



EXECUTIVE DECISION DOCUMENT

GENERAL MANAGER APPROVAL: <i>4 Sept 2019</i> <i>Robert M. Pomeroy</i>		GENERAL MANAGER ACTION REQ'D: Approve and Forward to Board		
DATE: 8/30/2019		BOARD INITIATED ITEM: No		
Originator/Prepared by: Sean Brooks Dept: Systems Development	General Counsel <i>[Signature]</i> 9/4/19 []	Controller/Treasurer <i>[Signature]</i> 9/4/19 []	District Secretary []	BARC <i>[Signature]</i> 9/4/19 []
Signature/Date: <i>Sean Brooks</i> 9/4/19				
Status: Routed		Date Created: 8/30/2019		

Purchase of Office Building at 2150 Webster Street (Oakland) for BART Headquarters

PURPOSE:

To authorize the General Manager or his designee to enter into a Purchase and Sale Agreement ("PSA") with W/L 2150 Webster Holdings VIII, L.P. (Lane Partners and Walton Street Capital) for the purchase of 2150 Webster Street, Oakland, CA, and to direct the Controller/Treasurer to set aside \$85,000,000 for use in connection with the planning, design and construction of tenant improvements at the office building at 2150 Webster Street, Oakland, CA 94612.

DISCUSSION:

In June 2003, in order to consolidate BART's office space, the BART Board authorized the General Manager to execute a long-term lease at 300 Lakeside Drive, Oakland (LKS). BART is currently leasing 369,587 rentable square feet (RSF) of office space consisting of 14 floors at LKS. Approximately 1,100 BART employees and contractors are housed at this location. BART also leases connected space for the conduct of BART Board meetings.

BART's current blended base rent for LKS is approximately \$34 per square foot (sf), plus operating expenses (including but not limited to services such as: security, janitorial, building maintenance, a parking garage, and property management services) of approximately \$6/sf, for a total of approximately \$40/sf. BART's current LKS lease will expire on July 18, 2021. BART has the option to extend the lease for two additional 5-year periods, at 90% of fair

market value or approximately \$62-64/sf. This expected 60% increase in LKS rental costs is due to current market conditions in the Bay Area and continuing tenant demand in Downtown Oakland.

A Real Estate Committee, comprised of BART employees from External Affairs, Finance, Human Resources, Information Technology, Maintenance & Engineering, Operations, Planning, Development, & Construction, & Treasury was formed to evaluate options for either lease or purchase of space for BART's Headquarters after the termination of the existing lease. The Commercial Real Estate Brokerage Firm of Jones Lang LaSalle, Inc. ("JLL") has been engaged since April 2018 to assist BART in conducting a Workplace Strategy, comprehensive market search and analysis of existing office space.

BART conducted the following real estate activities:

- Workplace Strategy Study (April – November 2018) – This work included Executive Visioning Session and tours of modern workplace models, a workplace utilization study, online experience survey of managers, leadership interviews and employee focus groups to inform the optimal future space for BART's workplace.
- Corporate Headquarter Office Space RFP Solicitation & Real Estate Negotiations (December 2018 – September 2019)

The main criteria used in the search for office space to achieve the BART workplace of the future was:

- Secure lowest long-term occupancy costs
- Position BART to continue to compete for Bay Area talent, and implement a new "workplace of the future" model to enhance employee recruitment, retention and collaboration
- Seek approximately 250,000 square feet of office space (33% reduction in current square footage)
- Identify a regionally centralized location in the Oakland area, with close proximity to BART operations and a BART station
- Encourage reverse commute and not impact peak Transbay tube trips,
- Increase efficiency of the BART Headquarters footprint, and
- Accommodate a BART Board Room.

BART initially received five (5) proposals (including 2 proposals for new developments on BART-owned land at Lake Merritt and West Oakland land). After evaluating each proposal, the proposals for new developments on BART land were eliminated due to the feasibility and risk associated with delivering space by July 2021. Negotiations continued with the

remaining three (3) options under consideration.

	<u>2150 Webster</u>	<u>300 Lakeside Dr</u>	<u>601 12th Street</u>
Landlord/Owner	Lane Partner & Walton Street	Swig Company & Rockpoint Group	Shorenstein & Met Life
Notes	Relocate to fully renovated building, either in lease or purchase scenario	Relocate to lower floors in the building to reduce BART footprint	Relocate to floors 2-11 in new building near 12 th Street BART station
Delivery Timing	Immediately	Immediately	Immediately
Premises Size	244,249 RSF	255,516 RSF	264,418 RSF
Board Room Location	Within Premises on the 1 st Floor	Within Premises on the 2 nd Floor	Within Premises on the 2 nd Floor.
Parking	11 stalls	0.7 stalls per 1,000 RSF leased	0.7 stall for 1,000 RSF leased split equally between the building garage and adjacent garage
Bike Parking	50-100 exclusive bike stalls	50 exclusive bike stalls	68 non-exclusive bike stalls
Net Present Value @ 5%	\$259,552,793	\$373,044,806	\$430,797,812

Purchasing 2150 Webster provides the lowest cost option over time. In addition, BART would own the building after the debt service period expires. Under the other options, BART would still be responsible for continued lease payments.

After touring several properties in the Oakland area and evaluating the financial impacts of these alternatives, the Real Estate Committee recommended the purchase of 2150 Webster Street, Oakland due to the following factors:

- Lowest long-term occupancy cost through purchase option
- Mitigates future market risk
- Single tenant occupancy
- Allows BART the ability to control security and branding
- Fully renovated building with new systems and lobby
- Implement new workplace of the future model to enhance recruitment, retention, and collaboration.
- Achieved LEED-Silver (Existing Building).

FISCAL IMPACT:

The District plans to issue sales tax revenue bonds to finance the building purchase and tenant build out costs not to exceed \$227,000,000; subject to Board Approval.

Proposed Cost Allocation		
FY 20	Purchase Price	\$140,000,000
FY 20	Closing Costs	\$2,000,000
FY 20 & FY 21	Buildout Costs	\$85,000,000
	Total	\$227,000,000

Buildout of 2150 Webster Street to achieve the objectives of the workplace of the future is not to exceed \$85,000,000. The objectives of the workplace of the future include making the office space more efficient, reducing the amount of on-site storage, utilizing more productive, and seamless technology throughout the building, encouraging collaboration, and creating a work place that positions BART to continue to be competitive for talent. Procurement of services for the planning, design and construction of these tenant improvements will be conducted consistent with District procurement policies and applicable state statutes.

Staff is in the process of exploring options to lease parking space for BART-owned vehicles in parking lot(s) within close proximity to the proposed new headquarters site.

ALTERNATIVES:

Alternatives evaluated were:

- 300 Lakeside Drive
- 601 12th Street

While the options above met BART's requirements for space (+/- 250,000/sf), delivery deadline (Summer 2021), and proximity to central BART operations, upon evaluation of the financial term sheets, 2150 Webster provided the lowest long-term occupancy cost to BART.

RECOMMENDATION:

Adopt the following Motions:

MOTIONS:

- The General Manager or his designee is authorized to execute a Purchase and Sale Agreement with W/L 2150 Webster Holdings VIII, L.P. (Lane Partners and Walton Street Capital) to purchase an office building at 2150 Webster Street, Oakland CA 94612 for a total amount not to exceed \$142,000,000 (including closing costs).
- The General Manager or his designee is authorized to execute any and all agreements and other documents in order to effectuate the preceding motion.
- The Controller/Treasurer or her designee is directed to set aside \$85,000,000 for use in connection with the planning, design and construction of tenant improvements at the office building at 2150 Webster Street, Oakland, CA.