



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: August 19, 2024

Report #:2407-3202

TITLE

Approval of a Lease Amendment Between Palo Alto Players and the City of Palo Alto for the Premises at the Lucie Stern Community Center Located at 1305 Middlefield Road for an Approximate 36-month Term, at a starting Base Rent of \$1,540.75 per Month and Increasing 3% Annually; CEQA Status – Not a Project

RECOMMENDATION

Staff recommends that Council authorize the City Manager or their designee to execute the Third Amendment to Lease contained in Attachment A, between City of Palo Alto and Palo Alto Players Peninsula Center Stage for the continued use of office space at the Lucie Stern Community Center located at 1305 Middlefield Road. The term will commence on September 1, 2024 through August 31, 2027. The initial base rent will be \$1,540.75 per month and increase 3% annually starting on September 1, 2025.

BACKGROUND

Palo Alto Players is the longest running theatre company in Silicon Valley, producing diverse programming that highlights local talent and tells stories of resonance for the local community since 1931. Their mission is to be the home for creating exceptional theatre experiences that inspire, entertain, and enrich the lives of local artists & audiences. The Palo Alto Players present musicals and plays from reimagined classics to newly released Broadway titles and are embedded in the community through schools, volunteer opportunities, and partnerships with local nonprofits—engaging over 14,000 audience members, 200 local artists, and 250 volunteers each year.

Palo Alto Players' annual budget for staffing, general operations, and direct production costs for its season at the Lucie Stern Theater is approximately \$1.0 million. An estimated 60% of each annual budget is earned in ticket sales and other earned income, 35% is contributed from donations and grants, and the remaining 5% is derived from investment earnings. In addition, per the agreement between the City of Palo Alto and Palo Alto Players, all tickets sold are

assessed an additional “facility usage fee” of \$4 per ticket (\$2 is earmarked for capital improvements for the Stern Theater). These fees are collected and remitted to the City of Palo Alto following each production.

ANALYSIS

The Palo Alto Players currently occupy approximately 500 square feet of office space at the City-owned Lucie Stern Community Center, located at 1305 Middlefield Road, under the Second Amendment that was approved by the City Council on August 23, 2021.¹ The current lease term expires on August 31, 2024. City Staff recommends a third amendment to the lease to extend the agreement to August 31, 2027 at a starting base rent of \$1,540.75 per month with annual 3% increases starting on September 1, 2025. The rent increased 2.5% annually in the original lease and first amendment. It changed to 3% annually with the second amendment. The extension will provide Palo Alto Players with continued use of the office space to manage, administer, and support the theater programs at the Lucie Stern Theater.

The Third Amendment to Lease will extend the term of the agreement through August 31, 2027 and modify the rent as shown in the table below. All other terms will remain the same.

Table # 1: Rent	
PERIOD	MONTHLY RENT
9/1/2024 – 8/31/2025	\$1,541
9/1/2025 – 8/31/2026	\$1,587
9/1/2026 – 8/31/2027	\$1,635

This recommendation is consistent with the City Council 2024 Priority of Community Health, Safety, Wellness & Belonging by supporting the cultural program in the City of Palo Alto to enrich the lives of residents in the local communities.

FISCAL/RESOURCE IMPACT

The current base rent is \$1,495.87 per month. Upon commencement of the Third Amendment, the base monthly rent will be increased by 3% to \$1,540.75. The base rent of the Third Amendment will continue to increase 3% annually, with the first increase starting on September 1, 2025. This initial base rent is approximately \$3.08 per square foot per month. For reference, the overall average asking rent for all office space classes in Palo Alto as of Q2 2024 is \$8.36 according to Cushman & Wakefield, and current rent rates at the City’s space in Cubberley ranges from \$0.36 to \$4.45 per square foot per month.

¹ City Council, August 23, 2021, Item # 5:
<https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=3343&compileOutputType=1>

If approved, annual rent receipts in this lease are in line with projected rental earnings included as part of the FY 2025 Adopted Budget. If not approved, and the space is not otherwise rented out to another service provider, the City would fall below FY 2025 revenue estimates by approximately \$19,000.

STAKEHOLDER ENGAGEMENT

The Community Services Department has been in discussions with the Palo Alto Players regarding their proposal to extend the lease. While higher revenue generating programs could be explored for the space, the Palo Alto Players continue to be an excellent tenant and providing them the stability of an office space is vital to their economic stability for the continued community programming they provide.

ENVIRONMENTAL REVIEW

Approval of the lease for City owned office space is exempt from the requirements of the California Environmental Quality Act.

ATTACHMENTS

Attachment A: Third Amendment to Lease Palo Alto Players

APPROVED BY:

Lauren Lai, Administrative Services Director