

## MEMORANDUM

To: Health Connector Board of Directors  
Cc: Louis Gutierrez, Executive Director  
From: Edward DeAngelo, General Counsel  
Date: June 5, 2015  
Re: Renewal of Lease for Health Connector Offices

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### BACKGROUND AND SUMMARY

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The Health Connector is seeking Board approval of a renewal of the lease for the current premises of the Health Connector offices. Currently, the Health Connector leases 19,120 square feet of space on three separate floors (3<sup>rd</sup>, 5<sup>th</sup> and 6<sup>th</sup>) in the current building from our landlord. The Health Connector has been in this building since early 2007, shortly after it was established.

Currently, there are two separate leases: one for the 3<sup>rd</sup> floor, which expires on July 31, 2015, and one for the 5<sup>th</sup> and 6<sup>th</sup> floors, which expires on August 30, 2016. This is because the Health Connector originally rented the 6<sup>th</sup> floor and then after a short period of time expanded to the 5<sup>th</sup> floor. The decision to rent space on the 3<sup>rd</sup> floor came several years later, and so was not incorporated into the original lease. Currently, the rent on the 5<sup>th</sup> and 6<sup>th</sup> floors is \$30/square foot, which represents an annual cost of about \$413,000; the current rent on the 3<sup>rd</sup> floor is \$37/square foot, which represents an annual cost of \$197,980. Thus, our current rental payment is \$610,980.

Because the 3<sup>rd</sup> floor lease expires in two months, and because the Health Connector continues to need that space, we are required to begin discussions with the landlord about a renewal and extension. We propose an extension of the lease on the 5<sup>th</sup> and 6<sup>th</sup> floors as well, even though we have one more year on that lease, because we believe this provides us with a more advantageous package given changing commercial real estate market conditions.

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### PROPOSED LEASE RENEWAL TERMS

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After discussions with the landlord, we have come to an agreement, subject to Board approval, on the following terms:

#### Rent

- The 3<sup>rd</sup> floor lease would be renewed effective August 1, 2015. For the first year (*i.e.*, August 1, 2015 through August 30, 2016), the rent on the 3<sup>rd</sup> floor would be reduced from \$37 to \$35/square foot, representing an overall savings of \$10,680.
- Commencing September 1, 2016, we will be renewing the lease on the 5<sup>th</sup> and 6<sup>th</sup> floors as well. For the first year of that period (*i.e.*, September 1, 2016 through August 30, 2017), the rent on the entire premises (*i.e.*, 3<sup>rd</sup>, 5<sup>th</sup> and 6<sup>th</sup> floors), will be \$35/square foot or \$669,200. This represents an increase of \$58,620 over our current rent.

- For each subsequent year from 2017 to 2020, commencing on September 1, the rent will increase by \$1/square foot. Given the current size of the premises, each annual one dollar increase means an increase of \$19,120 over the previous year. In the final year, from September 1, 2020 through August 30, 2021, the rent will be \$39/square foot, or \$745,680.

#### Right to Terminate

During the term of the lease, the Health Connector will have the right to terminate the 3<sup>rd</sup> floor lease upon the anniversary date (September 1), with six months' prior notice. Additionally, the Health Connector will have a one-time right to terminate the entire lease on September 1, 2018 with nine months' prior notice. The Health Connector will also have the right to renew for a term of five years upon expiration of the lease giving nine months' prior notice.

#### Other Conditions

The remaining conditions will remain unchanged from their present state. The terms are standard commercial lease terms. The landlord will be obligated to make some minor repairs that are needed.

### **ANALYSIS**

Health Connector staff believes this lease renewal is advantageous financially. As stated, it actually represents a rent reduction for the first year. Further, the proposed rates are competitive with comparable space. Prior to commencing negotiations, the Health Connector reviewed comparable space at three office buildings in the downtown area. These were the few buildings available in our target area. In all three buildings, the Health Connector would have been required to provide out-of-pocket financing to accomplish the same build-out and utility that we have in our current space today. We also would have lost all of the flexibility we have with the termination rights that come with being a tenant in the current building, as the other options would not offer any. Further, the rents for these alternate spaces ranged from \$38 to \$45/square feet. Thus, even the low-end of that range is higher than what the Health Connector will have to pay under the current proposal for the next four years, until September 1, 2019. It is a benefit to being a tenant with a long-term landlord, not interested in incurring any vacancy. Further, there is strong support to believe that the market rents in downtown Boston will continue to increase in future years. We have seen that rents in our own building have increased in the past few years, which is one reason why the cost of the 3<sup>rd</sup> floor is higher than the cost of the 5<sup>th</sup> and 6<sup>th</sup> floors, which had been rented earlier. Further, any move would result in unavoidable cost and disruption.

### **CONCLUSION**

Consistent with the foregoing, Health Connector staff recommends renewing the lease for the current Health Connector office premises along the terms outlined herein.