APPENDIX L

Market Analysis and Demand Projections Report

STRATEGICECONOMICS

MARKET ANALYSIS AND DEMAND PROJECTIONS REPORT

VTA'S BART PHASE II CORRIDOR TOD CORRIDOR STRATEGIES AND ACCESS PLANNING STUDY

Prepared for:

Santa Clara Valley Transportation Authority
April 4, 2019

Valley Transportation Authority

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EXECUTIVE SUMMARY

The Santa Clara Valley Transportation Authority (VTA) is leading the development of a TOD strategy to support the implementation of transit-oriented development (TOD) in VTA's planned BART Phase II Corridor extension, which will extend BART from Berryessa Station to Santa Clara. The study focuses specifically on the Alum Rock/28th Street, Downtown San José and Santa Clara station areas.[1] Figure 1 on the following page shows the station study areas (referred to as "station areas" throughout this report).[2]

To support the TOD strategy, Strategic Economics evaluated the market for office, multifamily housing, hotels, and retail uses in the Alum Rock/28th Street, Downtown San José, and Santa Clara station areas, and the potential benefit of the new transit investment in catalyzing new development activity. The market study also provides preliminary projections of future demand for TOD through 2040. Note that the analysis in this study was completed in the spring and summer of 2018. New development proposals, policy changes, and other changes that have occurred since that time are not reflected in this report.

This executive summary provides an overview of the key findings from the draft market study. Following this introduction, the executive summary includes the following sections:

- Findings from Previous Research on Transit and Development Potential
- Office Market Findings
- Multifamily Residential Market Findings
- Hotel Market Findings
- Retail Market Findings
- Demand Projections

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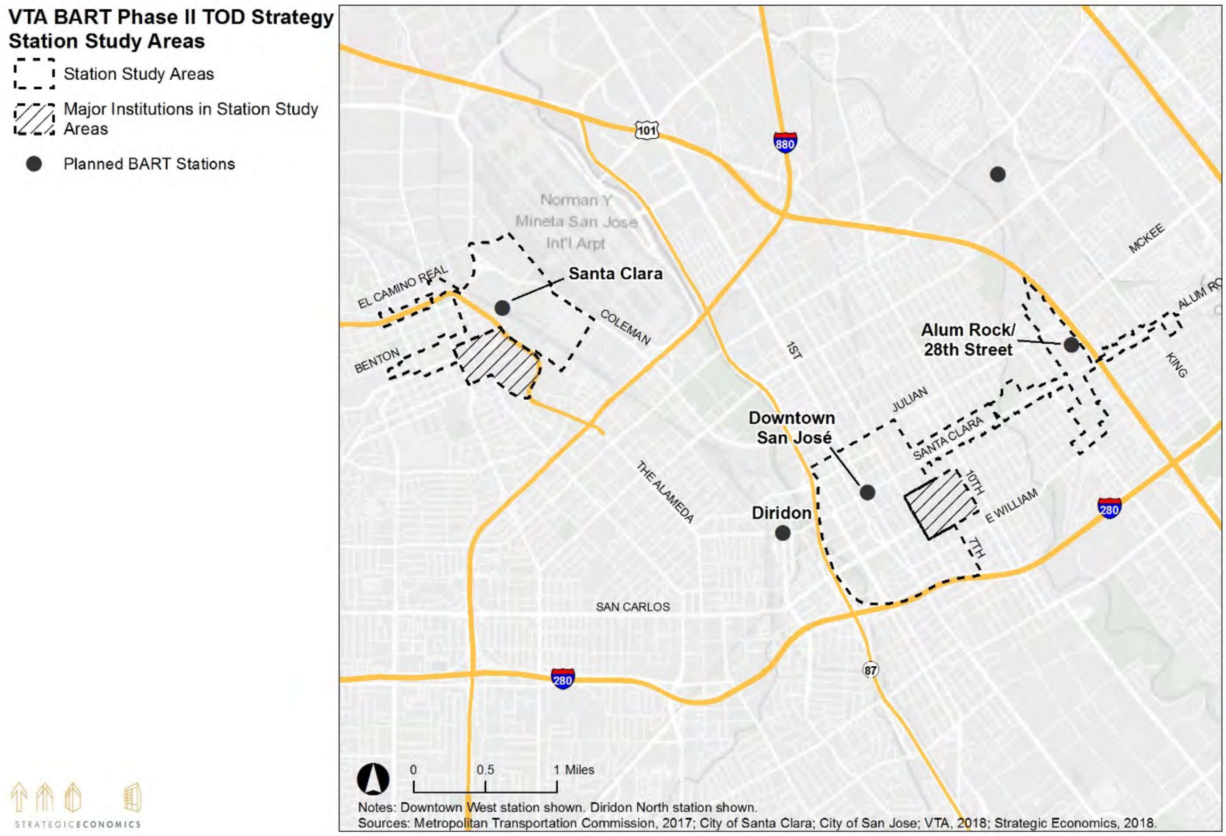
[1] The Diridon station area is the subject of a separate planning effort by the City of San José, VTA, and other transportation agencies.
[2] For the Downtown San José station area, the market study excluded the portion of East Santa Clara Street between 10th Street and Coyote Creek (where the Alum Rock/28th Street station study area beings).

FIGURE 1: STATION STUDY AREA BOUNDARIES



Findings from Previous Research on Transit and Development Potential

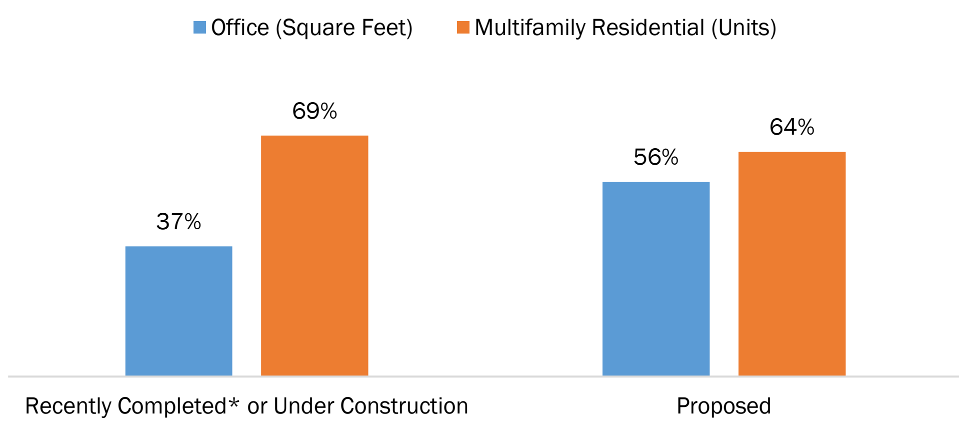
The market study report summarizes research on the household and firm preferences that shape demand for TOD, as well and the property value and development impacts of transit. The report explores how these trends are already playing out in transit-served locations in Silicon Valley and other parts of the Bay Area, and the implications for TOD in VTA's BART Phase II station areas. Key findings from this research are summarized below.

Transit-served locations in Santa Clara County are increasingly attracting new development and achieving higher property values. The predominant land use pattern in Santa Clara County has traditionally been suburban and auto-oriented. However, studies as far back as the early 2000s found that commercial properties near VTA light rail and Caltrain stations commanded significant land value and rent premiums. [3] In the current market cycle, multifamily residential development – and,

[3] Robert Cervero and Michael Duncan, "Rail Transit's Value-Added: Effects of Proximity to Light and Commuter Rail Transit on Commercial Land Values in Santa Clara County, California," in *Urban Land Institute & National Association of Realtors*, 2001; Rachel Weinberger, "Light Rail Proximity: Benefit or Detriment in the Case of Santa Clara County, California?," *Transportation Research Record: Journal of the Transportation Research Board* 1747 (January 1, 2001): 104–13, https://doi.org/10.3141/1747-13.

increasingly office development – in Santa Clara County is concentrated around VTA's planned BART stations, VTA light rail stations, and Caltrain stations (Figure 2).

FIGURE 2: PERCENT OF RECENT AND PROPOSED OFFICE AND MULTIFAMILY RESIDENTIAL DEVELOPMENT IN SANTA CLARA COUNTY LOCATED WITHIN A HALF MILE OF A TRANSIT STATION



*Since 2011.
Includes office development within a half mile of VTA's BART stations, VTA Light Rail, and Caltrain stations.
Sources: CoStar, 2018; Strategic Economics, 2018.

BART station areas have attracted significant new office and residential development. In Alameda, Contra Costa, and San Mateo Counties, one-third of all new apartment development since 1999 has occurred within a half mile of a BART station. Office development has been more decentralized, but since the mid-1990s, almost 30 percent of the new office development in Alameda County and nearly 50 percent of new office development in San Francisco has been located within a half-mile of a BART station. BART has been particularly important in enabling Downtown San Francisco to grow and maintain its importance as the region's central business district, and more recently has helped to support office growth in Downtown Oakland. BART enables workers to commute without a car, decreasing demand for parking and freeing up developable area for additional rentable office space.

As a result, properties near BART stations can command a significant price premium. Recent studies have found that properties located within a quarter to a half mile of BART stations in Alameda and Contra Costa County command an 11 to 18 percent premium, depending on the property type (Figure 3).[4]

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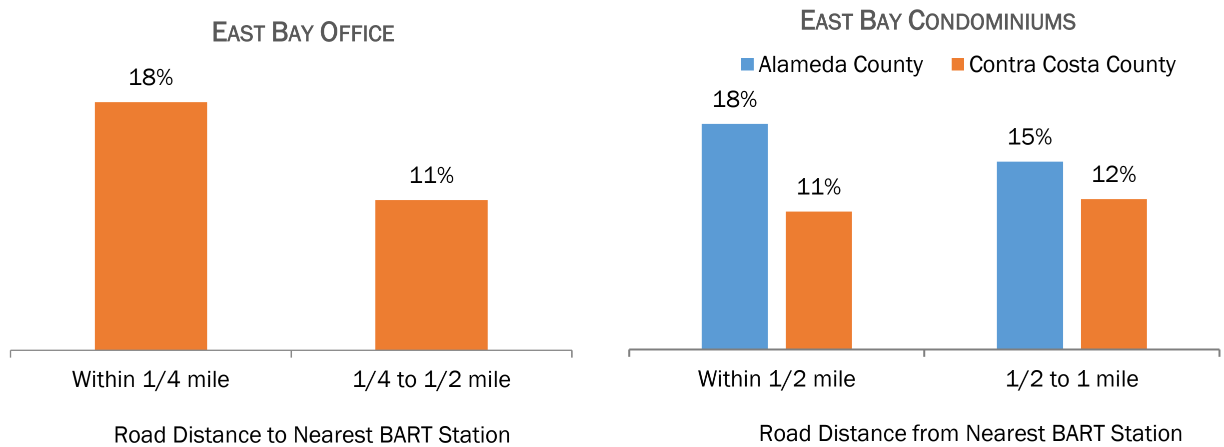
[4] Strategic Economics, "Property Value and Fiscal Benefits of BART" (Bay Area Rapid Transit (BART), August 2014), https://www.bart.gov/sites/default/files/docs/2014-08%20BARTPropValues_Final_0.pdf; Strategic Economics, "Benefits of BART for Office and Apartment Properties" (Bay Area Rapid Transit (BART), July 2015), https://www.bart.gov/sites/default/files/docs/2%20-%20BART_OfficeApartmentAnalysis_Final_07-2015_0.pdf; Strategic Economics, "Benefits of BART to Single-Family and Condominium Property Values by County," July 2015, https://www.bart.gov/sites/default/files/docs/1%20-%20BART%20Single%20Family%20and%20Condo%20Analysis_0.pdf

FIGURE 3: OFFICE AND CONDOMINIUM VALUE PREMIUMS NEAR EAST BAY BART STATIONS



Percentage difference in office rents / condominium values, compared to locations more than ½ road mile from a BART station for office, and more than 5 road miles from a BART station for multi-family residential.
Source: Strategic Economics, 2015.

VTA's BART Phase II extension has the potential to significantly increase the attractiveness of the station areas for new development Previous research has found that transit investment that provide frequent, reliable service and connect to major employment centers and other regional destinations are most likely to attract new development. VTA's BART Phase II extension shares these characteristics, including:

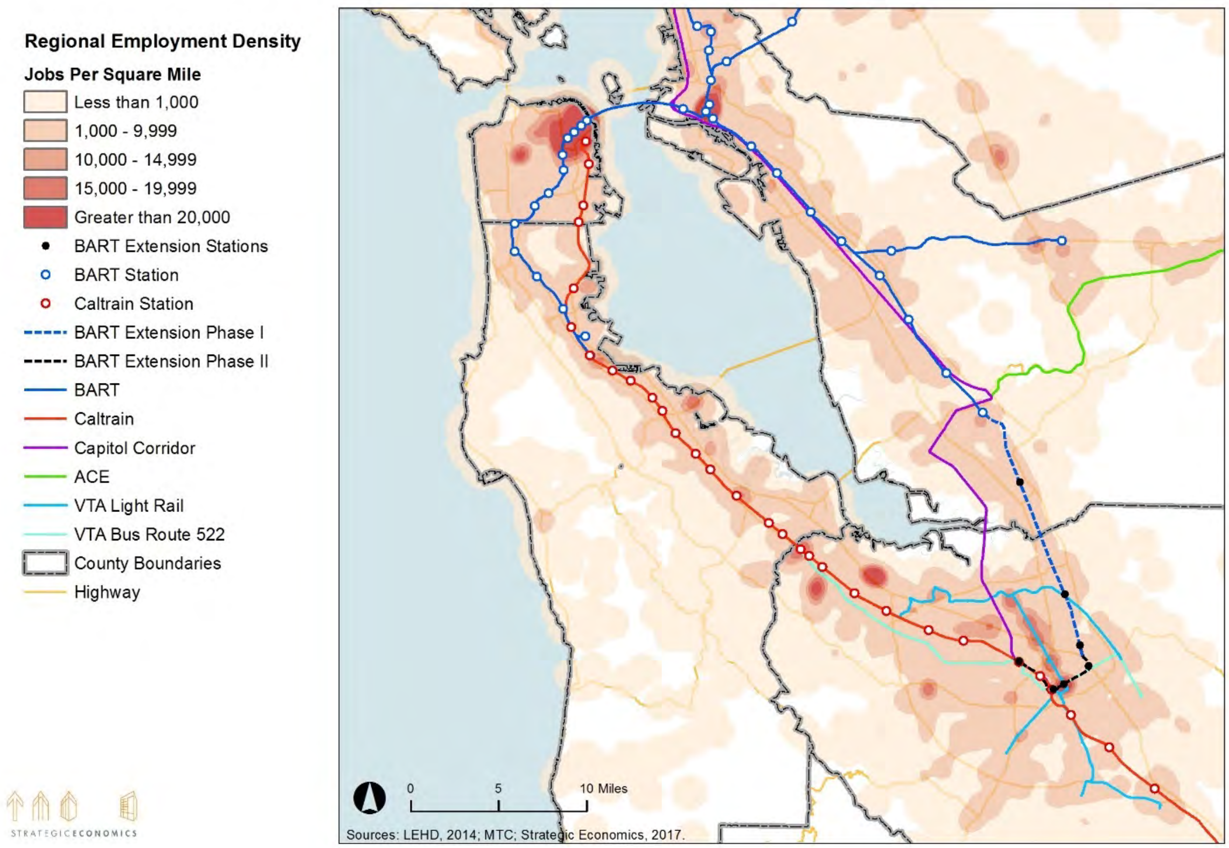
- **Providing frequent, reliable service.** BART will provide an alternative to highly congested freeways for East Bay workers commuting to San José and Santa Clara, and represent a significant improvement in frequency and reliability of service over the existing Amtrak Capitol Corridor.
- **Connecting to major employment centers.** With the completion of VTA's BART Phase II, the BART system will connect the region's three primary central business districts (Downtown San Francisco, Downtown Oakland, and Downtown San José). VTA light rail further extends the transit connection to major employment centers in North San José, North Santa Clara, and Milpitas (Figure 4).
- **Connecting to other regional destinations.** The Phase II extension will serve major educational institutions, including Santa Clara University and San José State, as well as a variety of other civic and educational institutions in Downtown San José. Once a connection to San José International Airport is completed, the BART system will serve three international airports.

Careful planning will be required to help unlock the full potential for TOD in the station areas. Research and experience from other transit investments suggest that proactive planning is required to help unlock the potential for high density, equitable development near transit stations. In particular:

- **Supportive land use policy** can help reinforce the value of transit-served locations for new, higher-intensity development by allowing higher densities (resulting in increased potential development revenues) and reduced parking requirements (resulting in decreased construction costs).

- **Investments in improved connectivity** also help support higher property values and new development. Properties are much more likely to attract TOD if they have direct, high-quality pedestrian and bicycle connections to the transit station.
- **Proactive policies to prevent displacement and produce new affordable housing** are required to ensure that the increased market activity often associated with new transit investments does not place transit-served locations out of reach of lower-income households. In a companion study, Strategic Economics more closely examines the potential for displacement at the Phase II stations and best practices for addressing these challenges.

FIGURE 4: VTA'S BART TO SILICON VALLEY WILL LINK TO MAJOR EMPLOYMENT CENTERS AND HELP COMPLETE THE REGIONAL TRANSIT NETWORK



Office Market

The report evaluates the market for office development along the VTA's BART Phase II extension, in the context of broader Silicon Valley office market trends. [5] Key findings are summarized below.

[5] For the purposes of the office market study, Silicon Valley was defined to include Santa Clara County and the City of Fremont.

SILICON VALLEY MARKET TRENDS

Since the end of the recession in 2011, Silicon Valley is experiencing a major economic expansion, driven by job growth in the tech sector. Strong employment growth has spurred significant office development. Between 2017 and 2018 alone, nearly seven million square feet of new office space were completed, representing a ten percent increase over the 2017 office inventory.

Real estate market and economic indicators suggest that demand for office remains strong. Rents for all classes of office have remained stable since 2016. Although vacancies have increased since 2016, this trend primarily reflects large amounts of new construction coming online. In the last quarter of 2017 and the first quarter of 2018, the market absorbed a record amount of space, primarily in the form of pre-leases as tenants rushed to lease properties that were under construction or planned. Meanwhile, employment in Santa Clara County continues to increase (Figure 5).

However, economists have identified a number of risks that could affect the future of employment growth and office development in Silicon Valley, including national economic factors that could lead to an economic downtown in the short- to mid-term, and longer-term challenges such as the region's housing affordability crisis. Nationally, the economy has been expanding since 2009, making the current economic cycle one of the longest on record.[6] Although it is challenging to predict economic cycles, low unemployment rates, rising interest rates, and high stock valuations in mid-2018 are suggestive of an economy that could be in the middle to late stages of expansion and heading towards a downturn.[7] Concerns about rising tariffs and immigration restrictions are also contributing to short-term economic uncertainty, including for the tech industry which relies heavily on an immigrant workforce and on foreign markets for manufacturing, capital, and sales.[8] In the longer term, economists have identified the region's housing affordability crisis, increasing congestion, and aging infrastructure as major challenges for continuing to attract a talented workforce, expand the innovation economy, and maintain strong employment growth.[9]

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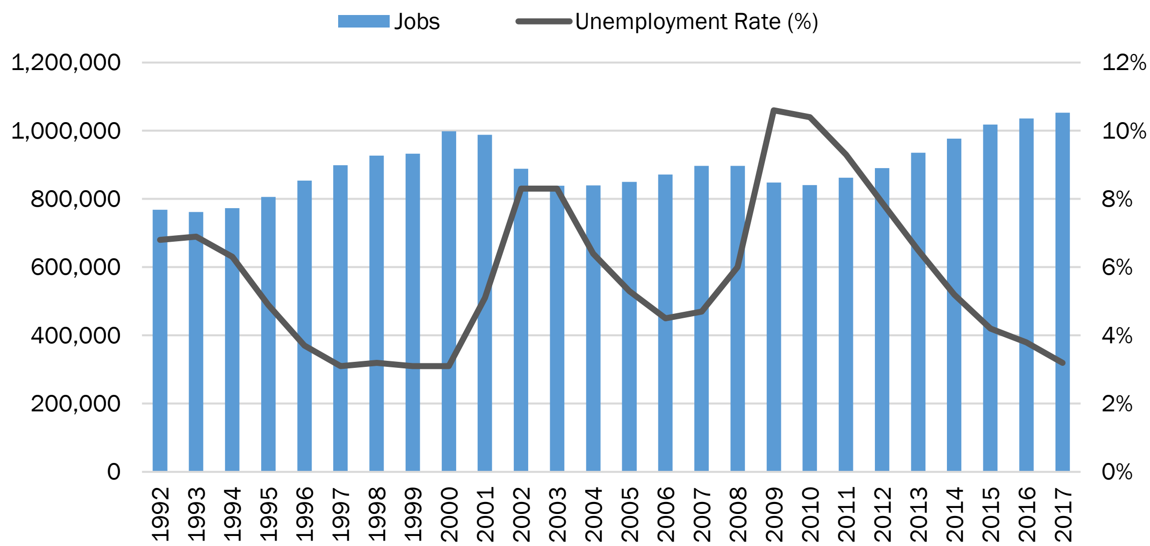
[6] As of June 2018, the economy had been expanding for 108 months. Since tracking began in the mid-1850s, only two other economic cycles (February 1961 – December 1969 and March 1991 - March 2001) have lasted more than 100 months. Source: National Bureau of Economic Research, US Business Cycle Expansions and Contractions, http://www.nber.org/cycles.html, accessed July 2018.
[7] Karen Wallace, "Where Are We in 'The Cycle'?" March 1, 2018, https://www.morningstar.com/articles/852591/where-are-we-in-the-cycle.html.
[8] For example, see Nelson W. Cunningam, "Trump's tariffs on Chinese tech exports worry Silicon Valley," San Francisco Chronicle, July 7, 2018, https://www.sfchronicle.com/opinion/openforum/article/Trump-s-tariffs-on-Chinese-tech-exports-worry-13055035.php; Ellen Sheng, "Silicon Valley is fighting a brain-drain war with Trump that it may lose," CNBC, April 9, 2018, https://www.cnbc.com/2018/04/09/trumps-war-on-immigration-causing-silicon-valley-brain-drain.html.
[9] For example, see Bay Area Economic Institute, "Continuing Growth and Unparalleled Innovation: Bay Area Economic Profile," July 2018, http://www.bayareaeconomy.org/files/pdf/BayAreaEconomicProfile2018Web.pdf; MTC and ABAG, "Regional Forecast of Jobs, Population, and Housing," Plan Bay Area 20140 Final Supplemental Report, July 2017.

FIGURE 5: SANTA CLARA COUNTY JOBS AND UNEMPLOYMENT RATE, 1992-2017

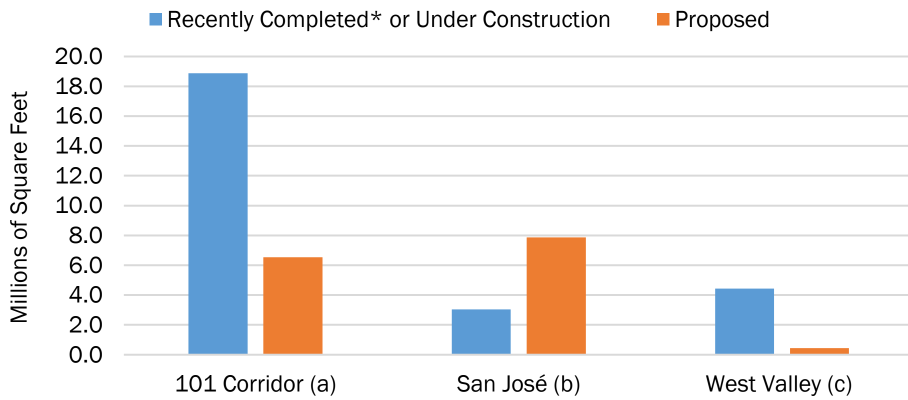


Sources: U.S. Census, Quarterly Workforce Indicators, 2018; California Employment Development Department, 2018; Strategic Economics, 2018.

Within Silicon Valley, the Highway 101 corridor has historically been the most competitive location for office tenants, but tenants are increasingly looking to smaller, traditionally less competitive office markets with good transit access. The 101 corridor (including Palo Alto, Mountain View/Los Altos, Sunnyvale, and northern Santa Clara) commands the highest rents in Silicon Valley, and has attracted 70 percent of new office development completed since 2011. However, developers and brokers observe that with rising rents and limited supply, tenants are increasingly looking to traditionally less competitive office markets including San José (Figure 6). Locations in secondary markets with good transit access are particularly attractive. In keeping with this trend, Downtown San José is attracting increasing interest from office tenants and developers (as discussed in more detail below).

Suburban campuses are still the most common form of development in Silicon Valley, but office is also increasingly included as a component of major mixed-use developments centered around transit. For example, large mixed-use office projects currently under construction near Caltrain stations include Coleman Highline/Gateway Crossings (Santa Clara), Cityline (Sunnyvale), and San Antonio Village (Mountain View). Several large mixed-use projects are also proposed at planned BART stations, such as Market Park (Berryessa), Google Transit Village (Diridon), and Museum Place (Downtown San José).

FIGURE 6: RECENT AND PROPOSED OFFICE DEVELOPMENT IN SELECTED SILICON VALLEY SUBMARKETS



(a) Includes Palo Alto, Mountain View, Los Altos, Sunnyvale, and Santa Clara.
(b) Includes Downtown, North San Jose, and South and East San Jose.
(c) Includes Cupertino, West San Jose, Campbell, Los Gatos, and Saratoga.
Sources: CoStar, 2018; Strategic Economics, 2018.

SANTA CLARA STATION AREA

While the Santa Clara station area has not historically been a major office location, the Coleman Highline project is adding a significant amount of new office space and the station area is well-positioned to attract additional office development over time. Office development in Santa Clara has historically been focused along Highway 101. However, the 24-acre Coleman Highline project is planned to add up to 1.5 million square feet of office space in the station area, as well as two hotels. More than 600,000 square feet of this office space has already been pre-leased by Roku and 8x8. The Coleman Highline project and neighboring Gateway Crossing mixed-use residential development are an example of the shift in Silicon Valley toward large mixed-use TOD projects that include major office components. If completed as planned, Coleman Highline has the potential to establish the Santa Clara station area as a new office center. The introduction of BART service will further increase the desirability of this area as a transit-oriented location.

DOWNTOWN SAN JOSÉ STATION AREA

Although no new office construction has occurred in the current market cycle, Downtown San José is attracting increased attention from office tenants. Many older buildings are being renovated, and new office has recently been proposed. Developers and brokers report that rents are nearly high enough to make office development feasible in Downtown San José. Indeed, the broader Downtown San José submarket (including the Diridon area) accounts for approximately one-third of proposed future office development in Silicon Valley.

A combination of factors is driving increased interest in Downtown San José from office tenants and developers. These factors include:

- **Recent residential development.** The increased number of households living in the Downtown is helping to generate activity and support more restaurants and services, making the area more attractive for office users.
- **Proximity to the planned Google Village:** Google's announcement that it intends to bring thousands of new workers to the Diridon area is helping to shift the perception of Downtown

as a secondary office market, and could help the area to grow to become a true Central Business District over time.

- **Improved transit access.** Real estate professionals familiar with the Downtown office market cited new bus rapid transit along East Santa Clara, as well as the planned BART extension as factors helping to attract additional interest in Downtown. As discussed above, tech companies are increasingly seeking out transit-served locations.
- **Improved retail and dining opportunities.** The San Pedro Market area and SoFa district (southeast of Cesar Chavez Plaza) have added more retail and dining opportunities catering to the growing number of Downtown residents and employees.

Downtown appears to be reaching an inflection point, where increasing demand and a continuing strong economy could lead to one or more office buildings being constructed in the current market cycle. However, an economic downturn would likely push new office construction to the next expansionary period.

The VTA block could be a very attractive site for new office and assist in the creation of a concentration of office around First and Santa Clara Streets. This area is attracting interest from investors, as evidenced by recent property purchases and renovations. The new BART station is likely to make it an even more attractive location.

Competition for sites with residential development could limit the potential for office development. Previous analyses found that achieving the overall amount of development envisioned for Downtown San José will require every developable site in the Downtown to maximize its height and density, which may be challenging because of parking requirements and height restrictions related to proximity to the San José International Airport.[10] To date, Downtown San José has proven more attractive for residential development than office development. Given the limits on development, it maybe be beneficial to preserve certain prime sites (such as those in close proximity to BART) for future high-density employment uses. However, it is important to note that the increased number of households living Downtown is one of the factors that is helping to make the area more attractive for office development. Policies should be carefully calibrated to ensure that they do not disincentivize development, so that Downtown can continue to grow and evolve as a mixed-use district.

ALUM ROCK/28TH STREET STATION AREA

It is unlikely that the Alum Rock/28th Street station area will see office development in the short to medium term. The station area is viewed as a challenging location for office, despite relative proximity to the Downtown. Real estate professionals interviewed for this study felt that while the station area may be able to attract medical office uses, the new BART station will help to stimulate the market for residential, rather than office development in the short- to medium-term. Other BART station areas, including Berryessa and Santa Clara, appear better positioned to attract office uses because they offer larger sites that can more readily accommodate a major mixed-use development project (as discussed below). However, in the long term, new residential development could help make the Alum Rock/28th Street station area more attractive for office development (as has occurred in the Downtown).

A major mixed-use development would be required to establish the area as an office location. According to brokers and developers, a large-scale, mixed-use development (including 500,000 square feet or more of office space) would be required to create a successful office location in an

[10] SPUR, The Future of Downtown San José: How the South Bay's urban center can achieve its potential, 2013.

unproven market such as the Alum Rock/28th Street station area, even with a new BART station. A larger-scale development is better able to accommodate a mix of uses and amenities often required by major tech companies, such as restaurants and/or cafeterias, fitness studios, and open space. For example, Coleman Highline is planned for 1.5 million square feet of office on 22 acres, as well as hotel and office; the project will also be adjacent to substantial new residential development at Gateway Crossings. The Market Park project at the future Berryessa BART station is planned for 1.15 to 2.2 million square feet of office space as part of a larger, 120-acre mixed use project.

The station area may not have an appropriate site to accommodate this scale of development. The area's largest development opportunity site is the 11-acre, former San José Steel site at the planned Alum Rock/28th Street BART station. Many of the other opportunity sites within the station area are small and under fragmented ownership. Based on feedback brokers and developers, it is not clear whether this will offer sufficient scale of development potential to enable new office development in an unproven market, even with improved transit access. The capacity for new office development in the station area will be explored further in a separate task of the TOD Study.

Multifamily Residential Market

The report evaluates the market for multifamily residential development in VTA's BART Phase II station areas, in the context of broader development trends in San José, Santa Clara and the County. Key findings are summarized below.

SANTA CLARA COUNTY MARKET TRENDS

There is significant pent-up demand for housing in Santa Clara County and the broader Bay Area region. Since the end of the recession in 2011, employment growth has significantly outstripped housing development. For example, between 2011 and 2017, the number of jobs in the nine-county Bay Area increased by nearly 21 percent, while the number of housing units increased by three percent.[11] In order to keep up with the rate of job growth, the regional housing market would have had to add 495,000 more housing units than were actually built during this period.[12] The pent-up demand for housing has led to rapid increases in rents and sales prices, as discussed below.

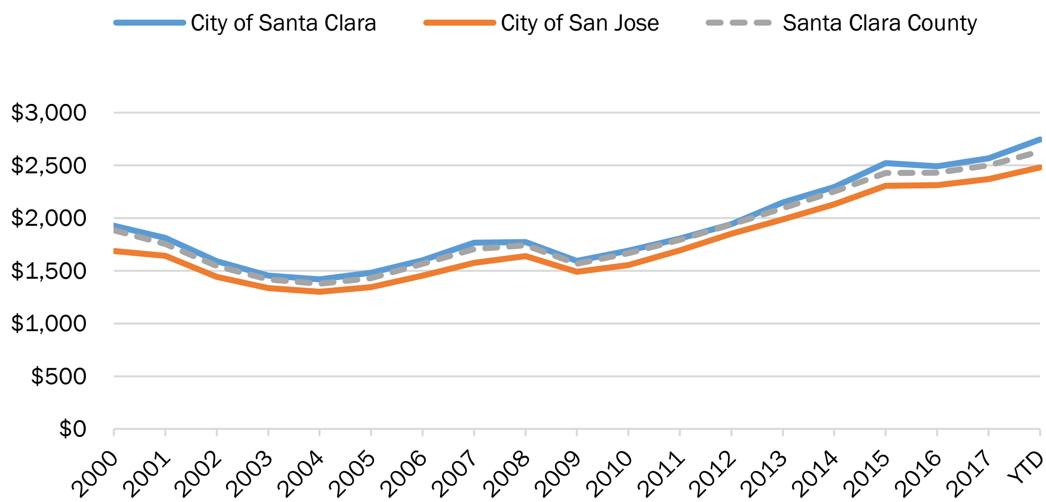
Rents in Santa Clara County have been rising for several years, although growth has slowed since 2015. Apartment rents accelerated beginning in 2011, as the economy emerged from the Great Recession, and continued growing at an average annual rate of nearly eight percent until 2015. Since then rents have continued to grow at a slower pace of about four percent. As of mid-2018, the average monthly rent in Santa Clara County was $2,575 (Figure 7). Rents in the City of Santa Clara tend to be slightly above the county average, while San José rents tend to be slightly lower. Vacancy rates have hovered around 5 percent for the past several years, reflecting the strong housing market.

As apartment rents and vacancies have begun to plateau, multifamily ownership prices have increased. As of April 2018, Santa Clara County's median sales price for multifamily ownership was $743 per square foot, an increase of 37 percent since 2017 (Figure 8). Local realtors note strong interest from first-time homebuyers – largely Millennials – who are shifting away from the region's

[11] California Department of Finance Housing Estimates; : U.S. Census Bureau, Quarterly Workforce Indicators; MTC and ABAG, "Regional Forecast of Jobs, Population and Housing," July 2017; Strategic Economics, 2018.
[12] Faster job growth relative to household growth has been made possible by a reduced unemployment rate, increased labor force participation, higher household sizes, and in-commuting from outside the region.

high-rent apartment market. High sales prices can also be partially attributed to stiff competition for a limited inventory.

FIGURE 7: AVERAGE RENT: SANTA CLARA, SAN JOSÉ, AND SANTA CLARA COUNTY, 2000 THROUGH MID-2018



Rents for market-rate apartments, in nominal dollars.
Sources: Costar, 2018; Strategic Economics, 2018.

FIGURE 8: MULTIFAMILY OWNERSHIP MEDIAN SALES PRICE PER SQUARE FOOT: CITIES OF SAN JOSÉ AND SANTA CLARA, SELECTED SUBMARKETS, AND SANTA CLARA COUNTY, 2012-2017

Source: Redfin, 2018.

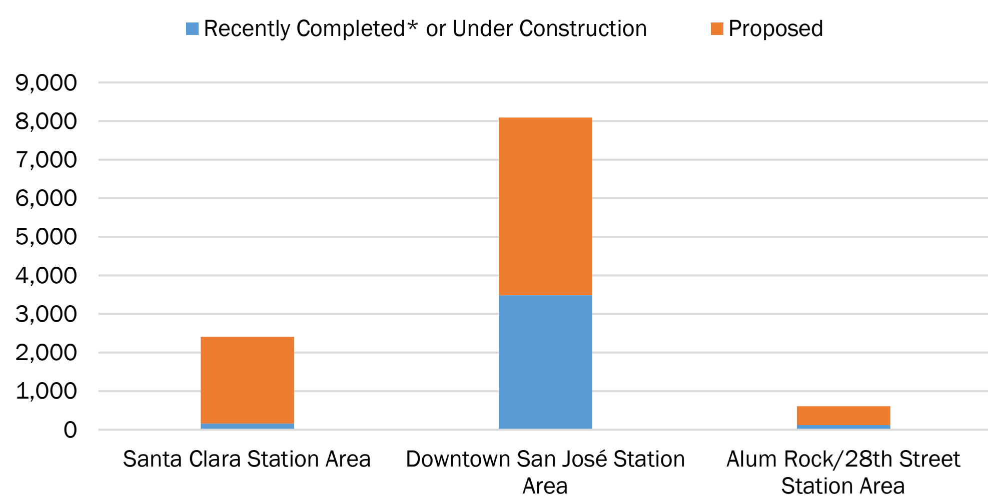
After several years of significant apartment development, the market is beginning to shift toward condominium projects. Between 2011 and mid-2018, 24,500 apartment units were completed in Santa Clara County, with the majority of units built in San José. During most of this time, condominium development was limited. However, Polaris Pacific (a brokerage firm that closely tracks the for-sale multifamily market) reports that as of mid-2018, San José has over 500 for-sale multifamily units under construction and an additional 1,800 units approved. According to developers, escalating construction costs and flattening rents are negatively affecting apartment feasibility. Meanwhile, comparatively high sales prices of for-sale housing are supporting development of condos and townhomes.

Developers cite the region's soaring construction costs as the most significant barrier preventing entitled projects, including several residential towers in Downtown San José, from breaking ground. The high cost of construction materials and rising labor costs are making it challenging for projects to move forward.

SANTA CLARA STATION AREA

The Santa Clara station area is a very desirable location for residential development. The station area has already attracted significant residential development, particularly along El Camino Real. Three major apartment projects are proposed immediately adjacent to the station itself (Gateway Crossings, 575 Benton Street, and a student housing project at the existing Caltrain station parking lot) could potentially add nearly 2,200 new residential units, more than doubling the number of housing units currently in the station area.[13] The station area benefits from proximity to major employment centers along Highway 101, the University, the Caltrain Station. The addition of BART will provide improved access to jobs and other destinations across the region, as well as direct connections to retail and entertainment in Downtown San José.

FIGURE 9. RECENT AND PROPOSED RESIDENTIAL DEVELOPMENT (UNITS) IN THE STATION AREAS



*Since 2011.
Includes market-rate and affordable units.
Sources: CoStar, 2018; Cities of San José and Santa Clara, 2018; Strategic Economics, 2018.

DOWNTOWN SAN JOSÉ STATION AREA

The Downtown area is experiencing an unprecedented amount of residential development activity, with approximately 2,380 units currently under construction and more than 4,600 additional residential units entitled or under review. This includes a combination of high-rise and mid-rise developments targeting young professionals and households without children. Although most of the

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[13] According to the 2016 American Community Survey, the Santa Clara station area had just over 1,600 housing units in 2016. Note that this does not include Downtown Santa Clara.

development to date has taken the form of apartments, several condominium projects are now planned. In addition, a few student housing projects are being built near San José State on the east side of Downtown.

Downtown San José is well positioned to continue to grow in appeal as a location for residential development over time. In the short term, the pace of residential development may be negatively impacted by rising construction costs. In the longer term, the growing concentration of activity in Downtown, future plans for the Google Village are helping to spur the market, and the planned future BART station will help make the station area increasingly attractive as a residential location.

ALUM ROCK/28TH STREET STATION AREA

The Alum Rock/28th Street Station Area is attracting growing interest from residential developers. Most recent development in the station area consists of affordable housing. However, the recent announcement of a proposed 332 unit mixed-use project at 1325 E. Julian Street suggests that development interest in the station area is already beginning to increase in response to the planned new BART station.

City policies may limit residential development in this station area. San José's Urban Village policy restricts the location and timing of residential development in the station area. The Urban Village policy also requires that all residential projects include a significant commercial component. According to developers, this requirement creates challenges for residential development because of the limited market for office and retail development in the station area, and could therefore potentially delay the timing of all new development.

In the long run, new residential development could help make the station area more appealing for office and retail uses. Policies that enable residential development could help strengthen demand for retail and service uses, and make the station area more attractive for other employment uses as well. For example, as discussed above, residential development in Downtown San José has been an important factor in catalyzing growing demand for office space..

Hotel Market

The market analysis evaluates the potential for new hotel development in VTA's BART Phase II station areas given recent trends in the Santa Clara County hotel market. Key findings are summarized below.

SANTA CLARA COUNTY MARKET TRENDS

Silicon Valley has one of the strongest lodging markets in the country, with very high room revenues and occupancy rates. As of the end of 2017, average daily rates (ADR) exceeded $200 and revenue per room (RevPAR)[14] had reached $160. In comparison, the national average RevPAR was $83 in 2017.[15] Occupancy rates at Silicon Valley hotels increased rapidly since 2011, and have remained at nearly 80 percent since 2014 (Figure 10). This is well above the national industry standard (65-70 percent).

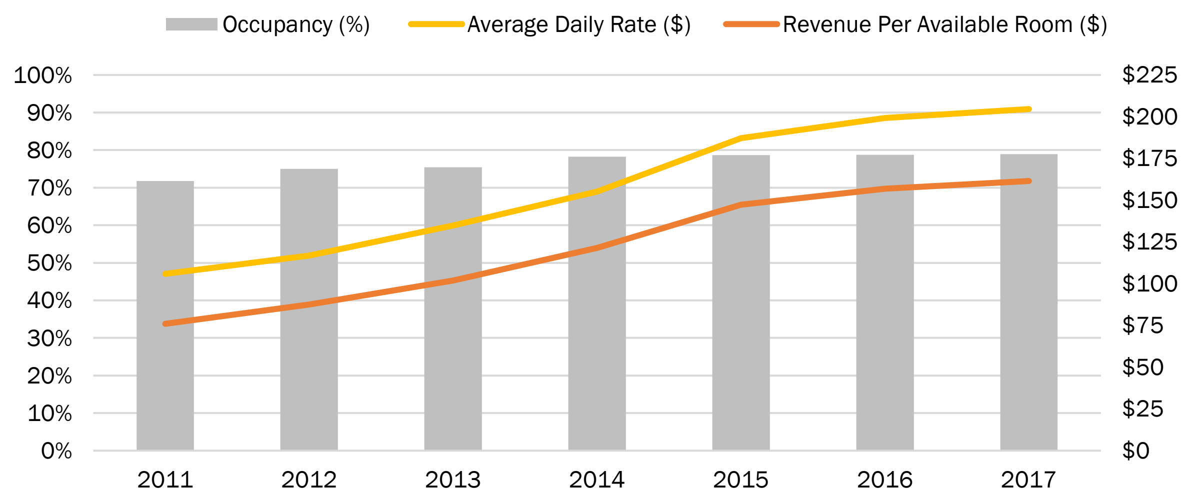
Hotel development has surged in Santa Clara County in the last several years, with approximately half of the development occurring in San José. In total, approximately 2,400 new rooms have been added

[14] Revenue per available room (RevPAR) is calculated by dividing total room revenue by the number of rooms available.
[15] Colliers International, 2018. Market Forecast Report Silicon Valley.

to the county's inventory since 2011, which represents an increase of nearly 10 percent. Half of recently completed rooms are located in San José, while just over 100 rooms have been added in Santa Clara. Another 2,100 rooms are currently under construction, of which half are located either in San José (900 rooms) or Santa Clara (360 rooms).

Growing demand for hotels in Silicon Valley has been driven by employment growth, especially in the tech and construction industries. Hotel market experts cite Silicon Valley's sustained job growth, especially in the tech industry, as the main factor supporting sustained, strong hotel demand.[16] Silicon Valley's large corporations generate significant weekday business travel, especially in midprice, upscale, and luxury hotels.[17] Extended stay hotels (properties that quote weekly rates) and limited-service hotels (properties that offer few amenities, such as restaurants or spas) have also seen increased occupancy rates from crews of construction workers travelling from outside Silicon Valley to help fill the region's limited labor supply.[18]

FIGURE 10: PERFORMANCE INDICATORS FOR MIDPRICE, UPSCALE, AND LUXURY HOTELS IN SILICON VALLEY CITIES, 2011-2017*



*Includes hotels in the cities of San José, Santa Clara, Los Altos, Sunnyvale, Campbell, Cupertino, Fremont, and Milpitas. Excludes budget and economy hotels.
Source: STR Global, 2018.

SANTA CLARA STATION AREA

Santa Clara Station is well-poised to attract hotel development given its proximity to Mineta San José International Airport, major employment centers, highways, and Santa Clara University. Passenger and flight activity at San José's airport have increased significantly, and new hotels have proliferated near the airport (although mostly on the east side of the airport, nearer the entrance). Proximity to Highway 880 and El Camino Real also provide visibility, which is important for certain types of hotels. Furthermore, from the University's perspective, there is a need for higher quality hotels to meet the

[16] HVS, September 2017. Market Pulse: Silicon Valley. https://www.hvs.com/article/8076-hvs-market-pulse-silicon-valley
[17] Hotel News Now, April 2017. Development, demand has Silicon Valley hotels trending.
http://www.hotelnewsnow.com/Articles/130271/Development-demand-has-Silicon-Valley-hotels-trending
[18] Colliers International, 2018. Market Forecast Report Silicon Valley.

growing demand from executives, visiting scholars, and visitors for events (graduations, open house, sports games, etc.)

DOWNTOWN SAN JOSÉ STATION AREA

Downtown San José is one of the largest hotel submarkets in Santa Clara County, and proximity to the McEnery Convention Center and a growing office and tech concentration make it attractive for additional office development. Downtown San José has approximately 2,700 rooms, 85 percent of which are classified as upscale or luxury, one of the largest concentrations in the county.[19] Daily rates and RevPAR in Downtown San José exceed the Silicon Valley average. Increased activity at the convention center (including more conferences and events), Adobe's planned expansion, and Google's anticipated Village at Diridon Station are attracting new interest from hotel developers.

Downtown San José is expanding its dining and entertainment cluster and it has seen an increase in tourism, but it does not yet attract a significant number of tourists. While the city's tourism industry has grown since 2016, most overnight visitation is still tied to business travel and conferences.

Overall, there is potential for significant additional hotel development in the Downtown San José station area, including in close proximity to the station itself (such as at the VTA block). Historically, most hotel development in Downtown has occurred within a half-mile of the convention center. However, the blocks immediately around the station are likely to become more attractive for hotel development as the area attracts new office and residential development, new retail and restaurants, and increased pedestrian activity. The VTA block could be an appropriate site for new hotel, especially as part of a larger mixed-use development.

ALUM ROCK/28TH ST STATION AREA

It is unlikely that the Alum Rock/28th St station area will see hotel development in the short to medium term. The station area, and the broader East San José/International Business Park submarket as a whole, has very little existing supply and has seen no new development in recent years. The station area has low employment densities, and no major destinations. Although Downtown San José is only about two miles away, business travelers do not tend to stay in hotels that far away from their destination. However, in the long run, the introduction of BART service, other public improvements, and new residential and office development could potentially enable the station area to attract a small increment of hotel development.

Retail Market

The market analysis evaluates the potential for new retail development in VTA's BART Phase II station areas, with a focus on retail development that will support transit-oriented, mixed-use neighborhoods. Key findings are summarized below.

SANTA CLARA COUNTY MARKET TRENDS

Santa Clara County is showing continued signs of a strong retail market. Between 2013 and 2018, the average retail vacancy rate in Santa Clara County declined from about 6 percent to 3.7 percent.

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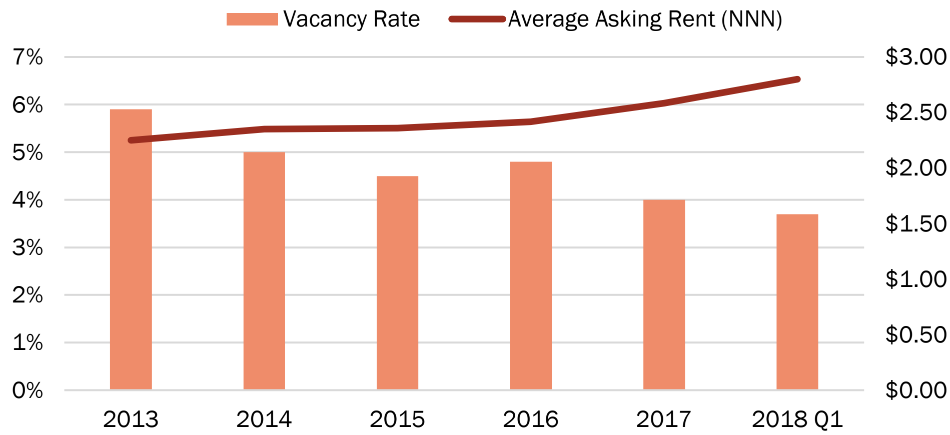
[19] One way STR categorizes hotels is based on their market price segment. STR defines luxury hotels as those with an average daily rate at or above the 85th percentile for the metropolitan region; upscale hotels are those between 70-85th average daily rate percentile; midprice hotels are in the 40-70th percentile; economy hotels are in the 20-40th percentile, and budget hotels are in the 0-20th percentile.

Meanwhile, rental rates have also steadily increased, reaching about $2.75 per square foot, triple net in 2018 (Figure 11). Rents and vacancies in the cities of San José and Santa Clara are similar to the countywide average.

FIGURE 11: SANTA CLARA COUNTY RETAIL MARKET VACANCY AND ASKING RENTS, 2013-2018



Values approximated based on Cushman and Wakefield's Retail Market Beat Report for the Silicon Valley, Q1 2018. Rents represent an average of all space types. Average rents for Class A or new space are much higher, closer to $4-$6 per square foot. Rents are expressed as monthly rents per square foot, triple net.
Source: Cushman Wakefield, 2018; Strategic Economics, 2018.

The region's low unemployment rates, high incomes, and sustained job and residential growth appear to be protecting Santa Clara County from some of the challenges affecting brick-and-mortar retailers nationally. The retail industry is in the middle of a major transformation. The past two years have been notable for a flurry of store closures or bankruptcies across the U.S., primarily in the home entertainment, apparel, electronics, footwear, and department store categories. Consolidation in the industry is driven by several trends, including the growing influence of e-commerce. Non-store retail sales (a proxy for online sales) accounted for 12 percent of total U.S. retail sales in 2016, but more than 40 percent of the *growth* in total sales between 2014 and 2016.[20] However, fast-growing urban areas appear to be somewhat protected from the challenges facing brick-and-mortar retailers, and the retail market in Santa Clara County remains one of the strongest in the country. Brokers report that malls in Santa Clara County have lost some major anchors and other tenants, although they are successfully adapting by upgrading vacated spaces and re-tenanting.

Nevertheless, national retail industry trends are affecting the types of tenants that are driving demand for retail space in Santa Clara County, and there remains significant uncertainty around the future of brick-and-mortar retail. As traditional retailers have pulled back, restaurants and drinking places, entertainment uses, food-related retail, fitness centers, medical uses, and personal and financial services are driving much of the demand for retail space, both nationally and in Santa Clara County. For example, several malls are filling their large vacant spaces with fitness tenants like 24 Hour Fitness and City Sports Club (Eastridge Mall and Evergreen Plaza), developing new theaters (Westfield Valley Fair), and/or upgrading their food courts to remain competitive (Eastridge Mall). Shopping malls and

[20] Strategic Economics, *State of the Retail Sector: Challenges and Opportunities for San Francisco's Neighborhood Commercial Districts*, prepared for San Francisco Office of Economic and Workforce Development, 2018.

districts are also starting to attract stores associated with online businesses (e.g., Warby Parker, Bonobos, Everlane) that enable customers to experience products in person. While malls and shopping districts in Santa Clara County have been largely successful at adapting to changing trends to date, there remains uncertainty about the amount of brick-and-mortar retail space that the region will be able to support in the long run as online shopping continues to grow.

Walkable, mixed-use shopping districts are increasingly attractive for new retail investment, both nationally and locally. National market reports find that that while new retail construction is at its lowest since 2015, urban and mixed-use products now account for the majority of new retail development.[21] Urban retail corridors offer access to a higher density of potential customers compared to more suburban locations, and provide a shopping environment characterized by pedestrian-friendly streets, architectural and historic appeal, and a mix of uses, parks, and public spaces that is increasingly appealing to many customers. In keeping with national trends, brokers anticipate that the "Almaden Ranch [a power center in South San José completed in 2017] is probably the last single-story, surface-park[ed] shopping [center] to be built in Silicon Valley."[22] Instead, developers are focusing on either building retail as part of mixed-use projects (e.g., San Antonio Center in Mountain View), or reinvesting in existing shopping centers.[23]

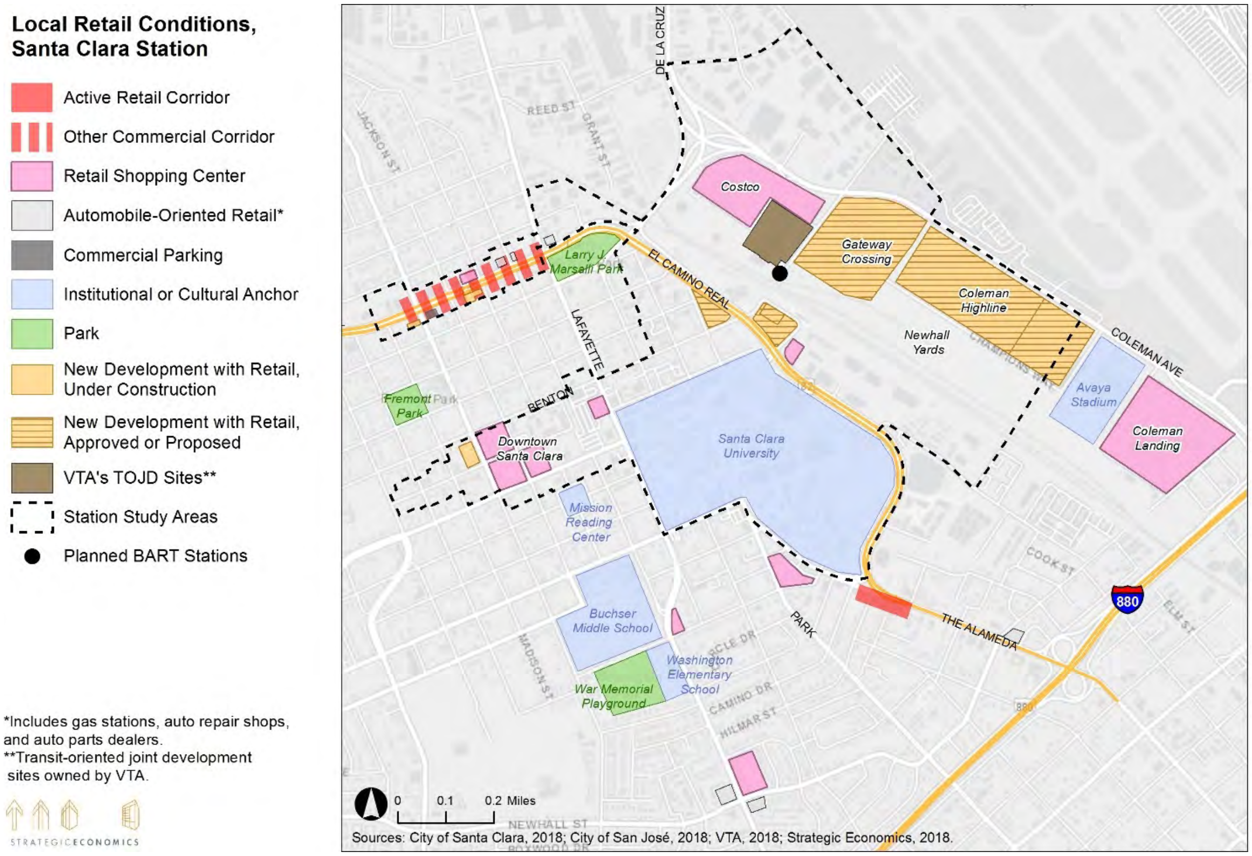
SANTA CLARA STATION AREA

Existing retail nodes in Downtown Santa Clara, along El Camino Real and on The Alameda could grow to include additional small-scale retail development over time. These clusters on the west side of the railroad tracks benefit from proximity to Santa Clara University and high-income residential neighborhoods. In addition, the City of Santa Clara is in the process of developing Precise Plans for the Downtown and El Camino Real, which will identify public investments to improve the pedestrian environment, enhance pedestrian and vehicle connectivity, and add new public gathering spaces. The plans may also identify some priority areas for focusing new ground floor retail development.

The east side of the railroad tracks may be more challenging for additional retail development, especially immediately adjacent to the station. Coleman Avenue has proven attractive for big box retailers. Future development (including the Gateway Crossing and Coleman Highline projects) has the potential to add new residents and workers and create a more welcoming pedestrian environment, and there could be opportunities for small increments of convenience retail to serve local residents, workers, and commuters. However, even with the new development, the blocks immediately adjacent to the station are likely to remain challenging locations for retail. In particular, retail space with limited surface parking or no direct frontage on Coleman Avenue would likely find a location on the east side of the station challenging, because of the poor vehicle and pedestrian connectivity to surrounding neighborhoods.

[21] JLL, United State Retail Outlook Q3 2017 and Q4 2018.
[22] Colliers, 2018. Silicon Valley Market Forecast Report
[23] Cushman and Wakefield, U.S. Market Beat Retail Shopping Center, Q4 2017.

FIGURE 12. EXISTING AND PLANNED RETAIL IN THE SANTA CLARA STATION AREA



DOWNTOWN SAN JOSÉ STATION AREA

In the short term, Downtown San José is poised to continue growing as a destination for dining and entertainment. Downtown San José is increasingly emerging as a dining and entertainment destination. As worker and residential densities continue to grow, there will also likely be increased demand for dining, entertainment, and neighborhood-serving goods and services (e.g., grocery and drug store, personal services) to serve new residents, workers, and visitors.

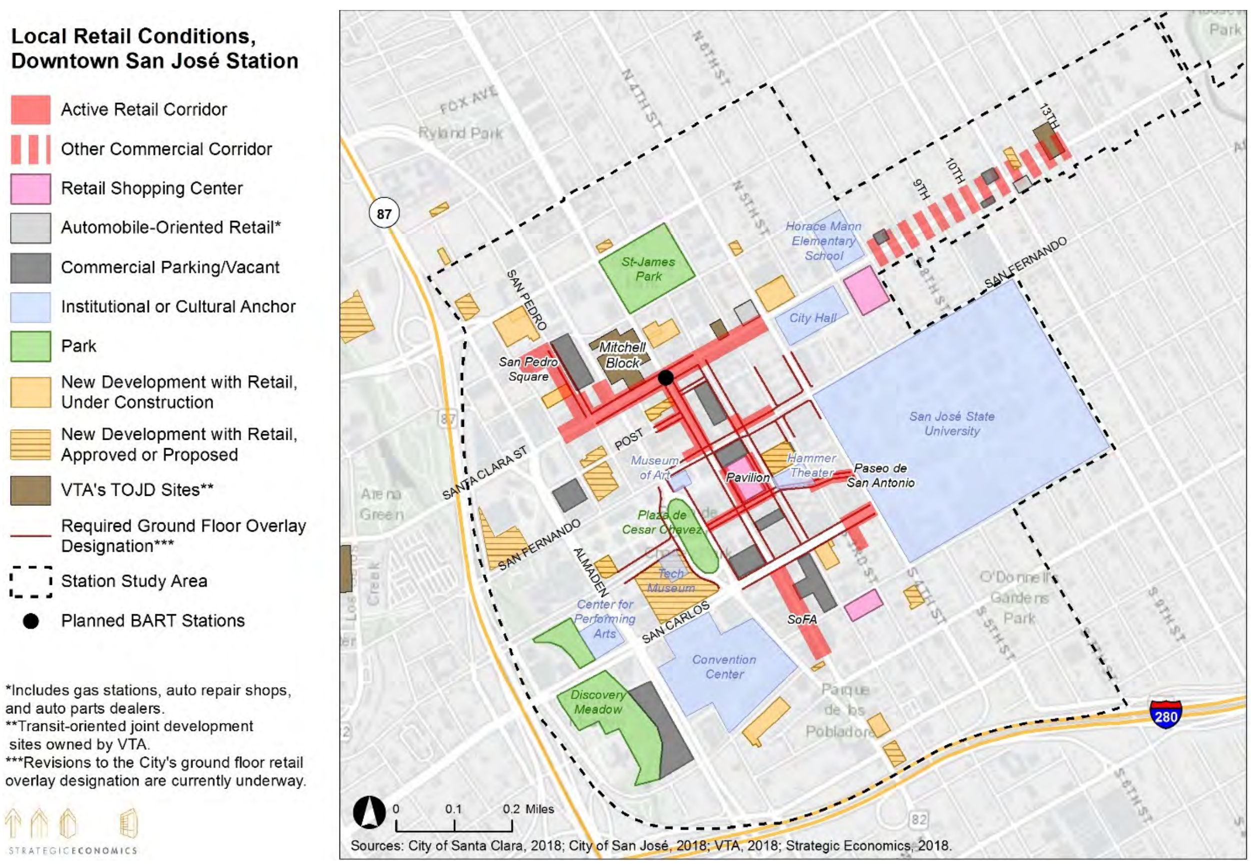
While traditional retail in Downtown San José is currently very limited, in the long-term the station area has the potential to attract more retailers selling clothing, accessories, home furnishings, or other goods. Some of the challenges that have prevented Downtown from attracting traditional retail include competition with nearby malls and lifestyle centers; vacancies and challenges related to cleanliness and safety that negatively affect the pedestrian environment; and lack of appropriate space (such as a cluster of large, Class A retail space with good visibility and large storefronts). However, as the most urban shopping district in Santa Clara County, Downtown is well positioned to leverage current retail industry trends that favor more walkable, mixed-use environments. In addition, the City and the San José Downtown Association are working to address Downtown's quality of life challenges, including investing in public space improvements, cleanliness, and safety.

As more mixed-use development occurs, it will be important for new ground floor space to be appropriately designed. For example, store height and depth, utility connections, visibility, commercial on/off-loading are key issues for retailers.

The most promising locations for new retail in the station area are along Santa Clara and San Fernando Streets. The Downtown Retail Strategy identifies Santa Clara and San Fernando Streets as some of the most promising corridors for new retail. VTA's Mitchell Block is located north of W. Santa Clara Street, between Market and First Street. Retail at this location is likely to do best if it is directly visible and accessible from Santa Clara and/or First Streets.

There may be potential for a new grocery store along the East Santa Clara Street corridor, between the Downtown and Alum Rock/28th Street stations. A grocery store would require an adequately sized site and excellent visibility and access for both vehicles and pedestrians. San José's forthcoming Citywide Retail Strategy identifies the site of the former hospital at East Santa Clara Street and North 17th Street (now owned by Santa Clara County) as an appropriate location, and recommends that the City and County work together to include a grocery store in future development proposals.

FIGURE 13. EXISTING AND PLANNED RETAIL IN THE DOWNTOWN SAN JOSÉ STATION AREA



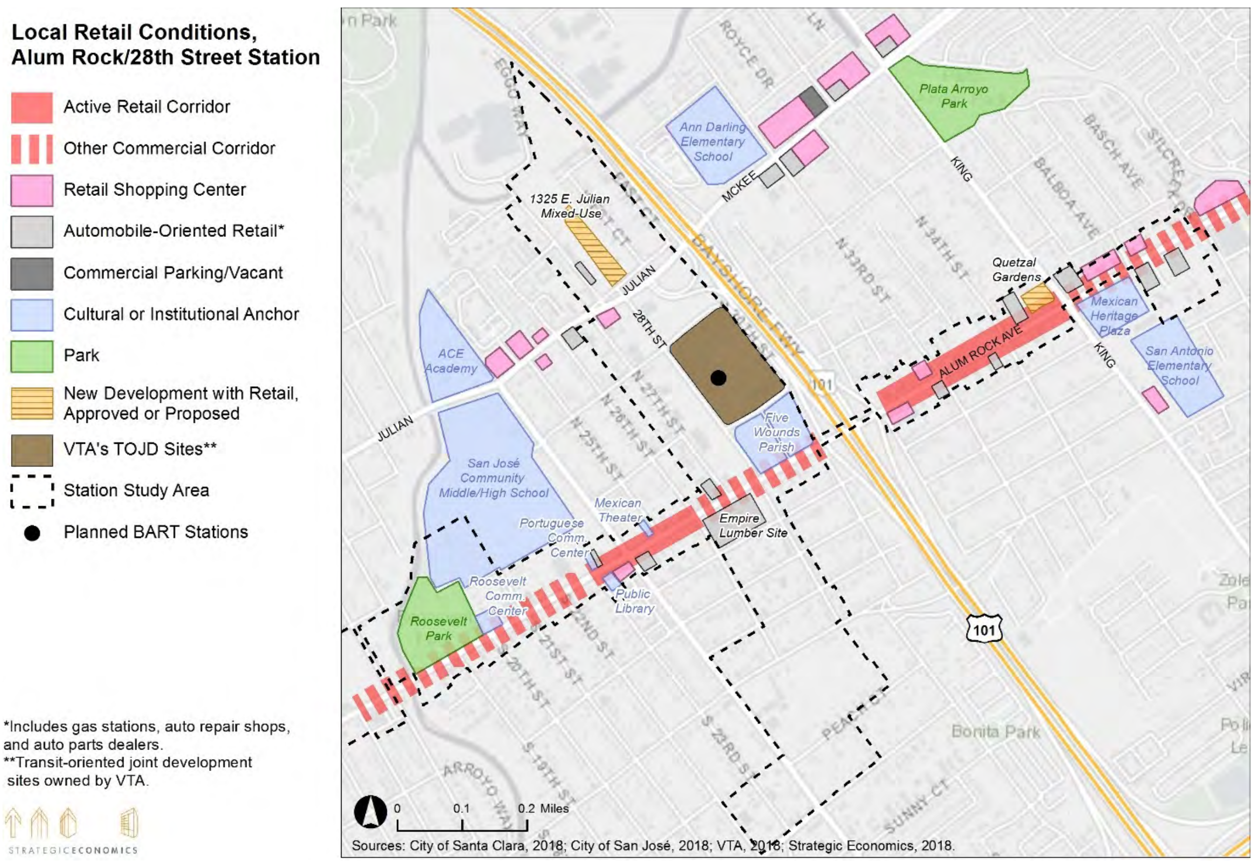
ALUM ROCK/28TH STREET STATION AREA

The Alum Rock/28th Street station area has proven challenging for new retail development. Recent commercial development in and around the station area has been limited to one new strip center built in 2013 (Bellini Plaza at King Road and Whitton Ave), and one mixed-use residential development with ground floor retail that was completed in 2004 (Tierra Encantada Apartments). The new retail space has several long-term vacancies. Brokers report that the area has struggled to attract the types of larger chain tenants who are more likely to be able to support the higher rents associated with new, larger retail space.

However, in the medium to long term there is potential to add incremental amounts of retail along the Alum Rock/East Santa Clara corridor to serve new residents and workers. Overcoming pedestrian barriers could also help make the station area more attractive for retail. In particular, Highway 101 creates a major pedestrian and physical barrier between the East Santa Clara and Alum Rock Avenue retail nodes.

Independent retailers may not be able to afford the higher costs associated with renting or purchasing new storefronts. As additional new development occurs, there may be a need to implement strategies to prevent displacement of existing small businesses.

FIGURE 14. EXISTING AND PLANNED RETAIL IN THE ALUM ROCK/28TH STREET STATION AREA



Demand Projections

The market study projected demand for office, multifamily residential, hotel, and retail development, assuming that the corridor becomes more competitive for new development following the introduction of BART. Key findings are discussed below, for the corridor overall and by station area. The market report provides more detail on the projection methodology and results.

CORRIDOR

Figure 15 summarizes projected demand by land use in the corridor from 2015 through 2040, after netting out development that is currently under construction or has been recently completed. As mentioned above, the demand projections assume that the corridor becomes more competitive for new development following the introduction of BART. The two scenarios (low and high) represent a range of assumptions about the rate of the region's future economic growth, and the share of regional growth that will be captured in the station areas.[24] Note that the demand projections are not constrained by land use capacity.

The projections below allocate demand based on their relative market strength. However, its important to note that development could shift within the corridor based on factors such as land use policy, capacity, infrastructure improvements, market changes, specific user needs, and other factors.

FIGURE 15: CORRIDOR DEMAND PROJECTIONS

	Low	High
Office (Sq. Ft.)	4,449,000	7,502,000
Residential (Units)	41,575	52,905
Hotel (Rooms)*	2,060	2,970
Retail (Sq. Ft.)	348,940	543,240

Net of development completed since 2015 or under construction.
*The hotel projections cover the 2018-2040 period.

Source: Strategic Economics, 2018.

SANTA CLARA STATION AREA

Figure 16 shows projected demand in the Santa Clara station area by land use and five-year period. After accounting for recently completed and under construction development, demand for new development in the Santa Clara station area by 2040 is projected to include:

- 1.3 to 2.3 million square feet of office space.
- 6,900 to 8,600 multifamily residential units.
- 590 to 850 hotel rooms.
- 53,500 to 93,400 square feet of retail.

If built as planned, the commercial development currently proposed for the station area could absorb the majority of the projected demand for office, hotel, and retail. Currently, the development pipeline includes approximately 1.5 million square feet of proposed office, of which more than 600,000 square feet are pre-leased (Coleman Highline); 550 proposed hotel rooms (Gateway Crossings and Coleman Highline); and 84,000 square feet of proposed retail. In the high scenario, there could be demand for an additional 800,000 square feet of office, 300 hotel rooms, and some small additional increments of ground floor retail,[25] beyond the amount currently in the pipeline.

The City of Santa Clara's General Plan envisions approximately 500,000 square feet of office and up to 1.5 million square feet of retail and hotel space by 2035. These figures represent planned capacity,

[24] For the purposes of the demand projections, the region was defined as the five BART-served counties (Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara).
[25] Some new retail space may be filled other uses not included in the projections (e.g., fitness centers, personal services, medical services, and professional and financial services, etc.).

not a cap. It is important to note that part of the station area (including the Coleman Highline project) is within the City of San José, in the Santa Clara/Airport West Employment Area. The City has not established capacity projections for the employment area.

There may be demand for significantly more residential development that is currently planned in the station areas. The City of Santa Clara's General Plan envisions 2,600 new housing units in the station area by 2040. Residential development is not allowed in the portion of the station area located in San José. The development pipeline currently includes approximately 2,000 proposed residential units (at Gateway Crossings, 575 Benton Street, and a student housing project on the Caltrain station parking lot).

DOWNTOWN SAN JOSÉ STATION AREA

Figure 17 shows projected demand in the Downtown San José ra station area by land use and five-year period. After netting out recently completed and under construction development, demand for new development in the Downtown San José station area by 2040 is estimated to include:

- 2.8 to 4.6 million square feet of office.
- 28,460 to 36,500 multifamily residential units.
- 1,340 to 1,930 hotel rooms.
- 250,000 to 390,000 square feet of retail.

Some of the projected office and retail demand may be absorbed by renovating and filling existing vacant office space and storefronts. According to CBRE, there are approximately 1.3 million square feet of vacant office space in the greater Downtown San José market area.

The projections assume that Downtown will become a more desirable location for office and residential uses due to the introduction of BART, Google Village, and other factors. However, the projections do not account for any other catalytic events (such as another large employer developing a major campus in Downtown) that could further shift Downtown's trajectory. Currently, the development pipeline in the Downtown San José station area includes about 1.8 million square feet of office, 4,500 residential units, 750 hotel rooms, and 140,000 square feet of retail.

The retail projections may not fully reflect the short-term potential for a grocery or drug store that might serve the broader Downtown/East San José submarket. As discussed above, the San José Citywide Retail Strategy identifies a need for grocery and drug store along the E. Santa Clara Street corridor to serve the broader Downtown and East San José submarkets. A grocery and/or drug store in this corridor would serve pent up demand from existing residents, as well as the demand generated by new residents.

The City of San José is updating the amount of development planned for the greater Downtown/Diridon area (the Downtown Growth Boundary). In the Downtown strategy currently underway (Downtown Strategy 2040), the City envisions the following development by 2040:

- 14.2 million square feet of new office space.
- 15,160 new residential units, of which 8,333 have already been entitled, leaving approximately 6,800 units that are not yet allocated to a project.
- 3,600 hotel rooms.
- 1.4 million square feet of retail.

It is unclear at this point how much of the development envisioned in Downtown Strategy 2040 might be absorbed west of Highway 87, near the Diridon station. Media reports suggest that the proposed Google Transit Village could include 6 to 8 million square feet of office at Diridon Station. Google and Trammell Crow have not yet publicly released any plans for housing or other uses in the transit village. In addition to the Google Transit Village, an additional one million square feet of office is proposed at 440 W. Julian Street, and 204,000 square feet are under construction at the River Corporate Center Phase 3.

ALUM ROCK/28TH STREET STATION AREA

Figure 18 shows projected demand in the Alum Rock/28th Street station area by land use and five-year period. After netting out recently completed and under construction development, demand for new development in the Alum Rock/28th Street station area by 2040 is estimated to include:

- 306,000 to 496,000 square feet of office.
- 6,250 to 7,800 multifamily residential units.
- 130 to 190 hotel rooms.
- 43,800 to 58,300 square feet of retail.

As discussed above, a major mixed-use project including a significant increment of office space (on the order of 500,000 square feet or more) may be required for Alum Rock/28th Street to become a viable location for office and hotel. The high-end scenario assumes that the station area attracts one or more large tenants that drive this level of development; however, it may be challenging to accommodate a major mixed-use development on the available land in the station area.

Accommodating the demand projected for the Alum Rock/28th Street station area would entail a significant increase in the pace of development in the station area, which has seen very little development activity in recent years. Currently, there is no office or hotel development proposed for the station area, although local property owners have reported interest from developers. As of summer 2018, there were 480 new residential units proposed (including 330 units at 1325 E. Julian Street, 80 units in the Roosevelt Park Affordable Housing project, and 70 units at Quetzal Gardens), as well as 21,000 square feet of ground floor retail in mixed-use projects. Note that the development pipeline is evolving, and additional projects may have been proposed since summer 2018.

The residential pipeline in the station area may in part be constrained by the Urban Villages policy, which places some restrictions on the timing and total amount of market-rate housing development that may occur. The City of San José currently caps housing development in the four Urban Villages in the station area (Roosevelt Park, Little Portugal, Five Wounds, and 24th and William Street) at 2,022 units by 2040. [26] The City is planning for 1.6 million square feet of commercial space (including office, retail, hotel, and/or other employment uses) in the four Urban Villages (Figure 19).

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[26] Once implementation plans are in place, residential development may move forward in the Horizon 1 Urban Villages (Roosevelt Park and Little Portugal). In the Horizon 2 and 3 Urban Villages (Five Wounds and S. 24th St./William Ct.), affordable housing and Signature Projects may be permitted once the implementation plans are completed.

FIGURE 16: SANTA CLARA STATION AREA DEMAND PROJECTIONS, 2015-2040

	Projected Future Demand (Sq Ft./Units)						Development Completed Since 2015 or Under Construction as of Summer 2018	Net New Demand, 2015-2040**
	2015-20	2020-25	2025-30	2030-35	2035-40	Total 2015-40		
Low								
Office (Sq. Ft.)	395,000	479,000	249,000	252,000	263,000	1,639,000	357,000	1,282,000
Residential (Units)	940	1,610	1,430	1,590	1,460	7,030	164	6,866
Hotel (Rooms)*	120	140	100	110	110	590	N/A	590
Retail (Sq. Ft.)	15,700	21,000	13,200	13,900	13,700	77,500	24,055	53,445
High								
Office (Sq. Ft.)	710,000	739,000	387,000	412,000	441,000	2,689,000	357,000	2,332,000
Residential (Units)	1,180	2,010	1,790	1,980	1,830	8,790	164	8,626
Hotel (Rooms)*	180	200	150	160	160	850	N/A	850
Retail (Sq. Ft.)	26,600	30,700	18,900	20,400	20,700	117,400	24,055	93,345

*The hotel projections cover the 2018-2040 period.
**Total 2015-40 demand, minus development completed since 2015 or currently under construction.
Source: Strategic Economics, 2018.

Figure 17: Downtown San Jose Station Area Demand Projections, 2015-2040

	Projected Future Demand (Sq Ft./Units)						Development Completed Since 2015 or Under Construction as of Summer 2018	Net New Demand, 2015-2040**
	2015-20	2020-25	2025-30	2030-35	2035-40	Total 2015-40		
Low								
Office (Sq. Ft.)	395,000	479,000	646,000	656,000	684,000	2,862,000	0	2,862,000
Residential (Units)	3,530	7,510	6,690	7,410	6,820	31,950	3,488	28,462
Hotel (Rooms)*	230	250	270	290	290	1,340	N/A	1,340
Retail (Sq. Ft.)	42,900	76,000	77,400	83,100	79,800	359,200	107,505	251,695
High								
Office (Sq. Ft.)	710,000	739,000	1,007,000	1,070,000	1,148,000	4,674,000	0	4,674,000
Residential (Units)	4,410	9,390	8,360	9,260	8,520	39,940	3,488	36,452
Hotel (Rooms)*	330	370	390	420	420	1,930	N/A	1,930
Retail (Sq. Ft.)	63,700	101,400	105,800	115,100	113,100	499,100	107,505	391,595

*The hotel projections cover the 2018-2040 period.
**Total 2015-40 demand, minus development completed since 2015 or currently under construction.
Source: Strategic Economics, 2018.

FIGURE 18: ALUM ROCK/28TH STREET DEMAND PROJECTIONS, 2015-2040

	Projected Future Demand (Sq Ft./Units)						Development Completed Since 2015 or Under Construction as of Summer 2018	Net New Demand, 2015-2040**
	2015-20	2020-25	2025-30	2030-35	2035-40	Total 2015-40		
Low								
Office (Sq. Ft.)	0	0	99,000	101,000	105,000	306,000	0	306,000
Residential (Units)	240	1,610	1,430	1,590	1,460	6,330	83	6,247
Hotel (Rooms)*	0	0	40	50	50	130	N/A	130
Retail (Sq. Ft.)	1,300	8,700	10,800	11,700	11,200	43,800	0	43,800
High								
Office (Sq. Ft.)	0	0	155,000	165,000	177,000	496,000	0	496,000
Residential (Units)	290	2,010	1,790	1,980	1,830	7,910	83	7,827
Hotel (Rooms)*	0	0	60	70	70	190	N/A	190
Retail (Sq. Ft.)	1,600	10,900	14,500	15,900	15,400	58,300	0	58,300

*The hotel projections cover the 2018-2040 period.
**Total 2015-40 demand, minus development completed since 2015 or currently under construction.
Source: Strategic Economics, 2018.

FIGURE 19: PLANNED CAPACITY IN THE ALUM ROCK/28TH STREET STATION AREA

Alum Rock/28th St Station Urban Villages	Planning Horizon	Planned Housing Capacity (Units)	Planned Commercial Capacity (Square Feet)
Roosevelt Park	Horizon 1	650	181,500
Little Portugal	Horizon 1	310	82,000
Five Wounds BART	Horizon 2	845	1,215,000
S. 24th St/William Ct	Horizon 3	217	124,500
Subtotal		**2,022**	**1,603,000**

Note: Once implementation plans are in place, residential development may move forward in the Horizon 1 Urban Villages. In the Horizon 2 and 3 Urban Villages, affordable housing and Signature Projects may be permitted once the implementation plans are completed.
Source: Strategic Economics' review of City of San José planning documents.

I. INTRODUCTION

The Santa Clara Valley Transportation Authority (VTA) is leading a study to support the implementation of transit-oriented development (TOD) in VTA's planned BART Phase II Corridor extension through Downtown San José and Santa Clara. VTA's BART Phase II Corridor TOD Study will provide a comprehensive framework and recommendations for TOD in the Alum Rock/28th Street, Downtown San José, and Santa Clara station areas. This draft report evaluates the market for office, multifamily housing, hotels, and retail uses in three of the station areas that will be served by VTA's BART Phase II corridor. The report also provides preliminary projections of future demand for office, multifamily housing, hotel, and retail demand through 2040.

Note that the analysis in this study was completed in the spring and summer of 2018. New development proposals, policy changes, and other changes that have occurred since that time are not reflected in this report.

Background and Study Area Boundaries

VTA is delivering a 16-mile extension to the Bay Area Rapid Transit (BART) system. Phase I of the extension is currently under construction and will add two BART stations at Milpitas and Berryessa. Phase II (referred to as VTA's BART Phase II extension in this report) will extend the system to four additional stations: Alum Rock/28th Street, Downtown San José, Diridon, and Santa Clara Stations.

The TOD Study addresses three of the four stations: Alum Rock/28th Street, Downtown San José, and Santa Clara Stations. Figure I-1 shows the station study areas (referred to as "station areas" throughout this report).[27] The Diridon station area is the subject of a separate planning effort by the City of San José, VTA, and other transportation agencies. This report assesses the implications of planned growth in the Diridon station area but does not include a full analysis of the market for new development at Diridon.

Report Organization

Following this introduction, the report includes the following chapters:

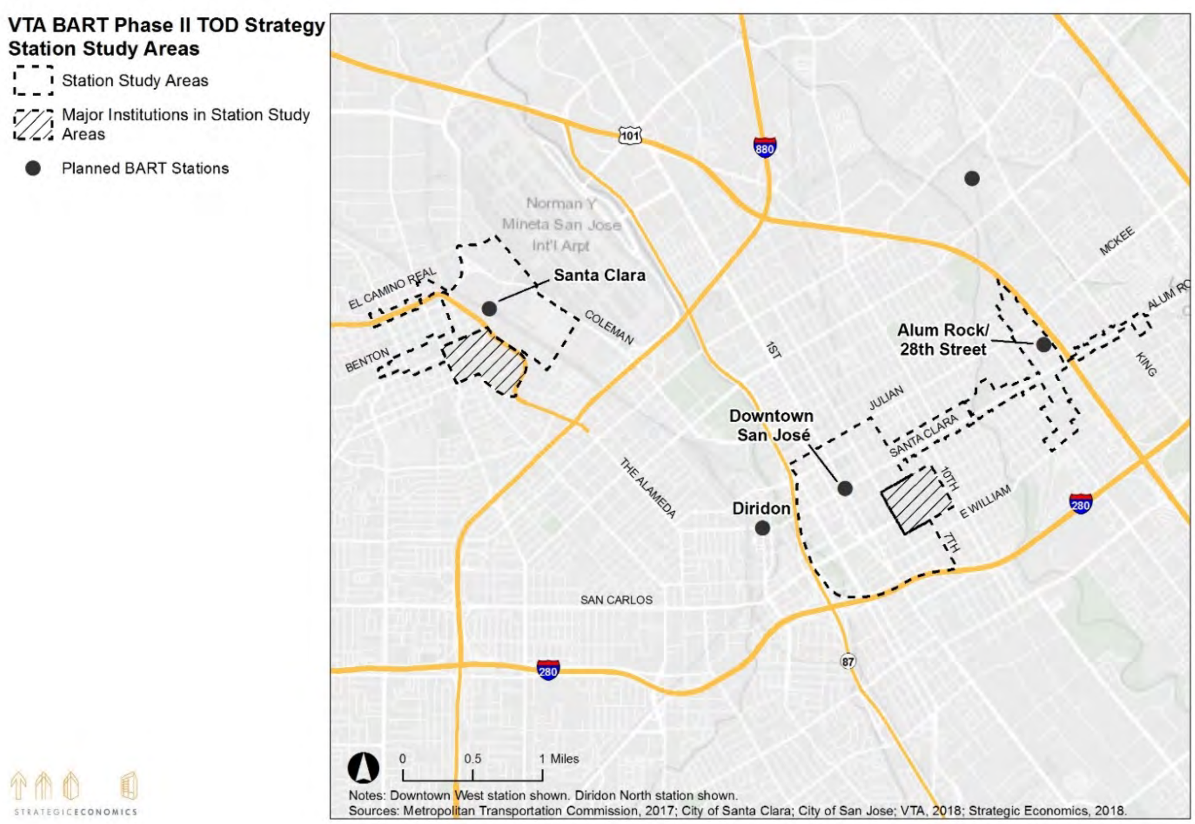
- **Chapter II: Transit and Development Potential.** Chapter II reviews the literature on the household and firm preferences that shape demand for TOD, and the property value and development impacts of transit. The chapter also explores how these trends are already playing out in transit-served locations in Silicon Valley and other parts of the Bay Area, and the implications for TOD in VTA's BART Phase II station areas.
- **Chapter III: Demographic and Employment Overview.** Chapter III describes demographic employment characteristics and trends in VTA's BART Phase II station areas that will influence the market for future development. The chapter also includes information about current station area commute patterns (where workers of the station areas live, and where residents work).

[27] For the Downtown San José station area, the market study focused on the area bounded by High 87 to the west, I-280 to the south, Julian Street to the north, and 7th and 10th Streets on the east. The analysis and projections provided in this report do not include the portion of East Santa Clara Street between 10th Street and Coyote Creek (where the Alum Rock/28th Street station study area beings).

- **Chapter IV: Office Market.** Chapter IV evaluates the market for office development along the VTA's BART Phase II extension. The chapter includes an overview of Silicon Valley office market trends, analysis of the opportunities and challenges for office development in each of the three station areas, and projected office demand in the station areas to 2040.
- **Chapter V: Multifamily Residential Market.** Chapter V evaluates the market for multifamily residential development in VTA's BART Phase II station areas, in the context of broader development trends in San José, Santa Clara and Santa Clara County. The chapter also provides demand projections for multifamily residential development in each of the station areas to 2040. Note that affordable housing, including concerns around displacement, will be addressed separately in Strategic Economics' forthcoming Task 3.3 deliverable.
- **Chapter VI: Hotel Market.** Chapter VI assesses the potential for new hotel development in the station areas given recent trends in the Santa Clara county hotel market, and projects demand for hotel rooms in the station areas to 2040.
- **Chapter VII: Retail Market.** Chapter VII evaluates the market for retail development in the station areas, including the potential implications of national and regional trends in the retail industry, and projections for retail and restaurant demand to 2040. This chapter draws on some of the initial findings and background analysis conducted for the City of San José's forthcoming Citywide Retail Strategy and Downtown Retail Strategy, as well as additional research and interviews.

The appendix provides additional detail on the hotel and retail demand projections assumptions and methodology.

FIGURE I-1: STATION STUDY AREA BOUNDARIES



II. TRANSIT AND DEVELOPMENT POTENTIAL

Studies show that certain types of households and employers are more likely to prefer locations near transit, particularly when those locations also offer attractive streets for walking and bicycling, well-designed public space, and neighborhood retail, restaurants, and services. As a result, transit-served locations may attract additional development and generate higher property values. However, the extent to which any particular transit corridor or station area attracts new transit-oriented development depends on many factors, including regional and local real estate market conditions and the frequency and convenience of the transit service.

This section briefly reviews the literature on household and firm preferences shape demand for TOD and the property value and development impacts of transit. The section explores how these trends are already playing out in transit-served locations in Silicon Valley and other parts of the Bay Area, and the implications for VTA's BART Phase II station areas.

Household and Firm Location Preferences

Households and firms, both nationally and in Silicon Valley, are demonstrating a growing preference for transit. These preferences are discussed below.

Surveys have found that many households prefer walkable, transit-oriented neighborhoods. For example, a recent National Association of Realtors survey on household and transportation preferences found access to public transit is very or somewhat important in deciding where to live for 62 percent of respondents. Nearly 70 percent report that sidewalks and places to walk and a short commute are very or somewhat important in deciding where to live. While most groups still prioritize easy access to the highway over access to public transit, Millennials (the generation born in the 1980s and 1990s) prioritize proximity to public transit as highly as they do proximity to the highway. Access to public transportation is much more important to those earning under $50,000 (41 percent answered "very important) compared to those earning more than $50,000 (28 percent). Walkability is also more important to those with lower incomes.[28]

Nationally, many employers see proximity to transit and other amenities as critical factors for recruiting and retaining talent. Over 60 percent of firms surveyed in CBRE's 2017 *Americas Occupier Survey* cited quality of local infrastructure and amenities as driving corporate building selection, and 40 percent stated that access to public transportation was the most important factor to their labor force.[29] Firms in knowledge-based industries (e.g., professional, scientific, information, and financial services) are particularly likely to choose locations based on factors that improve quality of life for workers, such as access to transit and amenities.[30] Reflecting the value that these types of employers place on proximity to transit, employment near transit stations tends to be highly concentrated in knowledge-based industries.[31]

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[28] National Association of Realtors, National Community and Transportation Preferences Survey, September 2017, https://www.nar.realtor/infographics/infographic-2017-community-transportation-preference-survey.

[29] CBRE, *Americas Occupier Survey*, 2017. http://www.us.jll.com/united-states/en-us/Research/US-Tech-Office-Trends-Fall-2017-JLL.PDF

[30] Salvesen and Renski, "The Importance of Quality of Life in the Location Decisions of New Economy Firms"; Chapple and Makarewicz, "Restricting New Infrastructure."

[31] Center for Transit-Oriented Development, "Trends in Transit-Oriented Development, 2000-2010."

While the suburban tech campus is still thriving in Silicon Valley, employers in the region are showing a growing preference for TOD locations. Silicon Valley is well known for its suburban, auto-oriented office market. Compared to San Francisco and the East Bay, where employment is more concentrated in transit-served urban centers (especially Downtown San Francisco and Downtown Oakland), employment in the Valley is dispersed among many employment centers, many of which are not served by transit. However, as the market for skilled labor in Silicon Valley has become more competitive, tech companies are investing more in office locations and amenities that help promote the well-being, productivity and engagement of their workforce.[32] Office locations with excellent access to Caltrain or other regional transit, restaurants, and retail have become particularly desirable, because these amenities are seen as helpful for employee recruitment and retention. Examples of Silicon Valley tech companies that have recently located or announced plans to locate offices near transit stations include Google (with the planned transit village at Diridon Station), Facebook, Apple, Survey Monkey, Box, 23andme, and 8x8.

In addition to improving employee recruitment and retention, locating near transit can also be a cost-saving measure for Silicon Valley firms. Firms in Silicon Valley, particularly in the tech sector, are increasingly operating private shuttle services. According to recent articles and interviews with people familiar with the firms' location decisions, access to transit can help larger firms reduce the cost of running shuttle systems, and help smaller firms that cannot afford to run private shuttle systems compete for labor with the larger companies.

Property Value and Development Impacts of Transit

A substantial body of literature has shown that household and firm preferences for transit-served locations result in higher property values and more high-density development near transit stations. The literature includes several studies focused on the property value and development impacts of transit in the Bay Area. In the early 2000s, a study examined the impact of VTA light rail and Caltrain commuter service on commercial properties in Santa Clara County, and found significant premiums for land values and office rents after controlling for other factors.[33] For example, commercial properties (including office, retail, and R&D) located within a quarter mile of VTA light rail stations were found to experience 23 percent higher property values, while commercial properties within a quarter mile of Caltrain commuter rail stations commanded 120 percent higher property values.[34] More recent studies have found that properties located within a quarter to a half mile of BART stations in Alameda and Contra Costa County command an 11 to 18 percent premium, depending on the property type (see discussion in text box, below).[35]

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32 JLL, *Tech Office Trends*, Fall 2017.

33 Cervero and Duncan, "Rail Transit's Value-Added: Effects of Proximity to Light and Commuter Rail Transit on Commercial Land Values in Santa Clara County, California"; Weinberger, "Light Rail Proximity."

34 Cervero and Duncan, "Rail Transit's Value-Added: Effects of Proximity to Light and Commuter Rail Transit on Commercial Land Values in Santa Clara County, California."

35 Strategic Economics, "Property Value and Fiscal Benefits of BART"; Strategic Economics, "Benefits of BART for Office and Apartment Properties"; Strategic Economics, "Benefits of BART to Single-Family and Condominium Property Values by County."

BART'S PROPERTY VALUE AND DEVELOPMENT IMPACTS

A series of studies conducted by Strategic Economics in 2014 and 2015 documented the impacts that proximity to BART has on local real estate markets in the Bay Area. Some of the key findings include:

- **BART station areas have attracted significant new development.** In Alameda, San Mateo, and Santa Clara Counties, one-third of all new apartment development since 1999 has occurred within a half mile of a BART station. Office development has been more decentralized, but since the mid-1990s, almost 30 percent of the new office development in Alameda County and nearly 50 percent of new office development in San Francisco has been located within a half-mile of a BART station. Many of these projects have been built with pedestrian connections and other design features intended to enhance their connections to BART.
- **BART has been particularly important in enabling Downtown San Francisco to grow and maintain its importance as the region's central business district.** Approximately 43 percent of San Francisco's office inventory is located within a quarter mile of one of the Downtown BART stations, and 73 percent is located within a half mile. This concentration of office space would not be possible without BART, which enables workers to commute into San Francisco without a car. This in turn helps decrease demand for parking, freeing up developable area for additional rentable office space.
- **In Alameda and Contra Costa Counties, properties near BART experience significant value premiums compared to properties located farther from the stations.** Strategic Economics used statistical models to control for other characteristics that affect property values and rents, such as building quality and size, freeway access, neighborhood characteristics, and location. All else equal, properties in the East Bay experience significant premiums, including:

  +18% higher office rents within a quarter mile of BART stations in Alameda and Contra Costa Counties.

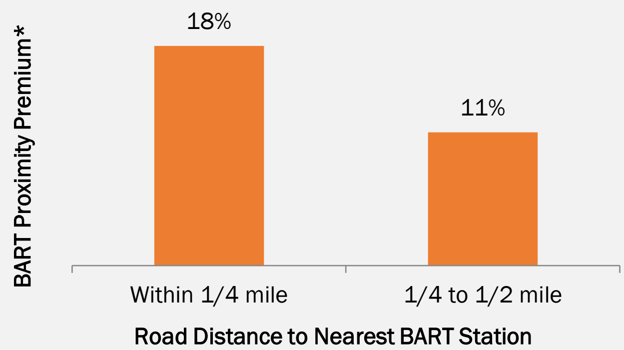
  +15% higher single-family sales values within a half mile of BART stations in Alameda and Contra Costa Counties.

  +11 - 18% higher condominium home sales values within a half mile of BART stations in Contra Costa and Alameda Counties (respectively).

  The charts on the following page provide more detail on the BART proximity premiums calculated for each property type in the East Bay. The property value impacts of BART in San Francisco were not studied, because of the challenges involved in isolating BART's impact in a city where BART is only one of many rail transit options.
- **BART station areas in San Mateo County have not experienced the same level of property value appreciation or new development as in other parts of the system.** The analysis did not find evidence that properties near San Mateo County BART station areas experience significant premiums. This may reflect the relatively recent introduction of BART service in the area, as well as the auto-oriented character of many San Mateo County station areas. Over time, supportive local land use policy, station connectivity improvements, and new transit-oriented development may make proximity to BART more valuable to San Mateo County households and employers.

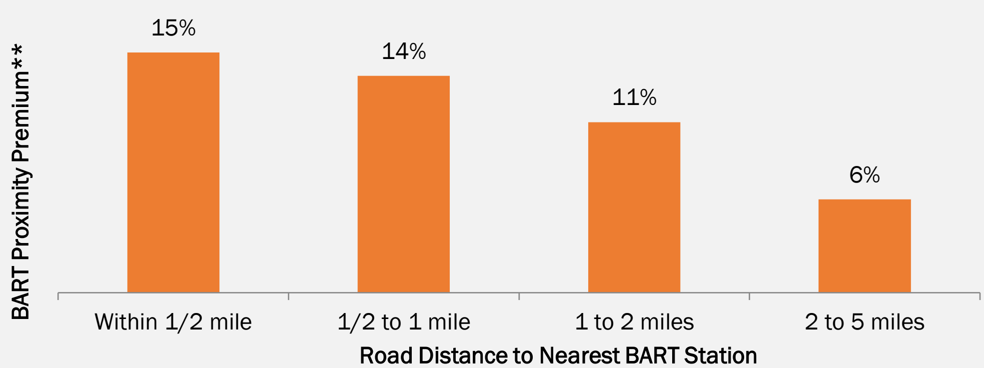
BART PRICE PREMIUMS IN THE EAST BAY

Office Rent Premiums



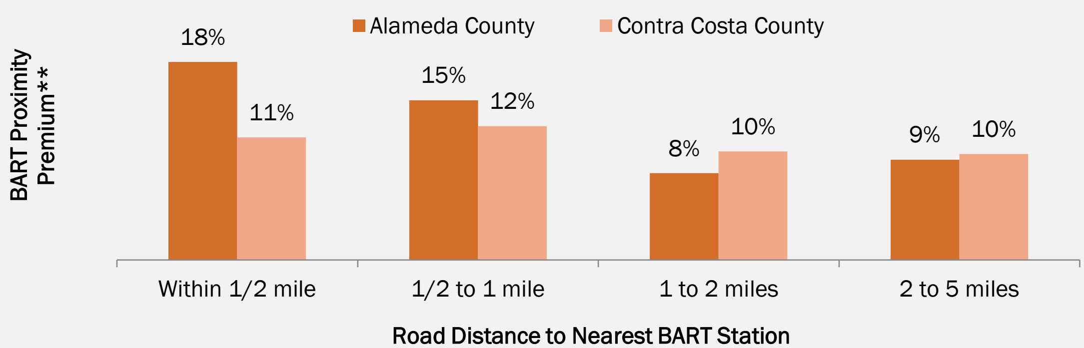
*Percentage difference in annual average rental rate, compared

Single-Family Homes



*Percentage difference in property value, compared to locations more than 5 road miles from a BART station.

Condominiums



**Percentage difference in property value, compared to locations more than 5 road miles from a BART station in the respective county.

Sources: Strategic Economics, "Property Value and Fiscal Benefits of BART"; Strategic Economics, "Benefits of BART for Office and Apartment Properties"; Strategic Economics, "Benefits of BART to Single-Family and Condominium Property Values by County."

This research, and other research from around the U.S., sheds light on both the potential impacts of VTA's BART Phase II extension, and the types of policies and investments that can help maximize the project's benefits. Key lessons from the literature are described below.

Transit systems that provide frequent, reliable, fast, and regional service generate higher property value premiums and attract more new development, compared to systems that provide more limited service and serve a smaller market area. Several studies have found that heavy rail and commuter rail have a greater impact on property values compared to light rail, likely due to the greater frequency, speed of service, and geographic coverage that heavy rail and commuter rail systems provide.[36] Transit systems that provide frequent, convenient access to multiple employment centers or other important destinations are also likely to attract more new development.[37]

VTA's BART Phase II extension shares many of these attributes, including providing frequent service that connects major employment centers and other regional destinations. VTA's BART Phase II corridor will improve accessibility by completing the transit link around the Bay, connecting the region's three primary central business districts (Downtown San Francisco, Downtown Oakland, and Downtown San José) and three international airports via commuter rail (BART and Caltrain). Employers located near the new BART stations will particularly benefit from expanded access to the East Bay labor force, as BART will provide an alternative to highly congested freeways and represent a significant improvement in frequency and reliability of service over the existing Amtrak Capitol Corridor. VTA light rail further extends the connection to major employment centers in North San José, North Santa Clara, and Milpitas. In the future, the BART stations will also be connected directly to High Speed Rail. The Phase II extension will also serve major educational institutions, including Santa Clara University and San José State, as well as a variety of other civic and educational institutions in Downtown San José.

Office and multifamily residential development generally experience greater benefits from proximity to transit compared to single-family homes. The majority of studies about the value premium associated with proximity to transit have been based on sales of single-family homes. However, studies that have directly compared the effects for different property types have generally found that commercial office and multi-family properties experience higher premiums than single-family homes (including recent studies of BART property value impacts, as described in the text box).[38] These findings are consistent with research on transit ridership and household and firm location patterns. Renters tend to take transit more often, own fewer cars, and are more likely to live within a half mile of a transit station than homeowners.[39] And, compared to workers employed in other types of jobs, office-based workers are more likely to commute via transit.[40] Moreover as discussed above, firms in office-based industries (e.g., professional services and tech) are particularly likely to locate near transit stations.[41]

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[36] Debrezion, Pels, and Rietveld, "The Impact of Railway Stations on Residential and Commercial Property Value: A Meta-Analysis"; Wardrip, "Public Transit's Impact on Housing Costs: A Review of the Literature"; Mohammad et al., "A Meta-Analysis of the Impact of Rail Projects on Land and Property Values."

[37] Fogarty and Austin, "Rails to Real Estate: Development Patterns along Three New Transit Lines"; Fogarty et al., "Downtowns, Greenfields, and Places in Between: Promoting Development Near Transit."

[38] Debrezion, Pels, and Rietveld, "The Impact of Railway Stations on Residential and Commercial Property Value: A Meta-Analysis"; Mohammad et al., "A Meta-Analysis of the Impact of Rail Projects on Land and Property Values"; Kittrell, Hamidi, and Ewing, "Transit's Value as Reflected in U.S. Single Family Home Premiums: A Meta-Study Summarizing 40 Years of Research."

[39] Pollack, Bluestone, and Billingham, Maintaining Diversity in America's Transit-Rich Neighborhoods: Tools for Equitable Neighborhood Change.

[40] Greenberg and Belzer, TOD 202: Transit & Employment.

[41] Center for Transit-Oriented Development, Trends in Transit-Oriented Development, 2000-2010.
(footnote continued)

The benefits of transit for office development are highly concentrated within a short distance of the transit station. For office development, the premiums associated with proximity to transit are highest within a quarter mile of the station and decrease sharply by a half to one mile from the station. In contrast, residential properties continue to experience a transit premium even at further distances from the station.[42] For example, as shown in the figures above, after controlling for other factors, office rents in the East Bay are 18 percent higher within a quarter mile of a BART station and 11 percent higher within a quarter to a half mile. However, the BART premium for office properties does not appear to extend past the half mile.[43] In contrast, condominiums and single-family homes experience some level of premium as far as five miles from a BART station.[44] The value of transit access may extend over shorter distances for commercial properties because riders are generally willing to travel further distances to access transit from home, than to travel from the transit station to work at the destination end of their trip.[45]

Supportive land use policy helps unlock the value of transit-served locations for new, higher-intensity development. Supportive public policy can help reinforce the value of transit-served locations for new, higher-intensity development by allowing higher densities (resulting in increased potential development revenues) and reduced parking requirements (resulting in decreased construction costs).[46]

Excellent connectivity also helps support higher property values and new development. Neighborhood land use context and connectivity to transit stations also plays an important role in driving property value effects. For example, a study of the Hiawatha Line in Minneapolis[47] found that while properties on the west side of the alignment benefited from an accessibility premium, properties on the east side – which are separated from the line by a four-lane road and an industrial area – did not.

Careful planning is required to ensure that the increased market activity often associated with new transit investments does not place transit-served locations out of reach of lower-income households. Several studies suggest that neighborhoods near rail transit are more likely to experience gentrification and displacement, as evidenced by demographic changes such as a loss of low-income households and increases in educational attainment and incomes. In a forthcoming affordable housing study as part of VTA's BART Phase II TOD Study, Strategic Economics will more closely examine the potential for displacement at the Phase II stations and best practices for addressing these challenges.

While increased development near transit does not necessarily indicate that transit has generated economic activity that would not have otherwise occurred in the region, new transit investments can help alleviate some of the constraints on regional economic growth. In many cases, transit investments redistribute economic activity that would have occurred elsewhere in the region, even in the absence of the transit infrastructure. However, transit investments can also help increase regional employment and income growth if the transit system helps increase economic productivity and/or attract or retain businesses that would not otherwise locate in the region.[48] For example, many commenters have

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42 Debrezion, Pels, and Rietveld, "The Impact of Railway Stations on Residential and Commercial Property Value: A Meta-Analysis"; Ko and Cao, "Impacts of the Hiawatha Light Rail Line on Commercial and Industrial Property Values in Minneapolis"; Nelson et al., "Office Rent Premiums with Respect to Light Rail Transit Stations in Dallas and Denver."

43 Strategic Economics, "Benefits of BART for Office and Apartment Properties."

44 Strategic Economics, "Property Value and Fiscal Benefits of BART."

45 Kolko, "Making the Most of Transit: Density, Employment Growth, and Ridership around New Stations."

46 Nadine Fogarty et al., "Capturing the Value of Transit" (Center for Transit Oriented Development, 2008).

47 Goetz et al., "The Hiawatha Line: Impacts on Land Use and Residential Housing Value."

48 Cervero et al., *Economic Impact Analysis of Transit Investments*.

expressed concerns that traffic congestion and a lack of affordable housing are constraining economic growth in Silicon Valley and the broader Bay Area region. To the extent that expanded transit service helps reduce travel times or enable new, higher density housing development, it has the potential to contribute to the region's net economic growth.

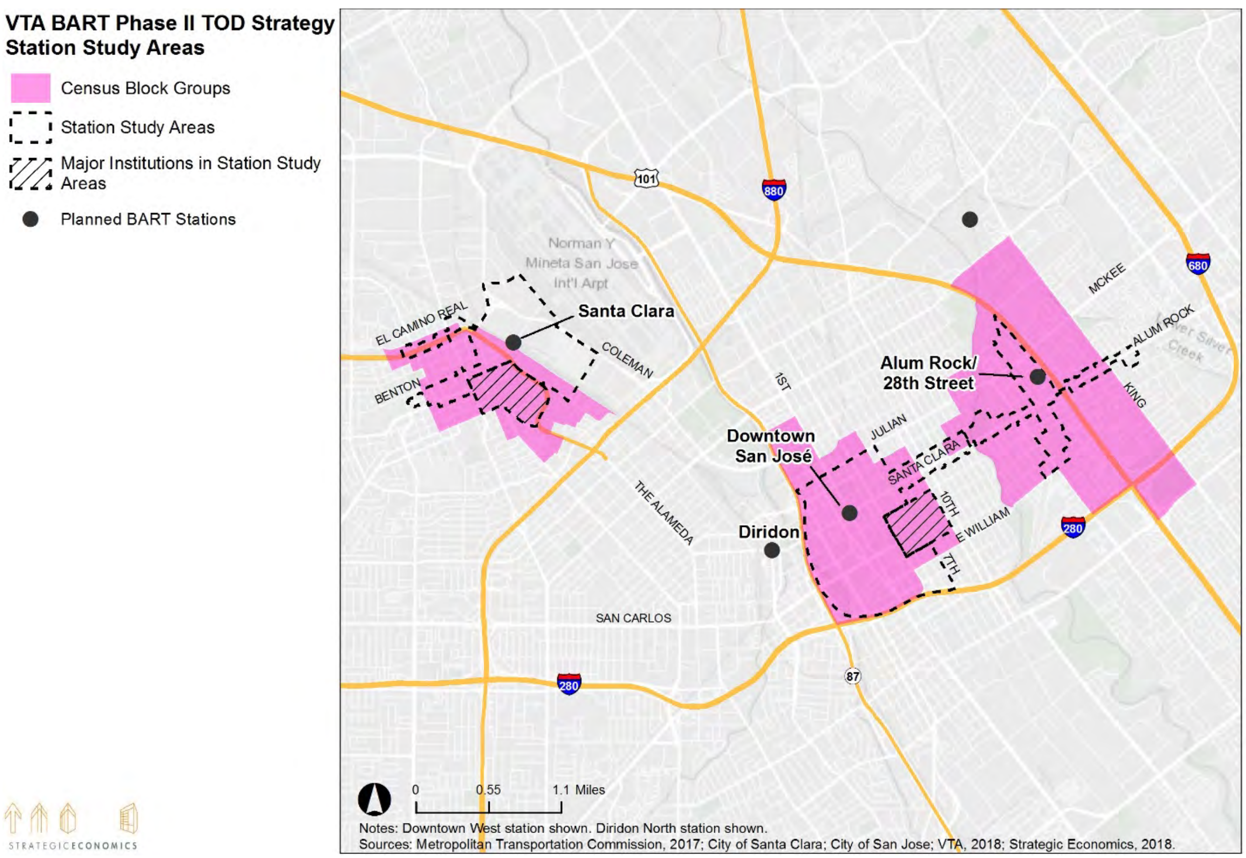
III. DEMOGRAPHIC AND EMPLOYMENT OVERVIEW

This chapter describes demographic and employment characteristics of the Phase II BART station areas, and trends that will influence the market for future development. It includes:

- **Demographic and household trends:** A discussion of demographic trends in the station areas.
- **Employment overview:** An overview employment trends in the station areas, in the context of regional employment trends.
- **Commute patterns:** Information about current station area commute patterns (where workers of the station areas live, and where residents work).
- **Implications for the TOD Study**: A summary of key findings for each station area.

For the data analysis in this section, Census Block Groups were used to approximate the station areas. Figure III-1 shows the Block Groups used to approximate each station area.

FIGURE III-1: MAP OF STATION AREAS AND CENSUS BLOCK GROUPS



Demographic and Households Trends

This section describes current (2016) demographic and household characteristics in the station areas compared to the City of Santa Clara, City of San José, and Santa Clara County. The section also assesses the demographic and household change that has occurred since 2000. Note that Strategic Economics' forthcoming Task 3.3 report will include a more detailed demographic analysis focused on assessing vulnerability to displacement for station area residents.

The following figures show:

- Population and household change, 2000-2016 (Figure III-2).
- Key demographic and household characteristics in 2016, including average household density, median age and household income, educational attainment, and the share of household with children (Figure III-3).
- Households by type, including the percent of families with children, families without children, single-person households, and other non-family (roommate) households (Figure III-4).
- Percent change in number of households by type, 2000-2016 (Figure III-5).
- Population by race and ethnicity, 2016 (Figure III-6).
- Percent change in population by race and ethnicity, 2000-2016 (Figure III-7).

Key findings are discussed below, organized by station area.

Figure III-2: Population and Household Change: Station Areas, Cities of Santa Clara and San José, and Santa Clara County, 2000-2016

	Santa Clara Station Area	Downtown San José Station Area	Alum Rock/28th Street Station Area	City of Santa Clara	City of San José	Santa Clara County
Population						
2000	2,949	14,144	21,677	102,104	893,889	1,682,585
2016	5,925	18,629	23,406	122,725	1,009,363	1,885,056
Change	2,976	4,485	1,729	20,621	115,474	202,471
Percent Change	101%	32%	8%	20%	13%	12%
Households						
2000	786	4,993	5,665	38,526	276,408	565,863
2016	1,492	6,509	6,437	43,798	317,317	626,579
Change	706	1,516	772	5,272	40,909	60,716
Percent Change	90%	30%	14%	14%	15%	11%
Average Household Size						
2000	2.4	2.4	3.8	2.6	3.2	2.9
2016	2.4	2.2	3.6	2.7	3.1	3.0

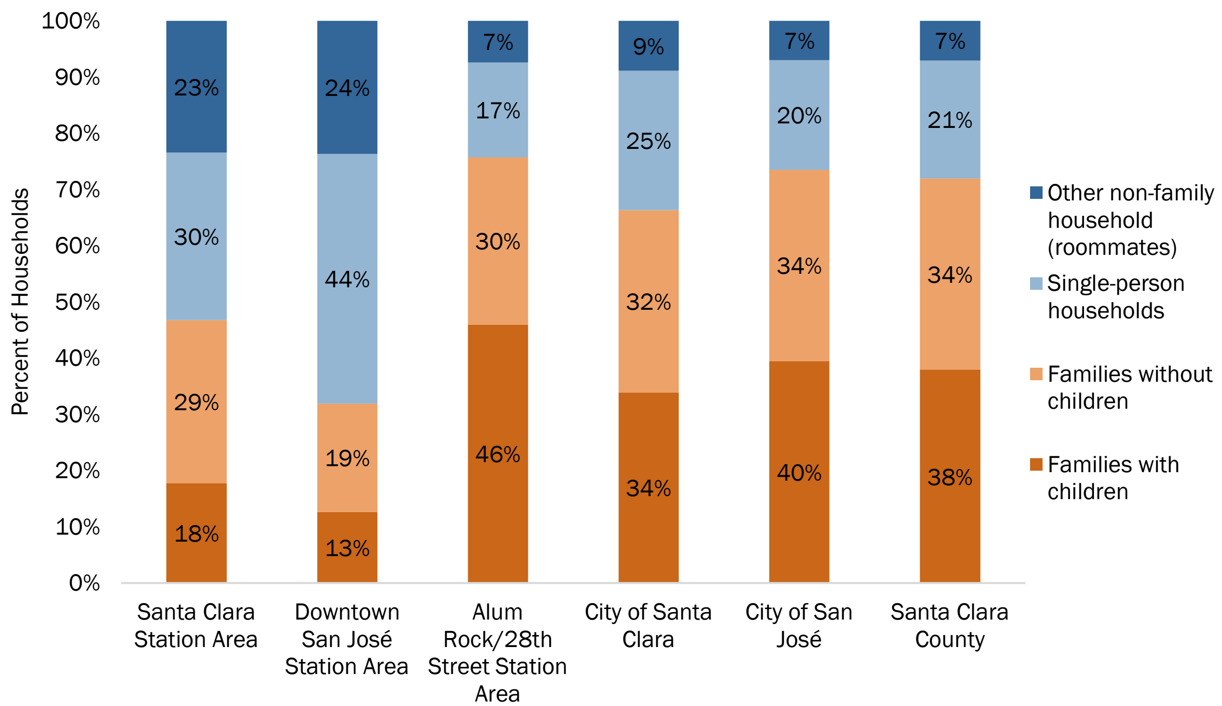
Sources: ACS 5-year estimates 2012-2016; U.S. Decennial Census 2000; Strategic Economics, 2018.

Figure III-3: Key Demographic and Household Characteristics: Station Areas, Cities of Santa Clara and San José, and Santa Clara County, 2016

	Santa Clara Station Area	Downtown San José Station Area	Alum Rock/28th Street Station Area	City of Santa Clara	City of San José	Santa Clara County
Average Household Density (Households/Acre)	3.8	8.0	4.9	0.4	0.3	0.1
Median Age	23.8	26.6	31.7	34.1	36.1	36.8
Median Household Income	$88,175	$60,704	$49,343	$102,533	$90,303	$101,173
Share of Population Aged 25+ with a Bachelor's Degree or Higher	68%	54%	17%	57%	40%	49%
Share of Households with Children	18%	13%	46%	34%	40%	38%

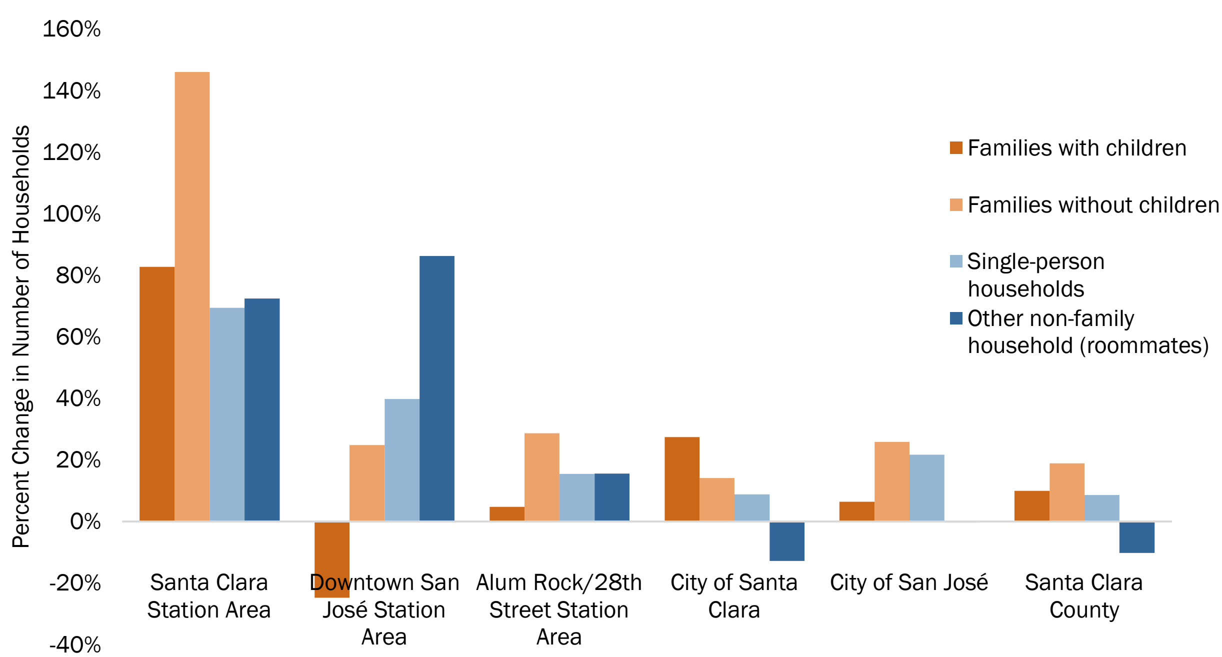
Sources: ACS 5-year estimates 2012-2016; Strategic Economics, 2018.

Figure III-4: Households by Type: Station Areas, Cities of Santa Clara and San José, and Santa Clara County, 2016



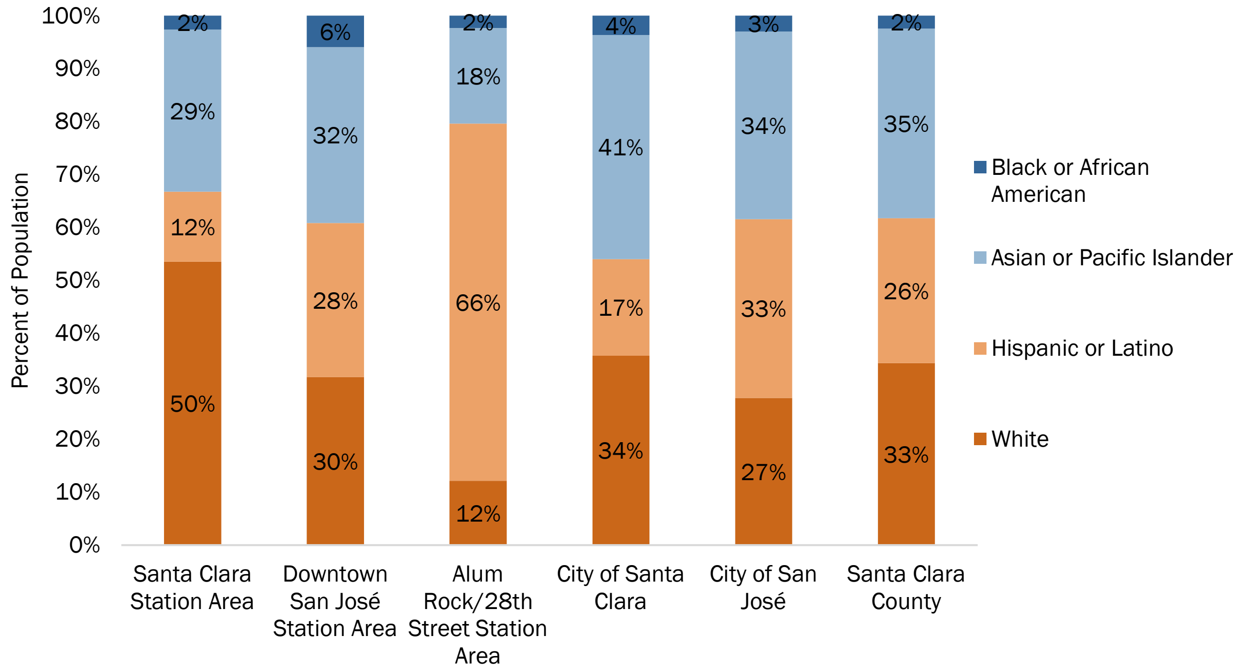
Sources: ACS 5-year estimates 2012-2016; Strategic Economics, 2018.

FIGURE III-5: PERCENT CHANGE IN HOUSEHOLDS BY TYPE: STATION AREAS, CITIES OF SANTA CLARA AND SAN JOSÉ, AND SANTA CLARA COUNTY, 2000-2016



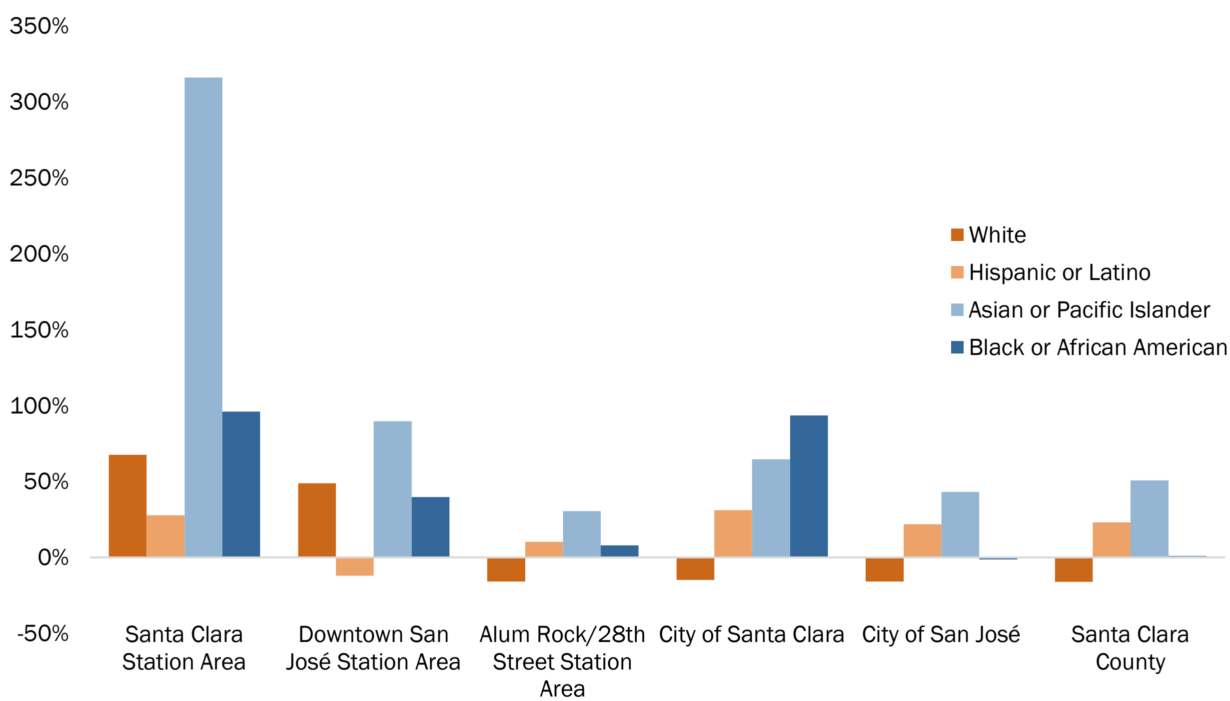
Sources: ACS 5-year estimates 2012-2016; U.S. Decennial Census 2000; Strategic Economics, 2018.

FIGURE III-6: POPULATION BY RACE AND ETHNICITY: STATION AREAS, CITIES OF SANTA CLARA AND SAN JOSÉ, AND SANTA CLARA COUNTY, 2016



Sources: ACS 5-year estimates 2012-2016; Strategic Economics, 2018.

FIGURE III-7: PERCENT CHANGE IN RACE AND ETHNICITY: STATION AREAS, CITIES OF SANTA CLARA AND SAN JOSÉ, AND SANTA CLARA COUNTY, 2000-2016



Sources: ACS 5-year estimates 2012-2016; U.S. Decennial Census 2000; Strategic Economics, 2018.

SANTA CLARA STATION AREA

The population of the Santa Clara station area doubled between 2000 and 2016, largely as a result of new housing construction. The station area's population increased from just under 3,000 in 2000, to just under 6,000 in 2016. At the same time, the number of households in the station area increased by 90 percent (Figure III-2). This population increase was tied to development of new apartments and condominiums, particularly on El Camino Real. Nearly half of the housing stock in the station area has been built since 2000 (see discussion in Chapter V).

The station area has a large population of Santa Clara University students. As of spring 2018, the University enrolled 5,400 undergraduates, of whom slightly more than half lived on campus. Of those who do not live on campus, the majority live near campus, primarily in the Old Quad neighborhood (directly north of campus, between Benton Street and El Camino Real) or south of campus in the neighborhoods along The Alameda. In addition to undergraduates, the University enrolls 3,300 graduate students. However, most of graduate students commute to classes from outside the area. Detailed data on where faculty and staff live were not available, but 65 percent live in Santa Clara County.[49]

The Census Bureau attempts to count students as part of the local population based on where they reside most of the time (i.e., on or near campus, in the case of most Santa Clara University students). However, in some cases, students may report living with their parents, which could result in a population undercount for this station area. Students who live in on-campus housing are not considered households by the Census Bureau, and thus are not included in the household data shown the figures above (e.g., number of households, average household size, household types, share of households who rent).

The University is in the process of expanding its undergraduate enrollment, building additional student housing, and expanding and modernizing campus facilities. The University is planning to expand from 5,400 undergraduates (as of 2018), to 6,000 by 2020. Most of the new students are expected to be housed on campus in several new dorms. To prepare for this expansion, the University is in the process of implementing its 2020 Capital Plan, which includes building new housing and other facilities.

Compared to the City of Santa Clara and Santa Clara County, the station area has a younger population and a large share of single-person and roommate households. Station area residents are relatively young, with a median age of 23.8 – more than a decade younger than median for the city and county. However, only 18 percent of households include children (Figure III-2). Slightly more than half (53 percent) of households in the station area are single-person or roommate households, compared to 35 percent in the city and 30 percent in the county (Figure III-4). At least in part, these demographics reflect the concentration of students living off-campus.

New housing in the station area is also attracting couples and families with children. While the station area added all types of households between 2000 and 2016, the household types that increased the most were families with and without children (Figure III-5).

The station area has the highest median household income in the corridor, but incomes are somewhat lower compared to the city and county medians. The median household income in the station are was $88,175 in 2016 – significantly higher than in the other two station areas, but lower than the citywide and countywide medians which both exceed $100,000 (Figure III-3). Note that in an area with many

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[49] Interview with Chris Shay (Assistant VP for University Operations, Santa Clara University), April 2018.

undergraduates living off-campus, median household incomes can be misleading because students are often dependents, and typically live in households with multiple roommates.

Station area residents are more highly educated and there are fewer people of color than in the rest of the corridor, the city, or the county. In 2016, two-thirds of residents had a Bachelor's degree or higher, compared to 57 percent of residents citywide and 49 percent countywide (Figure III-3). Half of residents were white, a much higher share than in the other station areas, city, or county (Figure III-6). This mirrors the demographic composition of the Santa Clara University student body, which is also about half white.[50]

DOWNTOWN SAN JOSÉ STATION AREA

Downtown San José has also experienced significant household and population growth related to new housing construction. Between 2000 and 2016, the Downtown San José station area added nearly 4,500 new residents and 1,500 new households, an increase of about 30 percent (Figure III-2). As discussed in Chapter V, Downtown's housing stock also expanded significantly during this time; about 30 percent of Downtown housing units were built since 2000.

Downtown is the most densely populated of the three station areas, and much more densely populated than the city or county as a whole. The Downtown San José station area has a density of approximately 8.0 households per acre, about twice as dense as the other two station areas (Figure III-3).

Many San José State University students live on campus or in Downtown. San José State University (SJSU) enrolled 33,400 students in 2017, including about 27,800 undergraduates. Approximately 15 percent of undergraduates live on campus. The University has struggled to keep up with housing demand from students and plans to add between 1,500 and 2,200 more housing units in the next three to seven years.[51]

Households living in Downtown tend to be relatively small, with many roommates and single-person households and few children. In 2016, roommates and single persons accounted for approximately two-thirds of Downtown San José's households, compared to less than one-third in the city and county (Figure III-4). Only 13 percent of station area households include children (Figure III-3). Household growth between 2000 and 2016 was driven by single-person and roommate households; the number of families with households living in Downtown declined during this time (Figure III-5).

Downtown San José residents tend to have relatively high levels of educational attainment, but low household incomes. Slightly more than half (54 percent) of residents had a Bachelor's degree or higher in 2016, compared to 40 percent in the City of San José and 49 percent in Santa Clara County. However, the median household income in the station area was only $60,000, compared to $90,000 for the city (Figure III-3). In part, the relatively low median household income may reflect the fact that households living in Downtown tend to be small and young (i.e., with fewer wage earners, many of them early in their careers, compared to other parts of the city). In addition, Downtown San José has a large concentration of low-income households, many of them living in subsidized housing. There are over 1,000 subsidized units within a half mile of the station area, the largest concentration in the corridor.

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[50] Santa Clara University, "First-Year Student Class Profile – Class of 2021," https://www.scu.edu/admission/undergraduate/choosing-scu/class-profile/.
[51] Strategic Economics, Downtown San José Retail Strategy (forthcoming).

The Downtown San José station area is the most racially and ethnically diverse of the three station areas. The station area population is approximately 30 percent white, 30 percent Latino, and 30 percent Asian or Pacific Islander. The station area also a slightly higher percentage of black residents (6 percent) compared to the other station areas or the city or county as a whole (Figure III-6). In contrast to the city and county overall, however, Downtown's Latino population has declined slightly over time (Figure III-7).

ALUM ROCK/28TH STREET STATION AREA

Compared to the other station areas, Alum Rock/28th Street has experienced relatively slow population growth. Between 2008 and 2016, the station area's population grew by eight percent, much slower than the other two station areas and slightly slower than the city and county overall (Figure III-1). This relatively slow population growth reflects the fact that this area has seen less development limited housing development since 2000, and the development that has occurred is at relatively lower densities (see Chapter V).

The station area is home to many families with children and has a high average household size. In 2016, 46 percent of station area families included children, compared to about 40 percent for the city and county. The average household size was 3.6 persons per household, compared to about 3.0 for the city and county (Figure III-3).

However, the average household size has declined as the composition of households has changed. Between 2000 and 2016, the average household size declined from 3.8 to 3.6 persons per household, as the number of families without children increased by nearly 30 percent (Figure III-5). To some extent, this change may be related to aging households (i.e., families with children who have grown into majority); the median age in the station areas increased from 28.5 in 2000 to 31.7 in 2016. Citywide, the number of families without children increased by a similar percentage (26 percent).

The Alum Rock/28th Street station area is a predominantly Latino neighborhood. Nearly two-thirds of residents in 2016 identified as Hispanic or Latino (Figure III-6). The Latino population grew between 2000 and 2016, although less quickly than the Asian or Pacific Islander population. Similar to the city overall, the station area's white population declined by 16 percent (Figure III-7).

The Alum Rock/28th Street station area has relatively low household incomes and levels of educational attainment. The median household income in the station area was slightly less than $50,000 in 2017, and only 17 percent of the population aged 25 or older had obtained a Bachelor's degree (Figure III-3).

Employment Overview

This section provides an overview of employment by station area, in the context of regional employment trends. Because reliable data on employment change over time are limited, the section draws on several different employment data sources that cover slightly different geographies and time periods. The following figures show:

- **Employment change by industry sector over time for Santa Clara County, compared to the five BART-served counties, for 2011 to 2017[52] (Figure III- 8).** The five BART-served counties

[52] U.S. Census Bureau, Quarterly Workforce Indicators (QWI) data.

(Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara Counties) account for more than 85 percent of total employment in the nine-county Bay Area. For the purpose of this analysis, these five counties are used to represent the region.

- **Employment (2015) in the station areas compared to the City of Santa Clara, City of San José, and Santa Clara County (Figure III-9).** The U.S. Census Bureau's Longitudinal Employer-Household Dynamics (LEHD) provides the most recent (2015) employment count available for small geographies such as the station areas; however, it does not provide reliable data on change over time.
- **Percent change in number of jobs by industry sector for the City of San José and selected market areas within the city, from 2008 to 2016 (Figure III-10).** This figure is based on analysis of employment data provided by the City of San José. Reliable data on employment change over time were not available for the City of Santa Clara. The market areas shown include Downtown San José East (bounded by Highway 101, I-880, Highway 87, and I-280), which includes the Downtown San José station area and the part of the Alum Rock/28th Street station area located to the west of Highway 101; and East San José (east of I-880 and Highway 101, from the northern border with Milpitas south to East Capitol Expressway/Aborn Road), which includes the part of Alum Rock/28th Street located to the east of Highway 101.

Key findings are discussed below, including a brief overview of county and regional trends, followed by a discussion of employment in each submarket.

COUNTY AND REGIONAL TRENDS

Santa Clara County and the region have experienced a major economic expansion. Since 2011, which marked the end of the great recession, the number of jobs in the county and the five-BART served counties has grown by 22 percent. Santa Clara County accounts for nearly a third of total employment in the five-BART served counties and has also captured about a third of the region's employment growth (Figure III-8).

The fastest employment growth is occurring in the information, construction, health and education, and professional and managerial services sectors. This reflects several trends, including the importance of high-tech industries, which fall into several sectors including information, professional and managerial services, and manufacturing and wholesale; a booming real estate market that has driven increasing demand for construction workers; and an aging population resulting in fast-growing spending on healthcare.

The tech economy is particularly important to Santa Clara County's economy. Santa Clara County is particularly strong in the sectors that include tech-based employment, accounting for 45 percent of the region's information jobs, 47 percent of manufacturing jobs, and 32 percent of professional and managerial services jobs.

Figure III-8: Employment by Sector: Santa Clara County and the Five BART-Served Counties, 2011-2017

	Santa Clara County			Five BART-Served Counties (a)			Santa Clara County as a % of BART-Served Counties		
	2011	2017	Percent Change	2011	2017	Percent Change	2011	2017	Change
Agriculture & Natural Resources	3,501	3,340	-5%	9,772	8,564	-12%	36%	39%	N/A
Accommodation, Food Services, Entertainment	114,054	128,590	13%	435,973	472,737	8%	26%	27%	40%
Construction	32,365	49,252	52%	110,618	161,043	46%	29%	31%	33%
Financial & Leasing	31,512	35,725	13%	159,354	179,429	13%	20%	20%	21%
Government	18,417	19,623	7%	85,107	89,038	5%	22%	22%	31%
Health & Education Services	149,035	199,713	34%	516,154	669,923	30%	29%	30%	33%
Information	45,936	87,102	90%	109,532	194,068	77%	42%	45%	49%
Manufacturing & Wholesale	194,512	192,885	-1%	379,515	411,677	8%	51%	47%	N/A
Professional & Managerial Services	180,245	232,450	29%	559,687	726,776	30%	32%	32%	31%
Retail	77,458	83,938	8%	257,542	280,169	9%	30%	30%	29%
Transportation & Utilities	15,541	20,121	29%	104,675	130,969	25%	15%	15%	17%
Total	**862,576**	**1,052,739**	**22%**	**2,727,929**	**3,324,393**	**22%**	**32%**	**32%**	**32%**

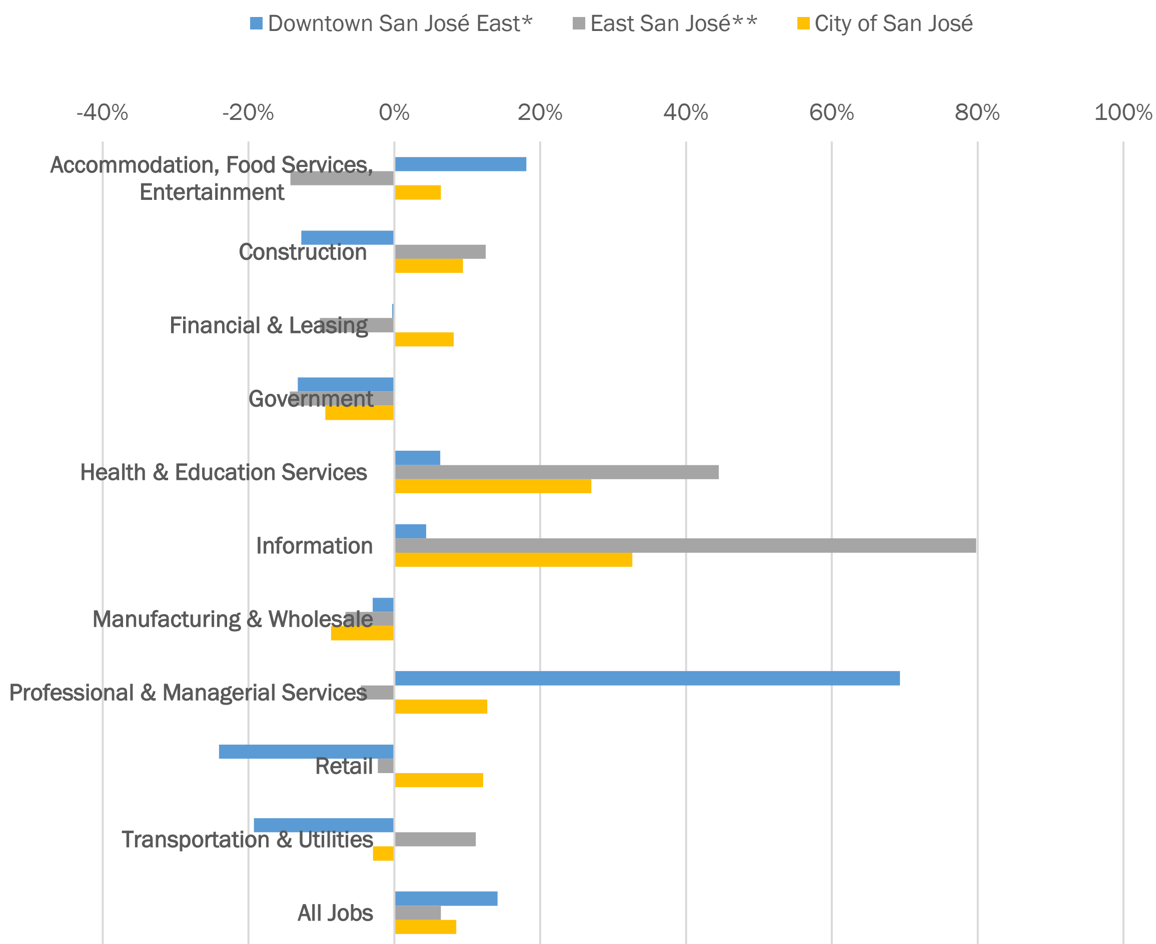
(a) Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara Counties.
Sources: U.S. Census, Quarterly Workforce Indicators, 2018; Strategic Economics, 2018.

FIGURE III-9: EMPLOYMENT BY SECTOR: STATION AREAS, CITIES OF SANTA CLARA AND SAN JOSÉ, AND SANTA CLARA COUNTY, 2015

	Santa Clara Station Area		Downtown San José Station Area		Alum Rock/28th Street Station Area		City of Santa Clara		City of San José		Santa Clara County	
	Jobs	% of Total	Jobs	% of Total	Jobs	% of Total	Jobs	% of Total	Jobs	% of Total	Jobs	% of Total
Agriculture & Natural Resources	0	0%	21	0%	6	0%	31	0%	635	0%	3,300	0%
Accommodation, Food Services, Entertainment	601	14%	7,401	19%	358	6%	12,203	11%	53,597	13%	121,347	12%
Construction	524	12%	859	2%	1,510	26%	6,108	5%	22,009	5%	43,322	4%
Financial & Leasing	78	2%	2,810	7%	132	2%	2,503	2%	15,218	4%	33,967	3%
Government	0	0%	2,913	8%	0	0%	790	1%	14,330	3%	21,942	2%
Health & Education Services	2,509	57%	6,016	16%	747	13%	12,546	11%	83,090	20%	194,113	19%
Information	72	2%	4,418	12%	85	1%	4,632	4%	13,839	3%	65,615	7%
Manufacturing & Wholesale	92	2%	539	1%	718	12%	34,086	30%	73,415	18%	197,747	20%
Professional & Managerial Services	414	9%	12,522	33%	327	6%	33,005	29%	79,194	19%	221,757	22%
Retail	118	3%	497	1%	276	5%	4,643	4%	43,912	11%	85,638	9%
Transportation & Utilities	20	0%	26	0%	1,649	28%	1,407	1%	11,769	3%	18,148	2%
Total	**4,428**	**100%**	**38,022**	**100%**	**5,808**	**100%**	**111,954**	**100%**	**411,008**	**100%**	**1,006,896**	**100%**
Job Density (Jobs/Acre)	**11.3**		**46.8**		**4.4**		**9.5**		**3.6**		**1.2**	

Sources: U.S. Census Longitudinal Employer-Household Dynamics, 2015; Strategic Economics, 2018.

Figure III-10: Percent Change in Number of Jobs by Industry Sector: Downtown San José East, East San José, and the City of San José, 2008-2016



*Downtown East: bounded by Highway 101, I-880, Highway 87, and I-218.
**East San José: east of I-880 and Highway 101, from the northern border with Milpitas south to East Capitol Expressway/Aborn Road.
Chart shows percent change in employment between the second quarter of 2008 and the second quarter of 2016.
Source: City of San José and California Economic Development Department, 2017; Strategic Economics, 2018.

SANTA CLARA STATION AREA

Santa Clara station area has just under 4,500 jobs, of which 2,500 (nearly 60 percent) are in the health and education sector (Figure III-9). While the station area has fewer jobs than Downtown San José or Alum Rock, the employment density (11.3 jobs per acre) is higher than the City of Santa Clara's (9.5), which is turn higher than San José's (3.6) or the county overall (1.2). This concentration, and the importance of the health and education sector, reflects the large number of jobs at Santa Clara University, the station area's largest employer.

Accommodation and food services (restaurants) is the next largest sector, comprising 600 jobs or 14 percent of the station area's employment. The next largest sectors, construction and professional and managerial services, employ about 520 and 410 workers, respectively (Figure III-9).

DOWNTOWN SAN JOSÉ STATION AREA

Downtown San José has the largest concentration of jobs in the corridor, although it is much less dense than the region's other major central business districts. The Downtown San José station area had 38,000 jobs in 2015, with an average employment density about 46.8 jobs per acre (Figure III-9). In comparison, Downtown Oakland had about 75,000 jobs, or 75 jobs per acre, and the San Francisco core[53] had nearly 340,000 jobs, or more than 150 jobs per acre. The relatively low density of Downtown San José compared to Downtown Oakland and San Francisco reflects the dispersed nature of employment patterns in Santa Clara County, and the fact that the Highway 101 corridor has historically been most competitive location for job growth within the county. It also suggests that there is room for intensification of Downtown San José over time.

The Downtown East subarea is adding jobs more quickly than any other part of the city. Between 2008 and 2016, the Downtown East market area added 6,900 jobs, a 14 percent increase. In comparison, citywide employment grew by 9 percent during this time (Figure III-10).

Jobs in Downtown San José are highly concentrated in four sectors: professional and managerial services; accommodation, food services, and entertainment; health and education; and information. Together, these four sectors account for 80 percent of Downtown's employment in 2015 (Figure III-9). Professional and managerial services is the largest sector (33 percent of jobs in 2015), followed by accommodation, food services, and entertainment (19 percent), health and education services (16 percent), and information (12 percent). These four sectors also accounted for all of the employment growth that occurred in the Downtown San José East market area between 2008 and 2016; other sectors experienced some job loss during this time (Figure III-10). The largest private employer in Downtown San José is the world headquarters of Adobe Systems Inc., which employed 2,200 workers in 2017.[54] San José State University employs approximately 2,100 full-time and 1,300 part-time faculty and staff.[55] The San José Convention Center, the City of San José, and Santa Clara County are also significant employers.[56] Other companies with a presence include Ernst & Young, Deloitte, Focus Bank, Heritage Bank, KQED, Mercury News, NeuroSky, Pinger, PWC, Okta, Oracle, ThreatMetrix, U.S. Trademark and Patent Office, WeWork, and Xactly.[57] The City estimates that there are more than 120 high-tech firms located in Downtown.[58]

The Downtown San José station area has limited retail employment. Retail accounts for only 1 percent of jobs in the Downtown San José station area, compared to 11 percent citywide. This reflects the fact that while Downtown has a strong and growing restaurant and entertainment cluster, there is limited traditional retail (see Chapter VII).

[53] Includes the Financial District, South of Market (SoMa), Mid-Market and Mission Bay neighborhoods.
[54] City of San José, "Principal Employees," 2017 Comprehensive Annual Financial Report, http://sanjoseca.gov/DocumentCenter/View/63254.
[55] San José State University, Employee Quick Facts (Fall 2016), http://www.iea.sjsu.edu/Faculty/Employees/.
[56] State of California Employment Development Department, "Major Employers in Santa Clara County," 2018, http://www.labormarketinfo.edd.ca.gov/majorer/countymajorer.asp?CountyCode=000085.
[57] City of San José Office of Economic Development, "Downtown," SJECONOMY, http://sjeconomy.com/places/downtown-san-jose/, accessed June 2018.
[58] Ibid.

ALUM ROCK/28TH STREET STATION AREA

The Alum Rock/28th Street station area has the lowest employment density of the three station areas. There were 5,800 workers employed in the Alum Rock/28th Street station area in 2015, with an average employment density of 4.4 workers per acre (Figure III-9).

Most of the employment in the station area is in transportation and utilities, construction, and manufacturing and wholesale. Together, these sectors account for two-thirds of the employment in the station area. This employment mix reflects the predominance of light industrial land uses in the station area.

The station area also has some employment in health and education services; professional and managerial services; accommodation, food services, and entertainment; and retail. In general, businesses in these sectors tend to be neighboring-serving, such as medical offices, banks, and law and insurance offices, restaurants, and retail, and located along the major corridors (Alum Rock Avenue, East Santa Clara Street, and McKee Road). Health and education is the largest of these sectors, accounting for 13 percent of the station area's employment.

East San José experienced limited employment growth between 2008 and 2016, mostly in health and education services. Although the Alum Rock/28th Street station area is geographically split between the Downtown East and East San José market areas by Highway 101, the employment composition is more similar to that of East San José. Employment in the East San José market area increased by six percent between 2008 and 2016, compared to a nine percent increase citywide. All of the employment growth occurred in four sectors: health and education services, construction, information, and transportation and utilities (Figure III-10).

Commute Patterns

This section discusses commute patterns in the station areas, including where workers employed in the station areas live, and where employed residents of the station area work.

WHERE WORKERS LIVE

Figure III-11 summarizes where workers employed in the station areas live, by county. Figures III-12, III-13, and III-14 provide more detailed maps of worker commute origins.

- **The Santa Clara station area has a predominantly local workforce, but Santa Clara University employs faculty and staff from across the region.** Workers employed in the Santa Clara station area tend to live in nearby neighborhoods in San José and Santa Clara (Figure III-12). Overall, nearly 70 percent of the station area's workforce lives in Santa Clara County. However, Santa Clara University employs faculty and staff from across the region. Among faculty with a full academic year appointment in 2017-2018, 65 percent lived in Santa Clara county, with smaller concentrations in Alameda County (12 percent), San Mateo County (8 percent), and other Bay Area counties.[59] Santa Clara University sees transit (BART and Caltrain) as critical amenity for faculty and staff who live in other parts of the region, or who live near the university but have partners or family members who work elsewhere. Regional transit access is

[59] Data provided by Santa Clara University

particularly important for faculty retention given the scarcity and high cost of housing near the University.

- **Downtown San José primarily employs workers living in San José or elsewhere in Santa Clara County, but also attracts workers from outside the county.** About 40 percent of Downtown San José workers live in San José, and 63 percent live in Santa Clara County. Eight percent live in Alameda County, four percent live in San Mateo County, four percent live in San Mateo County, and three percent live in Contra Costa County (Figure III-11). The station area attracts workers who live along the Caltrain corridor, particularly in Santa Clara, Sunnyvale, and San Francisco. Workers also commute from Fremont and Milpitas, communities that are served by VTA's BART to Silicon Valley extension (Figure III-13).
- **Many Alum Rock workers live in East San José (Figure III-14), but workers commute from a wide variety of places.** In addition to the counties shown in Figure III-11, the data show workers commuting from Santa Cruz, Monterey, and San Joaquin Counties, as well as several Southern California counties. It is possible that one or more employers with multiple locations across the state report their workforce to one central location in the station area, in which case the data does not reflect actual commute patterns.

FIGURE III-11: WHERE WORKERS EMPLOYED IN THE STATION AREAS LIVE, 2015

	Santa Clara Station Area	Downtown San José Station Area	Alum Rock/28th Street Station Area
Total Workers	4,428	38,022	2,288
Home Locations:			
Santa Clara County	69%	63%	54%
City of San José	37%	41%	39%
City of Santa Clara	10%	4%	2%
Other Santa Clara County	21%	18%	13%
Alameda County	9%	8%	7%
San Mateo County	4%	4%	2%
San Francisco County	2%	4%	-
Contra Costa County	2%	3%	3%
All Other Locations	13%	18%	33%

Sources: U.S. Census Longitudinal Employer-Household Dynamics, 2015; Strategic Economics, 2018.

FIGURE III-12: WHERE WORKERS EMPLOYED IN THE SANTA CLARA STATION AREA LIVE, 2015

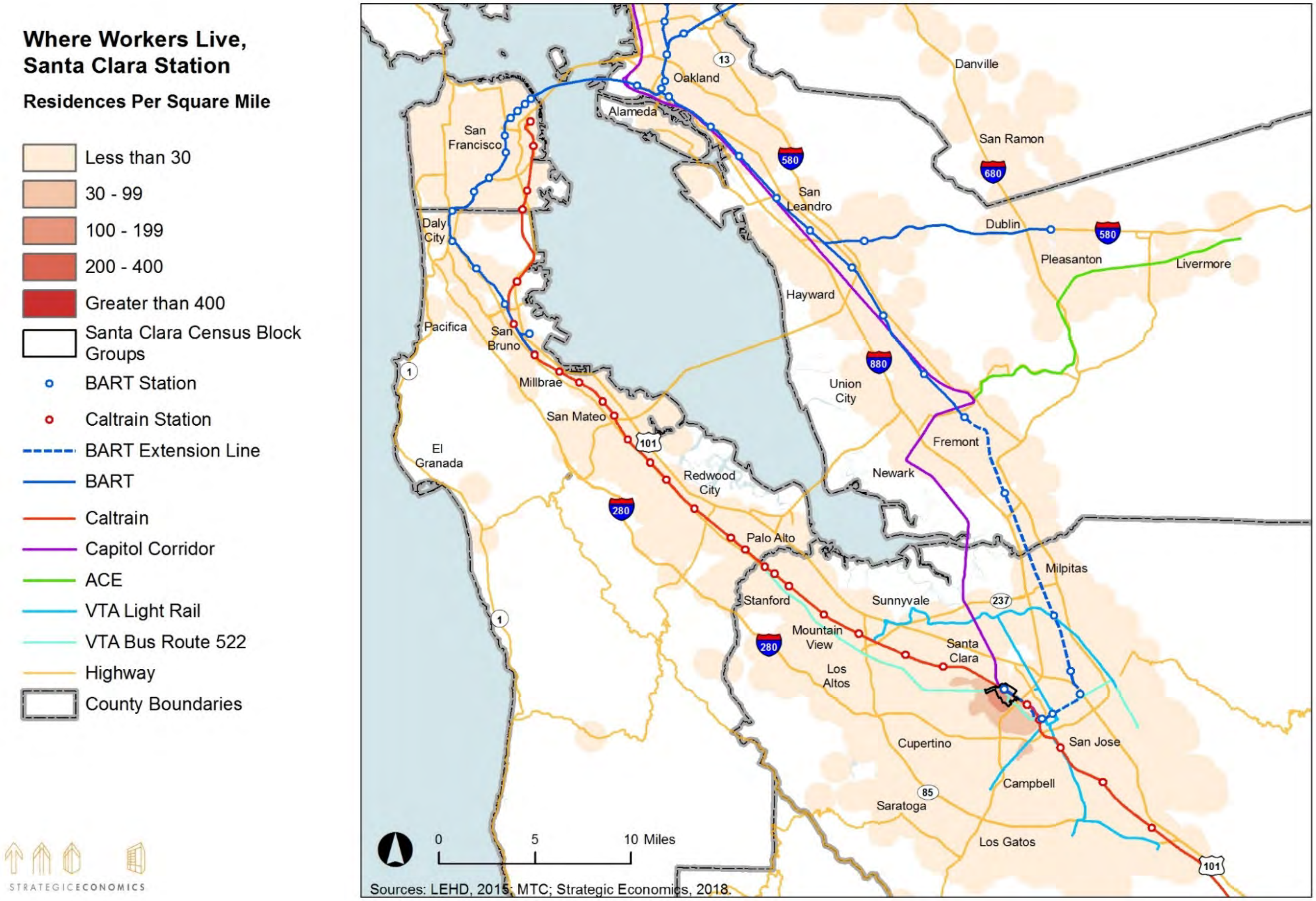
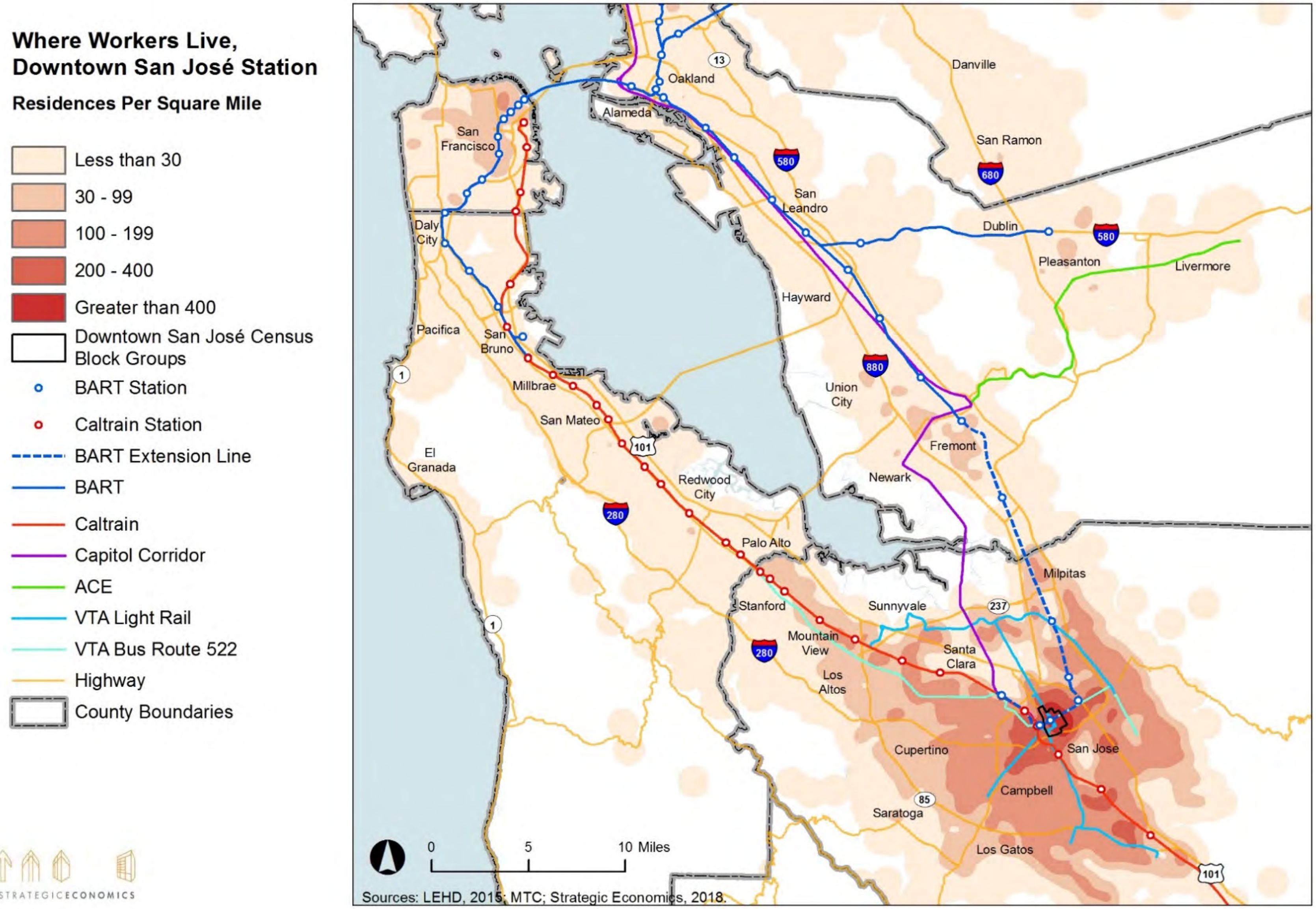
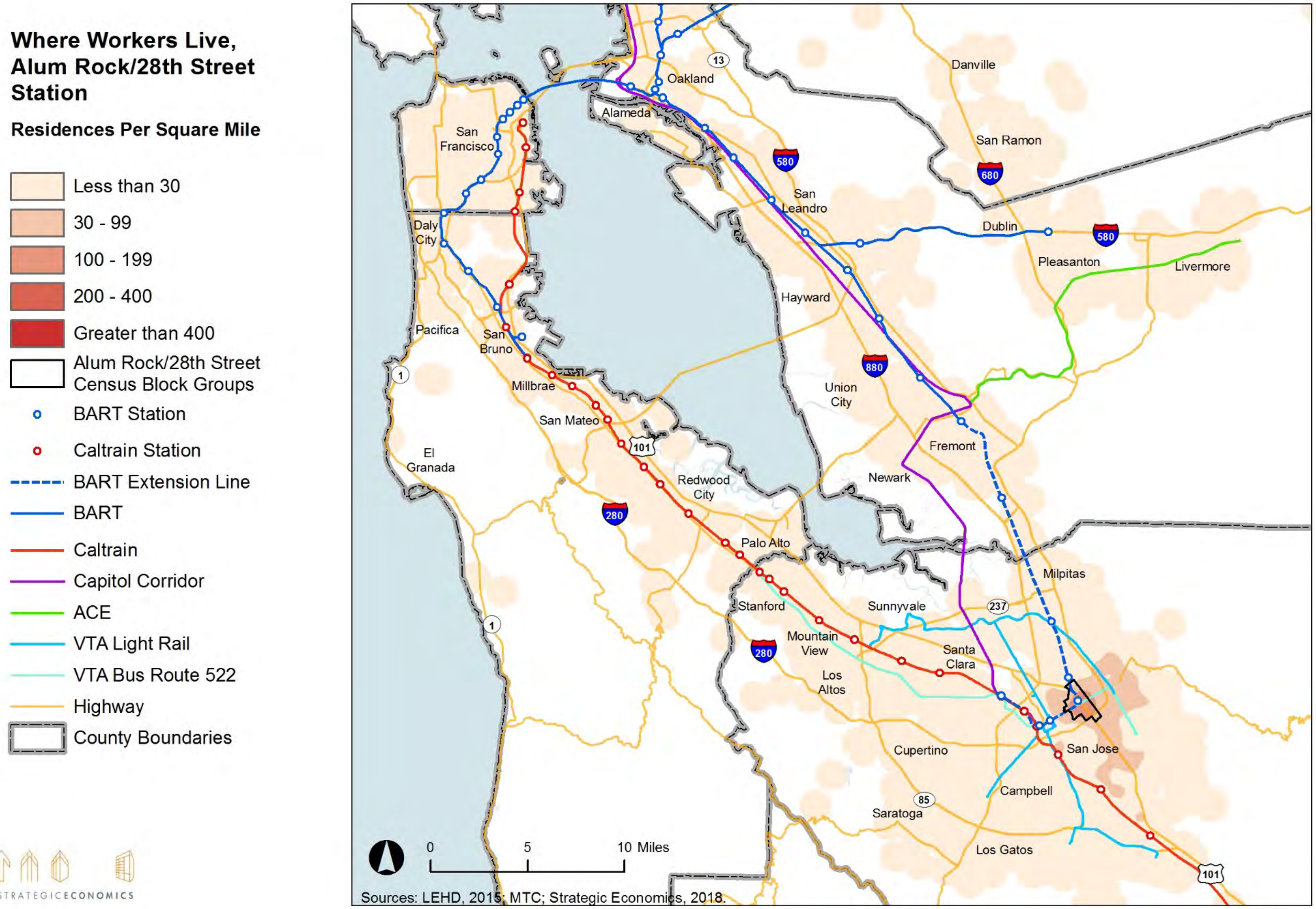


FIGURE III-13: WHERE WORKERS EMPLOYED IN THE DOWNTOWN SAN JOSÉ STATION AREA LIVE, 2015



STRATEGICECONOMICS

FIGURE III-14: WHERE WORKERS EMPLOYED IN THE ALUM ROCK/28TH STREET STATION AREA LIVE, 2015



STRATEGICECONOMICS

WHERE RESIDENTS WORK

Figure III-15 summarizes where employed residents of the station areas work, by county. Figures III-16 and 17 show the commute destinations for residents of the Downtown San José and Alum Rock/28th Street station areas, respectively. Commute destinations for the Santa Clara station area were not mapped because there are so few employed residents living in the station area.

- **Residents of all three station areas primarily work in Santa Clara County.** In each station area, two-thirds or more of the employed residents work somewhere in Santa Clara County (Figure III-15).
- **Santa Clara station area has a very small number of employed residents, who mostly work in San José and Santa Clara.** Of the 2,060 employed residents in the station area, a quarter work in San José and another 14 percent work in Santa Clara (Figure III-15).
- **Downtown residents tend to work in Downtown San José, North San José, northern Santa Clara, and Sunnyvale.** Many of these work locations are served by VTA light rail (Figure III-16).
- **Alum Rock/28th Street residents work all over San José and northern Santa Clara County, but with a concentration in Downtown and North San José.** Like Downtown residents, about 40 percent of Alum Rock/28th Street residents work in San José, with most of those working in Downtown or North San José (Figure III-17).

FIGURE III-15: WHERE EMPLOYED RESIDENTS OF THE STATION AREAS WORK, 2015

	Santa Clara Station Area	Downtown San José Station Area	Alum Rock/28th Street Station Area
Total Employed Residents	2,060	7,163	9,243
Work Locations:			
Santa Clara County	66%	68%	69%
City of San José	25%	39%	41%
City of Santa Clara	14%	6%	7%
Other Santa Clara County	27%	23%	21%
Alameda County	8%	8%	9%
San Mateo County	8%	6%	5%
San Francisco County	5%	4%	4%
Contra Costa County	2%	2%	2%
All Other Locations	11%	12%	12%

Sources: U.S. Census Longitudinal Employer-Household Dynamics, 2015; Strategic Economics, 2018.

Figure III-16: Where Employed Residents of the Downtown San José Station Area Work, 2015

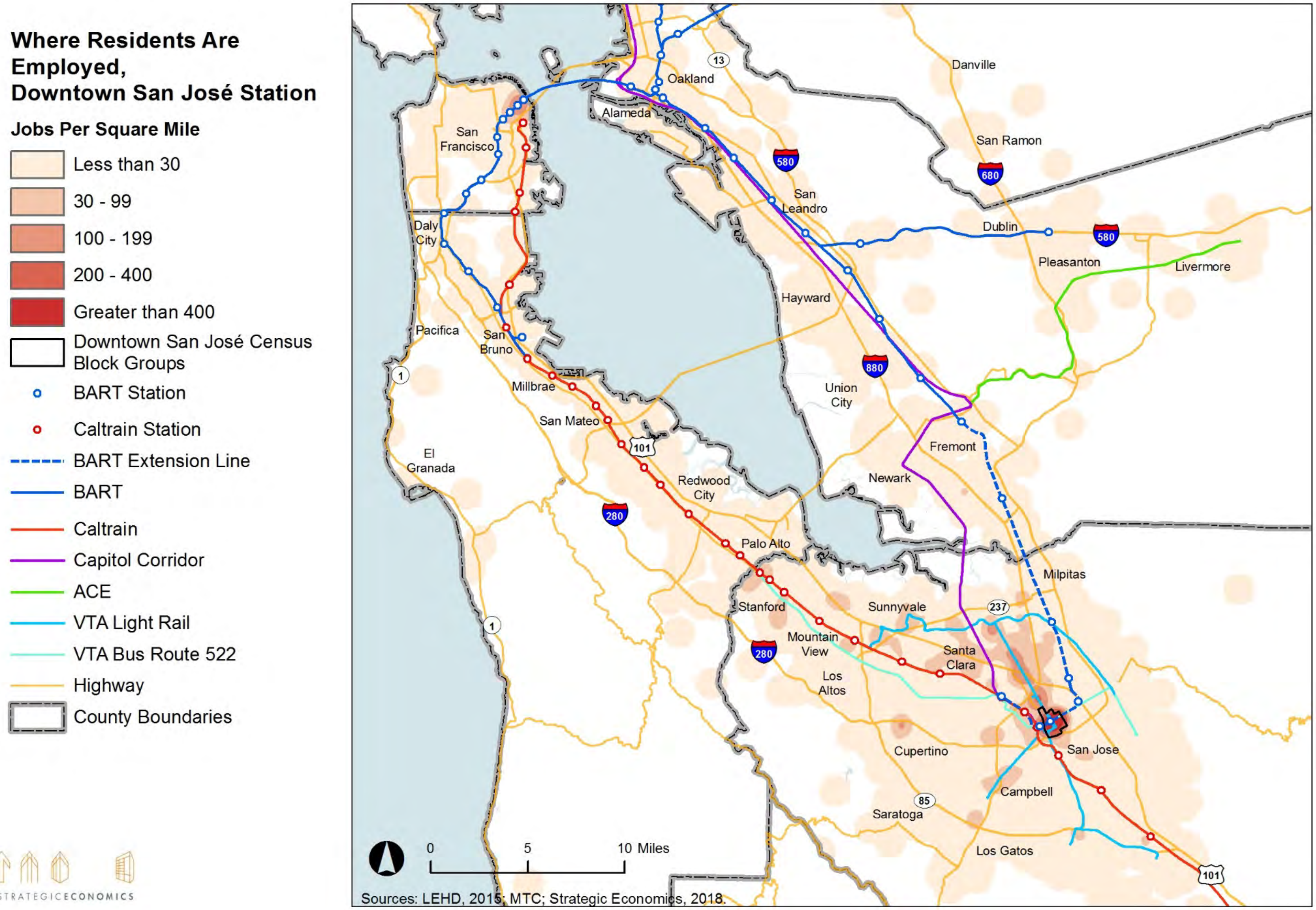
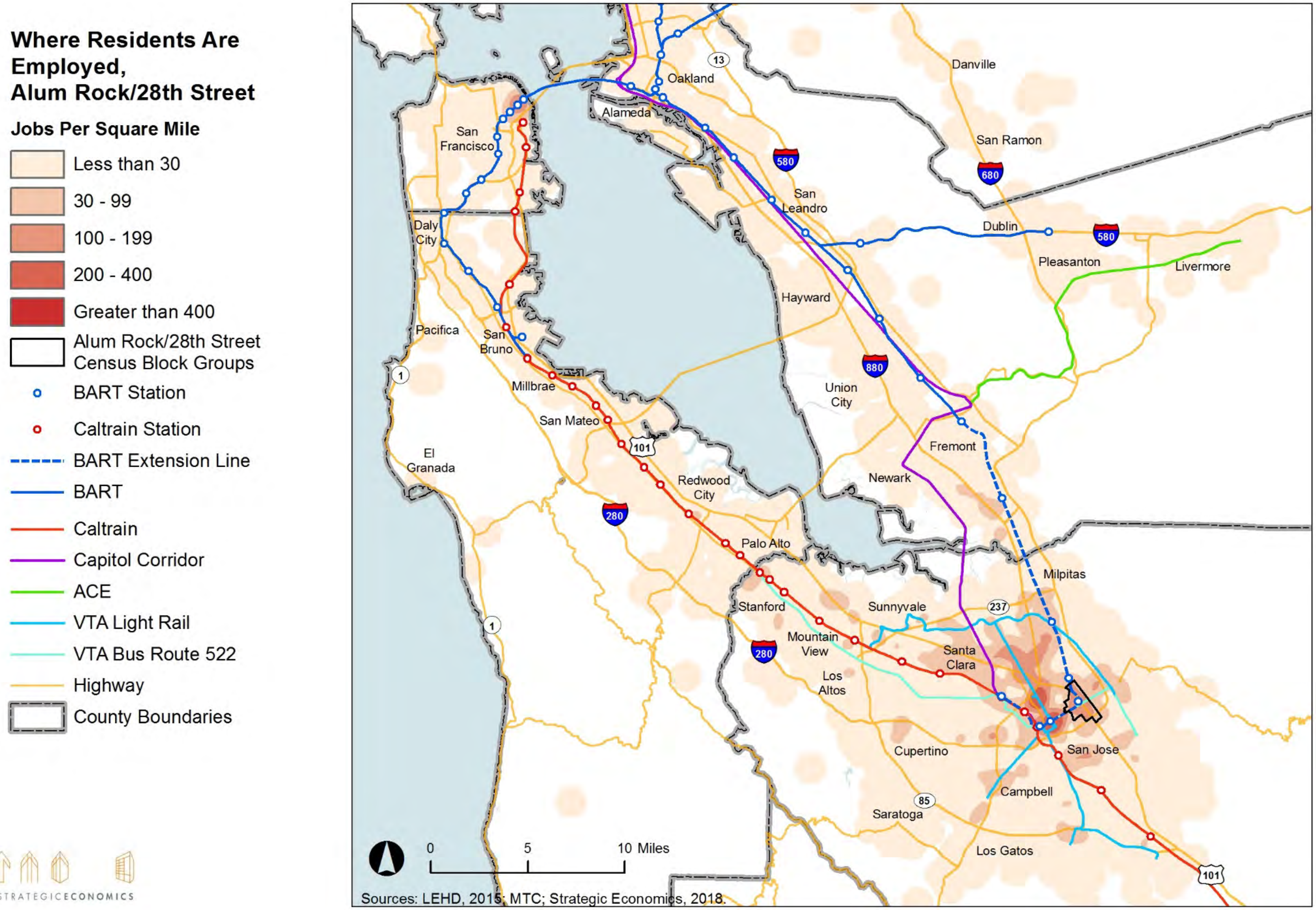


FIGURE III-17: WHERE EMPLOYED RESIDENTS OF THE ALUM ROCK/28TH STREET STATION AREA WORK



Implications for the TOD Study

Opportunities and challenges for TOD in the station areas are summarized below.

SANTA CLARA STATION AREA

- **Santa Clara University is both the station area's largest employer, and a major driver of housing demand.** The vast majority of the University's 5,400 undergraduate students live on or near campus, and (as discussed more in Chapter V) student demand has helped support new multifamily development in the station area.
- **VTA's BART Phase II extension has the potential to help the University recruit and retain faculty and staff who live across the region, as well as attract more graduate students.** The University is particularly concerned about faculty retention, and transit-oriented, faculty housing near the station as a key strategy for recruiting and retaining faculty.
- **New residential development in the station area has also proven attractive for non-student households.** In addition to students, the new multifamily housing near the station areas has attracted other types of households, including families with and without children. The BART extension has the potential to further enhance the station area's desirability as a residential location.

DOWNTOWN SAN JOSÉ STATION AREA

- **Downtown San José has attracted significant population and employment growth in recent years.** Population growth is directly related to growth in residential construction since the recession. Many residents appear to be locating in Downtown in order to be close their jobs. Downtown is also attracting increasing employment in the professional and managerial services, information, and health and education sectors – although, as discussed in Chapter IV, employment growth has not yet translated into substantial office development. San José State University is also an important source of activity. As Downtown attracts more residents, workers, and students, it is becoming more of a 24/7 district, with a growing restaurant and nightlife scene (reflected in increased accommodation, food services, and entertainment employment, and discussed more in Chapter VII).
- **VTA's BART Phase II extension has the potential to enhance Downtown's regional draw, for both firms and households.** Currently, Downtown pulls workers primarily from northern Santa Clara County, with a more limited number commuting from San Francisco and Alameda Counties. BART will provide a direct, convenient transit connection to an expanded East Bay workforce for Downtown firms, and allow Downtown residents to more easily commute to East Bay employment centers such as Fremont and Downtown Oakland.

ALUM ROCK/28TH STREET STATION AREA

- **The Alum Rock/28th Street area is a predominantly lower-income, Latino neighborhood, and home to many families.** The neighborhood has not attracted significant residential development in recent years. VTA's BART Phase II extension (combined with the new BRT service that connects Alum Rock Avenue to Downtown San José) has the potential to make the station area a more attractive residential location, particularly for workers employed in

Downtown San José or other locations along the BART alignment. While increased residential demand could support new development, it also raises concerns about displacement of existing residents, particularly low-income households. Vulnerability to displacement, and strategies for preventing it, will be discussed in more detail in the Task 3.3 report.

- **Most of the existing employment in the station areas is in manufacturing, construction, transportation and utilities, or resident-serving sectors.** This employment mix is reflected in the current mix of employment land uses, which includes light industrial space and ground floor commercial space along the major corridors. However, East San José is attracting employment growth in the information and health and education sectors, which could potentially fuel office demand in the subarea. Chapter IV assesses office market conditions in East San José submarket, and the opportunities and challenges for capturing office development in the Alum Rock/28th Street station area.

IV. OFFICE MARKET

This chapter evaluates the market for office development along the VTA's BART Phase II extension. It draws from a variety of sources including commercial real estate data from CBRE and CoStar, City records of recent development projects, and interviews with local commercial real estate developers and brokers.

The chapter includes the following sections:

- **Silicon Valley Office Market Trends:** An overview of office market conditions in the Silicon Valley and the Santa Clara and San José submarkets, including office market performance and development trends;
- **Station Area Market Conditions & Trends:** A discussion of office market conditions and development in the station areas;
- **Office Demand Projections:** Projected office development in the station areas to 2040; and
- **Implications for the TOD Study**: A summary of key findings for the TOD Study.

Silicon Valley Office Market Trends

This section describes office market trends in the Silicon Valley, defined broadly to include Santa Clara County and the City of Fremont. The section includes an overview of recent trends in inventory, rents, and vacancies, followed by a more detailed discussion of the location and types of development that have occurred since 2011.

SILICON VALLEY MARKET OVERVIEW

Figure 1 show trends in employment and unemployment rates in Santa Clara County. Figures IV-2 and 3 shows trends in office absorption (the amount of space leased every quarter), vacancies, and asking rents per square foot over time. Figure IV-4 summarizes total office inventory and rents by submarket for the first quarters of 2017 and 2018; a similar table showing only Class A space is provided in Figure IV-5.[60] Note that this section and the following section both include information about office inventory, from different sources. The data in this section (from CBRE) is used to describe the current office market; the next section uses CoStar data to evaluate longer-term development trends in Santa Clara County. Key findings about regional office market performance are summarized below.

Since the end of the recession in 2011, Silicon Valley is experiencing a major economic expansion, driven by job growth in the tech sector. As shown in Figure IV-1, strong employment growth has spurred significant office development. Between 2017 and 2018 alone, nearly seven million square feet of new office space were completed, representing a ten percent increase over the 2017 office inventory (Figure IV-4).

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[60] Office buildings are traditionally grouped into three classes: A, B, and C. Class A buildings are the most prestigious buildings with high-quality finishings and systems, and compete for premier office users with rents above average for their area. Class B buildings have fair to good finishings, and command average rents for the area. Class C buildings serve tenants requiring functional space at rents below the average for the area.

After falling steadily for years, vacancy rates began to increase in 2016 in response to major development activity. As the Silicon Valley rebounded from the recession that ended in 2011, average vacancy rates declined – from approximately 11 percent in 2013, to a low of about 6 percent in late 2015 (Figure IV-2). Beginning in 2016, vacancy rates began to increase again as large amounts of new construction started to come online. By mid-2017, the average vacancy rate once again exceeded 10 percent. However, in the last quarter of 2017 and the first quarter of 2018, record absorption (primarily pre-leases of new construction) resulted in a slight decrease in vacancies. It remains to be seen whether this represents the beginning of a longer-term downward trend in vacancies, or a temporary dip.

Office rent levels have also stabilized since early 2016. Rents for all classes of office have stabilized over the past two years (Figure IV-3). The average asking rent is $5.55 per square foot for Class A space (full service[61]). This is 30 percent higher than average Class B office rents, and more than double the average rent for Class C space.

However, economists have identified a number of risks that could affect the future of employment growth and office development in Silicon Valley, including national economic factors that could lead to an economic downtown in the short- to mid-term, and longer-term challenges such as the region's housing affordability crisis. Nationally, the economy has been expanding since 2009, making the current economic cycle one of the longest on record.[62] Although it is challenging to predict economic cycles, low unemployment rates, rising interest rates, and high stock valuations in mid-2018 are suggestive of an economy that could be in the middle to late stages of expansion and heading towards a downturn.[63] Concerns about rising tariffs and immigration restrictions are also contributing to short-term economic uncertainty, including for the tech industry which relies heavily on an immigrant workforce and on foreign markets for manufacturing, capital, and sales.[64] In the longer term, economists have identified the region's housing affordability crisis, increasing congestion, and aging infrastructure as major challenges for continuing to attract a talented workforce, expand the innovation economy, and maintain strong employment growth.[65]

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[61] In a full-service rent, the owner pays expenses associated with the building including taxes, insurance, and maintenance services.

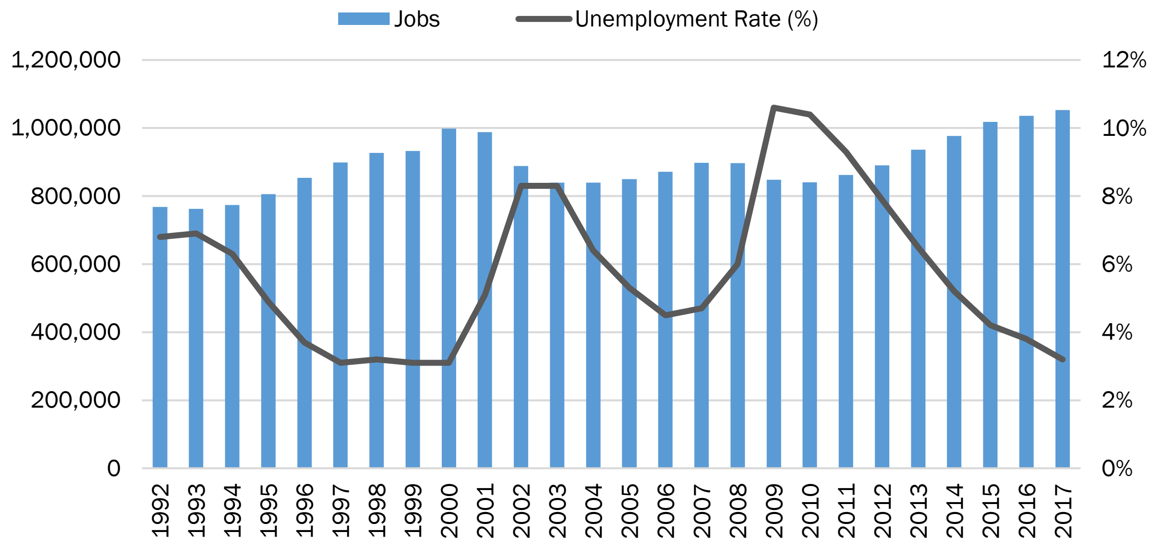
[62] As of June 2018, the economy had been expanding for 108 months. Since tracking began in the mid-1850s, only two other economic cycles (February 1961 – December 1969 and March 1991 - March 2001) have lasted more than 100 months. Source: National Bureau of Economic Research, US Business Cycle Expansions and Contractions, http://www.nber.org/cycles.html, accessed July 2018.

[63] Karen Wallace, "Where Are We in 'The Cycle'?" March 1, 2018, https://www.morningstar.com/articles/852591/where-are-we-in-the-cycle.html.

[64] For example, see Nelson W. Cunningam, "Trump's tariffs on Chinese tech exports worry Silicon Valley," San Francisco Chronicle, July 7, 2018, https://www.sfchronicle.com/opinion/openforum/article/Trump-s-tariffs-on-Chinese-tech-exports-worry-13055035.php; Ellen Sheng, "Silicon Valley is fighting a brain-drain war with Trump that it may lose," CNBC, April 9, 2018, https://www.cnbc.com/2018/04/09/trumps-war-on-immigration-causing-silicon-valley-brain-drain.html.

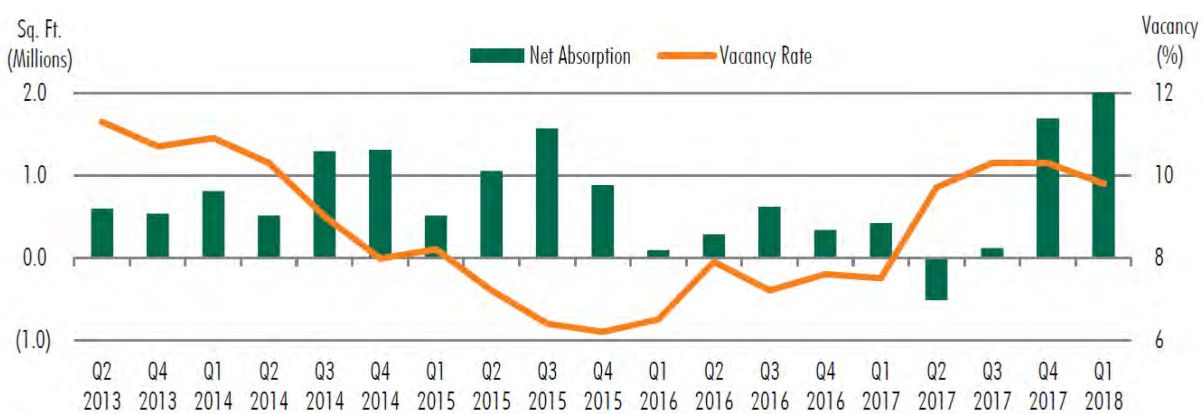
[65] For example, see Bay Area Economic Institute, "Continuing Growth and Unparalleled Innovation: Bay Area Economic Profile," July 2018, http://www.bayareaeconomy.org/files/pdf/BayAreaEconomicProfile2018Web.pdf; MTC and ABAG, "Regional Forecast of Jobs, Population, and Housing," Plan Bay Area 20140 Final Supplemental Report, July 2017.

FIGURE IV-1: SANTA CLARA COUNTY JOBS AND UNEMPLOYMENT RATE, 1992-2017



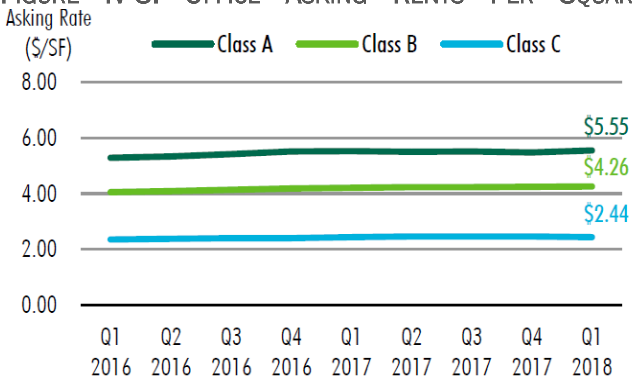
Sources: U.S. Census, Quarterly Workforce Indicators, 2018; California Employment Development Department, 2018; Strategic Economics, 2018.

FIGURE IV-2: OFFICE ABSORPTION AND VACANCIES: SILICON VALLEY, Q1 2016-Q1 2018



Source: CBRE Research, Q1 2018.

FIGURE IV-3: OFFICE ASKING RENTS PER SQUARE FOOT: SILICON VALLEY, Q1 2016-Q1 2018



Source: CBRE Research, Q1 2018.

SUBMARKET PERFORMANCE

The Highway 101 corridor has historically been the most competitive location for office tenants. The 101 corridor (comprising the submarkets of Palo Alto, Mountain View/Los Altos, Sunnyvale, and Santa Clara) includes 40.4 million square feet of office space, or 52 percent of the Silicon Valley office inventory (Figure IV-4). Average asking rents in communities along the Highway 101 corridor average more than $6.00 per square foot, with the highest rents in Palo Alto ($8.43 per square foot) and Mountain View/Los Altos ($7.87 per square foot). More than 4 million square feet of office was built in the corridor between 2017 and 2018, most in Sunnyvale and Santa Clara.

Regional office market data shows that locations with access to transit are in higher demand. For example, a recent analysis by Cushman and Wakefield, a commercial real estate brokerage firm, found that across the Bay Area, there is extremely strong demand for downtown, Class A office space near regional transit stations (Caltrain, BART, and ACE). Occupancy rates and average asking rents in these locations tended to be higher than their respective citywide averages. For example, within Palo Alto and Redwood City, Class A downtown offices near Caltrain stations commanded a 23 percent and 60 percent rent premium over their citywide averages, respectively.[66]

Developers and brokers observe that in a competitive office market, tenants are increasingly looking to smaller, traditionally less competitive office markets with good transit access. For example, demand for office space in Downtown Oakland has grown in recent years as many small and mid-size office tenants have been priced out of San Francisco. Downtown Oakland is able to benefit from those relocations due to its convenient access to regional transit systems (BART, Capitol Corridor, AC Transit). In addition, major tech companies are expanding to a broader range of locations in Santa Clara County (e.g., Sunnyvale, North San José), both in search of more space but also to be closer to where their employees live. Since many of these major tech companies run shuttles, locating near transit is a desirable amenity (not least because a location near transit can help reduce the costs associated with operating shuttle service) but not a requirement. On the other hand, for small and mid-size companies that do not run shuttle programs, office locations near transit is seen as more critical for employee recruitment and retention.

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[66] Cushman and Wakefield, "The Transit Effect – Bay Area – Q1 2018, Downtown/Core vs Overall Market (Class A)," http://blog.cushwake.com/san-francisco/the-transit-effect-bay-area-rail-centric-markets-generally-outperform-featuring-map.html.

Santa Clara Office Market

Santa Clara includes 13.2 million square feet of office space, which represents 17 percent of the Silicon Valley office inventory. Over three-quarters of the city's office is Class A space. While the vacancy rate was 17 percent as of the first quarter of 2018, this reflects major recent office completions (e.g., Santa Clara Square, Santa Clara Gateway) that are still in the process of being absorbed. The average asking rent in Santa Clara was $4.31 per square foot, up by four percent from the previous year, which includes the new Class A office space (Figure IV-4).

Most office space in Santa Clara is clustered in the northern part of the city along Highway 101. The Northern Quadrant of Santa Clara is also planned for substantial additional growth, including several million square feet of office development as well as residential and other uses.

San José Office Market[67]

San José includes over 24.8 million square feet of office space, representing 30 percent of the Silicon Valley office inventory. Compared to the other office submarkets, San José's vacancy rates tend to be higher. Nonetheless, San José experienced 10 percent growth in average asking rents since 2017 (Figure IV-4). About half of the city's inventory consisted of Class A product.

Within San José, North San José has historically been the strongest location for office. North San José includes 11.6 million square feet of office space, or about half of office in the city. Almost two-thirds of the city's Class A office space is in North San José. Since 2017, the office inventory in the submarket grew by 20 percent, and its Class A space by 30 percent. This partly took the form of conversion and renovation of older manufacturing and R&D buildings into modern office space. The vacancy rate increased from 11 percent to 17 percent in the last year, which reflects new supply still being absorbed. Average asking rents were $3.44 per square foot in the first quarter of 2018, significantly lower than rents in the 101 Corridor.

The Downtown San José submarket[68] includes 11.1 million square feet of office space, but a significant proportion is in older Class B and C properties. As shown in Figure IV-5, only 37 percent of Downtown San José's office is in Class A buildings. As of the first quarter of 2018, CBRE reported that average asking rents were higher than in North San José, reflecting growing recent interest in the Downtown (discussed below).

The South and East San José submarket includes mostly older Class B and C properties. The submarket has about 2.2 million square feet of office inventory, consisting of older, Class B and C buildings that cater to household-supporting industries such as healthcare, retail and consumer services. Asking rents in this submarket are relatively low ($2.05 per square foot).

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[67] Note that the core San José office market, as shown in Figure IV-4, includes Downtown, North San José, and South and East San José. West San José (also called Winchester) is generally considered part of the West Valley market, while the San José International Business Park (IBP) is generally considered part of the I-880 corridor market.

[68] The Downtown submarket includes the triangle bordered by Highway 101, I-880, and I-280, plus the San José International Airport submarket.

FIGURE IV-4: OFFICE MARKET OVERVIEW: SILICON VALLEY, FIRST QUARTER 2017 AND 2018

	Inventory (Rentable Square Feet)			Total Vacancy (d)		Average Asking Rate (e)		
	Q1 2017	Q1 2018	% Change	Q1 2017	Q1 2018	Q1 2017	Q1 2018	% Change
101 Corridor								
Palo Alto	7,389,374	7,633,203	3%	4%	3%	$8.35	$8.43	1%
Mountain View/Los Altos	7,580,330	8,223,100	8%	4%	5%	$7.78	$7.87	1%
Sunnyvale	9,943,042	11,394,349	15%	2%	3%	$5.74	$5.88	2%
Santa Clara	11,210,996	13,186,817	18%	15%	17%	$4.16	$4.31	4%
101 Corridor Subtotal	36,123,742	40,437,469	12%	7%	8%	$6.21	$6.25	1%
San José								
Downtown (a)	10,468,547	11,057,188	6%	10%	12%	$3.27	$3.88	19%
North San José	9,669,710	11,649,880	20%	11%	17%	$3.17	$3.27	3%
South and East San José	2,065,070	2,112,958	2%	2%	4%	$2.04	$2.05	0%
San José Subtotal	22,203,327	24,820,026	12%	10%	14%	$3.11	$3.44	10%
West Valley								
Cupertino	3,430,993	3,287,139	-4%	3%	5%	$4.89	$4.90	0%
West San José/Other (b)	5,721,243	5,976,000	4%	8%	11%	$3.59	$3.69	3%
West Valley Subtotal	9,152,236	9,263,139	1%	6%	8%	$4.08	$4.12	1%
880 Corridor								
Fremont	2,232,191	2,270,870	2%	5%	5%	$2.21	$2.23	1%
Milpitas/San José IBP (c)	1,345,211	1,335,211	-1%	7%	5%	$1.70	$1.75	3%
880 Corridor Subtotal	3,577,402	3,606,081	1%	6%	5%	$2.02	$2.05	2%
Silicon Valley	**71,056,707**	**78,126,715**	**10%**	**8%**	**10%**	**$4.76**	**$4.84**	**2%**

(a) The Downtown submarket includes the triangle bordered by Highway 101, I-880, and I-280, plus the San José International Airport submarket.
(b) Includes Los Gatos, Campbell, and Saratoga.
(c) Includes the International Business Park in San José.
(d) Total vacancy: direct vacancy plus sublease vacancy.
(e) Average asking rate: Directly monthly full-service lease rates.
Source: CBRE, Q1 2017 and 2018.

FIGURE IV-5: OFFICE MARKET OVERVIEW (CLASS A): SILICON VALLEY, FIRST QUARTER 2017 AND 2018

	Class A % of Total (2018)	Inventory (Rentable Square Feet)			Total Vacancy (d)		Average Asking Rate (e)		
		Q1 2017	Q1 2018	% Change	Q1 2017	Q1 2018	Q1 2017	Q1 2018	% Change
101 Corridor									
Palo Alto	52%	3,692,811	3,969,694	7%	3%	2%	$9.69	$9.71	0%
Mountain View/Los Altos	66%	4,831,337	5,399,380	12%	4%	5%	$8.81	$8.81	0%
Sunnyvale	89%	8,683,753	10,135,060	17%	1%	3%	$6.02	$6.14	2%
Santa Clara	77%	8,094,754	10,135,771	25%	18%	20%	$4.52	$4.61	2%
101 Corridor Subtotal	73%	25,302,655	29,639,905	17%	7%	9%	$6.61	$6.58	0%
San José									
Downtown (a)	37%	4,134,679	4,134,679	0%	7%	8%	$4.12	$4.27	4%
North San José	72%	6,495,803	8,445,973	30%	13%	22%	$3.38	$3.44	2%
South and East San José	30%	628,029	628,029	0%	0%	3%	$2.51	$2.56	2%
San José Subtotal	53%	11,258,511	13,208,681	17%	10%	17%	$3.60	$3.66	2%
West Valley									
Cupertino	58%	2,039,222	1,892,801	-7%	4%	5%	$5.30	$5.33	1%
West San José/Other (b)	41%	2,188,608	2,425,963	11%	12%	17%	$4.75	$4.77	0%
West Valley Subtotal	47%	4,227,830	4,318,764	2%	8%	12%	$5.02	$5.02	0%
880 Corridor									
Fremont	24%	552,528	553,207	0%	6%	7%	$2.63	$2.68	2%
Milpitas/San José IBP (c)	24%	319,655	319,655	0%	N/A	1%	$2.30	$2.33	1%
880 Corridor Subtotal	24%	872,183	872,862	0%	4%	5%	$2.51	$2.55	2%
Silicon Valley	62%	**42,019,611**	**48,349,091**	**15%**	**8%**	**11%**	**$5.52**	**$5.55**	**1%**

(a) The Downtown submarket includes the triangle bordered by Highway 101, I-880, and I-280, plus the San José International Airport submarket.

(b) Includes Los Gatos, Campbell, and Saratoga.

(c) Includes the International Business Park in San José.

(d) Total vacancy: direct vacancy plus sublease vacancy.

(e) Average asking rate: Directly monthly full-service lease rates.

Source: CBRE, Q1 2017 and 2018.

OFFICE DEVELOPMENT TRENDS

Figure IV-6 summarizes recently developed, under construction, or proposed office development in Silicon Valley (excluding Fremont). Note that some of the submarket definitions vary from the figures shown above (in particular, San José submarkets are broken down in a more fine-grained way). Figure IV-7 summarizes characteristics of selected new mixed-use and TOD projects that include a substantial office component.

Key findings about the location and types of office development are described below.

LOCATION OF DEVELOPMENT

Since 2011, the majority than 70 percent of new development in Silicon Valley has occurred along the Highway 101 corridor. Since 2011, over 22.6 million square feet of office space was completed in Silicon Valley, of which about 70 percent was located along the Highway 101 corridor (Figure IV-6). Sunnyvale and Santa Clara led the county with new office deliveries, totaling over 12 million square feet of new office space.

Compared to other market areas, San José has experienced relatively limited development activity. Only 11 percent of total office development completed since 2011 was located in San José – a relatively low share, considering that the city accounts for more than 50 percent of existing inventory (as described above). Within San José, 70 percent of completed development has occurred within North San José.

Similarly, more than three-quarters of development currently under construction is concentrated along the 101 corridor. Sunnyvale's office construction accounts for 44 percent of the office under construction Santa Clara County, followed by Palo Alto with 17 percent, and North San José with 11 percent. Downtown San José has a little over 200,000 square feet of office space under construction (the River Corporate Center Phase 3, discussed in more detail below).

However, more than half of proposed development is located in San José, with a substantial share concentrated in the Downtown submarket. The spatial pattern of office development appears to be shifting, with the Downtown San José submarket now accounting for almost a third of proposed space. The growing interest in Downtown is discussed in more detail below.

TYPES OF DEVELOPMENT

While suburban campuses are still the most common form of development in Silicon Valley, office is also increasingly included as a component of major mixed-use developments centered around transit. For example, mixed-use office projects currently under construction near Caltrain stations include Coleman Highline/Gateway Crossings (Santa Clara), Cityline (Sunnyvale), and San Antonio Village (Mountain View). Several large mixed-use projects are being proposed at planned BART stations, such as Market Park (Berryessa) and Google Transit Village (Diridon). Museum Place, a recently-approved high-rise mixed-use project, will be located within a few blocks southwest of the future Downtown San José BART station. More recently, the City received a preliminary proposal for a 9.3-acre live-work development adjacent to VTA's Orchard light rail station. As shown in Figure IV-7 a number of these projects were built speculatively and quickly pre-leased to major tech companies.

Employers are increasingly seeking open floor plans and layouts that allow flexibility to meet their evolving needs. Offices are designed to include large floorplates, typically at a minimum of 30,000 square feet.

New projects typically include a minimum of three spaces per 1,000 square feet, however some projects near transit have reduced or shared parking. According to local office brokers, projects with ample parking are easier to lease given that tech companies are increasing the density of workers in their buildings to as low as 150 to 175 square feet per worker. Projects with standard parking ratios can also be easier to finance because they are perceived as less risky. However, a proposed 20-story office tower recently announced in San José reportedly would include much less parking (about 1,200 spaces for 740,000 square feet of office, an implied parking ratio of 1.6 per 1,000 square feet, and that parking would be shared with an adjacent hotel).

In response to high demand for quality modern spaces, former manufacturing and Class B buildings in strong market locations are being upgraded. Over the last several years, investors have focused on value-add opportunities by rehabbing former manufacturing and Class B buildings into contemporary offices throughout North San José (e.g., “Renovation Row,” or the Orchard Parkway area). Downtown San José is also experiencing significant reinvestment activity, as demonstrated by recent purchases of historic buildings (e.g., Bank of Italy, Moir Building) and Class B office buildings (e.g., 1 W Santa Clara Street, 70 N. Second Street). These properties are planned for conversion into higher-value offices, seeking to attract creative and tech tenants.

FIGURE IV-6: OFFICE PROJECTS COMPLETED AND PROPOSED SINCE 2011

	Completed Since 2011		Under Construction		Proposed		Total	
	RBA (Sq. Ft.)	% of Total	RBA (Sq. Ft.)	% of Total	RBA (Sq. Ft.)	% of Total	RBA (Sq. Ft.)	% of Total
101 Corridor								
Palo Alto	887,835	4%	638,506	17%	36,120	0%	1,562,461	4%
Mountain View/Los Altos	2,434,096	11%	328,501	9%	3,766,372	25%	6,528,969	16%
Sunnyvale	6,486,296	29%	1,631,663	44%	1,887,830	13%	10,005,789	24%
Santa Clara	6,314,834	28%	150,000	4%	839,903	6%	7,304,737	18%
101 Corridor Subtotal	16,123,061	71%	2,748,670	75%	6,530,225	44%	25,401,956	62%
San José								
Downtown (a)	378,200	2%	204,000	6%	4,765,651	32%	5,347,851	13%
North San José	1,696,853	7%	415,000	11%	3,095,369	21%	5,207,222	13%
South and East San José	336,328	1%	0	0%	0	0%	336,328	1%
San José Subtotal	2,411,381	11%	619,000	17%	7,861,020	53%	10,891,401	26%
West Valley								
Cupertino	3,060,000	14%	0	0%	200,000	1%	3,260,000	8%
West San José	243,613	1%	321,398	9%	225,000	2%	790,011	2%
Campbell/Los Gatos/Saratoga	806,397	4%	0	0%	15,500	0%	821,897	2%
West Valley Subtotal	4,110,010	18%	321,398	9%	440,500	3%	4,871,908	12%
880 Corridor (b)								
Milpitas	2,580	0%	0	0%	0	0%	2,580	0%
San José International Business Park	3,985	0%	0	0%	0	0%	3,985	0%
880 Corridor Subtotal	6,565	0%	0	0%	0	0%	6,565	0%
Silicon Valley (b)	22,651,017	100%	3,689,068	100%	14,831,745	100%	41,171,830	100%

(a) The Downtown submarket includes the triangle bordered by Highway 101, I-880, and I-280, plus the San José International Airport submarket.

(b) Excluding Fremont.

Sources: CoStar, 2018; Strategic Economics, 2018.

FIGURE IV-7: SELECTED MIXED-USE TOD OFFICE DEVELOPMENTS SINCE 2011

Project	Status (a)	Development Type (b)	Developer	Office Space (Sq. ft.)	# Stories	Land Area (Acres)	Parking Ratio (c)	Notes
Santa Clara								
Coleman Highline	UC	Spec	Hunter Storm	1,500,000	5 to 15	22	3.1	First lease signed by 8x8; adjacent to planned Gateway Crossings (housing and hotel)
North San José								
Bay 101 Technology Place	P	Build to suit	Peery Arrillaga	234,192	9			Near VTA light rail; mixed-used casino and hotel project
North San José Live Work	PR	Spec	Sand Hill	505,000				
Downtown San Jose/Diridon								
Railyard Place	P	Unknown	Insight Realty Company	240,000	5	10.6	3.5	Includes apartments
Museum Place	PR	Unknown	Insight Realty Company	340,000	4	N/A		Includes museum expansion, office, hotel, and condos
Diridon TOD/Google Village	PR	Unknown	TMG Partners, Valley Oak Partners	Up to 8 million	6 to 12	240		Google Village
Berryessa								
Market Park	UC	Build to Suit	Borelli Investment Company	2,000,000	6 to 10	120		Mixed use with up to 5 office buildings
Sunnyvale and Mountain View								
San Antonio Village	UC	Spec	Merlone Geier	450,000	6		2.9	Pre-leased to Facebook and WeWork; mixed-use project
Cityline	UC	Spec	Sares Regis/Hunter	315,000	3	36		

(a) C = Completed; UC = Under Construction; P = Proposed/Entitlements Process; PR = Preliminary Review.
(b) Spec = construction with no committed tenants; Build to Suit = developer builds to tenant's specifications; Owner-user = built for owner-occupancy.
(c) Spaces per 1,000 square feet of office.
Sources: Costar, 2018; real estate news sources.

Station Area Market Conditions & Trends

This section describes office market conditions and recent development trends occurring in the station areas. Office development activity in the station areas is shown in Figures IV-87 and 9.

SANTA CLARA STATION AREA

While the Santa Clara station area has not historically been a major office location, the Coleman Highline project is adding a significant amount of new office space and the station area is well-positioned to attract additional office development over time. Office development in Santa Clara has historically been focused along Highway 101. However, the 24-acre Coleman Highline project is planned to add up to 1.5 million square feet of office space in the station area, as well as two hotels. More than 600,000 square feet of this office space has already been pre-leased by Roku and 8x8. The Coleman Highline project and neighboring Gateway Crossing mixed-use residential development are an example of the shift in Silicon Valley toward large mixed-use TOD projects that include major office components. If completed as planned, Coleman Highline has the potential to establish the Santa Clara station area as a new office center. The introduction of BART service will further increase the desirability of this area as a transit-oriented location.

The station area is well-positioned to attract additional office development over time. While the station area does not offer highway visibility and access, proximity to the Caltrain Station and future BART station, as well as the airport, makes this a desirable office location. Hunter Storm, the developer of Coleman Highline, sees proximity to Caltrain as a significant selling point for attracting tenants to the project, and expects the addition of BART and new households, hotel, and retail uses to further add to the success of this station area as an office location over time.

DOWNTOWN SAN JOSÉ STATION AREA

Downtown San José is attracting increased attention from office tenants, including in the tech industry. Downtown San José has long struggled to compete for new jobs and office development with suburban campuses in North San José, the Highway 101 corridor, and other locations. However, there a number of signs that Downtown is on the cusp of attracting new investment, including increasing rents, major new leases and transactions, and development proposals. In the last year the average asking rent increased by nearly 20 percent, significantly more than rents elsewhere in the broader market area (Figure IV-4, above). While the Downtown has historically attracted professional services, office brokers active in the area report that the tech industry now makes up the majority of new office leases. Aside from a few owner-occupied buildings (e.g., Adobe, Oracle), tech companies in Downtown San José typically lease entire floors of multi-tenant buildings.

The Downtown San José station area has experienced significant reinvestment activity in the last year, as demonstrated by recent purchases of historic buildings and Class B office properties. As mentioned previously, several historic buildings are slated for rehab into contemporary offices (e.g., Bank of Italy, Moir building, Walgreens building). A few Class B office buildings along Santa Clara Street are also undergoing major renovations, offering larger floor plates and more windows (e.g., 1 W. Santa Clara Street, 70 N. Second Street). There is still a significant Class B and C office inventory that investors and brokers see interest in upgrading.

Despite growing developer interest, no new office projects have been constructed within the Downtown San José station area. As mentioned above, rents and occupancy rates have risen substantially in the last few years. Developers and brokers report that rents are nearly high enough to make speculative office development feasible in Downtown San José. Just outside the station area on the Diridon side of Highway 87, phase three of River Corporate Center is currently under construction with 204,000 square feet, to be leased entirely by the County of Santa Clara. Three more office projects are proposed within the Downtown San José station area, totaling 1.78 million square feet. These projects include Museum Place, 200 Park Avenue, and Adobe's fourth building. These projects are located on the western side of Downtown, near Highway 87 and the emerging SoFa district (South First Area).

A combination of factors is driving increased interest in Downtown San José from office tenants and developers. These factors include:

- **Recent residential development.** The increased number of households living in the Downtown is helping to generate activity and support more restaurants and services, making the area more attractive for office users.
- **Proximity to the planned Google Village:** Google's announcement that it intends to bring thousands of new workers to the Diridon area is helping to attract interest in Downtown. Although no official plans have been released, a tentative vision for the area includes several office buildings that will house up to 20,000 workers, as well as housing and retail. Early visions for Google Village also include trails and open spaces that will connect the Diridon station area with adjacent neighborhoods,[69] including enhancing east-west connections to Downtown.
- **Improved transit access.** Real estate professionals familiar with the Downtown office market cited new bus rapid transit along East Santa Clara, as well as the planned BART extension as factors helping to attract additional interest in Downtown. As discussed above, tech companies are increasingly seeking out transit-served locations.
- **Improved retail and dining opportunities.** The San Pedro Market area and SoFa district (southeast of Cesar Chavez Plaza) have added more retail and dining opportunities catering to the growing number of Downtown residents and employees.

Co-working operators are growing their presence by signing major office leases in Downtown San José. Co-working typically offers a "pay-as-you-go" alternative to a long-term lease, which can help start-up companies reduce operating costs and limit risk. Co-working space is also appealing for mid- to large-scale companies seeking to expand their presence and/or offer additional office locations for employees. In 2016, major co-working operator WeWork signed its first Silicon Valley location in Downtown San José, with other co-working operators following suit, including NextSpace and Regus. There are early discussions about WeWork leasing the historic Bank of Italy building.

Downtown currently lacks a clear center of office activity, but the area around the future BART station First and Santa Clara Streets) has the potential to emerge as a mixed-use node with a concentration of office. Downtown's office space is dispersed across a relatively large area compared to other downtown office markets such as Oakland or San Francisco. The area around First and Santa Clara Streets is attracting interest from investors, evidenced by recent property purchases and renovations, and there remains a cluster of potential development sites in this area. In particular, the station area's largest development opportunity is the six-acre site owned by VTA at the future Downtown BART station on Santa Clara between Market and First Street. Development at the VTA block is envisioned to

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[69] "Google village in downtown San José would connect local neighborhoods, company vows." *The Mercury News.* May 23, 2018. https://www.mercurynews.com/2018/05/23/google-village-in-downtown-san-jose-would-connect-local-neighborhoods-company-vows/

potentially include a significant office component; this could help to position the area as a focus for commercial activity.

ALUM ROCK/28TH STREET STATION AREA

The Alum Rock/28th Street Station Area has very little existing office space. Office in the station area consists of small, multi-tenant plazas or stand-alone buildings dispersed along E. Santa Clara (west of 101) and Alum Rock Avenue (east of 101). Typical tenants are real estate and insurance offices, medical offices, and other neighborhood-serving professional services.

The Alum Rock/28th Street station area has seen very limited commercial development in recent years. The most recent commercial development (1918 Alum Rock Ave) was built in 2005 as part of an affordable townhouse development, Tierra Encantada Apartments. It only includes 7,000 square feet of space. Current tenants include a small immigration law office and a barber shop. In the broader East and South San José submarket, office development since 2011 has been limited to a few small medical and veterinary offices.

Real estate professionals interviewed for this market study were not optimistic about the potential for office in the station area. Despite the area's relative proximity to Downtown and direct access from Highway 101, the very different land use context (industrial and single-family residential) makes it feel isolated from existing office clusters in San José. Brokers also pointed to obsolete railroad and industrial uses and the fact that the area is bisected by the highway as creating an unpleasant environment for pedestrians and bicyclists. In addition, the station area currently lacks ease of access to amenities such as retail, dining and entertainment.

According to brokers and developers, a large-scale development (500,000 square feet or more) would be required to create a successful office location in an unproven market such as the Alum Rock/28th Street station area, even with transit access. To be successful, a project would need a minimum size of at least 500,000 square feet in a pioneering location. It would also likely need to include a mix of uses (similar to San Antonio Village). A larger-scale development is better able to accommodate the range of needs often required by major tech companies, such as fitness studios, cafeterias and open space. For example, Coleman Highline is planned for 1.5 million square feet of office on 22 acres, as well as hotel and office; the project will also be adjacent to substantial new residential development at Gateway Crossings. Market Park at Berryessa is planned for 1.15 to 2.2 million square feet of office space as part of a larger, 120-acre mixed use project.

The station area may not have an appropriate site to accommodate this scale of development. The area's largest development opportunity site is the 11-acre, former San José Steel site at the planned Alum Rock/28th Street BART station. Many of the other opportunity sites within the station area are small and under fragmented ownership. Based on feedback brokers and developers, it is not clear whether this will offer sufficient scale of development potential to enable new office development in an unproven market, even with transit access.

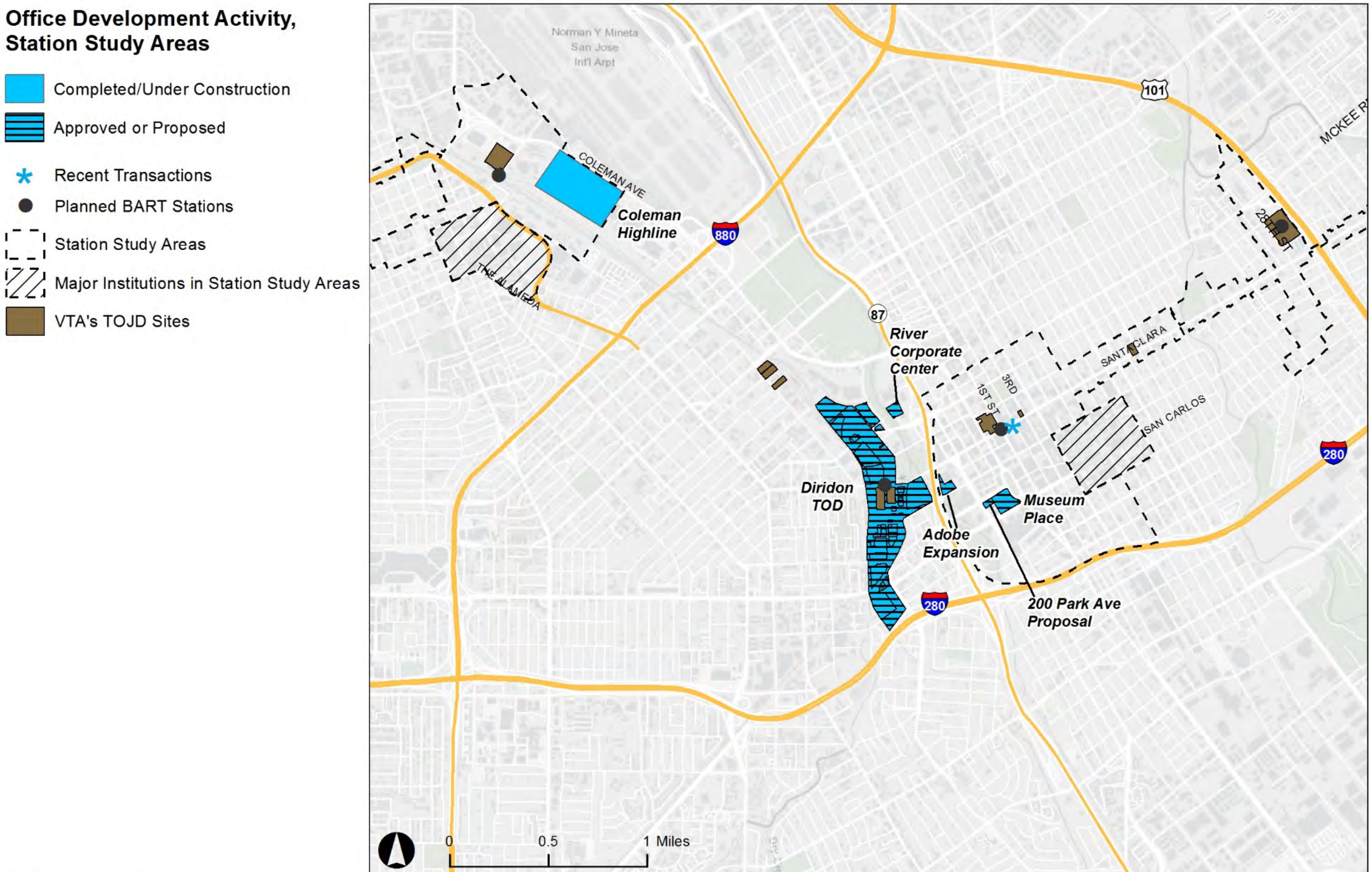
Real estate brokers and developers interviewed for this study suggested that the station area may be able to attract medical office uses over the long run. Most interviewees felt that BART will enhance the market for residential development, rather than commercial development. However, a few brokers suggested that with a robust marketing and pre-leasing campaign, the station area could potentially attract medical or other neighborhood-serving office uses.

FIGURE IV-8: OFFICE DEVELOPMENT ACTIVITY, STATION AREAS

Project	Address	Status (a)	Development Type (b)	Developer	Office Space (Sq. Ft.)	# Stories	Land Area (Acres)	Parking Ratio (c)	Notes
Santa Clara Station Area									
Coleman Highline	Coleman Ave	UC	Spec	Hunter Storm	1,500,000	5 to 15	22	3.1	First lease signed by 8x8
Downtown San José Station Area									
Museum Place	Market St	PR	Unknown	Insight Realty Company	340,000	4			Mixed use with museum expansion, office, hotel, and condos
200 Park Avenue	200 Park Avenue	PR	Unknown	DiNapoli	740,000	20	1		
Adobe Expansion	355 W San Fernando St	PR	Build to suit	Wolff Urban Development /DiNapoli	700,000	18	2.5		Existing vacant parking lot

(a) C = Completed; UC = Under Construction; P = Proposed/Entitlements Process; PR = Preliminary Review.
(b) Spec = construction with no committed tenants; Build to Suit = developer builds to tenant's specifications; Owner-user = built for owner-occupancy.
(c) Spaces per 1,000 square feet of office.
Sources: City of Santa Clara, March 2018; City of San José, February 2018; Downtown San José Development Projects, March 2018; Costar, 2018; real estate news sources.

FIGURE IV-9: OFFICE DEVELOPMENT ACTIVITY, STATION STUDY AREAS



*TOJD = Transit-oriented joint development sites owned by VTA.
Sources: City of Santa Clara Development Story Map, Mar. 2018; City of San Jose Development Activity Highlights, Feb. 2018; Department of PBCE, Downtown San Jose Development Projects, Mar. 2018.

STRATEGICECONOMICS

Office Demand Projections

This section provides preliminary projections of office demand for the Downtown San José, Santa Clara, and Alum Rock/28th Street station areas (referred to as the "corridor," below). The projections assume that with the introduction of BART service and other market shifts, the corridor will increasingly become a regional employment destination, competing for jobs and office development with employment centers throughout the five-county region that is served by BART (Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara Counties).

METHODOLOGY

The methodology involved three steps: 1) projecting office demand for the five-county region; 2) estimating the share of regional office demand captured in the corridor (i.e., total office demand for the three station areas); 3) and allocating potential office demand to the individual station areas. The three steps are described in more detail below. Figure IV-10 summarizes the key assumptions used to project demand for the five-county region and corridor. Figure IV-11 shows the allocation to the station areas in five-year increments and nets out development that has been completed since 2015 or is currently under construction.

1. **Project office demand for the five-county region:** The low-end projection is based on the employment forecast from *Plan Bay Area 2040 Final Plan*, published in 2017. Plan Bay Area assumes that after the boom following the end of the last recession in 2011, economic growth will begin to stabilize beginning in the 2015-2020 period. Our high-end projection assumes that the five-county region's economy continues to grow at a somewhat more rapid pace, in line with historic trends.[70]

2. **Estimate share of regional office demand captured in the corridor:** Currently, the three station areas account for 5 percent of the office development that is under construction or proposed in the five-county region, in part reflecting the anticipated new transit connection. This analysis assumes that the station areas become more competitive over time and capture 7 percent of the five-county office demand (on the low-end scenario) and 9 percent (on the high-end scenario) as a result of the new BART service, associated public realm improvements, and other recent market shifts (e.g., Google's plans for a transit village at Diridon Station).

3. **Allocate potential office demand to station areas:** Finally, potential office demand was allocated to the station areas. The projections assume that in the 2015 to 2025 period, the Santa Clara and Downtown San José station areas each receive 50 percent of the corridor office demand. This reflects current office proposals, which are roughly split between the two station areas. It also reflects an assumption that the two station areas are both reaching the point where job growth is about to – or in the case of Santa Clara Station Area, has already – translated into new development.

   In the longer term (after 2025) – as BART opens, the Google Village at Diridon is built out, and public realm and other improvements are implemented -- Downtown San José station area is

[70] For the high scenario, a Compound Annual Growth Rate (CAGR) was estimated for each employment sector, by calculating a best fit curve based on historic employment data for the five-county region (1992-2017). This CAGR was applied to Plan Bay Area's 2015 employment estimates to project employment forward to 2040, by sector. For the health and education services sector, the Plan Bay Area growth rate was used because the best fit curve predicted a lower growth rate than ABAG projects.

expected to capture an increased share of the corridor's office development (65 percent). Alum Rock/28th Street station area is assumed to capture up to 10 percent of corridor demand. Santa Clara station area captures the remaining 25 percent.

PROJECTED OFFICE DEMAND

Demand for office space in the corridor is projected to total 4.4 million to 7.5 million square feet between 2015 and 2040 (net of office currently under construction in Santa Clara Station). The implications for each station area are described below, including a comparison of projected demand to the amount of commercial development that the Cities of San José and Santa Clara are planning for the station areas.

- **The Santa Clara station area could absorb 1.3 to 2.3 million square feet of new office space by 2040.** Coleman Highline is currently planned to include 1.5 million square feet of office space, of which more than 600,000 square feet has already been pre-leased by Roku and 8x8. About 357,000 square feet are under construction in Phase I.

- **The City of Santa Clara's General Plan envisions about 500,000 square feet of office in the Santa Clara Station focus area.** Note however that Coleman Highline is in the City of San José, in the Santa Clara/Airport West Employment Area. The City of San José does not have a commercial square footage projection for the Employment Area.[71]

- **For the Downtown San José station area, demand for new office space is projected to be between 2.8 and 4.6 million square feet by 2040.** Some of the projected office demand in the Downtown San José station area may be absorbed by vacant space, including renovations of existing Class B/C space. Based on CBRE data, there are approximately 1.3 million square feet of vacant office space in the greater Downtown San José market area. Note that the projections assume that Downtown will become a steadily more desirable office location over time due to BART, Google Village, and other factors. However, the projections do not account for any other catalytic events (such as another large employer developing a major campus in Downtown) that could further shift Downtown's trajectory.

- **In the Downtown strategy currently underway (Downtown Strategy 2040), the City of San José is planning for up to 14.2 million square feet of office space for the Downtown/Diridon area (the Downtown Growth Boundary).** Media reports suggest that the Google Transit Village could include 6 to 8 million square feet of office at Diridon Station. An additional 204,000 square feet were under construction at the River Corporate Center Phase 3 (also on the Diridon side of Highway 87) as of mid-2018. These projects at Diridon station (assuming they are completed as planned) and the demand projections for the Downtown San José station area shown in Figure IV-11 would total about 9 to 12 million square feet of office demand by 2040. However, further analysis of the Diridon station area would be required to determine the extent of additional demand for office at Diridon.

- **Demand for office at Alum Rock/28th Street station is projected to be between 306,000 to 496,000 square feet by 2040; however, based on findings from the market study, it may be challenging to create a viable office location with this amount of demand.** As discussed above, developers interviewed for this analysis – as well as recent comparable examples – suggest that a larger increment of space (on the order of 500,000 square feet or more) may be required

[71] However, the City is planning for 1,600 jobs in this area.

to create a viable new office location. The high-end scenario assumes that the station area attracts one or more large tenants that drive this level of development; however, it may be challenging to accommodate a major mixed-use development on the available land in the station area.

- **The City of San José is planning for 1.6 million square feet of commercial space in the Alum Rock/28th Street station area.** This includes the amount of net new commercial sq. ft. planned in the Roosevelt Park, Little Portugal, Five Wounds BART, and S. 24th St/William Ct. Urban Villages plans. It is unclear how much of this development is expected to take the form of office versus other commercial uses.

FIGURE IV-10: CORRIDOR OFFICE DEMAND PROJECTIONS: KEY ASSUMPTIONS

	Five-County Employment Projection*									
	2015	2040	Change	Annual Growth Rate	% Office-Based	Sq. Ft. per Employee	Five-County Office Demand, 2015-40**	Corridor Capture Rate	Potential Corridor Office Demand, 2015-40	Net of Office Space Currently Under Construction
Low Scenario										
Professional Services & Information	971,730	1,167,470	195,740	0.74%	100%	200	41,888,000			
Health & Educational Services	503,155	759,105	255,950	1.66%	30%	225	18,486,000			
Other	1,986,750	2,158,810	172,060	0.33%	20%	225	8,285,000			
Total	3,461,635	4,085,385	623,750	0.66%			68,659,000	7%	4,806,000	4,449,000
High Scenario										
Professional Services & Information	971,730	1,253,658	281,928	1.02%	100%	200	60,332,000			
Health & Educational Services	503,155	759,105	255,950	1.66%	30%	225	18,486,000			
Other	1,986,750	2,163,471	176,721	0.34%	20%	225	8,509,000			
Total	3,461,635	4,176,233	714,598	0.75%			87,328,000	9%	7,859,000	7,502,000

*Low scenario employment projections based on *Plan Bay Area Final Plan* (2017). For the high scenario, a Compound Annual Growth Rate (CAGR) was estimated for each employment sector, by calculating a best fit curve based on historic employment data (1992-2017) for the five-county region. This CAGR was applied to Plan Bay Area's 2015 employment estimates to project employment forward to 2040.

**Assumes a 7% vacancy rate

Sources: Metropolitan Transportation Commission and Association of Bay Area Governments, Plan Bay Area Final Plan, 2017; U.S. Census Bureau, Quarterly Workforce Indicators, 2017; Strategic Economics, 2018.

Figure IV-11: Projected Office Demand by Station Area and Five-Year Increment, 2015-2040

	New Demand (Sq. Ft.)							
	2015-20	2020-25	2025-30	2030-35	2035-40	Total, 2015-40	Development Completed Since 2015 or Under Construction	Net New Demand, 2015-2040
Low Scenario								
Potential Corridor Office Demand (a)	791,000	959,000	994,000	1,010,000	1,052,000	4,806,000	357,000	4,449,000
Santa Clara Station Area	395,000	479,000	249,000	252,000	263,000	1,639,000	357,000	1,282,000
Downtown San José Station Area	395,000	479,000	646,000	656,000	684,000	2,862,000	0	2,862,000
Alum Rock/28th Street Station Area	0	0	99,000	101,000	105,000	306,000	0	306,000
High Scenario								
Potential Corridor Office Demand (a)	1,421,000	1,477,000	1,549,000	1,647,000	1,766,000	7,859,000	357,000	7,502,000
Santa Clara Station Area	710,000	739,000	387,000	412,000	441,000	2,689,000	357,000	2,332,000
Downtown San José Station Area	710,000	739,000	1,007,000	1,070,000	1,148,000	4,674,000	0	4,674,000
Alum Rock/28th Street Station Area	0	0	155,000	165,000	177,000	496,000	0	496,000

(a) Assumes that in the 2015-2020 period, Santa Clara and Downtown San José Station Areas each capture 50 percent of corridor office demand; after 2025, Santa Clara captures 25 percent, Downtown San José captures 65 percent, and Alum Rock/28th Street captures 10%.

Source: Strategic Economics, 2017.

Implications for the TOD Study

This section summarizes major implications of the analysis for future office development the station areas. In general, the analysis finds that while the Highway 101 corridor between northern Santa Clara to Cupertino is the most competitive location for office development, the market appears to be shifting to also favor other locations in the South Bay with good transit access. While the suburban office campus remains the predominant development type, an increasing number of projects are taking the form of higher density, mixed-use TOD.

SANTA CLARA STATION AREA

- **While office has traditionally clustered in the northern part of the city, the office market is shifting to favor locations like the Santa Clara station area, in part due to proximity to the Caltrain Station.** The Coleman Highline project is an example of this shift toward major mixed-use TOD projects that include major office components. The future BART station will further increase the desirability of this area as a transit-oriented location.
- **Demand for office in the Santa Clara station area is projected to be between 1.3 and 2.3 million square feet of new office space by 2040.** A significant proportion of this demand is expected to be absorbed by Coleman Highline, which is planned for 1.5 million square feet.

DOWNTOWN SAN JOSÉ STATION AREA

- **Demand for new office is projected to be between 2.8 and 4.6 million by 2040, although the timing of development remains uncertain and some of this demand will be met through renovation of currently vacant space.** The station area has not attracted significant office development in the current cycle, especially compared to Highway 101 and North San José. However, many older buildings are being renovated, and new office has recently been proposed. Developers and brokers report that rents are nearly high enough to make office development feasible in Downtown San José. Downtown appears to be reaching an inflection point, where increasing demand and a continuing strong could lead to one or more office buildings being constructed in the current market cycle. Alternatively, the construction of new office buildings may not become viable before the next market downturn, pushing new construction to the following expansionary period.
- **Enabling excellent connectivity to Diridon station will help leverage the impact of Google Village.** This project is already helping to shift the perception of Downtown as a secondary office market, and could help the area to grow to become a true Central Business District over time. In addition to tech firms, it is likely that some professional services firms will choose to locate in Downtown to be near the Google Village. Development in the Diridon area will also help to drive increased demand for retail, restaurants and services in the Downtown, which will help to make the area more appealing for office development. Promoting good pedestrian and bike connections between Downtown and Diridon will help to promote these benefits.
- **The VTA block could be a very attractive site for new office and assist in the creation of a concentration of office around 1st and Santa Clara.** The area around First and Santa Clara Streets is attracting interest from investors, evidenced by recent property purchases and renovations, and the new BART station is likely to make it an even more attractive location.

- **Competition for sites with residential development could limit the potential for office development.** Previous analyses have found that achieving the overall amount of development envisioned for Downtown San José will require every developable site in the Downtown to maximize its height and density, which may be challenging because of parking requirements and height restrictions related to proximity to the San José International Airport.[72] To date, Downtown San José has proven more attractive for residential development than office development. Given the limits on development, there could be benefits from preserving certain prime sites (such as those in close proximity to BART) for future high-density employment uses. However, policies should be carefully calibrated to ensure that they do not disincentivize development.

ALUM ROCK/28TH STREET STATION AREA

- **It is unlikely that the Alum Rock/28th Street station area will see office development in the short to medium term.** The station area is viewed as a challenging location for office, despite relative proximity to the Downtown. Real estate professionals interviewed for this study felt that the new BART station will help to stimulate the market for residential, rather than office development.
- **A major office development would be required to establish the area as an office location.** While the analysis projected demand for approximately 306,000 to 496,000 square feet of office in the station area by 2040, it is not clear whether the VTA site will accommodate a sufficient scale of office development to make it a viable office location.

[72] SPUR, The Future of Downtown San José: How the South Bay's urban center can achieve its potential, 2013.

V. MULTIFAMILY RESIDENTIAL

This chapter evaluates the market for multifamily residential development in VTA's BART Phase II station areas, in the context of broader development trends in San José, Santa Clara and the County. Affordable housing, including concerns around displacement, will be addressed separately in Strategic Economics' Task 3.3 deliverable.

This chapter is organized in the following sections:

- **Existing Housing Stock:** A description of station area housing characteristics compared to their respective cities and Santa Clara County;
- **Multifamily Market Conditions**: A discussion of market conditions in Santa Clara, San José and the submarkets where the Phase II stations are located;
- **Development Trends**: An overview of recent apartment and multifamily ownership trends in the region, cities of San José and Santa Clara, and submarkets in which the station areas are located. This section also describes recent, planned, and proposed development in each station area, as well as opportunities and challenges regarding the potential to attract multifamily development in each station area.
- **Multifamily Residential Demand Projections:** Projected demand for multifamily residential development in each of the station areas to 2040.
- **Implications for the TOD Study**: A summary of key findings for each station area.

Existing Housing Stock

Key characteristics of housing in the three station areas, the cities of San José and Santa Clara, and Santa Clara County are shown in Figure V-1, and discussed below.

SANTA CLARA STATION AREA

- **The Santa Clara Station Area includes approximately 1,600 housing units, of which 51 percent of units are in multifamily buildings and 49 percent are single family homes.** The residential neighborhood to the southwest of the BART and Caltrain tracks is known as the Old Quad, and includes many single-family homes, some of which date back more than one hundred years. While there are some multifamily buildings – including a mix of for-sale condominiums, townhouses, and rental apartments – located throughout the neighborhood, the larger multifamily properties are concentrated along El Camino Real and The Alameda. It is important to note that the count of housing units shown in Figure V-1 does not include on-campus housing at Santa Clara University. The University provides on-campus housing for about 2,800 students and is in the process of adding approximately 600 more beds.
- **Nearly half (47 percent) of the housing in the station area was built since 2000.** In comparison, only 12 percent of city and county housing supply was built during this time. Newer projects include a mix of apartments, condominiums, and townhomes. As discussed in Chapter III, this residential development has been accompanied by significant household and population growth, fueled in part by demand from students but also from other households including a growing number of couples and families with children.

- **The station area has a higher proportion of renter-occupied units (65 percent) compared to the City of Santa Clara (57 percent).** In part, this reflects the fact that the area is popular with students.

DOWNTOWN SAN JOSÉ STATION AREA

- **The Downtown San José Station Area includes approximately 7,000 housing units, with 90 percent in multifamily buildings.** More than half of units are in buildings with 20 or more units, compared to 32 percent in the City of San José.
- **Downtown includes a mix of old and new units.** Over a quarter of all units were built before 1950 and nearly one-third of units were built in 2000 or later. As discussed in Chapter III, the number of households living in Downtown has increased by about one-third since 2000, with growth driven mostly by non-family and single-person households.
- **Most Downtown units are occupied by renters.** Over 80 percent of occupied housing units are rented, compared to 43 percent citywide.

ALUM ROCK/28TH STREET STATION AREA

- **The Alum Rock/28th Street station area is a predominately low-density residential area, with single-family homes accounting for 60 percent of all units.** The share of single family homes is slightly lower than in the city as a whole (64 percent).
- **Less than 15 percent of the station area's housing stock was built since 2000.** Compared to the other station areas, this area has seen limited residential development and household growth in recent years. The housing supply is older, with 55 percent of units built before 1970.
- **About 60 percent housing units are renter-occupied.** This is a relatively high proportion compared to the city, where 43 percent of units are rented.

FIGURE V-1: EXISTING HOUSING STOCK: STATION AREAS, SANTA CLARA, SAN JOSÉ, AND SANTA CLARA COUNTY, 2016

	Santa Clara Station	Downtown San José	Alum Rock/28th Street	City of Santa Clara	City of San José	Santa Clara County
Total Housing Units	1,614	7,087	6,581	45,903	328,185	651,905
Units in Structure (Percent of Total)						
Single Family	49%	11%	59%	49%	64%	63%
Multifamily	51%	89%	35%	51%	32%	34%
2-4 Units	3%	13%	9%	9%	7%	7%
5 - 19 Units	12%	23%	12%	19%	10%	11%
20 or More	35%	54%	14%	22%	15%	15%
Mobile Home, Van, Etc.	0%	0%	6%	0%	3%	3%
Total	100%	100%	100%	100%	100%	100%
Year Built (Percent of Total)						
Built After 2000	47%	32%	14%	13%	12%	12%
Built 1980 - 2000	15%	20%	17%	18%	24%	23%
Built 1970 - 1980	6%	9%	13%	18%	25%	23%
Built 1950 - 1970	5%	12%	28%	43%	31%	34%
Built 1950 or Before	26%	27%	27%	7%	8%	9%
Total	100%	100%	100%	100%	100%	100%
Tenure (Percent of Total)						
Renter-Occupied	65%	82%	60%	57%	43%	43%
Owner-Occupied	35%	18%	40%	43%	57%	57%
Total	100%	100%	100%	100%	100%	100%

Note: On-campus student housing are not included in these totals.
Source: ACS 5-Year Estimates, 2012-2016.

Multifamily Market Conditions

This section provides an overview of market trends influencing multifamily development in the station areas, including both rental apartments and for-sale condominiums and townhomes. More details about development trends are discussed in the following section.

RENTAL APARTMENTS

This section refers to apartment submarket areas defined by CoStar, a source for commercial real estate data. The CoStar submarkets are shown in Figure V-2, and their relationship to the three station areas is described below.

- Santa Clara Station: The station is located within the Central Santa Clara submarket, which extends south of Highway 101 to Stevens Creek Boulevard, and east from the Sunnyvale border to Downtown San José.
- Downtown San José Station: The station is located within the Downtown San José East submarket. Downtown San José East stretches west from Highway 101 to Highway 87 and includes the area between Japantown to Highway 280.

- **Alum Rock/28th Street Station:** This station area is at the edge of the Downtown San José East and East San José submarkets. East San José encompasses the area south of Montague Expressway to Capitol Expressway, and extends west of the East Foothills to Monterey Road.

Figures V-3 and 4 shows apartment vacancy and rent trends since 2000 for the cities of Santa Clara and San José, and Santa Clara County. Figure V-5 summarizes market data for the submarkets within Santa Clara and San José. Figure V-6 shows rents at recently constructed projects for key submarkets. Key findings are discussed below.

- **Rents in Santa Clara County have been rising for several years, although growth appears to have slowed since 2015.** As shown in Figure V-3, rents accelerated beginning in 2011, as the economy emerged from the Great Recession, and continued growing at an average annual rate of nearly eight percent until 2015. Since then rents have continued to grow at a slower pace of about four percent. Rents in Santa Clara tend to be slightly above the County average, and San José rents tend to be slightly lower.
- **Vacancy rates have hovered around 5 percent for the past several years, reflecting the strong housing market.** Santa Clara's vacancy rate increased in 2016 after the completion of several new apartment projects, but has declined to four percent in the first quarter of 2018. San José's vacancy rate has remained at five percent since 2016, about the same as the county overall (Figure V-4).
- **Rents in the Central Santa Clara submarket are relatively high, averaging $2,637, or $3.06 per square foot (Figure V-5).** As shown in Figure V-6, newer projects can achieve rents as high as $3.34 per square foot per month.
- **The average rent in the Downtown San José East submarket is $2,355 ($2.93 per square foot) as of the first quarter of 2018, up three percent from the previous year.** Rents in this area remain lower than other parts of the city and county. However, newer projects achieve rents over $3.30 per square foot per month, similar to that achieved in the Santa Clara station area.
- **East San José rents are lower than Downtown, but increased 5 percent in the past year.** The average rent is at $2,218 per unit or $2.71 per square foot per month. However, the new LINQ project, located adjacent to the future Berryessa BART station, is achieving significantly higher rents ($3.16 per square foot per month).

FIGURE V-2: APARTMENT SUBMARKETS, SANTA CLARA AND SAN JOSÉ

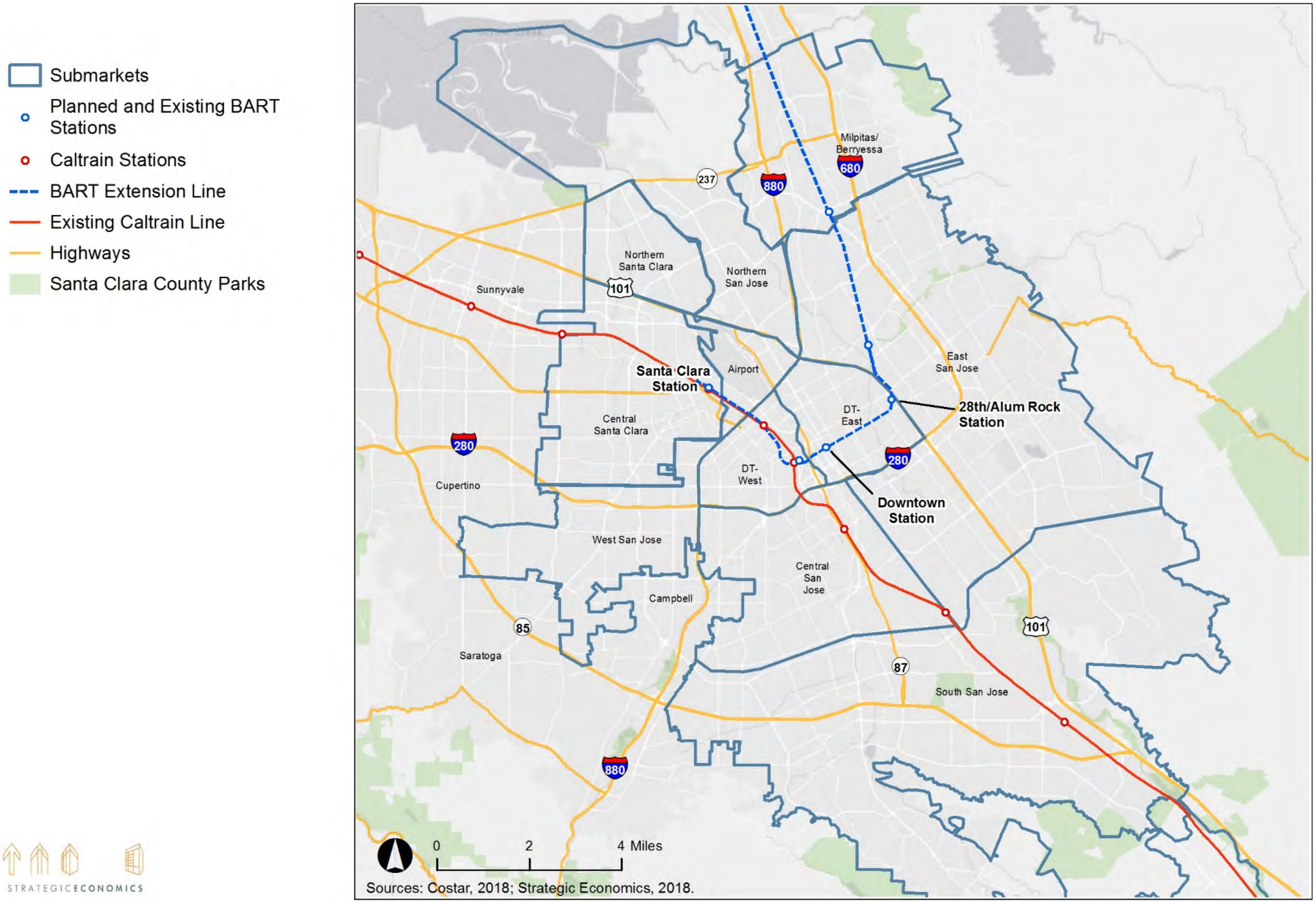
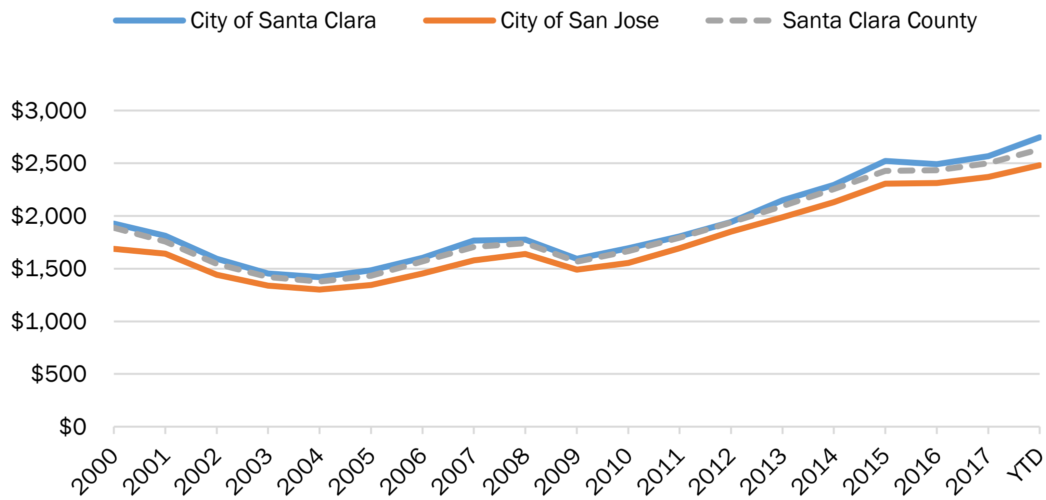
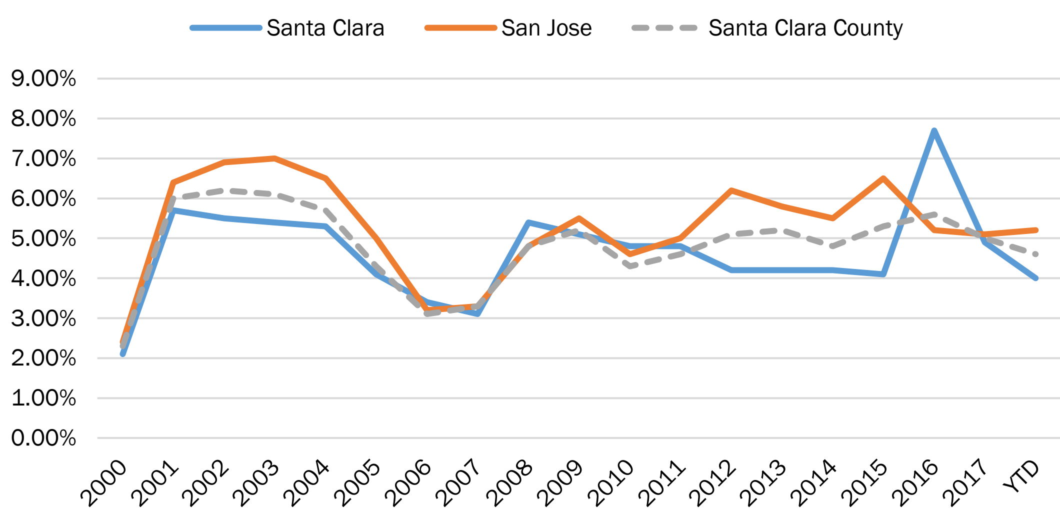


FIGURE V-3: AVERAGE RENT: SANTA CLARA, SAN JOSÉ, AND SANTA CLARA COUNTY, 2000 THROUGH MID-2018



Rents for market-rate apartments, in nominal dollars.
Sources: Costar, 2018; Strategic Economics, 2018.

FIGURE V-4: VACANCY RATES: SANTA CLARA, SAN JOSÉ, AND SANTA CLARA COUNTY, 2000-2018



Data shown is for market-rate apartments.
Sources: Costar, 2018; Strategic Economics, 2018.

FIGURE V-5: APARTMENT SUMMARY: SANTA CLARA COUNTY, Q1 2017 AND 2018

	Inventory (Units)			Vacancy Rate		Monthly Average Asking Rent			Monthly Average Asking Rent Per Sq. Ft.		
	2017Q1	2018Q1	% Change	2017Q1	2018Q1	2017Q1	2018Q1	% Change	2017Q1	2018Q1	% Change
San José											
West San José	13,825	13,825	0%	4%	4%	$2,248	$2,355	5%	$2.72	$2.85	5%
South San José	10,730	11,117	4%	5%	7%	$2,386	$2,396	0%	$2.66	$2.67	0%
Central San José	8,793	8,793	0%	4%	4%	$2,041	$2,089	2%	$2.56	$2.62	2%
Downtown San José East	8,602	9,005	5%	7%	7%	$2,288	$2,355	3%	$2.85	$2.93	3%
Northern San José	8,565	8,565	0%	5%	5%	$2,864	$2,964	3%	$3.07	$3.18	4%
East San José	8,313	8,313	0%	6%	3%	$2,127	$2,218	5%	$2.59	$2.71	5%
Downtown San José West	4,138	4,328	5%	4%	3%	$2,502	$2,412	2%	$2.83	$2.88	2%
San José Airport	461	837	82%	4%	5%	$2,063	$2,428	17%	$2.98	$3.49	17%
San José Subtotal	49,602	50,958	3%	5%	5%	$2,357	$2,428	3%	$2.77	$2.85	3%
Santa Clara											
Central Santa Clara	13,576	13,762	1%	8%	4%	$2,515	$2,637	5%	$2.92	$3.06	5%
Northern Santa Clara	2,135	2,135	0%	4%	4%	$2,811	$3,001	7%	$2.89	$3.09	7%
Santa Clara Subtotal	15,711	15,897	1%	7%	4%	$2,556	$2,682	5%	$2.93	$3.07	5%
Santa Clara County	**126,364**	**128,147**	**1%**	**5.3%**	**4.9%**	**$2,491**	**$2,575**	**3%**	**$2.97**	**$3.07**	**3%**

Note: Data shown is for market-rate apartments.
Sources: Costar, 2018; Strategic Economics, 2018.

FIGURE V-6: SELECTED RECENTLY BUILT MULTIFAMILY PROJECTS BY SUBMARKET

Project by Submarket	Year Built	# Units	Units/Acre	Average Rent	Average Rent Per Sq. Ft.	Average Unit Size	% Studios and 1 Bdrms	2 or More Bdrms	Land Area (Acres)	Stories
Central Santa Clara										
Monticello Village	2016	825	51	$3,523	$3.42	1,031	54%	46%	16.2	6
Villas on The Boulevard	2017	186	58	$3,192	$3.38	945	45%	55%	3.2	4
Tuscany Apartments	2014	133	21	$3,061	$3.45	886	29%	71%	6.4	4
			Weighted Average	**$3,415**	**$3.41**	**920**	**38%**	**62%**		
Downtown San José East										
Centerra	2015	347	267	$3,428	$3.42	1,001	61%	39%	1.3	20
One South Market	2015	312	312	$2,990	$3.32	900	73%	27%	1.0	23
The Pierce	2016	232	117	$3,158	$3.37	938	51%	49%	2.0	7
Marquis	2015	166	61	$2,709	$3.24	835	58%	42%	2.7	3
Mio Japantown	2015	103	51	$2,992	$3.34	897	44%	56%	2.0	4
			Weighted Average	**$3,115**	**$3.35**	**928**	**60%**	**40%**		
East San José										
LINQ Apartment Homes	2016	230	60	$2,604	$3.12	834	44%	41%	3.9	5
Aviara	2012	46	81	$2,613	$3.09	845	30%	70%	0.6	4
			Weighted Average	**$2,606**	**$3.12**	**836**	**42%**	**46%**		

Source: Costar, April 2018; Strategic Economics, 2018.

MULTIFAMILY OWNERSHIP

This section describes trends in the market for multifamily ownership units, defined to include both condominiums and townhouse units.[73] Figure V-7 shows sales prices per square foot since 2011 for the cities of Santa Clara and San José, selected submarkets within San José (i.e., Downtown San José East and East San José), and Santa Clara County overall.[74] Figure V-8 provides a snapshot of prices in the same areas as of April 2018. Figure V-9 illustrates the difference in sales prices for new construction (built 2012 or later) compared to older units. Key findings are discussed below.

As apartment rents and vacancies have begun to plateau, multifamily ownership prices have increased. As of April 2018, Santa Clara County's median sales price for multifamily ownership was $743 per square foot, an increase of 37 percent since 2017, according to Redfin. Local realtors note strong interest from first-time homebuyers - largely Millennials - who are shifting away from the region's high-rent apartment market.

Sales prices in Santa Clara tend to be higher than the county and San José on a price per square foot basis. As of April 2018, the sales per square foot in Santa Clara was $796, seven percent higher than the county overall, and 16 percent higher than the City of San José (Figures V-7 and 8).

Both the Downtown San José and East San José submarkets experienced strong sales price growth since 2017. Downtown San José's sales price per square foot jumped 35 percent, while East San José increased by 26 percent.

New multifamily ownership command a significant price premium over older units. The premium has varied over time, but on average sales prices for new units tend to be at least 33 percent higher (Figure V-9).

High sales prices can be partially attributed to stiff competition for a limited inventory. The Santa Clara County Association of Realtors commented that the sales price to list price ratio, or what buyers are paying over what sellers are asking, has been in the triple digits (113 percent as of June 2018).

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[73] Unfortunately, the data do not distinguish between these building types.
[74] Submarket data for "Central Santa Clara" was not available from Redfin. East San José's for-sale multifamily submarket covers a smaller geographic area compared to the apartment submarket (as defined by CoStar), encompassing the area south of Berryessa Road to Tully Road.

FIGURE V-7: MULTIFAMILY OWNERSHIP MEDIAN SALES PRICE PER SQUARE FOOT: CITIES OF SAN JOSÉ AND SANTA CLARA, SELECTED SUBMARKETS, AND SANTA CLARA COUNTY, 2012-2017

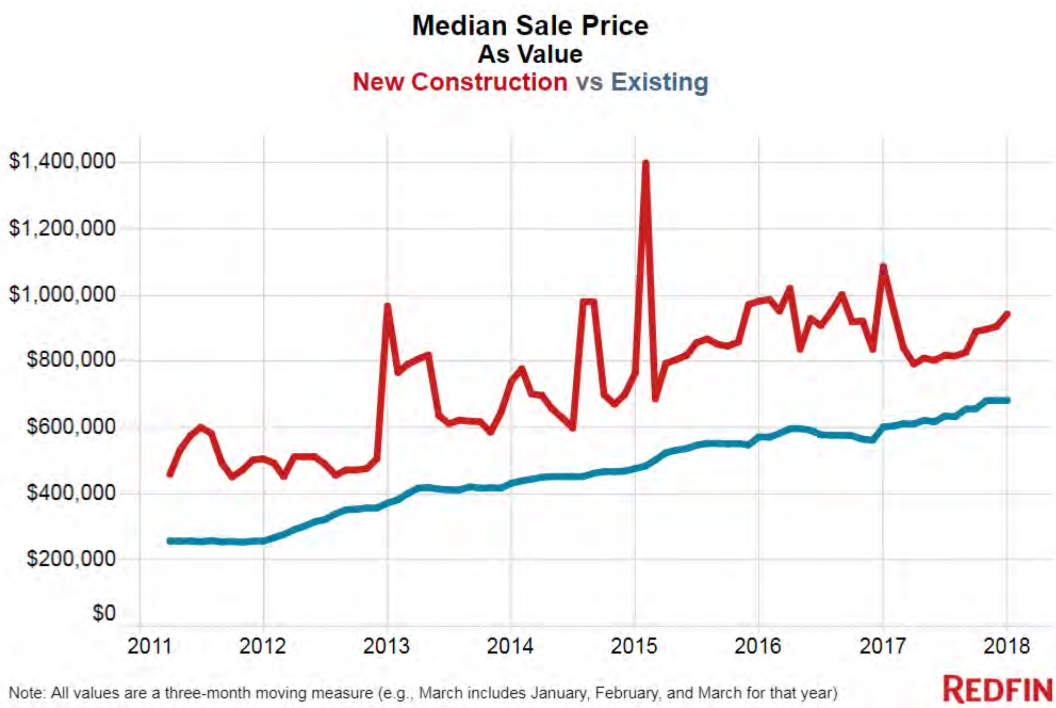
Source: Redfin, 2018.

FIGURE V-8: MULTIFAMILY OWNERSHIP MEDIAN SALES PRICE PER SQUARE FOOT: CITIES OF SAN JOSÉ AND SANTA CLARA, SELECTED SUBMARKETS, AND SANTA CLARA COUNTY, APRIL 2018 AND ANNUAL CHANGE

	Median Sales Price Per Sq. Ft.	Annual Change
Santa Clara	$796	22%
Downtown San José	$786	35%
Santa Clara County	$743	37%
San José	$686	34%
East San José	$571	26%

Source: Redfin, April 2018.

FIGURE V-9: MEDIAN SALES PRICE FOR NEW CONSTRUCTION VERSUS EXISTING: SANTA CLARA COUNTY



Note: New construction is considered condominiums built 2012 or after.
Source: Redfin, 2018.

Development Trends and Opportunities

This section describes multifamily residential development trends, including recently constructed, planned and proposed projects. The section begins with an overview of regional and citywide trends, and then discusses development trends and opportunities in the station areas.

The analysis utilizes data from CoStar to illustrate broader development trends in the two cities and Santa Clara County. This information was supplemented with development data from the cities of Santa Clara and San José, as well as information from recent news articles, to provide greater detail about recent development activity in the station areas. The analysis also draws on information from interviews with developers and other real estate experts.

REGIONAL AND CITYWIDE TRENDS

Figure V-10 summarizes information about recent, planned and proposed apartment projects by submarket. Figure V-11 shows annual multifamily completions over time in San Mateo and Santa Clara Counties, including both apartments and for-sale multifamily. Figure V-12 shows the number of new for-sale multifamily currently under construction and approved. Key findings are discussed below.

Since 2011, 24,500 apartment units were completed in Santa Clara County, with the majority of units built in San José. As shown in Figure V-10, San José accounted for nearly 15,000 units, or over 60 percent of all new units constructed in the county. Within San José, Northern San José has attracted the most new rental development with over 6,800 new units. Downtown San José East added over 1,700 new units, while East San José only added about 310 new units during this time. Within Santa Clara, Central Santa Clara added over 2,140 new units.

The Central Santa Clara and Downtown San José East submarkets currently lead the county in apartment development activity. Central Santa Clara has almost 3,000 units under construction, most of which is part of the large mixed-use development occurring at Santa Clara Square (off Highway 101 and Bowers Avenue). Downtown San José East has about 2,800 units under construction across several projects. In addition to the units already under construction, over 8,500 apartment units are proposed in Downtown San José East and over 1,660 units in Central Santa Clara.

The pattern of residential development within San José reflects regulatory restrictions and incentives as much as market conditions. For example, North San José's recent growth in part reflected the success of the North San José Development Policy, adopted in 1988 to allow conversion of some industrial land into higher density residential in an area already experiencing employment growth. However, as shown in VI-10, no units are currently in the pipeline because the area has reached the cap for the first phase (8,000 units). The City of San José has also encouraged residential development in Downtown with policies including a program-level Environmental Impact Report (the San José Downtown Strategy 2000 Plan and EIR) that cleared about 10,000 residential units in four phases;[75] and a High Rise Incentive Program that has been in place since 2007 and reduces development and impact fees for new construction of residential buildings with 12 or more stories. The amount of approved and/or constructed residential development in Downtown is now approaching the residential capacities identified in Phase I of the EIR. Accordingly, the City is in the process of updating the EIR to

[75] The EIR also cleared up to 11.2 million square feet of office development, 1.4 million square feet of retail development, and 3,600 hotel rooms.
(footnote continued)

allow up to 4,000 additional units (the Downtown Strategy 2040 EIR). Outside of North San José and Downtown, the City's Urban Village Policy limits the location and timing of residential development within Urban Villages (discussed in more detail below).[76] In addition, projects are required to include commercial space, which can impact development feasibility.

After a several year apartment boom, the market is beginning to shift toward condominium projects (Figure V-11). Between 2013 and 2016, apartment completions surged, while the number of new condominiums remained relatively low (less than 500 units annually in 2015 and 2016). However, in 2017, the number of new condominium units delivered was almost equal to the number of apartments at just under 2,000 units each. Polaris Pacific (a brokerage firm that closely tracks the for-sale multifamily market) reports that San José has over 500 for-sale multifamily units under construction and an additional 1,800 units approved. According to developers, escalating construction costs and flattening rents are negatively impacting apartment feasibility. Meanwhile, comparatively high sales prices of for-sale housing is supporting development of condos and townhomes.

New condominium projects are focused in downtowns and other urban areas with a mix of uses and transportation options. According to realtors familiar with the market, new condominiums and townhomes in Downtown Mountain View, Downtown Sunnyvale, and Downtown San José are quickly selling out and townhouses currently under construction in Berryessa are experiencing strong pre-sales activity. Realtors note that the expected opening of Berryessa BART and a major center including retail, dining, and entertainment helped pushed pre-sale prices in that station area to $1 million per unit.

Recent multifamily residential development mainly consists of midrise projects, with some high rises in Downtown San José and North San José. Most multifamily projects are four to six stories, built with comparatively inexpensive wood frame construction (known as Type V). However, six to eight story buildings are becoming more common, especially for mixed-use buildings on smaller lots. These projects typically utilize Type III construction, incorporating treated lumber and/or metal over a one to two-story concrete parking podium.[77] Type III projects tend to be more expensive on a per square foot basis, and thus usually are marketed as high-end luxury residential communities. To date, virtually all high-rise towers in Santa Clara County were built in Downtown San José, with one recently completed in North San José (Century Towers).

Developers are generally seeing reduced demand for parking, especially near transit. Reduced parking demand is associated with the rise of ride-hailing services, bike/car sharing, company shuttles, as well as improved transit access. One developer active in the San José market noted that their rule of thumb for new multifamily projects is 1.85 spaces per unit in suburban locations, 1.5 spaces per unit in downtown locations with some transit, and 1.2 spaces per unit with excellent transit access.

Multifamily projects are increasingly making use of stacked parking technology. These projects utilize mechanical parking systems that allow vehicles to be stacked vertically, reducing the footprint required for parking. Stacked parking can be less expensive to build than conventional parking garages. In urban locations where development may occur on irregular-sized lots or small sites, these automated systems can more make efficient use of space.

Developers cite the region's soaring construction costs as the most significant barrier preventing entitled projects, including several residential towers in Downtown San José, from breaking ground.

[76] Also see the VTA BART Phase II Corridor TOD Existing Conditions Report for detailed discussion of the City's Urban Villages policy.
[77] In some cases, developers are also using Type I concrete construction for mid-rise projects.

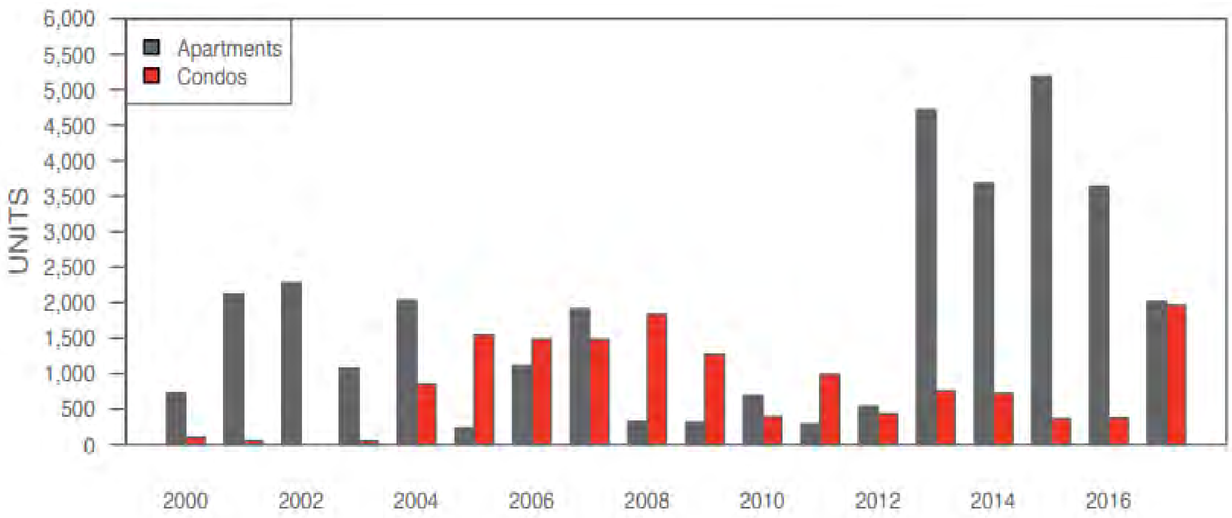
The high cost of construction materials and rising labor costs are making it challenging for projects to move forward.

FIGURE V-10: RECENT AND PROPOSED APARTMENT DEVELOPMENT SINCE 2011: SANTA CLARA COUNTY

	Completed Since 2011		Under Construction		Planned or Proposed		Total	
Submarkets	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
San José								
Northern San José	6,888	28%	0	0%	0	0%	6,888	11%
South San José	1,880	8%	0	0%	0	0%	1,880	3%
Downtown San José East	1,754	7%	2,823	25%	8,535	37%	13,372	22%
Downtown San José West	1,456	6%	923	7%	1,502	6%	3,881	6%
International Business Park	914	4%	115	1%	739	3%	1,768	3%
Central San José	754	3%	144	1%	662	3%	1,560	3%
San José Airport	708	3%	0	0%	0	0%	708	1%
West San José	320	1%	636	5%	2,059	9%	3,015	5%
East San José	309	1%	166	1%	71	0%	546	1%
San José Subtotal	14,983	60%	4,807	41%	13,568	58%	33,358	56%
Santa Clara								
Central Santa Clara	2,140	9%	2,991	24%	1,663	7%	6,794	11%
Northern Santa Clara	0	0%	0	0%	200	1%	200	0%
Santa Clara Subtotal	2,140	9%	2,991	24%	1,863	9%	6,994	12%
Other	7,783	31%	4,344	35%	7,774	34%	19,901	33%
Santa Clara County Total	**24,906**	**100%**	**12,402**	**100%**	**23,205**	**100%**	**60,513**	**100%**

Sources: Costar, 2018; Strategic Economics, 2018.

Figure V-11: New Multifamily Ownership and apartment Units: Santa Clara and San Mateo Counties, 2012-2017



Note: Polaris Pacific defines Silicon Valley multifamily ownership market (townhomes and condominiums) to include the counties of Santa Clara and San Mateo.
Source: Polaris Pacific, May 2018.

Figure V-12: Multifamily Ownership Units Under Construction or Approved, By District

Districts	Under Construction	Approved	Total Pipeline	% of Total Pipeline
San José	518	1,804	2,322	57%
Campbell, Cupertino, Santa Clara, Sunnyvale	259	619	878	21%
Menlo Park, Palo Alto, Mountain View, Los Altos	0	55	55	1%
Belmont, Burlingame, Redwood City, San Carlos, San Mateo	213	152	365	9%
Brisbane, Daly City, South San Francisco, Pacifica, San Bruno, Millbrae	108	367	475	12%
Total Pipeline	**1,098**	**2,997**	**4,095**	**100%**

Note: Polaris Pacific defines Silicon Valley multifamily ownership market (townhomes and condominiums) to include the counties of Santa Clara and San Mateo.
Source: Polaris Pacific, May 2018.

STATION AREA DEVELOPMENT TRENDS AND OPPORTUNITIES

This section summarizes development trends, opportunities and challenges specific to each station area. It includes a summary of recent, planned, and proposed residential development (Figures V-13, 15 and 17), and maps showing the location of projects (Figures V-14, 16 and 18).

SANTA CLARA STATION AREA

Most of the recent residential development in the Santa Clara station area has occurred along El Camino Real. Development has occurred on infill sites ranging between one-half to two acres, and include a mix of higher-density apartments, condominiums, and townhomes. According to realtors and developers, these new buildings tend to target professionals, young families, and Santa Clara University's student population.

Developers and other real estate experts agreed that the Santa Clara station area is a strong market location for residential development. In addition to Santa Clara University (discussed below), the station area is located in close proximity to major employment concentrations along Highway 101, including the recently completed office projects at Santa Clara Square and Bowers Avenue located less than five miles away. While there is currently no significant concentration of retail and services, the area benefits from access to retail and restaurants in the Downtown, along El Camino Real, and on The Alameda. The area is well-served by transit, and the addition of BART will provide improved access to jobs and other destinations across the region, as well as direct connections to retail and entertainment in Downtown San José.

Three major apartment projects proposed in the Santa Clara station area will potentially add nearly 2,200 new residential units (Figure V-13). They include Gateway Crossings, 575 Benton Street, and a student housing project at the existing Caltrain station parking lot. All three projects are currently under review. The Gateway Crossings development, located to the northeast of the station in San José, is planned for up to 1,600 residential units and up to 215,000 square feet of commercial uses (including a 250-room full-service hotel). 575 Benton Street is planned for up to 355 units, including eight live-work units, and about 20,000 square feet of retail space. A student housing project at the existing Caltrain station parking lot is planned to include up to 230 units (up to 550 beds) and approximately 42,000 square feet of retail space.

According to university officials, there is growing demand for housing from Santa Clara University students and faculty. The overwhelming majority of the university's 5,400 undergraduates live on campus or in off-campus apartments within walking distance of the university, including the Old Quad neighborhood. The university's 3,300 graduate students tend to commute to the university and rely heavily on transit. Many graduate classes are held near the Santa Clara Caltrain station, including the new law school. The high cost of housing in the region has proved challenging for recruiting and retaining university faculty and staff, and additional housing in close proximity to the University could aid in recruitment.

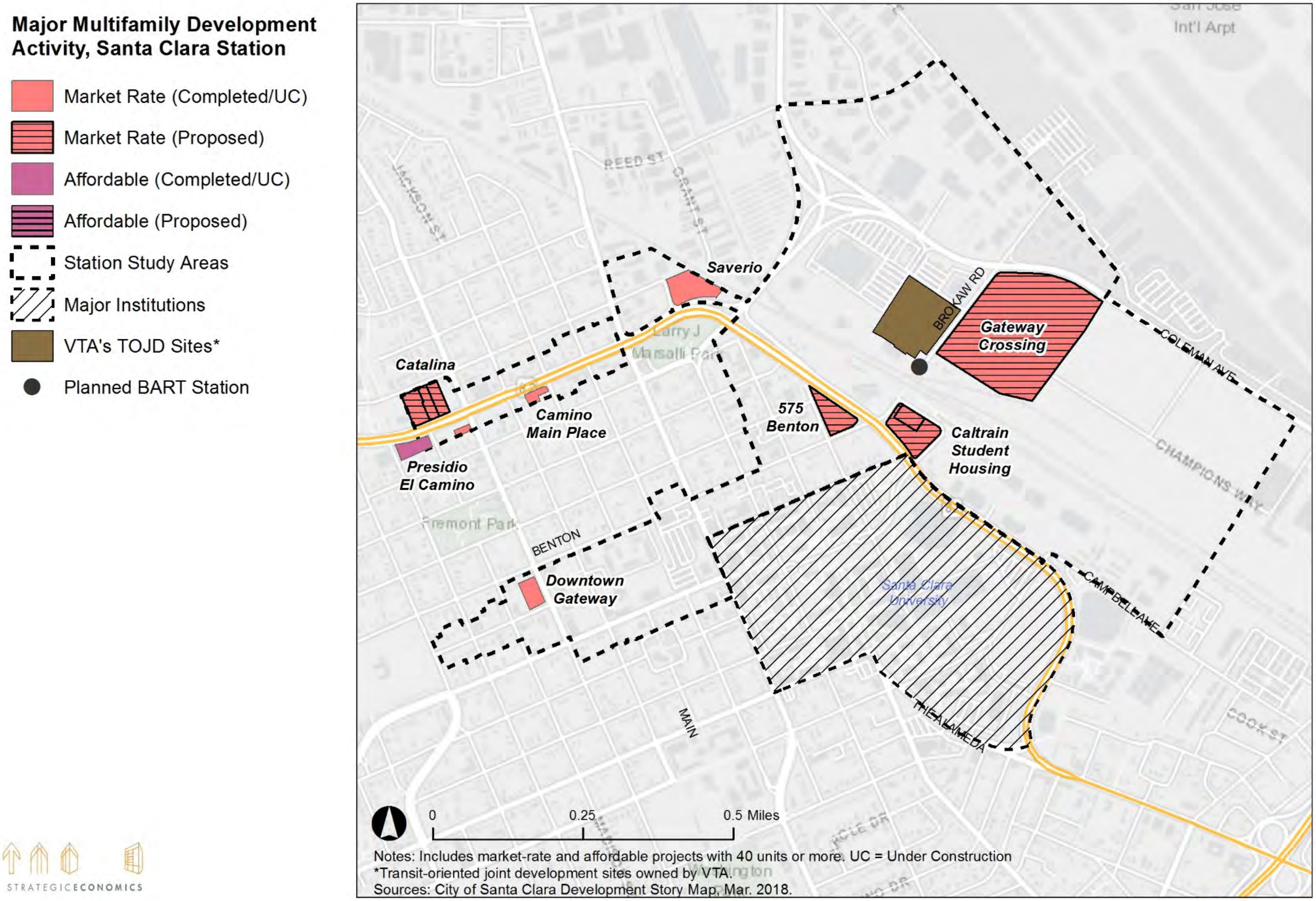
The Santa Clara Station area is adjacent to many single-family neighborhoods, and there has been some resistance to multifamily residential development. A 2016 proposal to redevelop 575 Benton Street into a five-story residential mixed-use project was met with community opposition over project size, density, and parking characteristics. Negotiations eventually fell apart and the developer pulled out after the City approved a plan that dramatically reduced the project size, added more parking, and cut the height to three stories.

FIGURE V-13: MULTIFAMILY DEVELOPMENT ACTIVITY, SANTA CLARA STATION AREA

Project	Type (if known)	Status	Units	Commercial Square Feet
Completed Since 2011/Under Construction				
Presidio El Camino	Affordable Apartments	Completed Since 2011	40	3,025
Downtown Gateway	Condominiums	Under Construction	44	14,477
Saverio	Townhomes	Under Construction	40	0
Madison Place	Condominiums	Under Construction	28	6,990
Camino Main Place	Apartments	Under Construction	12	1,000
	Total	**Total**	**164**	**25,492**
Proposed				
Gateway Crossings	Apartments	Proposed	1,600	15,000
575 Benton Street	Apartments	Proposed	355	24,442
Caltrain Station Student Housing	Student Housing	Proposed	230	42,000
Catalina Residential	Townhomes	Proposed	58	0
	Total	**Total**	**2,243**	**81,442**

Source: City of Santa Clara Development Story Map (March 2018).

FIGURE V-14: MAJOR MULTIFAMILY DEVELOPMENT ACTIVITY, SANTA CLARA STATION AREA



DOWNTOWN SAN JOSÉ STATION AREA

Downtown San José is in the midst of a major development boom. Since 2011, over 1,200 new apartment and condominium units have been added to the Downtown San José station area. Another 2,380 units are currently under construction, with more than 4,600 additional residential units entitled or under review. According to realtors and developers, newer projects feature high-quality interior finishes, appliances, and a wide range of common-area amenities, such as fitness centers, dog runs, and rooftop patios. These projects tend to target young professionals and households without children.

Downtown San José is expected to continue to grow in appeal as a location for residential development over time. Realtors and developers interviewed for this study cited a number of factors that contribute to the station area's market appeal:

- **Expanded transit access:** The Downtown San José station area is currently served by VTA light rail and bus service, and is located in close proximity to Diridon Station, which links to regional systems including Caltrain and Altamont Commuter Express (ACE). The addition of BART in Downtown and high-speed rail at nearby Diridon station will provide Downtown residents improved access to jobs and other destinations across the region and state.
- **Proximity to Google Village:** Although no official plans have been released, a tentative vision for the area includes several office buildings, homes, retail, as well as trails and open spaces that will connect the Diridon station area with adjacent neighborhoods, including enhancing east-west connections to Downtown.[78]
- **Improved pedestrian-oriented amenities and social activities:** The growing number of pedestrian-oriented storefronts, restaurants, entertainment, and nightlife have helped to build a more vibrant Downtown, especially the area around San Pedro Square and the SoFA district. Reoccurring events, including the weekly farmer's market and South First Fridays Art Walk bring many residents, students, and visitors to Downtown.
- **Parks, Paseos, and Plazas:** Downtown's abundance of parks, paseos, and plazas reinforce the walkability of the area and help promote social activity. In addition, a revitalization plan for St. James Park is currently underway, including a new playground, fountain, dog park, and picnic area.[79]
- **Downtown San José Strategy Update:** As described above, the City is currently proposing an update to the Downtown Strategy 2000 and EIR that will enable 4,000 additional new units in the broader Downtown Growth Area (which includes the Diridon station area). However, to maintain sufficient capacity for job growth in Downtown and preserve key parcels for commercial development, the City is establishing a transit employment priority area that would requiring a minimum floor-area ratio (FAR) of 5.0 for commercial uses within a quarter mile of the future BART station.

High development costs are a challenge for multifamily development in the Downtown. Developers cite the region's soaring construction costs as the most significant barrier preventing entitled projects, including several residential towers, from breaking ground.

[78] "Google village in downtown San José would connect local neighborhoods, company vows." *The Mercury News.* May 23, 2018. https://www.mercurynews.com/2018/05/23/google-village-in-downtown-san-jose-would-connect-local-neighborhoods-company-vows/
[79] City of San José Parks, Recreation and Neighborhood Services. Presentation: St James Park Redevelopment Community Meeting, October 25, 2017.

Homelessness is also perceived as a challenge for residential development in the Downtown San José station area. Community members, property owners, and businesses have expressed their concerns over Downtown's growing homeless population, which can cause negative perceptions around safety.

Figure V-15: Major Multifamily Development, Downtown San José Station Area (Page 1 of 2)

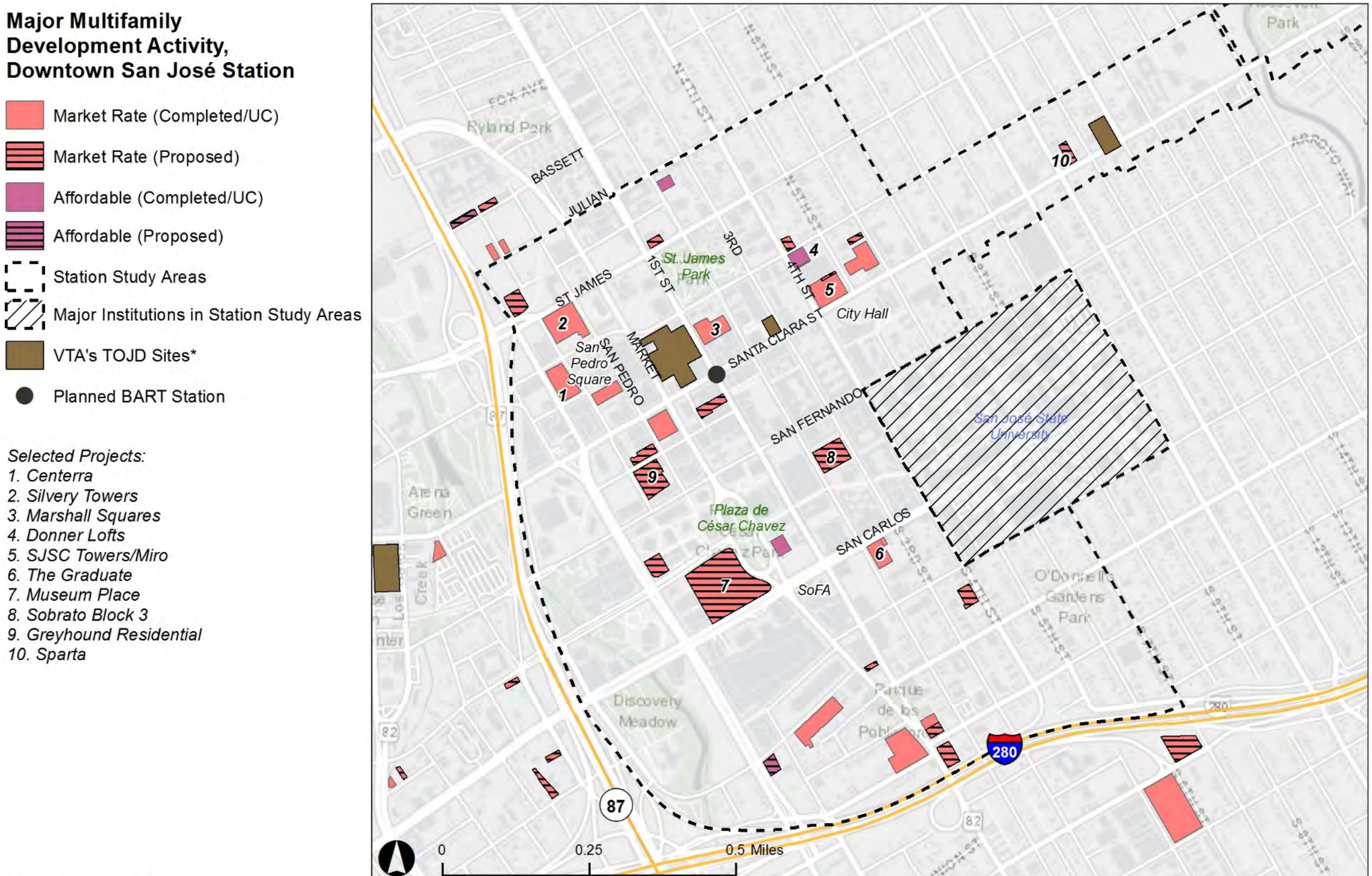
Project	Type (if known)	Status	Units (a)	Commercial Square Feet
Completed Since 2011				
Market Rate				
Centerra	Apartments (Tower)	Completed Since 2011	347	11,353
One South Market	Apartments (Tower)	Completed Since 2011	312	6,000
The Pierce	Apartments (Midrise)	Completed Since 2011	232	4,300
SJSU Student Housing (27 North)	Student Housing (Midrise)	Completed Since 2011	119	0
		Subtotal, Market Rate	*1,010*	*21,653*
Affordable				
Donner Lofts	Affordable Apartment (Midrise)	Completed Since 2011	101	2,684
Casa del Pueblo	Affordable Apartment (Midrise)	Completed Since 2011	163	N/A
		Subtotal, Affordable	*264*	2,684
		Total, Completed Since 2011	**1,274**	**24,337**
Under Construction				
Market Rate				
Silvery Towers	Condominiums (Tower)	Under Construction	643	20,000
Miro (SJSC Towers)	Condominiums (Tower)	Under Construction	630	19,500
The Graduate	Student Housing (Tower)	Under Construction	260	
Modera	Apartments (Midrise)	Under Construction	201	11,852
Marshall Squares	Apartments (Midrise)	Under Construction	190	10,835
Sparq	Apartments (Midrise)	Under Construction	105	4,200
Balbach Condos	Condominiums (Midrise)	Under Construction	101	2,000
		Subtotal, Market Rate	2,130	68,387
Affordable				
Villas on the Park	Apartment (Midrise)	Under Construction	84	N/A
		Subtotal, Affordable	*84*	*0*
		Total, Under Construction	**2,214**	**68,387**
Approved/Proposed				
Market Rate				
Greyhound Residential	Condominiums (Tower)	Approved	708	20,000
Museum Place	Condominiums (Tower)	Approved	306	223,816
Gateway Tower	Apartments (Tower)	Approved	300	4,850

Figure V-15: Major Multifamily Development, Downtown San José Station Area (Page 2 of 2)

Project	Type (if known)	Status	Units (a)	Commercial Square Feet
Post and San Pedro Tower	Apartments (Tower)	Approved	228	7,767
Parkview Tower	Condominiums (Tower)	Approved	220	14,555
6th Street Project	Unknown	Approved	197	Unknown
Sparta Student Housing	Student Apartments (Midrise)	Approved	86	Unknown
S 1st Street Ross Residential	Market Rate	Proposed	342	17,628
City View Plaza	Apartment	Proposed	259	1,863
Sobrato Block Three	Unknown (Tower)	Proposed	190	7,150
4th Street Metro Station	Unknown	Proposed	101	11,566
Davidson Tower	Unknown (Tower)	Proposed	910	12,500
Garden Gate	Unknown (Tower)	Proposed	285	6,105
North 4th Housing	Student Housing (Tower)	Proposed	400	8,409
		Subtotal, Market Rate	4,532	336,209
Affordable				
226 Balbach	Affordable (Midrise)	Proposed	71	N/A
		Subtotal, Affordable	*71*	*0*
		Total, Approved/Proposed	**4,603**	**336,209**
		Grand Total	**8,091**	**428,933**

Note: Major development activity includes projects with 50 or more units.
(a) Units for some projects may differ between source.
Sources: City of San José Development Activity Highlights (February 2018); Department of PBCE, Downtown San José Development Projects, (February 2018); City of San José Housing Department (February 2018); news sources.

Figure V-16: Multifamily Projects by Status, Downtown San José Station Area



Notes: Includes market-rate projects of 50 units or more, and affordable projects of 40 units or more. UC = Under Construction
*Transit-oriented joint development sites owned by VTA.
Sources: City of San Jose 5-Year Development Activity Highlights; Department of PBCE, Downtown San Jose Development Projects, Feb. 2018.

ALUM ROCK/28TH STREET STATION AREA

The Alum Rock/28th Street station area is attracting growing interest from residential developers, in part due to the planned BART station. Two development applications for affordable housing projects were recently submitted, including a 95-unit project connected to a charter school and an 80-unit affordable housing development adjacent to Roosevelt Park. Most recently, the City of San José recently received a development application for a 332-unit mixed-use project on a 2.8-acre site located directly north of the planned BART station on 1325 E. Julian Street.

While there are a limited number of development opportunity sites, the 11-acre BART station site could accommodate significant development. There are also some opportunities for small-lot infill development, which could provide more housing while respecting the existing neighborhood pattern.

San José's Urban Village policy restricts the location and timing of residential development. The station area includes the Roosevelt Park, Little Portugal, Five Wounds, and the S. 24th St./William Ct. Urban Villages Plans. With the exception of "Signature Projects"[80] and affordable housing development on sites meeting certain requirements, housing development in these four Urban Village may not move forward until implementation plans are in place that comply with the Urban Villages Implementation Framework that the City Council approved in May 2018.

The Urban Village policy also requires that all residential projects include a significant commercial component. According to developers, this requirement creates challenges for residential development, because of the limited market for office and retail development in the station area (see Chapters IV and VII). For example, in 2015, the City received an application for the area's first "Signature Project" to redevelop the former 2.8-acre Empire Lumber site, which is located within the Roosevelt Park Urban Village. However, the developer eventually pulled out, reportedly because of the commercial requirement.

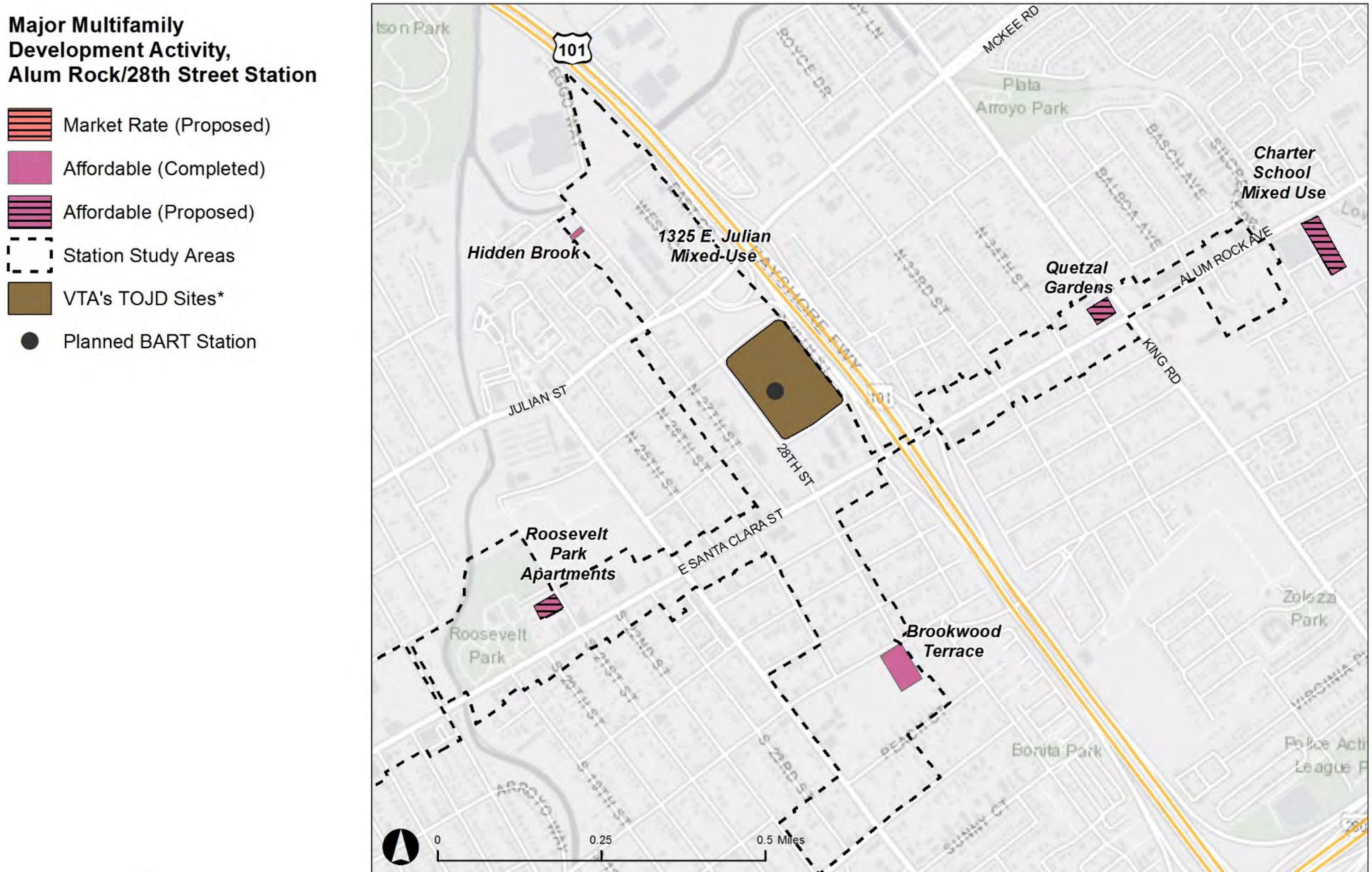
[80] Signature Projects must clearly advance or serve as a catalyst for the full implementation of the Envision San José Urban Village strategy.

FIGURE V-17: MULTIFAMILY PROJECTS, ALUM ROCK/28TH STREET STATION AREA

Project	Type	Status	Units	Commercial Square Footage
Completed				
Affordable				
Brookwood Terrace	Apartments	Completed Since 2011	83	0
Hidden Brook	Apartments	Completed Since 2011	40	0
		Subtotal, Affordable	*123*	
Proposed				
Market Rate				
1325 E Julian Street Mixed-Use	Apartments	Proposed	332	Unknown
		Subtotal, Market Rate	*332*	
Affordable				
Roosevelt Park Affordable Housing	Apartments	Proposed	80	Unknown
Quetzal Gardens	Apartments	Proposed	70	Unknown
		Subtotal, Affordable	*150*	
		Grand Total	**565**	

Sources: City of San José Development Activity Highlights (February 2018); City of San José Housing Department (February 2018); news articles.

FIGURE V-18: MULTIFAMILY PROJECTS, ALUM ROCK/28TH STREET STATION AREA



Notes: Includes market-rate projects of 50 units or more, and affordable projects of 40 units or more.
*Transit-oriented joint development sites owned by VTA.
Sources: City of San Jose Development Activity Highlights, Feb. 2018; news sources.

Multifamily Residential Demand Projections

This section provides preliminary projected demand for multifamily units in the Downtown San José, Santa Clara, and Alum Rock/28th Street station areas (referred to as the "corridor," below) between 2015 and 2040. Note that the definition of the corridor excludes Diridon station. Similar to the office projections, the residential projections assume that the introduction of BART service will help make the corridor more attractive as a residential location within the five-county region that is served by BART (Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara Counties).

METHODOLOGY

The residential projections are based on the *Plan Bay Area Final Plan* household projections for the five-county region. The Plan Bay Area projects that the household growth will accelerate in the future as the population ages (an older population typically means smaller household sizes) and more working-aged adults enter the region.[81]

Since 2011, approximately six percent of the region's new multifamily housing development has occurred in the future station areas. The projections assume that the corridor becomes more competitive for housing demand over time and captures between eight and ten percent of the five-county housing demand (see the low-end and high-end scenarios in Figure V-19). Finally, the corridor-level projections are allocated to the station areas assuming that the majority of new demand is for the Downtown San José station area, but that the other station areas (particularly Alum Rock/28th Street) become more competitive for new housing development over time.[82]

PROJECTED RESIDENTIAL DEMAND

Figure V-19 shows total projected demand between 2015 and 2040. Based on this analysis, demand for multifamily housing in the corridor is expected to total between 42,000 and 53,000 housing units by 2040 (after netting out units completed since 2015 or under construction).

- **Net new demand for housing in the Santa Clara station area is projected to total between 6,900 and 8,600 units by 2040.** This represents a significant increase over the current estimated number of housing units (approximately 1,600). However, the station area has been growing rapidly (doubling the number of households between 2000 and 2016), and more than 2,000 housing units are currently proposed. Note that this projection does not include on-campus student housing at Santa Clara University.
- **The City of Santa Clara's General Plan envisions approximately 2,600 new housing units in the station area by 2035.** This includes 1,650 units in the Santa Clara Station Focus Area, 400 units in Downtown Santa Clara, and approximately 550 units on the portion of El Camino Real included in the station area.[83] These figures represent planned capacity, not a cap. It is

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[81] Plan Bay Area 2040 Final Plan, "Forecasting the Future," http://2040.planbayarea.org/forecasting-the-future.
[82] Between 2015-2020, the projections assume that Santa Clara station area attracts 20 percent of the new housing demand, Downtown San José attracts 75 percent, and Alum Rock/28th Street receives 5 percent of housing demand; this reflects the distribution of housing currently in the pipeline. After 2020, Santa Clara and Alum Rock/28th Street station areas each attract 15 percent of housing demand; Downtown San José receives the remaining 70 percent.
[83] El Camino Real Focus Areas was assigned 2,247 units in the Santa Clara Housing Element. This estimate assumes that approximately a quarter of the total Focus Area capacity is captured in the station area (approximately equal to the share of the focus area that falls within the station area, by land area).

important to note that part of the station area is within the City of San José, in the Santa Clara/Airport West Employment Area. The City does not allow residential development in this area.

- **Downtown San José could absorb between 28,460 and 36,500 new housing units by 2040, after taking into account the amount of development that has been completed since 2015 or is under construction.** By comparison, the Downtown San José station area currently has about 7,000 housing units.[84] Approximately 2,200 units are currently under construction, and about 4,500 additional housing units are proposed.
- **The City of San José is planning for 15,160 units in the broader Downtown/Diridon area by 2040, of which 8,333 have already been entitled.** The current planned capacity for Downtown includes the 11,160 units currently allocated to Downtown Growth Area in the General Plan, and an additional 4,000 units currently under study as part of the Downtown Strategy 2040 update. Of the 15,160 units, 8,333 have already been entitled, leaving approximately 6,800 that are not yet allocated. However, according to City staff, additional units may be re-allocated to Downtown from other parts of San José in the future. It is unclear at this point how much of this housing capacity might be absorbed in the Diridon station area, since Google and Trammell Crow have not yet publicly released any plans for housing in the transit village.
- **There is demand for between 6,250 and 7,800 new housing units in the Alum Rock/28th Street station area.** This level of growth would represent nearly doubling the existing housing stock, which currently includes about 6,500 units. Meeting this projection would require a significant increase in the rate of household growth in the station area, which has seen very little housing development in recent years, almost all of it affordable. However, the recent announcement of a proposed mixed-use project at 1325 E. Julian Street (which would include 332 units) suggests that development interest in the station area is already beginning to increase.
- **The City currently caps housing development in the Alum Rock/28th Street station area at 2,022 units by 2040.** This includes the housing development allowed in all four Urban Villages in the station area (Figure V-21). Once implementation plans are in place for these Urban Villages,[85] residential development may move forward in the Horizon 1 Urban Villages (Roosevelt Park and Little Portugal).[86] In the Horizon 2 and 3 Urban Villages (Five Wounds and S. 24th St./William Ct.), affordable housing and Signature Projects may be permitted once the implementation plans are completed. To date, only 67 units have been allocated (in S. 24th St./William Ct. Urban Village).

[84] Not including East Santa Clara street east of 10th Street.
[85] Implementation plans must comply with the Urban Villages Implementation Framework that the City Council approved in May 2018
[86] The San José General Plan establishes Plan Horizons that are intended to manage the timing of residential development and ensure that sufficient commercial development is completed before additional residential development proceeds. Each Urban Village is assigned to a Horizon (1, 2, or 3),[86] San José is currently in Horizon 1; a determination by City Council will be required to move to Horizon 2. An Urban Village must be in the current horizon in order for residential development to move forward, unless a project receives an allocation from the Residential Pool.

FIGURE V-19: RESIDENTIAL PROJECTIONS (UNITS) BY STATION AREA AND FIVE-YEAR INCREMENT, 2015-2040

	2015-20	2020-25	2025-30	2030-35	2035-40	Total 2015-40	Completed Since 2015 or Under construction	Net New Demand, 2015-2040
Five-County Household Growth (Plan Bay Area)	55,980	127,789	113,706	125,996	115,929	539,400		
Low scenario (a)								
Potential Corridor Housing Demand (b)	4,700	10,730	9,550	10,580	9,740	45,310	3,735	41,575
Santa Clara Station Area	940	1,610	1,430	1,590	1,460	7,030	164	6,866
Downtown San José Station Area	3,530	7,510	6,690	7,410	6,820	31,950	3,488	28,462
Alum Rock/28th Street Station Area	240	1,610	1,430	1,590	1,460	6,330	83	6,247
High scenario (c)								
Potential Corridor Housing Demand (b)	5,880	13,420	11,940	13,230	12,170	56,640	3,735	52,905
Santa Clara Station Area	1,180	2,010	1,790	1,980	1,830	8,790	164	8,626
Downtown San José Station Area	4,410	9,390	8,360	9,260	8,520	39,940	3,488	36,452
Alum Rock/28th Street Station Area	290	2,010	1,790	1,980	1,830	7,910	83	7,827

(a) Assumes that that the corridor captures 6 percent of the five-county housing demand, based on the approximate percent of the region's new multifamily housing development that has occurred in the corridor since 2011

(b) Assumes a 5% vacancy rate. Between 2015-2020, the projections assume that Santa Clara station area attracts 20 percent of the new housing demand, Downtown San Jose attracts 75 percent, and Alum Rock/28th Street receives 5 percent of housing demand; this reflects the distribution of housing currently in the pipeline. After 2020, Santa Clara and Alum Rock/28th Street station areas each attract 15 percent of housing demand; Downtown San Jose receives the remaining 70 percent.

(c) Assumes the corridor captures 8 percent of regional housing demand.

Sources: Metropolitan Transportation Commission and Association of Bay Area Governments, Plan Bay Area Final Plan, 2017; Strategic Economics, 2018.

Figure V-20: Average Annual Residential Demand (Units), 2015-2040

	2015-20	2020-25	2025-30	2030-35	2035-40
Low scenario					
Total Corridor	940	2,150	1,910	2,120	1,950
Santa Clara Station Area	190	320	290	320	290
Downtown San José Station Area	710	1,500	1,340	1,480	1,360
Alum Rock/28th Street Station Area	50	320	290	320	290
High scenario					
Total Corridor	1,180	2,680	2,390	2,650	2,430
Santa Clara Station Area	240	400	360	400	370
Downtown San José Station Area	880	1,880	1,670	1,850	1,700
Alum Rock/28th Street Station Area	60	400	360	400	370

Source: Strategic Economics, 2018.

Figure V-21: Planned Residential Growth Capacity in Urban Villages in the Alum Rock/28th Street Station Area

Urban Villages	Planning Horizon	Planned Housing Capacity (Units)
Roosevelt Park	Horizon 1	650
Little Portugal	Horizon 1	310
Five Wounds BART	Horizon 2	845
S. 24th St/William Ct	Horizon 3	217
Subtotal		**2,022**

Source: Strategic Economics' review of City of San José planning documents.

Implications for the TOD Study

This section summarizes major implications of the analysis for future residential development the station areas. In general, the analysis finds very strong demand for residential development in the station areas now and in the future. Key implications for the TOD Study are summarized below.

SANTA CLARA STATION AREA

- **The Santa Clara station area is a very desirable location for residential development.** The station area benefits from proximity to major employment centers along Highway 101, the University, the Caltrain Station. The addition of BART will provide improved access to jobs and other destinations across the region, as well as direct connections to retail and entertainment in Downtown San José.
- **Future demand for residential units in the station area is projected to be between 6,900 and 7,8,600 new multifamily units between 2018 and 2040.** This is significantly higher than the amount currently envisioned in the Santa Clara General Plan. Meeting this demand would likely entail that development achieve higher densities than recent projects.

DOWNTOWN SAN JOSÉ STATION AREA

- **The Downtown area is experiencing an unprecedented amount of residential development activity, with approximately 2,380 units currently under construction and more than 4,600 additional residential units entitled or under review.** This includes a combination of high-rise and mid-rise projects targeting young professionals and households without children, many as part of major mixed-use projects. The market is currently shifting away from rental apartments to condominium units. In addition, a few student housing projects are being built near San José State on the east side of Downtown.
- **Downtown San José is well positioned to continue to grow in appeal as a location for residential development over time.** In the short term, the pace of residential development may be affected by rising construction costs. In the longer term, the growing concentration of activity in Downtown, future plans for the Google Village are helping to spur the market, and the planned future BART station will help make the station area increasingly attractive as a residential location.
- **Projected demand for new residential units in Downtown is between 28,460 and 36,500 new units by 2040.** This is a substantial increase over the current approximately 7,000 units. The ability to achieve this growth will depend in part on how much residential development is allowed by the City of San José.

ALUM ROCK/28TH STREET STATION AREA

- **The Alum Rock/28th Street Station Area is attracting growing interest from residential developers.** Most recent development in the station area has consisted of affordable housing. However, the recent announcement of a proposed 332 unit mixed-use project at 1325 E. Julian Street suggests that development interest in the station area is already beginning to increase in response to the planned new BART station.

- **Projected demand for new housing in the Alum Rock/28th Street station area is between 6,250 and 7,800 new housing units by 2040.** This amount is significantly about the maximum amount allowed under current City plans. In addition, the requirement that development in the Urban Villages must also include a significant commercial component is likely to limit residential development.
- **If City policies limit residential development at this station area, this may place additional pressure for residential development elsewhere in the corridor or at other BART station areas.** Projected employment growth is expected to continue to drive residential demand, especially at locations with good transit access. Limiting residential development at Alum Rock could increase demand for residential development near the Downtown, Diridon, Santa Clara, Berryessa and other BART stations, as well as other locations served by VTA in San José.

VI. HOTEL MARKET

This chapter evaluates the potential for new hotel development in VTA's BART Phase II station areas given recent trends in the Santa Clara County hotel market. The chapter includes the following sections:

- **Existing Hotel Inventory:** An overview of Santa Clara County's existing hotel inventory, including existing supply in the station areas.
- **Hotel Performance:** An assessment of Silicon Valley's overall hotel market performance.
- **Development Trends:** Summary of recent hotel development activity in Santa Clara County and the station areas.
- **Hotel Demand Projections:** Preliminary hotel demand projections for the station areas.
- **Implications for the TOD Study**: Summary of opportunities and constraints for new hotel development in VTA's BART Phase II station areas.

Existing Hotel Inventory

This section describes Santa Clara County's existing supply of hotels, including those located in VTA's BART Phase II station areas. Figure VI-1 summarizes the County's hotel inventory by submarket. Recent development activity in Santa Clara County is described in more detail in a later section of this chapter.

There were approximately 27,000 hotel rooms in Santa Clara County in 2018. According to Smith Travel Research (STR), Santa Clara County had 248 hotel properties with 27,059 rooms in early 2018.[87] As discussed in more detail below in the section on development trends, the number of hotel rooms in the county has increased by nearly 10 percent since 2011, with most new rooms coming online since 2014.

Throughout Santa Clara County, hotels cluster in close proximity to airports, conventions centers, and employment districts and primarily serve business travelers. Santa Clara County's hotel supply caters mostly to convention and business travelers, often associated with the tech industry. Some of the county's largest hotel clusters are located near the Santa Clara Convention Center in the City of Santa Clara; east of the Mineta San José International Airport; and in Downtown San José (see Figure VI-1). In addition, an emerging cluster has developed along Highway 237 in Northern San José in response to growing employment in that area. There are also several clusters of upscale hotels serving adjacent employment districts located along Highways 101 and 280 (near Microsoft, Amazon, and Yahoo in Sunnyvale, and Apple in Cupertino). Finally, there are a number of small budget motels and economy hotels along El Camino Real.

Downtown San José is one of the largest hotel submarkets in Santa Clara County; its inventory consists mostly of large, upscale and luxury hotels. Downtown San José (the Downtown East submarket) has

[87] Detailed data from hospitality research company STR was incorporated in this analysis; however, the terms of use agreements for these sources limit detailed reproduction of the data in this report.
(footnote continued)

approximately 2,700 rooms, 85 percent of which are classified as upscale or luxury.[88] Most properties are located within a half-mile from the McEnery Convention Center. Several of these hotels, such as the Fairmont, Marriott, and Hilton, have more than 300 rooms and offer large conference facilities.

The City of Santa Clara's newer, more upscale hotels are largely concentrated in the northern part of the city, near major destinations for business and leisure travelers. Three-quarters of the city's hotel rooms are located north of Highway 101, in proximity to many of the city's major employers as well as the Santa Clara Convention Center, Levi's Stadium, and California's Great America amusement park. As discussed below, this part of the city has attracted most of the city's recent, more upscale hotel development.

The Santa Clara station area has a limited number of economy and midprice hotels. The Santa Clara station area includes a midprice hotel adjacent to the existing Caltrain station (Candlewood Suites) and a small budget motel (Mission Inn Santa Clara). There are also a number of motels and midprice hotels along El Camino Real west of Lincoln Street and on The Alameda off of Highway 880. There are no hotels in Downtown Santa Clara. Stakeholders at Santa Clara University have identified a need for more midprice and upscale hotels in the area, to serve the University's executive development center as well as visitors for basketball games, graduations, and other special events.

There are no hotels within approximately two miles of the Alum Rock/28th Street station. The nearest hotels to the Alum Rock/28th Street station area are in Downtown San José. Overall, East San José/International Business Park has a limited number of hotel rooms, mostly consisting of budget motels. The area has not been attractive for newer, upscale hotels due to its residential nature, low employment density, and lack of destinations for business or leisure travelers.

FIGURE VI-1: EXISTING HOTEL INVENTORY IN SAN JOSÉ, THE CITY OF SANTA CLARA, AND SANTA CLARA COUNTY, 2018

	Hotel Properties	Hotel Rooms	Percent of Total Rooms in the County
City of San José			
San José Airport	20	2,733	10%
Downtown East	11	2,673	10%
North San José	11	1,441	5%
South San José	6	826	3%
East San José/Int. Business Park	13	730	3%
West San José	3	396	1%
Downtown West	6	314	1%
Central San José	6	182	1%
Subtotal San José	*76*	*9,295*	*34%*
City of Santa Clara	28	3,908	14%
Other Santa Clara County	144	13,856	51%
Santa Clara County Total	**248**	**27,059**	**100%**

Source: STR, 2018; Strategic Economics, 2018.

[88] One way STR categorizes hotels is based on their market price segment. STR defines luxury hotels as those with an average daily rate at or above the 85th percentile for the metropolitan region; upscale hotels are those between 70-85th average daily rate percentile; midprice hotels are in the 40-70th percentile; economy hotels are in the 20-40th percentile, and budget hotels are in the 0-20th percentile.

Hotel Performance

This section describes Silicon Valley's hotel market performance. Figure VI-2 shows hotel occupancy, average daily rates, and revenue per available room for midprice, upscale, and luxury hotels in selected Silicon Valley cities (San José, Santa Clara, Los Altos, Sunnyvale, Campbell, Cupertino, Fremont, and Milpitas) from 2011 to 2017.[89] Figure VI-3 compares 2017 hotel market performance in Downtown San José to the broader Silicon Valley market.

Silicon Valley has one of the strongest lodging markets in the country, with very high occupancy rates and room revenues. As shown in Figure VI-2, occupancy rates at Silicon Valley hotels increased rapidly since 2011, and have remained at nearly 80 percent since 2014. This is well above the national industry standard of 65-70 percent. As of the end of 2017, average daily rates (ADR) exceeded $200 and revenue per room (RevPAR)[90] had reached $160. In comparison, the national average RevPAR was $83 in 2017.[91]

As new hotel development has started to come online since 2014, occupancy has stabilized and growth in RevPAR has slowed. Following several years of rapid growth, ADR, RevPAR, and occupancy rates began to stabilize after 2014, likely in response to the addition of significant new supply.[92] Some hotel developers expect that occupancies and RevPAR may begin to decline in the coming months, as additional hotel development is completed (development activity is described in more detail in the following section).

Daily rates and RevPAR in Downtown San José exceed the Silicon Valley average. As seen in Figure VI-3, average daily rates in Downtown San José are estimated at $212 per night, about 4 percent higher than the average rate in Silicon Valley. Rates shown in Figure VI-3 are averages – on some nights, rooms may command anywhere from $300 to the high-$400s per night in Downtown San José.[93] Occupancy in Downtown is also high, similar to the regional average. Some industry experts credit the strong demand for Downtown San José hotels to increased activity at the McEnery Center, which invested in upgrades in mid-2017 and attracted several new conventions in 2017 (e.g. Apple's Worldwide Developer Conference and Facebook's F8 Developer Conference).

Growing demand for hotels in Silicon Valley has been driven by employment growth, especially in the tech and construction industries. Hotel market experts cite Silicon Valley's sustained job growth, especially in the tech industry, as the main factor supporting sustained, strong hotel demand.[94] Silicon Valley's large corporations generate significant weekday business travel, especially in midprice, upscale, and luxury hotels.[95] Extended stay hotels (properties that quote weekly rates) and limited-service hotels (properties that offer few amenities, such as restaurants or spas) have also seen increased occupancy rates from crews of construction workers travelling from outside Silicon Valley to help fill the region's limited labor supply.[96]

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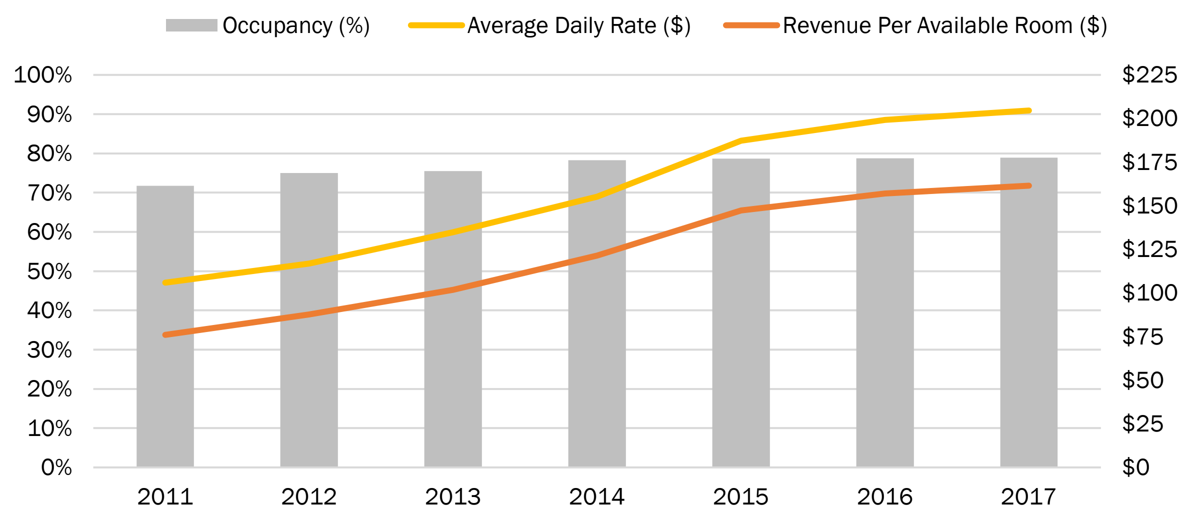
[89] Due to data confidentiality restrictions, hotel performance data were not available for Santa Clara County.
[90] Revenue per available room (RevPAR) is calculated by dividing total room revenue by the number of rooms available.
[91] Colliers International, 2018. Market Forecast Report Silicon Valley.
[92] HVS, September 2017. Market Pulse: Silicon Valley. https://www.hvs.com/article/8076-hvs-market-pulse-silicon-valley; Bisnow, November 2017, Strong Tech Occupancy Rates Have Investors Checking into Silicon Valley Hospitality, https://www.bisnow.com/silicon-valley/news/hotel/strong-occupancy-rates-from-tech-have-investors-checking-into-silicon-valley-hospitality-81007?utm_source=CopyShare&utm_medium=Browser
[93] Colliers International, 2018. Market Forecast Report Silicon Valley.
[94] HVS, September 2017. Market Pulse: Silicon Valley. https://www.hvs.com/article/8076-hvs-market-pulse-silicon-valley
[95] Hotel News Now, April 2017. Development, demand has Silicon Valley hotels trending. http://www.hotelnewsnow.com/Articles/130271/Development-demand-has-Silicon-Valley-hotels-trending
[96] Colliers International, 2018. Market Forecast Report Silicon Valley.

Because Silicon Valley's hotel market is driven by business travel, weekday demand remains much stronger than weekend demand. Hotel occupancy and room rates typically dip over the weekends, because leisure tourism is not the market's main driver.

There is some uncertainty about how the expansion of San Francisco's Moscone Convention Center may affect hotels in Silicon Valley in the short- and long-term. The Moscone Center, one of the Bay Area's most important convention centers, has planned a temporary closure from mid-2017 to late 2018 due to construction associated with a major expansion. The closure is expected to cause a short-term decline in San Francisco's hotel occupancy rates, and there is some speculation that hotels in the Peninsula, Silicon Valley, and the East Bay will also be negatively affected. However, the strength of demand from local business travel may insulate Silicon Valley's hotel market from this dynamic. In fact, Moscone's closure may create new opportunities for Silicon Valley convention centers in the short term, and has been credited as one reason that Apple and Facebook moved major conferences to San José's McEnery Center in 2017.[97] In the long-term, the expansion of the Moscone Center is expected to increase convention travel to San Francisco, and to benefit hotels in San Francisco and neighboring markets. However, it is unclear whether spillover demand from San Francisco will reach as far south as Santa Clara and San José.

FIGURE VI-2: PERFORMANCE INDICATORS FOR MIDPRICE, UPSCALE, AND LUXURY HOTELS IN SILICON VALLEY CITIES, 2011-2017*



*Includes hotels in the cities of San José, Santa Clara, Los Altos, Sunnyvale, Campbell, Cupertino, Fremont, and Milpitas. Excludes budget and economy hotels.
Source: STR Global, 2018.

[97] Bisnow, Julie Littman, July 2017. Moscone Center Renovation Impacting Bay Area Hospitality https://www.bisnow.com/san-francisco/news/hotel/moscone-center-renovation-impacting-bay-area-hospitality-76154; HVS, September 2017. Market Pulse: Silicon Valley.

FIGURE VI-3: DOWNTOWN SAN JOSÉ HOTEL MARKET PERFORMANCE, 2017

	Downtown San José (a)	Silicon Valley
Occupancy	78%	79%
Average Daily Rate	$212	$205
Revenue Available Per Room (RevPAR)	$165	$162

(a) As reported in the Colliers 2018 Silicon Valley Forecast Report. The San José Convention and Visitors Bureau compiles monthly hotel occupancy reports for a sample of 12 hotels within walking distance of the San José McEnery Convention Center.
Source: San José Convention and Visitors Bureau, 2017; STR, 2018; Colliers, 2018; Strategic Economics, 2018.

Development Trends

This section describes hotel development activity in Santa Clara County and in VTA's BART Phase II station areas. Figure VI-5 reviews recently completed, under construction, and proposed hotel development by submarket. Figure VI-6 shows the number of new hotel rooms completed in San José and Santa Clara every year between 1992 and 2017. Figure VI-7 lists projects in the pipeline for each station area.

Hotel development has surged in Santa Clara County in the last several years, with approximately half of the development occurring in San José. In total, approximately 2,400 new rooms have been added to the county's inventory since 2011, which represents an increase of nearly 10 percent. Half of recently completed rooms are located in San José, while just over 100 rooms have been added in Santa Clara (Figure VI-5). Another 2,100 rooms are currently under construction, of which half are located either in San José (900 rooms) or Santa Clara (360 rooms).

Hotel development is highly cyclical, generally rising and falling with employment growth. For example, an average of 182 new hotel rooms have been completed in the cities of Santa Clara and San José every year since 1992. However, hotel development varies significantly over time: in some years, as many as 700-800 rooms have been completed, while in others (including the entire period between 2005 and 2010), no new development occurred (Figure VI-6).

While even more hotel development is planned countywide, it is unlikely that it will all be completed in this market cycle. Up to 5,400 additional rooms are in the pipeline, including 2,400 in San José and 450 in Santa Clara. However, developers caution that all of the hotel rooms in the pipeline are unlikely to be completed in this market cycle, given the large number of rooms that have been recently completed or are under construction, and the fact that occupancy rates and RevPAR are stabilizing as new development is completed.

Areas directly adjacent to major employment districts and San José's airport are attracting the most development activity. For example, Northern San José – a large and growing office/R&D district – has one of the fastest growing hotel markets in the county, with 1,300 new hotel rooms either recently completed or under construction. The area around Mineta San José International Airport – which added four new airline carriers and increased passengers from 9.9 million to 11.0 million in the last year[98] – has also added a large number of rooms, with more in the pipeline. Note that almost all the

[98] Colliers International, 2018. Market Forecast Report Silicon Valley.

new hotel development associated with the airport is located on the east side of the airport (the opposite side from the Santa Clara station), which is more easily accessible to the airport's entrance.

The majority of new development projects in the county are upscale and midprice hotels, with very little luxury and economy product. About two thirds of new rooms in the pipeline are upscale hotels with either full or selected services (e.g., AC Hotels, Hyatt House, and Hilton Garden Inn). Another 20 percent are midprice hotels that offer slightly lower daily rates, fewer amenities, or extended stays (e.g., Holiday Inn Express, Home2 Suites, and Hampton Inn & Suites). As discussed above, both upscale hotels and midprice hotels in Silicon Valley cater to business travelers.

Several planned hotels in the pipeline are proposed as part of large, mixed-use development projects. Examples within VTA's BART Phase II station areas include Museum Place in Downtown San José, and Coleman Highline and Gateway Crossings in the Santa Clara station area. Hotels are also included in mixed-use projects elsewhere in the county, including a proposed hotel at City Place in northern Santa Clara; a new hotel under construction in The Village at San Antonio Center in Mountain View; and older projects such as Santana Row in West San José. Hotels are increasingly seen as valuable additions to mixed-use projects, because they benefit from close proximity to retail and restaurants, and can serve as an important amenity for office tenants.

There is significant development interest in Downtown San José, as demonstrated by two new hotels that opened in 2017 and several other proposals in the pipeline. Prior to 2017, Downtown San José had not seen any hotel development in over 10 years. However, two new properties opened in 2017 – the AC Hotel, a 200-room upscale hotel with selected services, and Hotel Clariana, a small boutique hotel in a renovated historic building. If proposed projects are built out, an additional 750 units could be added to Downtown East (Figures VI-5 and 6). Most of the proposed hotel development consists of high-rise projects (19 to 24 stories), but there are also several midrise projects proposed (7 stories). Developers are anticipating growing office demand, including Google Village at Diridon Station and Adobe's planned expansion, as well as increased activity occurring at the McEnery Convention Center.

In addition to renewed development activity, recent hotel sales transaction in Downtown San José also suggest increased investor interest in this submarket. As reported by Colliers, several iconic hotels in Downtown, including the Fairmont and the Westin (formerly known as the Sainte Claire Hotel) were recently sold for between $310,000 to $375,000 per room.[99] In addition, a Holiday Inn at North 1st Street and Gish Road, strategically located near the Airport and two miles north from Downtown San José, sold for $62 million in December 2017, a 16 percent increase from its 2015 sale price of $53 million.[100]

Most of the hotel development in the City of Santa Clara is located near major destinations in northern Santa Clara, but two hotels are proposed for the Santa Clara station area. Hotel development in Santa Clara has been concentrated along major arterials and adjacent to employment areas along the Highway 101 corridor. As mentioned above, there is also a hotel development currently proposed as part of City Place, a large mixed-use development adjacent to Levi's Stadium and Santa Clara Convention Center. However, within the station area, Coleman Highline and Gateway Crossings are expected to include a mix of hotel, office, residential, and retail space (Figure VI-6).

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99 Colliers International, 2018. Market Forecast Report Silicon Valley.
100 The Mercury News, George Avalos, December 2017. San José hotel purchase suggests hot Silicon Valley lodging market. https://www.mercurynews.com/2017/12/05/san-jose-hotel-purchase-suggests-hot-silicon-valley-lodging-market/

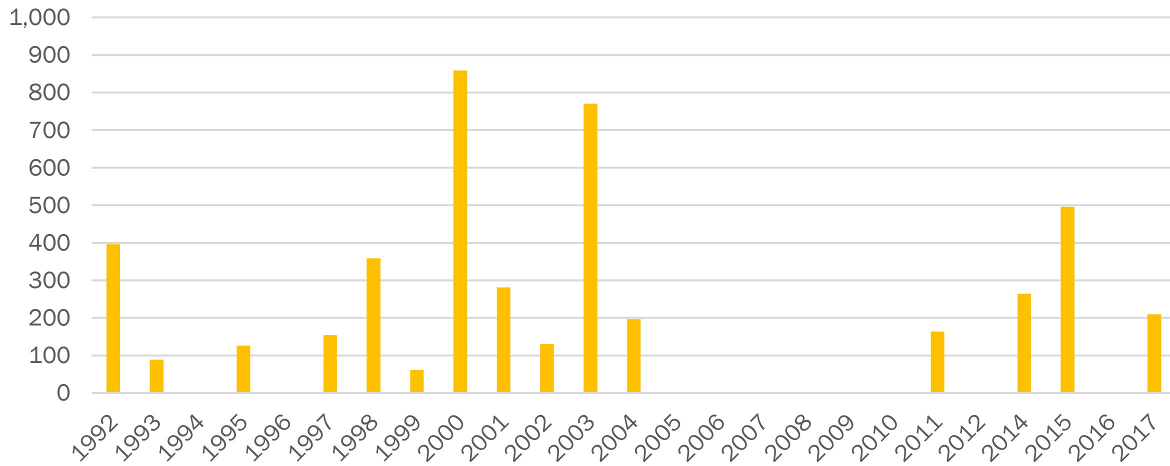
There is no recent or proposed hotel development in the East San José submarket. There are no projects in the pipeline in the Alum Rock/28th Street station area, nor in East San José/International Business Park submarket (Figures VI-5 and VI-6).

FIGURE VI-4: HOTEL DEVELOPMENT RECENTLY COMPLETED, UNDER CONSTRUCTION, AND PROPOSED IN SANTA CLARA COUNTY, SAN JOSÉ AND SANTA CLARA

	Completed Since 2011 (a)		Under Construction		Proposed (b)		Total	
	Number of Rooms	Percent of Rooms	Number of Rooms	Percent of Rooms	Number of Rooms	Percent of Rooms	Number of Rooms	Percent of Rooms
City of San José								
Northern San José	641	27%	716	34%	0	0%	1,357	14%
San José Airport	321	13%	190	9%	624	12%	1,135	11%
Downtown San José East	254	11%	0	0%	749	14%	959	10%
West San José	0	0%	0	0%	387	7%	387	4%
South San José	0	0%	0	0%	342	6%	342	3%
Downtown San José West	0	0%	0	0%	247	5%	247	2%
Central San José	0	0%	0	0%	81	1%	81	1%
East San José/Int. Business Park	0	0%	0	0%	0	0%	0	0%
Subtotal San José	*1,216*	*51%*	*906*	*43%*	*2,430*	*45%*	*4,552*	*46%*
City of Santa Clara	107	4%	363	17%	450	8%	920	9%
Other Santa Clara County	1,068	45%	851	40%	2,543	47%	4,462	45%
Santa Clara County	**2,391**	**100%**	**2,120**	**100%**	**5,423**	**100%**	**9,934**	**100%**

(a) Projects not included in STR data but added manually by Strategic Economics include: Clariana Hotel in Downtown San José East (44 rooms).
(b) Projects not included in STR data, but added manually by Strategic Economics include: Coleman Highline in San José Airport (300 rooms), Gateway Crossings in City of Santa Clara (250 rooms), and three hotels in Downtown San José East (576 rooms, Tribute Hotel, KT Hotel, and a hotel at S 2nd and Reed Street).
Source: STR, 2018; Strategic Economics, 2018.

FIGURE VI-5: NEW HOTEL ROOMS COMPLETED ANNUALLY IN THE CITIES OF SAN JOSÉ AND SANTA CLARA, 1992-2017



Source: STR, 2018; Strategic Economics, 2018.

FIGURE VI-6: HOTEL DEVELOPMENT IN VTA'S BART PHASE II STATION AREAS

Name	Address	Status	Hotel Rooms	Description
Santa Clara Station Area				
Gateway Crossings	1205 Coleman Ave, Santa Clara	Proposed	250	9 stories, 182,000 sq. ft. full-service hotel as part of a large mixed-use development (residential, retail, and hotel).
Coleman Highline	Coleman Ave, San José	Proposed	300	Two separate hotels with approximately 150 rooms each. Part of a large mixed-use development (office, retail, and hotel).
Subtotal Proposed			*550*	
Downtown San José Station Area				
AC Hotel	350 W Santa Clara St, San José	Completed in 2017	210	7 stories; includes a bar & lounge (but no restaurant)
Hotel Clariana	100 E Santa Clara St, San José	Completed in 2018	44	Small boutique hotel in a renovated 1912 historic building
Subtotal Completed Since 2011			*254*	
Kimpton/Museum Place San José	180 Park Avenue, San José	Proposed	173	Proposed as part of 24-story mixed use development, including residential condos, office, and retail.
Tribute Hotel San José	211 S 1st St, San José	Proposed	280	24 stories attached to the historic Montgomery Hotel.
KT Urban (next to Hotel De Anza)	8 N Almaden Blvd, San José	Proposed	220	19 stories on a 0.2-acre site. Proposing off-site parking with valet service.
S 2nd St and East Reed St	S 2nd and East Reed St, San José	Proposed	76	7 stories; 40 parking spaces in two levels of underground parking.
Subtotal Proposed			*749*	
Alum Rock/28th Street Station				
n/a	n/a	n/a	n/a	n/a

Source: STR, 2018; San José Downtown Association, 2018; Strategic Economics, 2018.

Hotel Demand Projections

This section provides preliminary projected demand for hotel rooms in the Downtown San José, Santa Clara, and Alum Rock/28th Street station areas (referred to as the "corridor," below). Note that the definition of the corridor excludes Diridon station. Note that unlike the projections presented in other chapters, which have a 2015 baseline, the hotel projections cover the 2018-2040 period.

METHODOLOGY

Strategic Economics estimated potential hotel demand in Santa Clara County under two scenarios, and then estimated the share of hotel demand that could be captured in the corridor and station areas. The countywide hotel demand scenarios assume that future hotel demand increases in proportion to growth in office-based employment, based on the range of office-based employment growth (low and high end) projected in Chapter IV.[101] The scenarios also assume an equilibrium occupancy rate of 70 percent (the industry standard, and well below the current occupancy rate of nearly 80 percent). Assuming that the hotels currently under construction in the county are completed by 2020, there is demand for an additional 6,870 to 8,480 hotel rooms countywide between 2018 and 2040. Appendix A shows the countywide hotel demand projection in more detail.

Currently, there are about 1,300 hotel rooms proposed in the corridor, or about 24 percent of the countywide pipeline. This analysis assumes that the corridor's capture rate of countywide hotel growth increases to 30 percent in the low-end scenario and 35 percent in the high-end scenario, as the station areas become more attractive to all types of new development over time. Finally, demand is allocated to the station areas assuming that Downtown San José remains the most competitive location in the corridor for hotel development, capturing 65 percent of demand and Santa Clara capturing 35 percent In the longer term (after 2025), Downtown San José continues to attract 65 percent of new rooms, while Santa Clara decreases its capture of demand to 25 percent and Alum Rock/28th Street captures 10 percent of demand.

HOTEL DEMAND PROJECTIONS

Figure VI-7 shows projected demand for the county, corridor, and station areas. Overall, there is projected demand for approximately 2,060 to 2,970 new hotel rooms in the corridor between 2018 and 2040. Key findings by station area are discussed below.

- **The Santa Clara station area is projected to support approximately 590 to 850 new hotel rooms by 2040.** This suggests the 550 rooms currently proposed at Gateway Crossings and Coleman Highline, if built, would likely absorb most of the demand for new hotel through 2040.
- **The Downtown San José station area could support an additional 1,340 to 1,930 additional hotel rooms by 2040.** This rate of growth is in line with recent trends; as discussed above, about 250 hotel rooms have been completed in the Downtown in this market cycle, and an additional 750 are currently proposed. The City is currently planning for up to 3,600 hotel

[101] Between 2015 and 2040, office-based employment in the five-county region is projected to grow at an annual average rate of 0.7 percent a year in the low-end scenario in Chapter IV, and 0.9 percent in the high-end scenario in Chapter IV.
(footnote continued)

rooms in broader Downtown Growth Area, which includes the Diridon station area; this is the only station area for which the cities are planning for a specified number of hotel rooms.[102]

- **The Alum Rock/28th Street station area may support 130 to 190 hotel rooms by 2040.** As discussed above, the station area has not attracted any recent hotel development. However, the introduction of BART service, other public improvements, and new residential and office development could potentially enable the station area to attract a small increment of hotel development in the long run.

FIGURE VI-7: PROJECTED HOTEL ROOM DEMAND: SANTA CLARA COUNTY AND THE STATION AREAS, 2018-2040

	2018-20	2020-25	2025-30	2030-35	2035-40	Total Net New, 2018-40
Low						
Santa Clara County	1,170	1,310	1,370	1,510	1,510	6,870
Corridor	350	390	410	450	450	2,060
Santa Clara	120	140	100	110	110	590
Downtown San Jose	230	250	270	290	290	1,340
Alum Rock/28th Street	0	0	40	50	50	130
High						
Santa Clara County	1,440	1,610	1,700	1,870	1,870	8,480
Corridor	500	560	590	650	650	2,970
Santa Clara	180	200	150	160	160	850
Downtown San Jose	330	370	390	420	420	1,930
Alum Rock/28th Street	0	0	60	70	70	190

Source: Strategic Economics, 2018.

Implications for the TOD Study

This section summarizes major implications of the analysis for future hotel development in the station areas.

SANTA CLARA STATION AREA

- **Santa Clara Station is well-poised to attract hotel development given its proximity to Mineta San José International Airport, major employment centers, highways, and Santa Clara University.** As described earlier, passenger and flight activity at San José's airport has increased significantly, and new hotels have proliferated near the airport. Proximity to Highway 880 and El Camino Real also provide visibility, which is important for certain types of hotels. Furthermore, from the University's perspective, there is a need for higher quality hotels to meet the growing demand from executives, visiting scholars, and visitors for events (graduations, open house, sports games, etc.)
- **However, there are otherwise few major destinations nearby that would draw hotel development, and pedestrian and vehicle connectivity also remain a challenge.** Santa Clara's key destinations and employment centers are in the northern part of the city, which is where most hotel development is also happening. Furthermore, hotels targeted at airport travelers

[102] The Downtown Strategy 2040 currently under consideration would maintain the current hotel room capacity from the Downtown Strategy 2000 (3,600 hotel rooms).

have historically located east of the airport, nearer the entrance. Developing hotels on the west side of the airport, near Santa Clara Station, is not as appealing given the lack of a convenient connection. A direct transit connection from to the airport could make the station area more attractive for hotel development; however, it is unclear at this point which of VTA's BART Phase II stations will be directly connected to the airport.

- **If the 550 hotel rooms currently proposed are completed, it is unlikely that there will be significant additional demand in the short to medium term.** The hotel rooms currently in the pipeline at Gateway Crossings and Coleman will absorb most of the projected hotel demand in this station area.

DOWNTOWN SAN JOSÉ STATION AREA

- **The Downtown San José area has several assets that make it one of the most attractive locations for hotel development in the county, including a growing office and tech concentration and increasing activity at the McEnery Convention Center.** Adobe's planned expansions and Google's anticipated Village at Diridon Station are already attracting new interest from hotel developers. The convention center has also been attracting more conferences and events.
- **Downtown San José is expanding its dining and entertainment cluster and it has seen an increase in tourism, but it does not yet attract a significant number of tourists.** While the city's tourism industry has grown since 2016, most overnight visitation is still tied to business travel and conferences.[103]
- **Overall, there is potential for significant additional hotel development in the Downtown San José station area, including in close proximity to the station itself (such as at the VTA block).** The projections suggest that the Downtown San José station area could support 1,340 to 1.930 new hotel rooms by 2040. Historically, most hotel development in Downtown has occurred within a half-mile of the convention center. However, the blocks immediately around the station are likely to become more attractive for hotel development as the area attracts new office and residential development, new retail and restaurants, and increased pedestrian activity. The VTA block could be an appropriate site for new hotel, especially as part of a larger mixed-use development.

ALUM ROCK/28TH ST STATION AREA

- **It is unlikely that the Alum Rock/28th St station area will see hotel development in the short to medium term.** The station area, and indeed the broader East San José/International Business Park submarket as a whole, has very little existing supply and has seen no new development. The station area has low employment densities, and no major destinations. Although Downtown San José is only about two miles away, business travelers do not tend to stay in hotels that far away from their destination. However, the introduction of BART service, other public improvements, and new residential and office development could potentially enable the station area to attract a small increment of hotel development (on the order of 130 to 190 hotel rooms) in the long run.

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[103] Silicon Valley Business Journal, June 2017, Olivia Schaber. Convention boom brings big dollars, but San José is still emerging as a tourist destination. https://www.bizjournals.com/sanjose/news/2017/06/22/team-san-jose-tourism-convention-business-boom.html

VII. RETAIL MARKET

This chapter evaluates the potential for new retail development in VTA's BART Phase II station areas. The chapter includes the following sections:

- **National Retail Trends**: An overview of trends affecting the retail industry nationally, and how these trends are playing out in Santa Clara County.
- **Station Area Retail Context**: A description of the existing retail environment in each station area.
- **Competitive Supply**: An overview of the competitive retail supply in a five-mile trade area surrounding the stations (roughly the cities of Santa Clara and San José).
- **Market Conditions:** Analysis of retail rents and vacancy trends in Santa Clara County the station areas.
- **Station Area Development Trends:** Analysis of recent development activity in the station areas.
- **Retail Demand Projections**: Projected retail demand in the station areas to 2040.
- **Implications for the TOD Study:** A summary of opportunities and constraints for retail development in VTA's BART Phase II station areas.

The City of San José is currently in the process of developing a Citywide Retail Strategy and a Downtown Retail Strategy. This analysis draws from some of the initial findings from the background analysis conducted for the two strategies, as well additional research and interviews.

National Retail Trends

In the last two years, stories about a national "retail apocalypse" have frequently made headlines. However, while the industry is undergoing major changes, some types of retailers and shopping districts are doing well, and Santa Clara County remains one of the strongest retail markets in the country. This section provides an overview of trends affecting the retail industry nationally, and how these trends are playing out in Santa Clara County.

Nationally, the retail industry is in the middle of a major transformation. The past two years have been notable for a flurry of store closures or bankruptcies, primarily in the home entertainment, apparel, electronics, footwear, and department store categories. Consolidation in the industry is driven by several trends, including the growing influence of e-commerce. Non-store retail sales (a proxy for online sales) accounted for 12 percent of total U.S. retail sales in 2016, but more than 40 percent of the *growth* in total sales between 2014 and 2016.[104] In addition to the continued shift towards online sales, store closures also reflect a national oversupply of retail space; the U.S. has an estimated 23.5 square feet of retail per person, compared to 16.4 in Canada and 11.1 in Australia, the next two countries with the most retail space per capita.[105] Another contributing factor to store closures is that some retail chains are saddled with billions of dollars in loans (often from leveraged buyouts by private

[104] Strategic Economics, 2018. State of the Retail Sector: Challenges and Opportunities for San Francisco's Neighborhood Commercial Districts. Prepared for San Francisco Office of Economic and Workforce Development.
[105] Peterson, "There's One Major Thing Everyone Gets Wrong about Amazon and the US Retail Apocalypse."
(footnote continued)

equity firms). As these loans are coming due, some retailers have been unable to refinance their debts due to increasing concerns about the strength of the retail sector.[106]

Fast-growing urban areas appear to be somewhat protected from the challenges facing brick-and-mortar retailers, and the retail market in Santa Clara County remains one of the strongest in the country. Santa Clara County is one of the most desirable retail markets in the country, reflecting the region's low unemployment rates, high incomes, and sustained job and residential growth.[107] Some reporting suggests that the national oversupply of retail is concentrated in suburban malls in slow-growing regions, and that retailers are increasingly focusing their expansion plans in faster-growing, urban areas or dense suburban periphery.[108] Brokers report that while malls in top tier markets such as Santa Clara County have lost some major anchors and other tenants, they have continued to outperform national averages and are successfully adapting by upgrading vacated spaces and re-tenanting.[109]

Nationally and locally, restaurants, entertainment, and personal service uses are increasingly driving demand for retail space. When they visit a retail district or shopping center, Americans are increasingly spending their money on experiences rather than objects, such as dining, nightlife/entertainment, and health/wellness.[110] In line with this trend, retail uses that continue to thrive include restaurants, grocery stores, fitness centers, and other personal services. For example, several malls in Santa Clara County, such as Eastridge and Evergreen Plaza, are filling their large vacated spaces with fitness tenants like 24 Hour Fitness and City Sports Club. As discussed in more detail below, restaurants and drinking places, food-related retail, fitness centers, medical uses, and personal and financial services are also driving much of the demand for retail space in the station areas.

Discount retailers and new retail models also continue to expand their brick-and-mortar presence, even as many other traditional retailers are pulling back. Not all traditional retailers are contracting: traditional retailers offering discounted products have continued to open new stores, including discount retailers in apparel (TJ Maxx, Marshalls) and food (Grocery Outlet, Trader Joe's); general merchandise (Target); and dollar stores.[111] In addition, businesses that started online are now opening physical stores to enable customers to experience products in person (e.g., Amazon Books, Warby Parker, Bonobos, Everlane).[112]

Walkable, mixed-use shopping districts are increasingly attractive for new retail investment, both nationally and locally. National market reports find that that while new retail construction is at its lowest since 2015, urban and mixed-use products now account for the majority of new retail development.[113] Urban retail corridors offer access to a higher density of potential customers compared to more suburban locations, and provide a shopping environment characterized by pedestrian-friendly streets, architectural and historic appeal, and a mix of uses, parks, and public spaces that is increasingly appealing to many customers. Indeed, owners of large regional shopping centers are increasingly mimicking a more urban, mixed-use environment by (for example) investing

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[106] Townsend et al., "America's 'Retail Apocalypse' Is Really Just Beginning."
[107] Cushman and Wakefield, Marketbeat Silicon Valley, Retail Q1 2018; Marcus Millichap, 2018 Retail Research Investment Forecast, San José Metro Area.
[108] Rothstein, "Even Developers Agree the U.S. Has Way Too Much Retail Space"; Grabar, "The Retail Apocalypse Is Suburban."
[109] JLL, United State Retail Outlook Q3 2017 and Q4 2018.
[110] Strategic Economics, 2018, State of the Retail Sector: Challenges and Opportunities for San Francisco's Neighborhood Commercial Districts.
[111] Ibid; Colliers, 2018, Silicon Valley Market Forecast Report.
[112] JLL U.S. Retail Outlook, Q3 2017.
[113] JLL, United State Retail Outlook Q3 2017 and Q4 2018.
(footnote continued)

in improved outdoor spaces, refurbishing food courts and tenanting them with local businesses, and adding in non-retail uses such as multifamily, hotel, and/or office space. In keeping with national trends, brokers anticipate that the "Almaden Ranch [a power center in South San José completed in 2017] is probably the last single-story, surface-park[ed] shopping [center] to be built in Silicon Valley."[114] Instead, developers are focusing on either building retail as part of mixed-use projects, or reinvesting in existing shopping centers (e.g., Westfield Valley Fair is developing a new upscale theater; Eastridge Mall is adding new East San José-themed murals designed by local artists, and upgrading the food court to include local eateries).[115]

Station Area Retail Context

This section describes the existing retail environment in each station area. The description includes an overview of the typical retail format, tenants, pedestrian and vehicular accessibility, and cultural and institutional anchors that help support the existing retail nodes in each station area; and a discussion of the trade area for the different retail nodes (i.e., the extent to which businesses draw their customers from the local neighborhood and/or a broader region).[116] Figures VII-1, 2, and 3 illustrate existing conditions in each station area, including the location of retail corridors, shopping centers, automobile-oriented retail (e.g., gas stations and auto repair shops), commercial parking lots, and institutional and cultural anchors. Figures VII-1, 2, and 3 also show planned retail development; development trends will be described in more detail in a later section of this chapter.[117]

SANTA CLARA STATION

The Santa Clara station area has four distinct retail nodes. These nodes are shown in Figure VII-1 and described in more detail below.

- **Coleman Landings and the Costco shopping center on Coleman Avenue** are two large shopping centers anchored by general merchandise and big-box, specialized retailers (e.g. Lowe's and Staples) that draw shoppers from across Santa Clara and northern San José. These centers are primarily accessible from Coleman Avenue, a wide vehicular thoroughfare with limited pedestrian infrastructure.
- **El Camino Real** is a low-density corridor with scattered convenience retail (fast food chains, salons, small grocery or convenience stores) and a number of auto-oriented establishments. Most businesses are located in one-story, freestanding buildings, although some of the new mixed-use development on the corridor includes ground floor retail space. El Camino Real is a six-lane, regional arterial with high-speed traffic and few pedestrian amenities.
- **Downtown Santa Clara** has a cluster of three small neighborhood-serving shopping centers. Tenants include a handful of neighborhood-serving restaurants, bars, and personal service establishments (hair salon, post office, dry cleaners). Most storefronts are oriented directly

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[114] Colliers, 2018. Silicon Valley Market Forecast Report

[115] Cushman and Wakefield, U.S. Market Beat Retail Shopping Center, Q4 2017.

[116] A trade area is the geographic area from which most of a business' or commercial district's customers are drawn. As discussed below, the size of a trade area varies depending on type of retail in question. In general, however, higher incomes and greater population densities support higher sales and lower vacancies, while other sources of demand (workers, tourists, and other visitors) are also helpful in supporting businesses.

[117] A full inventory of existing retail space in each station area is not available, because CoStar and brokerage firms do not comprehensively track ground floor retail space in mixed-use buildings.

onto Monroe Street and Homestead Road, which are neighborhood residential streets. The shopping environment is more active and pedestrian-friendly than many shopping centers, because of amenities and programming including a plaza, street trees, and a Saturday Farmer's Market.

- **The Alameda** has a small cluster of restaurants, coffee shops, and retailers located in a relatively dense row of single-story storefronts, between Portola Avenue and Hillmar Street. Many of these businesses serve students from Santa Clara University, as well as other local residents.

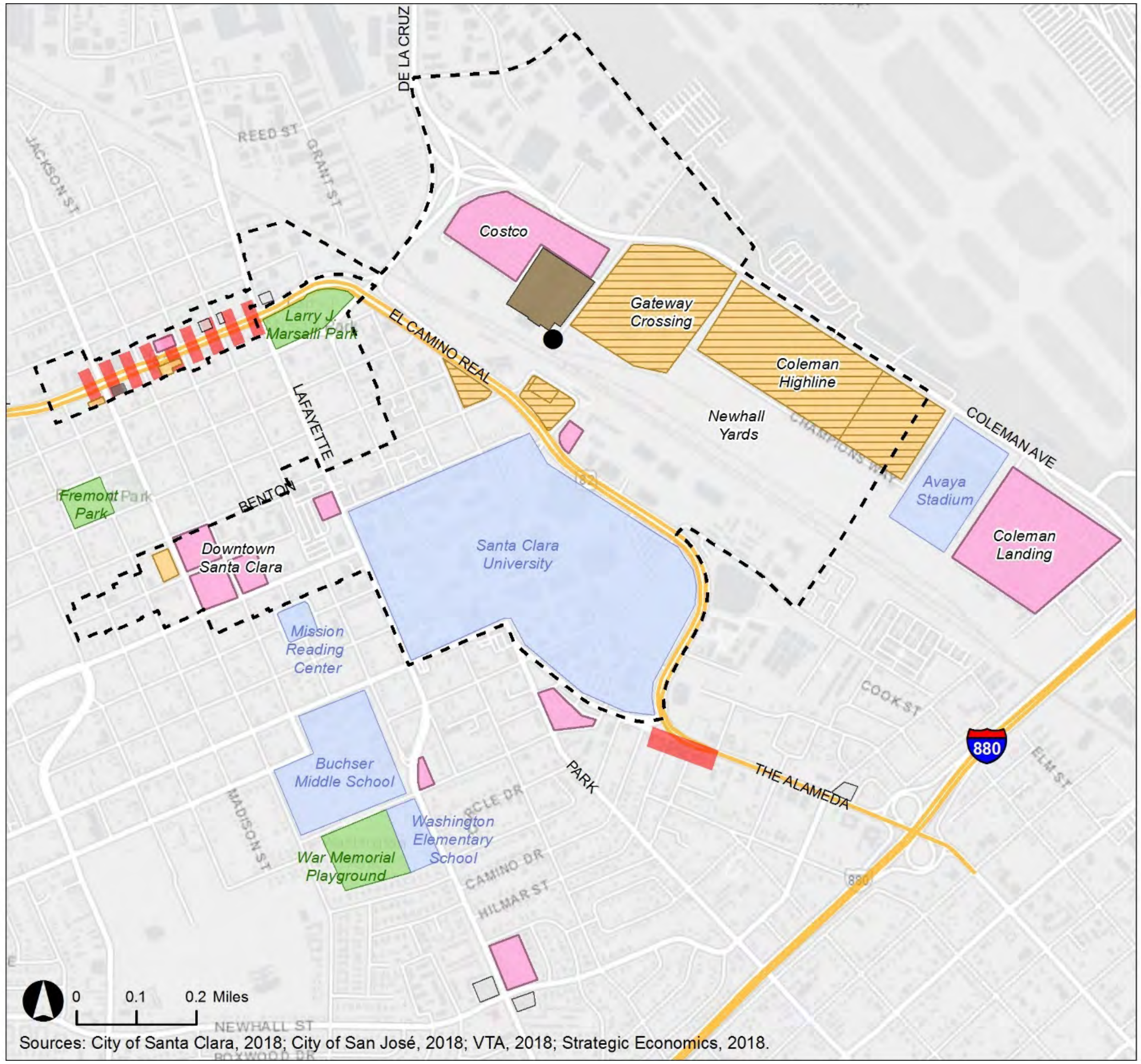
High household incomes, a fast-growing population, and proximity to Santa Clara University help support demand for neighborhood-serving retail in the station area. As discussed in Chapter III, the station area has the highest median household income in the corridor, and the population has more than doubled since 2000.

While part of the station area on the west side of the rail tracks is easily accessible from Santa Clara University and surrounding high-income neighborhoods, the east side of the station area (where the station itself and VTA's TOJD site are located) is difficult to access, especially by foot. The railroad tracks serve as a major barrier separating the station from the Old Quad residential neighborhoods and Santa Clara University. The only existing east-west connections across the tracks are the pedestrian underpass through the station itself; and De La Cruz Boulevard, which is effectively a highway interchange and not open to pedestrians. The east side of the station area is bordered by the airport, low density industrial development, and Coleman Avenue. Coleman Avenue has proven attractive for regional-serving big box stores that rely on vehicle access, visibility, and parking to draw shoppers from across Santa Clara and north San José. However, pedestrian access is extremely limited.

FIGURE VII-1: LOCAL RETAIL CONDITIONS, SANTA CLARA STATION

Local Retail Conditions, Santa Clara Station

- Active Retail Corridor
- Other Commercial Corridor
- Retail Shopping Center
- Automobile-Oriented Retail*
- Commercial Parking
- Institutional or Cultural Anchor
- Park
- New Development with Retail, Under Construction
- New Development with Retail, Approved or Proposed
- VTA's TOJD Sites**
- Station Study Areas
- Planned BART Stations



Sources: City of Santa Clara, 2018; City of San José, 2018; VTA, 2018; Strategic Economics, 2018.

*Includes gas stations, auto repair shops, and auto parts dealers.
**Transit-oriented joint development sites owned by VTA.

STRATEGICECONOMICS

DOWNTOWN SAN JOSÉ STATION

Downtown San José is a dense, mixed-use environment with several active retail nodes. As shown in Figure VII-2, most major streets in Downtown San José are lined with ground floor retail space, typically located in mixed-use buildings with residential and/or office uses above. Downtown is generally very walkable, with narrow streets, paseos, cross walks, lights, trees, and historic buildings that add charm and character. Some of Downtown's most active retail corridors include blocks along South 1st Street, Santa Clara Street, San Fernando, and El Paseo de San Antonio. Most of the ground floor tenants on these corridors are eating, drinking, and entertainment establishments. There are also two well-established and more distinct nodes in Downtown: San Pedro Square, which is anchored by a successful market hall with local food vendors and events; and SoFA (South of First Area), which features a concentration of arts, entertainment, and nightlife uses.

Downtown is emerging as a citywide and even regional destination for dining and entertainment and is well-positioned to expand this role. San Pedro Square in particular is already becoming known as a dining and nightlife destination. Downtown San José's residential and worker densities, mixed use nature, pedestrian-friendly built environment, and concentration of cultural and entertainment destinations are unique in the City of San José and Santa Clara County. As noted previously, shoppers, retailers, and retail investors are increasingly favoring urban mixed-use environments with a strong sense of place. Downtown also has excellent connectivity to other parts of San José by transit (including VTA light rail, BRT, and future BART service) and highway access.

Restaurants and retailers in Downtown benefit from a rapidly growing residential population and fast-growing employment base. As described in Chapter III, Downtown's population has expanded by one-third since 2000, including many young professionals living in roommate and single-person households. Since 2008, the Downtown East submarket area added 6,900 new jobs (a 14 percent increase), with job growth driven by office-based sectors (information and professional and managerial services) and accommodation/food services employment.

Multiple cultural, entertainment, and institutional anchors, hotels, parks and public spaces, and programming help draw foot traffic and create a more active street environment. San José State University is a critical local anchor, with students, staff, and faculty serving as an important source of demand for local retail. Events at the SAP Center and Convention Center, as well as hotel visitors, also help drive demand, especially for restaurants and drinking places. Several museums, performance centers, and other schools are also located in close proximity to Downtown's key retail corridors (Figure VII-2). Parks and other public spaces also help draw foot traffic, create a sense of place, and provide opportunities for the community to gather and shoppers to linger. The San José Downtown Association, a well-established merchants association, coordinates efforts among property owners and businesses to advocate for Downtown and provides funding for public space maintenance and improvements.[118]

Traditional retail in Downtown is very limited, with eating and drinking establishments accounting for most retail sales. Analysis for the Downtown Retail Strategy found that eating and drinking establishments account for half of total retail sales in the broader Downtown San José/Diridon area,[119] while food and beverage stores (the next largest category) account for 15 percent. Other than food and beverage, traditional retail in Downtown is very limited, with a particular lack of retailers selling soft goods (apparel, home décor, furniture, etc.). According to brokers and other stakeholders, some

[118] A Property-Based Improvement District (PBID was implemented in 2007 and provides funding for various cleaning and public space initiatives in Downtown San José.

[119] The Downtown Growth Boundary, as defined by the City of San José.

of the challenges that Downtown faces in attracting traditional retailers include competition with nearby malls and lifestyle centers, negative perceptions around cleanliness and safety, and lack of appropriate space (such as a cluster of large, Class A retail space with good visibility and large storefronts).

Downtown San José continues to face challenges around vacancies and the pedestrian experience. As discussed below, Downtown San José has historically had high vacancy rates, with some sources citing vacancies 11 or 12 percent in 2017.[120] Brokers have reported improvements in the last year, but certain blocks continue to struggle with filling vacant storefronts (e.g., the area around the intersection of East Santa Clara Street and S 2nd Street). Vacancies, as well as the high number of large commercial parking lots, break up the continuity of the retail corridor in some areas (see Figure VII-2). Brokers also cite safety and unsheltered homeless populations as issues that still need to be addressed.

[120] According to the "Downtown Dimension" newsletter from May 2017, by San José Downtown Association and Newmark Cornish & Carey, Downtown Dimension, May 2017. https://sjdowntown.com/wp_2016/wp-content/uploads/2017/05/May2017Dimension.pdf; and SPUR, February 2018. How New Approaches to the Storefront Are Reviving Retail, https://www.spur.org/news/2018-02-16/how-new-approaches-storefront-are-reviving-retail

FIGURE VII-2: LOCAL RETAIL CONDITIONS, DOWNTOWN SAN JOSÉ STATION

ALUM ROCK/28TH STREET STATION

East Santa Clara Street/Alum Rock Avenue is a pedestrian-oriented retail corridor. East Santa Clara Street/Alum Rock Avenue includes a mix of freestanding retail storefronts, mixed-use buildings with office or residential above, and small shopping centers. While there is retail along most of the corridor, the highest business densities are concentrated between 22nd and 25th Street on E. Santa Clara Street on the west side of Highway 101, and between 31st Street and King Road on Alum Rock Avenue on the east side of the highway. Although there are several car repair shops and gas stations, most stores are generally oriented to the street with small surface parking lots. The street is generally pedestrian-friendly with only four lanes of traffic, small blocks, and some pedestrian infrastructure, as well as a Bus Rapid Transit line.

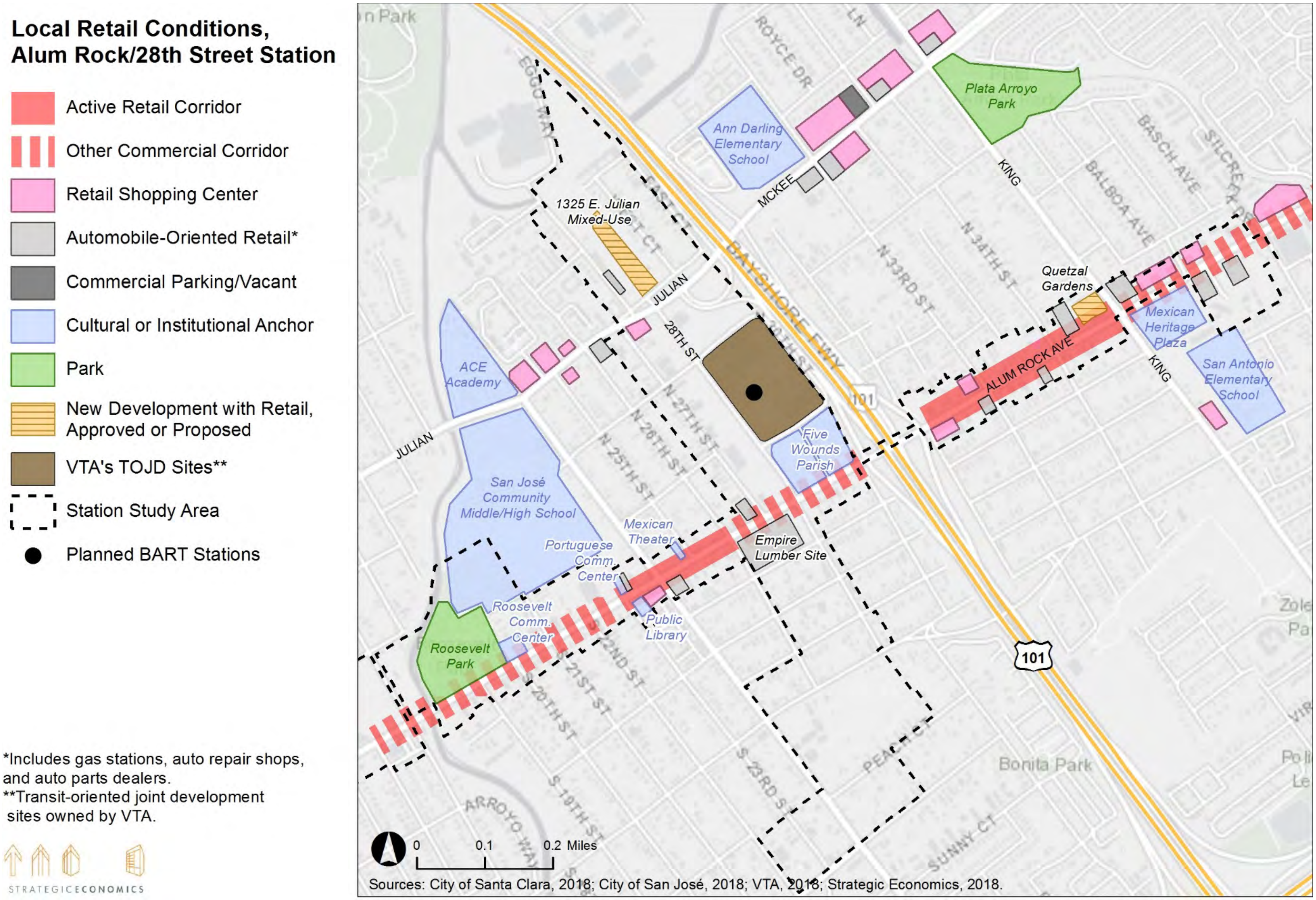
Highway 101 divides the East Santa Clara/Alum Rock corridor into two distinct nodes and represents a physical barrier for pedestrians. Furthermore, several vacant parcels, gas stations, and auto repair shops also break up the continuity of the retail corridor.

The East Santa Clara/Alum Rock corridor features a variety of retail types as well as several important cultural destinations. Businesses on the corridor include grocery, apparel, and electronics stores, as well as restaurants and bakeries. Many retailers specialize in products targeted to Portuguese or Latino consumers, reflecting the area's Portuguese heritage and current demographics (nearly two-thirds Latino). While much of the retail is neighborhood-serving, there are a few destination retail establishments and restaurants with a citywide or even regional customer base (e.g., ADEGA, a Portuguese restaurant that is San José's only Michelin-starred restaurant). In addition, a number of cultural and civic institutions serve the community and help support existing retail by attracting visitors to the corridor. Examples include Five Wounds Parish (a regional destination for the Bay Area's Portuguese community), the Portuguese Community Center, the Mexican Heritage Plaza, and the Mexican Theater.

McKee Road between 24th Street and King Road, is a four-lane commercial corridor dominated by small strip and neighborhood shopping centers. Shopping centers on McKee Road typically have surface parking lots facing the street and are mostly tenanted by small grocery and convenience stores, restaurants, and various personal and financial service establishments (e.g., hair salons, phone carrier stores, loan agencies). McKee Road also has many auto-oriented retail establishments (gas stations, auto-repair shops).

Low household incomes and limited household and employee growth create challenges for retail in the Alum Rock/28th St station area. National retailers in particular tend to favor areas with high household incomes. Households incomes in the station area and East San José more generally tend to be lower than the citywide average. The Alum Rock/28th St station area has seen very little market rate multifamily and office development in recent years. However, brokers familiar with the area note that many of the shopping centers and retail corridors in this part of San José, including the East Santa Clara Street/Alum Rock Avenue corridor, are very attractive for retailers focused on serving the local Latino and Asian markets.

FIGURE VII-3: LOCAL RETAIL CONDITIONS AT ALUM ROCK/28TH ST STATION



Competitive Supply

This section describes the existing competitive supply of retail in the vicinity of the station areas. Figure VII-4 provides a map of the existing shopping centers and downtown shopping districts located within a five-mile radius of VTA's BART Phase II stations.[121] The shopping center data shown are from CoStar, a real estate data company that provides the most comprehensive data available on the existing retail inventory. However, it is important to note that CoStar does not track retail located in mixed-use buildings.

The districts differ in size, typical anchor tenants, configuration, and trade area (i.e. the area from which the district draws its customers). In general, shopping centers are auto-oriented retail developments with one or several primary anchor tenants and dedicated parking lots. Centers range from small strip or neighborhood centers that serve a one to three-mile radius, to regional or super regional malls that draw customers from a five-mile radius.

The five-mile trade area surrounding VTA's BART Phase II stations is well-served by a wide range of shopping centers, including many of Santa Clara County's largest malls. There is a total of 23 million square feet of shopping center space within a five-mile radius from the stations.[122] This supply includes a mix of small convenience-oriented centers and large regional-serving centers, including many of Santa Clara County's largest malls. For example, Westfield Valley Fair and Santana Row, located within three miles from the stations, are the top two highest performing malls in San José as measured by sales per square foot.[123] Eastridge mall draws shoppers from a significant trade area in East San José. The Great Mall in Milpitas and Vallco[124] in Cupertino are also within the five-mile trade area.

In addition to being well-served by regional-serving malls and shopping centers, San José and Santa Clara also have an adequate supply of neighborhood-serving centers. Neighborhood and community centers are located at regular intervals (generally half- to one-mile) throughout the trade area. These centers generally provide an adequate supply of daily needs retail (i.e. grocery and drug stores), and that supply has been growing with population in the last decade.[125]

There is a particular concentration of neighborhood- and regional-serving retail located in or near the Santa Clara station area. As described above, Coleman Landing includes a Lowe's and Staples; there is also a Costco on Coleman Avenue in the station area. In addition, Santa Clara Town Center, at the intersection of El Camino Real and Scott Blvd, is located just 1.5 miles from the station (just outside the station area). With tenants including Target, Sprout's Farmers Market (grocery store), and Walgreens (drug store), this center likely fulfills most of the surrounding neighborhoods' demand for convenience goods.

However, Downtown San José and the neighborhoods along East Santa Clara/Alum Rock Avenue between Downtown and Highway 680 are lacking in grocery and drug stores. The forthcoming San José Citywide Retail Strategy identifies grocery and drug stores in Downtown and on East Santa Clara

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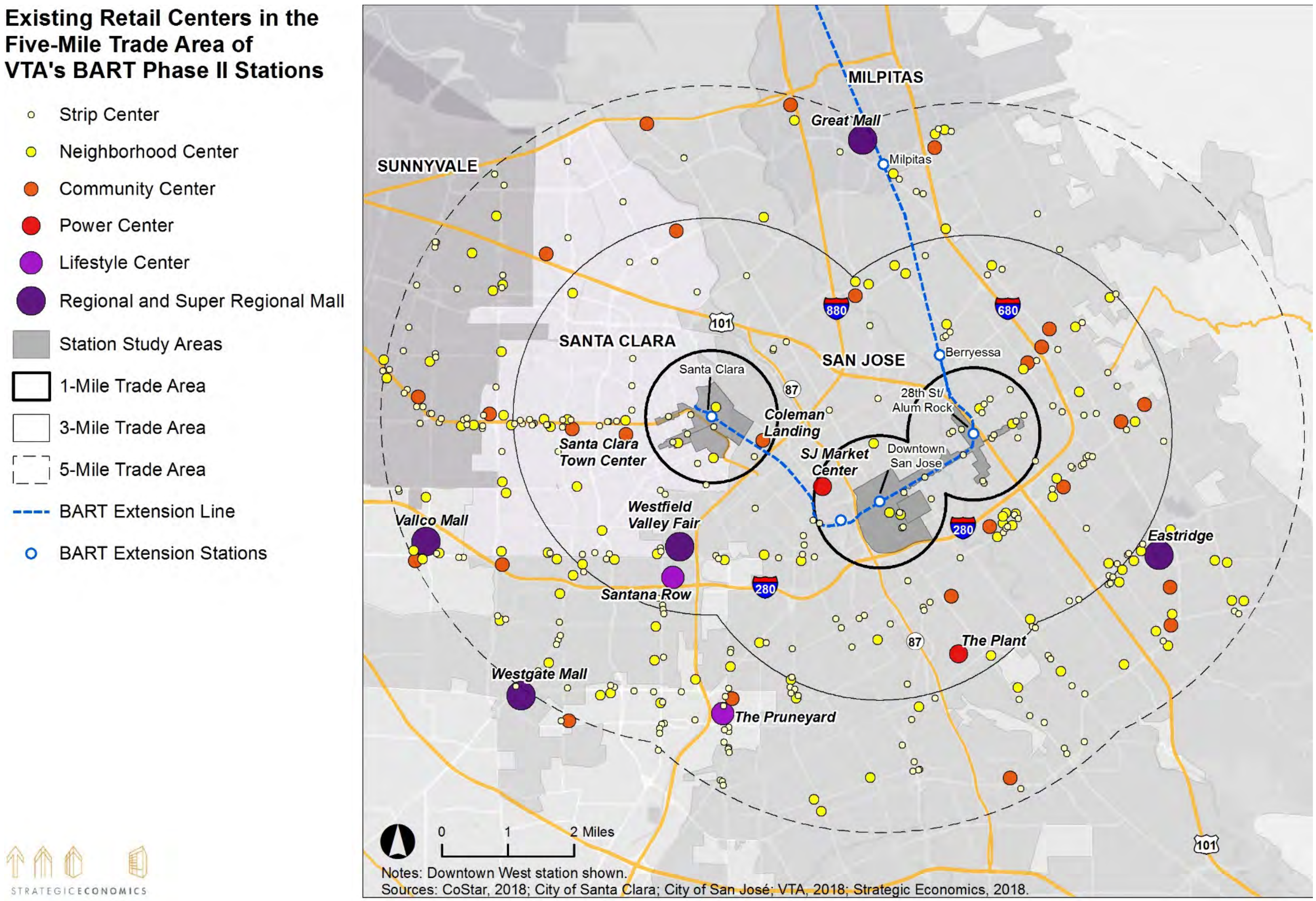
[121] Five miles is a typical trade area from which larger centers draw their customers.
[122] This total excludes general retail (i.e. freestanding retail spaces not located in shopping centers) and retail mixed use buildings.
[123] Analysis by Strategic Economics, prepared for the San José Citywide Retail Strategy (forthcoming).
[124] Vallco is now mostly vacant, but a proposed redevelopment that includes 2,402 residential units, 400,000 square feet of retail space and 1.81 million square feet of office was recently approved.
[125] Ibid.
(footnote continued)

Street/Alum Rock Avenue as one of the few retail gaps in the city.[126] The Market Park development at Berryessa BART Station will include a major supermarket chain and pharmacy, expected to open in early 2019. However, there may still be potential for grocery- and/or drug-store anchored retail along East Santa Clara Street.

[126] Based on an analysis comparing the supply of stores to neighborhood buying power (density multiplied by per capita income), from the San José Citywide Retail Strategy.

FIGURE VII-4: COMPETITIVE SUPPLY WITHIN A FIVE-MILE TRADE AREA FROM VTA'S BART PHASE II STATIONS



STRATEGIC ECONOMICS

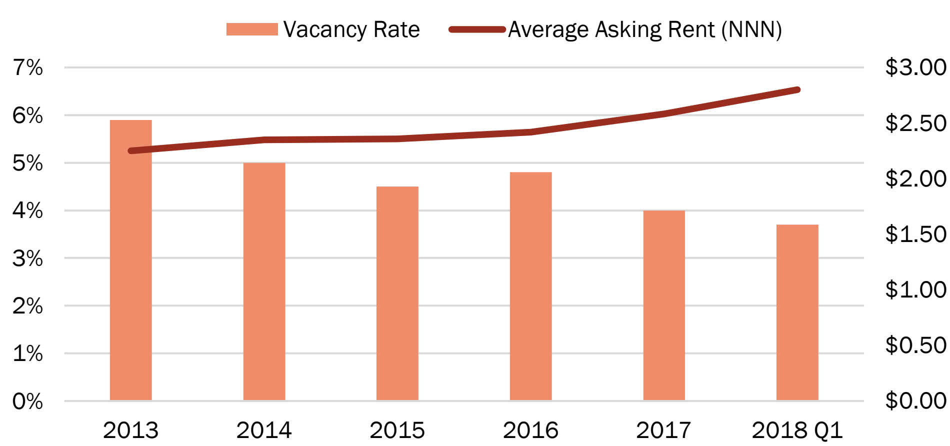
Retail Market Conditions

This section summarizes countywide rents and vacancies compared to station area retail market conditions. Figure VII-5 illustrates retail rents and vacancies between 2013 and 2018 for Santa Clara County overall. Figure VII-6 provides this information for major submarkets within Santa Clara County. Figure VII-7 includes recent lease transactions in the station areas to illustrate typical lease terms and tenants. Note that all rents in this section are expressed as monthly rates per square foot, triple net.[127]

Santa Clara County is showing continued signs of a strong retail market, with declining vacancies and rising rents. Despite major shifts in the retail industry, retail vacancies remain in Santa Clara County. Between 2013 and 2018, the County's retail vacancy rate declined from about 6 percent to 3.7 percent. Rental rates have also steadily increased, reaching about $2.75 per square foot, triple net in 2018 (Figure VII-5). These rental rates represent an average of all space types, including Class B and C. Class A rates are closer to $4.00-$6.50 per square foot, depending on the submarket.[128]

Rents and vacancies in the cities of San José and Santa Clara are similar to the countywide average. As shown in Figure VII-6, Palo Alto and Mountain View are the most attractive retail submarkets, with very low vacancies and significantly higher rents than both the county overall and other submarkets. According to brokers, Downtown Palo Alto and shopping centers located near major corporate campuses in the Palo Alto/Mountain View area perform particularly well, reflecting the very high incomes in this part of the county. In comparison, rents and vacancies in the cities of Santa Clara and San José are on par with the county average.

FIGURE VII-5: SANTA CLARA COUNTY RETAIL MARKET VACANCY AND ASKING RENTS, 2013-2018*



*Values were approximated based on Cushman and Wakefield's Retail Market Beat Report for the Silicon Valley, Q1 2018. Rents represent an average of all space types. Average rents for Class A or new space are much higher, closer to $4-$6 per square foot. Rents are expressed as monthly rents per square foot, triple net.
Source: Cushman Wakefield, 2018; Strategic Economics, 2018.

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127 Under a triple net lease (NNN), the tenant pays operating expenses, including real estate taxes, building insurance, and maintenance (the three "nets") in addition to the rents.
128 Cushman and Wakefield, Retail Marketbeat Silicon Valley, Q1 2018; Marcus Millichap San José, 2018 Q1; Marcus Millichap Bay Area, 2018 Q2.

FIGURE VII-6: SANTA CLARA COUNTY RETAIL MARKET CONDITIONS BY SUBMARKET, Q1 2018

	Vacancy Rate	Average Asking Rent Per Square Foot (a)
Palo Alto/Mountain View/Los Gatos	3.3%	$4.01
Milpitas/North San José	4.4%	$3.00
Sunnyvale/Cupertino	2.8%	$2.82
San José/Campbell/Los Gatos	3.6%	$2.70
Santa Clara	3.9%	$2.60
Morgan Hill/Gilroy	5.4%	$1.92
Santa Clara County Average	**3.7%**	**$2.70**

(a) Rents shown include all space type. Average rents for Class A or new space are much higher, closer to $4-$6 per square foot. Rents are expressed as monthly rents per square foot, triple net.
Source: Cushman Wakefield, 2018; Strategic Economics, 2018.

Retail space in the Santa Clara station area commands higher rents compared to city and regional averages, in part because much of the space is relatively new. Asking rents in new shopping centers near Santa Clara station are in the range of $4.00-$5.00 per square foot, triple net. Older shopping center spaces, like the shopping center abutting the Costco, have asking rents closer to $3.25 per square foot. In new mixed-use residential projects, asking rents for small retail spaces ranging from 1,200 to 3,800 square feet are approximately $3.50 per square foot (Figure VII-7).

Downtown San José's retail market is experiencing declining vacancy rates and rising rents, but there are still significant vacancies. Historically, Downtown San José has had high vacancy rates, with some sources citing vacancies 11 or 12 percent in 2017.[129] However, brokers have reported improvements in the last year. Brokers active in Downtown also report that rents for newly completed space currently range from $3.50 to $4.00 per square foot, compared to $3.00 to $3.50 for space completed a few years ago. Based on available listings, asking rents for recently renovated space also range from about $3.50 to $4.00 (Figure VII-7). Spaces located in the heart of Downtown (East Santa Clara Street, 1st and 2nd Street) reportedly command higher rents than those in Downtown's southern periphery (for example, ground floor retail in The Pierce at East Reed and South 1st Street.)

Retail in the Alum Rock/28th Street station area commands low rents relative to the citywide average, and developers have struggled to fill new ground floor retail space. For the older inventory, asking rents range from $1.75 to $2.50 per square foot. Bellini Plaza, built in 2013, has a space for lease advertised at $2.75 per square foot, triple net. Tierra Encantada, a mixed-use residential project completed in 2004, has a vacant space advertised for $3.00 per square foot (Figure VII-7). Brokers mentioned that these ground floor spaces have been very challenging to fill, in part because they are too large (1,500-4,000 square feet) for the type of retailers interested in locating on this corridor, which tend to be small-scale and local businesses catering to the area's Portuguese and Latino consumers.

[129] According to the "Downtown Dimension" newsletter from May 2017, by San José Downtown Association and Newmark Cornish & Carey, Downtown Dimension, May 2017. https://sjdowntown.com/wp_2016/wp-content/uploads/2017/05/May2017Dimension.pdf; and SPUR, February 2018. How New Approaches to the Storefront Are Reviving Retail, https://www.spur.org/news/2018-02-16/how-new-approaches-storefront-are-reviving-retail

FIGURE VII-7: SELECTION OF RETAIL SPACES FOR LEASE OR RECENTLY LEASED WITHIN THE FUTURE BART STATION AREAS

Station Area/Project	Address	Space Type	Year Built	Monthly Rent Per Square Foot, Triple Net (a)	Space (Square Feet)	Tenant/Tenant Type	Lease Date
Santa Clara							
Coleman Crossroads (Costco Center)	1331 Coleman Ave, San José	Shopping center	1997	$3.25	2,400	Fast-Food Restaurant	2017
Downtown Gateway	Franklin & Monroe St, Santa Clara	Ground floor retail in residential building	Under Construction	$3.50	1,200-3,800	Cafe, Bakery, Yoga studio, Child Care Facility	For lease (2018)
Santa Clara Town Center	2000 El Camino Real Santa Clara	Shopping Center	2014	$5.00	2,000	n/a	For Lease (2018)
Downtown San José							
One South Market	1 S Market St, San José	Ground floor retail in residential building	2015	$4.00	980-2,800	Fast-Casual Restaurant (Chipotle), Hair Salon	2017
Centerra	77 N Almaden Blvd, San José	Ground floor retail in residential building	2015	$3.50	1,000-2,000	Unknown	For lease (2018)
The Pierce	60 Pierce Ave, San José	Ground floor retail in residential building	2016	$3.25	600-4,125	Unknown	For lease (2018)
Modera San Pedro Square	28 Almaden Ave, San José	Ground floor retail in residential building	Under Construction	Undisclosed	n/a	Coffee, Restaurant, Financial Services, or Retail	For lease (2018)
15 S 1st Street	15 S 1st Street, San José	Ground floor retail in historic office building	1900, Under Renovation	$3.50	2,844	Restaurant, Bar/Lounge	For lease (2018)
28th St/Alum Rock							
Tierra Encantada	1918 Alum Rock Ave, San José	Ground floor retail in residential building	2004	$3.00	1,500-4,000	Unknown	For lease (2018)
Bellini Plaza	158 S King Rd, San José	Shopping center	2013	$2.75	1,000-2,200	Retail, Dental or Medical	For lease (2018)

(a) Under a triple net lease (NNN), the tenant pays operating expenses, including real estate taxes, building insurance, and maintenance (the three "nets") in addition to the rents.
Source: CoStar, 2018; Loopnet, 2018; Interviews with retail brokers, 2018; Strategic Economics, 2018.

Station Area Development Trends

This section describes retail development occurring in the station areas. Comprehensive data on citywide or submarket retail development is not available; available sources only track single-use shopping centers, malls, and very large mixed-use projects, or do not consistently distinguish different types of commercial uses (i.e., office versus retail).[130] The data in this section are based on development information provided by the cities, supplemented with additional research on proposed commercial uses.

Figure VII-8 summaries recently completed, under construction, and planned retail development in each station area. Details are not provided for individual projects because most new development consists of small amounts of retail in many mixed-use buildings. As a result, the list is extremely long, especially for Downtown San José. The location of new development projects with is shown in Figures VII-1 through VII-3, above. The following findings discuss the amount and type of retail development occurring in each station area.

FIGURE VII-8: RECENTLY COMPLETED, UNDER CONSTRUCTION, OR PROPOSED RETAIL DEVELOPMENT BY STATION AREA

Market Study Area	Completed Since 2011 (Sq. Ft.)	Under Construction (Sq. Ft.)	Approved or Proposed (Sq. Ft.)	Total New Retail Development (Sq. Ft.)
Santa Clara Station	256,036	21,030	84,485	361,551
Downtown San José Station	24,337	83,168	138,910	246,415
Alum Rock/28th St Station	6,976	0	21,000	27,976

Information available as of February 2018.
Source: City of Santa Clara, 2018; City of San José, 2018; Strategic Economics, 2018.

SANTA CLARA STATION

Since 2011, significant new retail investment has occurred in or near the Santa Clara station area. Coleman Landings, a shopping center located on Coleman Avenue and Highway 880, was built between 2009 and 2015 and is now anchored by Staples and Lowe's, and accounts for almost all (253,000) of the 256,000 square feet that have been completed since 2011. One mixed-use project on El Camino Real accounts for the remaining 3,000 square feet. Just outside the station area (and not included in Figure VII-8), Santa Clara Town Center was completely renovated in 2015.

An additional 21,000 square feet of retail is under construction in mixed-use projects. This includes 6,000 square feet in two mixed-use projects under construction on El Camino Real, and 14,500 square feet being added as part of the Downtown Gateway project.

Planned mixed-use projects would add 80,000 square feet of ground floor retail. These projects include Gateway Crossing, Coleman Highline, 575 Benton, and the proposed student housing on the Caltrain parking lot.

[130] In the case of the development information tracked by the City of San José.

DOWNTOWN SAN JOSÉ

About 110,000 square feet of new retail space have been built in Downtown since 2011 or are currently under construction, and an additional 140,000 square feet could be added if all planned projects moved forward. All new space consists of ground floor retail in office or residential buildings. Retail in Downtown San José is being added to serve increased demand associated with office and multifamily development, but also as a result of zoning that requires ground floor retail along several corridors (see Figure VII-2).

In addition to new development, Downtown has also seen increased renovation/rehabilitation of older retail space, another sign of reinvestment and market interest. Examples include the corner retail space in the historic 1900s building at the intersection of East Santa Clara and 2nd Street, and the old J.C. Penney site at Santa Clara and 1st Street.

ALUM ROCK/28TH STREET

New retail development has been very limited in the Alum Rock/28th Street station area and there is only one new space currently in the pipeline. Recent development has been limited to one new strip center built in 2013 (Bellini Plaza at Kind Road and Whitton Ave), and one mixed-use residential development with ground floor retail that was completed in 2004 (Tierra Encantada Apartments). Only two projects in the pipeline include retail space; one of these is Quetzal Gardens, a 100 percent affordable housing development which was required to incorporate 8,000 square feet of ground floor retail in order meet Urban Village requirements. The developer of Quetzal Gardens, Resources for Community Development, has announced that about three-quarters of this space will be occupied by local community organization.[131] The other is 1325 E. Julian Street, a large mixed-use residential project that was just recently announced for the first time in June 2018.

Retail Projections

This section provides preliminary retail demand projections for the station areas through 2040.

METHODOLOGY

Strategic Economics projected retail demand based on assumptions about how much new households and workers (as projected in Chapters IV and V) would spend in the station areas; the share of additional spending contributed by visitors from outside the station areas; and the sales per square foot required to support different types of retail. The tables in Appendix A show the underlying assumptions and projections methodology, as well as the detailed results (by retail category and five-year period).

Demand was projected for major retail and restaurant categories, including food services and drinking places (restaurants, bars, and cafes); food and beverage stores; general merchandise stores; and clothing and home furnishings stores. However, it is important to note that some new retail space may

[131] Resources for Community Development, Upcoming Properties In Development. https://rcdhousing.org/whats-in-development/
(footnote continued)

be filled other uses not included in the projections, such as fitness centers, personal services, medical services, and professional and financial services.[132]

Note that while the projections incorporate conservative assumptions, they are based on current consumer spending patterns. As discussed above, the retail industry is undergoing a significant shift that could change the type and amount of brick-and-mortar retail space required to meet demand.

RETAIL DEMAND PROJECTIONS

Figure VII-9 summarizes the retail demand associated with new resident, worker, and visitor spending in the station areas between 2015 and 2040, by retail category, and after netting out the amount of development that is currently under construction or has been completed since 2015. Key findings include:

- **Santa Clara station could absorb approximately 53,500 to 93,400 square feet after netting out space that was recently completed or is under construction.** Another 84,500 square feet are planned, although not all of this space may eventually be built. As mentioned above, some new retail space may be filled other uses not included in the projections (e.g., fitness centers, personal services, medical services, and professional and financial services, etc.).
- **The City of Santa Clara's General Plan identifies capacity for up to 1.5 million square feet of commercial (including retail and hotel) in the station area.** The Santa Clara General Plan estimates capacity for up to 1.49 million square feet of commercial (retail and hotel) in the Santa Clara Station Focus Area by 2035. However, it is worth noting that the projects currently in the pipeline in the Santa Clara Station Focus Area – including Gateway Crossings, 575 Benton Street, and the Caltrain student housing project – would absorb most of the major opportunity sites in the Focus Area and are together proposing to include only about 77,000 square feet of new retail.[133] In addition to the retail envisioned for the Santa Clara Station Focus Area, an additional 129,000 square feet of retail is envisioned in the Downtown Santa Clara Focus Area.
- **Downtown San José could attract approximately 251,700 to 391,600 square feet after netting out space that was recently completed or is under construction.** This could include some soft goods retail (clothing and home furnishings) in the long run. Some of the projected demand may be met by renovating and filling existing vacancies. Note that there are nearly 140,000 square feet of retail currently proposed, over and above what is under construction; however, these proposals likely reflect zoning requirements more than market demand.
- **The City of San José is planning for up to 1.4 million square feet of retail in the Diridon/Downtown area (Downtown Growth Boundary) by 2040.** It is unclear at this point how much retail might be built in the Diridon station area as part of the planned Google Village.
- **Demand for an additional 43,800 to 58,300 square feet of retail space is projected in in the Alum Rock/28th Street station area.** Currently 21,000 square feet of retail are proposed. Note that as in Downtown, some of the demand may be absorbed by existing vacancies (including existing vacancies in newer mixed-use buildings).

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[132] Demand from this type of space is not included in the projections due to data constraints. The methodology is based on analysis of sales tax revenues in the cities of San José and Santa Clara; service uses do not generate sales tax in California.
[133] In addition, 7,500 square feet are proposed at Coleman Highline, which is located in the City of San José.

- **In the Alum Rock/28th Street station area, the City of San José is planning for 1.6 million square feet of total commercial space by 2040.** This includes commercial space planned for the Roosevelt Park, Little Portugal, Five Wounds BART, and S. 24th St/William Ct station areas, and could include some mix of office, retail, and other employment uses.
- **The retail projections may not fully reflect the short-term potential for a grocery or drug store that might serve the broader Downtown/East San José submarket.** As discussed above, the San José Citywide Retail Strategy identifies a need for grocery and drug store along the E. Santa Clara Street corridor to serve the broader Downtown and East San José submarkets. A grocery and/or drug store in this corridor would serve pent up demand from existing residents, as well as the demand projected in Figure VII-9 from new residents.

FIGURE VII-9: PROJECTED RETAIL AND RESTAURANT DEMAND BY STATION AREA AND CATEGORY, 2015-2040

	Santa Clara Station Area			Downtown San Jose Station Area			Alum Rock/28th Street Station Area		
	Low	High	% of Total (a)	Low	High	% of Total (a)	Low	High	% of Total (a)
Food Services and Drinking Places	32,100	47,900	41%	192,300	259,400	52%	20,100	26,500	45%
Food and Beverage Stores	20,100	30,600	26%	68,600	99,200	20%	10,800	14,500	25%
General Merchandise Stores	19,700	30,600	26%	63,000	93,400	19%	9,000	12,300	21%
Clothing and Home Furnishings	5,600	8,200	7%	35,300	47,000	9%	3,900	5,000	9%
Total	**77,500**	**117,400**	**100%**	**359,200**	**499,100**	**100%**	**43,800**	**58,300**	**100%**
Completed Since 2015 or Under Construction (b)	24,055			107,505			0		
Net New Demand, 2015-40	53,445	93,345		251,695	391,595		43,800	58,300	

(a) Overall retail mix is the same for the low and high scenarios.

Source: Strategic Ecnoomics, 2018.

Implications for the TOD Study

This section summarizes findings and implications for future retail development in the station areas.

SANTA CLARA STATION AREA

- **Existing retail nodes in Downtown Santa Clara, on El Camino Real and The Alameda could grow to include additional small-scale retail development over time.** These clusters on the west side of the railroad tracks benefit from proximity to Santa Clara University and high-income residential neighborhoods. In addition, the City of Santa Clara is in the process of developing Precise Plans for the Downtown and El Camino Real, which will identify public investments to improve the pedestrian environment, enhance pedestrian and vehicle connectivity, and add new public gathering spaces.

- **The east side of the railroad tracks may be more challenging for additional retail development, especially immediately adjacent to the station.** Coleman Avenue has proven attractive for big box retailers. However, retail space with limited surface parking or no direct frontage on Coleman Avenue would likely find a location on the east side of the station challenging, because of the poor vehicle and pedestrian connectivity. While future development (including the Gateway Crossing and Coleman Highline projects) has the potential to add new residents and workers and create a more welcoming pedestrian environment, the blocks immediately adjacent to the station are still likely to be challenging locations for retail. However, there could be opportunities for small increments of convenience retail to serve local residents, workers, and commuters.

- **In total, the station area could absorb about 53,500 to 93,400 square feet of retail through 2040, in addition to what is currently under construction.** This demand could be fully absorbed by retail development at Gateway Crossing, Coleman Highline, 575 Benton, and other proposed projects, if they are as built as planned.

DOWNTOWN SAN JOSÉ STATION AREA

- **In the short term, Downtown San José appears poised to continue growing as a destination for dining and entertainment.** Downtown San José is increasingly emerging as a dining and entertainment destination. As worker and residential densities continue to grow, there will also likely be increased demand for dining, entertainment, and convenience retail to serve new residents, workers, and visitors.

- **In the longer term, Downtown San José has the potential to attract more retailers selling clothing, accessories, home furnishings, or other goods.** As discussed above, some of the challenges that have prevented Downtown from attracting traditional retail include competition with nearby malls and lifestyle centers; vacancies and challenges related to cleanliness and safety that negatively affect the pedestrian environment; and lack of appropriate space (such as a cluster of large, Class A retail space with good visibility and large storefronts). However, as the most urban shopping district in Santa Clara County, Downtown is well positioned to leverage current retail industry trends that favor more walkable, mixed-use environments. In addition, the City and the San José Downtown Association are working to address Downtown's quality of life challenges, including investing in public space improvements, cleanliness, and safety.

- **Overall, there is projected demand for 251,700 to391,600 square feet of new retail space through 2040, in addition to what is currently under construction.** Some of the projected demand may be met by renovating and filling existing vacancies, or by some of the additional retail space that is currently proposed.
- **As more mixed-use development occurs, it will be important for new ground floor space to be appropriately designed and managed.** For example, store height and depth, utility connections, visibility, commercial on/off-loading are key issues for retailers. This issue will be addressed in the Downtown Retail Strategy.
- **The most promising locations for new retail in the station area include Santa Clara and San Fernando Streets.** The Downtown Retail Strategy identifies the most promising corridors for new retail as Santa Clara Street (particularly the intersections with 1st Street and San Pedro Street) and San Fernando Street. VTA's Mitchell Block (as shown above in Figure VII-2) is located north of W. Santa Clara Street, between Market and 1st Street. Retail at this location is likely to do best if it is directly visible and accessible from Santa Clara and/or 1st Streets.
- **There may be potential for a new grocery store along the East Santa Clara Street corridor, between the Downtown and Alum Rock/28th Street stations.** A grocery store would require an adequately sized site and excellent visibility and access for both vehicles and pedestrians. The forthcoming Citywide Retail Strategy identifies the former hospital identifies the site of the former hospital at East Santa Clara Street and North First Street (now owned by Santa Clara County) as an appropriate site, and recommends that the City and County work together to include a grocery store in future development proposals.

ALUM ROCK/28TH STREET STATION AREA

- **While the area has proven challenging for new retail, in the medium to long term there is potential to add incremental amounts of retail along the Alum Rock/East Santa Clara corridor to serve new residents and workers.** The corridor has struggled to attract the types of larger, chain tenants who can typically support the higher rents associated with new, larger retail space, resulting in several long-term vacancies. However, as the corridor adds more workers and residents over time, there will likely be potential for small amounts of additional retail. In total, demand for an additional 43,800 to 58,300 square feet of convenience retail and restaurant space is projected by 2040.
- **Overcoming pedestrian barriers could help make the station area more attractive for retail.** In particular, Highway 101 creates a major pedestrian and physical barrier between the East Santa Clara and Alum Rock Avenue retail nodes.

VIII. APPENDIX: DETAILED HOTEL AND RETAIL DEMAND PROJECTIONS

FIGURE A-1: SANTA CLARA COUNTY HOTEL ROOM DEMAND PROJECTION, 2040

	Total Room Demand (a)	Supportable Rooms (b)	Available Rooms (c)	Unmet Demand (d)
Baseline (2018)	21,647	30,925	27,059	3,866
Projection (2040)				
Low	25,238	36,054	29,179	6,875
High	26,364	37,663	29,179	8,484

(a) Baseline room demand estimated as 80% (current occupancy rate) of current available rooms in the county (27,059). Room demand is projected to increase by 0.7 percent a year in the low scenario, and 0.9 percent a year in the high scenario.

(b) Assumes equilibrium occupancy rate of 70%.

(c) Assumes hotels currently under construction are completed by 2020.

(d) Supportable rooms minus available rooms.

Source: STR, 2018; Strategic Economics, 2018.

Figure A-2: Retail Demand, Santa Clara Station Area (Low), 2040

	Assumptions	2015-20	2020-25	2025-30	2030-35	2035-40	Total Net New Demand, 2015-40
Resident Expenditures							
Net New Households		940	1,610	1,433	1,588	1,461	7,032
Average Household Size	2.2						
Resident Expenditures in Cities of SJ and SC	*per capita (a)*						
Food Services and Drinking Places	$2,033	$4,207,146	$7,202,933	$6,409,133	$7,101,869	$6,534,434	$31,455,515
Food and Beverage Stores	$1,457	$3,015,151	$5,162,153	$4,593,258	$5,089,723	$4,683,058	$22,543,343
General Merchandise Stores	$1,575	$3,259,257	$5,580,081	$4,965,127	$5,501,787	$5,062,198	$24,368,450
Clothing and Home Furnishings	$1,962	$4,058,402	$6,948,273	$6,182,538	$6,850,782	$6,303,409	$30,343,403
Resident Expenditures in Station Areas	*capture rate (b)*						
Food Services and Drinking Places	12%	$504,857	$864,352	$769,096	$852,224	$784,132	$3,774,662
Food and Beverage Stores	12%	$361,818	$619,458	$551,191	$610,767	$561,967	$2,705,201
General Merchandise Stores	5%	$162,963	$279,004	$248,256	$275,089	$253,110	$1,218,422
Clothing and Home Furnishings	3%	$101,460	$173,707	$154,563	$171,270	$157,585	$758,585
Office Worker Expenditures							
Net New Office Workers		1,747	2,148	1,117	1,132	1,175	7,319
Worker Expenditures Near the Office	*per worker (c)*						
Food Services and Drinking Places	$1,081	$1,887,936	$2,321,522	$1,206,695	$1,223,469	$1,269,517	$7,909,138
Food and Beverage Stores	$1,096	$1,913,958	$2,353,520	$1,223,327	$1,240,332	$1,287,015	$8,018,152
General Merchandise	$717	$1,252,642	$1,540,325	$800,640	$811,769	$842,322	$5,247,698
Clothing	$167	$291,625	$358,600	$186,395	$188,986	$196,099	$1,221,706
Station Area Capture Rate	70%						
Worker Expenditures in the Station Areas		$1,321,555	$1,625,065	$844,687	$856,428	$888,662	$5,536,397
Food Services and Drinking Places		$1,339,771	$1,647,464	$856,329	$868,233	$900,910	$5,612,707

Food and Beverage Stores		$876,849	$1,078,228	$560,448	$568,239	$589,625	$3,673,389
General Merchandise Stores		$204,138	$251,020	$130,477	$132,290	$137,269	$855,194
Clothing and Home Furnishings							
New Retail Demand (Sq Ft)							
Visitor Spending (d)	15%						
Vacancy Rate	5%						
Station Area Retail Sq. Ft.	*sales per sq. ft.*						
Food Services and Drinking Places	$350	6,301	8,588	5,568	5,895	5,771	32,123
Food and Beverage Stores	$500	4,109	5,475	3,399	3,572	3,533	20,088
General Merchandise Stores	$300	4,185	5,463	3,255	3,394	3,392	19,690
Clothing and Home Furnishings	$350	1,054	1,465	983	1,047	1,017	5,568
Total		15,650	20,991	13,205	13,908	13,713	77,468

(a) Estimated per-capita retail sales in the cities of San Jose and Santa Clara, 2015 (in 2017 dollars).

(b) Share of resident spending estimated to be captured in the station area.

(c) Based on ICSC, "Office-Worker Retail Spending in a Digital Age," 2012.

(d) Estimated additional spending from other visitors (over and above worker and resident spending).

Sources: ICSC, 2012; State Board of Equalization, 2015; California Department of Finance, 2017; Strategic Economics, 2018.

FIGURE A-3: RETAIL DEMAND, SANTA CLARA STATION AREA (HIGH), 2040

	Assumptions	2015-20	2020-25	2025-30	2030-35	2035-40	Total Net New Demand, 2015-40
Resident Expenditures							
Net New Households		1,176	2,013	1,791	1,984	1,826	8,789
Average Household Size	2.2						
Resident Expenditures in Cities of SJ and SC	*per capita (a)*						
Food Services and Drinking Places	$2,033	$5,258,932	$9,003,666	$8,011,416	$8,877,336	$8,168,043	$39,319,394
Food and Beverage Stores	$1,457	$3,768,939	$6,452,692	$5,741,572	$6,362,154	$5,853,822	$28,179,178
General Merchandise Stores	$1,575	$4,074,072	$6,975,101	$6,206,409	$6,877,234	$6,327,747	$30,460,562
Clothing and Home Furnishings	$1,962	$5,073,002	$8,685,341	$7,728,172	$8,563,477	$7,879,261	$37,929,253
Resident Expenditures in Station Areas	*capture rate (b)*						
Food Services and Drinking Places	12%	$631,072	$1,080,440	$961,370	$1,065,280	$980,165	$4,718,327
Food and Beverage Stores	12%	$452,273	$774,323	$688,989	$763,459	$702,459	$3,381,501
General Merchandise Stores	5%	$203,704	$348,755	$310,320	$343,862	$316,387	$1,523,028
Clothing and Home Furnishings	3%	$126,825	$217,134	$193,204	$214,087	$196,982	$948,231
Office Worker Expenditures							
Net New Office Workers		3,203	3,334	1,749	1,858	1,990	12,135
Worker Expenditures Near the Office	*per worker (c)*						
Food Services and Drinking Places	$1,081	$3,461,062	$3,602,761	$1,890,490	$2,008,083	$2,150,541	$13,112,937
Food and Beverage Stores	$1,096	$3,508,767	$3,652,419	$1,916,547	$2,035,761	$2,180,183	$13,293,676
General Merchandise	$717	$2,296,408	$2,390,425	$1,254,336	$1,332,359	$1,426,880	$8,700,409
Clothing	$167	$534,622	$556,510	$292,020	$310,184	$332,189	$2,025,525
Station Area Capture Rate	70%						
Worker Expenditures in the Station Areas		$2,422,744	$2,521,933	$1,323,343	$1,405,658	$1,505,379	$9,179,056
Food Services and Drinking Places		$2,456,137	$2,556,693	$1,341,583	$1,425,032	$1,526,128	$9,305,573

Food and Beverage Stores		$1,607,486	$1,673,298	$878,036	$932,651	$998,816	$6,090,286
General Merchandise Stores		$374,236	$389,557	$204,414	$217,129	$232,532	$1,417,867
Clothing and Home Furnishings							
New Retail Demand (Sq Ft)							
Visitor Spending (d)	15%						
Vacancy Rate	5%						
Station Area Retail Sq. Ft.	*sales per sq. ft.*						
Food Services and Drinking Places	$350	10,536	12,428	7,882	8,525	8,575	47,946
Food and Beverage Stores	$500	7,024	8,044	4,904	5,285	5,382	30,639
General Merchandise Stores	$300	7,290	8,139	4,783	5,138	5,294	30,644
Clothing and Home Furnishings	$350	1,729	2,093	1,372	1,488	1,482	8,163
Total		26,578	30,704	18,941	20,436	20,733	117,392

(a) Estimated per-capita retail sales in the cities of San Jose and Santa Clara, 2015 (in 2017 dollars).

(b) Share of resident spending estimated to be captured in the station area.

(c) Based on ICSC, "Office-Worker Retail Spending in a Digital Age," 2012.

(d) Estimated additional spending from other visitors (over and above worker and resident spending).

Sources: ICSC, 2012; State Board of Equalization, 2015; California Department of Finance, 2017; Strategic Economics, 2018.

FIGURE A-4: RETAIL DEMAND, DOWNTOWN STATION AREA (LOW), 2040

	Assumptions	2015-20	2020-25	2025-30	2030-35	2035-40	Total Net New Demand, 2015-40
Resident Expenditures							
Net New Households		3,527	7,514	6,686	7,409	6,817	31,952
Average Household Size	2.2						
Resident Expenditures in Cities of SJ and SC	*per capita (a)*						
Food Services and Drinking Places	$2,033	$15,776,796	$33,613,688	$29,909,288	$33,142,056	$30,494,027	$142,935,855
Food and Beverage Stores	$1,457	$11,306,816	$24,090,048	$21,435,202	$23,752,042	$21,854,269	$102,438,378
General Merchandise Stores	$1,575	$12,222,215	$26,040,377	$23,170,594	$25,675,006	$23,623,589	$110,731,780
Clothing and Home Furnishings	$1,962	$15,219,006	$32,425,273	$28,851,842	$31,970,316	$29,415,908	$137,882,345
Resident Expenditures in Station Areas	*capture rate (b)*						
Food Services and Drinking Places	25%	$3,944,199	$8,403,422	$7,477,322	$8,285,514	$7,623,507	$35,733,964
Food and Beverage Stores	12%	$1,356,818	$2,890,806	$2,572,224	$2,850,245	$2,622,512	$12,292,605
General Merchandise Stores	5%	$611,111	$1,302,019	$1,158,530	$1,283,750	$1,181,179	$5,536,589
Clothing and Home Furnishings	5%	$760,950	$1,621,264	$1,442,592	$1,598,516	$1,470,795	$6,894,117
Office Worker Expenditures							
Net New Office Workers		1,747	2,148	2,903	2,944	3,055	12,797
Worker Expenditures Near the Office	*per worker (c)*						
Food Services and Drinking Places	$1,081	$1,887,936	$2,321,522	$3,137,407	$3,181,019	$3,300,743	$13,828,627
Food and Beverage Stores	$1,096	$1,913,958	$2,353,520	$3,180,651	$3,224,864	$3,346,238	$14,019,231
General Merchandise	$717	$1,252,642	$1,540,325	$2,081,664	$2,110,600	$2,190,037	$9,175,268
Clothing	$167	$291,625	$358,600	$484,628	$491,365	$509,858	$2,136,076
Station Area Capture Rate	85%						
Worker Expenditures in the Station Areas		$1,604,746	$1,973,293	$2,666,796	$2,703,866	$2,805,632	$11,754,333
Food Services and Drinking Places		$1,626,864	$2,000,492	$2,703,553	$2,741,134	$2,844,302	$11,916,346

Food and Beverage Stores		$1,064,746	$1,309,276	$1,769,414	$1,794,010	$1,861,531	$7,798,978
General Merchandise Stores		$247,881	$304,810	$411,934	$417,660	$433,379	$1,815,665
Clothing and Home Furnishings							
New Retail Demand (Sq Ft)							
Visitor Spending (d)	35%						
Vacancy Rate	5%						
Station Area Retail Sq. Ft.	*sales per sq. ft.*						
Food Services and Drinking Places	$350	22,473	42,026	41,084	44,507	42,238	192,328
Food and Beverage Stores	$500	8,459	13,867	14,957	15,852	15,498	68,632
General Merchandise Stores	$300	7,918	12,338	13,835	14,542	14,377	63,011
Clothing and Home Furnishings	$350	4,086	7,801	7,511	8,166	7,712	35,275
Total		42,936	76,031	77,386	83,066	79,825	359,245

(a) Estimated per-capita retail sales in the cities of San Jose and Santa Clara, 2015 (in 2017 dollars).

(b) Share of resident spending estimated to be captured in the station area.

(c) Based on ICSC, "Office-Worker Retail Spending in a Digital Age," 2012.

(d) Estimated additional spending from other visitors (over and above worker and resident spending).

Sources: ICSC, 2012; State Board of Equalization, 2015; California Department of Finance, 2017; Strategic Economics, 2018.

FIGURE A-5: RETAIL DEMAND, DOWNTOWN STATION AREA (HIGH), 2040

	Assumptions	2015-20	2020-25	2025-30	2030-35	2035-40	Total Net New Demand, 2015-40
Resident Expenditures							
Net New Households		4,408	9,392	8,357	9,261	8,521	39,940
Average Household Size	2.2						
Resident Expenditures in Cities of SJ and SC	*per capita (a)*						
Food Services and Drinking Places	$2,033	$19,720,995	$42,017,110	$37,386,610	$41,427,570	$38,117,534	$178,669,819
Food and Beverage Stores	$1,457	$14,133,520	$30,112,561	$26,794,003	$29,690,053	$27,317,837	$128,047,973
General Merchandise Stores	$1,575	$15,277,768	$32,550,471	$28,963,243	$32,093,757	$29,529,486	$138,414,725
Clothing and Home Furnishings	$1,962	$19,023,757	$40,531,591	$36,064,803	$39,962,895	$36,769,885	$172,352,931
Resident Expenditures in Station Areas	*capture rate (b)*						
Food Services and Drinking Places	25%	$4,930,249	$10,504,277	$9,346,652	$10,356,893	$9,529,383	$44,667,455
Food and Beverage Stores	12%	$1,696,022	$3,613,507	$3,215,280	$3,562,806	$3,278,140	$15,365,757
General Merchandise Stores	5%	$763,888	$1,627,524	$1,448,162	$1,604,688	$1,476,474	$6,920,736
Clothing and Home Furnishings	5%	$951,188	$2,026,580	$1,803,240	$1,998,145	$1,838,494	$8,617,647
Office Worker Expenditures							
Net New Office Workers		3,203	3,334	4,549	4,832	5,174	21,091
Worker Expenditures Near the Office	*per worker (c)*						
Food Services and Drinking Places	$1,081	$3,461,062	$3,602,761	$4,915,274	$5,221,015	$5,591,408	$22,791,520
Food and Beverage Stores	$1,096	$3,508,767	$3,652,419	$4,983,022	$5,292,977	$5,668,476	$23,105,661
General Merchandise	$717	$2,296,408	$2,390,425	$3,261,275	$3,464,133	$3,709,888	$15,122,130
Clothing	$167	$534,622	$556,510	$759,251	$806,478	$863,692	$3,520,553
Station Area Capture Rate	85%						
Worker Expenditures in the Station Areas		$2,941,903	$3,062,347	$4,177,983	$4,437,862	$4,752,697	$19,372,792
Food Services and Drinking Places		$2,982,452	$3,104,556	$4,235,569	$4,499,031	$4,818,204	$19,639,812

Food and Beverage Stores		$1,951,947	$2,031,861	$2,772,084	$2,944,513	$3,153,405	$12,853,810
General Merchandise Stores		$454,429	$473,034	$645,363	$685,506	$734,138	$2,992,470
Clothing and Home Furnishings							
New Retail Demand (Sq Ft)							
Visitor Spending (d)	35%						
Vacancy Rate	5%						
Station Area Retail Sq. Ft.	*sales per sq. ft.*						
Food Services and Drinking Places	$350	31,882	54,945	54,775	59,919	57,842	259,363
Food and Beverage Stores	$500	13,263	19,046	21,123	22,855	22,953	99,241
General Merchandise Stores	$300	12,832	17,291	19,941	21,495	21,876	93,435
Clothing and Home Furnishings	$350	5,693	10,123	9,917	10,869	10,419	47,021
Total		63,671	101,405	105,755	115,138	113,091	499,059

(a) Estimated per-capita retail sales in the cities of San Jose and Santa Clara, 2015 (in 2017 dollars).

(b) Share of resident spending estimated to be captured in the station area.

(c) Based on ICSC, "Office-Worker Retail Spending in a Digital Age," 2012.

(d) Estimated additional spending from other visitors (over and above worker and resident spending).

Sources: ICSC, 2012; State Board of Equalization, 2015; California Department of Finance, 2017; Strategic Economics, 2018.

Figure A-6: Retail Demand, Alum Rock/28th Street Station Area (Low), 2040

	Assumptions	2015-20	2020-25	2025-30	2030-35	2035-40	Total Net New Demand, 2015-40
Resident Expenditures							
Net New Households		235	1,610	1,433	1,588	1,461	6,326
Average Household Size	3.1						
Resident Expenditures in Cities of SJ and SC	*per capita (a)*						
Food Services and Drinking Places	$2,033	$1,482,063	$10,149,588	$9,031,051	$10,007,179	$9,207,612	$39,877,493
Food and Beverage Stores	$1,457	$1,062,155	$7,273,943	$6,472,318	$7,171,883	$6,598,854	$28,579,153
General Merchandise Stores	$1,575	$1,148,147	$7,862,841	$6,996,316	$7,752,518	$7,133,097	$30,892,919
Clothing and Home Furnishings	$1,962	$1,429,664	$9,790,748	$8,711,758	$9,653,375	$8,882,076	$38,467,620
Resident Expenditures in Station Areas	*capture rate (b)*						
Food Services and Drinking Places	12%	$177,848	$1,217,951	$1,083,726	$1,200,862	$1,104,913	$4,785,299
Food and Beverage Stores	12%	$127,459	$872,873	$776,678	$860,626	$791,862	$3,429,498
General Merchandise Stores	5%	$57,407	$393,142	$349,816	$387,626	$356,655	$1,544,646
Clothing and Home Furnishings	3%	$35,742	$244,769	$217,794	$241,334	$222,052	$961,691
Office Worker Expenditures							
Net New Office Workers		0	0	447	453	470	1,369
Worker Expenditures Near the Office	*per worker (c)*						
Food Services and Drinking Places	$1,081	$0	$0	$482,678	$489,388	$507,807	$1,479,872
Food and Beverage Stores	$1,096	$0	$0	$489,331	$496,133	$514,806	$1,500,270
General Merchandise	$717	$0	$0	$320,256	$324,708	$336,929	$981,892
Clothing	$167	$0	$0	$74,558	$75,595	$78,440	$228,592
Station Area Capture Rate	70%						
Worker Expenditures in the Station Areas		$0	$0	$337,875	$342,571	$355,465	$1,035,911
Food Services and Drinking Places		$0	$0	$342,532	$347,293	$360,364	$1,050,189

Food and Beverage Stores		$0	$0	$224,179	$227,295	$235,850	$687,325
General Merchandise Stores		$0	$0	$52,191	$52,916	$54,908	$160,015
Clothing and Home Furnishings							
New Retail Demand (Sq Ft)							
Visitor Spending (d)	15%						
Vacancy Rate	5%						
Station Area Retail Sq. Ft.	*sales per sq. ft.*						
Food Services and Drinking Places	$350	614	4,202	4,905	5,325	5,038	20,083
Food and Beverage Stores	$500	308	2,108	2,703	2,917	2,783	10,818
General Merchandise Stores	$300	231	1,582	2,310	2,475	2,385	8,984
Clothing and Home Furnishings	$350	123	844	931	1,015	956	3,870
Total		1,276	8,737	10,849	11,732	11,161	43,755

(a) Estimated per-capita retail sales in the cities of San Jose and Santa Clara, 2015 (in 2017 dollars).

(b) Share of resident spending estimated to be captured in the station area.

(c) Based on ICSC, "Office-Worker Retail Spending in a Digital Age," 2012.

(d) Estimated additional spending from other visitors (over and above worker and resident spending).

Sources: ICSC, 2012; State Board of Equalization, 2015; California Department of Finance, 2017; Strategic Economics, 2018.

FIGURE A-7: RETAIL DEMAND, ALUM ROCK/28TH STREET STATION AREA (HIGH), 2040

	Assumptions	2015-20	2020-25	2025-30	2030-35	2035-40	Total Net New Demand, 2015-40
Resident Expenditures							
Net New Households		294	2,013	1,791	1,984	1,826	7,908
Average Household Size	3.1						
Resident Expenditures in Cities of SJ and SC	*per capita (a)*						
Food Services and Drinking Places	$2,033	$1,852,578	$12,686,984	$11,288,814	$12,508,974	$11,509,515	$49,846,866
Food and Beverage Stores	$1,457	$1,327,694	$9,092,429	$8,090,397	$8,964,854	$8,248,568	$35,723,941
General Merchandise Stores	$1,575	$1,435,184	$9,828,551	$8,745,395	$9,690,647	$8,916,371	$38,616,149
Clothing and Home Furnishings	$1,962	$1,787,080	$12,238,435	$10,889,697	$12,066,718	$11,102,595	$48,084,525
Resident Expenditures in Station Areas	*capture rate (b)*						
Food Services and Drinking Places	12%	$222,309	$1,522,438	$1,354,658	$1,501,077	$1,381,142	$5,981,624
Food and Beverage Stores	12%	$159,323	$1,091,091	$970,848	$1,075,782	$989,828	$4,286,873
General Merchandise Stores	5%	$71,759	$491,428	$437,270	$484,532	$445,819	$1,930,807
Clothing and Home Furnishings	3%	$44,677	$305,961	$272,242	$301,668	$277,565	$1,202,113
Office Worker Expenditures							
Net New Office Workers		0	0	700	743	796	2,239
Worker Expenditures Near the Office	*per worker (c)*						
Food Services and Drinking Places	$1,081	$0	$0	$756,196	$803,233	$860,217	$2,419,646
Food and Beverage Stores	$1,096	$0	$0	$766,619	$814,304	$872,073	$2,452,996
General Merchandise	$717	$0	$0	$501,735	$532,944	$570,752	$1,605,430
Clothing	$167	$0	$0	$116,808	$124,074	$132,876	$373,757
Station Area Capture Rate	70%						
Worker Expenditures in the Station Areas		$0	$0	$529,337	$562,263	$602,152	$1,693,752
Food Services and Drinking Places		$0	$0	$536,633	$570,013	$610,451	$1,717,097

Food and Beverage Stores		$0	$0	$351,214	$373,061	$399,526	$1,123,801
General Merchandise Stores		$0	$0	$81,765	$86,851	$93,013	$261,630
Clothing and Home Furnishings							
New Retail Demand (Sq Ft)							
Visitor Spending (d)	15%						
Vacancy Rate	5%						
Station Area Retail Sq. Ft.	*sales per sq. ft.*						
Food Services and Drinking Places	$350	767	5,252	6,500	7,119	6,842	26,480
Food and Beverage Stores	$500	385	2,635	3,641	3,975	3,865	14,500
General Merchandise Stores	$300	289	1,978	3,174	3,452	3,403	12,295
Clothing and Home Furnishings	$350	154	1,056	1,221	1,340	1,278	5,050
Total		1,595	10,921	14,535	15,885	15,388	58,324

(a) Estimated per-capita retail sales in the cities of San Jose and Santa Clara, 2015 (in 2017 dollars).

(b) Share of resident spending estimated to be captured in the station area.

(c) Based on ICSC, "Office-Worker Retail Spending in a Digital Age," 2012.

(d) Estimated additional spending from other visitors (over and above worker and resident spending).

Sources: ICSC, 2012; State Board of Equalization, 2015; California Department of Finance, 2017; Strategic Economics, 2018.