

AGENDA



Recommendation for Council Action

AUSTIN CITY COUNCIL

Regular Meeting: August 9, 2018

Item Number: **029**

Office of Real Estate Services

Authorize the negotiation and execution of an 87-month lease agreement, with one five-year extension option, for approximately 60,750 square feet of office and warehouse space for the Austin Transportation Department with IND AUSTX CTC, LLC, a Delaware Limited Liability Company, said property being located at 8700 and 8900 Cameron Road, in an amount not to exceed \$7,762,518.90.

District(s) Affected: District 4

Lead Department	Office of Real Estate Services.
Fiscal Note	Funding is contingent upon available funding in the Austin Transportation Department’s future operating budget.
Prior Council Action	On December 14, 2017, City Council authorized negotiation and execution of an 84-month lease of 86,800 square feet at 845 Interchange Blvd. in an amount not to exceed \$7,096,669.60, for the same purpose. The parties were unable to come to terms on the lease.
For More Information	Alex Gale, Office of Real Estate Services, (512) 974-1416; Megan Herron, Office of Real Estate Services, (512) 974-5649; Rob Spillar, Austin Transportation Department, (512) 974-2488.

Additional Backup Information:

The Austin Transportation Department (ATD) currently houses markings staff, vehicles and commodities at 6301 Harold Court; signs staff, sign fabrication material and vehicles at 400 Jessie Street; traffic signal crews, vehicles and commodities at 1501 Toomey Road; meter shop staff, warehouse space and vehicles at 411 Chicon Street; and outdoor signal poles and commodities at 7211 N I-35("St. Johns", previously known as Home Depot). ATD's Smart Mobility initiatives are located at 3701 Lake Austin Blvd., owned by the Lower Colorado River Authority (LCRA). The current lease rate is \$25.81 per square foot annually.

The St. Johns location was a temporary warehouse space in which ATD utilized approximately 30,000 square feet to store commodities and outdoor signal poles. The Building Services Department has required that the building be vacated. The proposed lease will allow ATD to consolidate the various divisions into one centralized location rather than having multiple locations. This will also provide for easier and more efficient access to ATD personnel with commodities delivered to one location and will provide ATD with a solution for their staff, fleet, equipment and storage needs and thus saving financial expenses by eliminating lost time labor costs associated with driving to and from multiple sites. By combining to one centralized location, ATD will essentially decrease their carbon footprint and use fewer non-renewable resources.

In December 2017, City Council authorized the negotiation and execution of an 84-month lease at 845 Interchange Boulevard, Suites 103 A and B, for approximately 86,800 square feet of office space and warehouse space. ATD and the Watershed Protection Department were to share the facility, with ATD occupying approximately 60,000 of the 86,800 square feet. The cost to ATD for the 60,000 square feet was estimated at \$4,848,720.00. However, the parties were unable to reach an agreement regarding certain critical lease language, and in May 2018, the Office of Real Estate Services (ORES) and ATD decided to re-open the search for alternate warehouse space.

In February 2018, LCRA informed ORES that it would be terminating the City's lease at 3701 Lake Austin Blvd., effective July 31, 2018. Through negotiation, the termination date was extended to September 15, 2018. Accordingly, ATD will be relocating a portion of its staff into 25,000 square feet of leased space at 901 S. Mopac in September 2018, but the new lease space is not large enough to accommodate all of ATD's displaced employees. New obligations related to the New Mobility initiatives would necessitate to relocate additional staffing to 10,000 square feet of office space at 8700 Cameron Road in September 2018.

Proposed Lease of 8700 and 8900 Cameron Road

The proposed lease of 8700 and 8900 Cameron Road would be an 87-month lease of two separate buildings totaling 60,750 square feet. A map of the lease premises is attached. 8700 Cameron Road is a 21,150-square-foot building with 70% office and 30% warehouse, including both dock-high and at-grade doors. The 8700 Cameron Road building would house ATD's Signal Operations and Maintenance Division and its inventory, and provide growth opportunities for our Smart Mobility program as well as any expanded right-of-way management programs. 8900 Cameron Road is a 39,600-square-foot building with 40% office and 60% warehouse, including both dock-high and at-grade doors. The 8900 building would house ATD's meter shop and Signs and Markings Division, as well as inventory.

The proposed lease of 8700 and 8900 Cameron Road would be a modified gross lease, the Landlord would be responsible for all maintenance of the property, as well as janitorial services, security monitoring, pest control, trash collection, and water and wastewater services to the premises. ATD will

only be responsible for the electricity (estimated at \$20,000 per month). The proposed annual rate is \$13.50 per square foot, with 3% annual increases. To assist with a phased occupancy, the Landlord has offered \$139,421.25 of rent credit towards the first three months. In addition to rent, ATD would reimburse the Landlord for the City's share of the property taxes for the Cameron Technology Center office park. For budgetary purposes, ORES has estimated a 4% annual growth in the property taxes due. The lease has one five-year option to renew at a market rate.

The table below illustrates the real estate costs for the space, including the estimated City share of future property taxes.

	Ann. Base Rent/psf*	Ann. Est. Operating Expenses/psf** (only Taxes)	Monthly Rent and Operating Expenses	Total Rent + Operating Expenses
Year 1	\$ 13.50	\$ 2.73	\$ 82,175.79	\$ 846,688.28***
Year 2	\$ 13.91	\$ 2.84	\$ 84,779.39	\$ 1,017,352.66
Year 3	\$ 14.32	\$ 2.96	\$ 87,466.62	\$ 1,049,599.48
Year 4	\$ 14.75	\$ 3.07	\$ 90,240.23	\$ 1,082,882.75
Year 5	\$ 15.19	\$ 3.20	\$ 93,103.03	\$ 1,117,236.34
Year 6	\$ 15.65	\$ 3.32	\$ 96,057.93	\$ 1,152,695.21
Year 7	\$ 16.12	\$ 3.46	\$ 99,107.96	\$ 1,189,295.52
Months 85-87	\$ 16.60	\$ 3.60	\$ 102,256.22	\$ 306,768.66

Total

* 3% annual escalations.

** Assuming 4% annual property tax increase.

\$ 7,762,518.90

*** Reduced rate for October-December 2018 reflected in the total for Year 1.

The Landlord has offered a \$8.50 per square foot (\$516,375) tenant improvement allowance for modifications to the premises. Prior to occupancy, the Landlord will provide basic upgrades to the facility, including new paint and carpet, security access readers, and perimeter fencing with automatic gates. It would also cover a portion of the truck court in the rear of the 8900 building, to protect ATD's paint trucks. These pre-lease improvements are estimated to cost \$411,375. The Landlord will set aside the remaining tenant improvement allowance, estimated at \$105,000, to cover additional modifications requested by ATD between lease commencement and December 31, 2019.

The Strategic Facilities Governance Team reviewed and approved this request. The lease rate is consistent with market rates, per a rent study conducted by a third-party appraiser.