

Dollars and sense

What is Gary Dillabough's Urban Community?

Inside his office at WeWork on East Santa Clara Street, venture capitalist-turned developer **Gary Dillabough** stands at a white board that maps out how to build and revitalize a city. The center of that city is downtown San Jose. His diagram illustrates:

- ◆ “Hardware” including office, residential, retail, recreation and education.
- ◆ “Exceptional User Experiences” that incorporate safety, great street scape, social justice, art, collaboration, communication, ownership and community.
- ◆ “Software / operating systems” such as transportation and basics of resiliency — energy, water, food, health and wellness.
- ◆ “Ultimate User Experience (UUX)” takes a deeper dive into the specific technologies required to create this environment, including buildings, access modes and social user experiences.

Dillabough points at “Community” in the middle of it all.

“This is a great community,” says the front man for a small group of investors known as Urban Community. “But it seems like until now, San Jose gets it pretty right — maybe 85 percent of the time — and then lags on the final 15 percent. We’re in this to get it to 100 percent.” “The dollars we’ve invested are all long-term dollars,” Dillabough continues. “We’re not going to be here three to five years and then leave town.”

In the past 18 months, along with partners **Jeff Arrillaga** and **Brad Buss**, Urban Community has forged deep into the downtown San Jose real estate market, investing more than \$215 million in landmark buildings, surface parking lots and developments still in planning.

Why downtown?

“The area is turning a corner,” Dillabough says. “If you go down Market Street, it looks and feels pretty good. But go down Santa Clara right now, it’s the Achilles heel of downtown. It just has to be fixed — starting at First Street.”

Dillabough’s ground zero for downtown revitalization are the Bank of Italy building and the Bank of the West (former Walgreen’s) building at 12 S. First St. and 2 W. Santa Clara St. Both buildings fold perfectly into Dillabough’s forte to enhance the UX in older structures.

“Buildings can be so much more than concrete and glass,” he says. “We want to create environments that make people more productive and integrates better into their lives. Our approach is placemaking — where we live, work and have a few glasses of wine.”

Dillabough and his team want to enhance the Bank of Italy’s historic character while modernizing the structure into an energy-efficient and smart building that is a prototype for retrofitting landmark high rises.

“These old buildings are challenging with antiquated windows, air conditioning and ventilation,” he explains. “But we want to renovate them to become Class A office space and build to scale and get as close to net zero as we can.” Net zero is the practice of matching energy consumed with renewable energy created on site.



Gary Dillabough's development philosophy centers on community.

Gary Dillabough never had any real estate holdings involving downtown San Jose prior to his recent surge of acquisitions for Urban Community, a small group of developers/investors including **Jeff Arrillaga** and **Brad Buss**, that began a year and a half ago.

With a bachelor’s degree in civil engineering from Cal Poly-San Luis Obispo, Dillabough gained an expertise in smart, energy-efficient buildings while serving as managing partner at venture capital firms Navitas Capital and The Westly Group, and before that in various leadership positions at eBay. He has also served on numerous boards of directors including the **Lucile Packard** Hospital Foundation, One Million Lights and View Glass.

Crediting **Chris Friese** of Lift Partners for pooling the Bank of Italy’s various office condo owners and making the acquisition of the entire building possible, Dillabough plans to take the building remodel “the last yard” starting in the first quarter of 2019.

“We’re going to embrace the Bank of Italy building and bring it back to its old glory,” he says.

Dillabough’s ideas for upgrading the building’s exterior is replacing single-pane windows that rattle in the wind and allow outside heat and chill to come inside with double-hung panes of ultraviolet high-tech electrochromic glass that tints like sunglasses.

By insulating the exterior, Dillabough believes the windows can be opened and closed day and night, reducing energy use by more than 50 percent.

“That should eradicate all the ACs hanging out the windows,” he says, adding that preservationists support getting rid of the air conditioning units, too.

Other immediate Urban Community rehab projects are the Fountain Alley buildings at 30 E. Santa Clara, the Moir Building at 227 N. First St. (with Swenson) and 152 N. Third St.

“The 152 North Third building has the one-of-a-kind Freshly Baked deli,” Dillabough said. “We want to highlight the energy of Freshly Baked owner **Glen Lenhart** throughout the building. It will be awesome when we are done with it.”

Dillabough’s enthusiasm spills over into the larger development sites

Urban Community oversees, notably Museum Place, the Fountain Alley parking lot and the Valley Title property in SoFA.

He quotes immigrant tailor turned New York City real estate mogul **Joseph Durst**, who 100 years ago proffered building separate office and residential towers and locating them close to transit.

“That’s the smart approach that is finally being adopted in the valley today,” Dillabough says. “That’s what we need to talk about with

Museum Place. There’s an opportunity for shared parking and improved asset utilization. Residents need parking at night and weekends; offices need the parking during the week.”

“We need to figure out how to get more people downtown,” he continues. “It’s too vacant during the day. We need more people working here to help small business to thrive.”

Dillabough is excited about the street-level mix of restaurants, retail and the expanded Tech Museum as part of Museum Place.

“**Tim Ritchie** has a great vision for The Tech,” Dillabough says. “We want to do something special for the city there.”

All of his projects are located near key parts of downtown.

“We want to create five to six catalytic places that are comfortable to everyone,” he said. “The example that already exists is San Pedro Square. Museum Place can also be one of those.”

Dillabough is viewing his various properties as part of a “system” where the mix of residential and commercial uses reinforce one another while also strengthening the districts where the projects are located:

- ◆ Historic District: “Our Historic District is a lot like Redwood City, which used to be known as ‘Deadwood City.’ They’ve done an amazing job there, but downtown San Jose has more bones . . . and way better infrastructure.”

- ◆ Fountain Alley: “We’ve brought hope to some problems areas. I used to be nervous when I walked through Fountain Alley. Now, thanks to the police presence (Dillabough supports a storefront for a police security office), I think it has improved. On a scale of 1-10, Fountain Alley is still a 4, but I think it can be a 10. We’ll see what we can create there — it will be part of the office-residential algorithm.”

- ◆ St. James Park: “It was a tragedy that they ran light rail down the middle of the park. But we think people like access to nature and dipping toes into the grass and gardens. That’s what St. James Park can become — an important access point to nature for apartment dwellers and office workers.”

- ◆ SoFA: “SoFA needs more offices to bring more life into the neighborhood during the daytime. With the Valley Title block, we’ll work within the tapestry that has already been created. Swenson’s doing this — The Graduate is a great project. We’ll look to build something that cascades into the district, not something with sheer walls. We’ll definitely reach out to the community and get their thoughts.”

- ◆ West side: “Google was not a bellwether for us. Our plan started before that. They made us look smarter. They want to create something that’s really world-class and exceptional. It will be an amazing asset for the city. I’m excited about them coming down to San Jose.”

Urban Community’s buying spree will cool, says Dillabough, as he and his partners attempt to maneuver soaring real estate costs as well as construction and materials costs to bring buildings online.

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Urban Community deals

- ◆ Bank of the West / Walgreen’s Building, 2 W. Santa Clara St. (with DivcoWest), \$14.5 million, March 2017
- ◆ Camera 12 Cinemas (with Imwalle), \$726,000 + undisclosed price for ground lease, June 2017

- ◆ Bank of Italy building, 12 S. First St., Lido Nightclub Building, 30 S. First St. plus small parking lot in between, \$30.6 million, December 2017
- ◆ Fountain Alley buildings, 30 E. Santa Clara St., \$6.03 million, February 2018

- ◆ Fountain Alley parking lot, 35 S. Second St., \$25.7 million, March 2018
- ◆ Moir building (St. James Hotel), 227 N. First St. (with Swenson) \$1 million renovation, under way
- ◆ Museum Place, adjacent to Tech Museum at Parkside

Hall, terms not disclosed, June 2018

- ◆ St. James Plaza, 152 N. Third St., \$40 million, June 2018
- ◆ Valley Title property, 300 S. First St. plus parking lot bounded by First, Second, San Carlos and San Salvador streets, \$61.5 million, September 2018

College football mania headed to San Jose

A week of special events in downtown San Jose will culminate Jan. 7 with the title game of the College Football Playoff at Levi's Stadium.

"In my 28 years working sports and entertainment in this city, this is our best chance to showcase San Jose on a national stage," said **Patricia Ernstrom**, Bay Area Host Committee executive director, at SJDA's public meeting Sept. 14.

More than 100,000 Bay Area residents and visitors from across the nation are expected to attend multiple fan events in downtown San Jose:

Starting Jan. 4 – **Playoff Fan Central** at the San Jose Convention Center – Includes youth clinics, pep rallies, football legends, marching band performances and hands-on football skills experiences.

Starting Jan. 4 – **AT&T Playoff Playlist Live** at Discovery Meadow – Free music festival featuring top-name entertainment. Past performers have included **Usher, The Chainsmokers, Claire Dunn, John Mellencamp, Walk the Moon, Sting** and **Lenny Kravitz**.

Jan. 5 – **Media Day** at SAP Center – Free event to watch and listen to players and coaches from both teams be interviewed. The title game involves the winners of the

Cotton and Orange Bowl games Dec. 29.

Jan. 6 – **Taste of the Championship** – The Tech Museum hosts the region's best restaurants and celebrates Teachers of the Year from all 50 states.

In the week leading up to the game, the center city will transition from "Downtown for the Holidays" into the Championship Campus, with Plaza de Cesar Chavez serving as "The Quad" and home of ESPN's 24-hour coverage of the championship week. As it was for Super Bowl 50, real grass turf will cover San Pedro Street for games and activities. Christmas in the Park will close Dec. 26 to allow the park to be re-sod for ESPN and other football events. Downtown Ice will remain open and become part of the Campus spectacle.

The Bay Area Host Committee is collecting special events and hours from businesses for its Fan Guide. Businesses can also contact the committee for posters, event materials and game decorations to add to the festive theme.

"It's more than a football game," Ernstrom said. "We'll get to enjoy the passion, pageantry and tradition of college football."

Operationally, the City Council heard a report Sept. 18 about preparations for the Championship Weekend, including public safety, airport, downtown super-graphic signs and logistics for the outdoor events.

More at BayArea2019.com.

Business News

2018 Silicon Valley Structures Award: MOMENT at San Pedro Squared won the Silicon Valley Business Journal's 2018 Structures Award for best small retail project. The four-shop retail gallery totaling 1,500 square feet was converted from parking spaces in the Market-San Pedro Square Garage and helps activate the east side of San Pedro Street.

The stores are occupied by e-commerce owners involved with San Jose Made. Taking their first shot at traditional brick-and-mortar enterprise, the stores rotate every quarter. Five of the first six businesses have been female owners.

The project is a public-private partnership between the City of San Jose and the Downtown Association, made possible by a grant from the Knight Foundation. Project contributors included Eaton Hall Architecture, HC Structural Engineering, Gensler for initial architectural concept, and TICO Construction.

The Knight Foundation was also a major contributor to the 600-square-foot parklet fronting the space. Retail information is available at moment-sj.com.

Xactly the right home: Xactly has moved its headquarters from Riverpark Towers into the 20,600-square-foot building at 505 S. Market Street in SoFA.

This will be Xactly's fourth downtown location, previously

working out of 35 S. Market and 225 W. Santa Clara St. The move is in keeping with their company's vision to change the world of incentive compensation by putting its 150 employees closer to downtown's energy and excitement.

Cohesity, which is reinventing data infrastructure so that it serves the business rather than manage complexity, has taken up the vacated space and now occupies five floors at 300 Park Ave.

See xactlycorp.com and cohesity.com.

Urban Community

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He will continue to spend most of his hours at WeWork on downtown projects, and admits that some of the development may be used to provide homes and business for the other side of his house, Navitas Capital.

"Venture capital and real estate development complement each other and are working together more often," he says. "It's the perfect storm where tech and buildings dance together more effectively."

Urban Community is all in.

"Downtown San Jose can be one of the best in the United States – hands down," Dillabough says.

Downtown News

First vacant building cited: Not surprisingly, the Bassler-Haynes and Beach buildings at 35 and 49 E. Santa Clara St. were the first buildings placed on the City's new neglected-building registry due to a 30-day violation.

The owner, Dr. **James K. Eu** of Isis Properties, will be fined more than \$600 per quarter for inspections of the long vacant and blighted property.

A registry program of vacant properties downtown began July 1. Properties are not fined if they are occupied, under construction with active permits or actively listed

as for sale, rent or lease. Those found sitting idle for 30 days are subject to one quarterly inspection and assessed \$220.

Dr. Eu's buildings at the corner of Second and Santa Clara streets are now subject to monthly inspections.

Built in 1876 and listed on the California Register of Historic Places, the buildings once served as a hotel and were remodeled in 1936 in the Art Moderne style. Damaged in the 1989 Loma Prieta earthquake, the buildings were boarded up

In 2004, the San Jose Redevelopment Agency worked with Eu to restore the buildings. The agency provided \$1.35 million and federal Housing and Urban Development Section 108 funds added another \$1.55 million. The owners contributed \$1.6 million to preserve and restore the historic features and upgrade the mechanical, electrical and plumbing systems. Eu took out a \$1.4 million RDA loan and continues to pay Successor Agency to the Redevelopment Agency (SARA) a monthly \$7,670 repayment, currently set to come to term in 2032, according to SARA documents.

It appeared the buildings were open for business 10 years ago, but no ground-floor tenant has yet occupied the space. The building has five rentable spaces in a total 19,000 square feet. However, code enforcers have found the buildings boarded up again and with graffiti.

SJSU science building on tap: An eight-story, 161,200-square-foot Interdisciplinary Science Building should break ground on the San Jose State campus in 2019 and be ready for use in 2021, California State University Board of trustees approved in September.

SJSU President **Mary A. Papazian** thanked the board for "supporting our efforts to bring our students a new cutting-edge academic research and teaching building befitting SJSU's location in the heart of Silicon Valley."

The new structure will be located in the southwest quadrant of the campus, and will serve undergraduate and graduate students in biology, chemistry, computer



Dr. Eu buildings get fined.



New science building approved for SJSU.

science, geology, mathematics and statistics, meteorology and climate science, physics and astronomy.

The last science building on campus was built in 1967.

Fit for two Kings: Cathleen and Randall King received the Cornerstone of the Arts Award from the San Jose Arts Commission and Office of Cultural Affairs. The Kings, founder of San Jose Stage Company, have a 35-year history downtown. The award covered the Stage's numerous artistic achievements, as well as the Kings' commitment to securing and managing their own facility in the SoFA District.

The Cornerstone Creative Impact Award went to "Sophie Holding the World Together mural by **EI Mac** and the Propeller Group on the wall of the Children's Discovery Museum. The event honoring the winners will be Oct. 12 at Hammer Theatre Center.

SJDA News

Student turns teacher: SJDA Street Life Manager **Jason Su** is serving as a lecturer for a graduate-level Community Planning Studio at San Jose State University this fall semester. Su teaches the six-unit course, which meets once a week for six hours, focusing the planning studio on the Diridon-Delmas Park area on the west side of downtown.

"We have 18 students who will analyze the existing planning of the area so that the area can better serve residents and businesses in the future," Su said. The course is part of the master's level curriculum in the Department of Urban and Regional Planning.

Su was asked to teach the course as a result of an honor he received earlier in 2018 as an Outstanding SJSU Alumnus. He will lecture alongside **Rick Kos**, one of the instructors guiding him to his master's degree in 2013.

SJDA Annual Meeting October 12

San Jose Downtown Association will host its 31st Annual Meeting on Oct. 12 at San Jose First United Methodist Church, 24 N. Fifth St., from 8-9:30 a.m.

Following continental breakfast, SJDA Executive Director **Scott Knies** will present his "State of Downtown" address. The meeting also includes the election of SJDA Board members, SJDA financial summaries and the "two-minute drill" recapping committee activities over the past year.

Confirm attendance at sjdarsvp@sjdowntown.com.



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From the Archives

10 years ago – October 2008 – Adobe Systems paid \$6.8 million to purchase the land beneath its main tower at 345 Park Ave. The price paid was set by the Redevelopment Agency, which valued the land at \$5.1 million in 1994 and added 4 percent per year. Adobe was incentivized with a \$1-per-year lease to build its headquarters on the land. The incentive was set to expire in October 2008, so the company exercised its option to purchase the land outright.

15 years ago – October 2003 – The City Council amended the Historic District design guidelines, restricting buildings to four stories or 60 feet in the area bounded by Santa Clara, First, San Fernando and Fourth streets. The result moved the Mitchell Block (now owned by VTA and set aside for BART staging) outside the Historic District zone.

20 years ago – October 1998 – The Tech Museum of Innovation held its grand opening, filling its space with interactive exhibits "showing off the wonders of Silicon Valley." The 132,000-square-foot project cost \$96 million, with \$41 million coming from the Redevelopment Agency and the rest from 400 companies offering funding and in-kind services.

25 years ago – October 1993 – SJDA celebrated fiscal year 1992-93 successes at its annual meeting, including the formation of committees to promote core neighborhoods such as San Pedro Square, Transit Mall (Historic District) and SoFA.

At the Convention Center

Oct. 6-7 – Rock 'N' Roll Half Marathon and Expo (20,100) runrocknroll.com/san-jose

Oct. 20-21 – Home Show (4,500) homeshowsanjose.com

Oct. 25-29 – TwitchCon (20,400) twitchcon.com

October Events

Oct. 5 – South First Friday + Street MRKT, SoFA, southfirstfridays.com

Oct. 5, 12, 19 and 26 – Downtown Farmers' Market, San Pedro Square, sjdowntown.com

Oct. 6-7 – Rock 'N' Roll Half Marathon, Plaza de Cesar Chavez, runrocknroll.com/san-jose

Oct. 13 – Pumpkins in the Park, Guadalupe River Park, grpg.org

Oct. 20 – Dia San Jose, Plaza de Cesar Chavez, diasanjose.com

DOWNTOWN DIMENSION

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