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Staff Report for and Presentation by Innisfree Ventures II on Revisions to the Village Marketplace Development at 1550 East 14th Street

SUMMARY AND RECOMMENDATION

In 2009, the Redevelopment Agency purchased 1550 East 14th Street to provide temporary parking during the construction of the downtown parking garage and then develop into a project which would serve as a catalyst for downtown retail. The Redevelopment Agency worked in partnership with developer Innisfree Ventures II and the community for three years to create the Village Marketplace, a retail project with a specialty grocery store anchor. Revisions to the Village Marketplace development were necessitated by the loss of the grocery anchor. In Summer 2013, Innisfree identified an alternative anchor tenant and submitted revised designs and elevations to the City for approval. This high profile project is being brought to the Council for direction.

BACKGROUND

In 1947, Lucky began operating a grocery store at 1550 East 14th Street (Site). In May 2005, Red Mountain Retail Group acquired a portfolio of Lucky properties, including the Site. Red Mountain held ownership of the Site through Norcal AL LLC, a limited liability corporation. In September 2005 the grocery store, which had changed to an Albertsons, closed due to underperformance.

In 2007, Norcal filed a series of lawsuits against the City contending that various planning and zoning actions related to the City's approval of the Transit Oriented Development Strategy violated its constitutional rights or were otherwise contrary to law. In 2008, the Council placed a priority on resolving the litigation due to the prominence of this downtown site and the blight created by the store vacancy. In April 2009, the Council voted unanimously to approve settlement terms which included the Redevelopment Agency's purchase of the Site for \$6.175 million, a price that included Norcal's demolition of the building. The settlement price was deemed reasonable based upon executed Letters of Intent for reuse of the building.

In September 2009, the Redevelopment Agency entered into an Exclusive Negotiating Rights Agreement (ENRA) with Innisfree Ventures II (Innisfree) for the Site. Staff worked closely with Innisfree and based on input from the community created the Village Marketplace project which included the following features:

- Quality retailers and a specialty grocery store (Fresh & Easy, Peet's Coffee & Tea, Chipotle and AT&T)
- Outdoor dining opportunities and a generous plaza for people to gather
- Retail activity along East 14th Street with parking behind the buildings
- Superior architecture, building materials, landscaping and a public art component
- Off-site improvements including pedestrian friendly streetscape and angled public parking.

The development of Village Marketplace was negatively impacted in June 2011 when the State froze redevelopment agency activities thereby making it impossible for the Redevelopment Agency to sell the parcel as planned. Progress on the plans, however, continued with numerous public workshops. Then, on December 29, 2011 the State Supreme Court upheld AB x1 26 which eliminated redevelopment agencies as of February 1, 2012.

In April 2012, the entitlements for Village Marketplace were approved by the Planning Commission and in May 2012, Council approved the plans. Concurrently, the City Council, serving as Successor Agency to the City of San Leandro Redevelopment Agency, entered into a Disposition and Development Agreement (DDA) with Innisfree for the sale of the Site for \$2.25 million, based on an income approach to valuation. The DDA was subsequently approved by the Successor Agency Oversight Board and the State Department of Finance.

Additional terms of the DDA included the following provisions:

- Innisfree agrees to pay the Successor Agency an additional \$250,000 if a full-service restaurant is not opened on the Site.
- Innisfree to include, at developer's expense, a public art component, new public sidewalks, street trees and bike racks.
- Innisfree, its contractors and agents shall comply with prevailing wage laws.
- Innisfree shall maintain the Village Marketplace and surrounding public improvements at its own expense including the landscaping and common areas.

In December 2012, Fresh & Easy, the Village Marketplace's anchor tenant, exited the US market and terminated its lease. The development was again placed on hold and time was provided for the developer to identify a replacement anchor tenant. Innisfree has identified CVS as the replacement anchor and made modifications to the site to accommodate this tenant. The tenant Chipotle was replaced with The Habit Burger and both Peet's and The Habit Burger prefer CVS as an anchor and remain committed to the revised development plan.

Staff has been working with CVS and Innisfree to ensure that the revised plans continue to represent the highest quality of standards in all areas. The revised plans will be presented to the City Council at the work session. Elements of the plan include:

- Three separate retail buildings. Two along E. 14th Street - One for Peet's, The Habit Burger and a 1,200 square foot available space, and a second at the corner of E. 14th Street and Dolores to be leased to AT&T. Plus, a standalone building for CVS along Juana.
- A generous and attractive plaza offering outdoor dining for The Habit Burger, a fountain, two art display panels of Raymond Lowey's tiles, granite seat benches, decorative lighting with hanging baskets, art bike racks, and decorative paving.
- An additional outdoor area for Peet's customers including a seat wall and bicycle racks.
- New sidewalks, curbs and gutters and additional street trees with decorative grates along E. 14th and Juana.
- Quality architectural design elements and details on all three buildings including stone work, trellises, arbors, exterior sconces, varying heights and setbacks to break up the buildings.

As the revised project does not include a sit down restaurant, consistent with the DDA, the purchase price for the site will increase to \$2.5 million. This revenue is not City revenue. The sale proceeds will be turned over to the Alameda County Tax Auditor Controller for distribution to taxing entities, consistent with the requirements of AB x1 26. The City will receive a share of the sale proceeds based on the County's formula for allocating property tax revenues.

The CVS includes a drive-thru window along the back of the property. All efforts have been made to mitigate potential impact with CVS' recent drive-thru in Tiburon serving as the prototype. Those mitigation measures include:

- The drive-thru window, along with the required five car queue are on a one way drive aisle behind the building not readily visible from East 14th St. or Juana Ave.
- Installation of a specially designed intercom system to be used to serve the hearing impaired. The system will project sound southerly to keep the sound on site. There will also be a canopy over the transaction window.

- A 10-foot trellis and landscaping will be installed on top of the easterly wall from Juana to the trash enclosure to serve as a buffer to the adjacent property.

The benefits of the revised project include:

- Peet's and The Habit Burger come to Downtown San Leandro and numerous desirable retailers are waiting to co-tenant with Peet's. This should attract retailers to currently vacant spaces like the former CopyMat.
- Generous public gatherings spaces with outdoor dining options and public art elements such as a fountain/mister and the Raymond Lowey tiles.
- Well appointed, quality architecture and materials. The architecture will raise the bar for design in Downtown San Leandro, catalyzing additional investment elsewhere.
- Project includes \$500k in off-site improvements including new street trees, curbs, and gutters.
- \$10m investment in San Leandro and annual property tax revenues of approximately \$100k.
- CVS would vacate its E. 14th St. and Callan Ave. site and will consider joint sale of this corner parcel, along with the City owned parking lot. This priority opportunity site represents 1.5 acres ready for redevelopment on a prime corner in an ideal location for mixed use (retail/multi-family).
- CVS has also provided notice to the City that they do not plan to exercise its right to a 10-year lease extension with Safeway for the CVS location in Washington Plaza when it expires in 2017. This is contingent upon Safeway not operating a standalone pharmacy and making a significant investment in redeveloping its store.

Modifications to the Planned Development can be made administratively by the Community Development Director. However, given this project's high profile, a minute order directing the Community Development Director to approve the project is before the Council for consideration.

Assuming Council directs staff to approve the project, the timeline for development follows:

Permits Submitted	10/18/13 (outside date 11/15/13)
Innisfree Purchase Property	11/13/13 (outside date 12/31/13)
Groundbreak Ceremony	11/14/13 (outside date 12/13/13)
Start Construction	11/18/13 (outside date 1/6/14)
CVS Start Construction	3/3/14 (outside date 5/1/14)
Project Opens	9/2/14 (outside date 11/3/14)

Previous Actions

- On May 21, 2012, the City Council approved the entitlements for Village Marketplace
- On May 21, 2012, the City Council, serving as Successor Agency to the City of San Leandro Redevelopment Agency, entered into a Disposition and Development Agreement with Innisfree Ventures II for the sale of 1550 East 14th Street
- On September 8, 2009, the Redevelopment Agency entered into an Exclusive Negotiating Rights Agreement (ENRA) with Innisfree Ventures II for development of 1550 East 14th Street
- On April 20, 2009, the City Council approved settlement terms which included the Redevelopment Agency's purchase of 1550 East 14th Street

Environmental Review

- The Downtown San Leandro Transit Oriented Development Strategy adopted by the City Council in September 2007 provides the environmental clearance for development of the 1550 East 14th Street

Board/Commission Review and Actions

- On April 19, 2012, the entitlements for Village Marketplace were approved by the Planning

Commission

Summary of Public Outreach Efforts

Council Update	November 7, 2011
Community Workshop	September 27, 2011
Community Workshop	September 2, 2011
Downtown Association	June 24, 2011
Council Work Session	April 25, 2011

Legal Analysis

This report and the associated minute order were reviewed and approved by the City Attorney.

ATTACHMENTS

- Letter from CVS dated August 30, 2013

PREPARED BY: Cynthia Battenberg, Community Development Director