

## Sobrato Office Project in Menlo Park Passes Key Hurdle

By Neil Gonzales  
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The Sobrato Organization, a Silicon Valley real estate icon, is showing its commitment to develop up north on the San Francisco Peninsula—a signal that demand for office space, particularly of the high-tech variety, will remain vigorous into the foreseeable future.

In its bid to transform an old industrial site in east Menlo Park into a modern Class A office complex, the company has proposed a public-benefits package that includes building highly sustainable structures, dedicating an easement for a future pedestrian pathway and guaranteeing a minimum of \$75,000 in annual sales-tax revenue to the city over a decade.

Menlo Park planning commissioners during their July 21 meeting believed the company's Commonwealth Corporate Center Project overall has more than enough merit and sent it off to the City Council, which is expected to start considering final approvals in August. However, commissioners wondered if Sobrato could offer a bigger benefits package and up the project's energy efficiency even further.



Planning Commissioner John Kadvaný described the development as “a big, big project of the type we’re looking for” in the industrial zone along Highway 101.

The project, with an estimated total investment of \$100 million, would remove existing structures and construct two four-story buildings totaling about 260,000 square feet on approximately 13 acres at 151 Commonwealth and 164 Jefferson drives. The new buildings would feature a modern architectural style with a façade of high-performance blue-tint glass set in aluminum frames.

The Commonwealth property is the site of the former Diageo North America distillery plant, while the other parcel is currently occupied by a light-industrial building.

“The [existing] buildings no longer meet the needs of today’s high-tech tenants,” Sobrato Development Director Richard Truempler told commissioners. “The proposed project will modernize Menlo Park’s building stock to meet the needs of today’s companies. The project will provide the city the opportunity to

retain growing Menlo Park businesses or attract new businesses that will help generate tax revenue for the city.”

The project would bring Menlo Park about \$10 million in total economic benefit over a 20-year span, according to Truempler. That includes Sobrato’s sales-tax guarantee in which the company will cover any annual revenue shortfall.

Among the other public benefits offered, Sobrato also would contribute \$150,000 toward city capital improvements and share in the costs of replacing the existing water main that crosses the project site.

Based on the project’s scale and other factors, Kadvaný said, “we could go upward on that value” of the benefits package in terms of the length of years or dollar amount in the sales-tax guarantee or other considerations. “I think this project can afford that,” he said.

Although Sobrato has already promised that the project will be built to Gold-certification standards of the U.S. Green Building Council’s Leadership in Energy and Environmental Design, or LEED, program, Kadvaný also called for the company to try to go beyond that level of sustainability. “We should be world-class,” he said. “That should be attainable.”

The commission as a whole agreed with Kadvaný’s points, recommending that the council seek a stronger benefits package and increased sustainability goals from Sobrato. Otherwise, the commission voted to recommend that the council approve various entitlements, including a rezone to allow the project to build past the current height limit and an environmental impact report that identifies measures that mitigate traffic and other impacts.

“Together with the Menlo Park staff, we have diligently worked over two years to get to this point,” said Chase Lyman, Sobrato’s director of commercial real estate. “We appreciate the Planning Commission’s careful consideration and recognition of the merits of the proposed project.”

Lyman expressed confidence that Sobrato can work out any lingering issues with the city and break ground on the project by year’s end. Construction would last about a year with occupancy expected in early 2016.

The speculative project is targeted for one large high-tech tenant although it would have the flexibility to accommodate more occupants. Industry observers see Facebook, which is already headquartered in Menlo Park, or Mountain View-based Google as a prospective tenant.

The Commonwealth project reflects a strong push into the Peninsula and even San Francisco by Sobrato in recent years after decades of focusing on the South Bay. Another Peninsula project by Sobrato is a Class A office campus development in East Palo Alto that could measure as much as 800,000 square feet.

Sobrato’s rising development interests on the Peninsula come as the region is experiencing a hot office market. According to research from commercial real estate services firm Cassidy Turley, the average asking monthly rent of \$3.73 per square foot for office space in San Mateo County in the second quarter was up 6 percent from the same period a year ago. For Class A space specifically, the average rent hit \$4 in the second quarter—the first time since 2001 that it has reached that threshold.

The southern part of San Mateo County, in particular, boasted the lowest vacancy rate at 10.8 percent and highest average asking rent at \$4.68 compared to the rest of the local market, according to Cassidy Turley.

“We feel very strongly about the long-term prospects of the entire Peninsula, especially Menlo Park,” Lyman said. “The location provides great access along 101 to both San Francisco and San Jose, and the Dumbarton Bridge will allow companies to recruit from the East Bay as well.”