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Developer in San Lorenzo says unions holding up critical housing project

By J.K. Dineen, Reporter

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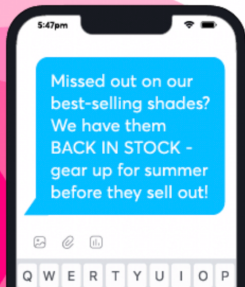
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Developer Terry Demmon is seen through the chained gate at the former site of the first Mervyn's department store where he hopes to build a 163-unit combined housing and retail center in San Lorenzo, Calif., on Tuesday, May 7, 2019. Demmons claims the project is being delayed by unions which he says are demanding more money. (Photo: Carlos Avila Gonzalez / The Chronicle)

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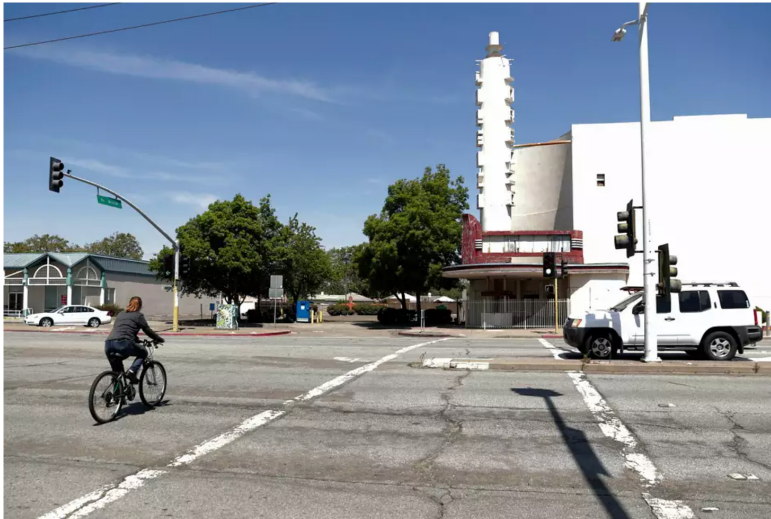
Developer Terry Demmon knew he would face challenges in building 163 apartments on a 5-acre parcel in the heart of San Lorenzo, an unincorporated town of sycamore trees, cul-de-sacs and midcentury ranch homes 12 miles south of downtown Oakland.

After all, for decades the town of 23,000 has been on the losing end of commercial real estate transactions. And some residents are afraid it's happening again, stifling the town's growth.

The intersection where Demmon is hoping to build — 5 acres of cracked asphalt and weedy lots — has been vacant since a Mervyn's closed in 1995. There's also an empty liquor store. To the west, across Hesperian Boulevard, sits San Lorenzo's most noteworthy structure, a 1947 Art Deco theater that has been shuttered for 37 years.



But it hasn't been financial or business obstacles that have impeded what would be largest development in unincorporated Alameda County in more than 30 years. It's been something Demmon didn't expect: opposition from labor unions.



A cyclist crosses Hesperian Boulevard near the Lorenzo Theater across from where developer Terry Demmon hopes to build a 163-unit combined housing and retail center in San Lorenzo, Calif., on Tuesday, May 7, 2019. Demmons claims the project is being delayed by unions which he claims are trying to force him to use union labor.

Carlos Avila Gonzalez / The Chronicle

The Alameda County Planning Commission approved the project in February, but it was appealed to the Alameda County Board of Supervisors by East Bay Residents for Responsible Development, a coalition of building trade groups that for years has used California's environmental laws to fight nonunion housing projects. Member unions are the International Brotherhood of Electrical Workers Local 595, Sheet Metal Workers' Local Union 104, Sprinkler Fitters Local 483 and United Association Local Union 342.

The union opposition has sparked criticism that labor is using the California Environmental Quality Act to strong-arm developers into agreeing to hire their members. In a statement, the developer called it "a case study in union opposition to much-needed residential projects in California when a developer can't or won't sign a union contract."

"They told us there was absolutely no compromising, that we have to use all four unions exclusively," Demmon said.

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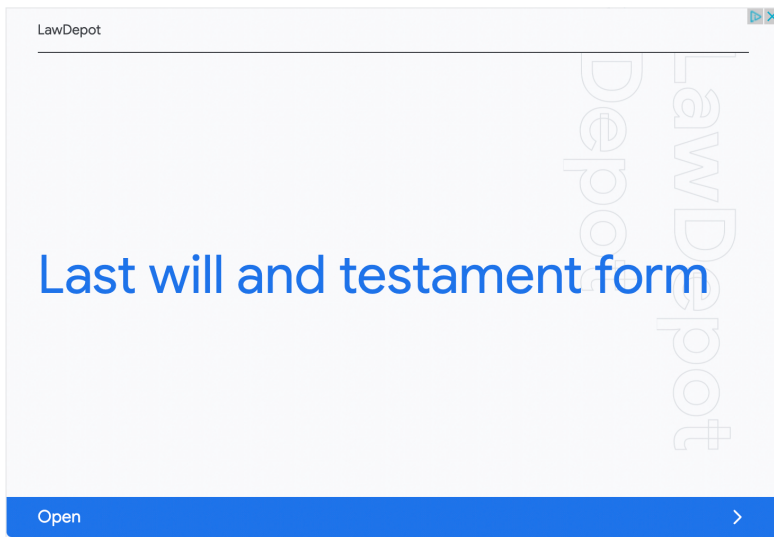
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John Dalrymple, political affairs consultant for the residents group, said the project's environmental impact report is flawed. He said the EIR doesn't adequately analyze the impact of relocating a large gas line to make way for the project and that a study of how much particulate matter the development would create is faulty.

He denied that the environmental objections are a tool to force Demmon to use union labor.

"If they correct the environmental deficiencies the project will move forward, whether or not they do right by the community around the workforce issues," Dalrymple said. "Our appeal doesn't stop the project — it may delay it for six or eight months."

San Lorenzo, one of the first planned communities in the country, was developed in the 1940s and 1950s by the Bohannon Organization, which built more than 25,000 homes in San Mateo and Alameda counties. Bohannon still owns most of the retail property in the neighborhood, including the Mervyn's site, which Demmon has agreed to purchase if the project is approved.

While the 700-seat Lorenzo Theater and Mervyn's once created something of a commercial center, both have been gone for decades. Demmon's project, called Village Green, is an effort to create a new focal point for the suburban community, he said. In addition to housing, it would create 12,000 square feet of retail in six spaces.

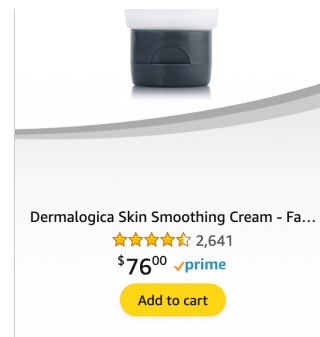
Demmon said using union labor would increase the cost of the project from \$42 million to \$49 million and that rents in San Lorenzo won't support the additional costs.

"Construction costs are the same as downtown Oakland, but I'm going to be getting rents that are 33% less than downtown Oakland," he said. "That is our problem. I believe in the area long term, but it's very untested. There is nothing new within miles of this."

Dalrymple scoffed at the idea that the developer can't afford to pay union wages.

"They all say they can't afford it — I've never met a developer who said, 'Sure, this will pencil out for me,'" he said. "They make commitments to their investors first and to the community second. Every developer does."

The fight has put the future of San Lorenzo in limbo, said Jessica Medina, a real estate agent and lifelong San Lorenzo resident. She said she's watched past development proposals fizzle and that her hometown is "being left behind."



“I feel like this is our best chance — we have someone interested in creating housing, and it will be a catalyst to revitalization,” she said. “This developer is taking a gamble. They are the first developer to come in and say, ‘I believe in San Lorenzo.’”

Medina said San Lorenzo’s midcentury ranch homes — relatively affordable for the Bay Area at an average of about \$650,000 — are attracting a new generation of buyers, as is the proximity to the Bay Fair BART Station a little more than a mile away. But the lack of shops and restaurants hurts the town.

“The housing market is really hot here,” she said. “It’s definitely a hidden gem. Millennials are buying homes, but they are looking to shop locally. They want a higher walk score, and we are unable to give them that. I really think the future of San Lorenzo is riding on this development.”

The project would complement the Hesperian Boulevard Corridor Improvement Project, which started in March, said Alameda County Planning Director Albert Lopez. That project includes moving utilities underground, wider sidewalks and new bike lanes, trees and landscaping. Hesperian runs through the center of town, parallel to Interstate 880, connecting San Lorenzo to San Leandro to the north and Hayward to the south.

“It’s a good infill site, with bus service and not too far from BART,” Lopez said of Village Green. “This project could bring in other commercial uses in a market that has not seen much investment. This part of downtown is the only big opportunity site in the whole area. If we are going to see any development in San Lorenzo, it’s going to be on this site.”

The Board of Supervisors was scheduled to vote on the appeal this month, but Supervisor Wilma Chan delayed the vote until July to give the developer and the appellant more time to negotiate.

Attorney Rob Selna, whose firm Wendel Rosen represents Demmon, said Chan has warned the developer that the majority of the five-member Board of Supervisors would probably side with the unions. Chan denied having said that, insisting that she doesn’t know how the board would vote.

“I’m going to keep talking to both sides,” she said. “I’m an optimist.”

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Chan said she has tried to make the project more economically attractive to the developer by recommending that a county-funded commercial kitchen and culinary education center be located in one of the retail spaces, which would help generate more than \$1 million in rent. In addition, she has committed to moving her office into one of Village Green’s retail spaces.

Selna said that denying the project would be a violation of the California Housing Accountability Act, which limits local government’s ability to reject housing.

In addition, he said Alameda County is not meeting its regional housing needs allocation, a state-mandated process to identify the number of housing units each jurisdiction must accommodate in its housing element, which is part of a county’s general development plan.

The county's 2015 housing element, which identified the Mervyn's parcel as a priority development site, stipulates that 1,769 housing units should be permitted before 2023. Halfway through the period, only about 400 units, or 22%, have been approved.

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J.K. Dineen covers housing and real estate development. He joined The Chronicle in 2014 covering San Francisco land use politics for the City Hall team. He has since expanded his focus to explore housing and development issues throughout Northern California. He is the author of two books: "Here Tomorrow" (Heyday, 2013) and "High Spirits" (Heyday, 2015).

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