



Envision 2040 4-Year Review

Market Overview and Employment Lands Analysis

Today's Meeting

Introduction

Recap of Employment Forecasts and Trends

Office, R&D, and Industrial Markets

Retail Market

Comparing Supply and Demand

Assessment of Urban Villages



Introduction

Key Questions

- Under revised job growth numbers, how much office, industrial, and retail space will be needed?
- Does the City have sufficient land supply to meet future demand for space?
- How much development can reasonably be expected to occur in the Urban Villages in the short term?

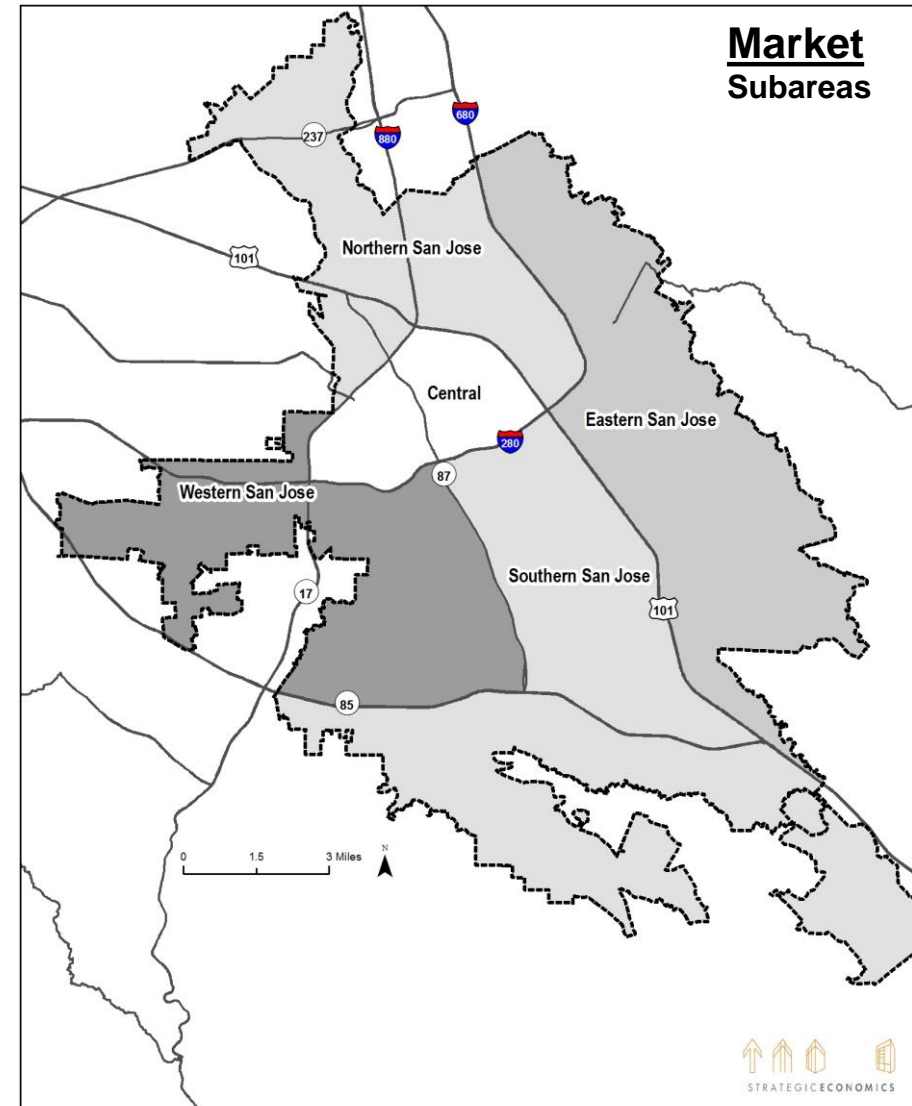
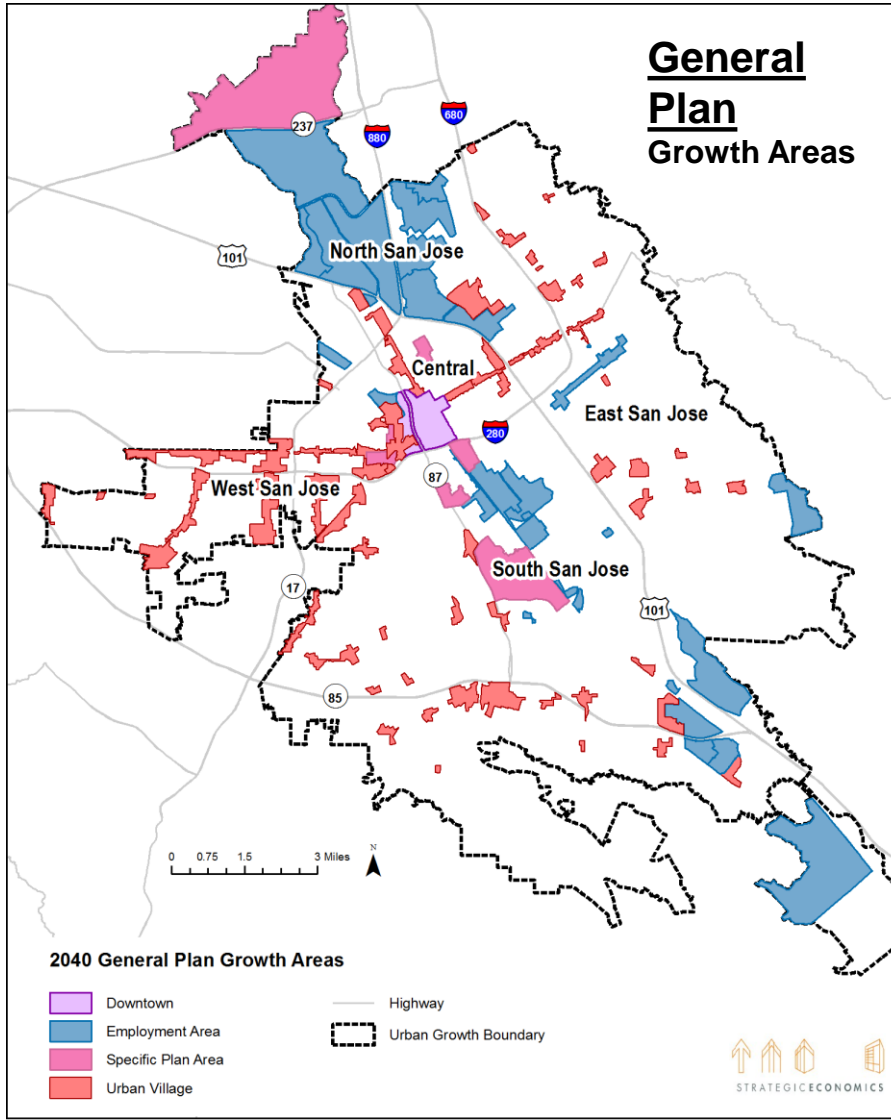


Photo: Strategic Economics, 2015.

Scope of the Study

- Study includes:
 1. Analysis of trends in job growth and real estate development in San Jose
 2. Comparison of demand for employment space to the supply of vacant industrial and commercial lands
 3. Assessment of market potential of Urban Villages to attract office, industrial, and retail development
- What this study does not do:
 - Create a new land use scenario for the City
 - Assess market demand for specific sites or projects

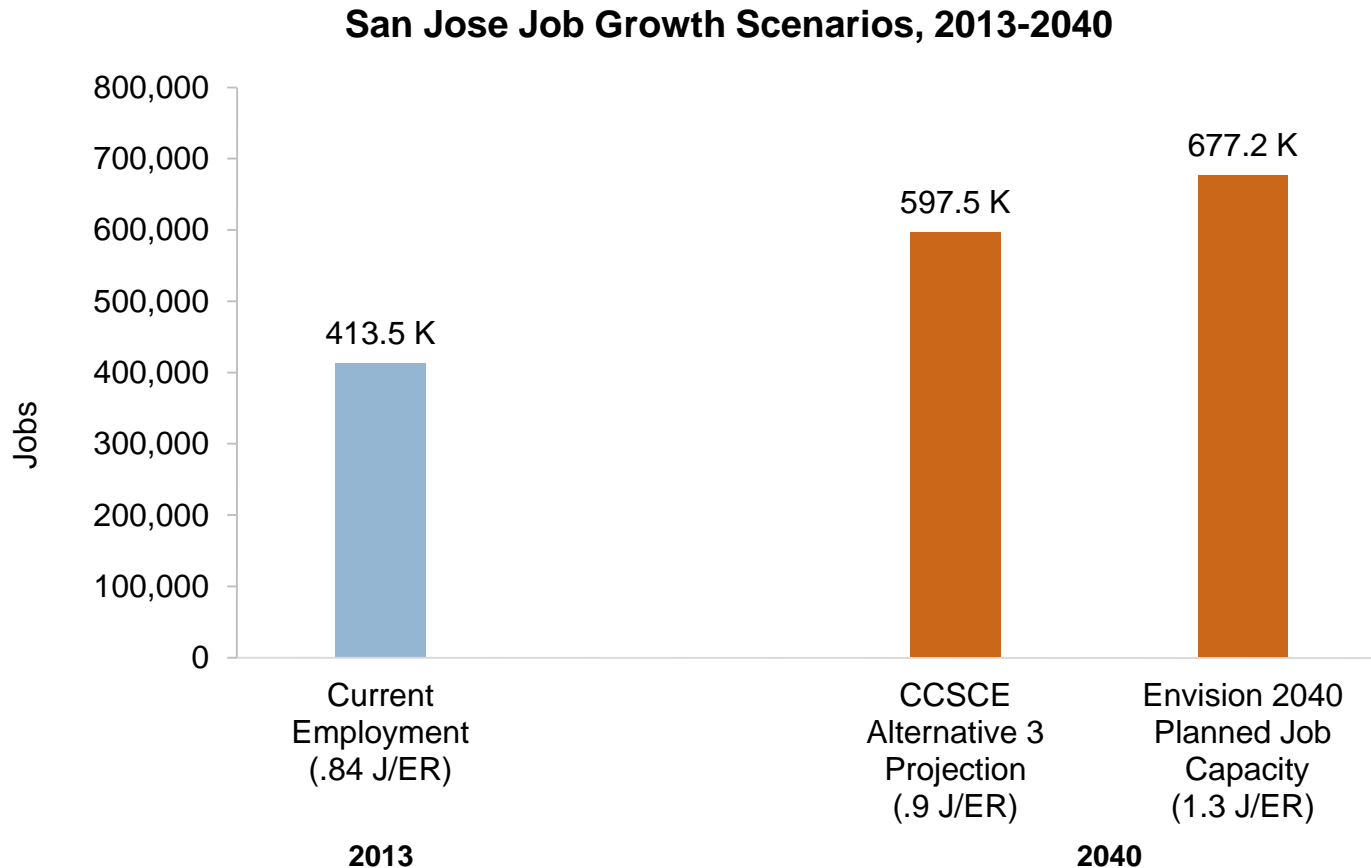
Geographies of the Study



Job Forecasts and Trends

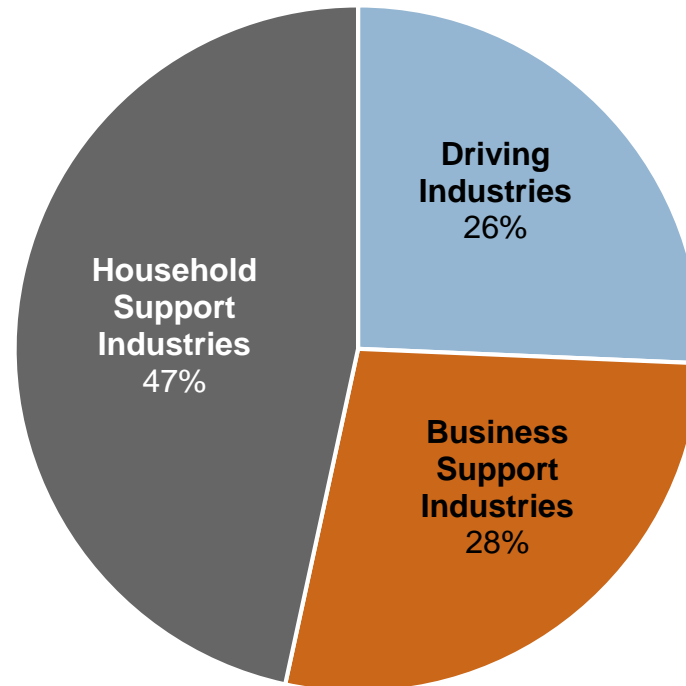
How much job growth can the City expect?
Where are jobs currently located in the City?

Employment Forecasts: Scenarios of Job Growth



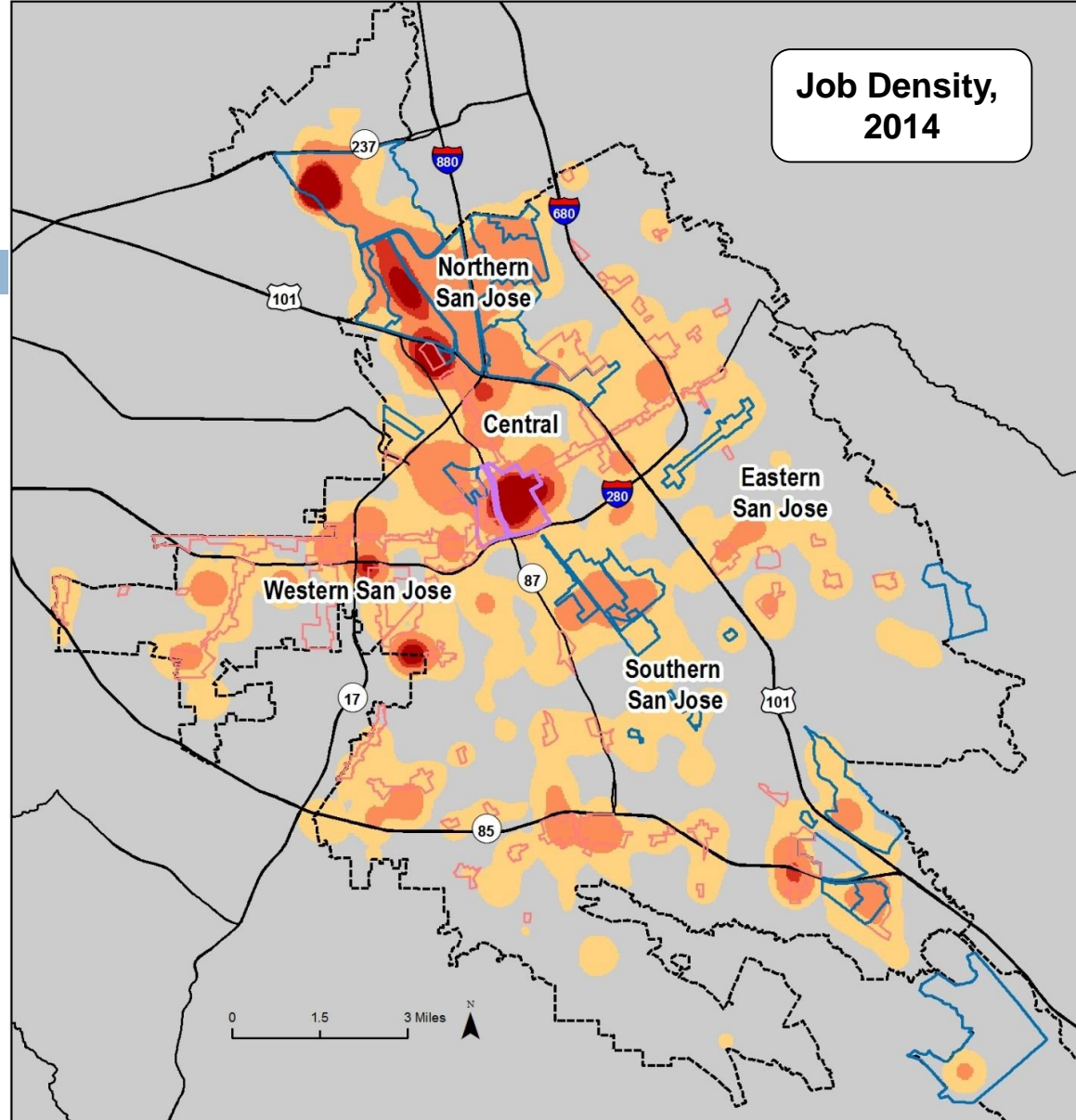
Employment Forecasts: Industry Mix

2040 Employment Projections by Industry Cluster CCSCE Alternative 3

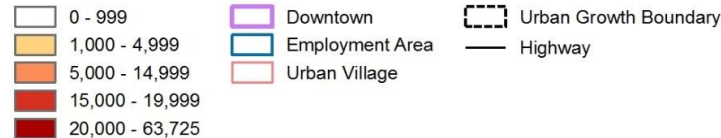


Existing Employment

- **Market Subareas:**
 - Northern San Jose has the most jobs, followed by Central and Southern San Jose
- **General Plan Growth Areas:**
 - 30% of jobs are in designated Employment Areas
 - 13% of jobs are in Urban Villages

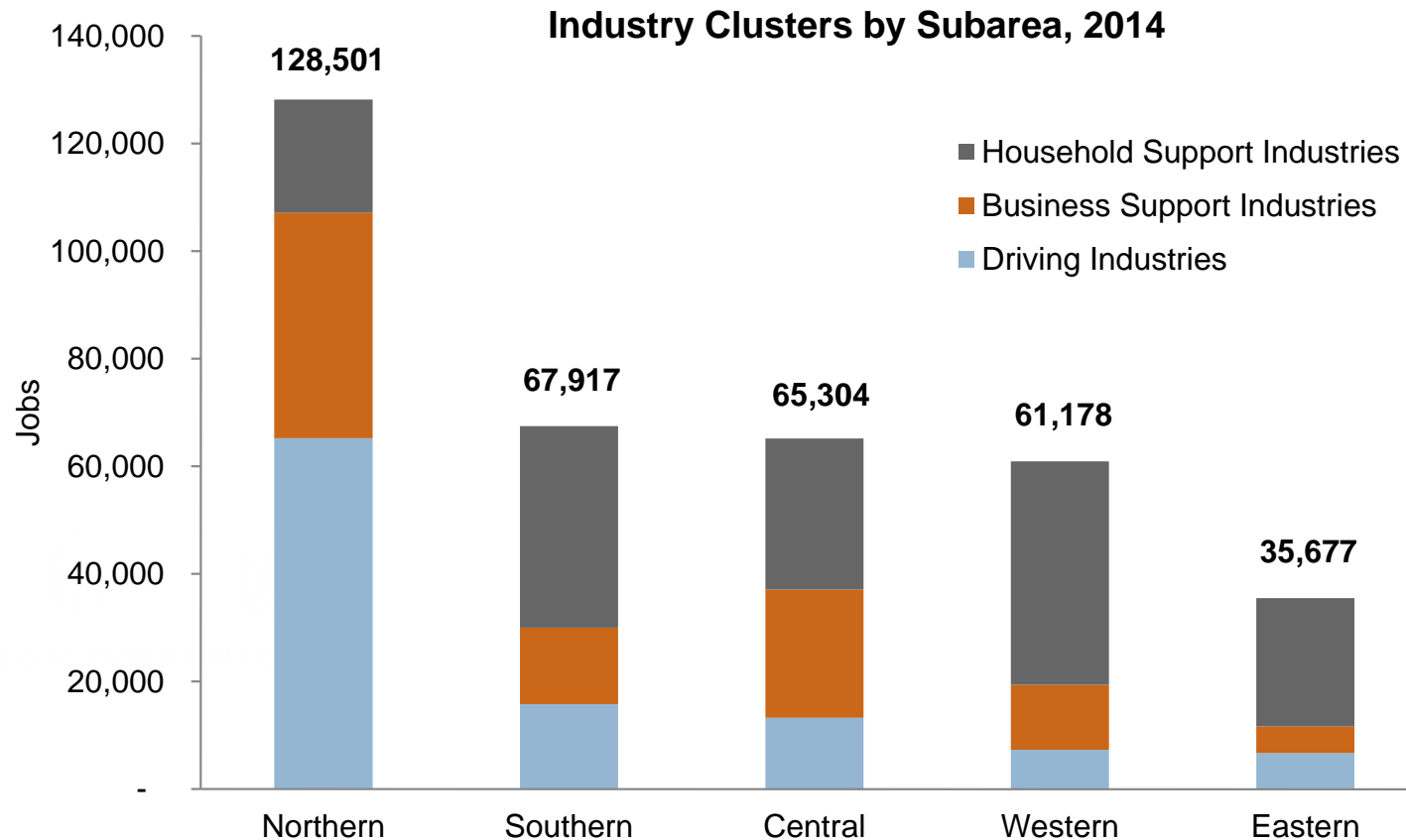


Employees Per 1/2 Square Mile



Sources: City of San Jose; CA Employment Development Department

Employment Concentrations: Jobs by Market Subarea

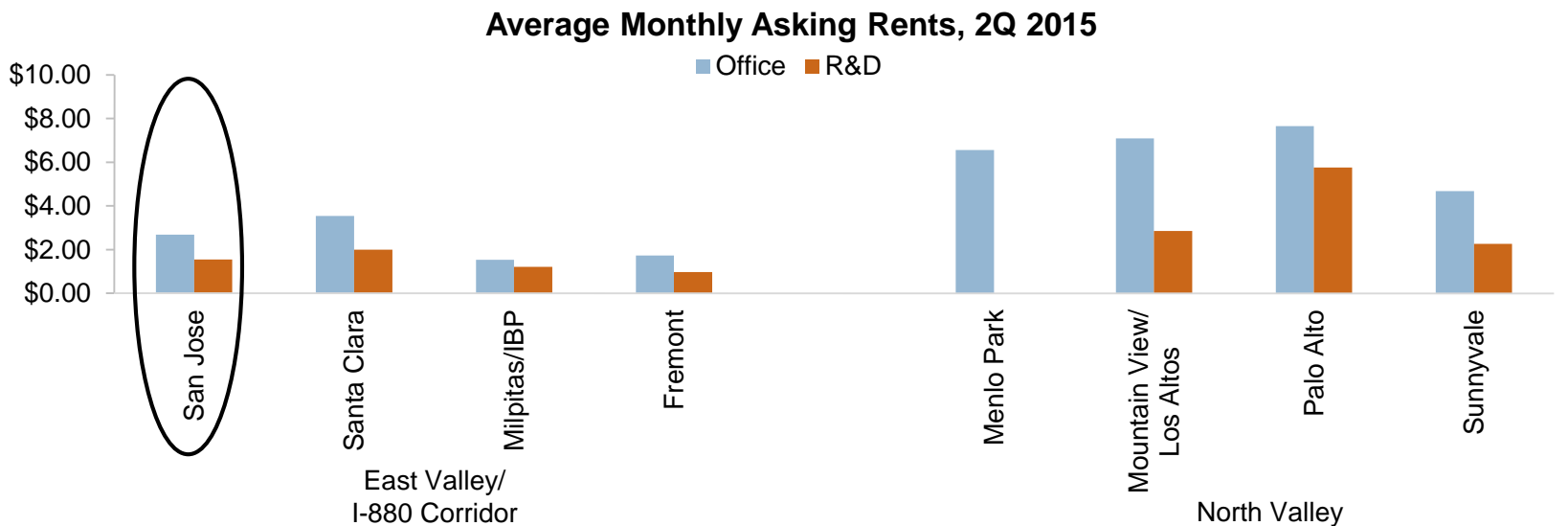
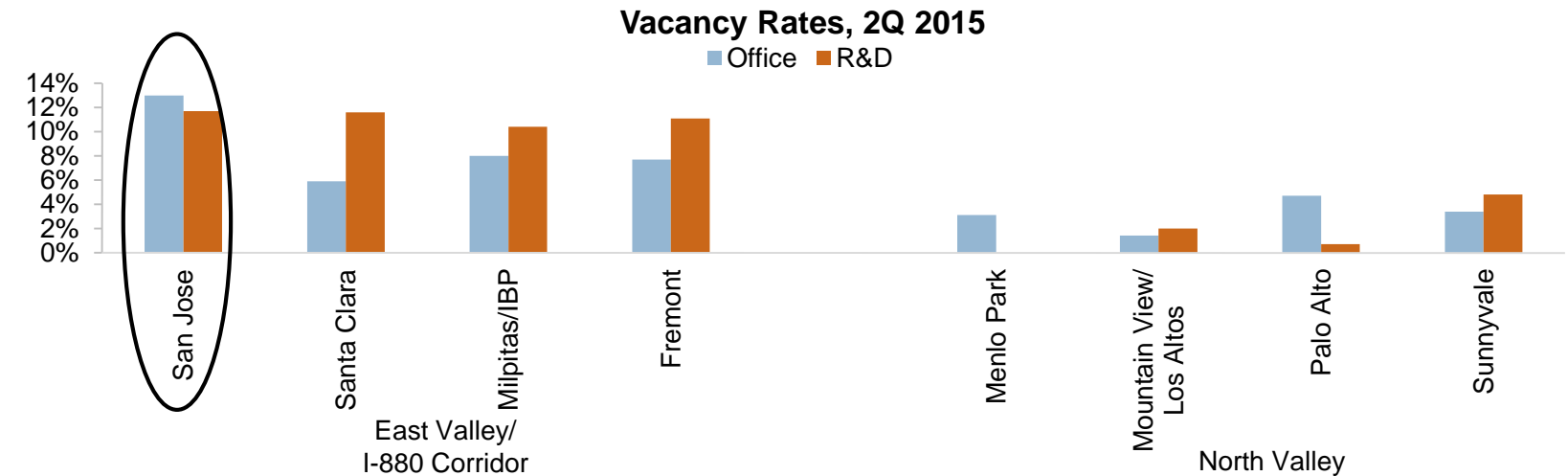


Office, R&D, Industrial

What is San Jose's competitive position within the region?

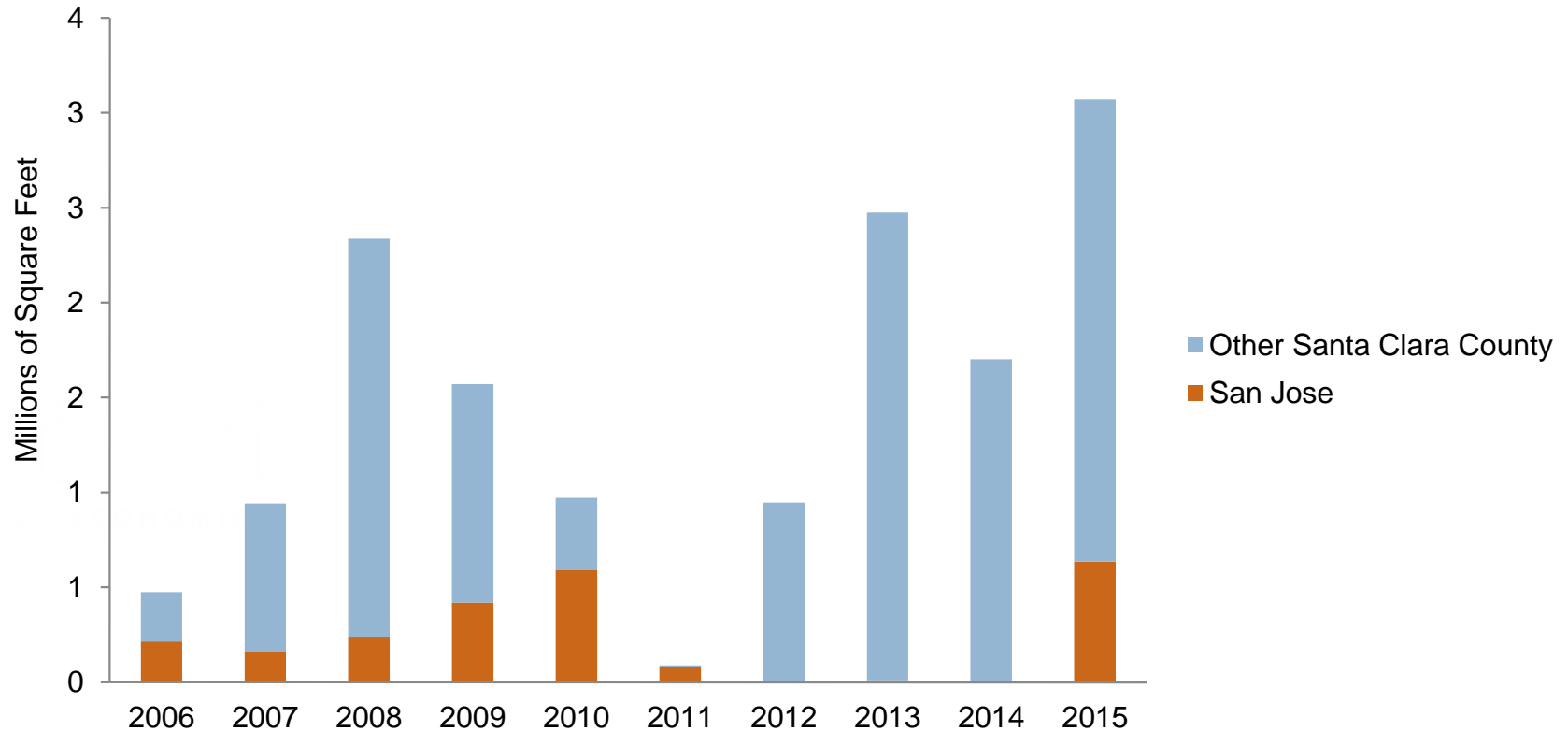
Within the City, where is demand for employment uses concentrated?

Office and R&D: Vacancy and Rental Rates



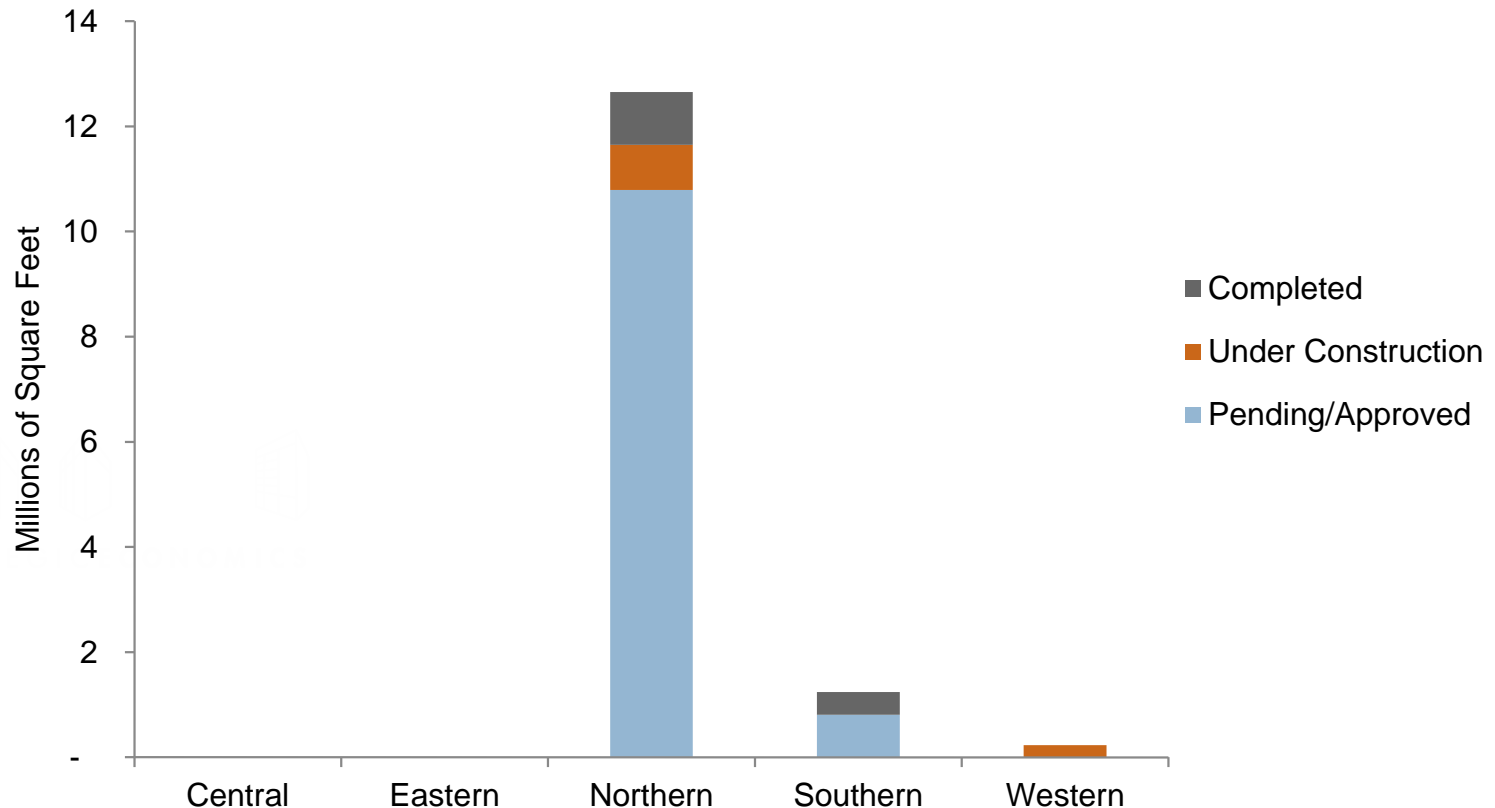
Office and R&D: Recent Development Activity

Completed Office and R&D:
San Jose and Santa Clara County, 2006-2015



Office and R&D: New Development by Subarea

Office/R&D Development by Status and Subarea:
San Jose, 2009-February 2015



Office and R&D: What Do Tech Firms Want?

- Large floor plates, flexible spaces, collaborative spaces
- Proximity to:
 - Other similar employers in Silicon Valley
 - Retail, restaurants, other amenities
 - Transit and/or freeways that connect to the Peninsula



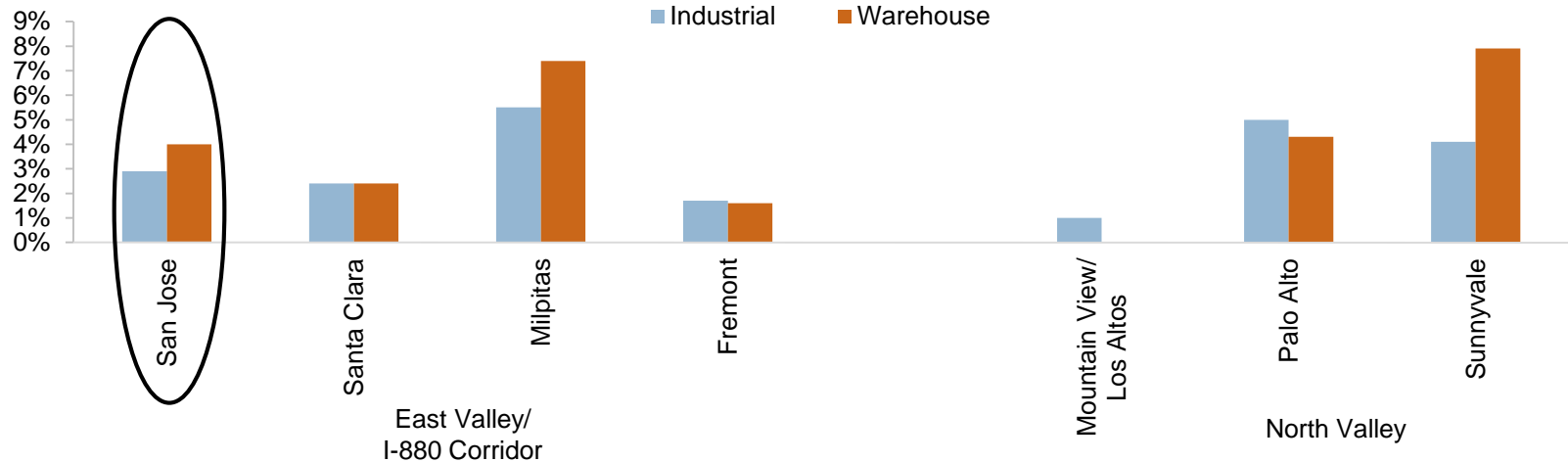
Office & R&D: San Jose's Competitive Position

- Lower cost campus settings
- Large sites & floor plates that accommodate office and R&D
- Access to large labor force (especially in Northern SJ)
- Expanding transit (BART stations)
- Significant housing supply, retail, and other amenities

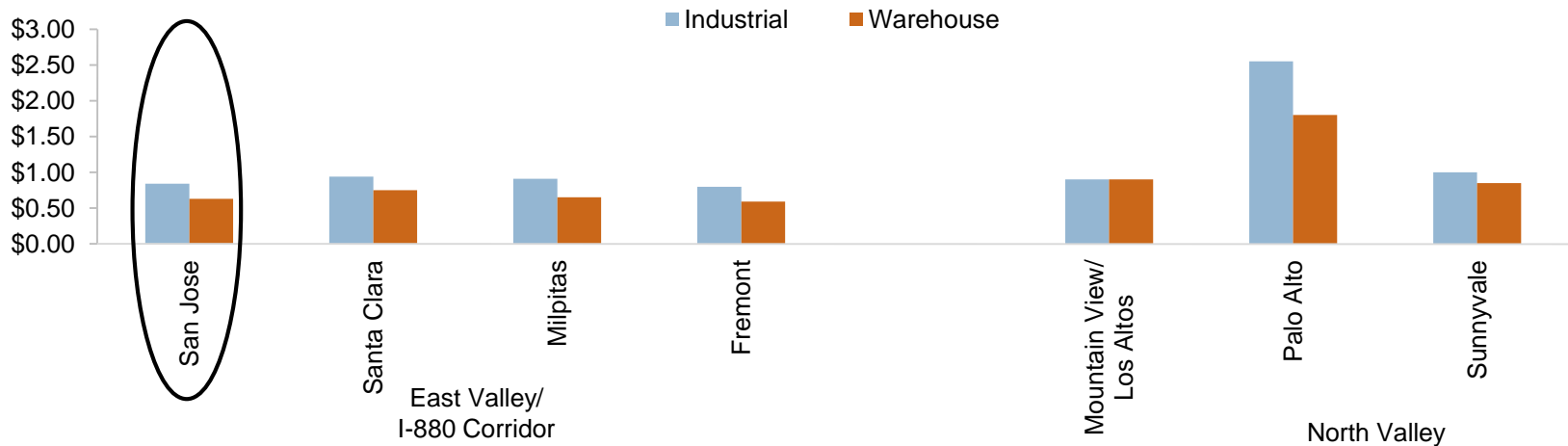


Industrial: Vacancy and Rental Rates

Vacancy Rates, 2Q 2015

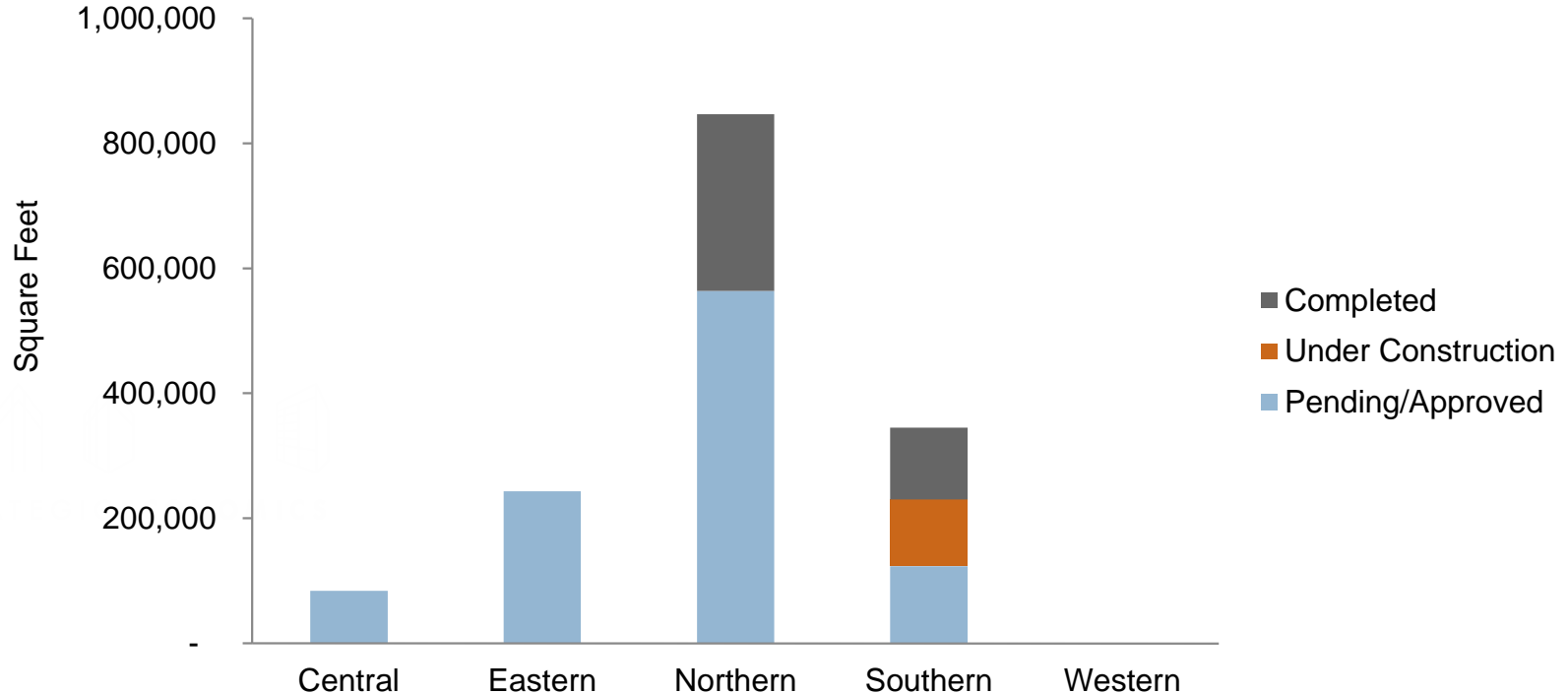


Average Monthly Asking Rents, 2Q 2015



Industrial: New Development by Subarea

**Industrial/Warehouse Development by Status and Subarea:
San Jose, 2009-February 2015**



Industrial:

San Jose's Competitive Position

- Excellent freeway and rail access (I-880 corridor)
- Proximity to urban populations (distribution centers)
- Large sites and buildings with contiguous space
- Lower cost compared to other locations in Bay Area
- Opportunity to co-locate manufacturing with corporate offices



Retail



Photo: LoopNet



Photo: bizjournals.com

Retail Sector:

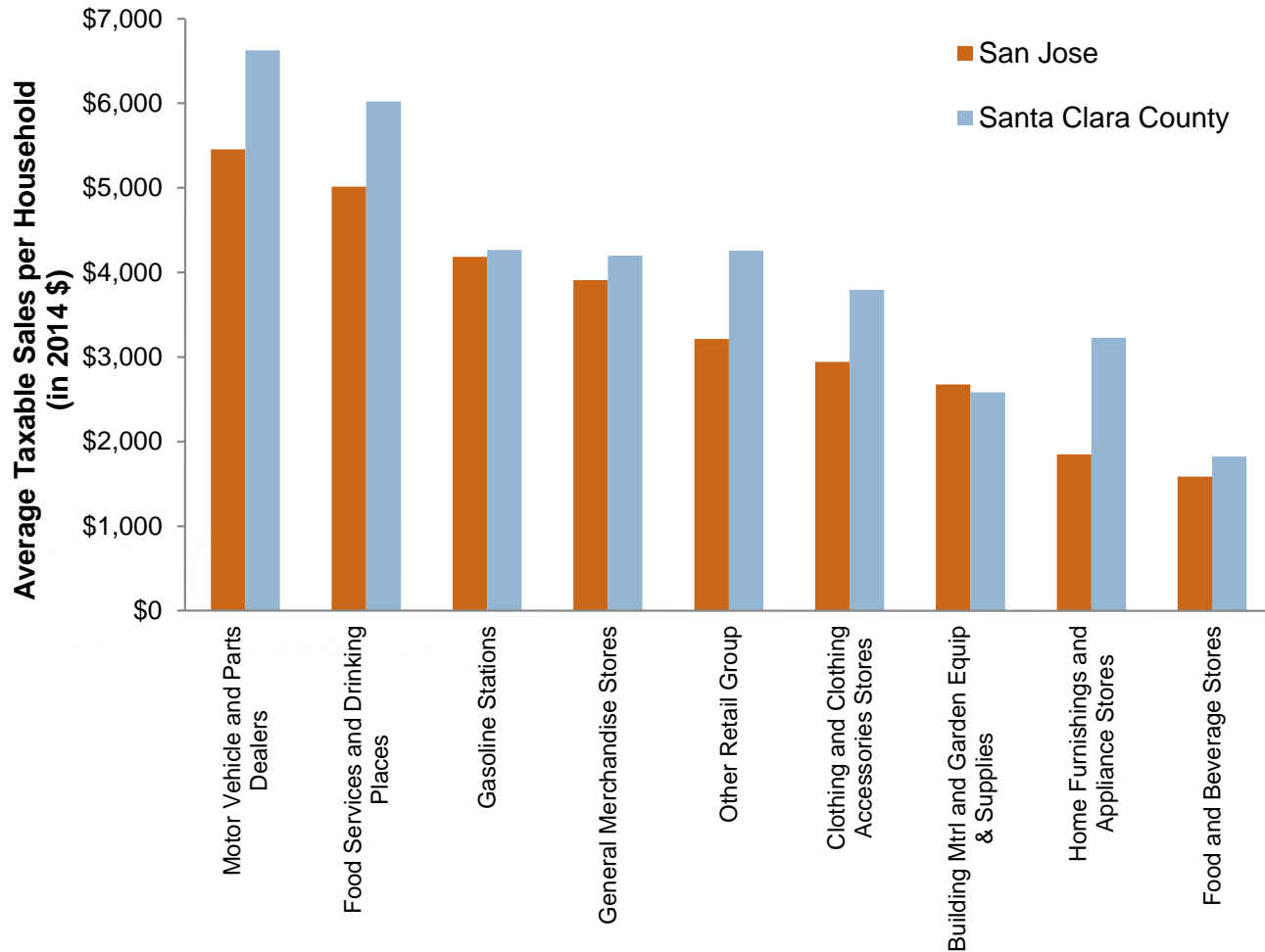
National and Regional Trends

- Internet sales growing 3X faster than brick-and-mortar
- Fastest growth in restaurants, grocery stores, personal and business services
- Many retailers are consolidating, closing underperforming locations, and using store locations for distribution
- Limited new construction occurring in the Bay Area; most new retail is accommodated through re-tenanting and/or intensification



Photo: Erick Fredericks, September 2012 (Flickr).

Retail Sector: Sales Captured in San Jose

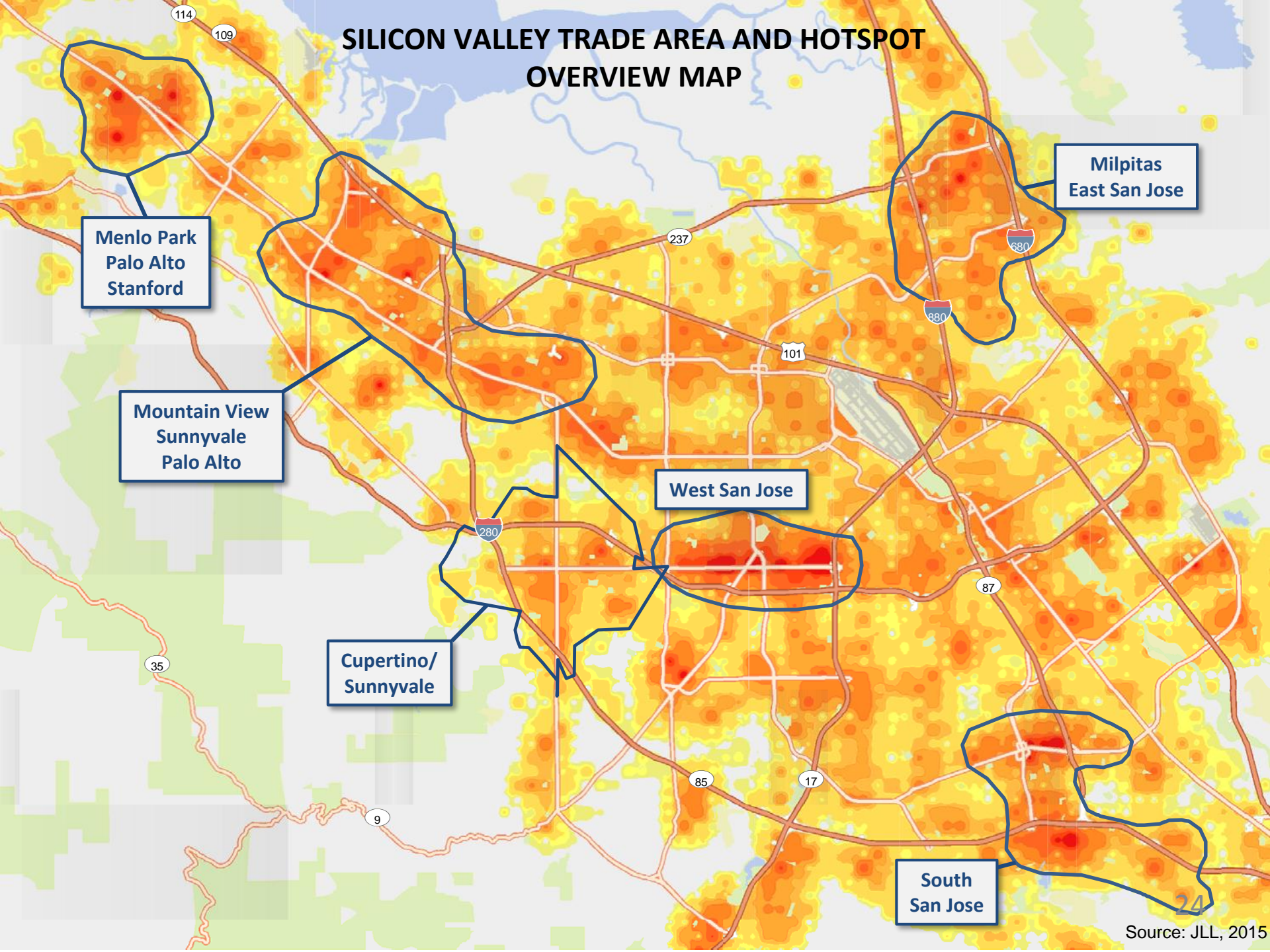


Total Sales per Household

San Jose: \$30,800

County: \$36,800

SILICON VALLEY TRADE AREA AND HOTSPOT OVERVIEW MAP



Retail Sector:

Factors that Impact Retail Location Decisions

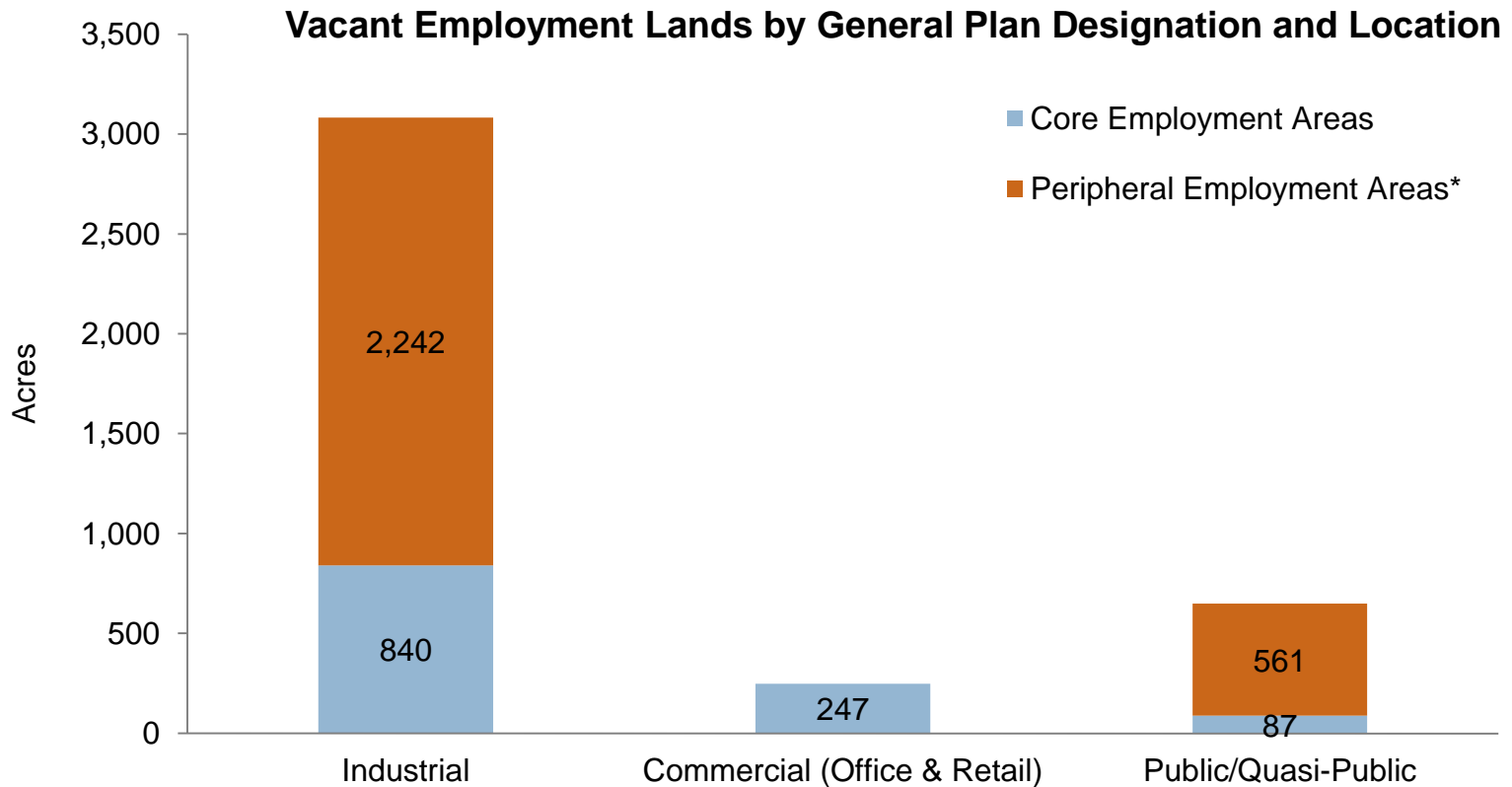
- Trade area demographics
- Competitors in trade area
- Auto access and visibility
- Location and design of shopping center
- Anchors and other co-tenants
- Rent costs and deal structure



Comparing Supply and Demand

Is there a match between the supply of vacant employment lands and future demand?

Vacant Employment Lands: General Plan Land Use Designation



*Includes North Coyote Valley, Evergreen Industrial Park, and Alviso Specific Plan Area.
Sources: City of San Jose, 2015; Strategic Economics, 2015.

Vacant Employment Lands:

Location and Land Use Designation

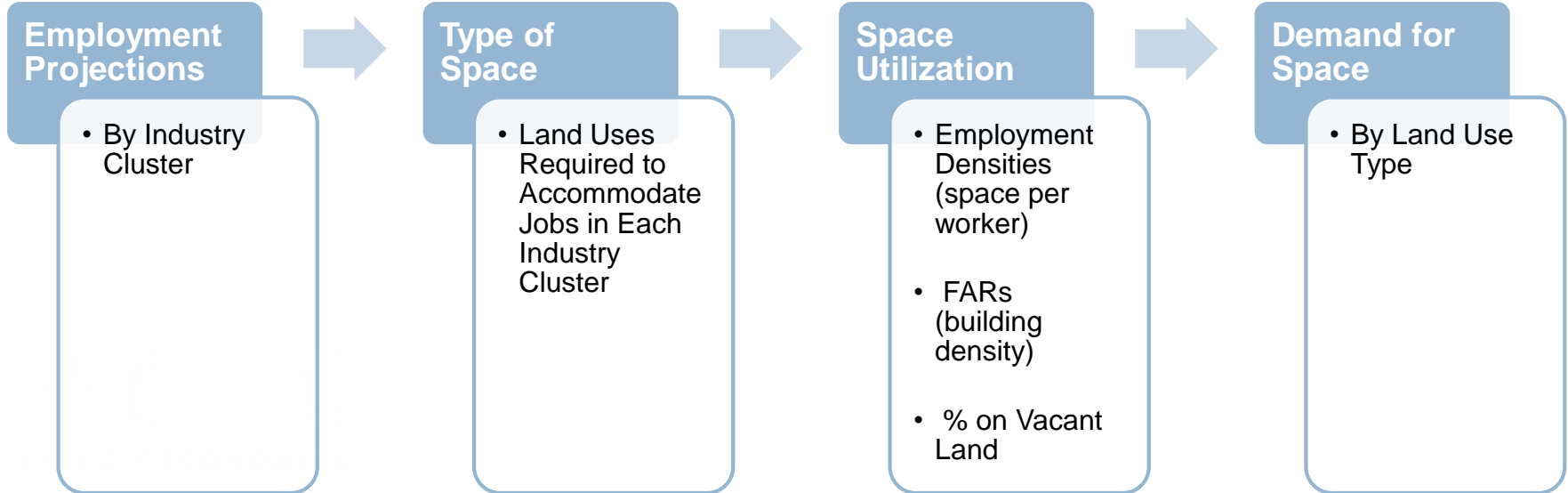
Vacant Employment Lands by Location and General Plan Land Use Designation, 2015

	Industrial/ R&D	Commercial (Office/ Retail)	Public/ Quasi- Public	Total
CORE EMPLOYMENT LANDS				
Downtown	10	5	0	15
Employment Area	650	81	9	741
Specific Plan Area	84	5	0	89
Urban Village	19	124	7	150
Other Areas	77	32	71	181
Subtotal, Core	840	247	87	1,175
PERIPHERAL EMPLOYMENT LANDS				
Employment Area (North Coyote & Evergreen)	1,937	0	0	1,937
Specific Plan Area (Alviso)	305	0	561	866
Subtotal, Periphery	2,242	0	561	2,803
Citywide Total	3,083	247	648	3,978

Most of the City's employment lands are located in Peripheral Areas

Urban Villages account for 3.8% of vacant employment lands

Demand for Employment Lands: Approach



Demand for Employment Lands:

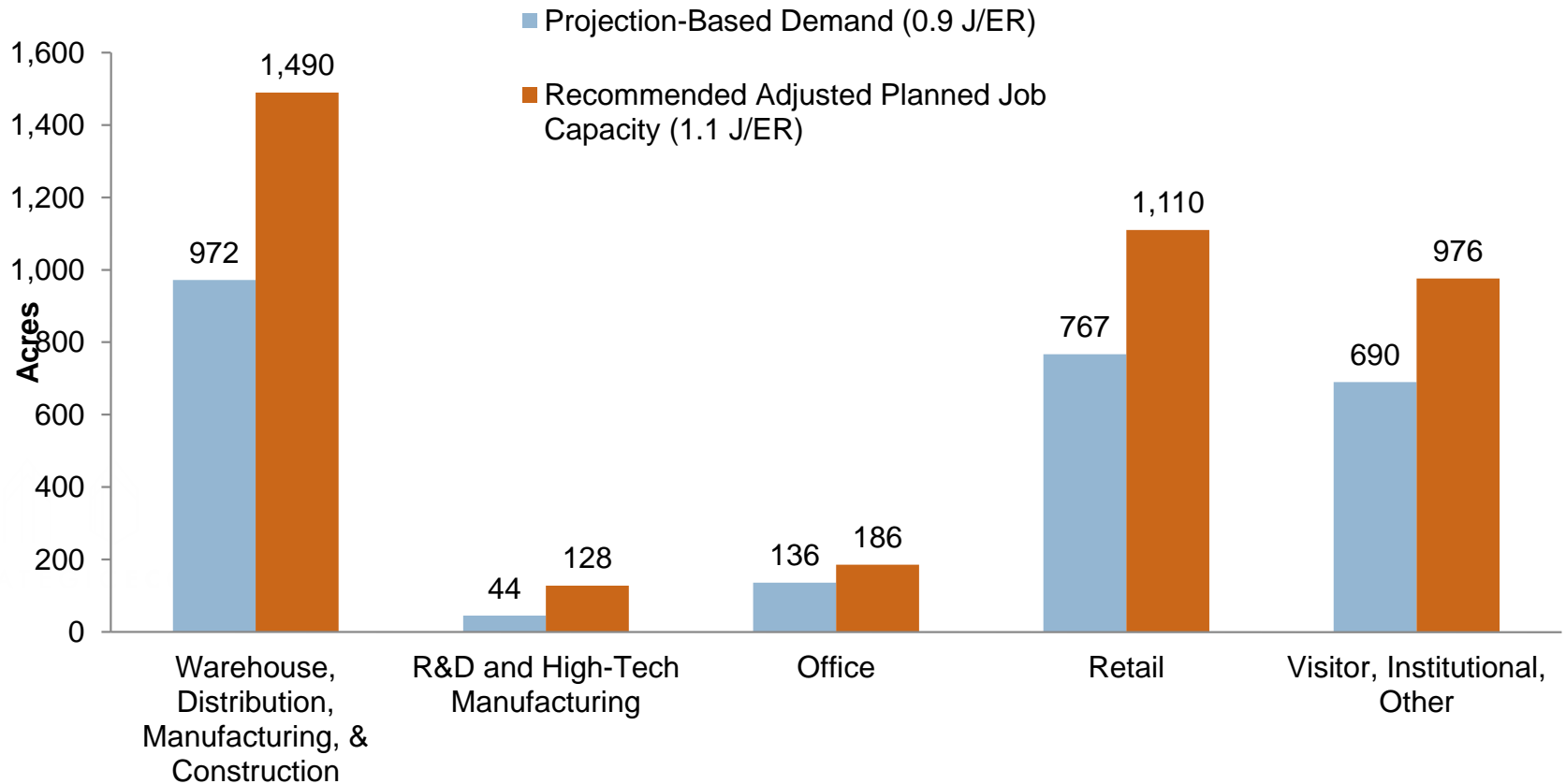
Projection-Based Demand (Alt 3)

Net New Demand for Employment Lands by Land Use Type, 2013-2040 (CCSCE Alternative 3)

	Total Job Growth 2013-2040	Average Employment Density (Square Feet per Worker)	FAR (Building Density)	% Built on Vacant Land	Net New Demand for Vacant Land (Acres)
Retail	43,710	250 - 650 sf	0.3	40 - 60%	767
Office	68,180	175 - 300 sf	1.5	50%	136
Warehouse, Distribution, Manufacturing, Construction	27,291	500 - 1000 sf	0.3 - 0.4	80%	972
R&D and High Tech Manufacturing	3,662	300 - 450 sf	0.5	70%	44
Other	30,882	1000 - 2000 sf	0.8 - 2.0	50 - 80%	690
Total Net New Demand	173,726				2,609

Demand for Employment Lands: Summary by Growth Scenario

Net New Demand for Employment Lands 2013-2040



Sources: CCSCE, 2015; City of San Jose, 2015; Strategic Economics, 2015.

Comparing Supply and Demand

- For industrial uses, demand exceeds supply in the city's core employment areas
- Vacant industrial lands on periphery face development challenges
 - North Coyote Valley, Evergreen, Alviso have environmental, topographical, access, and market constraints
- Shortage of vacant land supply designated for commercial (office and retail) uses

What are the Implications?

- Some retail and office development will be accommodated through intensification of existing commercial sites
- Some retail, office, and R&D development may occur on sites zoned for industrial uses
- There is likely to be increasing competition for premium sites located in the core
- Cost-sensitive users like retail and industrial may be priced out of desirable locations (e.g., North San Jose and Edenvale)



Photo: Strategic Economics, 2015.

Urban Villages

Which Urban Villages are most likely to attract new office and retail development?

Urban Village Market Assessment:

Factors to Measure Market Strength

Office/Industrial Factors

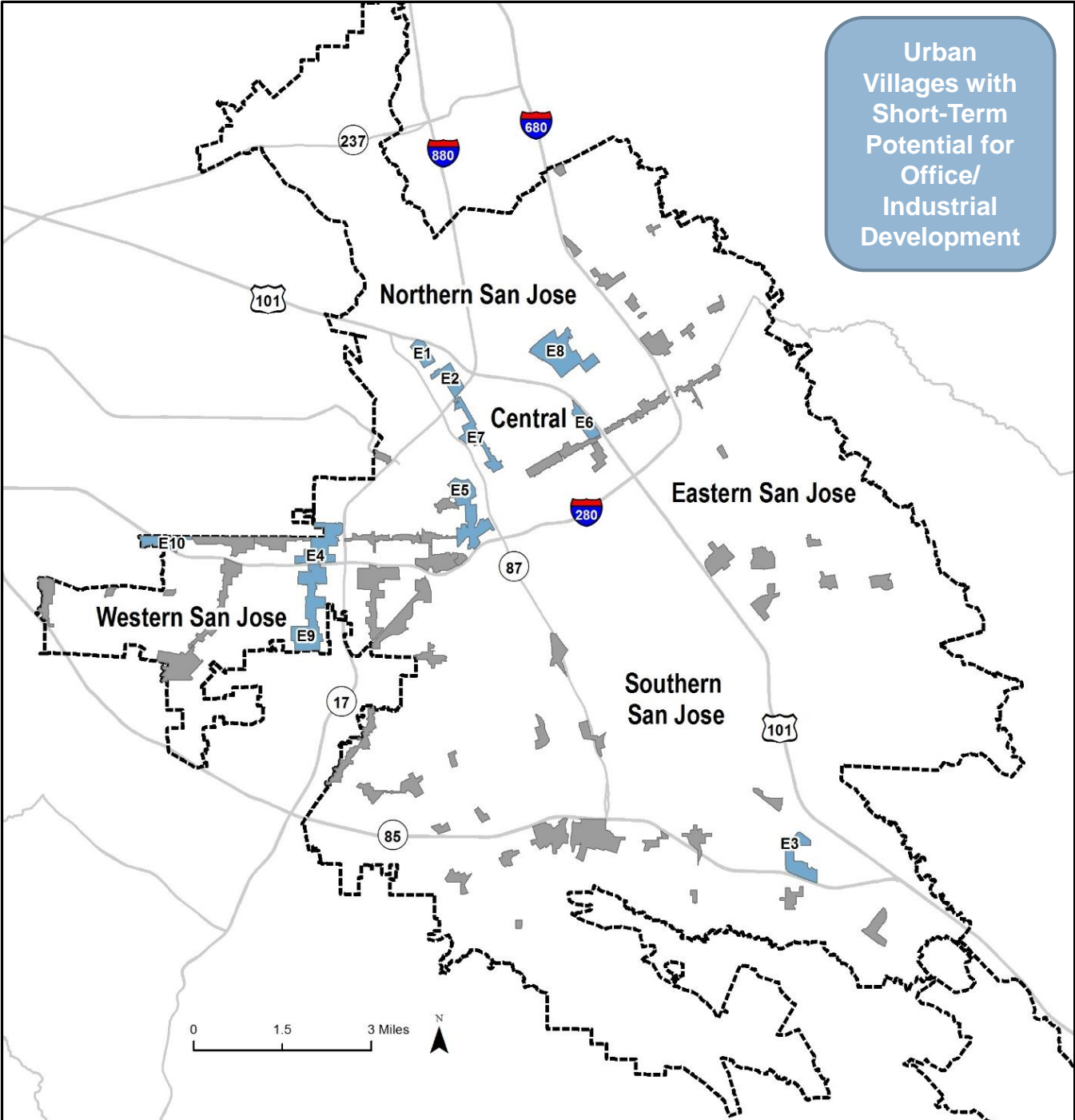
- Existing concentration of jobs (Driving and Business Support)
- Recently attracted office or industrial development
- Proximity to Downtown, employment area, or major transit station
- Direct access to a freeway ramp

Retail Factors

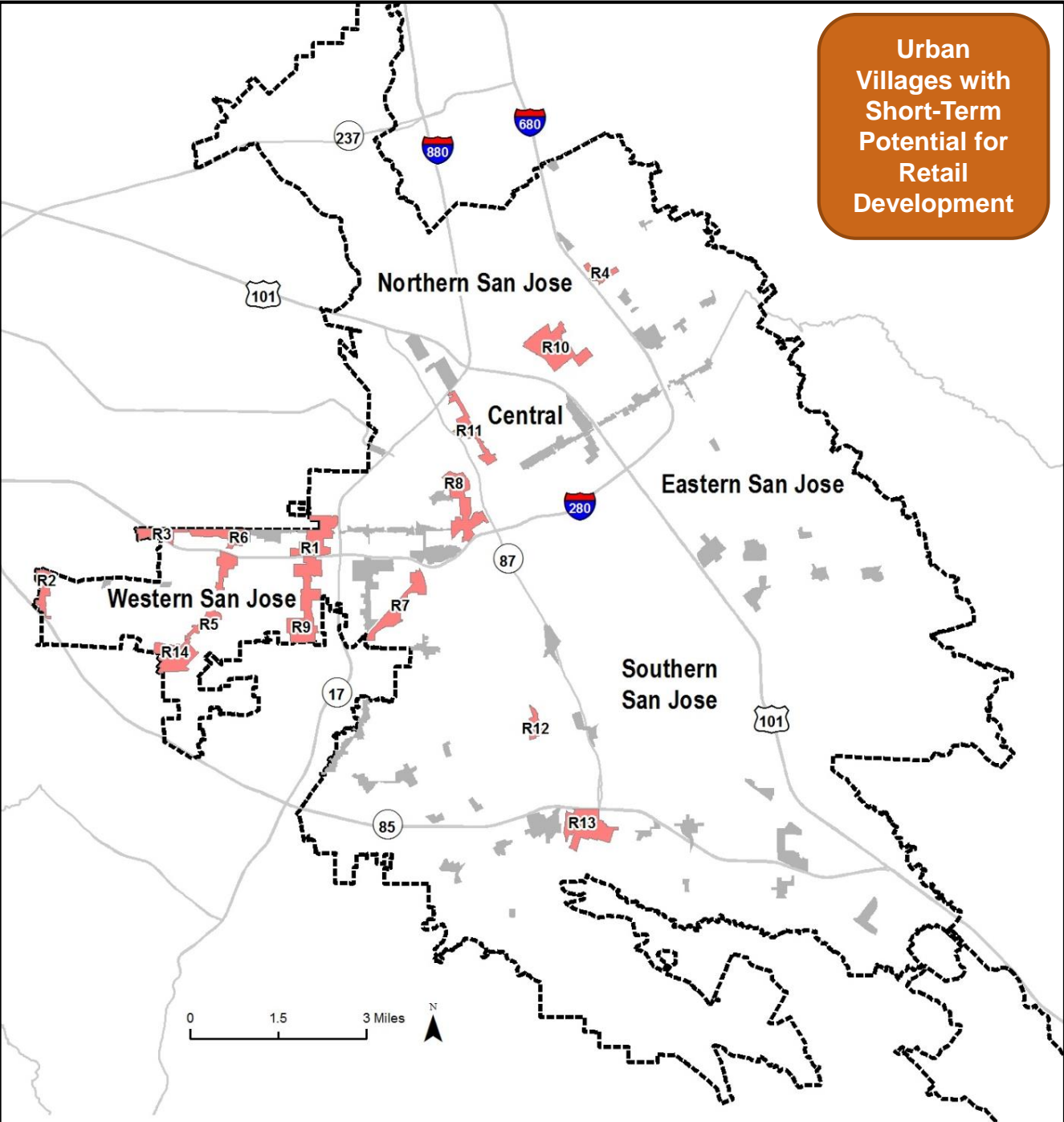
- Existing strength of retail centers (retail sales)
- Recent retail development activity
- Local buying power
- Direct access to a freeway ramp

Market Strength Measures
Short-Term Potential
(2015-2025)

Urban Villages with Short-Term Potential for Office/Industrial Development



Urban Villages with Short-Term Potential for Retail Development



Urban Villages Market Assessment: Summary

- Urban Villages vary in their short-term market potential, based on:
 - Location, location, location
 - Access and transportation
 - Local demographics, existing business mix, amenities
- Other factors may also influence the location and timing of development:
 - Development opportunity sites
 - Infrastructure
 - Adjacent land uses



Photo: Strategic Economics, 2015.



Q&A