

Resolution No. 2023-

**Board of Directors, San Mateo County Transit District
State of California**

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Authorizing Execution of an Agreement to Lease 166 N. Rollins Road in Millbrae, California for a New Headquarters Building for up to 146 Months, with an Option to Purchase the Building for \$126 Million within 30 Months of Moving In or Substantial Completion of Build-Out

Whereas, the San Mateo County Transit District (District) purchased its current headquarters building and parking structure at 1250 San Carlos Avenue, San Carlos, California (Current HQ), on May 9, 1990, initially occupying two of the building's four floors; and

Whereas, the Current HQ, which was built for a savings and loan in 1979, is outdated, was not built to current seismic standards or building codes, does not reflect current office environments, has been retrofitted in parts but never fully remodeled, and was never intended to serve the hundreds of employees now working on all four floors of the building (as well as in the basement); and

Whereas, the Current HQ is functionally obsolete, with an inefficient floor plan and layout, too-large building core, and multiple spaces designed for usages that serve no contemporary office purpose; and

Whereas, operating costs of the Current HQ are high and unpredictable due to unreliable and energy-inefficient and / or outmoded essential components such as heating, air conditioning and elevators; and

Whereas, in mid-2019, the District's Board of Directors (Board) endorsed a staff recommendation to develop an approach to modernize the Current HQ; and

Whereas, staff, based on multiple consultant reports developed over the past two decades, analyzed past, present and potential future use of the Current HQ and concluded that it

would be economically unsound to reconfigure and fully renovate the building to cure deferred maintenance and meet modern seismic requirements, which work would still not update the building to conform to modern work-place standards; and

Whereas, the District then engaged Jones Lang LaSalle to assess options for redevelopment of the Current HQ site, possibly as a public-private project; and

Whereas, at its July 12, 2023 meeting, the Board reviewed the history and status of the HQ replacement or renovation project, as well as the conditions in the commercial real estate market, policy and financial considerations to secure a new HQ facility, and decided to explore acquisition of a new office building rather than continue to occupy the Current HQ or rebuild on the Current HQ site; and

Whereas, on August 2, 2023, the Board authorized the General Manager/CEO to pursue the acquisition of a new headquarters building, subject to the following parameters:

1. Any offer made by or on behalf of the District to acquire a new HQ facility must first be reviewed and approved by the Board's HQ Ad Hoc Advisory Committee;
2. Any final purchase agreement for a new HQ building is subject to Board approval;
3. The cost of a new HQ building, including all necessary tenant improvements, may not exceed \$136 million; and
4. Any new HQ building must be located in San Mateo County and within a ¼-mile walk of a rail transit station; and

Whereas, also on August 2, the Board awarded a contract to CBRE, Inc. (CBRE) for Commercial Real Estate Brokerage Services related to the acquisition of a new District administrative headquarters (New HQ); and

Whereas, CBRE identified nearly 90 properties that the District could potentially consider, and presented the top 47 options to staff for District consideration, from which the District short-listed six properties for visits and further consideration, and presented the top four properties to the HQ Ad Hoc Advisory Committee of the Board and to the full Board; and

Whereas, the District submitted Letters of Intent to purchase each of the four properties, and invited negotiations through CBRE and staff; and

Whereas, staff and the HQ Ad Hoc Advisory Committee recommend the Board select the “Gateway at Millbrae Station” office building, located at 166 N. Rollins Road in Millbrae, to be the New HQ, as it meets all criteria set forth by the Board for selection of a New HQ and presents a unique lease-to-purchase opportunity for the District; and

Whereas, the Gateway at Millbrae Station is in an ideal location for the headquarters of a public transit provider and mobility manager, in a transit-oriented development at one of the largest intermodal stations in the western United States, immediately adjacent to SamTrans, shuttle, BART, Caltrain and future high speed rail services; and

Whereas, staff and the Board believe this location will benefit the District’s current and future employees who prefer to take transit rather than drive to work, as well as members of the public and others with business at the building; and

Whereas, the approximately 180,000 square-foot Gateway at Millbrae Station, which is subject to a 99-year ground lease with the Bay Area Rapid Transit District, consists of approximately 157,000 square feet of office space, approximately 105,000 of which is expected to be used by the District and about 52,000 of which will be available to rent to other public or private entities unless and until the District requires additional capacity, as well as 23,000 square feet of first-floor retail space, the rental of which will offset costs of the New HQ; and

Whereas, the building is newly-constructed and currently in a “cold shell” condition, which provides the District the opportunity to partner with the developer (Gateway Millbrae Office, LLC, the “Lessor/Owner”) on decisions being made to complete the building, including space planning and building materials selection for all parts of the building, such as offices, the lobby, meeting and board rooms, and retail rental spaces; and

Whereas, following several rounds of negotiations, the District and the Lessor/Owner have agreed to a lease-to-purchase transaction under which the District will lease 166 N. Rollins Road in Millbrae, California for up to 146 months, with an option to purchase the building for \$126 Million within 30 months of moving in or substantial completion of build-out, with key terms set forth in Attachment A.

Now, Therefore, Be It Resolved that the Board of Directors of the San Mateo County Transit District hereby authorizes the General Manager/CEO or designee to execute agreements and take other actions necessary to lease the Gateway at Millbrae Station, located at 166 N. Rollins Road in Millbrae, California, subject to the terms set forth in Attachment A, with the understanding that the Board retains authority to determine if and when to exercise an option leading to execution of a purchase and sale agreement to acquire the building, and for execution of any leases or subleases by the District that exceed authority previously delegated to the General Manager/CEO.

Regularly passed and adopted this 18th day of December, 2023 by the following vote:

Ayes:

Noes:

Absent:

Chair, San Mateo County Transit District

Attest:

District Secretary

ATTACHMENT A

Key Terms of Proposed Agreement Between Gateway Millbrae Office, LLC and San Mateo County Transit District for Lease-to-Purchase of “Gateway at Millbrae Station” Office Building

- **Location:** 166 N. Rollins Road in Millbrae, California
- **Size:** 180,161 square feet; 6 stories; Offices over ground-level retail with parking
- **Lease Term:** 146 months, subject to an option to purchase SamTrans, as set forth below
- **Lease Commencement Date:** Earlier of the when the District begins to use building as office or upon substantial completion of tenant improvements (estimated to be 15 months after Lease execution)
- **Rent:**
 - **Free Rent:** First two months after Commencement Date
 - **Base Rent and Operating Expenses:** \$5.35/square foot base rent, plus operating expenses (property taxes, insurance, and maintenance costs), also known as “Triple Net” or “NNN”
 - **Annual increases:** 3%
- **Purchase Option:** \$126,000,000
 - Available until 30 months after Lease Commencement Date
 - If District does not exercise the Purchase Option:
 - Monthly rent will increase by \$0.25/square foot (in addition to 3% annual increases)
 - District will retain right-of-first-offer to purchase building at market rate

- **Base Building Condition:** New construction, “cold shell” (e.g., no interior walls, floors, doors or other finishings; no bathrooms; no heating/ventilation/air conditioning)
- **Building Improvements:**
 - **“Class A Office Building” Standard:** Lessor/Owner will bring building to “turnkey” Class A Office Building standard
 - **“Warm-up”:** Lessor/Owner will “warm up” building at Lessor/Owner’s sole cost (including restrooms, lobbies, and heating and air conditioning through to trunking)
 - **Tenant Improvements:** Lessor/Owner will complete tenant improvements on behalf of the District within allowance of \$235.00/square foot, with up to \$20.00/square foot available for use on fixtures, furniture and equipment
 - **Test Fit Allowance:** Lessor/Owner will provide architectural “Test Fit” design allowance of \$0.25/rentable square foot to assist District in space design and programming
- **Ground Lease:** District is acquiring building and all necessary, attendant easements and other rights; Property *under* building is owned by Bay Area Rapid Transit, and building is subject to a 99-year ground lease
- **Commissions:** Paid by Lessor/Owner