Subject Property: 260 Homer Avenue (Office Portion Only)

APNs: 120-28-115; 120-28-116; 120-28-117; 120-28-118; 120-28-121

Property Description: 260 Homer is a mixed-use office and residential condominium project consisting of five office condominiums and two residential condominiums. Tall Tree Partners I LLC owns all five office condominiums. The two residential condominiums are owned by separate individuals.

Application Request: Amendment to the development agreement, specifically office occupancy restrictions that limit tenant occupancy to less than one-third of the building.

Statement of Facts –

1. Tall Tree Partners I LLC ("Owner"; "Ownership") developed the three story mixed-use condominium project located at 260 Homer Avenue between 2007-2009. The project consists of five office condominiums and two residential condominiums.
2. The development of the property was subject to the Development Agreement between the City of Palo Alto, and Palo Alto Medical Foundation for Health Care, Research and Education, dated 4/10/2000 and attached hereto as Exhibit A.
3. More particularly, the development of the property was subject to Exhibit D-1 of the Development Agreement (Pg. 75 of Development Agreement), which provides various development conditions and occupancy restrictions related specifically to this site.
4. Exhibit D-1 contains Subsection E., which states "There shall be no single tenant that occupies more than one-third of the net usable office space (i.e. exclusive of common areas and mechanical equipment areas)".

5. The Property includes an approximately 10,000 square foot suite (~31% of square footage) which remained vacant from February of 2022 until July of 2023.
6. An existing international accounting firm that currently leases approximately ~28% of the Property expressed interest in leasing the vacant suite from Ownership, but due to the occupancy restriction, Ownership could not accommodate the tenant.
7. Additional tenants, including our new tenant, have inquired as to the optionality for future expansions within the Property. The occupancy restrictions hinder interest from tenants that desire the flexibility to grow within the Property if their space needs change.
8. Despite a challenging office leasing environment brought on by COVID-19 , Ownership is unable to facilitate any potential future expansion interest due to the stipulations contained in Exhibit D-1, Subsection E. of the Development Agreement.
9. Ownership communicated with Amy French and Jodie Gerhardt from the Palo Alto Planning Commission in late 2022 to understand the process and requirements for an application request seeking either an amendment to the Development Agreement or a conditional use permit.

Owner's Statement –

Ownership's advocacy for removal of the occupancy restriction in Exhibit D-1, Subsection E. of the Development Agreement is highlighted below:

1. According to Newmark Knight Frank, as of Q4 2022, Palo Alto has a total office availability rate of almost 21%, and a direct vacancy rate of 17%. With just over 2 million

square feet of direct and sublease office vacancy, it is a challenging leasing environment for office landlords. The increase in vacancy and office utilization has harmful second order effects for local economies. According to a local paper's article published 11/8/2022, "Most council members acknowledged the need to readjust expectations to account for the dwindling number of commuters coming into town. Council member Alison Cormack called the change in employees the biggest challenge we have". We agree with this assertion. Using a conservative estimate of 150 square feet per person, current office vacancy levels equate to enough office space for nearly 14,000 employees. As a point of reference, the office availability rate in Q3 2019 was half of what it is today, at 11%. Additionally, overall office utilization rate remains ~60-70% down from 2019 levels. The result is local retail and services businesses supported by office workers losing significant foot traffic and sales revenue and the City of Palo Alto losing significant retail sales tax.

2. While the macro forces that caused this disruption in the office and retail sectors among others cannot be solved directly by the City of Palo Alto, there are actions the City can take to help ameliorate the negative effects to the local economy, and local landlords, without compromising its own goals. Ownership had immediate leasing interest for an approximately 10,000 SF space from a highly reputable international accounting and financial services firm, which would supply increased foot traffic, local services, and retail demand, but the Development Agreement precluded this lease, and its associated positive externalities from materializing. This resulted in an approximate 14 month period of additional downtime, in which Ownership, and the local economy suffered as a

result. The occupancy restriction's long term effect of decreasing the leaseability increases the likelihood of experiencing extended periods of vacancy, which has harmful economic impacts to the local economy and local landlords.

3. Increased flexibility through an amendment of the Development Agreement would include several benefits:
    a. Local retailers and service providers would benefit from increased foot traffic and demand for their products and services.
    b. The City of Palo Alto would benefit from higher sales tax, driven by the increased office worker/commuter presence.

Owner's Requested Planning Department Action –

The Owner requests that the Planning Department remove the occupancy restriction in question.