

OCT 27 2011

**RESOLUTION NO. 4548**

**A RESOLUTION OF THE CITY OF CHANDLER, ARIZONA,  
APPROVING A FIRST AMENDMENT TO THE LEASE  
AGREEMENT BY THE CITY OF CHANDLER FOR LEASEABLE  
SPACE AT 149 S. 79<sup>TH</sup> STREET FOR INNOVATIONS  
TECHNOLOGY INCUBATOR.**

WHEREAS, the City desires to create a technology incubator and sublease space to start-up technology which the City believes are of great value to the City; and

WHEREAS, the general public will receive benefit from those certain commitments; and

WHEREAS, the City believes that the incubator will enhance the economic viability of the City by increasing real property tax revenues based on the creation of new companies and by creating jobs to be located within the City;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Chandler, Arizona, hereby approves the City of Chandler entering into a First Amendment to the Lease Agreement, for use of real property located at 149 South 79<sup>th</sup> Street, with Capital Commercial Investment, who is represented to be the owner of said real property, provided that the First Amendment to the Lease Agreement shall contain all of the significant lease (business) terms set out in Exhibit "A", attached hereto and incorporated herein by this reference, and no other significant lease (business) terms.

The First Amendment to the Lease Agreement shall be in writing and shall be in form approved by the Chandler City Attorney. The Mayor of the City of Chandler is authorized to execute the written First Amendment to the Lease Agreement for and on behalf of the City of Chandler in the form as approved by the Chandler City Attorney.

PASSED AND ADOPTED by the City Council of the City of Chandler, Arizona, this 27th day of October 2011.

ATTEST:

\_\_\_\_\_  
CITY CLERK

\_\_\_\_\_  
MAYOR

CERTIFICATION

I HEREBY CERTIFY that the above and foregoing Resolution No. 4548 was duly passed and adopted by the City Council of the City of Chandler, Arizona, at a regular meeting held on the 27th day of October 2011 and that a quorum was present thereat.

\_\_\_\_\_  
CITY CLERK

APPROVED AS TO FORM:

\_\_\_\_\_  
Chandler City Attorney



Add info # 12

OCT 27 2011



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*Where Values Make The Difference*

**MEMORANDUM                      Economic Development – Council Memo ED12-010**

**DATE:**            OCTOBER 24, 2011

**TO:**                MAYOR AND COUNCIL

**THRU:**            RICH DLUGAS, CITY MANAGER *RD*  
                          PATRICK MCDERMOTT, ASSISTANT CITY MANAGER *[Signature]*

**FROM:**            CHRISTINE MACKAY, ECONOMIC DEVELOPMENT DIRECTOR *[Signature]*

**SUBJECT:**        INNOVATIONS TECHNOLOGY INCUBATOR/ACCELERATOR

Several Councilmembers asked that additional information be provided concerning Item #12, relating to planned versus actual leasing activity.

Innovations has now been opened for business for 17 months (opening on April 30, 2010). As you will recall, we estimated that it would take us 36 months to complete lease-up on the facility. By that determination, we should be 47% occupied. We are currently 100% occupied. We have 19 tenants in the incubator and have a number of potential tenants who would also like to become part of the community.

Because of our success in leasing activity, we are currently 51% ahead of our rental revenue projections. To clarify, at 47% occupancy we would be generating \$26,206 per month. At 100% occupancy we bill \$38,958 per month.

As a reminder, the City has obligations on 4,000 square feet for the University of Arizona and on the City Management offices at the facility.

I will be happy to answer any additional questions for you this evening.

#12

OCT 27 2011



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**MEMORANDUM                      Economic Development – Council Memo ED12-009**

**DATE:**            OCTOBER 18, 2011

**TO:**                MAYOR AND COUNCIL

**THRU:**            RICH DLUGAS, CITY MANAGER *RD*  
                          PATRICK MCDERMOTT, ASSISTANT CITY MANAGER *PKM*

**FROM:**            CHRISTINE MACKAY, ECONOMIC DEVELOPMENT DIRECTOR *CM*

**SUBJECT:**        INNOVATIONS TECHNOLOGY INCUBATOR/ACCELERATOR

**RECOMMENDATION:** Staff recommends approval of Resolution No. 4548 for the proposed 12-year lease terms on an expansion of approximately 24,000 square feet at 149 S. 79<sup>th</sup> Street in West Chandler, contiguous with the City's existing 36,692 square feet, to expand the Innovations Technology Incubator, which provides a technology incubator/accelerator to house small start-up and early stage companies in Chandler, and authorize the Mayor to sign the lease and related documents as approved by the City Attorney.

**BACKGROUND/DISCUSSION:** In 2009, City Council approved the Lease Agreement that created the Innovations Technology Incubator, a physical facility that brings numerous resources to bear to accelerate the pace of growth of new start-up businesses by providing unique, value-added services that entrepreneurs operating individually normally would not have access to. These include access to equipment, structured access to capital, interaction, and educational forums and shared business services. As these companies grow and succeed, it is anticipated that they will "spin-out" of the incubator into commercialized space creating new, well-paying jobs and capital investment in the community.

After breaking ground in December of 2009, Innovations opened for business on April 30, 2010 and has seen tremendous success since that date. Now 100% occupied, 19 companies are operating out of the facility ranging in technologies from DNA research, sustainable technologies, cancer research, software and hardware devices, engineering and non-invasive therapies and the University of Arizona's Center for Nanobiosciences and Medicine, among others. Several of our companies have already grown significantly since taking occupancy and the facility has been incredibly well received. More than 75

people work out of this facility each day, with an Economic Development team member working on site. Furthermore, attention to Innovations is coming not only from Arizona, but from a national and international level as well.

The City has identified many partners who are helping Innovations to succeed, but none more than the Small Business Development Center (SBDC). The SBDC has worked in partnership with the City of Chandler to create a program, with a grant provided by Chandler's Industrial Development Authority, known as TechEDge. TechEDge, a 10-week course put in place to help companies succeed in their launch, is in its inaugural program and already has 15 companies meeting at Innovations each week for 10-weeks. Many of these companies are not currently Innovations tenants but the program is giving us the opportunity to showcase Chandler's ability to be "tech ready".

As a reminder, the building that houses Innovations was selected due to the existing infrastructure that includes gas lines, compressed air, vacuum lines and clean room type construction, all very expensive items to duplicate. This facility was acquired by Capital Commercial Investments in 2008 as an investment opportunity and is now a "for-lease" building. An expansion rental rate has been negotiated that includes the first six months of rent free to give staff time to secure tenants for the facility and then a rate of \$11.72 NNN per square foot annually with standard annual increases for a period of 12-years. A tenant improvement allowance of \$35.00 per square foot will be paid by the landlord towards improvements identified by staff. The existing space of nearly 37,000 square feet, which will be modified to be coterminous with the First Amendment to the Lease, will not adjust its rental rate.

The building owner, Capital Commercial Investments' general contractor LGE Corporation will oversee the construction of the tenant improvements and will subcontract all work through a competitive bid process. Pre-construction estimates have been secured on all disciplines through individual subcontractors that have toured the space. Unlike the initial construction on Innovations, there is not a capital contribution that will come from the City of Chandler. Instead, the building owner will bear the cost of the tenant improvements on the building. Furthermore, as the City was adjusting its workforce over the past few years, the Economic Development Division, in conjunction with our warehouse staff, secured a significant amount of office furniture that was no longer needed, which has been stored and will be used for the expansion space of our incubator. Several pieces of lab furniture have been stored from the original construction of Innovations and will be used in this expansion space as well. This will ensure that the expansion of Innovations is a "turn-key" facility upon completion as was the original construction.

Economic Development staff has identified several companies who are interested in taking space in the expansion of Innovations when it is completed, along with several of our existing tenants who need more space, and will be actively marketing to other

Memo No. ED12-009

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companies on an on-going basis. The City will pass along the rental rate and operating expenses to these companies that will represent a below-market rate for this type of space making it very attractive to technology start-ups.

**FINANCIAL IMPLICATIONS:** The estimated annual amount of \$281,280 plus annual increases, triple net charges and utilities is budgeted in the Strategic Economic Development Fund, which will be paid in part by the City during lease-up.

**PROPOSED MOTION:** Move to adopt Resolution No. 4548 authorizing the proposed First Amendment to the Lease at 149 S. 79<sup>th</sup> Street for 12-years to provide for expansion space for the Innovations Technology Incubator and authorize the Mayor to sign the lease and other related documents as approved by the City Attorney.

Attachments: Resolution 4548  
Significant Lease Terms

**SIGNIFICANT EXPANSION (FIRST AMENDMENT) LEASE PROPOSAL  
TERMS  
"INNOVATIONS" TECHNOLOGY INCUBATOR / ACCELERATOR**

- ADDRESS:** San Tan Tech Center, 145 South 79th Street, Chandler, Arizona an approximately 129,187 rentable square foot building.
- PREMISES:** An addition of approximately 24,000 square feet contiguous to the existing City leased space of approximately 37,000 rentable square feet, per an approved space plan, located on the Northern end of the building.
- USE OF PREMISES:** Office, assembly, lab, light manufacturing, research, development, education and all related uses.
- OCCUPANCY/LEASE COMMENCEMENT:** Upon substantial completion of tenant improvements and receipt of Certificate of Occupancy, or April 1, 2012, whichever is earlier.
- LEASE TERM:** One hundred forty-four (144) months; additionally, existing City lease will be modified to be coterminous with expansion lease.
- TERMINATION:** Tenant shall have the right to terminate all or any reasonable portion of the Premises upon the 7<sup>th</sup> Anniversary of the lease term by providing six (6) months prior written notice and paying a penalty equal to the unamortized costs of the transaction as calculated at the anniversary date. The penalty shall be due upon the effective date of the termination.
- RENT ABATEMENT:** Landlord shall provide the first six (6) months of the base rent abated. Triple net charges and operating costs will still be applicable during the abatement period.
- BASE RENTAL RATE:**
- |              |                     |
|--------------|---------------------|
| Months 0-6:  | \$0.00/rsf/yr NNN*  |
| Months 7-12: | \$11.72/rsf/yr NNN* |
- The Base Rental Rate shall increase by three percent (3%) every twelve months after the twelfth month (12<sup>th</sup>) month.  
\*plus applicable sales/use tax (rental tax)
- OPERATING EXPENSES:** Tenant shall be responsible for its proportionate share of operating expenses, not including Tenant's janitorial or separately metered utilities.
- SECURITY DEPOSIT:** The Security Deposit shall be waived.

**TENANT  
IMPROVEMENTS:**

Landlord shall pay for the Tenant Improvements within the Premise in an amount not to exceed \$840,000 with qualified contractors according to a mutually agreed upon space plan.

Landlord's agrees to contribute up to an additional \$360,000 towards additional tenant improvement costs if required by the agreed upon space plan. Any additional tenant improvement cost spent will be amortized over the period of the lease.

**PRIOR LEASE  
CONSIDERATIONS:**

All other items from the existing lease, which this expansion is based on, remain in effect and are continued on to this expansion.

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Chandler City Attorney