



# City of Palo Alto

## City Council Staff Report

(ID # 12334)

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**Report Type: Consent Calendar**

**Meeting Date: 6/21/2021**

**Summary Title: Development Center Lease Amendment at 285 Hamilton Avenue**

**Title: Approval of a Lease Amendment Between 285 Hamilton LLC, and the City of Palo Alto for the Premises Located at 285 Hamilton Avenue for a 48-month Term, at a Starting Base Rent of \$43,890 per Month and Increasing 3 Percent Annually**

**From: City Manager**

**Lead Department: Administrative Services**

### **Recommended Motion**

Staff recommends that Council authorize the City Manager or their designee to execute the Seventh Amendment to Office Lease contained in Attachment A, between 285 Hamilton LLC, and the City of Palo Alto, for office space located at 285 Hamilton Avenue, Suite 100. The amendment is for a 48-month term commencing on February 1, 2022 through January 31, 2026. The initial base rent is \$43,891 per month and increases 3% annually. The base rent represents an approximate 20% decrease from the current base rent paid.

### **Executive Summary**

The City currently leases approximately 6,361 square feet from 285 Hamilton LLC, at 285 Hamilton Avenue, Suite 100 for use by Planning and Development Services. Staff negotiated an amendment to the current lease with an approximate 20% reduction to the current base rental rate from \$8.61 per square foot to \$6.90 per square foot. Otherwise, the general terms remain the same as previously agreed to. The renewal of this lease will allow Planning and Development Services to meet its goal of helping customers build safe, healthy, and sustainable buildings that comply with applicable codes and regulations, while ensuring the safety of City staff.

### **Background**

Planning and Development Services is currently operating out of the three locations listed below.

Address	Expiration Date	Square Footage
285 Hamilton Avenue	1/31/2022	6,361

526 Bryant Street	1/31/2023	3,076
City Hall – 5 <sup>th</sup> Floor	N/A	4,388
Total		13,825

5<sup>th</sup> Floor square footage is only 75% of the total since the floor is shared with Transportation. It also excludes elevator and restroom area.

The premises at 285 Hamilton Avenue, Suite 100, contain 6,361 square feet of building area and is on the ground floor of an approximate 48,585 square foot multitenant office building that was constructed in 1971. The agreement does not include use of any onsite parking, but the property is located across the street from City Hall and roughly half a block southeast of additional leased space 526 Bryant Street.

The City has been leasing 285 Hamilton Avenue since 1998 for use by Development Services. Currently, the main services for Development Services operate out of this location and will allow for continued in-person customer service as permitted. As part of the reduction in space for the 526 Bryant Street lease, 285 Hamilton Avenue will also be housing fire plan check services, who were previously location on the 2<sup>nd</sup> floor of 526 Bryant Street. Between the three locations, Planning and Development Services will meet the requirements for current usage and staffing levels. ([Prior Lease Amendment](#))

## Discussion

Staff has negotiated a Seventh Amendment to Office Lease with the basic provisions listed below:

- Initial term: 48 months commencing on February 1, 2022 and expiring on January 31, 2026.
- Extension options: Two options to extend for additional one-year periods.
- Monthly base rent: \$43,890.90 per month, increasing 3% annually.
- Operating expenses: City is responsible for a portion of operating expenses (such as taxes, insurance, maintenance and repair, janitorial, and utilities), currently estimated at \$8,597.00 per month.

Staff is requesting an extension at this time because it provides the necessary space for continuity of operations. The term reflects a negotiated balance between the City's interest in flexibility and the owner's interest in certainty. Adjustments in space planning for City facilities, for example occupancy of the new Public Safety Building, will be brought forward in the future and this timing allows for those activities. Staff led by the Public Works Department will begin more in-depth space planning for changing business models and needs of departments during FY 2022. The recommended term is expected to provide sufficient time for planning, design, and any needed construction to be completed at the current police building prior to the end of this lease.

## **Timeline**

The current lease at 285 Hamilton Avenue, Suite 100, expires on January 31, 2022 and this amendment is scheduled to commence on February 1, 2022.

## **Resource Impact**

The current base rent to lease 285 Hamilton Avenue, Suite 100, is \$54,773.29 per month or \$8.61 per square foot. Staff has negotiated a rent reduction of approximately 20% to \$43,890.90 or \$6.90 per square foot upon start of the amended term. The rent will then increase 3% annually. The negotiated reduction in rent in the current uncertain COVID-19 influenced environment results in a net savings of approximately \$426,000 from the current base rent over the 4-year term of the lease. Current operating expenses are estimated at \$8,597.00 per month. The current rental costs are included in the FY 2022 Proposed Operating Budget and subject to City Council approval. No additional funding is required at this time.

## **Policy Implications**

This recommendation does not present any changes to existing City policies.

## **Stakeholder Engagement**

The Real Estate Division of the Administrative Services Department met with Planning and Development Services to determine their real estate needs. Various options were considered including searching for alternative spaces to lease as well as moving into property owned by the City. Planning and Development Services determined that the most optimal option to provide functionality and continuity in service was to extend their current lease at 285 Hamilton Avenue. Real Estate Division staff engaged with the landlord to reduce the base rent.

## **Environmental Review**

Approval of this lease amendment is exempt from review under the California Environmental Quality Act (CEQA) because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment (CEQA Guidelines Section 15061(b)(3)).

### **Attachments:**

- Attachment A: Office Lease at 285 Hamilton Avenue, 7th Amendment

**SEVENTH AMENDMENT TO OFFICE LEASE**  
**285 Hamilton Avenue, Suite 100, Palo Alto, CA 94301**

This SEVENTH AMENDMENT TO OFFICE LEASE (this “Seventh Amendment”) is dated as of \_\_\_\_\_ (the “Effective Date”) by and between 285 HAMILTON LLC, a Delaware limited liability company (“Landlord”) and THE CITY OF PALO ALTO, a California municipal corporation (“Tenant”).

WHEREAS, Landlord, as successor-in-interest to Thoits Bros., Inc., as successor-in-interest to Hamilton Palo Alto, LLC, and Tenant are parties to that certain Office Lease dated October 18, 1998, as amended by that certain Amendment No. 1 to Office Lease dated May 18, 1999, as further amended by that certain Amendment No. 2 to Office Lease dated June 13, 2006, as further amended by that certain Amendment No. 3 to Office Lease dated November 1, 2011, as further amended by that certain Amendment No. 4 to Office Lease dated September 3, 2013, as further amended by that certain Fifth Amendment to Office Lease dated February 1, 2016, and as further amended by that certain Sixth Amendment to Office Lease dated as of May 22, 2017 (the “Sixth Amendment”) (collectively and as amended, the “Lease”), for the lease of certain premises currently used as office space by Tenant and consisting of approximately 6,361 rentable square feet located on the first floor of the building, and commonly known as Suite 100, in the building located at 285 Hamilton Avenue, Palo Alto, California as more particularly described in the Lease (the “Premises”); and

WHEREAS, Landlord and Tenant wish to amend certain provisions of the Lease as further provided for herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree to amend the Lease as follows.

**AGREEMENT**

1. Definitions. Capitalized terms used in this Seventh Amendment shall have the same meaning ascribed to such capitalized terms in the Lease, unless otherwise provided for herein.

2. Extension. The Term of the Lease is hereby extended and shall expire on January 31, 2026. Except as set forth in Section 4 herein, Tenant has no further options to extend the Lease and any previously granted options to extend are of no force or effect.

3. Base Rent. Commencing on February 1, 2022, the Monthly Base Rent shall be payable according to the following schedule:

Period	Approximate Base Rent Per Square Foot	Monthly Base Rent
February 1, 2022 – January 31, 2023	\$6.90	\$43,890.90
February 1, 2023 – January 31, 2024	\$7.11	\$45,226.71
February 1, 2024 – January 31, 2025	\$7.32	\$46,583.51

February 1, 2025 – January 31, 2026	\$7.54	\$47,981.02
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4. Extension Options. So long as there has been no default prior to the time of exercise or on the first day of the applicable Extension Term (as hereinafter defined) and Tenant has neither assigned this Lease in whole or in part nor sublet its interest in the Premises, Tenant shall have the option to extend the Term for two (2) additional one (1) year periods (the “Extension Term”) upon written notice to Landlord given not less than nine (9) months or more than twelve (12) months prior to the expiration of the then current Term. If there has been an Event of Default or Tenant fails to exercise the option to extend the Term strictly within the time period set forth in this section, then Tenant’s option to extend the Term shall automatically lapse and be of no further force or effect. If Tenant exercises an option granted hereunder, the applicable Extension Term shall be upon the same terms and conditions as are in effect under this Lease immediately preceding the commencement of such Extension Term except that the Base Rent shall be increased at the same rate as provided herein (i.e., at 3% per year, with the first escalation occurring on February 1, 2026 and on each one year anniversary thereof).

5. Real Estate Brokers. Tenant represents to Landlord that Tenant did not involve any broker in procuring this Seventh Amendment. Tenant hereby agrees to (A) forever indemnify, defend and hold Landlord harmless from and against any commissions, liability, loss, cost, damage or expense (including reasonable attorneys’ fees) that may be asserted against or incurred by Landlord as a result of any misrepresentation by Tenant hereunder and (B) discharge any lien placed against the Project by any broker as a result of the foregoing.

6. Governing Law. This Seventh Amendment shall be governed by and construed in accordance with the laws of the State of California (without regard to conflicts of law).

7. Certified Access Specialist Inspection. In accordance with California Civil Code Section 1938, Landlord hereby informs Tenant that as of the Effective Date, the Premises have not been inspected by a Certified Access Specialist (as defined in California Civil Code section 55.52(3)) (“CASp”). Landlord’s and Tenant’s obligations with respect to any future CASp inspection and any work required thereby or as a result thereof shall be as set forth in Section 8 of the Sixth Amendment, except that the last paragraph of Section 8 thereof (concerning confidentiality requirements) is hereby deleted.

8. Ratification of Lease. Except as modified hereby, all other terms and conditions of the Lease remain unchanged and in full force and effect and are hereby ratified and confirmed by the parties hereto. Tenant accepts the Premises in its “as is” and “where is” condition. Tenant represents and warrants to Landlord that as of the date of Tenant’s execution of this Seventh Amendment: (a) Tenant is not in default under any of the terms and provisions of the Lease; (b) Landlord is not in default in the performance of any of its obligations under the Lease and Tenant is unaware of any condition or circumstance which, with the giving of notice or the passage of time or both, would constitute a default by Landlord; (c) Landlord has completed, to Tenant’s satisfaction, any and all improvements to the Premises, and has paid any and all allowances required of it under the Lease; and (d) Tenant has no defenses, liens, claims, counterclaims or right to offset against Landlord or against the obligations of Tenant under the Lease. Tenant acknowledges, confirms, and agrees that Tenant has no right or option to expand the Premises or to extend, renew or terminate the Lease.

9. Limitation of Liability. Neither Landlord nor any officer, director, member or employee of Landlord nor any owner of the Building, whether disclosed or undisclosed, shall have any personal liability with respect to any of the provisions of the Lease, as hereby amended, or the Premises, and if Landlord is in breach or default with respect to Landlord's obligations under the Lease, as hereby amended, or otherwise, Tenant shall look solely to the interest of Landlord in the Building for the satisfaction of Tenant's remedies or judgments.

10. Entire Agreement. This Seventh Amendment, in conjunction with the Lease, constitutes the entire agreement of Landlord and Tenant with respect to the subject matter hereof and supersedes all oral and written agreements and understandings made and entered into by the parties prior to the date hereof.

11. Multiple Counterparts. This Seventh Amendment may be executed in multiple counterparts, all of which, when taken together, shall constitute one and the same instrument.

[Signatures on the Following Page]

IN WITNESS WHEREOF, the parties hereto have executed this Seventh Amendment as of the Effective Date stated above.

TENANT:

THE CITY OF PALO ALTO,  
a California municipal corporation

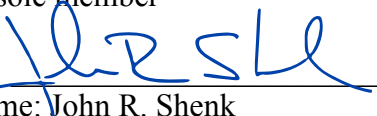
By: \_\_\_\_\_  
Name: Ed Shikada  
Title: City Manager

Approved as to form:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: City Attorney or designee

LANDLORD:

285 HAMILTON LLC,  
a Delaware limited liability company

By: Thoits Bros., Inc.,  
a California corporation,  
its sole member  
By:  \_\_\_\_\_  
Name: John R. Shenk  
Title: CEO