9. MARKET DEMAND ANALYSIS

In preparing this market outlook report, ERA first reviewed trends and economic outlook for Santa Clara County. The population and employment forecasts were translated into 20-year market demand projects for office, hotel, housing and retail/entertainment development for the county as a whole. San Jose's market share was estimated from countywide demand projections. The Diridon Station Plan Area's share of the San Jose market was estimated after an inspection of the station area. Since we are at the beginning of the process before decisions have been made concerning public infrastructure improvements, amenities and public facilities (e.g. a major league baseball park), ERA provided a low to high range of market demand forecasts (net change) for each land use (see Table 9-1). As we gain additional information through the plan development process, ERA will refine the market forecasts and provide development program recommendations for sub areas including the new Diridon Station terminal building.

The transformation of Santa Clara County from orchards to technology companies over the past 40 years is one of the most dynamic economic success stories anywhere in the world. Innovation has driven the success of Silicon Valley and it is the prototypical example of the creative class economy. The growth and transformation of this valley economy was never a steady and smooth one. It was been characterized by cyclical fluctuations and heady bursts of success followed by periods of retrenchment and consolidation. However, the unique characteristic of this economy has been its ability to repeatedly lead the world in the commercial application of new technology through innovation. Key challenges for the valley's economy to continue to grow in the next couple of decades include adequate housing for a diverse and sophisticated workforce and regional transportation and transit linkages.

This chapter has three sections:

Section 1 addresses countywide market demand

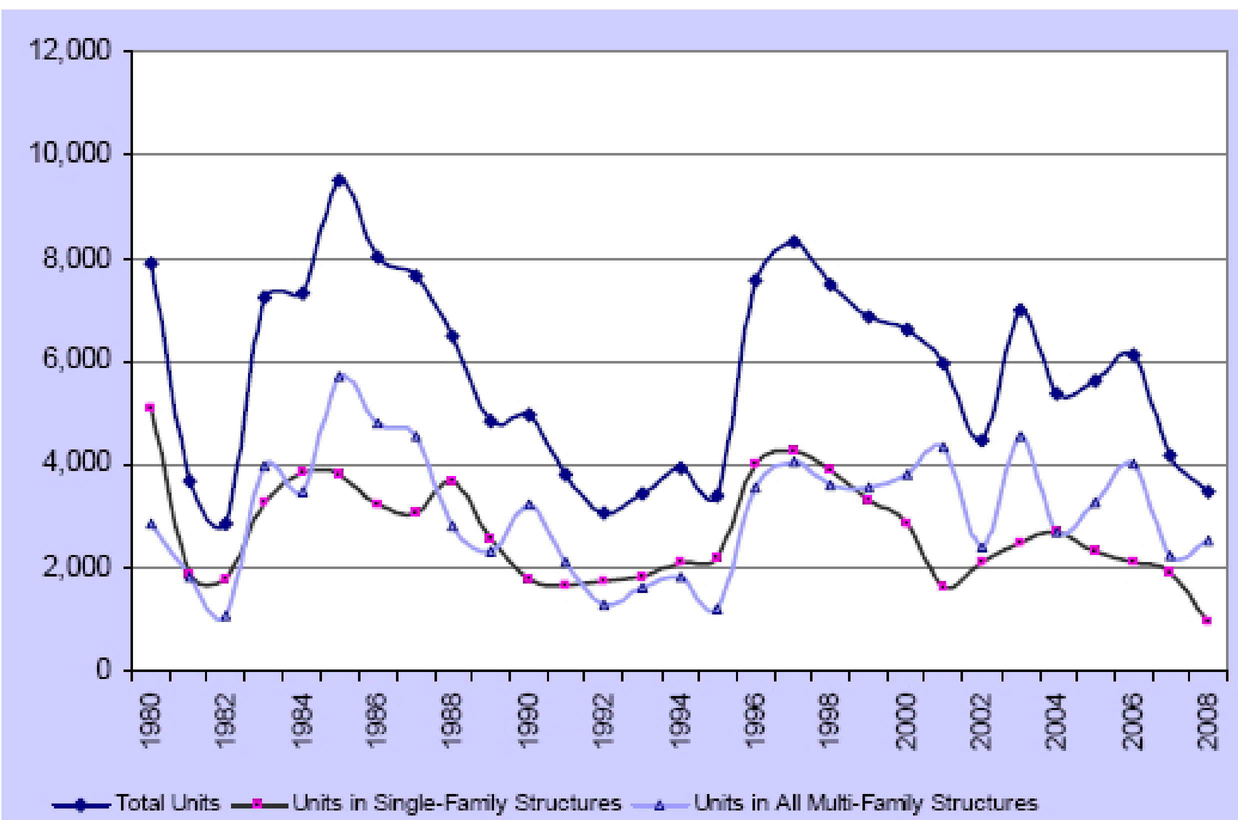
Section 2 covers the City of San Jose's share of countywide demand

Section 3 provides the low to high range of market forecasts for the Diridon Station Plan Area.

Table 9-1: MARKET DEMAND SUMMARY, 2010-2030 (Source: ERA)

	2010-2020	2020-2030	Total Demand 2010-30
Residential			
Low (units)	1,232	1,436	2,667
High (units)	2,065	2,406	4,472
Office Space			
Low (sf)	560,500	1,808,700	2,369,200
High (sf)	945,800	2,679,600	3,625,400
Retail Space			
Low (sf)	78,400	126,100	204,500
High (sf)	131,700	200,700	332,400
Hotel Rooms			
Low	134	300	434
High	207	452	659

Figure 9-1: Residential Building Permits Issued, 1980-2008 (Number of Units Permitted) (Source: U.S. Department of Housing and Urban Affairs)



9.1 Market Analysis for Santa Clara County

ERA reviewed historical trends in the regional market for housing, office, retail, and hotel uses. Based on wider economic trends for the region, ERA also prepared demand forecasts for the various land uses over the next 20 years.

RESIDENTIAL HOUSING MARKET

TThe residential housing market has been an engine of growth for the Silicon Valley and California economies, creating jobs in construction, real estate and finance sectors, and allowing for greater consumer spending. Throughout the last 28 years, the residential market, as evidenced by residential construction, has experienced a couple of cycles with peaks. During the 1980s, on average, more than 6,500 residential building permits were issued annually. During the 1990's approximately 5,300 residential building permits were issued annually. Residential construction increased during this decade when more than 5,400 residential building permits were issued annually. Residential construction reached high points in the early 80s, mid 80s, mid-1990s, and to a lesser extent in the mid part of this decade. Each of these peaks has been followed by cooling periods of declining construction. The most recent peak, which occurred in 2006, was largely driven by low interest rate financing but also by pent-up housing demand in the region.

Since 1980, approximately 54 percent of new residential units have been in multifamily buildings. This ratio has been increasing as land becomes scarcer, and demographics and consumer preferences change. Between 2000 and 2008 approximately 61 percent of new residential units were multifamily units. For the purpose of this study, ERA is focusing on the multifamily residential market, as low density single-family is not appropriate in the Diridon Station Area.

Overall multifamily condominium prices in Santa Clara have steadily increased since 1997, even during the economic slow-down of 2000-2004. See Table 9-2. The Median price for a condominium in the county increased from $183,500 in 1997 to $530,000 in 2007. During that same period, approximately 4,900 condominiums were sold per year spending an average of 30 days on the market. The fortunes of the residential market in Santa Clara have recently reversed mirroring nationwide trends. The median condominium price in the county declined from $530,000 in 2007 to $435,000 in 2008. Fewer units are selling (2,900 units were sold in 2008) and the ones that sell spent more time on the market (an average of 56 days). Prices have continued to slide through most of 2009, although there are a few signs that the market the rate of decline is slowing down. The median price for Townhome/condos fell 1.2% from July, and it was off 20.5% compared to last August. The average price rose 3.4%, month-over-month, but was down 15.5% compared to August 2008.

New multifamily housing construction data for Santa Clara County from September 2008 to August 2009 is presented in Table 9-3. The average price of a new condominium in Santa Clara County was approximately $494,000 and $460,000 for a townhouse. On a per square-foot basis, condominiums commanded the highest price at $384, compared to townhouses at $316. The highest prices for condominiums are commanded in Sunnyvale, Campbell, Los Altos, and Mountain View. The more affordable prices condominiums are in San Jose, and Milpitas. The average price in San Jose was $450,000 for a new condominium and $431,000 for a new townhome; $356 and $291 per square foot, respectively (see Table 9-22 for San Jose specifc Residential Building Trends).

Table 9-2: MEDIAN AND AVERAGE CONDOMINIUM PRICES IN SANTA CLARA COUNTY
(Source: Santa Clara County Real Estate Report)

					% Change from Year Before		
Year	Sales	Median Price	Average Price	Days on Market	Sales	Median Price	Average Price
1997	4,581	$183.500	$205,818	35			
1998	5,086	$212.000	$232,781	31	11.02%	15.53%	13.10%
1999	5,454	$239.000	$262,807	31	7.24%	12.75%	12.90%
2000	4,895	$320,000	$354,628	20	-10.25%	33.89%	34.94%
2001	2,671	$338,800	$360,189	36	-45.43%	5.88%	1.57%
2002	2,836	$354,000	$373,114	28	6.18%	4.49%	3.59%
2003	5,634	$350,000	$374,065	38	98.66	-1.13%	0.25%
2004	6,904	$390,000	$414,592	21	24.14%	11.43%	10.83%
2005	6,588	$475,000	$499,658	18	-6.52%	21.79%	20.52%
2006	5,151	$500,000	$525,380	31	-21.21%	5.26%	5.15%
2007	3,845	$530,000	$557,245	42	-25.35%	6.00%	6.07%
2008	2,907	$435,000	$471,961	56	-24.40%	-17.92%	-15.30%

Table 9-3: NEW CONSTRUCTION HOUSING PRICES, SEPTEMBER 2008 - AUGUST 2009
(Source: Redfin)

	Units Sold	Average Sales Price	Average Size (SF)	Average Price/SF
Condominiums				
Campbell	1	$400,000	863	$463
Gilroy	1	$342,000	1,679	$204
Los Altos	3	$791,000	1,309	$605
Milpitas	165	$386,713	1,269	$305
Mountain View	9	$640,389	1,447	$442
Palo Alto	6	$659,667	1,739	$379
San Jose	270	$450,079	1,265	$356
Sunnyvale	40	$1,157,125	1,401	$826
Santa Clara County	495	$493,843	1,284	$384
Townhouses				
Gilroy	7	$347,786	1,679	$207
Mountain View	4	$648,125	1,477	$439
San Jose	24	$431,063	1,483	$291
Sunnyvale	11	$523,591	1,231	$425
Santa Clara County	46	$459,391	1,452	$316

Population and Household Forecasts

In order to project residential demand, ERA reviewed population growth (historical and forecasted). Table 9-4 shows population in Santa Clara County and key jurisdictions from 1990 to 2009.

The population in the county increased from nearly 1.5 million to over 1.8 million from 1990 to 1009. Not surprisingly, population grew faster during the economic boom of the late 1990s, with population increasing at annual rate of 1.35 percent countywide. The weak economic performance of the regional economy slowed down population growth but the county still experienced some growth. Cities such as Santa Clara and San Jose continued growing at over one percent per year during this period. Population growth increased as the regional economy began to improve in the second half of the decade. Between 2005 and 2009, the county has added approximately 100,000 new residents.

ERA analyzed two major sources for population and household forecasts in California. The California Department of Finance (DOF) publishes demographic estimates and projections for the state for policy and planning purposes. Projections through the year 2050 were last published in 2007. ABAG also provides employment, population, and household projections at the regional and city level. As a regional planning agency, the ABAG forecasts are somewhat influenced by policy objectives of local government leaders, particularly during the local review process. This can sometimes result in adjusted household and population figures to prevent community opposition. Therefore ERA's analysis takes into account the projection of both organizations in order to achieve a balanced position.

The ABAG population projections for Santa Clara County estimate an annual average increase of 1.25 percent (or 241,000 new residents) between 2010 and 2020, which is a significantly higher rate of growth than the estimated annual growth (0.80%) between

Table 9-4: POPULATION TRENDS IN SANTA CLARA COUNTY
(Source: California Department of Finance, ERA)

						Annual Rate of Growth		
Santa Clara County	1990	1995	2000	2005	2009	95-00	00-05	15-09
Milpitas	50,690	57,883	62,635	64,784	70,817	1.59%	0.68%	1.80%
San Jose	782,224	825,547	892,558	941,609	1,006,892	1.57%	1.08%	1.35%
Santa Clara	93,613	96,915	101,605	108,737	117,242	0.95%	1.37%	1.52%
Other Santa Clara County	571,050	587,880	620,122	637,911	662,670	1.07%	0.57%	0.76%
Total Santa Clara County	1,497,577	1,568,225	1,676,920	1,753,041	1,857,621	1.35%	0.89%	1.17%

Table 9-5: GROWTH ESTIMATES AND PROJECTIONS FOR SANTA CLARA COUNTY, 2000-2030
(Source: California Department of Finance, ABAG, ERA)

Population	2000	2005	2010	2020	2030
ABAG	1,682,585	1,763,000	1,822,000	2,063,100	2,310,000
Department of Finance	1,682,585	1,753,041	1,837,361	1,992,805	2,192,501
Average Annual Growth Rate		2000-05	2005-10	2010-20	2020-30
ABAG		0.94%	0.66%	1.25%	1.14%
Department of Finance		0.82%	0.94%	0.82%	0.96%

2000 and 2010. ABAG then projects slower growth of 1.14 percent between 2020 and 2030. ABAG estimates that between 2010 and 2030 there will be approximately 490,000 new residents in Santa Clara County.

The DOF population projections are slightly more conservative. Between 2010 and 2020, it projects annual growth of 0.82 percent (or 155,000) new residents. The DOF then projects slightly higher population annual growth of 0.96 percent between 2020 and 2030. Overall, the DOF projects that between 2010 and 2030 there will be an additional 355,000 new residents in Santa Clara County.

Recent trends for California and the Bay Area show that the average household size is shrinking. ABAG's and DOF's estimate similar household sizes for Santa Clara County. ABAG projects a relatively stable household size for Santa Clara County in the short- and medium-term followed by a slight decline by 2030.

There are a number of criteria that will make some areas more attractive than others for the location of multifamily housing. The following influences housing demand, particularly for ownership housing:

- Quality and safety of neighborhood
- School district quality
- Lack of negative influences or nuisances, such as traffic, air pollution, noise, etc.
- Access to jobs
- Access to shops and retail services

The strongest locations for residential development will be those that best provide these amenities.

ERA estimates incorporate both ABAG and DOF household projections to arrive at total household growth from 2010 to 2030 in Santa Clara County. The low estimates are based on the DOF estimates. Based on this there will be approximately 130,000 new households between 2010 and 2030 in Santa Clara County. The high estimates are based on ABAG projections. According to ABAG there will be approximately 170,000 new households in the County by 2030.

Based on the mid-point projection, which takes into account both ABAG and DOF, households will increase from about 616,000 in 2010 to 765,000 by 2035, a gain of 150,000 new households.

Housing Demand Estimate

Given regional household growth forecasts and the housing market trends described, ERA estimated the regional housing demand for Santa Clara County. The demand model (see Table 9-7) makes the following assumptions:

- Due to decreasing available supply of undeveloped land in the county, the share of single-family detached housing as a percentage of total new construction will continue to decline.
- Housing vacancy is five percent at equilibrium
- The percentage of owner-occupied units will increase slightly, but remain in the range of 60 to 65 percent.
- Most of the multifamily units built in the next 20 years will be ownership units. This includes condominium flats and townhouses.
- ERA's demand model shows that new household growth will generate demand for about 157,000 units between 2010 and 2030. Of this total, about 45,000 will be single-family units, and another 112,000 units will be multi-family units.

Table 9-6: HOUSEHOLD GROWTH ESTIMATES AND PROJECTIONS FOR SANTA CLARA COUNTY, 2000-2030
(Source: California Department of Finance, ABAG, ERA)

Population	2000	2005	2010	2020	2030
ABAG	565,863	595,700	614,000	696,530	785,090
Department of Finance	565,858	593,092			
Average Household Size					
ABAG	2.97	2.96	2.97	2.96	2.94
Department of Finance	2.97	2.96			

Table 9-7: HOUSEHOLD GROWTH PROJECTIONS FOR SANTA CLARA COUNTY
(Source: California Department of Finance, ABAG, ERA)

Households	2010	2015	2020	2025	2030
Low[a]	617,915	644,837	672,797	705,703	745,156
Med[b]	616,000	649,000	685,000	723,000	765,000
High[c]	614,000	653,810	696,530	739,820	785,090
New Households	2010-15	2015-20	2020-25	2025-30	Total
Low	26,921	27,961	32,905	39,453	127,241
Med	33,000	36,000	38,000	42,000	149,000
High	39,810	42,720	43,290	45,270	171,090

a Based on California Department of Finance Estimates
b Based on average of high and low scenarios
c ABA estimates

Table 9-8: ESTIMATED HOUSING DEMAND IN SANTA CLARA COUNTY, 2010-2030
(Source: California Department of Finance, ABAG, ERA, ESRI Business Analyst)

Growth in Households by Type	2010	2015	2020	2025	2030
Total Households	616,000	649,000	685,000	723,000	765,000
Incremental Households		33,000	36,000	38,000	42,000
Total Housing Units	648,421	683,158	721,053	761,053	805,263
Vacancy Rate at Equilibrium	5%	5%	5%	5%	5%
Occupied Units	616,000	649,000	685,000	723,000	765,000
% Owner Households	61%	62%	63%	63%	64%
% Renter Households	39%	38%	37%	37%	36%
% Single Family	62%	60%	59%	57%	55%
% Multifamily	38%	40%	41%	43%	45%
Single Family	402,021	412,442	423,432	434,632	446,568
Multifamily	246,400	270,716	297,621	326,421	358,695
Owner Households	395,537	421,937	450,661	480,901	514,236
Renter Households	252,884	261,221	270,392	280,152	291,027

New Housing Units by Type	2010-15	2015-20	2020-25	2025-30
Incremental Housing Units				
Single Family Units (%)	30%	29%	28%	27%
Multifamily Units (%)	70%	71%	72%	73%
Single Family Units	10,421	10,989	11,200	11,937
Multifamily Units	24,316	26,905	28,800	32,274
Ownership Units (%)	77%	78%	80%	80%
Rental Units (%)	23%	22%	20%	20%
Ownership Units	26,400	28,724	30,240	33,335
Rental Units	8,337	9,171	9,760	10,876
Total New Housing Units	34,737	37,895	40,000	44,211
Cumulative Unmet Demand 2010-2030			156,842	

OFFICE MARKET

ERA reviewed historical and recent performance of the South Bay/ San Jose office market. This market is mostly composed of Santa Clara County and is defined to include the cities of Campbell, Los Gatos, San Jose, Milpitas, Morgan Hill, Gilroy, Mountain View, Los Altos, Palo Alto, Santa Clara, Sunnyvale, and Cupertino. ERA also reviewed employment growth projections for the region by ABAG and projected demand for new office space construction over the next 20 years.

Total office inventory in the South Bay/San Jose market area amounted to 106,215,509 square feet in 4,417 buildings as of the end of the second quarter 2009. The Class A office sector consisted of 27,186,388 square feet in 179 projects. There were 1,726 Class B buildings totaling 53,710,512 square feet, and the Class C sector consisted of 25,318,609 square feet in 2,512 buildings. Within the Office market there were 124 owner-occupied buildings accounting for 9,168,679 square feet of office space.

Historical Trends

Historical data for office space vacancies in the South Bay/San Jose office market shows a fair degree of volatility (see Figure 9-2). The dot-com boom of the late 1900s led to overall vacancy rates below five percent (Except for Class A space, which hovered between five and ten percent between 1997 and 2000). Developers responded by ramping up construction. More than 15 million square feet of office space were built during the height of the dot-com boom. After 2000, however, with the dot-com bust, the office vacancy surged to almost 12.3 percent and the market was unable to absorb the delivery of over six million square feet in new construction in 2001. From 2001 to 2002, there was negative absorption of almost seven million square feet. Vacancies peaked in 2003 at almost 18 percent. Vacancy rates began to decline in 2003 as the regional economy began to recover and construction of new office space tapered off. Vacancies declined steadily through the first quarter of 2008. Since

Figure 9-2: VACANCY RATES FOR OFFICE SPACE IN SOUTH BAY/SAN JOSE MARKET, 1997-1999 (Source: CoStar Property)

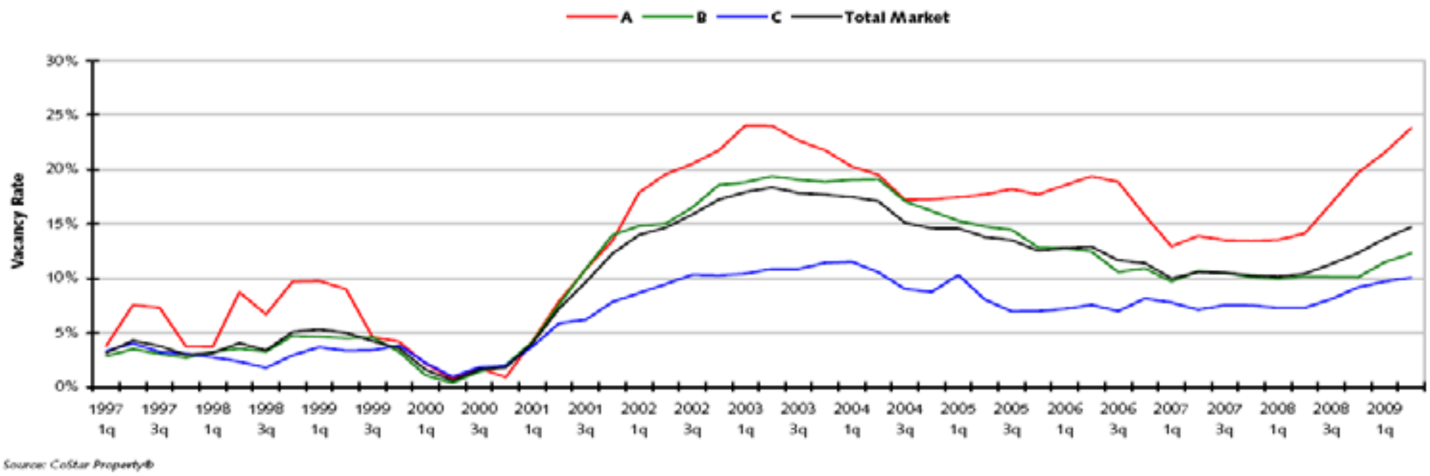
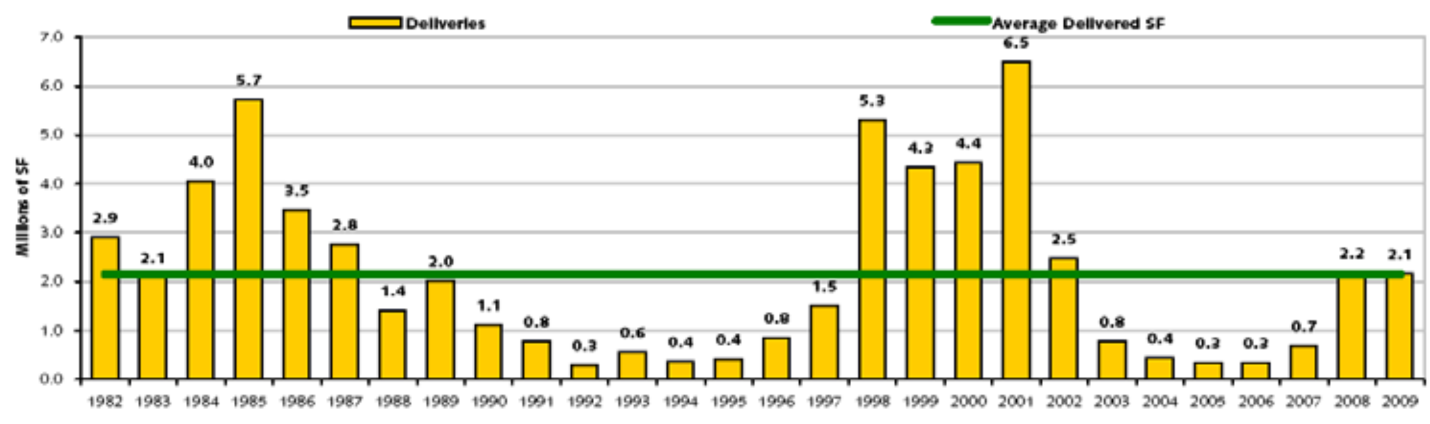


Figure 9-3: HISTORICAL DELIVERIES OF OFFICE SPACE, 1992-2009 (Source: CoStar Property)



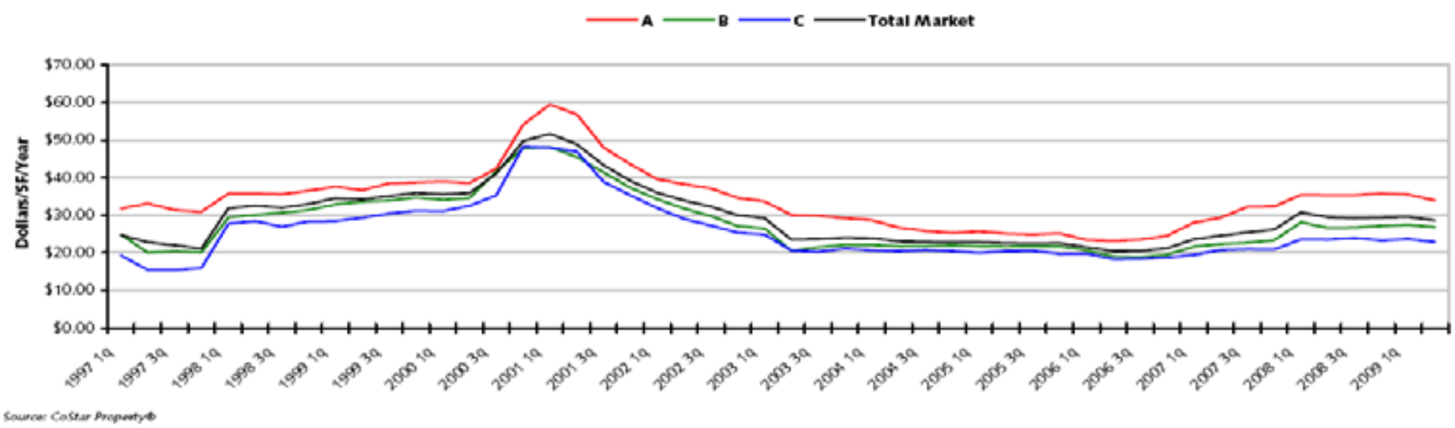
then, vacancies have once again increased significantly. The South Bay/San Jose Office market ended the second quarter 2009 with a vacancy rate of 14.7%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (1,129,607) square feet in the second quarter.

Rental rates have generally responded to vacancy rates, although they tend to fluctuate significantly less than vacancies (see Figure 9-3. Quoted rental rates peaked in 2000 at over $50 per square foot (Full Service). Rates declined steadily reaching their lowest point, $21.23/SF, in 2006. Rental rates then hovered around $30/SF through most of 2008 and the first quarter of 2009. Rental rates ended the second quarter at $28.62, a decrease over the previous quarter. The average quoted rate within the Class-A sector was $33.89 at the end of the second quarter 2009, while Class-B rates stood at $26.83, and Class-C rates at $22.96. At the end of the first quarter 2009, Class-A rates were $35.56 per square foot, Class-B rates were $27.53, and Class-C rates were $23.71.

Recent Deliveries and New Construction

During the second quarter 2009, three buildings totaling 49,976 square feet were completed in the South Bay/San Jose market area. This compares to five buildings totaling 654,561square feet that were completed in the first quarter 2009, seven buildings totaling 706,301 square feet completed in the fourth quarter 2008, and 935,544 square feet in seven buildings completed in the third quarter 2008. There were 1,456,830 square feet of office space under construction at the end of the second quarter 2009. Almost 80 percent is projected to be Class B space. The largest projects underway at the end of second quarter 2009 were 300 Park Ave, a 300,000-square-foot, Class A building with 0% of its space pre-leased, and Brocade Bldg 3, a 220,000-square-foot facility that is 100% pre-leased.

Figure 9-4: HISTORICAL RENTAL RATES IN THE SOUTH BAY/SAN JOSE OFFICE MARKET, 1997-2009 (BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES) (Source: CoStar Property)



As shown in Figure 9-4, The South Bay/San Jose Market saw its largest amount of new office space deliveries in years with more than 4.3 million square feet of new office space. Unfortunately, this space was delivered during one of the most difficult economic environments in history. With a negative net absorption of 2.6 million square feet between the third quarter of 2008 and the second quarter of 2009, a lot of the newly delivered space sits vacant. As a result, new construction will be greatly scaled back as many developers postpone or hold back indefinitely until the economic recovery begins in earnest. Despite comments by Ben Bernanke, chairman of the U.S. Federal Reserve, that the recession may be over, further layoffs are expected to continue through 2009. In the near term, more negative market trends can be expected. NAI BT Commercial expects only a few hundred thousand square feet to be completed in the short run, most of which will be built-to-suit.

Office Demand Analysis

Despite the bleak short-term outlook, Santa Clara is well positioned to weather, and quickly rebound from, the current economy and financial slowdown better than most other regions. Santa Clara County is home to a myriad of leading global companies, world-renowned universities, and highly skilled population. ABAG projects Santa Clara county achieve the fastest employment growth in the Bay Area through 2035.

ERA estimated future employment-based demand for office space in Santa Clara County based on the employment projections developed by ABAG and published September 2009. Table 9-9 summarizes the projected employment changes for Santa Clara County by economic sector from 2000 to 2030. According to ABAG, a total of 165,000 new jobs will be generated in the 2010 to 2020 period. A significant amount of the increase will occur in the sectors of health/education/recreation, and manufacturing and wholesale distribution. From 2020 to 2030, an additional 220,000 new jobs will be generated. During this period, the financial and professional services sector is expected to once again create employment growth, surpassing 2000 employment by 2025. However, employment growth from 2010 to 2030 will continue to be largely driven by health/education/recreation.

To calculate office space demand, ERA applied a percentage to each of the employment sectors that would be likely to occupy office space, as shown in Table 9-10. For example, ERA estimated that only five percent of new manufacturing/wholesale jobs would occupy office space, while about 90 percent of new financial/professional service employees would occupy office space. Given these estimates, ERA calculated the number of new employees that would demand office space from each of the sectors from 2010 to 2030. The results show that from 2010 to 2020, about 57,000 new employees will demand office space. From 2020 to 2030, an additional 77,000 employees will require new office space.

Table 9-9: EMPLOYMENT GROWTH IN SANTA CLARA COUNTY, 2000-2030 (BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES (Source: ABAG 2009 Projections)

Year	Ag/Natl Resources	Manuf/ Wholesale/ Transp	Retail	Financial/ Prof Svcs	Health/Ed/ Rec	Other	Total Employment
2000	4,560	346,520	100,570	211,250	247,530	133,700	1,044,130
2005	4,500	265,550	87,660	166,460	241,850	106,840	872,860
2010	4,500	272,920	83,620	165,360	269,520	110,350	906,270
2015	4,500	290,510	89,170	180,560	295,630	120,860	981,230
2020	4,500	312,290	97,420	200,440	324,360	132,970	1,071,980
2025	4,500	327,040	114,670	230,040	349,290	151,980	1,177,520
2030	4,500	349,190	126,820	255,930	388,070	167,980	1,292,490

Table 9-10: EMPLOYMENT GENERATED DEMAND FOR OFFICE SPACE IN SANTA CLARA COUNTY (Source: ABAG, ERA)

Demand for Office Space 2010-2020	Total Employment	Ag/Natl Resources	Manuf/ Wholesale/ Transp	Retail	Financial/ Prof Svcs	Health/ Ed/ Rec	Other
Increase in Employment 2010-2020	165,710	0	39,370	13,800	35,080	54,840	22,620
Demand for Employment Space							
% Using Office	--	0.0%	5.0%	10.0%	90.0%	20.0%	50.0%
Employment Using Office	57,199	0	1,969	1,380	31,572	10,968	11,310

Demand for Office Space 2020-2030	Total Employment	Ag/Natl Resources	Manuf/ Wholesale/ Transp	Retail	Financial/ Prof Svcs	Health/ Ed/ Rec	Other
Increase in Employment 2020-2030	220,510	0	36,900	29,400	55,490	63,710	35,010
Demand for Employment Space							
% Using Office	--	0.0%	5.0%	10.0%	90.0%	20.0%	30.0%
Employment Using Office	77,971	0	1,845	2,940	49,941	12,742	10,503

Table 9-11 presents the demand model used to calculate the amount of square footage of office and flex space that will be needed to meet the additional demand from new employment in various sectors in Santa Clara County.

As shown, regional economic growth will create approximately 135,000 new office jobs between 2010 and 2030. This correlates to net occupied Class A and B office space totaling nearly 32 million square feet. ERA also factored in excess vacancies in Class A and B office space, which totals 5.7 million square feet (maintaining a seven percent vacancy overall for market equilibrium). In the 2010-2020 period, once all of this excess supply is absorbed by new employment growth, there will be employment-generated demand for an additional 14 million square feet of new construction.

The model incorporates the following assumptions:

- Each office employee will occupy about 250 net square feet.
- About 95 percent of new office demand will be for Class A & B buildings.
- In market equilibrium, newly constructed office buildings will have an occupancy rate of 93 percent.

Table 9-11: ESTIMATED POTENTIAL DEMAND FOR OFFICE SPACE IN SANTA CLARA COUNTY, 2010-2030 (Source: ABAG, ERA)

	2010-2020	2020-2030	Total Demand: 2010-2030
Employment Growth			
Change in Total Employment in Santa Clara County (jobs)	165,710	220,510	386,220
Change in Office Employment	57,199	77,971	135,170
Office Demand Growth			
Class A & B Office Demand Growth (sq.ft.)			
@ 250 sf per new employee	13,584,644	18,518,113	32,102,756
Total Vacant Office Inventory (sq. ft.)			
Class A Excess Vacancy (93 % occupancy)	(1,774,893)		
Class B Excess Vacancy (93 % occupancy)	(3,948,058)		
Subtotal Excess Supply	(5,722,952)		
Relocation Factor (sq. ft.)			
Replacement of Older Office Buildings	2,678,390	5,356,779	8,035,169
Former R&D tenants relocating to Class A & B office	2,089,980	1,044,990	3,134,971
Subtotal Relocation	4,768,370	6,401,769	11,170,139
Occupancy in Equilibrium (%)	93%	93%	
Net Office Demand in Class A & B Buildings (sq. ft.)	14,011,472	26,795,572	40,807,043

RETAIL MARKET

ERA reviewed recent retail trends in Santa Clara County, including retail sales, and retail space inventory, absorption, vacancy and rents to determine the potential for retail development at the Diridon Station Planning Area.

Taxable Retail Sales Trends

in Table 9-12 shows strong growth in the county's store sales from 1993 to 2000, following the recession of the early 1990s. The greatest growth occurred in furnishings and appliance stores, building materials, car dealerships, and auto-related retail stores and services. The growth in retail taxable sales throughout the 1990s was not due to population growth. Just as total retail sales increased during the 1993 to 2000 period, per capita sales grew as well from under $8,000 to nearly $13,000 in 2000 (see Table 9-13).

After 2000, reflecting the economic downturn in the region, Santa Clara County's retail sales dropped by almost 17 percent through 2002. The decline in sales from 2000 to 2002 was most pronounced in furnishings and appliance stores, auto dealerships, and "other" retail stores. Taxable retail sales stopped declining but remained flat through 2003.

Recovery of the retail sector began in earnest in 2004. By 2007, retail sales increased by more than 25 percent from the 2002 level. Growth in taxable sales during this period was partially driven by higher fuel taxes which lead to higher taxable sales by gas stations. However, the region also experienced significant growth in the apparel sector and eating and drinking establishments.

Annual data for 2008 is not yet available. However, given the deep declines in sales nationwide, and the deep and protracted cut in consumer expenditures, it is expected that 2008 and figures will show negative or no growth in retail sales. Nevertheless, the impact of the current economic crisis will not be as severe on Santa Clara retailers as the rest of the state or neighboring counties. Comparing data for the first two quarters of 2008 against the previous year shows evidence of this. While taxable retail sales declined 1.1 percent from the previous year, statewide taxable sales declined by 3 percent. Other neighboring counties such as Alameda (-4.4 percent), Monterey (-2.9 percent), San Benito (-5.3 percent), and Santa Cruz, (-3.7 percent) have experienced more significant declines this time around. Meanwhile, the counties to the north, such as San Mateo (+2.4 percent) and San Francisco (+5.4 percent) continued to experienced some growth.

Table 9-12: TAXABLE RETAIL STORE SALES IN SANTA CLARA COUNTY ($000)
(Source: California Board of Equalization)

	1990	1991	1992	1993	1994	1995	1996
Apparel Stores	548,977	565,093	580,670	598,580	630,235	657,881	721,285
Gen. Merchandise & Drug	1,954,423	1,947,917	1,987,730	1,962,082	2,015,243	2,102,438	2,165,959
Food Stores	614,899	709,484	771,597	632,952	625,911	639,974	683,094
Eating & Drinking Places	1,297,386	1,325,926	1,349,257	1,390,794	1,434,570	1,552,857	1,686,380
Furnishing & Appliances	613,502	580,487	577,252	582,077	627,453	698,536	751,270
Bldg Materials & Farm Eqmt	734,235	702,934	693,303	728,597	768,397	838,043	930,462
Auto Dealers & Supplies	1,909,312	1,735,286	1,729,663	1,804,565	1,874,201	2,151,346	2,427,241
Service Stations	766,135	739,799	818,010	829,942	836,984	826,144	974,248
Other Retail Stores	1,949,839	1,919,943	2,001,127	2,047,487	2,252,417	2,708,060	2,969,760
Total Santa Clara County	10,388,708	10,226,869	10,508,609	10,577,076	11,065,411	12,175,279	13,309,699
Avg. Annual Growth Rate		-1.6%	2.8%	0.7%	4.6%	10.0%	9.3%

Table 9-13: PER CAPITA TAXABLE RETAIL SALES IN SANTA CLARA COUNTY
(Source: California Board of Equalization)

	1990	1991	1992	1993	1994	1995	1996
Apparel Stores	367	376	382	388	404	420	455
Gen. Merchandise & Drug [1]	1,344	1,336	1,348	1,311	1,332	1,381	1,406
Food Stores [2]	1,232	1,417	1,524	1,231	1,205	1,224	1,292
Eating & Drinking Places	866	883	888	902	921	990	1,063
Furnishing & Appliances	410	387	380	377	403	445	474
Bldg Materials & Farm Eqmt	490	468	456	472	493	534	587
Auto Dealers & Supplies	1,275	1,155	1,139	1,170	1,203	1,372	1,530
Service Stations	512	493	538	538	537	527	614
Other Retail Stores	1,302	1,278	1,317	1,328	1,445	1,727	1,872
Total Santa Clara County	7,797	7,794	7,972	7,718	7,942	8,620	9,292
Annual Growth		-0.0%	2.3%	-3.2%	2.9%	8.5%	7.8%

(1) Adjusted from taxable sales by 3% to reflect non taxable drug sales
(2) Adjusted taxable sales by 3 times to reflect total food store sales

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
766,800	754,621	768,040	876,453	883,398	881,919	929,499	1,051,020	1,169,069	1,264,215	1,334,050
2,362,054	2,463,695	2,634,731	2,855,114	2,720,353	2,569,589	2,589,324	2,718,351	2,839,877	2,979,387	3,112,536
715,668	747,580	786,257	843,183	860,852	833,852	819,927	819,649	830,483	849,281	890,341
1,812,731	1,899,364	2,035,245	2,292,309	2,239,031	2,136,888	2,139,328	2,283,192	2,440,418	2,645,787	2,813,519
753,773	805,272	943,052	1,177,607	968,206	851,488	798,640	830,504	850,634	879,892	901,164
1,039,020	1,109,969	1,188,810	1,354,643	1,316,587	1,278,024	1,314,681	1,539,664	1,577,165	1,659,844	1,581,859
2,695,909	2,878,368	3,260,271	3,936,077	3,561,230	3,200,738	3,143,148	3,284,297	3,382,788	3,433,492	3,468,163
984,791	894,918	1,138,482	1,445,759	1,387,644	1,239,549	1,413,227	1,652,158	1,907,090	2,100,850	2,320,507
3,233,204	3,446,960	4,027,084	4,992,339	3,999,403	3,433,137	3,367,320	3,545,232	3,905,984	4,227,184	4,368,119
14,363,950	15,000,747	16,781,972	19,773,484	17,936,704	16,425,184	16,515,094	17,724,067	18,903,508	20,039,932	20,790,258
7.9%	4.4%	11.9%	17.8%	-9.3%	-8.4%	0.5%	7.3%	6.7%	6.0%	3.7%

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
475	461	463	523	525	524	546	613	677	727	761
1,509	1,549	1,637	1,754	1,665	1,573	1,568	1,632	1,695	1,765	1,829
1,331	1,369	1,423	1,508	1,535	1,487	1,446	1,434	1,443	1,465	1,524
1,124	1,159	1,227	1,367	1,331	1,270	1,257	1,331	1,414	1,522	1,605
467	492	569	702	575	506	469	484	493	506	514
644	678	717	808	782	760	773	898	914	955	902
1,672	1,757	1,966	2,347	2,117	1,902	1,847	1,915	1,960	1,975	1,978
611	546	687	862	825	737	831	963	1,105	1,208	1,324
2,005	2,104	2,429	2,977	2,377	2,040	1,979	2,067	2,263	2,431	2,492
9,838	10,114	11,118	12,848	11,732	10,799	10,716	11,336	11,963	12,554	12,929
5.9%	2.8%	9.9%	15.6%	-8.7%	-8.0%	-0.8%	5.8%	5.5%	4.9%	3.0%

Table 9-14: SOUTH BAY/SAN JOSE RETAIL MARKET STATISTICS (Source: CoStar)

Period	# Bldgs	Total RBA (SF)	Total Vacant %	Occupied SF	Total Net Absorption	RBA Under Const	Total Average Rate
QTD	6,096	78,595,114	5.37%	74,375,895	(158,490)	839,310	$26.10
2009 2Q	6,026	77,315,310	5.37%	73,160,052	(309,388)	131,716	$26.82
2009 1Q	6,032	77,619,449	5.35%	73,468,312	(1,177,946)	150,827	$27.23
2008 4Q	6,034	77,592,294	3.80%	74,646,258	(80,929)	191,937	$27.97
2008 3Q	6,028	77,368,008	3.41%	74,727,187	(61,093)	300,471	$28.73
2008 2Q	6,029	77,296,202	3.24%	74,788,280	184,298	379,206	$29.22
2008 1Q	6,018	77,013,675	3.13%	74,601,314	367,865	596,327	$29.36
2007 4Q	6,005	76,821,432	3.33%	74,259,725	(4,855)	491,298	$28.99
2007 3Q	6,003	76,678,621	3.15%	74,264,580	333,028	582,397	$28.14
2007 2Q	6,001	76,170,928	2.94%	73,931,552	700,705	918,854	$28.49
2007 1Q	5,996	75,994,617	3.64%	73,230,847	1,281,631	1,089,783	$32.04
2006 4Q	5,990	75,977,147	5.30%	71,946,641	259,497	1,127,407	$29.10
2006 3Q	5,990	76,009,578	5.69%	71,687,144	205,133	1,163,923	$29.69
2006 2Q	5,985	76,550,185	6.49%	71,581,547	(943,135)	546,532	$29.23
2006 1Q	5,981	76,505,696	5.20%	72,524,682	(53,062)	519,013	$28.96
2005 4Q	5,908	74,911,763	4.38%	71,631,617	502,895	983,660	$26.67
2005 3Q	5,897	74,618,376	4.68%	71,128,722	(368,154)	1,150,766	$26.14
2005 2Q	5,893	74,511,579	4.05%	71,496,876	(338,184)	1,014,211	$25.64
2005 1Q	5,888	74,475,067	3.54%	71,835,060	129,196	480,016	$25.57
2004 4Q	5,873	74,134,684	3.28%	71,705,864	(213,949)	519,693	$24.36
2004 3Q	5,870	74,093,554	2.93%	71,919,813	(519,634)	414,822	$22.68
2004 2Q	5,866	74,044,980	2.17%	72,439,447	(69,807)	337,957	$22.66
2004 1Q	5,865	73,956,572	1.96%	72,509,254	271,009	150,426	$24.04
2003 4Q	5,846	73,622,518	1.88%	72,238,245	(34,888)	444,019	$24.46
2003 3Q	5,845	73,616,506	1.82%	72,273,133	(2,620)	450,031	$24.72
2003 2Q	5,843	73,571,134	1.76%	72,275,753	(358,044)	445,677	$24.02
2003 1Q	5,840	73,502,023	1.18%	72,633,797	609,957	467,796	$33.96
2002 4Q	5,827	72,909,813	1.22%	72,023,840	172,271	702,328	$34.67
2002 3Q	5,821	72,609,876	1.04%	71,851,569	68,011	933,154	$34.12
2002 2Q	5,814	72,276,600	0.93%	71,606,878	332,939	1,159,478	$36.22
2002 1Q	5,808	71,942,196	0.93%	71,273,939	693,770	1,107,908	$44.17
2001 4Q	5,786	71,178,229	0.84%	70,580,169	(45,960)	1,352,223	$44.76
2001 3Q	5,780	71,084,134	0.64%	70,626,129	(87,981)	1,421,059	$48.64
2001 2Q	5,778	71,073,735	0.51%	70,714,110	(6,557)	731,056	$46.03
2001 1Q	5,773	71,024,259	0.43%	70,720,667	346,111	447,988	$41.53
2000 4Q	5,760	70,739,081	0.52%	70,374,556	31,584	390,610	$39.32
2000 3Q	5,756	70,700,221	0.51%	70,342,972	58,493	379,994	$39.21
2000 2Q	5,750	70,614,243	0.47%	70,284,479	51,141	293,313	$24.29
2000 1Q	5,746	70,568,461	0.46%	70,241,339	239,911	214,070	$20.15

Retail Supply

A summary of the inventory of retail and recent trends in the South Bay/San Jose retail market, which includes most of Santa Clara County, is presented in Table 9-14. In the second quarter of 2009, the South Bay/San Jose market had 78 million square feet of leasable retail space. About 46 percent of the market area retail is located in San Jose, which has an inventory of 36 million square feet. The majority of that retail is located in South San Jose, (see Figure 9-5).

More than 40 percent (33 million square feet) of the retail space in the South Bay/San Jose is composed of "General Retail" (see Figure 9-6). General retail space is typically single-tenant, freestanding general-purpose commercial buildings with parking. The next largest category is shopping centers, which includes community, neighborhood, and strip centers. This category accounts for approximately 30 million square feet.

Figure 9-7 shows vacancy rates of retail space in the South Bay/ San Jose Region. Despite significant increases following the dot-com boom of the late 1990s, vacancy rates remain relatively low. Even during the during the current economic crisis, which has affected retailers particularly hard, vacancies in the South Bay/San Jose market have remained below 5.5 percent. Rental rates have fluctuated in response to market forces. Rental rates peaked in the third quarter of 2001 at approximately $49.60 and then declined by more than half during the next two years as the local economy underwent a contraction. As the economy recovered, retail rental rates began to climb and they have been fluctuating in the $27-$30 range for the past three years (see Figure 9-8).

FIGURE 9-5: DISTRIBUTION OF RETAIL SPACE BY SUBMARKET, 2Q 2009 (Source: CoStar)

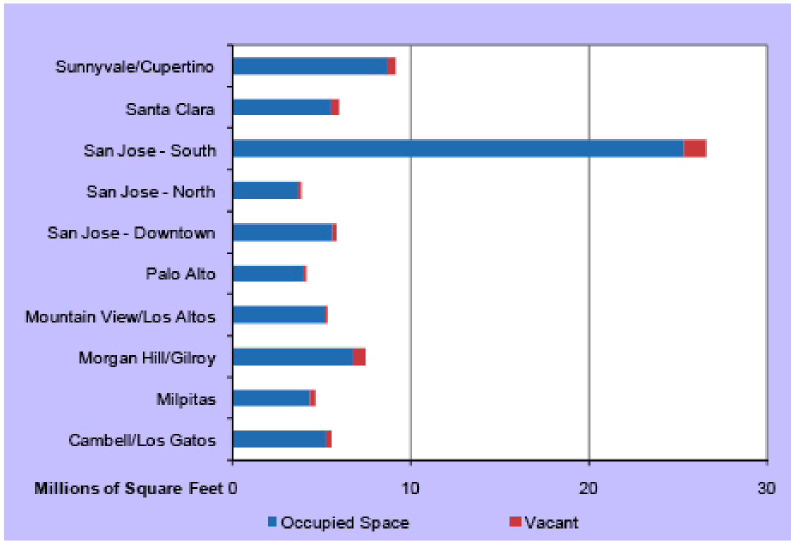


FIGURE 9-6: 6 RETAIL SPACE BY BUILDING TYPE, 2Q 2009 (Source: CoStar)

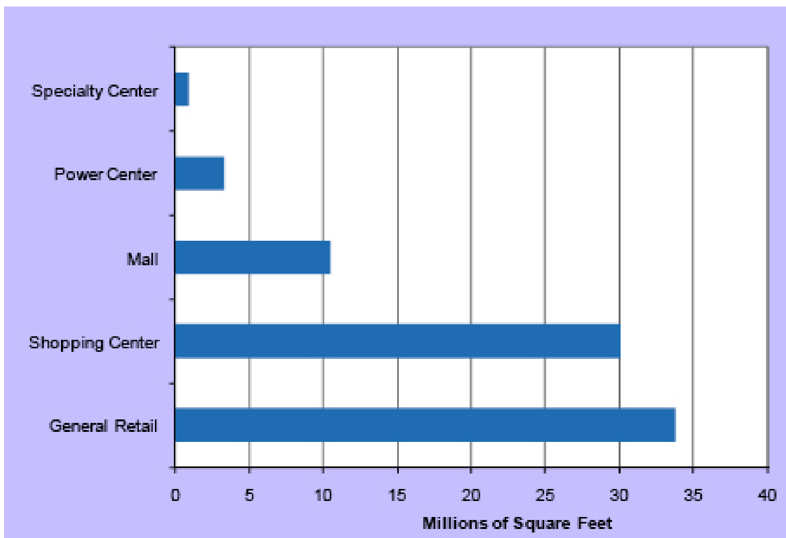


FIGURE 9-7: RETAIL SPACE VACANCY RATE, 1997-2009 (Source: CoStar)

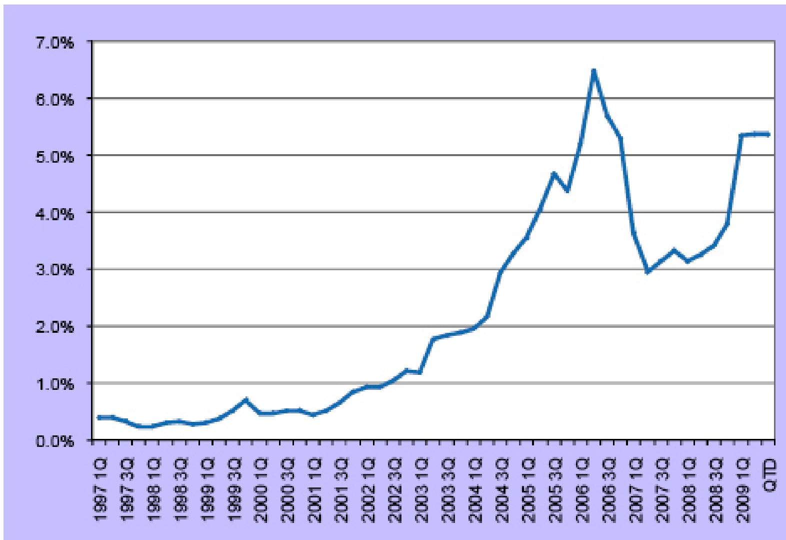
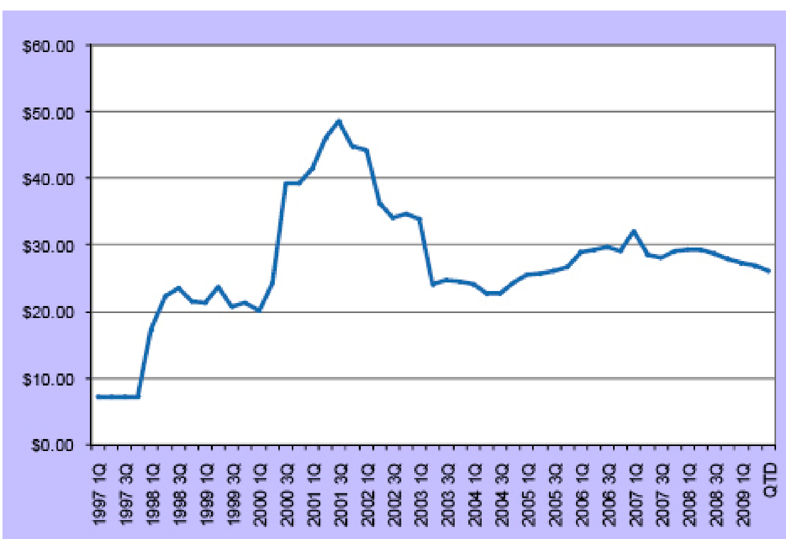


FIGURE 9-8: RETAIL RENTAL RATES (TRIPLE NET PER SQUARE FOOT), 1997-2009 (Source: CoStar)

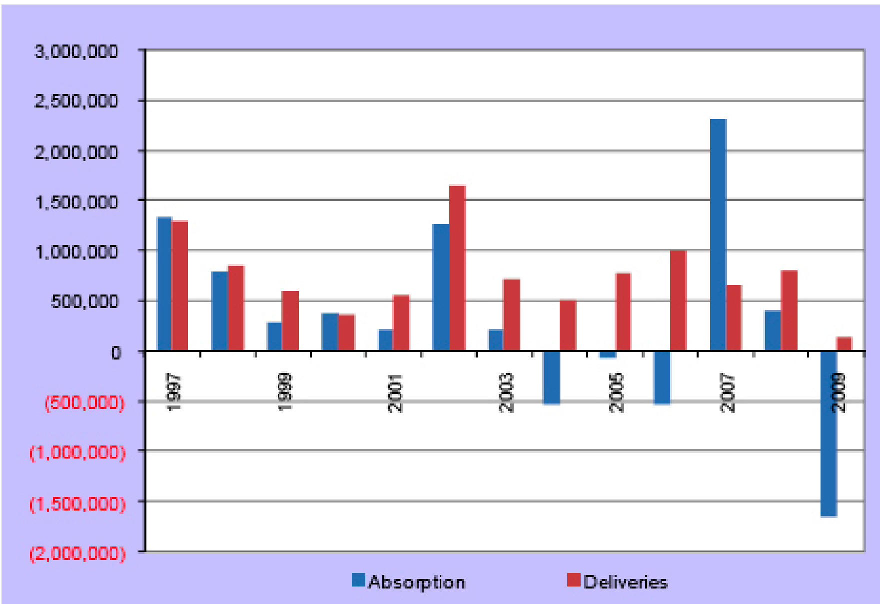


Absorption of retail space in the county has fluctuated dramatically over the past decade. Absorption was generally strong through 2003, despite the employment losses experienced. From 2000 to 2003, Santa Clara County absorbed almost 2 million square feet of retail space. Most of that absorption can be attributed to the 2002 opening of Santana Row in San Jose, which included over 500,000 square feet of retail. Despite the region's economic slowdown shortly before the completion of the project, Santana Row's success shows that the retail market was able to weather the storm. The upscale mixed-use lifestyle center had 92 percent of the retail leased up within 18 months of opening, and 98 percent of the apartments fully leased by 2004. Net absorption however declined significantly between 2004 and 2006 when absorption was negative 1.1 million square feet.

Deliveries and New Construction

Since 2000, approximately 7 million square feet of new retail space (an average of 800,000 square feet per year).have been added to the retail supply of the region, (see Figure 9-9). During the second quarter 2009, four buildings totaling 21,832 square feet were completed in the South Bay/San Jose retail market. Over the past four quarters, a total of 410,489 square feet of retail space has been built in South Bay/San Jose. In addition to the current quarter, five buildings with 59,826 square feet were completed in first quarter 2009, seven buildings totaling 228,286 square feet completed in fourth quarter 2008, and 100,545 square feet in five buildings completed in third quarter 2008.

Figure 9-9: NET ABSORPTION AND DELIVERIES OF NEW RETAIL SPACE, 1997-2009 (Source: CoStar)



Some of the notable 2009 deliveries include: 796 N King Rd, a 29,424-square-foot facility that delivered in first quarter 2009 and is now 91% occupied, and 1969 Tully Rd, a 13,150-square-foot building that delivered in first quarter 2009 and is now 65% occupied.

There were 131,716 square feet of retail space under construction at the end of the second quarter 2009. The largest projects underway at the end of second quarter 2009 were 2680 Monterey Hwy, a 50,000-square-foot building with 25% of its space pre-leased, and the building at Ridder Park Dr & I-880, a 30,000-square-foot facility that is 17% pre-leased.

Retail Outlook

The short-term outlook of the retail industry remains grim. The Federal Reserve's "Current Economic Conditions" report states that retail sales remain very sluggish, although there was a substantial pickup in the sale of new autos resulting from the cash-for-clunkers program during July and August of 2009. Consumers continued to restrain their spending on large discretionary purchases and luxuries, resulting in weak demand at department stores and specialty retail outlets. Conversely, retailers who focus more on necessities, such as discount chains and grocers, saw further sales gains. The 2009 Consumer Shopping Intentions Study by Cavallino found that, as a result of the US economy, consumers are more judicious as to where they spend their money. As a result the restaurant and food services industry noted weak demand and further declines in revenues in July and August. Cavallino, LLC points out that mass merchants will be the primary source for consumers in 2009, while department stores, specialty retailers such as the Gap and Radio Shack, and power retailers such as Best Buy and Toys R US will receive a smaller slice of consumer-spending.

Moving forward, a combination of slowing job losses, heightened financial institution stability, housing sales increases, a better-than-projected regional growth and improving consumer sentiment could be the catalyst needed to revitalize the retail industry beginning in the first quarter of 2010 following a bottoming of the current recession by the fourth quarter of 2009, according to Jones Lang LaSalle's Mid-Year Retail Outlook for 2009. Unlike the last recession when retail experienced a v-shaped recovery, this time around most experts expect a more gradual, u-shaped recover that could take well into 2010.

In the long run, a combination of pent-up demand, high incomes, and employment growth will make the Santa Clara county one of the most dynamic retail markets. Given the supply of retail, however, ERA envision local resident and employee-supporting retail at the station area rather than large-scale shopping centers.

HOTEL MARKET

Historically, the hotel market in the Silicon Valley has been dominated by the commercial travel segment, characterized by single-occupancy and average length of stay between three and four nights from Monday to Thursday. According to HVS International, the Silicon Valley hotel market is predominantly commercial in nature, with an estimated segmentation of 75% commercial, 15% meeting and group, and 10% leisure demand. Another important visitor market is the extended stay visitor, especially in Santa Clara County. The downtown San Jose hotels also benefit from convention center business, and Santa Clara hotels near the Great America Parkway receive room nights from conventions as well.

Until the late 1980s, San Jose had a moratorium on new hotel development in the central business district, thereby constraining the supply. In the mid 1990s, the Valley's hotel market soared, leading to new construction throughout the region, as well as renovations and expansions. HVS International estimates that 3,400 new hotel rooms were built from 1997 to 2001 in the Silicon Valley. In Santa Clara County, the total number of hotel rooms constructed from 1980 to 2005 is approximately 19,000, for an average of 580 hotel rooms per year (see Table 9-15).

Table 9-15: SELECTED SANTA CLARA COUNTY HOTEL PROPERTIES (OPENED 1980-2009) (Source: STR, ERA)

Name of Establishment	City & State	Date Opened	Rooms
Sheraton Hotel Sunnyvale	Sunnyvale, CA	Jun 1980	173
Super 8 San Jose Airport Santa Clara	San Jose, CA	Jun 1980	55
Best Western Mountain View Inn	Mountain View, CA	Jun 1981	71
Fair Oaks Inn	Sunnyvale, CA	Jun 1981	32
Doubletree San Jose	San Jose, CA	Jun 1982	505
Hotel Zico	Mountain View, CA	Jun 1983	55
Best Western Silicon Valley Inn	Sunnyvale, CA	Jun 1983	100
Ramada Limited Gilroy	Gilroy, CA	Jun 1983	41
Toll House A Larkspur Hotel	Los Gatos, CA	Jun 1983	115
Beverly Heritage Hotel	Milpitas, CA	Jun 1983	236
Santa Clara Inn	Santa Clara, CA	Jun 1983	31
Residence Inn Sunnyvale Silicon Valley I	Sunnyvale, CA	Oct 1983	231
Quality Inn San Jose	Sunnyvale, CA	Nov 1983	72
Days Inn San Jose Convention Center	San Jose, CA	Mar 1984	34
Comfort Inn Gilroy	Gilroy, CA	Jun 1984	65
Santa Clara Inn	San Jose, CA	Jun 1984	30
E-Z 8 San Jose #2	San Jose, CA	Jun 1984	88
Residence Inn Sunnyvale Silicon Valley II	Sunnyvale, CA	May 1985	247
Joie De Vivre Hotel Avante	Mountain View, CA	Jun 1985	91
Maple Tree Inn	Sunnyvale, CA	Jun 1985	181
Campbell Inn	Campbell, CA	Jun 1985	95
Motel 6 San Jose Campbell	Campbell, CA	Jun 1985	48
Best Western Brookside Inn	Milpitas, CA	Jun 1985	78
Quality Inn Morgan Hill	Morgan Hill, CA	Jun 1985	83
Econo Lodge Santa Clara	Santa Clara, CA	Jun 1985	43
Woodcrest Hotel	Santa Clara, CA	Jun 1985	60
Best Western Avatar Hotel	Santa Clara, CA	Jun 1985	168
Days Inn San Jose Airport Downtown	San Jose, CA	Jun 1985	54
Embassy Suites Santa Clara Silicon Valley	Santa Clara, CA	Jul 1985	257
Residence Inn Palo Alto Mountain View	Mountain View, CA	Oct 1985	112
Comfort Inn Mountain View	Mountain View, CA	Nov 1985	44
Super 8 Gilroy	Gilroy, CA	Dec 1985	53
Closed Woodfin Hotel Sunnyvale	Sunnyvale, CA	Mar 1986	0
Residence Inn San Jose Campbell	Campbell, CA	Mar 1986	80
Pacific Inn Mountain View	Mountain View, CA	Jun 1986	146
Travel Inn Hotel	Sunnyvale, CA	Jun 1986	36
Closed Cozy 8 Hotel	Sunnyvale, CA	Jun 1986	0
Pacific Inn	Sunnyvale, CA	Jun 1986	108
Hotel Vincci Garden Court	Palo Alto, CA	Jun 1986	62
Hotel California	Palo Alto, CA	Jun 1986	20

Name of Establishment	City & State	Date Opened	Rooms
Closed Lodge @ Villa Felice	Los Gatos, CA	Jun 1986	0
Valley Inn	San Jose, CA	Jun 1986	26
Valley Park Hotel	San Jose, CA	Jun 1986	55
Park Inn Milpitas	Milpitas, CA	Aug 1986	53
Howard Johnson Express San Jose	San Jose, CA	Aug 1986	58
Joie De Vivre Domain Hotel	Sunnyvale, CA	Sep 1986	136
Radisson San Jose Airport	San Jose, CA	Sep 1986	196
Hyatt Santa Clara	Santa Clara, CA	Nov 1986	501
Days Inn Milpitas	Milpitas, CA	Jan 1987	123
Americas Best Value Inn San Jose Convention Center	San Jose, CA	Feb 1987	26
Motel 6 Palo Alto	Palo Alto, CA	Jun 1987	72
Cupertino Inn	Cupertino, CA	Jun 1987	125
Best Western Forest Park Inn	Gilroy, CA	Jun 1987	122
Quality Inn & Suites Gilroy	Gilroy, CA	Jun 1987	47
Crowne Plaza San Jose Silicon Valley	Milpitas, CA	Jun 1987	304
Americas Best Value Inn & Suites Milpitas	Milpitas, CA	Jun 1987	80
Inn @ Saratoga	Saratoga, CA	Jun 1987	45
Executive Inn	San Jose, CA	Jun 1987	25
Best Western Airport Plaza	San Jose, CA	Jun 1987	40
Country Inn & Suites Sunnyvale	Sunnyvale, CA	Aug 1987	180
Fairmont San Jose	San Jose, CA	Oct 1987	805
Embassy Suites Milpitas Silicon Valley	Milpitas, CA	Nov 1987	266
Sheraton Hotel San Jose	Milpitas, CA	Apr 1988	229
Courtyard Cupertino	Cupertino, CA	May 1988	149
Pacific Hotel Lodge	Mountain View, CA	Jun 1988	57
Carlyle Hotel	Campbell, CA	Nov 1988	38
Quality Inn Sunnyvale Civic Center	Sunnyvale, CA	Jan 1989	59
PruneYard Plaza Hotel	Campbell, CA	Jun 1989	171
Comfort Inn San Jose	Sunnyvale, CA	Aug 1989	52
Staybridge Suites Sunnyvale	Sunnyvale, CA	Sep 1989	138
Clarion Inn Silicon Valley	San Jose, CA	Dec 1989	47
Executive Inn	Milpitas, CA	Jan 1990	75
Staybridge Suites San Jose	San Jose, CA	Jun 1990	114
Holiday Inn San Jose Silicon Valley	San Jose, CA	Sep 1990	208
Friendship Inn	Sunnyvale, CA	Jan 1991	50
Courtyard San Jose Airport	San Jose, CA	Jan 1991	151
Executive Inn Suites	Morgan Hill, CA	Jun 1991	30
The Plaza Suites	Santa Clara, CA	Aug 1991	219
Homewood Suites San Jose Airport	San Jose, CA	Dec 1991	140

Table 9-15: SELECTED SANTA CLARA COUNTY HOTEL PROPERTIES (OPENED 1980-2009) (Source: STR, ERA) (continued)

Name of Establishment	City & State	Date Opened	Rooms
Days Inn San Jose Santa Clara El Camino	Santa Clara, CA	Jun 1992	43
Closed Plaza Hotel	San Jose, CA	Jun 1992	0
Hilton San Jose	San Jose, CA	Oct 1992	353
Ramada Morgan Hill	Morgan Hill, CA	Jun 1993	101
Arena Hotel	San Jose, CA	Jun 1993	89
Holiday Inn Express & Suites International Airport	San Jose, CA	Oct 1995	126
Homestead San Jose Milpitas	Milpitas, CA	Feb 1997	161
Homestead Sunnyvale	Sunnyvale, CA	Mar 1997	145
Holiday Inn Express San Jose Central City	San Jose, CA	May 1997	57
Super 8 Mountain View	Mountain View, CA	Jun 1997	31
Hawthorn Suites by Wyndham Santa Clara Silicon Valley	Santa Clara, CA	Sep 1997	96
Quality Inn Palo Alto	Palo Alto, CA	Oct 1997	54
Residence Inn Milpitas Silicon Valley	Milpitas, CA	Nov 1997	120
Homestead San Jose Mountain View	Mountain View, CA	Dec 1997	132
Extended Stay America San Jose Milpitas	Milpitas, CA	Jan 1998	146
Homestead San Jose	San Jose, CA	Apr 1998	153
Adlon Hotel	San Jose, CA	Jun 1998	56
Residence Inn San Jose South	San Jose, CA	Aug 1998	150
Hilton Garden Inn Cupertino	Cupertino, CA	Sep 1998	164
Larkspur Landing Milpitas	Milpitas, CA	Nov 1998	124
Larkspur Landing Sunnyvale	Sunnyvale, CA	Dec 1998	126
Extended Stay America Morgan Hill	Morgan Hill, CA	Dec 1998	92
Hilton Garden Inn San Jose Milpitas	Milpitas, CA	Mar 1999	161
Microtel Inn & Suites San Jose Morgan Hill	Morgan Hill, CA	Mar 1999	59
Corporate Inn	Sunnyvale, CA	Apr 1999	73
TownePlace Suites San Jose Milpitas	Milpitas, CA	May 1999	143
Holiday Inn Express & Stes Mtn View Palo Alto Area	Mountain View, CA	Jun 1999	98
Courtyard San Jose Milpitas	Milpitas, CA	Jul 1999	155
Holiday Inn Express & Suites San Jose Morgan Hill	Morgan Hill, CA	Sep 1999	84
Comfort Inn Morgan Hill	Morgan Hill, CA	Sep 1999	53
Days Inn San Jose Airport	San Jose, CA	Sep 1999	61
Hilton Garden Inn Mountain View	Mountain View, CA	Oct 1999	160
Extended Stay Deluxe San Jose Downtown	San Jose, CA	Jan 2000	138
Larkspur Landing Campbell	Campbell, CA	Mar 2000	117
Candlewood Suites Silicon Valley San Jose	Santa Clara, CA	Apr 2000	122
Westin Palo Alto	Palo Alto, CA	May 2000	184
Grand Hotel	Sunnyvale, CA	Jul 2000	104

Name of Establishment	City & State	Date Opened	Rooms
Clarion Collection Bristol Hotel	Campbell, CA	Nov 2000	47
Extended Stay America San Jose South	San Jose, CA	Nov 2000	121
TownePlace Suites San Jose Cupertino	San Jose, CA	Nov 2000	101
Hilton Santa Clara	Santa Clara, CA	Dec 2000	280
Extended Stay Deluxe San Jose South Edenvale	San Jose, CA	Dec 2000	98
Hampton Inn Milpitas Silicon Valley	Milpitas, CA	Jan 2001	93
Best Western Lanai Garden Inn & Suites	San Jose, CA	Feb 2001	52
Extended Stay America San Jose Santa Clara	San Jose, CA	Mar 2001	101
Joie De Vivre Moorpark Hotel	San Jose, CA	May 2001	79
Hilton Garden Inn Gilroy	Gilroy, CA	Jun 2001	137
Rosewood CordeValle	San Martin, CA	Jun 2001	44
Holiday Inn Express Santa Clara	Santa Clara, CA	Aug 2001	47
Courtyard San Jose South Morgan Hill	Morgan Hill, CA	Oct 2001	90
Residence Inn Palo Alto Los Altos	Los Altos, CA	Dec 2001	156
Residence Inn San Jose South Morgan Hill	Morgan Hill, CA	Jan 2002	90
Hampton Inn Suites San Jose	San Jose, CA	Feb 2002	80
Kimpton Cypress Hotel	Cupertino, CA	Jul 2002	224
Comfort Suites San Jose Airport	San Jose, CA	Jul 2002	50
Staybridge Suites Hotel Silicon Valley Milpitas	Milpitas, CA	Sep 2002	99
Courtyard Palo Alto Los Altos	Los Altos, CA	Nov 2002	190
Joie De Vivre Hotel Los Gatos	Los Gatos, CA	Nov 2002	72
Marriott San Jose	San Jose, CA	Apr 2003	506
Comfort Inn San Jose	San Jose, CA	May 2003	45
Quality Inn & Suites Mountain View	Mountain View, CA	Jun 2003	70
Preferred Hotel Valencia Santana Row	San Jose, CA	Jul 2003	212
TownePlace Suites Sunnyvale Mountain View	Sunnyvale, CA	Nov 2003	95
Hotel Sierra Santa Clara	Santa Clara, CA	Mar 2004	150
Sleep Inn Silicon Valley	San Jose, CA	Jul 2004	49
Hampton Inn Suites Mountain View Silicon Valley	Mountain View, CA	Oct 2004	88
TownePlace Suites San Jose Campbell	Campbell, CA	Dec 2005	95
Subtotal Selected Properties			16,831
Annual Average 1980-2009			580
Annual Average 1980-1989			823
Annual Average 1990-1999			455
annual Average 2000-2009			423
Total Rooms in Santa Clara County			25,725

Table 9-16: TRANSIENT OCCUPANCY TAX COLLECTIONS AND REVENUES, SANTA CLARA COUNTY (Source: Dean Runyan and Associates, ERA)

	TOT Collections		TOT Revenues	
	Collections	Change	Revenue	Change
1994	$26,203	- -	$280,200	- -
1995	$28,573	9.0%	$304,739	8.8%
1996	$35,855	25.5%	$378,804	24.3%
1997	$43,040	20.0%	$454,785	20.1%
1998	$51,807	20.4%	$547,998	20.5%
1999	$55,303	6.7%	$585,689	6.9%
2000	$64,214	16.1%	$678,600	15.9%
2001	$81,446	26.8%	$863,507	27.2%
2002	$53,430	-34.4%	$566,913	-34.3%
2003	$45,979	-13.9%	$473,134	-16.5%
2004	$44,633	-2.9%	$459,866	-2.8%
2005	$49,224	10.3%	$506,299	10.1%
2006	$57,172	16.1%	N/A	
2007	$65,141	13.9%	N/A	
2008	$70,994	9.0%	N/A	

Transient occupancy tax (TOT) collections and revenues for Santa Clara County are illustrated in Table 9-16. The mid to late 1990s saw rapidly growing hotel tax collections, which peaked in 2001 at $81 million. After a dramatic decline of almost 45 percent between 2001 and 2004, TOT collections increased equally dramatically (60 percent) between 2004 and 2008. After adjusting for tax rate changes, revenues increased at an average annual rate of 17 percent from 1994 to 2001.

The Santa Clara County hotel market experienced continuous growth between 2003 and 2007. During that period occupancy increased from 54 percent to 70 percent. The Average Daily Rate (ADR) increased from $99.36 to $118.58, while Revenue per Available Room (RevPAR) increased from $53.70 to $83.05. As a result, revenues increased from $508 billion to $768 billion during this period.

Table 9-17: SANTA CLARA HOTEL MARKET PERFORMANCE STATISTICS, 2003-2009 (Source: STR)

	2003	2004	2005	2006
Occupancy	54.0%	58.4%	62.8%	68.4%
ADR ($)[1]	$99.36	$96.06	$99.51	$107.84
RevPAR ($)[2]	$53.70	$56.07	$62.44	$73.72
Supply	9,470,856	9,662,005	9,584,760	9,395,174
Demand	5,118,478	5,639,791	6,014,890	6,422,770
Revenue (thousands of $)	$508,568,754	$541,768,303	$598,513,943	$692,632,478

			Jan-Aug	
	2007	2008	2008	2009
Occupancy	70.0%	66.4%	70.1%	58.0%
ADR ($)[1]	$118.58	$123.90	$125.43	$106.14
RevPAR ($)[2]	$83.05	$82.22	$87.91	$61.53
Supply	9,352,637	9,350,927	6,227,361	6,211,809
Demand	6,550,543	6,205,226	4,364,647	3,600,832
Revenue (thousands of $)	$776,751,899	$768,831,760	$547,444,930	$382,185,857

(1) Average Daily Rate
(2) Revenue per available room.

Since 2007 however the hotel market has experienced a severe contraction, see Table 9-17. While the decline was relatively mild between 2007 and 2008 (Occupancy declined from 70 percent to 66.4, but ADR increased from $118.58 to $123.90, while RevPAR decreased moderately from $83.05 to $82.22) partial data for 2009 reveals a significant decline compared to 2008. Average occupancy from January to August 2009 was 58 percent compared to 70 for the same period in 2008. ADR declined 15 percent while RevPAR decrease more than 30 percent. Overall, revenue is down more than 30 percent for the year.

Table 9-18: ESTIMATE OF HOTEL DEMAND IN SANTA CLARA COUNTY, 2010-2030 (Source: STR, ERA)

	1980-88	1990-99	2000-09	2010-15	2015-20	2020-25	2025-30	2010-30
New Hotel Rooms Built	16,831	4,553	4,226					
Average Annual Rooms Built	823	455	423					
Average Annual Room Demand				100	450	500	500	388
New Hotel Room Demand				500	2,250	2,500	2,500	7,750

Much like the office and retail sectors, new construction in the hotel market will not occur until economic conditions in the Silicon Valley improve further. However, there is optimism about the rebounding of the regional economy in the medium- and long-term. As discussed, ABAG projects strong employment growth for Santa Clara County through 2035. Since much of the hotel demand is driven by business travel, employment growth will eventually lead to stronger occupancy levels and higher daily rates in the next five to ten years. Historically, the rate of hotel construction in Santa Clara County from 1980 to 2005 averaged 580 rooms a year. Between 2000 and 2008 approximately 425 new rooms per year have been added. During the 1990s approximately 455 rooms were built per year. Once the hotel market is stronger and achieves higher occupancy rates and ADR, ERA estimates that new hotel construction could achieve activity level of about 450 to 500 rooms a year. Estimated demand for hotel rooms in the county from 2010 to 2030 is summarized on Table 9-18. By 2030, the demand will be approximately 7,750 new hotel rooms.

The communities and locations that may be best positioned to exploit new hotel demand are those that provide the following:

- Visibility from major highways and arterial roads.
- New employment concentration
- Locations near airports or other major intercity transit hubs
- Locations with nearby attractions or visitor-serving facilities (convention centers, performing arts centers, etc.)
- Nearby convenient shops and restaurants
- Safe and attractive neighborhoods.

9.2 San Jose Market Analysis

This section first establishes the context for development in San Jose, summarizing population and demographics of San Jose, and its implications on the real estate market to determine the demand for housing, office, retail and hotel uses in the next 25 years. ERA then assesses market potential for the Diridon Station, describing existing land uses, transportation and access to the station area, and local plans and policies for the area. ERA then presents the station area's opportunities and constraints for joint development at each station.

SAN JOSE DEMOGRAPHIC OVERVIEW

Historical population and employment trends from 1990 to 2005 are highlighted in Table 9-19, while more detailed demographic information is presented in Table 9-20.

Employment in San Jose has followed regional economic cycles. As the regional economy expanded, the city added 100,000 jobs from 1990 to 2000. Over the last five years following the dot-com bust San Jose lost almost 60,000 jobs. However, the city has remained the dominant employment center in Santa Clara County, containing 360,000 jobs, or 40 percent of the county's total employment.

Unsurprisingly, the period of fastest population growth in San Jose was during the economic boom of the mid to late 1990s. From 1995 to 2000, the city's population grew at an annual average rate of 1.6 percent. In 2005, the San Jose population was 945,000, comprising more than half of the Santa Clara County population.

Table 9-19: HISTORIC TRENDS IN POPULATION AND EMPLOYMENT IN SAN JOSE (Source: ABAG, ERA)

Factor	1990	1995	2000	2005	2010
Population	782,248	825,300	894,943	943,300	981,000
Growth Rate (five-year period)	n/a	1.08%	1.63%	1.06%	0.79%
Households	264,919	278,030	276,598	293,930	305,140
Avg. Household Size	2.95	2.97	3.24	3.21	3.21
Employment	317,090	305,770	417,500	348,960	369,500
Santa Clara County Population	1,497,577	1,568,200	1,682,585	1,763,000	1,822,000
Santa Clara County Employment	864,110	819,260	1,044,130	872,860	906,270
San Jose Share of County Population	52.23%	52.63%	53.19%	53.51%	53.84%
San Jose Share of County Employment	36.70%	37.32%	39.99%	39.98%	40.77%

The following summarizes key points in the demographic characteristics of San Jose in 2009:

- San Jose holds about 54 percent of the county's population.
- San Jose's households have grown steadily from 1990 to 2009, reaching a total of 306,000 households in 2005. The average household size of 3.2 persons is larger than the county average.
- The city's residents are ethnically diverse. About 30 percent of residents are Asian/Pacific Islanders; 42 percent are White and 35 percent are Hispanic.
- San Jose's population is relatively young, with 23 percent of residents aged between 20 and 34. Children under 15 compose 22 percent of the total. Meanwhile, seniors over 65 make up only nine percent of the city's population.
- There are a significant number of affluent households in San Jose. About 23 percent of households earned more than $150,000 in 2009. Meanwhile 12.5 percent of households had incomes under $30,000. The median household income in 2009 for San Jose was over $96,000. At the same time, due to the thigh cost of housing, there is continued need for affordable housing. Even with the housing decline, a household must earn $133,000 to afford the median priced home. At the housing peak, an income above $200,000 was needed.

Table 9-20: DEMOGRAPHIC PROFILE OF SAN JOSE, 2009
(Source: ESRI, US Census ERA)

Factor	Number / Percent
Population	996,510
Households	306,881
Family Households	223,324
Average Household Size	3.21
Population by Race	
Asian / Pacific Islander	29.4%
Caucasian	42.2%
Hispanic	34.6%
African American	3.2%
American Indian	0.7%
Population by Age	
0-4	7.6%
5-9	7.1%
10-14	6.7%
15-19	7.0%
20-24	7.1%
25-29	8.0%
30-34	7.5%
35-39	7.9%
40-44	7.9%
45-49	7.8%
50-54	6.7%
55-59	5.4%
60-64	4.2%
65-69	2.9%
70-74	2.2%
75-79	1.7%
80-84	1.2%
85+	1.2%
Median Age	34.4

Factor	Number / Percent
Households by Household Income	
< $10,000	3.5%
$10,000-$14,999	2.0%
$15,000-$19,999	2.6%
$20,000-$24,999	2.0%
$25,000-$29,999	2.4%
$30,000-$34,999	2.9%
$35,000-$39,999	2.2%
$40,000-$44,999	3.0%
$45,000-$49,999	3.3%
$50,000-$59,999	6.4%
$60,000-$74,999	9.9%
$75,500-$99,999	14.3%
$100,000-$124,999	12.6%
$125,000-$149,999	9.4%
$150,000-$199,999	12.3%
$200,000-$249,999	5.4%
$250,000-$499,999	4.3%
>$500,000	1.4%
Median Household Income	$90,528

SAN JOSE REAL ESTATE MARKET ANALYSIS

ERA reviewed residential, office, retail and hotel market trends in San Jose in order to understand the market potential for real estate development at the Diridon Station.

Residential Market

Residential building trends from 1980 to 2008 indicate that San Jose has had an extremely active housing market, adding an average of 3,200 units a year during this period, see Table 9-21. Much of the residential construction occurred during the 1980s when more than 35,000 units were built. Construction has been robust through the 1990s and 2000s, even through the dot-com bust of 2000-2001. The more recent decline in the housing markets has lead to some of the lowest housing production not seen since the early 1990s.

Between 2000 and 2008, multifamily units made up more than 75 percent of the housing construction in San Jose, indicating a trend moving away from traditional single-family home development. This is due to the scarcity of land for single-family housing, as well as demographic shifts towards young adults and professionals that show an increasing preference for urban-style housing, in part due to the high cost of single-family suburban style homes and in part due to the desire for urban lifestyles in close proximity to transit and amenities.

Table 9-21: RESIDENTIAL BUILDING TRENDS IN SAN JOSE, 1980-2008 (Source: US Department of Housing and Urban Development)

Year	Residential Construction Permits Single Family Units	Multi-family Units	Total Housing Units	% Multi-family
1980-1989	16,923	18,462	35,385	52.2%
1990	368	1,357	1,725	78.7%
1991	643	1,420	2,063	68.8%
1992	954	708	1,662	42.6%
1993	779	1,547	2,326	66.5%
1994	903	1,108	2,011	55.1%
1995	820	1,009	1,829	55.2%
1996	2,229	1,832	4,061	45.1%
1997	2,329	2,039	4,368	46.7%
1998	1,963	2,797	4,760	58.8%
1999	1,596	1,883	3,479	54.1%
2000	1,336	3,090	4,426	69.8%
2001	540	2,835	3,375	84.0%
2002	620	1,845	2,465	74.8%
2003	1,135	3,201	4,336	73.8%
2004	946	1,849	2,795	66.2%
2005	805	1,970	2,775	71.0%
2006	602	2,373	2,975	79.8%
2007	325	1,617	1,942	83.3%
2008	214	1,555	1,769	87.9%
Total				
1990-1999	12,584	15,700	28,284	55.5%
Total				
2000-2008	6,523	20,335	26,858	75.7%
Annual Average				
1980-1989	1,692	1,846	3,539	52.2%
1990-1999	1,258	1,570	2,828	55.5%
2000-2008	725	2,259	2,984	75.7%

Table 9-22: TRENDS IN THE SAN JOSE CONDOMINIUM MARKET
(Source: Santa Clara County Real Estate Report)

					% Change from Year Before		
Year	Sales	Median Price	Average Price	Days on Market	Sales	Median Price	Average Price
1998	2,891	$187,000	$201,478	33	14.8%	14.7%	13.3%
1999	3,074	$212,000	$226,344	31	6.3%	13.4%	12.3%
2000	2,932	$285,000	$308,409	21	-4.6%	34.4%	36.3%
2001	1,522	$305,000	$325,659	38	-48.1%	7.0%	5.6%
2002	1,629	$325,000	$341,767	29	7.0%	6.6%	4.9%
2003	3,155	$325,000	$341,348	39	93.7%	0.0%	-0.1%
2004	4,096	$352,000	$372,531	22	29.8%	8.3%	9.1%
2005	3,754	$435,000	$456,543	18	-8.3%	23.6%	22.6%
2006	2,990	$469,975	$489,920	33	-20.4%	8.0%	7.3%
2007	1,997	$485,000	$502,764	50	-33.2%	3.2%	2.6%
2008	1,648	$355,500	$380,746	63	-17.5%	-26.7%	-24.3%

The ownership market has largely driven the construction of housing in the region, spurred by favorable financing. Multifamily median home prices increased steadily from 1998 to 2007 (see Table 9-22). The median price for a multifamily home in San Jose increased 160 percent between 1998 and 2007. Most of these gains occurred during the economic boom of the late 1990s and during the nationwide housing bubble between 2004 and 2006. By 2007 the median price of a condominium in San Jose was $485,000. The collapse of the housing market did not spare the City of San Jose. The median housing price dropped more than 25 percent in less than a year. In 2008, the median price of a condominium sold was only $355,000.

In the past year, new condominiums were selling at a higher price per square foot than single-family-, and townhomes in San Jose. Sales of new construction housing from September 2008 to August 2009 are summarized in Table 9-23. As shown, there were 277 condominium units and 27 townhomes sold in the last year in

Table 9-23: NEW HOUSING CONSTRUCTION IN SAN JOSE, SEPTEMBER 2008 - AUGUST 2009 (Source: Redfin)

	Single Family	Townhouse	Condominium
Net Sales	84	24	270
Average Price	$790,019	$431,063	$450,079
Average Sq. Ft.	2,264	1,483	1,265
Avg. Price / Sq. Ft.	349	$291	$356

San Jose. The median price for a new condominium unit was more than $450,000, while the median price for a townhome was about $431,000. On a square foot basis, condominiums sold for $356 per foot and townhomes sold for $291, compared to $349 per foot for single family homes. This indicates demand for higher density residential products with more compact and efficient floorplans.

Multifamily rental housing in San Jose has also been sensitive to the regional economic fluctuations. Vacancies were very low and rental rates relatively high during the dot-com boom. Occupancy rates peaked in 2000 at 98.5 percent and average rental rates reached their apex in 2001 at $1,674. During the next three years, both occupancy and rental rates declined significantly as a result of the dot-com bust and significant decrease in jobs in the area. The rental market began to recover in 2004. Occupancy and rates increased steadily until they reached similar levels to those experienced in the late 1990s. Average rents during the first half of 2009 were $1,520 and occupancy was 94.8 percent.

Currently, multifamily rentals in San Jose are mostly composed of smaller units. More than half are studios or one-bedroom apartments. Another 44 percent of rental units are two bedroom apartments and townhouses. Only one percent of the city's rental apartments have three or more bedrooms.

Table 9-24: SAN JOSE APARTMENT RENT AND OCCUPANCY TRENDS (Source: RealFacts)

Unit Type	1997	1998	1999	2000	2001	2002	2003
Studio	$759	$886	$911	$1,264	$1,356	$994	$913
Junior 1 BR	$876	$985	$1,007	$1,240	$1,356	$1,086	$975
1BR / 1 BA	$1,000	$1,096	$1,126	$1,482	$1,543	$1,232	$1,136
2 BR / 1 BA	$1,070	$1,190	$1,227	$1,500	$1,604	$1,333	$1,225
2 BR / 2 BA	$1,345	$1,444	$1,482	$1,912	$1,935	$1,573	$1,472
2 BR TH	$1,266	$1,400	$1,456	$1,866	$1,908	$1,530	$1,550
3 BR / 2 BA	$1,280	$1,504	$1,579	$1,965	$2,110	$1,920	$1,844
3 BR TH	$1,231	$1,295	$1,429	$1,716	$2,896	$2,216	$2,253
Avg. Asking Rent	$1,096	$1,201	$1,241	$1,607	$1,674	$1,359	$1,270
Avg. Occupancy	96.9%	95.8%	95.9%	98.5%	94.3%	92.1%	91.8%

Unit Type	2004	2005	2006	2007	2008	2009	4 Year Change
Studio	$917	$912	$964	$1,070	$1,120	$1,068	17.1%
Junior 1 BR	$950	$976	$1,062	$1,172	$1,285	$1,251	28.2%
1BR / 1 BA	$1,097	$1,114	$1,189	$1,342	$1,436	$1,354	21.5%
2 BR / 1 BA	$1,178	$1,181	$1,245	$1,386	$1,468	$1,458	23.4%
2 BR / 2 BA	$1,451	$1,459	$1,558	$1,710	$1,846	$1,750	19.9%
2 BR TH	$1,559	$1,568	$1,783	$1,943	$2,009	$1,934	23.3%
3 BR / 2 BA	$1,835	$1,824	$1,867	$1,966	$2,095	$2,029	11.3%
3 BR TH	$2,166	$2,197	$2,200	$2,310	$2,224	$2,290	4.2%
Avg. Asking Rent	$1,246	$1,261	$1,345	$1,489	$1,593	$1,520	20.5%
Avg. Occupancy	92.9%	93.4%	96.1%	96.6%	96.2%	94.8%	-1.2%

Housing Demand Forecast: San Jose

Based on a regional analysis of household growth and residential building trends, ERA estimated that Santa Clara County would generate demand for over 156,000 housing units from 2010 to 2030, see Table 9-25. Historically, about 45 percent of the county's housing units have been developed in San Jose. Therefore, ERA estimates that the San Jose capture of housing demand would range from 45 to 50 percent in the 2010 to 2030 period. According to ERA's market demand forecast (low estimate) and Beacon Economics' vision plan projections (high estimate), the city's long term housing demand will range from 74,000 to 110,000 units from 2010 to 2030, corresponding to an annual average construction of 3,700 to 5,500 units a year.

Table 9-25: ESTIMATED HOUSING DEMAND IN SAN JOSE, 2010-2030 (Source: ERA)

	2010-15	2015-20	2020-25	2025-2030	Total
Net Santa Clara County Demand	34,737	37,895	40,000	44,211	156,842
San Jose Capture Rate of Demand					
Low	50%	45%	45%	50%	
High	-	-	-	-	
San Jose Net Demand					
Low[1]	17,368	17,053	18,000	22,105	74,526
High[2]	33,705	26,964	25,301	24,361	110,331

(1) Based on market demand forecast by ERA
(2) Based on calculations by Beacon Economics for Envision San Jose 2040

Office Market

The San Jose area is one of the epicenters of the high technology world with more than 6,000 companies employing over 254,000 people. San Jose is home to one of the world's most prestigious high technology addresses (Innovation Triangle).

The San Jose office market has been consistent with the cycles of the regional economy with strong performance during the 1980s followed by a slowdown during the recession of the early 1990s. San Jose currently has a total of 40 million square feet of office space. After a strong performance in the late 1990s when vacancy rates were lower than 2 percent and rental rates as high as $40 per square foot (full service), local businesses were hit hard by the economic downturn of 2000-2001. Vacancy rates shot up from less than two percent to nearly 15 percent by 2003 as well as a corresponding drop in lease rates. Rental rates reached their lowest point in 2006 at less than $20 per square foot, see Table 9-26.

The office market experienced a brief recovery between 2006 and early 2008. Vacancies declined from 14 percent during the first quarter of 2006 to 11.2 percent during the second quarter of 2008; the lowest vacancy rate since 2001. Rates meanwhile increased from $20.75 to $25.80 per square foot during the same period. Net absorption during this period was more than one million square feet. The recovery of the office market, however, was cut short by the current economic downturn.

During the past eight quarters vacancies have been increasing and rates declining. Vacancies during the second quarter of 2009 were in fact higher than they were at any point during the recession of earlier in the decade. Vacancies are currently at almost 16 percent and the average lease rate was $24 per square foot for fully serviced space. NAIBT Commercial attributes the increases in vacancy to the delivery of new Class A construction plus vacated Class A product hitting the market in 2008. For example the City's downtown produced two vacant towers in 2008 with more than 700,000 square feet.

Table 9-26: OFFICE TRENDS IN SAN JOSE, 1997-2009 (Source: CoStar)

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
QTD	1,707	40,475,931	6,409,721	15.8%	34,066,210	84.2%	(127,632)	536,523	$24.39
2009 2Q	1,699	39,730,282	5,883,717	14.8%	33,846,565	85.2%	(431,680)	445,353	$24.57
2009 1Q	1,698	39,718,094	5,439,849	13.7%	34,278,245	86.3%	(408,269)	477,862	$24.87
2008 4Q	1,698	39,718,094	5,031,580	12.7%	34,686,514	87.3%	(225,073)	617,477	$25.27
2008 3Q	1,696	39,493,176	4,581,589	11.6%	34,911,587	88.4%	(157,830)	464,339	$25.35
2008 2Q	1,696	39,493,176	4,423,759	11.2%	35,069,417	88.8%	129,938	601,036	$25.83
2008 1Q	1,694	39,465,765	4,526,286	11.5%	34,939,479	88.5%	(31,418)	569,737	$25.48
2007 4Q	1,693	39,462,657	4,491,760	11.4%	34,970,897	88.6%	119,818	557,786	$23.47
2007 3Q	1,693	39,462,657	4,611,578	11.7%	34,851,079	88.3%	310,609	743,621	$22.72
2007 2Q	1,692	39,340,532	4,800,062	12.2%	34,540,470	87.8%	40,478	806,524	$22.45
2007 1Q	1,691	39,279,619	4,779,627	12.2%	34,499,992	87.8%	173,407	1,309,961	$21.76
2006 4Q	1,690	39,247,619	4,921,034	12.5%	34,326,585	87.5%	233,311	1,221,200	$20.77
2006 3Q	1,690	39,247,619	5,154,345	13.1%	34,093,274	86.9%	366,784	1,018,831	$20.08
2006 2Q	1,679	39,169,371	5,442,881	13.9%	33,726,490	86.1%	13,888	997,787	$19.74
2006 1Q	1,678	39,163,278	5,450,676	13.9%	33,712,602	86.1%	(224,704)	729,309	$20.76
2005 4Q	1,675	39,121,556	5,184,250	13.3%	33,937,306	86.7%	137,602	595,739	$21.74
2005 3Q	1,674	39,111,913	5,312,209	13.6%	33,799,704	86.4%	(131,434)	642,715	$21.76
2005 2Q	1,670	39,043,911	5,112,773	13.1%	33,931,138	86.9%	504,433	1,170,581	$21.05
2005 1Q	1,669	39,041,331	5,614,626	14.4%	33,426,705	85.6%	(396,504)	460,870	$21.18
2004 4Q	1,668	39,032,361	5,209,152	13.3%	33,823,209	86.7%	595	487,214	$20.52
2004 3Q	1,667	39,005,885	5,183,271	13.3%	33,822,614	86.7%	344,144	1,116,496	$21.00
2004 2Q	1,666	38,817,554	5,339,084	13.8%	33,478,470	86.2%	247,359	920,072	$21.29
2004 1Q	1,664	38,622,162	5,391,051	14.0%	33,231,111	86.0%	204,871	918,760	$23.29
2003 4Q	1,664	38,622,162	5,595,922	14.5%	33,026,240	85.5%	398,372	1,288,705	$23.88
2003 3Q	1,661	38,316,982	5,689,114	14.8%	32,627,868	85.2%	506,155	1,273,461	$23.80
2003 2Q	1,660	38,241,982	6,145,310	16.1%	32,096,672	83.9%	(267,467)	622,176	$23.84
2003 1Q	1,660	38,241,982	5,877,843	15.4%	32,364,139	84.6%	(148,272)	952,282	$29.36
2002 4Q	1,660	38,241,982	5,729,571	15.0%	32,512,411	85.0%	(310,313)	826,731	$29.30
2002 3Q	1,659	38,125,940	5,303,216	13.9%	32,822,724	86.1%	(270,299)	687,960	$31.86
2002 2Q	1,659	38,125,940	5,032,917	13.2%	33,093,023	86.8%	8,382	981,194	$33.36
2002 1Q	1,658	38,014,556	4,929,915	13.0%	33,084,641	87.0%	(219,568)	1,044,879	$34.28
2001 4Q	1,654	37,385,474	4,081,265	10.9%	33,304,209	89.1%	(438,595)	1,234,968	$37.76
2001 3Q	1,649	37,036,315	3,318,591	9.0%	33,717,724	91.0%	(427,109)	1,012,783	$42.39
2001 2Q	1,646	36,488,274	2,343,441	6.4%	34,144,833	93.6%	(636,920)	667,335	$43.70
2001 1Q	1,643	36,179,873	1,398,120	3.9%	34,781,753	96.1%	(48,221)	988,914	$43.91

Table 9-26: OFFICE TRENDS IN SAN JOSE, 1997-2009 (Source: CoStar) (continued)

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
2000 4Q	1,631	35,487,786	657,812	1.9%	34,829,974	98.1%	537,037	1,170,109	$41.28
2000 3Q	1,628	35,161,960	869,023	2.5%	34,292,937	97.5%	(355,778)	949,182	$36.78
2000 2Q	1,625	35,001,370	352,655	1.0%	34,648,715	99.0%	620,526	1,691,463	$31.62
2000 1Q	1,622	34,961,472	933,283	2.7%	34,028,189	97.3%	1,312,065	1,964,844	$32.32
1999 4Q	1,615	34,466,322	1,750,198	5.1%	32,716,124	94.9%	399,659	1,484,704	$31.68
1999 3Q	1,613	34,362,062	2,045,597	6.0%	32,316,465	94.0%	87,751	1,360,859	$30.68
1999 2Q	1,612	34,229,056	2,000,342	5.8%	32,228,714	94.2%	483,173	1,006,066	$30.14
1999 1Q	1,606	33,720,466	1,974,925	5.9%	31,745,541	94.1%	319,909	1,810,612	$31.38
1998 4Q	1,603	33,436,448	2,010,816	6.0%	31,425,632	94.0%	(122,488)	1,001,000	$29.75
1998 3Q	1,593	32,687,494	1,139,374	3.5%	31,548,120	96.5%	994,645	1,607,002	$29.98
1998 2Q	1,590	32,019,969	1,466,494	4.6%	30,553,475	95.4%	(226,662)	449,079	$30.72
1998 1Q	1,587	31,691,736	911,599	2.9%	30,780,137	97.1%	339,296	806,593	$28.94
1997 4Q	1,582	31,342,967	902,126	2.9%	30,440,841	97.1%	430,901	808,785	$18.78
1997 3Q	1,580	31,117,654	1,107,714	3.6%	30,009,940	96.4%	199,848	551,088	$18.90
1997 2Q	1,579	31,065,654	1,255,562	4.0%	29,810,092	96.0%	(2,905)	131,846	$19.11
1997 1Q	1,576	30,933,808	1,120,811	3.6%	29,812,997	96.4%	(833,592)	277,778	$18.78

Table 9-27: ESTIMATED OFFICE DEMAND IN SAN JOSE, 2010-2030 (Square Feet) (Source: ERA)

	2010-20	2020-30	Total Demand 2010-2030 (square feet)
Net Office Demand in Santa Clara County	14,011,472	26,795,572	40,807,043
Estimated San Jose Capture Rate			
Low	40%	45%	43%
High	45%	50%	48%
Resulting San Jose Office Demand			
Low	5,604,589	12,058,007	17,662,596
High	6,305,162	13,397,786	19,702,948

[1] ABAG also projects San Jose's share of county employment to increase over the next 20 years to approximately 50 percent.

The distribution of office space in San Jose is mainly in Class A and Class B buildings. Vacancy in Class A is almost 28 percent, while vacancy in Class B is significantly lower at 12.7 percent. There were approximately 590,000 square feet of Class B office space under construction at the end of the second quarter 2009. There is no Class A office space currently under construction. However, Boston Properties Limited Partnership has plans to build three office towers at Almaden Blvd and Woz Way with more than 863,000 net square feet of office space.

ERA's analysis of the regional office market projected future demand for more than 40 million square feet of new office space in Santa Clara County from 2010 to 2030. Given the market conditions created by the current economic slump as well as the limited prospects for a quick recovery, the majority of the demand would be generated in the 2020 to 2030 period. Currently, San Jose holds about 40 percent of the countywide employment. ERA believes that the city's share of new employment will increase over time, as has been the tendency over the last 15 to 20 years.1 Table 9-27 summarizes the office market potential in San Jose over the next 20 years. As shown, citywide office demand will total between 18 and 20 million square feet from 2010 to 2030.

Retail Market

The retail sector which endured steep declines associated with the dot-com bust has since enjoyed a period of relative prosperity fueled by a robust economy, strong construction activity, and a sizzling residential market. Retail sales bottomed-out in 2002 and then grew an average of 4.6 percent per year through 2007. As shown in Table 9-28, vacancy rate for retail space remained below 4 percent between the first quarter of 2007 and the fourth quarter of 2008. Average rental rates during this period were above $28 per square foot (Triple Net).

The current economic crisis, however, did not spare local retailers. Vacancy rates of retail space climbed up to five percent during the first three quarters of 2009. However, by comparison, countywide the vacancy rate has been almost 5.4 percent during this period. Rental rates have dropped to below $26 per square foot. Total net absorption has been negative 342,000 square feet for year-to-date 2009.

Large-scale regional retail centers are not usually transit-oriented uses and do not generate much ridership due to the fact that most shoppers find it more convenient to drive to and from those destinations. Therefore, ERA believes that any retail development occurring within the Diridon Station Planning Area should be targeted to support the convenience shopping needs of the more transit-oriented residential and office development uses.

Table 9-28: RETAIL TRENDS IN SAN JOSE, 1997-2009 (Source: CoStar Comps)

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate[a]
QTD	2,744	34,490,450	1,715,480	5.0%	32,774,970	95.0%	(2,387)	218,772	$25.85/nnn
2009 2Q	2,699	33,701,331	1,683,093	5.0%	32,018,238	95.0%	(19,416)	362,724	$26.73/nnn
2009 1Q	2,699	33,701,331	1,663,677	4.9%	32,037,654	95.1%	(320,222)	249,442	$27.15/nnn
2008 4Q	2,695	33,648,505	1,290,629	3.8%	32,357,876	96.2%	21,380	355,939	$28.16/nnn
2008 3Q	2,691	33,460,573	1,124,077	3.4%	32,336,496	96.6%	(68,356)	242,349	$29.50/nnn
2008 2Q	2,689	33,427,562	1,022,710	3.1%	32,404,852	96.9%	51,131	290,102	$30.44/nnn
2008 1Q	2,687	33,419,000	1,065,279	3.2%	32,353,721	96.8%	212,079	389,105	$31.19/nnn
2007 4Q	2,678	33,248,739	1,080,821	3.3%	32,167,918	96.7%	11,078	180,708	$29.93/nnn
2007 3Q	2,676	33,192,766	1,035,926	3.1%	32,156,840	96.9%	235,133	500,145	$29.18/nnn
2007 2Q	2,673	32,847,507	925,800	2.8%	31,921,707	97.2%	547,602	675,975	$29.10/nnn
2007 1Q	2,668	32,748,975	1,374,870	4.2%	31,374,105	95.8%	643,239	770,338	$36.24/nnn
2006 4Q	2,656	32,618,122	1,887,039	5.8%	30,731,083	94.2%	86,255	348,947	$28.17/nnn
2006 3Q	2,655	32,606,872	1,962,044	6.0%	30,644,828	94.0%	46,764	358,331	$30.41/nnn
2006 2Q	2,653	32,577,072	1,979,008	6.1%	30,598,064	93.9%	(163,459)	123,867	$29.31/nnn
2006 1Q	2,651	32,541,622	1,780,099	5.5%	30,761,523	94.5%	64,384	234,818	$28.50/nnn
2005 4Q	2,645	32,079,741	1,382,602	4.3%	30,697,139	95.7%	389,028	629,395	$26.88/nnn
2005 3Q	2,638	31,815,348	1,507,237	4.7%	30,308,111	95.3%	81,883	334,737	$26.68/nnn
2005 2Q	2,637	31,812,148	1,585,920	5.0%	30,226,228	95.0%	(232,667)	269,907	$26.23/nnn
2005 1Q	2,636	31,806,613	1,347,718	4.2%	30,458,895	95.8%	(10,773)	255,225	$25.90/nnn
2004 4Q	2,629	31,744,134	1,274,466	4.0%	30,469,668	96.0%	(262,843)	207,538	$27.10/nnn
2004 3Q	2,629	31,744,134	1,011,623	3.2%	30,732,511	96.8%	(433,343)	69,730	$25.39/nnn
2004 2Q	2,629	31,744,134	578,280	1.8%	31,165,854	98.2%	(6,508)	102,520	$24.26/nnn
2004 1Q	2,629	31,744,134	571,772	1.8%	31,172,362	98.2%	124,617	183,152	$24.46/nnn
2003 4Q	2,628	31,738,799	691,054	2.2%	31,047,745	97.8%	(72,908)	79,261	$22.19/nnn
2003 3Q	2,627	31,732,787	612,134	1.9%	31,120,653	98.1%	52,956	120,521	$23.63/nnn
2003 2Q	2,626	31,691,807	624,110	2.0%	31,067,697	98.0%	(144,057)	110,164	$23.31/nnn
2003 1Q	2,624	31,629,624	417,870	1.3%	31,211,754	98.7%	117,957	229,739	$22.45/nnn
2002 4Q	2,619	31,500,248	406,451	1.3%	31,093,797	98.7%	237,259	338,207	$24.20/nnn
2002 3Q	2,614	31,212,811	356,273	1.1%	30,856,538	98.9%	(7,998)	107,867	$27.42/nnn
2002 2Q	2,611	31,113,030	248,494	0.8%	30,864,536	99.2%	318,155	332,875	$29.58/nnn
2002 1Q	2,607	30,796,117	249,736	0.8%	30,546,381	99.2%	426,765	466,810	$30.26/nnn
2001 4Q	2,594	30,338,695	219,079	0.7%	30,119,616	99.3%	12,803	73,858	$23.86/nnn
2001 3Q	2,591	30,267,624	160,811	0.5%	30,106,813	99.5%	(7,947)	26,038	$23.84/nnn
2001 2Q	2,591	30,267,624	152,864	0.5%	30,114,760	99.5%	9,709	25,205	$29.87/nnn
2001 1Q	2,590	30,253,624	148,573	0.5%	30,105,051	99.5%	193,236	228,791	$27.99/nnn

Table 9-28: RETAIL TRENDS IN SAN JOSE, 1997-2009 (Source: CoStar Comps) (continued)

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate[a]
2000 4Q	2,582	30,044,863	133,048	0.4%	29,911,815	99.6%	14,136	32,076	$25.38/nnn
2000 3Q	2,578	30,006,003	108,324	0.4%	29,897,679	99.6%	42,580	60,772	$25.38/nnn
2000 2Q	2,575	29,970,301	115,202	0.4%	29,855,099	99.6%	15,748	69,492	$23.37/nnn
2000 1Q	2,574	29,966,301	118,949	0.4%	29,847,352	99.6%	75,882	98,537	$18.48/nnn
1999 4Q	2,568	29,912,774	141,304	0.5%	29,771,470	99.5%	(43,860)	17,231	$19.38/nnn
1999 3Q	2,568	29,912,774	97,444	0.3%	29,815,330	99.7%	32,313	65,143	$18.09/nnn
1999 2Q	2,567	29,911,038	128,021	0.4%	29,783,017	99.6%	1,407	53,743	$19.77/nnn
1999 1Q	2,561	29,864,565	82,955	0.3%	29,781,610	99.7%	75,718	254,044	$19.97/nnn
1998 4Q	2,556	29,772,049	66,157	0.2%	29,705,892	99.8%	61,543	222,312	$18.80/nnn
1998 3Q	2,551	29,714,106	69,757	0.2%	29,644,349	99.8%	77,361	239,089	$16.20/nnn
1998 2Q	2,548	29,645,414	77,689	0.3%	29,567,725	99.7%	42,662	216,922	-
1998 1Q	2,545	29,584,260	59,197	0.2%	29,525,063	99.8%	423,909	435,764	-
1997 4Q	2,540	29,161,740	60,586	0.2%	29,101,154	99.8%	76,755	79,431	-
1997 3Q	2,537	29,118,885	94,486	0.3%	29,024,399	99.7%	10,612	23,552	-
1997 2Q	2,535	29,108,077	94,290	0.3%	29,013,787	99.7%	(2,134)	0	-
1997 1Q	2,535	29,108,077	92,156	0.3%	29,015,921	99.7%	917,330	963,230	-

(a) Triple Net

Table 9-29: Taxable Retail Sales, 1993-2007 ($000) (Source: CA Board of Equalization, ERA)

Jurisdiction	1993	1994	1995	1996	1997	1998	1999	2000	2001
San Jose	4,680	4,811	5,261	5,653	6,090	6,502	7,305	8,487	7,928
Santa Clara County	10,577	11,065	12,175	13,310	14,364	15,001	16,782	19,773	17,937
City Share	44.24%	43.48%	43.21%	42.47%	42.40%	43.35%	43.53%	42.92%	44.20%

							Avg. Ann. Growth Rate	
Jurisdiction	2002	2003	2004	2005	2006	2007	1993-2000	2000-2007
San Jose	7,359	7,458	7,946	8,427	8,913	9,234	8.9%	1.2%
Santa Clara County	16,425	16,515	17,724	18,904	20,040	20,790	9.3%	0.7%
City Share	44.80%	45.16%	44.83%	44.58%	44.48%	44.41%	n/a	n/a

Table 9-30: San Jose Retail Sales by Category, 2007 ($000) (Source: CA Board of Equalization, ERA)

Retail Category	City of San Jose	Share of County	Santa Clara County
Apparel Stores	537,902	40.3%	1,334,050
General Merchandise	1,425,777	45.8%	3,112,536
Food Stores	427,237	48.0%	890,341
Eating & Drinking Places	1,206,390	42.9%	2,813,519
Furnishing & Appliances	360,402	40.0%	901,164
Bldg Materials & Farm Eqmt	781,551	49.4%	1,581,859
Auto Dealers & Supplies	1,548,373	44.6%	3,468,163
Services Stations	1,245,967	53.7%	2,320,507
Other Retail Stores	1,700,093	38.9%	4,368,119
Total	9,233,692	44.4%	20,790,258

Table 9-31: TRANSIENT OCCUPANCY TAX COLLECTIONS, 1998-2008 (Source: Dean Runyan and Associates)

Year	TOT Collections	Annual Change
1998	17,552	
1999	18,203	3.7%
2000	20,681	13.6%
2001	25,508	23.3%
2002	16,578	-35.0%
2003	14,786	-10.8%
2004	14,676	-0.7%
2005	15,935	8.6%
2006	19,320	21.2%
2007	21,896	13.3%
2008	23,670	8.1%
Annual Growth		3.0%

Hotel Development Potential

During the economic boom of the late 1990s, the hotel industry of San Jose experienced tremendous growth. Transient Occupancy Tax collections increased rapidly from 1998 to 2001, followed by steep declines in 2002 and 2003. In 2004, the hotel revenues in San Jose began to flatten, and then increased rapidly after 2005 once the regional economy began to improve. Even between 2007 and 2008, when many other economic indicators began to show signs of distress, TOT collections increased more than eight percent.

The same trends are reflected in historical occupancy rates and average daily rates for San Jose hotels from 1998 to 2008. Occupancy rates among San Jose and Campbell hotels peaked at around 82 percent in 2000, then fell steeply to 54 percent in 2003. A recovery began in 2004, as hotel occupancies began rising again, see Table 9-31. Similarly, the average daily rate peaked at $142 in 2000 and then decreased to under $100 in 2003.

More recent data for 14 Convention hotels in San Jose indicate a deterioration of the hotel market with occupancy, ADR, and RevPAR declining in 2009 compared to 2008, particularly since December 2008, see Figure 9-10. Overall occupancy has been below 55 since December 2008, but average daily rates have remained above $110.

ERA reviewed historical hotel development in San Jose to gain a better understanding of future demand. As indicated in Table 9-33, hotel construction in San Jose was relatively slow during much of the 1980s due to a moratorium on hotel development outside of the downtown core. In the late 1980s, the San Jose Redevelopment Agency heavily subsidized the construction of the 805-room Fairmont Hotel in order to establish a new image for the downtown. In the last 29 years, there have been approximately 5,300 hotel rooms developed, representing an average of 184 rooms per year.

Table 9-32: TRENDS IN THE SAN JOSE/CAMPBELL HOTEL MARKET (Source: Smith Travel Research)

	1999	2000	2001	2002	2003	2004	2005
Occupancy	75.5%	81.6%	64.3%	57.3%	54.0%	56.8%	60.8%
ADR ($)[1]	$123.11	$141.87	$134.35	$110.84	$99.70	$97.42	$101.77
RevPAR ($)[2]	$92.91	$115.82	$86.34	$63.56	$53.86	$55.31	$61.85
Supply	2,532,343	2,674,008	2,828,688	2,999,137	3,273,430	3,387,220	3,414,600
Demand	1,911,269	2,183,157	1,817,795	1,719,883	1,768,322	1,922,876	2,075,101
Revenue (thousands of $)	$235,291	$309,714	$244,229	$190,637	$176,296	$187,333	$211,179

(1) Average Daily Rate
(2) Revenue per available room.

Figure 9-10: SAN JOSE MONTHLY HOTEL OCCUPANCY REPORT
(Source: San Jose Conventions and Visitors Bureau)

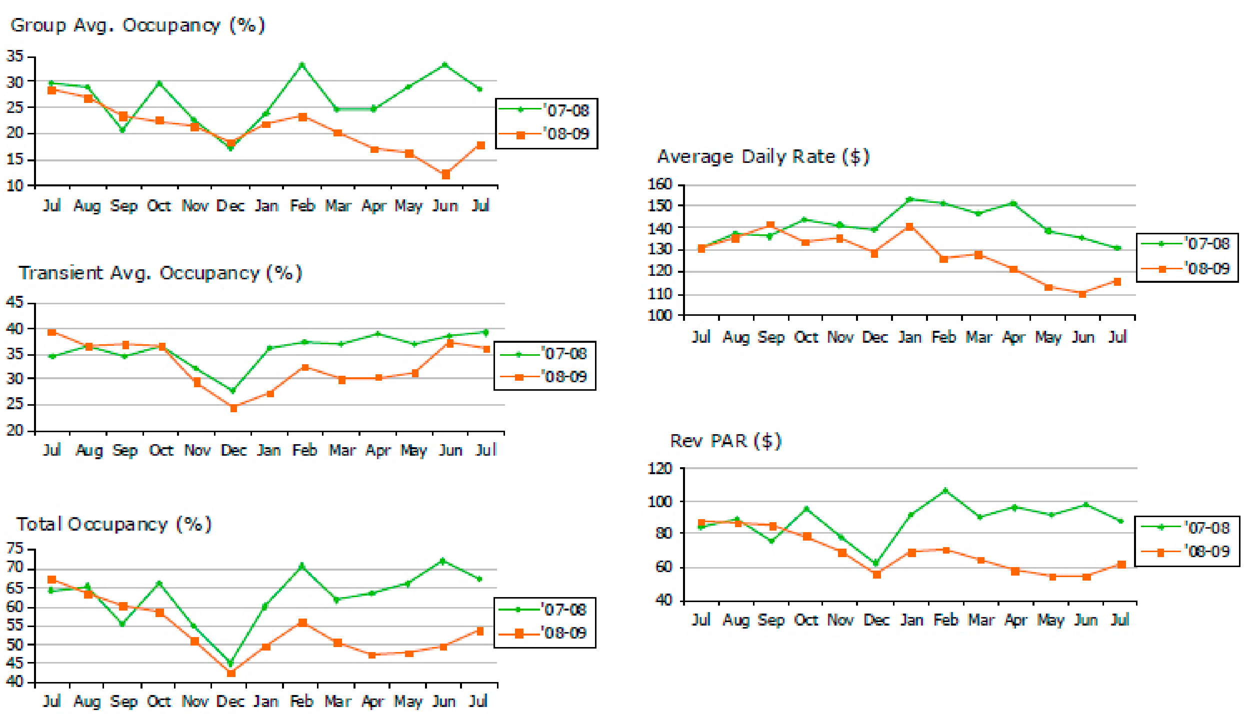


Table 9-33: SELECTED HOTEL PROPERTIES IN SAN JOSE (BUILT SINCE 1980) (Source: STR, ERA)

Hotel Property	Date Opened	Rooms
Super 8 San Jose Airport Santa Clara	Jun 1980	55
Doubletree San Jose	Jun 1982	505
Days Inn San Jose Convention Center	Mar 1984	34
Santa Clara Inn	Jun 1984	30
E-Z 8 San Jose #2	Jun 1984	88
Days Inn San Jose Airport Downtown	Jun 1985	54
Valley Inn	Jun 1986	26
Valley Park Hotel	Jun 1986	55
Howard Johnson Express San Jose	Aug 1986	58
Radisson San Jose Airport	Sep 1986	196
Americas Best Value Inn San Jose Convention Center	Feb 1987	26
Executive Inn	Jun 1987	25
Best Western Airport Plaza	Jun 1987	40
Fairmont San Jose	Oct 1987	805
Clarion Inn Silicon Valley	Dec 1989	47
Staybridge Suites San Jose	Jun 1990	114
Holiday Inn San Jose Silicon Valley	Sep 1990	208
Courtyard San Jose Airport	Jan 1991	151
Homewood Suites San Jose Airport	Dec 1991	140
Closed Plaza Hotel	Jun 1992	0
Hilton San Jose	Oct 1992	353
Arena Hotel	Jun 1993	89
Holiday Inn Express & Suites International Airport	Oct 1995	126
Holiday Inn Express San Jose Central City	May 1997	57
Homestead San Jose	Apr 1998	153
Adlon Hotel	Jun 1998	56
Residence Inn San Jose South	Aug 1998	150
Days Inn San Jose Airport	Sep 1999	61
Extended Stay Deluxe San Jose Downtown	Jan 2000	138
Extended Stay America San Jose South	Nov 2000	121
TownePlace Suites San Jose Cupertino	Nov 2000	101
Extended Stay Deluxe San Jose South Edenvale	Dec 2000	98
Best Western Lanai Garden Inn & Suites	Feb 2001	52
Extended Stay America San Jose Santa Clara	Mar 2001	101
Joie De Vivre Moorpark Hotel	May 2001	79
Hampton Inn Suites San Jose	Feb 2002	80
Comfort Suites San Jose Airport	Jul 2002	50
Marriott San Jose	Apr 2003	506
Comfort Inn San Jose	May 2003	45
Preferred Hotel Valencia Santana Row	Jul 2003	212
Sleep Inn Silicon Valley	Jul 2004	49
Subtotal Selected Properites		5,334
Annual Average 1980-2009		184
Annual Average 1980-1989		200
Annual Average 1990-1999		171
Annual Average 2000-2008		163

According to the San Jose Convention & Visitors Bureau (SJCVB) report, San Jose received 6.7 million visitors between fiscal year 2003 and 2004. This represented $1.2 billion in direct visitor spending, a 10 percent increase over the 2001-2002 period. The largest source of revenue for hotel spending came from convention visitors and business travelers, which combined accounted for 77 percent of hotel revenues in the city. The SJCVB also reports an increase in the number of leisure visitors arriving in San Jose, which represent 36 percent of the total visitor volume.

Using long term hotel construction and visitor trends, ERA estimated future hotel demand in San Jose, see Table 9-34. ERA estimates demand for nearly 490 rooms per year in Santa Clara County over the next 20 years, for a total of 7,800 hotel rooms. The share of hotel rooms captured by San Jose will increase over time as the visitor market continues to diversify, and the business traveler market rebounds. From total county demand, ERA estimates that San Jose will capture about 40 percent, corresponding to 2,900 to 3,300 hotel rooms from 2010 to 2030.

Table 9-34: ESTIMATED HOTEL ROOM DEMAND IN SAN JOSE, 2010-30 (Source: ERA)

	2010-15	2015-20	2020-25	2025-30	Total 2010-30
Santa Clara County Demand					
Number New Rooms	500	2,250	2,500	2,500	7,750
Average Annual Rooms	100	450	500	500	388
Estimated San Jose Capture Rate					
Low	30%	35%	40%	40%	38%
High	35%	40%	45%	45%	43%
Resulting San Jose Hotel Demand					
Low	150	790	1,000	1,000	2,940
High	180	900	1,130	1,130	3,340

9.3 Diridon Station Planning Area Market Analysis

In addition to site inspections, ERA studied previously completed plans and documents to gain an understanding of the characteristics of the area, including existing land uses and City policies and future plans for the station area. ERA reviewed the Diridon/Arena Strategic Development Plan and the Midtown Specific Plan.

EXISTING LAND USES

The Diridon area is located in the extended downtown San Jose core, and has been included as the "greater downtown" area in previous plans and studies. The recently completed Guadalupe River Park is located between the traditional downtown area and the Diridon area. The historic downtown and Diridon areas are also separated by the elevated Highway 87, which creates some visual and access barriers.

There is a variety of existing and planned land uses around this station area. Parking is a major land use, with large surface lots east of the Diridon Caltrain station, west of the San Jose Water Company building, and west and north of the HP Pavilion.

Industrial and auto-related land uses are concentrated north of the HP Pavilion and south of the Caltrain station. East of Montgomery Street there are several industrial uses such as an active foundry and metal and auto shops. South of the Caltrain station, there is a PG&E electrical substation with a high voltage power transmission line.

There is some older housing in the station area, including single-family and low to medium density multi-family rental housing. The Delmas Park neighborhood southeast of the Diridon station and the Burbank/Del Monte neighborhood west and southwest of the station are Redevelopment areas that have plans created under the City's Strong Neighborhood Initiative (SNI) that the City Council has accepted. Some new multifamily housing development has occurred in the area. New townhomes were developed at Cahill

Park, west of the Caltrain Station Yard, and the former Del Monte Cannery Building at the corner of the Alameda and White Street is being converted to residential condominiums and townhouses.

The HP Pavilion is a major entertainment venue for the entire region. The 17-acre site is occupied by a 500,000-square-foot building which seats up to 20,000 people. The primary tenant is the San Jose Sharks, professional hockey team, though the Pavilion is also used for other entertainment events such as concerts, basketball games, and other performances. In 2006, HP Pavilion sold the most tickets to non-sporting events in the United States, and was fourth in the world.

ACCESS AND TRANSPORTATION

The Diridon area is a major transit hub for the region. Transportation service includes: the recently completed Vasona Light Rail, running from downtown San Jose to Campbell; VTA bus service; Greyhound bus service; Caltrain commuter rail; ACE and the Capital Corridor train. The proposed California High-Speed Rail service would also have a station at Diridon, as well as the proposed Rapid Bus line. The area will be served by the extension of BART as one of six Santa Clara County BART stations, and completion is expected in 2015. The Diridon station area is easily accessible by car from Interstate 280 via the Bird Avenue interchange, as well as Highway 87, via West Julian, Santa Clara, Park, and Delmas/Woz Way. The site is well connected to surface streets through Santa Clara Street, which acts as a major arterial through downtown San Jose, and The Alameda, which connects to the City of Santa Clara. Construction is currently underway on the Coleman/Autumn transportation corridor which will provide an efficient and attractive route from I880 to downtown San Jose and to expand Highway 87 between I-280 and Highway 101, both of which will provide this area with better access.

STRENGTHS AND OPPORTUNITIES

The station area has many strengths and opportunities for joint development. Among these are:

- Location - The area's adjacency to the historic downtown core in San Jose makes it a prime area of expansion for the central business district.
- Transportation- The area is already recognized as an established transit hub, with a great deal of connectivity to other parts of the Bay Area. BART and future California High Speed Rail would make this area possibly the most important rail transit hub in the Western United States, rivaled only by Downtown San Francisco. Previous City plans and policies support transit-oriented development in the area.
- Amenities - Green areas such as Guadalupe River Park, and Los Gatos Creek (which is planned as a greenbelt) create additional amenities in the area and enhance development potential. In addition, the area contains architectural assets in its historic buildings, such as the Caltrain station building and the Water Company building
- Developability of parcels - Much of the station area's existing land uses are light industrial and parking lots, which can be easily assembled. A large percentage of parcels are publicly owned (SJRA, City of San Jose, VTA). Some of the key privately owned properties are under single ownership and can therefore be developed more easily.
- Nighttime activities – Diridon Station has significant potential to become an evening entertainment center, given the activities generated by HP Pavilion and the potential activities generated by a new baseball stadium and future retail, dining and entertainment venues.
- Baseball Park – The City of San Jose has expressed some interest in facilitating the relocation of the Oakland A's major league baseball team into San Jose, and the preferred location is included in the project study area. The issues related to the ballpark will be explored in a subsequent paper evaluating planning alternatives.

CHALLENGES AND CONSTRAINTS

ERA has identified some possible challenges and constraints to joint development, including:

- Nuisance factors - Some real estate professionals see the HP Pavilion as a detractor from the area, particularly for new housing, due to the nuisances it creates such as noise and spillover parking into the neighborhoods. The neighborhoods proximity to the airport could not only affect demand, but also restricts land use in the area.
- Escalating land prices - There has been substantial private development interest in the area in recent years, especially for multifamily housing, which has been driving land prices up. The current housing market slow down has ameliorated this situation. However, once the economy begins to recover pent-up demand will most likely lead to further escalation in land prices. This impact might be mitigated due to significant public ownership of land, allowing for price control over the parcels sold.
- Relocation - The presence of the PG&E substation in the southern parcels may present problems for the development of those sites, as it will be costly to relocate.

OFFICE MARKET POTENTIAL

The Diridon Station Planning Area is extremely well-positioned to capture future regional office development, given the following attributes:

- Adjacency to the core downtown area. Brokers interviewed believed that the Diridon Station area was an excellent office location, due to its central location.
- Convenient regional access (transit and highway) to the regional labor force, especially once the BART station is in operation. The new BART extension will provide employers locating in central San Jose with better access to their workforce than other competing communities in the Silicon Valley.

Table 9-35: OFFICE DEVELOPMENT POTENTIAL AT DIRIDON STATION PLANNING AREA, 2010-2030 (Source: ERA)

	2010-2020	2020-2030	Total Demand 2010-2030
Net Office Demand in Santa Clara County	14,011,472	26,795,572	40,807,043
Estimated San Jose Capture Rate			
Low	40%	45%	
High	45%	50%	
Resulting San Jose Office Demand			
Low	5,604,589	12,058,007	17,662,596
High	6,305,162	13,397,786	19,702,948
Diridon Station 1/4 Mile Capture			
Low	10%	15%	
High	15%	20%	
TOTAL DIRIDON OFFICE DEMAND			
Low	560,500	1,808,700	2,369,200
High	945,800	2,679,600	3,625,400

Based upon our analysis, ERA estimates demand for between 560,000 and 950,000 million square feet of office space in the next 10 years and between 1.8 million and 2.7 million square feet of space between 2020 and 2030, for a total of between 2.4 million and 3.6 million square feet total over the next 20 years for the Diridon station area.

RESIDENTIAL MARKET POTENTIAL

Overall, Diridon Station Area is also a strong location for housing development. Some of its key advantages include:

- Access to entire region through existing transit and highways. Maximizing residential densities is key to maximizing transit ridership and investment of massive transportation infrastructure.
- Improvements to the neighborhood quality with the construction of new housing developments and enhancement of Guadalupe River Park. Future improvements to Highway 87, enhancements to Los Gatos Creek, and other plans and proposals for the area are likely to increase its attractiveness.
- Demographic shifts towards more young professionals living in central San Jose and who desire urban living. Diridon will attract the creative class. Also, the projected growth in the senior population increases the need to place housing close to transportation, services and amenities.
- Local policies supportive of housing– The city's plans call for high-density housing in much of the Diridon station area. Because the area within the Diridon Station area currently consists of parking lots and light industrial uses. The area is a prime opportunity to redevelop existing low-density uses into high-density residential development integrated with other uses to create a walkable urban environment and to maximize the economic potential of underutilized parcels.
- Strong housing market – The housing market has been very strong in San Jose in the past several years, and there has been a great deal of residential development activity in the area. Real estate professionals interviewed for this project indicated strong potential for multifamily rental and ownership housing in the Diridon area.
- Prime location for urban place-making – Dense residential development in the Diridon Station area is a key component to the urbanism and pedestrian-oriented vitality that the City of San Jose aspires to achieve. Residents will bring critical nighttime activity to Diridon that will support retail and entertainment uses. By bringing together a variety of uses that include housing, office/commercial, retail, and entertainment in close proximity to a landmark transit hub and to the rest of downtown, Diridon Station has the potential to become a defining urban center of Silicon Valley.

Table 9-36: ESTIMATED HOUSING DEVELOPMENT POTENTIAL AT DIRIDON STATION PLANNING AREA, 2010-2030 (Source: ERA)

	2010-2015	2015-20	2020-25	2025-30	2010-30
Net Santa Clara County Demand	34,737	37,895	40,000	44,211	156,842
San Jose Capture Rate of Demand					
Low	50%	45%	45%	50%	
High	-	-	-	-	
San Jose Net Demand					
Low1	17,368	17,053	18,000	22,105	74,526
High2	33,705	26,964	25,301	24,361	110,331
Diridon 1/4 mile BART Station Capture Rate					
Low	4%	4%	4%	4%	
High	6%	6%	6%	6%	
Diridon BART Demand					
Low	695	682	720	884	2,981
High	2,022	1,618	1,518	1,462	6,620
Acres (assuming average 40 units/gross acre)					
Low	17.4	17.1	18.0	22.1	74.5
High	50.6	40.4	38.0	36.5	165.5

Our analysis of the Diridon Station Area shows net demand for between 3,000 and 6,600 units over the next 20 years. Assuming an average density of 40 units to the gross acre, potential land needed to satisfy net housing demand would range from 74 to 165 acres. Given the urban character of the Diridon area, densities could be even higher on many parcels.

SUPPORT RETAIL POTENTIAL

Given the above analysis of residential and office development potential, ERA estimated demand for support retail from new residents and employees at the Diridon Station Area. As indicated in Table 9-37, ERA estimates that there is demand for 78,000 and 132,000 square feet of retail within the next ten years and between 126,000 and 221,000 square feet of support retail between 2015 and 2025. In total, ERA estimates that there is market potential for the development of between 205,000 and 352,000 square feet of office and resident serving retail restaurant and entertainment uses within the Diridon Station Area.

Table 9-37: DEMAND FOR SUPPORT RETAIL AT DIRIDON STATION PLANNING AREA, 2010-30 (Source: ERA)

	2010-2020	2020-2030	Total Demand 2010-30
Calculation of Residential Generated Retail Demand			
Residential Units			
Low	1,377	1,604	2,981
High	3,640	2,980	6,620
Avg. Unit Size	1,000	1,000	
Residential Unit Sq. Ft.			
Low	1,376,842	1,604,211	2,981,053
High	3,640,140	2,979,720	6,619,860
Retail % of Residential Sq. Ft.	5%	8%	
Subtotal Residential Generated Retail Demand			
Low	68,800	80,200	149,000
High	182,000	149,000	331,000
Calculation of Office Generated Retail Demand			
Office Sq. Ft.			
Low	560,500	1,808,700	2,369,200
High	945,800	2,679,600	3,625,400
Retail % of Office Sq. Ft.	3%	5%	
Subtotal Office Generated Retail Demand			
Low	16,800	54,300	71,100
High	28,400	80,400	108,800
TOTAL DEMAND FOR SUPPORT RETAIL - DIRIDON			
LOW	85,600	134,500	220,100
HIGH	210,400	229,400	439,800

HOTEL POTENTIAL

ERA considers Diridon a strong hotel location, due to the proximity to downtown San Jose and the convention center, nearby attractions and entertainment uses, excellent transit and highway access. A significant recovery in the hotel market, with increases in occupancies and ADR, may take up to three to five years to occur. Thus, many areas immediately surrounding the station are likely to be developed first, probably for residential use. Therefore, in order to encourage hotel development at this location, land would be need to set aside for at least three to five years.

As presented in Table 9-38, ERA estimates that demand for hotel at Diridon will range between 140 and 210 rooms in the next decade, and another 300 to 450 rooms in the following ten-year period. In total, there is estimated demand for between 440 and 660 hotel rooms, equivalent to two hotels, around the Diridon Station Planning Area.

Table 9-38: HOTEL DEVELOPMENT POTENTIAL AT DIRIDON STATION PLANNING AREA, 2010-30 (Source: ERA)

	2010-2015	2015-20	2020-25	2025-30	Total 2010-30
Net Santa Clara County Demand					
Number of New Rooms	500	2,250	2,500	2,500	7,750
Average Annual Rooms	100	450	500	500	388
San Jose Capture Rate of Demand					
Low	30%	35%	40%	40%	38%
High	35%	40%	45%	45%	43%
San Jose Net Demand					
Low	150	790	1,000	1,000	2,940
High	180	900	1,130	1,130	3,340
Diridon 1/4 mile BART Station Capture Rate					
Low	10%	15%	15%	15%	
High	15%	20%	20%	20%	
Diridon BART Demand					
Low	15	119	150	150	434
High	27	180	226	226	659

9.4 Affordable Housing Overview

The need for affordable housing in the City of San Jose will continue to increase over the next 30 years according to numerous recent studies. According to the San Francisco Bay Area Housing Needs Plan,

> "Santa Clara County is the most populous county in the Bay Area and will experience the greatest amount of growth. Santa Clara is expected to grow by nearly 23 percent over the next 25 years…..and despite the recent mortgage crisis and soaring number of foreclosures, most Bay Area homes continue to be too expensive for families with average household incomes to afford."

The projected growth will occur in two primary populations, 1) persons under age 34 and 2) those 65 years old and older. There will also be an increased need for housing those in danger of homelessness and for those with special needs. The City of San Jose Department of Housing Consolidated Plan (2005-2010) assigns the highest priority need for affordable housing production to those households earning 0-50% of the area median income [AMI] for Santa Clara County. This income range encompasses those in danger of homelessness, those with extremely low incomes [ELI] of 30% AMI or less, and those with very low income [VLI] between 30% and 50% AMI. The increasing number of households with persons under the age of 34 and households with persons over the age of 65, along with special needs populations will all require a focus on affordable housing with specific unit types, amenities, adjacency to retail and services, and proximity to public transportation.

The City of San Jose General Plan and a recent Blue Ribbon Task Force on Homelessness, co-chaired by Santa Clara County Supervisor Don Gage and City of San Jose Mayor Chuck Reed identified numerous strategies to accommodate the need for affordable housing. Location near transit is a primary recommendation.

LISC STUDY

The 2007 study, Housing Silicon Valley: A 20 Year Plan to End the Affordable Housing Crisis, prepared for the Bay Area Local Initiatives Support Corporation [Bay Area LISC] is one of the most comprehensive studies conducted regarding affordable housing demand and production.

The Study indicates that over 41,000 Santa Clara County households across all income levels experience severe housing needs, which is defined by paying over 50% of household incomes on housing. These households are termed "rent burdened". Of these, 21,758 households are in San Jose. Of these existing, rent-burdened households, 40% are single person households, and 25% are two person households.

The LISC Study also projects a need to provide housing for 90,000 new households in Santa Clara County over the 20 year period with the City of San Jose assuming a major role in housing production. The single largest need [76% or 68,700 units] is for extremely low income [ELI], very low income [VLI] and low income [LI]. According to the Study, 39% of the needed ELI and VLI units would require a studio apartment or one bedroom apartment.

ENVISION SAN JOSE 2040 GENERAL PLAN UPDATE

The City of San Jose General Plan, Appendix B, prepared by the Center for the Continuing Study of the California Economy [August 2008] projects household population growth by the year 2040 to increase primarily in the 20-34 age group and in the 65 and older population.

Seniors, in particular, will need affordable housing located near major transit and retail. The growth in the senior population will also increase the need for special needs housing with easy access for case workers, in-home service providers, etc.

Table 9-39: SAN JOSE: POPULATION BY AGE GROUP 2007-2040 (THOUSANDS)
(Source: "Projections of Jobs, Population and Households for the City of San Jose"—prepared by Center for the Continuing Study of the California Economy", August 2008)

	2007	2025	2040	2007-2025	2025-2040	Change 2007-2040
0-4	72	83	97	11	14	25
5-19	210	215	261	5	46	51
20-34	178	269	295	91	26	117
35-54	315	275	366	-41	92	51
55-64	98	166	115	68	-51	17
65+	100	209	310	108	102	210
Total	974	1216	1445	242	229	471

Those in the 20-34 population will also need affordable housing near shopping and transit for access to workplaces. This population will favor easy access to downtown San Jose retail and cultural amenities, coffee shops, etc. Experience of local non-profit developers indicates that this group of urban singles prefers small units with on-site amenities like gyms, community kitchens, computer rooms and laundry rooms. This is an important demographic that the City hopes to attract. This population will support and stimulate San Jose's economy and will need starter housing that is affordable to them.

Several studies have suggested that after the year 2030, there will be some growth in the need for affordable housing for the 35-55 year old population. "This cohort is composed of children and grandchildren of current residents and new immigrants."

SPECIAL NEEDS HOUSING

There is a need for special needs housing in San Jose, adjacent to major transit routes and retail. Mixed use housing with retail on the first floor is particularly beneficial for this group.

The San Andreas Regional Center for the Developmentally Disabled projects a current need for over 200 two bedroom apartments and 100 three bedroom apartments for those with developmental disabilities and expects this to more than double in the next decade. This population would be single adults with one or two care providers. This group is primarily in the 30-40% AMI range.

HOUSING TYPES

Due to the current economic crisis, housing production of both market rate and affordable housing of all types is down. This lack of production, mixed with the lack of variety of housing types contributes to the limited consumer choice. A key to increased affordability will be the variety of new housing types coming to the market, which reflects the population trends expected in the downtown San Jose area. This also includes denser, more compact residential typologies that reflect shifting preferences for a more urban lifestyle close to amenities and transit.