

Memorandum

To: Stephen W. White, AIA, LEED AP BD+C, IBI Group
From: Ron Golem, BAE
Date: July 25, 2012
Re: Market potential for Santa Clara County Civic Center site, San Jose, CA

This memorandum summarizes some of the key findings from the market analysis we are conducting in support of IBI Group's Master Plan work with the County for its Civic Center site. We are providing this information in advance of our draft market analysis to inform the preparation of internal briefing materials. It should be noted that we are continuing to refine our analysis, and there may be some revisions to the figures presented below, although we do not expect substantive changes in the findings.

Summary of Market Potential

Based on analysis of current demographic and economic trends, as well as long-term projections for growth in Santa Clara County and San Jose, there appears to be sufficient market potential to support the following amount of development at the Civic Center site over the next 20 years (note that these recommendations are market-based and do not necessarily reflect what can be actually developed at the site based on available sites and potential future entitlements):

<u>Use</u>	<u>Amount</u>
Multifamily Residential	2,000 – 2,400 dwelling units
Office (Non-County)	1.0 – 1.2 million square feet
Retail	100,000 – 140,000 sf
Lodging	1 – 2 hotels / 125 – 250 rooms

A summary of relevant market considerations includes:

- The Civic Center site lies at a central location between the southern edge of San Jose's North First Street Corridor; the northern end of the Downtown (including the adjacent Diridon area); and across Interstate-880 from substantial new development on Coleman Avenue west of the San Jose Airport. Total future entitlements, including draft plans, will allow up to 51+ million square feet of new office, industrial and R&D; 46,000+ new dwelling units; 4.7 million square feet of new region- and local-serving retail; 2,200 new hotel rooms; and two major league sports stadia, one for baseball and the other for soccer.
- Silicon Valley is currently one of the strongest-performing local economies in the U.S. In the past 12 months, Santa Clara County has gained nearly 34,000 new jobs and total employment in the County now exceeds 2008 levels.

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- There are now 4,900+ new apartments under *construction* in North and Central San Jose, a rate of production not seen since the late 1990's. Even with this rate of production, absorption is projected to be strong enough to absorb this new development. The growth in apartments is being driven by rapid growth and job creation by Valley companies.
- While Class A office space vacancy in the North San Jose submarket is nearly 20 percent, in the first half of this year net absorption of new office space exceeded every other Santa Clara County submarket except Sunnyvale. At present, northern Santa Clara County's Class A office market is effectively built out and occupied, with demand rapidly filling available space in Sunnyvale and likely to spill over into currently available Santa Clara and San Jose buildings which would subsequently support new office development.
- Retail potential at the site is limited by the extent of nearby regional- and local-serving retail, as well as the local trade area including much of the Airport. Near-term there is likely potential for only 25,000 – 35,000 square feet of retail space to capture unmet demand. Most of the future demand would be generated by new residents and workers at the site. Lodging potential is also driven by new development at the site, as well as its convenient location relative to both Downtown and the Airport.
- While the market is currently spiking with current activity exceeding long-term averages for new development of all product types, even in the future when the market reverts to more normal condition, there would be sufficient demand to support the above development at the Civic Center site based on recent trends. For example, from 2000 to 2010, including a down market period that saw population growth moderate, North San Jose gained 6,517 new households, an increase of 97 percent.

Product Type Recommendations

- For-sale multifamily residential has not been considered because the County's objective is to retain long-term ownership of the land. While it is possible to develop for-sale multifamily units on ground-leased sites, this is an unusual product type for the local market with a strong potential to encounter resistance from both developers and buyers.
- A mid-rise apartment (Vendome Towers) has been successfully developed adjacent to the Civic Center site, and the northern end of North First Street has two mid-rise apartment projects currently under construction. A high-rise apartment building is being proposed for Downtown. However, most product under development is four-story podium (or wrap) type projects that is typical of most recent apartment development. Much of the potential new multifamily units is likely to be built in mid-rise buildings, although depending upon the developer the initial phase of buildings may be a podium or wrap-type project.
- Office buildings are likely to be Class A buildings of up to six stories, with floorplates of 30,000 to 45,000 square feet, reflecting current tenant preferences. Increasing building heights may be constrained by the circulation challenges presented by such large floorplates. Another consideration is that the trend is for companies to occupy buildings much more intensively than in the recent past – with as little as 150 square feet per employee on average – creating pressure for greater amounts of parking.
- Retail space can be accommodated in the ground floor of mixed-use buildings. Retail opportunities will be focused on smaller, local-serving retailers, including food, and dining.
- Lodging opportunities are mostly likely in limited service to boutique hotels.

- High quality site design, and strong retail tenant mix will be important to provide the “live-work-play” environment sought by Valley companies and their employees. This includes creating an attractive, walkable environment that engages pedestrians. New development at the site needs to reflect top-notch placemaking that brands it as a desirable destination.

Site Strengths and Opportunities

- As discussed previously, the Civic Center site has great location advantages in the center of San Jose, at a major freeway interchange, near the San Jose Airport, and with good access.
- The VTA North First Street station is a major advantage, that enhances the potential for residential, office, and lodging uses. With Downtown only two stops away, the Civic Center site would appeal to those who desire access to Downtown’s amenities but do not necessarily want to live or work there. It is important for development at the site to be oriented towards the station.

Site Challenges

- The nearest Caltrain station, College Park, is too far to walk for most persons. Adjacency to Caltrain is a strong driver for office space leasing because it helps high tech companies attract employees who live in San Francisco. Providing a convenient shuttle to Caltrain would be a plus. There is discussion about a shuttle to link development on Coleman Avenue adjacent to the Santa Clara Caltrain station to the Airport, if this occurs it would be worthwhile to see if such a shuttle could be extended to the Civic Center site.

Next Steps – Draft Market Study

A comprehensive draft market study is being prepared that provides detailed data and analysis to support the above findings. Subsequent market research will also provide refined product type recommendations, additional insights into phasing of uses, and identify potential rental rates to inform future development feasibility testing.