



Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Nanci Klein

**SUBJECT: REAL ESTATE SERVICES
DIVISION ACTIVITIES ANNUAL
REPORT**

DATE: January 4, 2023

Approved

Date

01/10/23

RECOMMENDATION

Accept staff's status report updating the Community and Economic Development Committee on the Real Estate Services Division's FY 2021-2022 activities related to the sale of City-owned properties, the leasing of facilities, vacant lands, and key FY 2022-2023 Work Plan initiatives.

BACKGROUND

The Real Estate Services Division performs fee and easement property transactions, property leasing, and property management on behalf of the City and represents and assists other departments through managing real estate transactions, property management, and research. The Division manages City-owned real estate and serves as the City's first point of contact to identify the correct management entity and approach for City-owned real estate.

ANALYSIS

In addition to the Division's basic services, Real Estate Services' FY 2022-2023 work plan focuses on major project delivery and implementing a City-wide real estate and property management database.

FY 2022-2023 Real Estate revenue targets are:

- \$1,000,000 for facility leasing
- \$1,400,000 for telecommunication leasing
- \$600,000 for the sale of surplus properties

Sale of City-Owned Properties

The Real Estate Division completed \$4,852,800 in surplus sales during FY 2021-2022, exceeding the revenue target of \$600,000. Key sales in the fiscal year were 1500 Las Plumas Avenue, 575 E. Santa Clara Street, and 460 Park Avenue.

The 1500 Las Plumas property was sold to the VTA to support the construction of BART Phase II. The property was no longer desired by the Environmental Services Department, and the sale benefitted ratepayers of San Jose's Residential Garbage and Recycling Program by offsetting potential rate increases.

575 E. Santa Clara Street was also sold to the VTA to support BART Phase II. The City concurrently purchased 601 E. Santa Clara Street with the proceeds of the sale, with additional proceeds from the property swap benefitting the Measure T program.

Finally, an internal transfer of 460 Park Avenue to the Department of Parks, Recreation, & Neighborhood Services was completed, with proceeds benefitting the General Fund.

Facility and Telecommunications Leasing

Facility lease revenue for the fiscal year totaled \$1,082,874, exceeding the revenue target of \$1,000,000. Telecommunications (telecoms) lease revenue totaled \$1,179,802, falling short of the revenue target of \$1,400,000.

Revenue generation for telecoms rentals in FY 2021-2022 was impacted by the merger between two major telecoms tenants for the City, Sprint and T-Mobile. After the merger, T-Mobile reviewed the combined assets of the new company and decided to cancel three leases because the infrastructure is redundant. Staff anticipates T-Mobile canceling additional leases for redundant infrastructure as lease terms conclude.

Since the fiscal year's conclusion, staff completed a multi-site telecoms lease with DISH for four new facility leases. DISH acquired Boost Mobile when Sprint and T-Mobile merged and is now looking to expand on the existing Boost Mobile network in San José. This new agreement will provide \$181,099 in revenue in the first year of the agreement. Real Estate staff is engaging DISH about the potential for more leases beyond the initial four. In addition, staff is engaging AT&T on the potential for them to take on new leases for space vacated by T-Mobile and Sprint.

The City's facility lease management is challenging in the current environment. The City honored the County's commercial eviction moratorium for small business tenants, which expired on August 19, 2021, and extended a rental grace payback period to August 19, 2022.

Lease revenue decreased significantly in FY 2020-2021 due to the impacts of COVID-19 on the City's small business tenants. Impacted small business tenants began paying rent again in FY 2021-2022; however, many struggled to pay their ongoing rent in addition to making up past-due rent balances accrued during the eviction moratorium.

While many of the City's tenants are now making regular rent payments again, Division staff is working with them on payback arrangements for past-due rent.

Lease revenue for FY 2021-2022 was impacted primarily by Flames restaurant, which paid \$47,000 against a target of \$188,000. Flames since vacated the restaurant space at the intersection of S. 4th Street and E. San Fernando Street and staff is working to develop a Request for Qualifications (RFQ) to engage a broker to find a new tenant for the space. Staff anticipates that lease revenue in FY 2022-2023 will be negatively impacted by the Flames business closing.

Vacant Land Management

Division staff is working with other departments to develop a report of all vacant, City-owned properties. In coordination with the Information Technology Department, Real Estate Division staff will use this information to map a new, comprehensive database for all City-owned properties. The procurement process for a new Real Estate software platform is currently in the queue, awaiting assignment by the Department of Finance staff.

FY 2021-2022 Key Accomplishments and 2022-2023 Priority Initiatives

Key FY 2021-2022 Accomplishments:

- Completed the sale of 575-579 E. Santa Clara Street to the VTA to support the BART Phase II project and create revenue for the Measure T program.
- Acquired 602 E. Santa Clara Street for the construction of the relocated Fire Station 8.
- Completed the acquisition of 1138 Olinder Street for the construction of Fire Station 32.
- Negotiated the acquisition of land necessary to support the construction of Fire Station 36 and the reconstruction of the Municipal Water offices.
- Undertook active negotiations for the acquisition of land to construct Fire Station 23.
- Leased space at 300 Enzo Drive to Contec LLC, and began easement negotiations with 302 Enzo Drive.
- Extended lease with Google for the old Fire Training Center (FTC) and supported the Fire Department's efforts to conduct an academy while moving to the new FTC on Senter Road.
- Completed transfer of Flea Market parkland dedication.
- Acquired a Trail Easement for access to Blossom River Drive.
- Entered a lease with the Mexican Brothers Market located at 100 W. Alma Avenue.
- Completed leases to house Police Department Units, including Internal Affairs, Gaming Control, and the Family Violence Center.
- Completed the lease extension for the Police Department property and vehicle evidence storage.
- Completed acquisition of parcels for affordable housing associated with Google's Downtown West project.

- Supported successful Homekey applications for the Branham/Monterey and Arena Hotel properties.
- Negotiated a lease for the potential construction of a renewable hydrogen waste-to-hydrogen plant at the ZWED facility.
- Completed the Las Plumas surplus sale to VTA to facilitate BART construction.
- Received State Housing and Community Development approval for the Plant Master Plan development process and energy projects at the Regional Wastewater Facility.
- Oversaw interdepartmental agreement for work2future's tenancy and a renewed lease for the County Hazardous Waste drop-off program at the Environmental Innovation Center.
- Completed the Park Habitat land and easements transfer to WestBank.
- Completed condemnation, conditional vacation, and approval for the sale of remnant parcels along Park Avenue to support the CityView development project.
- Terminated the Camera 3 lease and entered into a new lease with 3Below.
- Completed renewal of the San José Giants lease of the Municipal Stadium.
- Received City Council approval of an arrangement to transfer land to facilitate the 8 North Almaden hotel project.
- Presented the real estate and asset management database procurement work plan to the Smart Cities and Service Improvements Committee and the Purchasing Prioritization Board (PPB).
- Completed the First and Virginia alley swap and vacation, allowing the development to progress.
- Telecoms lease renewals for AT&T and T-Mobile.

Key FY 2022-2023 Work Plan Objectives:

- Surplus sale of the City's condo at Ryland Mews.
- Disposition of Sure Stay Motel at 1488 N. First Street to the Housing Authority.
- Municipal Water temporary office leasing.
- Transfer of land rights necessary for Valley Water's Coyote Creek flood control measures.
- Transfer of property to Shea Properties in Japantown, securing a future home for Silicon Valley Creates and Tycho San José.
- Telecoms rate schedule and template lease terms update.
- Update City Council Policy 7-13 and Municipal Code 4.20, addressing an open audit item.
- Acquire land necessary for the construction of the Lot E parking lot.
- Fire Station 23 and 36 land acquisitions.
- Lead a request for proposals/qualifications process to begin the Plant Master Plan development process.
- Complete a cooperative agreement and acquisitions necessary to facilitate the construction of a regional Five Wounds Trail connection.
- Complete software implementation for a new real estate database and asset management system.

January 4, 2023

Subject: Update on Real Estate Activities

Page 5

- Complete acquisition of the Arena Hotel under the Project Homekey program.
- Secure tenant for the former Flames restaurant space.
- Complete four new telecoms leases with Dish Network (Boost Mobile).

EVALUATION AND FOLLOW-UP

This memorandum is a status report, and there is no anticipated evaluation or follow-up.

CLIMATE SMART SAN JOSÉ

This memorandum does not affect Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for January 23, 2023, Community and Economic Development Committee meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memorandums that involve no approvals of any City action.

/s/

Nanci Klein
Director of Economic Development
Director of Real Estate

COMMUNITY ECONOMIC DEVELOPMENT COMMITTEE

January 4, 2023

Subject: Update on Real Estate Activities

Page 6

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