

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: RAISSA DE LA ROSA,  
ECONOMIC DEVELOPMENT MANAGER  
SUBJECT: PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT  
APPROVAL OF AN EXCLUSIVE NEGOTIATION AGREEMENT TO  
EXTEND THE NEGOTIATIONS WITH CORNERSTONE  
PROPERTIES FOR THE POTENTIAL ACQUISITION AND  
DEVELOPMENT OF CITY OF SANTA ROSA SURFACE PARKING  
LOT TWO, LOCATED AT 521 FIFTH STREET, SUBJECT TO  
APPROVAL OF A DISPOSITION AND DEVELOPMENT  
AGREEMENT

AGENDA ACTION: RESOLUTION

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RECOMMENDATION

It is recommended by the Planning and Economic Development Department that the Council, by resolution, approve an Exclusive Negotiation Agreement to extend the negotiations with Cornerstone Properties, a California limited liability company, for the potential acquisition and development of City of Santa Rosa Parking Lot 2 at 521 Fifth Street, subject to approval of a disposition and development agreement for a future project that is to include affordable housing.

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EXECUTIVE SUMMARY

City Council's principal goal is to address Santa Rosa's housing shortage by providing a mix of housing opportunities city-wide. The urgency of this Council goal was amplified by the October 2017 wildfires that destroyed thousands of homes in Santa Rosa. According to the Department of Housing and Urban Development, prior to the fires Santa Rosa had an unmet rental housing demand of more than 1,700 units by 2020, yet it had just over 400 housing units completed or in varying stages of construction, and just under 900 units in Building Plan Review. To meet the housing need and implement strategies articulated in the Housing Action Plan, the City has been taking aggressive actions to increase housing stock using City owned properties in the downtown core. In addition, the City is pursuing creative solutions to redevelop its aging and/or underutilized infrastructure and facilities.

The City-owned parcel at 521 Fifth Street, currently used as a surface parking lot, is adjacent to and shares a common property line with 427 Mendocino Avenue, which is owned by Cornerstone Properties and is currently developed with an office building and

private parking lot. Considering the City's housing goals, a potentially desirable use of the City-owned and privately held parcels is to increase density and retain the City-operated parking spaces while enhancing other community benefitting uses, including but not limited to market rate and affordable housing and ground floor retail.

The City first entered into an ENA with Cornerstone Properties on February 21, 2018, lasting for a period of 180 days. While both parties made progress and adequately met obligations under the ENA, it was determined more time is necessary to allow for enough time for the due diligence and negotiation period.

## BACKGROUND

Santa Rosa houses over one third of the County's residents and one third of the County's businesses for whom the City has housing obligations. Housing availability in Santa Rosa also affects business/workforce growth and economic stability Countywide. The nearly 5,300 homes lost in the 2017 wildfires, 3,061 destroyed in Santa Rosa alone, exacerbated an already severe shortage of housing in the County. In the months following the wildfires, there was heightened awareness of the importance of not only rebuilding the destroyed properties, but also providing new housing units to ensure community-wide economic vitality.

The bulk of housing units historically developed in Santa Rosa are single-family small lot subdivisions that have not adequately addressed access to the market for middle and lower income households, or provided the diversity of housing needs for the city and region. By its nature, this remains true with the rebuild efforts, as most of the housing lost in the fires was single family residential development. The need to provide new alternative urban-centric housing units has become increasingly evident in the aftermath of the fires, and the City has undertaken significant efforts to ensure community-wide economic vitality through the retention and expansion of the region's workforce.

The Housing Action Plan (HAP) adopted by the City Council set forth criteria for new, proactive approaches to public private partnerships designed to expedite desired housing development consistent with the General Plan, zoning regulations, and HAP objectives. Specifically, the HAP reflects the City's desire to facilitate redevelopment of underutilized properties in the downtown core in a manner that provides an intensification of land use which thereby stimulates economic development and community identity while delivering much needed housing into the downtown core.

With an interest in maximizing the density development opportunity of 427 Mendocino Avenue in conjunction with the adjacent City property at 521 Fifth Street, the City and Cornerstone Properties seek to extend the exclusive right to negotiate with the City through an Exclusive Negotiation Agreement (ENA) to enable continued discussion toward a Disposition and Development Agreement (DDA) that will benefit from new initiatives and development opportunities both parties have undertaken since entering into the ENA. The City's ultimate goal is to provide housing opportunities that address a range of income

levels, as well as other community benefitting uses that may include such uses as ground floor retail, communal open space, a hotel, and office space. The replacement of the City-operated public parking spaces currently located at 521 Fifth Street would also be addressed as part of any future development.

#### PRIOR CITY COUNCIL REVIEW

On December 5, 2017, the Council unanimously approved RES-2017-235 authorizing an initial exclusive negotiation agreement between Cornerstone Properties and the City of Santa Rosa. This agreement allowed the City Manager to approve an extension of the exclusive negotiation period at the end of 180 days for such time as determined reasonable and necessary to complete the processing of all land use entitlements and deliverables outlined in the ENA for City Council's consideration of approval of a DDA. This option to extend was needed, but was not exercised due simply to staff's distraction related to the fire recovery workload. That said, all parties have continued to negotiate in good faith.

#### ANALYSIS

Cornerstone Properties desires to extend negotiations with the City by executing this ENA for the potential acquisition and development of 521 Fifth Street. Negotiations under the initial ENA were and continue to be productive, however progress was somewhat delayed due in part to staff resource constraints and the City's development of various policies designed to facilitate development of higher density projects in the downtown core. The ENA allows City staff to continue negotiations with Cornerstone Properties with the intent to bring forward a DDA to authorize future development of the property in a mutually acceptable master-planned project entailing 521 Fifth Street and 427 Mendocino Avenue. The negotiation process has and will continue to address all requisite environmental review and entitlements necessary for the proposed project. The proposed project is anticipated to include affordable housing units consistent with the requirements of Government Code section 37364, which allows the City to entertain a less than market price for the City Property in exchange for deed-restricted affordable housing units.

In 2015 the City commissioned an economic viability study that provided the economic data supporting a higher density mixed-use development approach in the downtown. The study showed that focusing development projects in areas of the city where adequate infrastructure already exists is more efficient and gains higher revenue per acre. Applying this approach to the bundled parcels identified in the proposed ENA would allow the City to increase the availability of city centered and transit-oriented housing through utilization of a City property, generate revenue from underutilized public land, and maximize existing infrastructure investments.

The initial period of the ENA, which expired before an authorized extension was signed, was 180 days commencing in February 2017. During this time, an initial proforma and market study was conducted by Cornerstone Properties, and due diligence was started by

both parties, with site history documents and an appraisal provided by the City. The next phase of negotiations will address the project description, uses, configuration, and design of a mutually acceptable master-planned project, including the number of affordable housing units, management of the units, and other community benefitting uses such as parking to replace the City-operated parking currently in existence at Lot 2. In addition, the exclusive negotiation period identified in the ENA, which is for a period of one year commencing on the date the ENA is signed with an extension option at the discretion of the City Manager, is needed to prepare a mutually acceptable DDA for consideration and action by the Council, as well as to address the necessary discretionary actions and entitlements for any future proposed project. The DDA will require final approval by the Santa Rosa City Council.

### FISCAL IMPACT

Approval of this action does not have a fiscal impact on the General Fund.

### ENVIRONMENTAL IMPACT

The ENA does not commit the City to approve or undertake any future project, and the City retains its full authority to approve, deny or condition any future project(s) that may be proposed, including adoption of mitigation measures and/or alternatives necessary to avoid or substantially lessen potentially significant environmental impacts.

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

### ATTACHMENTS

- Attachment 1 – Exclusive Negotiation Agreement
- Resolution
- Exhibit A

### CONTACT

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