

TO: Envision San Jose Task Force
 Mayor Liccardo
 David Pandori Co-Chair
 Shirley Lewis Co-Chair
 Harry Freitas- Community Development Director

FROM: Steve Dunn-SteelWave (Formerly Legacy Partners)
 90 Acre Evergreen Land Owner

SUBJECT: ENVISON SAN JOSE 2040 TASK FORCE MARCH AGENDA

Taken from the Mayor's April 10,2015 Memo highlighting focus of subject task force:
 Include discussion on consideration of Commercial Land Inventory that is not economically viable for commercial use, and present potential viable development opportunities.

While we all aim at correcting the San Jose's job/housing imbalance, it would also be disingenuous to include future commercial employment figures in areas that are not viable for commercial uses. Although there may be other areas within the City that include [support](#) commercial employment growth through development, East Evergreen is a specific example where 10,000 future jobs growth is [allocated in the Envision San Jose 2040 General Plan](#), [however](#) no such growth has occurred over the last 27+ years, including 3 robust commercial cycles, since its rezoning trade with Berryessa.

The attached two Third Party Expert reports prepared by world renowned economist Ken Rosen regarding use viability at the Legacy 90 acre site clearly concludes that:

1. Commercial uses are NOT VIABLE at the 90 acre Legacy Yerba Buena Rd. site.
2. Residential uses are VIABLE at the 90 acre Legacy Yerba Buena Rd. site.

Rather than projecting future job growth in non-viable locations within the City , let's plan for the job growth to occur in the right locations of the City. SteelWave , a commercial and residential developer, is doing just that. We are producing real employment jobs by building densified commercial projects in the right locations of the City, for example:

1. Riverpark Towers – Employees	Downtown San Jose	600,000 SF	2,400+
2. America Center - Employees	North San Jose	1,100,000 SF	4,400+
3. Tech Place on 101- Employees	North San Jose	400,000 SF	1,600+

We hope the Task Force will have the opportunity to discuss this real commercial viability issue so the City can proceed with bonafide planning to bring the City's future jobs/housing balance in check. [Please distribute the reports to the Task Force for their review and discussion.](#)

R | C | G

Silicon Valley & Evergreen-East Hills Office Market Outlook

August 2015

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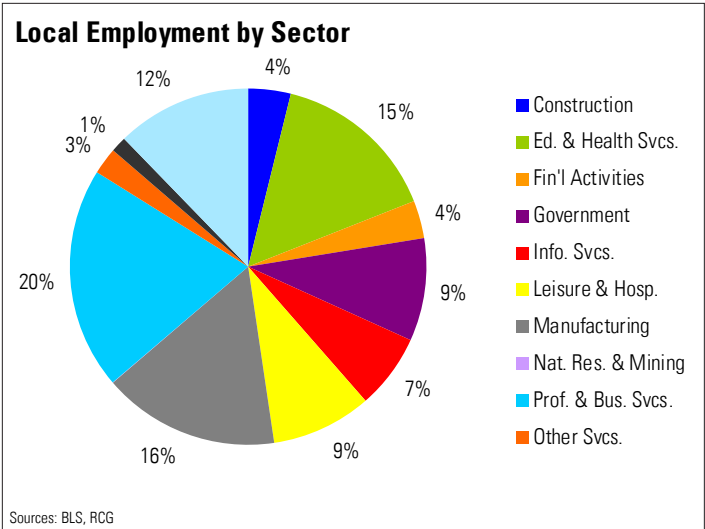
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Silicon Valley & Evergreen-East Hills Office Market Outlook

Economy

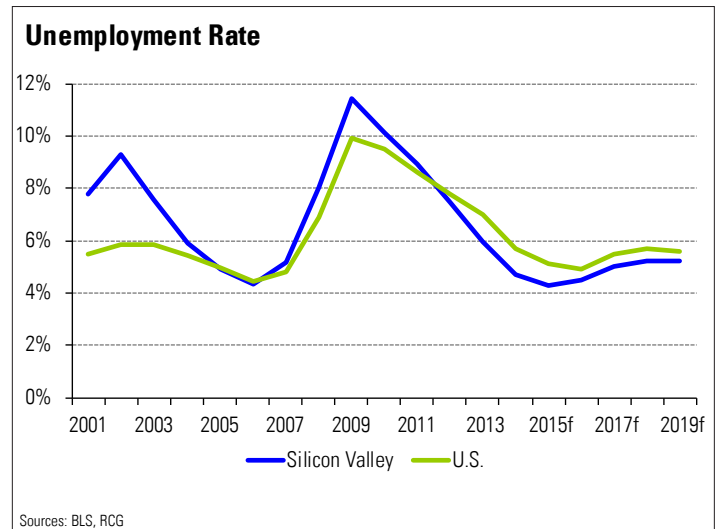
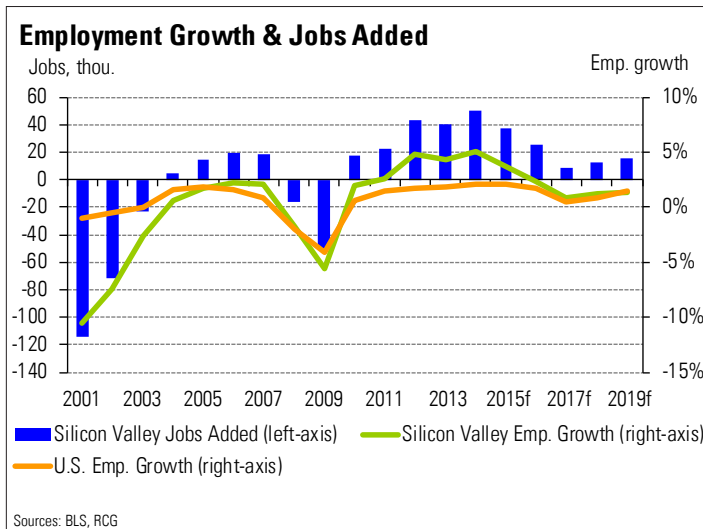
The epicenter of the global technology boom, Silicon Valley is among the fastest-growing economies in the United States, led by growth in the area's roster of well established, industry-leading technology companies and its steadily expanding cluster of next-generation technology firms. The region's highly skilled labor force, entrepreneurial business environment, venture capital infrastructure and top-tier universities support continued innovation, new business formation, and the in-migration of talented workers and companies. Silicon Valley is home to the largest concentration of high-tech employment nationwide, with advanced industry jobs accounting for 30% of total area employment, according to the Brookings Institution. Prominent tech clusters include computer hardware and electronic component production, software, social media, online entertainment, semiconductors, bioscience, and clean technology. The majority of the metro area's largest employers are technology companies such as Apple, Google, Cisco, Oracle, Intel, IBM and eBay, which are primarily concentrated in the northern half of Silicon Valley in Mountain View, Cupertino, Sunnyvale, and Santa Clara, as well as in North San Jose.

Fueled by continued expansion in the technology industry, the Silicon Valley economy added jobs at the fastest pace among all major U.S. metropolitan economies through mid-2015. Total payroll levels increased by 5.6% year-over-year as of June 2015 for the addition of roughly 56,000 jobs on net. The professional and business services sector is the largest driver of absolute job gains, accounting for more than one-third of total employment growth in the metro economy year-to-date. Employment growth was also led by brisk hiring in the information services sector, which increased payrolls by 14.8% year-over-year as of June 2015, or roughly 9,700 jobs. Robust growth in these two sectors is a reflection of expansion in the region's technology industry, as well as resultant hiring in ancil-



lary industries such as legal and financial services, marketing and consulting, engineering and technical infrastructure development. In addition to growth in high-tech services positions, the rising number of production operations based in Silicon Valley and the increasing commercial use of additive manufacturing technologies, or 3D printing, are fueling strong job creation in the manufacturing sector, which increased payrolls by 4.0% year-over-year, adding 6,400 jobs during the previous 12-month period. The surge in technology-related and other advanced industry hiring created a multiplier effect in the broader economy, as these high-skilled jobs garner higher earnings, generating greater demand for housing, goods, and services. The dynamic, broad-based growth of the Silicon Valley economy led to significant tightening in labor market conditions, with the unemployment rate dropping to 4.1% as of June 2015, the lowest level since early 2001.

The area's talented labor pool is a key component of the dynamic growth of the Silicon Valley economy. As of 2013, 41.3% of the metro

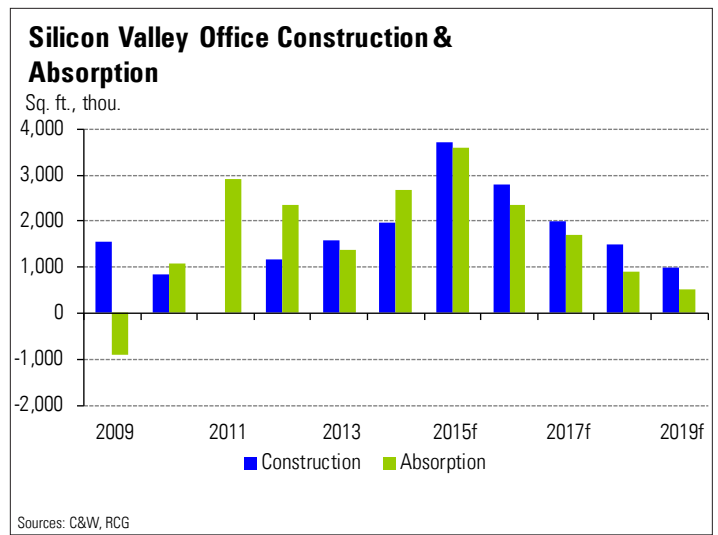
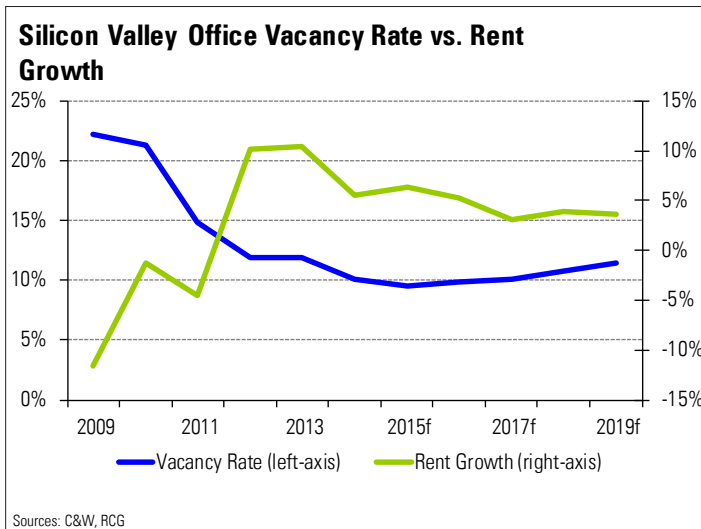


population held a bachelor's degree or higher, compared with 29.6% nationally. This concentration of highly skilled workers draws new companies to the area, fosters technological innovation and start-up activity, and attracts investor attention. In addition to providing a steady pipeline of well-educated workers, the area's world-class universities are also important drivers of technology innovation, both through their own, independent research and their uniquely-strong connections to local technology companies. Since the dot-com era, Silicon Valley has led all MSAs by a significant margin in terms of total patents granted, and the high level of capital availability in the area plays an important role in the development and commercialization of these new products and services. Venture capital investment in Silicon Valley doubled between 2013 and 2014 to \$24.6 billion, representing half of all venture capital funding nationally.

Looking forward, Silicon Valley is expected to remain among the top-performing regional economies in the country, but job creation will moderate from the breakneck pace sustained in recent years. After increasing by an annual average of 4.7% from 2012 to 2014, RCG expects total employment levels to increase by 4.2% in 2015 and 2.9% in 2016. As the local and national economies reach the next stage of the current cycle, rising interest rates and growing inflation concerns will dampen consumer and business spending and private investment, constraining expansion in the technology industry. By 2017, total employment levels should rise by 1.3%. Following this period of slower growth, job creation should resume an upward trend, rising by 1.7% in 2018 and 2.0% in 2019. In total, the Silicon Valley economy is expected to add close to 130,000 jobs on net during the five-year forecast period.

Office Market

The Silicon Valley office market is comprised of 50 million square feet of office space spread throughout Santa Clara County. The surging technology industry remains the primary demand driver for office space, led by the rapid expansion of stalwarts Google and Apple; leading firms such as LinkedIn, Yahoo! and Netflix; and a wide range



of established technology firms and start-ups. The insatiable demand for space by technology firms pushed vacancy rates to the lowest levels since the dot-com era and created a corresponding surge in asking rents. New construction has accelerated rapidly in response; however, office absorption continues to outpace new deliveries.

As of the second quarter of 2015, the overall vacancy rate reached 9.4%, down from 12.0% a year earlier and a recent high of 22.2% in 2009. With the rapidly declining vacancy rate, the average asking rent increased by 6.0% year-over-year through the second quarter of 2015 after increasing by 10% during each of the previous two years. Operating conditions tightened even as construction activity ramped up, with the delivery of 1.2 million square feet in 2012, 1.6 million square feet in 2013, and 2.0 million square feet in 2014. In the first half of 2015, more than 1.8 million square feet of new inventory delivered. The pace of construction is well above the long-term average of 1.1 million square feet per year since 1998.

RCG expects conditions in the Silicon Valley office market to remain solid during the next five years. Sustained expansion of industry-leading firms should continue to boost leasing activity and attract additional technology firms to the area. The overall vacancy rate will tighten to less than 10% in 2015 and then rise gradually to 12.3% by 2019 when a wave of new construction deliveries provides some relief to the market. Rent growth will average 6.4% during the next two years, and then slow slightly to an annual average of 3.5% through 2019 as the asking rent reaches more than \$43 per square foot. The Silicon Valley office market will remain among the top-performing markets nationally through 2019 despite accelerating construction. RCG anticipates the delivery of 12.0 million square feet of new office space during the next five years, with 7.1 million square feet already under construction. Elevated tenant requirements, high levels of pre-leasing activity and a significant concentration of build-to-suit projects should mitigate the effects of new supply on market conditions. That said, the potential for a downturn in the technology industry presents some downside risk for the Silicon Valley office market. A drop in valuation of tech firms and the resulting pullback

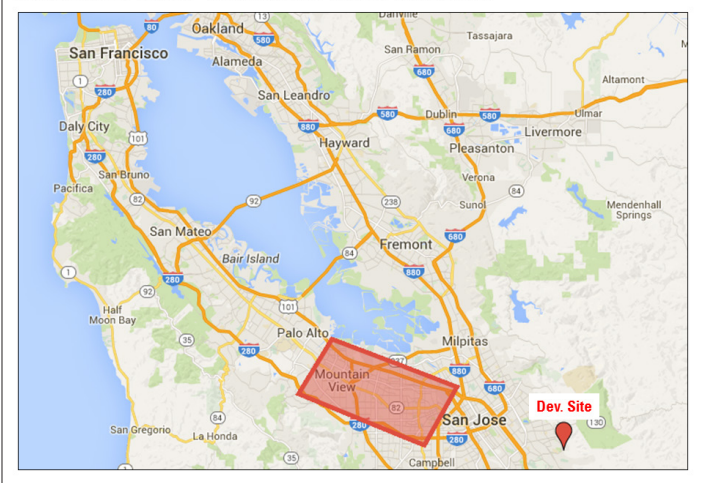
of venture capital would greatly reduce the ability of the industry to continue fueling growth in the local economy, and, as slowing tenant demand coincides with major deliveries of new supply, office market conditions would soften severely.

The health of the overall Silicon Valley office market, however, belies the level of clustering in the market. Approximately 75% of total inventory is concentrated in the cities of Sunnyvale, Mountain View, Cupertino, Santa Clara and San Jose. As the most significant driver of office demand in the region, the technology industry has played a major role in shaping the geographical concentration of the Silicon Valley office market. Mountain View and Cupertino are dominated by technology firms Google and Apple, respectively, and the dwindling office space availability and rising asking rents in these two markets, as well as in other markets like Sunnyvale, are causing technology tenants to further explore office space in areas such as Santa Clara and North San Jose. Although there is a growing biotech cluster in the Edenvale neighborhood of South San Jose and a handful of firms located along Highway 17 in the southwestern suburbs, the spread of the technology industry in Silicon Valley has not, for the most part, extended south beyond downtown San Jose.

Of the 6.6 million square feet of new office construction since 2010, all of it has been centered in northern Silicon Valley, specifically in the corridor between Mountain View and North San Jose – adjacent to Highway 101 and the Caltrain line – with 92% of deliveries in the cities of Mountain View, Sunnyvale, and Santa Clara. Nearly all of the 7.1 million square feet currently under construction are concentrated in the Mountain View-North San Jose corridor, including campus expansions for Apple and Google.

The flourishing technology industry is similarly driving improvement in office market conditions within the city of San Jose. In the area outside of the central business district – with the vast majority of inventory located in North San Jose – the overall vacancy rate tightened to 13.0% in the second quarter of 2015, down from 14.8% a year earlier and from a recessionary peak of 21.9%, while the aver-

Mountain View-North San Jose Corridor

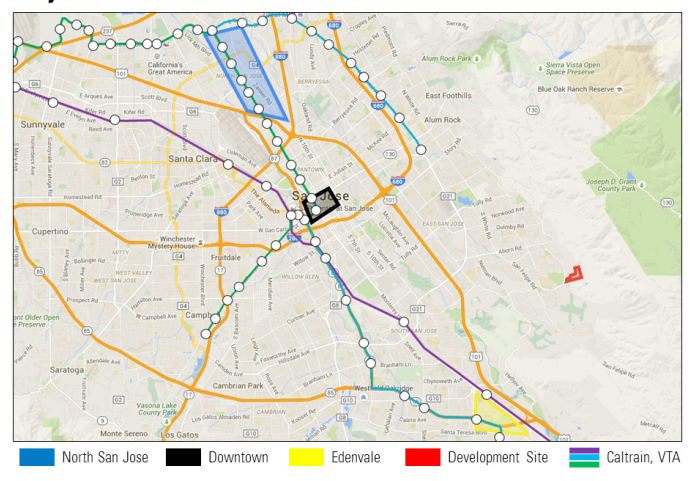


age asking rent increased rapidly by 11.4% year-over-year. At the same time, the vacancy rate in the downtown San Jose submarket reached 16.7% in the second quarter of 2015, down significantly from 20.1% a year earlier and a high of 26.4% following the recession, with year-over-year rent growth of 10.0%.

Long home to major technology firms including Samsung, eBay, PayPal, and Cisco, North San Jose is becoming an even more significant tech outpost. Apple is particularly active: after recently announcing its first foray into San Jose with a 300,000 square foot lease at the 101 Tech campus on Orchard Parkway, Apple subsequently purchased an adjacent 43-acre development site on North First Street. Samsung is nearing completion on a new 680,000 square-foot headquarter campus, also on North First Street. Furthermore, plans are still underway nearby for a new one-million square foot office complex development, while existing office properties are being renovated and repositioned to attract technology firms. In the downtown San Jose submarket, the high vacancy rate compared with the broader Silicon Valley market has kept new construction at bay, but leasing activity has picked up, with new leases signed in the past year by technology firms including Xactly, Intaact, and Dice.com, and financial services firm Loring Ward. Investment activity has also accelerated in both the North San Jose and downtown submarkets. The 12-month trailing dollar volume of office transactions through the second quarter of 2015 totaled \$709 million in North San Jose, according to Real Capital Analytics, approximately 50% higher than a year earlier. Transaction volume was even greater downtown, with \$1.2 billion of office assets sold during the 12 months ending in the second quarter of 2015, a four-fold increase year-over-year.

Firms are signaling through leasing activity and the construction of new campuses that an office location in northern Silicon Valley is of primary importance. One main reason is a simple desire to reap the benefits of the existing cluster, with direct proximity to other technology firms; a bevy of ancillary firms providing support services like finance, law, accounting, and human resources that specialize in serving technology client needs; proximity to leading

Major San Jose Business Districts



universities, such as Stanford, that are closely tied to the technology industry; and highly skilled talent. Clustering in a tight geographical area increases the likelihood that relationships and interactions will occur that contribute to continued development of new ideas and products, as well as the eventual commercialization of new products. Compared with other industries, the technology industry is particularly interconnected, and the value of quick, easy access between companies' offices, or central meeting places like cafes, cannot be overstated. Tenants will continue to seek out locations offering such advantages, facilitating further clustering and higher density within these desired core areas.

A second, related reason for the primacy of office submarkets in northern Silicon Valley is the access they provide to the broader Bay Area labor market. Many technology industry employees today want to live in urban neighborhoods with an array of entertainment options, restaurants, and cultural amenities, leading many tech employees to live in San Francisco. Technology firms in Silicon Valley that want to compete for top talent – particularly outside of the top firms like Google and Apple – increasingly must consider transportation options for their potential employees. Northern Silicon Valley has direct Caltrain access to and from San Francisco, with a trip to Mountain View taking as little as 45 minutes. Many companies also provide shuttles for their employees who live in San Francisco, which have proven popular with employees; however, with increasing traffic congestion along the Peninsula, the farther south that firms move in Silicon Valley, the greater the pressure placed on their ability to draw employees from the broader Bay Area labor market. The Mountain View-North San Jose corridor also has light rail access via Santa Clara Valley Transportation Authority (VTA), allowing employees living in downtown San Jose to commute via public transit.

For employees with job offers from similar firms – a typical situation in the current Silicon Valley economy – firms increasingly stand out because of the amenities, perks, and locations they offer. With regards to its new North San Jose campus, Samsung notes that “the design seeks to encourage interaction among staff, foster connections with the community and provide a space to attract employees in the highly competitive tech market,” while acknowledging the multimodal transportation options available to access the campus. As the Silicon Valley office market faces increased competition from burgeoning tech growth in the urban, amenity-filled San Francisco market, Silicon Valley firms will increasingly need to provide office locations that can compete, and, despite broad industry growth, isolated suburban business parks that thrived in past decades will struggle in the new economy.

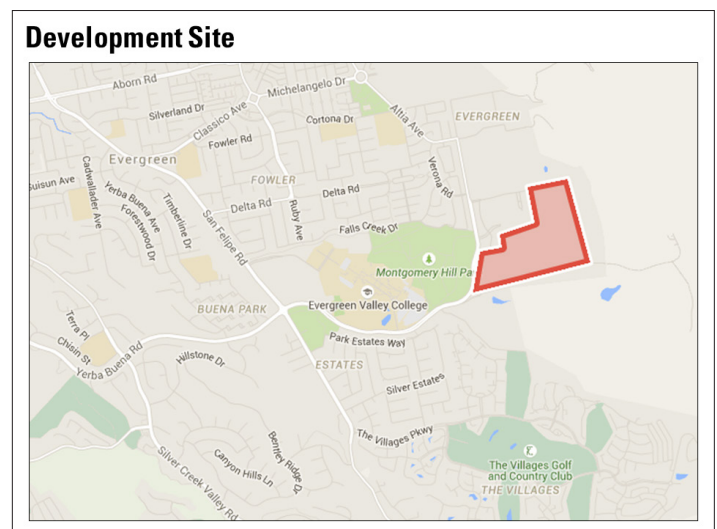
Evergreen-East Hills Development Site Business Park Viability

The Evergreen-East Hills campus development site (“the development site”) comprises approximately 93 acres in southeast San Jose,

bounded by Yerba Buena Road and Evergreen Valley College to the west, the foothills and Urban Growth boundary to the east, a riparian zone to the south, and a Hitachi office campus to the north. The development site is part of a broader collection of approximately 320 acres of vacant land designated for office/R&D campus use by the City of San Jose. The site is approximately 4 miles east of Highway 101, and is accessible via Yerba Buena Road – providing two-lane traffic in each direction – with other nearby arteries including San Felipe Road and Aborn Road.

The development site was zoned for residential use until 1980, when the City of San Jose implemented the “Evergreen/Berryessa Swap,” a swap of land uses which converted the land use for the development site and adjacent sites to industrial/business park campus use. The City wanted to encourage housing development in the more northerly Berryessa area, which was closer to the major employment centers of North San Jose and other cities in northern Silicon Valley, while simultaneously encouraging major employers to locate in the Evergreen area that was rapidly growing as a residential neighborhood. Following infrastructure improvements and community engagement processes in Evergreen in the ensuing years, and despite the site being actively marketed to prospective tenants since the early 1990s, it has not gained traction as a destination for technology firms. Hitachi, which moved into its Evergreen headquarters at the neighboring site in 2004, has been the only firm to move to the area and even in 2004 was the lone suitor for that space.

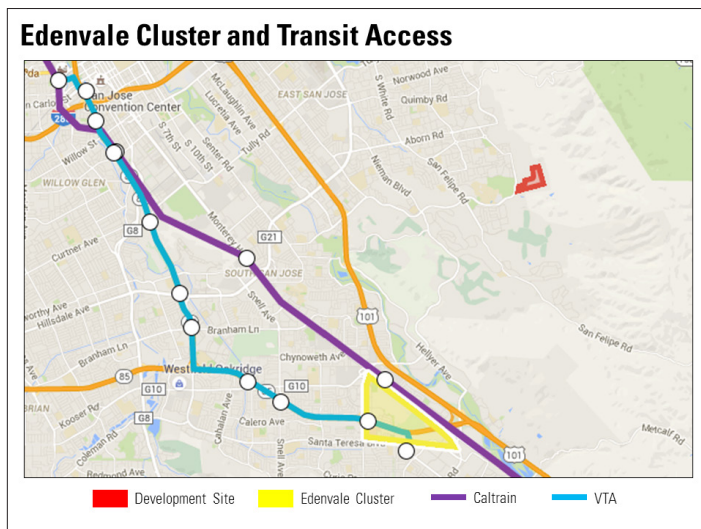
Although the development site provides ample space for a potential campus, there has been no demand to date, and space preferences among technology firms – the primary source of local demand for campus-style office development – have only intensified during the past decade in favor of locations with close access to the existing cluster of technology firms in northern Silicon Valley, proximity to the broader Bay Area labor market, and public transportation access. These trends present significant obstacles for the development site to attract technology firms necessary to support new business park development. Without considering traffic, the Evergreen-East Hills



site is roughly a 20-minute drive from North San Jose; 30 minutes from Mountain View; and more than an hour from San Francisco. During peak travel periods, commute times can easily double. Public transportation access to the site is also constrained. The nearest Caltrain station, Blossom Hill, is more than 7 miles away. With only three trains per day in each direction serving the Blossom Hill station, service is extremely limited, and the absence of “baby bullet” trains that serve the station causes commute times from San Francisco of nearly two hours. Commuters could take a one-hour baby bullet train from San Francisco to downtown San Jose, but would still have at least a 20-minute drive to the development site.

Despite these challenges, there are some firms in the technology industry that do consider office space beyond the prime Mountain View-North San Jose corridor, but this potential tenant pool is significantly smaller as compared with those tenants evaluating northern Silicon Valley. Furthermore, tenants evaluating space beyond northern Silicon Valley are still looking for alternative clusters that can provide similar access and amenities as cited above. Hitachi, with an existing campus adjacent to the development site, announced in 2014 that it was planning a 335,000 square-foot expansion that would house 1,700 new jobs. However, the expansion is not planned for the Evergreen-East Hills campus, but at the firm’s Edenvale campus in the South San Jose neighborhood. The Edenvale area is home to a growing tech and biotech cluster with additional development capacity and existing vacancy, while also providing convenient access at the interchange of Highway 101 and Highway 85 as well as a VTA light rail station. Furthermore, Hitachi not only chose to expand in the more attractive Edenvale submarket, but will also be vacating its Evergreen-East Hills campus in the summer of 2016, consolidating all operations in Edenvale. There are still no tenants lined up to take the existing Evergreen-East Hills campus space, and the loss of the only technology firm in the area will make attracting new tenants significantly more difficult going forward.

The isolation of the development site, more than 8 miles away from the Edenvale cluster and light rail station in South San Jose, and 4



miles off of Highway 101, presents distinct hurdles to attract technology firms in the current environment of tenant preferences. Between 2004 and 2013, the number of business establishments in the four zip codes comprising the Evergreen neighborhood that surrounds the development site – comprised of zip codes 95148, 95121, 95135, and 95138 – increased by roughly 25%, with businesses in the core technology sectors of professional, scientific and technical services, information, and manufacturing accounting for slightly more than one-third of the total increase. However, nearly all of the new business growth was concentrated in self-employed individuals and firms with fewer than four employees. Furthermore, with the exception of Hitachi adjacent to the development site, the only mid-size and large employers with 100 or more employees – typical of technology firms that would demand large campus space – are concentrated in the far reaches of the 95138 zip code, which encompasses the Edenvale cluster. In the remaining three zip codes, with the exception of Hitachi, all businesses have less than 50 employees.

Although there could be demand from particularly cost-conscious business services firms for the Evergreen-East Hills location, they are not likely to require the space typically sought by an anchoring technology tenant. Furthermore, such cost-conscious tenants would typically seek existing, older inventory in such a location to meet their budget constraints, and would likely be unable to afford the rents at a new development. Because construction costs for an office campus at the development site would be virtually identical to other sites, developers would need anchor tenants that could afford the rental rates of new construction in order to make the project viable financially. Furthermore, although there has not been interest in the neighboring campus that Hitachi is vacating, any potential cost-conscious tenants would likely consider taking that space before signing on as an anchor tenant for new construction at the development site.

There has been little demand for isolated, suburban campuses in the far reaches of Silicon Valley even during the ongoing strong growth phase of the current cycle. As the Silicon Valley market normalizes in coming years – and especially in the event of the downside scenario involving a significant correction in the technology industry – new office construction will likely be even more concentrated near transportation and existing industry clusters going forward. Given that the development site has been actively marketed for business park use over a period of nearly 25 years through multiple technology-led growth periods in the local economy, and considering its lack of transit accessibility; absence of an existing, technology business cluster near the development site; intensified tenant preferences for well-located, amenity-laden space in other parts of San Jose; and the cost of new construction in Silicon Valley, the probability of obtaining a suitable office tenant for new construction on the development site will remain very low for years to come. RCG believes that the Evergreen-East Hills development site is simply not viable for industrial/business park land use and, as such, that the site is likely to remain undeveloped unless alternate land uses are considered.

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Silicon Valley & Evergreen-East Hills Residential Market Outlook

August 2015

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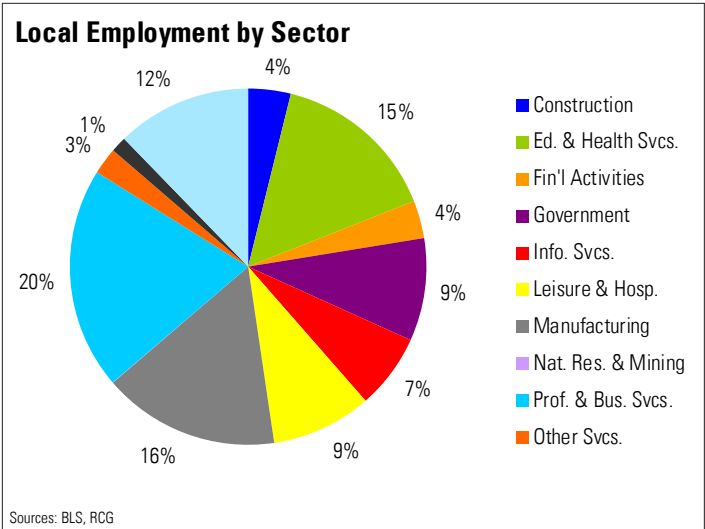
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Silicon Valley & Evergreen-East Hills Residential Market Outlook

Economy

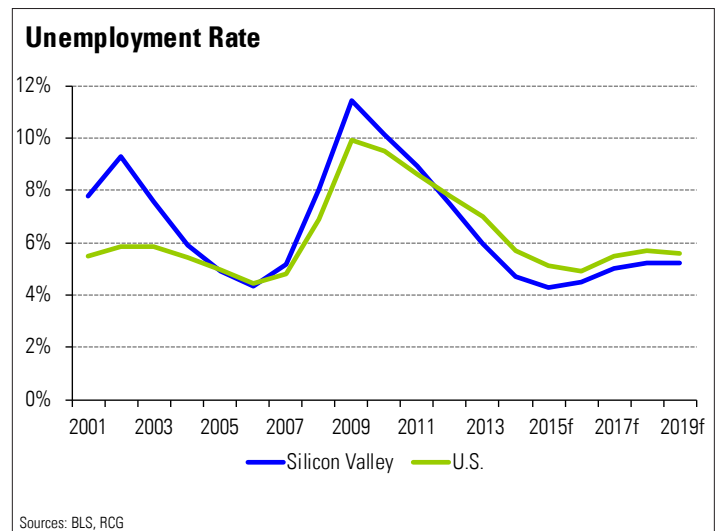
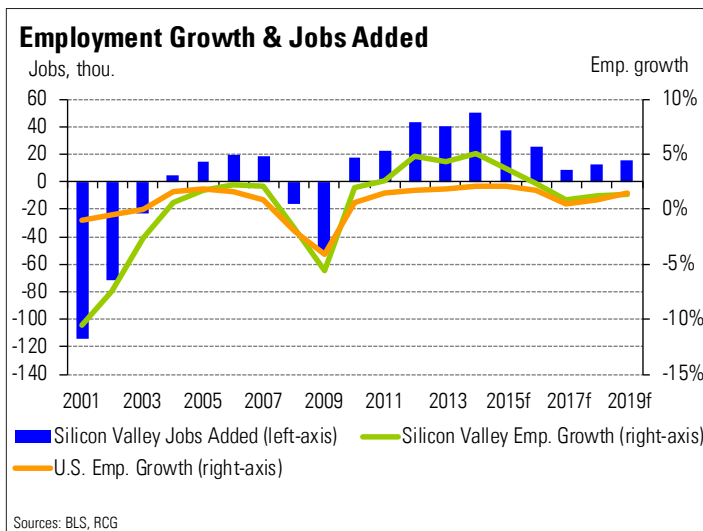
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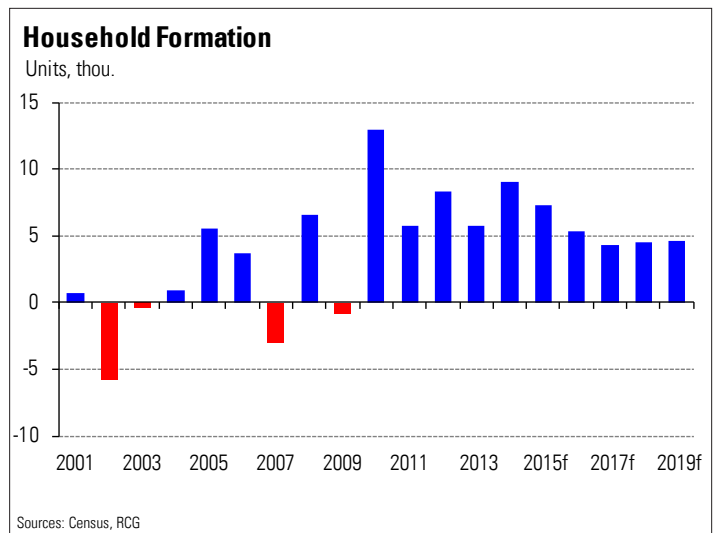
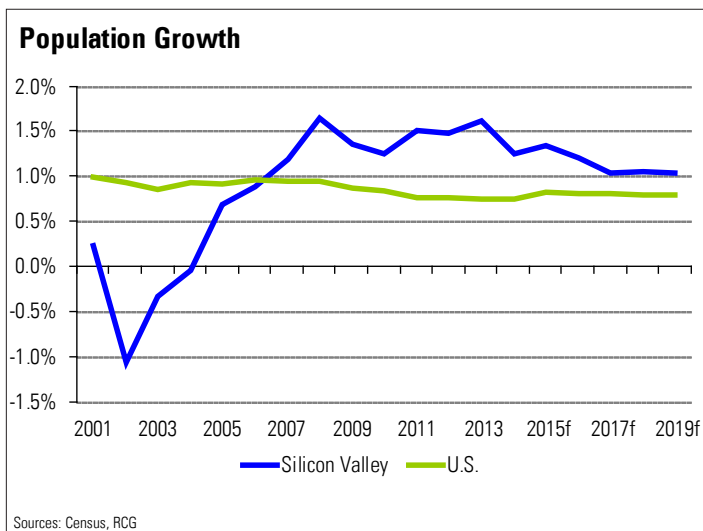


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Housing Market

Rapid expansion of the local technology industry since the Great Recession stimulated very strong population and household growth in the region. During the past five years, the Silicon Valley population increased by 7.3%, cumulatively, for the addition of more than 133,000 net residents. With population growth of at least 1.5%



during the prior three years, the pace of growth moderated in 2014 and should continue slowing slightly in coming years. Nonetheless, total population and household levels in Silicon Valley should continue to rise through 2019. The resident population is expected to increase by 1.3% in 2015 and 1.2% in 2016 before annual growth eases to roughly 1.0% through 2019. Household formations should be strongest in the near term, but will continue to increase through the duration of the forecast period. Household levels are expected to grow at an average rate of 0.8% annually through 2019, resulting in the cumulative addition of 26,000 households during the next five years.

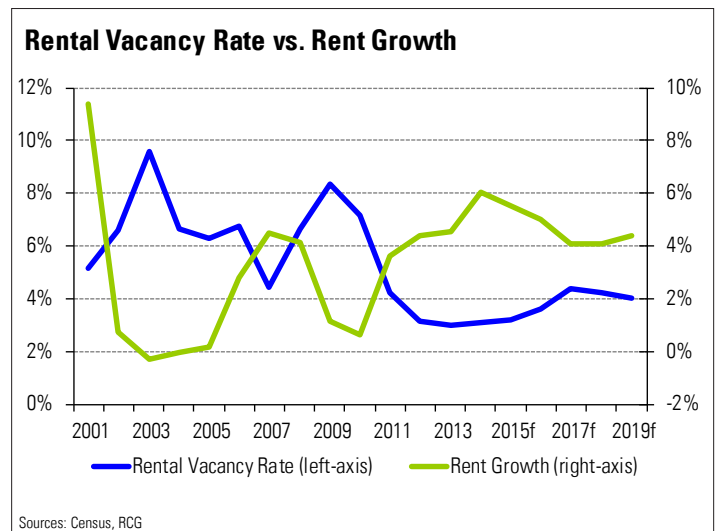
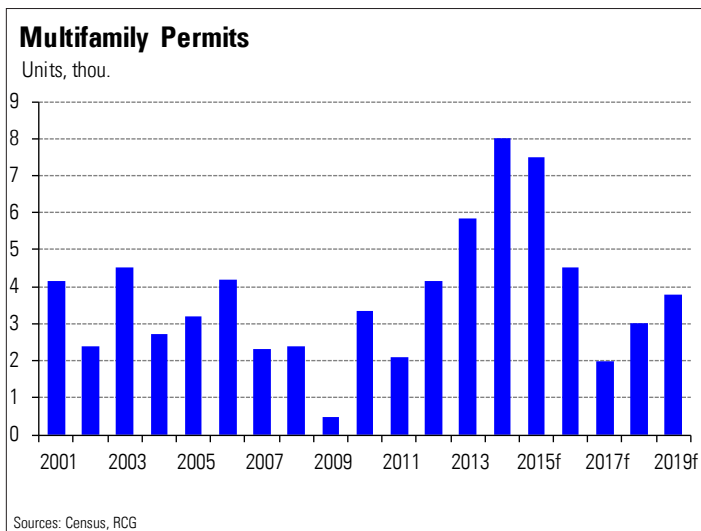
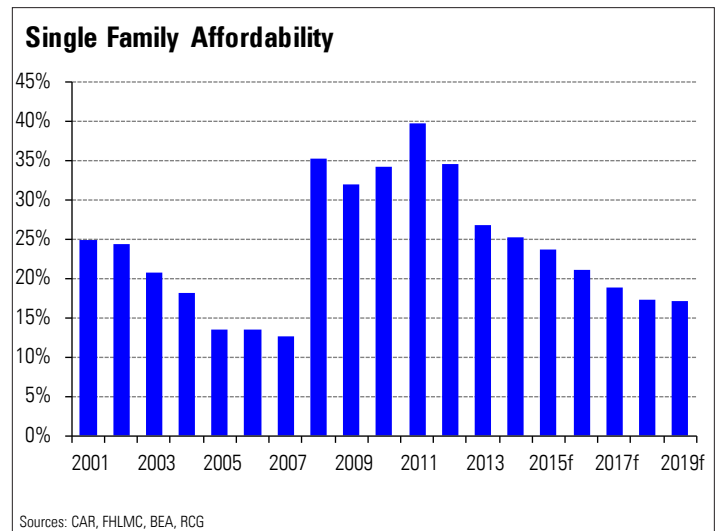
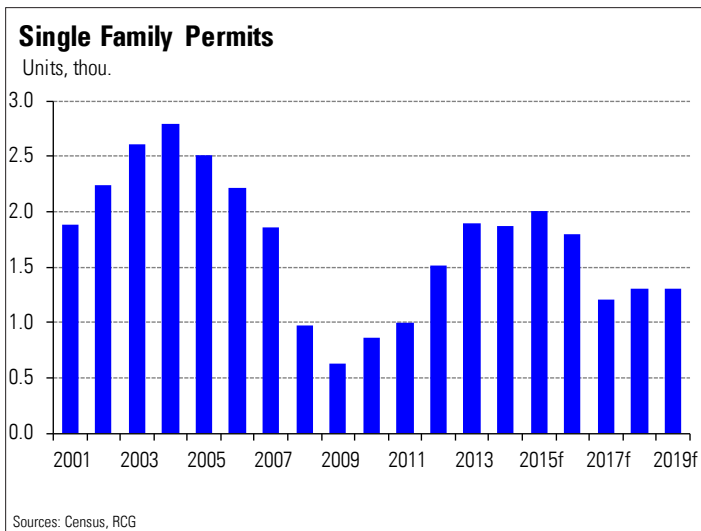
The brisk pace of high-wage job creation in recent years attracted an influx of new residents to Silicon Valley and facilitated the unbundling of many existing roommate and extended-family households that had been formed out of financial necessity, spurring elevated demand for housing. Single-family home prices increased dramatically as this growing buyer pool met a supply-constrained market, produced by several years of particularly limited home construction in a region with a persistent undersupply of housing. Single-family permitting did increase steadily from the 2009 low, but with roughly 1,900 homes permitted in 2014, new construction remains significantly less than the historical, pre-recession average of 2,800 homes per year between 1990 and 2007. The supply-demand imbalance was exacerbated by increased competition for homes from domestic and international investors, which accelerated the run-up in sales prices. Following double-digit price appreciation since 2012, the median sales price for existing homes rose by 11.7% year-over-year in the first quarter of 2015 to \$887,410, surpassing the previous peak reached in 2007. Silicon Valley is now the second-most expensive for-sale housing market in the country after San Francisco, and, despite the booming local economy and the favorable mortgage-rate environment, RCG estimates that only 25.1% of households could afford the median-priced home as of the first quarter of 2015. Going forward, the median sales price is expected to increase by an annual average of 7.4% per year during the next five years, surpassing the \$1 million mark by 2016. As prices continue to climb and mortgage

rates increase, the single-family affordability rate is expected to steadily decline, falling to 16.9% by 2019.

As the accessibility of the for-sale market declines, demand for rental units has strengthened significantly. Renter households account for 41.7% of all occupied housing units in the area, compared with just 34.5% nationally. In addition to affordability constraints, changing lifestyle preferences are also driving growth in the Silicon Valley renter pool, bolstered by steady in-migration of young professionals in the prime renter-age cohort. Heightened demand for rental units pushed vacancy rates to record lows in recent years, providing landlords with the leverage to increase rental rates, which are now among the highest nationwide. Developers are responding with a flurry of new apartment projects. Multifamily permit issuance accelerated dramatically during each of the prior three years, rising from 5,800 units in 2013 to 8,000 units in 2014—the highest level on record. Nonetheless, rental absorption continues to easily outpace additions of new supply, sustaining extremely tight operating conditions. The Census vacancy rate, which covers all types of rental units, was 3.1% in 2014, supporting 6.0% rent growth in the overall rental market year-over-year. In the first quarter of 2015, the

vacancy rate for investment-grade apartments contracted to 2.9%, and monthly rents increased by 9.3% year-over-year to \$2,325. As the large number of apartment projects in the pipeline are completed during the next few years, the vacancy rate is expected to edge up slightly. The Census vacancy rate should increase gradually to a cyclical peak in the mid-4% range by 2017, before trending back downward to 4.0% in 2019. Even with the modest slowdown in absorption, the vacancy rate is expected to remain less than the market's long-term historical average of 5.0%, supporting healthy rent gains. Annual rent growth should average 5.6% during the next two years and ease to the low-4% range between 2017 and 2019.

Despite the surge in multifamily permitting activity, demand for housing in Silicon Valley continues to outpace new construction by a significant margin. During the past five years, permit issuances for single and multifamily housing together totaled 30,500 new units, well shy of the roughly 41,800 new households formed in the area during this period. Given the high costs of land and construction, as well as the sheer need for housing, multifamily projects are expected to account for nearly three-quarters of all new housing units approved during the next five years, as both developers and city



planners are motivated to maximize the number of units per parcel. Through the near term, multifamily permit issuance should remain considerably higher than the market's long-term annual average of 3,000 permits, but slow slightly thereafter, resulting in a cumulative total of 19,800 rental units permitted during the next five years. In contrast, the limited supply of developable land is expected to keep single-family permitting activity well below the long-term market average through 2019, resulting in a cumulative total of just 7,600 new homes during the next five years.

Although in-migration and household formation will slow as employment growth moderates, the housing shortage is expected to persist throughout the forecast period. In addition to the high price of land, regulatory hurdles and opposition from incumbent residents present barriers to entry for developers, curtailing expansion in the Silicon Valley housing stock. As housing demand is sustained through the foreseeable future, affordability will continue to decline for both renters and homeowners. These housing market pressures are not only a challenge for residents but also an increasingly serious concern for Silicon Valley employers, who worry about the limited availability and high costs of housing hampering their ability to recruit and retain top talent. Furthermore, while securing good housing is difficult for well-compensated tech industry employees, workers with less earning potential are progressively being priced out of Silicon Valley altogether. Of particular concern are the negative implications for communities where service providers – such as teachers, police officers, and medical workers – become unable to reside in the same neighborhoods as the populace they serve. The lack of affordable housing options results in a lower quality of life, longer commutes, increased congestion on roads and public transportation, diminished productivity, and ultimately a drag on economic growth.

Evergreen-East Hills Development Site Residential Viability

The Evergreen-East Hills campus development site (“the development site”) comprises approximately 93 acres in southeast San Jose, bounded by Yerba Buena Road and Evergreen Valley College to the



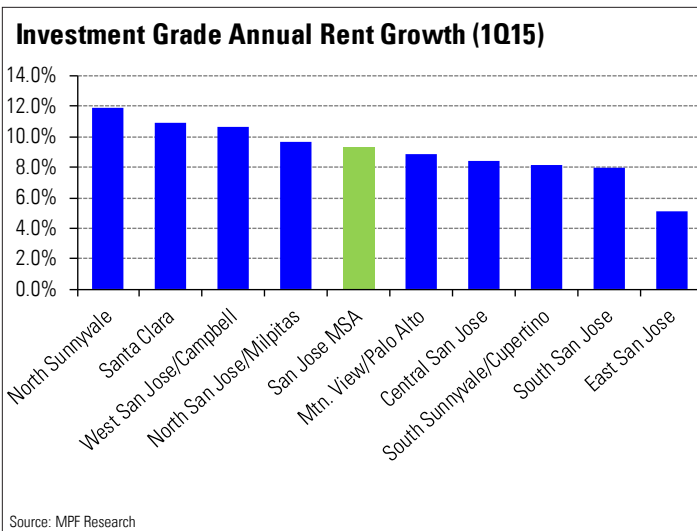
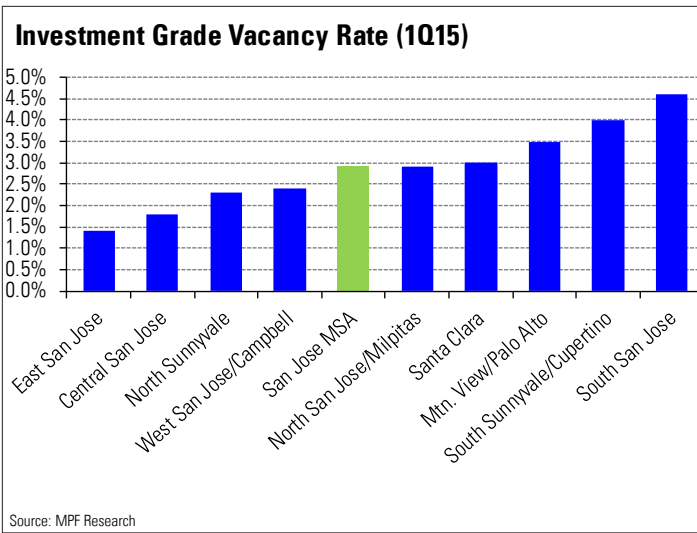
west, the foothills and Urban Growth boundary to the east, a riparian zone to the south, and a Hitachi office campus to the north. The development site is part of a broader collection of approximately 320 acres of vacant land designated for office/R&D campus use by the City of San Jose. The site is approximately 4 miles east of Highway 101, and is accessible via Yerba Buena Road – providing two-lane traffic in each direction – with other nearby arteries including San Felipe Road and Aborn Road.

Except for the adjacent Hitachi campus, the development site is largely surrounded by a residential community, which consists primarily of single-family homes and a very limited stock of multifamily housing. The population of the four zip-code Evergreen neighborhood expanded by 10.2% between 2000 and 2013 to 123,000 residents, while the number of households grew by 9.7% to 33,500, according to the Census. The homeownership rate is significantly higher than the city-wide rate of 58%, with more than 79% in the Evergreen neighborhood owning a home. Both homeowner and rental vacancy rates are extremely tight, at just 1.5% and 1.2%, respectively, as of 2013. Housing costs are also high relative to the city-wide median: the median homeowner spends \$3,174 per month in Evergreen versus \$2,860 city-wide, while the median renter in Evergreen spends \$1,878 per month versus \$1,474 city-wide.

The Evergreen neighborhood is largely suburban in nature, but as a result of planned development during the past two decades, has many features desired by residents including a pedestrian-oriented retail plaza with a Walmart neighborhood grocery store, restaurants, and a café; multiple parks; and a series of bike trails throughout the neighborhood. Evergreen is also home to excellent schools including well-regarded public elementary, middle, and high schools, a Montessori school, and a community college.

Although the neighborhood does not fit squarely with the growing preference, particularly among young Millennials, for urban, walkable neighborhoods, sustained population growth, the severe under-supply of housing and the affordability constraints throughout Silicon Valley are supporting demand for all types of housing, and across a variety of different types of neighborhoods. In the northern Silicon Valley cities of Mountain View, Cupertino, Sunnyvale, and Santa Clara, the average single-family home listed for sale took 20 days or less to sell in 2014, according to the Santa Clara County Association of Realtors. In San Jose, the average was only slightly higher at 30 days, approximately half the 2008 level. Inventory is tighter still in the condo market. In the apartment market, investment-grade vacancy rates are less than 5% in all Silicon Valley submarkets, according to MPF Research. Vacancy is tightest in the East San Jose submarket, one of the more affordable submarkets for working-class families, who comprise a sizeable share of housing demand, at just 1.4% as of the first quarter of 2015.

Aside from the effects of supply constraints in Silicon Valley that support demand for a broader variety of housing types in a variety of



for housing at the development site. More importantly, however, RCG believes that the site is particularly well-suited for residential use, considering the existing residential make-up of the surrounding neighborhood and the challenging market realities facing other potential land uses at the site. Although the goal to develop the bulk of new housing in walkable, transit-accessible areas is sound, many families still seek the space and amenities found in more suburban neighborhoods. Given the growth in the population of the Evergreen neighborhood, the pace of new household formation, and the serious shortage of rental-housing stock in the neighborhood, RCG expects that new apartment construction at the development site would benefit from a substantial demand-supply imbalance. Moreover, single-family housing construction at the development site would not only fit well with the existing supply of single family homes in the neighborhood, but would likely attract robust demand as a result of the rapid rise in home prices and the scarcity of homes for sale throughout Silicon Valley.

neighborhoods, demographic trends are likely to drive some reversion in the coming years toward traditional suburban-housing preferences as more Millennials enter their thirties and begin to start families. The Evergreen neighborhood has high-quality schools that families seek out, and the existing presence of retail options and outdoor amenities strengthen the appeal. In the long run, RCG believes that Millennials still value homeownership and seek to own a home in the future. According to a 2014 survey by Freddie Mac, 91% of all current renters agreed that homeownership is, "something of which to be proud" and only 25% expressed "no interest in ever owning a home." However, with still-restrictive mortgage lending availability, significant student-debt loads, and unique affordability constraints in the Bay Area that hinder the ability to save for a down payment, many households will likely continue to rent even as they start families, providing opportunities for new apartment developments with larger units for families seeking similar space, quality schools, and family amenities as young homeowners.

Given the appealing community amenities and schools, along with the diverse and growing housing demand in the historically under-supplied Silicon Valley housing market, RCG expects ample demand