

Silicon Valley switches gears

California's Silicon Valley is becoming as well known for shopping as for software. The region's growing and wealthy population continues to draw retailers, and developers are working on several new projects to meet the demand.

The number of retail projects in San Jose (with close to 1 million people, the city is the country's 10th largest) is quickly growing. Developers there anticipate some 850,000 square feet of retail this year alone. CB Richard Ellis projects the median household income there this year will be \$78,459 a year.

Downtown San Jose, once home to a multitude of thrift shops, is now dominated by such eateries as P.F. Chang's and Morton's Steakhouse, and a number of upscale boutiques. New residential towers with ground-floor retail give workers reason to stay in the city after 5 p.m. And two large-scale retail projects just outside the city are transforming two decades' worth of urban sprawl into denser, multiuse districts. "San Jose is a comeback story," said Ted Kokernak, vice president of

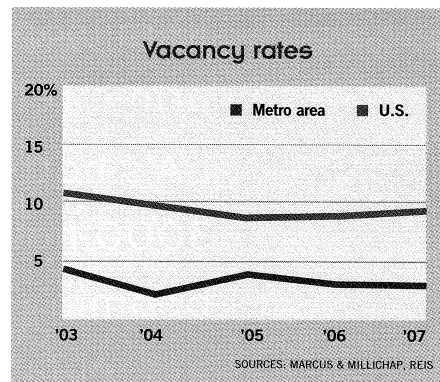
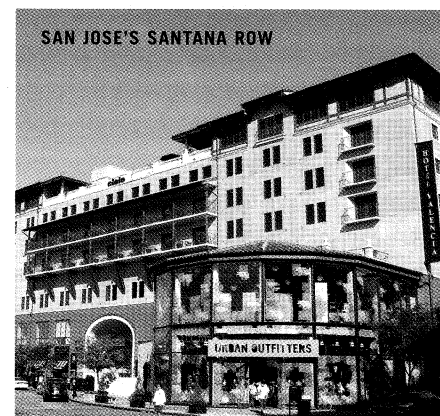
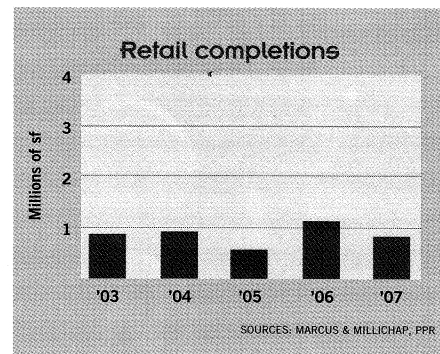


investments in the Palo Alto, Calif., office of Marcus & Millichap. "It's a city that's suffered significant downturns in the 1970s and 1980s and has come roaring back."

In one \$137 million project called The Plant, currently under construction and soon to open, the partnership of Westrust, Pacific Coast Capital and Vornado Realty is turning a vacant General Electric factory into a shopping center that will hold nearly 650,000 square feet of retail and will be anchored by Target and Home Depot.

Developers have also been catering to the ethnic groups beyond the downtown. The 300,000-square-foot Vietnam Town, currently under construction, will cater to the city's 85,000-strong Vietnamese population. The center's 256 slots will allow local retailers to own, rather than just lease, their space.

"For a long time no one was interested in developing these areas," said Trevor Thorpe, a San Francisco-area retail investment specialist for the CB Richard Ellis private client group. "Now developers are becoming more involved in the ethnic-oriented retail." Much of the credit for the city's progress goes to the San Jose Redevelopment Agency, says Kokernak. The agency, which has invested some \$278 million in San Jose's neighborhoods since 1999, provides incentives for retailers. It also guides developers through the permit process, among other services, and developers have responded. "People now have confidence in the downtown," said Harry Mavrogenes, the agency's executive director. "They've seen the public sector spend money." — Kerri Linden



City Hall space challenges developers

At San Jose's City Hall, a 6,200-square-foot vacant space, part of a \$500 million renovation completed in 2005, was meant to house restaurants and retailers. But the project has been stalled by the city's "labor peace" policy, which requires companies applying for leases on city property to make sure that strikes or similar labor disputes do not occur. A deal to bring Starbucks and Prolific Oven into the space fell through. "The city has some restrictions in terms of labor, and that's discouraged people," Harry Mavrogenes, executive director of the San Jose Redevelopment Agency said. "But there's nothing wrong with the street. Every other corner in the area has changed."

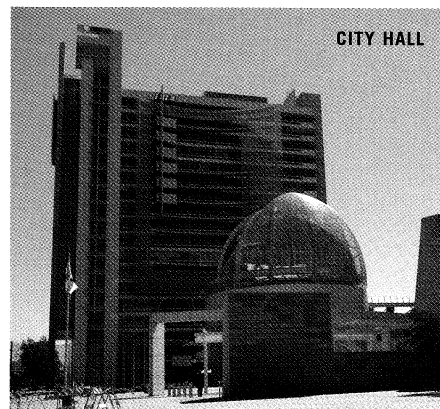


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