STRATEGIC ECONOMICS

# ECONOMIC AND FINANCIAL ANALYSIS REPORT

## SANTA CLARA STATION AREA SPECIFIC PLAN

Prepared for:

City of Santa Clara
Date: November 6, 2024

City of Santa Clara
The Center of What's Possible

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# I. INTRODUCTION

The Santa Clara Station Area Specific Plan will serve as a tool for the City of Santa Clara, City of San Jose, school districts, colleges, other governmental agencies, residents, businesses, and developers to guide future public and private investment in the Santa Clara Station Area over a 25- to 30- year horizon. The Santa Clara Station Area encompasses nearly a half-mile radius of the existing Caltrain/Altamont Commuter Express (ACE) Station. Immediately adjacent to the Caltrain/ACE Station is the planned BART Phase II Santa Clara Station (at-grade) and the future BART Maintenance Facility. The Santa Clara Station will be the end of line for VTA's BART Phase II Extension – a six-mile, four-station extension that will expand BART service from Berryessa/North San Jose through Downtown San Jose to its terminus in the City of Santa Clara. The Caltrain electrification process, which was recently completed, is expected to substantially improve Caltrain's performance through increased service, improved travel times, greater reliability and reduced environmental impacts. These improvements are expected to create increased ridership for the service. These transit improvements are already catalyzing investments in the development of mixed-use Transit Oriented Development in the Santa Clara Station Area. And, because the real estate market is beginning to show interest in this area, it is now time to plan for a well-connected and equitable Transit Oriented Community (TOC) in the area as part of the Santa Clara Station Area Specific Plan.

The goal of the Economic and Financial Analysis report is to inform land use policy and decisions necessary to create a more transit supportive land use pattern in the Santa Clara Station Area and to inform future implementation decisions based on the area's real estate performance, and the benefits this may create for the City's General Fund. This area planning process is timed to coincide with Caltrain's now completed electrification process and the BART Phase II Extension which is expected to be completed by around 2036. These two projects will bring unprecedented transit improvements to this area, which already has some of the best transit connectivity in the Bay Area. Existing transit includes Caltrain, ACE, and Capitol Corridor rail service and multiple VTA bus lines. Recent development activity in the Station Area suggests that the market is already responding to existing demand for housing near high quality regional transit with the recent construction of several new high-density mixed-use residential projects. This demand is expected to accelerate in the future as the transit improvements currently underway are completed, positioning the Santa Clara Station Area to offer high quality transit service to many major employment destinations in the region.

## Purpose of the Report

The purpose of this report is to analyze potential market demand for housing, retail, office and mixed-use development in the Station Area based on population, households, and employment growth trends, as well as existing real estate market conditions in the Station Area. To provide greater context, trends in the Station Area have been compared with those for City of Santa Clara and for a larger region composed of multiple cities in Santa Clara County. In assessing demand for different types of real estate in the Santa Clara Station Area, this report also assesses potential economic opportunities and challenges associated with establishing more transit supportive land uses in the study area. This report also considers the fiscal impact of new land uses in the Station Area on the City of Santa Clara's General Fund and examines existing policy supporting future affordable housing production and small business development to identify potential pathways for creating equitable transit-oriented development in the Station Area.

## Report Geographies

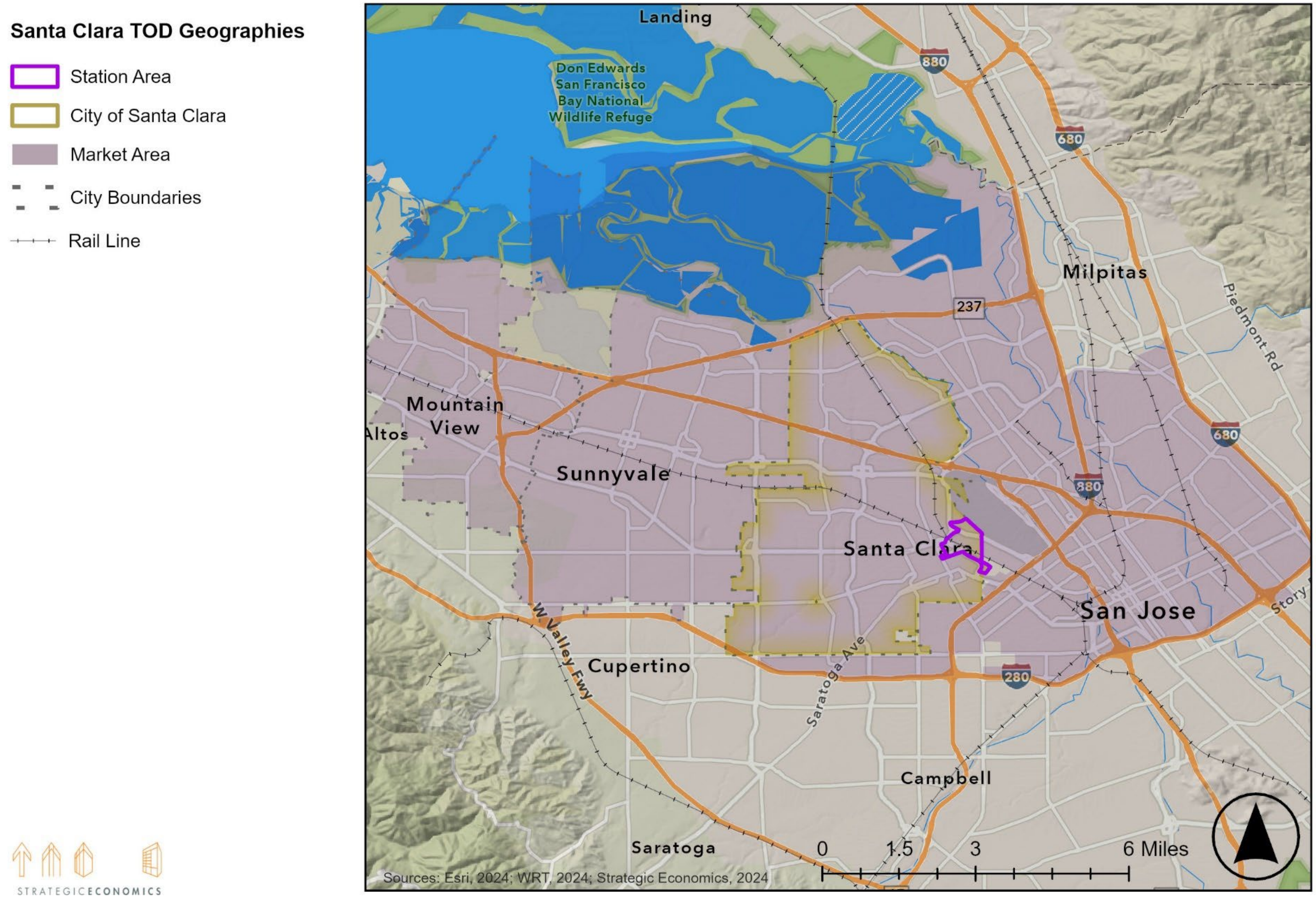
This report focuses on three key geographic areas, as shown in in Figure 1.

**Santa Clara Station Area**: Often referred to in the report as the Station Area, the Santa Clara Station Area is the study area for this report. The Station Area likely also represents the final boundaries for the Santa Clara Station Area Specific Plan boundaries.  However, these boundaries may shift as the planning process unfolds.

**City of Santa Clara**: Trends in the Station Area are compared to the City of Santa Clara. The City of Santa Clara is in Santa Clara County, about 45 miles south of San Francisco, at the southern tip of San Francisco Bay. The Santa Clara Station Area is in the eastern part of the City of Santa Clara as shown in Figure 1. The City of Santa Clara is often referred to as the City, or Santa Clara throughout the report.

**Market Area**: The Market Area is the primary area for existing competitive market supply by land use type and provides a likely profile of potential future demand for residential, retail office and industrial development in the Station Area. The Market Area includes the cities of Santa Clara, Sunnyvale, and Mountain View along with a portion of San Jose to the west of I-680 and north of I-280 as shown in Figure 1.  The Market Area will often be referred to as the "region" in the report.

FIGURE 1: GEOGRAPHIC AREAS USED AS BASIS FOR THE ECONOMIC AND FINANCIAL ANALYSIS OF THE SANTA CLARA STATION AREA SPECIFIC PLAN

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## Study Area Characteristics

The Santa Clara Station Area consists of 244-acres bounded by De La Cruz Boulevard, Reed Street, and Martin Avenue to the northeast, and Franklin Street and El Camino Real to the southwest as shown in Figure 2. At the center of this area is the existing Santa Clara Transit Station, which is currently served by Caltrain, Altamont Commuter Express (the ACE train serving San Joaquin County), and the Capital Corridor (serving East Bay destinations including Oakland with service to Sacramento) rail lines and Santa Clara Valley Transportation Authority (VTA) buses. The station area will also become the terminus for the VTA's planned extension of the Bay Area Rapid Transit (BART) system also known as BART Silicon Valley Phase II (BART Phase II). BART Phase II is an approximately six-mile-long extension of the BART system from the Berryessa/North San Jose BART Station in San Jose to the proposed Santa Clara BART Station. As such, the station area will be an increasingly important transit hub for the Bay Area.

At present, the Santa Clara Station Area land use pattern is characterized primarily by industrial buildings, relatively low density commercial development and a mix of single and multi-family housing. There are several important activity centers in or around the area including Santa Clara University, the historic Santa Clara Downtown and San Jose Mineta International Airport. The area is also close to multiple recreational and sport-focused entertainment destinations, including those within the Santa Clara University campus, PayPal Park (formerly known as the Avaya Stadium), Levis Stadium, the Forge Garden and Larry J. Marsalli Park. The City of Santa Clara is working to redevelop its downtown, which is within walking distance of the Station. Also, Santa Clara University is a strong institutional partner for the City in planning for both the downtown and the Station Area.

Although circumstances in the Santa Clara Station Area are expected to change, future commercial and residential development opportunities in the area will be heavily impacted by current land uses. Analysis of existing land use can inform which future uses are most likely to be successful and provide an indication as to how various locations within the Station Area might transition over time to new uses based on market forces. To reflect these current conditions, the Station Area this analysis has divided the Station Area into five distinct subareas reflecting existing varying land use patterns, access and mobility issues, and market potential based on the locational preferences associated with the different development product types under consideration. Existing land uses in each of these subareas and underlying market conditions related to these land use patterns will have important implications for where redevelopment may occur and over what general time horizon within the Station Area. The five subareas and their distinct land use patterns are shown in Figure 2 and described below:

1. **Subarea 1, North of Coleman Ave**: This area primarily includes light industrial uses and some commercial activity. Commercial uses include older office suites, car rentals agencies, car repair and maintenance shops, gaming stores and a few food services establishments. Towards the western part of this section, most commercial uses are aviation related owing to their proximity to the San Jose Mineta Airport. Some government institutions such as a United States Citizenship and Immigration Service (USCIS) Office area also present in the area.

2. **Subarea 2, South of Coleman Ave, West of Brokaw St**: This area also includes light industrial and commercial uses. However, the use mix is more diverse than in Subarea 1 and includes a large R&D building owned by Apple, which is a major employer in the Station Area. To the west

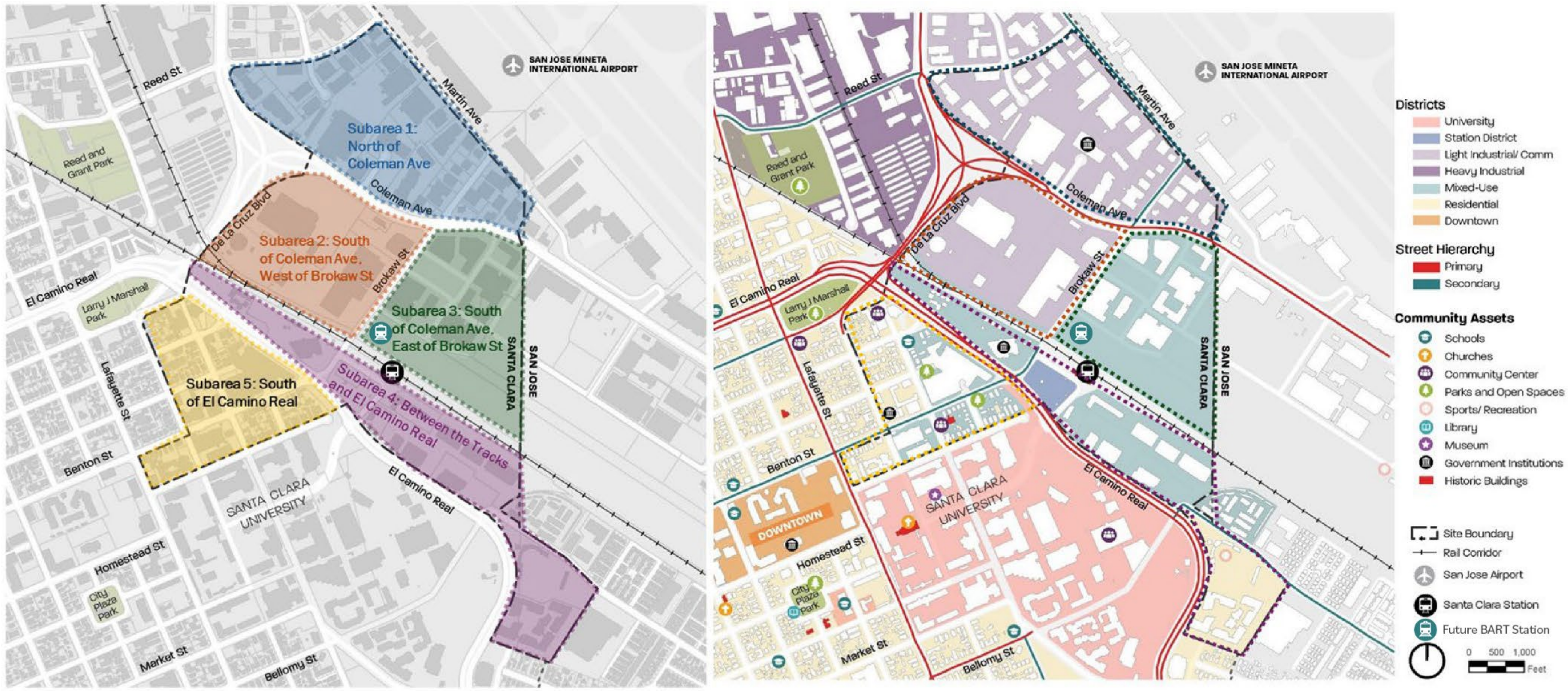
of the Apple building is Costco Wholesale and Gas Station, a major retailer in the City and another large employer in the Station Area. The part of this subarea fronting Coleman Ave has smaller commercial buildings including a McDonalds, a dental clinic and another restaurant.

3. **Subarea 3, South of Coleman Ave, East of Brokaw St**: This subarea's major use includes is Gateway Crossings, a mixed-use development currently under construction that will include 1,500 multifamily housing units and ground floor retail. A future phase of this project may include a hotel. This subarea is bordered by the City of San Jose where the Coleman Highline business park is located.

4. **Subarea 4, Between the Railway Tracks and El Camino Real**: The west side of this subarea includes public and quasi-public uses including the Santa Clara Police Department, as well as some residential uses. This subarea includes the Caltrain Station and a parking lot which is jointly owned by the City and VTA, along with the site for the upcoming BART Phase II Expansion Station, parking and maintenance facility. There are some publicly owned vacant sites in this subarea. To the east of the Caltrain Station is a small office development with several low-density commercial uses with tenants that include such as MACOM and technology companies like Qubole and Quest Software, healthcare companies, a bank, a hotel and several small restaurants. Several buildings in the office development belong to Santa Clara University (SCU) including Guadalupe Hall which includes the SCU Maker Lab.

5. **Subarea 5, West of El Camino Real and North of Franklin Street**: This subarea is composed of single family and multifamily residential, including The Benton, a recently built mixed-use project with over 350 housing units, and other small neighborhood shopping centers. Several single-family homes in this area were bought up by SCU to accommodate future campus expansion. This area also includes the North Parking Garage surrounded by smaller commercial uses (Zipcar office, 7-Eleven store and a restaurant). South of Benton Street comprises of buildings owned and operated by the Santa Clara State University. Subarea 5 leads into the City's developing downtown and serves as a connection between the Caltrain Station and Downtown Santa Clara.

FIGURE 2: SANTA CLARA STATION AREA DIVIDED INTO FIVE SUBAREAS ALONG WITH CORRESPONDING LAND USE




Sources: WRT, 2024; Strategic Economics, 2024

## Report Organization

This report is organized into the following key sections:

- **Demographic Characteristics and Trends:** Analysis of population and household characteristics to identify current and expected future demand for housing through 2050 (the Plan Bay Area planning horizon), commercial and other uses in the Station Area.
- **Employment and Small Business Trends and Conditions:** Evaluates employment and industry sector composition in the Station Area and trends at the regional level to identify industry sectors that will create potential demand for future employment uses in the Station Area.
- **Real Estate Market Trends:** Presents residential and commercial real estate trends in the Station Area and the two reference geographies (the City and the Market Area) including identifying recently built, planned and proposed competitive projects within the Market Area to indicate current market demand and future changes in supply.
- **Additional Station Area Economic Factors:** Analysis of retail sales, hotel and restaurant/entertainment trends, including a post-COVID retail analysis to determine potential fiscal implications for developing retail and hotel uses in the Station Area. This chapter also includes an analysis of existing City level policies for affordable housing production and small business retention efforts to determine existing policy support for equitable TOD in the Station Area.
- **Economic and Financial Opportunities and Constraints Summary:** Summary of the opportunities and constraints for future real estate development in the Santa Clara Station Area.

# II. DEMOGRAPHIC CHARACTERISTICS AND TRENDS

Population and household characteristics and trends determine future demand for housing in the Station Area. This section looks at change in population, households, income, race, age, educational attainment, housing tenure and cost burden in the Market Area, City and Station Area to determine which population groups and household types are generating demand for housing in the Station Area.

### DATA SOURCES AND LIMITATIONS

Data for the report geographies is obtained from the American Community Survey (ACS) for years 2008 to 2012 and 2018 to 2022 (detailed sources are provided for each table or chart) based on contiguous census block groups whose boundaries coincide most closely with the Santa Clara Station Area Specific Plan boundary and other market geographies. Using the ACS block group data provides a more geographically precise profile of the Station Area and provides the ability to track demographic trends for ten-year time periods that do not coincide with the decennial census years.

## Population and Households

**In the last decade, population and households grew across all geographies.** As a percentage of base, population in the Market Area increased by 12 percent compared to 10 percent growth in population in the City of Santa Clara (see Figure 3). Since both geographies have significant base populations, this trend indicates that the City of Santa Clara experienced lesser growth than other parts of the Market Area. The Santa Clara Station Area showed a 20 percent growth in population - significantly greater than the City or the Market Area. However, the base population of the Station Area is much smaller than the other geographies, comprising of only 500 people, culminating in large changes in percentage despite the addition of a small number of people. Despite its small base, the Station Area emerges as one of Santa Clara's population growth areas.

**As a percentage of its base, households have shown a higher percentage increase compared to population, indicating decreasing household sizes.** Figure 3 shows that population grew by 12 percent in the Market Area compared to 10 percent in the City of Santa Clara whereas households in the Market Area grew by 15 percent compared to 13 percent in the City of Santa Clara. In the Station Area, households grew by 40 percent whereas the population grew by only by 20 percent. This trend can be attributed to decreasing household sizes across all three geographies (see Figure 4). Household sizes are decreasing since majority of newly added households have one or two persons per household who are unrelated to each other (non-family households) (see Figure 5, Figure 6).

### FIGURE 3: POPULATION AND HOUSEHOLDS, 2012 AND 2022

| | Population | | | | Households | | | |
|---|---|---|---|---|---|---|---|---|
| **Geographic Area** | 2012 | 2022 | Numerical Change | Percentage Change | 2012 | 2022 | Numerical Change | Percentage Change |
| Santa Clara Station Area | 457 | 547 | 90 | 20% | 124 | 174 | 50 | 40% |
| City of Santa Clara | 116,301 | 128,058 | 11,757 | 10% | 42,034 | 47,434 | 5,400 | 13% |
| Market Area | 533,493 | 599,341 | 65,848 | 12% | 196,112 | 225,238 | 29,126 | 15% |

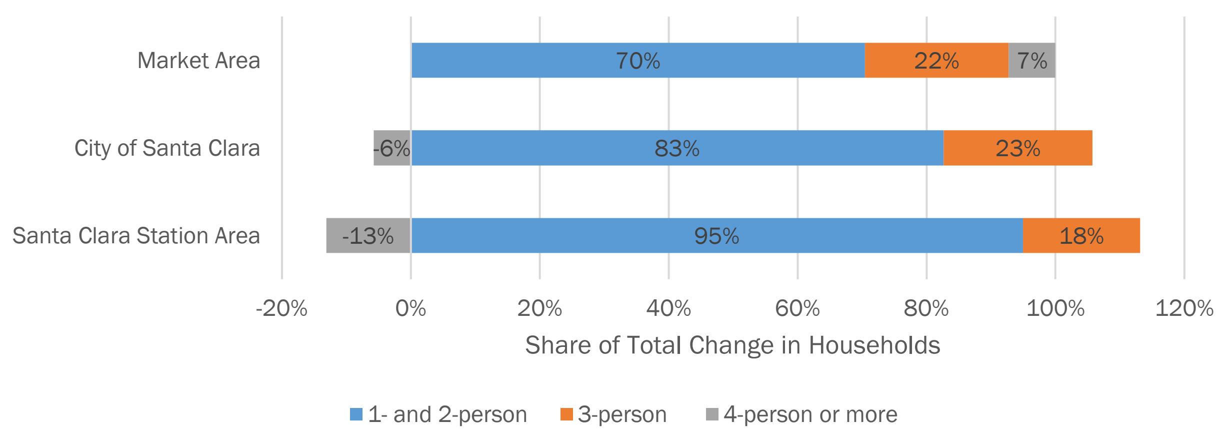
Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

### FIGURE 4: HOUSEHOLD SIZE, 2012 AND 2022

| Geographic Area | 2012 | 2022 | Percentage Change |
|---|---|---|---|
| Santa Clara Station Area | 3.68 | 3.14 | -15% |
| City of Santa Clara | 2.77 | 2.70 | -2% |
| Market Area | 2.72 | 2.66 | -2% |

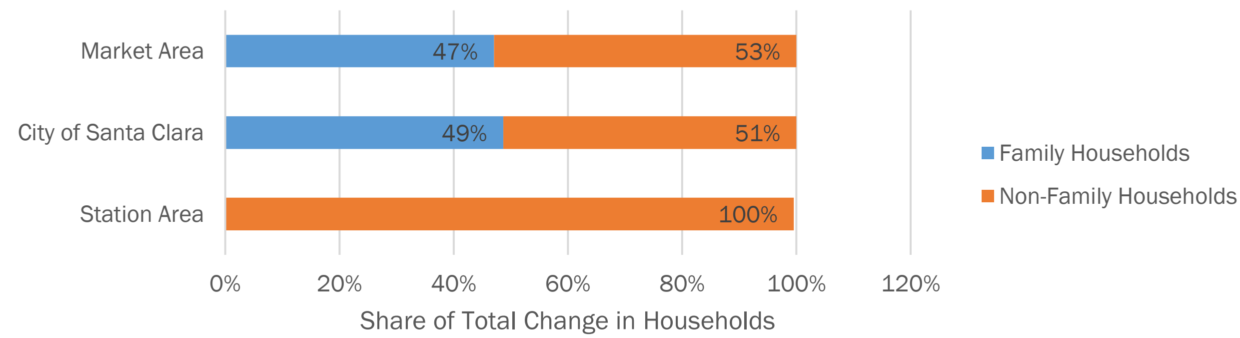
Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

### FIGURE 5: SHARE OF NEWLY ADDED HOUSEHOLDS BY NUMBER OF PERSONS IN A HOUSEHOLD FROM 2012 TO 2022




Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

FIGURE 6: SHARE OF NEWLY ADDED HOUSEHOLDS BY TYPE OF HOUSEHOLD FROM 2012 TO 2022




Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

## Household Income

Household income is analyzed in this subsection using two key metrics- median household income and area median income or AMI. They are described below:

- **Median Household Income**: Household income reflects the combined gross income of all members of a household. Median household income refers to the midpoint of all household incomes in a geographic area.

- **Area Median Income (AMI)**: It is the midpoint of an area's income distribution and is calculated annually by the Department of Housing and Urban Development. It is based on a four-person household. Together, median household incomes and Area Median Income (AMI) are used to benchmark income levels in an area and highlight the need for income support and housing services within the given community. Eligibility for most federal, state, and local housing programs depends upon the participant's income level based on such metrics. Area Median Income is only calculated at the county level; therefore, this discussion presents Santa Clara County's AMI in addition to median household incomes of all other geographies since AMI is often the primary determining factor for housing services eligibility. However, the analysis presented in this section does not determine the actual number of households in need of affordable housing support since eligibility for housing programs is based on income classes by household size, whereas this section discusses incomes based on a midpoint of household income for all households in the county.

**Median incomes increased across all geographies, although the increase in median income is higher in Santa Clara County compared to other geographies.** Figure 7 shows that median income increased by 40 percent in the Market Area and City, but by 60 percent in Santa Clara County. This trend indicates that the Market Area had a smaller increase in incomes compared to the county. The Station Area had the lowest median income and the smallest increase in income from 2012 to 2022 across all geographies. This indicates that households in the Station Area have relatively lower incomes than in the City and region. A large resident population of students enrolled in Santa Clara State University may account for lower incomes in the Station Area, since student populations tend to have lower incomes compared to worker populations of the same age group.

**There is a large increase in households with above moderate income across all geographies.** Santa Clara County showed a 166 percent increase in households with above moderate incomes. The Market Area and the City also showed close to 100 percent increase in this category (see Figure 8). The Station Area showed a greater increase in households with above moderate incomes than the Market Area. This indicates that the Station Area is beginning to capture demand from higher-income households.

**Contrary to other geographies which lost lower-income households, the Santa Clara Station Area experienced a small increase in low-income households.** Figure 8 shows a decline in households with extremely low, very low and low to median incomes in the City, Market Area and county from 2012 to 2022. The Station Area added a handful of new households with lower incomes. This indicates that in addition to generating demand from higher-income households, the Station Area also generates some demand from lower-income households.

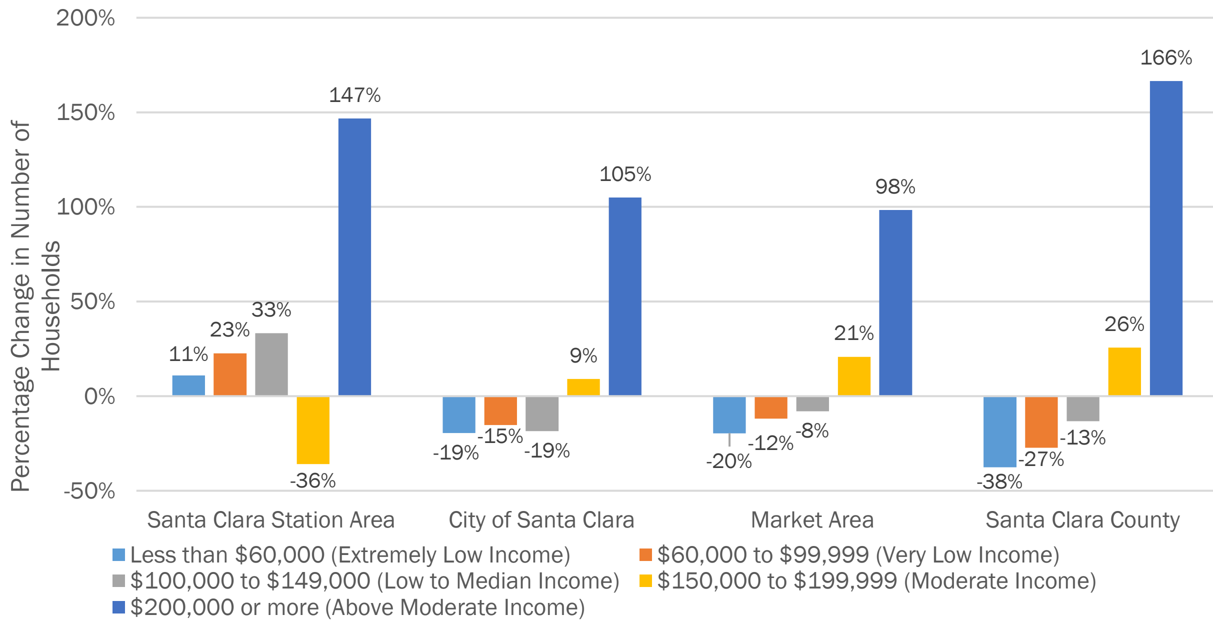
**The growing population of lower income households in the Station Area can likely be explained by a growing population of students and seniors.** Lower-income households often correspond to the presence of student populations and senior populations (described in greater detail in the next section). In the case of students, there is not necessarily a direct connection between monthly incomes and rents affordable to students because younger students are often financially supported by family members who pay their rents. Similarly, seniors are often on fixed incomes and have a limited ability to afford high rents or absorb rent increases.

FIGURE 7: MEDIAN HOUSEHOLD INCOMES IN NOMINAL DOLLARS AND RATE OF INFLATION, 2012 TO 2022

| | 2012 | | 2022 | | Change from 2012 to 2022 | |
|---|---|---|---|---|---|---|
| Geographical Area | Amount | Amount as Percentage of (a) | Amount | Amount as Percentage of (a) | Change in Amount | Percentage Change |
| Station Area | $99,248 | 95% | $125,355 | 74% | $26,107 | 26% |
| City of Santa Clara | $117,877 | 112% | $165,352 | 98% | $47,475 | 40% |
| Market Area | $108,629 | 103% | $153,106 | 91% | $44,477 | 41% |
| Santa Clara County AMI (a) | $105,000 | 100% | $168,500 | 100% | $63,500 | 60% |
| | | | | | *Rate of Inflation from 2012 to 2022* | 25% |

Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

FIGURE 8: PERCENTAGE CHANGE IN HOUSEHOLDS BY HOUSEHOLD INCOME FROM 2012 TO 2022

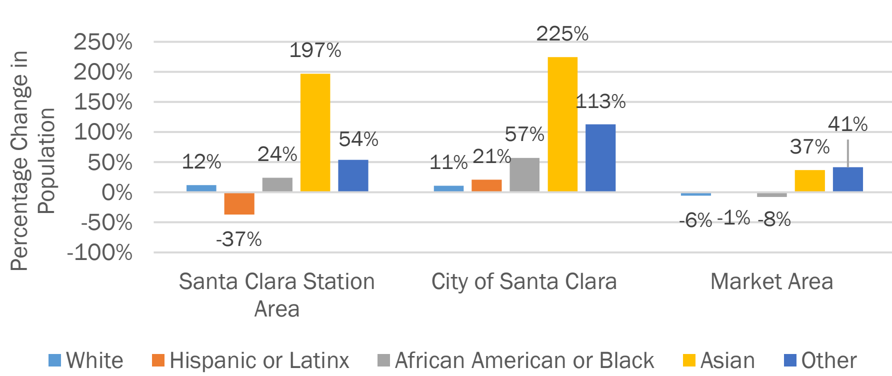



Notes: When the categories of household income are compared to the Santa Clara County's AMI for 4-person households in 2022, "Less than $60,000" is close to "Extremely Low Income", "$60,000 to $99,999" is close to "Very Low Income", "$100,000 to $149,000" is close to "Low Income", "$150,000 to $199,999" is close to "Moderate Income". Categories of household income in Figure 8 do not equate Santa Clara County 2022 Income Limits, yet their relationship with the county's AMI is described to demonstrate the need or eligibility for housing programs.
Sources: California HUD 2012 and 2022; U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

# Population by Race, Age and Educational Attainment

**There is an increase in the Asian population across all geographies.** The City experienced a higher growth in Asian population compared to the rest of the Market Area since 2012. Figure 9 shows a 37 percent increase in Asian population in the Market Area and a 225 percent increase in the City. Like the City, the Station Area also showed a high percentage increase in Asian population by 197 percent. High increase in Asian population in the City and Station Area indicates future demand for housing from Asian households in the Station Area.

FIGURE 9: PERCENTAGE CHANGE IN POPULATION BY RACE FROM 2012 TO 2022



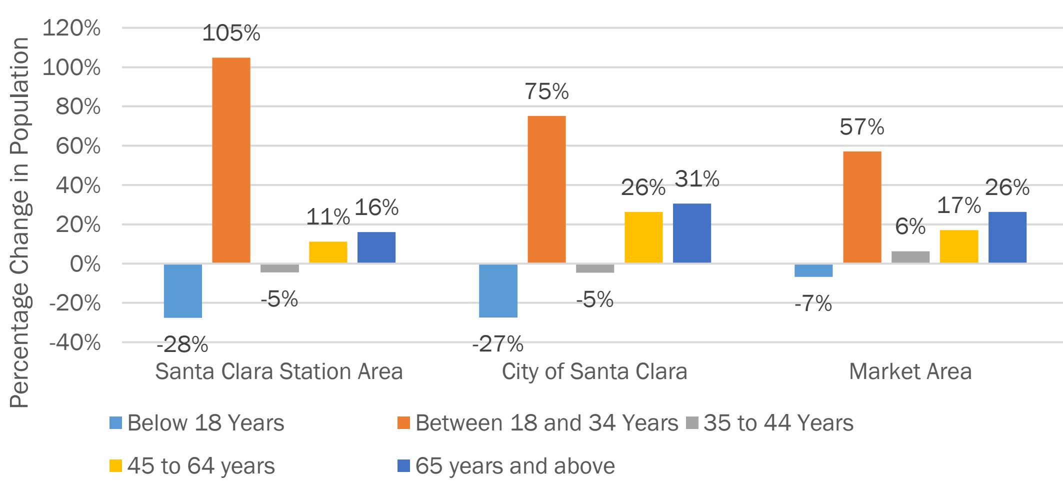

Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

**Younger adults, between the ages of 18 and 34 years, had the greatest increase in population.** Figure 10 shows a 57 percent increase in younger adults in the Market Area. The City had a higher increase in younger adults than the Market Area, indicating that majority of the growth in younger adult population has taken place in the City. The Station Area had a higher increase in younger adults than the City. The presence of SCU in proximity to the Station Area is likely responsible for the increase in younger adults, who are students, occupying a greater share of the Station Area population. Younger adults, particularly students, generate increasing demand for housing in the Station Area. Student incomes are typically lower than worker incomes and therefore there will be a need to provide affordable housing for such groups as their population increases in the future.

**Seniors, or those aged 65 years or above, represented the second largest increase in population.** Figure 10 shows a 26 percent increase in senior population in the Market Area and a 31 percent increase in the City – senior population grew more in the City compared to the Market Area. However, increase in senior population in the Station Area is only 16 percent – much lower than the City and the Market Area. This indicates that while seniors generate demand for other parts of the City at present, the Station Area is expected to capture demand for housing from seniors as their numbers continue to increase in the City in the future.

**Children, or those aged below 18 years, decreased.** The Market Area and the City had seven and 27 percent decrease in children respectively (see Figure 10). Children population in the City showed a much greater decline than the Market Area. The Station Area experienced a decline in children that was similar to the City. In a previous section, Figure 6 showed that majority of newly added households across the Market Area, City and Station Area are non-family households. The decline in children can be tied to the declining share of family households across all geographies. A declining share of children and families indicates that family households with children are unlikely to generate demand for housing in the Station Area.

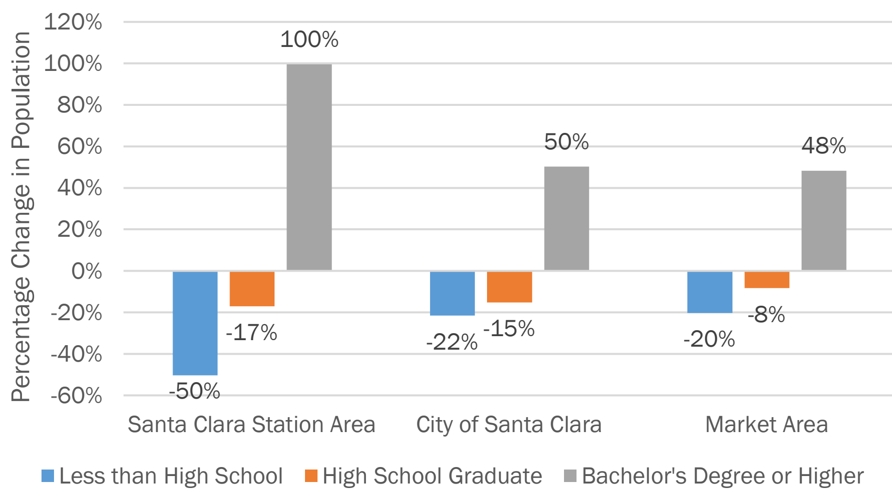
FIGURE 10: PERCENTAGE CHANGE IN POPULATION BY AGE FROM 2012 TO 2022




Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

**There is a large increase in population with a bachelor's degree or higher and a decline in those with lower educational attainment.** The City experienced greater declines in people with only a high school graduation and those with less than high school education compared to the Market Area (see Figure 11). The Station Area experienced the highest increase in those with a bachelor's degree and the greatest declines in those with lower educational attainment among all geographies. This indicates that the Station Area faces greater demand from highly educated people than other parts of the City and the Market Area.

FIGURE 11: PERCENTAGE CHANGE IN POPULATION BY EDUCATIONAL ATTAINMENT FROM 2012 TO 2022




Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

## Housing Tenure and Housing Costs Burden

This section describes tenure and housing cost characteristics. These concepts are generally defined below:

- **Housing Tenure**: refers to whether a household owns or rents their occupied housing.
- **Housing Cost Burden**: As defined by the census this refers to the percentage of household income spent on housing relative to total household income. A household is considered cost burdened when it spends more than 30 percent of its household income on housing and housing related costs (such as utilities). When a household spends more than 50 percent of its income on housing-related costs, it is considered severely housing cost-burdened. Analysis in this subsection includes housing cost burden for both renters and homeowners.

**The number of housing units increased across all geographies and most of the new housing is renter-occupied**. The Market Area experienced a 15 percent increase in housing units and the City experienced a 13 percent increase. The addition of new housing units to the City is comparatively slower than other parts of the Market Area. However, a greater share of newly added units in the City are renter occupied compared to the Market Area[1] (see Figure 12, Figure 13), indicating that the City is primarily adding renter-occupied housing. There was a 40 percent increase in housing units in the Station Area- the largest percentage increase among all geographies. However, in terms of actual numbers, the Station Area added only 53 new renter-occupied units and lost two owner-occupied

[1] Figure 12 shows the distribution of housing units by tenure and Figure 13 shows the distribution of newly added housing units by tenure. From 2012 to 2022, the City added 4950 renter-occupied units out of 5400 total units. Newly added renter occupied units made for 92 percent of all newly added units in the City from 2012 to 2022. In case of the Market Area, newly added rented units made for 86 percent of newly added units (25,071 renter-occupied units out of 29,196 total new housing units) in the last decade.

units[2]. Despite a relatively smaller addition of renter-occupied units in the last decade, the Station Area is expected to continue to add renter-occupied units in the future.

**There is an increase in cost-burdened households, the majority of them being renters.** Figure 14 shows extremely cost burdened renters increased by 10 percent in the Market Area and 12 percent in the City, indicating that the city experienced a higher growth in rent burdened households compared to the region. While the City experienced a 15 percent increase in moderately rent burdened households, the Station Area experienced a 48 percent increase, indicating that rent burdened households increased in the Station Area at a significantly higher rate than the City. New rental housing products in the Santa Clara Station Area such as The Benton are luxury apartments with rents upwards of $4,000 per month, unaffordable to nearly 50 percent of households living in the Station Area in 2022[3]. Despite a 147 percent increase in Above Moderate-Income Households (see Figure 8), the mismatch between demand and supply of rental housing has created a mismatch between rents and incomes of Station Area residents and a large increase in rent-burdened households. This trend further indicates demand for affordable housing in the Station Area.

[2] The Station Area exhibits a loss of two Owner-Occupied Units from 2012 to 2022. It could be supposed that a couple of single-family housing units changed tenure from being owner occupied to renter-occupied during this period, instead of the actual demolition of housing units during the period.

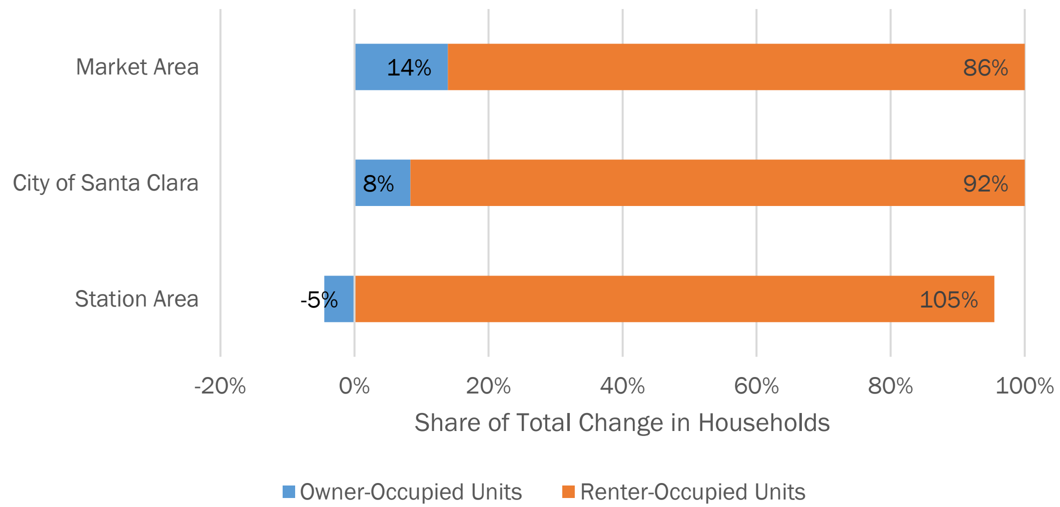
[3] The Station Area has a lower median household income compared with to the Market Area and Santa Clara County as shown in Figure 8. New rental housing, with rents above $4,000 per month are not affordable to households with incomes of $125,355 or below, which represents 50 percent of households in the Station Area. These new rental housing units are designed to attract high rents from Above Moderate-Income households – a population group that showed 147 percent increase in the Station Area from 2012 to 2022 (see 8).

## FIGURE 12: TOTAL, OWNER-OCCUPIED AND RENTER-OCCUPIED HOUSING UNITS, 2012 TO 2022

| | Total Housing Units | | | | Owner-Occupied Units | | | | Renter-Occupied Units | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Change from 2012 to 2022 | | | | Change from 2012 to 2022 | | | | Change from 2012 to 2022 | |
| **Geographic Area** | **2012** | **2022** | **Numerical Change** | **Percentage Change** | **2012** | **2022** | **Numerical Change** | **Percentage Change** | **2012** | **2022** | **Numerical Change** | **Percentage Change** |
| Santa Clara Station Area | 124 | 175 | 51 | 40% | 48 | 46 | -2.00 | -4% | 76 | 129 | 53 | 69% |
| City of Santa Clara | 42,034 | 47,434 | 5400 | 13% | 19,422 | 19,872 | 450 | 2% | 22,612 | 27,562 | 4,950 | 22% |
| Market Area | 196,112 | 225,238 | 29,126 | 15% | 85,662 | 89,717 | 4,055 | 5% | 110,450 | 135,521 | 25,071 | 23% |

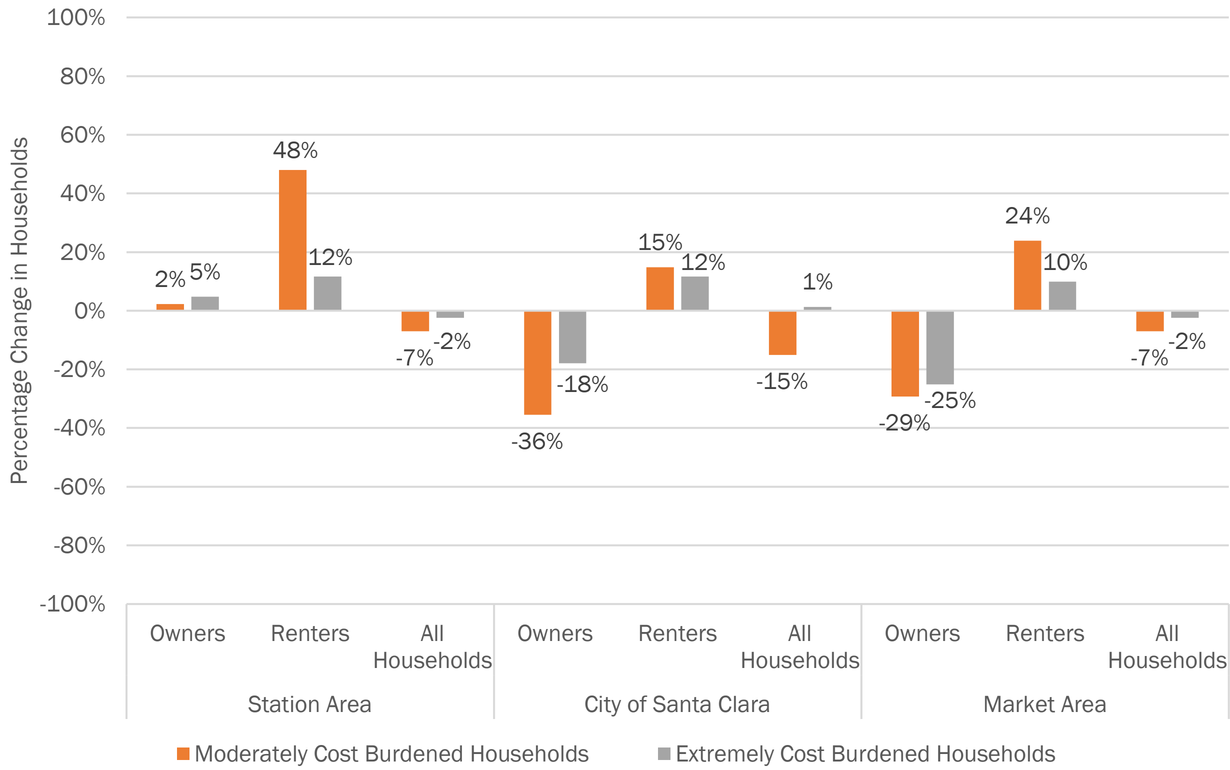
Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

## FIGURE 13: SHARE OF NEWLY ADDED HOUSING UNITS BY TENURE FROM 2012 TO 2022




Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

FIGURE 14: PERCENTAGE CHANGE IN HOUSEHOLDS BY TENURE AND HOUSING COST BURDEN, 2012 TO 2022




Sources: U.S. Census Bureau ACS 2008-2012, 2018-2022; Strategic Economics, 2024.

## Demographic Implications for Future Housing Demand

**Demand for housing continues to grow in the Station Area, although it shows a small increment in population and households at this point.** The Station Area added 174 people and 50 households from 2012 to 2022 according to ACS 5 Year data. However, the characteristics of newly added households align closely with the characteristics of population and household generating demand for housing in the City and the Market Area. This indicates that the Station Area will continue to capture growth in population and households from the City and the Market Area.

**Decreasing household size and addition of non-family households along with a high growth in younger adult population indicates growing demand for smaller units in the Market Area – the Station Area is expected to capture some of this demand through the addition of rental housing.** Analysis of age data showed that the Station Area experienced a higher increase in smaller households and young adults compared to the Market Area and the City. This indicates growing demand for smaller housing units from smaller, younger households in the Station Area. This type of demand is well-matched to what is considered typical for transit oriented development projects.

**The Station Area continues to add smaller households with above moderate incomes, generating demand for high density, amenitized housing options in the area.** Incomes are increasing throughout the region due to the addition of households with above moderate incomes. The Station Area added a higher percentage of households with above moderate income compared to the City and the Market Area. Combined with attributes including being smaller and younger, these above moderate-income households are expected to generate demand for smaller housing units, within high quality, amenitized projects that are relatively higher density in the Station Area.

**At present, Station Area incomes are lower than the Market Area, and the increase in rent-burdened households indicate demand for housing that is affordable to moderate- and low-income households in addition to demand for market rate housing in the area.** Station Area's median income was nearly $40,000 lower than the City in 2022 (see Figure 7) and showed a modest increase of 26 percent from 2012 to 2022, which was lower than the City, Market Area and Santa Clara County. Unlike the City and the Market Area where lower income households declined, the Station Area added a handful of lower income households in the last decade. Moreover, the high increase in moderately rent-burdened households indicated demand for housing that is affordable in the Station Area's existing income levels. The growing population of lower income households in the Station Area is typically associated with a growing population of students and seniors. There is a need to understand the relationship between student and senior incomes and how much they can afford to pay for housing so that new affordable housing can cater to the specific needs of growing population sectors with lower incomes in the Station Area.

# III. EMPLOYMENT AND SMALL BUSINESS TRENDS AND CONDITIONS

The following discussion considers current and future industry composition by sector as well as business and employment growth to understand potential sources of demand for future real estate development in the Station Area. This section compares the current industry mix in the Station Area to regional trends to determine which industry sectors are poised for growth. The last section of this chapter looks at the composition of industry sectors by business size to indicate whether large or small businesses are expected to grow in the Station Area.

### DATA SOURCES AND THEIR LIMITATIONS

The analysis presented in this chapter combines together data from a number of different sources. Due to the Station Area's small size, there are no public data sources available to measure employment by industry or business for either area. Therefore, the Station Area employment and business analysis uses data from CoStar, a real estate data service provider, which includes a tenant database. However, this data has certain limitations, notably that it may not be tracking businesses with fewer than 10 employees. In addition, this data is not available for multiple points in time, eliminating the ability to track employment change over time. Therefore, the following discussion only accounts for current employment conditions.

For the City of Santa Clara and the Market Area, Longitudinal Employer-Household Dynamics (LEHD) data from the Census is utilized. This data source does provide data for multiple points in time, so employment trends are analyzed for the City and market area for the ten-year period 2011 to 2021. Although the Costar and LEHD data sets are not constructed in the same way, they can be compared to provide a general picture of what changes in industry trends might imply for the station area, given its industry composition.

## Employment by Industry

This section provides a snapshot of employment in the Station Area and the City of Santa Clara. The discussion includes employment and percentage share of total employment for the top 10 industry sectors with the greatest employment in the Station Area. It should be noted that the analysis of industry sectors does not include specific employment count for the "life sciences," because life science related businesses and employers are distributed across a number of industry sectors including Manufacturing, Professional Scientific, and Technical Services (PSTS) and Other Services. Life science companies in the Station Area include medical and diagnostic labs, surgical appliance and supplies manufacturing and surgical and medical instrument manufacturing companies which are part of Manufacturing and PSTS employment in the Station Area. There are three small businesses in life sciences employing fewer than 100 employees in total in the Station Area.

**The Station Area accounts for a greater percentage of jobs than housing in the City.** Figure 15 shows that the City has 137,940 employees and the Station Area has 3,649 employees or 3 percent of total employees in the City. The Station Area only makes up 0.5 percent of the City's population, indicating that the Station Area is currently primarily an employment district, not a residential or mixed use neighborhood.

**Although the majority of employment in the Station Area is in Manufacturing, Station Area employment in Manufacturing represents a small fraction of the City's Manufacturing employment.** While 44 percent of the Station Area's employment is in Manufacturing, it represents only three percent of the City's total employment in Manufacturing (see Figure 15). This suggests that Manufacturing does not represent a significant share of the City's total manufacturing employment.

**Educational Services is a major industry sector in the Station Area, accounting for 20 percent of the City's total employment in that sector and reflecting the importance of Santa Clara University (SCU) as a major employer in the City.** A few of SCU's buildings are located within subareas 4 and 5 of the Station Area while most of the campus remains outside its Station Area boundaries. Total employment in SCU is close to 1,500 employees and about one-third of these are within the Station Area. Despite accounting for less than half of SCU's total employment, the Station Area alone accounts for one-fifth of all Educational Services employment in the City.

**Retail Trade is a relatively small industry sector in the City, making up only two percent of its total employment, however, a significant share of retail employment in the City is in the Station Area owing to the presence of Costco.** Station Area employment in retail trade accounts for 10 percent of the City's employment in that sector. The Station Area has Costco, a major regional retailer, which accounts for more than two-thirds of all retail employees in the area. Costco anchors the retail industry in the Station Area and provides regional retail services to the Market Area. Apart from Costco, other station area retailers are represented by neighborhood and convenience retail, restaurants, auto dealerships, standalone retail shops and ground floor retail tenants of mixed-use housing developments.

**Station Area employment in Information and Professional, Scientific, and Technical Services (PSTS) is relatively small, although these industry sectors represent the second and third largest industry sectors in the City.** Information and Professional, Scientific and Technical Services (PSTS) make up 20 and 16 percent of the City's employment respectively (see Figure 15). While employment in Information and PSTS in the Station Area is limited, large technology companies such as Roku, PayPal and ByteDance are in the Coleman Highline business park just south of the Station Area Boundary.

**Station Area Employment in industry sectors such as Other Services, Accommodation and Food Services, Finance and Health Care account for 5 percent or less of the city's employment.** As such the industry sectors do not represent major employment in the Station Area, or the City.

FIGURE 15: EMPLOYMENT AND SHARE OF TOTAL EMPLOYMENT BY INDUSTRY SECTOR, SANTA CLARA STATION AREA AND CITY OF SANTA CLARA, 2024

| | Santa Clara Station Area | | City of Santa Clara | | Santa Clara Station Area Employment as Percentage of City of Santa Clara |
|---|---|---|---|---|---|
| Industry Sector | Number | Share | Number | Share | |
| Manufacturing | 1,531 | 44% | 46,052 | 33% | 3% |
| Educational Services | 530 | 15% | 2,622 | 2% | 20% |
| Retail Trade | 317 | 9% | 3,148 | 2% | 10% |
| Professional, Scientific, and Technical Services | 297 | 9% | 22,160 | 16% | 1% |
| Construction | 185 | 5% | 3,620 | 3% | 5% |
| Other Services (excluding Public Administration) | 137 | 4% | 2,970 | 2% | 5% |
| Accommodation and Food Services | 77 | 2% | 5,354 | 4% | 1% |
| Finance and Insurance | 73 | 2% | 3,244 | 2% | 2% |
| Health Care and Social Assistance | 61 | 2% | 3,123 | 2% | 2% |
| Wholesale Trade | 57 | 2% | 9,766 | 7% | 1% |
| Information | 53 | 2% | 27,210 | 20% | 0% |
| Arts, Entertainment, and Recreation | 41 | 1% | 641 | 0.5% | 6% |
| Transportation and Warehousing | 36 | 1% | 536 | 0.4% | 7% |
| Others* | 74 | 2% | 7,494 | 5% | 1% |
| Total Employment | 3,469 | 100% | 137,940 | 100% | 3% |

Sources: CoStar, 2024; Strategic Economics, 2024;

Notes: * Industry sectors classified under "Others" includes Administration & Support, Waste Management and Remediation; Utilities; Mining, Quarrying, and Oil and Gas Extraction; Real Estate and Rental and Leasing; Public Administration; Agriculture, Forestry, Fishing and Hunting; Management of Companies and Enterprises; and Unclassified.

# Employment Trends

**Manufacturing employment in the Market Area declined but it increased in the City of Santa Clara.** Employment in Manufacturing grew in the City of Santa Clara from 2011 to 2021, although it declined by 21 percent in the Market Area (see Figure 16). Market Area decline in Manufacturing indicates slowing demand for Manufacturing workers in the region, and this trend is expected to further slow the pace of growth of Manufacturing employment in the City and Station Area.

**There is a slight increase in employment in Educational Services in the region, and employment in this industry sector is expected to remain relatively stable in the Station Area in the future.** Employment in Educational Services increased by one percent in the City from 2011 to 2021 and decreased by three percent in the Market Area. SCU, the largest Educational Services employer in the Station Area, is expected to retain its position as an anchor institution near the Station Area. High enrollment numbers[4] and expansion plans[5] indicate that SCU employment in the Station Area will remain stable or show a small increase in the future.

**Although Retail employment decreased in the City and the Market Area, the presence of Costco as a retail anchor in the Station Area and the expected addition of high-density multifamily housing in the Station Area is expected to continue to generate demand for retail uses in the future.** Employment in Retail Trade decreased by 4 percent in the City and 13 percent in the Market Area from 2011 to 2021 (see Figure 16). Costco is an anchor business in the Station Area and is not expected to relocate in the near future. However, because it is a regional big box retail store, a format often incompatible with TOD, market demand for additional housing and employment uses may eventually create pressure to relocate Costco. Despite the prospect of losing Costco in the long run, additional residents and workers in the Station Area will continue to generate high demand for restaurants and convenience retail, although the number of employees will be relatively small.

**Large growth in the PSTS and Information sectors in the Market Area could lead to employment growth in the Station Area.** There is a large growth in Professional, Scientific, and Technical Services employment in the City of Santa Clara and in the Market Area from 2011 to 2021 (see Figure 16). In 2024, the Station Area represented only one percent of the City's total PSTS employment. However, given its proximity to large regional office developments, availability of few vacant sites and low-density older commercial developments which could be sites for redevelopment into office uses the future[6], the Station Area may be well-positioned to capture employment growth in PSTS and Information in the future.

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[4] SCSU enrolled 9178 students in 2023. Retrieved from https://www.scu.edu/aboutscu/at-a-glance/

[5] Santa Clara State University (2024). Summer of construction and design on tap for SC State University. Retrieved from https://scsu.edu/news.

[6] Explained in detail in the upcoming Real Estate Analysis chapter.

FIGURE 16: EMPLOYMENT AND CHANGE IN EMPLOYMENT BY INDUSTRY SECTOR IN CITY OF SANTA CLARA AND MARKET AREA, 2011 TO 2021

| | City of Santa Clara | | | | Market Area | | | |
|---|---|---|---|---|---|---|---|---|
| **Industry Sector** | **2011** | **2021** | **Numerical Change** | **Percentage Change** | **2011** | **2021** | **Numerical Change** | **Percentage Change** |
| Manufacturing | 28,005 | 29,735 | 1,730 | 6% | 122,181 | 96,551 | -25,630 | -21% |
| Educational Services | 4,915 | 5,301 | 386 | 1% | 21,445 | 20,732 | -713 | -3% |
| Retail Trade | 4,449 | 3,317 | -1,132 | -4% | 28,542 | 24,710 | -3,832 | -13% |
| Professional, Scientific, and Technical Services | 13,932 | 26,068 | 12,136 | 43% | 74,284 | 120,657 | 46,373 | 62% |
| Construction | 4,139 | 7,427 | 3,288 | 12% | 17,382 | 28,230 | 10,848 | 62% |
| Other Services (excluding Public Administration) | 2,564 | 1,379 | -1,185 | -4% | 15,185 | 7,924 | -7,261 | -48% |
| Accommodation and Food Services | 5,857 | 4,448 | -1,409 | -5% | 28,750 | 24,289 | -4,461 | -16% |
| Finance and Insurance | 836 | 833 | -3 | 0% | 7,753 | 13,600 | 5,847 | 75% |
| Health Care and Social Assistance | 5,503 | 8,998 | 3,495 | 12% | 33,292 | 50,997 | 17,705 | 53% |
| Wholesale Trade | 4,706 | 3,295 | -1,411 | -5% | 27,673 | 22,234 | -5,439 | -20% |
| Information | 3,050 | 4,559 | 1,509 | 5% | 32,012 | 102,045 | 70,033 | 219% |
| Arts, Entertainment, and Recreation | 2,186 | 1,340 | -846 | -3% | 7,802 | 5,439 | -2,363 | -30% |
| Transportation and Warehousing | 709 | 1,037 | 328 | 1% | 8,606 | 9,710 | 1,104 | 13% |
| Others* | 40,461 | 43,430 | 2,969 | 11% | 191,460 | 180,212 | -11,248 | -6% |
| Total Employment | 121,312 | 141,167 | 19,855 | 16% | 616,367 | 707,330 | 90,963 | 15% |

Sources: U.S. Census Bureau, OnTheMap Application, 2011, 2021; Strategic Economics, 2024;
Notes:* Industry sectors classified under "Others" includes Administration & Support, Waste Management and Remediation; Utilities; Mining, Quarrying, and Oil and Gas Extraction; Real Estate and Rental and Leasing ; Public Administration ; Agriculture, Forestry, Fishing and Hunting; and Management of Companies and Enterprises.

## Small Business Analysis

The size of businesses in the Station Area refers to the number of employees in each business. The size of businesses in the Station Area has implications for real estate demand for industry sectors to which they belong, and the type of business support needed in the future. Although there are several definitions for small, medium-sized and large businesses, Strategic Economics has prepared a specific classification of business sizes for analyzing the Station Area in accordance with the mix of business sizes present in that location. For the purposes of this analysis, small, medium-sized and large businesses are defined as follows:

- **Small Business**: Businesses that hire 50 or fewer employees. This definition conforms with the City of Santa Clara's definition of small businesses[7].
- **Medium-Sized Business**: Businesses or employers that hire between 51 to 100 employees.
- **Large Business**: Businesses or employers that hire more than 100 employees.

**The Station Area has five large businesses that make up 62 percent of total employment**. Although the Station Area has close to 200 businesses, only three percent of them are large businesses hiring more than 100 employees (see Figure 17). The majority of large employees in the Station Area represent advanced manufacturing companies, including Apple, MACOM and Elastics Cloud. Apple is the largest employer in the Station Area and employs nearly 1,000 employees. The second largest employer is SCU in the educational services sector with more than 500 employees working in buildings located within the Station Area (note this does not include all of the University's jobs, only those that are located in the Station Area). Costco is the third largest employer and a large retailer in the City, employing more than 200 employees in the Station Area. Due to data limitations, businesses with fewer than 10 employees may not reflected in this analysis.

**In the Station Area, large businesses are concentrated in subareas 1, 2 and 4 along Coleman Ave, Brokaw St and El Camino Real.** Apple, the largest employer in the area is located on Brokaw St. Costco, a large retailer is located on Coleman Avenue, along with auto dealerships and car repair shops which also employ a relatively large number of workers. El Camino Real hosts a number of major employers across Manufacturing (MACOM and Qubole) and Educational Services in the small business park just south of the Caltrain station.

**Small Businesses make up 96 percent of businesses in the Station Area, but account for only 31 percent of total employment; these small businesses are primarily concentrated in PSTS, Retail, Manufacturing and Accommodation and Food Services sectors.** There are 192 small businesses, hiring a third of employees in the Station Area (see Figure 17). Small businesses in the Station Area are distributed across several different industry sectors. An approximate estimation of the number of small businesses and number of employees working in small businesses by industry sector is presented in Figure 18. It shows that a significant share of small businesses and small business employment is in PSTS, Retail, Construction, Manufacturing and Accommodation and Food Services.

**Smaller businesses have the greatest concentration in subarea 1, along Martin Avenue and Coleman Avenue and the majority of these are manufacturing businesses.** This area represents the greatest

[7] The City defines small businesses as businesses with annual revenue of less than $5,000 or 49 or fewer employees.

number of smaller manufacturing companies including life science companies, automobile dealerships and repair shops, PSTS employment in the Airport Park Office Suites and a few miscellaneous standalone retail shops including a game store.

**A smaller concentration of small businesses is located in subarea 5, south of El Camino Real, consisting primarily of automobile-oriented businesses, convenience retail and personal services.** Along Lewis St, on the northern side of subarea 5, there are some automobile services and accessory stores, a salon. Near the North Parking Garage on Benton St, there is convenience retail store (7-Eleven) and a car rental service.

**Restaurants are distributed in subareas 2. 4 and 5 and show preference for certain locations near high traffic intersections or places with a relatively higher density of existing workers or students.** Restaurants in the Station Area tend to cluster near high traffic intersections such as the intersection of Brokaw Road and Coleman Avenue. These restaurants will also serve incoming households once the Gateway Crossings project completes construction and becomes operational. There are other small clusters of restaurants and other businesses close to the small business park just south of the Caltrain Station, and other places with good access to SCU or along other streets with relatively high traffic volumes such as Lafayette Street.

FIGURE 17: NUMBER AND SHARE OF BUSINESSES AND EMPLOYEES BY BUSINESS SIZE IN SANTA CLARA STATION AREA, 2024

| | Businesses | | Employees | |
|---|---|---|---|---|
| Business Size | Number | Share | Number | Share |
| Greater than 100 Employees (Large Businesses) | 5 | 3% | 2135 | 62% |
| 51 to 100 Employees (Medium-Sized Businesses) | 3 | 2% | 256 | 7% |
| 50 Employees or Less (Small Businesses | 192 | 96% | 1078 | 31% |
| Total | 200 | 100% | 3469 | 100% |

Note: The small business data may represent an undercount due to data collection limitations.
Sources: CoStar, 2024; Strategic Economics, 2024;

FIGURE 18: NUMBER OF BUSINESSES AND EMPLOYEES IN TOP 10 SECTORS FOR SMALL BUSINESS EMPLOYMENT IN THE SANTA CLARA STATON AREA, 2024

| | Small Businesses | | Employment in Small Businesses | |
|---|---|---|---|---|
| **Industry Sector** | Number | Percentage of All Small Businesses | Number | Percentage of Employment in All Small Businesses |
| Professional, Scientific, and Technical Services | 26 | 14% | 208 | 19% |
| Retailer | 17 | 9% | 116 | 11% |
| Construction | 24 | 13% | 110 | 10% |
| Manufacturing | 16 | 8% | 101 | 9% |
| Accommodation and Food Services | 7 | 4% | 77 | 7% |
| Finance and Insurance | 9 | 5% | 73 | 7% |
| Health Care and Social Assistance | 9 | 5% | 61 | 6% |
| Wholesaler | 10 | 5% | 57 | 5% |
| Information | 7 | 4% | 53 | 5% |
| Services | 15 | 8% | 45 | 4% |
| Total | 125 | 65% | 901 | 84% |

Sources: CoStar, 2024; Strategic Economics, 2024;

## Employment and Business-Related Opportunities and Challenges

**Large employers in the Station Area belong to industry sectors that are not expected to grow significantly in the future.** Most large employers in the Station Area are in manufacturing and regional trends indicate a slowing down of employment in that sector. Other sectors employing a large number of Station Area employees, including educational services and retail are expected to grow slowly in the future based on regional employment trends.

**While large employers represent more than 60 percent of Station Area employment, the majority of employers in the Station Area are small businesses.** There are only five large businesses in the Station Area, and regional trends indicate that their industry sectors may not grow significantly in the future, although individual companies, like Apple, may continue to expand. In addition, many companies classified as Manufacturing may be using office space in Santa Clara and in the Station Area. The office based functions of these companies may continue to grow in the Market Area and could create additional future demand for office space that is also transit accessible, which could support future office development in the Station Area. Traditional manufacturing, educational services and big box retail stores are expected to retain existing levels of employment in the near future but could experience declines in employment in the Station Area over the long run.

**Regional trends indicate that some industry sectors represented by small businesses in the Station Area, such as PSTS and Information, are well-positioned for significant growth in employment in the future.** The Station Area is home to 192 small businesses, spread across a number of relatively higher growth industry sectors. Although these businesses account for only a third of all Station Area employees at present, the number businesses and employment in such businesses in industry sectors dominated by small businesses is expected to grow in the future.  Other small businesses that could expand in the Station Area include Retail and Accommodation and Food Services. There is potential for proactive support for these small businesses in these industry sectors to improve their prospects for future growth through City-led small business support activities.

# IV. REAL ESTATE MARKET TRENDS

Existing real estate market conditions and recent development activity shed light on the potential for future development in any area. The age of housing and types of housing in the Station Area, the City and Market Area indicate the types of products receiving investment, and which product types are most likely to be successful in the near to mid-term. Market rents and vacancy rates for commercial properties indicate latent demand for future development of commercial properties. If rents or prices are too low, certain types of commercial products may not be viable in the Station Area.

This chapter analyzes the real estate inventory in terms of number of units or total square footage, newly built or recently planned projects and real estate performance in terms of rents and vacancy rates for multifamily residential, retail, office, industrial and hotel uses in the Station Area and compares it to the City and the Market Area. This analysis provides useful insights on market trends in and around the Station Area and predicts future development patterns in the Station Area. This chapter also analyzes building occupancy by industry types to understand whether existing business types match the type of spaces they occupy or if there is latent demand for certain types of real estate in the Station Area.

### DATA SOURCES AND GEOGRAPHIES OF ANALYSIS

The analysis relies on data from CoStar. While most of the analysis adheres to the three geographies for real estate demand, i.e. the Market Area, City and the Station Area, retail analysis has been prepared for additional geographies which are elaborated in the relevant subsection. Analysis of building occupancy by industry sector is performed on data from CoStar's tenant portal. Limitations on the accuracy of CoStar's tenant portal data are mentioned in prior chapters, however, it provides the most accurate and up-to-date information on distribution of industrial and commercial space by industry sectors for report geographies across competing data sources.

## Multifamily Housing Market Trends

**Multifamily supply is growing across all geographies.** Multifamily inventory in the Market Area grew by 21 percent and by 29 percent in the City, indicating that the City added higher number of housing units than other parts of the Market Area (see Figure 19). As a result, the City's share multifamily inventory in the region increased. Multifamily inventory in the Station Area grew by 91 percent, the highest among the geographies. However, it had a small base of 384 units and added nearly 400 units in one new project – The Benton in 2021. The increasing supply of multifamily units in the Station Area indicates growing market interest in multifamily development in the area.

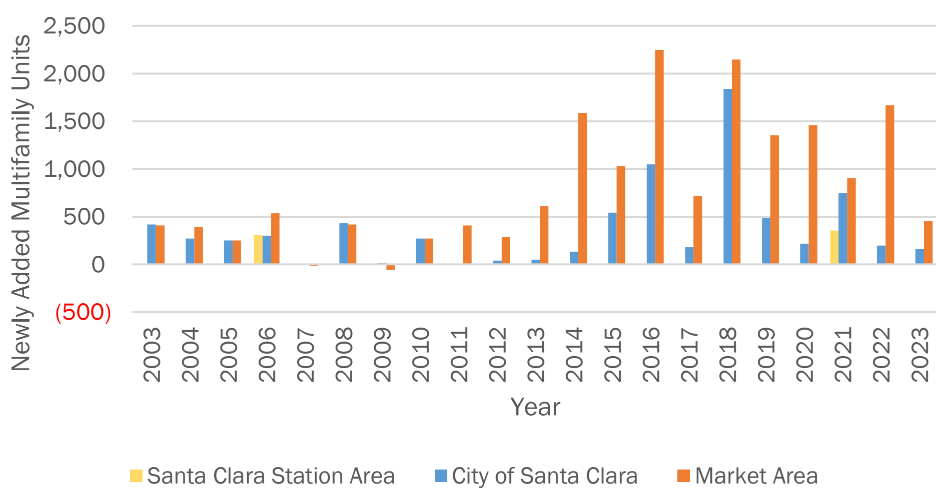
FIGURE 19: NUMBER AND CHANGE IN MULTIFAMILY UNITS FROM 2014 TO 2024 YTD

| | | | Change from 2014 to 2024 | |
|---|---|---|---|---|
| Geographic Area | 2014 | 2024 | Numerical Change | Percentage Change |
| Santa Clara Station Area | 384 | 734 | 350 | 91% |
| City of Santa Clara | 18,724 | 24,155 | 5,431 | 29% |
| Market Area | 108,804 | 131,486 | 22,682 | 21% |
| Santa Clara Station Area as a Percentage of City of Santa Clara's Multifamily Units | 2% | 3% | 6% | - |
| City of Santa Clara as a Percentage of the Market Area's Multifamily Units | 17% | 18% | 24% | - |

Sources: CoStar, 2024; Strategic Economics, 2024;

**The number of multifamily units built per year in the Market Area has grown in the last decade.** From 2003 to 2013, the Market Area added an average of 319 units per year. From 2014 to 2023, the Market Area added an average of 1,357 units per year, nearly 4.3 times the number of units added per year from a decade ago. The average number of multifamily units built per year in the City also increased from 2014 onwards compared to the previous decade, although this increase was smaller than the Market Area. From 2003 to 2013, the City added an average of 186 multifamily units per year. From 2014 onwards, this number increased by 3 times, to nearly 556 new units per year. Figure 20 provides a comparison of how multifamily units were added in the Market Area and the City in the last two decades. The figure suggests that the City has kept pace with multifamily housing production in the Market Area.

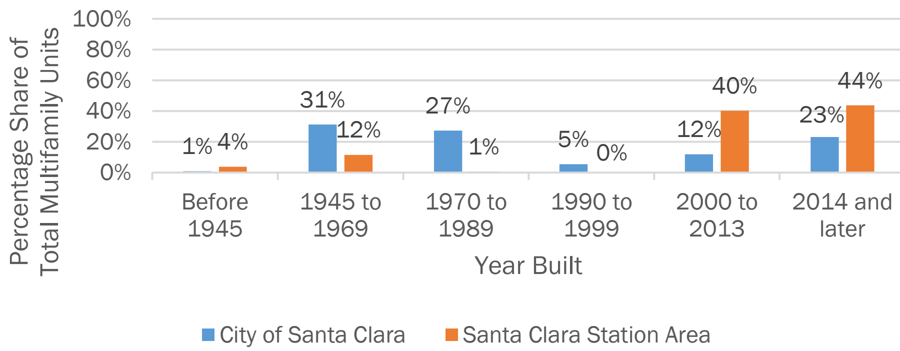
FIGURE 20: MULTIFAMILY UNITS BUILT IN THE STATION AREA, CITY OF SANTA CLARA AND MARKET AREA BY YEAR BUILT, 2003 TO 2023




Sources: CoStar, 2024; Strategic Economics, 2024.

**Multifamily inventory in the Station Area is relatively new compared to the City.** Multifamily housing development in the Station Area is recently built compared to the City of Santa Clara, with a large share of inventory built in the last decade (see Figure 21). The City added 35 percent of its present inventory after 2000, but the majority of its units were built before 1990. The Station Area added 84 percent of its inventory from 2000 onwards, with 44 percent of its units built in 2014 or later. The addition of units in recent years indicated relatively recent development interest in the Station Area.

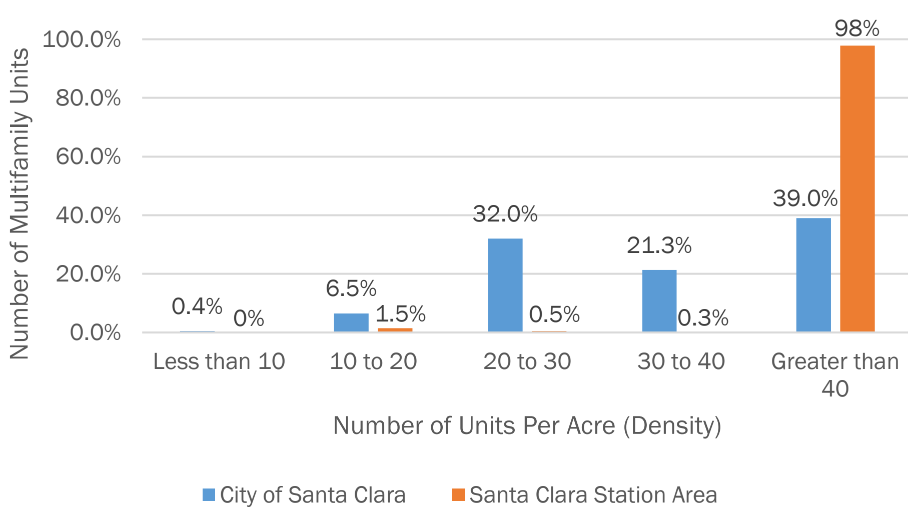
FIGURE 21: DISTRIBUTION OF MULTIFAMILY INVENTORY IN SANTA CLARA STATION AREA AND CITY OF SANTA CLARA BY YEAR BUILT




Sources: CoStar, 2024; Strategic Economics, 2024.

**Relative to the City, the majority of Station Area's multifamily inventory is in dense projects.** For the purpose of this report, projects with over 40 dwelling units per acre are considered dense projects. According to Figure 22, the Station Area has a higher share of dense multifamily housing projects compared to the City of Santa Clara. Nearly all of the Station Area's multifamily properties have 40 units or more.

FIGURE 22 SHARE OF MULTIFAMILY INVENTORY BY PROJECT DENSITY IN THE CITY OF SANTA CLARA AND STATION AREA, 2024




Sources: CoStar, 2024; Strategic Economics, 2024.

## RECENTLY BUILT, PLANNED AND PROPOSED MULTIFAMILY PROJECTS IN THE MARKET AREA

**Since 2014, most newly built projects in the Station Area resemble new multifamily projects in the market in terms of number of units in each project.** Nearly 60 percent of all new multifamily units built recently in the Market Area have over 300 units per project. Since 2014, San Jose added close to 8,000 multifamily units in 16 new projects with 300+ units each. The City of Santa Clara added 4,044 units across 5 large projects during the same period, one of which, The Benton, is located in the Station Area. The Market Area added 12 new projects with more than 500 units each from 2014 onwards, the largest of which, Santa Clara Square Apartments with 1,840 units is located in Santa Clara, but not in the Station Area.

**The City of Santa Clara has the largest number of recently planned and proposed multifamily units in large projects with 300+ units in the Market Area.** More than 52 percent, or nearly 8,800 out of 17,000 proposed and planned multifamily units in large projects[8] is located in the City. After Santa Clara, San Jose has the largest number of proposed and planned units in large projects. Largest upcoming multifamily projects in descending order of their size are- Related Santa Clara with 1,680 units, Gateway Crossings with 1,565 units (both in Santa Clara), followed by Diridon Modular Housing Development in San Jose with 768 units.

**Three large projects, Domicilio, The Benton and Gateway Crossings are expected to account for 93 percent of total multifamily units in the Station Area by 2025.** At present, 80 percent of the Station Area's multifamily units are in two multifamily projects – Domicilio with 306 units and The Benton with 355 units. By 2025, Gateway Crossings, expected to add more than 1,500 units in a single project, is poised to become the City's second largest multifamily development. Santa Clara Square Apartments, located three miles to the north of Gateway Crossings and built in 2018, remains the largest multifamily development in Santa Clara, comprising over 1,800 units.

## MULTIFAMILY RENTS AND VACANCY RATES

**After a pandemic-era dip in performance, multifamily rents have grown in the region, City and Station Area, such that the Station Area commands the highest rents among all other geographies.** Multifamily units in the Santa Clara Station Area have commanded higher rents than the City and the Market Area for the last 15 years (see Figure 23). A higher share of multifamily units in the Station Area have been built in the last decade compared to the City and Market Area, indicating newly built multifamily units command higher rents than older units.

**Strong rents in the Station Area reflect strong demand for multifamily units.** The station area has a competitive advantage over other parts of the City because of high demand for housing from SCU students. Generally, student housing has higher per square foot rents than housing targeted to non-students because units are rented on a per bed, not per bedroom basis. As such, student housing generates higher revenues than other forms of rental housing, revealing why developers are interested in building more housing in the Station Area.

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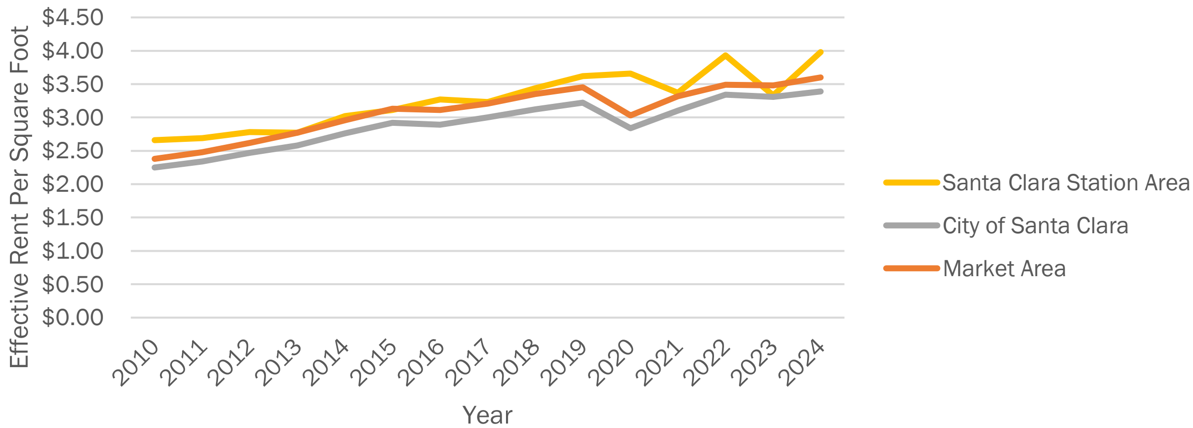
[8] Large projects refer to those with 300 multifamily units or more per project.

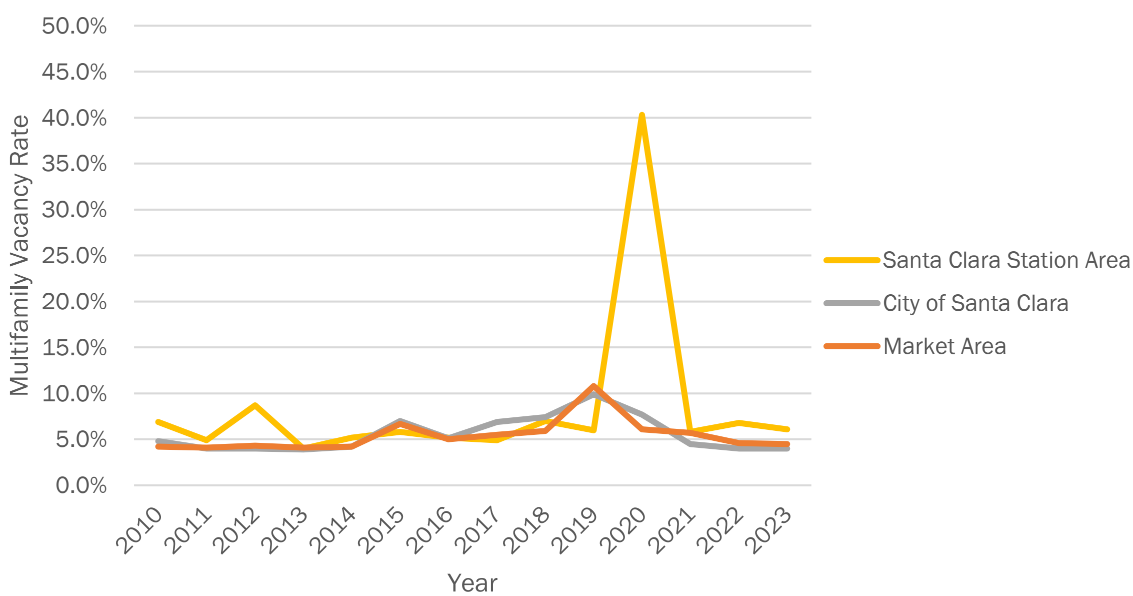
FIGURE 23: MULTIFAMILY EFFECTIVE RENT PER SQUARE FOOT, 2010 TO 2024 YTD




Sources: CoStar, 2024; Strategic Economics, 2024.

**After a pandemic-era increase in vacancies, multifamily vacancy rates have subsided in the Market Area and City, however, in the Station Area vacancy rates remain high due to the addition of units in new projects whose occupancy is yet to fully stabilize.** After the pandemic, the Market Area had lower vacancy rates than the City (see Figure 24). Multifamily vacancy rates in the Station Area are slightly higher than the Market Area from 2014 to 2024. The median multifamily vacancy rate of the Station Area is 5.8 percent, compared to 5.5 percent in the Market Area. The Station Area's multifamily vacancy rates have remained in the range of 4 to 7 percent every year till 2020 but increased to 40 percent in 2021 when The Benton had just finished construction, doubling the multifamily inventory of the Station Area. New projects take some time after construction to stabilize their occupancy rates. Considering 50 percent of the Station Area's inventory was in The Benton, vacancy rates were very high in the year when construction was completed but have since stabilized.

FIGURE 24: MULTIFAMILY VACANCY RATES, 2010 TO 2023




Sources: CoStar, 2024; Strategic Economics, 2024.

## Retail Market Trends

RETAIL ANALYSIS TRADE AREAS

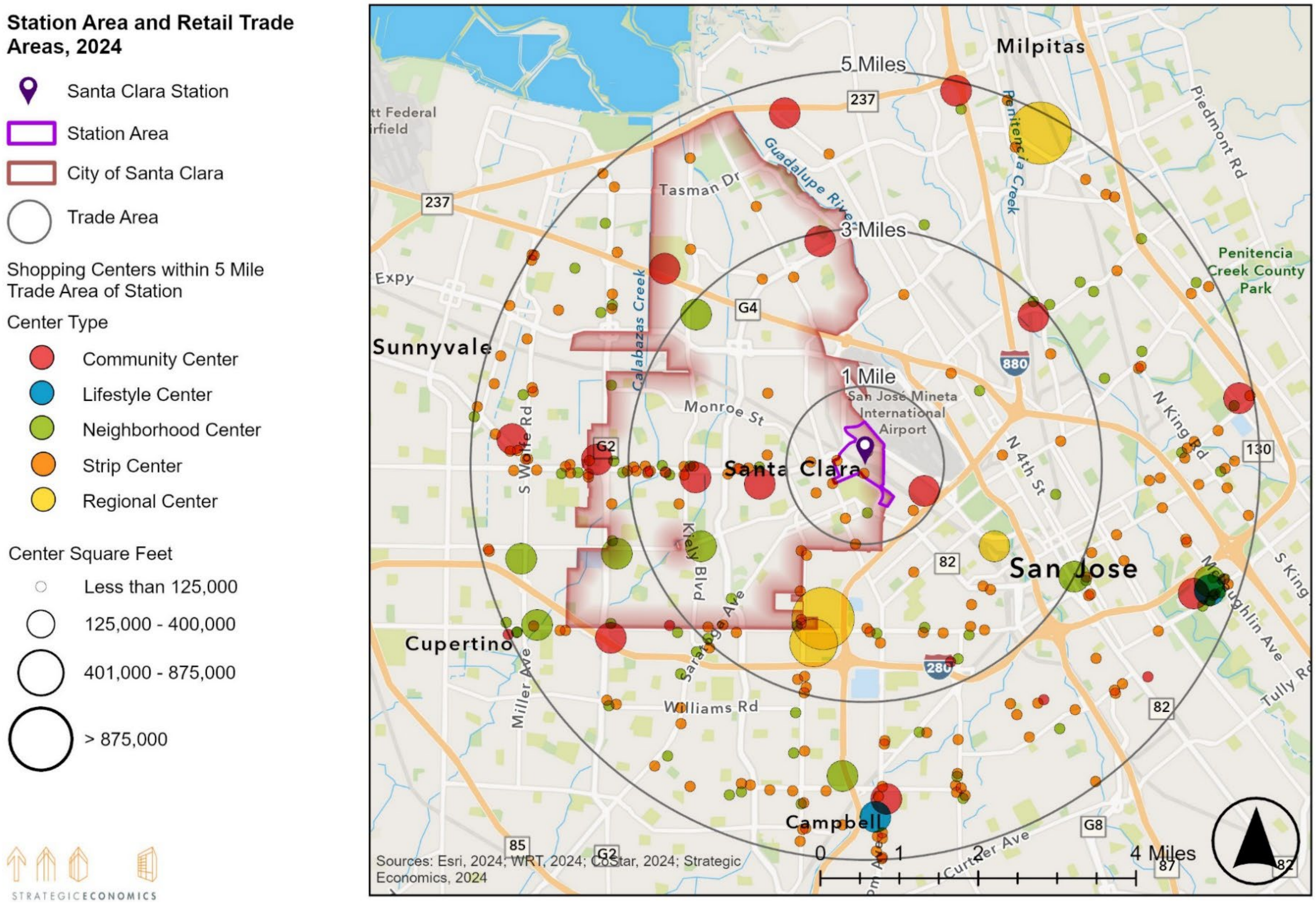
The retail analysis described in this section has been performed on three different trade area sizes, besides the City and the Station Area. Retail trade areas are typically described using a radius from a certain location, which corresponds to the area from which retail businesses within the location draw their primary support. This report uses three trade area sizes to reflect the range of retail activities in the Station Area and the City in general.

- One-mile radius from the Santa Clara Caltrain Station: This area encompasses the Station Area and areas beyond it, since the Station Area is located within half mile of the Caltrain station. Based on description of Station Area subareas in the first chapter, smaller neighborhood serving retail uses including restaurants, convenience stores and ground floor retail uses are dispersed throughout the Station Area. Subarea 1, north of Coleman Avenue has some larger retail uses such as car rentals and car repair and maintenance shops. Subarea 2, south of Coleman Ave has Costco which is one of the largest retailers in the City.
- Three-mile radius from the Santa Clara Caltrain Station: Retail uses that primarily serve customers' frequent needs like groceries, pharmacies, and basic household items, tend to be approximately within one-to three-miles from a specified location.
- Five-mile radius from the Santa Clara Caltrain Station: Uses that serve more specialized needs, including clothing, gifts, and housewares, serve a larger geography. This study uses a five-mile radius to determine the competitive supply of regional retail around the Station Area.

Figure 25 shows the location of various retail uses within the retail trade areas mentioned above. The retail shopping centers shown in Figure 25 are described below-

- Regional Malls: They serve a large regional trade area and require freeway access and visibility. They are anchored by department stores, or specialized outdoor pedestrian oriented "lifestyle" malls that house upscale departmental stores, specialty stores, dining and entertainment are examples of regional retail centers. They have a typical range of 400,000 to 800,000 square feet in size.
- Lifestyle Center: These are large retail formats with a typical size between 150,000 to 500,000 square feet and are situated within 10 to 40 acres of land. They have large format upscale specialty stores as typical anchors and a trade area of eight to 12 miles.
- Community Centers: They serve a smaller radius of three to six miles and often accommodate grocery stores, discount department stores and other discount goods. They range from 125,000 to 400,000 square feet in size.
- Neighborhood Centers: They serve daily needs within a very localized trade area having a radius between one to three miles. They are anchored by a grocery store or a drug store and contain some additional in-line retail space. They range in size from 30,000 to 125,000 square feet in size.
- Strip Center: These are unanchored or anchored by small convenience stores like 7-Eleven. They are usually less than 30,000 square feet in size and have a trade area of less than three miles.
- Other Retail: This refers to standalone retail stores, such as Costco in the Station Area, which are often located on an arterial road. These include convenience stores, department stores, specialty stores or ground floor retail of residential mixed-use buildings.

FIGURE 25: TYPES OF RETAIL WITHIN 1-, 3- AND 5- MILE RADIUS OF THE SANTA CLARA CALTRAIN STATION



## EXISTING RETAIL SUPPLY

**Within 3-miles of the Station Area, retail is concentrated in shopping centers along arterial corridors such as the El Camino Real, Saratoga Avenue and San Carlos Avenue.** Within 3-miles of the Santa Clara Caltrain Station is the Westfield Valley Fair Mall, the largest shopping mall in the Bay Area, along with Santana Row and the San Jose Market Center. Strip centers, neighborhood centers and community centers cluster along arterial streets with high traffic volumes and through connections across the City and/or connecting to other cities such as the El Camino Real, Saratoga Avenue and West San Carlos Avenue. These retail corridors begin beyond 1-mile from the Station Area and continue into the 5-mile radius (see Figure 25), connecting with Downtown Santa Clara in the 1-mile radius. Within the Station Area smaller retail uses are dispersed along El Camino Real, making this a strong location for adding future retail uses in the Station Area that could serve local development and capture demand from outside the area.

**While the 3-mile radius experienced the greatest addition of retail inventory in the last decade, the 1-mile radius managed to capture a share of growing demand for retail uses.** The 3-mile radius has added nearly 700,000 square feet of new retail inventory, much of which is in the 2020 expansion of the Valley Fair Mall (see Figure 26). There has been a small addition of nearly 30,000 square feet of retail, mostly in the form of neighborhood serving retail uses, within a mile of the Santa Clara Caltrain Station from 2014 to 2024.

**The smaller change in retail inventory in the 5-mile radius reflects the nature of the overall retail space in this area.** The 5-mile radius experienced only a 1 percent increase in retail square space (see Figure 26). However, the retail development in this area is primarily community and strip retail centers which appear to be adequate to serve trade area demand, despite some population and household growth.

FIGURE 26: RETAIL INVENTORY WITHIN 1-, 3- AND 5- MILE RADII FROM THE SANTA CLARA CALTRAIN STATION, 2014 AND 2024

| | Inventory in Square Foot | | Change in Inventory | |
|---|---|---|---|---|
| Market Area as Radius from Santa Clara Caltrain Station | 2014 | 2024 YTD | Numerical Change in Square Foot | Percentage Change |
| I-mile | 1,003,103 | 1,031,572 | 28,469 | 3% |
| 3-mile | 12,865,983 | 13,555,182 | 689,199 | 5% |
| 5-mile | 29,312,587 | 29,518,877 | 206,290 | 1% |

Sources: CoStar, 2024; Strategic Economics, 2024;

## RETAIL INVENTORY IN CITY OF SANTA CLARA AND SANTA CLARA STATION AREA

**The majority of Santa Clara's retail inventory is in the "Other Retail" category – with Costco located in the Station Area, being the largest building of this type in the City.** The City has nearly 7.1 million square feet of retail inventory, 33 percent of which is in "Other Retail" category (see Figure 27). Other Retail refers to stand-alone stores which are not part of a shopping center. Some of Santa Clara's largest retail stores within the "Other Retail" category include Costco (nearly 130,000 square feet), Former Mervyn's (100,000 square feet) and Home Depot (nearly 100,000 square feet). Costco accounts for nearly 50 percent of the total retail inventory of the Station Area. Apart from Costco, the Station Area has nearly 20 percent of its retail inventory in the Neighborhood Center and Strip Center categories.

**Nearly 30 percent of the City's retail inventory is in the "Regional Mall" category, most of which is located beyond three miles from the Station Area.** However, Valley Fair Mall with more than 1.2 million square feet of retail, and the Valley Fair Expansion with 500,000 square of retail space is located less than three miles away from the Station Area.

**Within the Station Area, retail uses are located on the east and west of the Caltrain tracks and lack connectivity to each other, or to Downtown Santa Clara.** Retail located west of the railway tracks in subareas 1 and 2. Subarea 1, north of Coleman Avenue has a number of small retail activities including auto dealerships and car repair shops, game shops and food services such as catering shops and bakeries. Subarea 2, west of Brokaw Avenue has a few restaurants and Costco. Both Brokaw Road and Coleman Avenue are relatively large arterial streets and existing road connections do not allow for an easy pedestrian connection between the retail locations in subareas 1 and 2. On the west side of the Caltrain tracks, subarea 4 has a commercial plaza where a few restaurants operate along with a hotel and several relatively large office based employers. Retail in this location is relatively isolated from other retail locations in the Station Area and specifically serves the hotel and employment uses in close by.

FIGURE 27: DISTRIBUTION OF RETAIL INVENTORY IN THE STATION AREA AND CITY OF SANTA CLARA BY TYPE OF RETAIL

| | City of Santa Clara | | Station Area | | |
|---|---|---|---|---|---|
| **Type of Retail** | Inventory | Share of Total Inventory | Inventory | Share of Total Inventory | **Station Area as a Percentage of the City of Sanat Clara** |
| Community Center | 1,138,330 | 16% | 0 | 0% | 0% |
| Neighborhood Center | 1,107,461 | 16% | 35,149 | 14% | 3% |
| Strip Center | 461,455 | 7% | 22,231 | 9% | 5% |
| Regional Mall | 2,024,690 | 29% | 0 | 0% | 0% |
| Other Retail* | 2,361,939 | 33% | 198,822 | 78% | 8% |
| Total Retail Inventory | 7,093,875 | 100% | 256,202 | 100% | 4% |

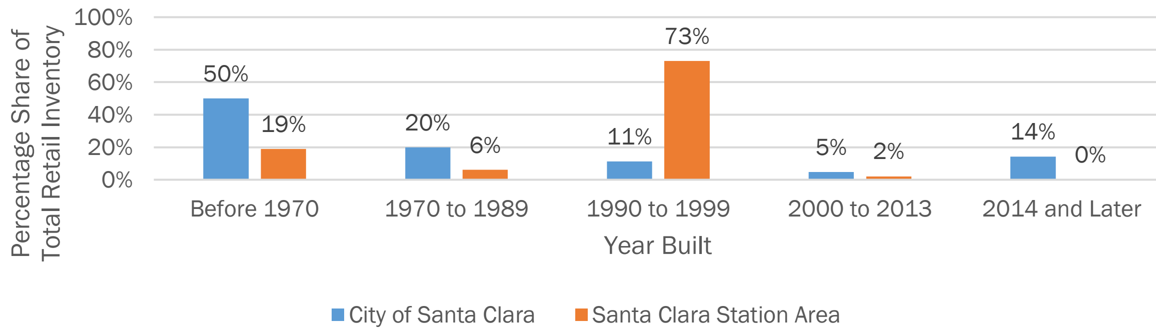
Notes: * Costco comprises 126,284 square feet of Other Retail within the Station Area, or nearly 60 percent of the total inventory of "Other Retail" and more than 50 percent of total retail inventory in the Station Area.

Sources: CoStar, 2024; Strategic Economics, 2024;

## AGE OF RETAIL SUPPLY

**Despite being newer than the City's average retail supply, the Station Area's retail supply is more than twenty years old.** Nearly half of the City's retail supply is more than 50 years old. Growth in retail the City retail supply has declined over the decades as shown in Figure 28. From 2014 onwards, the City's retail supply increased by 14 percent. The majority of the Station Area's retail inventory was built in the 1990s, and there has been only a small increase in supply since then. From 2000 to 2013, the Station Area added 2 percent of its total inventory in the form of ground floor retail shops. Less than one percent of the retail supply in the Station Area has been added since 2014 in the form of ground floor retail in mixed use projects.

FIGURE 28: PERCENTAGE SHARE OF TOTAL RETAIL INVENTORY BY YEAR BUILT, CITY OF SANTA CLARA AND SANTA CLARA STATION AREA




Sources: CoStar, 2024; Strategic Economics, 2024.

## RECENTLY BUILT, PLANNED AND PROPOSED RETAIL CENTERS IN NEARBY CITIES

**Among nearby cities[9], San Jose added the largest amount of retail space since 2014, followed by Santa Clara.** From 2014 onwards, the City of San Jose added nearly 1.1 million square feet of retail, most of it in the form of standalone retail such as Costco Business Center, VillaSport Club and Spa both being approximately 150,000 square feet and neighborhood serving retail like Safeway and Wholefoods. San Jose also added approximately 20 percent of retail space in the form of ground floor retail on the ground floor of large mixed use multifamily buildings. Santa Clara added around a million square feet of retail space, half of which was in the Valley Fair Mall expansion (part of which is in San Jose and part in Santa Clara) 40 percent in a community and neighborhood serving retail centers anchored by stores such as Target and Wholefoods and the remainder in the ground floor space of mixed use buildings.

**Proposed and under construction retail projects in nearby cities are primarily standalone retail stores or located in mixed-use buildings, similar to retail planned for the Station Area.** San Jose has nearly 50,000 square feet of proposed standalone retail space, and 15,000 square feet of ground floor space under construction. Santa Clara has nearly a million square feet of proposed standalone retail, 800,000 square feet of which are located in a mixed-use project next to Levi's Stadium. That project is expected to include residential units, restaurants, entertainment venues, hotels, retail and office space with construction starting in 2025[10].

## RETAIL RENTS AND VACANCY RATES

**High rents and a significant increase in rents indicate demand for retail space in the Station Area.** Retail rents per square feet are highest in the Santa Clara Station Area in 2024 across all retail trade areas, and these rents have doubled in the last decade (see Figure 29). This indicates that newly built ground floor retail spaces in the Station Area could be expected to command higher rents than the City's older retail uses.

**Retail vacancies in the Station Area reflect potentially slow absorption of recently built ground floor retail space.** From 2014 to 2024, vacancy rates grew by 4.8 percent in the Station Area, indicating

[9] Here, nearby cities indicate Sunnyvale, Mountain View, Santa Clara and San Jose, which are part of the market area for the rest of the analysis in this report.
[10] City of Santa Clara. Related Santa Clara. Retrieved from https://www.santaclaraca.gov/business-development/related-santa-clara

newly added ground floor retail space that has not been fully occupied, or that occupancy levels for newly added retail space is yet to stabilize (see Figure 29). However, vacancy rates in the Station Area have historically been very low, as are the vacancy rates in the one-mile trade area which are currently just over one percent and have declined since 2014.

FIGURE 29: TRIPLE NET MONTHLY RENT PER SQUARE FOOT AND VACANCY RATE FOR RETAIL INVENTORY, 2014 TO 2024

| | 2014 | 2024 | Change from 2014 to 2024 | |
|---|---|---|---|---|
| | | | Numerical Change | Percentage Change |
| **NNN Monthly Rent Per Square Foot** | | | | |
| Santa Clara Station Area | $1.67 | $3.25 | $1.58 | 95% |
| 1-mile Radius | $1.94 | $2.45 | $0.52 | 27% |
| 3-mile Radius | $2.38 | $2.95 | $0.57 | 24% |
| 5-mile Radius | $2.45 | $2.96 | $0.51 | 21% |
| **Vacancy Rate** | | | | |
| Santa Clara Station Area | 0.30% | 5.10% | 4.80% | - |
| 1-mile Radius | 1.80% | 1.20% | -0.60% | - |
| 3-mile Radius | 2.60% | 3.60% | 1.00% | - |
| 5-mile Radius | 2.30% | 3.60% | 1.30% | - |

Sources: CoStar, 2024; Strategic Economics, 2024;

# Office Market Trends

## EXISTING OFFICE SUPPLY

**Despite growth in office inventory in the Market Area and the City, the Station Area has not added new office buildings in the last decade.** The Market Area added more than 18 million square feet of office space in the last decade and its inventory grew by 43 percent (see Figure 30). The City added 4 million square feet of office space and increased its office inventory by 28 percent during the same period. The City had a smaller increase in office inventory than the Market Area, indicating that other parts of the Market Area added more office space than the City. The Station Area added no new office buildings in the last decade, although the area could potentially capture a portion of the growing demand for office spaces in the City and the Market Area in the future.

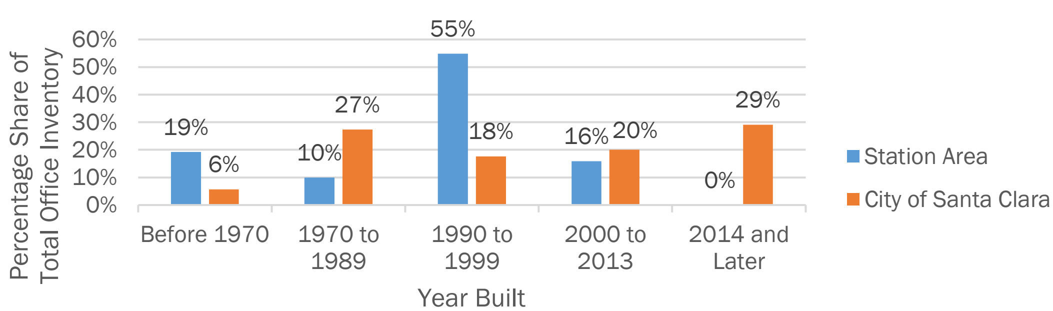
**The majority of office inventory in the Station Area is in the form of older, low density office parks.** Majority of the Station Area's office inventory was built in the 1990s and there has been no office development in the last decade (see Figure 31). The largest office development in the area is the Airport Park Garden Office Suites in subarea 1, which was built in 1966 and has more than 20,000 square feet of office space. The second largest office space is the Bill Wilson Center, built in 1996 with over 13,000 square feet of office space in subarea 5. There is another low-density office park development in Subarea 4, between the railway tracks and El Camino Real, to the east of the Caltrain Station, comprising office for Advanced Manufacturing companies such as MACOM and technology companies like Qubole and Quest Software, healthcare companies, a bank, a hotel and an SCSU building.

FIGURE 30: OFFICE INVENTORY IN SQUARE FOOT, 2014 AND 2024 YTD

| | | | Change from 2014 to 2024 YTD | |
|---|---|---|---|---|
| **Inventory in Square Foot** | **2014** | **2024 YTD** | Numerical Change | Percentage Change |
| Santa Clara Station Area | 465,477 | 465,477 | 0 | 0% |
| City of Santa Clara | 17,310,768 | 22,133,773 | 4,823,005 | 28% |
| Market Area | 42,101,249 | 60,264,061 | 18,162,812 | 43% |

Sources: CoStar, 2024; Strategic Economics, 2024;

FIGURE 31: PERCENTAGE SHARE OF TOTAL OFFICE INVENTORY BY YEAR BUILT, SANTA CLARA STATION AREA AND CITY OF SANTA CLARA




Sources: CoStar, 2024; Strategic Economics, 2024.

**Since 2014 onwards, cities in the Market Area have added close to 90 new office buildings, some of which have over a million square feet of office space.** Large new office developments in the last decade include offices for large tech companies including 200 Park in San Jose with 1.2 million square feet of office space and the Google Bay View Campus at Moffet Park in Mountain View with over 1.1 million square feet of office space and offices for Adobe and Samsung each of which had close to 700,000 square feet of office space in San Jose. Coleman Avenue near the Station Area added more than a million square feet of office space in the Coleman Highline Project in San Jose.

**Among other cities in the Market Area, Santa Clara has the largest amount of upcoming office space, followed by San Jose.** Both cities expect to add nearly 11 million square feet of proposed office space. Large, proposed office projects include the office park on 3005 Democracy Way (3.5 million square feet, Santa Clara), and on 2890 N 1st St (1.2 million square feet, San Jose). North of the Station Area, Tasman Drive is expected to add 1.5 million square feet of office space across three proposed projects. Development of large mixed-use office buildings in the City and close to the Station Area could potentially lead to growing market interest in office development in the area.

### RENTS AND VACANCY RATES

**The older office supply in the Station Area commands lower rents compared to the Market Area and the City.** Office rents per square foot are the highest in the Market Area, followed by the City of Santa Clara (see Figure 32). This could indicate that predominantly older office stock in the City commands lower rents than new development in the Market Area. The Station Area, with predominantly older office spaces, commanded even lower rents than either the Market Area or the City.

**Despite low rents and relatively older office stock, vacancy rates in the Station Area are significantly lower than in the Market Area and City, indicating demand for office space in the Station Area.** Post pandemic, office vacancies have increased throughout the Bay Area. The Market Area had a 6.5 percent increase in office vacancies, while the City only had a 1.8 percent increase in office vacancy (see Figure 32) indicating greater demand for office space in the City compared to other parts of the Market Area. Unlike the City and the Market Area, office vacancy rates decreased significantly in the Station Area bringing its vacancy rates down from 17.8 percent in 2014 to 8.4 percent in 2024 YTD.

FIGURE 32: OFFICE RENT PER SQUARE FOOT PER MONTH AND VACANCY RATES, 2014 AND 2024 YTD

| | | | Change from 2014 to 2024 YTD | |
|---|---|---|---|---|
| | **2014** | **2024 YTD** | Numerical Change | Percentage Change |
| **Office Rent Per Square Foot Per Month** | | | | |
| Santa Clara Station Area | $2.51 | $2.75 | $0.24 | 10% |
| City of Santa Clara | $2.69 | $3.43 | $0.74 | 27% |
| Market Area | $3.15 | $3.90 | $0.75 | 24% |
| **Office Vacancy Rate** | | | | |
| Santa Clara Station Area | 17.80% | 8.40% | -9.40% | - |
| City of Santa Clara | 13.10% | 14.90% | 1.80% | - |
| Market Area | 11.00% | 17.50% | 6.50% | - |

Sources: CoStar, 2024; Strategic Economics, 2024;

# Industrial Market Trends

## CURRENT INDUSTRIAL SUPPLY

**Industrial inventory is declining in the Market Area, City and Station Area, and the greatest percentage decrease in industrial space has been in the Station Area.** Industrial inventory in the Market Area declined by 2.4 million square feet or 4 percent in the last decade (see Figure 33). Industrial space in the City also declined by 4 percent over the same period. Industrial inventory in the Station Area decreased 36 percent from 2014 to 2024 - nine times the percentage decrease in industrial space in the Market Area and the City. This indicates that industrial space in the Station Area is being converted into newer uses that generate higher rents than industrial buildings.

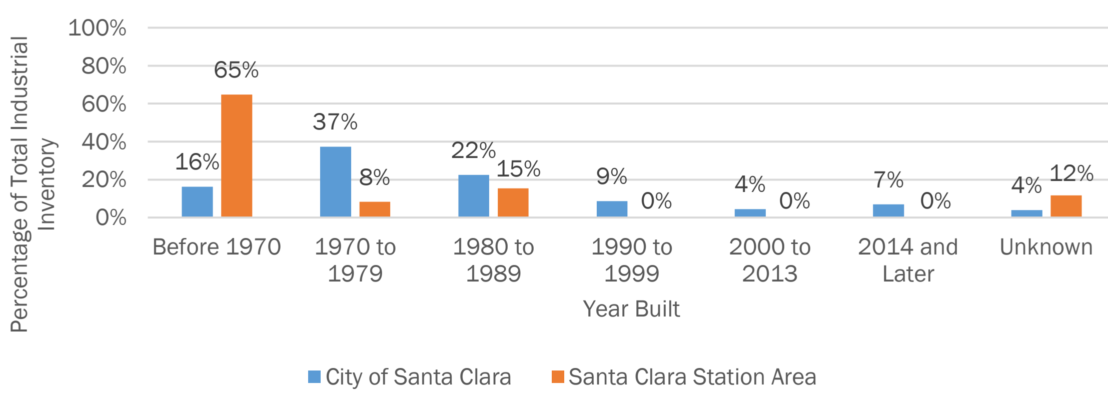
FIGURE 33: INDUSTRIAL INVENTORY IN SQUARE FOOT, 2014 AND 2024 YTD

| Inventory in Square Foot | 2014 | 2024 YTD | Change from 2014 to 2024 YTD | |
|---|---|---|---|---|
| | | | Numerical Change | Percentage Change |
| Santa Clara Station Area | 1,115,022 | 710,601 | -404,421 | -36% |
| City of Santa Clara | 15,707,520 | 15,027,937 | -679,583 | -4% |
| Market Area | 59,522,859 | 57,122,089 | -2,400,770 | -4% |

Sources: CoStar, 2024; Strategic Economics, 2024;

**The Station Area's industrial inventory is older than the City's and there has been no new industrial development in the area since 1990.** The City added 77 percent of its industrial inventory prior to 1990 and increased its industrial inventory by less than 10 percent per decade afterwards (see Figure 34). Industrial space built before 1970 (fifty years ago) accounts for 65 percent of the total industrial inventory of the Station Area, with 15 percent built between 1980 and 1989 (see Figure 34). Given the building age, much of this building stock can be considered functionally obsolete.

FIGURE 34: PERCENTAGE SHARE OF TOTAL INDUSTRIAL INVENTORY BY YEAR BUILT, SANTA CLARA STATION AREA AND CITY OF SANTA CLARA




Sources: CoStar, 2024; Strategic Economics, 2024.

## RECENTLY BUILT, PLANNED AND PROPOSED INDUSTRIAL PROJECTS IN THE MARKET AREA

**The majority of new industrial space in the City and the Market Area has been added in the form of data centers.** Since 2000, 94 percent of all newly added industrial space in Santa Clara has been telecom hotel or data hosting buildings, with only three percent being R&D and two percent Warehouse space. Since 2014, 50 percent of new industrial space in cities of Santa Clara, San Jose and Sunnyvale now houses data centers. The City of Santa Clara added 2.2 million square feet of data center space in the last decade and is expected to add 2.5 million square feet of space for data centers in new projects in the future. These data centers house large electrical equipment and do not hire any employees, making them undesirable uses for transit-rich areas which are best suited for high employment densities. No data center is present in the Santa Clara Station Area, although because there is growing demand for this use in the region, there could be future pressure to allow data centers in the Station Area.

**The increase of more than a million square feet of manufacturing space in San Jose and nearly 500,000 square feet of R&D space in Sunnyvale indicates demand for such uses in the Market Area.** San Jose added 1.2 million square feet of manufacturing space in the last decade, with buildings accommodating logistics users like Amazon and advanced manufacturing companies like Super Micro. Sunnyvale added nearly 350,000 square feet of R&D space in a new building that hosts several PSTS tenants including an intuitive surgery company and a software solutions company.

## RENTS AND VACANCY RATES

**Industrial space in the Station Area achieves lower rents and has higher vacancy rates than the City or the Market Area, which is a reversal of market conditions ten years ago.** In 2014 industrial space in the Station Area achieved the highest rents and had the lowest vacancy rates of the three areas under consideration (see Figure 35). However industrial rents per square foot have about doubled in the last decade. Now the Station Area has the lowest industrial rents per square foot and the highest vacancy rates among the three geographies. While Station Area industrial rents increased over the ten-year period, this increase is relatively small compared to the other two geographies. This suggests decreasing demand for the Station Area industrial spaces, which could create opportunities for redevelopment into other more intense uses.

FIGURE 35: INDUSTRIAL RENT PER SQUARE FOOT PER MONTH AND VACANCY RATES, 2014 AND 2024 YTD

| | 2014 | 2024 YTD | Change from 2014 to 2024 YTD | |
|---|---|---|---|---|
| | | | Numerical Change | Percentage Change |
| **Industrial Rent Per Square Foot Per Month** | | | | |
| Santa Clara Station Area | $0.99 | $1.25 | $0.26 | 26% |
| City of Santa Clara | $0.80 | $1.59 | $0.79 | 99% |
| Market Area | $0.93 | $1.89 | $0.96 | 103% |
| **Industrial Vacancy Rate** | | | | |
| Santa Clara Station Area | 2.60% | 5.55% | 3% | - |
| City of Santa Clara | 3.27% | 2.85% | -0.4% | - |
| Market Area | 4.04% | 3.02% | -1% | - |

Sources: CoStar, 2024; Strategic Economics, 2024;

## Other Building Performance Market Indicators

In addition to the standard real estate performance metrics shown above, this analysis considers two additional metrics that can further demonstrate the viability of the commercial building stock in the Santa Clara Station Area. These include the year each building was built by building type; and the types of uses or uses occupying space by building type. Building age, as measured by year built, indicates whether buildings are starting to reach the end of their functional life and/or if new investment is being made in the area. The relationship between building and user type may also provide an indication as to whether buildings are being utilized for their intended purpose. In some cases, a mismatch may indicate that the market no longer deems that building viable for its original purpose, or that some other market conditions may exist related to either the building type or the user type.

To streamline these analyses, Strategic Economics reclassified CoStar building types as shown in Figure 36.

FIGURE 36: STRATEGIC ECONOMICS BUILDING TYPES CLASSIFICATION BASED ON COSTAR PROPERTY TYPES

| Strategic Economics Building Classification | CoStar Primary Property Types | CoStar Secondary Property Types |
|---|---|---|
| Warehouse and Distribution | Industrial; Flex | Warehouse; Distribution; Light Distribution; Refrigeration and Cold Storage; Truck Terminal; |
| Manufacturing | Industrial; Flex | Manufacturing; Light Manufacturing; Food Processing |
| R&D | Flex | R&D |
| Other Industrial | Industrial; Flex | Showroom; Service; Telecom Hotel and Data Hosting; Freestanding; Other; |

Sources: CoStar, 2024; Strategic Economics, 2024;

**INDUSTRIAL BUILDING INVENTORY BY BUILDING TYPE AND YEAR BUILT.**

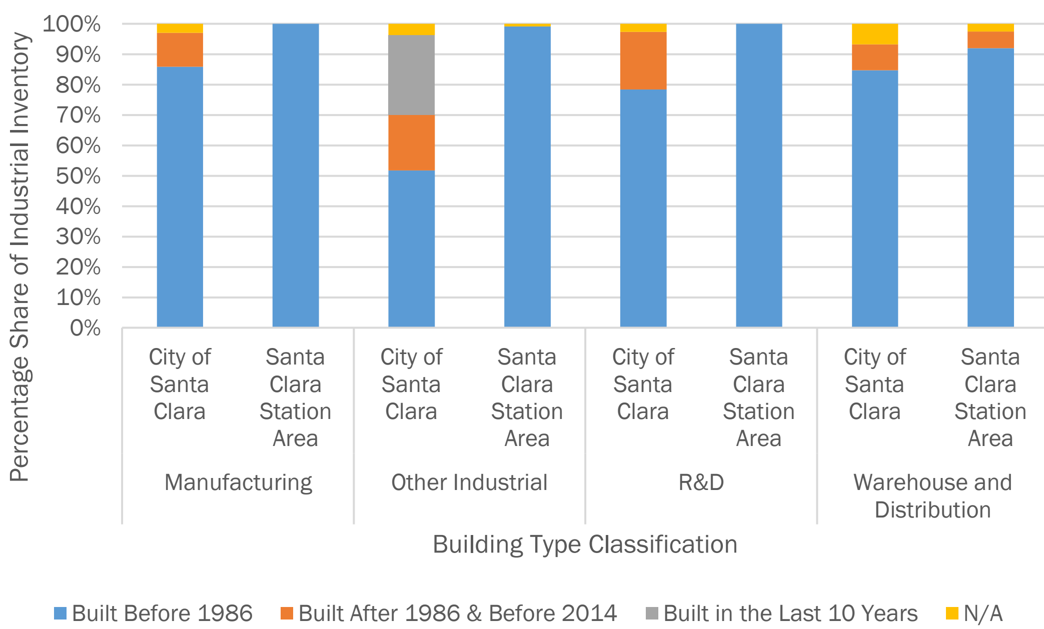
This section analyzes industrial building inventory using the building types shown in Figure 36 and the year they were built. Buildings were sorted into three categories, those that were built prior to 1986 and will therefore be at least 50 years old in 2036, which is when BART is expected to start serving the Station Area and considered functionally obsolete; buildings built between 1986 and 2014 (functional); and buildings built after 2014 (newly built).

**No new manufacturing, other industrial, or R&D buildings have been built in the Station Area since 1986.** As Figure 37 shows, this contrasts with the City of Santa Clara where there has been some newer construction of all three building types. Older building stock has likely contributed to the limited rent growth and increased vacancy rates in the Station area as discussed above.

**The Station Area has added some warehouse and distribution buildings since 1986, but no new space has been added in the last ten years.** While the City of Santa Clara has added a slightly larger share of warehouse and distribution space than the Station Area since 1986, no new space of this type has been built in the City in the last ten years either (Figure 37). This indicates that Santa Clara is not serving any logistics functions for San Jose International Airport and non-airport logistics related functions are also being accommodated elsewhere in the Market Area.

**Older, functionally obsolete industrial buildings present opportunities for redevelopment to denser residential and commercial uses.** Given the Station Area's location near a major transit hub, these functionally obsolete buildings may present opportunities for redevelopment, enabling production of more transit supportive uses. However, conversion from industrial to other uses is complicated and presents a host of challenges ranging from zoning restrictions to market and community support, often preventing adaptive reuse.

FIGURE 37: TOTAL INDUSTRIAL AND FLEX INVENTORY BY BUILDING TYPE CLASSIFICATION AND YEAR BUILT




Sources: CoStar, 2024; Strategic Economics, 2024.

### BUILDING OCCUPANCY BY INDUSTRY SECTOR AND BUILDING TYPE

This analysis utilizes the same tenant data from CoStar discussed in the employment by industry section above. Again, it should be noted that the employment data shown below is imprecise. However, the overall trends indicated by this analysis should generally be accurate.

**For the most part, the match between industries and the types of buildings they occupy is well aligned in the Station Area.** Most of the industrial space included in the four building types shown in Figure 38is occupied by businesses in the Manufacturing and Construction industries. In cases where other industries have a small employment presence in industrial buildings, these tend to be in warehouse spaces where these businesses are likely to store varies kinds of materials. These include Retail Trade, Educational Services, and Other Industries.

**Almost 40 percent of the Station Area's non-industrial space is occupied by employees in three sectors: Manufacturing, PSTS, and Other Services.** Although these industries account for under 1,000 jobs today, they may also signify that in the future office users across multiple sectors, including growth industries like PSTS will see increasing locational advantages to locating near a large transit hub. An additional breakdown of non-industrial and industrial space occupancy by industry is shown in Figure 39.

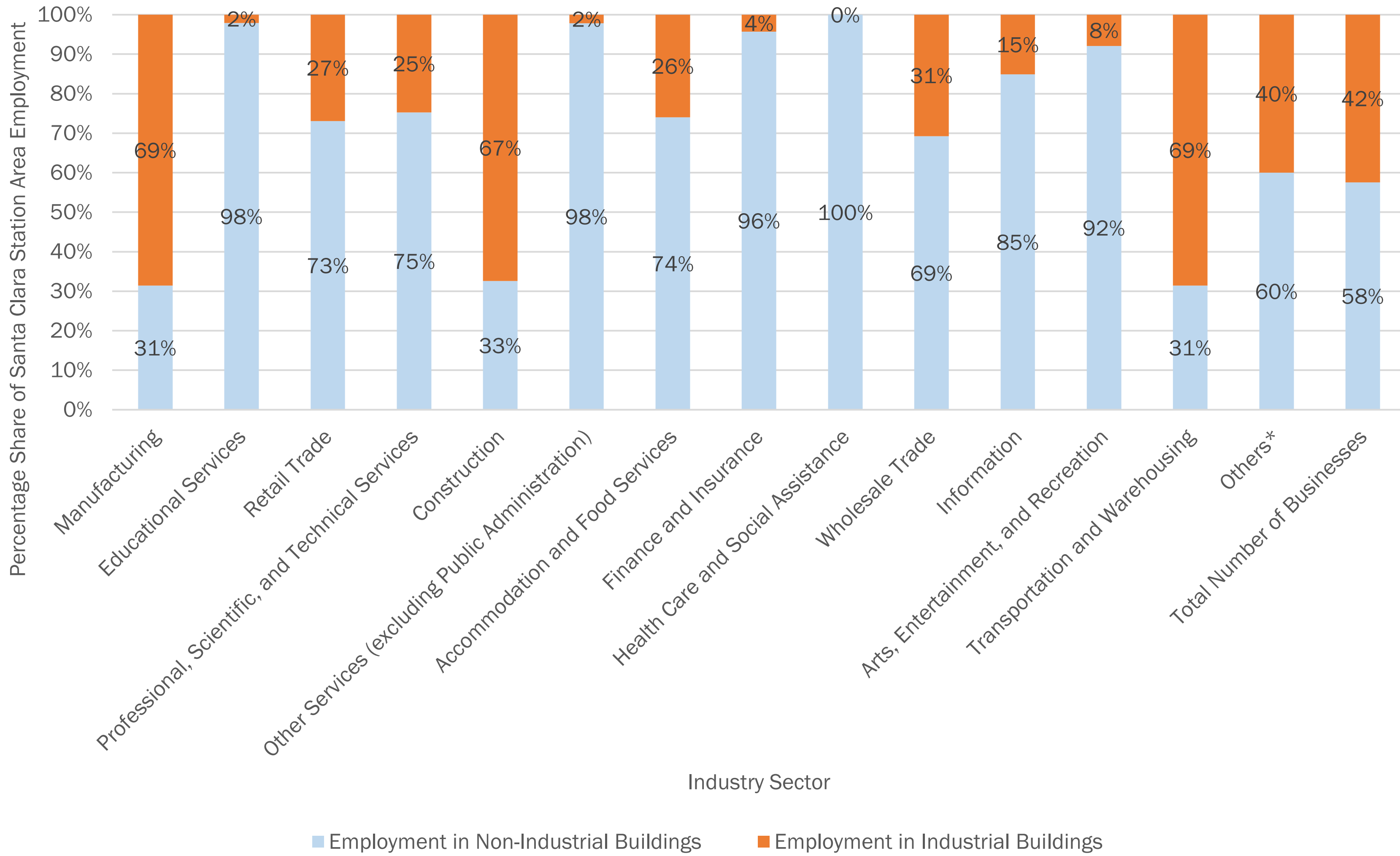
FIGURE 38: SANTA CLARA STATION AREA EMPLOYMENT BY INDUSTRY SECTOR AND TYPE OF INDUSTRIAL BUILDINGS, 2024

| Industry Sector | Types of Industrial Buildings: Other Industrial | Warehouse and Distribution | Manufacturing | R&D | Total Employees in Industrial Buildings | Employees in Non-Industrial Buildings | Total Employees, Both Industrial and Non-Industrial Buildings |
|---|---|---|---|---|---|---|---|
| Manufacturing | 0 | 1,044 | 2 | 2 | 1,048 | 480 | 1,528 |
| Educational Services | 0 | 1 | 10 | 0 | 11 | 519 | 530 |
| Retail Trade | 50 | 26 | 5 | 0 | 81 | 220 | 301 |
| Professional, Scientific, and Technical Services | 0 | 42 | 11 | 0 | 53 | 161 | 214 |
| Construction | 20 | 81 | 21 | 0 | 122 | 59 | 181 |
| Other Services (excluding Public Administration) | 3 | 0 | 0 | 0 | 3 | 134 | 137 |
| Accommodation and Food Services | 0 | 0 | 20 | 0 | 20 | 57 | 77 |
| Finance and Insurance | 0 | 0 | 3 | 0 | 3 | 67 | 70 |
| Health Care and Social Assistance | 0 | 0 | 0 | 0 | 0 | 58 | 58 |
| Wholesale Trade | 10 | 0 | 6 | 0 | 16 | 36 | 52 |
| Information | 5 | 0 | 3 | 0 | 8 | 45 | 53 |
| Arts, Entertainment, and Recreation | 0 | 0 | 3 | 0 | 3 | 35 | 38 |
| Transportation and Warehousing | 0 | 0 | 20 | 4 | 24 | 11 | 35 |
| Others* | 2 | 50 | 2 | 0 | 54 | 81 | 135 |
| Total Employees, All Industry Sectors | 90 | 1,244 | 106 | 6 | 1,446 | 1,963 | 3,409 |

Sources: CoStar, 2024; Strategic Economics, 2024;

Notes:* Industry sectors classified under "Others" includes Administration & Support, Waste Management and Remediation; Utilities; Mining, Quarrying, and Oil and Gas Extraction; Real Estate and Rental and Leasing ; Public Administration ; Agriculture, Forestry, Fishing and Hunting; Management of Companies and Enterprises and Unclassified.

FIGURE 39: PERCENTAGE SHARE OF STATION AREA EMPLOYMENT BY INDUSTRY SECTOR AND TYPE OF BUILDING, 2024




Sources: CoStar, 2024; Strategic Economics, 2024.

## Hotel Market Trends

Hotels are a viable use in the Station Area due to its proximity to the San Jose Mineta International Airport, local entertainment destinations such as Levi's Stadium, the Avaya Stadium, Santa Clara State University and transit connections to many significant employment destinations in the Bay Area. The Station Area already has one hotel and is expected to add three new hotels by 2027. This section analyzes the hotel inventory and performance in the last ten years to determine demand for hotel uses in the Station Area.

### HOTEL INVENTORY

**The hotel room inventory in the Market Area and the City increased from 2013 to 2023 - the Station Area is expected to capture growing regional demand for hotels by adding three new hotels by 2027.** Hotel inventory in the Market Area grew by 24 percent from 2013 to 2023, adding more than 4,000 new rooms (see Figure 40). During this period, the City's inventory grew by 8 percent, indicating that the City was adding a fewer new hotel rooms compared to other parts of the Market Area. Although the Station Area added no new hotels from 2013 to 2023, it will be adding three new hotels by 2027. New hotels include the Gateway Crossings Hotel with 225 rooms by 2025, Tempo Santa Clara with nearly 300 rooms by 2026 and Home Suites Santa Clara with 300 rooms as well by 2027. The upcoming addition to Station Area's hotel inventory indicates growing market demand for locating hotels in the area and growing preference for developing the Station Area as a destination for tourists.

FIGURE 40: HOTEL INVENTORY IN NUMBER OF ROOMS, 2013 TO 2023 YTD

| Inventory in Number of Rooms | 2013 | 2023 | Change from 2013 to 2023 | |
|---|---|---|---|---|
| | | | Numerical Change | Percentage Change |
| Santa Clara Station Area | 137 | 137 | 0 | 0% |
| City of Santa Clara | 3,807 | 4,100 | 293 | 8% |
| Market Area | 16,424 | 20,438 | 4,014 | 24% |

Sources: CoStar, 2024; Strategic Economics, 2024;

### RECENTLY BUILT, PLANNED AND PROPOSED HOTEL PROJECTS IN THE MARKET AREA

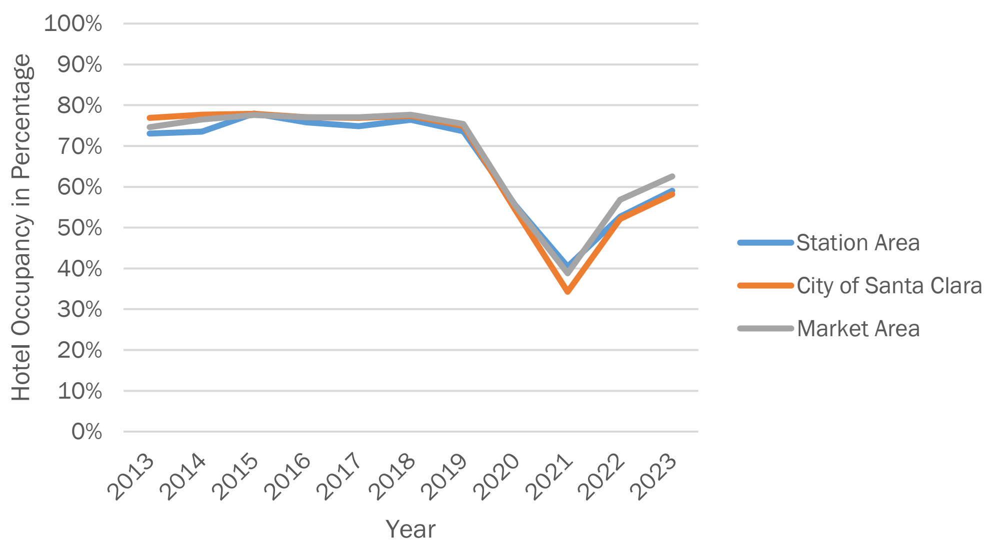
**The majority of newly added hotel rooms in the Market Area represent upscale hotels in suburban and airport locations.** Since 2014, San Jose added nine hotels with a total of over 1,000 new rooms near the airport in upper midscale and upscale market segments. Other parts of the Market Area added 10 additional upscale hotels in suburban locations during the same period.

**The largest number of hotel rooms planned, proposed and under construction in the Market Area are in the upscale and upper midscale market segments and are concentrated in San Jose and Santa Clara.** Santa Clara has the largest number of planned airport oriented upscale hotel rooms, all of which are located in the Station Area. San Jose is expected to add one more upper midscale hotel near the airport. The number of upcoming hotel rooms near the airport suggests that in the mid- to long-term there will be additional demand for new hotel rooms in the Station Area.

HOTEL PERFORMANCE

**Despite increasing supply, hotel occupancy rates in the Market Area, City of Santa Clara, and the Station Area all remained high, hovering at about 75 percent 2013-2019, but have not fully recovered since the Pandemic.** As Figure 41 shows, the Market Area has had the strongest post Pandemic recovery, with occupancy rates at just above 63 percent at the end of 2023, as compared to occupancy rates in the City and the Station Area which were just below 60 percent. While these recent occupancy rates are well below their pre-Pandemic peak, 60 percent is still considered a relatively good rate in the hotel industry, further supporting the assumption that hotel demand in the Station Area is likely to remain strong.

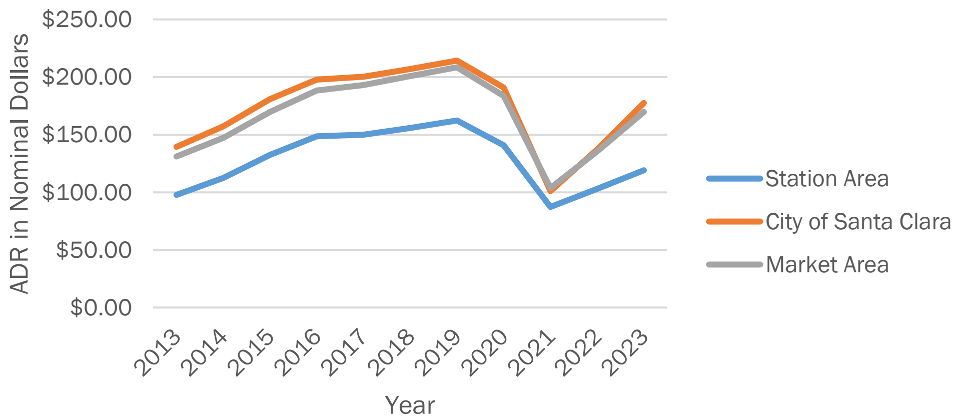
FIGURE 41: HOTEL OCCUPANCY RATES, 2013 TO 2023




Sources: CoStar, 2024; Strategic Economics, 2024.

**The Station Area had a lower ADR (Average Daily Rate) than the Market Area and the City before the Pandemic and post pandemic ADR rate increase have been much slower.** The Market Area and the City had similar ADR from 2013 to 2023 (see Figure 42). The Market Area ADR in 2023 was 19 percent below 2019 and the City's ADR was 17 percent lower, indicating that the City has had a slightly better increase in ADR than the Market Area. However, the Station Area ADR was nearly 27 percent below pre-pandemic levels. This indicates that although occupancy rates are up, midscale hotel rates in the Station Area are relatively low compared to the City and the Market Area.

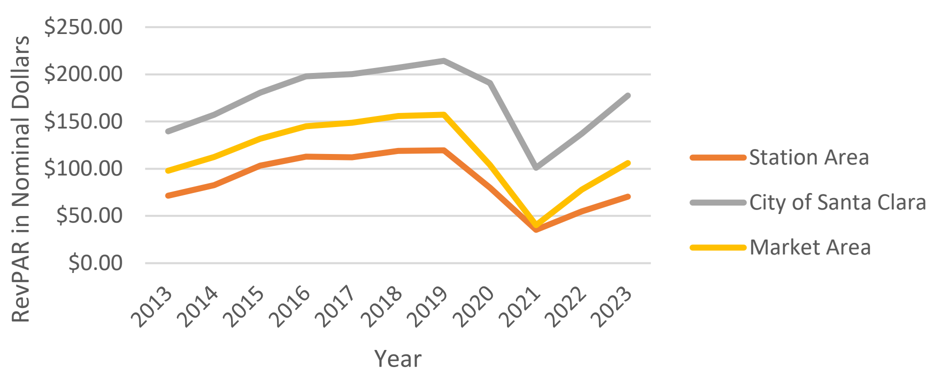
Figure 42: Average Daily Rates in Nominal Dollars, 2013 to 2023 YTD




Sources: CoStar, 2024; Strategic Economics, 2024.

**Like ADR, RevPAR in the Station Area was lower than the market area and the City and post-pandemic ADR recovery lagged behind other geographies.** In the market area, 2023 RevPAR value remained below 2019 by 32 percent (see Figure 43). The City showed the highest RevPAR from 2013 to 2023 among other geographies, indicating that hotel rooms in the City had generated greater revenues than the market area. The City also shows the greatest recovery in terms of RevPAR, with 2023 RevPAR being 17 percent below 2019 value. The Station Area had the lowest RevPAR in 2023, with 2023 RevPAR values 41 percent below 2019 RevPAR value for the Station Area. This indicated that existing hotels in the Station Area, which are relatively older than other hotels in the City, generated less revenue per room.

Figure 43: Revenue Per Room (RevPAR) in Nominal Dollars, 2013 to 2023




Sources: CoStar, 2024; Strategic Economics, 2024.

# Real Estate Market Opportunities and Challenges

**The housing market in the Market Area is shifting toward higher density multifamily product types and the Station Area's addition of such residential developments will generate high ridership for transit planned for the area.** This shift reflects changing demographics in the Market Area with an increase in household types, younger or older households, who tend to favor higher density housing in walkable transit supported locations.

**Retail Activity in the Station Area is dominated by Costco, with other small retail concentrations both the east and west of the Station/future BART tracks that are currently disconnected from each other.** Costco and the other retail activity on Coleman Avenue is very auto oriented with limited pedestrian connectivity. The small retail nodes on the west side of the Station Area tend to have better pedestrian infrastructure than on the east side, is there is no pleasant or easy way for pedestrians to traverse the entire Station Area to access these retail concentrations. There is opportunity to connect these disparate retail uses in the Station Area through improved road connectivity and pedestrian infrastructure once residential and office spaces in the area are further developed and demand for accessible retail uses increases in the Station Area.

**There may be an opportunity to extend retail uses from Downtown Santa Clara to the Station Area to create a seamless experience for transit users from the Caltrain Station to Downtown Santa Clara**. At present, there are no retail uses in the Station Area along streets that connect to Downtown Santa Clara. However, the City is planning to develop its downtown as a community-facing hub of restaurants and experiential retail that could be connected to the Caltrain Station using placemaking techniques and expanding existing retail nodes in the Station Area. For example, the existing small retail and/or placemaking node could be created at the intersection of Benton Street and the Alameda to reinforce this connection.

**Although office and life science real estate markets are weak today, in the long run, the Station Area could become a very desirable employment location.** Growth in key office-based sectors remains strong in the Market Area. In addition, unlike other office parks in the Market Area, the Station Area will offer housing, retail amenities, and very significant transit connectivity to other regional employment concentrations.

**While there is some demand for industrial space in the Station Area much of the industrial building inventory is functionally obsolete and could be redeveloped into more intense buildings.** Future uses that could replace the older industrial buildings could include other employment oriented activities, such as advanced manufacturing, R&D, life science, or office space.

**There is demand for airport-oriented hotels in the Station Area due to its proximity to the San Jose Mineta International Airport.** Currently there is one hotel in the Station Area, and it earns lower revenues compared to hotels in other parts of the City. However, higher hotel occupancy rates in the Station Area indicates demand for additional hotels rooms in the area. This is also reflected in the new hotels proposed in the Station Area which will be more upscale than the existing supply.

# V. ADDITIONAL STATION AREA ECONOMIC FACTORS

This chapter discusses additional economic factors related to the Station Area including current sales and transient occupancy tax revenues generated for the City's General Fund, housing affordability, and support for small businesses. These four topics were identified by the City as issues for consideration within the larger economic conditions report. The first two sections of this chapter discuss specific tax revenue sources that the Station Area currently contributes to the City's General Fund and the ways that these revenues could change as the result of future development in the area. Affordable housing production is also discussed, including a brief assessment of how the City's existing housing policies could help support new affordable housing production. And finally, there is a short discussion of small businesses in the Station Area and why the City's current small business support programs do not meet current small business needs, or will these programs help offset and future potential for small business displacement that could result from redevelopment activity.

## Retail Taxable Sales Trends

In 2023, retail sales tax made for 4.7 percent of the City's General Fund revenues[11]. This section analyzes the changes in total taxable sales at the City and county levels to determine whether the City's retail sales performance is at par with the county, especially before and after the Covid-19 pandemic. For this analysis, taxable retail sales data was obtained for the years 2015 to 2022 from the California Department of Tax and Fee Administration (CDTFA). Trends in taxable sales in the City were compared with the generation of sales tax in the county for comparable years as well. The remaining analyses compare the Station Area with City-level trends in sales tax generation from various business types to assess changes in the Station Area's economic contribution to the City's General Fund.

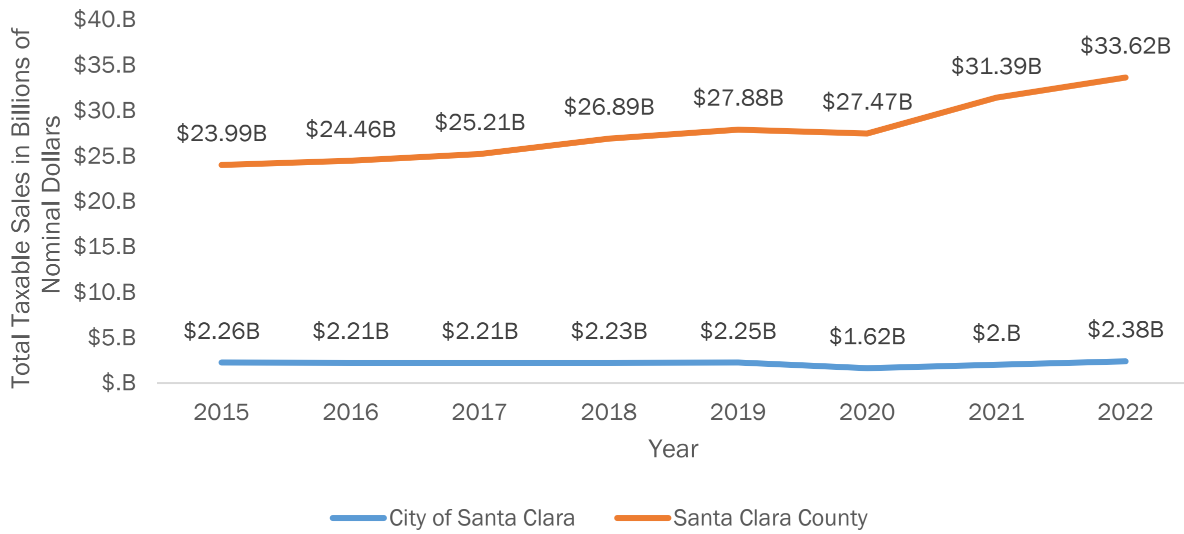
**Total retail sales generation in the City of Santa Clara and Santa Clara County exceeded pre-pandemic levels by 2022, although the recovery of taxable sales at the county level was greater than the city.** Total taxable sales in the City increased by 6 percent, from $2.25 billion in 2019 to $2.38 billion in 2022, indicating post-pandemic recovery in the City (see Figure 44). In the county, taxable sales rose from $27.88 billion in 2019 to $33.62 billion in 2022, or by 21 percent. A greater percentage increase in taxable sales from 2019 to 2022 at the county level indicates that the county performed better in terms of taxable sales after post-pandemic recovery.

**The City's total sales tax revenues in FY 2023 were higher than its sales tax revenues in FY 2018 reflecting the post-pandemic recovery in retail sales.** As Figure 45 shows Santa Clara's sales tax revenues have continued to increase over time, despite the small dip caused by the Pandemic. However, the pre- and post-Pandemic comparison uses 2018 revenues as the pre-pandemic benchmark because 2019 revenues are high due to a change in calculation methods and are therefore not considered representative of the City's pre-Pandemic sales tax revenue generating

[11] City of Santa Clara. FY 2024 and FY 2025 Proposed Operating Budget. Retrieved from https://www.santaclaraca.gov/Home/Components/News/News/44512/3171

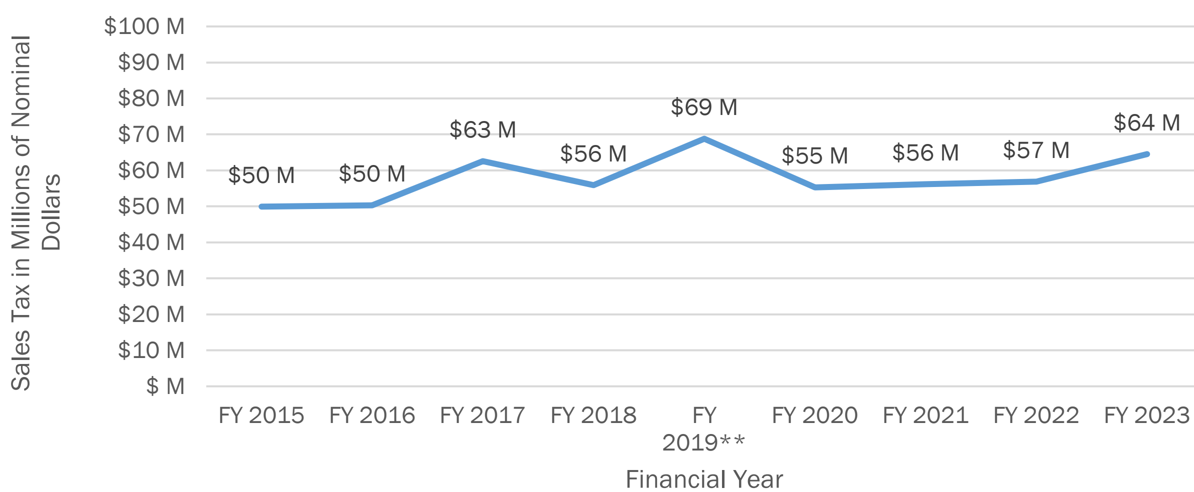
performance[12]. Instead, the year 2018 is taken as the benchmark year for measuring pre and post-pandemic sales tax for the City.

FIGURE 44: TOTAL TAXABLE SALES IN CITY OF SANTA CLARA AND SANTA CLARA COUNTY, 2015 TO 2022




Sources: City of Santa Clara, 2024; Strategic Economics, 2024.

FIGURE 45: TOTAL SALES TAX, CITY OF SANTA CLARA, 2015 TO 2023




Notes: * Financial Year begins in July of the previous year and ends in June of the subsequent one. So, FY 2015 would indicate the year beginning July 01, 2014, and end in June 30, 2015
***FY 2018/19 collections were higher than prior years due to the change in accounting methodology (changed to a modified accrual basis from cash)"
Sources: City of Santa Clara, 2024; Strategic Economics, 2024.

**Within Santa Clara, the largest growth in sales tax revenues from 2015 to 2022 came from specific business types and most of these categories are represented in the Station Area including Motor**

[12] Sales tax and transient occupancy tax datasets received from the City of Santa Clara mentioned the following footnote: "*FY 2018/19 collections were higher than prior years due to the change in accounting methodology (changed to a modified accrual basis from cash)"

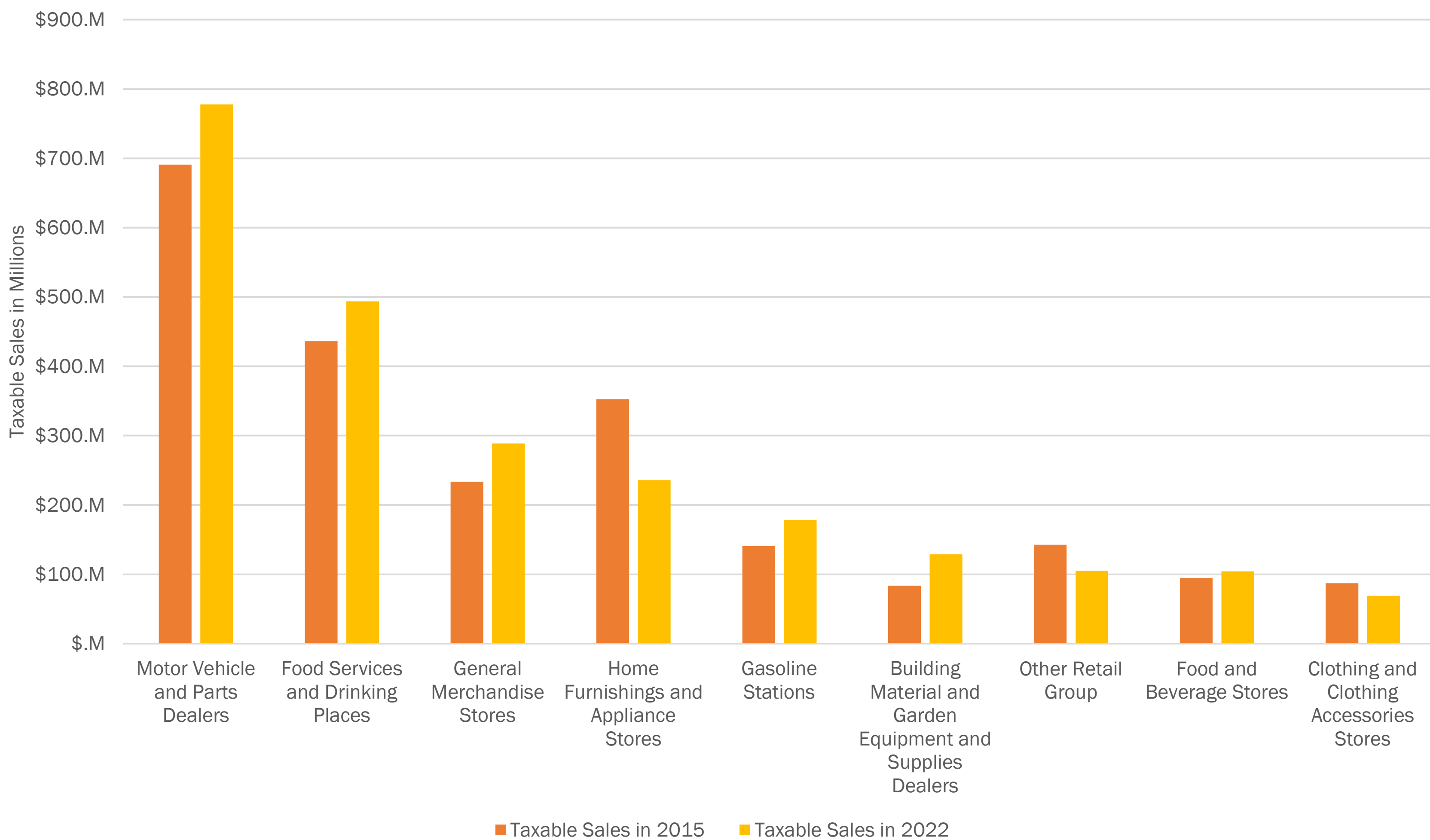
**Vehicles and Parts Dealers, Food Services and Drinking Places and General Merchandize stores** (see Figure 46). Although sales tax revenues generated specifically by Station Area businesses are not available, the area does include several auto dealerships, car repair shops and car body parts dealers. It is likely that most of these revenues come from Costco, which is one of the largest general merchandise stores in the City.

**The City will experience a decline in sales tax generation from the Station Area if Costco moves to a different location if market conditions support redeveloping this site for residential or office uses.** Sales Tax revenues made up only 4.7 percent of total General Fund revenues in Santa Clara in 2023, but general merchandise stores account for 12 percent of total taxable sales in the City. As demand for residential and office space in the Station Area increases, there may be pressure to move Costco to another location, potentially outside of the City. Although this move is not likely to happen in the near future, if Costco does move out of the Station Area, this would significantly diminish the amount of retail sales tax generated by the Station Area. However, because Costco would be replaced by high density office and/or residential developments, these new projects would significantly increase the Station Area's property tax contributions to the General Fund. In 2023, property taxes comprised six percent of the City's General Fund revenues[13]. In addition to the potential to make up the lost sales tax revenues, property taxes have the added advantage of being much less volatile than sales tax revenues, and thus a more stable revenue source for the City's general fund in the long run.

**The entire retail industry is undergoing a transformation that favors experiential dining, food and beverage stores and the design of upcoming retail spaces in the Station Area should complement this trend.** In the future, demand for retail space in the Station Area will most likely be from restaurants, groceries, hair and nail salons and other personal services and entertainment uses which are together referred to as "experiential retail." These retail activities tend to concentrate in places where there is strong placemaking and high-quality bike and pedestrian connectivity.

[13] City of Santa Clara. FY 2024 and FY 2025 Proposed Operating Budget. Retrieved from https://www.santaclaraca.gov/Home/Components/News/News/44512/3171

FIGURE 46: TAXABLE SALES IN NOMINAL DOLLARS BY BUSINESS TYPES, CITY OF SANTA CLARA, 2015 AND 2022




Sources: CDTFA, 2024; Strategic Economics, 2024.

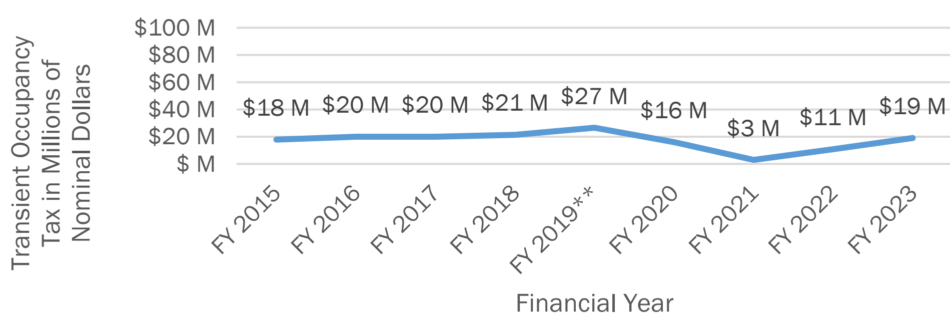
# Transient Occupancy Taxes Trends

In 2023, transient occupancy taxes (TOT) made up one percent of the City's total General Fund Revenues[14]. This section analyzes the City's trends in transient occupancy taxes (TOT) and how potential changes in the Station Area will impact the City's revenues. The City's total TOT data from the years 2015 to 2023 is analyzed to determine pre- and post-pandemic TOT performance. This section then compares the City's TOT performance with hotel industry performance in the Station Area to determine how future hotel development will impact the City's revenues.

**Transient Occupancy Taxes (TOT) contribute to a small share of the City's total revenues, and TOT generation has not recovered to pre-pandemic levels.** Considering 2018 as the base for pre-pandemic TOT[15], 2023 TOT generation remained $2M below 2018 levels (see Figure 47). Hotel performance in terms of revenue generation (average daily rates and revenues per room) in the City and the Market Area were lower in 2023 than pre-pandemic levels. Although TOT numbers have experienced some recovery, the City has yet to match its pre-pandemic TOT levels.

**The Station Area currently has one hotel and is expected to add three hotels by 2027, significantly increasing its contribution to the City's total TOT generation in the future.** Figure 40 shows that the Station Area accounts for three percent of hotel rooms in the City in 2023. By 2027, the Station Area is expected to add six times the number of rooms currently present in the area. Prior analysis showed occupancy levels in the Station Area were higher than in the City, although revenues generated per room were lower since the hotel was older and was built as a midscale property. The hotels planned for the Station Area are upscale and are expected to generate higher revenues than the existing hotel. The addition of new hotels will certainly increase the Station Area's contribution to the City's total TOT revenues.

FIGURE 47: TOTAL TRANSIENT OCCUPANCY TAX (TOT) GENERATED, CITY OF SANTA CLARA, FY 2015 TO FY 2023




Notes:
* Financial Year begins in July of the previous year and ends in June of the subsequent one. So, FY 2015 would indicate the year beginning July 01, 2014 and end in June 30, 2015
***FY 2018/19 collections were higher than prior years due to the change in accounting methodology (changed to a modified accrual basis from cash)"
Sources: City of Santa Clara, 2024; Strategic Economics, 2024.

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[14] City of Santa Clara. FY 2024 and FY 2025 Proposed Operating Budget. https://www.santaclaraca.gov/Home/Components/News/News/44512/3171
[15] 2019 numbers are distorted due to a change in accounting method.

## Affordable Housing in the Station Area

This section provides an overview of the population groups in need of affordable housing in the Station Area and the potential for existing City-level policies to produce affordable housing for those specific groups in the Station Area.

**There is a need for affordable housing in the Station Area, particularly for younger adults and seniors.** The demographic analysis presented in Section 2 showed that the numbers of younger adults and seniors were increasing in the Station Area. At the same time, incomes in the Station Area were lower than the City and the Market Area and rent burdened households increased despite the addition of new housing units since rents grew more quickly than household incomes. This indicates the need for affordable housing options for growing sections of the Station Area's population – younger adults and seniors.

**The City's housing element has not identified any sites in the Station Area for future affordable development to meet the City's RHNA goals.** The City's housing element sites are located in the City's Tasman East Focus Area, Patrick Henry Drive Focus Area and Lawrence Station Area Specific Plan. The City's existing housing element anticipates that any development in the Station Area plan will be in addition to the City's existing housing sites inventory.

**The most likely sites for developing 100 percent affordable housing in the Station Area are publicly owned land that is vacant or could become available through the state's Surplus Lands Act if existing public uses are relocated.** BART owns a vacant site in the Station Area, although this may be required to support future BART related activities. The other publicly owned sites in the Station Area include the City's police and fire stations. These parcels could represent opportunity sites in the future if existing uses are relocated to other parts of the City. Any publicly owned property represents a future affordable housing opportunity site due to AB 1486, the Surplus Lands Act. The Surplus Lands Act requires that qualified affordable housing developers have the first right to purchase publicly owned property that is no longer required to meet a public purpose.

**The City has two existing programs that will support affordable housing production in the Station Area.** First is the Inclusionary Housing Policy that requires all new residential development of 10 units or more units set aside 15 percent of their units for lower income households[16]. If any portion of the required units cannot be accommodated on site, the developer can pay an in lieu fee that goes into the City's housing trust fund. The City's second program to support affordable housing is the Housing Impact fee which is imposed on non-residential development projects. Both the in-lieu fees from the Inclusionary Housing Policy and the Housing Impact Fee funds are paid in to the City's Housing Trust Fund. The Housing Trust fund provides direct funding support to help subsidize various types of affordable housing projects and programs in the City.

[16] The City has an Affordable Housing Ordinance that applies to all residential developments of 10 or more units. Rental projects must have 15% of units affordable to Extremely Low Income (ELI), Very Low Income (VLI), Low Income (LI), and Moderate Income (MI) households, with the average income of such units capped at 100% AMI and units must be provided on site. For sale/ownership projects must have 15% of units affordable to ELI, VLI, LI, and MI households. For projects under 10 units, one unit must be affordable at 100% AMI, or the developer must pay an in lieu fee. In lieu fee is currently $28.79 per square foot, with annual inflation rate tied to CPI.

## Small Business Support Policies

This section provides an overview of small businesses by type in the Station Area and the potential of existing City-wide policies to promote the growth and development of small businesses in industry sectors poised for future growth.

**Small businesses represent the largest number of Station Area businesses, and small businesses in the Station Area are concentrated in PSTS, Retail and Manufacturing sectors.** Out of 200 businesses in the Station Area, 192 can be classified as small businesses. These businesses are distributed across many sectors including PSTS and Information companies' car dealerships, automobile repair shops, convenience retail, personal services and standalone retail shops for games, photo frames, etc. and small restaurants.

**The City of Santa Clara has a small number of initiatives to support small businesses, however, such initiatives are not in direct alignment with the needs of the Station Area.** In 2022, voters passed Measure H to update the City's business license tax, subsidizing taxes for smaller businesses and increasing taxes for large businesses using a per employee per business formula. Silicon Valley Power, owned by the City, offers cheaper rates of power to industrial businesses as part of the Small Business Energy Efficiency Grant Program. The City has a Worker Cooperative Initiative to help transition small businesses to employee-ownership if the owner decided to exit. While these initiatives are helpful for certain businesses in the City, there is a lack of policies targeted to specifically support small PSTS, automobile shops and restaurants which represent the majority of small businesses in the Station Area.

## Additional Economic Station Area Opportunities and Challenges

**Retail sales from small businesses in the Station Area are expected to increase, however the potential loss of Costco could negatively impact sales tax generation from the Station Area.** If Costco were to relocate outside the City, this could create a negative impact on total sales tax generated from the Station Area. However, demand for other retail, food and beverage places should increase which could at least partially offset loss in sales tax should Costco relocate elsewhere. However, this challenge is not expected in the short to midterm.

**The potential decrease in retail sales tax from a potential Costco relocation could be further offset by new TOT generation and increased property tax revenues associated with redevelopment.** The Station Area will be adding three relatively high-quality airport-oriented hotels which is expected to exceed triple the TOT revenues currently generated from the area. Also, the addition of new high density mixed use buildings will generate much higher property taxes than the current uses these buildings are likely to replace, most of which have very low assessed valuations.

**There is a growing need for affordable housing in the Station Area, particularly for young adults and seniors, and the City could tailor its policies and funding mechanisms to target more units for these households in the Station Area.** At present the City's policies do not allocate opportunity sites, specific funding streams or incentives for the production of affordable housing in the Station Area.

**Most businesses in the Station Area are small businesses, however, the City's small business support initiatives are minimal and are not geared towards the kinds of businesses not currently operating in**

**the Station Area.** The City could consider new initiatives to understand the trends and requirements of small businesses in the Station Area to support business retention and expansion and to assist with relocation, should future redevelopment cause small business displacement pressures.

# VI. ECONOMIC AND FINANCIAL OPPORTUNITIES AND CONSTRAINTS SUMMARY

This section summarizes the opportunities and constraints identified in the above economic analysis to inform the process for preparing the Santa Clara Station Area Specific Plan. These opportunities and constraints are summarized in bullet form for housing, retail, office, industrial, hotel and other economic factors that affect the Station Area. Opportunities and challenges identified in this chapter will enable the project team to recommend strategies that help overcome identified challenges and create transit-supportive land uses around the Santa Clara Station.

## Housing

OPPORTUNITIES

- Demographic trends and recently built housing projects indicate that there is strong demand for housing in the Santa Clara Station Area.
    - Sources of this demand include younger adults and people over the age of 65. Both demographic groups have historically shown a strong preference for housing near transit.
    - Apartment rents in the Station Area are very strong, suggesting that when interest rates go down and construction costs modulate in relation to rents, suggesting that if there were appropriate opportunity sites, housing would be a near-term source of demand in the Station Area.

CONSTRAINTS

- There are few vacant opportunity sites in the Santa Clara Station Area that are available for multifamily housing construction.
- Redevelopment of older industrial stock to develop multifamily housing may be challenging.

## Retail

OPPORTUNITIES

- Average retail rents have increased considerably in the Station Area, likely reflecting the rents for new retail space on the ground floor of recently built or under construction mixed use buildings.
- Future population, and to a lesser extent, employment growth, will likely drive future demand for additional retail space, but the types of tenants will likely be primarily eating and drinking establishments and other convenience-oriented retail/service businesses.

CONSTRAINTS

- There are no significant retail nodes in the Station Area that could facilitate a transition from Downtown Santa Clara to the Caltrain Station, although a small retail concentration at the intersection of Benton Street and the Alameda could be developed to connect the Station Area to retail uses in Downtown.
- The Station Area is within one mile of one major community shopping center and within less than three miles of multiple other community shopping centers and the largest regional mall in the South Bay. Therefore, if Costco goes away, it is unlikely that any large retailer will locate in the Station Area.

## Office

### OPPORTUNITIES

- The Station Area has a small inventory of office space which is relatively old and charges low rents. But vacancy rates for this space are lower than in the City or the Market Area, and the types of businesses occupying this space represent a mix of industry sectors that are expected to grow in the Market Area over the next several decades. This suggests that, over time, demand for office or life science space may increase, especially given the Area's transit connectivity to a very significant workforce.

### CONSTRAINTS

- While there is potential to attract new office/life science development to the Station Area in the long-term, shorter-term pressure from housing developers may result in leaving few if any prime sites for future employment generating uses.
- Office users tend to want to walk shorter distances from transit to their jobs than residents are willing to walk from their homes to transit. This could further limit the desirability of sites that are further away from the Caltrain and BART stations for redevelopment as office uses.

## Industrial

### OPPORTUNITIES

- The industrial building stock in the Station Area is old and much of it may be reaching the end of its functional life. Therefore, sites with older industrial buildings may be prime redevelopment sites.

### CONSTRAINTS

- Most of the industrial building stock is further away from the BART and Caltrain stations. These sites lack good auto accessibility and are not well connected to the western part of the Station Area around SCU where there is more potential to create vibrant mixed use nodes.

## Hotel

### OPPORTUNITIES

- Santa Clara Station Area has several locational qualities that suit hotel development including proximity to SCU, San Jose Mineta Airport, Levi's Stadium, other entertainment uses, and many major employers, all of which are accessible by some form of transit service available in the Station Area.

### CONSTRAINTS

- Currently, Station Area hotels have lower rates and lower occupancy rates compared to hotels in the Market Area. These performance metrics indicate that current demand for hotel space in the Station Area is limited.

## Other Station Area Economic Factors

### OPPORTUNITIES

- Retail sales in Santa Clara have made a strong recovery following the COVID-19 Pandemic. The retail segments contributing to this growth include car dealerships and general merchandise stores like Costco. Although specific data are not available, it appears that the Station Area could be making a significant contribution to the City's fiscal health because these strong retail sectors are represented in the area.
- Future hotel development could contribute more transient occupancy tax revenues to the City, but this potential is longer term.
- Increased property tax revenues from redevelopment could help to offset the losses in sales tax revenue that could result from significant redevelopment in the Station Area.

### CONSTRAINTS

- Redeveloping sites such as the Costco store or where the auto dealerships are located will result in a net loss to the City's General Fund.
- Additional residential development in the Station Area could increase costs for the City, especially for police and fire services.

### OTHER ECONOMIC CONSIDERATIONS

- There is ongoing demand for affordable housing in the Station Area, but the City's current affordable housing policies do not identify this area as a priority for funding or other housing programs.
- The Station Area currently has many small businesses that will be displaced by future redevelopment. Today, Santa Clara only has minimal policy or program resources targeting small businesses that could assist businesses in relocating either outside of the Station Area, or in new buildings as they come online