

AGENDA



Recommendation for Council Action

AUSTIN CITY COUNCIL

Regular Meeting: October 18, 2018

Item Number: 020

Office of Real Estate Services

Authorize the negotiation and execution of lease with CCI-Burleson I, a Texas Limited Partnership, for approximately 96,000 square feet of office space for Austin Municipal Court at the Bergstrom Tech Center, Building 310, located 6800 Burleson Road, for a 120-month lease agreement, with one ten year extension option in an amount not to exceed \$28,152,960.

District(s) Affected: District 2

Lead Department	Office of Real Estate Services.
Fiscal Note	Funding in the amount of \$2,636,160 for the General Fund Budget of AMC and funding in the amount of \$1,825,000 from the Budget Stabilization Reserve Fund will be included in the FY 2019-20 Proposed Budget. Funding for the remainder 108 months of the original contract period is contingent upon available funding in future budgets. A Fiscal Note is not required.
Prior Council Action	On May 10, 2018, the Council authorized the negotiation and execution of a 120-month lease agreement, with one option to extend for an additional ten years for approximately 96,000 square feet of office space for Municipal Court with Met Center Partners-11, Ltd., a Texas Limited Partnership, located at Met Center II, Building 3, 7000 Metropolis Drive in an amount not to exceed \$31,278,785.
For More Information	Alex Gale, Office of Real Estate Services, (512) 974-7078; Megan Herron, Office of Real Estate Services, (512) 974-5649; Hon. Sherry Statman, Municipal Court, (512) 974-4841; Mary Jane Grubb, Municipal Court, (512) 974-4690.

--	--

Additional Backup Information:

Authorize the negotiation and execution of a 120-month lease agreement, with one option for an additional ten years for approximately 96,000 square feet of office space for Austin Municipal Court ("AMC") with CCI-Burleson I, a Texas Limited Partnership, at the Bergstrom Tech Center, Building 310, located at 6800 Burleson Road in an amount not to exceed \$28,152,960. (District 2).

The proposed lease space located at 6800 Burleson Road, Austin, TX 78744 is comprised of approximately 96,000 square feet of office space. The space will be used to accommodate the AMC main courthouse employees, the Cherry Creek substation employees, and the Criminal Prosecution Division of the Law Department.

AMC's main courthouse is located at 700 East 7th Street, providing office space for a staff of approximately 148 employees comprised of administrative, judicial and operational positions. The Criminal Prosecution division is made up of 17 staff members; the Cherry Creek substation consists of 8 staff members.

The current courthouse was constructed in 1953 and is no longer adequate for staff and customers. There is an insufficient number of offices and courtrooms, lack of circulation space for defendants, witnesses, victims, jurors, and a shortage of consultation rooms for prosecution and defense attorneys. There is a large volume of customers and employees who use the court each day; the current building is located in a high crime area; the lack of parking is extremely challenging and is a significant security risk.

Funding for a new main courthouse was approved in the General Obligation (GO) bond election in 2006; however, it was not adequate to cover the expenses associated with construction of a courthouse. Since 2006, four separate efforts involving needs assessments and architectural plans have been developed and paid for by the City but not completed.

The AMC main location has deteriorated to the point that systems failures could cause a long-term closure of the facility at any time. Severe building conditions include a leaking roof, poor distribution of heat and air-conditioning, basement flooding, frequent mildew, cracked flooring, mechanical/engineering failures and a deteriorated sewer line. Repair and maintenance issues are frequent and difficult to address due to the asbestos containing materials located throughout the building.

The proposed lease agreement will provide a stable, safe and healthy environment until permanent facilities are available. The site is accessible by public transportation and provides adequate parking and operational space needed to administer justice in a fair and efficient manner. AMC will continue to offer off-site court services and will expand the frequency to ensure easier access to judicial and court support resources to citizens in all areas of the City. These events reduce transportation issues, support community outreach and provide higher levels of public service to individuals who have matters pending in the court.

The lease term is ten years with a one ten-year extension option. The proposed base rental rate for year one is \$19.50 per square foot, with annual escalations of 1.0% per square foot, plus operating expenses of \$7.96 for the first year. Operating expenses are triple-net lease, and include common area maintenance, property taxes, insurance, janitorial, repairs, maintenance, parking lot maintenance, landscaping, life safety, and all utilities. Landlord is providing a tenant improvement allowance of \$100.00 per square foot for a total of \$9,600,000, included in the base rent, and amortized over a period of ten years. The City of Austin shall pay to Landlord \$1,825,000 at the time of move-in toward finish-out. The Landlord is providing at no additional cost one hundred sixty (160) secured and gated parking spaces at no cost, and sixty (60) additional unsecured parking spaces.

Term	Base Rent/psf (1.0% Annual Escalations)	Operating Expenses/psf (Estimated 2.5% Annual Escalations)	Annual Base Rent and Operating Expenses	Monthly Base Rent and Operating Expenses
Year 1	\$19.50	\$7.96	\$2,636,160	\$219,680
Year 2	\$19.70	\$8.16	\$2,674,560	\$222,880
Year 3	\$19.90	\$8.36	\$2,712,960	\$226,080
Year 4	\$20.10	\$8.57	\$2,752,320	\$229,360
Year 5	\$20.30	\$8.78	\$2,791,680	\$232,640
Year 6	\$20.50	\$9.00	\$2,832,000	\$236,000
Year 7	\$20.71	\$9.23	\$2,874,240	\$239,520
Year 8	\$20.92	\$9.46	\$2,916,480	\$243,040
Year 9	\$21.13	\$9.70	\$2,959,680	\$246,640
Year 10	\$21.34	\$9.94	\$3,002,880	\$250,240
Total			\$28,152,960	

The cost per square foot is within the market rate per a rent study conducted by a third-party appraiser. Austin Independent School District and Travis County were contacted and do not have any space at this time.

City-owned space is the preferred recommendation for a location of City Departments, including the possibility of purchasing new City facilities. Due to immediate need and the difficulty of purchases or building in the current economic environment, a lease with a competitive market rental is generally the only immediately available option. This lease is necessary due to the lack of office space in City-owned

facilities.

We are working with our development advisor, CBRE, on an occupancy strategy analysis, including a lease exit strategy, which will provide a plan on utilizing our existing city-owned facilities as well as any new administrative space needs that could be pursued using our existing P3 model. We expect to have this work completed early in 2019. As the end of the lease term for the facility approaches, this analysis and space planning work will be utilized to move towards finding a long-term solution.