



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Stephen M. Haase

**SUBJECT:** OFFICE USES IN  
INDUSTRIAL AREAS

**DATE:** December 7, 2005

Approved

Date

12/08/05

COUNCIL DISTRICT: Citywide  
SNI AREA: All

## REASON FOR ADDENDUM

This item is related to the proposed ordinance (Item 11.8) to establish condominium requirements for commercial and industrial buildings in accordance with the Counter to Council recommendations and should be discussed at the same hearing.

## RECOMMENDATION

Direct staff to prepare an ordinance for Council consideration amending Title 20 to further define the office use in the Zoning Code and to allow a broader range of office uses in the Industrial Park IP Zoning District and to provide greater flexibility to fill buildings in the IP zoning district.

## BACKGROUND

As the commercial real estate market grew and then declined between 1999 and 2005 and industry needs evolved, staff has been grappling with the issues of how to (1) distinguish amongst and better define different types of office uses, and (2) assess the office space requirements that market demand has generated citywide. The nature of office demand affects a number of other important interconnected issues making the resolution quite complex. The recent Counter to Council / Getting Families Back to Work III session highlighted some of the policy questions staff has had to respond to when making development decisions on a daily basis which, in turn, have tended to cause confusion for applicants and the staff, and resulted in potential inconsistencies on a project-to-project basis. Staff believes that additional clarification

and Council direction is now timely on the question of "when and where should the City care about and regulate the types of office uses allowed?"

## ANALYSIS

### Types of Office Uses

The definition of "office uses" is used to base a number of important City development-related decisions including: traffic generation rates for environmental review, calculation of taxes and fees in industrial zoned areas, and the need to preserve a sufficient number of sites for the long term economic health of the City. It also affects underlying land values with over \$270/sf values as the demand for office space peaked as in 2000, to less than \$50/sf as demand declined, as it currently exists. Office lease rates in North San Jose were \$4.04/sf in 2002 and are \$1.74/sf as of November 2005. Currently, there is great demand for more commercial types of office uses to locate in the industrial areas of the City. To better understand the different types of office uses, the staff has proposed a short description of each type below:

**Industrial Office Park Uses:** This use is the traditional type of office building seen in the industrial areas of North San Jose and Edenvale. They accommodate companies such as Integrated Device Technology, BEA, Cadence Design Systems, Brocade Communications and Cisco Systems, etc., that conduct their businesses at a large scale in an R&D, office campus type setting. These uses have lower traffic generating rates (8 trips per 1,000 square feet) compared to General or Business Office, and Medical office with almost double that rate.

**Professional Office Uses:** These office buildings are typically developed as multi tenant buildings and cater to professional occupations such as attorneys, accountants, engineers and architects. They have traffic generation rates of 12 trips per 1,000 square feet.

**General or Commercial Office Uses:** These office uses are typically found in commercial areas of the city, as in retail storefronts. They can also support businesses and users of the industrial areas. Typical users include travel and real estate agents, insurance offices with one or more agents, tax preparation facilities, and small business offices. Many of these types of uses could be classified as a personal service in that they serve a retail customer. Given the retail nature of these uses, this class of office use has some of the highest traffic rates of all office uses, approximately 17 trips per 1,000 square feet.

**Medical Office Uses:** These are doctor and clinic office uses. Typically they are located in Commercial and Professional Office zoning districts. They have a substantially higher traffic generation rate (50 trips per 1,000 square feet) due to the high customer volumes and dense occupancy of the spaces by employees.

### Types of Industrial Areas

The City has different types of lands in the industrial land inventory. These include Campus Industrial, Industrial Park, Light Industrial and Heavy Industrial. The City also uses a Mixed Industrial Overlay in the General Plan to provide area-specific flexibility where appropriate, and zoning to allow a broader set of uses in certain areas in addition to the standard allowed uses.

### Vacancy Rates in Industrial Areas

Each of these industrial land types plays an important part of ensuring that the City is able to offer choices for new and growing industrial and technology companies to locate and remain in San José.

The vacancy rate in the industrial office park properties hovers around 24% in the North San Jose and Edenvale Areas of the City. Vacancy rates in the industrial areas such as Monterey Corridor are only 4%. The recent trends have been for absorption of the industrial space at a much higher rate than industrial office park properties due to the overall limited supply of industrial space.

### Tenant Demographic Changes

In the industrial office park properties, the trend has changed dramatically since 2000 from a demand for large 100,000 to 200,000 square foot single user buildings and campuses, to a demand for smaller spaces ranging from 2,000 to 25,000 square feet. Existing industrial office park properties are being retenanting to allow several smaller businesses and tenants to lease, sublease or own their own "business presence". These changes have triggered the need to amend Title 20 in several areas that will be presented to the City Council for consideration in early 2006 as discussed at the Counter to Council sessions related to review and approvals of site modifications, generators, minor building additions. Other changes being reviewed is the review of hazardous materials to eliminate current overlapping reviews with conflicting provisions.

### Condominium Proposals

Recent real estate market conditions (low interest rates) and industry trends, dramatically high vacancy rates in R&D industrial office buildings, and the changing character of tenants in industrial areas, have compounded the issue with a number of condominium proposals being filed with the City for industrial and office buildings. This trend is an important means of allowing businesses to grow and control their own destiny by building equity in their business space as well as their business itself. In much the same way that home ownership has allowed residents to reinvest in their homes with equity built up from home ownership, the industrial and commercial office condominium units allow small businesses to enjoy a similar benefit.

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The City has approved a number of condominium applications in the past few years, and recently those buildings have been built and now occupied. The overwhelming trend for many of these projects has been for the spaces to be filled with the more commercial type of office uses rather than the anticipated industrial office tenants. There has also been a strong demand for industrial type tenants for space they can own, although not at the levels seen for the more commercial type spaces.

The City is proceeding this month with a change to Title 20 to codify the review by the City of the condominium proposals. This review would focus on long-term operations and maintenance issues because the State Department of Real Estate does not review non-residential condominium proposals for adequate safeguards to future owners. The City has an interest in preventing the negative impacts of multi-ownership real estate in areas with residential condominiums created in the early 1970's that did not have adequate maintenance programs included in the condominium approvals and which have in turn made Code Enforcement very difficult.

#### Potential Changes to Title 20

The competitive nature of changes to the local, regional and global economies require that the City continually re-evaluate how industrial lands are utilized to support the economic health of the City, provide value to the corporate community, and encourage retention and growth of San Jose's industrial business base. Most recently, staff presented a Status of Industrial Lands report to the Driving the Strong Economy Committee. That report was based on The *Economic Development Strategy*, which set the foundation by identifying the types of jobs needed and where to focus the efforts for growing new job opportunities to implement the General Plan strategy on Economic Development. The *Framework, as a Guideline, to Evaluate Proposed Conversion of Employment Lands to Other Uses*, provided further guidance on how to treat proposals in industrial areas of the City.

The goals for all this work continues to be the preservation of adequate prime work place lands to support a variety of job and tax generating land uses, to allow the City to build a strong and diversified economic base and industry portfolio which provide the revenues that help to deliver services to the City's residents, and to allow the City to compete for companies to grow and locate in San Jose. Keeping our technology parks competitive with other global innovation centers is critical to the long-term viability of our economy and quality of life.

The staff has reviewed the different office uses and compared them to the goals for each of the industrial zoning districts and identified several changes to Title 20 that would be appropriate. The different types of office uses described earlier in this memo were analyzed separately by staff to determine if each type was appropriate in the different industrial zoning designations. The conclusion of that review was that allowing the broader mix of office uses was appropriate in the Industrial Park zoning district, but that offices uses should continue to be treated more restrictively in the Light and Heavy Industrial zoning districts.

The matrix below shows where the changes to Title 20 would occur:

Zoning Designation / General Plan Designation	Proposed Land Use					
	Office	Business	Medical	Educational Services***	Commercial	Free-standing Commercial
Industrial Park	O	O	O	O	O	C**
Core Industrial (New Zoning District)	Form	Form	Form	Form	Form	X
Mixed Industrial Overlay	O	O	O	O	O	C**
Heavy Industrial	X	X	X	X	X	X
Light Industrial	X	X	X	X	X	X

\* Conditional Use Permit required; Use must be ancillary/incidental to primary permitted use.  
 \*\* Conditional Use Permit required; Minimum 50,000 square feet for any free-standing development.  
 \*\*\* Educational Services include post-secondary and vocational training activities not performed in lieu of State required education.  
 Form – Proposed form based zoning district focusing on the form of the use rather than the specific use.

A “C” indicates a Conditional Use permit would be required to ensure compatibility with adjacent uses. The Core Industrial area, anticipated to be created for the North San Jose Vision 2030 plan requires special attention. The intent is to create mid-rise development at 1.2 FAR or greater and ultimately provide for substantial future employment in San Jose. Office, business, medical and other uses could be accommodated if they occurred in taller more dense development. “Form-based” zoning is the preferred approach to achieve these goals in North San Jose to implement the vision for North San Jose with the least amount of lengthy process. The “Form-based” zoning would accommodate intensification of both housing and jobs and to allow individual property owners and the marketplace determine which specific properties to develop in what uses while protecting the City’s interests.

Staff believes that the above proposal would accomplish several important goals. The changes would:

- Allow a broader range of uses to occupy the building type that currently has the highest vacancy levels citywide,
- Allow uses to support the industrial users of the industrial areas a relief valve from only locating in commercial zoning districts, and
- Preserve, to the greatest extent possible, the Light and Heavy Industrially-zoned lands for industrial manufacturing and related uses.

Staff will bring before the City Council other provisions that would protect the opportunities for industrial office uses in the Expanded Edenvale Redevelopment Area, intensification in the North First Street corridor, and redevelopment in the Midtown, Jackson –Taylor Specific Plan areas, and the Berryessa BART Station area.

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## **OUTCOMES**

The review and consideration of the office uses allowed in industrial areas will allow staff to prepare necessary ordinances to clarify appropriate uses in the different industrial zoning districts.

## **PUBLIC OUTREACH**

This issue was identified and discussed by the Counter to Council Industrial Working Group. It has also been discussed at recent Developer Roundtable meetings and generated a number of meetings with brokerage and developer representatives. The proposed ordinance will be reviewed by the Working Group and the Planning Commission prior to the City Council meeting.

## **COORDINATION**

This memo has been coordinated with the Redevelopment Agency, the City Attorneys Office, the Office of Economic Development and Department of Public Works.

## **CEQA**

Not a project. The proposed ordinance will require CEQA review at the time of adoption.

  
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Planning, Building & Code Enforcement

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