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Tesla's Bay Area real estate empire keeps growing

By David R. Baker, June 10, 2016



Photo: Paul Sakuma, Associated Press. In this June 22, 2012 file photo, Tesla workers cheer on the first Tesla Model S cars sold during a rally at the Tesla factory in Fremont.

Without attracting much notice, Tesla Motors has become one of Silicon Valley's biggest property holders, its collection of facilities not far behind the sprawling campuses of Apple and Google.

And as Tesla accelerates production of its luxury electric cars, analysts say, it's probably going to need even more space. After making about 50,500 vehicles at its Fremont factory in 2015, the company now plans to build 1 million per year by 2020.

"When you're ramping up production, you're moving a tremendous amount of stock, and you need room for that," said Matt DeLorenzo, managing editor of Kelley Blue Book's website.

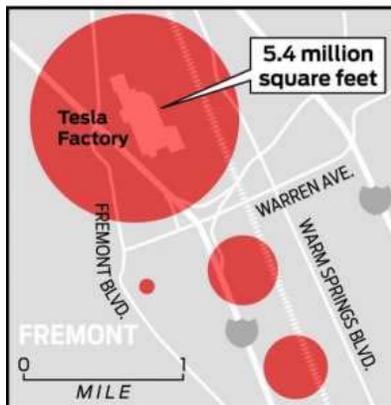
According to Tesla's most recent annual report, the company owns or leases about 6.6 million square feet in the Bay Area, most of that located at its 5.4 million-square-foot factory and its 350,000-square-foot headquarters in Palo Alto. The company also leases two sizable Fremont sites just south of the factory, including one formerly occupied by doomed solar startup Solyndra.

But property records compiled by the CoStar Group, a real-estate data company, count almost 8.3 million square feet owned or leased by Tesla in the Bay Area.

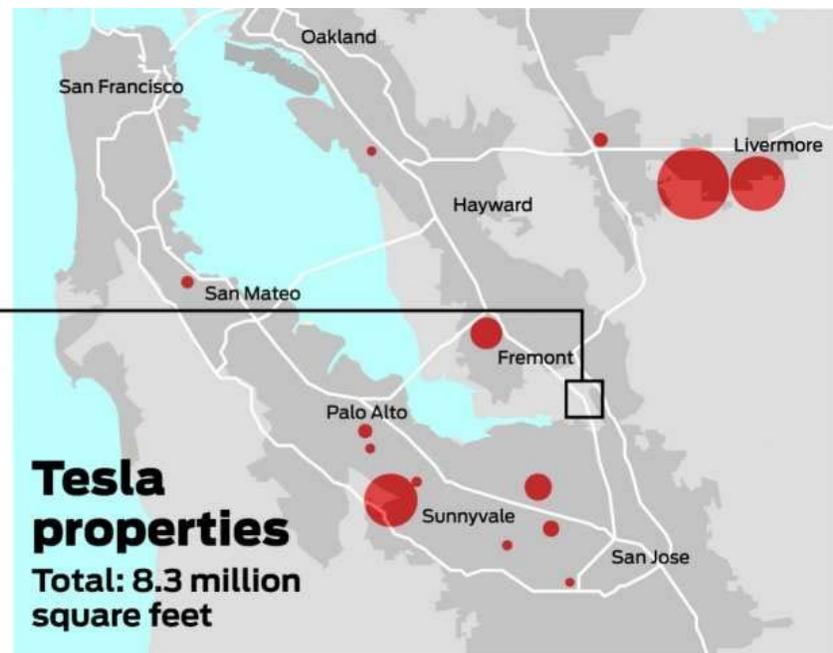
That total lumps in Tesla stores and service centers. But it also includes two large, leased facilities — together adding 1 million square feet — that Tesla will soon open in Livermore. The company has not disclosed what the Livermore facilities will do.

Tesla grows

Tesla Motors has quietly become one of Silicon Valley's biggest property holders in the Bay Area.



Source: CoStar Group



John Blanchard / The Chronicle

By CoStar's count, only two Silicon Valley tech companies own or lease more Bay Area real estate than Tesla. Apple ranks first, with 11.1 million square feet, followed by Google with 10.9 million. Cisco Systems comes close with 6.7 million square feet owned or leased in the Bay Area.

Tesla has amassed its constellation of properties as it has grown from a startup offering a limited-production sports car — most of it built elsewhere, on contract — to a full-fledged manufacturer.

Its Fremont plant cranks out two car models, with another due next year. When the company moved into the plant, formerly run by a joint venture of General Motors and Toyota, Tesla occupied just a small corner of the vast structure, not even bothering to light the rest. Today, the company uses the whole plant.

But even in the joint venture's heyday — when the plant was known as New United Motor Manufacturing Inc. — the factory never built more than 428,632 vehicles in a year. To reach 1 million, Tesla will either have to expand the plant or move some of its functions to other sites, DeLorenzo said. Other facilities could be used to store parts or assemble systems that can then be incorporated into cars on the factory's production line.

"They'll need a lot more technical support, so some of these buildings may end up being engineering, quality control — people who are supporting the factory but don't necessarily have to be on the factory floor," DeLorenzo said.

CEO Elon Musk has discussed opening other auto plants elsewhere, and the company is already making batteries at its massive new Gigafactory near Reno. But Musk has also said that Tesla may be able to make 1 million cars per year relying just on the Fremont plant and the Gigafactory.



Photo: Michael Macor, The Chronicle

The Tesla Motors production plant in Fremont makes up the bulk of the 6.6 million square feet the Palo Alto company owns or leases in the Bay Area.

Tesla has not filed for any city permits to expand the auto factory or open other facilities in Fremont, said Kelly Kline, the city's economic development director. A Tesla spokeswoman declined to say whether the company is looking for additional Bay Area properties.

Should Tesla need more space, analysts are split on whether the company will continue snapping up local properties or go elsewhere, as it did to build the Gigafactory.

The booming Bay Area may not offer enough of the kinds of properties Tesla needs, said CoStar Managing Director Hans Nordby. Silicon Valley in particular no longer has as much space devoted to research and development, or warehousing or logistics as it once did, he said. Instead, it has offices.

“The lower-value uses get boiled out, and they go elsewhere,” Nordby said. “Thirty years ago, the Bay Area had a lot of R&D properties, and there was actual R&D going on in the building, making things and testing things. And that work has gone to Reno and Shanghai.”

But Tesla has shown a pattern of trying to keep its facilities close at hand, said siting consultant John Boyd. After all, one of the company’s biggest facilities outside the Bay Area, a 430,770-square-foot manufacturing space used for machining aluminum parts, lies in Lathrop, 55 miles northeast of its plant.

“Tesla has an affinity for the Silicon Valley area,” said Boyd, principal of the Boyd Co. “Conventional wisdom up to this point would have suggested they look in Nevada and Arizona for some of the sites they’re developing. But their going to Livermore speaks to their philosophy that it’s not a car company, it’s a high-tech transportation company.”

And the Bay Area does still have some room. City officials in Vallejo, for example, are negotiating with one of Tesla’s potential competitors, electric-car startup Faraday Future, to build a factory on the former Mare Island naval base.

Those talks were facilitated by the Governor’s Office of Business and Economic Development, also known as Go-Biz, that tries to keep manufacturers in the state by offering tax credits and finding suitable sites. Tesla last year won a \$15 million tax credit to add 4,500 full-time jobs at its California facilities.

Brook Taylor, the office’s deputy director, would not say whether Go-Biz is working with Tesla to locate any new facilities in the state. But he said his office stays in contact with many of the companies it has helped in the past. And it is actively encouraging electric car companies, awarding tax credits to five electric vehicle manufacturers so far. Those include Tesla, Faraday, Proterra, BYD and Karma Automotive.

“California has quietly been attracting some significant manufacturers in the (electric vehicle) space,” Taylor said.

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