



Context of and Update on District Headquarters Replacement Project



SamTrans Board Meeting – December 6, 2023
Brian Fitzpatrick, Director, Real Estate & Development

Overview

- Project context
- Project objectives
- Original approach
- Market changes
- Board discussion, direction to-date
- Subsequent progress

**Project Context:
Current HQ is outdated,
obsolete and costly to
operate**

Current HQ is outdated

- Building and parking garage built in 1979 for Savings & Loan
 - Does not reflect current office environments
 - Not built to current seismic standards
 - Never intended to serve hundreds of employees
- District purchased on May 9, 1990
- Building has been retrofitted, but never completely remodeled

Building is functionally obsolete

- Core: too big
- Floor plan/layout: inefficient
 - Some offices are too big, others are too small
 - Too few conference rooms
 - Building still includes relics of prior savings & loan use (commercial kitchen, living room, large-scale residential kitchen, sunken den)
- Built in late 1970's to then-current building and seismic codes.

Operating costs are high, unpredictable

- Essential components unreliable, require frequent repairs (e.g., elevators, HVAC)
- Significant cost driver: Utility inefficiency
 - ~50% higher than for typical building of same size
 - Electrical costs: ~3x those for other buildings of same general age (1960-1989), ~10x those for a new building
 - Gas costs: ~3x those for buildings of similar age, ~8x those for a new building

Project Objectives

HQ Project Objectives

- Maximize opportunity and value of great current location
- Transfer future facility cost risks to third party, if possible
- Reduce ongoing maintenance and operating costs, create predictable cost curve
- Create quality workplace for current, future employees
- Ensure capacity to expand/contract as needed
 - 1990: District occupied two of four floors
 - As of September, the Agency occupies all four floors

Original Approach: Modernize or Rebuild in place

Key Discovery: Costs > Value

- Recent draft engineering report conservatively estimates \$59 million to address deferred maintenance (roof, HVAC, electrical, plumbing, structural/seismic)
- Does not include cost to modernize
- Voluntary seismic improvements: additional \$7 million
- Investment costs greatly exceed estimated value of property

Market Changes: Challenge *and* Opportunity

Market Changes = Flexibility

- Challenge: Covid pandemic changed commercial real estate market
 - Public-private partnership no longer feasible
 - Developers stopped building “spec” office space
- Opportunity: Potential to acquire alternate location for better value
 - Opportunity for single move to modern facility
 - Remove constraints of current building (in case of modernization only)
 - Could still retain, develop current site for other use(s)

Board Discussion, Direction To-Date

Mid 2019 - Mid 2023

- May 19, 2019: Staff recommended, and Board supported, developing an approach to modernizing the outdated HQ facility
- September 2020: JLL selected to assist with HQ replacement assessment and possible project implementation
- August 31, 2021: HQ Ad-Hoc Committee reviewed development scenarios, including maximum rebuild onsite
- May 27, 2022: Board reviewed Public Private Partnership scenarios and risk allocation
- March 7, 2023: Ad-Hoc Committee discussed market changes, option of buying a different building
- May 5, 2023: Ad-Hoc Committee recommended Board seek to buy building

July 12, 2023 Board Meeting

- Discussion

- Downtown transit-oriented office submarkets in San Mateo County have been very strong
- Historically, low stock of properties that meet SamTrans' space and locational requirements
- Recent capital market volatility has impacted asset values; distress has created market with general willingness to sell

- Direction

- Board supported staff recommendation to seek purchase opportunities within reasonable budget

August 2, 2023 Board Meeting

- Board authorized (by motion) pursuit to acquire a new HQ, subject to following parameters:
 - a. Any offer made must first be reviewed and approved by Ad-Hoc Advisory Committee
 - b. Any final purchase agreement is subject to Board approval
 - c. Cost of new HQ building, including all necessary tenant improvements, limited to \$136 million
 - d. New HQ building must be in San Mateo County, within $\frac{3}{4}$ -mile walk of rail transit station

August 2, 2023 Board Meeting

- Board directed staff to:
 - a. Provide regular progress updates
 - b. If no suitable HQ building is identified for acquisition by December 31, 2023: Review options and next steps at January 2024 meeting
- Board awarded contract to CBRE for commercial real estate brokerage services for HQ acquisition

Progress since August 2



Process of Property Identification

87 Properties:

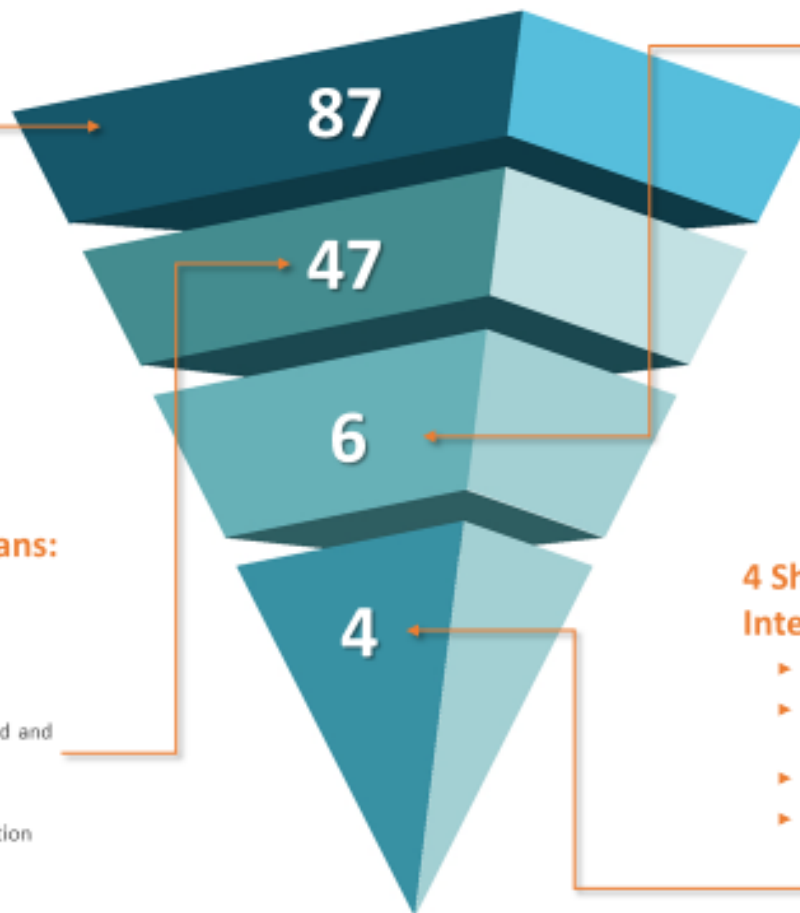
The following was considered:

- ▶ Land
- ▶ Entitled development land
- ▶ Land in approval process
- ▶ Approved buildings under construction
- ▶ Large multi tenant developments (existing, entitled and under construction)
- ▶ Existing new and older vintage buildings
- ▶ Buildings on market for sale
- ▶ Buildings outside of .75 miles to public transportation
- ▶ Subleases
- ▶ Off-market purchases
- ▶ Off-market lease to purchases
- ▶ Off-market availabilities to lease
- ▶ On-market availabilities to lease

47 Properties Presented to SamTrans:

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6 Shortlisted Properties Toured with SamTrans:

- ▶ New vacant buildings
- ▶ Existing 2nd generation buildings
- ▶ Buildings for sale
- ▶ Buildings for lease to purchase
- ▶ Off-market purchase opportunities
- ▶ Leased buildings
- ▶ Buildings outside of .75 miles to public transportation

4 Short Listed Properties for Letter of Intent (LOI) Submittal:

- ▶ 2 new buildings in shell condition
- ▶ 1 new building recently improved with furniture and interior built out
- ▶ 1 existing building constructed in 2000
- ▶ Close to or inside .75 miles to Caltrain

IV Property Summaries

Gateway at Millbrae	
ADDRESS	166 N Rollins Road Millbrae
SIZE	180,161 SF (±157,000 SF Office + 23,000 SF Retail)
AVAILABILITY TO PURCHASE	Purchase available 99-year ground lease from BART
CONDITION	Cold Shell
EST MOVE IN TIMEFRAME	10-12 Months following Lease Execution pending landlord build-out



Circle Star	
ADDRESS	1 Circle Star Way, San Carlos
SIZE	106,424 SF
AVAILABILITY TO PURCHASE	Potential to lease and purchase
CONDITION	Vacant
EST MOVE IN TIMEFRAME	12-15 months following purchase or lease execution.



**not within 1/4 mile of rail transit, unwalkable, and unbikeable area*

IV

Property Summaries

610 Walnut

ADDRESS	610 Walnut Street, Redwood City
SIZE	71,330 SF
AVAILABILITY TO PURCHASE	Potential to Lease and Purchase
CONDITION	Warm Shell
EST MOVE IN TIMEFRAME	12-15 Months following purchase of lease execution



801 Jefferson

ADDRESS	2075 Broadway Street, Redwood City
SIZE	98,677 SF
AVAILABILITY TO PURCHASE	Potential to Lease and Purchase ±95 years of ground lease remaining
CONDITION	Sublease w/ FF&E
EST MOVE IN TIMEFRAME	Immediate, subject to minor alterations



Next Steps: Continue Negotiations, Return to Board for Action

Questions?



Thank You



Please email fitzpatrickb@samtrans.com with any questions.