

AGENDA REPORT

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| TITLE | Approval of a 3% Increase in Target Rental Rates and Holdover Rental Rates for the Commercial Real Estate Division Portfolio of Properties |
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| AMOUNT | Approximately \$11,647.00 per year |
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|---|--|--|--|
| <input checked="" type="checkbox"/> REVENUE | <input type="checkbox"/> CAPITAL EXPENDITURE | <input type="checkbox"/> OPERATING EXPENSE | <input type="checkbox"/> NON-OPERATING EXPENSE |
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|-------------------------|-------------------------------------|
| PARTIES INVOLVED | Port of Oakland and Various Tenants |
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| SUBMITTED BY | Pamela Kershaw, Director of Commercial Real Estate |
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| APPROVED BY | J. Christopher Lytle, Executive Director |
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| REQUESTED ACTION | ORDINANCE |
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EXECUTIVE SUMMARY

The subject agenda report is a request to approve a 3% increase in Target Rental Rates and Holdover Rents for various properties in the Commercial Real Estate portfolio, as indicated in Exhibits A and C. The proposed increase will ensure that Port owned properties subject to Short Term Rental Agreements and existing property agreements in holdover status are priced at market rates that are consistent with and appropriate for the local area and property type.

| <u>ADDITIONAL FINDINGS</u> | APPLIES | DOES NOT APPLY |
|---|----------------|-----------------------|
| MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA) | | X |
| LIVING WAGE REGULATIONS | | X |
| GENERAL PLAN CONFORMITY | X | |
| OWNER-CONTROLLED INSURANCE PROGRAM (OCIP) | | X |

BACKGROUND

Article IX, Section 6 of the By-Laws and Administrative Rules of the Board of Port Commissioners establishes procedures for establishing rental rates for tenants subject to certain existing and proposed Short Term Rental Agreements as well as for other forms of property rental agreements in holdover status. These procedures apply to existing Commercial Real Estate Division ("CRE") tenants subject to the Port's standard form Short Term Rental Agreements and License and Concession Agreements in holdover status where no other Holdover Rent provisions are specified, as well as to prospective tenants subject to these same forms of agreements within the upcoming year. The intended purpose of these regulations is to provide direction to the Executive Director or his designee as to the minimum rental amounts, or Target Rental Rates, to be achieved from these property rental agreements during the upcoming year and for which Board approval is not required. The CRE Division regularly brings forward an analysis and recommendation regarding the proposed Target Rental Rates to be achieved during the upcoming year based upon comparable market rates, consumer price index information, local vacancy rates, and other real estate indicators. These Target Rental Rates and Holdover Rents were last adjusted in February of 2014.

There are currently several tenants within the CRE Division portfolio which are subject to existing Short Term Rental Agreements or other forms of property agreements in holdover status, subject to a 30-day cancellation provision. A listing of these existing tenants is attached to this report as Exhibit A. Pursuant to the Port By-Laws referenced above, rental rates for these existing tenant agreements may be adjusted annually in accordance with the Target Rental Rates or Holdover Rent increases established by the Board. In addition, any proposed new Short Term Rental Agreements for less than one year of term may be entered into by the Executive Director based upon these same minimum Target Rental Rates for the upcoming year, without requiring Board approval. Short Term Rental Agreements that do not meet these minimum Target Rental Rates require Board approval, except in limited specific circumstances as listed in the By-Laws.

ANALYSIS

An analysis and comparison of several recent market condition reports published by local brokerage firms indicates that rental rates in the Oakland area for comparable commercial and industrial properties have increased during the past 12 month period and vacancy rates for commercial and industrial properties in the area have steadily declined. This market data indicates a strengthening of the commercial real estate market, which is consistent with the economic growth reflected by a 3.2% increase in the regional Consumer Price Index ("CPI") during the past year. Exhibit B provides a summary of this local market rate information as well as the CPI increase.

Based on the market research of comparable rental rates, declining vacancy rates, and CPI index information, staff recommends a 3% increase to the current Target Rental Rates and Holdover Rental Rates for properties in the CRE Division portfolio. Exhibit C indicates the proposed specific Target Rental Rates by land use and property category. Staff believes that the proposed increased Target Rental Rates are competitive with comparable rates and conditions in the surrounding area, and establish minimum rental rates for the upcoming year that will ensure

that Port owned properties subject to these Short Term Rental Agreements and existing property agreements in holdover status are priced at market rates appropriate for the local area and property type.

Based upon the analysis contained within this report, staff recommends that the Board approve a 3% increase in the Target Rental Rates and Holdover Rents for the Commercial Real Estate Division portfolio of properties as indicated in Exhibits A and C to this agenda report, and authorize the Executive Director or his designee to execute such new Agreements or adjustments to existing Agreements in accordance with this report.

BUDGET & STAFFING

The annual CRE Division Revenue from the existing Short Term Rental Agreements and License and Concession Agreements for Fiscal Year 15/16 shown on Exhibit A is anticipated to be approximately \$399,895, which reflects an overall 3% (\$11,647) increase over actual revenue received from the subject agreements in the current fiscal year. The actual amount of revenue collected from these types of Short Term Rental Agreements varies during any one year, due to the short term nature of these types of Agreements and the timing of when properties are vacated or rented throughout the year. No staffing impact is anticipated by any of the proposed actions as these Agreements are currently managed by existing Commercial Real Estate Division staff.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan:

Goal A: Create Sustainable Economic Growth for the Port and Beyond

- Goal A: Objective 1: Maximize the use of existing assets.

Goal D: Improve the Port's Financial Position

- Goal D: Objective 1: Improve cash position and debt service coverage ratio (DSCR).

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply to this matter because tenancies outside of the Aviation and

Maritime areas with entities that do not principally provide aviation or maritime services are excluded from the Living Wage Regulations.

ENVIRONMENTAL

CEQA: The adoption of the increase to Target Rental Rates and Holdover Rental Rates has been determined to be categorically exempt from the requirements of the California Environmental Act and the Port CEQA Guidelines pursuant to Class 1, Section 15301 (p) which exempts renewals, extensions or amendments to tenancy agreements when the premise or licensed activity were previously leased or licensed to the same or another person, and involving negligible or no expansion of use beyond that previously existing. As the proposed action simply provides for a rental amount increase, the aforementioned exemption is applicable and appropriate.

GENERAL PLAN

The proposed approval of a 3 % increase to Target Rental Rates and Holdover Rental Rates for Short Term Rental Agreements simply establishes minimum rental rates for existing or proposed short term tenancy agreements and does not in itself result in any significant changes to the existing land uses or physical development on the subject properties. Any proposed alteration of land uses or modifications to buildings or sites will require subsequent approval of applicable land use entitlements and permits, including a specific determination of General Plan conformity for discretionary permits, issued on a case by case basis.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP) PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)

The Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) do not apply to the matters addressed by this Agenda Report as they are not capital improvement construction or design projects.

OPTIONS

1. Approve the recommended 3 % increase to Target Rental Rates and Holdover Rental Rates as recommended in this report; or
2. Approve some, but not all of the recommended increases to Target Rental Rates and Holdover Rental Rates in this report and direct staff to modify the rates for certain specific agreements listed or property use types; or
3. Do not approve the recommended increase to Target Rental Rates and Holdover Rental Rates as described in this report and instead maintain the existing rental rates.

RECOMMENDATION

It is recommended that the Board adopt an Ordinance approving the proposed 3% increase to Target Rental Rates and Holdover Rents for certain properties within the Commercial Real Estate Division portfolio, as indicated in Exhibits A and C to this agenda report, and authorize the Executive Director or his designee to negotiate and execute such new Agreements or adjustments to existing Agreements in accordance with this agenda report.

Exhibit A: Existing Tenancy Agreements Subject to Proposed 3% Holdover Rent Adjustments

Exhibit B: Market Rate Information

Exhibit C: Proposed Target Rental Rates for CRE Division Properties