



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Nanci Klein

SUBJECT: Real Estate Services
Division Annual Report

DATE: January 13, 2025

Approved

Date

1/17/25

RECOMMENDATION

Accept the Fiscal Year 2023-2024 annual report on the activities of the Office of Economic Development and Cultural Affairs' Real Estate Services Division.

BACKGROUND

The Real Estate Services Division's (Division) manages the City's real estate portfolio, provides real estate services to City departments, and represents the City in third-party transactions. The Division serves as the City's first point of contact to identify the correct management entity and approach to address issues on City-owned properties. The Division team is comprised of a real estate manager, three real estate project managers, and an intern.

ANALYSIS

In addition to the Division's basic services, Real Estate Services focuses on major project delivery on behalf of client departments. Below is a highlight of work completed in Fiscal Year (FY) 2023-2024.

Revenue Generation

Revenue generated in the Facility and Telecommunication leasing programs and through surplus sale activity exceeded all targets, totaling over \$3,768,646. In addition, the Division has increased lease revenue generation targets for FY 2024-2025.

Telecommunications Leasing

The telecommunications leasing target for the year was \$1,400,000. Lease revenue totaled \$1,606,170, exceeding the target by 13%. New telecommunication facilities accounted for the increase in lease revenue, aided by the recent update to the telecommunications program. Division staff continue to prioritize expanding the macro telecommunications program and anticipate an increase in revenue generation for the upcoming fiscal year to \$1,700,000.

Facility Leasing

Revenue from leasing City facilities for the year totaled \$1,295,476, exceeding the revenue target of \$1,100,000.

A new lease was completed with Campus Burgers, a quick-serve hamburger restaurant located on the Paseo de San Antonio already beloved by students and other community members. A new lease was completed with Home Eat at the former Flames restaurant space located at the intersection of S. 4th Street and E. San Fernando Street. The lease will deliver \$2,142,000 in revenue over the first five years of the term. The business is starting strong, revitalizing the corner with increased traffic. A lease renewal was also completed for the Whispers Café and Creperie. This ensures a strong partner for the City continues to operate on Paseo Plaza de San Antonio.

Other lease work includes locating the Energy Department in the former Mercury News space at 4 N. Second Street in downtown and executing a short-term lease for the Collab, an innovative space for Housing Department staff to collaborate with the County of Santa Clara and nonprofit partners.

Surplus Sale Revenue

Surplus sale revenue of \$867,000 exceeded the target of \$600,000. Revenue was primarily derived from a sale of land to the San José Water Company located at 502 Sunol Street totaling \$820,000.

Housing Department

Work to support the Housing Department's homelessness support projects is a top priority for the Division. FY 2023-2024 accomplishments include the Cerone yard ground lease with the Valley Transportation Authority to develop 200 tiny homes and the Via Del Oro ground lease with the Sobrato Family Foundation for developing approximately 100 tiny homes. An access agreement for Valley Water's property at Willow and Lelong Streets supported planning work for a potential homelessness support project at that location. An expansion of the ground lease with Caltrans at Rue Ferrari and an agreement with Valley Water to lease land on Cherry Avenue were

completed in FY 2024-2025, each providing an opportunity to develop an additional 100 emergency interim housing units.

Other projects include acquiring the McEvoy property at 699 W. San Carlos Street, which has the development capacity of 365 units of permanent affordable housing, and completing an extension of the Haven ground lease located at 934 Locust Street, a cooperative housing project operated by the County of Santa Clara.

Current efforts to support the Housing Department include securing hotel master leases to provide housing for the unhoused, identifying additional lands for the development of homelessness support projects, and selling a BART tunnel easement under the Arena Hotel.

Department of Parks, Recreation, and Neighborhood Services

Work to support the Department of Parks, Recreation, and Neighborhood Services (PRNS) includes the acquisition of new park sites and easements necessary for trails, representing the department in negotiations for new leases, the sale of easements, and access and use agreements to manage natural resources and support public safety. The Division also manages City-owned properties that have been acquired for park-related projects but have not yet entered the construction phase. This includes management of multiple leases for facilities located on future park properties such as Spartan Keys, the Del Monte expansion, and the Alma Community Center expansion property.

FY 2023-2024 accomplishments include working with PRNS staff to secure an operator for the Raging Waters lease assignment and ensure Raging Waters remains open to the public. At the same time, the City is working on a long-term lease solicitation. In addition, a property swap with the San José Water Company secured 5.59 acres of land for PRNS' use and \$820,000 in exchange for a 0.29-acre parcel conveyed to the San José Water Company to be used for critical water supply infrastructure.

Current efforts include acquiring land for new park sites, supporting the public solicitation process to secure a new operator of Raging Waters, selling a BART tunnel easement under Lenzen Park, and completing the Five Wounds Trail acquisition from the Valley Transportation Authority.

Department of Transportation

The Division supports the Department of Transportation by acquiring land or easements necessary for right-of-way improvements and public transit or parking projects. The Division also supports the Department of Transportation by managing City-owned properties that have been acquired for transportation-related projects but have not yet started construction.

FY 2023-2024 accomplishments include the acquisition of 517 W. Saint John Street and 150 N. Montgomery Street for public parking near the SAP Center, brokering the Valley Transportation Authority's acquisition of the Apollo property—which is necessary to construct the new Diridon station and secure High-Speed Rail's route through San José to San Francisco—and various right of way easement projects to close out BART Phase I objectives with the Valley Transportation Authority and facilitate an improvement project along Stevens Creek Boulevard.

Current efforts include acquiring additional property necessary to complete the buildout of the Lot E parking garage near SAP Center, supporting the construction of the Milligan parking lot, and acquiring right-of-way to facilitate transportation improvement projects, including at San José State University and the Bascom complete street initiative.

Environmental Services Department

The Division supports the Environmental Services Department by assisting with leases for office space and leases for tenants at the Environmental Innovation Center and representing the department in land transactions, including at the Regional Wastewater Facility.

FY 2023-2024 accomplishments include a lease extension for the continued operation of the County of Santa Clara's Household Hazardous Waste program at the Environmental Innovation Center and access use agreements to support major projects at the Regional Wastewater Facility. This includes access agreements to facilitate the construction of LS Power's Power the South Bay project to support the City's electrical grid capacity and resilience. In addition, a letter of intent executed with Valley Water outlined an agreement to transfer lands near the Regional Wastewater Facility to facilitate the U.S. Army Corps' Shoreline Levee project to protect against sea level rise.

Current efforts include representing the Regional Wastewater Facility in negotiations for the sale of land needed to support the Shoreline Levee project, which will protect the plant and parts of north San José from sea-level rise; ground lease negotiations with LS Power, a group developing an energy interchange project vital to the power grid; and the sale of easements necessary for Microsoft's construction of a data center.

Citywide Objectives

The Division completed other Citywide priority projects during FY 2023-2024 as described below.

- Support to Valley Water flood control projects, including the transfer of permanent and temporary flood control easements in the Coyote Creek corridor and access agreements for creek bank maintenance and rehabilitation, continued operation of public sandbag locations, and stream gauge monitoring;

- Support for the donation of assets to History San José;
- Support to San José Mineta International Airport operations and construction with two easement agreements along Coleman Avenue;
- Support for the real estate aspects of the transfer of the Signia South Tower to San José State University, which provides housing for over 800 students in the downtown core; and
- The site of the future Creative Center for the Arts in Japantown, which is to include a permanent home for Taiko, was transferred to Shea Properties for construction. Shea Properties continues to engage the County of Santa Clara environmental regulator regarding the cleanup of materials present on the site. Shea Properties is also working to adjust the remaining buildout due to continued financing challenges. There is currently no timeline for project completion.

Vacant Lands Management Reporting

After a public procurement process, the City has engaged Enkon Information Systems to build a comprehensive cloud-based database for all City-owned properties. This database will compile the City's historic real estate data into a single system and provide advanced property management capabilities. The Division brought on an intern to support data preparation in advance of launching the database. This database will be developed to allow for reporting on all vacant lands owned by the City.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the January 27, 2025, Community and Economic Development Committee meeting.

COORDINATION

This memorandum has been coordinated with the City's Attorney's Office.

/s/

Nanci Klein
Director of Economic Development and
Cultural Affairs

For general questions, please contact Kevin Ice, Senior Real Estate Manager, at kevin.ice@sanjoseca.gov or (408) 535-8197.