

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

TO: REDEVELOPMENT AGENCY BOARD	FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR
SUBJECT: SEE BELOW	DATE: MAY 10, 2006

INFORMATION

SUBJECT: NORTH SAN PEDRO HOUSING SITE UPDATE

In August, 2005, the Redevelopment Agency Board approved an Exclusive Negotiations Agreement (ENA) for the North San Pedro Housing Site with the Olson Company and Barry Swenson Builder (Olson/Swenson). After a competitive bidding process, Olson/Swenson was selected to develop a mixed-density residential neighborhood of approximately 400 units on about 9 acres. The Board also directed staff to solicit interest for a grocery store on a portion of the site, east of North San Pedro Street.

In September, 2005, the Agency issued an RFP for a grocery store for the 1.25-acre site and specifically targeted nearly 20 grocery store operators and developers doing business in the Bay Area. No proposals were received, but Safeway did submit a letter indicating that a larger, better-configured parcel within the site might be of interest. Thereafter, staff directed the Olson/Swenson team to study the feasibility of integrating Safeway into the project. The Olson/Swenson analysis concluded that integrating the grocery store into a residential building would not adversely impact the project density, but compensation of land value to the Agency would be significantly reduced because of the increased construction costs associated with such a project.

Safeway indicated that a free-standing store would be their preference and they proceeded to study that alternative in depth. After several months of study, including working with Agency staff and Olson/Swenson, Safeway has determined that this site is not best suited for a grocery store. The attached letter from Safeway concludes that, while it remains committed to finding a location in downtown San Jose, it prefers to be situated on a commercial corridor with retail synergy and better exposure. Staff will continue to work with Safeway to identify other suitable sites for their consideration.

Since the grocery store efforts began at North San Pedro, there have been several positive developments in providing grocery opportunities in the greater downtown. First, following Albertson's closing its store on East Santa Clara Street, a grocery/drugstore/prepared foods operation including Super Mercado Mexico, a farmacia, and casual dining restaurant, is planning to rehabilitate that space and will reopen soon. Whole Foods Market has also announced that it is coming to The Alameda NBD, is finalizing negotiations, and has submitted plans to build a new store at the corner of The Alameda and Stockton Avenue.

In February, San Jose MarketCenter opened on Coleman Avenue, anchored by a Target store with approximately 6,000 square feet dedicated to groceries. Staff has also been working to assist the location of a Trader Joes at MarketCenter and will bring that item forward for Board consideration in June.

As Safeway was conducting its analysis, only minimal work was done by the Olson/Swenson team on their housing portion since it was not certain what the eventual site plan would be. Staff will resume efforts with Olson/Swenson to finalize a plan for the entire North San Pedro site and bring a DDA forward for the Redevelopment Agency Board's consideration later this year.



HARRY S. MAVROGENES
Executive Director

Encl.

Sender's Direct Line (925) 467-3063
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May 2, 2006

Via Airborne

✓John Weis
Deputy Executive Director
The Redevelopment Agency of the City of San Jose
200 East Santa Clara Street, 14th Floor
San Jose, California 95113

**RE: North San Pedro
San Jose, California**

Dear John:

Thank you for the opportunity to consider Parcel P1 at the NEC Julian Street and Terraine Street in the North San Pedro project area. Safeway has carefully evaluated this unique opportunity, and while our interest remains high in placing a new full-service grocery store in downtown San Jose, we must decline this site.

As you are aware, Safeway has for the past nine years attempted to locate a new, state-of-the-art grocery store within the North San Pedro site to serve downtown San Jose. In the early 1990's, Safeway pursued a freestanding store with full on-grade parking on a different and larger parcel than P1. In the early 2000's, Safeway and Swenson signed a letter of commitment wherein Safeway would be the full-service grocery store within their high density residential project. When Safeway was contacted by the Redevelopment Agency in 2005, the North San Pedro site had been converted to low density housing. Safeway was asked to review a stand-alone store on the newly designed Parcel P1, essentially inserting a commercial grocery store into a predetermined, residential site plan and design.

In considering any urban location where land is scarce, Safeway must nonetheless make certain that several key factors are present to ensure success. Our concerns regarding Parcel P1 are as follows:

- ◆ Safeway and its architects spent a diligent amount of time working to lay out a store that could function on Parcel P1. Our research data concludes that a 50,000 – 60,000 square foot store is necessary to properly serve the community. Additionally, any mixed use or urban store with underground parking requires on-grade "teaser parking" in front of the store. In our final analysis, Safeway determined that Parcel P1 is too small, limiting teaser parking and making delivery truck and parking garage access difficult. While Safeway might consider rooftop parking, there is not sufficient land for appropriate ramping.

Mr. John Weis
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- ◆ North San Pedro's street patterns are a mix of one-way and two-way streets which limit the options for direct conventional access. This can be an impediment for getting shoppers to the site.
- ◆ A full-service Safeway will need to draw on a larger trade area, that of greater downtown San Jose, to make the store a success. Safeway is concerned that the site is not on a commercial corridor but rather, based on the street patterns and location of the parcel, in a residential "pocket" with no retail presence. Our experience tells us that retail synergy is a vital component to success, therefore, in a limited, neighborhood location such as Parcel P1, supplementary retail is important. Our understanding is that no additional retail is contemplated for the North San Pedro project area at this time.

Once again, Safeway would like to thank the Redevelopment Agency for the opportunity to review Parcel P1 in the North San Pedro project area. While this site will not sufficiently accommodate a full-service grocery store, Safeway remains committed to finding a location in downtown San Jose so that it may begin serving this growing urban community.

Sincerely,

SAFEWAY, INC.



Natalie C. Mattei
Real Estate Manager

CC: Kathleen Gallagher – Vice President-Real Estate, Safeway
Ron Gonzales – Mayor, City of San Jose
Cindy Chavez – Vice Mayor, City of San Jose

May 9, 2006

Natalie C. Mattei
Real Estate Manager-Northern California Division
Safeway, Inc.
5918 Stoneridge Mall Road
Pleasanton, CA 94588-3229

RE: North San Pedro Site, San Jose

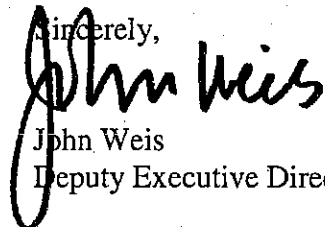
Dear Natalie:

Thank you for your thoughtful response regarding the development opportunity at the North San Pedro Site in downtown San Jose. While we are disappointed that Safeway has elected not to pursue this opportunity, we understand your reasoning and would like to continue working with you to see if another site may fit the bill.

The North San Pedro Site was planned for substantial housing development with the possibility of a grocery store by virtue of the EIR completed three years ago and the subsequent selection of Olson/Swenson to develop mixed-density housing. Your recent analysis has established that this isn't the optimum location for a grocery store and that you would prefer a commercial corridor location with retail synergy and better exposure.

We are pleased that Safeway remains interested in placing a new full-service grocery store in the greater downtown area and would like to offer our assistance in identifying potential opportunities. We will be contacting you shortly to set a meeting to discuss your criteria in greater detail.

Sincerely,


John Weis
Deputy Executive Director