

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

TO: HONORABLE MAYOR, CITY COUNCIL, AND AGENCY BOARD	FROM: HARRY S. MAVROGENES DEBRA FIGONE
SUBJECT: SEE BELOW	DATE: DECEMBER 10, 2008

INFORMATION

SUBJECT: STATUS OF CURRENT NEGOTIATIONS WITH WILLIAMS & DAME DEVELOPMENT ON THE JAPANTOWN CORPORATION YARD PROJECT

On June 14, 2007, the City Council and Redevelopment Agency Board approved an Exclusive Negotiations Agreement (ENA) with Williams & Dame Development (Developer) and First Community Housing. During the ENA period, the Developer was to develop project parameters and seek entitlements and environmental clearance for the development of a mixed use project consisting of: up to 600 for-sale residential units; a minimum of 15,000 square feet of retail; an urban plaza and space for a cultural facility on the Corporation Yard site and approximately 70 affordable senior rental units. The term of the ENA expires on December 26, 2008.

Terms of the ENA included financial compensation to the City of \$21.6 million. Of this amount, \$14.2 million would have been used to retire a portion of the existing debt for the construction of the Central Service Yard and \$7.4 million would have been set aside in an amenities fund for Japantown. The City currently has commercial paper on the Central Service Yard debt. Interest only payments of approximately \$985,000 annually will begin on the commercial paper debt this fiscal year. These payments have been allocated in the City's FY 2008-09 budget and will be made from the Service Yard's Construction & Conveyance Fund.

On May 20, 2008, the City Council approved a General Plan Amendment for the Corporation Yard project and directed the City, Agency and the Developer to evaluate a lower-density option. The Developer advised the Agency in early fall that, due to the current economic circumstances, they had to significantly revise their proposal. Because financing is, in general, currently not available for

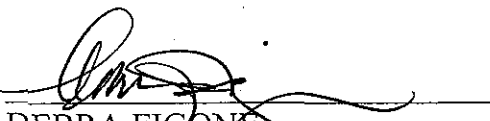
condominium construction, the Developer is now proposing to build a project of 480 units in two phases. The first phase would consist of approximately 280 rental units and the second phase would be condominiums.

The proposed changes mean that the Developer is no longer able to pay the land price of \$21.6 million and is instead suggesting a land price of approximately \$11 million. The purchase offer eliminates the \$7.4 million amenities fund and does not fully cover the anticipated \$14.2 million in revenue programmed to retire a portion of the Central Service Yard debt.

Negotiations with the Developer began at the height of the residential real estate market fueled by ever-increasing sales prices. Agency staff does not expect to see the land values for development projects at that same level in the foreseeable future. In addition, we believe that until the high rise condominium market in downtown stabilizes, it will be extremely difficult to secure new high rise construction in Japantown.

Although the proposed project no longer looks like the development vision approved by the community at the time the ENA was approved by the Agency Board, Agency staff is continuing discussions with the Developer to better understand the scope of the project the Developer would be willing to build on the site and the financial terms and conditions of that proposed development. In addition, City staff is examining the cost and implications of what is now a certain delay in the receipt of land proceeds.

Staff will provide the Agency Board and City Council with updates on the project as more information becomes available and the analysis of options is complete.


DEBRA FIGONE
City Manager


HARRY S. MAVROGENES
Executive Director