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THE FUTURE OF DOWNTOWN SAN JOSE

THE PROMISE OF THE PASEO

Urban Catalyst's transformation of the former Camera 12 theater is the first step in its effort to help revitalize Downtown San Jose

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REIMAGINE, REBUILD, REACTIVATE

Developer Urban Catalyst has several projects in the works in Downtown San Jose — here's what it's up to as a change agent

BY CHELSEA NGUYEN-FLEIGE, cnguyen@bizjournals.com

Erik Hayden and Josh Burroughs step off an industrial elevator onto the second floor of an exposed concrete shell that used to be Camera 12. The two men — partners in the San Jose-based real estate development firm Urban Catalyst — are leading a tour through the five-story structure. Construction crews scurry around the piles of rubble and steel on the ground floor of what used to be the only first-run movie theater in Downtown San Jose.

What they're creating is a project called Paseo, which will devote three-fourths of its 100,000 square feet to office space and the remainder to entertainment venues.

"How we choose the design and the programming for each of our spaces is unique," said Burroughs, Urban Catalyst's chief operating officer. For Paseo, that meant trying to bring life back to what he described as a "dormant" restaurant row on the Paseo de San Antonio, which runs alongside the building. They selected tenants with offerings that aren't in San Jose now: the indoor miniature golf venue Urban Putt and Unofficial Logging, a bar that offers ax throwing.

Among the Urban Catalyst projects — there are eight of them in all, most in downtown proper with the others not far outside the core — Paseo stands out. It's the first to begin construction. It's taking a hulking existing space and reimagining it, as opposed to building from the ground up, as most of their projects do. And it will inevitably serve as the firm's calling card.

"It wasn't about checking the boxes on a list," Hayden said of how they went about selecting their properties. "It was about finding the right projects for the right neighborhoods that made sense."

What makes the most sense to Hayden and Burroughs is to cre-

"They're matching their expertise and experience that goes pretty far back with a tool that was more recently created — opportunity zones."



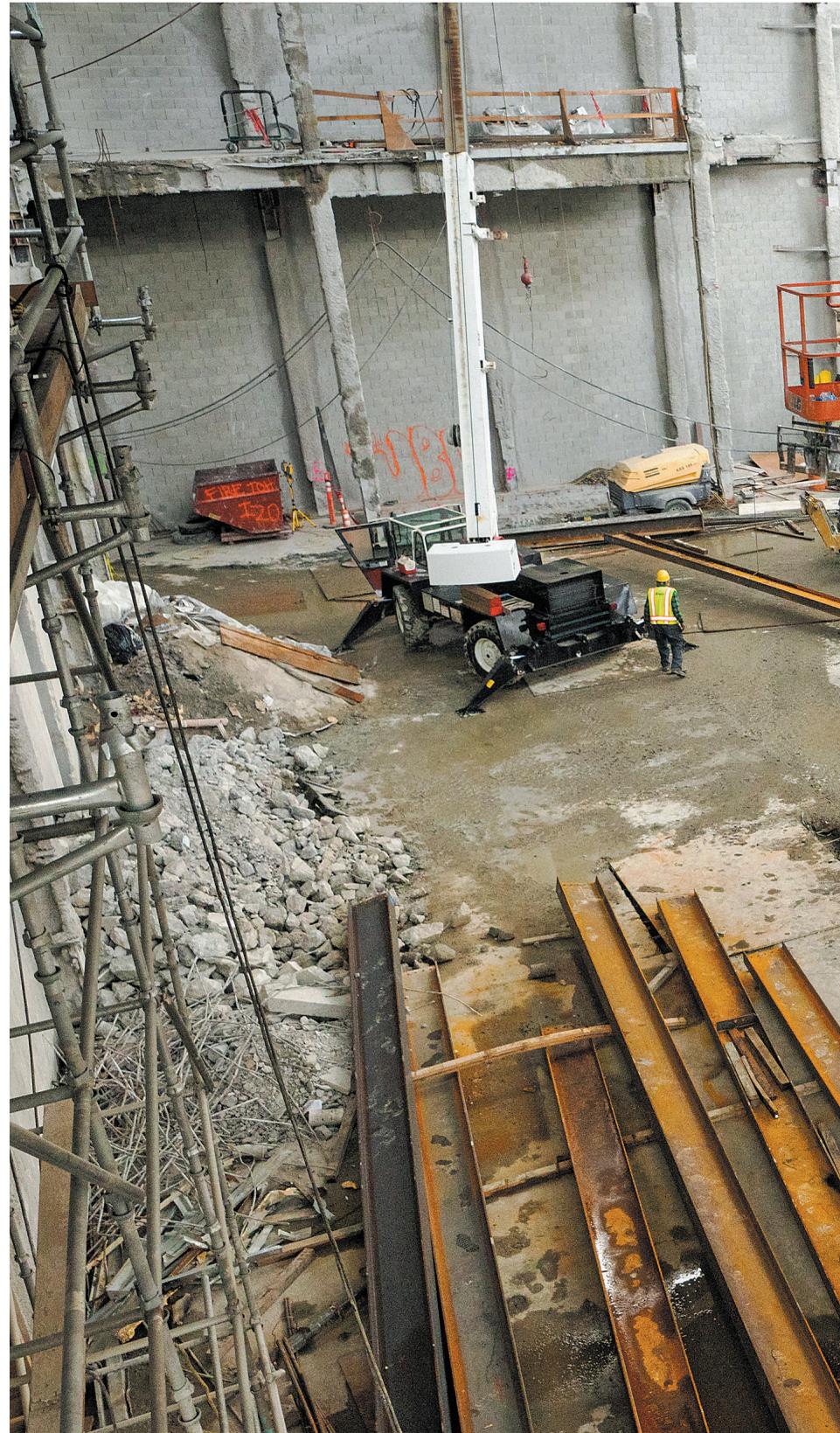
BLAGE ZELALICH,
City of San Jose downtown manager

ate a downtown ecosystem. That's a word you'll hear a lot, not just from the Urban Catalyst leaders, but from other developers, especially the similarly named Urban Community. The developers' collective mission is to revive the urban core of the Bay Area's biggest city, something other developers have repeatedly attempted over the years without lasting success.

Hayden and Burroughs believe the variety of their projects, which range from a hotel to mixed-use office and retail buildings to market-rate residential structures to student housing, will contribute to San Jose's long-term vibrancy.

"That helps everything from daytime needs to nighttime use of small business; it helps our local nonprofits by creating that atmosphere where sort of everyone can thrive," Burroughs said.

'The wildest real estate deal'
The story of the Paseo starts in 1996 with the opening of what was then called the Pavilion Theatre 8. Built with funds from the long-gone San Jose Development Agency, the theater was run by United Artists for only three years before it shut down literally over-





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URBAN CATALYST

Above: Urban Catalyst is redeveloping the former Camera 12 Theater. Left: An artist's illustration of "Paseo," Urban Catalyst's name for the renovated to Camera 12 site. Right: Urban Catalyst's Joshua Burroughs and Erik Hayden.



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night. It reopened in 2004 as the Camera 12 – with four additional theaters – but closed for good in 2016 because it had become too expensive to run, according to its owners.

“In its time, [the Camera 12 theater] was a cool design, and thought of to be very interesting and additive. Over the years it turned out, it actually wasn’t built to be very functional,” said Blage Zelalich, the city of San Jose’s downtown manager.

A year after it closed, local developers Gary Dillabough and Don Imwalle Jr. bought the property for \$726,000 and initially explored reopening it as a theater. In late 2019, they sold it to Urban Catalyst for \$24 million – an increase in value of more than 3,200%.

“That was the wildest real estate deal – worthy of a book on its own,” said Mark Ritchie, long-time San Jose-based broker and president of the downtown-based firm Ritchie Commercial.

In February 2020, Hayden and Burroughs unveiled their plans to revamp Camera 12 and held a ceremonial groundbreaking. But less than three weeks later, the Covid-19 pandemic halted work on the project. They didn’t actually begin construction until the following February.

When opportunity knocks

Urban Catalyst stands out from other development firms working in San Jose in a significant way. It’s one of only two local developers taking advantage of a federal measure passed in 2017 that created what are called Opportunity Zones.

San Jose has 11 designated Opportunity Zones, but the one downtown is the only one attracting development interest, according to Zelalich. But that may simply be because the program is so new, she said.

Created by Congress and the Trump administration to revitalize distressed areas around the country, the measure offers lucrative tax breaks to people who invest in funds used to finance development in areas designated as such zones.

All but one of Urban Catalyst’s projects are located in Downtown San Jose’s Opportunity Zone. The sole exception is The Apollo, a res-

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idential high-rise planned for a corner lot across the street from the Whole Foods on the Alameda. Urban Catalyst is jointly financing that project using its own funds and those of Thang Do, the CEO of San Jose-based Aedis Architects, and a frequent collaborator with Urban Catalyst.

Between them, Hayden and Burroughs have three decades of real estate and development experience. Their decision to take advantage of the Opportunity Zone provision is an example of in a right-place, right-time situation, Zelalich said: “They’re matching their expertise and experience, which goes pretty far back, with a tool that was more recently created,” she said.

So far, Urban Catalyst has raised \$131 million for its first Opportunity Zone fund, 25% more than its goal. It’s working on its second fund with a target of \$200 million. That fund would be dedicated to the building of its Icon/Echo project, which calls for two high rises near San Jose City Hall, one designated for office space and the other for luxury residences, with retail on the ground floor of both. The towers would occupy a solid city block and cost about \$600 million total.

The challenge now is a looming deadline. One of the tax deferral provisions in the Opportunity Zone measure expires in 2027, meaning that to truly take advantage of it investors would need the fund to be showing some kind of return – in this case, in the form of completed and revenue generating developments – before then.

Many Opportunity Zone funds and developments around the nation have drawn scrutiny for not fulfilling the program’s promise of bringing economic opportunity and investment to disadvantaged areas. But Hayden and Burroughs’ projects shouldn’t be criticized on that measure, said Kelly Snider, the director of real estate development for San Jose State University. “Urban Catalyst, I think, is doing a very good job of avoiding that by picking projects that will benefit the community of that zone,” she said.

Building community, but not always listening to it? Besides producing a return on their investments, one of Hayden

IN THE PIPELINE

Urban Catalyst has grown to be major player in Downtown San Jose since it was founded in 2018. It currently has eight big projects in progress. Most are awaiting various reviews or approvals, but one — Paseo — is already under construction.

- Office, retail
- Residential
- Hotel
- Office, retail and residential



and Burroughs’ primary goals is to help build a thriving community Downtown. To achieve that, they say, they need to draw more people to San Jose’s center.

“The only thing that’s gonna bring the Downtown retail scene back is human beings in Downtown. That’s what’s going to generate the vibrancy of the ground floor retail and change the perception of what people see as Downtown San Jose,” Hayden said.

That desire to enliven Downtown is why they’ll have miniature golf and ax throwing at the Paseo. It’s also behind their plans for a 5,000-square-foot roof bar and lounge at Fountain Alley, a six-story office-and-retail project planned for South First Street next to the Bank of Italy building.

The retail, restaurant and entertainment tenants are all great, said Mark Ritchie of Ritchie Commercial. But the only real way to judge Urban Catalyst’s success will be through how well it does in leasing its office space. If it can’t secure a good number of high-quality tenants, its enterprise could fall apart, Ritchie warned.

There’s another barometer by which Hayden, Burroughs and their team will be judged: how well they’ve worked with the broader community and how much they’re seen as contributing to it.

One project that’s garnered some criticism is the Apollo, a 497-unit tower proposed for 32 and 60 Stockton Ave. Catalyze SV has come out against the project, calling it “a ‘Las Vegas-style’ development that is out of place

1

THE PASEO
210 S. First St.
100,000 SF project; 75,000 SF for office space and 25,000 SF of ground-level retail. The building is under construction.

2

THE MARK
475 S. 5th St.
355,888 SF project one block from SJSU. 850-bed, 240-unit student housing community. Construction will start in the fall.

3

KEYSTONE
491 W. San Carlos St.
Marriott TownePlace Suites hotel with 185,000 SF, 175 suites and 123 parking spaces. Construction is scheduled to start in late spring.

4

DELMAS SENIOR LIVING
470 W. San Carlos St.
175,000 SF project with 49 memory care, 116 assisted living, and 4 affordable housing units. Pending City Council approval.

5

FOUNTAIN ALLEY
26-36 S. 1st St.
67,000 SF of office space, 19,500 SF of retail space, a rooftop bar. Permit approval was expected by January.

6

TMBR
498 W. Carlos St.
Apartment project formerly known as Madera, with 184 units and a 400-resident capacity. Permit approval was expected by January.

7

ICON/ECHO
147 E. Santa Clara St.
Icon: 20-story, 420K SF office structure. Echo: 26-story, 415-unit apt. building with 8,500 SF of ground-level retail. Pending environmental review.

8

THE APOLLO
32, 60 Stockton Ave.
18-story tower with 497 residences and about 8,500 SF of retail space. Pending environmental review.

IMAGE CREDITS: 1. HGA Architects and Engineers; 2. BDE Architecture; 3. Urban Catalyst; 4. Aedis Architects; 5. Studio Current; 6. Aedis Architects; 7. Urban Catalyst & WRNS Studio; 8. Urban Catalyst & Aedis Architects



San Jose State University



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in San Jose.

Alex Shoor, the local development advocacy group's executive director, faulted Urban Catalyst for not responding to a request to meet with the group.

"They refused to talk to the neighborhood association. They basically refused to present (to) our members," Shoor said. "It's understandable that developers would see community as a barrier but that doesn't have to be the case," Shoor said.

One question Urban Catalyst has faced is how much – if any – of the housing they're bringing to San Jose will be deemed affordable.

The city of San Jose has been seeking ways to encourage more affordable housing development and generally requires developers to set aside 15% of all units in new housing projects for lower-income residents. Alternatively, developers can pay an in-lieu fee ranging from \$25 to \$43 a square foot. However, in 2020, the City Council voted to temporarily suspend

that fee in downtown to encourage housing development there.

The city's move means Urban Catalyst could develop its residential projects without setting aside any units for affordable housing and without having to pay the in-lieu fee.

"We'd like to have more money to do more affordable housing within the city and downtown. But if a project can't move forward, then we're not getting any housing – not even market rate units," said Jared Ferguson, the housing catalyst for San Jose's Office of Economic Development.

In Urban Catalyst's portfolio, five of its eight projects are either exclusively residential or have a major living component. It's unclear how much affordable housing the firm will include in most of them – if they include any affordable units at all.

"We try to do our part and make a dent in that and try and produce as much housing as we can, in a high-density transit-oriented fashion," Burroughs said.

SJSU's Snider said community groups need to take a broader view of what Urban Catalyst is doing.

"It's not just that they are building things, they are building projects that are good for the diverse community," Snider said.

Selling the dream

For now, as they watch the old Camera 12 get ready for its next life, Hayden and Burroughs are focused on fully financing their projects. Between money raised through the opportunity fund and debt, they expect to spend nearly \$2 billion downtown.

"There's not as much ego from both residents and people who work here in San Jose," Burroughs said. "It's a very unique ecosystem. We also don't tout ourselves often."

Despite its ambitious project plans, Urban Catalyst isn't like the national "megadevelopers," Hayden said. Those companies typically use cookie-cutter designs that they replicate all over the country, rather than trying to do unique projects that maximize each site's potential, he said.

"You don't see national developers coming in and doing projects like Paseo: buying a movie theater and saying, 'We can turn this into an office,'" Hayden said. "And even though retail hasn't been highly successful there, we know that we're going to be the catalyst that makes it successful." ❗



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