TO:   HONORABLE CITY COUNCIL

FROM:  CITY MANAGER   DEPARTMENT:  ADMINISTRATIVE SERVICES

DATE:  MAY 14, 2007      CMR: 220:07

SUBJECT:  FIRST AMENDMENT TO LEASE FOR 300 HAMILTON AVENUE, SUITE B, TO EXERCISE SECOND OPTION TO EXTEND

RECOMMENDATION
Staff recommends that the City Council approve and authorize the City Manager to execute the attached first amendment to the lease between the City and 300 Hamilton Associates for the property known as 300 Hamilton Avenue, Suite B, Palo Alto, to extend the lease an additional five years from July 1, 2007 to June 30, 2012 and adjust the base rent to $10,939.25 per month ($2.35 per square foot).

BACKGROUND
On July 22, 2002, the Council approved a software license and services agreement contract with SAP, Inc. and authorized the City Manager to exercise a lease with 300 Hamilton Associates for 4,655 square feet of basement space at 300 Hamilton Avenue. The additional space was necessary to accommodate 10 existing Information Technology (IT) staff displaced by expansion of the Civic Center computer room, SAP activities such as testing and training, and SAP contractors connected to the project. The term of the lease was 2.5 years with options to renew for an additional 2.5 years or 5 years. On May 26, 2004, the lease was extended for an addition term of 2.5 years, terminating on June 30, 2007.

DISCUSSION
The attached proposed amendment will extend the term of the lease for five years starting July 1, 2007. The space is still needed for City IT staff and SAP-related activities. The system is up and running; however it is now necessary to make a major update to the SAP system that will include: 1) upgrade of the current software application; 2) migration of the current utility billing information system to the SAP environment; 3) implementation of new SAP modules such as employee self service; and 4) implementation of a customer relationship management module.

Current monthly rent for the space is $9,354.22 ($2.01 per square foot) with monthly common area charges and management fees of $7,419.67 ($1.59 per square foot). Starting July 1, 2007, the adjusted base rent will be $10,939.25 per month ($2.35 per square foot), with annual increases based on the Bay Area Consumer Price Index. Staff has researched rents for comparable space in the area and determined that the proposed rent is comparable and even a bit
lower than other sites within walking distance to the Civic Center. Except for the extension of the term and newly negotiated rent, all other terms of the lease remain unchanged. The lease will have no remaining options to extend.

**RESOURCE IMPACT**
Base rent for the extended term is $10,939.25 per month. The pro-rated share of common area charges and management fees are approximately $7,400 per month for an annual cost of $209,271. This represents an annual increase of $19,020 over the current annual costs of $190,251. Funds for these costs are included in the Technology Fund budget.

**POLICY IMPLICATIONS**
The SAP system supports a number of program elements of the Comprehensive Plan, primarily in the Governance and Transportation chapters, and it provides technological support and assistance to facilitate the flow of information throughout the City administration and the City’s web page.

**ENVIRONMENTAL REVIEW**
Approval of the amendment does not constitute a project under the California Environmental Quality Act (CEQA); therefore, no environmental assessment is required.

PREPARED BY:  

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LALO PEREZ  
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CITY MANAGER APPROVAL:  

FRANK BENEST  
City Manager

**ATTACHMENTS**
Attachment A: First Amendment to Lease