



Government Relations & Public Affairs Committee Information

August 21, 2017

Office Space Assessment

Issue: The SACOG office space lease at 1415 L Street expires in 2019.

Recommendation: None, this item is for information only.

Discussion: In March 2002, SACOG entered into a 126-month lease agreement for its current office space. In December 2009, SACOG extended its lease through September 2019. Given current market conditions, staff intends to evaluate options beyond renegotiating the lease. By starting this evaluation now, this will allow for exploration of the widest number of options.

SACOG's current lease is set at \$2.85 per square foot (per month), plus operating expenses of approximately \$2,700 per month. SACOG has two 5-year options to extend, with increases based on the Consumer Price Index (San Francisco-Oakland-San Jose Metropolitan Statistical Area), with a maximum annual increase of 3%.

Currently, Class A office space in the central business district is leasing for \$2.25-\$3.50 per square foot, with SACOG's current location being on the higher end (\$3.25-\$3.40). According to commercial real estate firm Cushman & Wakefield, asking rents in the past 12 months have increased nearly 8%. With the tight supply on Class A office space, particularly of the size leased by SACOG, the market by 2020 is expected to range from \$2.67 to \$4.16 per square foot.

Based on the terms of the current option to extend, based on current CPI trends, SACOG could anticipate an initial increase to \$2.95, growing to an estimated \$3.32 by the fifth year. While this is in the range of projected market rates, staff feels it is prudent after 17 years to do a full evaluation of cost, investment opportunity, board and member agency needs, staff needs, and other factors.

Options that staff intends to explore include:

- Exercise the existing 5-year right to extend;
- Renegotiate the terms of the lease;
- Lease private space elsewhere within the City of Sacramento;
- Pursue a joint lease with another public agency within the City of Sacramento;
- Pursue a joint development with another public agency within the City of Sacramento; and
- Pursue a development independently, either new construction or an existing facility within the City of Sacramento

Staff will report back to the board no later than January 2018, with a preliminary update on options and a recommendation for board approval, including a report on SACOG's space utilization. If SACOG should decide to extend its lease, that decision must be made by January

2019. Staff will bring enough information forward to give the Board options well in advance of the January 2019 deadline.

Approved by:

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Chief Executive Officer

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