



Legislation Text

File #: 21-1180, Version: 1

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 2, 2021

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Public Hearing and Consideration of an Amendment to the Lease Between the City and WG Tavern Square Venture, LLC for office space at the Tavern Square Office Building Complex located at 421 King Street.

ISSUE: Extend the term of the lease for office space at the Tavern Square office building complex located at 421 King Street in order to lock in a favorable rental rate.

RECOMMENDATION: That City Council:

- (1) Receive this report and set the Fourth Amendment to the office space lease for the public hearing on June 19, 2021 and after the public hearing approve this proposed seven-year lease amendment; and
- (2) Authorize the City Manager to execute the proposed Fourth Amendment to the lease with WG Tavern Square Venture, LLC.

BACKGROUND: In order to address part of the project budget gap in the context of the FY 2022 budget development process, staff identified the City's lease obligations and agreements, particularly at Tavern Square as a means to reduce future operating expenses.

In 2016, the City entered into a new 10-year agreement to lease 56,223 square feet in the Tavern Square office complex across from City Hall to consolidate leased space for nine City departments from multiple floors to one floor in the complex resulting in a reduction of 6,000 square feet in leased space. The lease, which expires in 2026, had a projected total annual cost of \$1.8 million in FY 2022. As part of the City's evaluation of possible cost savings in FY 2022 and beyond, staff engaged Tavern Square management to discuss the possibility and options for savings by extending the current lease. At the City's request, the owner's agent submitted a proposal with options for 5, 7 and 10-year lease extensions. Based on those initial discussions and estimates, a reduction of \$592,575 was reflected in the FY 2022 Approved Budget with the understanding that

further negotiations were forthcoming.

After discussions with the owner's agent, as well as the Alexandria Economic Partnership (AEDP) to determine the current lease market, staff determined that an extension of seven (7) years would be the most financially beneficial as well as provide the most flexibility for the City.

DISCUSSION: The proposed lease extension (Fourth Amendment) provides for an additional seven (7) years to the existing lease with a new lease expiration of FY 2033. The new rate of \$29.50 per square foot, which represents a reduction of 5.8 percent below the current rate of \$31.33 per square foot provides initial cost savings of \$592,575 in FY 2022 and over \$2.7 million over the first five years of the new lease term when compared to the current lease. This savings reflects twelve (12) months of negotiated rent abatement over the first three years of the new lease, as well as \$15/square foot in Tenant Improvement Allowance (TI), or \$843,000 over the term of the lease. In addition, because this is a new lease, no operating expenses or taxes will be incurred in the first year of the revised lease.

This proposed Fourth Amendment of the lease provides for a new rental rate (\$29.50/sq ft.), twelve (12) months of rent abatement, tenant improvement savings and a lease term extension of seven (7) years. In addition, the proposed Fourth Amendment will provide the City with a continued presence at Tavern Square and provide continued access to both internal and external clients that are currently being served at this location as well as swing space if required during the scheduled renovation of City Hall.

FISCAL IMPACT: The lease rate for leased office space in the Tavern Square office complex at 421 King Street will be \$138,210 per month for nine (9) months with three (3) months of rent abatement, or \$1,243,890 per year in the first year of the lease (FY 2022) with an estimated \$61,000 in utility expenses. This new rate reflects a decrease of \$592,575 in lease costs in FY 2022 compared to the current lease and is included in the FY 2022 Approved Budget. The new lease rate and twelve (12) months of negotiated rent abatement will result in savings of over \$2.7 million over the first five (5) years of the lease term compared to the current lease.

ATTACHMENTS:

1. New Tavern Square Lease Summary
2. Fourth Amendment to the Lease Between the City and WG Tavern Square Venture, LLC

STAFF:

Laura B. Triggs, Deputy City Manager
Jeremy McPike, Director, General Services
Alfred Coleman, Deputy Director, General Services
Dominique de' la Bay, Real Estate Specialist