

Memorandum

**TO: Board of Administration for the
Police and Fire Department Retirement
Plan and the FCERS.**

FROM: John Flynn

SUBJECT: Tenant Lease Renewal

Date: February 6, 2025

APPROVED:

DATE:

RECOMMENDATION

Discussion and action to authorize CEO to negotiate and execute a lease agreement with Pacific Resources First America, LLC on behalf of the Police and Fire Retirement Plan's Board of Administration based on the proposed lease terms specified below, with costs 50/50 split with Federated.

BACKGROUND

The Boards entered a lease with the following terms in July 2014:

- a. Base monthly rent of \$2.05/sf. with 3% annual escalations
- b. Landlord contributes \$10.00/sf. towards the cost of construction
- c. Balance of the construction cost is amortized over the term of the lease at 0%
- d. 63 month term following the completion of the construction. Construction was completed in December 2014, for a lease expiration date of March 31, 2020.

In September 2014, Staff reported to the Boards that the approximate cost to the retirement plans for the construction would be \$375,000, split 50/50 with the Police and Fire Plan. In addition, staff reported that the retirement boards each approved \$100,000 in their fiscal year 2014-15 budget for furniture, equipment, and moving costs. Similarly, staff requested budget for proposed office improvements as part of the annual budget for fiscal year 2020-21.

In April 2020, the Boards entered into a 5 year lease agreement with the following terms which is due to expire March 31, 2025:

- a. Rentable Space: 11,770 sf – Combined 5th and 6th Floors
- b. Base monthly rent of \$2.85/sf. with 3% annual escalations
- c. Landlord contributes \$8.55/sf. towards the cost of office improvements.
- d. Balance of the improvement cost to be included in annual budget for fiscal year 2020-21.
- e. 60 month term.

The current lease expires on March 31, 2025, the new lease will become effective April 1, 2025: The proposed lease has the following terms which are subject to negotiations:

- a. Rentable Space: Approximately 13,998 sf – Combined 5th and 6th Floors, comprised of 3,069 sf in Suite 580, 8,701 sf in Suite 600 and approximately 2,228 sf of new space in Suite 560.
- b. Base Year shall be reset to 2025.
- c. Base monthly rent of \$2.65/sf (17.19% lower than current rent). 3% annual escalations.
- d. Landlord will provide a tenant improvement allowance of Two Hundred Thousand Dollars (\$200,000.00) towards the cost of office improvements. In addition to the improvement allowance, the Landlord will provide a furnishment allowance of Thirty Thousand Dollars (\$30,000.00).
- e. Balance of the improvement costs to be included in annual budget for fiscal year 2025-26.
- f. 64 month term, ending June 30, 2030 with two (2) consecutive five (5) year options to renew.

Staff plan to include the costs associated with furnishing the new office space in suite 560 as part of the FY25-26 budget request.

CONCLUSION

Staff worked with the City’s Real Estate management group to research the local real estate market for comparable properties, including the current ORS office at 1737 N 1st Street, San Jose. Site tours were conducted for each of the properties, lease proposals were submitted, and a comprehensive comparison completed. After a thorough market analysis of available alternate options, it has been determined that the current building is still the most cost effective and provided the best value. The proposed lease terms are commercially reasonable and at market rates. Staff are requesting approval to negotiate an agreement with the landlord after conducting a good-faith, negotiation over the lease terms on behalf of the two retirement plans, as tenants, and recommends approval for the CEO to negotiate the terms for the lease renewal.



John Flynn
CEO, Office of Retirement Services