



# 100 City Hall Plaza Lease Renewal (VOTE)

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# Background

**The Health Connector rents 19,120 square feet of space on three floors (3rd, 5th and 6th) at 100 City Hall Plaza.**

- The Health Connector has been in the building since early 2007, shortly after it was established
- The current lease, which was last renewed in 2015, expires on August 30, 2021
- For the final year of the current lease, the rate is \$42.13/sf, or \$745,680/year
- Beginning in January 2020, the Health Connector undertook an extensive market review to determine whether it would be advantageous to move to a new location or instead renew in the current space

# December 10, 2020 Lease Proposal

**On December 10, 2020, the Health Connector Board reviewed and declined to vote on the proposed renewal of the lease**

- The proposed renewal included the following terms:
  - Renewal of all three floors for five years
  - Effective average rate for the renewal period is \$45.26/sf, reflecting full use of improvement allowance to abate rent and 6 months of rent abatement
  - Optional right to terminate the 3<sup>rd</sup> floor lease after the third full year
    - At 5,340 square feet, this represents 28% of the total leased space
  - Retained right to sub-lease, if desired
- The Health Connector Board declined to vote on this proposal, citing concerns regarding the amount of space the Health Connector would be committed to renewing, given the growing movement toward “hybrid” work models

# Updated Lease Renewal Proposal

**Health Connector staff have re-negotiated a lease renewal that does not include the third floor, in accordance with the following terms.**

- New lease term for 5<sup>th</sup> and 6<sup>th</sup> floors to begin August 31, 2021, extending to November 30, 2026
- The effective average rate for the renewal period is \$45.44/sf, reflecting full use of improvement allowance to abate rent
- Terms include 6 months of rent abatement on 5<sup>th</sup> and 6<sup>th</sup> floors
  - Final 3 months of 2020
  - First 3 months of new lease term
- Terms also include improvement allowance of \$264,354, which can be used to make improvements to the 5<sup>th</sup> and 6<sup>th</sup> floors, if desired, or alternatively used to abate rent, starting in 2022 and spread out over the remaining term of the lease
- The Health Connector also retains the right to sub-lease, if desired

# Differences Between Updated Lease Renewal Proposal and Prior Proposal

**Below are the key differences between the updated lease renewal and the prior proposal**

- The 3<sup>rd</sup> floor lease will not be renewed, and will terminate on August 30, 2021
- Rent for the 3<sup>rd</sup> floor will no longer be abated for the final three months of 2020
- The tenant improvement allowance was reduced from \$344,500 to \$264,354
- The effective average annual price per square foot is changed from \$45.26 to \$45.44
- Total costs over the term of the lease has changed from \$4,543,670 to \$3,287,481, for a total savings of \$1,256,189

# Updated Lease Renewal Analysis

**The updated lease renewal terms provide significant savings compared to the prior proposal and are favorable compared to other options in the market.**

- Terminating the 3<sup>rd</sup> floor upon renewal means that the Health Connector will realize significant savings in its office space costs, saving \$1,256,189 compared to the prior proposal
- A review of the current commercial real estate market for buildings similar to 100 City Hall Plaza revealed rates per square foot of \$65, and such amounts did not significantly change, even after the effects of COVID-19 became more prevalent
  - Our research has revealed that vacancies in Boston offices remain below average, despite COVID, and that commercial rents have not been significantly reduced
- The effective average rate for the renewal period of \$45.44/sf is significantly lower than the rate would be were the Health Connector to move (and avoids moving costs), and is a modest increase above the current rate of \$42.13
- The right to sub-lease means that we can continue to evaluate whether additional reductions in office space are necessary, although none are anticipated at this time

# Recommended Vote

**Staff recommend that the Board authorize the Executive Director to execute an extension of the lease at 100 City Hall Plaza on the proposed terms.**