

LEASE PROCESS – REGENTS AS TENANT

HOW TO GET STARTED

Even before you actively start looking for lease space, there are some questions to answer and steps to take:

1. In accordance with the campus Space Management Principles, all space requests, including requests for possible leased space, must be processed through the unit/division's Space Control Officer (Dean, Vice Chancellor, Vice Provost, or the University Librarian) or their designee.
2. The Space Control Officer or designee should first attempt to satisfy the space request within the unit/division's existing space. If there is insufficient space within the unit/division, a formal space request should be submitted to Capital Planning and Space Management (CPSM).
3. If CPSM cannot identify appropriate space to meet the needs identified in the space request, CPSM may make a recommendation to lease off-campus space.
4. After receiving a recommendation to lease off-campus space, the Space Control Officer may begin the lease process by starting to fill out the "Lease proposal" [Link to document page] and send it to the UCSC Real Estate Office (REO) [Ryan].
5. What level of project management support will your project require? REO will send your lease proposal to PP&C and ask them to assign a project manager to work with you to scope your lease project's requirements.
6. What kind of funding will you need to budget for this leasing project? Project management will need to be done by Physical Planning and Construction (PP&C), which is a recharge unit, and so you will need to set up a "construction funding request" (CFR) for the project. Please see the Real Estate Support Matrix [link] for the types of support PP&C provides for different sizes and scales of leasing projects and the planning-level budget associated with these services.

LEASE COORDINATING COMMITTEE

REO will set up your **lease coordinating committee**, which will work with you all the way through your leasing process through move-in. Usually, meetings are held weekly through a leasing project to ensure that any issues are identified early and that each group responsible for an aspect of the leasing project has the ability to get any information or input that is needed to keep the project moving forward. The lease coordinating committee will help you to finalize your project summary for campus approval, help with site selection, conduct due diligence, oversee any tenant improvements, and plan your move. The following people are generally included in the lease coordinating committee:

- Your organization, as the client, will need to identify one **unit representative** to serve as the single point of contact for the unit. The unit representative will work with the coordinating committee and will coordinate information collection and review and approval processes within your unit and your division.
- Based on the project description, PP&C will assign a **project manager** for the project.
- Real Estate Office will assign one **real estate representative**, who will work with the unit representative and the PP&C project manager to facilitate all the steps in the leasing process. The real estate representative will assist your unit with campus approvals, manage the site identification process, guide the site selection process, negotiate the lease and incorporate the results of due diligence into the lease terms, manage lease execution, and manage landlord communications and lease interpretation through the tenant improvement project.
- CPSM will assign one **space planning representative** to assist with budget development and tracking, space planning, and, in some cases, offer advice and consultation for move coordination and implementation.
- Your Information Technology Services (ITS) Divisional Liaison will be the **ITS representative**, and will secure representation from ITS Core Technologies as needed in lease planning.
- Real Estate Office will also assign a **facilities coordinator** to advise on tenant improvements related to security and alarms and to support move planning.

Additional UCSC offices will assist with specific aspects of due diligence and project approvals, including Environmental Health and Safety (EH&S) and the Environmental Assessment Group (EAG) of PP&C.

The **coordinating committee** will help you to develop the budgetary and project detail required for campus approval, including estimates of all one-time costs for inclusion in the lease proposal:

Estimated One-Time Costs	
Item	One-Time Cost
Lease Due Diligence (Env Ph 1, CEQA, Seismic, ADA, Fire/Life-Safety)	
Furniture	
Offices @ \$6,000/each	X offices =
Conf. Room @ \$10,000/each	Y conf. room =
Modular Furniture Configuration	Z Cubicles =
Tele/Data jacks and cabling	

Installation @ \$590/each Activation @ \$138/each Other cabling requirements	W jacks = V jacks =
Phones Activation @ \$103 & \$ 97/each Purchase phones Phone system costs (VOIP, PBX, other)	U jacks = T @ 275 = S @ 375 =
Office machines Computers Fax Printers Copy, Scanner, Fax Other (servers, routers, etc)	R @ 3,000 = Q @ 300 = P @ 500 = N @ 2,000 =
Connectivity Microwave Link @22,000, if required Backup T1(s), if required Other connectivity	
Security Alarm System Card Access System	
Signage & Keying	
Moving costs	
Furniture electrician	
Consulting fees and project management, including one-time tenant improvement costs	From PP&C Lease Support Services Matrix
Estimated cost of restoring vacated space	
Estimated total	

CAMPUS APPROVAL PROCESS

The unit/division must obtain the Campus Provost/Executive Vice Chancellor's (CP/EVC) approval before entering into a lease. For most leases, the CP/EVC is approving a "Lease Proposal" [link to document library], which delineates the size and cost parameters within which a lease will be negotiated, providing flexibility in selecting a site and in lease negotiations. In some cases (e.g., extensions of existing leases), a **Project Summary Form (Lease)** [link to document library] will be required for approval, and will reflect all the negotiated terms of the agreement for the specified site. Requests for approval, in the form of a Lease Proposal or a Project Summary are submitted by your unit's Principal Officer (Vice Chancellor, Vice Provost or Dean), by signature on a lease project Concurrence Form [link to document library] (or via email) to REO. REO then submits the concurrence form and Lease Proposal (or Project Summary) for concurrence by Planning and Budget and Business and Administrative Services. REO will convey any requests for additional information or revision to the unit, which will revise the document as needed to obtain concurrence. REO then sends the Concurrence Form and the Lease Proposal (or Project Summary Form (Lease)) to the CP/EVC for approval. Approved projects are also reported to the Advisory Committee for Campus Planning and Stewardship (ACCPS).

CP/EVC approval of the lease parameters contained in a Lease Proposal establishes the maximum project budget including all one-time costs for tenant improvements, moving expenses, data and telephone transfers, etc. Because a Lease Proposal does not reflect a specific location, the cost estimates are planning level estimates and should take into consideration factors that might affect cost depending on the nature of the site that is actually selected, potential CEQA-related studies, and whether one-time costs will reflect outside vendors or campus-provided services.

SITE SELECTION

For lease amendments and in some other limited circumstances, the site is already selected and the coordinating committee can move on to the next steps in the lease project.

To select a site, the REO will conduct a search for space that meets your requirements. Typically, the REO issues a request for proposals (RFP) to the local real estate brokerage community, listing the space requirements and other specific needs as established in your Lease Proposal or as further developed by the Coordinating Committee.

REO will produce a spreadsheet describing the spaces for lease, their specifications, associated costs, and strengths and weaknesses. This will be used by the coordinating committee to assist you in selecting a site. Site selection is often informed by preliminary due diligence, which is described in more detail below. Ultimately it is up to your unit and Principal Officer to decide which site to select for lease as long as the selected site meets the criteria established in the

approved Lease Proposal. If the preferred site does not meet the criteria, the selected site will need to go through the Principal Officer/ACCP/Executive Vice Chancellor approval process based on the particular details of the selected site and the rationale for selecting a site that does not meet the original criteria. The selected site must also meet due diligence requirements described below. If, in the course of its investigation of your selected site, the coordinating committee finds that it does not meet certain due diligence requirements, you may have to choose another site.

DUE DILIGENCE

The coordinating committee will conduct due diligence at the selected site and confirm that it meets UC policy requirements and conforms to other applicable laws and regulations. Preliminary due diligence often helps inform the site selection process as well. Consultants may be needed for some components of due diligence, which will be procured by the PP&C project manager. Your unit may also need to reimburse other campus units, including EH&S, for certain types of costs incurred in the performance of necessary due diligence. The cost of due diligence is included in the one-time cost estimate, and generally does not exceed \$20,000 unless specialized studies are required.

The coordinating committee will perform the following due diligence:

- **Seismic and structural review.** The site which you've selected must meet the requirements of the UC Seismic Safety Policy [link]. REO strongly encourages units to focus site selection on buildings constructed since 1997 to simplify seismic due diligence and reduce the risk that a selected building will be found deficient. Depending on the age and configuration of the building you've selected, the building owner will need to procure one of two different types of reports, prepared by a licensed structural engineer, confirming that the building does meet the Seismic Safety Policy requirements. The Real Estate Office representative and/or PP&C project manager will coordinate this process. Typically, the building owner will absorb the costs of this review, but on occasion a building owner may request that UCSC contribute to the cost of the review. Your unit will be solely responsible for these costs, if you choose to approve the requested contribution. If PP&C determines that the building does not meet UC Seismic Safety Policy requirements, the REO representative will work with the building owner to obtain a preliminary estimate for the cost to make the selected site compliant and will provide the estimate to the coordinating committee for discussion. Structural improvements are extremely expensive, and if they are required, the costs to lease your selected site will likely increase to the extent that the lease will be financially infeasible.
- **California Environmental Quality Act (CEQA) compliance.** Prior to leasing space in a building (among other kinds of actions), the University is required by the California Environmental Quality Act (CEQA) to identify any significant environmental impacts of the lease action, and to avoid or mitigate those impacts to the extent feasible. The UCSC Environmental Assessment Group (EAG), which is part of PP&C, will conduct the review to determine the likely impacts of your proposed lease at the selected site. In addition to the Lease Proposal, you will need to fill out an EAG lease project description [link to file Proj.Dec.Form-Leases.xls]. The REO representative will manage communications with the building owner and your unit, should EAG require additional information. When EAG completes its review, it will issue a report indicating the expected level of further environmental review, if any. In some cases, EAG will find your lease project to have potentially significant effects on the environment, and will be required to prepare a much more detailed 'Initial Study' report, or a comprehensive "Environmental Impact Report", which must be made available for public review and commentary. In most cases, EAG will issue a completed "Environmental Impact Classification" (EIC) document describing the proposed lease as 'categorically exempt' from CEQA as it will be for 'existing facilities,' the lease of which will have no significant effect on the environment. Once the EAG delivers a completed and executed EIC form, CEQA due diligence can be considered complete. NOTE: UC's Office of General Counsel advises that UC and the landlord are *not* required to obtain a "conditional use permit" if the leased space is being used by UC for purposes within the UC mission.

If you are contemplating a major lease project involving a large number of people using the building, or a lease in an area with existing traffic congestion, you will need to work with the Real Estate Office to assemble a coordinating committee and begin CEQA review at least six months prior to your anticipated date of lease execution, in order to provide sufficient time for required studies.

- **Building condition review.** For most leases, prior to the execution of a lease agreement the PP&C project manager will conduct a thorough investigation of the condition of the building and its major building systems. The object of this review is to determine the likely building maintenance and repair costs to your unit over the life of the lease, and to inform the development of the lease agreement, which assigns responsibility for service, maintenance and repair of various building systems (see Exhibits D and E to the UC Standard Form Lease [Link]). The PP&C project manager will provide their findings to the coordinating committee to discuss optional responses if the building system review indicates that major maintenance costs over the life of the lease are expected to exceed the amount of major maintenance reserves required in the Lease Proposal or Project Summary (usually, 4% of total lease costs). Options include negotiating a higher rent rate and shifting responsibility to the building owner, capping the unit's repair obligations, increasing your unit reserves, or deciding that it is not in the University's interest to lease a building with significant building system deficiencies.
- **Environmental Phase I Assessment/other environmental review.** Prior to execution of a lease agreement, the REO representative will coordinate review of the selected site by the UCSC EH&S office for potential

environmental hazards, called a "Phase I Assessment". In the course of their review, the EH&S office representative will research the history of the site and tour the site to conduct an inspection. Your unit will need to reimburse the EH&S office for the staff time its representative spends conducting an investigation and preparing a report. If in the course of its review, the EH&S representative needs to procure a site study from an outside consultant, your unit will bear these costs through the CFR established for the project. When the EH&S representative completes its review, the findings will be discussed by the coordinating committee to determine if any remediation needs to be negotiated with the landlord or if the site is not acceptable. Because an environmental hazard finding can preclude further consideration of your selected site, the coordinating committee will work to engage EH&S very shortly after your office has completed the site selection.

- **Code compliance review.** Prior to the execution of a lease agreement, the REO representative and the PP&C project manager must verify that the selected building complies with all applicable building codes and other laws, regulations and ordinances. The REO representative and the PP&C project manager will coordinate with the building owner to verify that the selected site has been recently inspected for code compliance by the local jurisdiction, or, if it hasn't, ensure that the building owner arranges for an inspection. If UCSC is going to occupy space in a building, the UCSC Campus Fire Marshal becomes the relevant state Fire Marshal for evaluating compliance with fire and life safety codes. The Campus Fire Marshal will either visit the building or request documentation of inspections by the local fire official for review. Once the building owner provides documentation that the building has been inspected and has been found sufficient, the PP&C project manager and the Campus Fire Marshal will review those documents to confirm their accuracy. If deficiencies are found, the building owner must correct them prior to the University's lease of the space. The PP&C project manager will ensure that the landlord constructs any tenant improvements in compliance with applicable code, as described below. The University cannot lease space in a building that doesn't comply with applicable building and fire and life safety codes, or other applicable laws, regulations, or ordinances.
- **Americans with Disabilities Act review.** Prior to the execution of a lease agreement, the REO representative will coordinate review of the selected site by the UCSC Americans with Disabilities Act (ADA) compliance officer. The ADA compliance officer will review the plans and specifications for your selected site, and possibly tour the site, to ensure that the site meets the requirements of the federal Americans with Disabilities Act of 1990 legislation. If there are deficiencies, the landlord must make improvements to the space prior to your unit's occupancy to ensure that the space conforms to ADA requirements. In some cases, such as the lease of a two-story facility with no elevator, the unit can accept restrictions on how the space is used to ensure that any employees or visitors will be accommodated. The University cannot release the landlord from its obligations to comply with ADA legislation, nor should it accept responsibility for costs incurred by the landlord to correct ADA-related deficiencies.
- **Occupancy permit verification.** Following execution of a lease agreement for your selected site, but prior to your unit's occupancy, the REO representative and the PP&C project manager will coordinate with the Campus Fire Marshal, or other authority as appropriate, to certify your leased space at the selected site for occupancy by the University. The Campus Fire Marshal or other authority will review plans and specifications for the leased space, including tenant improvements if any were made, and conduct a personal inspection of the finished space. The Campus Fire Marshal/other authority may require the landlord to make improvements to the space so that it complies with applicable fire and life safety codes and regulations. The coordinating committee will work to ensure that any such improvements are identified as part of a tenant improvement project, if any. If improvements are required specifically due to the University's use or configuration of the leased space, and there is not any other tenant improvement project, your unit may be responsible for the costs of such improvements. Once the Campus Fire Marshal or other authority grants an occupancy permit for the leased space, your unit may begin occupancy.

TENANT IMPROVEMENTS

Different lease projects will require different levels of tenant improvements (TIs). In general, if any improvements are required beyond the configuration of cubicle furnishings, these are included in the lease negotiations for the landlord to construct required TIs.

TIs are constructed *after* the lease is executed. TIs may be funded and constructed in various ways, and a single TI project may include one or more forms of construction and payment. The three predominant forms of TIs are:

- Turn-Key TIs: Landlord funds and constructs TIs to UC specification, and the rent rate reflects the value of improved space
- Amortized TIs: Landlord constructs TIs to UC specification, with the total project cost amortized over the life of the lease (or other specified period) at the landlord's cost of financing, to be paid by UC on a \$/RSF/month basis in addition to base rent
- UC-Constructed TIs: UC contracts for the construction of TIs at UC expense, requiring Unit to have sufficient funds available before project is bid.

The way that the lease reflects agreement between UC and the landlord regarding tenant improvements is in the form of Article 7 of the lease (which specifies the amount of tenant improvement funds, if any, that will be provided by the landlord) and Addendum 4, the "Work Letter" for landlord-constructed TIs (which lays out the process for UCSC approval of plans, establishes the budget, and defines the terms for UCSC acceptance of the completed TIs). Note that if UC is going to occupy more than 50 percent of the building, tenant improvements will need to be constructed at prevailing wages (see Standard Form Lease Article 21, Public Works Laws).

What is required:

- Detailed space program developed by CPSM in conjunction with unit representative
- Summary of the scope of work to be performed and justification for the improvements
- A list of sustainable measures considered
- IT configuration plan
- List of special unit requirements

Tenant improvement costs are limited to the level approved by the CP/EVC in the lease proposal. Because the actual costs are determined *after* lease execution and therefore the campus no longer has the capacity to reject the request for a lease, it is very important that the initial estimates in the Lease Proposal are adequate, and that costs be managed to stay well *under* approved levels, or that other cost savings are reflected in the final lease terms such that total project costs do not exceed approved levels. Further CP/EVC approval is required before TI costs and total project costs exceeding approved levels can be accepted.

The PP&C project manager and CPSM Planner will develop a package of "program instructions" to provide to the landlord, which constitutes the full and final definition of the University's needs, standards, and requirements. The landlord develops plans and specifications based on this package, which UC reviews and approves, and the landlord also proposes the budget associated with the plans and specifications. Review and approval of plans also requires approval by the Campus Fire Marshal, which the PP&C project manager coordinates. Once the PP&C project manager approves the plans, specifications, and budget, the TI project is defined; further changes require change orders and will result in increased costs. Thus, part of the coordinating committee's initial effort will be to fully and accurately define the University's needs so that the PP&C project manager can minimize the number of change orders required to complete the project. *Only* the PP&C project manager is authorized to request changes to the TI project, or to approve plans, specifications, budget, and change order budgets.

ITS will usually manage data cabling installation that is carried out by the ITS personnel or under contract with outside vendors. If cabling installation is included in the TI project, ITS will coordinate with the PP&C project manager who retains the sole authority to approve or change plans and budgets.

When the TI project is "substantially complete," the PP&C project manager will inspect the premises and develop a punch list of remaining items for the landlord to complete before UCSC will accept the premises. The TI project is not complete until the PP&C project manager verifies that the punch list items are complete, the final costs are documented, and the landlord and tenant share of costs are documented. At this point, the University accepts the premises, and the lease commences.

LEASE DOCUMENT REVIEW

Once your proposed lease action has received campus approval, you've selected a site, the coordinating committee has successfully completed the required due diligence, and the REO representative has completed negotiation of lease terms and a draft lease form with the landlord, the coordinating committee will initiate further review of the draft lease form as appropriate. The authority that the UC Regents delegate to UCSC to execute lease agreements requires that (1) Risk Services approves indemnification and insurance terms for all leases; and (2) University counsel review agreements prior to execution under certain circumstances.

- Presently, the UC Office of General Counsel (OGC) is required to review draft lease agreements that provide for an annual base rent cost for the initial year of the lease term of \$500,000 or over, AND differ significantly from the UC standard lease form, with the Regents as Tenant.
- OGC review prior to execution is also required if the lease includes right of first offer/right of first refusal (ROFO/ROFR) language, includes a purchase option, or is a capital lease.

The REO representative will coordinate the Risk Services review and approval process, and the University will not execute your lease agreement without the Risk Services Office's approval. The REO representative will also determine if your lease agreement requires OGC review, and if it does, will coordinate this review process. If your lease does require OGC review, the University will not execute your lease agreement without OGC's approval of the lease form.

The UC Office of the President also requires that campuses complete a 'lease/license execution checklist' prior to execution, to ensure that lease agreements executed by the University conform to University policy and other applicable laws and regulations. Among other items, the checklist requires that the UCSC Risk Services Office review and approve of the indemnification obligations the University will assume under the proposed lease agreement, as well as the proposed insurance requirements for both the University and the landlord under the agreement.

EXECUTION

Once a final lease has been reviewed and the lease/license execution checklist is complete, the REO representative will coordinate the lease execution process. The REO representative will coordinate with the prospective landlord to arrange for landlord's execution, and upon the prospective landlord's return of an appropriate number of executed original documents, the REO representative will coordinate execution by the UCSC Chancellor, Vice Chancellor - Business & Administrative Services, or Real Estate Office Director as appropriate. Once the lease agreement has been executed, and the UCSC Campus Fire Marshal or other authority has granted an occupancy permit for the leased space, your unit may begin moving into the space. Regardless of the occupancy date, the University's obligations under the lease agreement commence upon lease execution.

MOVE PLANNING AND IMPLEMENTATION

The coordinating committee will assist your unit with move planning, which will occur simultaneously with lease negotiations and due diligence activities. For large or complex moves, a unit may be advised to contract with a move coordination consultant. Similar to tenant improvements, move planning and implementation costs are limited to those approved by the CP/EVC.

BUDGET OVERSIGHT

The Capital Planning and Space Management representative will oversee the overall project budget throughout the lease, tenant improvement, and move processes, and will raise cost containment issues for the coordinating committee's consideration. Project expenses are to be kept within approved limits. In the event of cost overruns, the CPSM representative will coordinate with the unit to meet with the VC Planning and Budget to initiate CP/EVC approval of a revised budget.

TRANSMITTAL TO UNITS

Within one week of the execution of the lease agreement, the REO will prepare a 'Summary of Lease Obligations' and an annual cash flow projection over the life of the lease for your principal officer, clearly delineating the financial and other obligations your unit has assumed by entering into lease. The REO will also provide a draft 'Concurrence Letter' affirming that the Principal Officer understands and accepts the obligations outlined in the Summary of Lease Obligations, which your principal officer will send to the CP/EVC as soon as is feasible after execution.

Your unit can refer to the Summary of Lease Obligations document as necessary throughout the lease term to review its responsibilities and to determine how to respond to any issues that arise. The REO will continue to be available to answer any of your questions regarding the lease, of course. Please see "Lease Support Services" for more information [\[link\]](#).