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Re-energizing old buildings

Old manufacturing space finds new life with cleantech industry tenant leasing

Silicon Valley / San Jose Business Journal - by [Sharon Simonson](#)

Two years ago, San Francisco-based **D.R. Stephens & Co.** acquired two large-scale manufacturing buildings in North San Jose and Newark. Both were leased -- one to **Applied Materials Inc.** and the other to **Solectron Corp.** -- but they have remained empty.

In recent months, however, tenant interest has picked up, and most of that interest is coming from solar-technology companies.

"We have had a lot of solar companies looking at these buildings. Sixty percent to 70 percent of the activity is from solar tenants," principal Lane Stephens says.

Stephens' experience is not unique.

Industrial buildings, many of them long-vacant, are attracting new attention in Silicon Valley. Solar-tech companies are attracted to these structures because they need the special features that only a manufacturing building can offer. The result is helping to breathe life into a class of commercial property that many feared was becoming largely obsolete.

Often abandoned by chip makers and disk-drive creators who have moved production offshore, these properties can boast large clean rooms, have heavy-duty air-conditioning and ventilation systems, and sport thick floor slabs for extra-weight bearing -- all features aimed at supporting manufacturing.

The revival is good news for valley landlords and governments, which have suffered under the burden of carrying the often-empty structures. Landlords saddled with these unleased properties receive no income but still pay property taxes and other maintenance costs. At the same time, cities and counties see the taxable value of such properties fall because commercial real estate worth is often premised on the income-stream that a building produces. In addition, there is an obvious opportunity cost to society at large from having a valuable resource such as land lie unused.

In the last year, however, no fewer than six, long-empty manufacturing and industrial buildings in



Dennis G. Hendricks

CPS Vice President and principal Steve Pace, left, and his partner, Senior Vice President and principal Daniel Hollingsworth, stand in an older generation manufacturing building in San Jose that is being renovated for lease. Landlords of such vacant space are seeing new interest from cleantech businesses.

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Silicon Valley have been leased by solar-technology companies, according to research by the Business Journal and **NAI BT Commercial**, a regional real estate brokerage.

A year ago, **Nanosolar Inc.** signed a five-year lease with the valley's **Mission West Properties** for 90,000 square feet in a Hellyer Avenue building. The property had been on the market for nearly two years.

Since then, landlords have signed leases with at least five additional companies looking to create the next breakthrough solar technology. In one case, an R&D building at 5981 Optical Court in San Jose languished without a tenant for more than six years.

In another example, **Stion Corp.**, a venture-backed solar-tech company that announced a \$15 million series B funding round in June, has leased 64,000 square feet in San Jose from Mission West. The location, an older generation but spruced-up manufacturing property, had been available since February 2006.

Stion executives would not comment on how they intend to use the property.

Jay Phillips, a senior vice president at brokerage **Cornish & Carey Commercial** involved in the Stion deal, says it is typical of others he has seen in the marketplace in the last 18 months or so. He did not comment directly on the Stion transaction.

"This new crop of cleantech companies is finding these buildings of interest because they have a tremendous amount of HVAC (heating, ventilation and air conditioning) tonnage and a bunch of electric power available," Phillips says. "These are buildings that often have been on the market for quite some time. But now there is value where there wasn't because of the pursuit of this new technology."

These unleased old buildings are benefiting at both the federal and state levels from new laws in solar tech investing, says Monique Hanis, director of communications for the Solar Energy Industries Association in Washington, D.C.

In 2005, the federal government passed legislation granting investment tax-credits to companies and private individuals using solar power. Then in the fall of 2006, California Gov. Arnold Schwarzenegger launched the California Solar Initiative, which gives financial incentives to businesses and households for solar installation. Nationwide, about 30 states have mandated that some percentage of their energy come from renewable resources in the future.

"California has become one of the largest markets in the world," Hanis says.

The money men have noticed. Early-stage venture-capital investment in solar tech leapt from \$181 million in 2006 to \$702 million last year, according to Hanis and New Energy Finance, a specialist information provider to investors in renewable energy.

Solar companies raised \$5.8 billion in new equity on U.S. stock markets last year, up from \$4.4

billion the year before. Together, the largest 11 solar-tech companies trading on American exchanges, about half of them U.S.-based concerns, had aggregate market capitalization of \$37 billion as of Feb. 22, Hanis says.

Neil Johnson, a principal and acquisitions director in Northern California for **Westcore Properties**, says he has been surprised and pleased with the response from manufacturers, including solar-tech and other green-tech companies, to a manufacturing building in the San Jose International Business Park that his company bought last year. He admits that he had no expectation when he acquired the 90,000-square-foot property that it would generate such interest. But the price was right and manufacturing buildings in Silicon Valley were only growing scarcer. The building had been vacant for at least 18 months before Westcore bought it, he says.

The company invested in new bathrooms and improving aesthetics, and now tenant activity is so strong, Johnson says they will secure rents of \$1 a square foot a month or more.

"That's a lot more than we thought we would," he says.

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