TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER  DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: JANUARY 18, 2005 CMR: 130:05

SUBJECT: STATUS OF THE LEASES FOR THE DEVELOPMENT CENTER AND UTILITIES ENGINEERING SPACES AT 285 HAMILTON AND 1003 AND 1007 ELWELL COURT

This is an information report and no Council action is required.

BACKGROUND
On July 13, 1998, staff provided information on the space needs in the Civic Center complex (CMR: 307:98). A survey indicated that the "space deficit" in the Civic Center was approximately 21,000 square feet. At that time, the consultant indicated, "the shortage of work space (for the Planning Division of the Department of Planning and Community Environment) is not a minor item and deserves immediate, serious attention." The report also noted that the Utilities Engineering staff was desperately in need of additional workspace.

At its July 13, 1998 meeting, Council approved leasing 9,202 square feet of space for the Utilities Engineering Division at 1007 Elwell Court near East Bayshore Road. Staff also received Council approval to pursue leasing space to accommodate the creation of a one-stop Building/Planning permitting center. On September 22, 1998, Council approved the creation of the Development Center and the sublease of 6,361 square feet of space at 285 Hamilton Avenue. In 2003, the Council approved amending the lease at Elwell Court to expand the space for Utilities Engineering by leasing an additional 5,600 square feet at 1003 Elwell Court. The lease for the 1007 Elwell Court space will expire on August 31, 2008 and the lease for 1003 Elwell Court on March 31, 2005. The Development Center sublease is due to expire on January 31, 2007.

DISCUSSION
The leases the City entered into in 1998 did not provide for the economic downturn and rental rates that were favorable at the time do not reflect current market conditions (see chart).
<table>
<thead>
<tr>
<th>Location</th>
<th>Lease Termination Date</th>
<th>Current Rental Rate Per Square Foot</th>
<th>Current Market Rate Rental Per Square Foot</th>
<th>Leased Square Footage</th>
</tr>
</thead>
<tbody>
<tr>
<td>285 Hamilton</td>
<td>January 31, 2007</td>
<td>$4.55</td>
<td>$3.00</td>
<td>6,361</td>
</tr>
<tr>
<td>1003 Elwell</td>
<td>March 31, 2005</td>
<td>$1.30</td>
<td>$1.00</td>
<td>5,600</td>
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<tr>
<td>1007 Elwell</td>
<td>August 31, 2008</td>
<td>$2.81</td>
<td>$1.00</td>
<td>9,202</td>
</tr>
</tbody>
</table>

**Development Center Lease**

The rent payment for the Development Center is a General Fund expense. The projected rent and operating expenses for 2005 are anticipated to be about $420,000. Staff is exploring options to move the Development Center into City-owned space, which would eliminate this General Fund expense, or lessen the expense by finding space at a lower rental rate. Timing will be a major factor due to the fact that the current lease expires January 31, 2007 and all City-owned space is occupied. The City-owned space would have to be vacated and renovated to meet the needs of the Development Center.

The alternative to using City-owned space is to continue leasing space and paying rent to a third party. Coordination between the Development Center and Civic Center staff makes it imperative that the Development Center be located as close to the Civic Center as possible. When the sublease of 285 Hamilton for the Development Center expires in January 31, 2007, all of the subleases in the entire building will expire and the owner will take back control of the building. The owner has expressed an interest in continuing to rent space for the Development Center, but is not ready at this time to make any commitment to the City. Staff plans to return to Council with a recommendation to do one of the following:

- Move the Development Center into City-owned space;
- Negotiate a new lease for the existing location;
- Relocate the Center to another privately owned space near the Civic Center at a rent more reflective of current market rates.

**Elwell Court Utilities Leases**

In 2003, the Elwell Court lease was amended to add an additional 5,600 square feet to provide a location for the dark fiber engineers; water, gas and wastewater inspectors; and the utility library. The lease term for this additional space was limited to two years to coincide with the decision on whether to proceed with the Fiber-to-the Home project and is due to expire on March 31, 2005. The lease for the larger area at 1007 Elwell Court will expire on August 31, 2008. Staff plans to explore the possibility of using Utilities Enterprise funds to purchase property that would house all of the Utilities Engineering staff as well as most of the remaining Utilities staff currently located at the Civic Center. Once again, proximity to the Civic Center will be a major factor in this option. Staff will return to Council with either a recommendation to extend the lease for the 1003 Elwell Court to match the term of the lease for 1007 Elwell Court and negotiate a more favorable rental rate, or take advantage of the current economic situation to explore the option of purchasing a building for the majority of the Utilities Department staff.