



COUNCIL REPORT

DATE: June 27, 2023
CATEGORY: Consent
DEPT.: Public Works
TITLE: **Lease Approval, 909 San Rafael Avenue—
APN 153-18-012**

RECOMMENDATION

1. Authorize the City Manager or designee to execute a lease with Dusty Robotics Inc., a Delaware corporation, for 909 San Rafael Avenue (APN 153-18-012) for a term of one year at a rental rate of \$521,640 with a one-year renewal option under the terms and conditions set forth in this Council report.
2. Authorize the City Manager or designee to execute an amendment to the lease for the renewal option and any other amendments that do not have a financial impact greater than \$550,000.

BACKGROUND

[On September 13, 2022](#), Council authorized the acquisition of 909 San Rafael Avenue and 917 San Rafael Avenue for a future park site in the Terra Bella neighborhood located in the Stierlin Park Planning Area (Figure 1). Staff expects to begin the park design process in 2024 with construction likely to begin in 2026.

909 San Rafael Avenue is a 0.87-acre parcel (37,897 square feet) and is improved with a 13,800 square foot, single-story office/R&D building that was built in 1966. The property was acquired with a tenant in place, Dusty Robotics, Inc. (Dusty Robotics), paying an annual lease of \$480,000. The lease is triple net with the tenant paying for all maintenance (except building exterior and building system feeds), janitorial service, and possessory interest taxes, and has a 3% annual escalator. The lease expires in September 2023, and there are no provisions in the lease agreement to extend the term.

Council Policy A-10—Exhibit A, Schedule of Authorizations to Sign City Contracts and Agreements and Increase Appropriations for Grants, Donations, and Reimbursed Expenditures, specifies that City Council approval is required for leases of City real property to and from others over \$500,000 in annual rent.

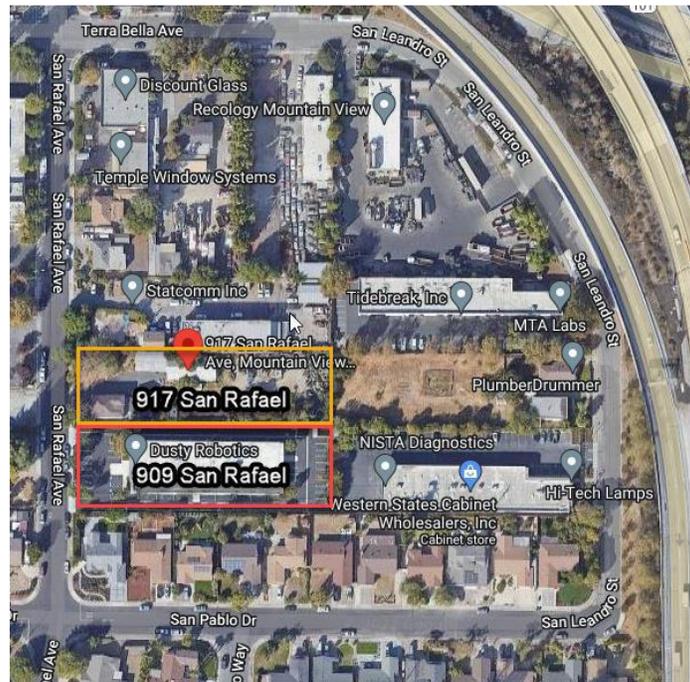


Figure 1: Location of 909 and 917 San Rafael Avenue

ANALYSIS

Dusty Robotics has expressed interest in remaining at 909 San Rafael Avenue. The commercial real estate market has softened, and there is little tenant demand for office/R&D leased space. Executing a new lease with Dusty Robotics will provide the City continuous income until the time the property is needed to construct the park. Since the City acquired the property in 2022, Dusty Robotics has paid their rent in a timely manner and satisfied all the required lease obligations. Staff recommends approval of a new lease with Dusty Robotics with the following terms:

- One-year base term, with one 1-year option.
- An annual rent of \$521,640, beginning October 1, 2023, increasing by 3% on October 1, 2024, if the option is executed.
- A triple net lease where the tenant pays janitorial, utilities, security, and interior maintenance directly.
- The City will charge the tenant for Common Area Maintenance, including roof, structural, base building heating, ventilation, and air conditioning (HVAC), fire protection/life safety, irrigation, parking lot maintenance, exterior window washing, exterior pest control, and insurance and possessory interest taxes.

FISCAL IMPACT

The recommended annual rent of \$521,640 is approximately 8.7% more than the current rent of \$480,000 and will escalate at 3% if the renewal option is exercised. Since Park Land Dedication Fund from the Stierlin Park and Open Space area was used to acquire the site, the rent revenue is being deposited into the Park Land Dedication Fund for this park area to be used to help fund the design and construction of the new park.

ALTERNATIVES

1. Approve different terms and conditions.
2. Do not approve a lease agreement with Dusty Robotics.
3. Provide other direction.

PUBLIC NOTICING

Agenda posting and a copy of this report was sent to Dusty Robotics and Embarcadero Realty Services.

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