

Urban Catalyst maps out downtown San Jose planned developments

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Urban Catalyst Opportunity Fund I, a real estate equity fund focused on ground-up development projects in downtown San Jose, California, plans to invest more than \$850m in the market in the near-term.

The Silicon Valley-focused opportunity zone fund has seven planned projects underway in the area, which will add two multifamily projects, two office projects, a senior living facility, a student housing project and an extended stay business hotel, founder and managing partner **Erik Hayden** told *REFI US*.

Urban Catalyst has always been very bullish on San Jose and believes the market has untapped potential to become a thriving work-live-play environment. Even amid the ongoing Covid-19 pandemic, the fund is hearing experts in the industry say that the market is poised to be one of the first cities that will recover from the global health crisis, said Hayden.

“San Jose is becoming a flight to safety for large equity groups and large real estate investment companies. They’re thinking ‘Where do I want to be in the long run If I’m going to invest in real estate’ and the answer is San Jose,” he added.

The latest testament to this, according to Hayden, are two unexpected transactions in the area, a high-

rise office building and a Class A multifamily property that was sold within the same week and set record prices on a price per square foot basis.

“I don’t think that I would have predicted that we would see record pricing for the sale of high-rise buildings in downtown San Jose in the middle of the pandemic,” Hayden said.

Urban Catalyst is looking to break ground on all seven of its planned development projects next year, which will be the perfect time to capitalize on reduced construction costs.

“We’re going to be able to build our buildings for lower prices because reduced construction costs are occurring. We saw that during the 2008 recession in Silicon Valley,” said Hayden. “Across the board, construction costs went down about 20%. And here at Urban Catalyst, we have over \$500m in hard construction costs, and a 20% reduction, that’d be \$100m cost savings for our investors, which would be significant.”

Urban Catalyst has been in contact with its general contractors and is hearing that subcontractors are starting to get hungry for new projects. “They’re seeing their pipeline starting to fall out as projects put themselves on pause or get delayed,” said Hayden.

“One of my contractors said five percent [decreases] are what they saw in their latest project that they put out for their guaranteed maximum price contract,” he added. “Another one said they’re seeing eight to 10% decreases.”

Urban Catalyst, as a developer, is ecstatic for this trend because construction costs have gone up by 100% in Silicon Valley since 2008, per Hayden, noting that this made Silicon Valley the most expensive place to build in the world.

Starting next year, the fund will break ground on 900 residential units, 150 senior assisted living and memory care units and 175 extended hotel units in downtown San Jose. Urban Catalyst will also add housing for more than 700 students and increase San Jose’s downtown office space by 275,000 square feet, and ground retail by 50,000 square feet.

Urban Catalyst has seen strong interest from investors in these projects.

“As our nation’s priorities change, investors are shifting focus, seeking to put their money to work in vehicles that offer more stability than stocks and less hassle than rental properties. Our OZ projects are garnering strong interest from investors because they offer two type of returns,” said Hayden.

“In addition to the financial incentive, these projects will also transform downtown San Jose into a thriving center that ties residential, retail, small business, commercial and educational facilities together with public transportation,” he added.

Urban Catalyst Opportunity Fund I has raised \$66m to date and is looking to reach its target, \$125m, in December 2020. The fund credits its fundraising success to the San Jose story and the attractiveness of the planned development projects.

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