1.3 ECONOMIC DEVELOPMENT

This section provides an overview of Milpitas's economy, including employment and labor force characteristics, primary industry sectors, major employers, taxable sales, and spending patterns.

ECONOMIC TRENDS

Milpitas is a strong employment node, with a net inflow of workers from other cities. With a high number of employers in the computer and semiconductor fields, employment in Milpitas is dominated by the high-tech sector.

- *In 2016, Milpitas was home to approximately 44,400 jobs.*

- *Employment in Milpitas is heavily concentrated in manufacturing. As of 2016, 29.3 percent of all jobs in Milpitas were in manufacturing, compared to 15.3 percent of jobs in the county. The significant share of manufacturing employment in Milpitas is due to the presence of several high-tech firms in the computer and semiconductor fields.*

- *Approximately 6,265 jobs, or just under half of the city's total manufacturing employment in 2016, were in the semiconductor and other electronic component manufacturing subsector.*

- *Manufacturing and professional and business services accounted for more than half of the total jobs gained in Milpitas between 2010 and 2016. Professional and business services added 3,474 jobs, while manufacturing added 3,020 jobs.*

- *Milpitas has a lower share of smaller business enterprises than the county. Approximately 45 percent of all firms in Milpitas had between 1 and 4 employees in 2015, which was lower than the share of such firms in the county (53.7 percent).*

The following section provides basic information on the city's employment base and key industry sectors, using Santa Clara County as the primary benchmark. The analysis draws on data from the Quarterly Census of Employment and Wages (QCEW) provided by the California Economic Development Department (CA EDD), as well as U.S. Census Zip Code Business Patterns (2015) data for Zip Code 95036.

Employment by Industry

Table 1.3-1 provides industry employment data for jobs located in Milpitas and Santa Clara County. As of 2016, there were approximately 44,413 jobs located within the city. Employment in Milpitas is concentrated in manufacturing (29.3 percent), professional and business services (17.3 percent), and leisure and hospitality (11.4 percent). Milpitas has a much larger share of manufacturing employment than the county, where manufacturing accounts for only 15.3 percent of total jobs. The significant concentration of manufacturing employment in Milpitas is due to the presence of several high-tech firms in the computer and semiconductor fields, including KLA-Tencor, Flextronics, SanDisk, and Linear Technology.

As shown in Table 1.3-1, the city's total employment base expanded by 40.2 percent, or roughly 12,700 jobs, between 2010 and 2016. Most of the city's employment growth during this period can be attributed to job creation in professional and business services and manufacturing. In the county, most job growth was concentrated in professional and business services and educational and health services between 2010 and 2016.

TABLE 1.3-1: INDUSTRY EMPLOYMENT TRENDS, 2010-2016

INDUSTRY	2010		2016		CHANGE
	NUMBER	PERCENT	NUMBER	PERCENT	2010-2016
MILPITAS					
Manufacturing	9,989	31.5%	13,009	29.3%	3,020
Professional & Business Services	4,204	13.3%	7,678	17.3%	3,474
Leisure & Hospitality	3,552	11.2%	5,056	11.4%	1,504
Retail Trade	4,567	14.4%	4,691	10.6%	124
Educational and Health Services	1,960	6.2%	3,573	8.0%	1,613
Construction	1,421	4.5%	3,100	7.0%	1,679
Wholesale Trade	1,884	5.9%	2,236	5.0%	352
Local Government	1,430	4.5%	1,566	3.5%	136
Other Services	804	2.5%	1,045	2.4%	241
Transportation & Warehousing	402	1.3%	735	1.7%	333
Information	673	2.1%	664	1.5%	-9
Finance and Insurance	489	1.5%	418	0.9%	-71
Natural Resources & Mining	12	0.0%	7	0.0%	-5
Not Elsewhere Classified	(a)	(a)	153	0.3%	N/A
Utilities	(a)	(a)	0	0.0%	N/A
Real Estate	210	0.7%	(a)	(a)	N/A
Total	**31,680**	**100.0%**	**44,413**	**100.0%**	**12,733**
SANTA CLARA COUNTY					
Manufacturing	150,370	17.8%	159,660	15.3%	9,290
Professional & Business Services	161,637	19.2%	221,987	21.2%	60,350
Leisure & Hospitality	73,999	8.8%	97,108	9.3%	23,109
Retail Trade	76,602	9.1%	85,527	8.2%	8,925
Educational and Health Services	105,311	12.5%	151,212	14.5%	45,901
Construction	31,349	3.7%	47,052	4.5%	15,703
Wholesale Trade	34,598	4.1%	36,727	3.5%	2,129
Government	85,994	10.2%	88,500	8.5%	2,506
Other Services	30,781	3.7%	26,067	2.5%	-4,714
Transportation & Warehousing	9,987	1.2%	12,948	1.2%	2,961
Information	43,661	5.2%	74,063	7.1%	30,402
Finance and Insurance	17,922	2.1%	21,025	2.0%	3,103
Natural Resources & Mining	3,763	0.4%	3,885	0.4%	122
Utilities	1,484	0.2%	1,638	0.2%	154
Real Estate	13,367	1.6%	13,827	1.3%	460
Not Elsewhere Classified	1,756	0.2%	4,825	0.5%	3,069
Total	**842,581**	**100.0%**	**1,046,051**	**100.0%**	**203,470**

(A) DATA SUPPRESSED DUE TO CONFIDENTIALITY RESTRICTIONS.
SOURCE: CA EDD; BAE, 2018.

Manufacturing

Although manufacturing employment decreased slightly as a share of overall city-wide employment from 2010 to 2016, the industry continues to play a substantial role in the city's economy. As of 2016, manufacturing employment accounted for 29.3 percent of the city's total employment. Most of the city's manufacturing jobs in 2016 were in computer and electronic product manufacturing subsectors (9,544 jobs). Roughly 6,265 jobs, or just under half of the city's total manufacturing employment, were in the semiconductor and other electronic component manufacturing subsector.

Between 2010 and 2016, manufacturing employment in Milpitas grew by roughly 30.2 percent, or 3,020 jobs. According to EDD QCEW data, several manufacturing sectors gained employment between 2010 and 2016: computer and electronic product manufacturing (1,690 jobs), machinery manufacturing (390 jobs), food manufacturing (73 jobs) and medical equipment and supplies manufacturing (64 jobs). Although detailed employment data for other sectors are unavailable due to confidentiality restrictions, business firm data suggest that the wood product manufacturing and mineral product manufacturing sectors also grew during this period.
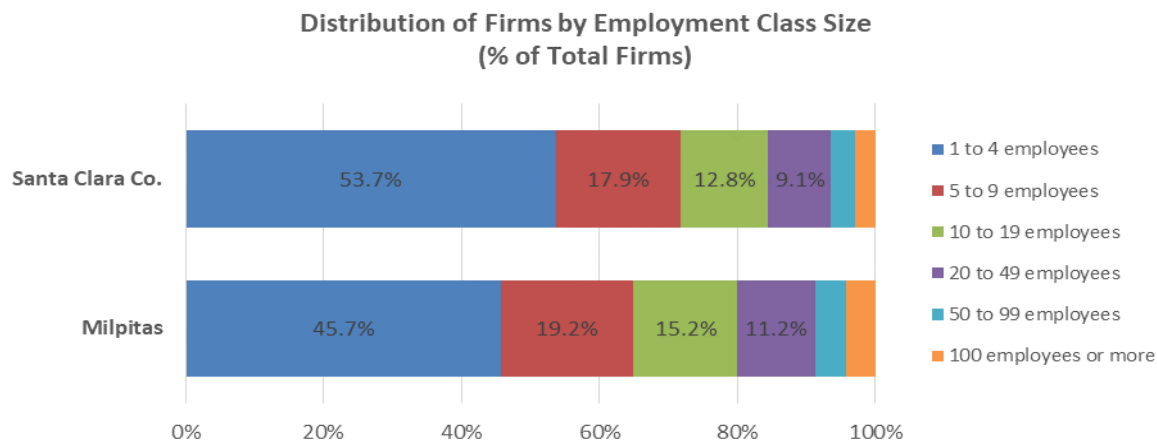
Professional and Business Services

Professional and business services was the industry to add the most jobs in both the city and the county between 2010 and 2016. In the city, the number of professional and business services jobs grew by 82.6 percent, or 3,474 jobs. Most of this growth was in the professional, scientific, and technical services sector, which added 2,046 jobs. Although most industry groups in the professional, scientific, and technical services sector gained jobs between 2010 and 2016, the largest gains were in computer systems design and related services (1,175 jobs); architectural, engineering and related services (629 jobs); and management, scientific and technical consulting services (281 jobs).

Distribution of Small and Larger Employers

Chart 1.3-1 summarizes the distribution of private sector establishments by number of employees in Milpitas and Santa Clara County in 2015. As shown, businesses in Milpitas tend to be larger than those in the County. Whereas 45.7 percent of all firms in Milpitas had between one and four employees in 2015, the same can be said of approximately 53.7 percent of firms in the county. Firms with less than 50 employees (the typical definition of a small business) accounted for 91.2 percent of the firms in Milpitas, compared to 93.6 percent of firms in the county.

CHART 1.3-1: DISTRIBUTION OF FIRMS BY SIZE, 2015

Distribution of Firms by Employment Class Size (% of Total Firms)

Santa Clara Co.: 53.7%, 17.9%, 12.8%, 9.1%
Milpitas: 45.7%, 19.2%, 15.2%, 11.2%

Legend:
- 1 to 4 employees
- 5 to 9 employees
- 10 to 19 employees
- 20 to 49 employees
- 50 to 99 employees
- 100 employees or more

Major Employers

According to the 2017 Comprehensive Annual Financial Report, Cisco is the largest employer in Milpitas, with approximately 3,650 employees as of 2017. As shown in Table 1.3-2, the city's top ten employers in 2017 consisted primarily of tech companies. In addition to Cisco, tech companies among the city's ten largest employers include KLA-Tencor Corporation, Flextronics, SanDisk, Linear Technology, Headway Technologies, and FireEye.

TABLE 1.3-2: MAJOR EMPLOYERS, 2017

EMPLOYER	NUMBER OF EMPLOYEES
Cisco Systems, Inc.	3,647
KLA-Tencor Corporation	2,028
Flextronics International	2,000
SanDisk Corporation	1,952
Linear Technology Corporation	1,288
Milpitas Unified School District	865
Headway Technologies	682
FireEye, Inc.	680
Wal-Mart	389
Kaiser Permanente	355

Specialization and Competitive Advantage

The Location Quotient (LQ) is a useful metric that can be used to identify the relative concentration or clustering of an industry within a local economy. As a measurement, the Location Quotient shows the industry share of a local area's employment relative to a larger benchmark economy. Location quotients less than 1 signal that an industry is underrepresented in the local area, while location quotients greater than 1 signal that there is a high concentration of jobs in the local area relative to the larger benchmark economy.

Table 1.3-3 summarizes location quotients by major industry for Milpitas using Santa Clara County as the larger benchmark economy. As shown, the greatest degree of specialization in the city is in manufacturing, which had a location quotient of 1.9 in 2016. A location quotient of 1.9 indicates that manufacturing accounts for nearly twice the share of employment in Milpitas than it does in the county. In addition to manufacturing, the city has higher than average concentrations of jobs in construction (LQ of 1.6), wholesale trade (LQ of 1.4), retail trade (LQ of 1.3), transportation and warehousing (LQ of 1.3), and leisure and hospitality (LQ of 1.2). The relative specialization of these industries may translate into a competitive advantage for these industries in the city. In particular, manufacturing, construction, and transportation and warehousing have all shown considerable strength in recent years, as demonstrated by their large and increasing location quotients between 2010 and 2016.

TABLE 1.3-3: LOCATION QUOTIENTS FOR MAJOR INDUSTRY GROUP EMPLOYMENT, MILPITAS, 2010 & 2016

INDUSTRY	LOCATION QUOTIENT 2010	LOCATION QUOTIENT 2016
Manufacturing	1.8	1.9
Construction	1.2	1.6
Wholesale Trade	1.4	1.4
Retail Trade	1.6	1.3
Transportation & Warehousing	1.1	1.3
Leisure & Hospitality	1.3	1.2
Other Services	0.7	0.9
Professional & Business Services	0.7	0.8
Finance and Insurance	0.7	0.5
Educational and Health Services	0.5	0.6
Information	0.4	0.2

SOURCE: CA EDD; BAE, 2018.

RETAIL SALES AND LEAKAGE ANALYSIS

High household incomes and a strong retail base help generate high per capita retail sales in Milpitas: $17,520 in 2016, compared to $12,553 in Santa Clara County and $12,534 in the Bay Area region. Milpitas is home to several retailers that generate high levels of retail sales. In addition to big box stores like Walmart, Kohls, and Best Buy, the city is home to the Great Mall, the largest indoor outlet and value shopping destination in Northern California. Recent taxable retail sales data demonstrate that retail establishments in Milpitas are able to attract shoppers from outside of the city and generate substantial retail injections.

- *Several sectors in Milpitas have per capita sales that exceed Santa Clara County levels, including motor vehicle and parts dealers, building materials and garden equipment and supplies, food and beverage stores, gasoline stations, clothing and clothing accessories stores, and food services and drinking places.*

- *Just three sectors (home furnishings and appliance stores, general merchandise stores, and miscellaneous store retailers) have per capita sales that are below countywide levels.*

- *In 2016, the city's per capita sales in clothing and clothing accessories stores were almost 350 percent higher than the county's per capita sales ($1,300), and 367 percent higher than the region's per capita sales ($1,227), reflecting the impact of the Great Mall in the city.*

- *Overall, Milpitas has estimated combined annual injections of approximately $456 million and combined leakages of approximately $41.5 million, resulting in a net injection of $414.5 million.*

The following section presents current and historic data on retail sales by major store/outlet category. The State Board of Equalization (SBOE) publishes data on taxable sales in California cities and counties. The data cover most sales of tangible goods in the state to consumers/end users, but exclude nontaxable items such as food for consumption at home and prescription drugs. For larger cities such as Milpitas, SBOE reports taxable sales by major retail store category, except where confidentiality rules

prohibit disclosure. This summary relies on taxable sales data published by SBOE for Milpitas, Santa Clara County, and the Bay Area for the year 2016, which is the last year for which published data are available.

Taxable Retail Store Sales Trends

As shown in Table 1.3-4, the city's taxable sales volume between 2011 and 2016 peaked in 2012 at about $1.34 billion (inflation-adjusted to 2016 dollars). Total taxable sales in the city increased by seven percent between 2011 and 2012, with all but one major retail category experiencing growth in sales. The retail categories with the largest absolute gains were motor vehicle and parts dealers, home furnishings and appliance stores, and clothing and accessories stores. Together, these three categories accounted for almost 90 percent of the total increase in taxable sales between 2011 and 2012. Since 2012, taxable sales in Milpitas have wavered around $1.25 billion annually. In 2016, the most recent year for which there are data, taxable retail sales totaled approximately $1.3 billion, or $17,520 per capita. The three largest retail categories were clothing and clothing accessories ($334 million), food services and drinking places ($278 million), and motor vehicles and parts dealers ($183 million), which together accounted for 61.3 percent of total taxable retail sales in 2016.

TABLE 1.3-4: MILPITAS TAXABLE RETAIL SALES TRENDS, 2011-2016

	TOTAL SALES (IN 2016 $000)					
	2011	*2012*	*2013*	*2014*	*2015*	*2016*
RETAIL STORES						
Motor Vehicle and Parts Dealers	$152,854	$182,451	$170,775	$175,077	$180,431	$183,213
Home Furnishings and Appliance Stores	$149,008	$172,950	$99,272	$69,930	$70,736	$72,599
Bldg. Matrl. and Garden Equip. & Supplies	$54,926	$56,823	$59,227	$58,923	$55,785	$121,232
Food and Beverage Stores	$44,900	$45,262	$47,000	$49,502	$51,055	$49,640
Gasoline Stations	$116,666	$120,111	$118,839	$121,332	$99,037	$89,510
Clothing & Clothing Accessories Stores	$298,324	$323,712	$328,461	$335,783	$341,363	$333,934
General Merchandise Stores	$108,218	$102,973	$99,161	$80,185	$80,934	$84,442
Food Services and Drinking Places	$232,132	$237,909	$247,787	$254,173	$269,318	$278,139
Other Retail Group	$92,903	$96,314	$97,467	$92,504	$89,745	$85,234
Retail Stores Total	**$1,249,932**	**$1,338,505**	**$1,267,991**	**$1,237,407**	**$1,238,403**	**$1,297,943**
	SALES PER CAPITA (IN 2016 $)					
	2011	*2012*	*2013*	*2014*	*2015*	*2016*
RETAIL STORES						
Motor Vehicle and Parts Dealers	$2,293	$2,721	$2,509	$2,497	$2,473	$2,473
Home Furnishings and Appliance Stores	$2,236	$2,580	$1,459	$997	$969	$980
Bldg. Matrl. and Garden Equip. & Supplies	$824	$848	$870	$840	$764	$1,636
Food and Beverage Stores	$674	$675	$691	$706	$700	$670
Gasoline Stations	$1,750	$1,791	$1,746	$1,730	$1,357	$1,208

Clothing & Clothing Accessories Stores	$4,476	$4,828	$4,826	$4,788	$4,678	$4,507
General Merchandise Stores	$1,624	$1,536	$1,457	$1,143	$1,109	$1,140
Food Services and Drinking Places	$3,483	$3,548	$3,641	$3,625	$3,691	$3,754
Other Retail Group	$1,394	$1,437	$1,432	$1,319	$1,230	$1,150
Retail Stores Total	**$18,754**	**$19,964**	**$18,631**	**$17,646**	**$16,971**	**$17,520**

NOTES:
(A) ANALYSIS EXCLUDES ALL NON-RETAIL OUTLETS REPORTING TAXABLE SALES. RETAIL SALES HAVE BEEN ADJUSTED TO 2016 DOLLARS BASED ON THE BAY AREA CONSUMER PRICE INDEX, U.S. BUREAU OF LABOR STATISTICS.
(B) PER CAPITA SALES EQUAL TOTAL SALES DIVIDED BY POPULATION AS ESTIMATED BY THE CA STATE DEPT. OF FINANCE.
SOURCES: CA STATE DEPT. OF FINANCE; CA STATE BOARD OF EQUALIZATION; U.S. BUREAU OF LABOR STATISTICS; BAE, 2018.

A basic method of analyzing the relative strength of a city's retail sector is to divide retail sales by population to get a per-capita metric that can be compared to other locales. This per capita metric would account for any sales growth linked to population growth, equalizing different points in time and/or different geographic areas. On a per capita basis, taxable retail sales in Milpitas ($17,520) are high relative to the county ($12,553) and the region ($12,534). Most sectors in Milpitas have per capita sales that exceed Santa Clara County levels. Just three sectors (home furnishings and appliance stores, general merchandise stores, and miscellaneous store retailers) have per capita sales below countywide levels.

As shown in Table 1.3-5, clothing and clothing accessories stores account for a significant share of the city's total per capita taxable retail sales. In 2016, the city's per capita sales from clothing and clothing accessories stores were almost 350 percent higher than the county's per capita sales, and about 367 percent higher than the region's per capita sales. With clothing and clothing accessories stores removed, total per capita retail sales in Milpitas are approximately 15 percent above countywide and region-wide levels ($13,012 for Milpitas versus $11,253 for Santa Clara County and $11,307 for the region overall).

TABLE 1.3-5: PER CAPITA TAXABLE SALES DETAIL, 2016

	MILPITAS		SANTA CLARA COUNTY		BAY AREA	
	TAXABLE SALES PER CAPITA	*TRANSACTIONS AS % OF TOTAL*	*TAXABLE SALES PER CAPITA*	*TRANSACTIONS AS % OF TOTAL*	*TAXABLE SALES PER CAPITA*	*TRANSACTIONS AS % OF TOTAL*
RETAIL STORES						
Motor Vehicle and Parts Dealers	$2,473	9%	$2,314	11%	$2,222	11%
Home Furnishings and Appliances	$980	4%	$1,184	5%	$924	5%
Bldg. Matrl. and Garden Equip. and Supplies	$1,636	6%	$963	4%	$1,031	5%
Food and Beverage	$670	2%	$650	3%	$812	4%
Gasoline Stations	$1,208	4%	$977	4%	$1,000	5%
Clothing and Clothing Accessories	$4,507	17%	$1,300	6%	$1,227	6%
General Merchandise	$1,140	4%	$1,176	5%	$1,158	6%
Food Service and Drinking Places	$3,754	14%	$2,431	11%	$2,478	13%
Other Retail Stores	$1,150	4%	$1,557	7%	$1,683	9%
Retail Totals	$17,520	65%	$12,553	58%	$12,534	65%
All Other Outlets (Non-retail)	$9,458	35%	$9,183	42%	$6,861	35%
TOTALS	**$26,978**	**100%**	**$21,735**	**100%**	**$19,395**	**100%**

SOURCES: CA STATE DEPT. OF FINANCE; CA STATE BOARD OF EQUALIZATION; U.S. BUREAU OF LABOR STATISTICS; BAE, 2018.

Retail Leakage Analysis

Retail leakage analysis compares actual retail sales in an area with a benchmark in order to provide a measure of the potential sales generated by that area's residents. If sales levels are below the predicted level, the area may be able to support increased sales, either through the opening of new outlets targeting those leakages or a repositioning of existing outlets such that they could capture that leakage.

A lower-than-predicted sales volume is a strong indicator that consumers are traveling outside the area to shop; thus, the sales are "leaking" out of the area. Conversely, if the area shows more sales than would be expected from the area's characteristics, there are sales "injections" into the area. Often, an injection of sales indicates that an area is serving as the regional shopping destination for a broader area. On the other hand, if an area shows substantial leakage, it may be due to the presence of a region-serving retail node outside but near the area capturing those "leaked" sales. In such a case, the area itself may not have sufficient population to support the region-serving retail, so those sales cannot necessarily be captured within the area.

For the purposes of this analysis, Santa Clara County and Bay Area expenditures were used as benchmarks to assess whether Milpitas has injections or leakages of retail sales. Per capita retail sales are an indicator of the relative strength of a locale as a retail destination; other factors being equal, higher per capita sales relative to a larger benchmark area signify attraction of shoppers from outside the area, and lower per capita sales indicate that local shoppers are going elsewhere to make their purchases. For this analysis, the lower of Santa Clara County and Bay Area per capita expenditures was used to estimate resident spending in each store category. The results are shown in Table 1.3-6 and Charts 1.3-2 and 1.3-3.

Summary of Leakage Analysis

Milpitas shows net injections of sales in seven of nine major retail store categories, as shown in Table 1.3-6. Injections are particularly high on a per capita basis for clothing and clothing accessories stores, which have per capita injections equal to 267 percent of estimated resident expenditures. The high per capita sales in clothing and clothing accessories stores is largely due to the Great Mall, which draws people from a wide area. There are also several big-box retailers in Milpitas, including Walmart, Kohls, and Best Buy, which also retain a large share of spending within Milpitas. Overall, Table 1.3-6 shows that for major store categories, Milpitas has estimated combined annual injections of approximately $456 million and combined leakages of approximately $41.5 million, resulting in a net injection of $414.5 million.

TABLE 1.3-6: SUMMARY OF LEAKAGE ANALYSIS, MILPITAS, 2015

| RETAIL CATEGORY	PER CAPITA RETAIL SALES (A)		INJECTION/ Leakage IN 2015$	PER CAPITA INJECTION/ Leakage	INJECTION/Leakage AS % OF POTENTIAL SALES
	ESTIMATED ANNUAL RETAIL SALES	ESTIMATED RESIDENT EXPENDITURES (B)			
Motor Vehicle and Parts Dealers	$3,710	$3,333	$27,865,143	$376	11%
Home Furnishings and Appliance Stores	$980	$924	$4,127,926	$56	6%
Bldg. Matrl. and Garden Equip. & Supplies	$1,636	$963	$49,905,240	$674	70%
Food and Beverage Stores	$2,233	$2,165	$5,066,333	$68	3%
Gasoline Stations	$1,208	$977	$17,132,107	$231	24%
Clothing & Clothing Accessories Stores	$4,507	$1,227	$243,013,789	$3,280	267%
General Merchandise Stores	$1,140	$1,158	($1,337,609)	($18)	-2%
Food Services and Drinking Places	$4,171	$2,701	$108,940,682	$1,470	54%
Other Retail Group	$1,534	$2,077	($40,199,992)	($543)	-26%
Total	$21,120	$15,525	$414,513,619	$5,595	36%

Notes:

All sales and injections/leakages are presented in 2016 dollars. Analysis excludes all non-retail outlets reporting taxable sales.

(a) Milpitas 2016 population per CA DOF: 74,085

(b) Estimated expenditures are benchmarked as the lesser of either Santa Clara County or Bay Area per capita expenditure levels.
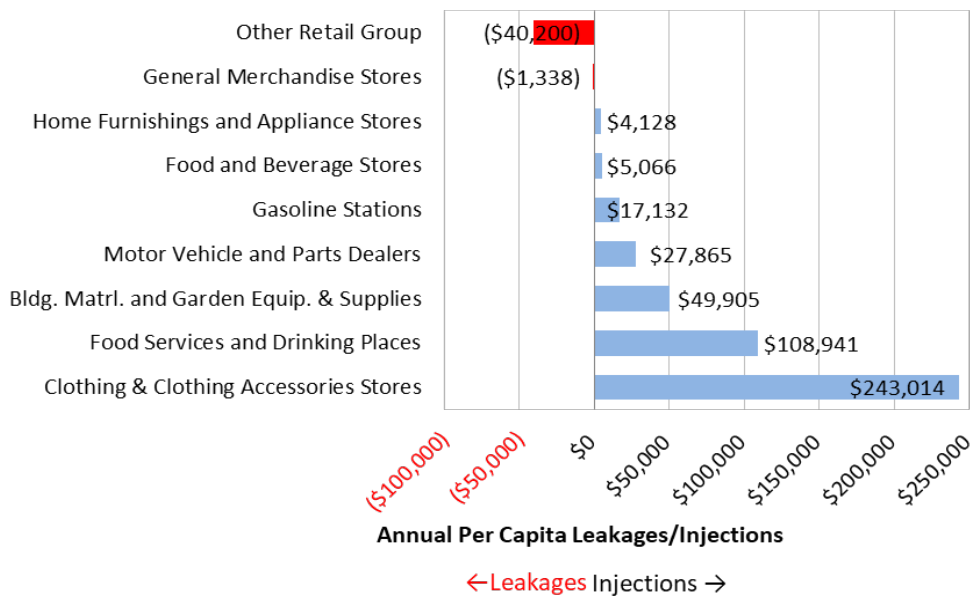
SOURCES: STATE DEPT. OF FINANCE (DOF); STATE BOARD OF EQUALIZATION, 2016; U.S. BUREAU OF LABOR STATISTICS; BAE, 2018.

CHART 1.3-2: PER CAPITA RETAIL SALES INJECTIONS AND LEAKAGES BY MAJOR RETAIL STORE CATEGORY, MILPITAS, 2016
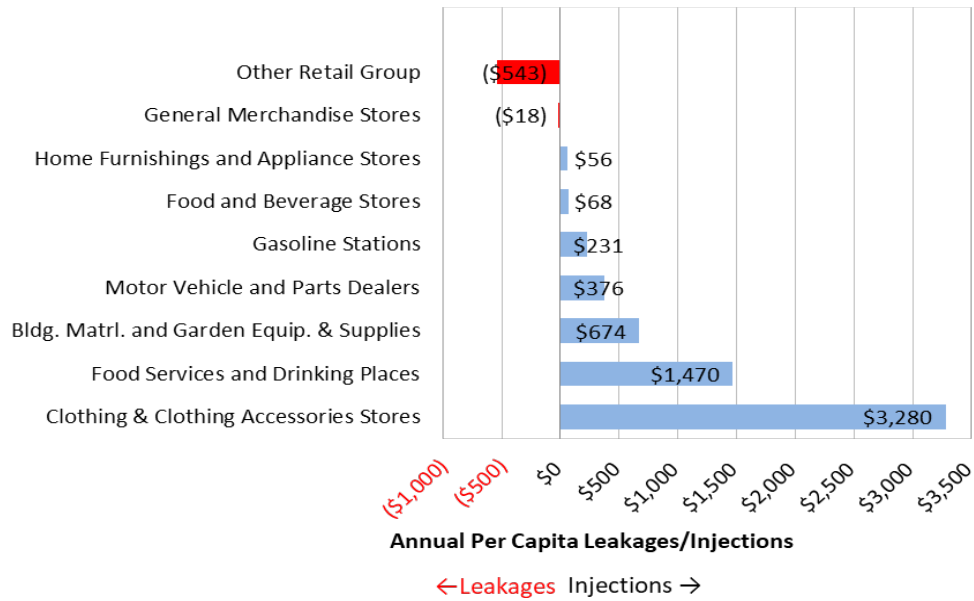
SOURCE: BAE, BASED ON DATA PROVIDED BY THE CA STATE DEPT. OF FINANCE (DOF); STATE BOARD OF EQUALIZATION; AND U.S. BUREAU OF LABOR STATISTICS.

CHART 1.3-3: TOTAL RETAIL SALES INJECTIONS AND LEAKAGES BY MAJOR RETAIL STORE CATEGORY, 2016 (IN $000)

SOURCE: BAE, BASED ON DATA PROVIDED BY THE CA STATE DEPT. OF FINANCE (DOF); STATE BOARD OF EQUALIZATION; AND U.S. BUREAU OF LABOR STATISTICS.

REFERENCES

The primary sources of data referenced for this section are the following:

California State Board of Equalization, 2011-2016 Taxable Retail Sales

California Department of Finance, 2011-2016 Population Estimates

California Employment Development Department, Quarterly Census of Employment and Wages

City of Milpitas, Finance Department, 2017 Comprehensive Annual Financial Report for Milpitas

U.S. Census Bureau, 2015 Zip Code Business Patterns

1.4 REAL ESTATE MARKET TRENDS AND MARKET DEMAND

This section provides an overview of current real estate market conditions in Milpitas. The overview presents data on the existing inventory, lease rates, and occupancy levels among residential, office, retail, and industrial properties. The information provided in the following sections was obtained from private data vendors, brokerage firm reports, and online property listings. Each section on current real estate market conditions is followed by an overview of planned and proposed developments in Milpitas.

RESIDENTIAL MARKET OVERVIEW

Strong demand for housing in Milpitas has created a housing market characterized by elevated home prices and rental rates. The city's housing inventory is primarily comprised of single-family attached and detached homes, which together make up 72.7 percent of the city's housing stock. However, recent residential building permits issued in Milpitas have overwhelmingly consisted of permits for multifamily units, demonstrating a recent shift towards denser multifamily housing in Milpitas.

- *Home sale prices in Milpitas are catching up to the county average. In 2017, the median home price was $885,500 in Milpitas, just five percent below the county average of $932,000.*

- *Of the single-family detached homes that recently sold in Milpitas, most had three or more bedrooms. The 2017 median sale price of single-family detached homes was $995,000, with only 10.5 percent selling below $750,000. Condominiums were slightly more affordable, at a median price of $805,000.*

- *Single Family attached units make up approximately one-fifth of the city's housing inventory, compared to 10.1 percent in the county and 9.0 percent in the region.*

- *Although multifamily rents in the city tend to be lower than the county average, rental rate and occupancy trends since 2010 demonstrate that Milpitas has a strengthening rental market that recovered quickly from the Great Recession.*

- *The recent strength of the market has resulted in a surge of new residential units in the pipeline. As of April 2018, there were approximately 5,800 residential units under construction, entitled, or pending approval in Milpitas.*

Existing Inventory and Recent Construction

Compared to Santa Clara County and the Bay Area, Milpitas has a larger share of single-family homes and a smaller share of multifamily housing. According to 2016 ACS data, 72.7 percent of housing units in Milpitas were single family homes (both attached and detached) and 24.0 percent were multifamily units, while the proportion of multifamily units was 34.1 percent in Santa Clara County and 35.8 percent in the Bay Area. As shown in Table 1.4-1, single family attached units constitute a much higher share (19.6 percent) of the housing inventory in Milpitas compared to the county (10.1 percent) and the region (9.0 percent). Multifamily housing in Milpitas is most commonly provided in larger buildings containing 50 or more units, which accounted for 13.3 percent of the Milpitas housing stock.

TABLE 1.4-1: HOUSING UNITS BY TYPE OF STRUCTURE, 2016

	MILPITAS		SANTA CLARA COUNTY		BAY AREA	
	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
TYPE OF RESIDENCE						
Single Family Detached	12,552	53.1%	350,697	52.7%	1,528,601	53.1%
Single Family Attached	4,627	19.6%	67,626	10.2%	259,532	9.0%
Multifamily 2-4 Units	1,065	4.5%	44,442	6.7%	274,426	9.5%
Multifamily 5-9 Units	388	1.6%	32,207	4.8%	167,151	5.8%
Multifamily 10-49 Units	1059	4.5%	72,127	10.8%	310,548	10.8%
Multifamiy 50+	3,152	13.3%	78,044	11.7%	276,756	9.6%
Mobile Homes and Other (a)	779	3.3%	19,955	3.0%	60,847	2.1%
Total	**23,622**	**100.0%**	**665,098**	**100.0%**	**2,877,861**	**100.0%**
Single Family Housing Units (%)	**72.7%**		**62.9%**		**62.1%**	
Multifamily Housing Units (%)	**24.0%**		**34.1%**		**35.8%**	

NOTE: (A) INCLUDES STANDARD MOBILE HOMES AND BOATS, RVS, VANS, AND OTHER VEHICLES THAT SERVE AS A PRIMARY RESIDENCE.
SOURCES: ACS, 2016; BAE, 2018.

Tenure

Milpitas has a higher proportion of owner-occupied households than the county and the region. In 2017, 65.3 percent of all Milpitas households were owner-occupied, compared to 56.0 percent of county households and 54.6 percent of Bay Area households. The proportion of renter-occupied households increased in all three geographies between 2010 and 2017. However, in Milpitas, the increase in owner-occupied units accounted for more than half of the overall growth in occupied housing units in the city. In the county and region, increases in the number of renter-occupied units accounted for most of the overall housing growth in both geographies.

TABLE 1.4-2: HOUSEHOLD TENURE, 2010-2017

|	2010		2017		% CHANGE
	NUMBER	PERCENT	NUMBER	PERCENT	
MILPITAS					
Owners	12,825	66.9%	14,306	65.3%	11.5%
Renters	6,359	33.1%	7,611	34.7%	19.7%
Total	19,184	100.0%	21,917	100.0%	14.2%
SANTA CLARA COUNTY					
Owners	348,298	57.6%	367,172	56.0%	5.4%
Renters	255,906	42.4%	289,049	44.0%	13.0%
Total	604,204	100.0%	656,221	100.0%	8.6%
BAY AREA					
Owners	1,465,362	56.2%	1,526,047	54.6%	4.1%
Renters	1,142,661	43.8%	1,270,791	45.4%	11.2%
Total	2,608,023	100.0%	2,796,838	100.0%	7.2%

SOURCES: US CENSUS, 2010; ESRI, 2017; BAE, 2018.

Age of Housing Stock

The city differs drastically from the county and the region in terms of the age of its housing stock. As of 2016, 23.5 percent of the city's housing stock was built after 2000, compared to 13.8 percent in the county and 11.5 percent in the Bay Area overall. As shown in Chart 1.4-1, just 6.9 percent of the housing stock in Milpitas was built before 1960, compared to 23.1 percent of housing units in the County and 34.5 percent of housing units in the region. In 2016, the median age of housing units in Milpitas was 32 years, much lower than the median in Santa Clara County (42 years) and the Bay Area (approximately 45 years).

CHART 1.4-1: AGE OF HOUSING STOCK, 2016
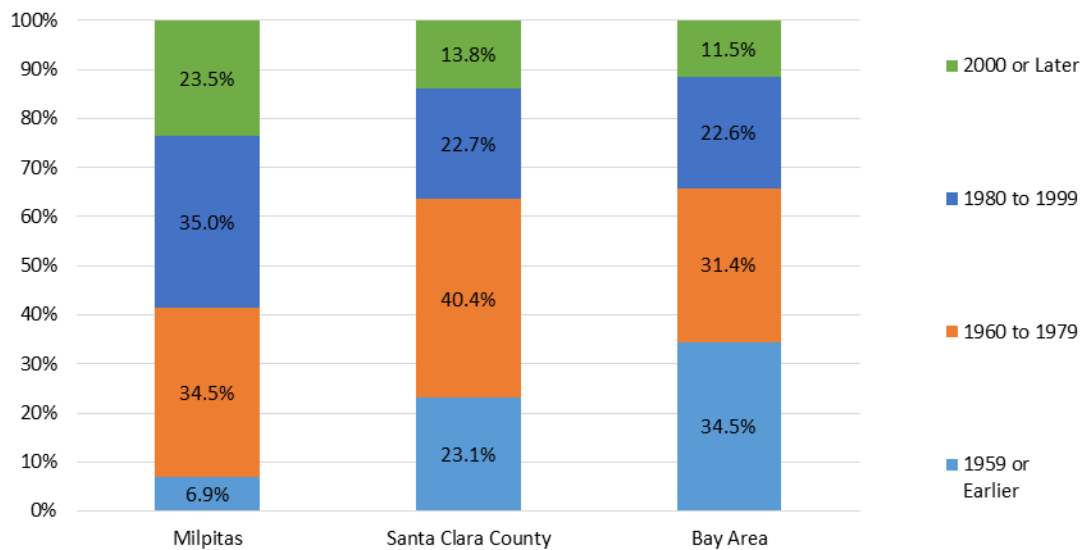
SOURCES: ACS, 2016; BAE, 2018.

Recent Construction Trends

Residential building permit data provided by the U.S. Census Bureau demonstrate sharp decreases in residential construction in Milpitas during recent economic downturns. As shown in Chart 1.4-2, there was moderate residential development activity in Milpitas between 2000 and 2005, with an average of 166 residential units permitted per year. Although the city experienced strong residential development activity in 2006, when 744 residential units were permitted, building permit activity decreased considerably in the period that followed, with an average of 95 units permitted each year between 2007 and 2010. Building permit activity increased at an extraordinary pace between 2011 and 2014, peaking in 2014 with a total of 1,200 permits issued. Although permitting activity slowed significantly in 2015 and 2016, 2017 was another active year, with 959 permits issued.

CHART 1.4-2: RESIDENTIAL PERMITTING TRENDS, 2000-2017

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
■ Multifamily	221	435	0	0	213	72	641	95	9	72	56	366	66	630	1,073	155	55	576
■ Single Family	17	5	3	1	5	26	103	79	5	57	6	7	65	212	127	92	104	383
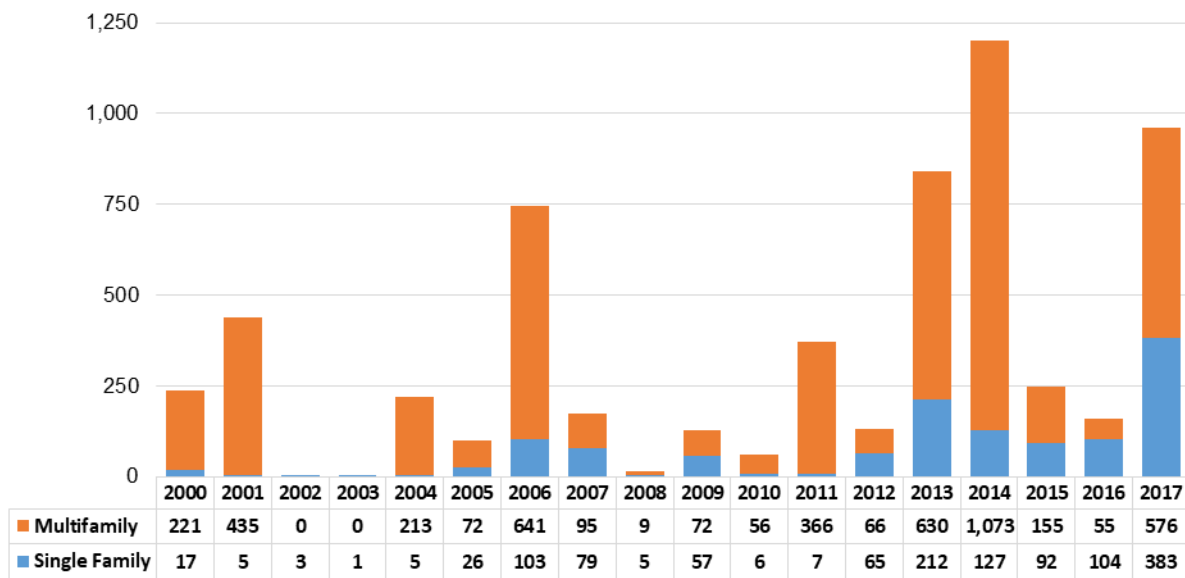
SOURCES: U.S. CENSUS BUREAU, 2000-2017; BAE, 2018.

In contrast to the city's existing housing stock, residential building permits issued in Milpitas have overwhelmingly consisted of permits for multifamily units. Of the 6,032 permits that the City has issued since 2000, 78.5 percent were for multifamily units. In the county, 68.1 percent of residential units permitted between 2000 and 2017 were for multifamily units (Chart 1.4-3).

CHART 1.4-3: RESIDENTIAL BUILDING PERMITS
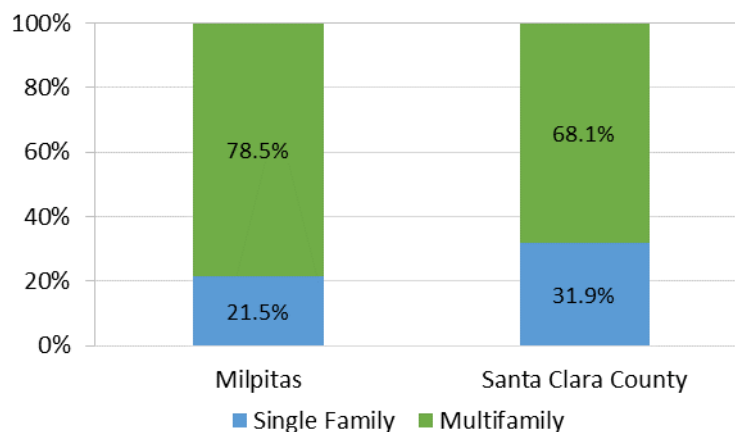
SOURCES: U.S. CENSUS BUREAU, 2000-2017; BAE, 2018.

Regional Housing Need Allocation (RHNA)

As discussed previously, the RHNA for Milpitas during the 2015-2023 Housing Element Update Cycle totals 3,290 units, as shown in Table 1.4-3. Of this total, approximately 31 percent is comprised of units affordable to very low-income households, 17 percent is comprised of units affordable to low-income households, 17 percent is comprised of units affordable to moderate-income households, and 35 percent is comprised of units affordable to above moderate-income households. The total allocation is equivalent to an annual average need of approximately 411 housing units for the eight-year time period.

TABLE 1.4-3: MILPITAS REGIONAL HOUSING NEED ALLOCATION, 2015-2023

INCOME CATEGORY	NUMBER	% OF TOTAL
Very Low (0-50% of AMI)	1,004	30.5%
Low (51%-80% of AMI)	570	17.3%
Moderate (81%-120% of AMI)	565	17.2%
Above Moderate (over 120% of AMI)	1,151	35.0%
Total Units	3,290	100.0%

For Sale Residential

As shown in Chart 1.4-4, median home sale prices in Milpitas have generally followed the broader countywide trend. Milpitas experienced a 34 percent decline in the median home sale price between 2006 and 2009, nearly matching the decline of 31 percent seen in the county over the same period. In more recent years, housing price appreciation in Milpitas has far outpaced the rate in the county. Between 2012 and 2017, the median sale price more than doubled in Milpitas, while it increased by 80 percent in the county. In 2017, the median home sale price in Milpitas was $885,500, just five percent below the county median sale price of $932,000.

CHART 1.4-4: MEDIAN HOME SALE PRICES, 2006-2017
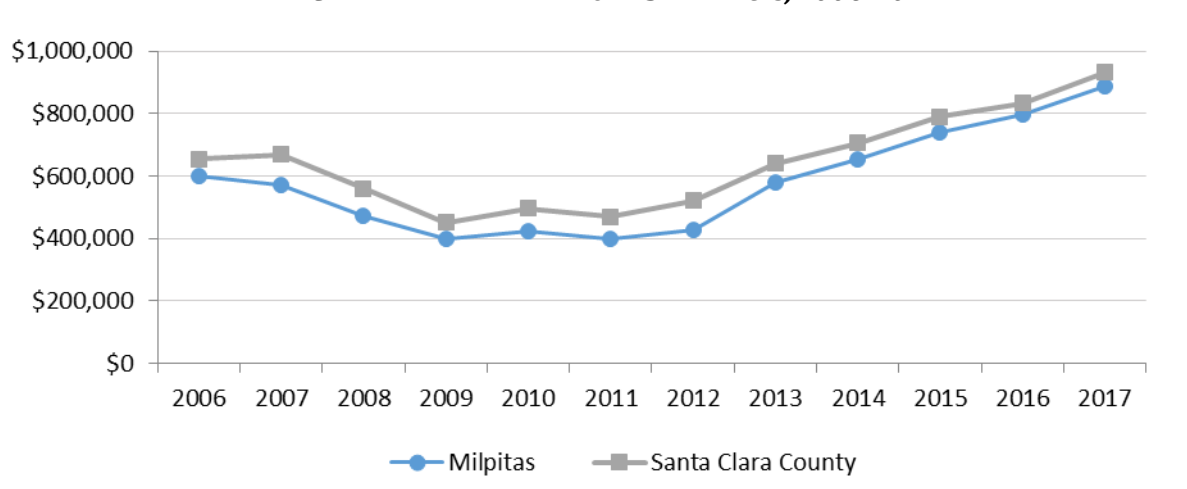
SOURCES: DATAQUICK; BAE, 2018.

Table 1.4-4 reports detailed sales price data for single-family detached and attached housing in Milpitas during 2017. As summarized in the table, almost all the single-family detached homes sold in 2017 had three or more bedrooms. The median sale price was $995,000, with only 10.5 percent of single family detached homes selling below $750,000. Condominiums were slightly more affordable, selling at a median price of $805,000. Condominium sales also represented a sizable share of the market, making up just under 40 percent of all full and verified sales in 2017.

TABLE 1.4-4: RESIDENTIAL SALE PRICE DISTRIBUTION, 2017

SALE PRICE RANGE	1 BRS	2 BRS	3 BRS	4 BRS	TOTAL	% OF TOTAL
SINGLE FAMILY RESIDENCES						
Less than $500,000	0	0	3	10	13	3.3%
$500,000-$749,000	0	1	16	11	28	7.2%
$750,000-$999,999	0	15	102	38	155	39.7%
$1,000,000-$1,249,999	0	0	74	69	143	36.7%
$1,250,000 or more	0	0	9	42	51	13.1%
Total (a)	*0*	*16*	*204*	*170*	*390*	*100.0%*
% Total	*0.0%*	*4.1%*	*52.3%*	*43.6%*	*100.0%*	
Median Sale Price		$856,500	$952,750	$1,106,000	$995,000	
Average Sale Price		$850,750	$951,386	$1,095,639	$1,010,750	
Average Size (sf)		1,374	1,610	2,125	1,825	
CONDOMINIUMS						
Less than $400,000	4	2	5	1	12	4.8%
$400,000-$599,999	5	20	8	0	33	13.2%
$600,000-$799,999	0	49	26	0	75	30.0%
$800,000-$999,999	0	27	73	5	105	42.0%
$1,000,000 or more	0	0	14	11	25	10.0%
Total (a)	*9*	*98*	*126*	*17*	*250*	*100.0%*
% Total	*3.6%*	*39.2%*	*50.4%*	*6.8%*	*100.0%*	
Median Sale Price	$450,000	$697,500	$850,000	$1,013,500	$805,000	
Average Sale Price	$407,278	$685,237	$820,474	$969,594	$762,726	
Average Size (sf)	779	1,205	1,550	1,872	1,409	

SOURCES: CORELOGIC/LISTSOURCE; BAE, 2018.

Rental Residential

Table 1.4-5 shows data on multifamily rental properties with 50 units or more provided by CoStar. The data capture 10 rental housing complexes in Milpitas containing approximately 3,080 units. As shown, as of the first quarter 2018, 89 percent of units in apartment complexes with 50 or more units were either one-bedroom or two-bedroom units. Three-bedroom units made up 9 percent of the inventory, while studios made up only 1.9 percent.

TABLE 1.4-5: MULTIFAMILY RENTAL HOUSING STOCK, MILPITAS, FIRST QUARTER 2018

UNIT TYPE	NUMBER OF UNITS	PERCENT OF UNITS	AVERAGE SIZE (SQ. FT.)	AVERAGE MONTHLY RENT
Studio	60	1.9%	605	$2,480
1 BR	1272	41.2%	689	$2,316
2 BR	1,475	47.8%	978	$2,677
3 BR	277	9.0%	1240	$3,256
All Unit Types	**3,084**	**100.0%**	**875**	**$2,576**

NOTE: DATA CAPTURES 10 RENTAL HOUSING COMPLEXES WITH AT LEAST 50 UNITS IN MILPITAS.
SOURCES: COSTAR; BAE, 2018.

Occupancy and Rental Rate Trends

Santa Clara County has a strong multifamily rental market. As of the first quarter 2018, the average asking rent in the county was $2,774 per month. Average rents were highest Cupertino and Palo Alto, where average rents exceeded $3,000 per month. Average rents in Mountain View and Santa Clara were also higher than the county average. The average rent in Milpitas was approximately 7 percent below the county average, at $2,576 per month.

Rental rate and occupancy trends between 2010 and 2017 demonstrate that the market in Milpitas is strengthening. As shown in Chart 1.4-5, asking rents in the city increased by 51 percent between 2010 and 2017, roughly tracking the average asking rent growth in the county during the same period (50 percent). Occupancy rates further demonstrate solid demand for rental housing in Milpitas. Housing markets are generally considered to have a healthy amount of vacancy when 95 percent of units are occupied, which typically allows for some mobility between rental units. As shown in Chart 1.4-5, the annual rental occupancy rate in Milpitas averaged more than 95 percent most years between 2010 and 2017, although it fell below 90 percent in 2012 and dipped again in 2015 as new large properties were added to the inventory. As of the first quarter of 2018, the occupancy rate was 96.8 percent, indicating continued strong demand for rental housing in the city.

CHART 1.4-5: AVERAGE MONTHLY RENT AND OCCUPANCY TRENDS, 2010-Q1 2018
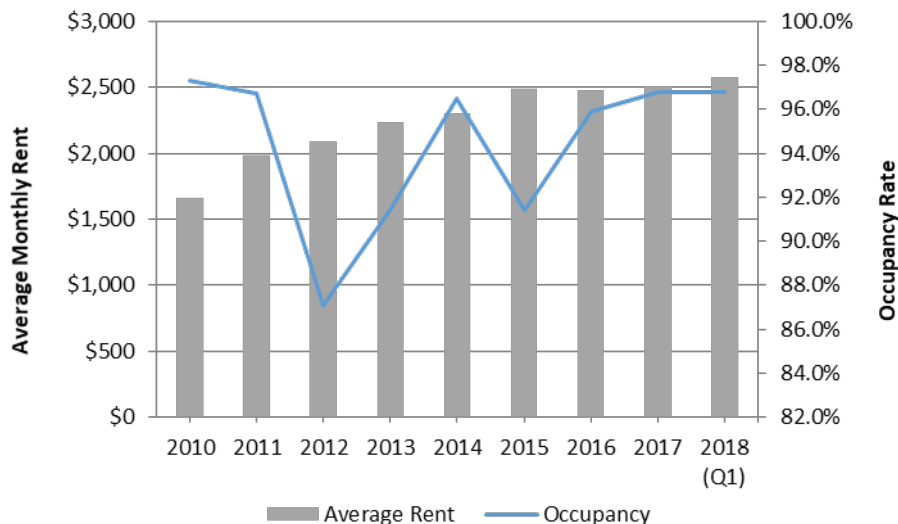
SOURCES: COSTAR; BAE, 2018.

Planned and Proposed Residential Projects

The recent strength of the market has resulted in a surge of new residential units in the pipeline. As of April 2018, there were 23 residential projects with 5,797 units that were planned, proposed, or under construction in Milpitas. Eight projects are currently construction and will deliver a total of 2,270 units. As of April 2018, twelve additional residential projects were entitled, while another three projects with 375 units were pending approval.

Of the eight projects that are currently under construction, most are solely residential multi-family properties containing more than 100 units. Six of the eight projects that are currently under construction will provide for sale housing in 1,547 new units. The other two projects consist of multi-family apartment buildings that will provide 723 new rental units.

An additional 3,152 residential units are entitled in twelve projects. Of these entitled units, 1,978 are rental units and 1,174 are planned as for-sale units. Eight of the twelve entitled projects are mixed-use projects that will provide a mix of retail, office and hotel uses. The two largest mixed-use projects, Sumerhill and District Lot 3, are located next to one another near the Great Mall along Great Mall Parkway. Sumerhill will include 694 condominium units and 36,500 square feet of ground floor retail space in two five-story buildings. District Lot 3 is a mixed-use project that will include a 9-story hotel with 175 rooms and a multi-family building with 423 rental units above 66,421 square feet of ground floor retail.

OFFICE MARKET OVERVIEW

With an inventory of approximately 4.7 million square feet of office space, Milpitas accounts for a small share of Santa Clara County's 126.3 million square foot office inventory. Most of the city's office space is contained in Class B and Class C properties. Although these properties tend to have lower average rental rates and see higher vacancies, many of them are well-located and could provide promising opportunities for redevelopment.

- *Office rental rates are much lower in the city compared to the county overall. During the first quarter of 2018, the average full service monthly asking rental rate for all office classes was $1.91 per square foot in Milpitas, compared to $3.50 per square foot in the county.*

- *The city has limited Class A office space. As of the second quarter 2016, there was only one Class A owner-occupied office property in Milpitas.*

- *Despite the aging inventory, the city has seen several years of positive net absorption. Between 2010 and 2017, the average annual net absorption of office space was approximately 29,194 square feet.*

Market Context

Demand for office space in the county varies by submarket and is generally reflected by vacancy, lease, and absorption rates. Menlo Park and Palo Alto are generally considered the top tier cities, commanding the highest rents. Portions of West Silicon Valley, including the Mountain View/Los Altos and Sunnyvale/Cupertino submarkets, are also highly desirable due to the large concentration of major tech employers such as Google, Apple, LinkedIn, and Yahoo. East Silicon Valley cities along Interstate 880 have historically offered lower rents and experienced higher vacancies relative to other Silicon Valley cities.

Most office space in Milpitas is contained in larger Class B or Class C buildings. The city's Class A office inventory consists of one owner-occupied building, which is located at Cisco's Site 5. In contrast, Class A space comprises approximately 32 percent of the office space in the county. A large share of the city's Class B office space is concentrated west of Interstate 880, which is an area dominated by newer research and development (R&D) office and industrial uses. Class C office properties are concentrated in the Midtown Area along the Main and Abel Street commercial and industrial corridors. The southwestern corner of the city, which borders the fast-growing Golden Triangle tech employment area, is home to several major office complexes and large corporate campus developments.

Inventory and Absorption Trends

Santa Clara County is a strong employment node with a large inventory of office space. At 4.7 million square feet, the city's office inventory accounts for a small share of the county's inventory. According to data provided by CoStar, the amount of office space in Milpitas has largely not changed since 2008. Meanwhile, the office inventory in Santa Clara County increased by approximately 23.7 million square feet between 2008 and 2017. As shown in Table 1.4-6, net office absorption has varied substantially in Milpitas since 2010, ranging from -179,900 square feet in 2016 to 327,689 square feet the next year in 2017.

TABLE 1.4-6: OFFICE MARKET OVERVIEW, FIRST QUARTER 2018

	MILPITAS	*SANTA CLARA COUNTY*
SUMMARY		
Inventory	4,663,922	126,304,546
Occupied Stock	4,204,279	113,717,663
Vacant Stock	459,643	12,586,883
Vacancy Rate	9.9%	10.0%
AVERAGE ASKING RENTS (a)		
Full Service (psf), Q1 2017	$1.85	$3.37
Full Service (psf), Q1 2018	$1.91	$3.50
% Change	3.2%	3.9%
NET ANNUAL ABSORPTION		
2010	18,900	1,466,692
2011	2,698	1,627,897
2012	(1,957)	3,390,122
2013	(79,523)	3,652,699
2014	172,831	1,695,440
2015	(27,186)	6,581,316
2016	(179,900)	1,983,110
2017	327,689	6,134,280
Annual Average 2010-2017	**29,194**	**3,316,445**

NOTES: (A) ASKING RENTS REFLECT MONTHLY FULL-SERVICE LEASES.
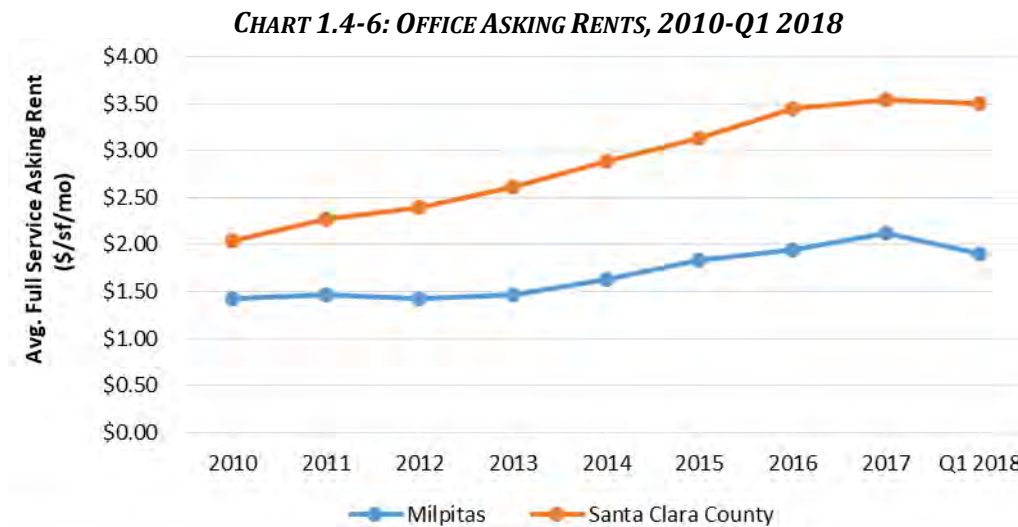*SOURCES: COSTAR GROUP; BAE, 2018.*

Despite some years with considerable amounts of negative absorption, Milpitas has showed positive average net annual absorption over time, with annual net absorption averaging approximately 29,200 square feet between 2010 and 2017. In Santa Clara County, annual net absorption averaged approximately 3.3 million square feet, demonstrating long-term growth.

Vacancy and Rental Rate Trends

Although Milpitas has a large jobs base and is home to several prominent technology-based businesses, the city's office rents tend to be much lower than the regional and county averages. Chart 1.4-6 shows the average full service asking rent for office space in Milpitas and Santa Clara County since 2010. In general, average full service office rents have been around 40 percent lower in Milpitas than in the county. Recent large occupancy losses from tenants such as Cisco have put considerable downward pressure on office rents in recent quarters. During the first quarter of 2018, the average monthly full service asking rent for all office classes was just $1.91 per square foot in Milpitas, which was about 45 percent lower than the average reported in the county ($3.50 per square foot).

CHART 1.4-6: OFFICE ASKING RENTS, 2010-Q1 2018

SOURCES: COSTAR; BAE, 2018.

Table 1.4-7 shows average full-service lease rates across office building classes for Milpitas and Santa Clara County. As of the first quarter 2018, the average monthly full-service rent for available office space (all classes) was $1.91 per square foot in Milpitas and $3.50 per square foot in the county. The average monthly asking rent for Class-B space was $1.90 per square foot in Milpitas and $3.35 per square foot in the county, while Class-C average asking rents were $2.01 per square foot in Milpitas and $2.93 per square foot in the county.

TABLE 1.4-7: OFFICE BUILDING INVENTORY, FIRST QUARTER 2018

	CLASS A	CLASS B	CLASS C	ALL CLASSES
	MILPITAS			
Buildings	1	68	43	112
Square Footage (a)	220,000	3,827,762	616,160	4,663,922
Average Building Size	220,000	56,291	14,329	41,642
Vacancy Rate	N/A	11.5%	2.9%	9.9%
Asking Rents (b)	N/A	$1.90	$2.01	$1.91

SANTA CLARA COUNTY				
Buildings	187	1,794	2,504	4,494
Square Footage (a)	40,333,253	64,898,789	21,056,589	126,304,546
Average Building Size	215,686	36,175	8,409	28,105
Vacancy Rate	13.9%	9.2%	4.7%	10.0%
Asking Rents (b)	$3.89	$3.35	$2.93	$3.50

NOTES: (A) RENTABLE BUILDING AREA. (B) ASKING RENTS REFLECT MONTHLY FULL-SERVICE LEASES.
SOURCES: COSTAR GROUP; BAE, 2018.

During the first quarter of 2018, the average office vacancy rate was 9.9 percent in Milpitas and 10.0 percent in the county. The vacancy rate for Class B office space in Milpitas was slightly higher, at 11.5 percent, compared to 9.2 percent in Santa Clara County. The vacancy rate for Class C office space in Milpitas was just 2.9 percent during the first quarter of 2018, compared to 4.7 percent in the county.

INDUSTRIAL MARKET OVERVIEW

As of the first quarter 2018, the city's industrial inventory included approximately 17.4 million square feet of warehouse, manufacturing, flex, and general industrial space. Due to lack of new construction, the industrial buildings in the city are generally older and not up to modern industrial standards. Due to high industrial vacancies and strong demand for housing near Silicon Valley tech employment, there has been considerable pressure to convert the surrounding industrial land and buildings to residential uses. To make Milpitas more attractive to industrial tenants, the City should take steps to preserve its industrial areas and encourage the renovation or replacement of existing facilities with strong linkages to nearby retail and recreational amenities.

- *Industrial vacancies vary by use. During the first quarter of 2018, buildings categorized as warehouse and manufacturing reported the lowest average vacancy rates, at 1.4 percent and 2.0 percent, respectively. The vacancy rate for flex space averaged 14.9 percent.*

- *Reflecting the strength of the manufacturing sector, buildings categorized as manufacturing in Milpitas have experienced extremely low vacancies since 2007. Despite the Great Recession, the annual vacancy rate for manufacturing buildings fell from 5.9 percent in 2009 below one percent in 2012.*

- *The city has lost a considerable amount of industrial space since 2007. In 2007, the city was home to 20.4 million square feet of industrial space in 390 properties. During the second quarter 2016, the industrial building inventory had fallen to 18.1 million square feet in 343 buildings. As of the first quarter of 2018, the industrial inventory was 17.4 million square feet.*

- *Between 2010 and 2017, annual net absorption varied substantially, ranging from 666,500 in 2016 to -231,600 the following year in 2017. During that time, annual net absorption averaged 140,761 square feet per year.*

Market Context

As of the first quarter 2018, the city's industrial inventory totaled approximately 17.4 million square feet of warehouse, manufacturing, flex, and general industrial space. Industrial land uses in Milpitas are concentrated west of Interstate 680 within the M1 (Light Industrial), M2 (Heavy Industrial), and MP (Industrial Park) zoning districts. These areas are in close proximity to the Midtown Specific Plan and Transit Area Specific Plan areas, where the city is actively encouraging high-density residential and mixed-use development. Due to high industrial vacancies and strong demand for housing near Silicon Valley tech employment, there has been considerable pressure to convert the surrounding industrial land and buildings to residential uses. As a result, the city has lost a large amount of industrial space in recent years.

Overall, industrial and flex building occupancies and rents tend to be lower in Milpitas relative to the county. As shown in Table 1.4-8, industrial and flex asking rents averaged $1.64 on a triple net basis in the first quarter of 2018, compared to $1.92 in the county. However, limited new construction along with surging demand has led to a significant increase in industrial asking rents in recent years. Average triple net asking rents increased by 20.6 percent in Milpitas between the first quarter of 2017 and the first quarter of 2018.

TABLE 1.4-8: INDUSTRIAL/FLEX MARKET OVERVIEW, FIRST QUARTER 2018

	MILPITAS	*SANTA CLARA COUNTY*
SUMMARY		
Inventory	17,427,180	194,042,749
Occupied Stock	15,908,598	183,372,343
Vacant Stock	1,518,582	10,670,406
Vacancy Rate	8.7%	5.5%
AVERAGE ASKING RENTS (a)		
NNN (psf), Q1 2017	$1.36	$1.83
NNN (psf), Q1 2018	$1.64	$1.92
% Change	20.6%	4.9%
NET ANNUAL ABSORPTION		
2010	(167,138)	276,592
2011	444,870	3,130,780
2012	437,503	1,911,361
2013	(171,232)	492,959
2014	190,708	2,738,267
2015	(37,536)	2,127,632
2016	660,494	1,802,659
2017	(231,585)	1,070,181
Annual Average 2010-2017	140,761	1,693,804

SOURCES: COSTAR GROUP; BAE, 2018.
NOTES: (A) ASKING RENTS REFLECT MONTHLY NNN LEASES.

Table 1.4-9 shows a breakdown of the city's industrial building inventory by use. As shown, a majority of the city's industrial inventory is comprised of flex and warehouse uses. As of the first quarter 2018, flex

properties reported the highest vacancy rate (14.9 percent) and the highest average asking rents ($1.85 per square foot on a triple net basis). The average vacancy rate for other industrial properties was well below five percent, indicating strong demand for warehouse, manufacturing, and other industrial space in Milpitas. Average asking rents for warehouse and manufacturing space were higher in Milpitas than in the county. Average triple net asking rents for warehouse and manufacturing spaces were $1.06 per square foot and $1.07 per square foot, respectively.

TABLE 1.4-9: INDUSTRIAL BUILDING INVENTORY, FIRST QUARTER 2018

	FLEX	*WAREHOUSE*	*MANUFACTURING*	*OTHER INDUSTRIAL*	*TOTAL INDUSTRIAL/ FLEX*
MILPITAS					
Buildings	172	75	55	31	333
Square Footage (a)	9,408,170	4,730,467	2,412,007	876,536	17,427,180
Sq. Ft. as % of Total	54.0%	27.1%	13.8%	5.0%	100.0%
Vacancy Rate	14.9%	1.4%	2.0%	0.0%	8.7%
Asking Rents (b)	$1.85	$1.06	$1.07	N/A	$1.64
SANTA CLARA COUNTY					
Buildings	2,420	1,592	806	1,251	6,073
Square Footage (a)	104,289,717	45,534,442	26,436,464	17,737,024	194,042,749
Sq. Ft. as % of Total	53.7%	23.5%	13.6%	9.1%	100.0%
Vacancy Rate	8.8%	1.4%	1.8%	1.6%	5.5%
Asking Rents (b)	$2.19	$1.02	$1.05	$1.31	$1.92

NOTES: (A) RENTABLE BUILDING AREA. (B) ASKING RENTS REFLECT MONTHLY NNN LEASES.
SOURCES: COSTAR; BAE, 2018.

Inventory and Absorption Trends

Milpitas has lost a considerable amount of industrial space since 2010. Chart 1.4-7 shows industrial inventory and absorption trends for the period between 2010 and 2017. In 2010, the city was home to 20.2 million square feet of industrial space in 388 properties. By 2017, the industrial building inventory had fallen to 17.5 million square feet in 334 buildings. Net annual absorption between 2010 and 2017 varied substantially, ranging from -584,000 square feet in 2015 to 614,000 square feet in 2016. Net annual absorption during the eight-year period averaged -91,917 square feet per year, reflecting five years of significant negative absorption.

*CHART 1.4-7: INDUSTRIAL INVENTORY AND ABSORPTION TRENDS, 2010-2017*
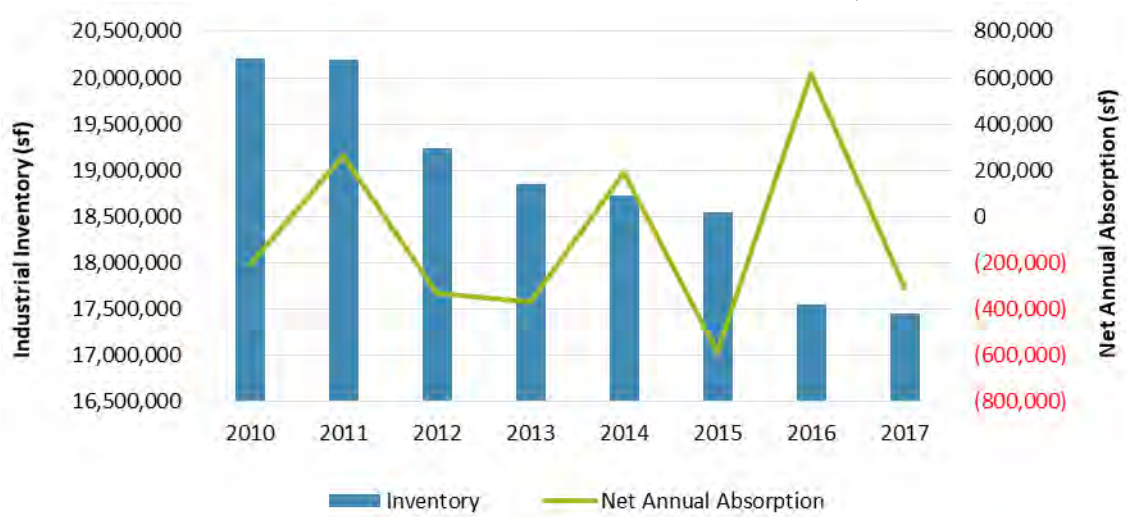
SOURCES: COSTAR; BAE, 2018.

Vacancy and Rental Rate Trends

Industrial vacancies and rental rates vary by use. As shown in Chart 1.4-8, buildings categorized as manufacturing in Milpitas have experienced extremely low vacancies since 2010. The annual average vacancy rate for manufacturing buildings fell from 4 percent in 2010 to less than one-half a percent in 2015. The annual vacancy rate for flex buildings has averaged around 15 percent since 2010, although it lowered significantly in 2016. In just one year, the annual average flex vacancy rate fell eight percentage points, from 15.8 percent in 2015 to 7.8 percent in 2016. The flex vacancy rate increased slightly in 2017, averaging 9.8 percent for the year.

The e-commerce boom has had a major impact on the warehouse market along the I-880 corridor, with many companies looking to establish "Last Mile" distribution locations in the submarket to speed up shipping times to nearby urban locations. In Milpitas, there has been a considerable decrease in the amount of available warehouse space since 2015. As shown in Chart 1.4-8, the average vacancy rate for warehouse space was just 2.2 percent in 2017, down from 13.8 percent in 2015. Rents for warehouse space have also skyrocketed, with the average annual triple net rent more than doubling from $0.50 per square foot in 2010 to $1.10 per square foot in 2017.

CHART 1.4-8: INDUSTRIAL VACANCY TRENDS, 2010-2017
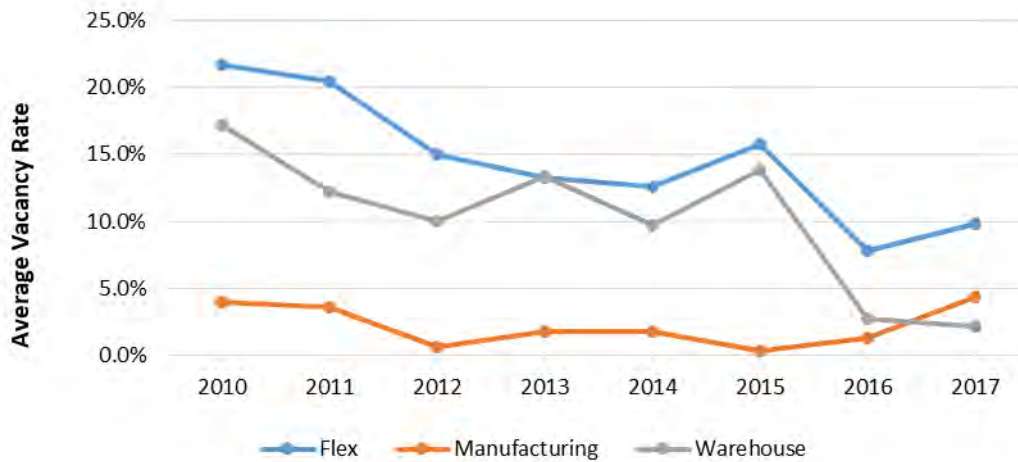
Planned and Proposed Industrial Development

There has been one major speculative industrial development in Milpitas since 2010. The first phase of McCarthy Creekside Industrial Center is currently under construction and will deliver nearly 450,000 square feet in two buildings by the end of May 2018. At completion, the project will include approximately 800,000-square feet of warehouse and advanced manufacturing space in five buildings. SF Motors recently pre-leased one of the recently completed warehouse buildings, in what turned out to be the largest industrial lease in the Silicon Valley during the first quarter 2018. Construction on the second phase is expected to begin in 2019.

RETAIL MARKET OVERVIEW

Milpitas is home to one super regional mall and a number of major shopping centers that are able to capture a large share of resident spending, as well as spending from shoppers living outside of the city.

- *The city's retail inventory is comprised of approximately 5 million square feet in 220 properties. Most retail space in the city is contained in shopping centers.*

- *Annual net absorption averaged approximately 17,650 square feet per year between 2010 and 2017. The city and the county both experienced positive net annual absorption between 2010 and 2017.*

- *During the first quarter of 2018, the average retail asking rent was $2.87 per square foot per month on a triple net basis in Milpitas, above the average in Santa Clara County ($2.73 per square foot per month).*

- *There are eight entitled mixed-use projects in the pipeline that will include retail space. Together, these projects will provide a total of approximately 190,500 square feet of new retail in the city.*

Market Context

The city's retail inventory is comprised of just under 5 million square feet of space in 220 properties. Most (80 percent) of the city's retail space is located within shopping centers. The Great Mall, the largest outlet/shopping mall in Northern California, contains approximately 1.4 million square feet of space and features more than 200 outlet and value-retail stores. The city is also home to one power center, McCarthy Ranch Shopping Center, which is located at the interchange of Interstate 880 and Highway 237. The McCarthy Ranch Shopping Center contains approximately 400,000 square feet of retail and has several large anchors that attract a sizable regional retail draw. The city's community centers include Milpitas Town Center, located near City Hall, and Milpitas Square. Neighborhood centers, which make up a substantial portion of the city's retail space, include City Square, Crescent Square, Beresford Square, and Victorian Square, among others.

Chart 1.4-8 summarizes retail space in Milpitas by building type. As shown, the Great Mall accounts for the most space, followed by neighborhood centers, general retail stores, community centers, the McCarthy Ranch power center, and strip centers.

CHART 1.4-9: RETAIL SPACE BY TYPE
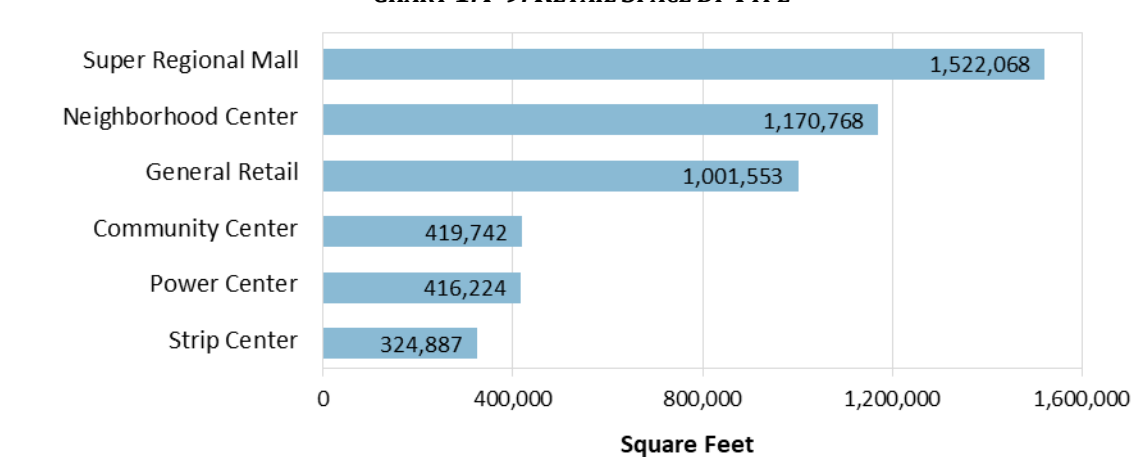
SOURCES: COSTAR; BAE, 2018.

## Inventory and Absorption Trends

According to data from CoStar, the amount of retail space in Milpitas has remained stable since 2010, while the county has added approximately 3.4 million square feet. On average, net absorption between 2010 and 2017 was positive in both the city and the county. Milpitas has seen persistent positive net annual absorption each year since 2011, while the county saw two years of slight negative absorption in 2015 and 2016. As shown in Chart 1.4-9, 2013 was by far the strongest year for leasing activity in Milpitas.

CHART 1.4-10: RETAIL NET ANNUAL ABSORPTION, 2010-2017
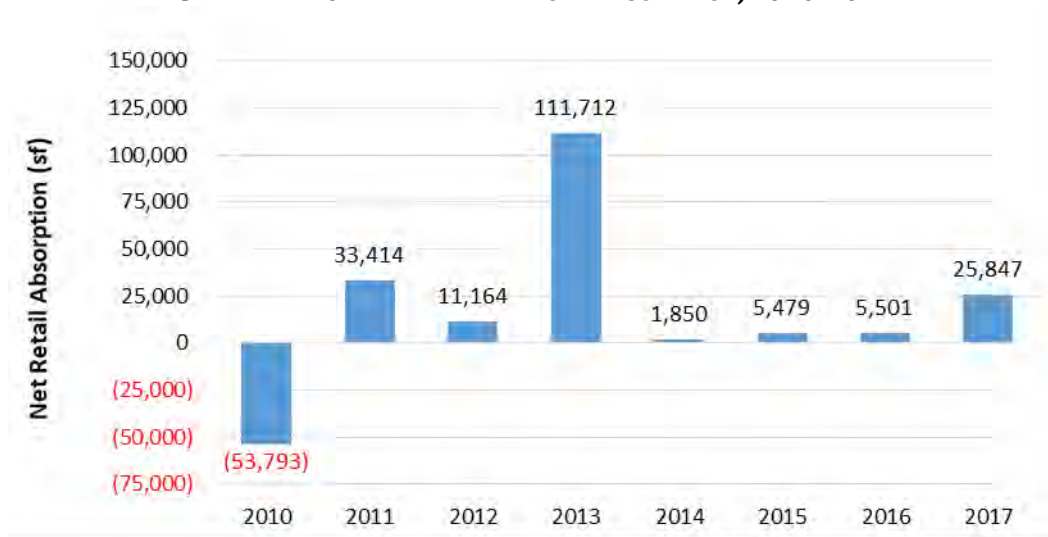
SOURCES: COSTAR; BAE, 2018.

Vacancy and Rental Rates

Data from CoStar on retail vacancy and asking rents show that the market for retail space in Milpitas has strengthened considerably in recent years. Although the average triple net asking rent in the city fell to $1.47 per square foot per month in 2011 during the recession, it has since climbed to $2.87 per square foot per month. As shown in Chart 1.4-10, the average retail asking rent in the city as of the first quarter of 2018 was higher than the county average ($2.73 per square foot per month on a triple net basis) for the first time since 2010.

CHART 1.4-11: RETAIL ASKING RENTS, 2009-Q1 2018
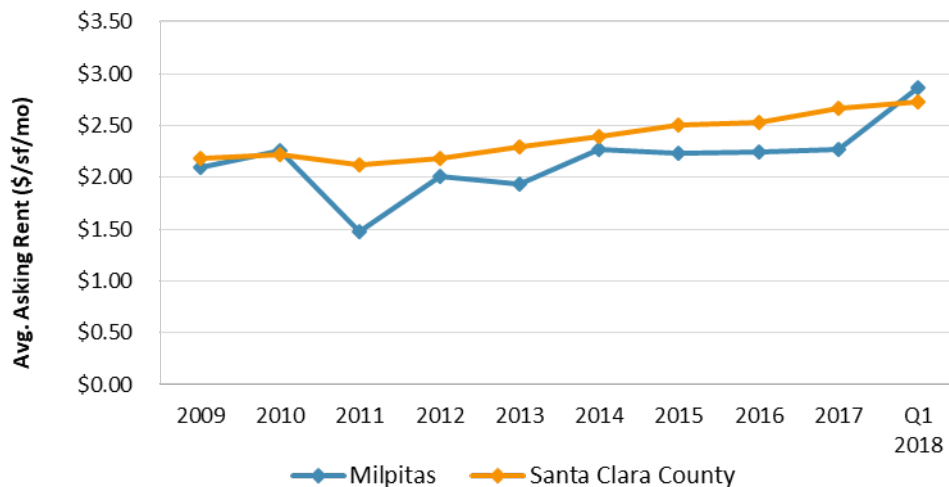
SOURCES: COSTAR; BAE, 2018.

Vacancy rate trends also show strengthening demand for retail space in the city (see Chart 1.4-11). The average vacancy rate for retail in Milpitas has fallen each year since 2010. The average vacancy rate increased slightly in the county between 2014 and 2016. In 2016, the average vacancy rate was higher in the county than in Milpitas. In the first quarter of 2018, the average vacancy rate was only 2.2 percent in Milpitas, compared to 4.1 percent in the county.

CHART 1.4-12: RETAIL VACANCY TRENDS, 2009-Q1 2018

SOURCES: COSTAR; BAE, 2018.
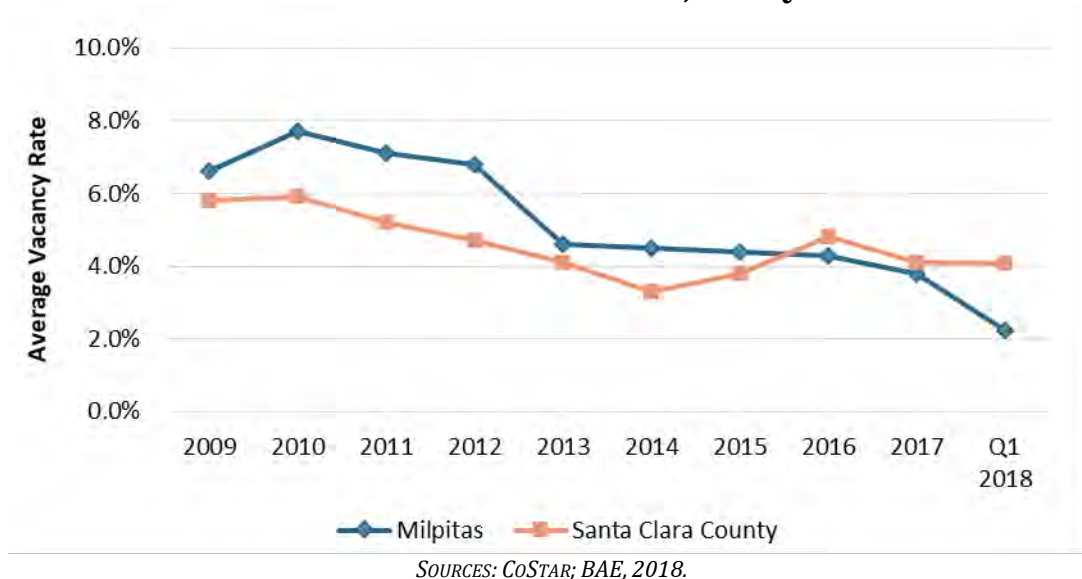
Planned and Proposed Retail Development

Located near the Great Mall, District Lot 1 is currently under construction and will include a total of 53,861 square feet of retail space, including 30,000 square feet for a grocery store anchor. There are seven entitled mixed-use projects in the pipeline that will eventually include retail space. These mixed-use projects include District Lot 3 (66,400 square feet of retail), Sumerhill (36,500 square feet of retail), District Lot 4 (13,900 square feet of retail), and District Lot 2 (7,800 square feet of retail). The other three projects will provide a total of 11,950 square feet of retail.

REFERENCES

The primary sources of data referenced for this section are the following:

City of Milpitas Planning Department, TASP Development Project List, April 2018

CoreLogic/Dataquick, 2006-2017 California Home Sale Activity Reports

CoreLogic/Listsource, 2017 Home Sales

CoStar Group, Real Property Database, 2018

Esri Business Analyst, 2017

U.S. Census Bureau, 2000-2017 Building Permit Survey

U.S. Census Bureau, 2016 American Community Survey

Association of Bay Area Governments, Regional Housing Needs Allocation 2014-2022

Association of Bay Area Governments, Projections 2013.

California State Board of Equalization, Taxable Retail Sales in California Reports

California Department of Finance, 2015 Population Estimates

California Employment Development Department, 2016 Labor Market Information

California Employment Development Department, Quarterly Census of Employment and Wages

City of Milpitas, Adopted FY 2015-2016 Budget

City of Milpitas, Finance Department, 2015 Comprehensive Annual Financial Report for Milpitas

City of Milpitas Planning Department, Development Project List, July 2016.

CoreLogic, Inc., Real Estate Data Reports (Office, Retail and Industrial), 2016.

CoStar Group, Real Property Database, 2016.

NAIOP Research Foundation, Stabilization of the US Manufacturing Sector and Its Impact on Industrial Space, June 2013.

RealFacts, Inc. 2016 Apartment Market Reports

U.S. Census Bureau, 2000-2015 Building Permit Survey

U.S. Census Bureau, 2000 Census of Population

U.S. Census Bureau, 2015 American Community Survey

U.S. Census Bureau, 2014 Zip Code Business Patterns

U.S. Census Bureau, 2006-2010 Transportation Planning Package`

U.S. Bureau of Labor Statistics, Consumer Price Index Database

1.5   FISCAL CONDITIONS

This section contains information about existing fiscal conditions in the City of Milpitas. The section focuses on operating revenues and expenditures that comprise the City's General Fund, as this is the part of the overall City budget that receives the City's most important discretionary revenues, and which funds critical public services, such as law enforcement, parks and community services.

FISCAL TRENDS

General Fund Revenue Sources

Chart 1.5-3 provides a detailed breakdown of the General Fund's major revenue sources according to the Adopted 2017-18 Budget. As shown, property taxes, including in-lieu payments, account for just over one-third of General Fund revenues. Sales and use tax revenues comprise a slightly smaller share at 30.1 percent of revenues. The remaining 40 percent is accounted for by transient occupancy tax (10.6 percent), licenses and permits (9.9 percent), charges for service (7.4 percent), franchise tax (4.7 percent), and "other" sources such as business license tax, fines, and forfeitures (3.3 percent).

CHART 1.5-1: GENERAL FUND REVENUES BY SOURCE, FY 2017-18 ADOPTED BUDGET
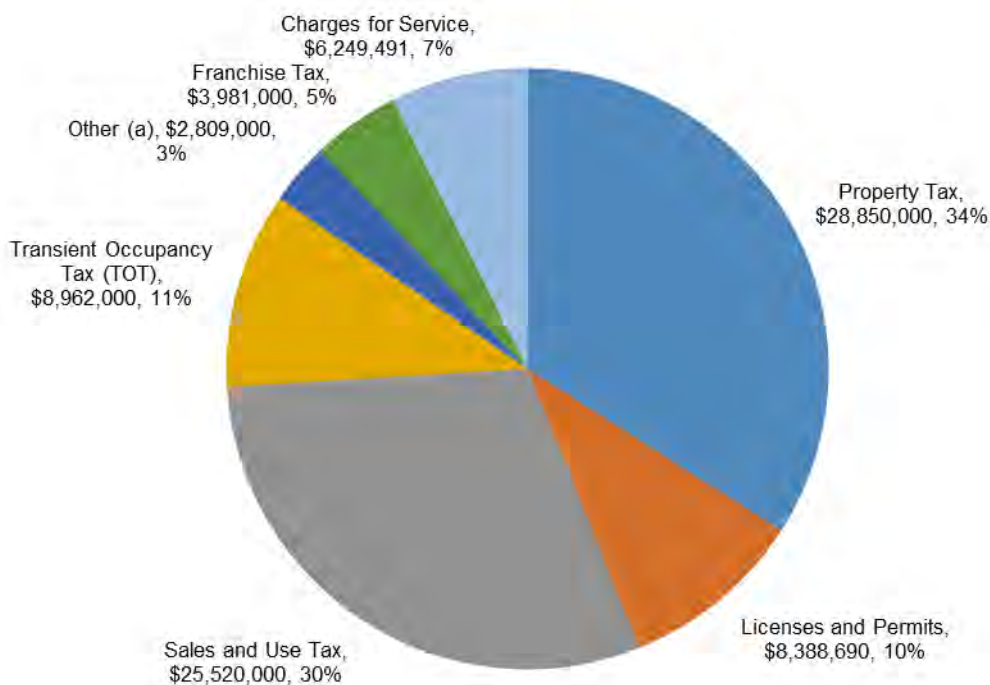
NOTES: (A) INCLUDES GENERAL FUND REVENUES FROM BUSINESS LICENSE TAX, REAL ESTATE TRANSFER TAX, FINES AND FORFEITURES, USE OF MONEY AND PROPERTY, AND INTERGOVERNMENTAL AID. TRANSFERS ARE EXCLUDED FROM TOTAL.
SOURCES: CITY OF MILPITAS, 2018; BAE, 2018.

Milpitas General Fund Trends

Trends in General Fund revenues and expenditures reflect the fiscal stability of the City's core operations and services. General Fund revenues include all property, sales, and other taxes, as well as service fees and fines collected by the City on an annual basis. General Fund expenditures fund core city services such as public safety, public works, housing, economic development, and administration.

Chart 1.5-2 shows General Fund revenues and expenditures going back to Fiscal Year (FY) 2003-04. Chart 1.5-3 illustrates the General Fund revenue trend broken out by major source: property tax, sales tax, and all other sources. The revenue trends generally trace the last economic cycle.

The city's fiscal situation greatly benefited from the economic expansion of the mid-2000s, as new development and an improving sales environment contributed to robust growth in property tax and sales tax revenues. In just the two years between FY 2003-04 and FY 2005-06, General Fund revenues grew a remarkable 49.5 percent, bolstered by property tax and sales tax revenue growth of 44.0 percent and 52.6 percent, respectively. General Fund revenues spiked in FY 2006-07, followed by a dramatic decline the next year. However, the spike was largely due to the City receiving one-time proceeds of $20 million dollars from a property sale. In the absence of those proceeds, FY 2006-07 General Fund revenues would have shown modest growth over the previous year, reflecting a slowing of property tax and sales tax revenue growth.

General Fund revenues declined 7.5 percent between the onset of the Great Recession in FY 2007-08 and its lowest revenue year, FY 2009-10. While this was a significant decrease, General Fund revenues remained well above their early-2000s levels. General Fund revenues began to increase again starting in FY 2010-11, driven largely by surging sales tax revenues. By the following year, General Fund revenues exceeded pre-recession levels.

Revenue has continued to grow, albeit unevenly, in the years since the Great Recession. The unevenness is largely the result of fluctuating sales tax revenue hauls in recent years, as well as a notable change in property tax allocation. In FY 2013-14, the General Fund absorbed a portion of property tax revenues that had previously been allocated to the City's former redevelopment agency. These revenues, though not truly new to the Milpitas' coffers, contributed to a significant boost to the property tax line-item and the General Fund. If Milpitas meets its FY 2017-18 revenue projections, its General Fund revenues will have grown nearly 60 percent from the lowest point of the Recession.
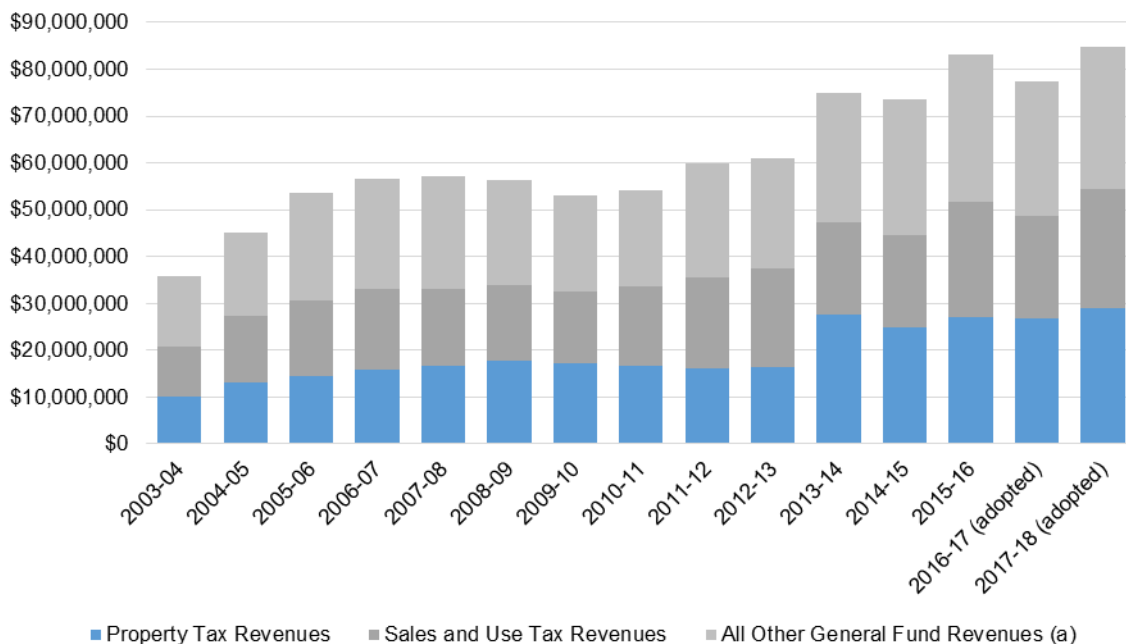
CHART 1.5-2: GENERAL FUND REVENUES AND EXPENDITURES TRENDS, 2003-2017
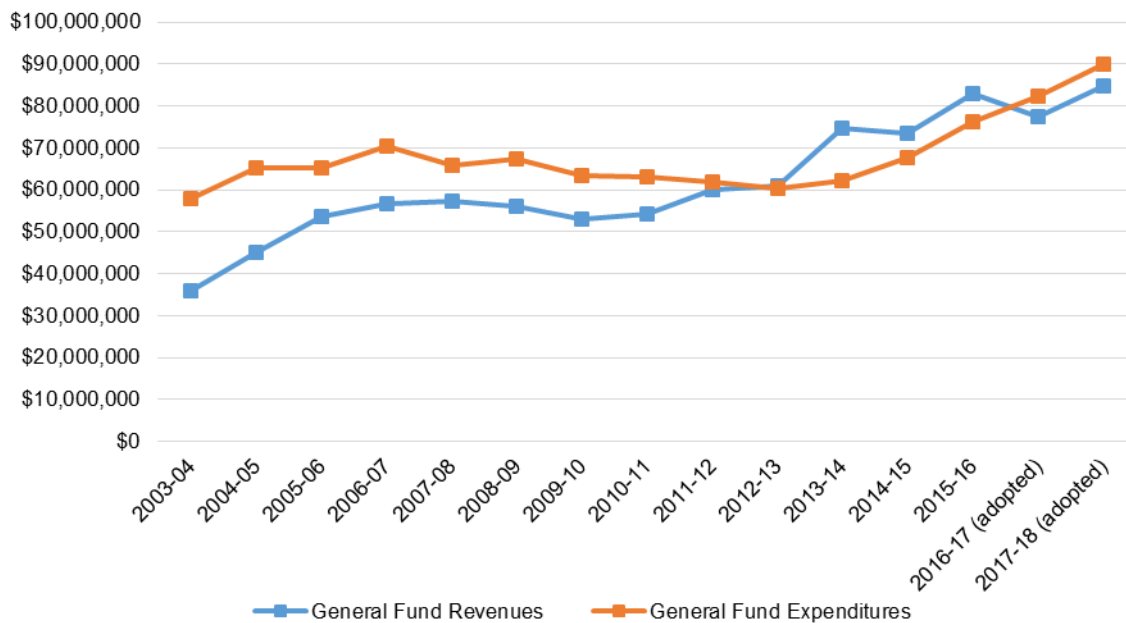
NOTES: ALL FIGURES ARE NOMINAL AND NOT ADJUSTED FOR INFLATION. REVENUE ESTIMATES EXCLUDE TRANSFERS AND EXPENDITURES EXCLUDE CAPITAL EXPENDITURES.
SOURCES: CITY OF MILPITAS; BAE, 2018.

CHART 1.5-3: GENERAL FUND REVENUES BY MAJOR SOURCE, 2003-2018

NOTES: ALL FIGURES ARE NOMINAL AND NOT ADJUSTED FOR INFLATION. (A) EXCLUDES TRANSFERS.
SOURCES: CITY OF MILPITAS; BAE, 2018.

REFERENCES

The primary sources of data referenced for this section are the following:

City of Milpitas, Adopted FY 2015-2016, 2016-2017, and 2017-2018 Budget

City of Milpitas, Finance Department, 2015-2017 Comprehensive Annual Financial Reports for Milpitas