Envision 2040
4-Year Review

Market Overview and Employment Lands Analysis

January 28, 2016
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?
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

General Plan Growth Areas

Market Subareas

2040 General Plan Growth Areas
- Downtown
- Employment Area
- Specific Plan Area
- Urban Village
- Highway
- Urban Growth Boundary
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

San Jose Job Growth Scenarios, 2013-2040

- Current Employment (.84 J/ER) 2013: 413.5 K
- CCSCE Alternative 3 Projection (.9 J/ER) 2040: 597.5 K
- Envision 2040 Planned Job Capacity (1.3 J/ER) 2040: 677.2 K

Sources: California EDD, 2014; Center for the Continuing Study of the California Economy, 2015; City of San Jose, 2009.
Employment Forecasts:
Industry Mix

2040 Employment Projections by Industry Cluster
CCSCE Alternative 3

- Household Support Industries: 47%
- Business Support Industries: 28%
- Driving Industries: 26%

Source: Center for the Continuing Study of the California Economy, 2015.
Excludes jobs not assigned to an industry cluster.
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
Employment Concentrations:
Jobs by Market Subarea

Industry Clusters by Subarea, 2014

- Household Support Industries
- Business Support Industries
- Driving Industries

Source: California Employment Development Department, 2014; City of San Jose; Strategic Economics 2015.
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

Vacancy Rates, 2Q 2015

Average Monthly Asking Rents, 2Q 2015

Source: CBRE, 2Q 2015.
Office and R&D: Recent Development Activity

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

Sources: Costar, 2015; Strategic Economics, 2015.
Office and R&D:
New Development by Subarea

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

- Completed
- Under Construction
- Pending/Approved

Source: City of San Jose, 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

- Industrial
- Warehouse

Average Monthly Asking Rents, 2Q 2015

- Industrial
- Warehouse

Source: CBRE, 2Q 2015.
Industrial: New Development by Subarea

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

- Central
- Eastern
- Northern
- Southern
- Western

Square Feet

Completed
Under Construction
Pending/Approved

Source: City of San Jose, 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
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
Retail Sector:
Sales Captured in San Jose

Average Taxable Sales per Household (in 2014 $)

Motor Vehicle and Parts Dealers
Food Services and Drinking Places
Gasoline Stations
General Merchandise Stores
Other Retail Group
Clothing and Clothing Accessories Stores
Building Mtrl and Garden Equip & Supplies
Home Furnishings and Appliance Stores
Food and Beverage Stores

San Jose
Santa Clara County

San Jose: $30,800
County: $36,800

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
Is there a match between the supply of vacant employment lands and future demand?
Vacant Employment Lands: General Plan Land Use Designation

Vacant Employment Lands by General Plan Designation and Location

- Industrial: 840 acres
- Commercial (Office & Retail): 247 acres
- Public/Quasi-Public: 561 acres

*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**

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

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

Urban Villages account for 3.8% of vacant employment lands.

Sources: City of San Jose, 2015; Strategic Economics, 2015.
### Employment Projections
- By Industry Cluster

### Type of Space
- Land Uses Required to Accommodate Jobs in Each Industry Cluster

### Space Utilization
- Employment Densities (space per worker)
- FARs (building density)
- % on Vacant Land

### Demand for Space
- By Land Use Type
## Demand for Employment Lands: Projection-Based Demand (Alt 3)

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

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

Sources: CCSCE, 2015; Strategic Economics, 2015.
Demand for Employment Lands: Summary by Growth Scenario

Net New Demand for Employment Lands 2013-2040

- **Warehouse, Distribution, Manufacturing, & Construction**: 1,110 acres
- **R&D and High-Tech Manufacturing**: 128 acres
- **Office**: 186 acres
- **Retail**: 767 acres
- **Visitor, Institutional, Other**: 972 acres

Projection-Based Demand (0.9 J/ER) vs. Recommended Adjusted Planned Job Capacity (1.1 J/ER)

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).
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 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