

## MEMORANDUM

March 24, 2015

RE: Proposed Fee to Amend Bridgepointe Master Plan

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### BACKGROUND

Affiliates of SPI Holdings (“SPI”) own the Bridgepointe Shopping Center (“Shopping Center”) in the City of San Mateo. The existing building on Lot 5 of the Shopping Center is vacant, and was previously utilized as an ice rink which had a surface area of 16,888 square feet. The Shopping Center, including Lot 5, is subject to the Bridgepointe Master Plan (“BMP”), which SPI proposes to amend in consideration of the fee below.

Land uses on Lot 5 are governed by the BMP, which was originally approved pursuant to General Plan and Mariner's Island Specific Plan policies mandating a master plan for redevelopment of the former failed Fashion Island Shopping Center. The BMP was adopted by the City Council on September 16, 1996. The original BMP provided for an ice rink on Lot 5, as well as additional retail uses.

On March 2, 1998, the City Council amended the BMP (see Exhibit 1) to revise the description of uses permitted in the ice rink space to read "ice rink or similar recreational uses" and to add a condition requiring review and approval by the Planning Commission of any proposed alternative recreational use.

### BRIDGEPOINT REQUIREMENT

The BMP requires that uses on Lot 5 include an ice rink or other [active] recreational uses. According to the Findings For Staff Recommendation attached to the Administrative Report amending the BMP, any alternative recreational facility proposed on the site of the former ice rink shall be of similar size, shall serve a variety of ages and both sexes and shall be designed for active sports recreation, subject to review and approval by the Planning Commission.

### WHAT IS NOT REQUIRED

There is no requirement that the Shopping Center owner operate an ice rink or lease to an ice rink operator. In fact, consistent with most land use regulations, there is no on-going “operating covenant” to operate any recreational amenity at the Shopping Center. This point was confirmed in a letter from the Assistant City Attorney dated April 18, 2012 (attached as Exhibit 2), and is similar to other land use designations. For instance, when a store closes at a property that is zoned retail, as Circuit City did when it went bankrupt, there is no violation of city code or conditions of approval. It is a critically important point that the BMP use is a land use designation and does not require the owner or a tenant to operate the recreational facilities. With Planning Commission approval of the alternative use, the owner could lease the space to a tenant

to operate an alternative recreational use, as described above. However, SPI seeks an amendment of the use designation in the BMP to change the allowed use to retail.

## VALUATION

Assuming that the city benefits by having space designated for recreational use available in the shopping center, the issue of value should focus on the cost, if any, to the city, of losing those facilities, notwithstanding the private nature of the recreational facility. Ownership, as it has in the past, benefits from leasing space to recreational use operators, of which the most recent was an ice rink. The market rate for recreational space is approximately \$24/sf. Ownership could conceivably lease to several tenants providing uses such as yoga, martial arts, spin classes, ballet or ballroom dancing, tai chi, gymnastics, etc, which would serve a variety of ages and both sexes as required by the BMP. The opportunity cost to ownership for having the recreational use designation on Lot 5 is the difference between the market rate for retail space which is \$30/sf and the market rate for recreational space. This is equivalent to the benefit the city receives as in the absence of requirement for recreational uses on Lot 5, such operators would need to pay market rate for retail space. Based on the area previously used for recreation, 16,888 square feet, the annual cost/benefit is  $(\$30/\text{sf} - \$24/\text{sf}) * 16,888 = \$101,328$  annually.

In order to convert a payment stream, such as the \$101,328 presented above, to “present value,” appraisers generally utilize capitalization rates (“Cap Rates”), which as the name implies, capitalize payment streams, which is to say they calculate the equivalent present value of a payment stream into a single lump sum. A recent survey (Exhibit 3 attached) by a prominent national commercial real estate brokerage firm, CBRE, indicated that Cap Rates for Class A Power Centers, similar to the subject, range from 5.50% to 6.00% for the San Francisco region. Utilizing the mid-point of this range, 5.75%, the value of a \$101,328 income stream is \$1,762,226. Therefore, a payment of \$1,762,226 would serve to make the City whole for the loss of the recreational facility. However, in the interest of assisting the community in enhancing its recreational offerings, SPI proposes to pay to the City of San Mateo \$3,000,000 to eliminate the recreational use requirement on Lot 5, and acknowledges that the city may use such fee for community recreational needs determined in its absolute sole discretion. SPI is offering to pay a premium to move the recreational use requirement off site as it believes it is not in the best interest of the City of San Mateo or the landlord to utilize the City’s most productive retail space, as measured by the total sales tax dollars generated, for a recreational use that can be located in a non-retail environment. The increased value to the City of this enhanced tax base is not the subject of the proposed valuation exercise. Instead, the valuation will focus on the value of the loss of the recreational facility in isolation without reference to the countervailing increases in revenue the City will receive as a consequence of the proposed amendment of the BMP.



# ADMINISTRATIVE REPORT

EXHIBIT 1

AGENDA ITEM #

14

MTG. DATE 03/02/98

Mayor and City Council

APPROVED BY:

A. Croce, City Manager

DATE:

February 25, 1998

SUBMITTED BY:

Barbara Kautz, CDD Director

SUBJECT:

PA 97-072 BRIDGEPOINTE ICE RINK MODIFICATION

## RECOMMENDATION:

That the City Council uphold the recommendation of the Planning Commission by making the following motions:

- A. Amend the **Bridgepointe Master Plan** to revise the description of uses in the ice rink space to read, "ice rink or similar recreational uses," and to add a condition requiring review and approval by the Planning Commission of any proposed alternative recreational use, based upon the Findings contained in Exhibit A; and
- B. Accept without prejudice the withdrawal of the requested **Bridgepointe Master Plan Modification and Site Plan and Architectural Review** replacing the ice rink building with three retail uses.

## BACKGROUND:

In September, Sand Hill Properties applied to amend the Bridgepointe Master Plan to replace the approved ice rink building with a similar building containing three retail spaces. The developer indicated that he was seeking the modification because Ice Chalet, the operator of the ice rink, had informed him that their tenant improvement costs were substantially more than initially estimated, and that it was no longer economically feasible to continue operations at the site. Sand Hill indicated that they had not been able to locate a replacement tenant.

At the Council's January 5, 1998, meeting, it heard extensive public testimony regarding the application. At the conclusion of the hearing, it directed staff to facilitate meetings between the various parties in order to determine whether it would be feasible to retain an ice rink at Bridgepointe.

The City did sponsor a mediation session on Friday, January 30, between Sand Hill Properties and two groups which had expressed interest in operating an ice rink at Bridgepointe, Iceoplex and Pacific Hockey Association. Ice Chalet, which has the current lease for the rink, declined to participate. Retired judge William Lanam acted as mediator. A memo is attached from the City Attorney describing the process and results of the mediation session.

There was some progress made at the meeting regarding various options which might be explored to retain an ice rink or other recreational use at Bridgepointe. At the conclusion, Sand Hill Properties indicated its willingness to return to discussions with Ice Chalet and other potential operators of ice rink and other recreational uses. They have continued their discussions with a wide variety of operators for the past month. Also, in the last two weeks, Ice Chalet has appointed a new president, Tom LeBouf, who has met with Sand Hill and toured the site, and indicates that he is eager to proceed pending the results of a feasibility study. Ice Chalet expects that the tenant improvements may cost in the range of \$1.2 - \$1.5 million.

Based on these discussions, Sand Hill now believes that it will be possible to retain an ice rink or other recreational use and has withdrawn its application to place retail uses on the site. They have requested that the City clarify the approved alternative recreational uses.

#### **PLANNING COMMISSION REVIEW:**

The Planning Commission heard the item on October 27 and December 8, 1997. The Commission recommended denial of the modification to permit retail uses on a 5-0 vote, but recommended that the Council expand references to the ice rink in the Master Plan to permit a similar recreational amenity, serving both sexes and a variety of age groups, in the building. The Commission believed that an ice rink was an integral part of the prior approvals and that a recreational amenity was important in their original consideration of the mix of uses on the site.

The staff recommendation incorporates the Commission's suggestion that the permitted uses in the Master Plan be broadened to include alternative recreational uses for the ice rink building, subject to review by the Planning Commission. The condition includes specific criteria that would need to be met by any alternative use.

#### **EXHIBITS:**

- A. Findings for Staff Recommendation
- B. Letter from Peter Pau, Sand Hill Properties, dated February 25, 1998
- C. Memo from City Attorney dated February 25, 1998
- D. Letter from Marian Monte dated February 16, 1998
- E. Letter from Michael Benesh, Pacific Hockey, dated February 23, 1998

cc: City Attorney  
City Clerk  
Roy Schneiderman, Sedway Group  
Applicants and Other Interested Parties

**FINDINGS FOR STAFF RECOMMENDATION**  
**PA 97-072 BRIDGEPOINTE MODIFICATION**

**I. ENVIRONMENTAL CLEARANCE**

The Environmental Impact Report prepared for the project identified three unmitigated environmental impacts of the proposed master plan. Findings of Overriding Consideration were adopted, which found that retaining the ice rink constituted one of the project benefits outweighing the environmental impacts. A recreational facility providing active sports recreation and serving both sexes and similar age groups would similarly provide a benefit which would help to outweigh the unavoidable environmental impacts.

**II. ADDITIONAL CONDITION**

The following condition is added to the Bridgepointe Master Plan:

ALTERNATIVE RECREATIONAL USE – Any alternative recreational facility proposed on the site of the existing ice rink building shall be of similar size, shall serve a variety of ages and both sexes and shall be designed for active sports recreation, subject to review and approval by the Planning Commission.

**III. MODIFICATION OF THE BRIDGEPOINTE MASTER PLAN**

The Bridgepointe Master Plan was originally approved pursuant to General Plan and Mariner's Island Specific Plan policies mandating a master plan for redevelopment of the former Fashion Island Shopping Center. Modification to permit an alternative recreational facility, in addition to an ice rink, would be consistent with the City's General Plan, based on the following goals and policies:

**San Mateo General Plan – Land Use Element**

*Goal 1e: Provide adequate transportation, utilities, cultural, educational, recreational, and public facilities and ensure their availability to all members of the community. Establish San Mateo as the cultural center of San Mateo County.*

**San Mateo General Plan – Conservation and Open Space Element**

*Goal 5: Provide a comprehensive park and recreation system of programs and facilities based on the needs of the City's residents of all ages and interests by including active, passive, social, educational, and cultural opportunities.*

*C/OS 12.1: Facility Standards. Adopt and use the Park and Recreation Facility Standards to assess the adequacy of existing facilities, designing, developing, and redeveloping sites, and acquiring or accepting new sites.*

*C/OS 14.6: Area Studies and Specific Plans. Include direction in Area Studies and Specific Plans prepared for new development or redevelopment of portions of the City, that adverse impacts on existing park sites and recreation services will be avoided or mitigated.*

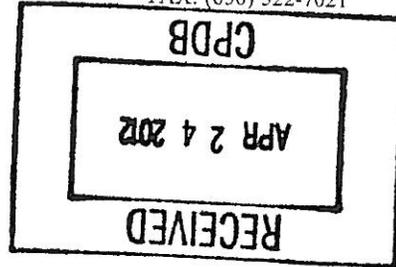
The ice rink is considered a substantial recreational amenity that helps meet the General Plan's goals to provide adequate recreational facilities for San Mateo citizens. An alternative recreational facility providing active sports recreation and serving a variety of age groups and both sexes would similarly be a substantial recreational amenity to help meet the General Plan's goals.

OFFICE OF THE CITY ATTORNEY



April 18, 2012

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Pamela Duffy, Esq.  
Coblentz, Patch, Duffy & Bass, LLP  
1 Ferry Building, Suite 200  
San Francisco, CA 94111

**RE: Bridgepointe Shopping Center Conditions of Approval**

Dear Ms. Duffy:

You requested City review of the Conditions of Approval for the Bridgepointe Shopping Center to determine whether or not the Conditions require continued operation of the ice rink. I have reviewed the Conditions of Approval for the Bridgepointe Shopping Center (enclosed) and they do not require the continued operation of the ice rink.

However, as we discussed, if the property owner wishes to change the approved use at the Shopping Center, the property owner will need to amend his or her project approval and conduct the necessary environmental review.

Please let me know if you have any follow-up items for discussion.

Sincerely,

Gabrielle P. Whelan  
Assistant City Attorney

Enclosure

cc: Lisa Grote, Community Development Director  
Ron Munekawa, Chief of Planning

EXHIBIT 3

RETAIL POWER CENTER | WESTERN REGION

	CLASS A				CLASS B				CLASS C			
	STABILIZED CAP RATES (%)	DIRECTION*	RETURN ON COST FOR VALUE-ADD (%)	DIRECTION*	STABILIZED CAP RATES (%)	DIRECTION*	RETURN ON COST FOR VALUE-ADD (%)	DIRECTION*	STABILIZED CAP RATES (%)	DIRECTION*	RETURN ON COST FOR VALUE-ADD (%)	DIRECTION*
ALBUQUERQUE	6.75 - 7.50	▼	7.00 - 8.00	▼	7.75 - 9.00	▲	8.50 - 9.50	-	9.00 - 10.50	▲	9.00 - 10.00	-
DENVER	5.50 - 6.00	▼	6.00 - 6.50	▼	6.50 - 7.00	▼	7.00 - 7.50	▲	8.75 - 9.25	▼	10.00 - 10.50	▼
LAS VEGAS	6.00 - 7.25	-	7.50 - 8.00	▼	7.25 - 7.75	-	8.50 - 10.00	-	8.00 - 9.00	-	10.00 - 12.00	-
LOS ANGELES	6.00 - 7.00	▲	7.00 - 8.00	▼	7.00 - 8.00	-	8.00 - 9.00	▲	8.00+	▼	9.00+	▼
ORANGE COUNTY	6.00 - 7.00	▲	6.25 - 7.25	▼	6.75 - 7.50	▼	7.00 - 7.75	▼	7.50 - 8.50	▼	7.75 - 9.00	▼
PHOENIX	6.00 - 6.50	▲	8.00 - 8.50	▲	6.50 - 7.50	▼	8.50 - 9.00	▲	7.50 - 8.50	▼	9.50 - 10.50	-
PORTLAND	6.00 - 6.50	-	7.00 - 8.00	-	7.00 - 7.75	▲	8.00 - 9.00	-	7.75 - 9.50	▲	9.00 - 10.00	-
SACRAMENTO	6.00 - 7.00	-	7.00 - 8.00	-	7.00 - 8.00	-	8.00 - 9.00	-	9.00 - 11.00	-	9.00 - 10.00	-
SALT LAKE CITY	6.50 - 7.00	▲	6.50 - 7.00	▼	7.00 - 8.00	-	7.00 - 8.00	▼	9.00 - 10.50	▲	9.00 - 10.50	▼
SAN DIEGO	6.50 - 7.00	▲	6.00 - 6.50	▼	7.25 - 7.75	-	7.00 - 7.50	▼	8.00 - 8.50	▼	8.25 - 10.00	▼
SAN FRANCISCO	5.50 - 6.00	▼	6.75 - 7.25	▼	6.50 - 7.50	▼	7.50 - 8.00	▼	7.50 - 9.50	▼	8.00 - 9.00	▼
SAN JOSE	5.50 - 6.00	▼	6.75 - 7.25	▼	6.50 - 7.50	▼	7.50 - 8.00	▼	7.50 - 9.50	▼	8.00 - 9.00	▼
SEATTLE	6.00 - 6.50	-	7.00 - 8.00	-	7.00 - 7.75	▲	8.00 - 9.00	-	7.75 - 9.50	▲	9.00 - 10.00	-

\*Compared to H1 2014. Source: CBRE Research.

FORECAST TRENDS\*\*

	CLASS A		CLASS B		CLASS C	
	STABILIZED CAP RATES	RETURN ON COST FOR VALUE-ADD	STABILIZED CAP RATES	RETURN ON COST FOR VALUE-ADD	STABILIZED CAP RATES	RETURN ON COST FOR VALUE-ADD
ALBUQUERQUE	▼	-	-	-	-	-
DENVER	▼	▼	▼	▼	-	-
LAS VEGAS	-	-	-	-	-	-
LOS ANGELES	-	-	-	-	-	-
ORANGE COUNTY	-	-	-	-	-	-
PHOENIX	-	-	▲	▲	▲	▲
PORTLAND	-	-	-	-	-	-
SACRAMENTO	▼	-	-	-	-	-
SALT LAKE CITY	-	-	-	-	-	-
SAN DIEGO	-	-	-	-	-	-
SAN FRANCISCO	-	-	-	-	-	-
SAN JOSE	-	-	-	-	-	-
SEATTLE	-	-	-	-	-	-

▲ INCREASE ▼ DECREASE - REMAIN FLAT

\*\* Forecast trends represent the CBRE professionals' opinion on where ratios are likely to trend in H1 2015 in their local market.

Source: CBRE Research.