Planning Administration Hearing

March 2 - Gibraltar Drive

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Introduction – Hello I'm Ron DuHamel with General Development Inc. General Development Inc. is the Managing Partner of GDI Gibraltar LLC. I would like to take this time to give a brief summary of why we think this project should be approved and our history of correspondence with the city of Sunnyvale.

- **Current Conditions** – The building has been vacant for over two years, There has been no interest regarding ~~purchase or~~ The lease of the buildings with the exception being, for private ownership of condominium space which we have interest in five of the eight units. The buildings are in excellent conditions and the design of the complex is conducive to an easy separation of the units.
- **Submittal History** - Prior to purchasing the property GDI met with the city of Sunnyvale in September of 2004 for a predevelopment meeting to discuss the proposed concept of dividing the property into condominium lots. At the meeting were members of Planning, Public Works, Fire and other agency's. The condominium concept as proposed today was well received with the only contested issue being the possibility of installing a sidewalk.
- GDI then moved ahead and purchased the property.
- In November of 2004 GDI submitted a preliminary submittal to the city of Sunnyvale to receive feedback on the proposed layout and improvements of the project. The comments we received back were all in line with our predevelopment meeting except for the comment that the proposed project does not meet the suggested FAR coverage of 50% and that staff was considering denying the project.
- At this point, GDI began discussing with the Planning Staff the reasons that the project fits within the guidelines of the Specific Plan. We discussed the following Topics:
  - **Site Constraints** – regarding Parcel Size, Parking, Flood Plain
  - **Market Conditions** – The Feasibility and demand of constructing a new building.
  - **Moffett Park Specific Plan** - and The plans call for flexibility
  - **Transfer of Development Rights** – and how the TDR's protect the cities proposed density of the area in the long term.
  - **Assembly of Property** – The cost constraints and availability of property. surrounding the site.

- **Site Constraints** – The two 1.7 acres parcels are two of the smallest parcels in the MPTOD district. Large Corporations have typically gone after parcels with a minimum size of 10 acres and up to build their corporate campuses. A minimum of 300,000 square feet of building space is the starting point of a good "Class A" Office project. The model for building Class A Office space on these two parcels that meet the suggested FAR of 50%. came to a total of 60,000 square feet, which simply does not fit the corporate Class A Office mold.
- GDI did a feasibility analysis that maximized the site as staff suggested. The project required a two level above ground parking garage along with a four-story building. Lease Rates would be required at a rate of $3.50NNN per square foot. This is far stretch of where market conditions are today.
- **Market Conditions** - GDI dose not feel the Planning staff or the EDC has considered the

market conditions required to construct new "Class A" office space. For this particular site the following circumstances would be required. 1) There needs to be a demand for the product, which can be determined by low vacancy rates. Current Vacancy rates that can be identified in Moffett Park are at 20%. These vacancy rates have been consistent since 2001. In addition to low vacancy rates there needs to be lease rates in the $3.00 – 3.50 range. Current lease rates of "Class A" Office Space are between $.80 and $1.35. These lease rates have also been around since January of 01. Staff has indicated this is a dip in the market. GDI believes this four-year stretch should be considered more than a dip and staff needs to come realization of what developers and property owners are facing.

- **The Moffett Park Specific Plan** - is a grand vision with a twenty-year outlook. GDI has pointed out to staff that the plan calls for flexibility under changing market conditions. In our opinion, this is needed at this time and the cities flexibility may need to remain in place for a minimum of 5-10 years or until lease and vacancy rates get more in line with conditions that support new construction.
- Staff argues the concept for the Specific Plan was completed in April of 2004 when the plan was approved and that this approval date reflects that market conditions in 2004 were close to satisfactory to construct new buildings. GDI believes the concept of the Specific Plan originated on or before 2000, when Market conditions and the Dot Com. Industry were at a high and new building permit applications were at a maximum. Market conditions that drove new construction in 2000, included lease rates of $4.00 – $5.00 per square foot with an Office Vacancy Factor of 3%.
- For Example: The Developers that leased space to Ariba paid $42.00 per square foot for their land and charged $3.00 per square foot NNN for their Lease Rate which did not include tenant improvements of $75.00 per square foot that the tenant was responsible for.
- Thus when the Market has dropped so dramatically for a sustained period of time, GDI believes Staff should apply the flexibility the Specific Plan calls for.
- **Transfer of Development Rights** - GDI discussed with Staff that our plan includes a strategy to sell or give away our TDR's, which helps preserve the density that supports the light rail system. As we understand the Specific Plan the TDR's concept was set in place for Developers who chose not to pursue the suggested FAR of 50%. This plan simply allows the building square footage of one property to be transferred to another parcel. This transfer ensures the population density for the light rail system to be utilized to it's highest potential.
- Staff has indicated they have plenty of TDR reserves at this time and they don't need any more. GDI argues that this supports their Market Condition point. The reason there is a surplus of TDR's is because there is no demand for expansion of Office Space within the area. Only at such a time that the demand for office space becomes great enough then land values will rise and the demand for TDR's will rise.
- **Assembling Properties** - Gibraltar Drive is currently made up of ~~relatively new~~ "Class B" Office space. The concept of assembling more buildings around us to create a corporate campus of significant size is economically unreasonable. Trying to assemble these properties at a square foot price that supports new construction will not happen in the near future.
- **Healing the Vacancy Rate** – The best situation we see for the city of Sunnyvale is to first lower ~~occupancy~~ Vacancy rates by supporting businesses and owners that bring back jobs to the

area. Two of the Principals in the Specific Plan calls for privatization and working with existing property owners. GDI pointed this out to staff. Staffs reply was, "this was meant for large building owners".

- **Ultimately** - Our project, although relatively small, will take a 100% vacant building and bring back approximately 136 jobs to the city of Sunnyvale from outside areas. And in doing so, the new uses will all be under the current zoning code.
- **In Summary** – if we look back at the five main points that support this project They are as follows
  - **Site Constraints,**
  - **Market Conditions,**
  - **The call for Flexibility in the Moffett Park Specific Plan.**
  - **Protection of Density for the city of Sunnyvale through the Transfer of Development Rights**
  - **and constraints for Assembly of Property,**

GDI believes this project should be approved.

At this point I would like to introduce ~~Greg Gallaso~~ Terry Dereau Cornish & Carey with Colliers International.

Terry is also a Partner The Grd Gibraltar LLC.

City of SVL Report

I support the conversion of the Moffet Park area to Corporate Headquarters and Class A Office. However, I still think an area needs a mix of services and options for Tenants.

Staff Responses: "Surplus of Class B and Class C space"

Reality: Cornish & Carey Commercial database shows 41 Class B and C office spaces between 1,000 – 5,000 SF available in Sunnyvale totaling 121,538 SF. Moffet Park has 17 spaces and 46,167 sq. ft. in total. This is not a surplus nor is it a surprise to me. Sunnyvale is generally known to have a shortage of multi tenant affordable office space by Brokers like myself who lease office space in Silicon Valley. MV and Santa Clara

Staff Responses: "Then MPSP was approved April, 2004 and factored in both current and projected market forces"

And…

"Establishment of a condominium ownership will prolong the life of this building beyond its standard lifetime." The assumption is a conversion is easier with one owner now versus two later or 8 condo owners.

Reality: "I want to address the life of the building": These buildings have full height windows, 9-ft ceilings, glass on 3 to 4 sides, perimeter privates, no stairs or elevators to deal with, great parking, ~~and~~ multi-tenant capable to 1,000 sq. ft.; great free way access, walk to retail services and mass transit. This is what

designated ind but not industrial

people look for in office space.

This type of building does not become obsolete, it just requires maintenance and cosmetic upgrades.

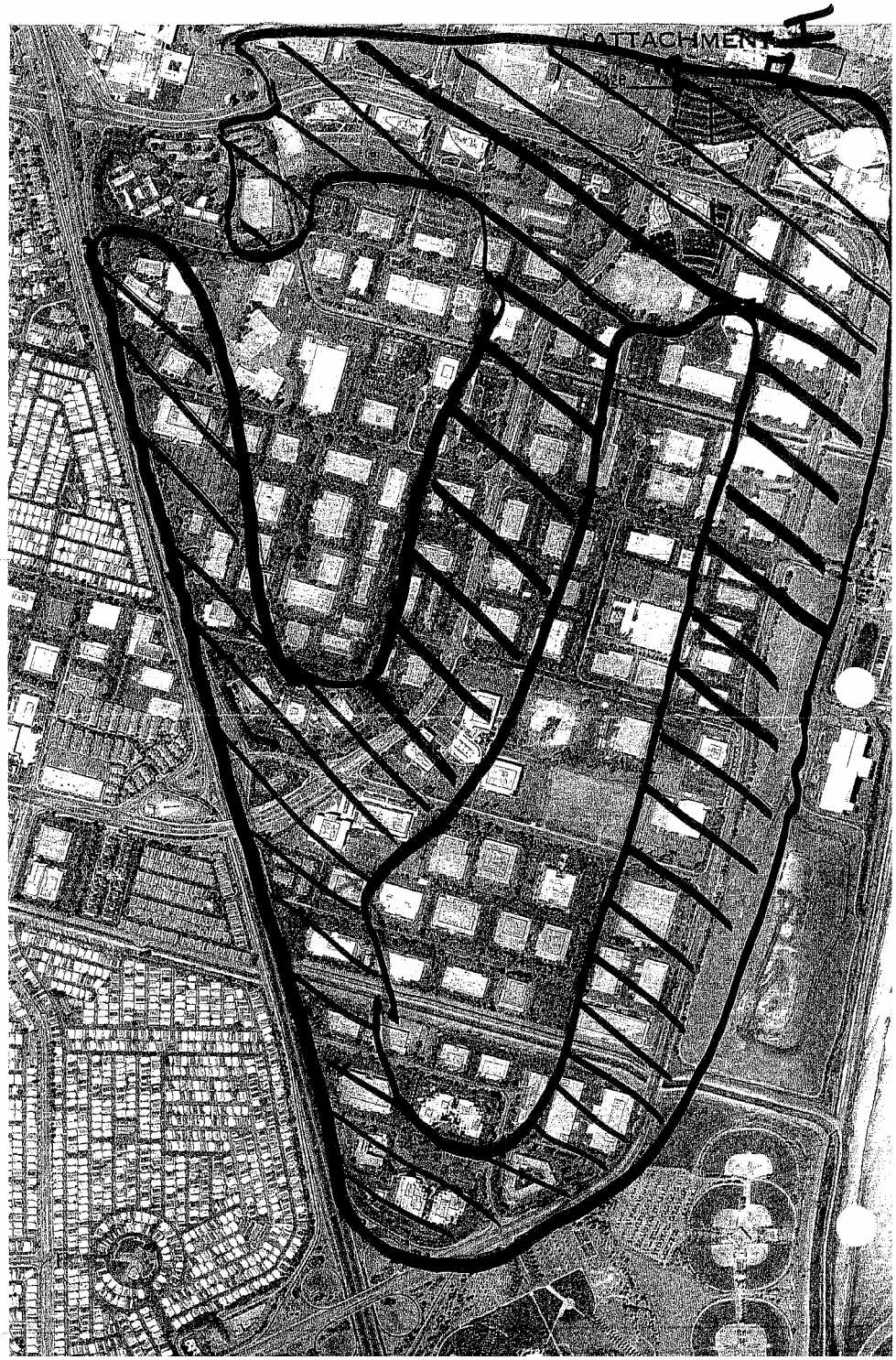
Besides those reasons, another reason I invested in this project was because I knew the remodel costs were not that significant. The buildings are already in near market ready condition.

So if it is 1 owner now, 2 or 8 later it will still have value. As the market rebounds and new development becomes feasible, the value of these buildings goes up as well.
[The High Tide Floats All Boats]

Going back to my initial statement of a mix of services and tenant options, I would point to an area where this has been evolving: The San Jose Airport Market. In the last development wave, they did a better job of providing restaurants and retail services, and there is still a need and market for B and C multi-tenant office to provide needed services to the large corporate users, (accounting, legal consulting, start up space, as examples)
There is a condo conversion by Borelli on Technology Drive that is selling well.

This Site meets the needs of the MPSP as it relates to "allowing for some ancillary uses"
It also will provide affordable office space for start up companies and support services

which is consistent with Sunnyvale's ~~the~~ 2003 Community Development Strategy.

I applaud your battle plan to upgrade Moffet Park to Class A and Corporate Headquarters, but I think you are targeting the wrong property!

ATTACHMENT 1