



## Memorandum

### AGENDA ITEM 6

**DATE:** May 29, 2025

**TO:** Transportation Authority Board

**FROM:** Cynthia Fong – Deputy Director for Finance and Administration

**SUBJECT:** 06/10/2025 Board Meeting: Approve and Authorize the Executive Director to Execute a 20-Year Lease with Two Five-Year Options to Extend, with the City and County of San Francisco's Real Estate Department for Office Space Located at 1455 Market Street, in an Amount Not to Exceed \$1,126,597 for the First Year, Plus Operating and Other Lease Related Expenses, and Annual 3% Rent Increases; and to Negotiate Lease Payment Terms and Non-Material Terms and Conditions

#### **RECOMMENDATION** ☐ Information ☒ Action

- Approve and Authorize the Executive Director to Execute a 20-year office space lease, with two five-year options to extend, with the City and County of San Francisco's Real Estate Department for office space located at 1455 Market Street, in an amount not to exceed \$1,126,597 for the first year, plus operating expenses and other lease related expenses, and annual 3% rent increases.
- Authorize the Executive Director to negotiate lease payment terms and non-material terms and conditions

#### **SUMMARY**

Our 13-year lease with Hudson 1455 Market, LLC, for offices at 1455 Market Street will expire on June 30, 2025. The City and County of San Francisco (City) currently leases office space in the same building for multiple departments and their lease agreement includes options to take additional office space and to purchase the building. On May 2, 2025, through Resolution No. 194-25, the Board of Supervisors (BOS) approved and authorized the Director of Property, on behalf of our agency and two other city agencies, to take additional

- ☐ Fund Allocation
- ☐ Fund Programming
- ☐ Policy/Legislation
- ☐ Plan/Study
- ☐ Capital Project Oversight/Delivery
- ☐ Budget/Finance
- ☒ Contract/Agreement
- ☐ Other: \_\_\_\_\_



office space at 1455 Market Street for the next 20 years, from July 1, 2025, through April 30, 2045, with two five-year options to extend, at \$41.20 per rentable square feet for the first year with annual 3% rent increases. We recommend leasing with the City's Real Estate Department as this option is the most advantageous and cost effective for our agency.	
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## **BACKGROUND**

In October 2011 through Resolution 12-18, the Board approved a 13-year office space lease with Hudson 1455 Market, LLC (Hudson), for offices located on the 22<sup>nd</sup> Floor at 1455 Market Street, with one five-year extension option, in an annual amount not to exceed \$685,272, plus operating expenses and annual rent increases. We are near the end of our 13-year lease with Hudson which expires on June 30, 2025, and currently pay \$40.00 per rentable square feet, for an annual total of \$978,960 in office rent, \$322,326 in operating expenses, and \$16,053 in property taxes.

## **DISCUSSION**

Under the Board Chair and Vice-Chair's direction in Summer 2022, we began working with realtors three years before our lease expiration date to extend our current lease with Hudson and to consider various properties located near City Hall and the Financial District to find the most cost-effective option for office space that would fit our needs. During Fall 2022 through February 2024, we received multiple offers from comparable office spaces between \$55.56 to \$66.00 per rentable square feet, including an offer of \$66.00 per rentable square feet with our current landlord.

In March 2024, then President Peskin introduced at a BOS meeting a proposal for the City to lease multiple floors in the building already occupied by our agency. In April 2024, the BOS passed Resolution No. 192-24 authorizing its Director of Property, on behalf of multiple City Departments, to enter into a lease agreement with Hudson with an option to take additional office space at 3% annual increases thereafter. The lease agreement includes an option to purchase the building if exercised by March 1, 2027. The City's lease also indicates our agency will have the right, but not the obligation to lease, and will enjoy the same rights and obligations as any other city departments when our current lease expires.

On May 2, 2025, through Resolution No. 194-25, the BOS approved and authorized the Director of Property, on behalf of our agency and two other city agencies, to take additional office space for the next 20 years from July 1, 2025, through April 30,



2045, at \$41.20 per rentable square feet for the first year, plus operating expenses and annual 3% rent increases, with two five-year options to extend. The City's rentable square feet rate of \$41.20 is significantly lower than the offers we've received and without the need to incur additional one-time expenses related to relocation and tenant improvements. The City's proposed lease offers the best advantage for our agency with respect to costs, space requirements, proximity to partner agencies in the area, and to Board members at City Hall where Board meetings are held typically twice a month.

Therefore, we are seeking approval and authorization for the Executive Director to execute a 20-year lease with two five-year options to extend with the City's Real Estate Department for office space located on the 22nd floor at 1455 Market Street, in an annual amount not to exceed \$1,126,597 for the first year, plus operating and other lease related expenses, and annual 3% rent increases; and to negotiate lease payment terms and non-material terms and conditions.

## **FINANCIAL IMPACT**

We are near the end of our 13-year lease with Hudson, which expires on June 30, 2025, and currently pay \$40.00 per rentable square feet, for an annual total of \$978,960 in office lease cost per year. The new 20-year lease with the City, through the Real Estate Department, will begin on July 1, 2025, through April 30, 2045, starting at \$41.20 per rentable square feet, with 3% annual increases thereafter, for a total of \$1,126,597 for the first year of the new lease agreement. Our office lease cost will increase by \$147,637 or 15% in FY 2025/26. Operating and other lease costs will be determined by the Real Estate Department. This lease will be funded by Prop L sales tax operating funds, and the proposed Fiscal Year 2025/26 budget includes sufficient funds to accommodate the recommended action, and sufficient funds will be included in future budgets.

## **CAC POSITION**

The CAC considered this item at its May 28, 2025, meeting and unanimously adopted a motion of support for the staff recommendation.

## **SUPPLEMENTAL MATERIALS**

- Attachment 1 – Resolution



RESOLUTION APPROVING AND AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A 20-YEAR LEASE WITH TWO FIVE-YEAR OPTIONS TO EXTEND, WITH THE CITY AND COUNTY OF SAN FRANCISCO'S REAL ESTATE DEPARTMENT FOR OFFICE SPACE LOCATED AT 1455 MARKET STREET, IN AN AMOUNT NOT TO EXCEED \$1,126,597 FOR THE FIRST YEAR, PLUS OPERATING AND OTHER LEASE RELATED EXPENSES, AND ANNUAL 3% RENT INCREASES; AND TO NEGOTIATE LEASE PAYMENT TERMS AND NON-MATERIAL TERMS AND CONDITIONS

WHEREAS, The Transportation Authority's 13-year office lease at 1455 Market Street on the 22<sup>nd</sup> Floor is set to expire on June 30, 2025, and costs \$40.00 per rentable square feet; and

WHEREAS, Under direction from the Chair and Vice Chair, Transportation Authority staff worked with realtors to determine if remaining or vacating the current office location at \$66.00 per rentable square feet was a better option, including considering various properties located near City Hall and the Financial District; and

WHEREAS, The San Francisco Board of Supervisors (Board of Supervisors) former President (and former Transportation Authority Commissioner) Aaron Peskin introduced at the Board of Supervisors meeting a proposal for the City and County of San Francisco (City) to lease the building already occupied by the Transportation Authority; and

WHEREAS, In April 2024, the Board of Supervisors passed Resolution No. 192-24 authorizing its Director of Property, on behalf of multiple City Departments, to enter into a lease agreement with Hudson 1455 Market Street, LLC; and

WHEREAS, In May 2025, the Board of Supervisors passed Resolution No. 194-25 authorizing its Director of Property, on behalf of the Transportation Authority to remain in the office space and for two other city agencies to take additional office space for the next 20 years from July 1, 2025 and through April 30, 2045 at \$41.20 per rentable square feet for the first year, plus operating and other related expenses



and annual 3% rent increases, with two five-year options to extend; and

WHEREAS, The City's rentable square feet rate of \$41.20 is significantly lower than the offers received and staff recommended remaining in the current office space as it is the best advantage with respect to cost, space requirements, proximity to partner agencies in the area and to Board members at City Hall; and

WHEREAS, The lease will be funded with Prop L sales tax operating funds, and the proposed Fiscal Year 2025/26 budget includes sufficient funds to accommodate the recommended action; and

WHEREAS, At its May 28, 2025, meeting, the Community Advisory Committee considered the item and unanimously adopted a motion of support for the staff recommendation; now, therefore, be it

RESOLVED, That the Transportation Authority hereby approves and authorizes the Executive Director to execute a 20-year lease with two five-year options to extend, with the City and County of San Francisco's Real Estate Department for office space located at 1455 Market Street, in an amount not to exceed \$1,126,597 for the first year, plus operating and other lease related expenses, and annual 3% rent increases; and be it further

RESOLVED, That the Executive Director is hereby approved and authorized to negotiate contract payment terms and non-material contract terms and conditions; and be it further

RESOLVED, That for the purposes of this resolution, "non-material" shall mean contract terms and conditions other than provisions related to the overall contract amount, terms of payment, and general scope of services; and be it further

RESOLVED, That notwithstanding the foregoing and any rule or policy of the Transportation Authority to the contrary, the Executive Director is expressly authorized to execute agreements and amendments to agreements that do not cause the total agreement value, as approved herein, to be exceeded and that do not expand the general scope of services.