent credit of \$360,000 = \$40,000
Rent	\$0	Rent for 42 months occupancy @ \$58,000/mo = \$2,436,000 **
Tenant Improvements for relocation to a new office upon leaving 1324 5 th St after years	\$1,200,000 (20,000 sf @ \$60/sf)	\$0
Moving 70 employees twice (to and from 1324 5 th Street)	\$75,000	
Total	\$2,675,000	\$2,476,000

*(The structural improvement cost of \$400,000 noted in the March 3, 2009, staff report has been increased by \$200,000 to reflect additional information gathered since the original January 2008 building remediation report was prepared. The primary factor of increased costs relate to improvements that would be required to remediate the deterioration and remove more building materials contaminated by mold.)

** (assumes City would need to pay rent for 18 months while 1324 5th Street is being renovated, thus, additional rent is only for 42 months))

The intangible costs, including the uncertainty of leasing space in five years at a rate as favorable as that negotiated for 1717 4th Street, the minimal improvements that the City would invest in the rehabilitation of 1324 5th Street for only 42 months of occupancy, and the resulting inconvenience for customers and lost productivity for staff in that building are an additional basis for staff's recommendations to lease more space at 1717 4th Street.

A final consideration is the quality of the work environment afforded by the two buildings. 1717 Fourth Street makes use of windows in order to bring natural daylight into the workspaces, enhancing employee productivity and reducing artificial energy needs. By contrast, 1324 Fifth Street was originally designed as a bank and draws daylight from a few windows on Fifth Street and Fourth Court. The center of the building has no access to natural light. While this was acceptable as an interim solution for the temporary library, it would create challenges in a more typical office environment.

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