



Memorandum

**TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Blage Zelalich

**SUBJECT: DOWNTOWN PROGRESS
REPORT**

DATE: June 14, 2019

Approved

Kim Wales

Date

June 14, 2019

RECOMMENDATION

Accept this informational report highlighting Downtown progress from July 2018 - June 2019.

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 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. According to the American Community Survey 2017 5-year estimates, Downtown continues to have a higher concentration of Millennials than the city as a whole (40 percent versus 23 percent) and Downtown residents have a higher overall level of education compared to the rest of the city (62 percent bachelor’s degree or higher versus 41 percent). Median household income is slightly under \$68,000. Dunn & Bradstreet shows the distribution of businesses by sector in the Downtown Growth Area (as defined by the City’s General Plan) as approximately 37 percent professional and business services; 31 percent retail and general commercial; 11 percent tech; 8 percent construction and utilities; and 9 percent government; educational and healthcare services.

In December 2018, the City Council approved the Downtown Strategy 2040 EIR to evaluate the impacts of construction of Downtown development projects at a program level through 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.

ANALYSIS

Work Environment

There are approximately 43,000 jobs in Downtown San Jose and approximately 8.5 million square feet of commercial office inventory. Overall the trend downtown is that rents are rising and vacancy is down although the current numbers are similar to Q1 2017. Per Q1 2019 data from Cushman and Wakefield, the blended (Class A and Class B) vacancy rate is 12.5 percent, down from 13.5 percent last year. Class A vacancy is currently 10.5 percent, up slightly from 10.2 percent a year ago. The vacancy rate for Class B office space is higher, at 17.3 percent, down from 18.7 percent last year; combined, there is about 1.1 million square feet of available office space Downtown, including sublease availabilities. Only nine of the available spaces are 20,000 square feet or larger, up from five such spaces a year ago; and the total number of commercial spaces available downtown have decreased from 173 to 155 since Q1 2018.

The average direct (non-sublease) asking rent for high-end Class A space was \$4.67 full service; for Class B space, it was \$4.04. Both of those figures are up from a year ago (\$4.38 and \$3.53, respectively). Rents have risen steadily and the downtown commercial market seems to be at the point where developers see the benefit of initiating new office construction.

Downtown's older buildings continue to attract new owners, a trend which began to emerge two years ago. In August, Urban Community purchased the nearly 3-acre Valley Title building and adjacent parking lot for \$61.5 million. Plans for the site call for 1.25 million square feet of commercial, residential and retail development. That same month the Jay Paul Company entered the downtown market by purchasing the 120,000 square foot former JC Penny building at First and Santa Clara for \$46 million. Over the past 12 months, the entire south side of the block on Santa Clara Street, between Second and Third streets changed hands. The 1880s building with the golden dome was acquired by a San Mateo-based investment firm U.S. Real Estate Investments, LLC, for \$14 million in December. The Hank Coca's Furniture Store building at Santa Clara and Third streets has sold twice this year. City Storage Systems acquired the 40,000-square-foot building at the end of November for \$7.3 million. Leisure Sports paid \$6.5 million a few months before, acquiring the building from the Coca family, which had held it 61 years. In October, Leisure Sports acquired a building just two blocks west at the corner of First and Santa Clara streets for \$15.5 million.

Notable transactions over the last year with respect to downtown office buildings include the purchase of City View Plaza, 111 N. Market Street, 152 N. Third Street, and 50 West San Fernando. In July, City View Plaza was sold to Jay Paul Company for \$283.5 million or approximately \$473/square foot. Also in July, developer TMG received entitlements for an approximately 1 million square foot office complex in the Diridon Station Area, overlooking the Guadalupe known as Platform 16. In May, Ridge Capital Partners sold 111 N. Market Street for \$141 million, after having last been sold for \$64.8 million in 2016. In Q3, Urban Community purchased 152 N. Third Street for \$40 million and has begun substantial interior renovations. The Jay Paul Company will close on 50 West San Fernando later this month for a price estimated

to be a significantly greater than \$165.5 million when it was last purchased in December 2015. In March, Downtown's newest hotel, the AC Hotel, traded hands when AVR Realty purchased the asset for \$469,000/room.

Prominent leases executed over the past year include the expansion of Cohesity and WeWork into River Park Tower 2. Cohesity gobbled up 60,000 additional square feet and three more floors and WeWork leased enough space for 1,200 new members. WeWork also leased 76,000 square feet in Urban Community's 152 N. 3rd Street project. Nokia moved into RiverPark Tower 1 this year, taking 20,000 square feet at 333 West San Carlos Street. In February, Colliers International transitioned from the Diridon Station Area to 25,000 square feet in 225 West Santa Clara and Savioke, the rolling delivery robot company, transitioned out of City View Plaza and into 160 W. Santa Clara on an 8,600 square foot lease. Deloitte LLP's 10-year renewal of 90,000 square feet in 225 W. Santa Clara and Zoom Communication's renewal of 52,000 square feet at 55 Almaden Blvd. were prominent lease agreements in Q3 2018.

This month, Adobe officially breaks ground on a fourth tower at 333 W. San Fernando. The fourth tower will allow the company to more than double the size of their workforce Downtown from 2,500 to 5,500 employees.

There has been significant progress over the past year toward development of the Diridon Station Area. In December, the City Council approved the sale of five Successor Agency to the Redevelopment Agency-owned properties and one city-owned property to Google for \$111 million. Additionally, City Council approved an option for Google to purchase the property that is currently surface parking behind the SAP Center (lots A, B, and C) within the next five years. Google's potential office and mixed-use development is anticipated to bring between 20,000 and 25,000 jobs to the city center. In February, Council approved staff and community stakeholder recommendations to maximize downtown development heights by allowing building heights to extend all the way to Federal Aviation Administration-prescribed height restrictions. Lastly, the four government agencies responsible for the planning and execution of the Diridon Station—the California High-Speed Rail Authority, Caltrain, Valley Transportation Authority, and the City of San Jose — came together to plan for the expansion and redesign of the station. This effort is intended to deliver a world-class transportation hub that provides seamless customer experience for movement between transit modes within the station and into the surrounding neighborhoods and downtown. Staff plans to bring a preferred option for the configuration of the station to City Council in Fall of 2019.

San Jose State University, a key City partner and Downtown institution, celebrated two significant groundbreaking ceremonies this year. On April 18, the university broke ground on an Interdisciplinary Science Building as part of the first phase of a planned "Science Park." This building will be the first new academic building on campus in 30 years. On June 5, the University's Athletic Department broke ground on a \$40 million football operations center on the east side of Spartan Stadium. Both projects will have a significant positive effect on university operations.

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. Almost all the residential development currently under construction downtown began in 2016/2017 and is scheduled to be completed in late 2019/2020. In Spring 2018, Phases 1 and 2 of Trumark Homes' SP78 Townhomes were completed, bringing 27 new condominiums online in downtown's North San Pedro neighborhood. The 51 remaining two and three bedroom townhomes will be complete in early 2020. Approximately 1/3 of the total 78 homes have already been sold, with the 3-bedroom floor plan being the most popular and garnering a waiting list. Pricing for these 1,300 – 1,900 square foot homes start in the mid \$900,000s.

Over 2,100 additional units are currently under construction downtown including Modera, and 188 West St. James (formerly Silvery Towers) in San Pedro Square, The James in the Historic District, Balbach Street condominiums, Sparq and The Graduate in SoFA, and Miro across the street from City Hall.

Completed July 2016 – June 2017	505
Completed July 2017 – June 2018	0
Completed July 2018 – June 2019	27
Currently Under Construction	2,146
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. Data collected by the San Jose Downtown Association (SJDA) shows that Downtown ground floor vacancy was lower this past year, hovering between 8.5 percent and 10 percent, with the largest square footage of vacancy concentrated along Santa Clara Street and along Second Street in the Historic District. Together, the City's Small Business Allies and OED's and SJDA's business development teams have once again assisted approximately 225 ground floor business and property owners in the past twelve months. The following is a sampling of ground floor activity in Downtown's three primary districts:

San Pedro District – Opa! made its long-anticipated debut downtown on the corner of Santa Clara Street and Almaden Ave, opening in the space formerly occupied by Amici's East Coast Pizzeria. The San Pedro Market welcomed new eatery Anchors, while saying goodbye to Bray Butcher Block and Bistro and Arepas & Mas. The Penny Room Café inside of Five Points bar on Santa Clara Street, provides weekday coffee and sweet treats for customers from 7 a.m. to 2 p.m. A Proper Cup, one of three ground floor spaces at the One South Market residential high-rise closed its doors within a year of opening (but

there's another use lined up for this space already) while Tony Di Maggio's Pizza (famous for their stromboli) expanded to a second location in San Jose at the corner of San Pedro and San Fernando streets. MOMENT, four micro-retail kiosks on the ground floor of the Market/San Pedro Garage celebrated its first anniversary in May, providing an opportunity for eight small and locally owned entrepreneurs to test their business model with a brick-and-mortar presence over the past year. Village Cheese House Deli expanded from its roots in Palo Alto to a second location on the ground floor of 111 N. Market Street in March and the Little Italy neighborhood hosted a ground-breaking ceremony for its Museum and Cultural Center in May.

SoFA District – In January, the husband and wife team of Hung and Tiffani Tu opened the Culinary Corner Bistro with great pageantry (a.k.a. Vietnamese dragon dancers) and an elaborate sampling of their pan-pacific menu. At the SoFA Market, sandwich counter Toasted closed shop, however Tacos los 3 Hermanos expanded from their food truck origins into a permanent space at the Market this past year and Umi Handroll Bar celebrated its grand opening in April. The Nest Asian bistro established itself in one of the three converted Victorian homes that line Third Street, between San Carlos and San Salvador streets. Neighborhood veterans Grande Pizzeria and Bo Town closed their doors this year, and Original Joe's closed for weekday lunch service, much to the disappointment of many loyal customers.

Historic District – Safeway's 11-year presence downtown officially ended on June 15 however the space is already being actively marketed by a team of well-established commercial brokers who understand the community's desire for a daily needs use in this location. 7-11 opened in a ground floor space of the 101 San Fernando apartments at the corner of Third and San Fernando streets in December after repeated requests from tenants for a store that could provide a variety of daily sundries. Social Lady Restaurant, Bar and Lounge a little further west on San Fernando Street also opened in December. JuiceAlize has established a pop-up shop inside the former Lido nightclub building on First Street to provide morning activation in a remodeled space that anticipates another nightclub use. On that same block, Kzzang Korean BBQ closed but a new business is preparing to open in their space. Pageboy Salon debuted on Post Street in the Fall.

The Paseo de San Antonio has experienced some shifts in businesses, with Social Policy and Fit Republic closing between First and Second streets, but Candy Kitchen & Creamery opening on that block in October and Spread! Sandwiches & Bottles opening to rave reviews further east on the paseo near San Jose State University. The bar at The Grill on the Alley in the Fairmont Hotel re-opened in early June after having undergone a significant renovation and downtown's long-time skateboard shop, Circle A, expanded its offerings this Spring to include gourmet coffee and sweets.

Along Santa Clara Street, Miniboss arcade and cocktail lounge with connected SuperGood Kitchen debuted, as did 3rd and Bourbon eatery, Frank the Barber, and HotWorx, a business combining isometric exercise and infrared heat for fitness benefits.

Two new businesses opened in the ground floor spaces of 30 E. Santa Clara – Claudia’s Pastes and Ruchulu Indian Restaurant, with MLKY – a milk tea and boba shop, and Maki BQ - sushi burritos and rice burgers, currently under construction. Spearmint Rhino Gentleman’s Club opened in the Fall in the historic San Jose Building & Loan Association building. Stone Stew, a Persian restaurant, opened its second location at 4th and St. James streets in the Spring and Common Grounds Workspace transformed the long-vacant ground floor of the Globe condominiums on 2nd Street into a modern and inviting coworking space.

OED staff, together with consultants Strategic Economics and Greensfelder Commercial Real Estate, completed a Downtown Retail strategy to inform future Downtown retail development. The strategy report contains ten recommendations to strengthen and nurture the presence of active ground floor uses in the core. The Mayor’s March budget message provided staff resources for the next 24 months to implement retail strategy recommendations.

Seven of sixteen grants awarded through the Storefronts Assistance Grant program will be distributed Downtown in 2018-19. Hapa Musubi, Stone Stew Restaurant, Hotworx, and Taco Bell Cantina were awarded Vacant Storefronts Grants. Orange Theory Fitness, San Jose Museum Quilts & Textiles, and The Nest are recipients of Existing Storefronts Grants for exterior façade improvements.

Arts and Entertainment

The Office of Cultural Affairs’ (OCA) Special Events division, a team of three, coordinated the 382 special event days in the downtown core with 114 different event organizers over the past 12 months. Combined, these events drew two million attendees and included the Rotary Fireworks show, Music in the Park, Rock n’ Roll Half Marathon, Downtown Ice, Christmas in the Park, Women’s March, Silicon Valley Half Marathon, San Jose Jazz Summer Fest, College Football National Championship activities, National Hockey League All Star Weekend, and Sharks’ Playoff Rallies. In addition to managing coordinated events, the Special Events team facilitated multiple place making activities in downtown parks and along its paseos.

OCA produced the second eight-week public dance series, City Dance, geared toward engaging downtown employees in an after-work activity. Approximately 3,200 enthusiastic dance participants enjoyed dance instruction in genres varying from salsa to electro swing to K-Pop.

OED staff processed 21 applications for the installation and removal of 2,063 special event banners in 2018-2019, up from 1,925 last year and is in the process of developing an online banner reservation and asset management platform that will be implemented in the fall.

Under the stewardship of the Office of Cultural Affairs’ Public Art Program, Downtown hosted art installations HaHa and XO by Laura Kimpton with Jeff Schomberg from October to May. These installations are part of the Playa to Paseo partnership with [Burning Man Project](#) to bring temporary artworks to public spaces in the city center. Comprised of large-scale metal

letters, standing 6 to 12 feet tall, HaHa, installed at Hammer Theatre Plaza, is a celebration of life in tribute to the late Burning Man Founder Larry Harvey and XO, installed at City Hall, is a love letter to the community.

Also under the purview of the Public Art Program, middle and high school students in San Jose were invited to submit short poems that inspired use of public litter cans, protecting nature, wildlife, and our streets. Called “Litter-ature,” the project was a joint effort with the City’s Environmental Services Department. Working with Santa Clara County Poet Laureate, Mike McGee, 180 students were inspired to submit more than 300 poems that encouraged environmental protection. 10 winning poems were developed into graphic art by designer Carlos Perez. The final artwork was fabricated in aluminum and permanently affixed to 50 public litter cans downtown. When all is said and done, there will be 500 of these “litter-ature” cans throughout various neighborhood business districts.

The San Jose Downtown Foundation’s Downtown Doors program once again enhanced downtown’s public realm for the 15th year, displaying the artistry of 20 high school students from 13 different schools in San Jose. Their designs were digitized, transferred to a vinyl decal, and affixed to service doors and utility boxes throughout the core. Downtown Doors occupies 110 sites located mostly on busy pedestrian routes through the city center.

Parks Recreation and Neighborhood Services staff worked diligently to activate St. James and Plaza de Cesar Chavez parks as part of the fifth year of the Viva Parks! program. Both parks were activated with a regular schedule of activities such as yoga (for people and dogs), large lawn games, wine and paint nights, arts and crafts activities and food trucks at Plaza de Cesar Chavez. The first annual free talent show at Plaza de Cesar Chavez in August drew 20 participants and more than 200 attendees. An inaugural yarnbombing festival was held in St. James Park this month with 32 people crocheting unique sweaters and wrap them around different trees in the park. The most popular 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 capped off another successful fiscal year. The center remained a massive hub for the tech heavyweights, hosting Apple WWDC, Facebook F8, Google Marketing Live, NVIDIA GTC, Intuit QuickBooks, and Twitch Con all in the past fiscal year. January saw the center play host to two giant fan fests for the College Football Playoff Championship and the NHL All-Star Weekend.

Downtown hotels saw their occupancy fall slightly year-over-year, but still had a strong showing through April of 73.3% occupancy (down from 76.2% the previous year). This was offset with increased average daily rates of \$240 and revenue per available room of \$176 (up from \$227 and \$173, respectively). Downtown San Jose has 2,627 hotel rooms or about 25% of the City’s overall hotel inventory.

Public Realm

Downtown Property-Based Business Improvement District services through Groundwerx have had a significant positive impact on cleanliness and safety in the core since service delivery began in 2008. A new Groundwerx mobile phone application was launched in January, providing increased service response times and stakeholder interaction, as well as allowing Groundwerx to pushout pertinent alerts such to users. In a recently completed annual survey, the Groundwerx ambassador program received an approval rating of 72 percent. Beautification/street life projects resonated with ratepayers with a 91 percent approval rating, and the Groundwerx cleaning program maintained a strong approval rating at 90 percent, however the ratepayers' overall satisfaction with downtown registered just below 80 percent similar to where it was in 2007 before Groundwerx services began. The Groundwerx clean team has received an approval rating of 90 percent or more the last seven years. Since August 2018, Groundwerx crews have provided the following average services each month:

- 1,303 pan and broom hours
- 625 power washing hours
- 551 ambassador hours
- 1,370 bags of debris/litter collected
- 2,026 stickers, handbills or tags removed
- 489 hot spots (biohazards or other immediate cleaning needs) addressed
- 12 safety escorts for Downtown business and property owners.

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 August 2018, PATH's Street Outreach team has helped move 27 people from the streets of San Jose to permanent housing, up from 26 clients reported in last year's Downtown Progress Report. PATH's outreach case managers have completed 1,409 case management sessions with clients experiencing homelessness, up slightly from last year, and have helped 118 individuals move from streets to temporary housing placements.

Staff from the Housing, Parks, Recreation and Neighborhood Services and Economic Development departments have been working for the last year to secure a site and select a service provider to manage an alternative feeding program close to St. James Park. The African American Community Services Agency at 6th and Julian streets has been identified as the appropriate site. In July, service provider Opening Doors 2020 will begin serving meals at this location on Wednesday afternoons and Saturday and Sunday during lunch. Opening Doors 2020 will also provide access to additional resources for those in need and manage a program to re-direct volunteers from feeding in St. James Park to assisting at the facility on 6th and Julian.

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. Second Street Studios at Second and Keyes, managed by Destination Home, just opened 134 units for chronically homeless individuals. Staff looks forward to reporting on the opening of two additional developments in and near downtown in next year's Downtown Progress Report.

Over the past 12 months, 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 progresses toward a new design for Park Ave between Plaza de Cesar Chavez and the Woz Way. This work is currently at 25% schematic design. Project design elements and construction timing are being closely coordinated with the major commercial developments planned along this corridor. The Department of Parks, Recreation and Neighborhood Services has also made progress on a number of place making efforts over the past year including the completion of 25% design drawings for a reimagined St James Park, discussions around the relocation of the carousel from Arena Green to near the Rotary Playgarden, shepherding initial City support for an iconic landmark at Arena Green, and completion of design drawings for three new North San Pedro neighborhood parks – Pellier, North San Pedro Street and Bassett underpass.

The Better Bikeways San Jose project transformed several downtown streets in the last year, adding upgraded parking-protected bike lanes on major streets, green bike boxes at intersections, and bikes-only cut-throughs in nearby residential neighborhoods. The project is a major step in San José's commitment to give people safe, comfortable, convenient alternatives to driving cars and keeps our city in line with the Paris Agreement on climate change. The enhanced bike network also provides a safe option for users of e-scooters, supporting thousands of daily trips in 2019. In December, Council approved a permit program that gives the Department of Transportation far greater control over how many e-scooters are available, where they are distributed, how customer complaints are handled, and when e-scooter rental companies must improve their technology to improve safety.

Wayfinding program efforts continue to progress 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 all 29 transit agencies and participating cities – San Francisco, Oakland, San Jose, and Santa Rosa. The City of San Jose entered into a master agreement with City ID to advance urban wayfinding – maps and totems to help people navigate and explore downtown. East San Carlos Street has been selected as a pilot area to connect the McEnery Convention Center and San Jose State University to the South First Area and Paseo San Antonio. Staff intends to install the prototype navigation totem for testing in early Fall with full deployment in Winter 2019.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the June 24, 2019 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 at (408) 535-8172.