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CITY OF SAN JOSE
PLANNING DIVISION

February 17, 2004

Ms. Laurel Prevetti
Deputy Director of Planning
City of San Jose
801 N. First St., Rm. 200
San Jose, Ca. 95110

RE: FISCAL STUDY

Dear Laurel,

As promised, attached are comments on the Fiscal Study. As discussed at the Developer's Roundtable Meeting on Friday:

First, given the importance of job growth projections to the rest of the analysis it is extremely important that these projections be as accurate as possible. In this regard, it is probably advisable to consider a number of different forecasts before identifying the employment projections that are to become the foundation of this study and the basis for major land use policy decisions;

Second, whatever job growth projections are ultimately utilized, it is important that we provide an adequate inventory of residential land to accommodate the housing demands associated with such employment growth. This is essential if we are to prevent the existing housing shortage from becoming worse. At the very least, in dealing with the regional housing shortage, our position should be "to do no harm". This requires that we provide for housing growth commensurate with projected employment growth;

Third, while we should remain mindful of the need to preserve both residential and industrial opportunities beyond the 2020 timeframe of the General Plan, we must also recognize the significant redevelopment opportunities that will be available to increase both employment and residential densities as we mature as a City and become increasingly "urban" in character over time. For example, the study identifies some three million square feet of office and industrial space that it considers functionally obsolete today. Assuming a 35% average FAR, this space occupies nearly 200 acres of employment lands that have not been factored into the existing industrial land inventory and would presumably be available for use beyond the 2020 time horizon of the General Plan. If this property were ultimately redeveloped at a 60% average FAR, this land could support over 5 million square feet of additional office/industrial space and provide for some 20,000 additional jobs. Similarly, there is over 98 million square feet of "built space" today (p.45). Over time, if this space is utilized even 10% more efficiently, and/or

portions of this space are redeveloped at higher densities, it could readily accommodate over 10 million square feet of additional capacity and some 40,000 additional jobs. I have also enclosed a copy of a recent article which references a national study of commercial space requirements by Grubb and Ellis. It had some startling conclusions regarding San Jose's foreseeable commercial space requirements. In short, we should certainly consider both employment and housing requirements beyond 2020, but we also need to recognize the significant opportunities that will be available to meet these challenges.

Laurel, I want to personally thank you and the rest of the Administration for all your efforts in this major undertaking. It is complicated and involved, but it can contribute to the development of land use policies and decisions more reflective of the economic needs of San Jose and the region. Thanks again for all your efforts in this ambitious undertaking. Please feel free to contact me with any questions you may have, and I will certainly make myself available for any further discussion you would like to have.

Sincerely,

Gibson Speno, LLC

Steven G. Speno
President/CEO

COMMENTS ON THE FISCAL STUDY

There are a number of reasons why the employment growth projections and the related industrial land requirements may be significantly overstated, and there are a number of reasons why the projected housing needs and related residential land requirements may be significantly understated, which I will cover in a moment, but taking the report as written, there are three very important findings:

(1) Driving Industries and Business Support Industries are expected to create a demand for 1320 to 1450 acres to accommodate projected employment growth through 2020. This compares with an industrial land supply of 1250 to 1600 acres in the "active" industrial areas, an additional 1700 acres in North Coyote Valley and Evergreen, and an unidentified land inventory in other areas of the city.

INDUSTRIAL DEMAND = 1320 TO 1450 ACRES

INDUSTRIAL SUPPLY = 2950 TO 3300 ACRES

Hence, even given extremely optimistic and unprecedented job growth projections, San Jose's industrial land supply far exceeds industrial demand through 2020.

(2) Based on ABAG's projected housing requirements, which are far less than the housing necessary to accommodate the projected employment growth, San Jose has a projected residential land requirement of 2900 acres. This compares to a residential land supply of 1800 acres plus some underutilized properties designated for residential use.

RESIDENTIAL DEMAND = 2900 ACRES

RESIDENTIAL SUPPLY = 1800 ACRES +

Hence, even given that the housing requirements projected by ABAG would not accommodate the projected employment growth, San Jose does not have a sufficient residential land supply to meet housing requirements through 2020.

(3) This report assumes that San Jose will accommodate approximately 180,000 new jobs between 2004 and 2020 - that is, the 140,000 job growth ABAG originally projected for 2000 to 2020 plus at least 40,000 jobs that San Jose has lost since 2001. Assuming 1.7 workers per household, this projected level of employment growth would necessitate that San Jose add 105,000 new housing units by 2020 to prevent the housing shortage from becoming worse that it is today. This is far more than the 63,000 housing units projected by ABAG or the existing 40.000 housing unit holding capacity of the General Plan. Using the same density assumptions that were used in the report, San Jose would need a residential land inventory of 4800 acres, or nearly 2.7x the existing residential land supply, to accommodate the housing demands associated with the employment levels projected in the report. Put another way, San Jose's existing residential land inventory is

only able to accommodate about 37% of the projected job growth. This underscores the magnitude of the housing challenge. Clearly, there is a huge imbalance between the job growth San Jose is attempting to accommodate and its planned housing capacity. Given the critical importance of housing to our economy and the ability of local companies to attract and retain the workforce they require, there needs to be a far better balance of industrial and residential land supply, and far more aggressive actions to achieve such balance than is currently suggested by the report, if we are to sustain the economic growth and vitality of this region. In real terms, the housing shortage is far more of a constraint to our economic growth than the availability of commercial space or industrial land. Opportunities to create additional residential land supply should be openly welcomed and encouraged.

As indicated above, there are a number of reasons why the employment growth projections and the related industrial land requirements may be significantly overstated:

First, ABAG had originally projected that San Jose's employment would grow by 140,000 jobs, from approx. 380,000 to 520,000 jobs, over 20 years, from 2000 to 2020. This was very aggressive as it represented 37% growth over 20 years. This was partially based on the fact that in the year 2000 it appeared that San Jose had gained 70,000 jobs from 310,000 to 380,000 jobs since 1993. Since that time however, San Jose has lost 40,000 + jobs such that its employment today is approx. 340,000 jobs. This means that the actual growth since 1993 is approx. 30,000 jobs, representing 10% growth over the past 10 years. The report assumes that since San Jose has lost 40,000 jobs over the last 3 years, that we will now add 180,000 jobs over the remaining 17 years, instead of the 140,000 jobs ABAG had assumed over a 20 year time horizon. Hence, while ABAG originally projected 37% job growth over 20 years, this report now assumes 53% job growth over 17 years. Not only is it questionable logic to actually increase job growth projections when the economy is under performing, but such employment growth is highly unlikely given both, actual job growth experience, as well as the trends toward greater productivity, increased output per employee, and the continued national concern over a "jobless" recovery. At the very least, other economic forecasts should be consulted before formulating major land use policy on the basis of a forecast that varies so substantially from our actual job growth experience. Note the significantly different trend line for "projected" employment from 2003 to 2020 versus "actual "employment from 1993 to 2003 in Figure 5 on page 41 of the report.

Second, the aggressive job growth assumption discussed above has contributed to an inflated assessment of industrial land requirements. San Jose's own Economic Development Strategy published in November 2003, only four months ago, showed that the need for industrial land through 2020 was approx. 1000 acres, not the 1450 acres suggested in this report. (See p.89 of the Economic Development Strategy attached.) The Economic Development Strategy still assumed that we would add 140,000 jobs in the remaining 17 years of ABAG's 20 year growth projection, but it didn't assume we would add an additional 40,000 jobs beyond that to "make up" for the job losses of the past three years. The Economic Development Strategy assumed job growth of 41% over

the next 17 years, still greater that AGAG's original forecast, but less that the 53% job growth assumption in this report.

Third, as stated in our previous comments on the Economic Development Strategy, irrespective of what employment projections are utilized, the industrial space requirements and related land requirements associated with such employment projections are likely to be significantly reduced as a result of higher density development and more efficient use of existing space. While the report recognizes that new development is likely to occur at higher densities, it has not attempted to quantify the impact on space requirements or industrial land demand of existing space being utilized more efficiently (ie; less square feet per employee). There is approx. 82 million square feet of office and industrial space currently occupied in San Jose. If it were used 10% more efficiently over time, that represent 8 million SF of capacity, which would reduce industrial land requirements by nearly 400 acres.

As indicated above, the projected housing needs and related residential land requirements may be significantly greater than portrayed in the report. As suggested, if 180,000 new jobs are projected that would necessitate 105,000 new housing units and some 4800 acres of residential land just to prevent the existing housing shortage from becoming worse. If the original projection of 140,000 jobs is utilized, this would still necessitate 82,000 new housing units and 3750 acres of residential land. These requirements exceed the 63,000 units and 2900 acres suggested by ABAG, and they are far greater than the existing 40,000 housing unit holding capacity and 1800 acres of the General Plan.

Beyond the macro issues of employment growth, commercial space requirements, industrial land inventory, and related housing needs and residential land requirements there are a few additional comments we would like to make.

First, as the report suggests, we need to do continuous research as to the types of facilities companies desire and the location criteria companies utilize in their site selection decisions. At the same time, we need to listen to what the market is telling us and we should utilize the information contained in the Economic Development Strategy. The decisions of recent users such as Adobe, e-Bay, BEA Systems should tell us that the Downtown and N. First Street corridors are highly desirable for Driving Industries. As the Economic Development Strategy suggests, increasingly such companies want to be located at close-in locations, with transit availability, and commercial services. They want to develop at higher densities, and they enjoy the adjacency and synergy of other companies. As the Economic Development Strategy states, increasingly companies in Driving Industries are desiring to be part of "innovation communities" rather than located in sprawled, low-density, isolated campuses. What this signals for San Jose is the importance of preserving close-in sites with good transit opportunities along N. First Street, the Airport, NSJ 3, and NSJ 2 for Driving Industries. San Jose has abundant options in North Coyote and Evergreen (more than 1700 acres), as well as Edenvale 2 and NSJ 2 for the more limited number of Driving Industry companies that may desire a large corporate campus, but the amount of land for users at close-in locations with transit

access is far more limited, and should be preserved and intensified whenever possible. Other areas, such as NSJ 1 are further removed, more isolated, and don't enjoy the same transit opportunities and commercial services that are attractive to Driving Industry companies. Despite its characterization in this report, NSJ 1 is largely undeveloped, vacancies are extremely high, and as indicated on p.38 of this report this area does not represent any significant portion of employment in San Jose. Historically, with respect to industrial development, this area has been the last to develop in strong economic times, and the first to experience high vacancies when the economy slows. At the same time, this area enjoys exceptional residential amenities and existing infrastructure. This area can make a significant contribution to San Jose's housing needs, in a planned fashioned that reinforces strong neighborhood identity, without impacting priority corporate sites for Driving Industries.

Fiscally speaking, other than the Downtown where housing is important as it adds to the synergy of the area and helps create a 24 hour downtown, it is generally preferable to develop housing outside of redevelopment areas since housing has on-going municipal service requirements. Within redevelopment areas the property taxes from such housing projects are not available to the general fund to support the cost of such services. It is also better to locate housing in areas where park land, libraries, and fire stations are already available or committed to minimize the capital costs associated with residential development.

We appreciate the opportunity to be able to comment on this report, and we want to thank the City of San Jose for undertaking this study and addressing this very important public policy issue. We continue to believe that San Jose, as well as other jurisdictions in Santa Clara County, must continue to act boldly and take aggressive steps to address the critical housing needs of this area so this region may continue to be an attractive location for job creation and economic growth. In this regard, the challenge is even greater that the report portrays as far more land will be required for needed housing. At the same time, the opportunity to address this situation is also greater than the report suggests since job growth is not likely to be as robust as projected and the actual inventory of industrial land is far greater than what the report has acknowledged. We thank you again for the opportunity to share our comments on this report, and we wish you the very best in your efforts to address this important issue. Thank you.

IV. LAND DEMAND AND SUPPLY DYNAMICS

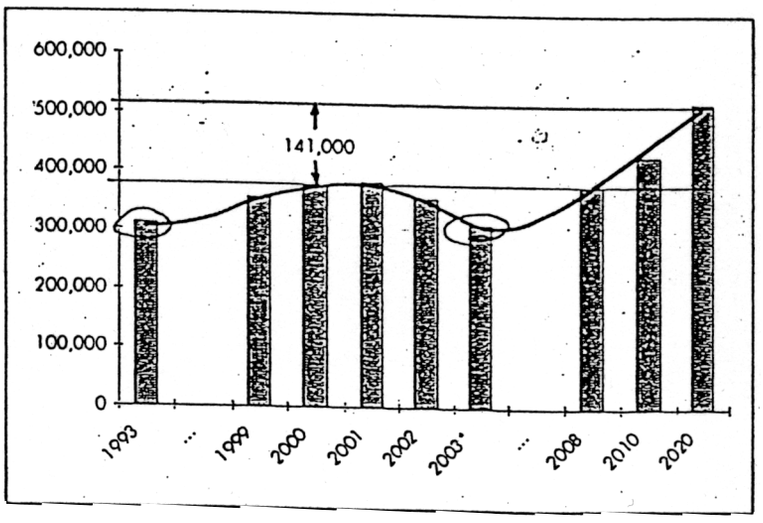
Estimates of future land demand based on projected industry mix and associated building occupancy trends can be useful for crafting appropriate land use policies for San Jose's active employment areas. The following analysis uses employment projections from the Association of Bay Area Governments (ABAG) through 2020 to estimate future land demand in San Jose by industry. This land demand estimate is then compared against land supply and the existing inventory of vacant buildings to better understand the City's capacity to accommodate ABAG's projected job growth through 2020, the timeframe of San Jose's existing General Plan. In addition, future housing demand and its concomitant land requirement are calculated to provide a basis for comparing future employment growth to future housing growth.

PROJECTED EMPLOYMENT GROWTH

ABAG's most recent employment projections[6] show San Jose's economy adding approximately 141,000 jobs between 2000 and 2020. Driving Industries are projected to add approximately 50,000 new jobs during that period; Business Support Industries will add 44,000 new jobs; and Household-Serving Industries will add 47,000 new jobs.

It is important to note that the City's current 2003 employment level is below the 2000 level, so these figures represent net increases over the 2000 level, not the total number of jobs projected to be added from now to 2020. The ABAG projections assume that San Jose returns to 2000 job levels around 2008 or 2009, and then experiences job growth averaging 2.7 percent annually through 2020. San Jose in 2020, thus, has 141,000 more jobs than it had in 2000. Figure 5 shows employment trends in San Jose from 1993 to 2020.

Figure 5: San Jose's Projected Employment, 2000-2020



[6] Association of Bay Area Governments, *Projections 2003*, June 2003.

DEMAND FOR BUILDING SPACE AND LAND (2001–2020)

	BUILDING TYPES			
	INDUSTRIAL AND WAREHOUSE	R&D, HEAVY AND LOW-RISE OFFICE	OTHER OFFICE	TOTAL
ANTICIPATED DEMAND THROUGH 2020 (sq. ft.)	12,571,665	14,298,520	6,656,905	33,527,090
Vacant Space Currently Available (sq. ft.)	5,564,644	10,926,269	3,154,805	19,645,718
Minus Obsolete Vacant Space (sq. ft.)	900,000	1,800,000	300,000	3,000,000
VACANT USABLE SPACE (sq. ft.)	4,664,644	9,126,269	2,854,805	16,645,718
ADDITIONAL SPACE DEMAND (sq. ft.)	7,907,021	5,172,251	3,802,100	16,881,372
ESTIMATED NEW DEVELOPMENT ON VACANT LAND (acres)	400	500 2½ FAR	100	1,000

SOURCE: Strategic Economics, City of San Jose

But, It Is Important to Have a Range of Land/Building Options Available, and to Preserve the Integrity of Certain Unique Employment Subareas.

Despite opportunities to recycle and intensify already-developed sites, some companies will want the option of developing larger campuses on greenfield sites (e.g., North Coyote Valley). It is important to retain vacant lands for this opportunity, which San Jose offers uniquely among Silicon Valley cities.

It is also very important to preserve the integrity of certain employment subareas, even as others change character over time. The location and characteristics of employment subareas matter for thinking about their ability to support job growth in the future. All employment lands are not equal and are not interchangeable. While there is a need to adapt some areas for the future, retaining the current character will be important for others in order to preserve jobs and prior private and public investments.

The City Should Take a Proactive, Strategic Approach to Considering Land Conversion Proposals in Employment Areas, Focusing on the Economic Characteristics and Contribution of Subareas as Context for Considering Individual Parcels.

The first consideration should be the contribution that the subarea makes to San Jose's economic base in terms of jobs, ongoing City revenues, and opportunities to accommodate projected demand for job growth.

Table 4: Subarea Summary Information and Classification

	Land Use						% Employment in all 21 Subareas			Subarea Share of Total Parcels in Employment Areas		
	2002 Jobs	Acres	Jobs/ Developed Acre	Vacant Acres	% Vacant	% Total City Jobs	Driving Industries	Business Support	Household-Serving	Industrial	Office	R&D
Type 1 Subareas												
Edenvale 1	11,655	829	16	91	11%	3%	67%	13%	20%	2%	2%	9%
Edenvale 2	1,834	803	3	148	18%	1%	57%	24%	19%	2%	0%	8%
North San Jose 1	139	1,087	0	584	54%	0%	89%	5%	6%	4%	1%	4%
North San Jose 2	24,241	1,376	22	279	20%	7%	78%	13%	9%	2%	2%	28%
North San Jose 3	7,091	335	29	86	26%	2%	79%	18%	3%	2%	0%	3%
Type 2 Subareas												
Airport	3,079	918	4	113	12%	1%	3%	65%	32%	1%	0%	0%
Central San Jose 1	11,008	857	13	24	3%	3%	9%	56%	34%	15%	23%	4%
Central San Jose 2	3,530	129	29	7	5%	1%	4%	76%	21%	4%	3%	0%
Monterrey Corridor 1	3,681	311	12	9	3%	1%	20%	63%	17%	6%	2%	1%
Monterrey Corridor 2	9,157	770	12	37	5%	3%	8%	67%	25%	11%	1%	0%
Monterrey Corridor 4	1,260	275	5	4	1%	0%	6%	61%	32%	2%	3%	0%
Northeast San Jose	9,259	479	20	5	1%	3%	21%	60%	19%	6%	2%	0%
Type 3 Subareas												
Downtown Core	20,458	287	72	5	2%	6%	53%	23%	24%	4%	15%	0%
North First Street	9,176	315	34	47	15%	3%	54%	32%	14%	1%	2%	2%
North San Jose 4	22,855	1,067	22	31	3%	6%	41%	46%	13%	11%	3%	12%
North San Jose 5	25,902	1,444	19	66	5%	7%	43%	43%	14%	13%	3%	27%
North San Jose 6	13,345	384	35	2	0%	4%	38%	48%	14%	3%	7%	0%
Type 4 Subareas												
Downtown Frame	10,297	812	13	16	2%	3%	15%	21%	64%	6%	24%	0%
Monterrey Corridor 3	1,346	106	13	3	3%	0%	14%	42%	44%	2%	4%	0%
Story Road	2,390	266	9	5	2%	1%	5%	43%	52%	2%	4%	0%
Total All 21 Subareas	191,702	12,850	382	1,561†	n/a	54%	n/a	n/a	n/a	100%	100%	100%
Rest of City	163,644	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total City	355,345	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: California Employment Development Department, City of San Jose, Strategic Economics

†Note: Roughly 20 percent of this acreage will likely be unusable due to odd parcel configurations and small sizes. Therefore the usable vacant acreage is approximately 1,250 acres

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SILICON VALLEY / SAN JOSE
Business Journal

LATEST NEWS
1:21 PM PST Wednesday

Report: San Jose at bottom for commercial office space future

When it comes to commercial office space, there are strong markets -- and then there is San Jose.

According to an analysis of the future strength of 45 U.S. markets by commercial real estate services company Grubb & Ellis Co., of Northbrook, Ill., San Jose ranks 45th. "It's the bottom," says Robert Bach, national director for market analysis for Grubb & Ellis.

Top-ranked is Atlanta, followed by Los Angeles, Riverside-San Bernardino, the Washington, D.C. metropolitan area and Phoenix.

"It's the dichotomy which has existed in the economy over the past three years -- consumers have been powering the economy. Business-oriented real estate has not been doing well," Mr. Bach says, adding, "San Jose is a very cyclical market."

Mr. Bach's report puts San Jose near the bottom when it comes to market strength for industrial properties through 2008. On that list, the city ranks 38th out of 43 markets studied, Mr. Bach says. Northern and central New Jersey make up the best region for industrial property investment, according to the study, followed by Atlanta, the Washington area, Orlando, Fla., and Los Angeles.

But San Jose ranks much higher when it comes to apartment housing -- ninth in the nation. Mr. Bach attributes the strong showing to the high cost of housing in Silicon Valley, keeping many people renters instead of home owners.

The company's 2004 national real estate forecast indicates that overall, all segments of the commercial real estate industry should fare well during 2004 thanks to a stronger economy.

"Real estate is on the upswing, although it will take some time to fully reverse the effects of the 2001 recession and the job-loss recovery of 2002 and 2003," Mr. Bach says.

The primary challenges for creating new jobs are increases in U.S. worker productivity combined with the outsourcing of jobs to India, China and other low-wage markets are -- trends many countries around the world share with the United States. But a healthy expansion is expected to create domestic jobs, spur leasing activity in commercial real estate and boost investor confidence during the next 12 months, he says.

Although the 2004 forecast report offers good news for the commercial real estate industry nationally, Grubb & Ellis says, it also warns of challenges investors and users of real estate should watch for in the coming years. The industry will continue to feel the impact of global outsourcing and increasing worker productivity.

"In addition, the aging of the baby boom generation, increases in property taxes and property insurance, the cost and availability of energy, and the impact of massive budget deficits are other issues that may have a significant impact on demand for real estate in the future," Mr. Bach adds.

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