



Recommendation for Action

File #: 20-3608, **Agenda Item #:** 23.

12/3/2020

Posting Language

Authorize the negotiation and execution of a lease agreement with an option to purchase with 3423 Holdings, LLC, a Texas limited liability company, for approximately 30,000 square feet of office space for the Downtown Austin Community Court, located at 1719 East 2nd Street, for a 120 month lease with one ten-year extension option, in an amount not to exceed \$21,562,500.

Lead Department

Office of Real Estate Services.

Fiscal Note

Funding for the lease term is contingent upon available funding in future budgets.

For More Information:

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Additional Backup Information:

The Downtown Austin Community Court (DACC) currently leases 4,900 square feet at 719 East 6th Street at a rate of \$10,170.57 per month (\$24.91 per square foot annually). DACC also leases 20 parking spaces from a nearby hotel at a rate of \$156.92 per space per month for employee parking (\$37,660.80 per year).

The current Court was designed to facilitate the processing of an estimated 5,500 cases annually. In 2005, the Court expanded its jurisdiction, adding UT's West Campus and the closest portion of East Austin to the already existing Downtown Austin jurisdiction. From FY09-FY13, the Court created an average of 10,600 new cases and docketed an average of 39,450 cases. Currently, the filing of new Class C misdemeanors has decreased significantly, but the demand for case management has also increased significantly. By 2013, the Court had maximized its use of the current available space and began assigning two employees to one office, which created concerns about privacy. In 2013, the Court determined that it required at least 17,500 square feet of space, plus additional parking, to function properly. The existing lease expired on May 31, 2020, but the Court has continued to occupy the space with the consent of the Landlord on a month-to-month basis. In 2016, the Court became a member of the Homeless Outreach Street Team (HOST) and as a result, began accepting referrals to DACC's Intensive Case Management Program (ICM) from HOST for individuals experiencing homelessness who were identified as high risk from the mental health, physical health, substance use and criminal justice perspectives. At the same time, the City Council increased funding for additional ICM case managers that would address the backlog of individuals who were referred for case management but couldn't be assisted because the program had to begin maintaining a waitlist; DACC's case management currently has a waitlist of over 200 people. With the hiring of the additional staff, DACC has more than doubled the number of employees. The current facility was originally designed to accommodate approximately 15 employees; DACC currently has 31 employees and was recently approved to hire 6 additional case managers and house an additional parks grounds crew leader, bringing the staff total to 38.

DACC's Community Service Restitution (CSR) Program is currently located at Parks and Recreation Department, Central Facility Maintenance Complex, located at 2525 S. Lakeshore Blvd. The building at 1719

East 2nd Street allows DACC to co-locate all of its activities at one facility and CSR Program to operate, including space to securely park the fleet of vehicles utilized in the program. The building also provides sufficient space for DACC to grow and provide additional services for the homeless community, such as daytime programming, showers, and laundry services. Capital Metro buses run directly in-front of the facility.

The proposed 120-month lease with the option to purchase after the initial term of approximately 30,000 square feet at 1719 East 2nd Street is a triple net lease for \$47 per square foot for the first year, with 2% annual increases thereafter. Reimbursements for maintenance, taxes, and insurance expenses are estimated to equal approximately \$17 per square foot. There is no charge for the exclusive use of up to 45 parking spaces on site. If, the City chooses not to purchase the site after the initial term, the City will have one 10-year extension option. The base rent will be subject to a market rent study.

Prior to occupancy, the owner will renovate the existing building to three levels to include courtroom space and office space, so the case managers can have the required privacy to discuss sensitive matters with clients. The owner will design, permit, and construct the improvements. This is a turn-key lease agreement. The estimated construction timeline is twelve months.

The table below illustrates the estimated annual costs for the proposed space.

Term	Base Rent/psf (2% annual escalations)	OpEx/psf (Est. 4% annual escalations)	Est. Annual Costs (Base Rent + OPEX)
Year 1	\$47.00	\$17.00	\$1,920,000
Year 2	\$47.94	\$17.68	\$1,968,600
Year 3	\$48.90	\$18.39	\$2,018,700
Year 4	\$49.88	\$19.12	\$2,070,000
Year 5	\$50.87	\$19.89	\$2,122,800
Year 6	\$51.89	\$20.68	\$2,177,100
Year 7	\$52.93	\$21.51	\$2,233,200
Year 8	\$53.99	\$22.37	\$2,290,800
Year 9	\$55.07	\$23.27	\$2,350,200
Year 10	\$56.17	\$24.20	\$2,411,100
Total			\$21,562,500

The Strategic Facilities Governance Team reviewed and approved this facility request.

City-owned space is the preferred recommendation for location of City Departments. Due to immediate need and the intended use of the property, a competitive market rental is the only immediate available option.

Strategic Outcome(s):

Government that Works for All.