



Memorandum

**TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Blage Zelalich

**SUBJECT: DOWNTOWN PROGRESS
REPORT**

DATE: June 11, 2018

Approved

Date

June 14, 2018

RECOMMENDATION

Accept this informational report highlighting Downtown progress from July 2017 - June 2018.

OUTCOME

The Committee will receive a progress report related to Downtown commercial and residential development, economic vitality initiatives, public life and place making, clean and safe activities, special events, and convention and cultural activities.

BACKGROUND

Vibrant and successful city centers include four key components – work environment, urban living, arts and entertainment, and shopping and dining – connected through the public realm.

A vibrant city center is eclectic, interesting and inviting; has strong commercial and residential development; is socially, economically and ethnically diverse; is easily accessible from, a variety of transit; has a healthy mix of land uses; and attracts a variety of talent. Downtown San Jose is Silicon Valley's city center, its only true urban environment. To this end, the City is committed to thoughtful but aggressive growth and planning efforts Downtown. A fulltime Downtown Manager, embedded within the Office of Economic Development (OED), allows for a central point of contact between city departments as well as a liaison for external partners and stakeholders on all Downtown-related matters.

Framework for a Vibrant City Center



Over the past eleven months, Downtown San Jose has enjoyed continued positive momentum due to its growing amenities, proximity to transit options, and attractiveness to a highly talented workforce. Downtown continues to have a higher concentration of Millennials than the city as a whole (47 percent versus 30 percent) and has seen faster population growth than the rest of the city (4.2 percent versus 1.2 percent growth). Downtown residents have a higher overall level of education compared to the rest of the city (66 percent bachelor's degree or higher versus 39 percent). Median household income is slightly under \$80,000. Downtown boasts approximately 180 tech companies and has 2,173 residential units under construction. The distribution of Downtown businesses by sector remains approximately 34 percent professional services; 22 percent real estate; 21 percent retail; 8 percent tech; and 15 percent general commercial, non-profit and government.

The Downtown Strategy 2040 EIR is a critical update currently underway that will evaluate the impacts of construction of Downtown development projects at a program level to approximately 2040. The Downtown EIR will enable an increase in both commercial development (up to 15.6 million square feet and 3,600 hotel rooms) and residential development (up to 14,360 units) in the approximately three square miles bounded by Taylor Street, San Jose State University, Interstate 280 and the Diridon Station Area. The Downtown Strategy EIR remains on track for completion this year.

ANALYSIS

Work Environment

There are approximately 43,000 jobs in Downtown San Jose and approximately 8.5 million square feet of commercial office inventory. Per Q1 2018 data from Cushman and Wakefield, Class A vacancy is currently 10.2 percent, up slightly from 9.7 percent a year ago. The vacancy rate for Class B office space is higher, at 18.7 percent; combined, there is about 1.2 million square feet of available office space Downtown, including sublease availabilities. However, only five of the available spaces were for 20,000 square feet or larger, down from nine such spaces a year ago.

The average direct (non-sublease) asking rent for high-end Class A space was \$4.38 full service; for Class B space, it was \$3.53. Both of those figures are up significantly from a year ago (\$3.95 and \$3, respectively). Despite this, industry experts say that rents must rise further to initiate new office construction without committed tenants.

Downtown's older buildings continue to attract new owners, a trend which began to emerge last year. These investors are committed to rehabilitating and re-tenanting their newly purchased buildings and share the city's Downtown vision. Most notably, an investor group headed by developer Gary Dillabough purchased the Bank of Italy building at First and Santa Clara streets, as well as the Lido nightclub building next to it and surface parking lot in between the two buildings for \$30.6M in December. In February and March, Dillabough and investors purchased 30 E. Santa Clara Street for just over \$6M and the Fountain Alley parking lot for \$25.7M

Notable transactions over the last year with respect to downtown office buildings include the purchase of 303 Almaden, The Towers @ Second and 160 W. Santa Clara. In July 303 Almaden was sold to AEW Capital Management of Boston for \$80.15M or a record-breaking \$509 per square foot. In December, the Towers @ Second (4 N. Second Street and 75 E. Santa Clara Street) were purchased by Brookfield Asset Management for \$127M or \$311 per square foot. In April, Beacon Capital Partners purchased 160 W. Santa Clara Street by for \$101.5M or \$478 per square foot, a \$20M increase over the price paid by the building's seller in 2014. Downtown's marquee Fairmont Hotel also traded hands at the beginning of this year when Eagle Canyon Capital purchased the asset for \$250M.

Prominent leases executed over the past year include the expansion of unicorn start-up Okta to a second floor at RiverPark Tower 2. Software developer Wrike relocated its headquarters from 10 Almaden to 24,000 square feet in the newly renovated 70 N. Second Street. SideMark, an integrated workspace planning business, recently became Wrike's neighbor at 96 N. Second Street, across from St. James Park. Cohesity, Samsasra, and the County of Santa Clara all announced significant leases in the downtown office market this past year. In the County's case, the 204,000-square-foot lease at 353 W. Julian St. was among the largest signed in the last year, and spurred the construction of Downtown's first new build-to-suit office buildings in years.

In July, Adobe announced their intention to build a fourth tower at 333 W. San Fernando. The fourth tower can support doubling the size of their workforce Downtown from 2,500 to 5,500 employees. In the interim, Adobe has signed a lease for 63,000 square feet of office space in 10 Almaden.

On June 6, 2017, the City announced it was entering into an exclusive negotiating agreement with Google for acquisition of properties owned by the City of San Jose and the Successor Agency to the Redevelopment Agency. So far, Google and its development partners have acquired privately owned parcels in the Diridon Station Area at a total cost of \$233 million, according to The Mercury News. These acquisitions are in anticipation of the potential future construction of 6M-8M square feet of mixed-use, transit-oriented development near Diridon Station.

In April, the Valley Transportation Authority and Bay Area Rapid Transit (BART) boards of directors both approved the single bore construction method for BART under Santa Clara Street through Downtown. The single bore method will limit excavation within the street right-of-way and significantly reduce construction impacts of the project. The alternate construction method would have resulted in “cut-and-cover” construction methodology that would excavate four blocks of Santa Clara Street 45 feet deep for five years. Significant BART construction activity is scheduled to begin in 2019.

Urban Living

There are approximately 10,000 residents living in the immediate Downtown core bounded by Fourth Street, Julian Street, and highways 280 and 87, and approximately 22,000 residents when these boundaries are extended further east and south. To realize its true potential as an active and vibrant urban core, Downtown must attract significantly more residents. No new residential units opened between August 2017 and June 2018, however five projects were approved under the Downtown High-rise Incentive, extended by the City Council in December 2016. The incentive allows developers building 12 stories or higher to benefit from a 50 percent reduction in park impact in-lieu fees and construction taxes if their building permit is secured by July 2018 and 80 percent certificate of occupancy secured by December 31, 2020. The five approved projects are Parkview Towers, The Graduate, Miro, North San Pedro Tower III and Aviato, totaling 1,725 units.

Park impact in-lieu fees were adjusted this year through a City Council action that added a Downtown Core Area High Rise fee category to the Parkland In-Lieu Fee Schedule. The adjustment was made based on the observed occupancy of typical downtown residential units at 1.5:1 people per unit, lower per unit than other parts of the City. The downtown high-rise park impact in-lieu fee for 2018 is \$14,600 per unit and the category now qualifies for private recreation credits. Formerly, the fee for multi-family project (5+ units) was \$22,600 per unit or \$11,300 per unit if the project qualified for the Downtown High-rise Incentive.

2,173 units are currently under construction Downtown including Modera, Silvery Towers and SP78 townhomes in San Pedro Square, The James (formerly Marshall Squares) in the Historic District, Balbach Street condominiums, Sparq and The Graduate in SoFA and Miro across the street from City Hall.

Completed August 2016 – June 2017	505
Completed August 2017 – June 2018	0
Currently Under Construction	2,173
Currently Entitled	3,451

Shopping and Dining

While Downtown continues to build toward commercial and residential densities that will support more shopping activity, the Downtown dining scene is robust with more than 175 eating establishments. Overall, data collected by the San Jose Downtown Association (SJDA) shows that Downtown ground floor vacancy remains between 10 percent and 13 percent, with the largest square footage of vacancy concentrated along Second Street, between Santa Clara and San Fernando streets. Together, the City's Small Business Allies and OED's and SJDA's business development teams have once again assisted approximately 200 ground floor business and property owners in the past eleven months. The following is a sampling of ground floor activity in Downtown's three primary districts:

San Pedro District - The San Pedro Market welcomed new eateries Urban Momo and 2W Salads, as well as new men's grooming shop – The Barber Bar. The District from San Francisco opened in the prime restaurant location on San Pedro Street that was formerly occupied by Black Arrow Technology. Earl of Sandwich, Chipotle and Bishop's Cuts/Color joined A Proper Cup to complete absorption of the ground floor spaces along Santa Clara Street at the One South Market residential high-rise. MOMENT, four micro-retail kiosks on the ground floor of the Market/San Pedro Garage opened in May. The shops at MOMENT showcase female-owned businesses Bobo Design Studio, Fractal Flora, Blooms Prive and Sea Seniorita Studios. Orange Theory Fitness opened its doors in the neighborhood on the ground floor of 111 N. Market Street at the beginning of 2018. Enoteca La Storia wine bar and restaurant from Los Gatos has opened a second location in Little Italy.

SoFA District - Perennial favorite Ben and Jerry's closed its doors after more than 15 years in 2017 but has replaced by SJSU-student favorite, Cinnaholics a gourmet, build-your-own cinnamon bun shop. In the SoFA Market, Sticks N' Greens, Vietnoms and Habana Cuba opened this year, rounding out the culinary lineup in the 11 available market hall spaces. Academic Coffee transformed a run-down laundromat on Second Street into an inviting community coffee shop serving espresso, cold brew and other specialty drinks.

Historic District – Recently-opened Skewers & Brew features Chinese-style kebobs at 65 S. First Street. Also new to S. First Street are Tea Alley and Nox Cookie Bar. Nocturnal hotspot Labyrinth Bar & Kitchen opened on Post Street in the former Peking House space. Chromatic Coffee and Formula Nutrition opened this year on N. Second Street. Tacomania opened in the former Baja Fresh space along the Paseo de San Antonio at First Street and Spoonfish Poke opened to rave reviews further east on the paseo near San Jose State University. In November, Amazon decided to capitalize on Downtown's student population by opening a same-day pick up store at 96 E. San Fernando. Los San Patricios bar, Elyse restaurant and 3 Below Theaters (formerly Camera 3) also debuted in Downtown's Historic District this year.

OED staff once again attended the regional International Conference of Shopping Centers conference in Monterey to continue to foster ties with the retail broker community. Staff is currently working with consultants Strategic Economics and Greensfelder Commercial Real Estate on a strategy to inform future Downtown retail development. Staff expects to return to the City Council's Community and Economic Development Committee with recommendations for Downtown's retail strategy in the Fall.

Thirteen of nineteen grants awarded through OED's Storefronts initiative will be distributed Downtown in 2017-18, up 10 percent from 2016-17. Nox Cookie Bar, Mini Boss and Common Grounds were awarded Vacant Storefronts Activation Grants. The San Jose Fire Museum, La Victoria, Nick the Greek, Starbucks, The Farmer's Union, San Pedro Social, 8 N San Pedro Street and The Britannia Arms are recipients of grants for exterior improvements, primarily outdoor seating.

Arts and Entertainment

The Office of Cultural Affairs' (OCA) Special Events division, a team of three, coordinated the equivalent of 372 special event days in the Downtown core (4 percent increase over 2016-2017) with 86 different event organizers over the past 12 months. These events drew 2.1 million attendees and included the Rotary Fireworks show, Music in the Park, Rock n' Roll Half Marathon, Downtown Ice, Christmas in the Park, March for Our Lives San Jose, Silicon Valley Half Marathon and the annual San Jose Jazz Summer Fest. OCA produced the second 8-week public dance series, City Dance, geared toward engaging Downtown employees in an after-work activity. 300 enthusiastic dance participants enjoyed weekly dance instruction in genres varying from salsa to line dancing to Bollywood.

OED staff processed 22 applications for the installation and removal of 1,925 special event banners in 2017-2018.

Parks Recreation and Neighborhood Services staff worked from June through October 2017 to activate St. James and Plaza de Cesar Chavez parks as part of the third year of the Viva Parks! program. Both parks were activated with a regular schedule of food trucks, yoga (for people and dogs), picnic games, live bands, movies, open mic, poetry readings and more. The most popular

new activations were Sunset Yoga, attracting an average of 300 participants and Wine and Paint Nights bringing out an average of 50 emerging artists for each event.

The San Jose McEnery Convention Center continued to host Silicon Valley's marquee tech companies as Apple WWDC, Facebook F8, Nvidia GTC, Atlassian Summit, Adobe Tech Summit and Inuit Quickbooks all returned in 2017-2018. Silicon Valley ComicCon and FanimeCon demonstrated that San Jose's geek chic extends beyond the workplace with both posting strong attendance numbers.

Downtown hotels sustained their strong performance of previous years. Through April, average occupancy rate was 76.2 percent with an average daily rate of \$227 and revenue per available room of \$173. These numbers were unchanged from last year but continue to indicate a strong demand for hotel rooms. Downtown is home to 24 percent of the City's total hotel room inventory at 2,587 rooms.

Public Realm

In January, Groundwerx, under the management and direction of the San Jose Downtown Association, celebrated its 10th anniversary. Groundwerx has had a significant positive impact on cleanliness and safety in the core since service delivery began in 2008. In a recently completed annual survey, the Groundwerx ambassador program received an approval rating of 75 percent, down slightly from an all-time high rating of 76.2 percent last year. Beautification/street life projects resonated with ratepayers with a 91 percent approval rating, slightly higher than last year's 89 percent approval, and the Groundwerx cleaning program maintained a strong approval rating at 92 percent. The Groundwerx clean team has received an approval rating of over 90 percent the last six years. Over the last year Groundwerx crews collected an average of 882 bags of debris/litter per month, removed 2,190 stickers, handbills or tags, provided 1,410 pan and broom hours, power washed for over 600 hours, cleaned 654 hot spots per month and provided 614 ambassador hours and safety escorts for Downtown business and property owners. These numbers are all higher than those reported in last year's Downtown Progress Report.

One of the resources Downtown residents and businesses can access for support with issues related to homelessness is People Assisting The Homeless (PATH), the City's Downtown outreach services provider. PATH has extensive experience successfully addressing issues for Downtown partners and works closely with Police, the County, the San Jose Downtown Association, and other service providers to provide immediate assistance to vulnerable members of the community. Since July 2017, PATH's Street Outreach team has helped move 26 people from the streets of Downtown San Jose to permanent housing, up from 22 clients reported in last year's Downtown Progress Report. PATH's five outreach case managers have completed 1,391 case management sessions with clients experiencing homelessness in the core, up from 791 sessions reported in last year's Downtown Progress Report. Since October 2015, the PATH team has helped move 69 homeless residents into permanent housing and have completed over 6,000 case management sessions with clients experiencing homelessness in the core.

The 47-room Plaza Hotel opened in January to homeless awaiting more permanent housing. The Plaza will serve as a stop-gap housing solution for the homeless for five years while other transitional housing projects are built. The average stay for clients at the Plaza Hotel is anticipated to be between three and six months.

Recovery Cafe San Jose, housed in a small building just behind City Hall, celebrated the completion of its renovation in February. The renovation includes a new cafe space, commercial kitchen and updated classrooms. Members receive hot meals five days a week, can take classes to develop life and job skills and participate in social activities. In return, they pledge to be drug and alcohol free when entering the cafe, attend peer support groups and perform cafe duties.

In March, PATH Ventures and Affirmed Housing broke ground on a 100 percent supportive housing development on Second Street, Villas on the Park. Villas on the Park will end homelessness for 84 people, offering onsite supportive services including mental and physical healthcare, employment services, life skills, money management, and other activities to help residents achieve long lasting quality of life. Villas on the Park is scheduled to open in October of 2019.

Despite significant on-going investment by both the public and private sectors to address Downtown homeless and mental health issues, challenges persist. The production of more permanent supportive housing will go a long way to address these challenges. Staff hopes to report significant progress in this area in next year's Downtown Progress Report.

Over the past 12 months, City staff has continued to engage in substantial place making and public life initiatives. For example, the work to reimagine the Paseo de San Antonio, from San Jose State to the Guadalupe River continues as staff works with CMG Landscape + Architecture and downtown stakeholders toward a new schematic design for Park Ave between Plaza de Cesar Chavez and the Woz Way. The Department of Parks, Recreation and Neighborhood Services (PRNS), with support from the Knight Foundation, is working with SWA Group, an urban design and planning firm, and Reed Gilliland Landscape Architects to develop an enhanced vision for Plaza de Cesar Chavez. The study is exploring ways to enable the park to better handle the high intensity usage by improving and updating the space. PRNS also spear-headed the opening of a new temporary pop-up dog park in St. James Park in late May, a precursor to the more substantial park transformation that is being contemplated.

Under the stewardship of the Office of Cultural Affairs' Public Art Program, Downtown hosted three renowned art installations. The *Playa to Paseo* partnership with the [Burning Man Project](#) brought temporary, interactive artwork to public spaces in the city center. *Sonic Runway*, on view at City Hall from November to March, was a light-art installation that visualized the speed of sound. Sonic Runway converted audio signals into light patterns that shot down a corridor of arches at the speed of sound. Installed in Paseo de San Antonio near the Fairmont Hotel, *Ursa Mater* is a 14-foot sculpture of a mother bear and her cubs whose "fur" is made entirely out of pennies. *Tara Mechani* is a 15-foot-tall figurative metal sculpture described in The Mercury News as blending the image of Tara, the female Buddha, with a mechanical robot

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form whose chest and “heart” are lit internally by electric lights from a chandelier and is made of recycled machine parts.

Over the last year, two projects improved key gateways into Downtown – the Park Avenue multimodal improvement and the second phase of the Alameda Beautiful Way. Additionally, the St. John Multimodal Improvement project was completed, improving safety and the public realm from Market Street under HWY 87 to Little Italy. Key features of the project include a critical sidewalk connection to San Pedro Square from Market Street, multiple pedestrian bulbouts, the conversion of the roadway to two-way traffic and improved bike and pedestrian spaces under HWY 87, a contraflow cycle track providing bicyclists with access to and from the Guadalupe River Trail and a new raised crosswalk at North Almaden Boulevard. This set of improvements connects the growing San Pedro neighborhood to the SAP Center to the west and St. James Park to the east.

Wayfinding program efforts have progressed significantly at both the regional and local level. Regionally, the Metropolitan Transportation Commission and SPUR contracted with a team led by consultants City ID to create an integrated transit map and wayfinding standards for participating cities – San Francisco, Oakland and San Jose. The City of San Jose also contracted with City ID to advance urban wayfinding – maps and signage to help people navigate and explore the Downtown. Staff aims to install pilot wayfinding signage in the core in time for the 2019 College Football Championships in early January.

PUBLIC OUTREACH

This memorandum will be posted on the City’s website for the June 25, 2018 Community and Economic Development Committee meeting.

COORDINATION

This memo has been coordinated with the Department of Parks, Recreation and Neighborhood Services; the Office of Cultural Affairs; the Department of Transportation; Team San Jose; PATH; the San Jose Downtown Association; and the City Attorney’s Office.

/s/

BLAGE ZELALICH
Downtown Manager

For questions, please contact Blage Zelalich, Downtown Manager, (408) 535-8172.