STAFF REPORT

City Council
Meeting Date: 2/24/2026
Staff Report Number: 26-029-CC

Study Session: Provide direction for a lease agreement for City property at 555 Ravenswood Ave. and provide direction on the framework for considering a longer-term lease

Recommendation
Staff recommends that the City Council provide direction for a lease agreement for City property at 555 Ravenswood Ave. and on the framework for considering a longer-term lease for the property.

Policy Issues
City Council has sole authority to authorize the city manager to negotiate, execute, amend and/or renew agreements on behalf of the City.

Background
The City owns property for purposes such as providing publicly accessible community facilities, like parks, libraries and recreation centers. On Feb. 11, 2025, City Council received an informational update (Attachment A) providing the status of 12 City-owned buildings and facilities that are leased to third parties, as several of the leases are approaching the end of their terms.

The Latham-Hopkins Gatehouse (Gatehouse) is a City-owned historic structure located at 555 Ravenswood Ave. that has been leased for several decades. The City acquired the Gatehouse in 1969, with the intent of preserving the historic nature of the building and adapting for community-serving purposes. This included historical display space, small meetings and gatherings and office space for a nonprofit organization that could provide stewardship of the facility.

On Feb. 1, 1996, the City of Menlo Park and the Junior League (Lessee) entered into a lease for the use of the Gatehouse. The initial term was for a period of 20 years (1996-2016). The Lease provided the Lessee two options to renew for additional five-year terms upon the same terms and provisions. On March 25, 2015, the Lessee exercised the first option to extend for five years (2016-2021) and Sept. 2, 2020, exercised the second option to extend another five years (2021-2026). On Dec. 16, 2025, the City Council authorized the city manager to execute an amendment (Attachment B) to extend the lease agreement for 12 months expiring Jan. 31, 2027.

Analysis
This study session is seeking City Council direction on the Gatehouse and whether exclusive negotiations for a lease with the Junior League should be pursued or if the city should issue a request for proposals (RFP). Staff requests City Council feedback on:

- Rent amount
- Capital improvement responsibility and lease length
- Facility usage

Rent amount

One consideration for the leasing of the Gatehouse is the rent amount and rent structure. The original Gatehouse lease with the Junior League was at a below-market rental rate in exchange for contributions toward capital improvements. In 1996, the Junior League agreed to contribute $134,438 toward the repair and renovation of the Gatehouse and pay the City $550 per month for the rental. Commencing February 2002, and every two years thereafter, the rent increased by the consumer price index (CPI) bringing the current monthly rental amount is $1,071.41.

As the City considers future lease terms, rent amounts may be evaluated. Current leases for City-owned properties have a range of rent amounts, as provided in the Feb. 11, 2025, informational update available in Attachment A.

Market-based rent

A market-based rent approach would involve comparing rents for similar spaces in the area and considering the Gatehouse's historic nature, size, condition, location and use. As of February 2026, Menlo Park office space has an average of $6.16/square foot (monthly rate). However, since the Gatehouse is a unique space and not typical "office", it could be considered on the low end of office rents at approximately $5.83/square foot (monthly rate).

Alternative rent structures

The City may also consider alternative rent structures that fall between existing rent levels for the Junior League and market-based rent:

- An increase to the base rent at the start of a new lease term, followed by scheduled increases per CPI; or
- A phased approach, where rent increases over several years toward a target amount; or
- Differentiated rent levels based on use, such as lower rent for community-serving tenants and higher rent for exclusive office use.

Continue current rent with escalation

Another option is to retain the Junior League's current base rent of $1,071.41 and apply regular increases over a defined period. Increases could include:

- Annual percentage increases (e.g., 2 – 3% per year); or
- Periodic adjustments tied to CPI; or
- Step increases at specified intervals over the lease term.

Capital improvement responsibility

Another consideration in evaluating a longer-term lease for the Gatehouse is the responsibility for capital improvements and major building repairs. Costs to maintain the Gatehouse can be significant. Roof replacement is an identified need with an estimated cost of over $600,000 given the unique and historic nature of the roof.

Under the existing lease with the Junior League, the City retains responsibility for paving, landscaping and parking areas, while the tenant is responsible for routine maintenance, repairs and interior and exterior upkeep. The lease also requires the tenant to maintain the premises in good condition and to bear the cost of ordinary maintenance and utilities.

The original 1996 lease included a one-time contribution by the Junior League toward repairs and renovations. The Junior League is responsible for obtaining a use permit from the Menlo Park Planning Commission for exterior modifications and a building permit from the Menlo Park Building Official.
The lease also provides that the tenant is responsible for all interior and exterior maintenance, repair, and janitorial services, as well as costs associated with the maintenance, repair, utility costs and responsibility for water service for landscape irrigation.

The Gatehouse is enrolled in PG&E's Government and K-12 Energy Efficiency program for a no-cost replacement of its existing gas water heater with an electric heat pump water heater. While this project has not yet started, it must be completed by December 2027 to meet PG&E's State reporting deadlines. Any remaining gas appliances could potentially be electrified through the city's Home Upgrade Services program, pending further coordination between City staff and Peninsula Clean Energy. Direction from the City Council to pursue possible electrification is needed.

When considering a longer-term Gatehouse lease, staff will be seeking clarity around who is responsible for capital improvements, major structural needs versus ongoing maintenance and day-to-day operational upkeep.

Capital improvement responsibility and lease term approaches

City responsibility

Under this approach, the City would be responsible for major capital improvements, including interior and exterior structures, while the tenant would remain responsible for ongoing maintenance and day-to-day operational upkeep. The City could provide a shorter base lease term with limited or no extension options and lease renewals would be evaluated before expiration based on facility conditions. Similarly, a longer-term lease with or without extensions could be explored. This approach requires City funding for future capital needs and staff resources for project management.

Tenant responsibility

The lease could place responsibility for major capital improvements to the tenant, including interior and exterior structures, subject to City oversight. The tenant would also remain responsible for ongoing maintenance and day-to-day operational upkeep. The City would provide a longer-term lease with extensions approved by the city manager and is dependent upon tenant’s completion of capital improvement projects. This approach reduces the City’s financial responsibility but may be difficult for certain tenants to absorb major and unpredictable costs.

Shared responsibility through a defined cost-sharing framework

The City and tenant would share responsibility for capital improvements through an agreed-upon cost-sharing framework that includes identified contribution amounts towards specific capital projects over time. The tenant would also be responsible for ongoing maintenance and day-to-day operational upkeep. Lease extensions could be contingent upon tenant contributions. This approach uses shared investment to accomplish capital improvements and requires the tenant to manage maintenance of the facility.

Facility usage

The existing lease for the Gatehouse provides for a single tenant with the Junior League responsible for day-to-day operations and scheduling of the facility. This single-tenant model provides a single point of accountability and staff is not proposing a change.

However, the Gatehouse is regularly used by other organizations and groups through arrangements managed by the Junior League, including rentals and use by community-serving organizations. While the current lease requires City approval for certain uses and reserves City rights to access the facility, there is limited visibility into how subletting is scheduled, who is using the facility, the nature of those uses and the associated rental fees or cost recovery.

As the City considers longer-term lease provisions, clarification of expectations related to transparency, tracking and oversight of subletting, while maintaining the single-tenant lease model is desirable.

Single-tenant model with required subletting reporting
The single tenant approach is consistent with the current practice with the Junior League in that the City would continue leasing the Gatehouse to a single tenant. The current lease with the Junior League requires prior written City approval for subletting the Gatehouse, however there is no required reporting. Under this model, the City would create a reporting framework, which would require regular reporting (e.g., quarterly, annually) from the tenant. This report could include a summary of third-party users, frequency of use and confirmation that all uses comply with lease restrictions. This framework could also define categories of use, fee ranges, priority access for City-affiliated or community groups; this framework would not require City approval of each individual sublet event. City-affiliated or community-serving organizations, such as the Friends of the Library or the Menlo Park Historical Association could be highlighted as priority or low-cost users, either through carve-outs in the lease or through the City-approved subletting framework. This approach improves transparency and City awareness without affecting tenant operations.

<u>Process</u>
Staff is seeking City Council's direction on the appropriate process for considering a longer-term lease of the Gatehouse following the expiration of the current lease Jan. 31, 2027. Specifically, direction is needed on whether a longer-term lease should be pursued through exclusive negotiations with the current tenant or the issuance of an RFP.

Based on a review of historical records for the Gatehouse, the Junior League has occupied the facility since 1996 and has maintained a long-standing relationship with the City. During this time, the Gatehouse has been used for nonprofit and community-serving purposes consistent with the lease.

Alternatively, a competitive RFP process would allow other nonprofit or community-serving organizations an opportunity to propose uses for the Gatehouse and provide a broader range of options regarding the future use of the facility.

Staff requests input on the above approaches to be incorporated into a future lease, such as expectations related to rent structure, capital improvement responsibilities and lease term, reporting and transparency for facility use and other policy objectives identified by City Council.

Impact on City Resources

There is no new direct impact to City resources related to the recommended action. Staff would evaluate impacts on future actions based on City Council direction.

Environmental Review

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines §§15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment.

Public Notice

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

A. Hyperlink – Feb. 11, 2025, Staff Report # 25-018-CC: www.menlopark.gov/files/sharedassets/public/v/1/agendas-and-minutes/city-council/2025-meetings/20250211/i2-20250211-cc-city-owned-buildings-leased-to-third-parties.pdf
B. Hyperlink – Dec. 16, 2025, Staff Report # 25-191-CC: www.menlopark.gov/files/sharedassets/public/v/1/agendas-and-minutes/city-council/2025-meetings/20251216/h2-20251216-cc-gatehouse-lease-amend.pdf

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