

STARTING THE SECOND CENTURY IN SILICON VALLEY

AS A LEADER OF HIS OWN CONSTRUCTION COMPANY, Swenson Development & Construction, for over twenty years, Case Swenson had the pedigree of a builder family that has been a major player in Silicon Valley development for a century. In 2013 he devoted more time to a family business

The South Bay builder sees downtown San Jose at a turning point

that his father, Barry, a perennial valley fixture had been running for over three decades.

In his new role at Barry Swenson Builder, he is responsible for the operations as well as project development and construction, real estate development, property management and accounting. Case Swenson provides executive support throughout the life cycle of each project from contract negotiations, pre-construction planning and design with clients and project team to construction feasibility, monitoring cost and schedule through the final stage of project completion.

He is a strong believer in the opportunity and promise that the capital of Silicon Valley—San Jose—has to offer, and he intends to be a major player in its realization.

Q: *The construction industry in the Bay Area has been on a tear recently. These are the good days. What challenges does a market like this present to your industry?*

CS: Consistent supply of qualified labor and commodities at a reasonable price remains a priority to our partners and clients. As these prices rise due to demand, we are constantly balancing customer expectations with market conditions. To address this concern our firm advocates the integration of the design-build team early in the development process, so that we can be ahead of the curve, and lock in subcontractors and their pricing well in advance of ground breaking. This also allows us to leverage best practices and previous design scenarios so that we don't have to start from scratch with each project.

Q: *Barry Swenson Builder has been a major force in Silicon Valley for almost 100 years. As the economic and technology concentric circles expand north and east, will the company look to expand its presence more broadly across the region?*

CS: BSB is setup to manage projects within 200 miles of San Jose. I believe you are referencing tech company expansions up the peninsula and some moves into the East Bay. Although we've witnessed the referenced expansions into the north and



Case Swenson at the Hotel De Anza in San Jose, a Swenson project from 1931.

📷 LAURA KUDRITZKI

east, we've also experienced a considerable amount of growth in the South Bay Area, specifically the downtown San Jose market. We have the land and the opportunity here in San Jose to deliver quality product to the technology concentric circles at a much better price point. I believe downtown San Jose will be the "hot spot" for tech companies in the not too distant future.

Q: Are you concerned from a supply side about the competition in your industry generated by the level of activity in the region? Do you foresee companies based outside of the Bay Area competing with the local players more and more?

CS: I'll be honest, there's a lot of work to go around in our submarket and, yes, we have seen an increase in out-of-town construction management firms acting as general contractor locally. Our company tends to work on complex projects that require long-term knowledge and influence to get a project over the finish line. Our relationships with municipalities and subcontractors continue to be a strong value-add to our clients.

Q: Do you anticipate M&A activity in the industry in the near term, 18 to 24 months?

CS: I'm speaking for our firm only, but in my opinion, San Jose still has a heritage of local family-based development firms that remain critical to the success of economic growth. There are a handful of key players that control a majority of the opportunity land sites, and each firm has its own "style" and approach. On the construction side, you might see "talks" by some of the larger, national firms as they look to leverage books of business in certain submarkets like the Bay Area, but I don't foresee a large amount of M&A at this time. It is an exit strategy that would not be of interest to these long-term family businesses.

Q: How is the rising cost of construction impacting your business?

CS: The rising costs have definitely made an impact on the financial feasibility of our developments. Luckily, we've been able to lock in rates and contracts with our key subs this year, and for some of the projects that will break ground in early 2014. Our developments are in a constant state of adaptation as we get creative to address the rising construction cost issue. Our exit sales/lease pricing analysis has been able to cover the cost delta, but we continue to value-engineer and sharpen our pencils on each project, to keep a conservative outlook.

Q: Campuses and office space for tech companies are becoming individualized playgrounds. How is Barry Swenson responding to the changing environment and needs of clients in the technology space?

CS: I'm responding to this from a development perspective: The "individualized playground" and changing environment brings to light a common thread, which is the need to attract talent via on-site amenities and flexible working conditions. Our firm has keyed into this by advocating for the redevelopment of sprawling tech campuses, and the re-zoning of these properties to unlock the air rights above the land (as opposed to using up more land). By

densifying these plots of land we can create an ecosystem that allows for housing, retail and hospitality within the same parcels, thereby increasing the quality of life of the employee and lowering a city's carbon footprint by promoting less cars on the road or the need to drive everywhere.

Q: Some may argue that the center of economic gravity in the Bay Area may be shifting north to San Francisco. What indication do you have of Silicon Valley still holding its important leadership role in the region?

CS: Obviously I'm a little biased to the South Bay, and I could speak on this subject in an advocacy role for hours on end, but Silicon Valley continues day in and day out to increase the amenities and public transportation flexibility that is crucial to acquiring the best talent. Don't be surprised to find out that our main companies' tech talent doesn't want to raise their families in the city (San Francisco). Silicon Valley is that perfect mix of quality of life, where you can live close to your job and have access to some of the best schools and entertainment in the Bay Area. We offer a safe and enticing solution to the age bracket that has had its "fun" in the city, and is ready to settle down. The companies will expand where the employees want to be, and we're already starting to see the needle move south from the Highway 85 dividing line (Cupertino / Sunnyvale / Mountain View).

Q: With the recent development announcements around North San Jose and in the general vicinity of the Golden Triangle (the area between highways 237, 101 and 880) we are seeing that Silicon Valley still holds a very large appeal for investors and companies to be located there. This is in proximity to downtown San Jose, the traditional heart of Silicon Valley. How optimistic are you about downtown San Jose's ability to attract large employers and to become an urban center of gravity for the South Bay region?

CS: I've had my thumb on the pulse of downtown for decades, and I've never seen so much activity. We've increased our retail presence and are going to be delivering thousands of new high-density apartments and condos right in the core. You've already heard rumblings of companies opting to make the switch to downtown San Jose, due to its proximity to transportation, amenities and lower cost office space. I don't think that the North First Street or Golden Triangle corridor will cannibalize downtown, it is just another step in downtown's direction.

Will we get another owner-user pioneer like Adobe? Maybe, but I don't think we need to rely on that to make a judgment on downtown San Jose being "successful." With the San Pedro Square Market expansion, Little Italy expansion, Convention Center expansion, San Jose International Airport expansion and all of the housing starts, why wouldn't San Jose stay true to its moniker of "The Capital of Silicon Valley?" My question is down the road as the peninsula and North First Street corridors rise in delivery costs to the large employers, will they actually have a choice in where they operate? Downtown San Jose is at a turning point, and its time for employers to lock in their foothold.



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■ CASE SWENSON, PRESIDENT, BARRY SWENSON BUILDER

Q: Are you optimistic about 2014? Why?

CS: 2014 will bring the highest dollar volume of work in our firm’s history (as Barry Swenson Builder). We’re seeing activity in literally all sectors: hospitality, medical, retail, residential, senior housing, and warehouse space is now at a premium.

Q: Where do you see the greatest potential for your industry in the near term (product wise: healthcare, multifamily, office...)?

CS: In and out of this past recession, multifamily has been one of the only financeable products. As supply comes online, and the units become more affordable for the general population, the product will become less financeable for the developer. We are cognizant of these forces and believe it is time for a shift in supplying other product types, including senior housing (both market rate & affordable) and medical. That is a huge demographic (the baby boomers) that has defined every real estate trend for the last 60 years, from single-family homes to big-box retail. We need to address this need and start planning accordingly.

Q: What does the future hold for Barry Swenson Builder and its leadership?

CS: I was speaking with our CFO the other day and realized that the average employee length of stay at BSB is now approaching 20 years per employee. This is due to a mix of self-directed responsibility and employee flexibility. We continue to mentor the new kids on the block through a leadership team that has survived the best and worst markets in the valley, and our philosophy has always been to incentivize leaders to really take ownership of each project from soup to nuts. I definitely see younger employees stepping up to the plate daily, and we hope to nurture those emerging leaders into the upper ranks of the firm. We rely heavily on our staff to consistently deliver quality projects to our partners and clients, and it’s our foundation of tradition, innovation and integrity that brings us full circle with each project. We’re expanding, we’re hiring, and we’re looking forward to the next 100 years of development in the Silicon Valley. 📍