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Apple contemplates San Jose expansion: What it means for Silicon Valley's largest city

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Is Silicon Valley's largest city finally about to land the world's most valuable company?

Apple Inc. is looking to north San Jose for a major expansion, real estate sources have told me over the last several weeks. While Apple isn't talking, the possibility has generated excitement in industry circles and could hold implications for the city that go beyond real estate.

"It would transform the image of San Jose and have a real branding impact," said site-selection expert [John H. Boyd](#) of the Boyd Co. "People will look at San Jose differently if it happens."

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Apple has been shopping at least two major projects: Ellis Partners' 300,000-square-foot 101 Tech on Orchard Parkway and Hunter/Storm's Coleman Highline development site near the Mineta San Jose International Airport, according to industry sources. The latter could include more than 1.5 million square feet of office, research and development or light industrial space.

No deal is done, and Apple is not the only company to show interest in the locations. Tesla Motors Inc. has also looked at the Ellis site, the former headquarters of Atmel Corp., according to sources. It's possible Apple won't sign any deal in San Jose. Apple, and representatives for the projects, declined to comment.

If it happens, though, landing one of the Valley's glittering stars would symbolize progress in San Jose's long-running quest to attract additional high-profile tech tenants. It would also generate

economic follow-on effects and complete a story arc begun more than three decades ago when Apple first flirted with a big move into San Jose.

'There's not some magical wall out there'

Apple's purported interest comes as the Cupertino-based company is in the midst of a massive real-estate leasing spree, with a space requirement of perhaps two million square feet or larger. The company's appetite includes office, research and development, industrial and warehouse space — and that's above and beyond its high-profile "spaceship" campus underway in Cupertino. [I first wrote about the expansion push last month.](#)

Having swallowed up just about all the available space in its hometown, Apple has expanded into Santa Clara and Sunnyvale over the last couple of years. But San Jose has — for the most part — been left out of the iPhone maker's growth path. (See note at bottom of story.)

That's despite the fact that more Apple workers actually live in San Jose than any other city — 25 percent, according to a 2013 [Apple-funded economic impact study](#). (About 14 percent lived in San Francisco, 8 percent in Cupertino, 8 percent in Sunnyvale and 6 percent in Santa Clara, the report said.)

San Jose's tech roster isn't exactly a slacker. After all, Adobe Systems Inc., Cisco Systems Inc., eBay Inc. and IBM Corp. have huge offices in the city. But the current boom's leading lights — the Facebooks, Apples, Googles, and LinkedIns of the world, all growing like weeds — have resisted establishing satellite offices.

That may be changing. A contraction in vacancy rates and higher rents in so-called "core" Valley markets may have started to add San Jose to more tech companies' shopping lists. (To wit: Google Inc. has recently started touring San Jose sites, industry sources tell me, seeking perhaps 100,000 square feet of space for a business unit that doesn't need to be on its Mountain View campus.)

Cupertino's vacancy rate for research and development space is essentially zero; Sunnyvale is under 10 percent. North San Jose posted R&D vacancy of about 12 percent in the first quarter, but the large building base there means the available options dwarf other cities.

A relatively pro-business climate in San Jose doesn't hurt, either, as other cities see increasing anti-development sentiment.

Case in point: Cupertino's general plan amendment process, which would allow additional office growth in that city but has been extremely controversial as residents organized against it. And Google saw its expansion plans curtailed earlier this month as Mountain View opted not to grant all of the company's development requests.

A significant Apple announcement "would show that the urban legend — that you can't go south of Santa Clara — isn't true. There's not some magical wall out there," said Joseph Horwedel, former San Jose director of planning who worked for years on North San Jose. "As we grow in the Valley, it makes business sense to go where the workers already live."

An elusive corporate citizen

For San Jose, Apple has long been viewed as the one that got away. In fact, during its early days the company flirted with opening a headquarters here.

Former mayor [Tom McEnery](#) has written about late Apple co-founder [Steve Jobs](#)' plan to build a headquarters in Coyote Valley while McEnery was mayor starting in 1983. But the company's interest in San Jose actually goes back a bit earlier.

Harry Mavrogenes, former chief of the San Jose Redevelopment Agency, remembers attending a meeting in the early 1980s with [Steve Jobs](#) and Steve Wozniak. The Apple founders had set up the meeting with then-mayor Janet Gray Hayes and former Redevelopment Agency honcho Frank Taylor.

"In walk these two guys with T-shirts, jeans and sandals," Mavrogenes said in an interview. "Mr. Jobs proceeded during the meeting to put his feet on the table. Janet was like, 'Oh my God.' I was kind of awestruck."

The pioneers were interested in locating in the city's downtown, where the Redevelopment Agency was planning to spend heavily.

"I think they wanted a downtown kind of environment," he said.

Nothing materialized downtown, but later, Apple did option — and actually close on — property in south San Jose, McEnery said. Jobs talked about making San Jose "a great city," McEnery said.

Jobs even told McEnery that he and famed architect I.M. Pei had landed a helicopter on the Coyote Valley site, asking the former mayor if he wanted to fly down with him next time, McEnery said.

But the plan, it turns out, was not to be.

"Two things happened: The economy turned sour, and then Jobs was forced out," McEnery said in an interview.

Yet San Jose officials continued to hold talks with John Sculley, who served as CEO from 1983 to 1993.

"We then reloaded and met with John Sculley," McEnery said. "We had them very intrigued about coming into downtown San Jose, up until 1992. That's the last time I talked to Sculley."

"They just had other priorities, and they had other people wooing them," he said.

Apple, of course, ended up occupying an 850,000-square-foot campus at 1 Infinite Loop in Cupertino built by the Sobrato Organization and completed in 1993. And the rest is history.

What it would mean

It's difficult to quantify just what an Apple lease in the San Jose boundaries would do for the city. Both projects that Apple is eyeing have a long history: Defense contractor FMC had its manufacturing and R&D operations on the Coleman Highline site until the mid-1990s, where for years it churned out the famed Bradley Fighting Vehicle. Atmel, a pioneering semiconductor maker, owned its headquarters until selling it to Ellis in 2011 for \$48.5 million.

Larry Stone, Santa Clara County assessor and longtime real estate observer, said Apple's arrival in North San Jose could spur more development in the area. For instance, Apple's expansion in Sunnyvale's Peery Park district is partly responsible for nearly 2 million square feet of project proposals in the neighborhood as developers anticipate the company's continued growth.

"If the office and R&D developers are following Apple, or trying to guess where Apple's going to go in a meaningful way, that could have an effect," he said.

Boyd, the site selection consultant, said Apple could create a halo effect for the area, bringing in other companies that want to co-locate.

"There are suppliers and vendors that will want to gravitate toward companies like an Apple," he said.

Paul Krutko ran San Jose's office of economic development until 2010 [and was involved in the city's acquisition of the Coleman Highline land](#) before Hunter/Storm developed plans for it. He noted that headquarters moves — not expansion offices — typically make headlines. But a significant lease could help validate San Jose's position in Silicon Valley's ecosystem.

"Individual players were in those other suburbs — Intel in Santa Clara, Apple in Cupertino," said Krutko, who is now with the economic development organization Ann Arbor Spark. "So from a standpoint on the national stage, having an Apple presence I guess would be important. But unless it's the headquarters, I don't know that it would be that meaningful."

And don't expect Apple to make too big a deal out of it.

"I think it would be a credit to San Jose, no question, but I would think Apple would not want to diminish their identity in Cupertino for sure," Stone said. "The city (of San Jose) would have to play a pretty large role with getting the kind of exposure that that would bring."

Still, Tesla is based in Palo Alto, but is often identified with its Fremont manufacturing plant.

"It just brings the center of gravity closer to San Jose, and really enhances San Jose's involvement in the future of tech," said Mavrogenes, who is now airport director for the Stockton Metropolitan Airport. "Obviously, other companies would come around based on their involvement with Apple. It would take space off the market and also create demand for additional services."

If Apple does do some kind of expansion into North San Jose, it may have more to do with simple availability than anything else given the lack of building sites closer to Apple's home. That's not necessarily a bad thing, but simply the path of progress. And San Jose could finally be in the middle of it.

"To some extent, San Jose represents an opportunity for the companies to find space that they can't find elsewhere in the Valley right now," Krutko said.

(Author's note: [Apple has had a presence for several years](#) at 5300 Stevens Creek Blvd. — the so-called "Triangle Building" — which is technically in San Jose, but just over the border from Cupertino.)

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