TO:    HONORABLE CITY COUNCIL  
FROM:  CITY MANAGER     DEPARTMENT:  ADMINISTRATIVE SERVICES  
DATE:  JUNE 5, 2006     CMR: 230:06  
SUBJECT:  APPROVAL OF THE SECOND AMENDMENT TO EXTEND THE LEASE WITH THOITS BROS., INC. FOR CITY DEVELOPMENT CENTER AT 285 HAMILTON AVENUE  

RECOMMENDATION  
Staff recommends that the City Council authorize the Mayor to execute the attached second amendment to the lease with Thoits Bros., Inc. (TBI) for the 6,361 square foot Development Center at 285 Hamilton Avenue. The amendment will extend the original 8-year term for five years, starting February 1, 2007 and ending January 31, 2012. Staff anticipates that by 2012, it may be possible to move the Development Center back to the Civic Center.  

BACKGROUND  
In early 1998, after receiving Council authorization to search for additional space to relieve overcrowding in the Civic Center, staff considered many possible locations and identified the space at 285 Hamilton Avenue as ideal for the City’s Development Center. On September 22, 1998, Council approved an 8-year lease with Hamilton Palo Alto LLC for 6,361 square feet of space at 285 Hamilton Avenue for location of the City’s Development Center (CMR 368:98). On May 19, 1999, the City Manager approved the first amendment to the lease, which expanded the original 6,361 square foot premises by approximately 702 square feet for a limited time, from March 1, 1999 until December 31, 1999, to provide temporary office space for City staff.  

DISCUSSION  
The purpose of the amendment is to extend the term of the lease, which expires January 31, 2007. The amendment also acknowledges agreement between TBI, the landlord, and the City, as tenant, to continue the original sublease as a direct lease between the property owner and the City. The amendment modifies the existing lease by: 1) adding a five year term, commencing on February 1, 2007 and ending on January 31, 2012; 2) establishing rental rates for each year of the term; 3) adding two 2-year options to extend; and 4) requiring a security deposit in the amount of $26,144. Major terms of the lease as amended, including rental rates for the five year term, are summarized in the attached Summary of Basic Lease Information (Attachment A).
Rental rates for the new 5-year term are almost one-third (27%) lower than current rental rates. The monthly rent for the lease year beginning November 1, 2005 and ending January 31, 2006 is $4.65 per square foot triple net (NNN) or $29,581 per month. Monthly rental cost for the first year of the new five year term is $3.65 triple net (NNN) per square foot or $23,318 per month. The City’s share of support costs (including property tax, insurance, assessments, building maintenance, gas, water, sewer and garage) is approximately 13.06%, and this percentage will not change under the amended lease. Support costs for the lease year beginning November 1, 2005 are $6,350 per month.

Should the space at 285 Hamilton be needed beyond 2012, the amendment provides for two 2-year options to extend the term. The rental for extended terms are to be adjusted to the market value rent as agreed upon by the TBI and the City but not less than the previous year’s rental. In case of disagreement, the parties split the costs to hire a mutually acceptable appraiser to establish the market rent.

The $26,144 security deposit required by the lease amendment is to be paid by the City 30 days prior to the lease commencement. The security deposit for the current lease, paid by the City in 1998 in the amount of $29,507, will be credited to the City’s rent due for January 2007, the final month of the current lease term.

**RESOURCE IMPACT**
Annual rental costs for extending the lease for 6,361 square feet at 285 Hamilton Avenue will be $279,812 for the first year, beginning February 1, 2007, and will increase by 3 percent each year to $313,725 in the fifth year. Annual support costs will remain at 13.06% and are anticipated to total approximately $66,000 to $78,000 annually ($5,500 to $6,500 per month). Rental and support costs for the lease have been and will continue to be a part of the Planning and Community Environment operating budget.

**POLICY IMPLICATIONS**
The lease extension is consistent with existing City policy. The continuation of the Development Center is consistent with Goal B-4, Policy B-16 of the Comprehensive Plan, which states the City’s commitment to streamline the permit process in order to improve customer service and staff efficiency.

**ENVIRONMENTAL REVIEW**
Leasing of existing office space involving no expansion of use is exempt from California Environmental Quality Act review pursuant to CBQA Guideline Section 15301.

PREPARED BY: WILLIAM W. FELLMAN
Manager, Real Property
DEPARTMENT HEAD APPROVAL:

CARL YEATS
Director/Administrative Services

CITY MANAGER APPROVAL:

EMILY HARRISON
Assistant City Manager

ATTACHMENTS
Attachment A: Amendment to Lease including Summary of Basic Lease Information

cc: Thoits Bros., Inc.