



Legislation Text

File #: 20-827, Version: 1

Approve a Lease Agreement with the United States Postal Service for an annual lease of \$271,262 for the County owned real property at 600 Kentucky Street, Fairfield for a five-year term commencing April 1, 2021 and expiring March 31, 2026 with two 5 (five) year options; Approve a Commission Agreement with Jones Lang LaSalle for \$20,345 for brokerage fees; and Authorize the County Administrator to execute any necessary subsequent modifications or amendments

Published Notice Required? Yes ☐ No ☒

Public Hearing Required? Yes ☐ No ☒

DEPARTMENTAL RECOMMENDATION:

The Department of General Services recommends that the Board of Supervisors:

1. Approve a Lease Agreement with the United States Postal Service for an annual lease of \$271,262 for the County owned real property at 600 Kentucky Street, Fairfield for a five-year term commencing April 1, 2021 and expiring March 31, 2026 with two 5 (five) year options;
2. Approve a Commission Agreement with Jones Lang LaSalle for \$20,345 for brokerage fees; and
3. Authorize the County Administrator to execute any necessary subsequent modifications or amendments.

SUMMARY/DISCUSSION:

The United States Postal Service (USPS) entered into a lease agreement with the City of Fairfield for the property located at 600 Kentucky Street, Fairfield (APNs 0030-161-030 and 0030-151-130) effective April 1, 1981. The County purchased the property from the City of Fairfield on April 12, 2006, including the assigned lease. The current lease is set to expire on March 31, 2021. USPS, in accordance with its Lease Protection Policy, is required to formalize new lease agreements, at current market rates, well in advance of current lease expiration dates to allow enough time to identify and negotiate a new location should there no be longer mutuality between tenant and landlord.

USPS has requested the County enter a new lease for a 5-year term commencing April 1, 2021 and expiring March 31, 2026 with two 5 year options to potentially extend the agreement through March 2036. The proposed Lease Agreement reflects favorable terms and conditions for the County. Approval of the Lease (Attachment A) will secure USPS as the lessee for an additional five-year term and provide a steady revenue stream that will generate a total of \$1,356,310 in revenue for the County over the term of the lease. USPS requires execution of the Lease Agreement and Memorandum by the Board of Supervisors prior to execution by USPS. The Commission Agreement (Attachment B) with Jones Lang LaSalle representing USPS for \$20,345 for brokerage fees, is part of the negotiated lease terms.

FINANCIAL IMPACT:

Approval of the proposed lease will first affect the FY2020/21 budget as the lease will commence April 1, 2021. Revenues and the related commission expense will be respectively deposited and expensed to/from the Real

Estate Services Division budget unit 1642.

Previously, USPS submitted an appraisal report by Colliers International, dated April 30, 2019, which estimated the market rent for 600 Kentucky Street at \$1.53 per square foot per month. The negotiated proposed lease rate for the first year is \$1.60 per square foot per month. Staff research has determined that this rate is at the upper end of the market range for this property class and size under current market conditions. The proposed lease will generate \$1,356,310 in revenue over the five-year term beginning April 1, 2021: USPS will pay monthly rent of \$22,605 in arrears (\$271,262 annually) for the 5 (five) year term. Escalations at the beginning of each of the term options are 12% and subject to an independent broker price opinion.

USPS will be responsible for all recurring utility costs, including electric, gas, water, sewer and trash removal. USPS will also be responsible for minor repairs and any repairs resulting from USPS negligence. The County will be responsible for all other costs associated with the maintenance of the property and will paint the interior and exterior of the building as needed. The cost to the County for this routine maintenance and repair is included in the FY2020/21 Facilities Operations Division budget units 1652, 1655 and 1658.

The commission agreement with Jones Lang LaSalle for \$20,345, or 1.5% of the \$1,356,310 in revenues over the initial term of the lease, negotiated from the original \$51,669, or 4% fee, proposed by USPS on term revenue of \$1,291,730. The department has enough appropriation in the current year budget to pay the commission.

The costs associated with preparing the agenda item are nominal and absorbed by the department's FY2020/21 Recommended Budget.

ALTERNATIVES:

1. The Board could choose to not approve the lease with the United States Postal Service. This alternative is not recommended because the lease provides a stable revenue stream for the County through March 31, 2026.
2. The Board could choose to approve the lease with any changes or modifications desired by the Board. This alternative is not recommended because any changes will require approval by USPS and General Services has already negotiated favorable terms for the County that USPS is willing to accept.

OTHER AGENCY INVOLVEMENT:

County Counsel has reviewed the lease for legal sufficiency.

CAO RECOMMENDATION:

APPROVE DEPARTMENTAL RECOMMENDATION