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A New City Place for Santa Clara

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Santa Clara, California, rolled the dice in 2010 when it decided to build a $1.2 billion stadium for the San Francisco 49ers National Football League team, sparking outrage from local environmentalists and die-hard Niners fans unhappy about the team's games leaving town. Unlike recent stadium projects in other cities, there was no far-ranging redevelopment plan included in the deal for the 49ers stadium, which is located about 40 miles (64 km) south of San Francisco. And there was no guarantee that building the stadium and moving the games to Santa Clara would spark any interest in the city-owned land around the stadium site, which the city had been trying to promote for years.

"The 'for lease' sign had been on the land so long the sign fell down," says Santa Clara Mayor Jamie Matthews.

Now, a year after Levi's Stadium opened, Related Companies is planning a $6.5 billion mixed-use development on 239 acres (97 ha) across from the stadium, which is now home to a golf course and a BMX dirt track. The project—which was called City Place but for now is simply known as Related Santa Clara—includes more than 9.2 million square feet (855,000 sq m) of retail, entertainment, office, and residential space, making it one of the largest redevelopment projects in the region and one of developer Related Companies' largest projects in the United States.

Would Related be developing this project without the stadium? "Absolutely," says Ken Himmel, president and chief executive officer of Related Urban. But there is no doubt the stadium influenced the company's plans for Santa Clara. "The stadium created a dynamic," he says. "What it said to the business world is, we're open for business and encouraging growth."

Related has ambitious plans for the project, which is under environmental review. Not only does the firm intend to create an entertainment and retail destination, but its plans also call for a new city center for Santa Clara—the type of urban mixed-use project rarely seen in the suburban communities of Silicon Valley.

"There is a huge missing piece" in the region, Himmel says. "We view ourselves as building a new downtown for Silicon Valley."

Becoming Santa Clara

In terms of development, Santa Clara, which is home to chip giant Intel, has lagged behind many of its swanky Silicon Valley peers. Palo Alto, Mountain View, Cupertino, and the other South Bay communities thrived during the high-tech boom years, developing around exclusive enclaves for the waves of newly minted tech millionaires. Modern Santa Clara, population 120,000, grew more as a suburban community near San Jose, and is best known for its semiconductor companies and California's Great America amusement park.

"Santa Clara is a bit of an anomaly," says Leah Toeniskoetter, director of the San Jose office for the nonprofit SPUR, the San Francisco Planning and Urban Research Association. "Santa Clara never had a downtown."

During the early planning process for the stadium, the real estate market was still in the post-2008 funk, making it difficult for Santa Clara to entice a developer. Most of the site is landfill, raising an array of environmental and engineering issues. A group led by former 49ers quarterback Joe Montana developed a plan for an entertainment and retail complex on nine acres (3.6 ha) next to the stadium that is now used as a parking lot, but the group dissolved and the site is now part of Related's plan.

Related saw a chance to create a large-scale mixed-use project. It also concluded that the market had changed. Prices for commercial and residential space in the communities surrounding Santa Clara have soared in recent years and now rank among the highest in the country. "Lease rates are high enough to promote work at a higher level," Himmel says.

Related also found an eager partner in the city. "The golf course is not only water intensive, it's subsidized by the city," Matthews says.

Accrding to plans submitted to the city, Related will spend about $800 million to build infrastructure, install utilities, and create a platform above the landfill as a foundation for the project. The developer will recoup some of that investment through favorable lease rates on the land during the early years of the project. Related eventually will pay $6 million a year to lease the entire site. Rent under the 99-year lease will increase by 3 percent per year until year 15, when it will jump by 10 percent, according to the proposed term agreement.

The lease deal "induces us to bring capital to build infrastructure," says Related executive vice president Steve Eimer, who is heading the project.

Plans call for the project to be built in seven phases, with different zones dedicated to retail, design, lifestyle, and entertainment uses. The centerpiece will be the Boulevard, a mixed-use main street, which will give Santa Clara a new urban center, a key priority for the city. "The city council wanted to ensure they had a viable commercial district," says City Manager Julio Fuentes. "They were looking for a sense of place."

On a practical level, the stadium offers few advantages for the development, beyond the updated roads and infrastructure. The stadium crowds will help bring customers to the project's stores and restaurants, but the 49ers may only play ten home games a year. However, the stadium delivers another key component—existing connections to mass transit, including light rail and bus lines operated by the Valley Transportation Authority. The developers plan to make few major additions to the network beyond the road network and an expanded shuttle service connecting existing sites. "It is a very transit-rich environment, which is not easy to say in the South Bay," Eimer notes.

The economics of the project go beyond Santa Clara: the developer's goal is to create a resource and attraction for the region. Precedent exists in the area for retail-focused mixed-use projects, including Santana Row in San Jose, but nothing at the size of this project. "With a project of this scale, we will have missed the mark if we can't bring people in from 30 to 40 minutes away," Himmel says.

Even in the best of circumstances, stadiums are tricky as catalysts for redevelopment. Over the years, several stadium-related projects have fallen short of projections.

“Stadiums have the potential to promote a redevelopment agenda, but it doesn’t guarantee it,” says Tim Chapin, professor of urban planning at Florida State University, who has studied stadium developments. In some cases, stadiums simply were placed in areas that were already ripe for redevelopment, he notes. “Stadiums in many ways are an awful land use,” he says. They require huge parking lots, attract rowdy crowds, clog streets with traffic, and may only be used a handful of days a year.

Yet, several cities have used stadiums and arenas as a spark to rejuvenate neighborhoods, including Cleveland, Denver, Pittsburgh, and Minneapolis. Redevelopment was a key component at the earliest stages in plans to build ballparks for the San Francisco Giants and San Diego Padres. Commercial construction in the surrounding neighborhoods provided a foundation for the projects from an economic perspective—and served as a way to generate public support.

“No doubt there is demand” for the urban lifestyle around stadiums, says Earl Santee, a senior principal of Populous, a Kansas City–based architecture firm, a veteran of stadium projects. Hip neighborhoods catering to urban millennials, couples, and young families fit nicely with the retail businesses and lively atmosphere around a stadium, he says. “Not every use is compatible with a ballpark,” he says. Traditional retail centers with supermarkets, and schools and hospitals, for example, may not benefit from a stadium.

To make a stadium work with redevelopment, two factors are key, Santee says. “Transportation is number one; number two is density.” In Kansas City’s redevelopment around the Sprint Center, completed in 2007 as a home for concerts and sporting events, the residential development in the initial stages could not support the retail businesses, Santee says. “Without density, there was not enough to sustain [retail and restaurants] year in and year out.”

Residential development remains an unknown variable in Santa Clara. Current plans call for 1,360 residences, but Related may have to scale that back, depending on the results of the environmental impact report. Regulations restrict housing over landfill sites like that in Santa Clara. Related has offered a design with scaled-back housing, but the city and developer both prefer a robust residential element.

“Housing is always critical,” Fuentes says. “We don’t want to create an environment [in which] everything rolls up at 5 o’clock.”

But Related’s project is different from the typical stadium-related development. Although Levi’s Stadium is a neighbor, Related Santa Clara was planned separately and is not directly linked to it. Other than the commercial and entertainment district, the long-range focus of Related’s project is office space, the engine that fuels Silicon Valley’s economy. Of the 9.2 million square feet (855,000 sq m) of space in the project, 5.7 million square feet (530,000 sq m) is to be dedicated to the modern, campus-style office environments in demand in the valley.

Throughout Silicon Valley, tech companies are eagerly looking for more space. Google, LinkedIn, Apple, and Facebook are all building and leasing more space. In Mountain View, Google’s home, the office vacancy rate is under 2 percent and lease rates average more than $90 per square foot ($970 per sq m) per year, according to Jones Lang LaSalle. In Palo Alto, rates can hit $100 per square foot ($1,070 per sq m), making it one of the most expensive markets in the United States.

“The supply/demand equation is way out of whack,” says Bart Lammersen, managing director of the Silicon Valley office for Jones Lang LaSalle. Unlike in past years, the demand is coming from established companies, not from speculative internet ventures. “These are real tech companies, with real profits and real bank accounts,” Lammersen says.

Related expects 75 percent of the office space in Santa Clara to be pre-leased before it starts construction, Himmel says. With that in mind, the company has been studying the market, trying to determine the community elements that will meet the needs of the valley’s tech giants.

“Three years ago we made a conscious decision that we needed to look much deeper,” Himmel says. “Who is the customer today, and will the customer change? The answer is yes, there are going to be a lot of changes.”

As a result of its research, Himmel says, Related is placing an “enormous” focus on health and wellness, including plans for a large gym. Early in the planning process, Related also focused more on developing landscaping and open spaces, recognizing their importance for tech companies.

Related’s plans call for connected buildings with large floor plates to accommodate tech’s big players, as well as small, flexible spaces for the startups and entrepreneurs that fuel the region’s growth. Most of the buildings will be mid-rise—under 12 stories—fitting the area’s preference for campus environments.

Beyond the office space, Related hopes a hip, urban environment at City Center, the commercial and retail portion of the project, will help attract tech businesses that are constantly battling to recruit and keep talent. The downtown area will likely include a wide mix of uses, including theaters, performance art spaces, and a bowling alley, in addition to a hotel—“all of the uses you will find in a typical urban city environment,” Eimer says. The low-rise design will create traffic flow at different levels of the project by locating restaurants and entertainment space above street level, he notes.

Related hopes to be the first developer in the area to create a city center amenity near office space, Eimer says. “That is the type of environment that the smart, young engineer type is looking for,” he notes.

Related and the city agree that the first phase of the project likely will be an entertainment and retail district on the nine acres (3.6 ha) originally targeted by Montana’s group—part of the City Center element of the plan. Uses at the site, which is currently a parking lot, would focus on the type of visitor and lifestyle functions most likely to benefit directly from the stadium, including an array of restaurants and entertainment uses, about 71,000 square feet (6,600 sq m) of retail space, and a 400-room hotel.

“That’s something extremely important,” says Fuentes. “It will give us a commercial identity we need.”

The developers will have to overcome several hurdles to make their goals for the project a reality. The landfill issues may cause problems: the environmental impact report could take 18 months. And there is a vocal group of opponents in Santa Clara who have expressed concerns about density and traffic.

But Related is ready to start work. The company could execute the land lease next year and start construction, with a goal of opening the first phase by 2019, according city filings. Under the terms of the preliminary agreement with the city, the developer is willing to commit to starting construction on most of the key elements of the project within the next ten years.