

Agenda Report

TO: CITY COUNCIL

DATE: November 23, 1998

FROM: CITY MANAGER

SUBJECT: RENEWAL OF LEASE FOR FIRE DEPARTMENT'S HEADQUARTERS
SPACE AT 199 S. LOS ROBLES AVENUE

RECOMMENDATION:

It is recommended that the City Council authorize the City Manager to enter into a one year extension of the lease agreement with Schroeder Realty of New York for headquarters space for the Fire Department at 199 S. Los Robles Avenue under the terms described in this report.

BACKGROUND:

The Pasadena Fire Department presently leases space in the structure at 199 S. Los Robles Avenue for its headquarters. That lease expires on November 30, 1998. The owner of the building, Schroeder Realty of New York, which purchased the building in 1997, has required that any renewal of the lease be for a term of five years. In return for that lease term, however, the Fire Department will be provided with parking at no cost for two years and the owner will repaint and recarpet the existing space. Also, the building owner has agreed to exclude from the rent calculations the additional taxes imposed under Proposition 13 as a result of the 1997 sale of the building and to cap any future increases in building operating costs at 8% annually. The present lease also contains an option for a one-year extension.

The current rent is \$1.75 per square foot. For the five year lease, the new rent for the space is calculated at \$1.90 per square foot for the first 30 months of the lease and at \$2.00 per square foot thereafter. The real estate broker engaged by the Fire Department to negotiate the lease or find alternative space, CB Richard Ellis, Inc., performed a market survey and found that rent in "Class A" buildings in Pasadena presently averages \$2.10 per square foot. The rental rate for the one year lease extension is \$1.95 per square foot.

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Based on the 7,308 square feet rented, the monthly rental for the first 30 months of the 5 year term would be \$13,885.20 plus certain increases in building operating expenses which are capped at 8%. For the next 30 months, the rent will be \$ 14,616 per month plus \$1,725 per month for 29 parking spaces plus up to 8% allowable increases in operating expenses. The total obligation for the lease term is \$906,779 (including parking) plus up to 8% annually (a maximum of \$71,000) for potential increases in building operating costs. The lease terms also provide the opportunity for the City to sublet space that is not being used should the Department relocate at some point in the future.

As an option, the expiring lease also contains a provision for a one year extension of the lease at a cost of \$14,246 per month plus \$1,725 per month for 29 parking spaces, which adds up to \$15, 971 per month for twelve months, or a total of \$191,652.00. The inducement which the building management has offered to enter into the longer term lease is two years' free parking, which is worth \$41,400. Over the 5 years term of the lease, that is worth \$0.09/square foot per month.

Whether to exercise the one year option or execute the five year lease depends on the whether the City can negotiate a rental rate in 1999 which will be sufficiently lower than the rates proposed in the five year lease to cover both the \$0.09 per square foot free parking which we would be giving up plus the cost of moving to new quarters. Office rental rates have softened in Pasadena as new rental space becomes available in Glendale and Burbank. Whether that trend continues is a matter of some speculation.

The Fire Department and its broker have been working on the lease renewal since May. However, the broker was not able to locate any suitable building space at a rent low enough to justify the cost of relocating the communication and other equipment now at the Fire Department headquarters, and there is no City-owned space available.

The Fire Department does not believe it is prudent to obligate the City to a lease of nearly one million dollars over the next five years based on these figures and lease conditions. The Fire Department recommends that the one year renewal option be exercised, and that a thorough search be made for an alternate headquarters facility at a lower cost during that time while also exploring the possibility of more advantageous lease terms at the current location.

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FISCAL IMPACT:

The revised monthly rental rate for the one-year extension of \$15,971.00 represents an increase of \$1,457.00 per month (a total increase of \$17,484.00 for the one year period) over the present monthly rent of \$14,514.00. Sufficient funds for this purpose exist in the current Fire Department budget.

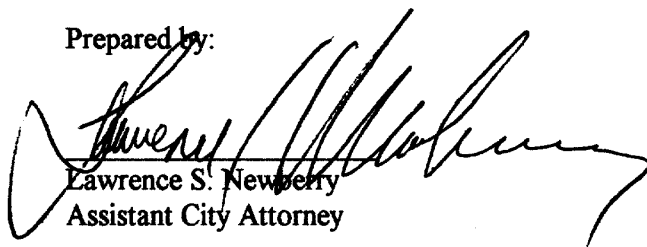
Respectfully submitted,


Cynthia Kurtz, City Manager

Concurrence:


Ernest Mitchell
Fire Chief

Prepared by:


Lawrence S. Newberry
Assistant City Attorney