

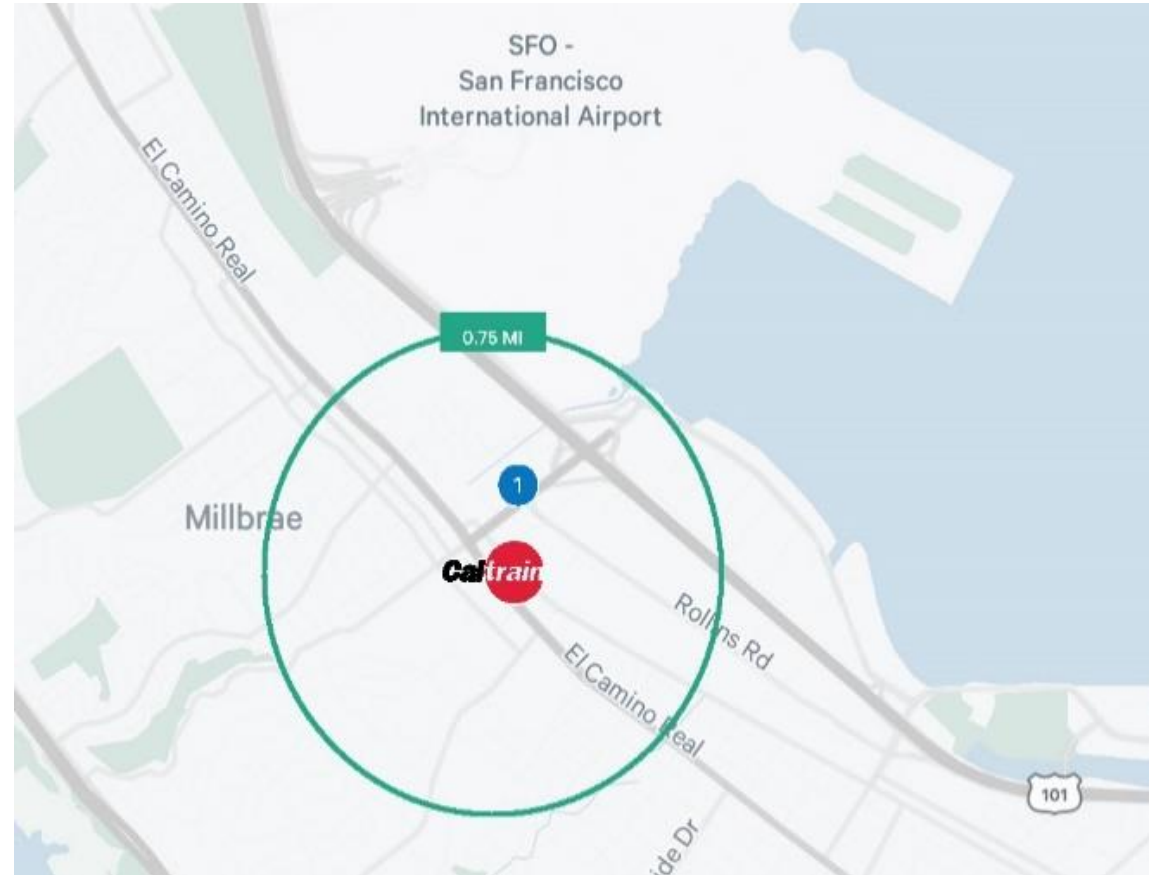
samTrans

San Mateo County Transit District Headquarters Project



SamTrans Special Board Meeting | December 18, 2023

Recommended Action: Authorize Lease-to-Purchase of “Gateway at Millbrae Station” 166 N. Rollins Road, Millbrae



Property Location and Description

- Ideal location for public transit operator/mobility manager
 - Adjacent to Millbrae Caltrain and BART stations, served by SamTrans Routes ECR and 292
 - Transit-oriented development at one of largest intermodal stations in western U.S.
- Building accommodates current District staff, planned growth and potential for rental revenue to offset costs
 - ~180,000 square feet, 6 stories
 - ~157,000 square feet office, ~23,000 square feet ground-floor retail
- Anticipate move-in ~12-15 months following lease execution, upon completion of Lessor/Owner build-out and tenant improvements
- Recommendation does **not** include authorization to purchase at this time

Summary of Deal Terms

Lease Term: 146 months plus options

Commencement Date: Upon substantial completion of tenant improvements

Base Rent & 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 3% base rent increase
- Two free months rent after Commencement

Commissions: Paid by Lessor/Owner

Purchase Option: \$126 million

- 30 months from Commencement Date to exercise option to purchase building
- If Purchase Option not exercised, monthly rent will increase by \$0.25/square foot and option reverts to right-of-first-offer to purchase at market rate

Building Condition: Turnkey, Class A Office

- “Warm up” to be completed at Owner’s cost (e.g. restrooms, lobby, HVAC)
- Tenant Improvements within \$235/square foot allowance (inc. up to \$20/square foot for furniture, etc.)

Prior Board and Committee Actions

- May 19, 2019: Board supported developing an approach to modernize the outdated HQ facility
- September 2020: JLL selected to assist with HQ replacement
- August 31, 2021: HQ Ad Hoc Advisory Committee reviewed replacement/development scenarios
- May 27, 2022: Board reviewed Public Private Partnership scenarios and risk allocation
- March 7, 2023 & May 5, 2023: Committee discussed market changes and recommended Board seek to buy a new building
- July 12, 2023: Board supported staff recommendation to seek purchase opportunities within reasonable budget

August 2, 2023 Board Meeting

- Board authorized staff 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
- Board awarded contract to CBRE for commercial real estate brokerage services for HQ acquisition

Condition of Current HQ

- Constructed in the mid-1970's for bank headquarters
- District purchased in May 1990
- Major building components have significant deferred maintenance
- Current HQ's floor plans are quite inefficient by modern standards
 - Built for bank with private apartment
 - No major renovations made for over 30 years
 - Current HQ is at capacity - all four floors (plus non-parking portion of basement) are occupied with agency staff, as compared to two floors in 1990

Transaction Structure Advantages

- “Cold shell” building
 - Owner to build major systems to “Class A Office Building” standard at own cost and risk
 - Owner to build Tenant Improvements (board room, offices, cubicles, kitchen, etc.)
 - TI cost allowance of \$235/square foot
 - Savings of up to \$20/square foot can be used for fixtures, furniture, and equipment

Transaction Structure Advantages

- Improvements should be complete in 12 to 15 months
- Owner will hold contracts
 - Required by ground lease to use union labor
 - Should save bidding time and money
 - District will have a say in the contract process and will oversee tenant improvements

Transaction Structure Advantages

- District does not pay rent until all work is complete
- First two months of rent waived
- District can “live in” new space for up to 30 months (staff goal: 12-15 months to constrain rent payments) during option period
- Deal structure enables District to complete comprehensive capital improvement plan, initiate building management and maintenance plan before anticipated purchase

Due Diligence: Deal Value

- **Staff used three separate measures to confirm value of deal**
 1. Independent appraisal confirms purchase price is below-market
 2. Broker team and staff concluded deal achieves discount relative to cost to build
 3. Independent peer review concluded that if District purchases building for \$126 million, it will have achieved below-replacement cost and below-market deal

Conservative Estimate of Year 1 Costs to Occupy Gateway at Millbrae Station

- **\$12.5 million** (4.7% of operating budget)
 - \$8.0 million bond payment
 - \$3.3 million operating costs
 - \$500,000 BART lease
 - \$700,000 to “mothball” current HQ
- Note: No later than upon exercise of option to purchase, staff recommends \$2.2-3 million annual contribution to reserve fund for replacement of major components

Gateway at Millbrae Station: Revenue Potential to Off-set Costs

- Retail space to rent: ~23k square feet
- Office space to rent:
 - Total of ~157k square feet office space, District currently needs ~2/3
- On Day 1 after purchase, revenues expected to offset ~13% of bond payment and operating costs
 - Revenues could off-set costs by ~56% in Year 5, ~62% in Year 10
 - If District does not need to expand into available office space in future, potential offset grows over time

Questions / Discussion