



## COUNCIL REPORT

**DATE:** June 10, 2025

**CATEGORY:** Consent

**DEPT.:** City Manager's Office

**TITLE:** First Amendment to Disposition and Development Agreement with RGC Mountain View I, LLC, for Hope Street Lots 4 and 8

### **RECOMMENDATION**

Adopt a Resolution of the City Council of the City of Mountain View Approving and Authorizing the City Manager or Designee to Execute a First Amendment to the Disposition and Development Agreement Between the City of Mountain View and RGC Mountain View I, LLC, for the Development of Hope Street Lots 4 and 8, to be read in title only, further reading waived (Attachment 1 to the Council report).

### **BACKGROUND**

In 2015, Council directed staff to market a long-term ground lease opportunity for City-owned Hope Street Lots 4 and 8 (Figure 1) through a Request for Qualifications (RFQ) and a Request for Proposals (RFP) that would include a hotel and net increase in parking.

On January 12, 2016, Council approved RGC Mountain View I, LLC (RGC), as the best-qualified developer to develop the Hope Street lots and directed staff to proceed with entering into an Exclusive Right to Negotiate (ERN) Agreement and commence the negotiation process for development of a mixed-use hotel/office development with a unique hotel of at least three-diamond quality, an increase in the number of public parking spaces from 149 to a minimum of 225, revenue generation, and an agreement by the hotel operator to allow enhanced access to hotel employees for labor organizing activities and an expedited union voting process.



**Figure 1: Lots 4 and 8 Location**

On May 17, 2016, the Council authorized the City Manager to execute the Disposition and Development Agreement (DDA) and ground leases with RGC for the development of Hope Street Lots 4 and 8, with a hotel on Lot 4 and office/mixed use on Lot 8. Figure 2 provides the project description for each lot.



Lot 4 - Hotel

- 5-story, 179 rooms
- Ground-floor lobby amenities, including a restaurant, bar, cafe, and courtyard
- 3 levels of underground parking



Lot 8 - Office/Mixed-Use

- 4-story building with 49,000 square feet of office and 3,500 square feet of ground-floor retail
- 3 levels of underground parking

**Figure 2: Hope Street Lots Project Description**

On November 27, 2018, Council approved the planning permits for the project, with the entitlements valid until November 27, 2020. The entitlements were subsequently extended to November 27, 2023, having been granted an automatic one-year extension due to the pandemic and a one-time, two-year extension consistent with the City Code.

In September 2021, the City delivered a Notice of Intent to RGC to issue the building permits. Per the terms of the DDA, the Notice of Intent began a 90-day period for RGC to close its construction loans, pull the building permits, and begin construction. The DDA also included a Financing Extension clause that RGC could invoke during this 90-day period that allowed up to a 42-month extension to begin construction if any of the following Economic Feasibility Factors (EFF) could not be satisfied:

- The project (office and hotel components together) as planned will generate at least an unlevered Internal Rate of Return (IRR) of seventeen percent (17%);
- The capital markets are normalized as reflected by the availability of construction loans for similar projects from construction lenders on commercially reasonable loan terms, including an annual interest rate of no more than eight percent (8%), loan-to-cost ratios of no less than sixty percent (60%), and other commercially reasonable loan and financial covenants; and/or

- For the hotel component of the project, Revenue per Available Room (RevPar) has returned to year 2015 levels for the EFF Competitive Hotel Set.

In December 2021, RGC invoked the DDA's Financing Extension. RGC submitted documentation on the pandemic's impact on the hotel industry and construction loan costs, demonstrating that the EFF could not be satisfied. RGC has periodically submitted updated documentation that the EFF could not be satisfied to maintain the Financing Extension. The 42-month limit for the Financing Extension expires on June 21, 2025.

### **ANALYSIS**

Although the EFF cannot yet be satisfied in today's market conditions, the economics for a hotel development are improving. Visit California's *Economic Impact of Travel in California* report (2024) noted a 3% statewide increase in travel spending over the previous year, totaling \$157.3 billion. Santa Clara County experienced a 10.3% increase in direct travel spending, indicating strong regional recovery and sustained tourism demand. RGC has indicated there is renewed investor interest in moving forward with the hotel on Lot 4 and requested to work with the City to advance the hotel project on Lot 4 while potentially deferring the office development on Lot 8 until economic conditions for office development improve.

A hotel on Lot 4 will provide substantial economic and financial benefits to the City. Downtown hotels play a pivotal role in supporting local economic vitality by generating employment opportunities, attracting visitors, supporting small businesses, and contributing to local tax revenues. Economic benefits include:

- **Employment Generation and Local Spending:** Hotels create a wide range of jobs, from hospitality staff and maintenance to management and event services. Additionally, they boost local supply chains by sourcing goods and services from nearby vendors. The proposed Lot 4 hotel in downtown Mountain View is estimated to generate approximately 425 construction jobs and 125 full-time equivalent permanent jobs upon completion.
- **Support for Local Businesses:** Hotel guests contribute directly to the economic health of downtown by patronizing restaurants, retail shops, and entertainment venues. Hotels also serve as venues for conferences, weddings, and special events, further increasing local spending. The Lot 4 hotel is projected to host more than 57,000 guests annually by Year 4 of operations. Based on recent retail trade area analysis, this increase in visitation is equivalent to a one-third increase in the number of available customers within a three-mile radius of downtown Mountain View.

Based on the current terms of the DDA and ground leases, the City will also receive substantial annual revenue from the hotel and office developments which can be used to support City services and Council strategic priorities. For the hotel, this revenue includes ground rent (including potential bonus and participation rents), Transient Occupancy Tax (TOT) (partial receipt after Year 5, and full receipt after Year 10 of operations), a 2% surcharge on hotel room rates, sales tax, and possessory interest tax (in lieu of property tax). The annual revenue to the City from the hotel by Year 4 of operations would likely be in the range of \$1.6 million to \$2.3 million. The annual ground lease rent for the office will initially be \$430,000 with Consumer Price Index (CPI) and other increases over time.

### **DDA Amendment**

The purpose of the First Amendment to the DDA (First Amendment) is to extend the Financing Extension invoked by RGC pursuant to Section 12.5 of the DDA until March 31, 2026. Given the improving economics for the hospitality industry and the significant economic and financial benefits for the City, staff recommends that Council approve the First Amendment. This will provide time for City staff to negotiate further amendments to the DDA and ground leases related to delivery of the hotel and office developments and to update price and terms.

The First Amendment also includes a provision that if the City and RGC have not entered into a further amendment to the DDA on terms and conditions mutually acceptable to both parties by March 31, 2026, the DDA will automatically terminate and the ground leases will be voided.

### **ENVIRONMENTAL REVIEW**

Approval of the First Amendment complies with the California Environmental Quality Act (CEQA) because it is categorically exempt under CEQA Guidelines Section 15332 (“In-Fill Development Projects”), and none of the exceptions in CEQA Guidelines Section 15300.2 apply. The project is consistent with the applicable General Plan designation and all applicable General Plan policies as well as with applicable zoning designations and regulations because the project would undertake development consistent with the Downtown Precise Plan; occurs within City limits, is on a project site of no more than five acres, and is substantially surrounded by urban uses because the project would be located within the City of Mountain View, is on a project site with a combined area of approximately 1.75 acres, and is located within the substantially developed downtown area; has no value as habitat for endangered, rare, or threatened species because the project site consists of two substantially paved City-operated surface parking lots; approval would not result in any significant effects relating to traffic, noise, air quality, or water quality because of the project characteristics as previously analyzed during approval of the projects proposed on the site; and the site can be adequately served by all required utilities and public services because existing utilities and public services with sufficient capacity are located in the immediate vicinity of the project site.

### **FISCAL IMPACT**

Amending the DDA to extend the Financing Extension will provide an opportunity for the City to realize the economic and financial benefits of a hotel in downtown Mountain View. It is estimated that the hotel would generate between \$1.6 million to \$2.3 million annually in ground rent, a 2% surcharge on hotel room rates, sales tax, and possessory interest tax (in lieu of property tax) by Year 4 of operations based on the current terms of the DDA and leases. This amount will increase by CPI each year for the hotel ground rent along with collection of full TOT after Year 10 and increases in percentage rent of hotel revenue after Year 20. The office development on Lot 8 will generate over \$430,000 in rent payments annually in Year 1 of operations with CPI and percentage rent increases thereafter.

### **LEVINE ACT**

California Government Code Section 84308 (also known as the Levine Act) prohibits city officials from participating in any proceeding involving a “license, permit, or other entitlement for use” if the official has received a campaign contribution exceeding \$500 from a party, participant, or agent of a party or participant within the last 12 months. The Levine Act is intended to prevent financial influence on decisions that affect specific, identifiable persons or participants. For more information see the Fair Political Practices Commission website: [www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html](http://www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html).

Please see below for information about whether the recommended action for this agenda item is subject to or exempt from the Levine Act.

### **SUBJECT TO THE LEVINE ACT**

☒ Contract or franchise

### **ALTERNATIVES**

1. Allow the Financing Extension to expire on June 21, 2025, and direct staff to proceed with a termination process for the DDA and ground leases.
2. Provide other direction.

**PUBLIC NOTICING**—Agenda posting.

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Attachment: 1. Resolution