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Developer sells In-N-Out land in San Jose, gears up to make big Northern California buys

Jan 29, 2019, 5:28am PST Updated: Jan 29, 2019, 8:29am PST

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As San Jose's newest In-N-Out Burger restaurant is wrapping up construction, the land underneath it has changed hands for a big markup.

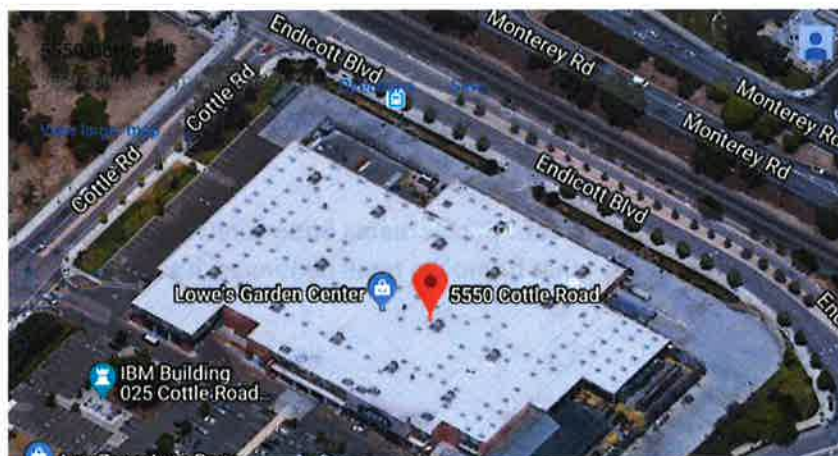
El Segundo-based Paragon Commercial Group sold the 2.42-acre property at 5550 Cottle Road this month for \$6.92 million to a limited liability company called Bob's Burgers LLC, a group Jim Dillavou, Paragon's co-founder and principal, describes as a "private individual or family" buyer.

Though the overall dollar amount of the In-N-Out land sale may seem small by Silicon Valley standards, it represents a more than \$4.5 million markup from the price Paragon paid to officially acquire the property in 2017, according to public property reports. The company had been working to buy the property since 2014.



PATRICK T. FALLON/BLOOMBERG VIA GETTY IMAGES

In-N-Out Burger signage stands outside a restaurant in Costa Mesa. As San Jose's newest In-N-Out Burger restaurant is wrapping up construction, the land underneath it has changed hands for a big markup.



One of the atypical details of the deal is that the 3,867-square-foot In-N-Out is being built via a ground lease, making the land a rarity in the popular and extraordinarily exacting restaurant chain's real estate portfolio.

"In-N-Out owns the vast majority of the land underneath ... their locations," Dillavou said. "They will do a ground lease in certain locations that are very high barrier to entry markets. ... In this case, for example, we would not have sold the land because we had enough tenant interest in ground leasing it."

The recent deal works out to \$2.86 million per acre or \$1,791 per square foot for the property at the edge of an existing Lowe's parking lot at Cottle Road and Great Oaks Parkway. Christopher Sheldon of Cushman & Wakefield represented Paragon and Andy Chana of Sands Investment Group represented Bob's Burgers LLC.

In-N-Out, which is expected to employ around 60 people at the new location, is slated to open this quarter. It'll have room for a queue of 22 cars in the drive-thru lane, 77 indoor seats and another 44 seats outside, city documents show.

Erik Schoennauer, a partner at The Schoennauer Co. who helped secure the development approvals for the recently sold In-N-Out Burger site, says the land has long been master-planned for a retailer of some sort, but has seen false starts in the past. Indeed, Chick-Fil-A once made an attempt to build on the site, but in 2014, the San Jose City Council rejected those plans, city documents show.

Now, Dillavou says the property is another piece of a recent trend of retail property owners and cities looking upgrade existing retail centers by shrinking their seas of parking and adding new uses, including shops, popular restaurants, office or residential units.

Schoennauer, a practiced land use consultant, agrees a larger trend is emerging. Even as some brick-and-mortar retailers struggle and even shutter in the wake of competition from online giants like Amazon.com, he expects to see more shopping centers trade parking for new development.

"I think we are going to see more and more shopping centers determine that they are overparked and that they have surplus land to add square footage," he said. "Parking demand overall is going down as alternative transportation takes effect and the city parking requirements clearly have dropped significantly."

Meanwhile, Dillavou estimates Paragon will capitalize on that trend by spending between \$200 million and \$300 million on acquiring new retail properties in Northern California over the next 12 to 24 months.

That's major momentum for a company that made its first Northern California buy in 2015 in the form of Cupertino's 128,000-square-foot Target Corp. location along Stevens Creek Boulevard. The company also opened its Palo Alto office that year and has since picked up other properties in Concord and San Jose.

"The timing is good is there's just turmoil in the retail market, which creates opportunity for value-add outfits like ourselves," Dillavou said. "We believe that as that turmoil in retail continues, it's going to free up opportunities."

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