



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: New City Hall Retail

DATE: June 23, 2004

Approved

Date

6/24/04

RECOMMENDATION

Direct staff to:

Issue a Request for Proposals (RFP) to solicit up to three tenants for approximately 6,000 square feet of first floor space fronting South Fourth Street available in the New City Hall;

Model the RFP on the successful Fourth Street Garage retail project RFP;

- Solicit responses from a broad array of commercial retail brokers and restaurant owners and representatives.

These actions further the vision of San Jose as the world's most livable city, with diverse and distinctive qualities of life contained in the Economic Development Strategy by helping to "Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability" (Initiative 13). The proposed project will also support the City's vision for the Downtown as Creative and Cultural Center by adding to the vitality and desirability of San Jose's Downtown Core.

BACKGROUND

The New City Hall project will establish an important landmark in Downtown San Jose, by its distinctive architecture and the economic impact that the project will bring to Downtown. The vision for the New City Hall project includes a retail component. This retail will serve nearly 2,000 employees and 1,000 daily visitors.

The New City Hall retail should complement new vital retail frontage created by the Fourth Street garage project. City Hall retail will include approximately 6,000 square feet along Fourth

Street extending from San Fernando to Santa Clara Streets. Developing a critical mass of retail in the Downtown Core has long been a central goal of the Redevelopment Agency and the City. Downtown San Jose has a limited number of prime retail location opportunities. Over the past several years, Redevelopment Agency and City efforts have worked to attract new retail offerings helping to transform downtown into a more vibrant place to work and play. There is increasing interest by a variety of retailers in opening or expanding operations in downtown. In order to sustain recent successes, the City must continue to facilitate the development of new desirable retail spaces and assist in the renovation of existing spaces. A mix of existing and new spaces will continue to build an inventory of thriving retail venues that will in turn draw additional customers.

ANALYSIS

City Hall Retail Concept

The New City Hall (NCH) retail concept has been conceived to achieve multiple positive goals. The 6,000 square feet of retail will provide an exciting opportunity to link retail from San Fernando to Santa Clara Street along Fourth Street. The City Hall retail extends the frontage area activated by the Fourth Street Garage. Local and national retailers have already expressed interest in the site. NCH retail will serve 2,000 employees and 1,000+ daily visitors. The location of the project is optimal, strategically located adjacent to the Fourth Street Garage, the new Joint Martin Luther King Jr. Library, San Jose State and literally thousands of residential units.

The RFP will include retail food tenants into the project. The proposed plan for restaurant options includes a coffee retailer, a deli/sandwich/salad option and a third restaurant tenant. Competition to provide catering to events at the NCH will be an important factor. Quality food and design will be an important focus throughout the RFP process.

Research done to analyze the employee food service demand indicates that approximately 45% of City Hall employees prefer to eat in or close to the building. This means that 750 to 800 employees will likely patronize the restaurants in NCH or the Fourth Street Garage.

Request for Proposal Process

The Office of Economic Development (OED) proposes to issue a "Request for Proposals" that will reach out to commercial brokers and potential restaurant owners. OED will use local media including the Business Journal, Biz Ink, and the Mercury News in addition to direct mail to the brokerage community as the means to solicit a wide array of potential tenants for the NCH retail space.

The RFP will outline the opportunity and the major requirements for successfully responding to the RFP. The design of the RFP process is intended to outline all necessary rules and regulations to which the tenant will be subject to and provide OED sufficient flexibility to negotiate the best combination of tenants for the City Hall Retail space. Tenant selection will include a three-phase process:

- Phase 1 - submittal of qualifications and proposals, restaurant concept, financial information.
Phase 2 – Evaluation of submittals by a panel, which will include an employee representative and a private sector restaurant owner, and/or developer who does not have an interest in submitting a response to the RFP.
- Phase 3 – the panel will interview the top candidates and select one candidate per space.

OED will act as lead negotiator, working with a team consisting of General Services, Public Works, the Airport, the Attorney's Office, the Redevelopment Agency, and Planning and Building to ensure that all necessary City requirements are included in the development of New City Retail tenants. Staff from the Planning, Building and Code Enforcement Department and OED will assist the tenants who have signed leases move successfully through the design, permit and building stages of the project.

Evaluation Criteria

OED and the selection panel will focus on the following criteria in order to select and negotiate tenant leases in the NCH Retail project:

Quality tenants – the NCH is a landmark building designed by an internationally known architect, Richard Meier. The retailers in the space will contribute to the overall vitality and success of the project. Quality should be the hallmark of the food offered and the look and feel of the spaces provided by the tenants.

Financial capacity – staff will carefully review the financial capacity and performance of the tenants. Financial soundness extends beyond the rate of return and encompasses credit history, capital position, and realistic projections.

Customer Service – essential elements of customer service include management, staffing, and measurements of operational performance to insure continued quality customer service.

Construction Expertise – construction of the proposed retail space has a significant degree of complexity. The complexity includes that the tenant space is constructed over a podium that tenants must be able to coordinate with contractors working to complete City Hall, and that they can fulfill insurance and bonding requirements and meet tight timelines. Selected tenants must have demonstrated ability in hiring consultants that can successfully design, engineer and build a quality tenant space.

Community Awareness – in order to be successful tenants will be selected to contribute to the mix of diverse food concepts representative of the City and region, contribute to the economy, adhere to environmental management practices, and conform to the requirements related to non-discrimination in hiring.

Financial Objectives, Project Budget, Tenant Impacts

The goal of the RFP process is to select high-quality tenants that will provide desirable meeting and eating environments in the NCH. Staff will seek to negotiate leases that provide the best financial benefit as well as the highest quality for the NCH project. Unlike most private sector retail transactions, the NCH project affords no tenant improvement allowance to prospective tenants. The tenant improvement costs associated with occupying this space will be expensive. Typically tenant spaces are turned over to retailers in the form of a “warm shell” with air conditioning, sheet rock, flooring, fixtures and other attributes of the space in place. In this case, the NCH Retail space will be turned over to the selected tenants in a “cold shell” condition. While a grease trap, venting for air-conditioning, stubbed out utilities, and access to other systems are provided, each tenant will have to provide air conditioning units linking to electrical, mechanical and plumbing systems, in addition to all finishes in the space. Additionally, the City Hall project includes no budget for paying brokerage commissions. It is highly likely that the selected tenants will seek to recoup higher than normal expenses in a reduced rent structure with the City. As a result, OED anticipates lower than market rate rents for the project. It is also likely that tenants will seek at least a minimum initial 10-year lease term and several five-year options in order to amortize capital expenditures.

OED will strive to secure excellent tenants for the NCH. Negotiations will include all applicable City requirements and policies such as insurance requirements, construction requirements, non-discrimination policy, and the new local business preference policy. As was the case with the adjacent Fourth Street Garage and the new Main Library, the NCH retail is recommended to be exempt from the City’s Living Wage Policy. This policy generally applies when the City is soliciting vendors, not tenants, as is the case with the NCH retail.

Applicability of Living Wage Policy

The Living Wage Policy provides that it applies to food service vendors to the City, and also provides that inclusion of the policy in contracts impacted by leases is to be reviewed on a case-by-case basis to determine if exclusion from the Policy is warranted.

In this specific case due to the financial objectives, project budget and tenant impacts described above, staff recommends that the living wage policy not be a condition of the leases with the City.

Tenant Selection and Timing

OED anticipates releasing the NCH Retail RFP in July. Proposals will be due by the end of August. The panel will review proposals, interview tenants, and select preferred tenants by the end of September. OED hopes to bring proposed leases to the City Council for consideration by the end of the 2004 calendar year. An aggressive schedule will allow tenants a period of 6-8 months to complete design, obtain permits and construct tenant improvements. The NCH Retail is targeted to be open in late August of 2005. The Department of Public Works has advised that it is desirable to initiate construction of the retail tenant improvements after contractors for the City Hall project have completed their work in the area in and around the retail space. A staged construction schedule will avoid multiple potential problems including construction lay-down requirements, scheduling conflicts, the competing needs of contractors serving different construction projects and potential insurance issues.

PUBLIC OUTREACH

OED will work extensively with the retail brokerage community and local media to ensure a broad distribution of the NCH Retail Project Request for Proposals. The Downtown Association will review and comment on the proposal prior to release of the RFP.

COORDINATION

This memorandum was coordinated with the General Services Department, the Airport Department, the Redevelopment Agency, the City Attorney's Office, the Public Works Department, the Department of Planning, Building and Code Enforcement, and the Finance Department.

CEQA

Not a Project.