



## Agenda Report

20-922

Agenda Date: 9/29/2020

### REPORT TO COUNCIL

#### SUBJECT

Information on Alternate Leasing Plan for Department Stores at Related Santa Clara Project [Council Pillar: Promote and Enhance Economic, Housing and Transportation Development]

#### BACKGROUND

On June 28, 2016, Council approved a Disposition and Development Agreement (DDA) with Related Santa Clara, LLC (Developer) for the development of a 240-acre mixed use project (Project) located north of Tasman Drive on the former Santa Clara Golf & Tennis site. The proposed mixed-use development described in the DDA included retail/entertainment, food & beverage, hotel, residential and office uses.

The Master Community Plan (MCP), approved for the Project on June 26, 2016, provided for a multi-phased development with the core of the project or CityCenter comprised largely of retail/food & beverage, entertainment and hotel uses. The CityCenter portion of the Project is contemplated to be completed in Phases 1 through 3.

Section 5.3 of the DDA sets forth a series of Developer obligations addressing, among other items, the relocation of a fire station, minimum building requirements and minimum retail building requirements (See Discussion below). In addition to these obligations, Section 5.3.6, provides that the Developer "use its best efforts to complete and ensure the opening of two to three department stores of 100,000 gross square feet or larger with middle to high price points" and that at least two of these department stores would not already be located within the City. The Developer's obligation to use best efforts include requirements that the Developer submit a Best Efforts Report every six months describing efforts to secure interest of retail tenants and in particular department stores.

At the time the Project term sheets and DDA were negotiated, department stores were still considered as traditional anchors in major retail developments. However, given 1) the rapid nature of change in the retail environment; 2) that traditional department stores are not expanding locations (with some stores closing altogether), and 3) these conditions have continued to worsen since with the coronavirus pandemic, Section 5.3.7(b) of the DDA recognized that despite best efforts there are many factors that could contribute to the Developer's inability to achieve the minimum retail building requirements and/or to secure department stores for the Project.

If the Developer is unable to meet the retail requirements, Section 5.3.7(b) allows the Developer to pursue an Alternate Leasing Plan for development of the parcels and be relieved of the obligation to undertake best efforts for all or a portion of the Additional Buildings, Additional Retail Buildings or Major Department Stores.

On March 24, 2020 and July 13, 2020 respectively, Council approved Development Area Plans for

Phase 1 and 2 (DAP1 and DAP2) for the Project.

DAP1 includes 1,047,000 gross square feet of office (440,000 sf); a 480-key hotel (381,000 sf); 200 serviced apartments (175,000 sf); and 51,000 sf of retail/food & beverage uses, together with 1,913 parking spaces.

DAP2 includes 1,750,000 gross square feet of office (435,000 sf); a 220-key hotel (180,000 sf); 500 residential dwelling units (530,000 sf); 555,000 sf of retail/food & beverage; 50,000 sf of entertainment uses, together with 3,845 parking spaces.

On August 14, 2020, the Developer submitted the attached letter requesting approval of an Alternate Leasing Plan, removing best effort leasing obligations for Major Department stores within the CityCenter (Phases 1, 2, and 3). The Developer has not asked to be relieved of Additional Buildings and Additional Retail Building obligations.

## **DISCUSSION**

Among other items, the DDA requires the following:

- **Minimum Initial Buildings** of not less than 600,000 square feet of office, hotel and/or retail in Phase 1 and not less than 700,000 square feet of retail/food & beverage, office, hotel and residential in Phase 2
- Best efforts to build an additional 200,000 square feet of office, retail or residential in Phase 1 and 230,000 square feet of office, retail or residential in Phase 2
- **Minimum Retail Buildings** of not less than 50,000 square feet in Phase 1 and not less than 750,000 square feet in Phases 1, 2 and 3
- Best efforts to build an aggregate of 1,500,000 square feet of retail within Phases 2 and 3.
- Best efforts to Secure 2 -3 Department Stores

Council has approved Development Area Plans (DAPs) that comply with the minimum requirements for Phases 1 and 2 as set forth in the DDA. As mentioned above, the DDA allows for the Developer to be relieved of its best efforts obligations to secure two departments stores and is not requesting to be relieved of its other obligations.

<b>Proposed Development Square Footage by Use (7)</b>				
	Phase 1		Phase 2	
Retail/Food & Beverage	51,000	(1)	555,000	(2)
Entertainment	--		50,000	(2)
Office	440,000		435,000	
Hotel	381,000		180,000	

Residential	175,000		530,000	
Total	1,047,000	(3) (5)	1,750,000	(4) (6)
<b><u>Developer Obligations Per Section 5.3 of DDA</u></b>				
(1) Minimum Retail Building requirement for Phase 1 is 50,000 square feet				
(2) Minimum Retail Building requirement for Phases 2 and 3 is 750,000 with best efforts for an additional 750,000 square feet				
(3) Minimum Initial Building requirement for Phase 1 is 600,000 square feet				
(4) Minimum Initial Buildings for Phase 2 is 700,000 square feet				
(5) Best efforts to build an additional 200,000 square feet for a total of 800,000 square feet				
(6) Best efforts to build an additional 230,000 square feet in Phase 2 for a total of 1,030,00 square feet				
(7) Proposed by Developer in submitted Development Area Plans				

In order for the relief on the best effort obligations related to the department stores to occur, the Developer must submit a written request with information including:

- An Alternate Leasing Plan; and
- Best Efforts Reports for a minimum period of 24 months

Related has provided an Alternate Leasing Plan and six (6) progress reports related to its leasing efforts in its August 14, 2020 letter.

The DDA provides that the City Manager will provide an informational report to Council concerning the Developer's Best Efforts Report and Alternate Leasing Plan. The Council may provide feedback on the request for best efforts relief and the Alternate Leasing Plan, but no formal action needs to be taken. The City may suggest alternate marketing efforts or revisions to the Alternate Leasing Plan, including contacting certain tenants or other options.

The DDA provides that so long as the Developer has complied with the substantive requirements under Section 5.3.7(b) of the DDA, prior to 90 days following the Developer's submission of the letter (i.e., November 13, 2020), the City Manager must issue a letter relieving the Developer of the best effort requirement.

### **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment.

### **FISCAL IMPACT**

There is no fiscal impact associated with this item.

### **COORDINATION**

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

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board

outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email [clerk@santaclaraca.gov](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>>.

**RECOMMENDATION**

1. Provide feedback, if any, on the August 14, 2020 Related Santa Clara letter to be relieved of best effort obligations related to department stores; and
2. Receive and note and file the letter and the Report to Council.

Reviewed by: Ruth Mizobe Shikada, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. August 14, 2020 Letter from Related Santa Clara
2. Excerpt from August 12, 2016 Disposition and Development Agreement