

**San Mateo County Transit District
Staff Report**

To: Board of Directors

Through: April Chan, General Manager/CEO

From: Joshua Mello, Executive Officer, Planning and Development

Subject: **Millbrae Headquarters Proforma and Leasing Strategy**

Action

This report is for information only. No Board action is required.

Significance

The purpose of this presentation is to provide an informational overview of a proforma developed to track the financial performance of San Mateo County Transit District's (District or SamTrans) new headquarters building in Millbrae (Millbrae HQ) and the strategy for leasing out space not needed to support agency staff.

Budget Impact

This report is for information only.

Background

Under Resolution No. 2023-59, the Board authorized the execution of a lease-to-purchase agreement for a new headquarters building located at 166 Rollins Road in Millbrae. SamTrans' landlord is currently in the process of outfitting the building to SamTrans' standards, with occupancy scheduled by or before June 2026. Upon exercising the purchase option, SamTrans will become the owner of the building, which is anticipated in and around November 2026.

In addition to space for District staff, SamTrans is leasing approximately 30,000 square feet of space to Peninsula Corridor Joint Powers Board (Caltrain). The building also includes approximately 22,500 square feet of retail space and 15,500 square feet of office space that can be leased to outside tenants.

The PowerPoint presentation discusses the development of a financial proforma to monitor building finances over its lifecycle and outlines the strategy for leasing these spaces.

Pro Forma Development

SamTrans retained financial consultant Economic & Planning Systems (EPS) to prepare a financial proforma for the Millbrae HQ. The proforma is designed as a tool to project long-term costs and revenues, and to evaluate the financial impact of different business decisions related to building operations and leasing. For example, it can be used to analyze tradeoffs between tenant improvements and rental income.

Although developed by EPS, the proforma will be maintained by the District as a “living document,” updated throughout the life of the District owning the asset. It is based on very conservative assumptions, all of which are subject to change once real-time cost are accounted for after SamTrans occupies the building, including the following:

- SamTrans will exercise its purchase option in November 2026.
- Total bond financing will be up to approximately \$175 million, consisting of:
 - \$126 million for the base purchase price of the building
 - \$11.4 million for excess office tenant improvements
 - \$26.1 million for other building costs (minus \$3.6 million Caltrain contribution)
 - \$10.7 million to reimburse the landlord (Swift) for retail leasing costs incurred prior to the purchase
 - Cost of bond issuance approximately \$5 million
- Bond financing is assumed at 4 percent and 30 years fixed rate.
- Because SamTrans will be the first occupant of the building, operating and maintenance costs are assumed to be higher than industry standards. After the building has been occupied for six months to a year, staff will have real-time data on actual costs and the proforma will be adjusted to reflect such costs. Until then, staff feel it more appropriate to use very conservative estimates.

A key feature of the proforma is the establishment of a replacement reserve fund, based on industry standards. This fund will set aside money annually for the eventual replacement of major building systems (e.g. heating, ventilation, and air conditioning (HVAC), roof). The current headquarters did not maintain such a reserve, which led to deferred maintenance and costly unscheduled repairs. By contrast, the new reserve will ensure that funds are available when replacements are due, smoothing costs and reducing the risk of unexpected financial burdens.

In addition, the District will be hiring a building manager to oversee facility operations, ensuring that preventative maintenance is performed on schedule and that building systems are maintained in good working order.

Major Findings from the Proforma

The proforma indicates that in the early years of occupancy the District will incur several significant upfront costs. These include moving and transition costs, demolition of the current headquarters building in San Carlos, and “mothballing” costs to maintain that property in a safe condition until the site is redeveloped. Additional early costs include tenant improvements associated with leases to third party tenants, along with commissions and other leasing-related expenses.

Once these upfront costs are accounted for, commencing in Year 4, the proforma projects that the net spend is about \$10 million annually (including reserves for replacements) through Year 31 of the building’s operation. This structure provides long-term financial stability savings to the District, as building costs remain stable while money inflates over time, even under low inflation scenarios.

After Year 31, when the bond is fully retired, the building is projected to spend at a smaller amount of about \$750,000 annually for the next 10 years. With the reserve for replacement fund in place and a building manager overseeing preventative maintenance, the headquarters should remain in strong condition at that point. By then, SamTrans will realize the full financial benefit of ownership, provided that future staffing needs do not require conversion of leased space back into agency use.

The proforma currently has not built in the revenues that may be generated from the redevelopment of the San Carlos HQ asset. The proforma will be updated once staff returns with a transit-oriented development (TOD) proposal for the site, which staff is also currently discussing with the City of San Carlos.

Leasing Strategy

As the owner of a building with both office and retail components, SamTrans will assume responsibilities typical of commercial landlords. In addition to negotiating lease terms and collecting rent, an important element of each lease will be the provision of tenant improvements (TIs). Tenant improvements are the customized build-outs required for each office or retail space, and landlords typically provide allowances to support these costs. In many cases, the landlord oversees the construction of improvements, although some tenants may manage the work directly.

Each lease presented to the Board for approval will include a package of negotiated terms, including rent, lease length, TI allowance, and the period of time required to complete improvements before rent commences.

For the office space, SamTrans has retained CBRE to market the property. While the space is not yet ready for occupancy, CBRE recommended that marketing should begin once base building improvements are underway, with property tours to follow once suites are defined by interior walls and other construction milestones. According to the proforma, rent collection for the office space is projected to begin in May 2028. This timeline reflects the period needed to

identify tenants, negotiate leases, complete tenant improvements, and commence rental payments.

For the retail space, leasing is being managed by the current property owner, Swift, prior to SamTrans' purchase of the building. Under the terms of the lease-to-purchase agreement, any unamortized lease-up costs (including tenant improvements, broker commissions, and related fees) will be reimbursed to SamTrans at closing. The proforma assumes approximately \$10.7 million in reimbursable costs, which are expected to be included in the bond financing.

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Millbrae Building Proforma & Leasing Strategy

Item #7.c.
9/3/2025



Background

SamTrans Resolution No. 2023-59

- Authorized Lease-to-purchase Agreement for New HQ at 166 N. Rollins Road in Millbrae
- Office space lease term of 8-30 months with option to purchase entire building at \$126M
- After purchase, SamTrans will be commercial landlord, responsible for leasing office and retail spaces and building O&M



Building Proforma

Building Proforma Development

- Hired *Economic & Planning Systems* to develop proforma to track financial performance of new HQ
 - Provides District a long-term assessment of the projected revenues and expenses for the new HQ
 - Provides a baseline to assist with the retail and office leasing strategy
 - Provides a tool for ongoing financial planning and financial sustainability assessments
 - Ensures proper reserves are established to keep the building in a state of good repair

Building Proforma Details

- Consultant EPS was asked to develop a Proforma
 - Financial model that tracks building performance over time
 - Includes all known revenues and expenses over 50-year period
 - Built in Excel to enable easy updating of inputs and outputs
 - Automatically calculates current financial performance as new data is received
 - Living document owned by SamTrans and updated throughout building life

Building Proforma Assumptions

- SamTrans purchase closes November 2026
- Most recent estimate of bondable costs approximately \$175M~
 - \$126M building purchase price
 - \$26.1M office non-tenant improvements (less \$3.6M Caltrain contribution)
 - \$11.4M office excess tenant improvements
 - \$10.7M retail unamortized leasing costs (may change based on leasing timeline)
 - Cost of bond issuance, which is estimated to be about \$5M~
- 30-year bond rate assumed at 4%
- O&M costs are conservative for a new building
- Retail and office lease commencements in May 2028
- *All assumptions are conservative and subject to change*

Building Proforma Inputs (Operating)

Revenues:	Caltrain Rent	TA/Express Lanes JPA office use recovery	Shared services office use recovery	Office space rent	Retail space rent	OPEX recovery from tenants
Expenses:	Rent before purchase	Bond payments after purchase	BART ground lease	Leasing expenses	Reserve for replacement	OPEX (includes professional building manager)

Reserve for Replacements

- If SamTrans purchases the building, it will set aside funds yearly to cover long-term capital replacement
 - This is in addition to ongoing operations and maintenance (O&M)
 - Was not done in current HQ building
- Applied to all major systems in the building using industry best practices and guidance from **professional building manager**
- Ensures that SamTrans has funds to pay for large repairs and replacements when needed

Building Leasing Strategy

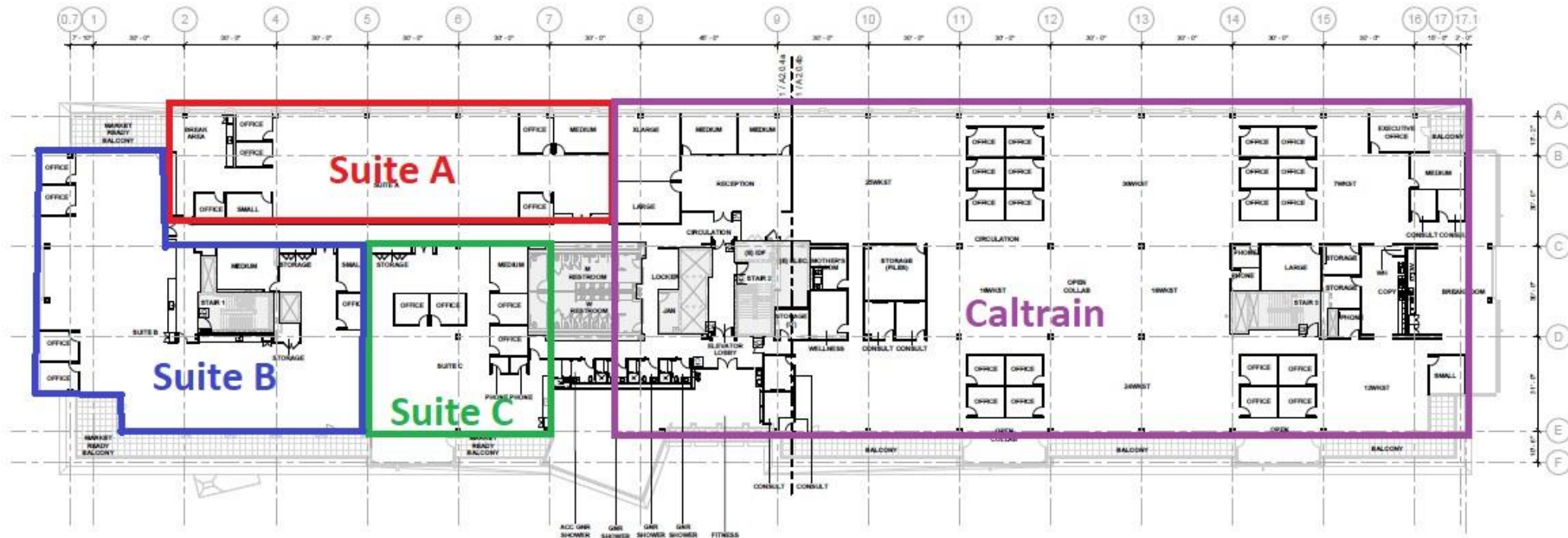
4th Floor Leasable Office Space

Caltrain: 30,000SF

~16.7% of total building area

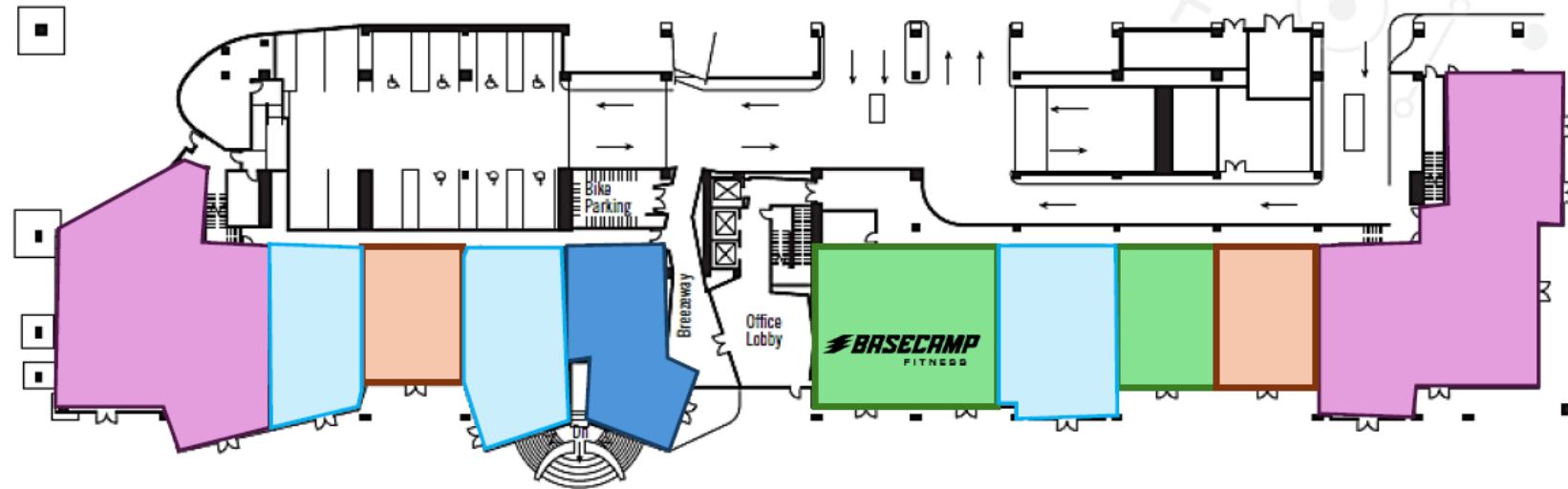
Leasable Office: 15,500SF

~8.6% of total building area








1st Floor Leasable Retail Space

- Retail Area
22,500SF
- ~12.5% of total
building area
- Six units with ability
to modify
- 10 units shown in
landlord retail
marketing plan
(shown to right)



Tenant Categories

-  Afternoon and Evening Restaurants
-  Morning and Lunch Restaurants
-  Fitness and Health Services
-  Alcohol-Forward, Light Food Service
-  Traditional Merchant Retailers

Examples

- Full service – Gastropub, Cantina, Sushi
- Quick service – Café, Bakery, Salad Bar
- Pilates Studios, Massage, Spa
- Wine Bar, Tapas, Sake Bar
- Wine Merchant, Home Accessories, Pet Care, Electronics/Cell Phone, Optics

Office Space Leasing Strategy

- . Invested upfront capital (landlord TI allowance) to deliver three market-ready office spaces
- . Built-out of ~80% of typical tenant needs allows for quicker customization and rent collection
- . Tenants may ask for additional modifications (will be budgeted as part of board approval of each lease)
- . Business terms for each lease will be considered by the Board in closed session (rent, TI allowance, lease commencement date, term, etc.)

Office Space Leasing Timeline

Timeline	Activity
November 2024	Office broker onboarded
August 2025	Office space marketing began after tenant improvement construction began
October 2025	Office space tours begin after corridor construction is complete
Dec 2025 -Sep 2027*	Lease(s) executed
May 2028*	Rent payments begin

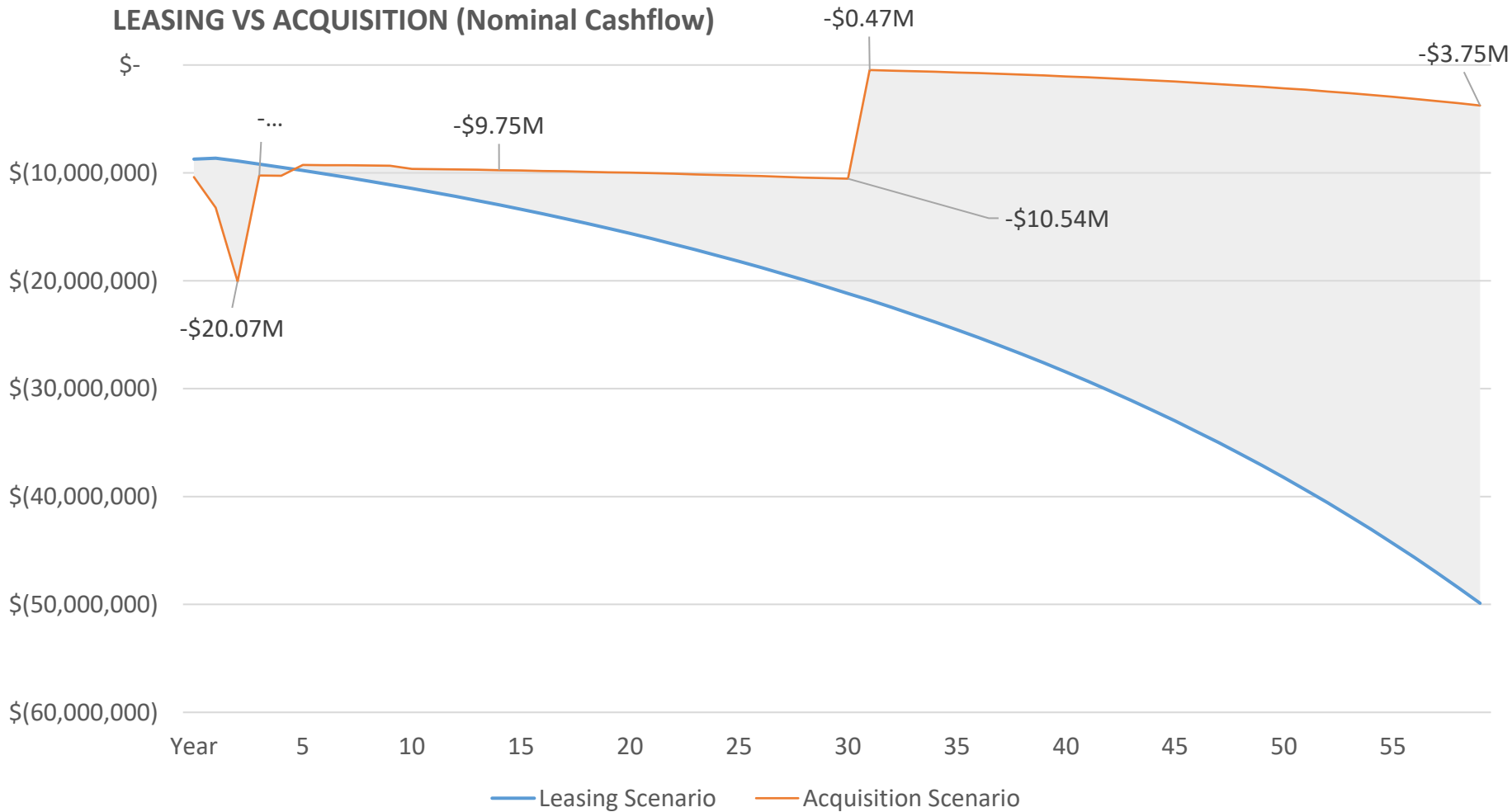
*Estimated

Retail Space Leasing Strategy

- Landlord is currently marketing retail space
 - Once unit leased; another in negotiation
 - Expects to have retail space leased by summer 2027
- Before SamTrans purchases building, landlord responsible for retail tenant improvement costs (SamTrans will pay an est. \$10.7M in unamortized leasing costs upon purchase)
- SamTrans using CBRE to market vacant retail space that remain post-purchase
 - SamTrans must fund retail tenant improvements (and likely build)
 - Proforma conservatively estimates rent payments begin in May 2028

Summary

Cost to Own vs Cost to Rent by Year



Difference between cost to own and cost to rent by year is shown in gray

Net Cash Flow (In 5-Year Increments)

	Years 1-5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30	Years 31-35	Years 36-40
Revenues	\$17.2	\$32.8	\$35.8	\$40.8	\$46.6	\$53.3	\$61.6	\$71.4
Rent/Bond Expenses	-\$47.2	-\$50.6	-\$50.6	-\$50.6	-\$50.6	-\$50.6	-\$10.1	\$0.0
Other Expenses	-\$24.8	-\$28.7	-\$33.7	-\$39.5	-\$46.4	-\$54.6	-\$64.2	-\$75.5
Old HQ Expenses *	-\$9.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Cash Flow (Over 5 Years)	-\$64.2M	-\$46.5M	-\$48.4M	-\$49.3M	-\$50.4M	-\$51.9M	-\$12.7M	-\$4.1M

*Does not yet include any potential ground lease revenues from San Carlos HQ to offset expenses for HQ



Thank You



Please email fitzpatrickb@samtrans.com with any questions.