




Office of the City Manager

CONSENT CALENDAR

February 19, 2013

To: Honorable Mayor and Members of the City Council
From:  Christine Daniel, City Manager
Submitted by: Andrew Clough, Director, Public Works
Subject: Lease Amendment: International Computer Science Institute at
1947 Center Street

RECOMMENDATION

Adopt first reading of an Ordinance authorizing the City Manager to execute an amendment to the City's lease (Contract No. R7593) with International Computer Science Institute, to provide for an adjustment in rent for the first 5-year option period.

FISCAL IMPACTS OF RECOMMENDATION

The lease with International Computer Science Institute (ICSI) began on April 1, 2008 for a 5-year term, with two 5-year options to extend the lease. The first 5-year option is scheduled to begin on April 1, 2013 and runs through March 31, 2018. This amendment adjusts the total rent during this period from \$5,818,076 to \$4,168,890, a reduction of \$1,649,186 over the 5 years. Similar office space in Berkeley is available at the rate proposed in the proposed lease amendment with ICSI. While the amended lease reduces the annual revenue by approximately \$320,000, this change is recommended based on current conditions in the office space rental market. If ICSI vacates the space, the City will lose close to \$1.1 million in annual rental revenue over an unknown length of time, until another tenant occupies the space.

Revenue will be placed in the Building Purchases and Management Fund (850-5412-363-5000, Project code 03CB71).

The contract management system number for this lease amendment is CMS No. N6SLZ.

CURRENT SITUATION AND ITS EFFECTS

ICSI leases the 5th and 6th floors in 1947 Center Street. The City purchased this building in April 2003, in an effort to consolidate City departments and services, and realize \$34 million in savings over 30 years. Along with ownership of the building, the City inherited several pre-existing leases. ICSI is the only remaining tenant, and its lease was renewed in April 2008 at the rate of \$2.75 per SF with a 3.2% annual increase. This rate was lower than their previous lease rate with the prior building owners, which had come at a time when the office market was favorable to the landlord.

Since the City's 2008 lease to ICSI the real estate market has experienced upward and downward activity as the economy continues to move toward recovery, and commercial real estate always lags behind the rest of the economy. Market data indicates the current rental rate for space similar to ICSI's ranges between \$2.00 and \$2.40 per SF. Lowering the rental rate to \$2.35 with a 2.25% annual increase allows the City to retain a compatible tenant with an excellent payment history. The rent for the second option period will be adjusted to market rent.

The original rent projection for the first option period was based on assumptions of market stability, economic recovery, and future market rentals, derived from data, trends and predictions available in the last quarter of 2007. The original terms for this 5-year option period started at \$90,957, and increased to \$103,171 for total payments of \$5.8 million. The amendment revises the rate during this period to start at \$66,435 per month, or \$797,220 annually, and increase over these 5 years to \$72,596 per month, or \$871,152 annually.

BACKGROUND

ICSI has leased office space in 1947 Center Street since 1988. The initial lease was negotiated between ICSI and Gerson & Bakar, the former building owners, and included multiple extensions and amendments. After its expiration in 2008, ICSI entered into a 5-year lease with the City, with options to extend for two additional 5-year periods.

RATIONALE FOR RECOMMENDATION

Overall, asking rates for office space in Downtown Berkeley have decreased slightly in recent years, and there are comparable vacant office spaces available at a lower rate. Amending the rate will retain this tenant and generate revenue based on current market rates. As the market tightens, vacancy rates will decline and the asking rental rates will increase.

ALTERNATIVE ACTIONS CONSIDERED

None.

CONTACT PERSON

Hallie Llamas, Real Property Administrator, Public Works, 510-981-6334

Attachments:

- 1: Ordinance
 - Exhibit A: 2008 Lease Agreement
 - Exhibit B: 2013 Lease Amendment

ORDINANCE NO. -N.S.

LEASE AMENDMENT: INTERNATIONAL COMPUTER SCIENCE INSTITUTE FOR
GENERAL OFFICE AND COMPUTER RESEARCH SPACE LOCATED AT
1947 CENTER STREET

BE IT ORDAINED by the Council of the City of Berkeley as follows:

Section 1. The City Council finds as follows:

The City leases space in its 1947 Center Street building to the International Computer Science Institute for general office and computer research.

The amendment (Exhibit B) that covers the initial 5-year option of the existing lease shall commence on April 1, 2013. This amendment results in a decrease of revenue to the City of \$1,649,186 over 5 years from the original projected amount for this period. The revenue account is 850-5412-363-5000, Project code 03CB71; and this agreement has been assigned CMS No. N6SLZ.

Section 2. The City Manager is hereby authorized to execute an amendment for the initial 5-year option in Contract No. R7593 with the International Computer Science Institute for the use of office space in the 1947 Center Street office building to decrease the rent from \$5,818,076 to \$4,168,890 during the period April 1, 2013 through March 31, 2018.

Section 3. Copies of this Ordinance shall be posted for two days prior to adoption in the display case located near the walkway in front of Council Chambers, 2134 Martin Luther King Jr. Way. Within 15 days of adoption, copies of this Ordinance shall be filed at each branch of the Berkeley Public Library and the title shall be published in a newspaper of general circulation.

Exhibits

A: 2008 Lease Agreement

B: 2013 Lease Amendment