



City of Palo Alto

City Council Staff Report

(ID # 14548)

Report Type: Study Session

Meeting Date: 8/1/2022

Summary Title: 340 Portage Avenue: Prescreening & Initial DA Terms

Title: 278 Lambert, 3040 - 3250 Park, 3201-3225 Ash & 200 - 404 Portage Prescreening Study Session: Report on Negotiations Between the City Council Ad Hoc and the Sobrato Organization and Prescreening for Development Agreement and Rezoning, Seeking Initial Public Input on Negotiated Terms. Environmental Assessment: Not a Project. Zoning District: RM-30 (Medium Density Multiple-Family Residence District) and GM (General Manufacturing).

From: City Manager

Lead Department: Planning and Development Services

Recommendation

Conduct pre-screening study session and receive public input regarding the potential development agreement.

Background/Discussion

On October 25, 2021 the City Council established an ad hoc committee consisting of Vice Mayor Kou and Councilmember DuBois to negotiate with the Sobrato Organization (Sobrato) terms to guide future development at Sobrato's 14.65-acre property located at 200-404 Portage Avenue, 3040-3250 Park Boulevard, 3201-3225 Ash Street & 278 Lambert Avenue (collectively referred to as "340 Portage Avenue"). At the time the ad hoc was formed, the City was reviewing non-conforming provisions of the Palo Alto Municipal Code (PAMC) that would affect the subject property and the owner had applied for a new housing development based on SB330 requirements.¹ The negotiation was intended to avert a possible lawsuit and find common ground for the future use of the site, which is also a key parcel in the City's North Ventura

¹ SB330 Pending Project:

<https://www.cityofpaloalto.org/News-Articles/Planning-and-Development-Services/200-Portage-Avenue>

Coordinated Area Plan (NVCAP) planning effort.² The October 25, 2021 Council report provides a summary concerning the recent history of the site and discussion that preceded the formation of the ad hoc.³

The Council ad hoc and staff held meetings with representatives of Sobrato between December 2021 and June 2022. Both parties negotiated in good faith toward a mutually agreeable outcome and reflected their respective interests throughout the negotiation. For the City, given prior Council direction and public engagement with the NVCAP effort, the ad hoc represented interests related to meaningful open space, including potential naturalization of Matadero Creek, preservation of the site's character defining historic features and history, and housing – in particular, affordable housing. Sobrato expressed an interest in preserving existing office and research & development (R&D) uses at the site and, in response to City priorities, development of new ownership housing. In entering negotiations both parties had an interest in avoiding litigation.

On June 20, 2022 and continued to June 21, 2022, the City Council in Closed Session reviewed the latest terms for a possible development agreement and voted 7-0 to direct staff to prepare a tolling agreement that would temporarily suspend processing of the pending SB330 housing application while Sobrato pursues a development agreement based on terms included in Attachment A. The Council directed staff to schedule a Study Session so the public would have an opportunity to comment on the general development terms and public benefits. This study session also serves as a pre-screening meeting required for a proposed development agreement and the required Planned Community zone under PAMC Chapter 18.79.

The agreement terms would avoid litigation, allow for Sobrato to retain R&D space plus some additional amount of R&D space, construct housing and for Sobrato to contribute money to the City for affordable housing and dedicate land to the city for future open space and affordable housing. Included in this report is Attachment A, which summarizes the initial terms and includes a map and table providing more detailed information. Staff are currently working with Sobrato to develop a Tolling and Project Processing Agreement that outlines the steps Sobrato

² January 10, 2022 City Council Staff Report for NVCAP:

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220110/20220110pccsm-linked-updated.pdf#page=150> January 10, 2022 City Council Staff Report for NVCAP: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220110/20220110pccsm-linked-updated.pdf#page=150>

³ October 25, 2021 City Council Staff Report for 340 Portage Property:

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/10-october/20211025/20211025pccsm-linked-w-times.pdf#page=136> October 25, 2021 City Council Staff Report for 340 Portage Property: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/10-october/20211025/20211025pccsm-linked-w-times.pdf#page=136>

and City will follow to process the application and conveyance of public benefits to the City. Staff anticipates that this agreement will be finalized in advance of the study session and will provide a copy when available.

Policy Implications

The Tolling and Project Processing Agreement will not commit the City to ultimately approve the project, which will require an environmental impact report (EIR) and public hearings before the Architectural Review Board (ARB), Planning and Transportation Commission (PTC) and City Council.

Resource Impact

There is no resource impact at this time, however, in accordance with the initial terms of the development agreement, the City would receive \$5 million towards future affordable housing and open space improvements and land dedicated to the City for open space, including the creek and a site for affordable housing. In developing the site, Sobrato would be responsible for payment of the City's applicable development impact fees.

Timeline

A project timeline is set forth in Attachment B (forthcoming prior to meeting).

Stakeholder Engagement

Future hearings on the development would be subject to public notification. As well as any public notifications required for processing environmental review of the development application.

Environmental Review

This summary is not subject to the California Environmental Quality Act (CEQA). However, going forward the actions related to the development agreement application are subject to CEQA. It is expected that an EIR would be drafted in accordance with CEQA.

Attachments:

Attachment3.a: ATTACHMENT A (DOCX)

ATTACHMENT A

Proposed Negotiated Terms

The following is a summary of the proposed negotiated terms between Sobrato Organization (Sobrato) and the City of Palo Alto. This considers the breakdown of the property into future parcels, the allocation of square footage (SF) for land uses, the number of dwelling units and any obligations towards development impact fees and community benefit contributions.

Table 1: Summary of Negotiated Terms and Obligations

<ul style="list-style-type: none"> • Settlement agreement for no litigation • Sobrato demolishes portion of the cannery building to develop 74 ownership townhouses • City to allow remainder of cannery building to remain research & development (R&D)¹ space • City to allow Ash Building to remain office space • City to allow Audi building to convert from auto repair service to R&D space • Sobrato to construct new one level over grade garage for R&D and retail parking needs, necessary to replace the existing surface parking to be removed to accommodate the land dedication to the City. • Sobrato to renovate cannery building to support the existing R&D use and accommodate 2,600 SF of retail space with public view opportunities to the interior monitor roof trusses and an exhibit to recognize the history of the cannery building. <ul style="list-style-type: none"> ○ Sobrato not expected to make profit from retail space rent • Sobrato to dedicate ~3.25 acres of land to city for open space and affordable housing site to satisfy park and affordable housing fees. • Sobrato to contribute \$5 million to City for open space/affordable housing • Sobrato to pay applicable development impact fees • Sobrato to develop a TDM program for the existing R&D and office

Table 2: Summary of Land Parcels

Existing	Proposed	Proposed Use	Proposed Acreage (gross)
340 Portage Avenue/3040 Park Blvd.	Parcel 1	Townhouses	3.91 acres
	Parcel 2	Dedicated to City (Open space/BMR lot)	3.25 acres
	Parcel 3	Cannery Building	6.30 acres
	Parcel 4	Ash Building	0.42 acres
	Parcel 5	Audi Building	0.77 acres
Total:	14.65 acres		14.65 acres

¹ "Research and development" as defined in Municipal Code Section 18.04.030(123).

The dedicated Parcel 2 would be for the future open space and creek improvements (approximately 2.25 acres) and the future site to develop below market rate (BMR) housing (approximately one acre). Parcel 3 includes a private street that extends Portage Avenue from its terminus at Ash Street to intersect with Park Boulevard. This will provide access to Parcels 1, 2, 3 & 4. Parcel 3 also includes a new one level over grade parking structure to accommodate the parking needs of the Cannery building and the Ash building.

Figure 1: Proposed Land Exhibit

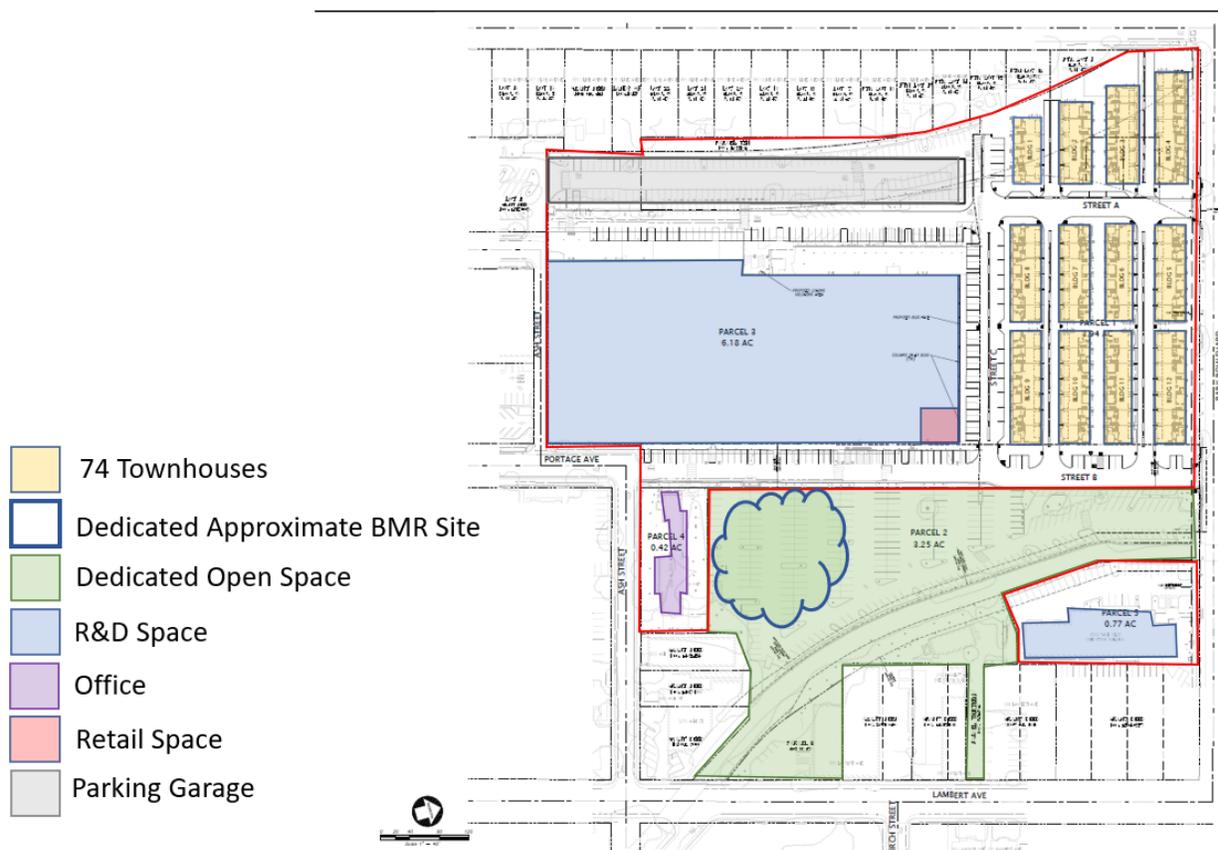


Table 3: Summary of Land Use Square Footage

	Cannery Building (340 Portage)	Ash Building	Park Building (3040 Park)	Audi Building (3050 Park)	Total
Existing (SF) Total	232,383	4,707	1,750	11,762	250,602
R&D	142,744	0	0	0	142,744
Office	0	4,707	0	0	4,707
Warehouse	5,639	0	0	0	5,639
Retail	84,000	0	0	0	84,000
Automotive	0	0	0	11,762	11,762

	Cannery Building (340 Portage)	Ash Building	Park Building (3040 Park)	Audi Building (3050 Park)	Total
Personal Service	0	0	1,750	0	1,750
Proposed (SF) Total	145,344	4,707	0	11,762	161,813
R&D	142,744	0	0	11,762	154,506
Office	0	4,707	0	0	4,707
Warehouse	0	0	0	0	0
Retail	2,600	0	0	0	2,600
Automotive	0	0	0	0	0

The R&D square footage in the cannery building remains the same, and overall, for the site R&D square footage increases by 11,762 SF due solely to conversion of the Audi building. A portion of the cannery building will be demolished (87,039 SF – all the warehouse and vacant retail space [except for the 2,600 SF for the new retail area]) to accommodate the townhouse parcel.

Housing/Affordable Housing

The proposed terms include Sobrato constructing 74 market rate townhouse units on Parcel 1. In lieu of providing inclusionary housing, Sobrato increases their land dedication commitment to the City for an approximate one-acre site for future development of a BMR project. The City would have full control over development of the site (types of units, level of affordability, etc.). To fulfill housing on the site, the City would need to establish a vision and parameters such density, levels of affordability, height for the project, etc. and distribute a request for proposals (RFP). The RFP is a document that the City would post to elicit a response or formal bid from non-profit developers with a proposal. These proposals would be vetted through a city process prior to the city choosing a developer to move forward with a plan that most fits the City’s vision for the site.

Sobrato will also contribute \$5 million at final inspection of the townhomes into the City’s affordable housing fund and park improvement fund as an additional community benefit. The City has preliminary determined that \$1 million of this amount will be dedicated to improving open space for site.

In any case it would take time to establish the vision, distribute the RFP, work out the details with the chosen developer and construct the project.

Open Space/Creek Naturalization

An important component of the project is open space. Part of the framework of this was established through the North Ventura Coordinated Area Plan visioning process and the selection of the preferred alternative concept in January 2022 by the City Council.

The preferred alternative included a concept that realized a full naturalization of Matadero Creek (Concept #3). A significant portion of the land necessary for creek naturalization is under control by Sobrato. Without a negotiated agreement, the City would have needed to acquire the land at

market rate. In addition, Sobrato's SB330 project would have disrupted the City's vision for the naturalized creek since a portion of the SB330 project's footprint lies in the creek improvement area.

As part of the negotiated terms, Sobrato will dedicate approximately 2.25 acres to the City for open space. According to the City's economic consultant assisting with the negotiations, Keyser Marston Associates, Inc., the value of one acre being dedicated to City from Sobrato is \$13.1 million.

One issue to address is that part of the negotiated agreement, Sobrato will retain parking along the Matadero Creek for the Audi building. This would require exploring the implications for a revised creek alignment that does not occupy those parking spaces. This would mean that Concept #3 is not possible, however, Concept #2 or similar version would be evaluated. The difference in width of the improvement area between the two concepts is approximately 15 feet.

Retail Space/Historic Preservation

As part of the project, Sobrato will renovate the cannery building, specifically demolishing the northern portion of the building to accommodate the townhouse development. This renovation would expose the monitor roof elevation of the cannery. Conceptual drawings depict how this renovation would be incorporated and complement the existing building (Figure 2). As part of the renovation, the monitor portions of the building will include 2,600 SF of retail space. The space is almost entirely located within the existing footprint of the cannery building and will include a portion of the ceiling to be transparent allowing viewing of the renovated monitor roof trusses from inside the space.

The frontage of the retail space includes an outdoor plaza for seating and other gatherings. Figure 2 depicts one possible approach to this outdoor area.

A key consideration for modifications and renovations for the cannery building is the acknowledgment of the site's historic significance. The interior of the retail space will include exhibits displaying the historic significance of the site. The outdoor plaza area will likely also see other historic acknowledgment elements such as plaques and maybe a statue. Any renovations, including demolition require an evaluation of the project with the Secretary of Interior Standards for renovations and considerations of any impacts consistent with the California Environmental Quality Act (CEQA). Any consideration of public art will also go through a public process.

Figure 2: Proposed Retail Elevation



Other Terms

As part of the development agreement, Sobrato agrees pay all existing applicable fees per the City's fee schedule, due and payable pro rata (1/74) at final inspection for the residential units per Palo Alto Municipal Code 16.64.020. As is typical of development agreement, no new fees are applicable after the adoption of the Development Agreement (DA), other than annual adjustments.

The existing uses of the site are not subject to any transportation demand reduction. The DA will specify a TDM program for the site to reduce single occupancy vehicle trips by at least 15% and help ensure that transportation impacts do not exceed those typically associated with R&D uses.

Rezoning Ordinance

Finally, because Sobrato is donating significant acreage to the City, the remaining parcels will not comply with existing City zoning standards. As a result, a Planned Community (PC) ordinance will need to be adopted in conjunction with a development agreement, along with any necessary amendments to the Comprehensive Plan. A PC ordinance is also necessary to allow retail in the cannery building, restrict use of the cannery building and Audi building to R&D use, and allow office to continue in the Ash Building, as existing commercial zones allow greater flexibility. The PC ordinance/rezoning will ensure flexibility for the City's future use of the dedication parcel for affordable housing and park space.