

## **DRAFT MEMORANDUM**

To: Johnson Consulting (CHJC)  
From: James Musbach, Ashleigh Kanat and Walker Toma  
Subject: Analysis of Existing Economic Conditions of the Santa Clara County Fairgrounds Neighborhood; EPS #141070  
Date: November 5, 2014

*The Economics of Land Use*



This memorandum provides an overview of the existing economic conditions for the area surrounding the Santa Clara County Fairgrounds site. In this effort, EPS has evaluated the demographic and real estate characteristics of the neighborhood immediately adjacent to the Fairgrounds site as well as the City of San Jose and Santa Clara County, for comparison purposes.

### **Santa Clara County Fairgrounds Context**

The approximately 150-acre Fairgrounds site, which is owned by the County, is located in the relative geographic center of the City of San Jose, directly south of downtown San Jose, and immediately south of the Tully Road/Monterey Road intersection. The Fairgrounds site is designated OPHS- Open Space, Parklands, and Habitat in the San Jose General Plan and is comprised of 167,000 square feet (square feet) of indoor spaces, 20 acres of lawn and paved outdoor space, and 40 acres of parking.<sup>1</sup>

The immediate surroundings of the Fairgrounds includes commercial and industrial development to the north, residential and light industrial development to the east and south, and commercial development adjacent to the west. Further west, on the west side of Monterey Road is a cemetery and residential development. The Fairgrounds are adjacent to the southern and western borders of Franklin McKinley Elementary School, which is located adjacent to the northeastern corner of the Fairgrounds property.

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<sup>1</sup> From *Santa Clara County Fairgrounds Existing Environmental Conditions Memo* prepared by David J. Powers & Associates in 2014. Acreages and square footages to be confirmed.

San Jose is the largest city in the San Francisco Bay area and the third largest city in California. San Jose has experienced tremendous growth over the past few decades, adding more than 500,000 residents between 1970 and 2010, more than doubling its 1970 population. In that same period, median household income in today's dollars has grown by nearly \$25,000 or roughly 40 percent.

While San Jose's job growth has similarly been robust since 1970, and since the recession, the City's has boasted one of the strongest job markets in the country,<sup>2</sup> the jobs-to-employed-resident ratio in the City remains at approximately .9.<sup>3</sup> One of the major goals expressed in the City's General Plan is to increase the jobs-to-employed residents ratio to 1.3, which will require a greater emphasis on attracting new jobs to the city in the future.<sup>4</sup>

Growth trends in San Jose have paralleled other areas of the Silicon Valley region, which is widely recognized worldwide as the leader in technological innovation and progressive corporate culture. Silicon Valley is home to the headquarters of numerous internationally prominent information technology companies such as Apple, Hewlett Packard, Google, Facebook, and Intel. Many of these technology giants including Cisco, Adobe, Dell, and EBay are located in the City of San Jose, primarily in the Downtown and northern areas of the City. The region supports 1.3 million jobs, 36 percent of total jobs in the Bay Area.

### **Greater Fairgrounds Neighborhood**

For purposes of this analysis, and in an attempt to better evaluate the local context in which the Fairgrounds is located, EPS has defined the "Greater Fairgrounds Neighborhood" as all development bounded by 280 to the north, Capital Expressway to the south, Highway 87 to the west and U.S. Route 101 to the east, as shown in **Figure 1** below.

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<sup>2</sup> Hepler, L. (2013). San Jose No. 10 market nationwide for job growth. Silicon Valley Business Journal.

<sup>3</sup> LED OntheMap.

<sup>4</sup> City of San Jose's *Envision San Jose 2040*.

**Figure 1 Greater Fairgrounds Neighborhood**



The Greater Fairgrounds Neighborhood is adjacent to the East San Jose and Evergreen neighborhoods to the east, the Blossom Valley and Cambrian Park neighborhoods to the south, Willow Glen to the west and Downtown San Jose to the north. The Greater Fairgrounds Neighborhood, while less affluent than the City as a whole, abuts both the desirable Willow Glen neighborhood to the west and Downtown San Jose to the north, which is forecasted to undergo significant residential and commercial development activity in the coming years.

## Key Findings

### Demographics

- ***The Greater Fairgrounds Neighborhood is younger, consists of more families and has a higher proportion of renters than the City of San Jose and Santa Clara County.*** The Greater Fairgrounds Neighborhood consists of 50 percent renter-occupied households, compared to 41 percent for the City of San Jose and 42 percent for Santa Clara County. Forty-four percent of households in the Greater Fairgrounds Neighborhood have children and the average household size is 3.46. The City of San Jose and Santa Clara County, comparatively, consist of 40 and 38 percent family households with children and average household sizes of 3.15 and 2.96, respectively. The median age of Greater Fairgrounds Neighborhood residents is 33 compared with 36 in the City and 37 in the County, and there are a greater number of residents under the age of 25 when compared with both the City as a whole and Santa Clara County.
- ***The Greater Fairgrounds Neighborhood has a higher proportion of Hispanic and Asian residents than the City and County.*** The Greater Fairgrounds is composed of larger Asian (35 percent) and Hispanic (48 percent) populations than the City (32 percent Asian and 34 percent Hispanic) and the County (32 percent Asian and 27 percent Hispanic). White residents (including White with Hispanic Origin) make up 32 percent of the Greater Fairgrounds in comparison to the City of San Jose (43 percent) and County (47 percent).

- **Household incomes in the Greater Fairgrounds Neighborhood is notably lower than in the City and County.** The Greater Fairgrounds has a median income of \$60,105, compared with \$79,447 for the City of San Jose and \$87,648 in Santa Clara County.
- **Workforce educational attainment in the Greater Fairgrounds Neighborhood is notably lower than in the City and County.** While the Greater Fairgrounds Neighborhood workforce is very educated in comparison to the State or the United States as a whole, the area's workforce possesses lower educational attainment than City of San Jose as a whole and Santa Clara County. Over 17 percent of workers in the Greater Fairgrounds Neighborhood have not completed high school and approximately 47 percent have a college degree of some kind. In comparison, less than 10 percent of San Jose workers and less than 9 percent of Santa Clara County workers do not have a high school diploma, while nearly 60 percent of San Jose workers and roughly 61 percent of Santa Clara County workers have a post-secondary degree.
- **There are approximately 21,050 jobs located in the Greater Fairgrounds Neighborhood, the majority of which are focused in the construction, manufacturing, retail, and transportation and warehousing industry sectors.** Within the Greater Fairgrounds Neighborhood, approximately 15 percent of the total jobs are in the construction sector, 14 percent in manufacturing, 11 percent in retail, and 10 percent in transportation and warehousing. The share of Professional, Scientific, and Technical Services industry jobs is substantially less in the Greater Fairgrounds Neighborhood than in the City and County.
- **There are approximately 28,150 employed residents living in the Greater Fairgrounds Neighborhood, the majority of whom are employed in manufacturing, retail, health care and social assistance, as well as professional, scientific and technical services.** Of the employed residents living in the Greater Fairgrounds Neighborhood, 16 percent work in manufacturing, 11 percent work in retail, 11 percent work in health and social assistance and 10 percent work in professional, scientific and technical services. The composition of workers in the Greater Fairgrounds Neighborhood closely resembles that of the City of San Jose as a whole.

## Market Context and Development

- **In the immediate proximity of the Fairgrounds (within the identified Greater Fairgrounds Neighborhood), aside from the retail power center called The Plant, located at the corner of Curtner Avenue and Monterey Highway, there are no other existing large commercial developments.<sup>5</sup>** There has been only one new commercial development exceeding 25,000 square feet and no new residential apartment projects exceeding 200 units built in the Greater Fairgrounds Neighborhood during the past five years.
- **Large existing office development in San Jose is primarily located in either Downtown San Jose or within the "Golden Triangle," referring to the area bounded by Highways 101, 237 and 880 in the northern portion of San Jose and the eastern**

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<sup>5</sup> For the purposes of this analysis, large commercial developments are defined as office projects of greater than 250,000 square feet and retail centers defined as "Power Centers" by CoStar.

**portion of Sunnyvale.** Existing retail power centers are located throughout the County along major highways including 880, 101, 280 and 85.

- **Recently built residential apartment and commercial retail and office development in the City of San Jose has been focused primarily in Northern San Jose, with significant development at the former IBM site in Southern San Jose.** Within the past five years, most of the residential and commercial development has been concentrated along the 280 corridor from Downtown San Jose west towards Campbell as well as within the Golden Triangle in the northern portion of San Jose. There has also been significant development at the former IBM site in Southern San Jose.
- **The City of San Jose's commercial and residential apartment pipeline is similarly focused in the downtown area and North San Jose.** The development pipeline concentrates further north and east than recently built projects, with a greater focus on the 101 and 880 corridors than the 280 corridor. A majority of the major projects in the San Jose's pipeline are residential apartments, which are clustered in the Golden Triangle and Downtown San Jose.

## Demographics

As noted, the City of San Jose (and the Silicon Valley Region as a whole) has experienced rapid growth in terms of population and jobs over the past few decades. However, since 2000, the Greater Fairgrounds Neighborhood has outpaced the City of San Jose and Santa Clara County in population and household growth as shown in **Table 1** below. Although the Greater Fairgrounds Neighborhood has experienced a 12 percent increase in median household income over that same period, income growth has lagged behind both the City of San Jose (13 percent) and Santa Clara County (18 percent).

**Table 1 Population, Household and Household Income Change 2000 - 2013**

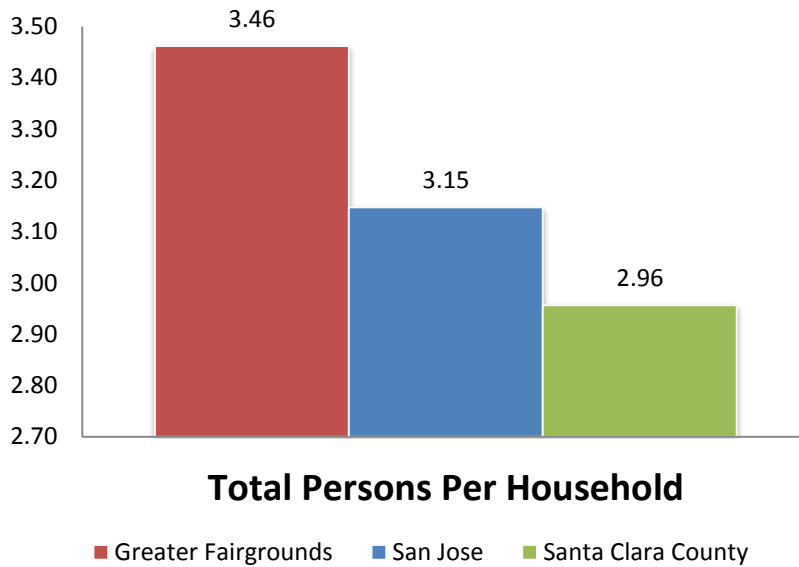
Item	2000	2010	2013	% Change (2000 - 2013)
<b>Population</b>				
Greater Fairgrounds	74,876	82,777	85,354	14%
City of San Jose	904,910	945,942	975,479	8%
Santa Clara County	1,682,590	1,781,642	1,837,107	9%
<b>Households</b>				
Greater Fairgrounds	19,699	23,974	24,656	25%
City of San Jose	279,952	301,346	309,925	11%
Santa Clara County	565,873	604,204	621,407	10%
<b>Median Household Income</b>				
Greater Fairgrounds	\$53,642	\$56,038	\$60,105	12%
City of San Jose	\$70,281	\$72,990	\$79,447	13%
Santa Clara County	\$74,522	\$79,455	\$87,648	18%

Sources: US Census; AGS, Economic & Planning Systems, Inc.

### Population and Households

The Greater Fairground Neighborhood has a population of approximately 85,354 residents spread across 24,656 households, representing roughly 9 percent of the City of San Jose's population and 7 percent of total households. The average household size is 3.46, significantly larger than both the City of San Jose (3.15) and Santa Clara County (2.96) as shown in **Figure 2**. The median age for the Greater Fairgrounds population is 33.4, which is lower than both the City (35.8) and County (36.8).

**Figure 2 Persons per Household by Geography**



While the Greater Fairgrounds Neighborhood has maintained a considerably larger average household size since 2000 than both the City and County, as shown in **Table 2** below, the Greater Fairgrounds Neighborhood has also seen the largest decrease in average household size over that same time period.

**Table 2 Average Household Size 2000 - 2013**

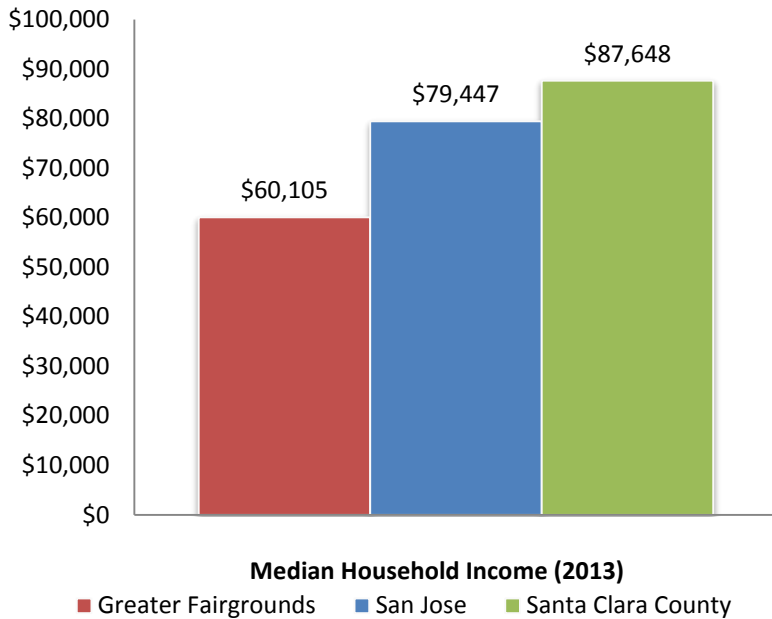
Item	2000	2010	2013	% Change (2000 - 2013)
<b>Average Household Size</b>				
Greater Fairgrounds	3.80	3.45	3.46	-9%
City of San Jose	3.23	3.14	3.15	-3%
Santa Clara County	2.97	2.95	2.96	-1%

Sources: US Census; AGS, Economic & Planning Systems, Inc.

**Household Income and Household Status**

As illustrated in **Figures 3** and **4**, the Greater Fairgrounds Neighborhood has a considerably lower in median income (\$60,105) than both the City (\$79,447) and the County (\$87,648).

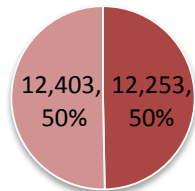
**Figure 3 Median Household Income by Geography**



In addition, the Greater Fairgrounds Neighborhood consists of a higher proportion of renters (50 percent) than the City (41 percent) and the County (42 percent), as shown in **Figure 4** below.

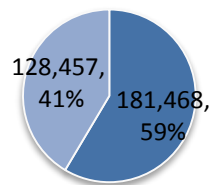
**Figure 4 Households by Occupancy Status (2013)**

**Greater Fairgrounds Neighborhood**



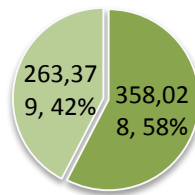
■ Owner-Occupied ■ Renter-Occupied

**City of San Jose**



■ Owner-Occupied ■ Renter-Occupied

**Santa Clara County**



■ Owner-Occupied ■ Renter-Occupied



## Race and Ethnicity

Regarding racial and ethnic composition, the Greater Fairgrounds Neighborhood has a lower percentage of white residents (32 percent) than the City (43 percent) and County (47 percent) and a higher proportion of residents classifying their race as "Other" (24 percent) than the City and County (16 percent and 12 percent, respectively) as illustrated in **Table 3**.

**Table 3 Race and Ethnicity**

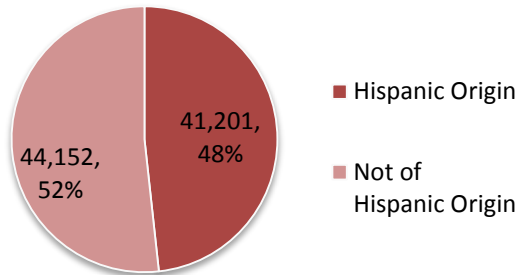
Item	Greater Fairgrounds		San Jose		Santa Clara County	
	2013	%	2013	%	2013	%
<b>Population by Race</b>						
White	27,611	32%	419,304	43%	862,934	47%
Black	2,625	3%	31,067	3%	47,936	3%
American Indian, Eskimo, Aleut	964	1%	8,585	1%	13,390	1%
Asian	29,937	35%	310,196	32%	587,916	32%
Hawaiian/Pacific Islander	346	0%	4,151	0%	7,273	0%
Other	20,262	24%	153,542	16%	227,642	12%
Two or More Races	<u>3,610</u>	<u>4%</u>	<u>48,636</u>	<u>5%</u>	<u>90,016</u>	<u>5%</u>
Total	85,355	100%	975,481	100%	1,837,107	100%
<b>Hispanic Origin</b>						
Hispanic Origin	41,201	48%	329,748	34%	503,466	27%
Not of Hispanic Origin	<u>44,152</u>	<u>52%</u>	<u>645,731</u>	<u>66%</u>	<u>1,333,641</u>	<u>73%</u>
Total	85,353	100%	975,479	100%	1,837,107	100%

Sources: Applied Geographic Solutions, Inc. (AGS); Economic & Planning Systems, Inc.

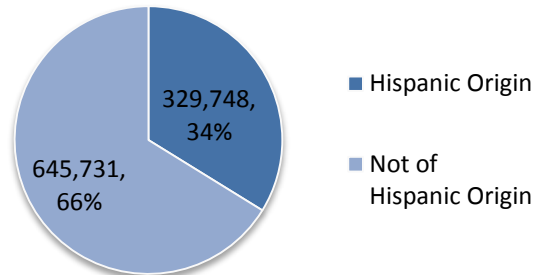
Perhaps the most significant disparity between the Greater Fairgrounds Neighborhood and both the City and County is the higher proportion of residents of Hispanic origin in the Greater Fairgrounds (48 percent) than the City or County (34 percent and 27 percent, respectively). This contrast is illustrated in **Figure 5** below.

**Figure 5 Hispanic Origin by Geography (2013)**

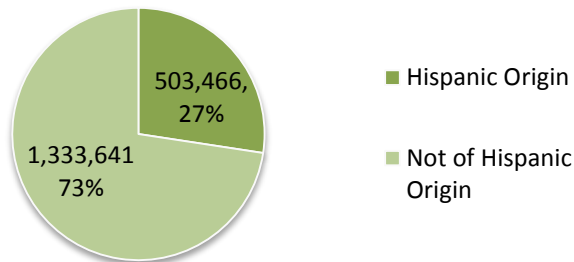
### Greater Fairgrounds



### City of San Jose



### Santa Clara County



In summary, the Greater Fairgrounds Neighborhood consists of a younger, lower income population that is more likely to rent and have larger households than both the City of San Jose and Santa Clara County. Residents are more likely to be of Hispanic Origin, Asian or classify their race as "Other," which speaks to the greater racial and ethnic diversity in the neighborhood in comparison to the City and County. An overview of the demographics for the three geographies referenced is shown in **Table 4** below.

**Table 4 Demographic Overview**

Item	Greater Fairgrounds		San Jose		Santa Clara County	
	2013	%	2013	%	2013	%
<b>Population</b>						
Total Population	85,354		975,479		1,837,107	
Households	24,656		309,925		621,407	
Persons per Household	3.46		3.15		2.96	
<b>Households by Occupancy Status</b>						
Owner-Occupied	12,253	50%	181,468	59%	358,028	58%
Renter-Occupied	<u>12,403</u>	<u>50%</u>	<u>128,457</u>	<u>41%</u>	<u>263,379</u>	<u>42%</u>
Total	24,656	100%	309,925	100%	621,407	100%
<b>Family Households</b>						
Non-Family Households	6,589	27%	84,440	27%	182,577	29%
Family Households	18,068	73%	225,481	73%	438,830	71%
Family Households w/ Children	10,910	44%	125,067	40%	236,837	38%
Family Households w/o Children	7,158	29%	100,414	32%	201,993	33%
Average Household Income (\$2013)	\$70,912		\$98,154		\$111,918	
Median Household Income (\$2013)	\$60,105		\$79,447		\$87,648	
<b>Population by Age</b>						
Under 18 Years	22,125	26%	252,954	26%	463,216	25%
19 to 24 Years	8,701	10%	78,140	8%	137,676	7%
25 to 39 Years	21,202	25%	219,665	23%	408,458	22%
40 to 59 Years	21,708	25%	272,626	28%	521,391	28%
60 and Older	<u>11,619</u>	<u>14%</u>	<u>152,092</u>	<u>16%</u>	<u>306,366</u>	<u>17%</u>
Total	85,355	100%	975,477	100%	1,837,107	100%
Median Age	33.4		35.8		36.8	
<b>Population by Race</b>						
White	27,611	32%	419,304	43%	862,934	47%
Black	2,625	3%	31,067	3%	47,936	3%
American Indian, Eskimo, Aleut	964	1%	8,585	1%	13,390	1%
Asian	29,937	35%	310,196	32%	587,916	32%
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Other	20,262	24%	153,542	16%	227,642	12%
Two or More Races	<u>3,610</u>	<u>4%</u>	<u>48,636</u>	<u>5%</u>	<u>90,016</u>	<u>5%</u>
Total	85,355	100%	975,481	100%	1,837,107	100%
<b>Hispanic Origin</b>						
Hispanic Origin	41,201	48%	329,748	34%	503,466	27%
Not of Hispanic Origin	<u>44,152</u>	<u>52%</u>	<u>645,731</u>	<u>66%</u>	<u>1,333,641</u>	<u>73%</u>
Total	85,353	100%	975,479	100%	1,837,107	100%

Sources: Applied Geographic Solutions, Inc. (AGS); Economic & Planning Systems, Inc.

## Jobs and Employment

According to American Community Survey (via LED OnTheMap), the Greater Fairgrounds Neighborhood contains 21,055 jobs. As shown in **Table 5** below, the largest employment sectors in the area are Construction (15 percent), Manufacturing (14 percent), Retail Trade (12 percent), Transportation and Warehousing (10 percent) and Other Services (8 percent). In comparison, both the City and County feature a significant proportion of jobs in higher wage and educational attainment sectors such as Professional, Scientific and Technical Services (10 percent and 14 percent, respectively) and Health Care and Social Assistance (10 percent for both the City and the County).

**Table 5 Largest Industry Sectors by Geography (2011)**

Greater Fairgrounds		City of San Jose		Santa Clara County	
Sector	%	Sector	%	Sector	%
Construction	14.7%	Manufacturing	16.2%	Manufacturing	18.9%
Manufacturing	13.6%	Retail Trade	10.3%	Retail Trade	8.8%
Wholesale Trade	6.0%	Professional, Scientific, and Tech. Svs.	10.3%	Professional, Scientific, and Tech. Svs.	13.8%
Retail Trade	11.8%	Admin. & Support, Waste Mgmt.	7.3%	Educational Services	8.5%
Transportation and Warehousing	9.5%	Educational Services	8.0%	Health Care and Social Assistance	9.7%
Other Services (excluding Pub. Adm.)	7.6%	Health Care and Social Assistance	10.1%	Accommodation and Food Services	6.3%

Source: LED OnTheMap.

While both the City of San Jose and Santa Clara County have seen a reduction in total primary jobs between 2002 and 2011, the Greater Fairgrounds Neighborhood has experienced a far more significant reduction. As shown in **Table 6** below, between 2002 and 2011, the Greater Fairgrounds Neighborhood has lost over 3,000 jobs or approximately 13 percent of total jobs. Comparatively, the City of San Jose and Santa Clara County have seen relatively no change in the number of total jobs over that same period.

**Table 6 Total Jobs by Geography 2002 - 2011**

Geography	2002	2011	% Change
<b>Greater Fairgrounds Neighborhood</b>	24,298	21,055	-13%
<b>City of San Jose</b>	337,513	335,055	-1%
<b>Santa Clara County</b>	807,131	804,359	-0.3%

Source: LED OnTheMap.

Although many of the industry sectors in the Greater Fairgrounds Neighborhood that were prominent in 2002 remain so in 2011, as **Table 7** illustrates, the area has experienced a reduction in construction, manufacturing, wholesale trade and transportation and warehousing jobs, while seeing an uptick in retail trade and other services.

**Table 7 Greater Fairgrounds Industry Composition 2002 - 2011**

Sector	2002		2011	
	Count	%	Count	%
<b><u>Largest Industries</u></b>				
Construction	3,886	16%	3,086	15%
Manufacturing	4,020	17%	2,858	14%
Wholesale Trade	1,969	8%	1,255	6%
Retail Trade	2,378	10%	2,480	12%
Transportation and Warehousing	2,572	11%	2,008	10%
Other Services (excluding Pub. Adm.)	1,184	5%	1,595	8%
<b>All Sectors</b>	<b>24,298</b>	<b>100%</b>	<b>21,055</b>	<b>100%</b>

Source: LED OnTheMap.

Other differences between the jobs composition in the Greater Fairgrounds Neighborhood and the City and County is the higher proportion of male workers (63 percent compared with 53 percent and 55 percent, respectively) and a higher number of workers over the age of 55 (21 percent of the Greater Fairgrounds Neighborhood workforce compared with 20 percent for the City and 19 percent for the County). A comprehensive overview of jobs in the three referenced geographies, including the figures cited in the paragraphs above, is shown in **Table 8**.

**Table 8 Employment Overview**

Item	Greater Fairgrounds		City of San Jose		Santa Clara County	
	2011	%	2011	%	2011	%
<b>Total Employed Residents in Selected Area</b>	28,141	100.0%	380,056	100.0%	708,331	100.0%
<b>Total Primary Jobs in Selected Area</b>	20,209	100.0%	335,055	100.0%	804,359	100.0%
<b>Jobs by Worker Age</b>						
Age 29 or younger	3,945	19.5%	64,387	19.2%	149,732	18.6%
Age 30 to 54	12,074	59.7%	205,648	61.4%	505,248	62.8%
Age 55 or older	<u>4,190</u>	20.7%	<u>65,020</u>	19.4%	<u>149,379</u>	18.6%
Total	20,209		335,055		804,359	
<b>Jobs by Earnings</b>						
\$1,250 per month or less	3,936	19.5%	52,945	15.8%	109,432	13.6%
\$1,251 to \$3,333 per month	7,268	36.0%	91,557	27.3%	193,396	24.0%
More than \$3,333 per month	<u>9,005</u>	44.6%	<u>190,553</u>	56.9%	<u>501,531</u>	62.4%
Total	20,209		335,055		804,359	
<b>Jobs by NAICS Industry Sector</b>						
Agriculture, Forestry, Fishing and Hunting	13	0.1%	427	0.1%	2,692	0.3%
Mining, Quarrying, and Oil and Gas Extraction	0	0.0%	106	0.0%	255	0.0%
Utilities	43	0.2%	1,919	0.6%	3,329	0.4%
Construction	3,052	15.1%	15,356	4.6%	28,962	3.6%
Manufacturing	2,840	14.1%	54,416	16.2%	151,820	18.9%
Wholesale Trade	1,239	6.1%	16,406	4.9%	39,747	4.9%
Retail Trade	2,207	10.9%	34,363	10.3%	70,659	8.8%
Transportation and Warehousing	2,007	9.9%	8,559	2.6%	12,346	1.5%
Information	888	4.4%	6,483	1.9%	36,127	4.5%
Finance and Insurance	96	0.5%	10,003	3.0%	19,220	2.4%
Real Estate and Rental and Leasing	292	1.4%	5,866	1.8%	11,818	1.5%
Professional, Scientific, and Technical Services	1,012	5.0%	34,491	10.3%	111,019	13.8%
Management of Companies and Enterprises	158	0.8%	4,603	1.4%	9,834	1.2%
Administration & Support, Waste Management and Remediation Services	1,131	5.6%	24,462	7.3%	46,804	5.8%
Educational Services	953	4.7%	26,724	8.0%	68,036	8.5%
Health Care and Social Assistance	1,213	6.0%	33,704	10.1%	78,120	9.7%
Arts, Entertainment, and Recreation	174	0.9%	5,386	1.6%	10,910	1.4%
Accommodation and Food Services	1,174	5.8%	22,366	6.7%	50,900	6.3%
Other Services (excluding Public Administration)	1,517	7.5%	14,818	4.4%	30,151	3.7%
Public Administration	<u>200</u>	1.0%	<u>14,597</u>	4.4%	<u>21,610</u>	2.7%
Total	20,209		335,055		804,359	
<b>Jobs by Worker Educational Attainment</b>						
Less than high school	3,491	17.3%	32,520	9.7%	68,194	8.5%
High school or equivalent, no college	3,369	16.7%	41,554	12.4%	92,801	11.5%
Some college or Associate degree	5,149	25.5%	77,437	23.1%	178,868	22.2%
Bachelor's degree or advanced degree	4,255	21.1%	119,157	35.6%	314,764	39.1%
Educational attainment not available (workers aged 29 or y)	<u>3,945</u>	19.5%	<u>64,387</u>	19.2%	<u>149,732</u>	18.6%
Total	20,209		335,055		804,359	
<b>Jobs by Worker Sex</b>						
Male	12,786	63.3%	179,148	53.5%	443,191	55.1%
Female	<u>7,423</u>	36.7%	<u>155,907</u>	46.5%	<u>361,168</u>	44.9%
Total	20,209		335,055		804,359	

Source: LED OnTheMap.

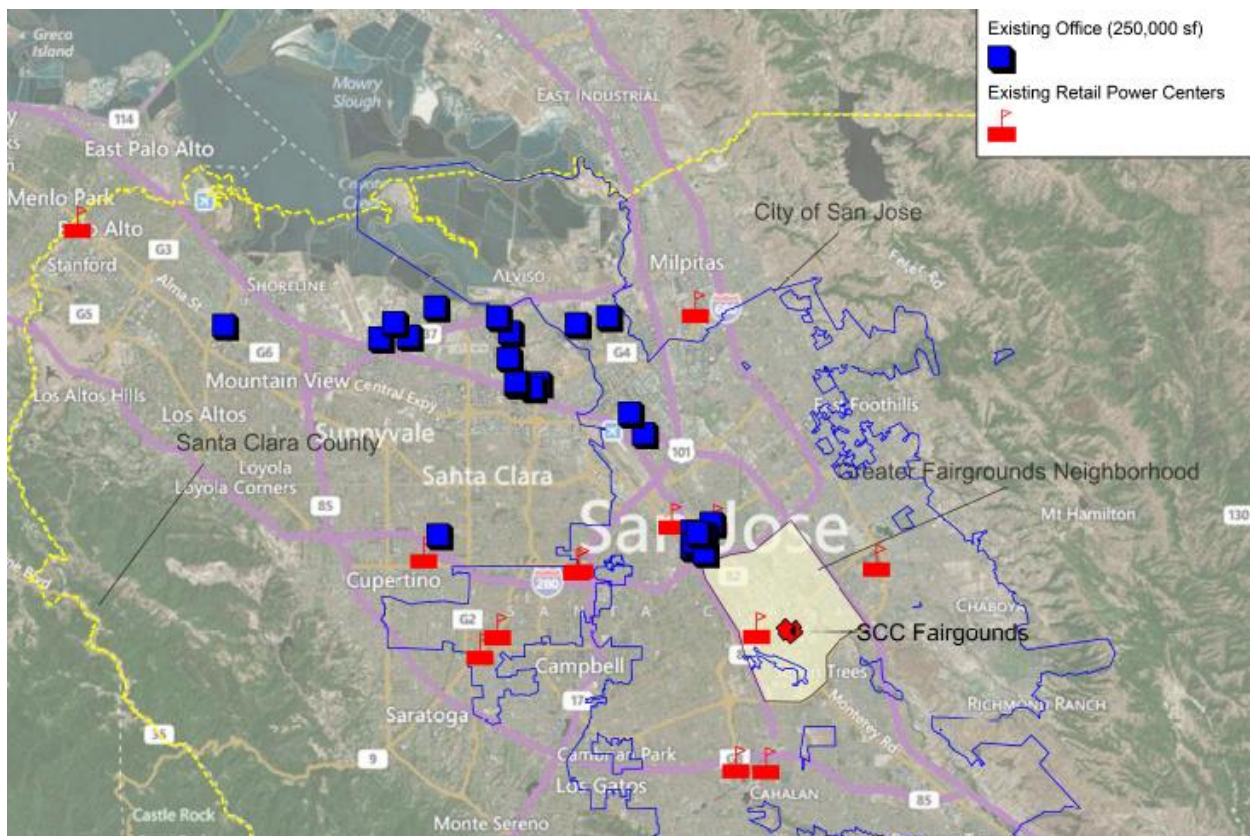
## Market Context

As noted in the sections above, the Greater Fairgrounds Neighborhood is located in the relative geographic center of the City of San Jose, immediately to the south of Downtown. While the City of San Jose has experienced tremendous growth since the 1970s, and is home to numerous technology giants such as Cisco, EBay and Intel, on average, residential and commercial land values in the City have long been exceeded by smaller Silicon Valley jurisdictions to the west and northwest such as Sunnyvale, Mountain View, Palo Alto, Cupertino, Menlo Park, Los Gatos and San Mateo.

## Existing Development

The Greater Fairgrounds Neighborhood, as defined in this memorandum, comprises approximately ten square miles of residential, commercial, institutional, and other public uses or approximately 6 percent of the total land area in the City of San Jose. The sections below provide a brief overview of the existing commercial (office, retail, and industrial) and residential (multifamily) development in the Greater Fairgrounds Neighborhood, the City of San Jose, and Santa Clara County. An overview of existing large-scale office (greater than 250,000 square feet) and existing retail power centers in Santa Clara County is shown below in **Figure 6**.

**Figure 6 Existing Large Santa Clara County Commercial Development**



### **Office**

There is currently no Class A office space and very little (approximately 151,000 square feet) Class B office space in the Greater Fairgrounds Neighborhood. The City of San Jose possesses nearly 10 million square feet of Class A office space and over 19 million square feet of Class B office space, while Santa Clara County has over 23 million square feet of Class A office and over 62 million square feet of Class B office. However, despite the limited office inventory in the Greater Fairgrounds Neighborhood, the area has shown significantly lower vacancy rates (2 percent average) than both the City of San Jose (16 percent average for Class A and 12 percent average for Class B) and Santa Clara County (15 percent average for Class A and 12 percent average for Class B) over the past 18 years. Furthermore, while there is minimal data from which to compare, recent rental activity suggests that office in the Greater Fairgrounds Neighborhood has consistently outperformed office in the City as a whole as shown below in **Table 9**.



**Table 9 Class A and B Office Overview**

Year	Vacancy Rates					Lease Rates				
	Class A		Greater Fairgrounds	Class B		Class A		Greater Fairgrounds	Class B	
	San Jose	Santa Clara County		San Jose	Santa Clara County	San Jose	Santa Clara County		San Jose	Santa Clara County
1997	2.9%	4.5%	0.9%	3.0%	2.8%	\$27.43	\$28.05	-	\$18.98	\$20.09
1998	14.2%	10.0%	0.8%	4.7%	4.9%	\$35.05	\$36.48	-	\$26.42	\$32.51
1999	7.1%	6.0%	0.8%	5.4%	3.3%	\$35.39	\$38.15	-	\$29.79	\$35.52
2000	1.4%	0.9%	0.0%	2.2%	2.1%	\$54.89	\$52.42	-	\$40.33	\$47.71
2001	11.9%	12.4%	0.0%	14.0%	14.6%	\$44.46	\$42.63	-	\$38.04	\$39.23
2002	20.4%	23.1%	0.0%	16.4%	18.6%	\$35.44	\$33.86	-	\$27.81	\$29.28
2003	21.0%	22.2%	0.8%	14.9%	19.5%	\$29.60	\$28.28	-	\$22.60	\$22.89
2004	19.4%	17.2%	1.1%	14.8%	17.2%	\$26.67	\$26.49	-	\$18.16	\$21.47
2005	19.0%	18.1%	3.4%	14.9%	13.7%	\$27.86	\$25.60	-	\$19.19	\$21.47
2006	17.0%	14.2%	1.3%	13.4%	12.8%	\$26.30	\$25.20	-	\$18.92	\$20.29
2007	14.0%	11.8%	2.0%	12.5%	11.8%	\$29.53	\$32.30	-	\$21.38	\$25.45
2008	17.8%	19.8%	3.6%	12.4%	11.9%	\$34.63	\$35.78	\$25.50	\$22.76	\$28.32
2009	24.6%	26.6%	2.0%	14.5%	14.1%	\$29.77	\$29.98	\$11.88	\$20.73	\$23.49
2010	24.6%	25.3%	4.5%	17.6%	14.3%	\$29.17	\$28.37	\$21.00	\$19.37	\$24.36
2011	21.6%	25.1%	2.1%	15.2%	12.2%	\$27.89	\$31.38	\$21.00	\$20.62	\$25.56
2012	18.6%	16.6%	3.3%	14.6%	11.3%	\$29.15	\$31.63	-	\$23.42	\$28.57
2013	15.2%	11.8%	1.7%	14.0%	10.8%	\$30.25	\$34.16	-	\$25.01	\$30.30
2014Q3	<u>14.2%</u>	<u>10.4%</u>	<u>0.6%</u>	<u>14.7%</u>	<u>10.7%</u>	<u>\$31.07</u>	<u>\$37.84</u>	<u>\$34.20</u>	<u>\$25.79</u>	<u>\$31.89</u>
<b>Average (1997 - 2014 Q3)</b>	<b>15.8%</b>	<b>15.3%</b>	<b>1.6%</b>	<b>12.2%</b>	<b>11.5%</b>	<b>\$32.47</b>	<b>\$33.26</b>	<b>\$22.72</b>	<b>\$24.41</b>	<b>\$28.24</b>

Source: CoStar; Economic & Planning Systems, Inc.

### **Retail**

The Greater Fairgrounds Neighborhood currently features approximately 3.4 million square feet of retail and a 2.8 percent retail vacancy rate. Average triple net rents in the Fairgrounds area are currently \$24 per square foot per year, significantly lower than its recent peak of over \$36 per square foot in 2010. Inventory in the Fairgrounds area increased considerably in 2008 following the opening of The Plant and vacancy rates increased following the financial crisis, peaking at 8 percent in the second quarter of 2011. In comparison, the City of San Jose currently has nearly 36 million square feet of retail and a 3.2 percent vacancy rate. While the Greater Fairgrounds Neighborhood has seen rents decrease since 2010, triple net retail rents in the City as a whole have remained relatively flat since 2006, and currently average \$28 per square foot. There are over 76 million square feet of retail throughout Santa Clara County with retail vacancy currently 3.5 percent and rents averaging \$28 per square foot.

As shown in **Table 10** below, since 2006, vacancy rates in the Greater Fairgrounds Neighborhood have been consistently lower than the City of San Jose and Santa Clara County. While rental rates over the past two years in the Greater Fairground Neighborhood have lagged behind those in the City and County, since 2006, rents have averaged slightly higher at an average of \$27.83 per square foot compared to \$27.25 per square foot for the City and \$27.11 for the County.

These data points suggest that the retail market in the Greater Fairgrounds Neighborhood, which comprises approximately 10 percent of the City's overall square footage, is relatively strong in comparison to the City and County.

**Table 10 Retail Market Overview**

Year	Inventory			Vacancy			Retail Rents		
	Fairgrounds	San Jose	Santa Clara County	Fairgrounds	San Jose	Santa Clara County	Fairgrounds	San Jose	Santa Clara County
2006	2,515,957	33,177,556	74,808,937	3.6%	5.7%	5.4%	\$26.35	\$27.69	\$28.48
2007	2,680,678	33,460,708	33,460,708	1.8%	3.3%	3.5%	\$16.09	\$29.41	\$28.24
2008	3,220,149	34,198,871	34,198,871	4.6%	3.9%	4.3%	\$28.96	\$27.70	\$27.47
2009	3,254,148	34,082,610	34,082,610	5.0%	5.8%	6.4%	\$36.19	\$26.22	\$26.13
2010	3,255,123	34,442,563	34,442,563	4.9%	5.9%	6.3%	\$35.56	\$27.19	\$26.63
2011	3,381,093	34,543,622	34,543,622	4.5%	5.4%	5.5%	\$30.85	\$25.26	\$25.55
2012	3,371,699	34,292,942	34,292,942	4.1%	4.7%	5.3%	\$26.91	\$25.63	\$26.34
2013	3,369,901	34,397,143	34,397,143	3.1%	4.0%	4.3%	\$25.80	\$27.84	\$26.87
2014 Q4	3,369,901	34,632,076	34,632,076	<u>2.8%</u>	<u>3.2%</u>	<u>3.5%</u>	<u>\$23.78</u>	<u>\$28.27</u>	<u>\$28.31</u>
<b>Average (2006 - 2014)</b>				<b>3.8%</b>	<b>4.7%</b>	<b>4.9%</b>	<b>\$27.83</b>	<b>\$27.25</b>	<b>\$27.11</b>

Sources: CoStar; EPS.

### **Industrial**

As illustrated in **Table 11**, the Greater Fairgrounds Neighborhood currently contains approximately 13 million square feet of industrial space, which is over 30 percent of the Citywide inventory. The vacancy rate for the Greater Fairgrounds Neighborhood is currently roughly 4 percent, slightly below the approximately 5 percent vacancy found in the City of San Jose and Santa Clara County. Industrial rents in the Greater Fairgrounds Neighborhood currently sit at approximately \$7.50 per square foot per year, slightly less than the City of San Jose (\$7.76 per square foot) and considerably less than the County (\$8.52). Since 1997, while the Greater Fairgrounds Neighborhood's share of total San Jose industrial inventory has increased (20 percent in 1997 to 27 percent in the fourth quarter of 2014), vacancy rates have remained relatively flat and rental rates have generally been below the citywide average. Both the Greater Fairgrounds Neighborhood and San Jose have generally maintained lower rents and higher vacancy than the County as a whole.

**Table 11 Industrial Market Overview**

Year	Inventory (Sq.Ft.)			Vacancy Rates			Industrial Rents (per Sq. Ft. per Year)		
	Fairgrounds	San Jose	Santa Clara County	Fairgrounds	San Jose	Santa Clara County	Fairgrounds	San Jose	Santa Clara County
1997	12,513,689	46,591,408	97,785,207	5%	4%	3%	\$6.93	\$7.02	\$7.11
1998	12,834,778	46,801,870	98,750,960	6%	4%	4%	\$7.71	\$8.05	\$8.64
1999	12,820,325	46,684,026	98,678,931	6%	4%	4%	\$7.29	\$8.66	\$9.18
2000	12,915,660	46,884,586	98,736,942	4%	3%	3%	\$9.19	\$14.84	\$13.55
2001	13,325,089	47,274,635	99,601,840	5%	6%	7%	\$9.59	\$12.92	\$11.56
2002	13,350,112	47,397,578	99,841,413	6%	8%	8%	\$8.00	\$7.32	\$8.08
2003	13,406,350	46,806,110	98,635,792	10%	8%	7%	\$5.29	\$5.64	\$6.13
2004	13,372,219	47,283,979	99,624,844	11%	10%	8%	\$4.40	\$5.37	\$5.95
2005	13,406,350	47,173,110	99,128,945	6%	8%	7%	\$5.07	\$5.36	\$6.07
2006	13,406,350	46,797,575	98,228,209	6%	8%	7%	\$5.82	\$5.79	\$6.25
2007	13,406,350	46,350,049	97,681,994	3%	4%	5%	\$6.43	\$6.63	\$7.54
2008	13,403,850	46,315,357	97,259,714	4%	6%	5%	\$6.50	\$6.92	\$7.76
2009	12,824,997	45,397,090	95,877,063	7%	8%	7%	\$8.29	\$7.18	\$7.06
2010	12,749,239	45,065,188	95,521,635	7%	9%	7%	\$7.70	\$6.96	\$6.98
2011	12,687,566	43,690,409	93,745,747	5%	6%	6%	\$8.38	\$6.99	\$7.28
2012	12,676,566	42,285,541	91,213,610	6%	6%	5%	\$7.28	\$6.95	\$7.60
2013	12,668,269	41,831,791	90,210,734	5%	6%	6%	\$7.00	\$7.15	\$7.78
2014 Q4	12,625,394	41,475,648	89,258,782	<u>4%</u>	<u>5%</u>	<u>5%</u>	<u>\$7.50</u>	<u>\$7.76</u>	<u>\$8.52</u>
<b>Average (1997 - 2014)</b>				<b>5.8%</b>	<b>6.2%</b>	<b>5.7%</b>	<b>\$7.13</b>	<b>\$7.64</b>	<b>\$7.95</b>

Sources: CoStar; EPS

**Residential Single-Family**

As in many markets in the Bay Area, single-family home prices in San Jose have seen large increases since 2012. According to Zillow.com, the median single-family home sales price in San Jose in February 2012 was \$410,000, the lowest Citywide median in over decade. In September 2014, the median single-family home sale price rose to \$672,000, representing a 64 percent increase in 30 months and surpassing the City’s pre-recession high of \$671,000 in May 2007.

The Greater Fairgrounds Neighborhood has experienced a similar increase in home prices over the past two and a half years, but unlike the City as a whole and other more desirable neighborhoods, has not rebounded to pre-recession market levels. Like the City of San Jose, the Greater Fairgrounds Neighborhoods’ single-family home market reached its 10-year nadir in February 2012 with a median sale price of \$273,000, as shown in **Table 12**. However, while the market in the Greater Fairgrounds Neighborhood has rebounded by over 85 percent since 2012, to a median sale price of \$507,000, the market remains below its 2007 peak median sale price of \$650,000.

Similarly, the Downtown neighborhood, while experiencing significant recovery since its median sales price nadir in 2008 of \$335,000, has not yet rebounded to its pre-recession high of \$621,000. In comparison, the April 2014 median sales price for the Willow Glen neighborhood, which is located directly west of the Greater Fairgrounds Neighborhood, was \$852,000, significantly above its 2008 peak of \$774,000.

**Table 12 Single-Family Home Median Sales Price Change by Geography**

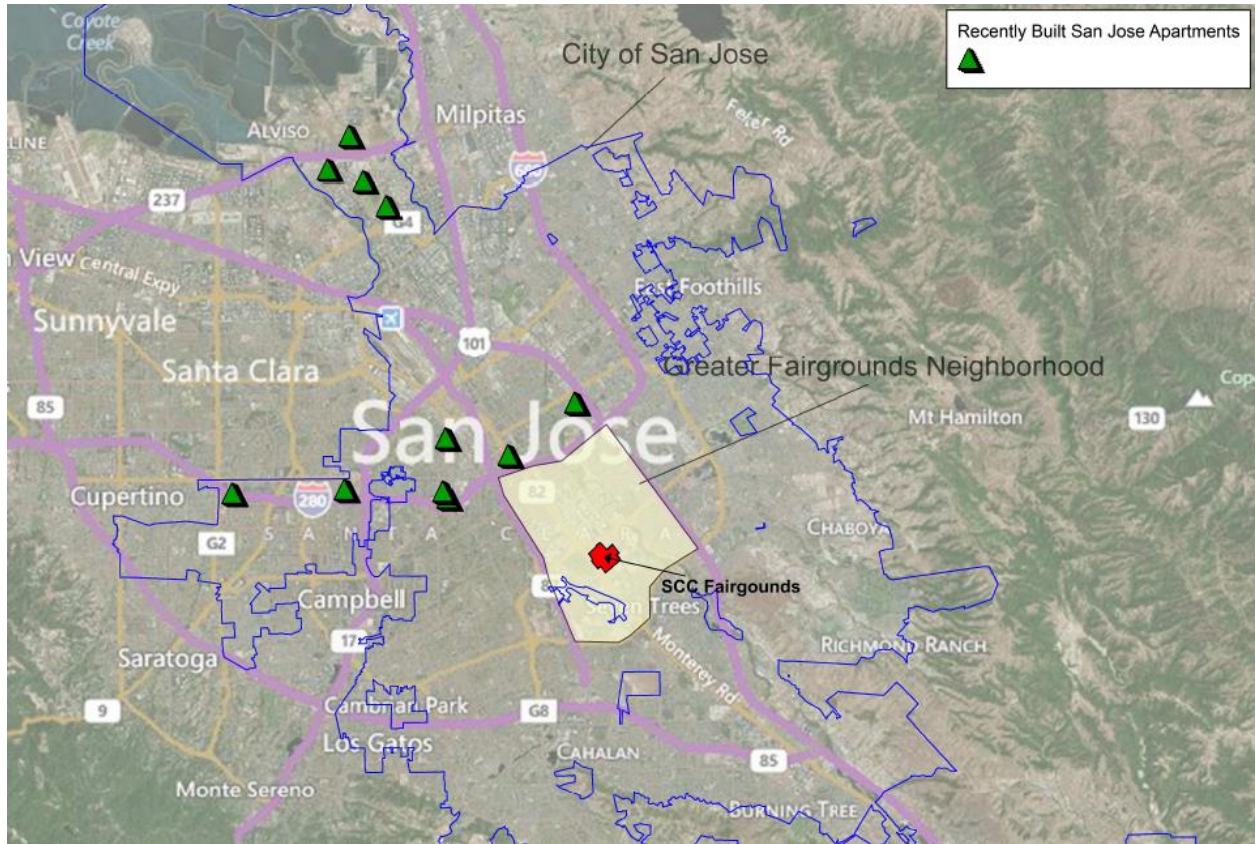
Geography	Median Sale Price				
	Pre-Recession Peak 2007 - 2008	Post-Recession Nadir (2009 - 2012)	2014 Peak	% Change (2007 - 2014)	% Change (2012 - 2014)
City of San Jose	\$671,000	\$412,000	\$672,000	0%	63%
<u>Neighborhoods</u>					
Greater Fairgrounds	\$650,000	\$273,000	\$507,000	-22%	86%
Willow Glen	\$774,000	\$522,000	\$852,000	10%	63%
Downtown	\$621,000	\$335,000	\$543,000	-13%	62%

Source: Zillow

**Residential Apartments**

Since 2009, 11 residential apartment projects containing over 200 units, totaling nearly 4,700 units, have been completed in San Jose. As shown in **Figure 7** below, these projects have been concentrated on along the 280 corridor near Downtown and in North San Jose’s “Golden Triangle.”

**Figure 7 Recently Built San Jose Apartments**



Rental rates increased dramatically in these newly constructed projects, showing an average increase across all product types of 26 percent since the third quarter of 2012. As illustrated in **Table 13** below, this significant increase in overall rental averages is led by increases in studio and one-bedroom units, which have seen rents increase from \$2.90 and \$2.53 per square foot in 3Q2012, respectively, to \$4.82 and \$3.16 per square foot in 3Q2014, respectively.

**Table 13 Recently Built San Jose Apartment Rental and Occupancy Rates (2012-2014)**

Quarter/Year	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014	Change in Rates (3Q2012 - 3Q2014)(1)
<b>Average Rent</b>										
All Unit Types	\$2.46	\$2.32	\$2.37	\$2.74	\$2.75	\$2.75	\$2.82	\$2.91	\$3.09	26%
Studio	\$2.90	\$2.54	\$2.54	\$3.38	\$3.43	\$3.42	\$3.59	\$3.75	\$4.82	66%
1bd 1bth	\$2.53	\$2.44	\$2.50	\$2.85	\$2.85	\$2.86	\$2.93	\$2.97	\$3.16	25%
2bd 2bth	\$2.33	\$2.17	\$2.23	\$2.54	\$2.55	\$2.56	\$2.58	\$2.72	\$2.78	19%
2bd TH					\$3.06	\$2.85	\$2.90	\$3.09	\$3.18	4%
3bd 2bth	\$2.29	\$2.29	\$2.47	\$2.58	\$2.76	\$2.61	\$2.80	\$2.67	\$2.75	20%
3bd TH					\$2.33	\$2.46	\$2.46	\$2.65	\$2.65	14%
Avg. Occupancy	63.00%	82.50%	78.00%	79.50%	71.70%	70.50%	67.70%	80.90%	92.50%	47%

(1) Townhome products (TH) came online in 3Q2013. Change in rental rates therefore reflect only one year of data.

Source: RealFacts



## Development Pipeline

Immediately following the financial crises, very few new commercial and residential developments were delivered in the San Jose market. However, during the past two years, a number of large-scale commercial projects have been completed including Phase 1 of the Equinox project, the first phase of a new Cisco office park in the Edendale Neighborhood off Highway 85, and the Hyatt House, a boutique-style hotel development in the Golden Triangle. In addition, there are nine large-scale (over 25,000 square feet) commercial projects currently under construction and another 18 that have been approved but are not yet under construction.

Similarly, as shown in the section above, there have been nearly a dozen large residential apartment projects built since 2009, roughly the same number currently under construction, and 19 residential apartment projects of greater than 200 units approved but not yet under construction. As shown in **Figure 8** below, commercial and residential projects in the City's pipeline are located primarily in and around the Downtown area and within the "Golden Triangle."

Notable pipeline projects located within the Greater Fairgrounds Neighborhood include the 257,000-square foot Sun Garden Retail Center located adjacent to the San Jose State campus on East Alma and Monterey as well as the 439 unit Verona/Vicenza at Montecito Vista located on Monterey just south of Umbarger.

**Figure 8 San Jose Commercial and Residential Pipeline**

