

Update Regarding SamTrans Purchase of a New Headquarters Building and Recommended Next Steps for Caltrain

FINANCE COMMITTEE
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Presentation Overview

- 1) Update on New SamTrans HQ
- 2) Analysis of Caltrain's Options
- 3) Recommended Next Steps

1. Update on New SamTrans Headquarters

New SamTrans Headquarters

- After conducting a targeted search, in December SamTrans entered a lease-to-purchase agreement for a new headquarters building located adjacent to the Millbrae Caltrain Station.

Key Terms	
Space	157,000 sf office, 23,000 sf ground floor retail and parking
Term	146-month lease with 30 months to exercise a purchase option <ul style="list-style-type: none">▪ SamTrans expects to exercise the option after about one year
Option Price	\$126 M
Rent	\$5.35/sf/mo <ul style="list-style-type: none">▪ "Triple net" lease; agency pays its share of operating expenses▪ 3% annual increase; if SamTrans does not purchase after 30 months, rent increases by \$0.25/sf/mo
Tenant Improvement Allowance	\$235/sf <ul style="list-style-type: none">▪ Intent is for this to cover all improvements and furnishings▪ Developer responsible for build out

2. Analysis of Caltrain's Options

Caltrain Efforts to Date

- Caltrain and SamTrans staff met in October and November to discuss the search, and SamTrans offered to share confidential information and make its broker available to facilitate Caltrain's evaluation of its options.
- Caltrain retained a consultant, Arup, to assist in exploring options for how to proceed.
- Arup completed an initial analysis of Caltrain's options, including:
 - Lease office space proximate to a Caltrain station
 - Purchase office space proximate to a Caltrain station
 - Co-locate with SamTrans (including leasing space from SamTrans or co-investing in a building)
- BB&A researched current building-related costs under the ICAP

Evaluation Criteria

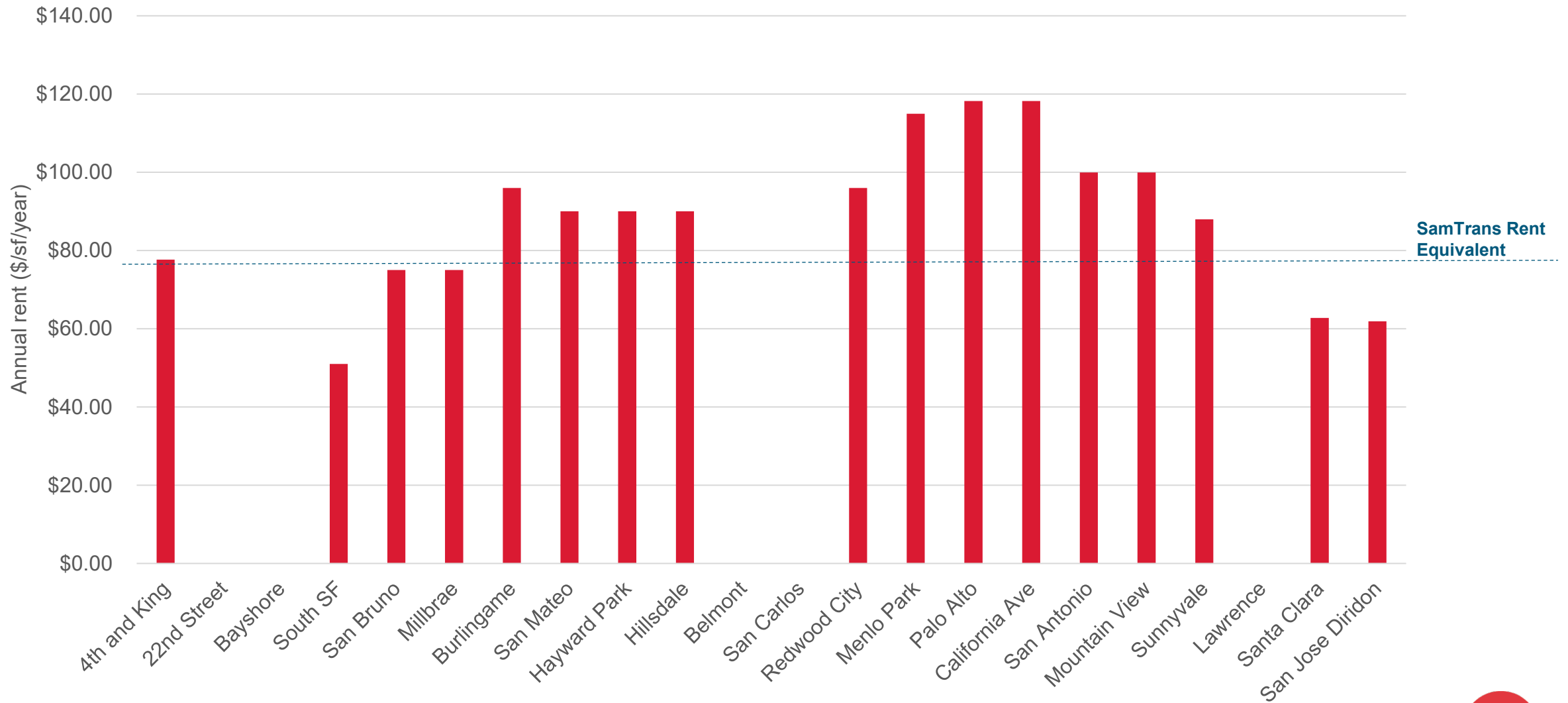
The analysis focused on locations within walking distance of a Caltrain station and relied upon the following criteria:

- Ability to meet Caltrain's current and expected future space requirements and operational needs
- Cost to purchase or lease and other financial considerations
- Expected impact on employee retention and recruitment
- Other key location factors such as frequency of Caltrain service and presence of neighborhood amenities such as restaurants and cafes

Ability to Meet Caltrain's Operational Needs

- About 78 Caltrain staff are currently located in the headquarters building; based on current approved positions, this number could grow to 177 over time
- The analysis assumed a range of 20,000 to 30,000 square feet which could accommodate the existing need as well as the majority of potential growth
- Staff will work to refine these assumptions, however there is significant uncertainty about the timing and extent of future growth
- Other space considerations:
 - Access to common facilities including Board room
 - Proximity to Menlo Park facilities, locations along the corridor, and shared services

Comparison of Submarket Average Rents to SamTrans Rent



Source: CBRE Market Reports for Class A office buildings, Q3 2023

Note 1: CBRE rents in this table are reported as 'Full Service Gross' – typically about \$1/sf/month (or \$12/sf/yr) higher than NNN

Note 2: The chart includes all sub-market properties, including those beyond the 15-minute walk shed



Market Overview for Caltrain Station Areas

Arup evaluated current listings for Class A and B office within a 15-minute walk of Caltrain stations between San Francisco (4th and King) to Diridon Station. We also spoke with brokers to confirm general market information.

- No properties for sale were found in the 20-30k sf range but brokers confirmed light industrial (for conversion) and commercial offices can be found occasionally. These properties would also likely require upgrades.
- 14 stations currently have one or more eligible properties on the market for lease.
- It is a renter's market, with tenant improvement budgets and other conditions largely negotiable depending on the lease term.
- Downtown San Jose and 4th & King have a third of the available inventory for class A.

Evaluation Results: Rent (Class A)

Top	Name	Adjacent Station	Average Annual Rent
1	300 Park Ave	Downtown San Jose	\$23.70
2	221 N Mathilda Ave	Sunnyvale	\$34.14
3	505 S Market St	Downtown San Jose	\$35.40
4	400 Castro St	Mountain View	\$38.94
5	488 Almaden Blvd	Downtown San Jose	\$39.00
6	250 W Washington Ave	Sunnyvale	\$39.38
7	305 Main St	Redwood City	\$42.00
8	611 Gateway Blvd	South SF	\$42.49
9	153 Townsend St	4th and King	\$45.00
10	60 S Market St	Downtown San Jose	\$46.20
11	730 Harrison St	4th and King	\$48.67
12	2075 Broadway St	Redwood City	\$48.90
13	50 W San Fernando St	Downtown San Jose	\$49.80
14	360 3rd St	4th and King	\$50.00
15	505 Brannan St	4th and King	\$50.34
16	600 Townsend St	4th and King	\$50.94
17	385 Sherman Ave	California Ave	\$53.62
18	10 Almaden Blvd	Downtown San Jose	\$55.20
19	303 Almaden Blvd	Downtown San Jose	\$57.00
20	900 Concar Dr	Hayward Park	\$58.20
21	379 Lytton Ave	Palo Alto	\$61.86
22	225 W Santa Clara St	Downtown San Jose	\$63.00
23	166 Rollins Road	Millbrae	\$64.20
24	455 Mission Bay Blvd S	4th and King	\$65.09
25	400 S El Camino Real	San Mateo	\$67.50

Source: Arup, based on CoStar data (December 2023)

The analysis assumed that Caltrain would pay the same rent as SamTrans if the agencies were to co-locate.

Most of the properties with the greatest cost savings (compared to co-locating with SamTrans) are at the two ends of the main Caltrain corridor: San Francisco and San Jose.

There were no significant differences in average rents between class A and B properties.



Evaluation Results: Staff Commute on Transit

- Arup conducted a transit commute analysis for current staff based on home zip code.
- Millbrae scored highest due to proximity to both the Caltrain and BART connection.
- The upper Peninsula also performs well due to proximity to current home locations of Caltrain staff. Distance from the station matters a lot for the score, e.g., properties closer to their adjacent stations scored higher, especially in Redwood City.

Top 5 Station Locations

1	Millbrae
2	San Mateo
3	Hillsdale
4	Redwood City
5	4th and King

Source: Arup; Caltrain; OpenStreetMap

Evaluation Results: Station Area Amenities

- Amenities were defined under the following categories: shops, schools, pharmacies, hospitals, groceries, childcare, restaurants, parks.
- San Francisco and Redwood City rank high for amenities.
- Mountain View and San Mateo provide the next-best access to amenities.
- For most station areas, proximity to the station increases access to amenities.

Top 5 Station Locations

1	4th and King
2	Redwood City
3	Mountain View
4	San Mateo
5	Millbrae

Source: Arup; OpenStreetMap

Summary Market Findings

- The property market is in distress; more properties are likely to become available in 2024.
- For purchasing office space: properties that meet the criteria only become available occasionally, will be “off-market,” and will require some patience to find.
- In general, San Francisco, Millbrae, Redwood City, and San Mateo station areas appear to be the most promising locations based on the criteria.

Pros & Cons of Co-locating with SamTrans

Pros	Cons
<ul style="list-style-type: none">✓ Ideal location for staff commute by transit✓ Benefit of on-site shared staff and common facilities✓ Avoids potential increase in shared services costs associated with providing services to a remote location	<ul style="list-style-type: none">✗ More expensive than some other options✗ Fewer amenities than other station areas, including San Carlos

Note: at this point we don't know what our net new costs will be so hard to gauge relative importance of rent savings.

3. Recommendations

Recommendations

- Focus on pursuing a lease (~5-10 years) that will allow Caltrain sufficient time to define its long-term needs.
- Refine analysis for Caltrain space needs and cost alternatives.
- The recommended next steps for this process are two actions in parallel:
 1. Move forward with negotiations with SamTrans
 - Could be a 5-year lease leaving open the opportunity to consider other options in the future.
 - Enables Caltrain to participate in planning for tenant improvements.
 2. Engage in a competitive search process to explore other options.



Thank you!

