



CITY OF EAST PALO ALTO

Planning Division

1960 Tate Street, East Palo Alto, CA 94303

Tel. No. 650.853.3185, Fax. No. 650.853.3179

DESK ITEM

DATE: December 13, 2010

TO: Honorable Chair and Members of the East Palo Alto Planning Commission

FROM: Sean Charpentier, Project Coordinator II, Redevelopment Agency

SUBJECT: Additional information from staff and written communication received regarding
12/13/10 Planning Commission Meeting Agenda Item #7, RBD 4 Corners Specific Plan
Community Preferred Alternative

1. Additional Information from Staff: Article on low Palo Alto vacancy rates from San Francisco Business Times
2. Letter from RBD LLC

Nary a square foot to be found in Palo Alto

BY J.K. DINEEN

San Francisco Business Times

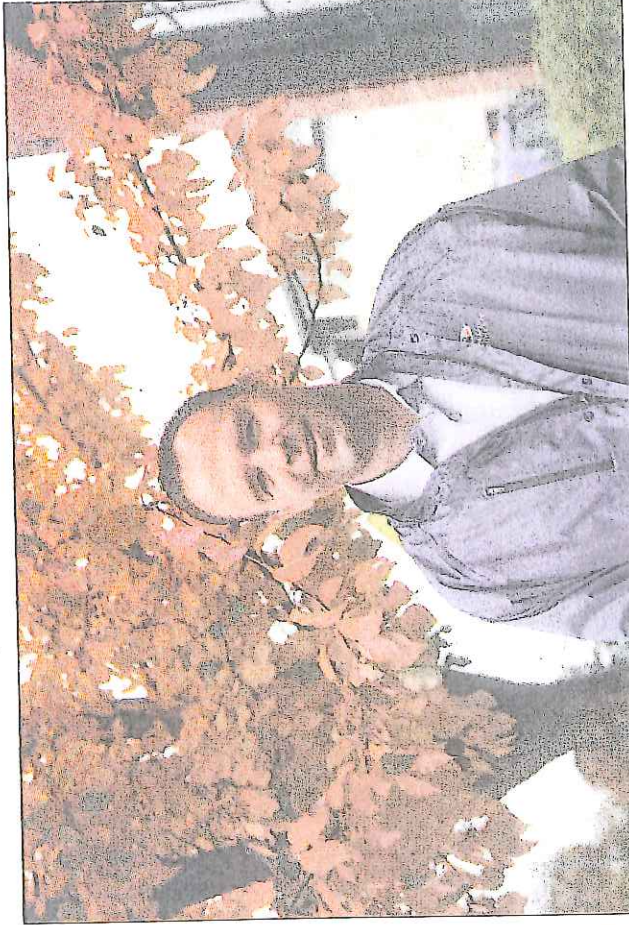
When Facebook left downtown Palo Alto for the Stanford Research Park 18 months ago, Randy Gabrielson of Cornish & Carey Commercial was among the brokers worried the vacant space left behind would "crush the market."

As it turned out, the concern was misplaced: Just six months later, all the space had been backfilled by fast-growing downtown tenants like Jive Software and Palantir Technologies.

A sluggish economic recovery may still be in about the fourth inning, but don't tell that to office tenants or landlords in downtown Palo Alto. While nearby markets like Redwood City grapple with a 16 percent direct vacancy plus 16 percent of available sublease space, downtown Palo Alto has virtually zero space available. The vacancy rate at the end of the third quarter was 4.16 percent, according to Cornish & Carey research. By the end of the year, the percentage of available space downtown will drop to a minuscule 2 percent.

That translates to about 25,000 square feet of vacancy among 1.2 million square feet.

The lack of space has driven leasing rates above \$70 a square foot, higher than recent deals completed at the top of San Francisco office towers. And the boom is about to translate into a record sales deal: The 72,000-square-foot 100 Hamilton Road is in contract for \$64 million, some \$900 per square foot, according to sources.



SPENCER BROWN

Palo Alto is a tough market, says Arne Ericson. "It makes you bring your A game."

Nearby at the Stanford Research Park, vacancies are 8 percent, with Skype and the law firm Perkins Coie both signing large deals in 2010, according to Stanford spokeswoman Tiffany Griego.

"Our current vacancy has held steady during the recession, which is a testament to a flight to quality we've seen," Griego said. "A lot of tenants value being headquartered in Palo Alto."

The strength of Palo Alto has benefited companies like Novo Construction, which has been able to hire back most of the 15 staffers laid off in 2009. Novo built Palantir's headquarters, and is doing

buildings and pay top dollar in order to lure talent with a downtown Palo Alto address. Companies like Facebook and WebTV have spread into a slew of buildings before finally deciding to consolidate under one roof in a larger office park.

"At the end of the day, they are not looking at the cheap alternative. They are looking at recruiting," said Gabrielson. "When they fill that first building up, they go lease another building. When they get to the head count number they are looking for, then they are going to pick up and they are going to leave. It's the cost of doing business."

TMG Partners CEO Michael Covarrubias, a Bay Area developer, said Palo Alto has always led recoveries.

"Palo has always been that center point where things have started," said Covarrubias. "It's the home of venture capital and Stanford, and great weather, and the CEOs."

But for the foreseeable future, tenants wishing to set up shop in downtown Palo Alto may have to settle for another sub-market: For a tech company looking for 10,000 square feet, there might be one or two very expensive options, forcing them to broaden the search.

"We are hoping that Palo Alto is the cup that gets full and begins to overflow, which bodes well for Redwood Shores and Mountain View," said Gabrielson. "And when those areas get tight and it spills over to Sunnyvale, then you will begin to see a broader recovery."

jklineen@bizjournal.com / (415) 288-4971

I am

The Ravenswood Shores Business District, LLC (RSBD)
&
The Industrial Owners Property Association, (IDEA)
P.O. Box 51562
Palo Alto, CA 94303

December 10, 2010

Chairperson Renee Glover Chantier
Members of the Planning Commission
City of East Palo Alto
2145 University Avenue East Palo Alto, CA 94303

Subject: 4 CORNERS / RAVENSWOOD BUSINESS DISTRICT SPECIFIC
PLAN COMMENTS ON THE .

Ladies and Gentlemen:

The Ravenswood Shores Business District, LLC (The LLC) has been an active participant in the development of the “Community Preferred Alternative” Specific Plan for the 4 Corners / Ravenswood Business District and would like to reiterate our comments on this plan and the modifications proposed by Staff. Throughout this process our concerns and the comments we have made, have been consistent and viewed by some repetitious to the point of tedium.

- The plan must be “market based” - Otherwise, whatever the plan is, it will be less likely to be successful.
- As area landowners, we recommend that compatible land uses (i.e. office / r&d / light industrial, commercial retail or community service) not be precluded in areas because of restrictive land use zoning regulations. Site opportunities for development that is agile and flexible will be more successful. We don’t oppose office uses where the CAC has recommended it, rather we recommend that the industrial area zoning be flexible and include office as a principal use, along with the other uses normal in an R&D, industrial zone.
- The Specific Plan is just a first step. If the impediments to development articulated in the numerous studies commissioned by the City are not addressed, no development, regardless of the changes in zoning, will occur. The process for entitlement and development approvals must be clear and streamlined.
- The plan and subsequent entitlement tools must allow properties to develop now. and recognized that significant larger scale development in this market area will occur over time, evolving as faith in the area and the process is restored and the market adjusts. This market area can already support 600,000 square feet of new development without addition infrastructure.

For your consideration at the December 13, 2010 meeting are “two” overall plans. (1) The plan recommended by Community Advisory Committee as developed by the community including a significant portion of the landowners, and (2) the plan developed by Redevelopment staff that modifies a few areas to increase office development potential and reduce industrial, light industrial and R&D development potential. Significant areas in both plans are identical. This is a credit to Redevelopment (Sean and Carlos) for the process they implemented. However, the “focus” of the two plans is distinctly different. I would like to emphasize the following:

1. As outlined in the table below the CAC Recommended Plan is significantly more “market based” Mundie and BAE are the market studies commissioned by the city.

Net Development	Mundie	BAE	CAC Rec	Staff Rec
Industrial / R&D	350K SF	610K SF	440K SF	263K SF
Office	260K SF	200K SF	920K SF	1,600K SF
Retail	215K SF	365K SF	112K SF	112K SF
Residential	3240 DU	2010 DU	835 DU	835 DU

2. Market research AND community involvement has made it clear that the preferred plan should emphasize near term light industrial / research and development and industrial development in the next 10 -20 years. The reason that the CAC have rejected Staff recommendations for additional office have included:
 - the CAC was concerned that given the market studies the City had contracted with over the years there is not the demand for high end office - Market studies indicate there is only the market support for approximately 300,000 square feet of office in EPA over the next 20 years. Staff is recommending over five times that amount of office use.
 - the CAC believed that light industrial and R&D would provide better job opportunities, especially for the residents of East Palo Alto. Jobs that had growth potential in areas like green tech and solar.
 - the CAC was concerned about the amount of traffic that would be generated by this magnitude of office development in an area where traffic is already a problem and solutions are difficult and expensive.
3. RWSBD is concerned that Office development, while desirable, is not realistic in the density, magnitude nor configuration proposed. East Palo Alto has not been able to attract office development in this area not because the zoning is not Office

but rather because of lack of infrastructure, remote nature of these sites, and East Palo Alto's area wide image problems. This is not going to be solved with a "specific plan." Given the lack of estimated demand and the known development challenges allocating 1,600,000 square feet of space to this usage is inappropriate.

4. The LLC is also somewhat concerned with the amount of retail envisioned along Bay Road in the mixed-use area, suggesting that it should be intensified and clustered nearer to University Avenue. Any implementation zoning should recognize the market difficulty of demanding ground floor retail uses.
5. Finally, our group respects and appreciates the work of the ETB-EPA Coalition and their vision projected for increased community serving and non-profit uses in this area. However, we would like to note that the 4 Corners / RBD already houses the largest concentration of community service activities in East Palo Alto. Their revised plan presented subsequent to the CAC recommendation, we feel goes too far.

In conclusion, the RWSBD LLC endorses the CAC recommended preferred Specific Plan. We recommend that the Planning Commission confirm this recommendation and send this forward to the City Council. However, we want to again reiterate that in order to achieve the objectives of any specific plan, the City must address the known impediments to development that encumber any project in East Palo Alto. As articulated in the Market Demand Analysis Report by Mundie Associates these include an expedited approval process for projects that conform to the adopted specific plan, a central point of contact in the City for development related activities and a master infrastructure plan for the area that is supported by the landowners

We look forward to continuing to work on this important project for the Ravenswood Area and the City of East Palo Alto.

Sincerely,

Jeff Poetsch, President
Ravenswood Shores Business District, LLC

cc: East Palo Alto Planning Department
East Palo Alto Redevelopment Agency
City Council of East Palo Alto