

Milpitas Industrial Land Analysis

By:

City of Milpitas
455 East Calaveras Boulevard
Milpitas, CA 95035

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Executive Summary

Since the economic slowdown in late 2001, the City of Milpitas has experienced rapid residential growth, while the industrial sector building has stalled. The adoption of the Midtown Specific Plan in 2002 has led to the approval and construction of multi-family housing in Midtown Milpitas. The City is currently in the process of developing the Milpitas Transit Area Specific Plan that will rezone under utilized industrial land for high density residential development in the proximity of the future Milpitas BART station.

The Conley Consulting Group (CCG) was retained by the City to perform an industrial land inventory and analysis of future industrial land requirements. They identified 10 industrial districts throughout the City and identified 728 businesses located within those districts. A total 18 business (or 3 percent) were found to be non-revenue generating entities. As of May 2007, the overall industrial vacancy rate in Milpitas is approximately 18 percent (Colliers International). Vacancy rates varied considerably ranging between 1% for industrial to 19% for Research and Development (R&D)..

ABAG Projections 2007 forecast an increase in industrial jobs in Milpitas of 4,780 between 2005 and 2035. The future need for industrial land also considered the removal of approximately 180 acres of industrial zoned land as part of rezoning to residential in the Transit Area Specific Plan. Staff calculated the City will require between 148 and 187 acres (based on an FAR range of 0.35 to 0.50 for R&D) of industrial zoned land to accommodate future job growth. This is critical to maintain an equitable jobs/housing balance and insure the City's competitiveness in Santa Clara County for economic stability and fiscal health.

In order to preserve industrial zoned land for future development Staff is recommending three potential policy options were developed. These include:

1. **Industrial Compatibility Overlay Zones** – an overlay zone could be placed on industrial areas within the City to protect them from uses that are not compatible with the surrounding uses. These overlays could be specific in relation to use, design guidelines and other standards. Overlay Districts should be placed in stable industrial areas that are not in transition and have adequate infrastructure in place (or planned) to accommodate the restricted uses.
2. **Conditional Use Permit (CUP) Revisions** – the Zoning Ordinance specifies uses within zoning districts that are permitted or conditional. Conditional uses generally have to have Use Permits approved by the City Planning Commission with findings and special conditions. The findings made by City Staff include conformance with the Zoning District/General Plan, parking, compatibility with surrounding uses and other related issues. Conditional uses could be restricted or significantly limited by zoning text changes to the Zoning Ordinance. Currently, CUP's run with the land and is not time restricted.
3. **General Plan Text Amendments** - the Land Use Element of the General Plan contains several guiding policies governing the development. Policies relating to Growth and Expansion, Economic Development and Jobs/Housing relationship could be added to reflect the protection of industrial land for revenue generating uses.

Three of the ten industrial districts identified were designated as “Core” Industrial Areas for Protection. These three districts are:

1. ***Industrial District # 1*** – the M2 district with modified boundaries that include Los Coches Street to the north, Montague Expressway to the south (with the exception of the Piper/Montague Subarea), Interstate 680 to the east and the up railroad to the west. This industrial district is comprised of Class A warehouse space, Class A&B R&D/Office space and industrial inventory that is mostly functional. This area is a key resource for insuring distribution and goods movement is close to future growth and residential consumers. Major employers include Fleming Foods, Adaptec, Lifescan and Seagate. This district is mostly built out with some parcels under-developed with limited functionality.

2. ***Industrial District # 3*** - the M1 and MP zoning district is bounded on the north by Stare Route 237, the south by Montague Expressway, Interstate 880 to the east and Coyote Creek to the west. This area is commonly referred to as the Oak Creek and Milpitas Business Parks. The Oak Creek Business Park (south of Tasman Drive) is mostly comprised of Class B R&D/Office buildings and the Milpitas Business Park is comprised of Class A & B R&D/Office buildings. Major corporations include Cisco Systems, San Disk, KLA-Tencor, LSI Corporation, Linear Technology and Lucent. This district is mostly built out, with the exception of a 20-acre parcel along Murphy Ranch Road and a 22-acre parcel along Sumac Drive for a total of 42 acres of vacant industrial land.

3. ***Industrial District # 5*** – this MP district is bounded by Dixon Landing Road to the north, State Route 237 to the south, Interstate 880 to the east and the Coyote Creek to the west. This area is commonly referred to as the McCarthy Business Park. This the newest Business Park in Milpitas and is comprised of Class A R&D/Office buildings. Major employers include Palm Computers and Veritos Software. There are currently 81 acres of vacant industrial land in this district.

Introduction and Background

With the approval of the Midtown Specific Plan in 2002, the City has seen many of the intended consequences contribute towards the redevelopment of Midtown Milpitas. This resurgence is led by the KB Home Terra Serena development and complimented with similar medium and high-density projects such as DR Horton's Parc Place, Paragon and Centria developments. This growth has been stimulated by the Milpitas Redevelopment Agency to create more customer demand to serve existing and new business within the Midtown and City.

Unfortunately, during the same time as the local housing explosion, the City's Industrial areas suffered the impacts of the 2001 economic downturn: from a low of .5% vacancy rate in 2002, Research and Development (R&D) buildings jumped to a 28% vacancy rate in 2004. Other building classes reflected similar trends, which will be detailed in the report. What Milpitas began to experience were property owners of industrial land and buildings, beginning to lease space to non-industrial users in order to generate revenue from the vacant buildings. These non-revenue generating uses include religious institutions and recreation uses (paintball, badminton, ect.). While providing modest rent to the property owner, these uses do not contribute to the economic vitality of the City. During the same time, applications from developers to rezone land from industrial to residential have increased, reflecting the same trend in the Midtown Specific Plan area

The purpose of this report is to :

- Review existing inventories of industrial land by use,
- Review vacancy rates by building classification and amount of non-revenue generating uses in the industrial zones,
- Evaluate future industrially zoned land under current zoning and upcoming zone changes under consideration
- Estimate the number of acres or square footage of industrial land required in the future; and,
- Recommend potential policies to preserve industrial zoned land that will maintain a jobs/housing balance and protect the City's economic and fiscal health.

Existing Conditions

Industrial land uses are located within the M1, M2 and MP zoning districts in Milpitas. Allowed uses in these areas are typically:

- Office, Research and Development (R&D),
- Light Industrial, Heavy Industrial,
- Manufacturing, and
- Warehouse/Distribution,

The Conley Consulting Group (CCG) was retained to create an information base that could be used to assess whether there are threats to the preservation of the City's industrial land resource, to research the experiences of nearby cities to preserve industrial space and to make recommendations on how much industrial land Milpitas will need in the future. Their work was focused on ten industrial zoned areas within Milpitas as described below.

Industrial Study Areas

The ten industrial zoned areas within Milpitas are zoned M1 (Light Industrial), M2 (Heavy Industrial) and MP (Industrial Park) and are shown in Figure 1. The location of each of the ten industrial areas is briefly described below.

- **District 1:** The M2 district bounded by Calaveras Boulevard (Highway 237) to the north, Interstate 680 to the east, the City Limit south of Montague Expressway to the south, and the railroad tracks to the west. The area west of South Milpitas Boulevard is commonly referred to as the Town Center Business Park.
- **District 2:** The M2 district bounded by the Great Mall Parkway to the north and northeast, the City Limit to the south, and S. Main Street to the west. Much of District 2 is included in the proposed Transit Area Plan.
- **District 3:** The M1 and MP districts bounded by Highway 237 to the north, Interstate 880 to the east, Montague Expressway to the south, and the City limit to the west. District 3 is the Oak Creek Business Park south of Tasman Drive and the Milpitas Business Park north of Tasman Drive. The sub area north of Tasman Drive is the home to Cisco Systems, SanDisk Headquarters, Avala, Phoenix Technologies and KLA Tencor. The sub area south of Tasman is home to Linear Technology, LSI Corporation, Precision Labs and other companies.
- **District 4:** The MP district on S. Abbott Avenue, south of Calaveras Boulevard. It is largely warehouse space owned by Milpitas Union School District, but has several retailers, such as Tuff Shed.
- **District 5:** The MP district bounded by Dixon Landing Road to the north, Interstate 880 to the east, Highway 237 to the south, and the City limits to the west. This is the McCarthy Ranch offices and R&D and the former Veritas buildings.

- **District 6:** The MP district bounded by Dixon Landing Road to the north, Calera Creek to the east, and Interstate 880 to the west. This is also known as the California Circle area and is home to Rackable Systems, Credence Systems, the newer Venture Corporation's Business Condominiums, and the Living Word church.
- **District 7:** The M1 district bounded by the City limit to the north, the railroad tracks to the east, Dixon Landing Road to the south, and Interstate 880 to the west. This area is adjacent to wetlands and abuts industrial uses to the north in the Warm Springs district of Fremont.
- **District 8:** The MP district bounded by Calaveras Boulevard (Highway 237) to the north, Interstate 680 to the east, Los Coches Street to the south, and S. Milpitas Boulevard to the west. This district is characterized by significant transition from industrial to residential and service businesses.
- **District 9:** The triangular-shaped M2 district located on the north and south sides of Calaveras Boulevard, bounded by railroad tracks to the north, east, and west. The numerous railroad lines and spurs and the NUMMI Plant storage area characterize this area.
- **District 10:** The M2 district north of Jacklin Road, west of N. Milpitas Boulevard, and east of the railroad tracks. This area is home to Minix Concrete, the City's Corp Yard and numerous smaller offices and light industrial businesses.

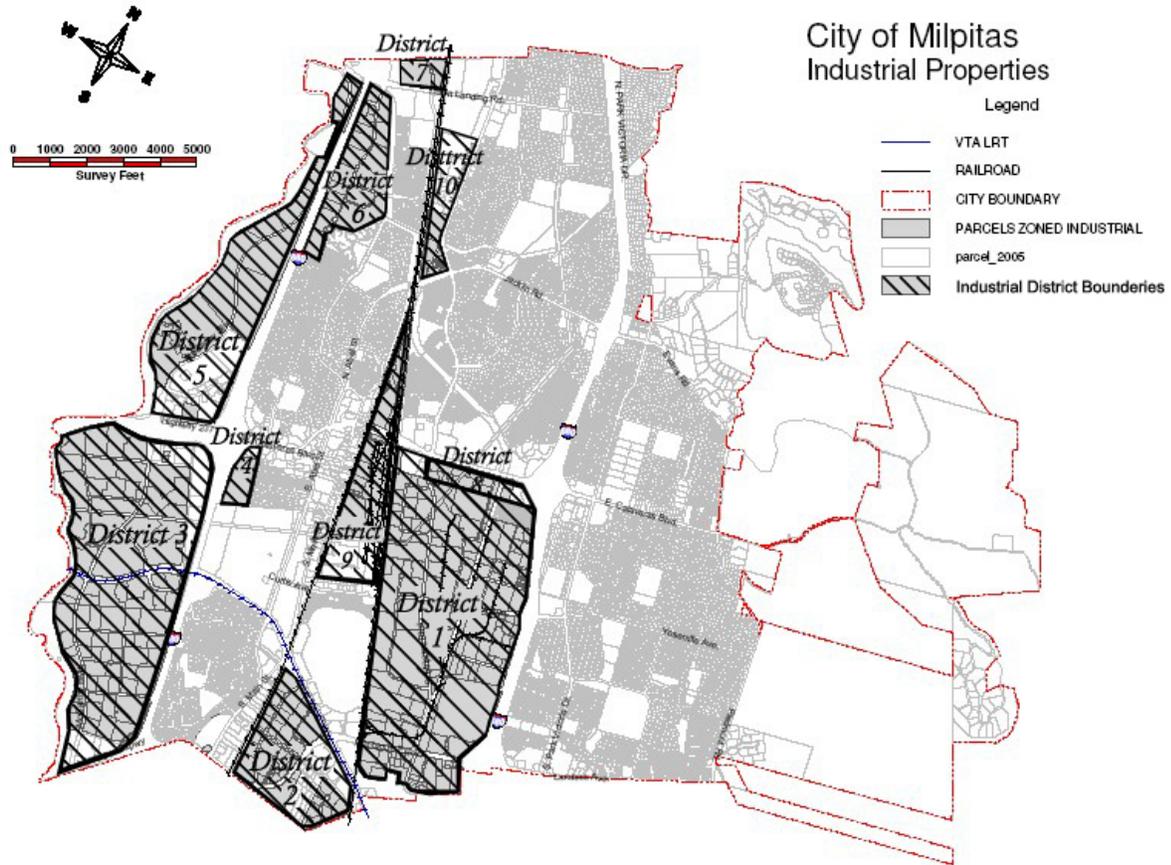
Study Area Businesses

CCG compiled an extensive inventory of all businesses with the ten industrial districts using the information from Dunn and Bradstreet (D&B). This database indicates that 720 businesses are located within the ten industrial zoned districts, 18 (or approximately 3 percent) were confirmed to be non-profit or non-revenue generating uses. This information was verified via site visits and inspection of business license data. While the number of existing non-revenue generating uses is low, it is important to understand how valuable the revenue generating businesses are to the City. For example, nine of the top 25 sales tax generators are located in the industrial areas, generating just shy of \$2.5M in revenue to the City each year. This compares to 7 stores within the Great Mall in the top 25 that generated just over \$1.2M during the same time period.

Existing Building Inventory

Much of the Milpitas Industrial building stock was constructed prior to 1996. At the end of 1996, the City was home to 10.5M square feet of R&D space. It grew to nearly 15M by 2002 and is now closer to 14M square feet, with nearly 1M square feet being reclassified to Office. Existing industrial building inventory in Milpitas totals approximately 22.6 million square feet as documented by Colliers International with an 18% vacancy rate. The breakdown of industrial land building inventory by use is:

Figure 1 Industrial Zones in Milpitas



- R&D/Office – 66% - approximately 15 million square feet (19% vacant)
- Warehouse – 21% - - approximately 4.8 million square feet (5% vacant)
- Light Industrial - 13% - approximately 2.9 million square feet (1% vacant)

These vacancy rates also are not uniformly spread evenly across the City (Colliers International May, 2007).

Building conditions vary in each area. District 1 (Town Center Business Park and Fleming Business Park) has largely older R&D buildings and warehouses. Many longtime Milpitas businesses are located in this area, including Solectron, Adaptec, LifeScan, Hanson Concrete Products and newer businesses such as Headway Technologies, Nanometrics and One workplace L Ferrari. While these buildings can continue to house the technology industrial uses for which they were constructed, the high vacancy rate easily contributes to the expansion of non-technology business uses such as Kaiser Permanente and Q-Ball.

This district is unique in that several new office buildings were constructed in Fleming Park along Montague Expressway during the dot.com boom that have remained vacant since the bust in 2001. It is this type of building that is susceptible to conversion to non-business uses, such as the Korean Baptist Church. This impacts the City's ability to attract industrial users to the Fleming Business Park because of land uses compatibility issues.

District 2 is largely warehouse and transportation uses, with some R&D. This area is already under evaluation for land use change as part of the Transit Area Plan. Other notable building stock areas are Districts 3, 5 and 6.

District 3 can best be categorized as Sub areas A and B: A is south of Tasman Drive and area B is north of Tasman Drive. Sub area A is home to several headquarter companies: SanDisk, Phoenix Technologies, Avaya, and Intersil as well as significant employers such as Cisco Systems and KLA Tencor. Seagate Industries acquired Maxtor, which was located in this area, and most of these offices are vacant.

District 5 is the McCarthy Ranch area and is home to much of the Class A space in Milpitas. Developed by the Irvine Company for Cisco Systems, these offices/R&D buildings have been vacant since they were constructed in 2000/2001. Over the last few years, this property has begun to fill up with smaller tenants and will probably do so as long as the economy is strong. This area also includes the former Veritas campus that is currently vacant.

District 6, while remaining an excellent location for industrial and warehouse development, is undergoing a significant change. Many properties are vacant or are being leased by non-revenue and job generating uses. Some revenue generating businesses are located in this District, such as Rackable Systems.

Table 1 presents a listing of non-revenue generating uses by square feet located in the ten previously identified industrial zones. The CCG study documented eighteen non-revenue generating uses located in the industrial zones totaling 366, 821 square feet. This total

represents approximately 1.5 percent of the city's total industrial building inventory, which is less than was anticipated. However, it should be noted that the highly visible Korean First Baptist Church located on Montague Expressway represents almost one-third of the square footage (114,938 square feet).

In March 2002, the City Council approved the Midtown Specific Plan that rezoned industrial land near the Montage LRT Station (and the future BART Station) to high-density residential uses. The Midtown Specific Plan rezoned commercial and industrial land to high-density residential adding 2, 379 dwelling units. The Plan also added a Transit Oriented Development Overlay Zone to promote higher densities and mixed uses in the proximity to the LRT and Future BART stations.

Currently, the City is in the process of preparing the Transit Area Specific Plan that encompasses approximately 364 acres in southern Milpitas. This Specific Plan is part of a "smart growth" effort by the City to encourage high density mixed use development adjacent to a major multi-modal transit hub. Compact high-density residential development in proximity to public transportation increases transit ridership and decreases dependence on the private automobile.

Also, since the economic slowdown that started in late 2001, there has been no building activity within the industrial zones and there are no new buildings in plan review. The City is currently processing several applications to rezone industrial land to residential zoning. These rezoning applications are spread out in the City and include a variety of residential housing units. Currently, there is 108 acres of vacant undeveloped industrially zoned land in Milpitas and it is all west of Interstate 880.

Table 2 presents a historical breakdown of industrial category building base, occupancy, space available and vacancy rates from the end of 1998 through October 2007. As shown in Table 2, Milpitas experienced extremely low vacancy rates in all categories at the end of 2000, before climbing in 2001 through the end of 2004. Since 2004, the occupancies have been rising steadily through October 2007. There has been very little addition to the building base since 2001, with R&D building base dropping from a high of 14.8 million square feet to 14.0 million square feet today.

Table 1 Non-Profit Use in Milpitas Industrial Areas
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EXHIBIT 1
 NON-PROFIT USES IN INDUSTRIAL AREAS AS OF JUNE 22, 2006
 INDUSTRIAL LAND RETENTION ANALYSIS
 CITY OF MILPITAS

BusName	Street No.	Street Name	Zone	Use	Zoning	Date	City Est. (SF)	CCG Est.(SF)	Comments
Korean First Baptist	1201-1225	Montague Expy	1	religious organization	M2	Dec-06	132,200	114,938	Currently under Construction (Broker had sq.ft. at 159,096)
Jehovahs Witnesses Milpit	300	S Hillview Dr	1	religious organization	M2		8,560	8,560	
South Bay Chinese Gospel Ch	467	Sinclair Frontage Rd	1	religious organization	M2	1996	1,320	1,320	Leases from Harvest Seminary. Looking for new space. Ed has sq.ft. at 3,960
Harvest Seminary	469,471,473	Sinclair Frontage Rd	1	religious organization	M2		1,320	5,260	
Christian Assembly	215	Topaz St	1	religious organization	M2		38,658	38,658	
Jeena Inc	1508-1510	Centre Pointe Dr	2	Community Center for Disabled	M2		133,672	1,200	133,672 for complex. Space is estimated to be 1,200 based on inspection.
Calvary Chapel Milpts	1757	Houret CT	2	religious organization	M2		17,120	2,500	17,120 may represent entire building. Space estimated based on inspection.
Next Generation Christian Fellowship	380	Montague Expy	2	religious organization	M2	2004	29,300	2,400	Broker est. sq.ft. at 14,823. Tim (408) 823-6423 confirmed area at 2,400.
Social Service Agency	450	Montague Expy	2	individual/family services	M2		29,300	29,250	
Bibles Way Apostolic Church	394	S Abbott Ave	4	religious organization	MP	2001	25,174	37,000	
Living Word Christian Center	1494	California Cir	6	religious organization	MP		60,300	61,880	
A Counseling & Consulting Assn	500	E Calaveras Blvd # 318	8	individual/family services	MP	1982	51,359	1,500	51,359 may represent entire building. Space estimated based on inspection.
World Wide Chrch For Good Hlth	500	E Calaveras Blvd # 333	8	religious organization	MP	1982	51,359	1,500	51,359 may represent entire building. Space estimated based on inspection.
Crosspoint Chinese Church	680	E Calaveras Blvd # 680	8	religious organization	MP	2001	38,107	1,500	38,107 may represent entire building. Space estimated based on inspection.
Islamic Center of Zahra	473-479	Los Coches St	8	religious organization	MP		13,280	13,280	
India Community Center Inc	555	Los Coches St	8	amusement/recreation services	MP	2003	20,358	20,875	Broker has sq.ft. at 25,664. Sq.ft. in column given my Jack, occupant.
Macedonia Msnary Baptst Church	121	Sinnott Ln	9	religious organization	M2	1966	0	1,200	Space estimated based on inspection.
North Valley Christian Fellowship	919	Hanson Court	10	religious organization	M2	Feb-02	46,498	24,000	46,000 square foot building, church is part owner.
TOTAL							697,885	366,821	

Source: Conley Consulting Group, August 2006

Table 2 Historical Industrial Inventories by Classification

	End of 1998	End of 1999	End of 2000	End of 2001	End of 2002	End of 2003	End of 2004	End of 2005	End of 2006	10-01-07
Office										
Base.	963 KSF	963 KSF	963 KSF	963 KSF	967 KSF	967 KSF	1,019 KSF	1,019 KSF	1,019 KSF	1019 KSF
Occ.	835 KSF	905 KSF	955 KSF	888 KSF	835 KSF	866 KSF	874 KSF	900 KSF	926 KSF	962 KSF
Avail.	127 KSF	58 KSF	8 KSF	75 KSF	132 KSF	101 KSF	145 KSF	119 KSF	93 KSF	57 KSF
Vacant	13.2 %	6.0%	0.8%	7.9%	13.7 %	10.5 %	14.3 %	11.7 %	9.2%	5.7%
R&D										
Base.	11.1 m sf.	11.3 m sf.	12.3 m sf.	13.3 m sf.	14.8 m sf.	14.8 m sf.	14.1 m sf.	14.1 m sf.	14.0 m sf.	14.0 m sf.
Occ.	10.5 m sf.	10.0 m sf.	12.2 m sf.	12.0 m sf.	12.6 m sf.	10.9 m sf.	10.1 m sf.	10.4 m sf.	10.8 m sf.	11.2 m sf.
Avail.	0.6 m sf.	1.3 m sf.	0.06 m sf.	1.3 m sf.	2.2 m sf.	3.9 m sf.	4.0 m sf.	3.7 m sf.	3.2 m sf.	2.8m sf.
Vacant	5.6%	11.2 %	0.5%	10.4 %	15.0 %	26.5 %	28.1 %	26.5 %	22.9 %	20.2 %
Wareh ouse										
Base	4.6 m sf.	4.6 m sf.	4.7 m sf.	4.7 m sf.	4.7 m sf.	4.7 m sf.	4.9 m sf.	4.9 m sf.	4.9 m sf.	4.8 m sf.
Occ.	4.2 m sf.	4.3 m sf.	4.6 m sf.	4.5 m sf.	4.1 m sf.	3.8 m sf.	4.3 m sf.	4.5 m sf.	4.6 m sf.	4.5 m sf.
Avail.	0.4 m sf.	0.3 m sf.	0.1 m sf.	0.2 m sf.	0.6 m st.	0.9 m sf.	0.6 m sf.	0.4 m sf.	0.3 m sf.	0.3 m sf.
Vacant	8.3%	6.9%	2.9%	5.0%	13.5 %	19.2 %	11.8 %	8.5%	6.0%	4.8%
Industr ial										
Base	2.6 m sf.	2.7 m sf.	2.7 m sf.	2.7 m sf.	2.9 m sf.					
Occ.	2.44 m sf.	2.52 m sf.	2.58 m sf.	2.55 m sf.	2.42 m sf.	2.31 m sf.	2.41 m sf.	2.59 m sf.	2.63 m sf.	2.63 m sf.
Avail.	0.16 m sf.	0.08 m sf.	0.02 m sf.	0.05 m sf.	0.18 m sf.	0.29 m sf.	0.29 m sf.	0.11 m sf.	0.07 m sf.	0.27 m sf.
Vacant	6.1%	3.1%	0.8%	1.8%	6.9%	11.2 %	10.5 %	3.9%	2.5%	9.6%

Future Conditions

For the purpose of this analysis, future conditions will refer to projects in the “development pipeline” to year 2035, which is the “horizon year” for socioeconomic forecasts prepared by the Bay Area Association of Governments (ABAG). Table 3 below presents ABAG’s population and employment projections for the City of Milpitas in five-year increments through 2035.

Table 3
Milpitas Population and Employment Estimates
Projections 2007 - ABAG

Category	2000	2005	2010	2015	2020	2025	2030	2035
Total Population	62,810	64,900	69,300	74,400	79,800	85,200	90,500	95,800
Households	17,157	17,890	19,130	20,620	21,150	23,770	25,500	27,140
Household Income (\$)	120,000	97,700	105,500	111,600	118,100	125,000	132,300	139,500
Total Jobs	53,900	47,650	49,900	52,890	55,960	59,190	62,560	66,070
Industrial Jobs	30,310	25,370	25,760	26,480	27,300	28,200	29,140	30,150
Industrial/Total Jobs	56%	53%	52%	50%	49%	48%	47%	46%

As shown in Table 3, the City of Milpitas jobs are projected to increase from 47,650 in 2005 to 66,070 in 2035 – an increase of nearly 39%. Population is forecast to grow from 64,900 to 95,800 residents from 2005 to 2035. This represents a 48 % increase in population. These figures are based on the current General Plan and do not reflect proposed changes contained in the Milpitas Transit Area Plan or proposed (General Plan Amendments) GPA’s in the “development pipeline”.

The industrial jobs shown on Table 2 include the categories of manufacturing, wholesale and transportation jobs. Note that the total jobs in Milpitas grow by 39%, yet the industrial jobs grow by only 19%. The overall percent of industrial jobs to total jobs decreases from 53% in 2005 to a projected 46% in the year 2035. Also, the number of industrial jobs in year 2035 is slightly less than the peak year of 2000.

The Milpitas Transit Area Specific Plan calls for up to 7,109 condominiums, 287,075 square feet of commercial uses, 993,843 office uses and a 350 room hotel. The existing uses contained on this land is 2,977,555 square feet of industrial park. Vacancy rates vary by location; however, the TAP economic consultant noted vacancy rates in the 40% range in early

2005. Within the proposed TAP, the largest zone change is in the Piper-Montague Subarea of the an area bounded by Montague Expressway on the south, South Milpitas Boulevard to the east, Piper Drive to the west and the PG&E Electrical Substation to the north. This area alone encompasses 45 acres of M2 (Heavy Industrial) zoned land that will be rezoned for high density residential.

The City Council recently (October 16, 2007) approved a GPA and Rezone of 22 acres in the Milpitas Business Park from MP (Industrial Park) to R4 (Multi-Family Very High Density) to allow for the construction of 659 dwelling units.

Therefore, once the Transit Area Specific Plan is approved, approximately 3 million square feet of industrial building base could eventually be removed from the 22.6 million square feet of industrial building inventory. These upcoming decisions could reduce our total industrial inventory to less than 19.5 million square feet from our current 22.6 million square feet.

In May 2007, Cisco Systems announced they were leasing 425,000 square feet of space in the Milpitas Business Park. Also, in October 2007, Cisco Systems leased an additional 500,000 square feet of space in the vacated Veritas Software buildings on North McCarthy Boulevard. Existing occupied industrial space for all categories currently totals 19.5 million square feet. With the addition of Cisco Systems new lease, the total occupied industrial space in Milpitas will total nearly 20 million square feet.

Vacant Industrial Land:

Under the existing General Plan, there are 1,735 acres of industrial zoned land, which includes the M1 (light Industrial), M2 (Heavy Industrial) and MP (Industrial Park) zoning designations. Most of the industrial zoned land in Milpitas has been developed. The remaining undeveloped industrial parcels include 53 acres along North McCarthy Boulevard, and the 22-acre former Quantum Expansion parcel adjacent to San Disk Headquarters on Sumac Drive. The Veritas Software Phase 2 parcel is currently vacant and is approximately 28 acres. There are numerous under-developed sites throughout the City.

In order to calculate future industrial land requirements for the City, several key assumptions are necessary:

- The existing breakdown in industrial categories will be retained – 66% R&D, 21% Warehouse and 13% industrial,
- Future R&D/Industrial employees will occupy 300 square feet of gross floor area and Warehouse employees will occupy 500 square feet (consistent with the City's Zoning Ordinance for parking requirements),
- A 6% vacancy rate to reflect market stability,
- 0.35 to 0.50 FA) for R&D/Office
- A 0.35 FAR for Industrial uses and a 0.50 FAR for Warehouse uses

Analysis of Future Industrial Land Needs

In the year 2005, the City had an inventory of approximately 22.6 million square feet of industrial space. R&D/Office comprised 66 % of the space, Warehouse 22% and Industrial 12%. The overall vacancy rate was 20% and 25,370 industrial jobs were associated with these uses. Approximately 19.5 million square feet of industrial space was occupied.

There has been considerable pressure to convert industrial land to residential. This has occurred over the past several years and is due to the high vacancy rates in some industrial areas and the high demand for housing in close proximity to Silicon Valley employment. The Transit Area Specific Plan is proposing to remove approximately 3 million square feet of industrial inventory.

Table 4 presents a comparison of 2005 industrial land inventory, proposed General Plan changes, year 2035 job and inventory estimates and required additional industrial land. The ABAG Projections 2007 estimates an increase of 4,780 industrial jobs between 2005 and 2035. The job increase was allocated by the existing inventory mix of 66% for R&D/Office, 21% for Warehouse and 13 % for Industrial. This translated into an increase of 2,960 R&D/Office jobs, 1,290 Warehouse jobs and 530 Industrial jobs by year 2035.

Applying the assumptions noted above to assess the additional building square footage necessary to accommodate the added employees, and translating into acreage for each industrial category, the analysis suggests that additional land requirements through 2035 are:

- 92 to 131 acres for R&D/Office,
- 30 acres for Warehouse, and
- 26 acres for Industrial

The range of industrial acres necessary to accommodate future job growth is 148 to 187 acres.

Table 4 Future Industrial Needs

Category	Year 2007	W/Land Use Changes	Year 2035	Jobs/Inventory Added	Change (.35 FAR)	(.50 FAR)
Total Jobs	47,650		66,070	18,420	+39%	
Industrial Jobs	25,370		30,150	4,780	+19%	
R&D/Office						
Inventory	15.0 mi sq ft	12.0 mi sq ft	14.0 mi sq ft*	2.0 mi sq ft	131.acrs	92acres
Occupied	12.2 mi sq ft	12.2 mi sq ft	13.2 mi sq ft	0.95 mi sq ft		
Vacant	2.8 mi sq ft	0				
Vacancy rate	19%	0	6%			
Jobs Added			3155			
Warehouse						
Inventory	4.9 mi sq ft	4.8 mi sq ft	5.43 mi sq ft*	0.63 mi sq ft	N/A	30 acres
Occupied	4.6 mi sq ft	4.6 mi sq ft	5.13 mi sq ft	0.53 mi sq ft		
Vacant	0.3 mi sq ft	0.3 mi sq ft				
Vacancy rate	5%	5%	6%			
Jobs Added			1050			
Industrial						
Inventory	2.7 mi sq ft	2.6 mi sq ft	3.0 mi sq ft*	0.4 mi sq ft	26 acres	N/A
Occupied	2.67 mi sq ft	2.67 mi sq ft	2.84 mi sq ft	0.17 mi sq ft		
Vacant	0.03 mi sq ft	0.27 mi sq ft				
Vacancy rate	1%	11%	6%			
Jobs Added			575			

- Year 2035 inventory assumes a 6% vacancy rate.

Table 4 illustrates the need for future industrial land. The range based on FAR (0.35 TO 0.50) for R&D/Office is between 148 and 187 acres by year 2035. The City has a total of 130 vacant industrially zoned acres to date. Therefore, “prime” industrial zoned land should be preserved to insure there is an adequate inventory to accommodate future needs. Preserving vacant industrial zoned land and increasing FAR on redeveloping industrial land can accomplish this. This will allow Milpitas to remain competitive for luring Fortune 500 companies to locate here.

Policies Options to Preserve Industrial Land

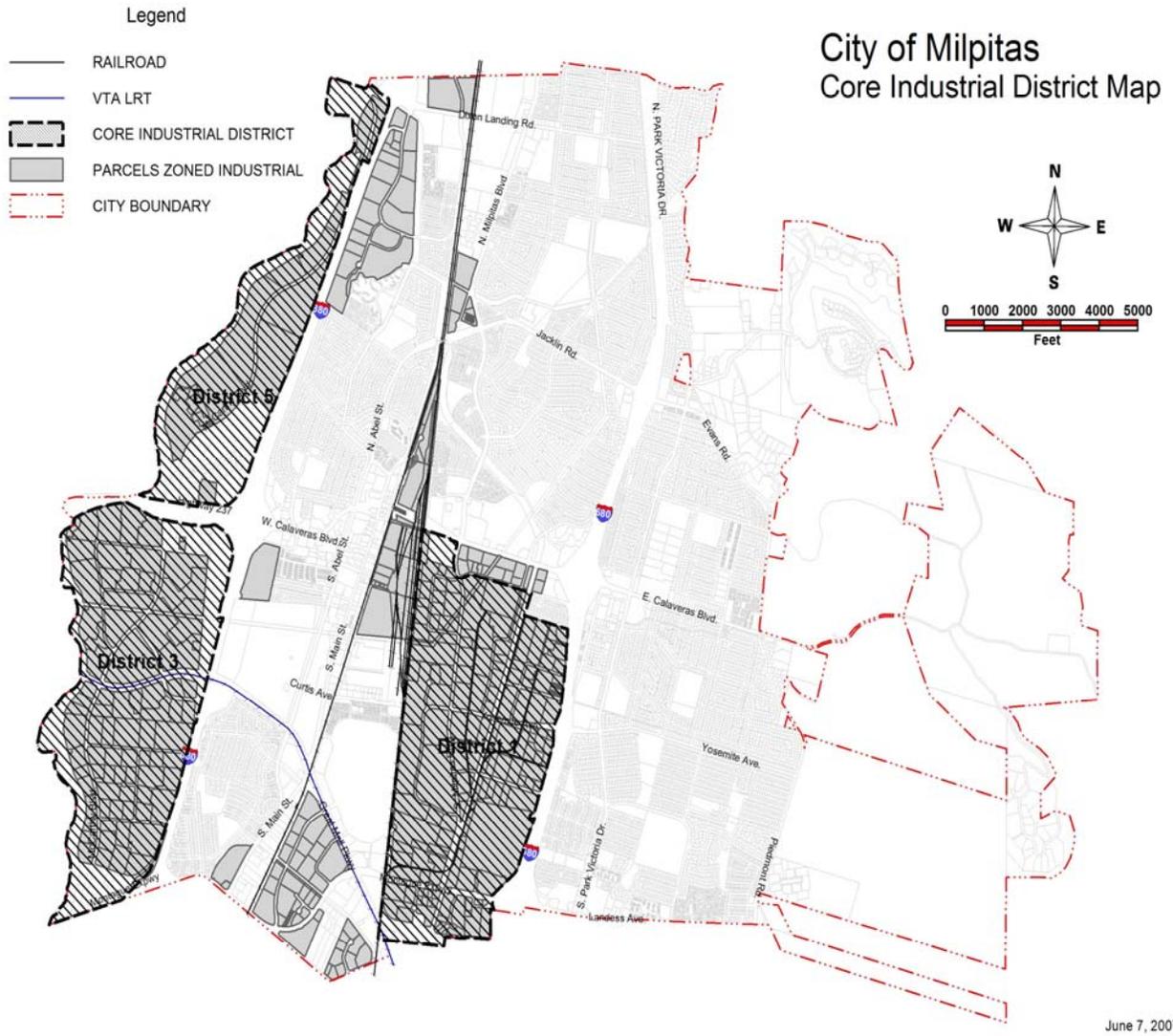
3. ***Industrial Compatibility Overlay Zones*** – an overlay zone could be placed on industrial areas within the City to protect them from uses that are not compatible with the surrounding uses. These overlays could be specific in relation to use, design guidelines and other standards. Overlay Districts should be placed in stable industrial areas that are not in transition and have adequate infrastructure in place (or planned) to accommodate the restricted uses.
4. ***Conditional Use Permit (CUP) Revisions*** – the Zoning Ordinance specifies uses within zoning districts that are permitted or conditional. Conditional uses generally have to have Use Permits approved by the City Planning Commission with findings and special conditions. The findings made by City Staff include conformance with the Zoning District/General Plan, parking, compatibility with surrounding uses and other related issues. Conditional uses could be restricted or significantly limited by zoning text changes to the Zoning Ordinance. Currently, CUP’s run with the land and is not time restricted.
3. ***General Plan Text Amendments*** - the Land Use Element of the General Plan contains several guiding policies governing the development. Policies relating to Growth and Expansion, Economic Development and Jobs/Housing relationship could be added to reflect the protection of industrial land for revenue generating uses.

“Core” Industrial Areas for Preservation

Staff recommends protecting the following industrial districts for revenue generating R&D/Office, Warehouse and Industrial users. Figure 2 presents the location of these three “Core” Industrial Districts. These districts are as follows:

1. ***Industrial District # 1*** – the M2 district with modified boundaries that include Los Coches Street to the north, Montague Expressway to the south (with the exception of the Piper/Montague Subarea), Interstate 680 to the east and the up railroad to the west. This industrial district is comprised of Class A warehouse space, Class A&B R&D/Office space and industrial inventory that is mostly functional. This area is a key resource for insuring distribution and goods movement is close to future growth and residential consumers. Major employers include Fleming Foods, Adaptec, Lifescan and Seagate. This district is mostly built out with some parcels under-developed with limited functionality.

Figure 2 Proposed “Core” Industrial Districts



2. ***Industrial District # 3*** - the M1 and MP zoning district is bounded on the north by State Route 237, the south by Montague Expressway, Interstate 880 to the east and Coyote Creek to the west. This area is commonly referred to as the Oak Creek and Milpitas Business Parks. The Oak Creek Business Park (south of Tasman Drive) is mostly comprised of Class B R&D/Office buildings and the Milpitas Business Park is comprised of Class A & B R&D/Office buildings. Major corporations include Cisco Systems, San Disk, KLA-Tencor, LSI Corporation, Linear Technology and Lucent. This district is mostly built out, with the exception of a 20-acre parcel along Murphy Ranch Road and a 22-acre parcel along Sumac Drive for a total of 42 acres of vacant industrial land.

3. ***Industrial District # 5*** – this MP district is bounded by Dixon Landing Road to the north, State Route 237 to the south, Interstate 880 to the east and the Coyote Creek to the west. This area is commonly referred to as the McCarthy Business Park. This the newest Business Park in Milpitas and is comprised of Class A R&D/Office buildings. Major employers include Palm Computers and Veritos Software. There are currently 81 acres of vacant industrial land in this district.

These three industrial districts should be preserved to ensure the economic and fiscal health of the City. The Transit Area Specific Plan will reduce the industrial land acreage by approximately 185 acres. Industrial Districts 3 and 5 (west of Interstate 880) have approximately 123 acres of vacant industrial land plus an additional 53 acres within the Transit Area Specific Plan for a total of 176 acres to accommodate future needs. Land value escalation and pressure to increase FAR on underdeveloped industrial parcels should help in obtaining the remainder of the 141 acres necessary to meet year 2035 demand.

The remaining seven industrial districts are important to the City as well. However, non-revenue generating uses have infiltrated these districts at a time when industrial vacancies are relatively high. As the market changes and industrial vacancies decrease, there will be pressure on landlords to maximize revenue by attracting revenue-generating uses.

The neighboring cities of San Jose and Fremont have policies in place protecting industrial land for revenue generating uses. This has been directing more non-revenue generating uses towards Milpitas. Although these use are not “undesirable”, they should locate in areas where they are compatible with surrounding uses. Maintaining prime “Core Area” for future industrial users will keep Milpitas competitive to attract Fortune 500 companies in the future.

Also, the ABAG Projections 2007 estimate a 48 percent increase in the City’s population. Maintaining adequate industrial land for job growth will assist in providing an equitable jobs/housing balance. This is vital to the economic and fiscal health for the City.