

AGENDA



Recommendation for Council Action

Austin City Council	Item ID	75468	Agenda Number	102
---------------------	---------	-------	---------------	-----

Meeting Date:	9/28/2017	Department:	Office of Real Estate Services
---------------	-----------	-------------	--------------------------------

Subject

Authorize negotiation and execution of a 60-month lease for approximately 6,959 square feet of office and warehouse space for the Office of Innovation and for Communication and Technology Management, located at 93 Red River Street, from 93 RED RIVER INVESTORS, LTD., in an amount not to exceed \$1,222,109.07 (District 9).

Amount and Source of Funding

Funding in the amount of \$110,605.41 is contingent upon approval of the proposed Fiscal Year 2017-2018 Operating Budget of the Office of Innovation. Funding in the amount of \$110,605.41 is contingent upon the approval of the proposed Fiscal Year 2017-2018 Operating Budget of Communication and Technology Management. Funding for the remaining 48.5 months of the original contract period is contingent upon available funding in future budgets.

Fiscal Note

A fiscal note is not required.

Purchasing Language:	
Prior Council Action:	
For More Information:	Kerry O'Connor, Office of Innovation, (512) 974-1637; Stephen Elkins, Communications and Technology Management, (512) 974-1644; Lauraine Rizer, Office of Real Estate Services, (512) 974-7078; Megan Herron, Office of Real Estate Services, (512) 974-5649.
Council Committee, Boards and Commission Action:	
MBE / WBE:	
Related Items:	

Additional Backup Information

This item proposes to use existing budget funds to co-locate staff from Communication and Technology Management (CTM), the Office of Innovation, and ongoing projects to a **Smart City research and design lab** at 93 Red River Street, beginning Fall 2017. The lab will allow collaborating staff to work alongside residents and one another in a space that accommodates all project stages, including space to test or prototype physical installations before implementation. In particular, the building will enable approximately 25 CTM staff at 1124 S. IH-35 and the Innovation staff, the Design, Technology, and Innovation Fellows, and the Bloomberg Philanthropies-funded Innovation Team at City Hall to co-locate with other staff during innovation project periods.

The Office of Innovation is currently situated in less than 1,000 square feet of office space within City Hall. However, due to the success of the Office's new Design, Technology, and Innovation Fellows program, Innovation staff has grown to 26 employees. Additional office and creative space is needed. In addition, City Staff has identified the expansion of the City Clerk's Office as a critical need. Relocating the Office of Innovation out of City Hall and into larger leased space will allow the Clerk's Office to expand into the vacated office space. The Strategic Facilities Governance Team reviewed and approved this facility request.

The property at 93 Red River Street is in a strategic downtown location for relationships with entities partnering with the City's Innovation capability, such as Capital Factory, Dell Medical School, and others. The size of the building and the presence of the warehouse space will provide the lab with the flexibility needed. The proposed Smart City research and design lab will support a culture of openness and collaboration for project teams; promote the Smart City building blocks of agile, human-centered, and iterative teams; promote Council's "Government that Works" priority, specifically the indicators of "effective adoption of technology," "stakeholder engagement and participation," and "employee engagement"; and provide flexibility within the teams' current office space.

The proposed 60-month lease of 6,959 square feet at 93 Red River is a triple-net lease for \$13,918 per month (\$24 per square foot annually) for the first year, with 3% annual increases thereafter. Reimbursements for maintenance, taxes, and insurance expenses are estimated to equal approximately \$8.84 per square foot for the first year, with 4% annual increases thereafter. There is no charge for the exclusive use of the 22 parking spaces on site. At the Owner's expense, the Owner will repair the roof and replace some sheetrock prior to the City's occupancy. The Owner will also perform basic cosmetic touches such as new paint and flooring, plus the demolition of a wall to open up the common area, at an estimated cost to the City of \$16,118. In exchange for the City's participation in the tenant improvement costs, the Owner is offering one (1) month of free rent.

The lease rate is market rate per a rent study conducted by a third-party appraiser. Austin Independent School District, Travis County, and Austin Community College do not have office space available at this time.

The table below illustrates the estimated annual real estate costs for the space, to be shared equally between the Innovation Office and CTM. Additional expenses such as utilities, custodial services, moving costs, and the installation of IT infrastructure — at a projected cost of \$64,130 — are not included in these totals.

Lease Term	Annual Rent PSF	Total Rent	Est. Annual Expenses PSF	Total Est. Expenses	Annual Est. Total
10/16/17 – 10/15/18	\$ 24.00	\$ 153,098*	\$8.84	\$ 61,518	\$ 214,616
10/16/18 – 10/15/19	\$ 24.72	\$ 172,026	\$9.19	\$ 63,978	\$ 236,005
10/16/19 – 10/15/20	\$ 25.46	\$ 177,187	\$9.56	\$ 66,537	\$ 243,725
10/16/20 – 10/15/21	\$ 26.23	\$ 182,503	\$9.94	\$ 69,199	\$ 251,702
10/16/21 – 10/15/22	\$ 27.01	\$ 187,978	\$10.34	\$ 71,967	\$ 259,945
Total Amount:		\$ 872,793		\$ 333,199	\$ 1,205,992
City's Share of Buildout Cost:					\$ 16,118
Total Amount:					\$ 1,222,109

* - Including one month of free rent.

In addition, because the Owner wishes to redevelop the site at some point in the future, the proposed lease includes an Owner's right to terminate after June 1, 2018, with seven (7) months' notice. If exercised in the first

eighteen (18) months of the lease--or between June 1, 2018, and April 14, 2019--the Owner will provide \$10.00 per square foot (\$69,590.00) of rent credit, equal to five (5) months' free rent, to the City. If exercised after the 18th month but before the last year of the lease--or between April 15, 2019, and October 15, 2021--the Owner will provide \$3.00 per square foot (\$20,877.00) of credit to the City.

A map of the leased premises is attached.