

APPENDIX E: MILPITAS SWOT ANALYSIS

OVERVIEW

The opportunity to recruit new business or keep existing ones is affected by a number of factors, including the availability and price of competitive business sites, the readiness of infrastructure to accommodate business expansions and relocations, and future regional transportation and development patterns. While we may not always think of Milpitas as competing with other cities, its economic fate hinges on its competitive position. Each time a business decides where to locate, a family decides to move, a vacationer decides where to visit, or a convention group decides to hold its next meeting, the city's relative advantages are weighed. It is therefore useful to systematically evaluate one's competitive advantages and disadvantages.

The SWOT analysis is conducted to identify the area's leading strengths, weaknesses, opportunities, and threats for economic development. The SWOT analysis provides a systematic scan of the current and anticipated future economic development. A well thought-out SWOT analysis leads directly to the following set of prioritized physical, marketing, and policy actions:

- ❑ **Strengths** the community can promote;
- ❑ **Weaknesses** the community acknowledges or fixes;
- ❑ **Opportunities** the community can prepare for;
- ❑ **Threats** the community mitigates if at all possible.

The Information developed during the SWOT analysis helps:

- ❑ Evaluate the effectiveness of the existing economic development program;
- ❑ Identify new policies or modify existing policies that affect job creation;
- ❑ Establish new and/or strengthen existing economic development programs and practices.

- ❑ Prioritize actions that will most effectively use existing limited staff and financial resources.

SWOT METHODOLOGY

The Milpitas SWOT process involved the use of existing studies and plans, secondary data, and primary data collection from individual interviews and meetings with stakeholder groups. The primary data and information gathered from stakeholders is important to the SWOT analysis. In particular, the information provided by the Economic Development Commission and attendees of the public forum was invaluable.

The initial SWOT priorities were presented to business, city staff, and the Economic Development Commission to establish their importance and how they should be addressed in the economic development strategic plan.

INTERNAL FORCES: STRENGTHS & WEAKNESSES

Internal forces are characteristics of the community that local actions tend to be able to influence in either the short or mid-term. Internal forces are usually defined in terms of strength and weaknesses. The best way to determine whether a factor is a strength or weakness is by comparison with other cities and counties. Comparisons with other areas provide a benchmark of progress.

Strengths are assets or factors that give a community its competitive advantage and make the area an attractive place to be.

Weaknesses are factors or trends that are obstacles or constraints to economic development. Weaknesses can take on several forms; they can be social, physical, financial, regulatory, operational, and so forth. In the case of business, weaknesses are factors of local economy that make it difficult for a business to develop, operate profitably or grow.

Neutral factors are those assets or factors that are neither strengths nor weaknesses or do not apply. Not all factors will be able to be categorized as a strength or weakness, for example, offering a tax incentive that is similar to those found

in other areas. Nevertheless, these factors may be critical to the overall economic plan or strategy.

EXTERNAL FORCES INFLUENCING THE LOCAL ECONOMY

External forces are those economic factors that are driven by outside forces, and are thus generally outside of the influence of local actors. Examples of external factors include:

- ❑ Regulatory (state and federal) changes
- ❑ Actions of other governmental bodies
- ❑ Export/import trends
- ❑ Industrial sector shifts
- ❑ Social and political changes
- ❑ Demographic trends
- ❑ Technological changes

External factors can represent economic opportunities or threats. Recent business downsizing, for example, poses a threat in terms of job losses, but it also presents an opportunity: as a firm sheds activities that it normally conducted in-house, whether high-tech activities such as research and development or low-technology and back office activities such as printing, it creates opportunities for business in those areas. Downsizing also means that the remaining business is a stronger, more viable operation.

Opportunities are conditions external to the community that make it easier or possible to develop competitive advantages. This includes structural changes in the economy, demographic changes in the community, technological changes and so forth.

Threats are unfavorable trends or developments external to the economy that can lead to a loss or decline in a community's competitive advantage or economy in general.

SWOT MATRIX

ECONOMIC DEVELOPMENT COMMISSION'S SWOT

On August 11, 2003 the newly formed Milpitas Economic Development Commission conducted its own SWOT analysis, and listed a number of strengths, weaknesses,

opportunities and threats. That SWOT analysis is included as Attachment 1 of this Appendix Applied Development Economics (ADE) acknowledges the work of the commission, and finds that it was generally thorough and accurate. ADE has used the commission's analysis as the basis for our own expanded and refined analysis.

REFINED AND EXPANDED SWOT MATRIX

Tables D-1 through D-3 present ADE's refined SWOT analysis, presented as a matrix. It identifies the strengths and weaknesses of Milpitas as either internal or external. It distinguishes the strengths and weaknesses that apply to industrial and office development, retail and small commercial development, and Midtown revitalization.

While the factors in each quadrant of the matrix are in bullet format, they are generally prioritized from the most important to the least important. The discussions section below provides further detail on the factors considered key.

**TABLE E-1
ECONOMIC DEVELOPMENT STRENGTHS AND WEAKNESSES OF MILPITAS
FOR INDUSTRIAL AND OFFICE DEVELOPMENT**

| | Strengths (sell as an advantage) | Weaknesses (needs improvement) |
|---|---|---|
| Internal (Can be changed or influenced relatively quickly) | <ul style="list-style-type: none"> ❑ Strong redevelopment program ❑ mix of industrial and office space, from small incubator and multi-tenant space to large floor plate office and industrial facilities; ❑ Plenty of new space available at office parks and industrial parks; ❑ Though some of the existing facilities need modernizing and upgrading, most are up to current standards; ❑ Lease rates for office, R&D, manufacturing, and warehouse space are competitive; ❑ Milpitas has a very strong jobs to housing ratio (2.8), indicating a strong employment base, but a weaker housing base; ❑ K - 12 education is average for the Silicon Valley, as measured by the Academic Performance Index (API); ❑ Large number of world-class academic and research institutions exist within an easy driving distance; | <ul style="list-style-type: none"> ❑ Milpitas is among the last communities recognized when conducting an industrial site search in the Silicon Valley. In fact Milpitas is considered a part of the San Jose/Santa Clara environment. ❑ Of the city's 30,000 employed residents, only 6,000 work in Milpitas; ❑ High vacancy rate for existing industrial and office buildings; ❑ The city's unemployment rate is higher than many other Silicon Valley communities except for San Jose, indicating the need to upgrade the skills of local residents; ❑ Housing opportunities should be strengthened so more of Milpitas' work force can live in the city rather than commute; |
| External (Cannot be easily changed or influenced) | <ul style="list-style-type: none"> ❑ The city's daytime work force is 56,000. Most commute to Milpitas from other communities; ❑ Milpitas is within commute distance for hundreds of thousands of workers; ❑ The city's industrial employment is driven by its key clusters, including computers, communications, hardware, semiconductors, software, and medical devices; ❑ Excellent location amid the country's largest center of high technology companies; ❑ Access to employment and markets is as good as anywhere in the Silicon Valley or Bay Area. ❑ Close proximity to San Jose, Oakland and SFO airports for both cargo and passenger travel; ❑ Close proximity to Oakland and other ports for waterborne transport; | <ul style="list-style-type: none"> ■ Ongoing traffic congestion, a perennial problem. ■ City is almost built out, with 158 acres of industrial land still vacant and 39 acres of office land still vacant. ■ The San Jose landfill at the Dixon Landing Interchange of I-880 is a liability. The City should acknowledge its presence, note how far active landfill activities are from the city, and commit to continued mitigation of odors, dust and traffic. |

**TABLE E-2
ECONOMIC DEVELOPMENT STRENGTHS AND WEAKNESSES OF MILPITAS
FOR RETAIL AND SMALL COMMERCIAL DEVELOPMENT**

| | Strengths (sell as an advantage) | Weaknesses (needs improvement) |
|---|--|--|
| Internal (Can be changed or influenced relatively quickly) | <ul style="list-style-type: none"> ■ Strong redevelopment program, city finances, and civic participation; ■ Many local and regional business organizations support local business, (including the Milpitas Chamber of Commerce, the Vietnamese American Chamber of Commerce, the Taiwanese American Chamber of Commerce, the Hispanic Chamber of Silicon Valley and the Milpitas downtown Business Association; ■ Many existing service providers to assist small businesses, such as the small Business Administration. ■ One-fourth of the city's retail sales are generated at the Great Mall (\$213 million). One-fifth of all sales are generated at McCarthy Ranch (\$171.5 million); ■ Established niches in ethnic retail markets. | <ul style="list-style-type: none"> ■ Though not built out, Milpitas has limited opportunities for new development. Most undeveloped land is infill; ■ Store mix does not reflect upscale income levels in community; ■ Some shopping centers show signs of age; ■ Great Mall not yet performing up to its potential; |
| External (Cannot be easily changed or influenced) | <ul style="list-style-type: none"> ■ Strong retail capture from existing residents, surrounding cities, daytime employees. ■ Milpitas residents spend \$400 million per year at retail stores ■ Milpitas retailers generated \$850 million in sales in 2003; ■ Daytime employees and residents within 15 minutes of Milpitas spend \$3 billion per year at retail stores, indicating there is potential for additional retail capture; ■ Regional market of over \$2 billion in household spending; ■ Average annual household income is \$99,000. Household incomes rose dramatically over the last decade ■ The Milpitas population is projected to increase 32.5% to 83,500 people by the year 2020. Much of this growth is projected in the Midtown area, which has plans for over 4,500 new dwelling units; ■ Milpitas has 2,700 hotel rooms and hosts thousands of visitors every year | <ul style="list-style-type: none"> ■ New competition from San Jose and Fremont threatens to cut into regional market now captured by Milpitas. ■ Uncertain ongoing impact of technology sectors. |

**TABLE E-3
ECONOMIC DEVELOPMENT STRENGTHS AND WEAKNESSES OF MILPITAS
FOR MIDTOWN AND DOWNTOWN REVITALIZATION**

| | Strengths (sell as an advantage) | Weaknesses (needs improvement) |
|--|--|---|
| <p>Internal (Can be changed or influenced, often relatively quickly)</p> | <ul style="list-style-type: none"> ■ Strong redevelopment program. ■ Thorough and well-planned Midtown Specific Plan, including library, light rail station, new housing units close to shopping and transportation. Plan is far along in successful implementation. | <ul style="list-style-type: none"> ■ Though there is a defined Midtown, it is a large area and it is in a different location than the City Hall and Town Center. As Midtown develops, under-performing Town Center will eventually need similar attention; |
| <p>External (Cannot be easily changed or influenced)</p> | <ul style="list-style-type: none"> ■ BART may come to the Great Mall in 10 years. | <ul style="list-style-type: none"> ■ Other downtowns have a head start (Mountain View, San Jose, Pleasanton etc.) |

DISCUSSION AND STRATEGIC IMPLICATIONS OF SWOT FINDINGS

OVERALL

Redevelopment. Milpitas has one of the state's strongest redevelopment programs, with 2003 assets of \$66 million. The city has shown a willingness to use this very strong economic development tool for blight elimination, job creation, and affordable housing rehabilitation and development.

Milpitas has a very strong jobs to housing balance (2.8 jobs for every housing unit), indicating a strong employment base. This is a long-term advantage, which should ensure long-term fiscal health for the city, especially if it builds more housing stock for its existing workers. The city's daytime work force is 56,000¹. Most of this workforce commutes to Milpitas from other communities. The city is within the greater Silicon Valley labor shed and so is within an easy commute distance of hundreds of thousands of workers.

Milpitas is still in an excellent location in the midst of the world's largest high technology cluster.

Kindergarten through 12th grade education is currently average, as measured by the Academic Performance Index (API) (See Appendix E, Benchmarks of this report). Strong efforts are acknowledged to be under way to improve test scores, coordinate curricula with the needs of local businesses, and provide technology training.

A large number of world-class institutions exist within easy driving distance though no major universities or research institutions exist within the city limits. It is more important for Milpitas and its businesses and its educational institutions to forge strong relationships with the existing colleges and universities than it is to try and develop one within the city limits. For instance, San Jose City College offers classes at Milpitas High School.

¹ Bureau of Labor Statistics, 2001. ABAG's 2002 estimate for jobs is 58,000

A key problem Milpitas faces when trying to attract new companies is its lack of reputation. Milpitas is not recognized the world over like San Jose or Santa Clara or even Fremont. In fact, there are as many negative perceptions as positive ones. A strong marketing/branding campaign is indicated. The branding and its related marketing should attempt to take advantage of the global contacts and diversity of the businesses and residents in the city. This can include supporting new internationally developing technologies, but only in cooperation with an established research institution.

Milpitas is in very close proximity to the San Jose airport, and close to the San Francisco airport for both cargo and passenger service. For those companies shipping product or raw materials by water, Oakland is in close proximity to Milpitas.

Unemployment is slightly higher than many other Silicon Valley communities. This indicates that there is a segment of the local work force in need of skills re-training.

Milpitas is approaching buildout, with 150 acres of industrial land still vacant, and 39 acres of office land still vacant. The city needs to carefully evaluate the future development of its last remaining vacant land, and to determine whether it is more appropriate to convert some of this land to retail and/or housing.

Milpitas has limited choices in housing types especially for families wanting executive housing. The city's existing housing stock is predominantly single-family tract housing, with an increasing amount of apartment and condominium development. The city has recently taken aggressive steps to provide more housing options by creating owner-occupied housing within context of its Midtown revitalization program. Unless Milpitas builds more executive housing, it will likely be unable to attract higher-earning households to the City.

MIDTOWN

The Milpitas Midtown Specific Plan, which was adopted in 2002, has a number of housing and commercial redevelopment projects. This new urban redevelopment Plan includes a new library, housing close to existing and new shopping, and light rail and other transportation. The city has

made great strides in fulfilling this specific plan to provide new sales tax dollars and housing options. Creating and implementing the specific plan is probably the best thing the city could have done to promote economic development, and to create a better image for the city, thus making it more attractive to future residents and employers. The city should continue to aggressively pursue the midtown plan and its projects.

INDUSTRIAL AND MAJOR OFFICE

Industrial and office product. Milpitas has a mix of industrial and office land and buildings, from small incubator and multi-tenant space to large open floor plan office and industrial sites. Several international technology corporations have established their headquarters in Milpitas as described in Appendix B.

There is currently plenty of building space available, but this is more a function of external economic factors, and is therefore a relatively short-term phenomenon Milpitas should have no trouble filling and refilling the spaces over time because lease rates are competitive. In the interim, the City should separately and in tandem with local commercial brokers, actively recruit new users to fill the vacant spaces. The web posting service on the City's web site is a good start, but active staff time conducting industrial attraction could be productive.

RETAIL AND SMALL COMMERCIAL

The recent purchase of the Great Mall by the Mills Corp., an experienced mall owner/operator/developer, is an exciting development. The mall is currently under performing (about \$200/square foot as opposed to average regional mall sales of \$400/square foot), and has more square footage (1.4 million square feet) than has been possible to effectively fill in the past. The city is working closely with the Mills Corp. to help plan the changes, and to use redevelopment powers to assist with revitalization. The city's participation should include improving parking, transit, permitting and entitlements, employment services, helping link the Great Mall to residential areas, and improving access from Interstates 880 and 680. The city might also consider more multilevel garages, which would free up some of the parking area for

additional commercial, offices, and housing. Though the Great Mall is a tremendous asset for the city, it an underperforming asset unless the new owners and the city can take advantage of its redevelopment opportunities quickly. Other communities are also developing malls that will compete for retail dollars in the region (See Appendix C). If possible, the City should also hold as much land east and west along the Great Mall Parkway for future use as commercial and retail space. The city will benefit in the long run by establishing a full set of concentrated entertainment, dining, and shopping opportunities in and around that location.

While the Great Mall is responsible for 25% of all the city's retail sales (\$213 million), 20% of all retail sales are generated at the McCarthy Ranch (\$171.5 million). McCarthy Ranch is at an excellent location at the interchange of Interstate 880 and Highway 237, and although the McCarthy Ranch retail lands are full, surrounding lands can be further expanded as retail. Milpitas is in a strong position to capture a higher percentage of the large national chains represented at McCarthy Ranch, and to bolster its very strong regional retail draw.

Milpitas Square could be Northern California's largest Asian shopping center (17 acres, 165,000 square feet of buildings, 20 Asian restaurants and a total of 60 shops and restaurants). This unique concentration should be widely promoted as part of the city's overall global marketing campaign.

There are many existing service providers such as a Small-Business Development Center the Small Business Administration and many other local small business and employment assistance organizations. The city should help its business community take advantage of these services by improving contact and communication between them.

There are many local and regional business organizations that support local business, including the Milpitas Chamber of Commerce, the Vietnamese American Chamber of Commerce, the Taiwanese American Chamber of Commerce, the Hispanic Chamber of Silicon Valley, the Milpitas downtown Business Association, and Joint Ventures Silicon Valley. The City of Milpitas should take advantage of the strong ethnic focus of many of these organizations as it celebrates and promote its ethnic diversity.

Milpitas has 2,700 hotel rooms and hosts over 500,000 visitor stays every year, most of them related to business travel. Milpitas should help its hotels and motels work together for joint marketing to attract more business travelers, small meetings and conventions, as well as vacation travelers. The city's proximity to key employment centers, to shopping, and to most of the Bay Area's visitor attractions could be packaged and promoted. Active recruitment of event planners (e.g. soccer, softball, volleyball and other sports, symposia, corporate events, etc.) as well as active support of the arts, parks, etc. will enhance success.

