



February 23, 2022

Dana Peak Edwards  
Historic Preservation Officer  
Planning Division  
City of San Jose  
200 E. Santa Clara Street, 3rd floor  
San Jose, CA 95113

Re: Hardship due to Historic Guideline Requirements for ICON/ECHO (HP21-007)

Dear Dana,

As a follow up to your letter dated September 24, 2021, our initial hardship letter response dated December 15, 2021, and our subsequent meetings on January 14, 2022, and February 10, 2022, we have evaluated three different alternatives that are intended to capture the goals of the historic guidelines of the St. James Square Historic District. As previously discussed, these alternatives result in a loss of residential units, square footage and amenities which are needed to make the proposed project financially viable. We have also attached a table which illustrates and compares the proposed plan's total costs and expected returns to the three alternatives (A, B & C). The data presented shows these alternatives resulting in returns that create economic hardship and make the projects financially infeasible.

It should be noted that the mixed project is comprised of a 525,000 square foot office building and a 415-unit residential tower. We plan to build and finance these projects separately. Currently the proposed project which consists of 415 residential units and 525,000 square feet of office space is financially viable. In the attached economic table, you will notice the office and residential return on costs (ROC) metrics are 7.5% and 5.0%, respectively. These returns are important to maintain to attract equity from investors and construction financing from a bank. Our economic cost table will show that as the units decrease, the return on cost for the residential dramatically decreases and subsequently makes the return on cost for the office project decrease, making both buildings financial unfeasible.

#### Scheme A

In Scheme A, the residential tower is set back 20 feet from St. Johns Street and the height of the building is reduced from 265 feet to 70 feet. This results in a reduction of 385 units to 30 units. When you remove the 385 units, the return on costs drops from 5.00% to a negative 4.03%. Obviously, a negative 4.03% return on costs will not attract the required equity and debt to



develop the residential project. Also, under the proposed plan the entire development shares the costs of the land, property taxes, parking structure and development costs between the office and residential tower. If the residential tower is no longer financially viable to build, the office tower would need to bear 100% of the costs the residential tower is currently absorbing. The impact to the office tower to absorb these additional costs would make the office tower financially infeasible as well. In reviewing the attached table, you will see the proposed plan shows the office tower's return on cost at 7.50%, which is financeable. If you remove the residential tower the total costs of the office tower would increase by \$34.8M and the return on costs would decrease by 95 basis points from 7.5% to 6.55%. A 6.55% return on costs on an office tower development would not attract the equity and debt needed to build the project.

### Scheme B

In Scheme B, the residential tower is setback by 10 feet along St. John Street and the height is reduced by half to 160 feet. These changes reduce the number of units in the residential tower by 190 to 225 units. Again, in reviewing the attached table you will see the proposed residential plan has a return on costs of 5.00%, which is financeable. If you remove the 190 units, the return on costs drops by 323 basis points to 1.77%. A 1.77% return on costs will not attract the required equity and debt and is not financeable. Also, similar to scheme A, the office tower assumes the residential soft costs spent to date, property taxes, site, demo and parking costs. As a result, the office return decreases to 6.55% and is no longer financially viable.

### Scheme C

In Scheme C, we set back the residential tower by 20 feet along St. John Street and kept the original height of the tower. This change reduced the residential tower by 70 units to 345 units. Although this impact is not as significant as Schemes A & B the impact still makes the project economically unfeasible. In the attached table you will see under Scheme C, the return on cost drops 112 basis points to 3.88%. Similar to Schemes A & B, a return on costs below 5.0% will not attract the necessary capital to build the residential development. Also, similar to Schemes A & B, the office development is no longer financially viable as its return on costs has dropped below the necessary 7.5%.

It is important to note that the land costs reflect the potential development on the site since it has a land use designation of *Downtown*, with an overlay of *Downtown Employment Priority Area* which allows for up to 800 DU/AC; Residential/Commercial Mixed-Use FAR 4.0 to 30.0 (3 to 30 stories) and a Commercial FAR up to 30.0 (3 to 30 stories) even with a portion of the site's location within the historic district.

We respectfully request that you consider this information in your review, since denial of the HP Permit would cause an immediate and substantial hardship to the project, as demonstrated above.



Thank you. We look forward to continuing our discussion.

Best Regards,

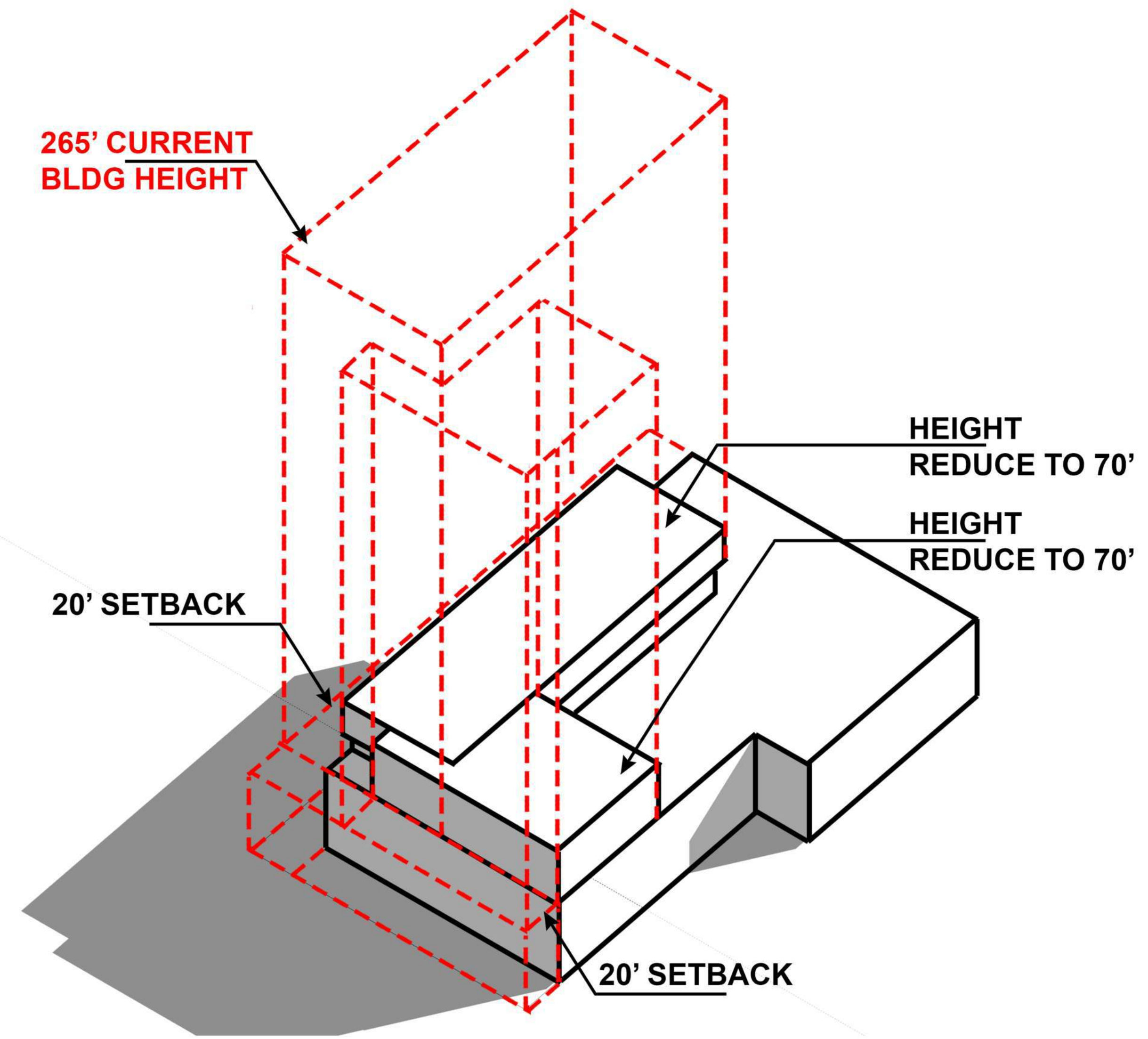
Paul Ring,  
Executive Vice President of Development & Construction

cc. Alec Atienza, Planner  
Shannon Hill, Planner III

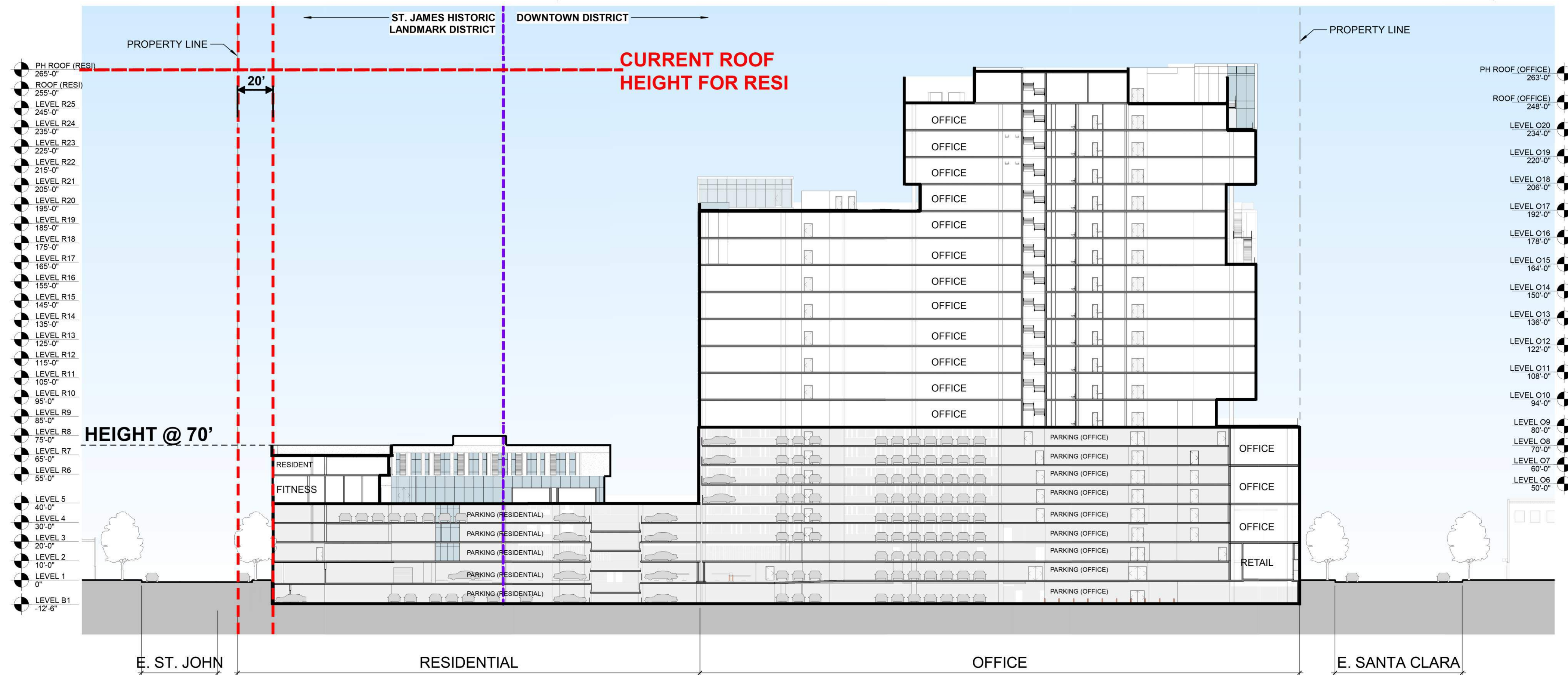
ISSUES	DATE
PRELIM COMPREHENSIVE REVIEW	03/26/2021
SITE DEVELOPMENT PERMIT	07/19/2021
SITE DEVELOPMENT PERMIT RESUBMITTAL #1	11/05/2021

REVISION LIST	DATE
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CURRENT UNIT COUNT : 415  
 UNITS LOST = 385  
 TOT. FOR SCHEME A = 30



1 SCHEME A: 20' SETBACK ON BOTH SIDES & HEIGHT REDUCED TO 70' (AXONOMETRIC VIEW)



2 SCHEME A: 20' SETBACK ON BOTH SIDES & HEIGHT REDUCED TO 70' (N-S SITE SECTION)

1" = 30'-0"

**ICON ECHO -  
 OFFICE &  
 RESIDENTIAL**  
 SAN JOSE, CA

KEYPLAN

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 FILE NO.: SP21-031  
 DATE: 01/31/2022  
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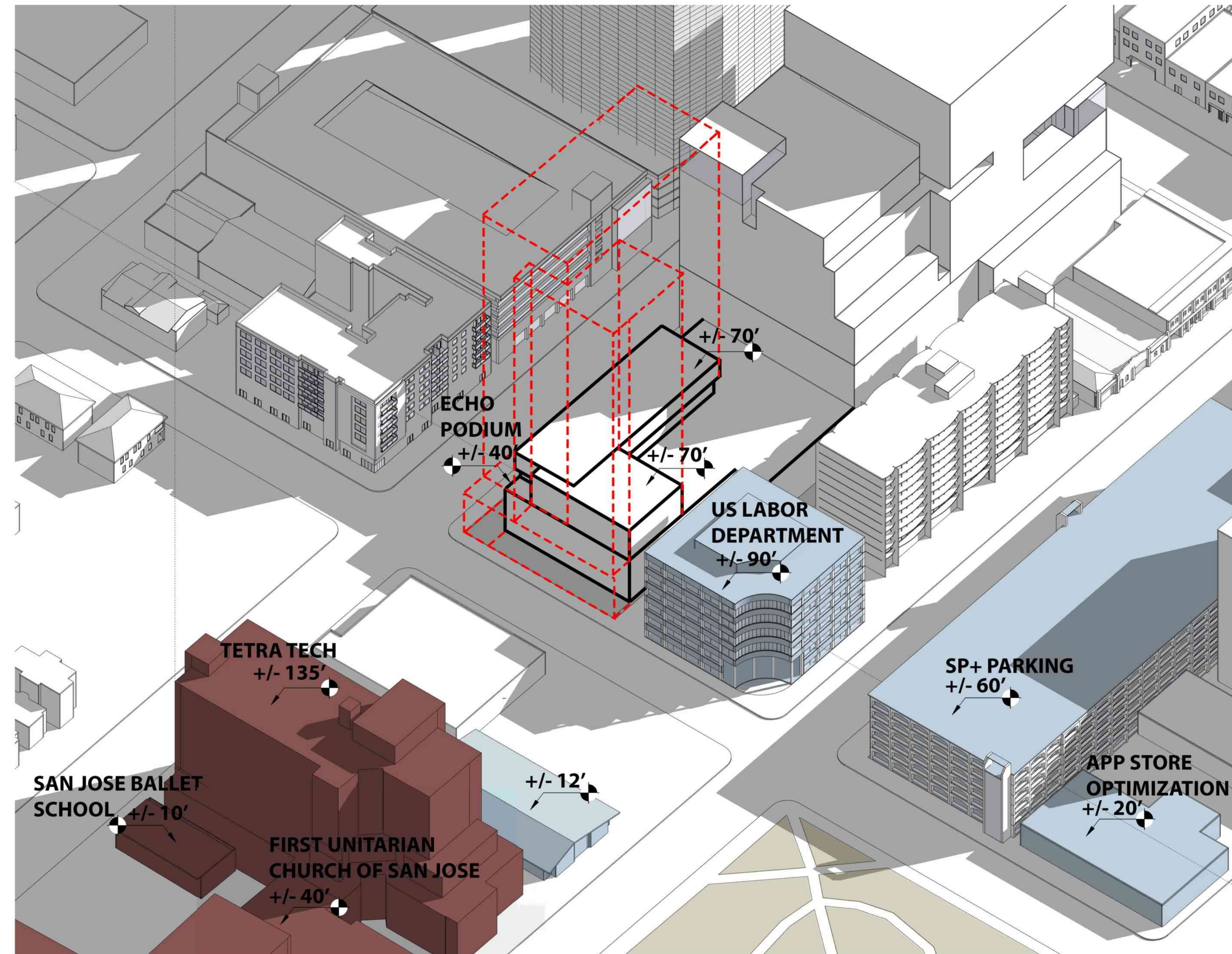
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**HISTORIC HARDSHIP  
 DIAGRAMS- SCHEME A**

SHEET NO:

ISSUES	DATE
PRELIM COMPREHENSIVE REVIEW	03/26/2021
SITE DEVELOPMENT PERMIT	07/19/2021
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3 **SCHEME A: 20' SETBACK ON BOTH SIDES & HEIGHT REDUCED TO 70' (AXONOMETRIC VIEW WITH CONTEXT)**  
**UNITS LOST = 385**

- NONCONTRIBUTING STRUCTURES -DEVELOPED PROPERTIES
- ST. JAMES SQUARE HISTORIC DISTRICT - CONTRIBUTING STRUCTURES

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SAN JOSE, CA

KEYPLAN

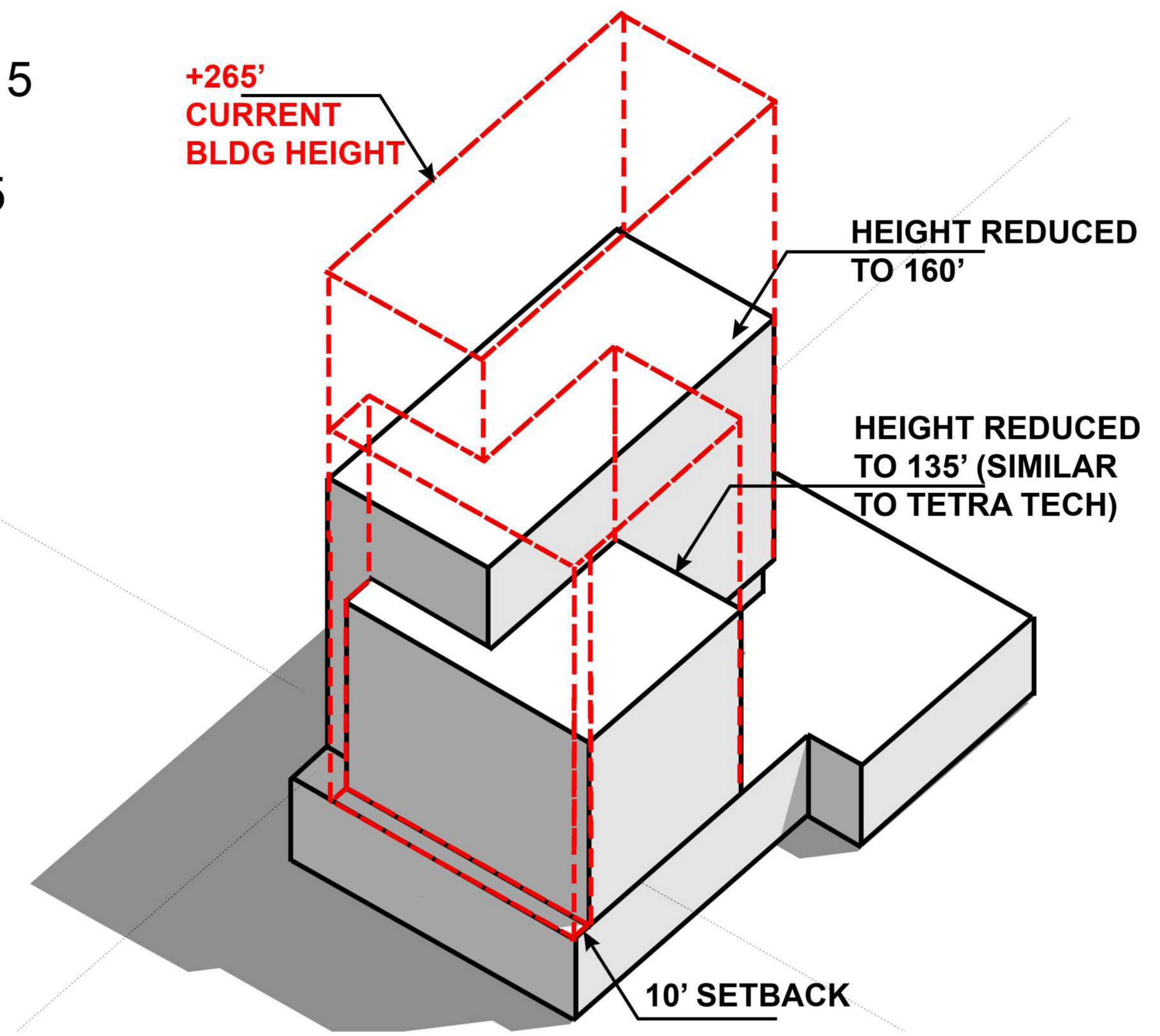
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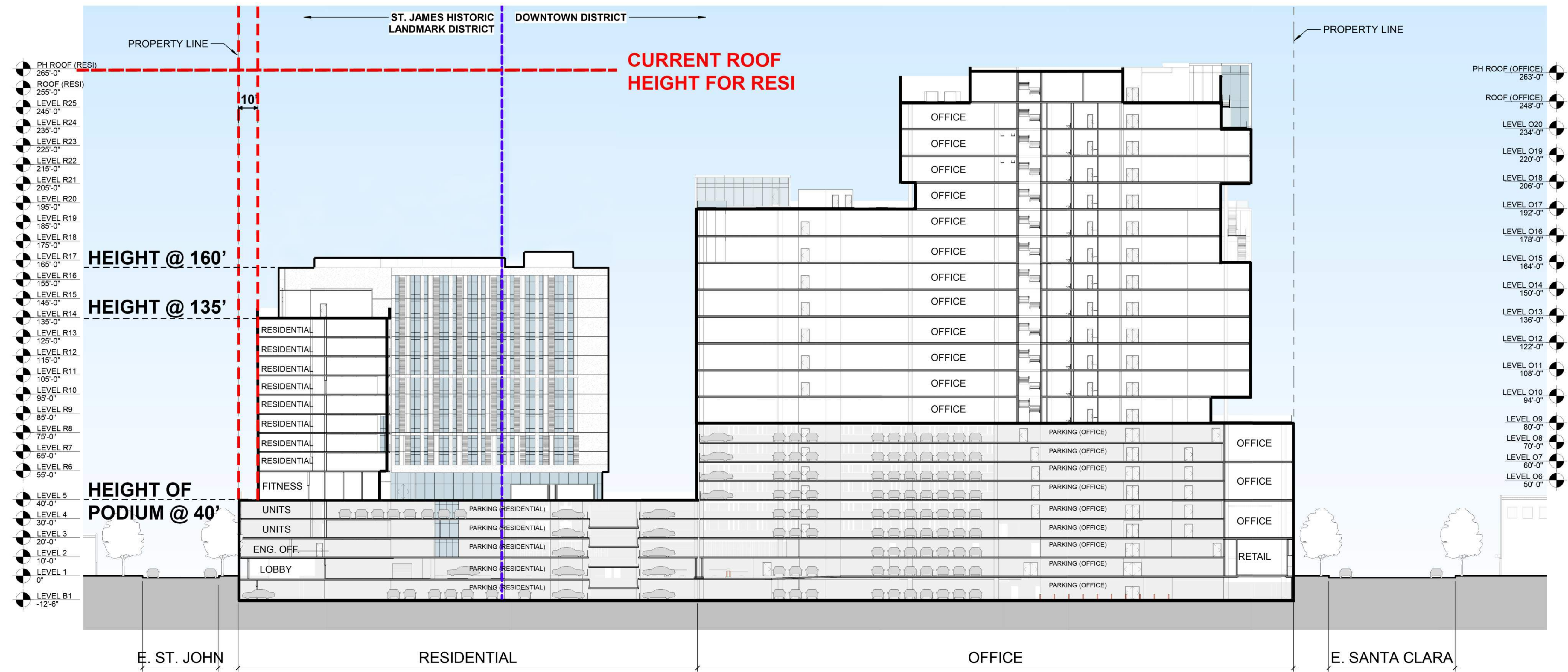
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1/25/2022 3:45:35 PM

CURRENT UNIT COUNT: 415  
UNITS LOST = 190  
TOT. FOR SCHEME B = 225



1 SCHEME B: 10' SETBACK AND REDUCED HEIGHT (AXONOMETRIC VIEW)



2 SCHEME B: 10' SETBACK AND REDUCED HEIGHT (N-S SITE SECTION)  
1" = 30'-0"

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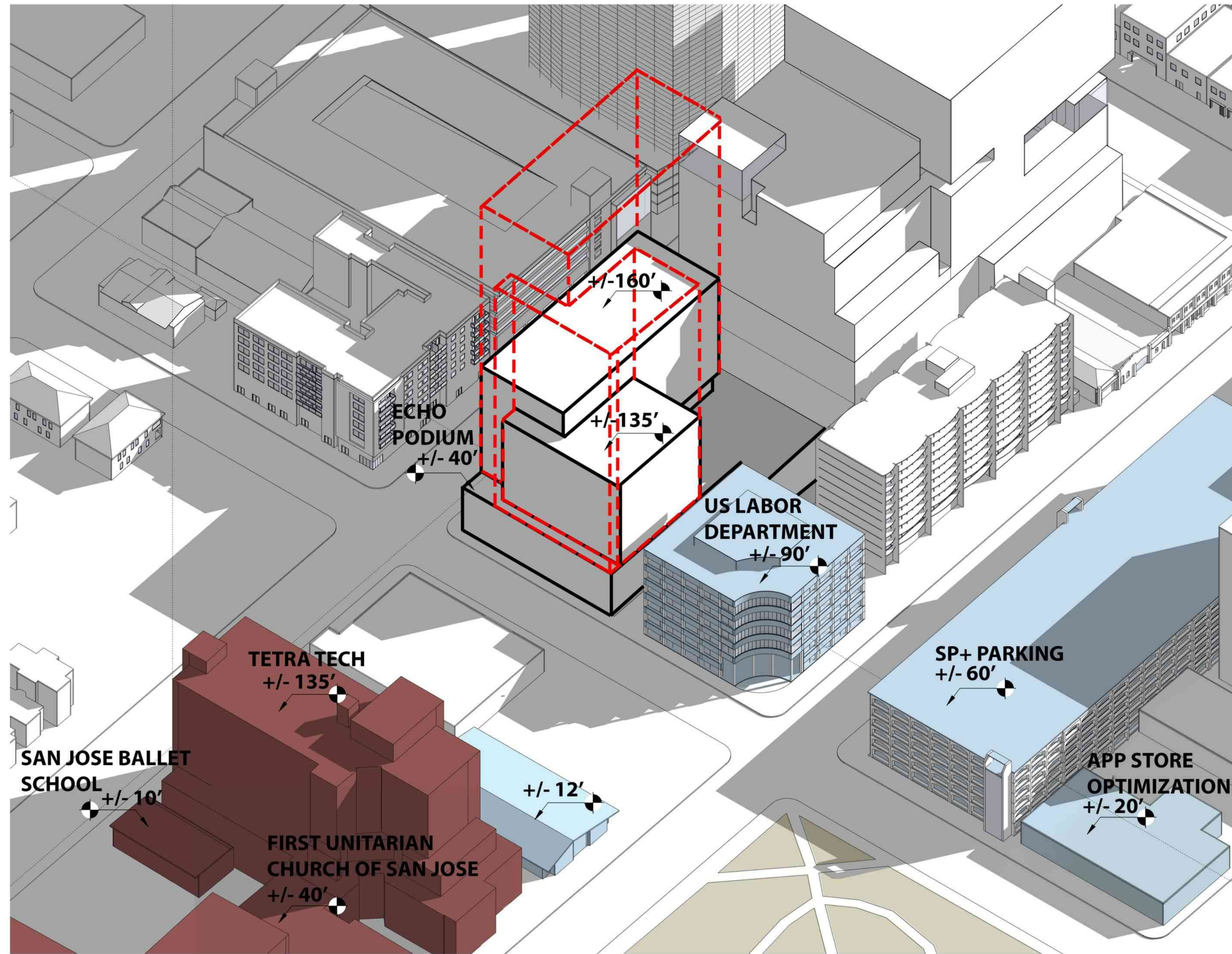
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HISTORIC HARDSHIP  
DIAGRAMS- SCHEME B

SHEET NO:

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3 **SCHEME B: 10' SETBACK AND REDUCED HEIGHT (AXONOMETRIC VIEW WITH CONTEXT)**  
**UNITS LOST: 190**

- NONCONTRIBUTING STRUCTURES - DEVELOPED PROPERTIES
- ST. JAMES SQUARE HISTORIC DISTRICT - CONTRIBUTING STRUCTURES

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KEYPLAN

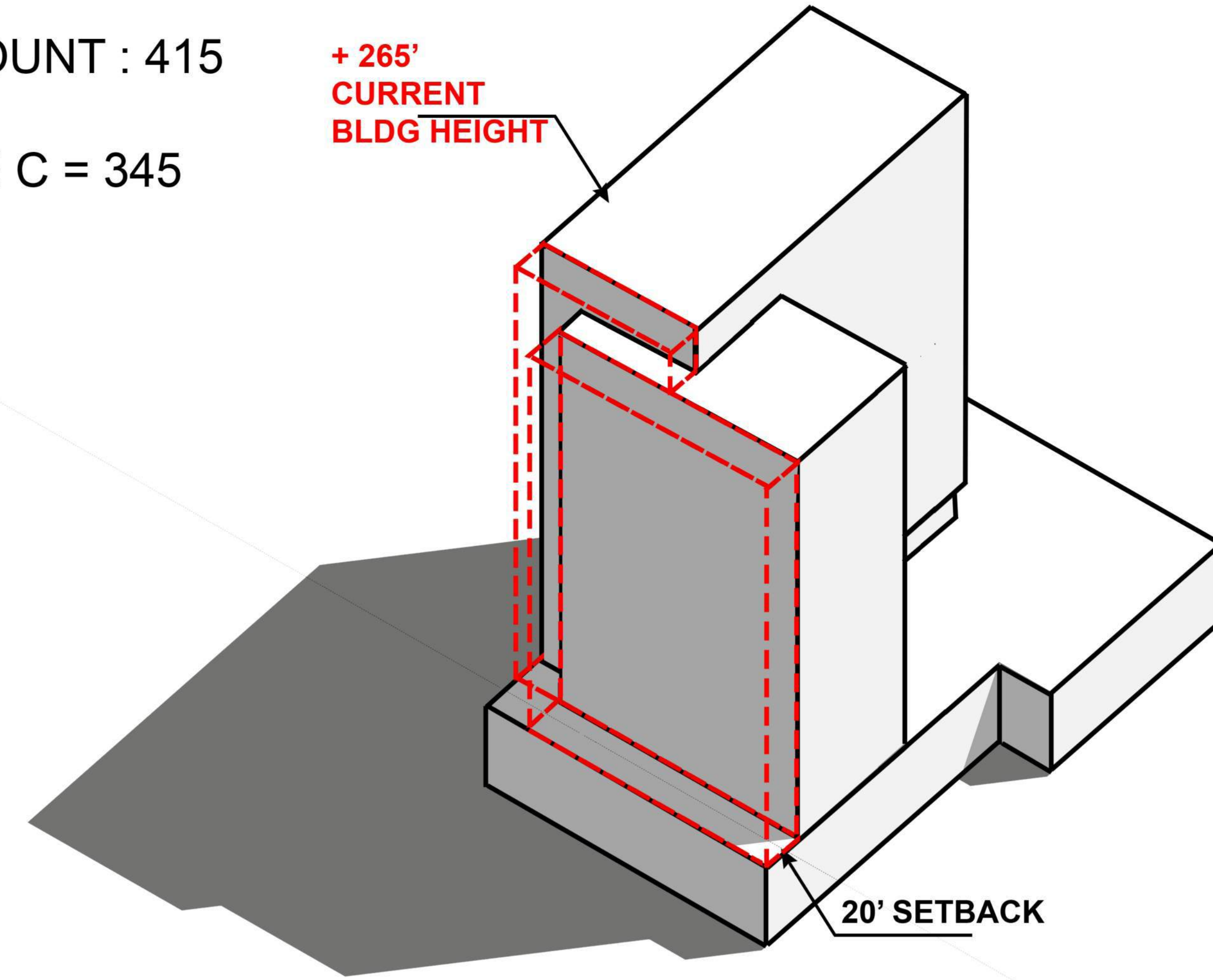
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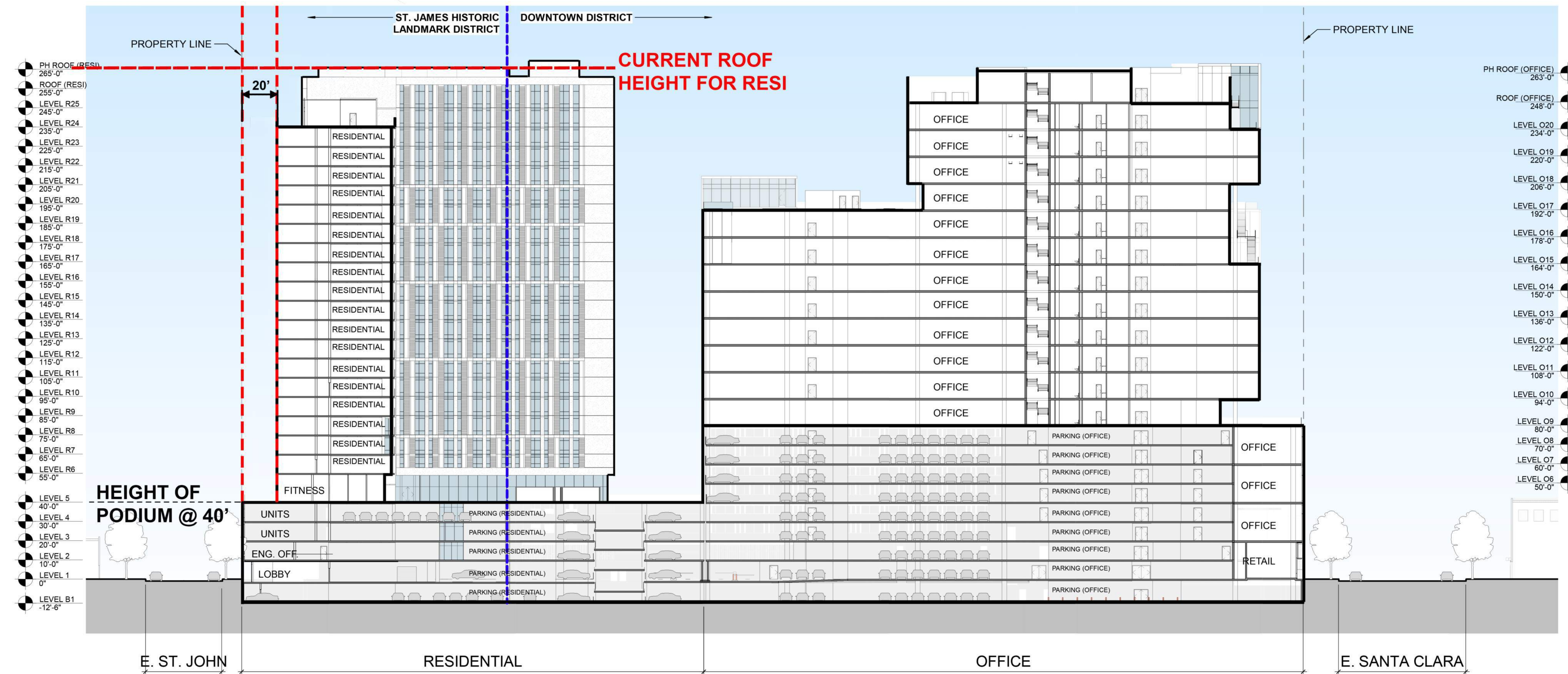
CURRENT UNIT COUNT : 415  
UNITS LOST = 70  
TOT. FOR SCHEME C = 345

+ 265'  
CURRENT  
BLDG HEIGHT



20' SETBACK

1 SCHEME C: 20' SETBACK (AXONOMETRIC VIEW)



2 SCHEME C: 20' SETBACK (N-S SITE SECTION)  
1" = 30'-0"

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SCALE:

SHEET TITLE:

HISTORIC HARDSHIP  
DIAGRAMS- SCHEME C

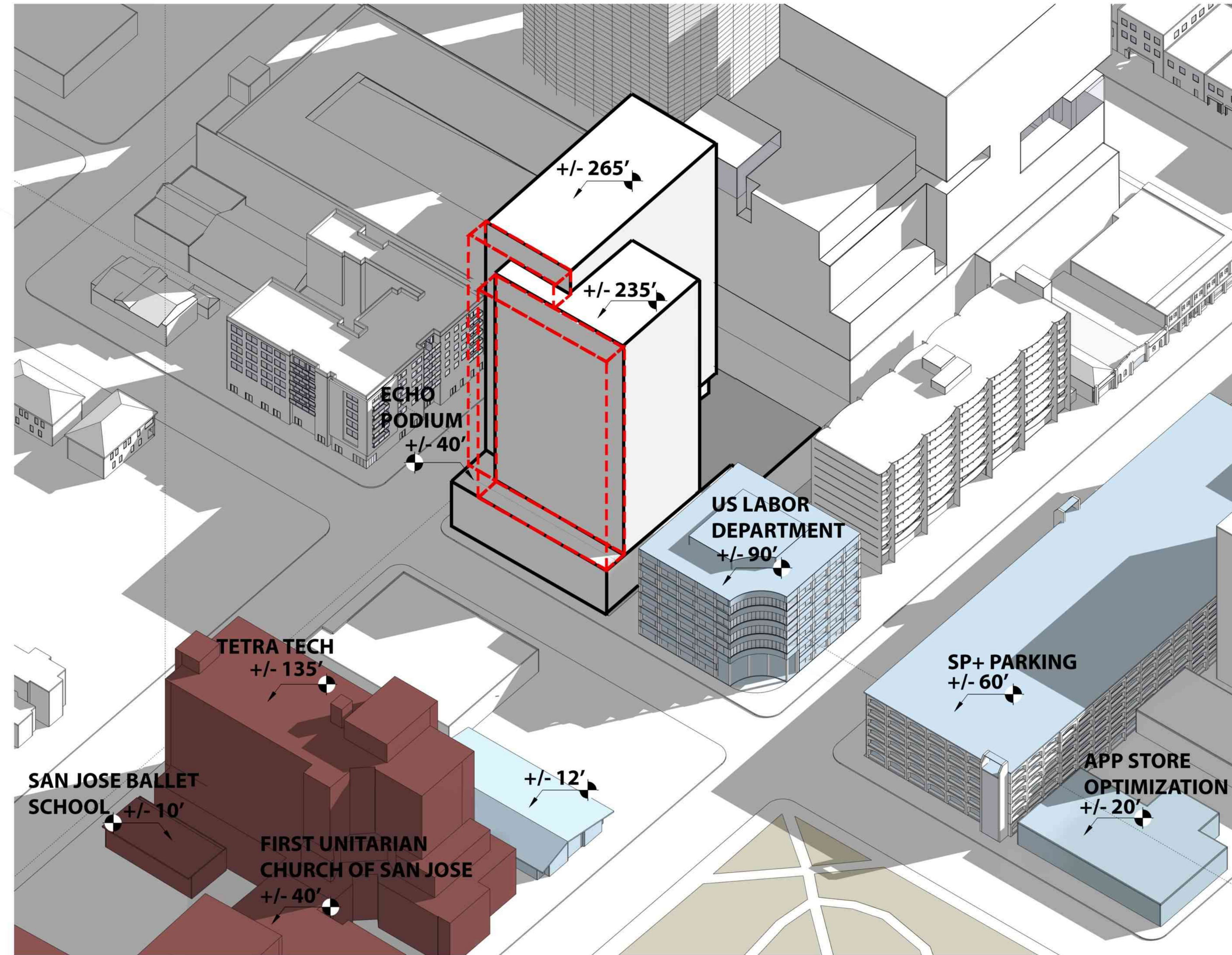
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SITE DEVELOPMENT PERMIT	07/19/2021
SITE DEVELOPMENT PERMIT RESUBMITTAL #1	11/05/2021

REVISION LIST	DATE
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3 **SCHEME C: 20' SETBACK (AXONOMETRIC VIEW WITH CONTEXT)**  
**UNITS LOST: 70**

- NONCONTRIBUTING STRUCTURES -DEVELOPED PROPERTIES
- ST. JAMES SQUARE HISTORIC DISTRICT - CONTRIBUTING STRUCTURES

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PROJECT NO.: 20037.00  
FILE NO.: SP21-031  
DATE: 01/31/2022  
SCALE:

SHEET TITLE:  
**HISTORIC HARDSHIP DIAGRAMS- SCHEME C**

SHEET NO: