

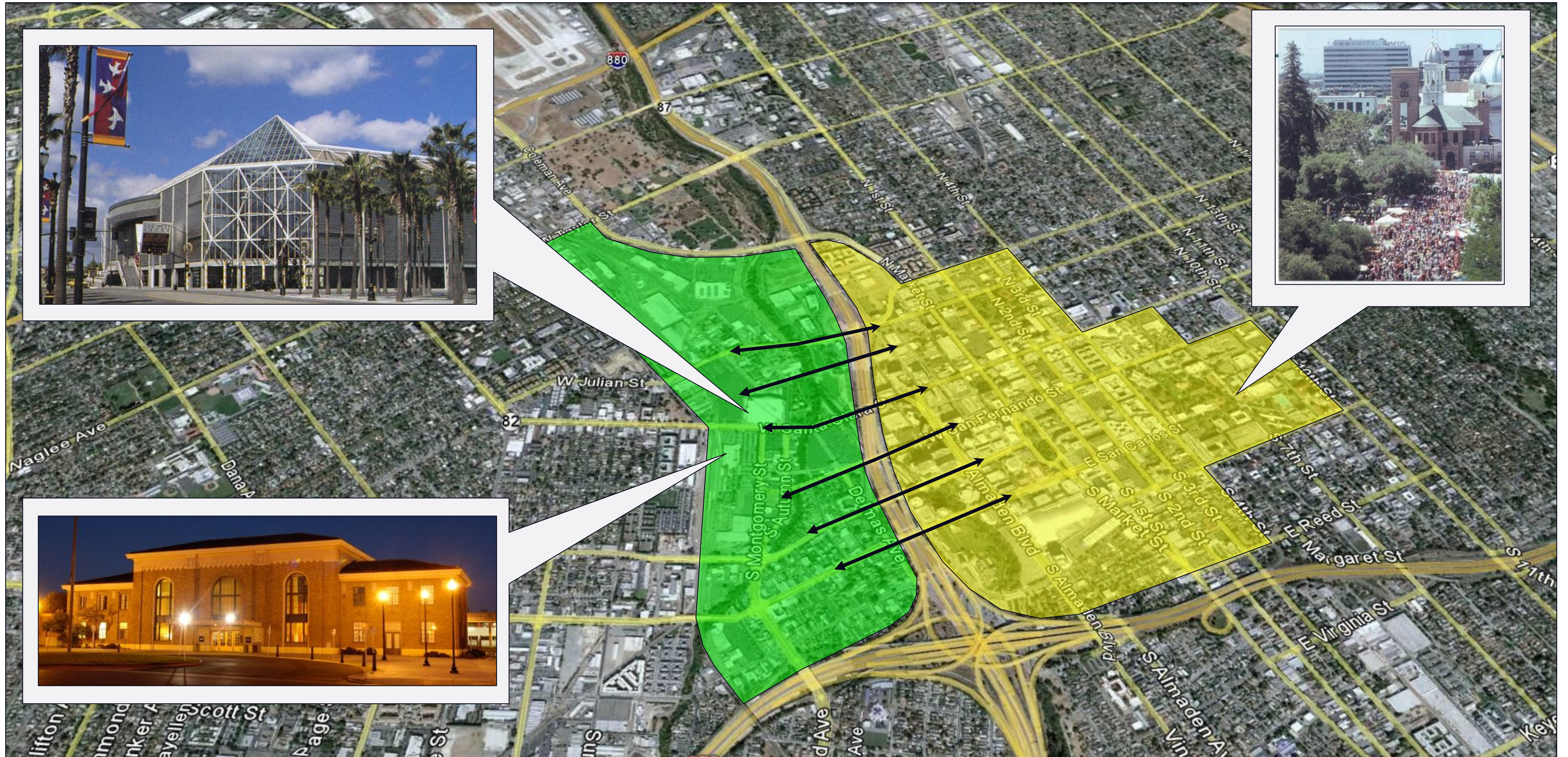
Sale of City-Owned Properties in the Diridon Station Area to Google

Item 4.1

December 4, 2018
City of San Jose



Planned Growth: Envision 2040 and Downtown Strategy



Source: City of San Jose

Transit Investment at Diridon Station



■ High-Speed Rail



■ BART



■ Caltrain



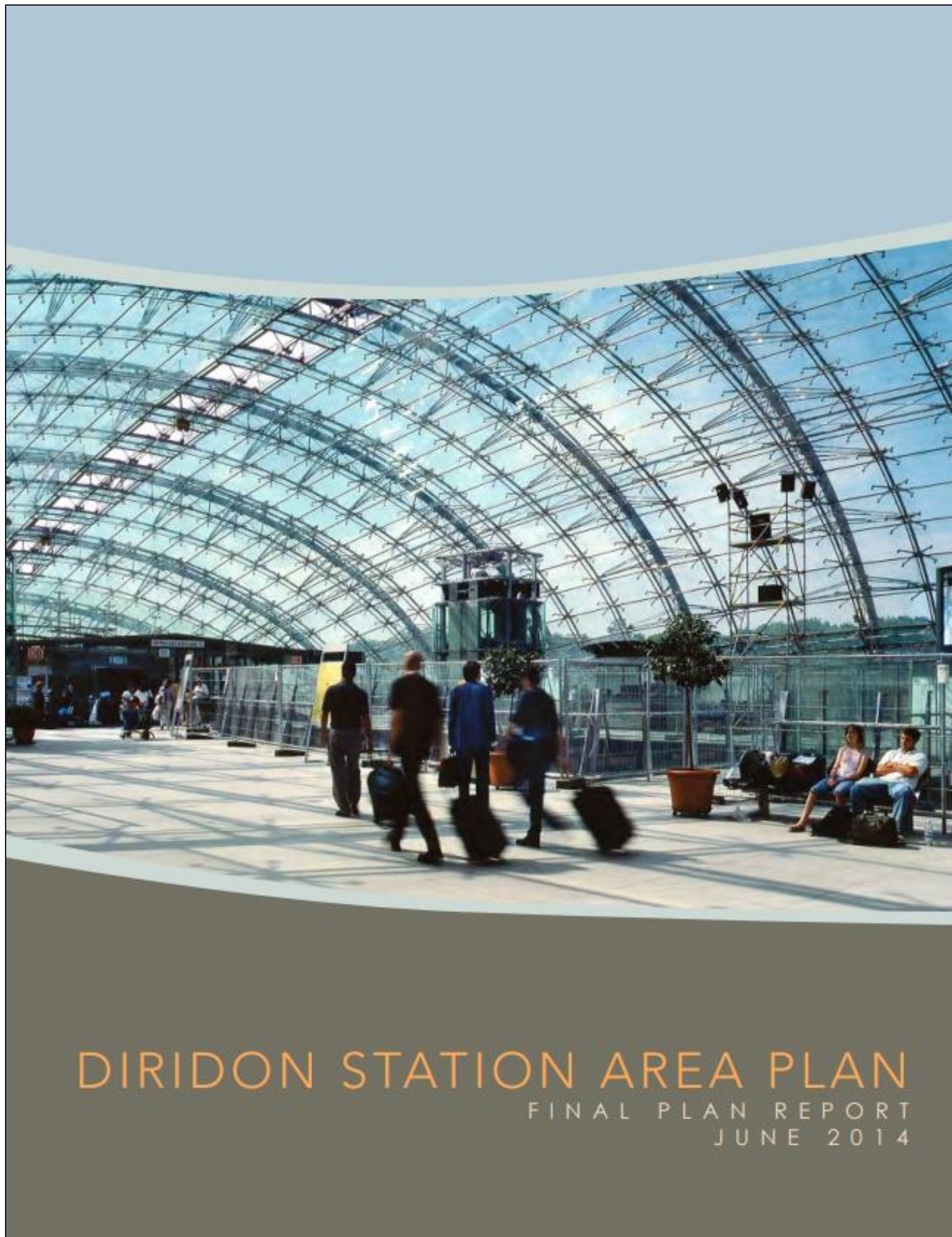
■ ACE



■ Capitol Corridor



Diridon Station Area Plan: Approved by Council in 2014



Source: City of San Jose



- Establish Diridon Station Area as **major destination**
- Foster a **lively public realm** that supports walking and bicycling
- Create a **new intermodal station** of architectural significance
- Encourage high-density land uses that support **high transit ridership**
- Reflect Silicon Valley's **spirit of innovation** and San José's rich history through **distinctive architecture and civic spaces**
- Secure a **master developer**

Diridon Station Area Plan: High-Level Development Plan

Office Space: >5M sf

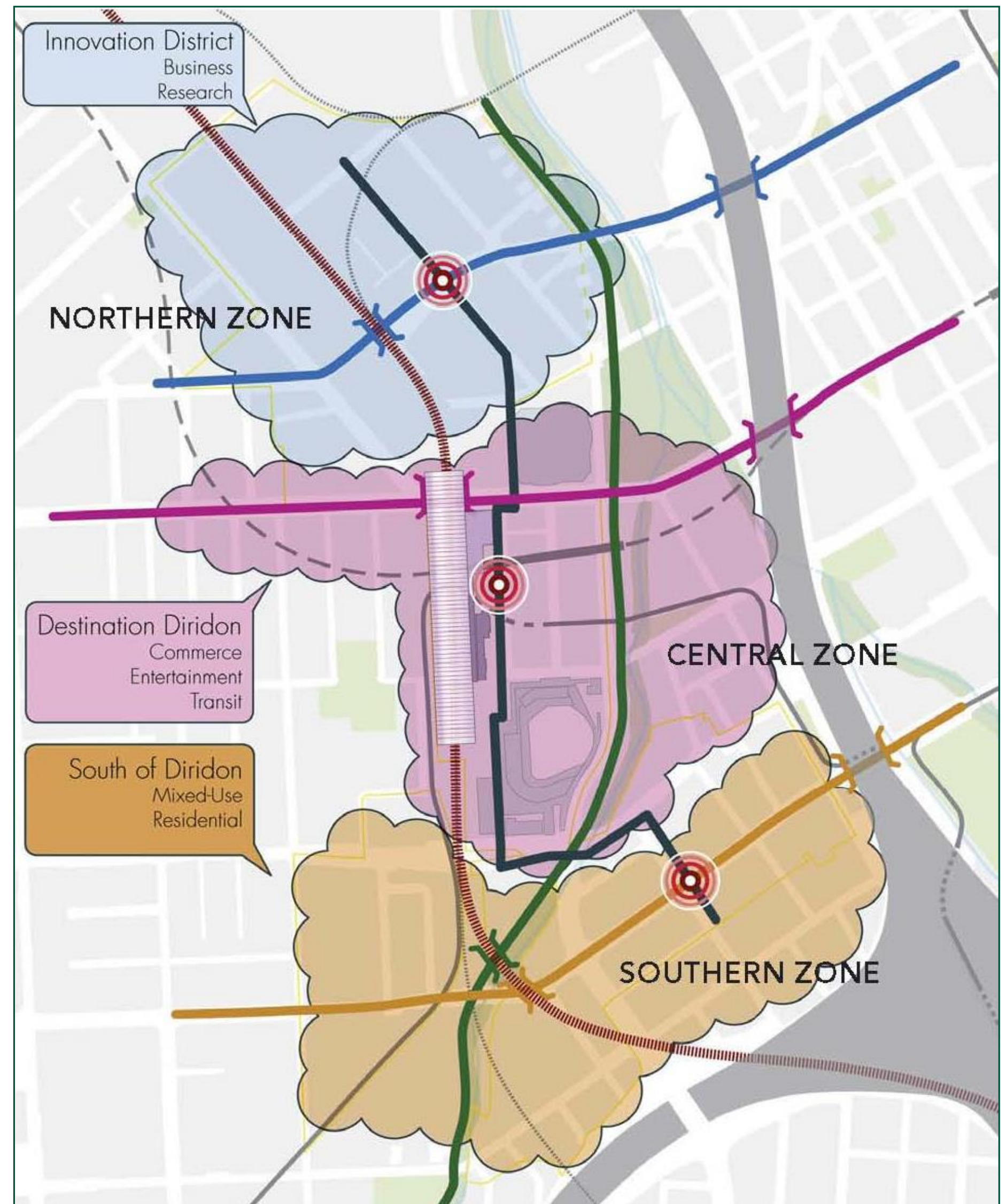
New Homes: >2,600

Retail/Restaurants: 420K sf

Hotel Rooms: 900

Public Parks, Plazas, Trails

Ballpark



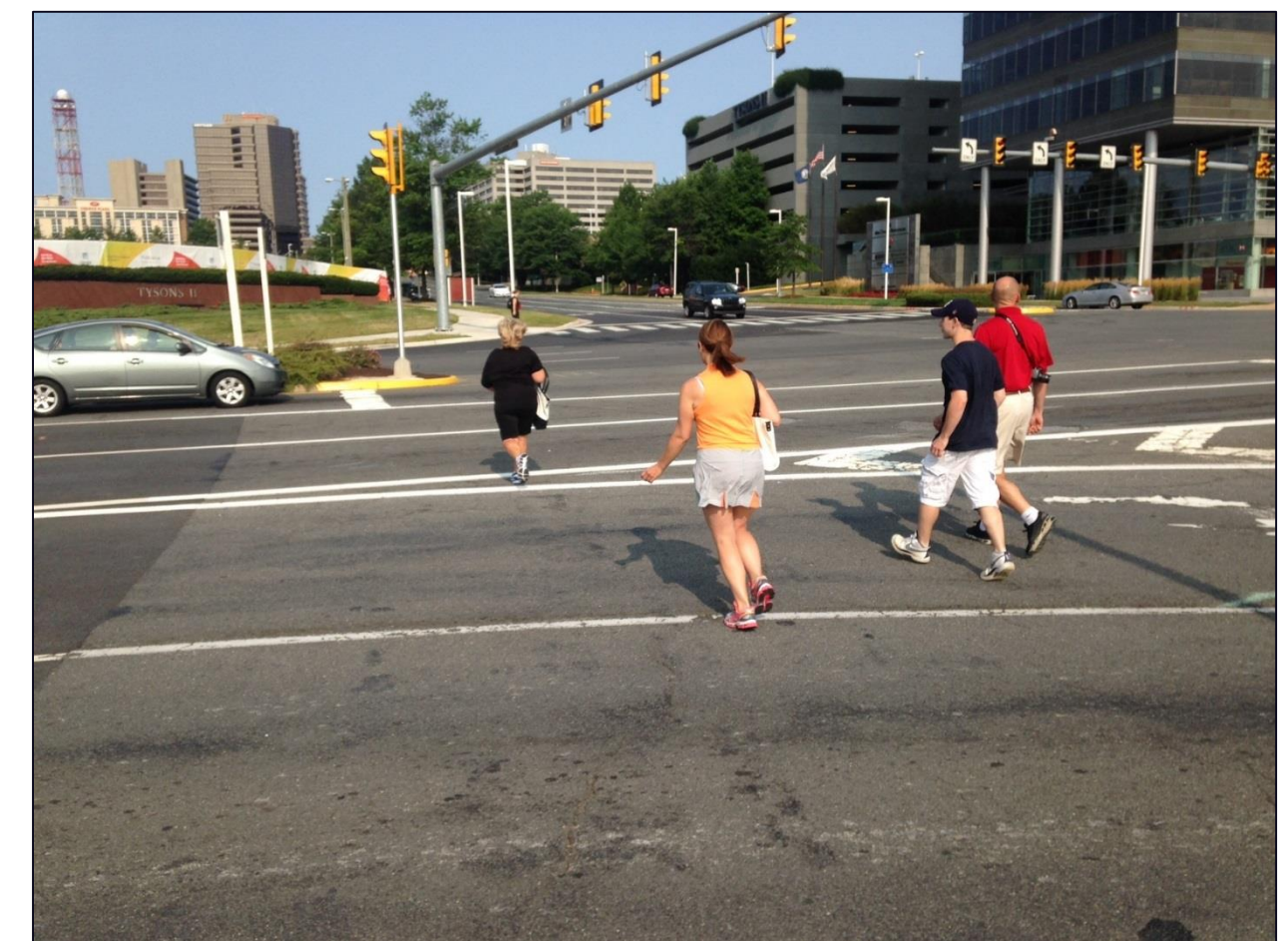
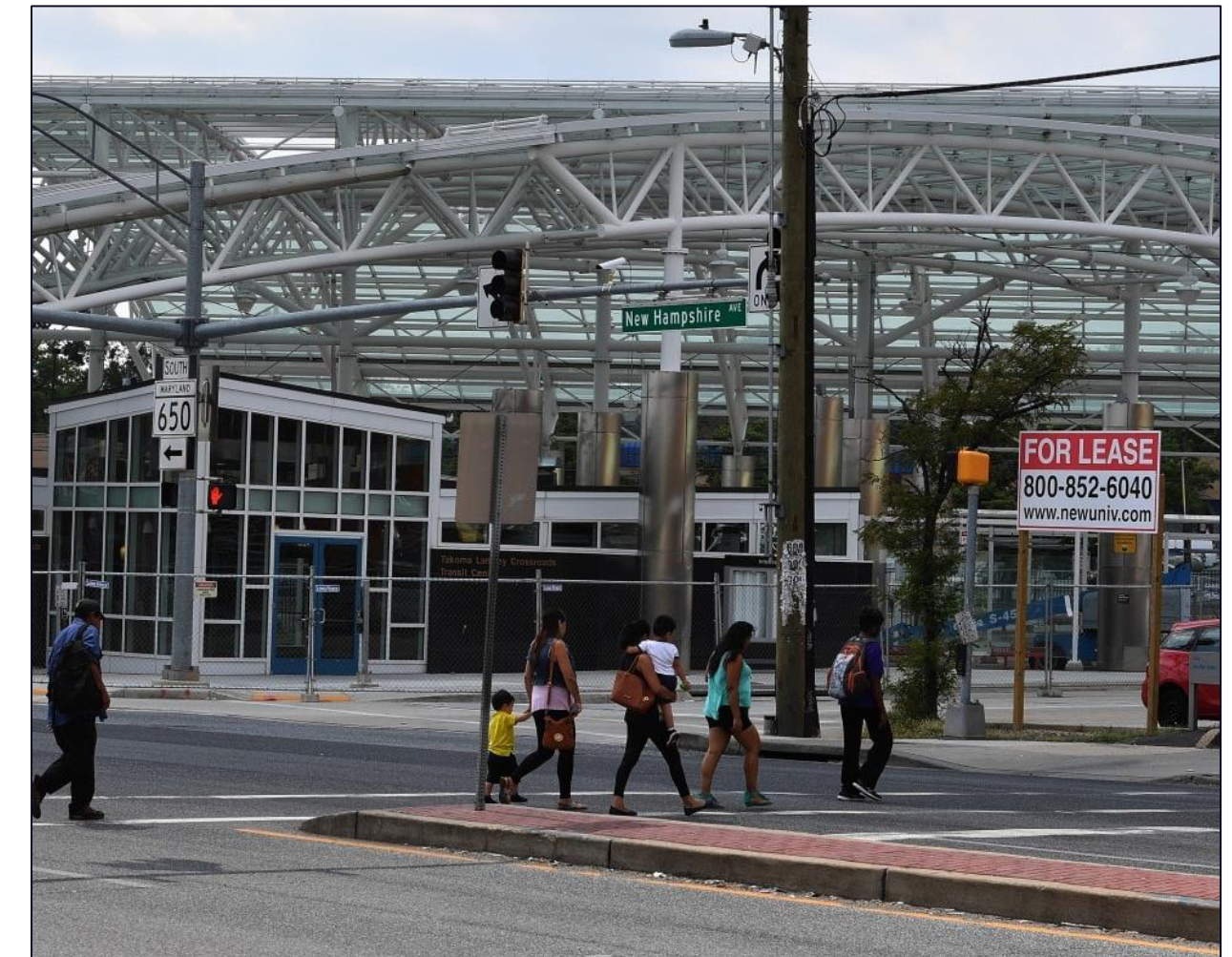
Master Plan Need vs. Piecemeal Development

Master Plan Approach	City Control
Integrated and cohesive development with one lead developer	High
Land uses are situated in a complementary fashion, and oriented around transit	High
Well-designed public plazas and public spaces; good pedestrian/bicycle connections	High
Economies of scale allow for higher quality development; financially-capable developer	High
More efficient infrastructure; upgrades performed on a district-wide basis	High
Development Agreement allows the City to secure Community Benefits	High



Master Plan Need vs. Piecemeal Development

Piecemeal Approach	City Control
Fragmented development with many individual applicants/developers	?
Each applicant proposes project according to its own desire	?
Less cohesive public plazas, public spaces, and pedestrian/bicycle connections	?
No economies of scale, leading to inconsistent quality of development	?
Less efficient infrastructure; upgrades are performed on a parcel-by-parcel basis	?
Without Development Agreement, City has no legal authority to secure Community Benefits	?



Exclusive Negotiations Agreement with Google

Between February and May 2017, City staff and Google met to explore the company's interest in San Jose. Some City staff and elected officials signed **Non-Disclosure Agreements** (NDAs) during this period, which are common in the real estate industry to preclude land speculation.

On June 9, 2017, City staff released a memorandum regarding the proposed **Exclusive Negotiations Agreement**, and at that point the NDAs became inoperative. On June 20, 2017, Council approved an Exclusive Negotiations Agreement (ENA), directing City staff to engage with Google on the potential sale of the SARA properties and two City-owned sites.

Phase I

Phase I: Concept Development and Land Sale (2018)



**Diridon Station Area:
Former SARA/Redevelopment
Agency and City Properties**

**Former SARA/
Redevelopment
Agency Properties:**

- 8 S. Montgomery St.
(APN: 259-38-130)
- 102 S. Montgomery St.
(APN: 259-48-012)
- 105 S. Montgomery St.
(APNs: 261-35-003, -006, 010)
- 150 S. Montgomery St.
(APN: 259-48-053)
- 510 W. San Fernando St.
(APNs: 259-48-011, -013)
- 645 Park Ave.
(APN: 261-35-014)

**Total Size of Properties =
275,479 square feet
Or ~6.324 acres**

City Properties:

“Lots A/B/C”
525 W. Santa Clara St. and
566 W. Julian St.
(APNs: 259-28-031, -041,
-043, -044)
**Size of Property =
469,371 square feet
Or ~10.775 acres**

Fire Training Center
255 S. Montgomery St.
(APN: 261-37-025)
**Size of Property =
180,514 square feet
Or ~4.144 acres**

697 W. San Carlos St.
(APNs: 261-37-028, -030)
**Size of Property =
6,776 square feet
Or ~0.156 acres**

Key

-  Diridon Station Area Plan Boundary
-  Former SARA Properties
-  City Properties

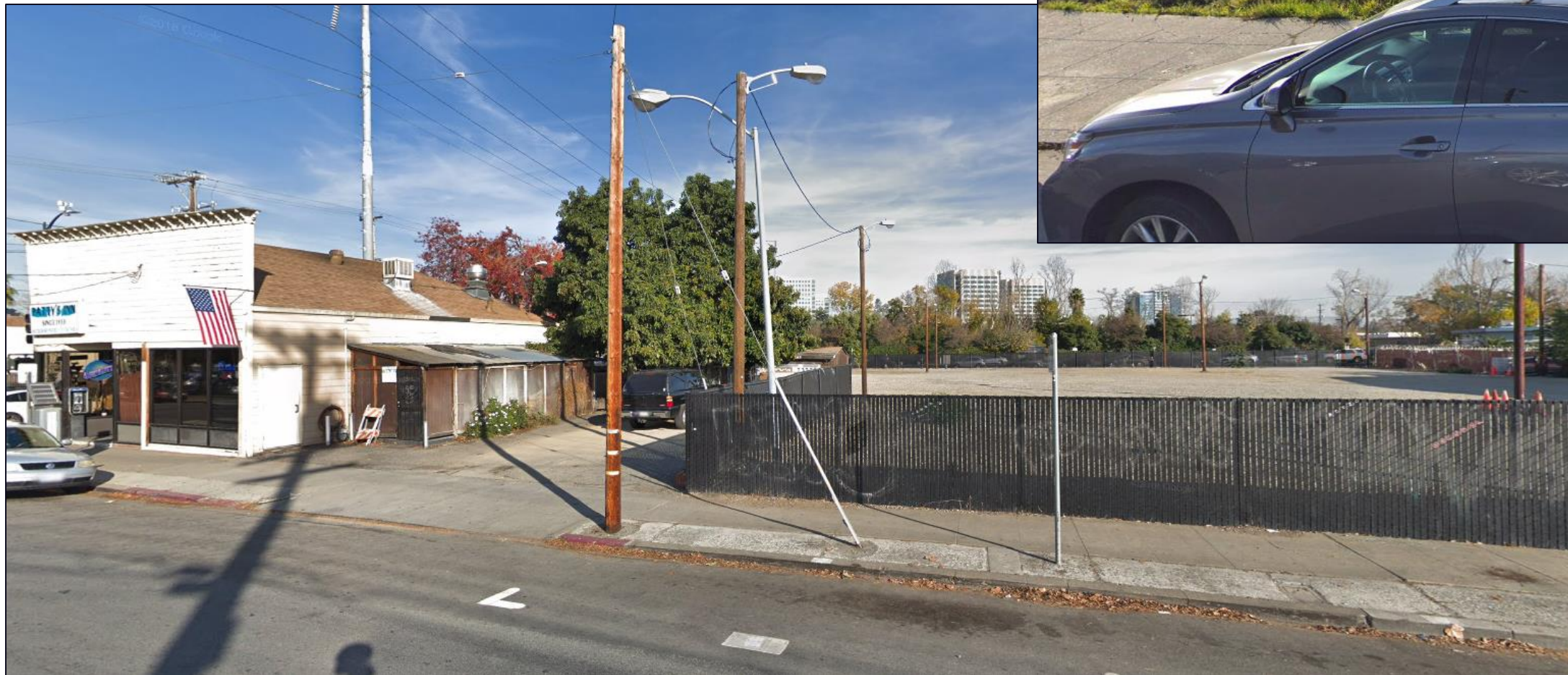
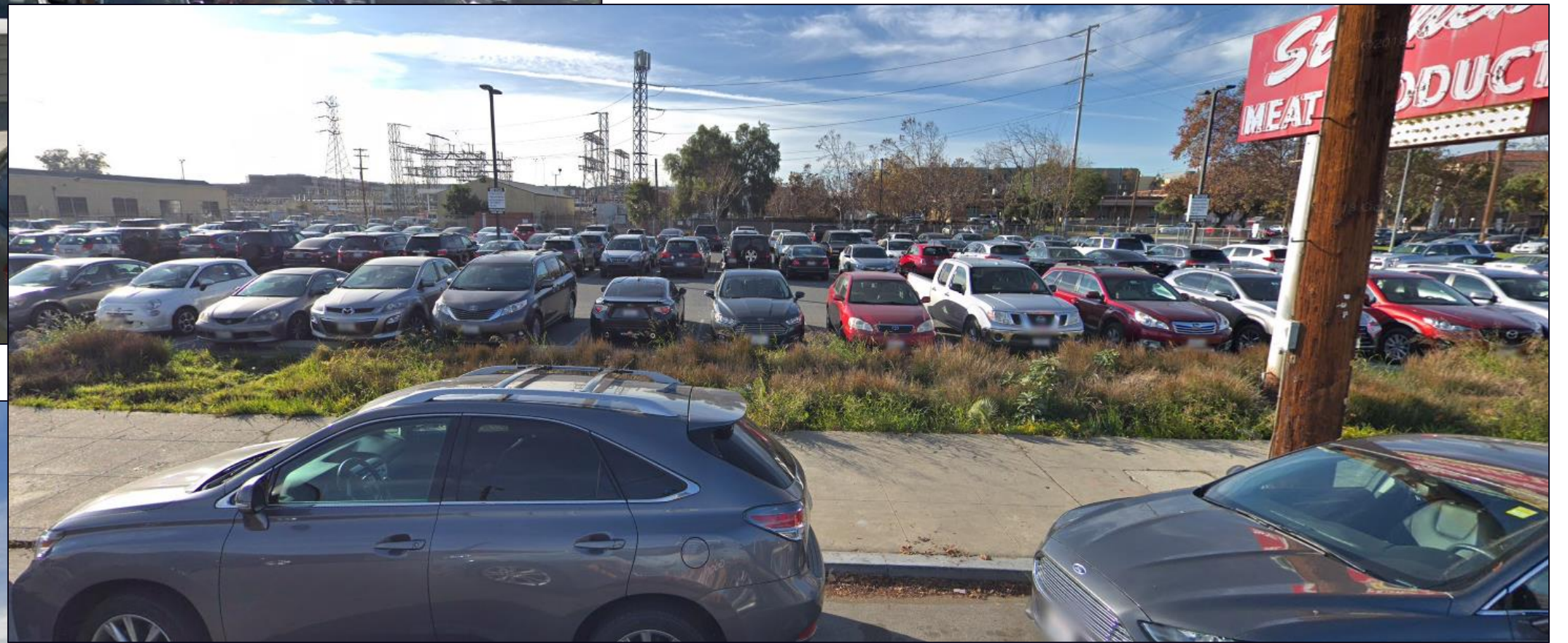
**Former
SARA/Redevelopment
Agency Properties**

- Include “Lot D” + “Ballpark Sites”
- Land must be sold via Compensation Agreement by 12/31/18 for \$67 million
- Sale approved by 14 taxing entities
- Total size = ~6.3 acres

City Properties

- Include “Lots A/B/C” (Option) + Fire Training Center
- Total size = ~15 acres

SARA Properties



Source: Google Maps

SARA Property Sales: Distribution of Sale Proceeds

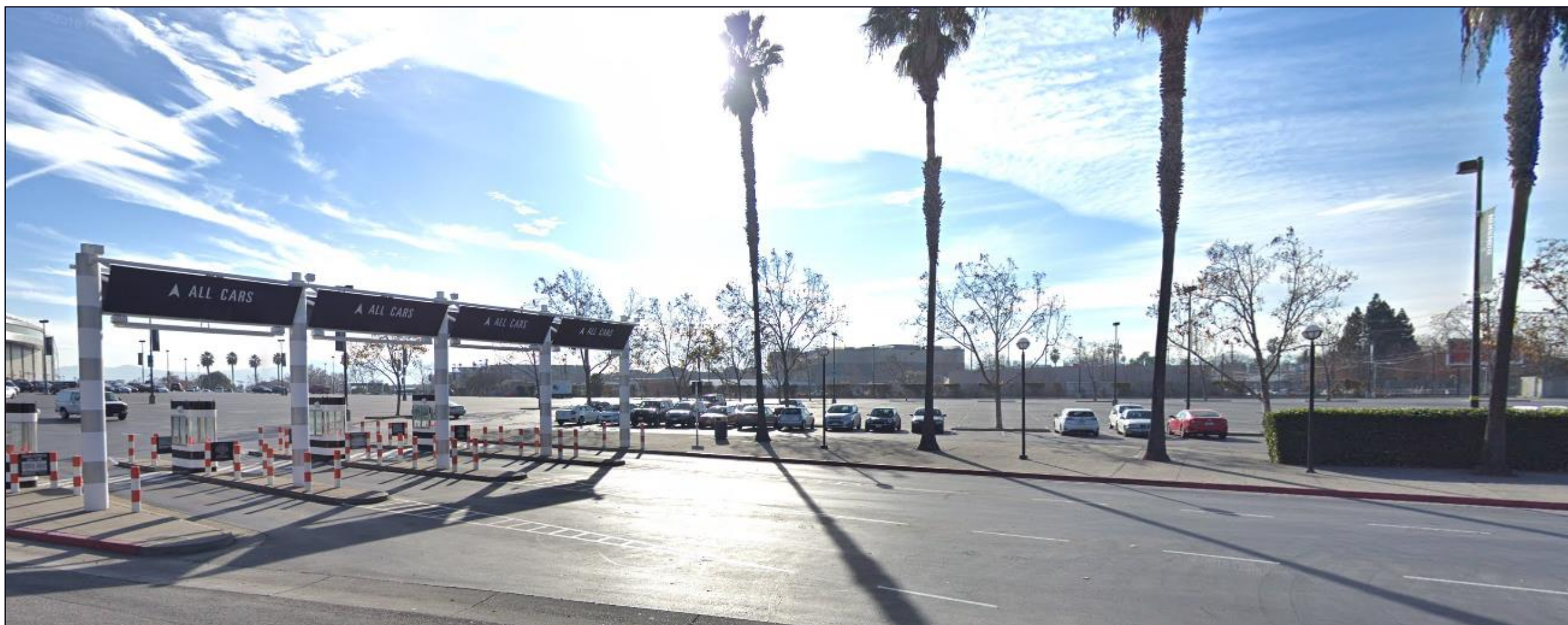
Entity Name	Approximate Share %	Approximate Share Amount
Santa Clara County	20.53%	\$13,758,249
Educational Revenue Augmentation Fund	15.18%	\$10,172,176
Santa Clara Unified School District	14.24%	\$9,543,670
City of San José	14.14%	\$9,472,337
East Side Union High School District	7.58%	\$5,081,848
San José Unified School District	7.54%	\$5,052,055
West Valley-Mission Community College	4.65%	\$3,113,570
San José-Evergreen Community College	4.14%	\$2,773,119
County School Service	3.36%	\$2,253,735
Santa Clara Valley Water District	3.02%	\$2,023,509
Orchard Elementary School	2.44%	\$1,637,369
Oak Grove Elementary School	2.39%	\$1,602,186
Franklin McKinley Elementary School	0.55%	\$365,892
Bay Area Air Quality Management District	0.22%	\$147,578
Guadalupe Coyote Resource Conservation District	0.004%	\$2,707
Total	100%	\$67,000,000

City Properties



City's Aging Fire Training Center

- Long anticipated to be relocated and replaced with a new facility
- Appears as a park in the DSAP



“Lots A/B/C” next to SAP Center

- Provide parking for SAP Center
- Use is part of the City's Agreement w/Sharks
- Contaminated site in key location

Source: Google Maps

Civic Engagement Process



Source: City of San Jose

Civic Engagement: By the Numbers

- Estimated total of **1,200** in-person encounters
- SAAG consisting of **38** members, **10** meetings
- **11** Solution Group meetings
- **7** Community Forums, **2** Walking Tours, **6** Pop-up Events, **5** stakeholder presentations
- Online feedback form with over **600** responses
- Website with **22,000** views (www.diridonsj.org)

Diridon Station Area Civic Engagement Report

Report contains the community's feedback from the entire Civic Engagement process, from February to October 2018

Top 10 Issues and Opportunities Raised (Unranked):

- Housing and Displacement
- Revitalization of Downtown and the Diridon Station Area
- Job Opportunities and Social Equity
- Expectations of Google and Others
- Community Benefits
- Growth Impacts and Public Services
- High-Speed Rail Impacts
- Safety and Homelessness
- Environmental Sustainability
- Effects on San Jose's Identity

Community Concerns About Housing Costs

Housing and displacement (due to rising housing costs) was the top issue raised during the Civic Engagement process.

People are concerned that a potential Google development in the Diridon Station Area would exacerbate the housing crisis, causing rents and home prices to accelerate.

The Civic Engagement report contains general principles, strategies, and desired outcomes to address housing and displacement that were discussed in SAAG meetings and other engagement activities.



Diridon Station Area Civic Engagement Report

Uses of the community input and Civic Engagement Report:

- Development of the proposed MOU
- Google's development concepts and design thinking
- Private development proposals by other property owners, companies, and real estate developers
- Implementation of and future updates to the Diridon Station Area Plan, Downtown Strategy, and other applicable plans
- Transit improvements and new station development (including the Diridon Integrated Station Concept community engagement)

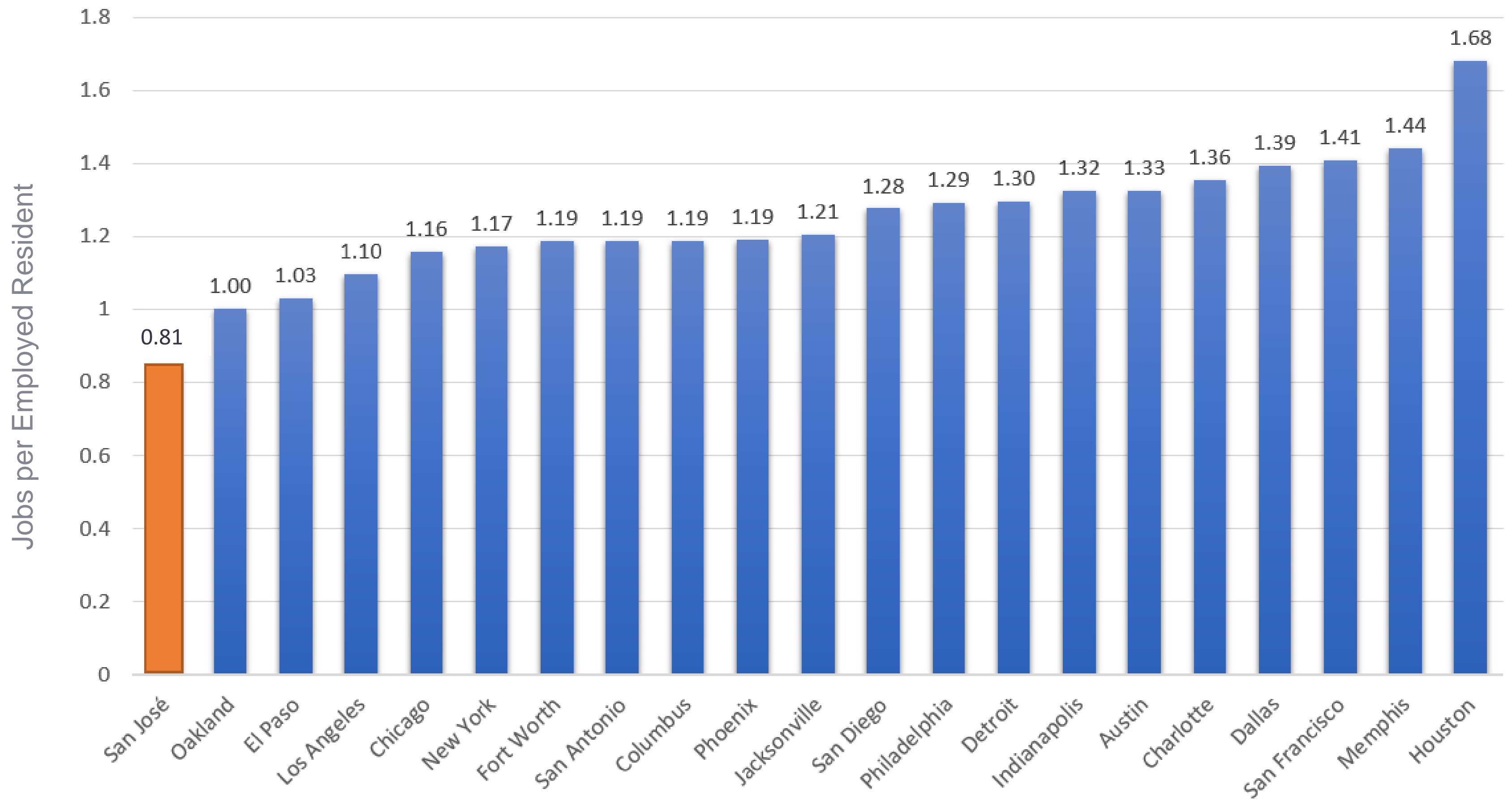
Report is available for download: www.diridonsj.org/report

Staff's Considerations

Benefits of Developing Diridon, Aligned with Envision 2040 and DSAP

- ✓ More Vibrant Downtown and Station Area
- ✓ Civic Benefits of Master Plan Approach
- ✓ Critical Need for Jobs and Tax Base
- ✓ Substantial New Housing Possible, Including Affordable
 - Need to Continue to Address Housing and Displacement
- ✓ New Investment in Neighborhood Amenities
- ✓ Community Benefits Contribution

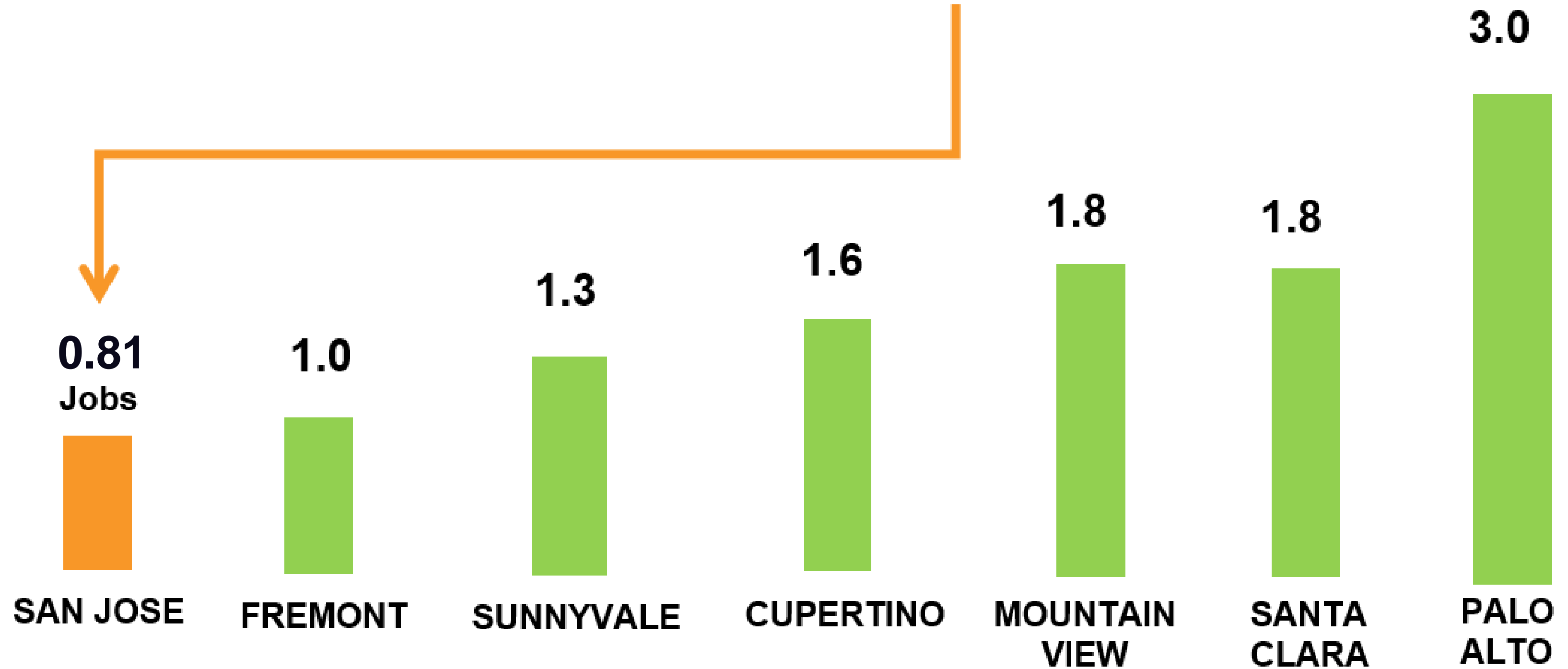
Critical Need for Jobs and Tax Base: Only Big City Bedroom Community



Source: Census, American Community Survey 2015 5-Year Estimates

Critical Need for Jobs and Tax Base

FOR EVERY **1** EMPLOYED RESIDENT IN SAN JOSE, THERE ARE ONLY



Source: City of San Jose

Critical Need for Jobs and Tax Base: Over 60% of Employed Residents Leave SJ for Work



Critical Need for Jobs and Tax Base: Lower Property Taxes per Capita for City Services



Source: City of San Jose

Preliminary Fiscal Estimate: Annual City Surplus at Full Buildout

	Scenario 1: Current Height Limitation	Scenario 2: Increased Height Limitation
City Revenue	\$28.0M	\$40.2M
City Service Costs	\$19.5M	\$27.7M
Net Surplus	\$8.5M	\$12.5M

Source: City of San Jose

Substantial New Housing Possible in Station Area

Existing Capacity: 2,600 Homes (DSAP)

Potential Capacity: 5,000+ Homes (Depending on Heights)

Need to Continue to Address Housing and Displacement

What We've Done So Far:

- Implementing a **15% Affordable Housing Requirement** (or payment of fee) for all new apartments and for-sale homes
- Reduced the maximum **allowable rent increase** for Rent Stabilized apartments to **5% per year**
- Prohibited removing apartments from rental market w/o advance notice, and **required relocation payments** for renters living in apartments impacted by redevelopment
- Supporting building of new accessory dwelling units/“in-law units”
- Enacted a Tenant Protection Ordinance: **13 just causes** for evictions
- Funding **\$500,000 in Legal Assistance** for Tenants
- Made affordable housing “by-right” in Urban Villages
- Set goal of **10,000 new affordable** homes in 5 years
- Released a \$100 million “Notice of Funding Availability” (NOFA) to provide gap financing for new affordable apartments

Need to Continue to Address Housing and Displacement

What We're Working On:

- Implementing a **Housing Crisis Workplan** to increase the production of affordable and market-rate homes
- Creating a **Housing Catalyst team** to facilitate housing development
- Developing a City-wide **anti-displacement strategy**
- Developing Tenant Preference policies to prioritize certain types of applicants for restricted affordable apartments
- Implementing a **Rent Registry** to track all rent stabilized apartments
- Proposing a Source of Income ordinance to **help rental voucher-holders increase access** to market-rate apartments
- Identifying strategies to house moderate-income residents
- Starting a comprehensive **Assessment of Fair Housing study** to help create City's next five-year housing plan
- Implementing a variety of **homeless housing strategies City-wide**

New Investment in Neighborhood Amenities

- Enhanced Streetscapes: Sidewalks, Trees, Lighting
- Safe Pedestrian and Bicycle Connections
- Enhanced Creek Habitat and Recreation Trails
- Safe, Well-Maintained Parks and Public Spaces
- New Retail, Restaurants, and Entertainment Spaces



Staff's Recommendation

- ✓ Approve the Memorandum of Understanding (MOU)
- ✓ Approve the Purchase and Sale Agreement for the SARA Properties
- ✓ Approve the Purchase and Sale Agreement (and Ground Lease) for the Fire Department Training Site
- ✓ Approve the Option/Negotiation Rights Agreement for Lots A/B/C

Vision

“The Parties’ shared vision is to create a vibrant, welcoming, and accessible urban destination consisting of a mix of land uses and that are well-integrated with the intermodal transit station, adjacent neighborhoods, and Downtown. This shared vision embodies a commitment to place making, social equity, economic development, and financially-viable private development.

The Parties intend to collaborate and innovate in the development of this urban destination to bring opportunity to the local community and create new models for urban and workplace design and development.”

Memorandum of Understanding

Shared Goals

Create a Balanced Development

Capitalize on Transit Synergy

Optimize Density & Mix of Uses

Grow and Preserve Housing

Create Broad Job Opportunities

Pursue Equitable Development

Design for Human Scale

Enhance & Connect the Public Realm

Pursue Excellence in Design

Maximize Use of Public Transit & Minimize Parking

Pursue Excellence in Transit Access & Operations

Optimize Sustainability

Be Open to Innovation

Proceed with Timely Implementation

Participate in Fair Share Development

Memorandum of Understanding

Future Development Agreement and Community Benefits Plan

- PSAs anticipate that the City/Google will enter into a Development Agreement
- Future Development Agreement (DA) will include a Community Benefits Plan
- Basis for Community Benefits: the additional value Google receives as a result of the legislative changes that may be approved by Council that enhance the value of Google's land, and the certainty provided by the DA
- Community Benefits Plan will reflect input provided through the Civic Engagement process; major categories of consideration include:
 - Affordable housing, displacement prevention and mitigation
 - Education, workforce training, and career opportunities
 - Small business opportunities
 - Historic and cultural preservation, public art
 - Public space, trails, and mobility
 - Community nonprofit support, including homeless services
 - Habitat and environmental sustainability

Purchase and Sale Agreement: SARA Properties

Main Terms:

PSA terms are per the Compensation Agreement that was approved by all 14 affected taxing entities.

- Price: \$67,000,000
- Close of Escrow: On or before December 31, 2018
- City First Right of Offer to Repurchase
- Development Agreement

The \$67,000,000 price is roughly \$237.50/square foot.

Purchase and Sale Agreement: Fire Training Center

Main Terms:

- Price: \$42,872,075 (\$237.50/square foot)
- Development Remediation Credit: Up to \$1,000,000
- Sales Proceeds to Cover Relocation Cost
- Performance Milestones for Relocation of Fire Training Center:
 - Completion of construction documents within 18 months
 - Vacation of property (except Burn Tower) within 36 months
 - 10% of price to be held in escrow until the Performance Milestones completed
- Close of Escrow: 45 days after Remediation Credit determination
- City First Right of Offer to Repurchase
- Development Agreement

Ground Lease: Fire Training Center

Main Terms:

- Lease Payment: \$0
- Term: 3 years from Close of Escrow

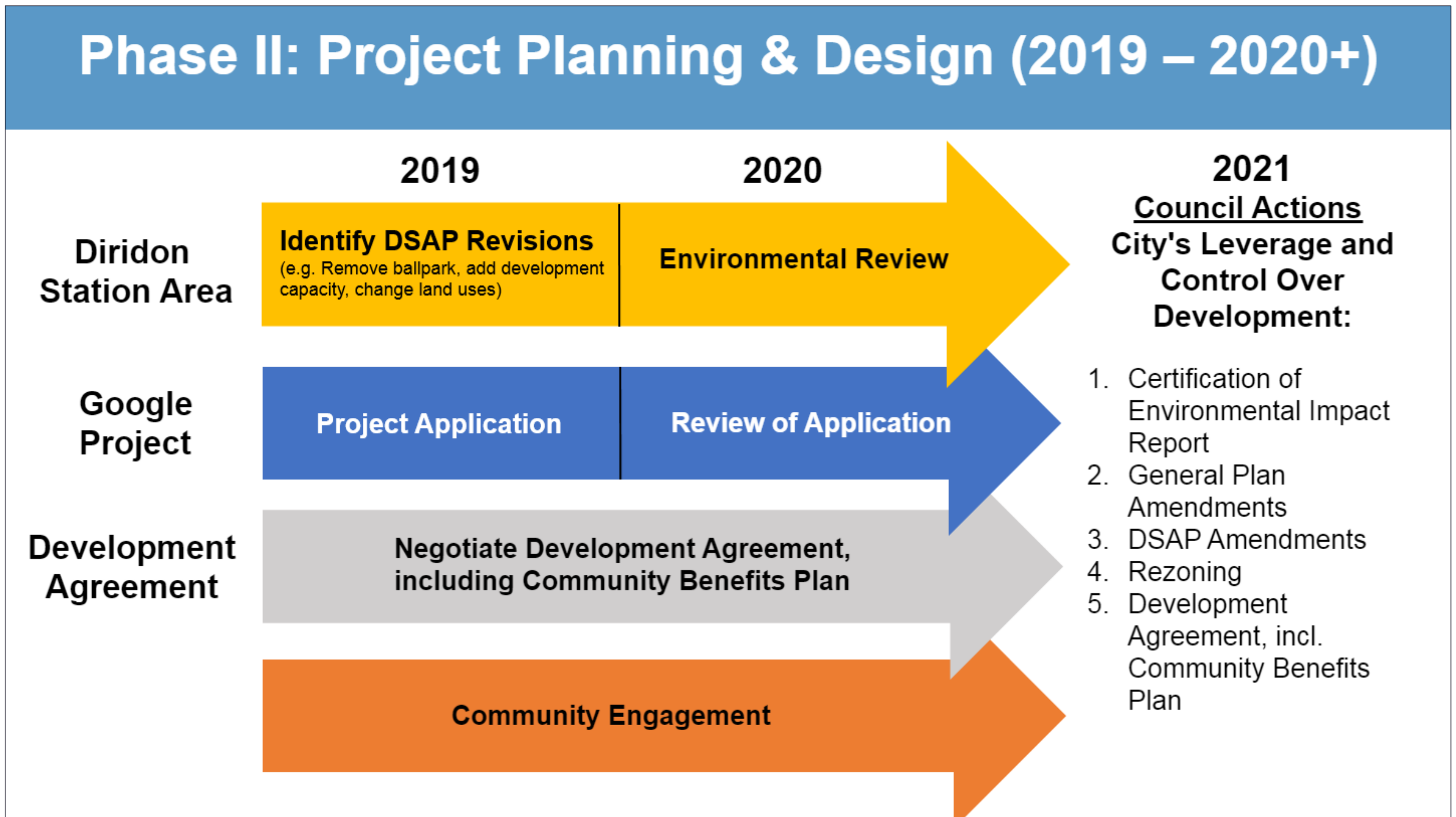
Google will also provide the City with free use of its warehouse space north of SAP Center for 3 years at \$0 to help with the relocation of the Fire Training Center.

Option/Negotiation Rights Agreement for Lots A/B/C

Main Terms:

- Ability to Exercise: Conditioned on an acceptable alternative parking arrangement, approved by the Sharks, the City and Google
- Option Term: 5 years
- Option Consideration: \$1,100,000 per year (option payments in years 1-3 payments credited to purchase price)
- Fixed Purchase Price: \$111,475,613 (\$237.50/square foot), less credits
- Buyer Right of First Offer to Purchase
- Amendment to AMA

Potential Next Steps



Source: City of San Jose

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