

Google effect unleashes downtown San Jose property boom

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Google's effort to acquire a broad swath of downtown San Jose properties for a massive new tech campus is triggering a sharp jump in selling prices for commercial real estate in the area.

The internet search giant's plan to expand into San Jose with a new campus employing up to 20,000 Googlers near the Diridon train station and SAP Center sports arena could take years to become a reality, if the company moves ahead with plans to build.

But Google and its development ally Trammell Crow have paid an average of 37 percent more to acquire properties near Diridon Station for the planned Google village than Trammell Crow paid two years ago for a large property deal in the area, a Mercury News analysis of county property records shows.

Those prices are far beyond what some sellers ever dreamed.

Peggy Schlosser's family pocketed \$1 million this year - roughly \$177 per square foot - by selling a 5,663-square-foot property to TC Agoge Associates, a Trammell Crow affiliate that is buying parcels for the Google project. That price is about 21 times higher than the property's last assessed value earlier this year of \$8.50 a square foot.

"Heavens no, we never expected to sell our property for as much as we did," Schlosser said. "It's crazy that [property values](#) are so high. There's just no accounting for the insanity of what properties are selling for,

residential and commercial."

The rise in prices began in September 2015, when a large property sale in the area established a new base price of \$162 per square foot.

Trammell Crow paid \$58.5 million for the 8.3 acres.

Jim Wagner, principal owner of Kearney Pattern Works and Foundry, later agreed to sell his property to the same Trammell Crow entity that bought the Schlosser family parcel. The jump in property values didn't come as a total shock for him, however, because of Trammell Crow's 2015 purchase of the acreage, located a short distance from the Kearney site.

"What we agreed to with Google and Trammell Crow is a bit more than what we would have expected," Wagner said. "We knew that Trammell Crow had bought the property on the other side of Los Gatos Creek from us, so that established the price."

Today, Google and Trammell Crow are paying an average price of \$221 a square foot, 37 percent more than Trammell Crow paid in 2015 for a parcel that included parking lots and some small facilities. That represents an eye-popping fourfold increase from previously assessed values in the area.

"The Google effect is already influencing negotiations for some lots we're working on," said Mark Ritchie, president of Ritchie Commercial, a realty brokerage active in downtown San Jose.

Since December 2016, Google and Trammell Crow have spent at least \$141.7 million for properties. The assessed value of the properties before the realty shopping spree averaged \$67.54 a square foot, Santa Clara County property records show.

To some extent, the chasm between previously assessed values and recent sale prices has emerged due to the effects of Proposition 13. California voters approved Prop. 13 in 1978 to combat skyrocketing property taxes, which some residents believed had ousted them from their homes. The measure limits property taxes to 1 percent of a parcel's assessed value, and that value can't increase by more than 2 percent a year, unless the property changes hands. Since numerous properties in the Diridon Station area haven't been sold in decades, their assessed values are considerably below the market rate.

Some potential sellers may not fetch the average price of \$221 a square foot that Google and Trammell Crow have been paying. That's because some of those deals were for unusually high prices that skewed the average higher.

Properties that haven't recently changed hands in the areas Google and Trammell Crow are eyeing are now believed to be worth \$160 to \$180 a square foot.

In addition to Google's interest in building a downtown San Jose tech campus that would eclipse the size of its Mountain View Googleplex headquarters, other developers have proposed two adjacent tech campuses that each would provide around a million square feet of office space. And Adobe Systems recently announced plans to build another office tower near its current downtown San Jose headquarters.

"Google will have an incredible effect over time, but downtown San Jose is already doing very well," said Nick Goddard, a vice president and retail specialist with Colliers International, a commercial realty firm. "It could be five years before Google breaks ground on its campus, which means it could be seven years before it would massively affect the health and vibrancy of the street scene in downtown San Jose."

Meanwhile, some potential sellers in the path of Google's downtown buying splurge could throw up roadblocks.

Templo La Hermosa has provided church services for 70 years right in the middle of the prime Google area. The Rev. Erasmo Zuniga estimated it would cost \$6 million to \$7 million to move the church, including acquiring a new property and constructing a new church for the congregation of 100.

"If we can stay here, we could like to stay here, but if we have to move, Google and Trammell Crow have offered to help us find a new location," Zuniga said. "The city also has offered to help."

The pastor wouldn't provide specifics about the discussions, but Zuniga did say the interest in buying the site intensified during June, when San Jose city officials formally approved the launch of formal negotiations to sell city-owned properties to Google.

"We were first approached perhaps two years ago by Google and Trammell Crow, but then we didn't hear much from them for a long time," Zuniga said.

Ilya Neizvestny, who owns an area building where he operates his Pawin' Around dog daycare, said he also has had some preliminary discussions with Trammell Crow and Google, but nothing firm has been decided. Neizvestny would like to continue operating at or near the current location.

Neizvestny said he paid roughly \$6 million in 2014 for the site.

"I think I'd want \$10 million for the property and to relocate my business to a good site nearby," Neizvestny said. "These property values are going up around here."

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