



M E M O R A N D U M

Date: January 28, 2009

To: California State Lottery Commission

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Director

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Subject: Item 9(e) – Amendment to South San Francisco District Office Lease

ISSUE

Should the California State Lottery Commission (Commission) approve the amended three-year lease extension expiring June 30, 2011, for the South San Francisco (SSF) District Office?

RECOMMENDATION

California State Lottery (Lottery) staff recommends that the Commission approve the amended lease extension.

Since the rate increase exceeds the amount previously approved by the Commission, by more than ten percent, per Section S.12.b., of the Lottery Regulations, new approval of the Commission must be obtained.

BACKGROUND

At the July 16, 2008 meeting, the Lottery Commission approved a three-year extension of the SSF District Office lease at a total cost not to exceed \$493,043, based on rent rates of \$2.19 per square foot.

DISCUSSION

The owner of the complex was in the process of acquiring new property management, so no active representative of the owner was available to give input into the development of the lease terms.

Therefore, the terms as put forth to the Commission, in July 2008, were arrived at by the Lottery staff based on previous year's rate structure. The owner has now contracted with a new property management company and negotiations with the new property manager have resulted in information that modifies the original recommendation. These negotiations have resulted in a rate increase from the most recent lease rate of \$2.15 per square foot, to \$2.42 per square foot covering the period from June 1, 2008 through June 30, 2009. The rent would then increase to \$2.54 per square foot from July 1, 2009 through June 30, 2010. The rent for the final year would then increase to \$2.67 square foot from July 1, 2010, until the extension ends on June 30, 2011. The final year of the agreement is cancellable by the Lottery with 90 days notice to the Lessor. These amounts are higher than the amounts approved by the Commission in the July 16, 2008 meeting by \$.23 per square foot. The property manager indicates that the increase is necessary to help cover Common Area Maintenance (CAM) charges not accounted for in previous leases.

To ensure the Lottery is still paying market rates, staff performed a market analysis of surrounding properties for comparable rates. The Lottery space is 6,293 square feet. Typical market rent charged by land owners include base rent and triple net (NNN) charges. Triple Net typically includes property taxes, property insurance, and common area maintenance (CAM) charges. Common area maintenance charges include such items as regular maintenance, landscape, security and external lighting. The rent that the Lottery is being asked to pay is actually a combination of base rent and the CAM charges, with no charges for taxes or insurance.

The table below displays rates found in the area that justify the proposed new lease rates for the Lottery.

Property Address	Square Feet	Base Rate	Taxes and Insurance	CAM Charges (Estimated)	Market Rent
806-810 Dubuque	6,497	\$1.65	Unknown	\$.72	\$ 2.37 +
870 Dubuque	3,296	\$2.55	Unknown	\$.72	\$ 3.27 +
850 Dubuque	21,652	\$1.75	Unknown	\$.72	\$ 2.47 +
844 Dubuque	15,032	\$1.75	Unknown	\$.72	\$ 2.47 +
Edgewater	20,000	\$2.85	Unknown	\$.72 +	\$ 3.57 +
Britannia East	8,000	\$2.50	Unknown	\$.72 +	\$ 3.22 +
Britannia Point	8,000	\$2.50	Unknown	\$.72 +	\$ 3.22 +

As can be seen in the preceding table, the Lottery's proposed lease rate of \$2.42 per square foot is favorable when compared to other rates in the complex and is substantially under nearby lease rates.

The SSF District Office has occupied the facility at 815-820 Dubuque Ave., South San Francisco, California, since July 18, 2003. The space is acceptable to the management and staff of the SSF District Office and continues to serve the needs of the Lottery. The Lottery's lease on the property expired on July 31, 2008, and the Lottery is currently in a month-to-month agreement with the property owner.