



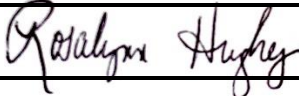
Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Nanci Klein

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

DATE: November 9, 2021

Approved		Date	11/12/21
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RECOMMENDATION

Accept staff's status report updating the Community and Economic Development Committee on the Real Estate Services Division's FY 2020-2021 activities related to the sale of City-owned properties, the leasing of facilities, vacant lands, and key FY 2021-2022 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 2021-2022 workplan focuses on major project delivery and implementing a City-wide real estate and property management database.

FY 2021-2022 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 \$8,695,000 in surplus sales during FY 2020-2021, which

primarily supported the General Fund. Internal transfers of City-owned property to the Housing Department generated \$7,655,000 in revenue from the transfer of 430 Park Avenue, 3707 E. Williams Road, and 1749 Mt. Pleasant Road. Other revenue came from the transfer of 460 Park Avenue to the Department of Parks, Recreation, & Neighborhood Services (PRNS).

Facility Leasing

The City's facility lease management is challenging in the current environment. The City is honoring the County's commercial eviction moratorium for small business tenants, which expired on August 19, 2021. Under the moratorium, small business tenants have up to six months after the moratorium expires (until February 19, 2022) to repay at least 50% of past-due rent and up to 12 months after the moratorium expired (August 19, 2022) to repay past-due rent in full.

Lease revenue decreased significantly in FY 2020-2021 due to the impacts of COVID-19 on the City's small business tenants. Facility lease revenue for the fiscal year was \$665,000. Impacted small business tenants have begun paying rent again in FY 2021-2022; however, many are struggling to pay their ongoing rent in addition to making up past-due rent balances accrued during the eviction moratorium. Division staff are coordinating with tenants to understand their plans and abilities.

Revenue generation for telecoms rentals in FY 2021-2022 will be 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 leases for redundant infrastructure. T-Mobile canceled a lease for a duplicative macro tower site and put negotiations on hold for new sites that were underway with both Sprint and T-Mobile at the time of the merger. Telecommunications lease revenue is currently on track to be below \$1,300,000 for FY 2021-2022. However, Division staff are working on nine lease renewals between AT&T and T-Mobile and have new lease prospects under negotiations to increase this revenue stream and meet projected targets.

Division staff completed a study of market rates for telecommunication leases in San José. While this study confirmed that the City's current lease rates are in line with the market, there are terms in the City Council-approved template telecommunication lease that are out of line with market expectations. Updating these terms will assist in expanding telecommunication lease revenues. Division staff anticipate taking a package of updated telecommunication lease terms to Council in Spring 2022, including updates to basic terms such as the annual rent escalator and other ways to incentivize the development of community benefits such as digital inclusion initiatives. The Real Estate Division will closely coordinate with the Office of Civic Innovation to develop community benefit incentives that best reflect the needs of the community.

Vacant Land Management

Division staff are 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 property. The procurement process for a new software platform is currently underway, and staff will provide a status report at the February 2022 Smart Cities and Service Improvements Committee.

Division staff are working to advance suitable development of the City's vacant land resources. Changes to California's Surplus Land Act require Division staff to engage with the California Department of Housing and Community Development ("HCD") before developing City-owned lands. Potential developments will be advanced once HCD approval is received. More information on major development initiatives is in the Workplan Priority Initiatives section of this memorandum.

FY 2020-2021 Key Accomplishments and 2021-2022 Priority Initiatives

Key FY 2020-2021 Accomplishments:

- Acquired the warehouse located at 300 Enzo to be a future location of the Police Academy & Training facility.
- Acquired 575-579 E. Santa Clara and secured Council approval for a land swap arrangement with the VTA to accommodate both the Fire Station and BART Phase II.
- Advanced the acquisition of 1138 Olinder for Fire Station 32 (acquisition closed October 2021).
- Property acquisition for a Fire Station 36 location under negotiation with Santa Clara County.
- The Sure Stay Hotel by Best Western, located at 1488 N. 1st Street, was acquired with Project Homekey funds.
- Negotiated terms of acquisition for four hotels to apply for funds under the 2021 Project Homekey program.
- Transferred the 4th and Reed property to Habitat for Humanity to help save the Pallesen historic building from demolition. The Pallesen now resides at 4th and Reed and is undergoing renovations.
- Completed transfer of an easement to MidPen Housing to facilitate the production of affordable housing units on Moorpark Avenue.
- Acquired 199 Race Street for the development of a neighborhood park.
- Transferred 460 Park Avenue to PRNS for a future neighborhood park.
- Acquired 100 W. Alma Avenue and 1413 Sanborn Avenue via donation for a future neighborhood park and playground.
- Secured a long-term lease from Caltrans to develop the Havana Midfield pocket park.
- Completed a surplus sale disposition and other easements to complete all City real estate transactions for the Coleman Highline project.
- Completed the Branham and Snell/Hellyer exchange with the County to facilitate the Branham Lane widening project.
- Received certification from Caltrans to perform right of way work on behalf of the City.

- Updated Council Policy 7-1, which governs below market rate leases to organizations that provide community services in San José.

2021-2022 Workplan Priority Initiatives:

- Measure T public safety land acquisitions for Fire Stations 23 and 36.
- Completing Project HomeKey emergency housing motel acquisitions.
- SAP parking “Lot E” Real Estate projects.
- BART Phase II real estate projects.
- Five Wounds Trail land acquisition.
- City View and Park Habitat real estate project facilitation.
- Surplus sale of 1590 Las Plumas property to the Valley Transportation Authority on behalf of the Environmental Services Department.
- RFQ process for the build-out of the Plant Master Plan area off Highway 237.
- Securing a long-term ground lease for performance space in the Shea Homes Japantown development. The City will then sublease this space to Silicon Valley Creates, who is partnering with San José Tycho.
- Support a Request for Proposals by the Housing Department for affordable housing on available city lands, including the Southside Community Center.
- In partnership with the City Attorney’s Office, update Council Policy 7-13, which governs the sale of surplus property. The Policy must be made consistent with recent changes in State law.
- Modernize the City’s asset management and workflow processes to achieve greater efficiency in operation by implementing new property and lease tracking software. The Division is working with all other City Departments to cross-reference other databases and create a central hub of the City’s real property data.

EVALUATION AND FOLLOW-UP

This memorandum is an informational briefing only, and there is no anticipated evaluation or follow up.

CLIMATE SMART SAN JOSÉ

This memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City’s website for the November 22, 2021, Community and Economic Development Committee meeting.

COORDINATION

The Office of Economic Development and Cultural Affairs did not coordinate with other departments for this memorandum.

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 Memos that involve no approvals of any City action.

/s/
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Director of Real Estate

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