



Central Contra Costa Solid Waste Authority

Agenda Report

TO: CCCSWA BOARD OF DIRECTORS
FROM: KEN ETHERINGTON, EXECUTIVE DIRECTOR
WENDY NELSON, FINANCE MANAGER/CONTROLLER
DATE: OCTOBER 24, 2019

SUBJECT: RECYCLESMART'S OFFICE LEASE RENEWAL

SUMMARY

RecycleSmart's current ten-year office lease agreement expires on July 31, 2020. As a result, Staff has engaged Michael Sharapata of Jones Lange LaSalle Brokerage to negotiate terms of a lease renewal for the current office space at 1850 Mount Diablo Boulevard in Walnut Creek and to consider other potential properties. The current landlord's new proposal is for a ten-year lease with a starting base rent of \$3.75 per square foot.

The ten-year lease proposal for our current office space and an evaluation of alternative office spaces was presented to the Lease Ad Hoc Committee, (Director Miller and Silva) on August 12, 2019 for discussion and consideration. The Committee agreed that the starting base rent of \$3.75 per square foot was favorable and below market rate for the RecycleSmart area.

RECOMMENDED ACTION

1. Authorize the Executive Director to execute an office lease agreement for a ten-year period and a starting base rent of \$3.75 per square foot beginning August 1, 2020, and otherwise in form and substance materially consistent with the current office lease agreement.

DISCUSSION

Over a year ago, Staff began the process of seeking a lease renewal proposal from the current landlord, Sierra Pacific Properties, and researching alternative office spaces in the service area.

The search criteria in considering an office space were:

- Appropriate size space for RecycleSmart operations with space to accommodate meetings with contractors and vendors, ad hoc committee meetings and standing committee meetings.
- Centrally located in the RecycleSmart service area for the convenience of Board members and customers, including the use of public transportation.
- Easily accessible parking for Board members and customer base.
- Close proximity to City of Walnut Creek for Board meetings, where RecycleSmart is able to utilize the 3rd Floor Conference Room for Board meetings at no cost.

Although the Committee agreed that the starting base rent of \$3.75 per square foot was favorable and below market rate for a centrally located office space, due to uncertainty about future economic conditions, the Committee requested an additional proposal for a five-year lease term for purposes of comparison. Both terms would have the starting base rent of \$3.75 per square foot.

Factors for consideration of a ten or five-year term are presented below:

Ten Year Lease Term	
1	A five-year office lease would expire July 2025, during the RFP of the new franchise contract. Both Board and Staff resources would be stretched extremely thin having to negotiate a new franchise agreement and a new office lease agreement at the same time. A ten-year lease would avoid this situation.
2	Having a steady and predictable lease expense over a longer term would better facilitate RecycleSmart’s budgeting and rate setting process.
3	With the current rising commercial office rents, locking in a below market lease expense over a longer term would be advantageous.
4	The landlord is offering two months free rent.
5	If economic conditions and local commercial office rents decline in five years, then RecycleSmart would lose the ability to negotiate more favorable lease terms than what is currently being offered.

Five Year Lease Term	
1	A five-year office lease would expire July 2025, during the RFP of the new franchise contract. Both Board and Staff resources would be stretched extremely thin having to negotiate a new franchise agreement and a new office lease agreement at the same time.
2	If economic conditions continue to be strong and local office rents continue to increase over the next five years, RecycleSmart could be offered less favorable terms at the end of the five-year lease proposal than what is currently being offered in the proposed ten-year lease.
3	Shorter term lease could cause larger swings in the RecycleSmart’s rent expense.
4	The landlord is not offering free rent.
5	If economic conditions and local commercial office rent declines in five years, RecycleSmart would have the ability to negotiate more favorable lease terms than what is currently being offered.

The landlord has requested RecycleSmart’s agreement regarding base rent and term before preparing a proposed form of lease agreement. Except as described above, Staff anticipates that the lease agreement would be in form and substance materially consistent with the current lease. If the lease agreement materially deviates, however, Staff would return to the Board for approval of such change.

ATTACHMENT A: Current Office Lease Agreement