



CITY OF  
**PALO  
ALTO**

## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Administrative Services**

**Meeting Date: August 19, 2024**

Report #:2405-3109

### **TITLE**

Approval of the 11th Amendment to the Standard Industrial Lease Agreement for 1005 – 1007 Elwell Court

### **RECOMMENDATION**

Staff recommends that the Council approve and authorize the City Manager or their designee to execute the Amendment No. 11 (Attachment B) to renew the lease for 1005 and 1007 Elwell Court to provide office space for the City of Palo Alto Utilities Engineering Division. The Eleventh (11th) Amendment will extend the current lease agreement for an additional three (3) years with an option to extend the term for an additional three (3) years at market rate.

### **EXECUTIVE SUMMARY**

The City of Palo Alto currently leases from McCandless Limited approximately 16,157 square feet of space located at 1005 and 1007 Elwell Court, Palo Alto, California. The lease agreement has been amended several times over the past decade to extend the lease term and modify the square footage of the premises. The current lease will expire on August 31, 2024, necessitating an extension to accommodate the continuation of use by the Utilities Engineering staff.

The new Eleventh Amendment will extend the lease term for an additional three (3) years, commencing September 1, 2024, and terminating on August 31, 2027. The basic rent will be adjusted annually by three percent (3%), and the landlord will address various maintenance issues at their cost prior to the commencement of the Eleventh Extended Term.

### **BACKGROUND**

On July 31, 1998, the City entered into a 10-year lease with McCandless Limited for 9,202 square feet of office space at 1007 Elwell Court. The purpose of the lease was to provide space for the relocation of the Utilities Engineering staff to address the over-crowded conditions in the Civic Center as described in CMR: 204:98. Since that time, the Council has approved several amendments to add additional space and to modify the lease to house additional staff including

a citywide training conference room for computer-based training. The Utilities Department has been using the office space at the premises for its engineering and operation projects. Attachment A provides a history of the lease and amendments. The lease has been amended ten times, with the last amendment dated October 20, 2021.

## **DISCUSSION**

The premises at 1005 and 1007 Elwell Court are part of a building commonly known as 1001-1007 Elwell Court. The current lease encompasses a total of 16,157 square feet, distributed as 9,202 square feet at 1007 Elwell Court and 6,955 square feet at 1005 Elwell Court. This space is utilized by the Utilities Engineering staff, who perform critical functions including the planning, design, and operation of utility services for the City of Palo Alto.

Staff is requesting a six-year lease extension at this time because ultimately staff is interested in relocating Utilities Engineering staff to a City-owned property (not identified at this point). Staff estimates that if a new site is identified and developed, it will take at least six years to negotiate, construct and develop a new office space for Utilities Engineering staff at the new location. This six-year lease extension should allow adequate time to determine if the City will proceed with the construction and development of a new utilities facility. The Public Works Department is continuing its space planning effort that started in FY 2022.

## **Basic Rent**

The City is to pay monthly basic rent for the eleventh extended term starting at \$3.67 per square foot with annual increase of 3% beginning September 1, 2024 as set forth below:

<b>Period</b>	<b>Sq. Ft Rate</b>	<b>Rent Monthly</b>	<b>Rent Annual</b>
Sept. 1, 2024 – Aug. 31, 2025	\$3.67/SQF	\$59,344.19	\$712,130.28
Sept. 1, 2025 – Aug. 31, 2026	\$3.78/SQF	\$61,124.52	\$733,494.24
Sept. 1, 2026 – Aug. 31, 2027	\$3.90/SQF	\$62,958.25	\$755,499.00

## **FISCAL/RESOURCE IMPACT**

In addition to monthly basic rent, the City will reimburse for common area expenses, which in calendar year 2024 is estimated to be \$12,695 per month or \$152,340 annualized. Funding for the first year of the lease agreement, estimated at \$864,470.28 (first year basic rent plus 2024 estimated common area expenses) is available in the FY 2025 Adopted Operating Budgets for the Electric Fund (43%), Fiber Fund (3%), Gas Fund (21%), Water Fund (18%), and Wastewater Collection Fund (15%). The lease cost is allocated by percentage of total engineering FTEs by utility. Funding for future years is subject to City Council approval through the annual budget process.

**STAKEHOLDER ENGAGEMENT**

Throughout the lease renewal process, extensive stakeholder engagement was conducted to ensure alignment with the needs and priorities of all parties involved. Key stakeholders included the Utilities Department and the landlord, McCandless Limited LLC.

**ENVIRONMENTAL REVIEW**

Extending the lease for office space is exempt from the requirements of the California Environmental Quality Act.

**ATTACHMENTS**

Attachment A: History of Lease Amendments

Attachment B: 11th Amendment 1005-1007 Elwell Court

**APPROVED BY:**

Lauren Lai, Administrative Services Director