

San Jose



CAPITAL
OF
SILICON VALLEY

Economic Development Strategy

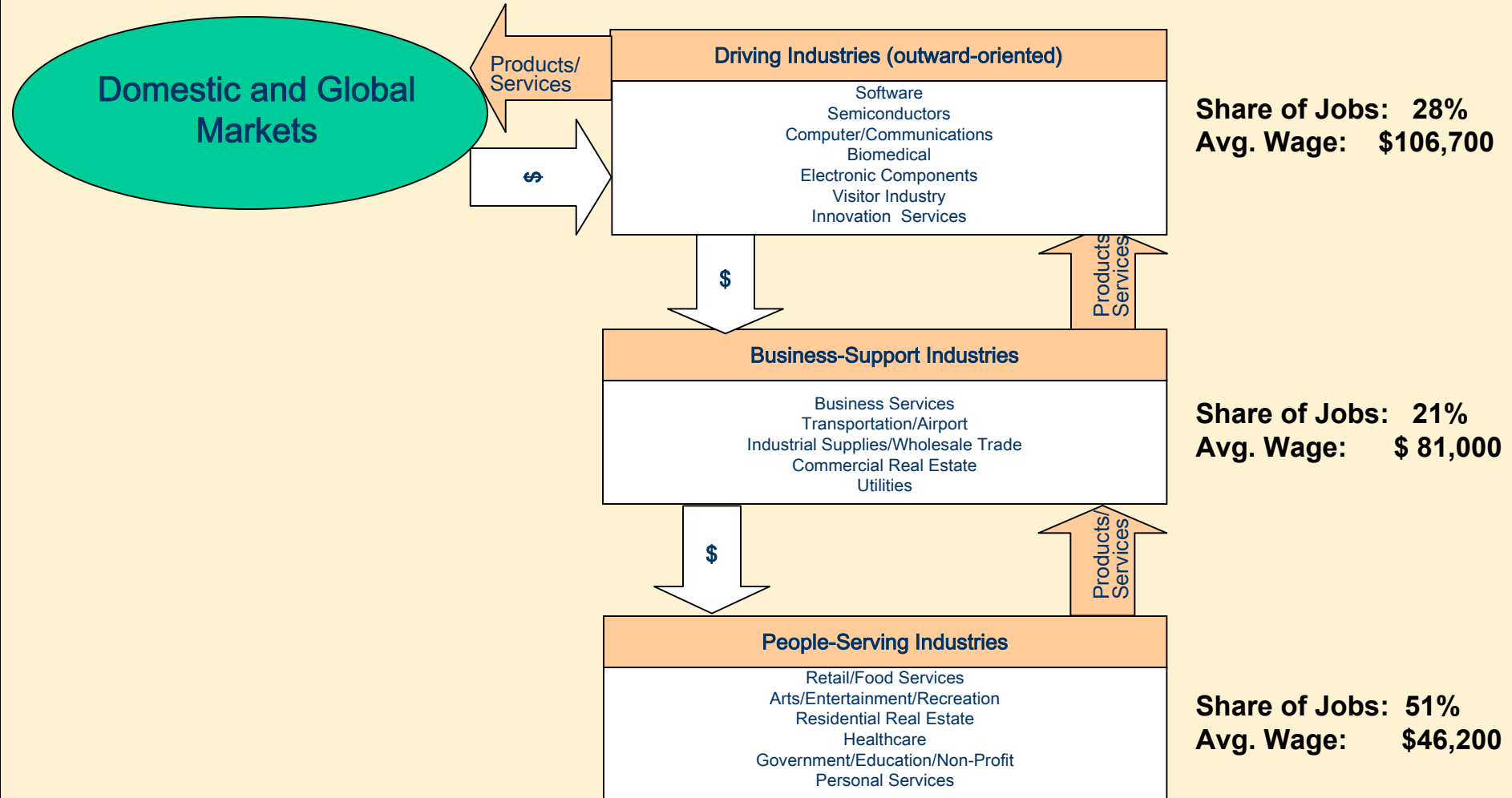
San Jose\Silicon Valley Economy: Today and Tomorrow
November 16, 2006

OVERVIEW

- I. Snapshot of San Jose Economy
- II. Short-term Performance And Outlook
- III. Factors Driving Change and Opportunity

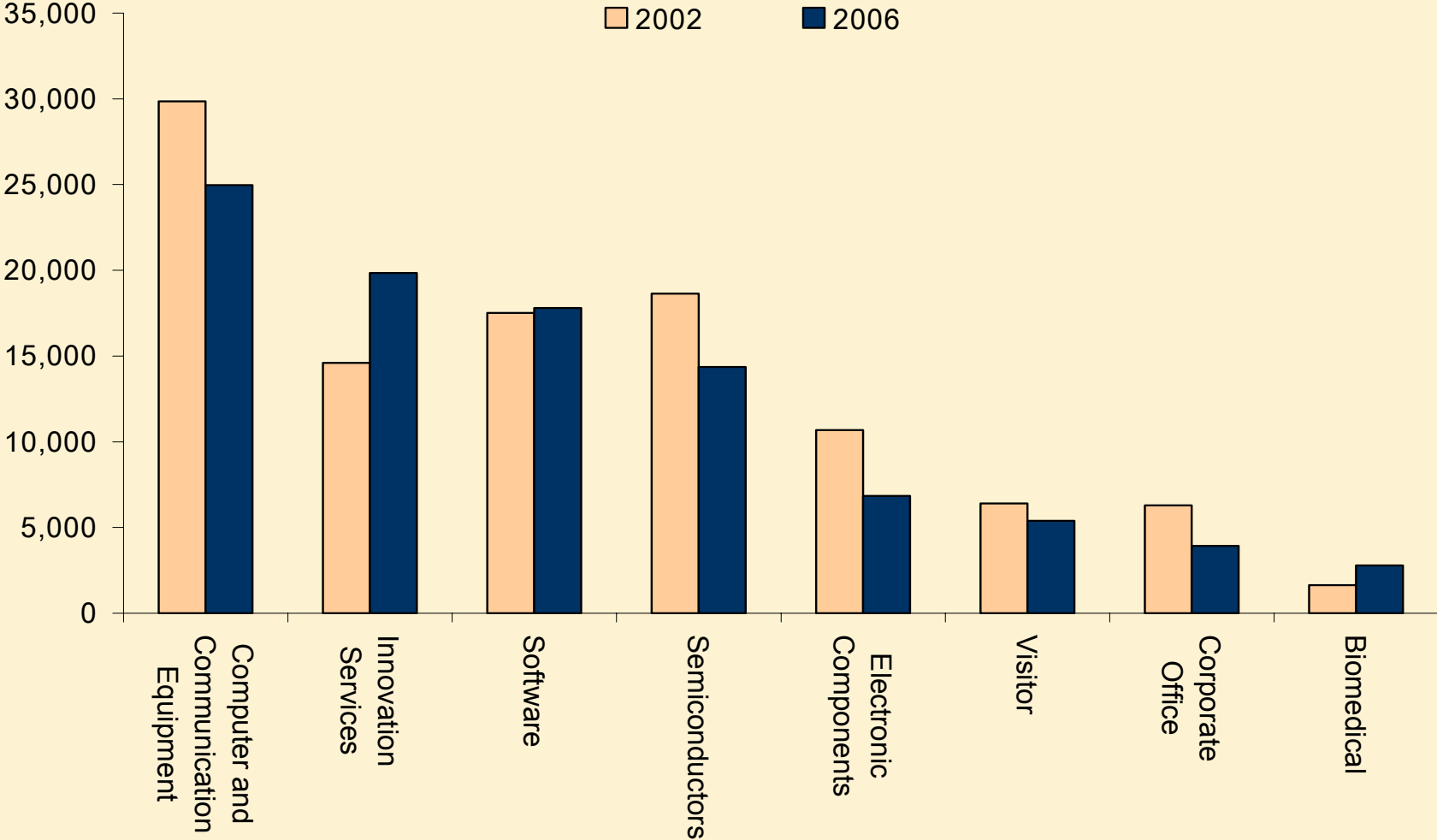
I. Snapshot of San Jose Economy

THREE INTERDEPENDENT PARTS



Because they bring outside dollars into the community, driving industries are the engines of the economy. Without healthy driving industries, the rest of the economy cannot prosper.

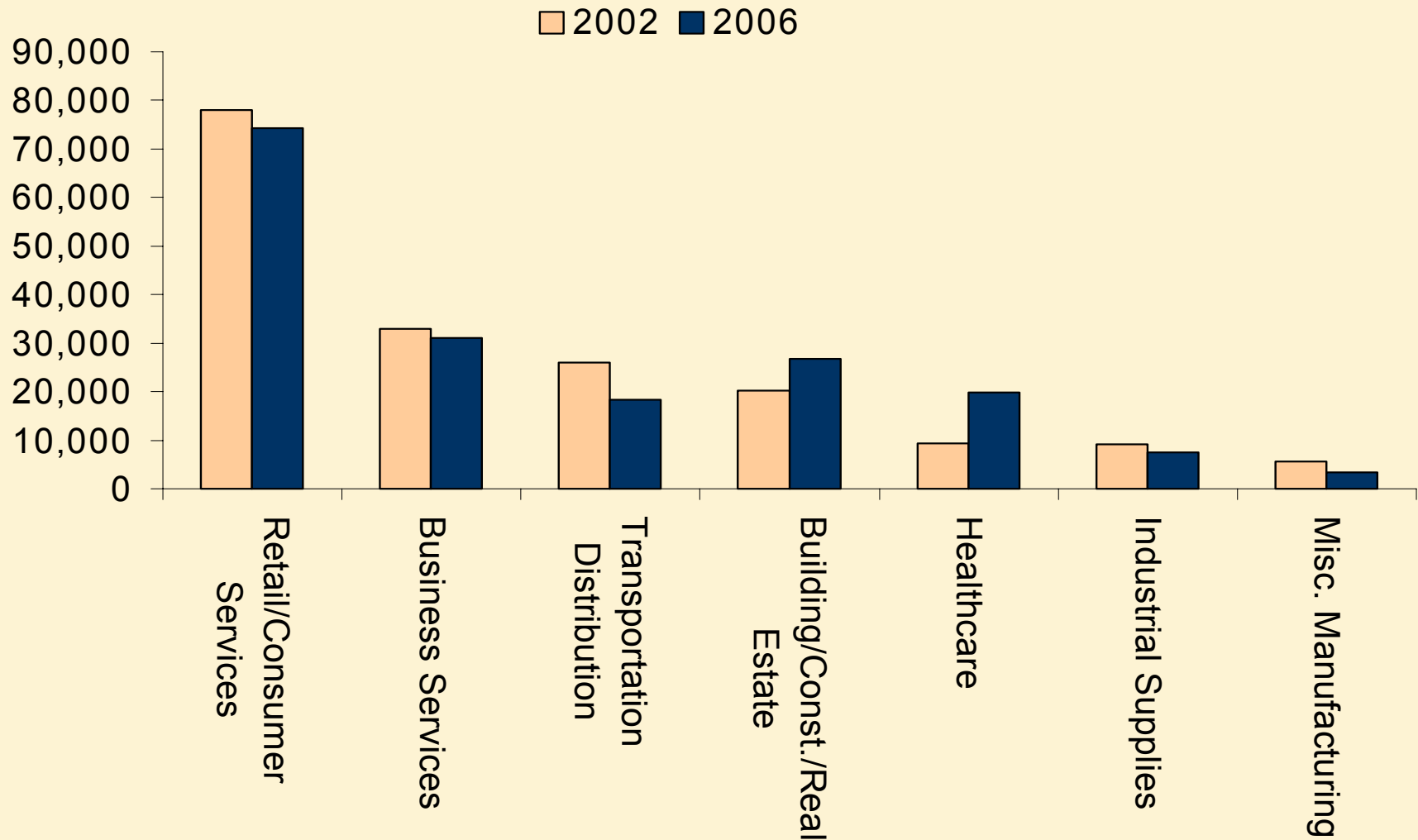
GROWTH DURING DOWNTURN IN SERVICES, SOFTWARE, BIO



Employment by Driving Industry, San Jose

Source: EDD

RECENT GROWTH IN HEALTHCARE AND CONSTRUCTION



Employment by Business and People Serving, San Jose

AVERAGE FIRM SIZE IS SMALL, EVEN IN DRIVING INDUSTRIES

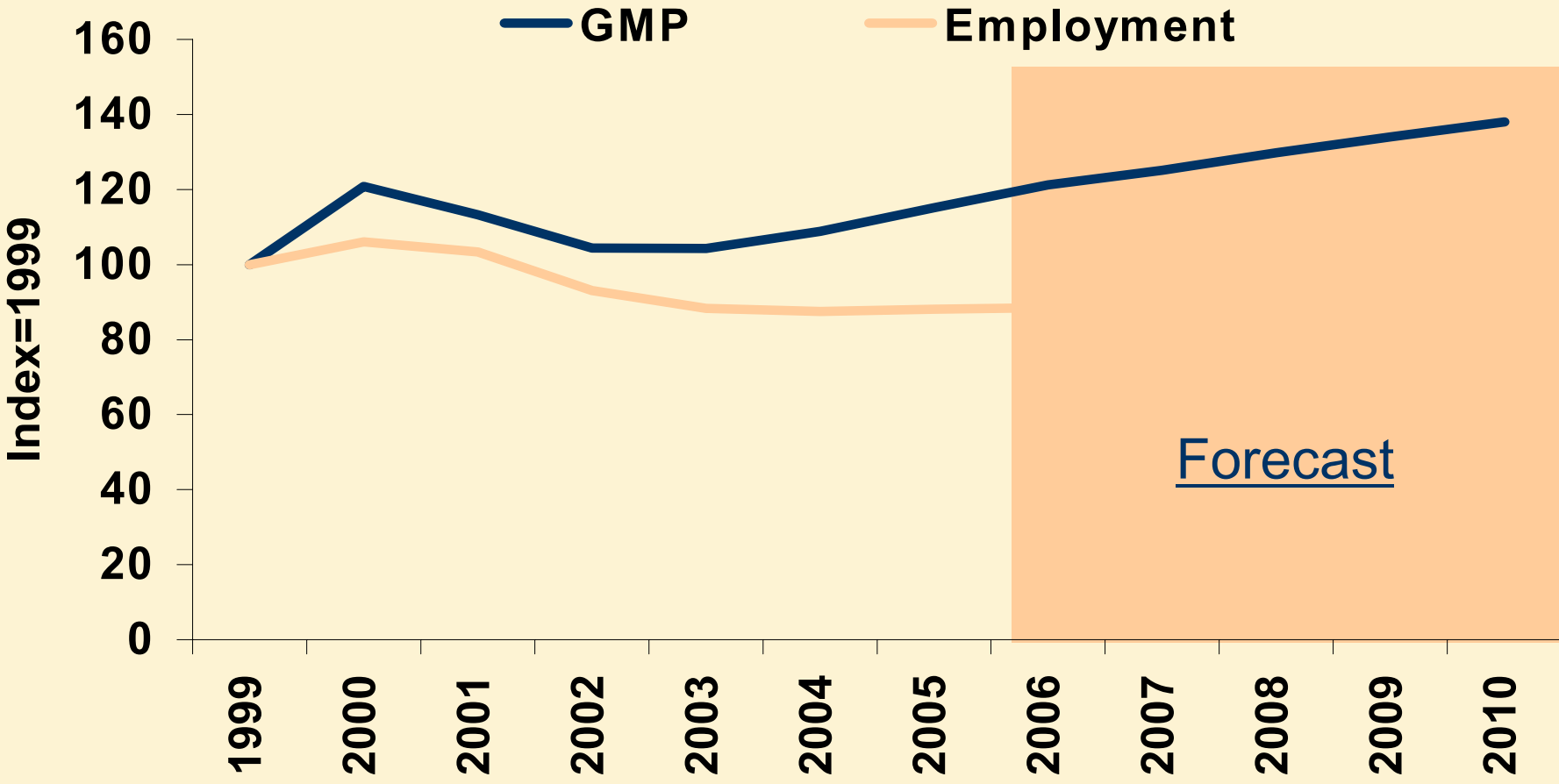
Driving Industries	Avg. Wage 2006	Avg. Firm Size 2006
Software	\$164,400	20
Semiconductors	125,000	82
Computer/Communications	159,000	350
Biomedical	81,500	46
Electronic Components	68,300	66
Visitor Industry	27,100	54
Corporate Office	70,900	55
Innovation Services	83,600	10

Business-Support Industries		
Business Services	\$48,900	14
Wholesale Trade	91,800	13
Industrial Supply	51,500	19

People-Serving Industries		
Healthcare	\$55,200	13
Retail/Food Service	26,300	14
Arts/Entertainment/Recreation	36,000	25

II. Short-Term Performance and Outlook

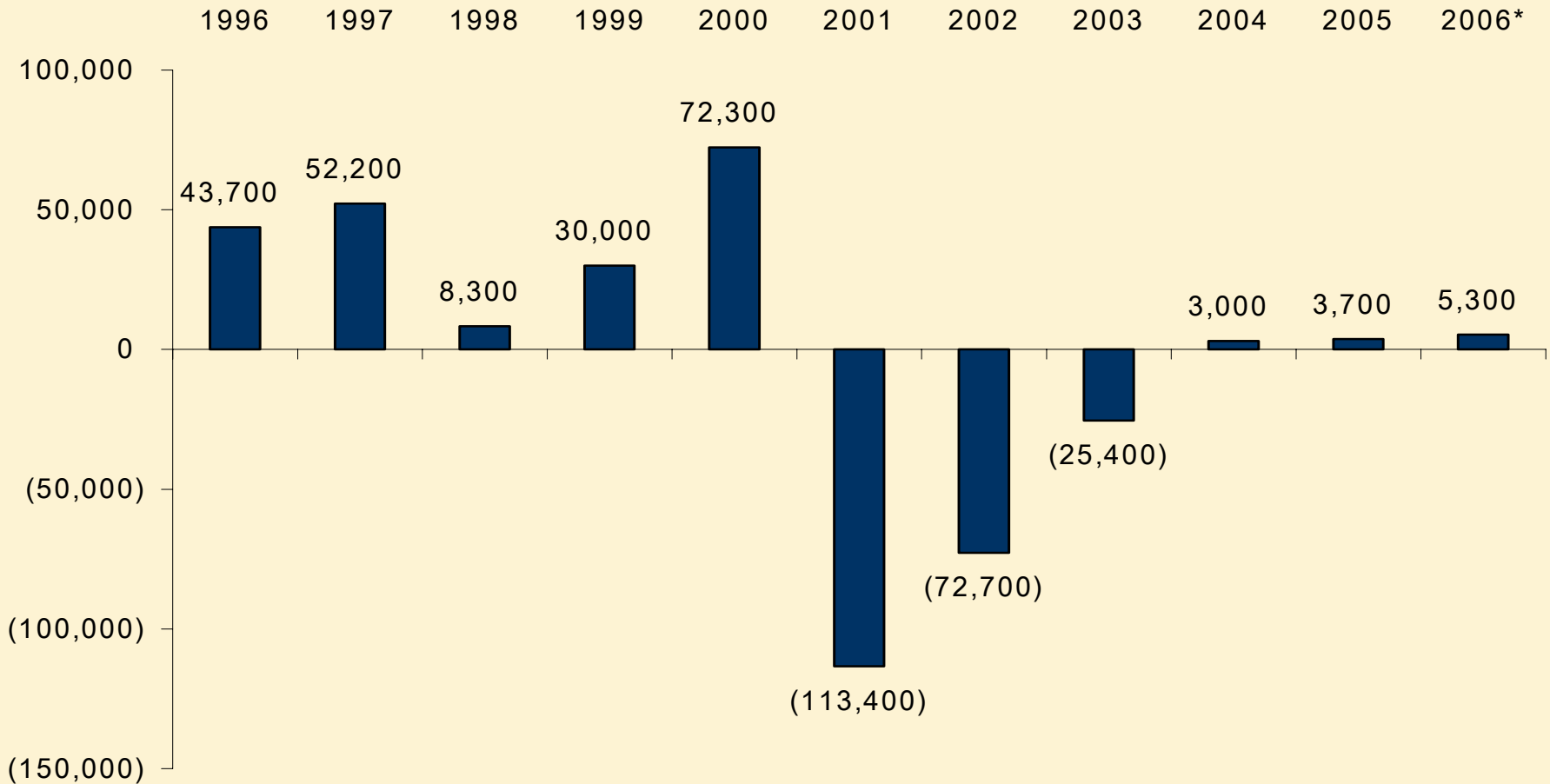
GMP SURPASSES 2000 LEVEL, JOBS 16% BELOW



Gross Metropolitan Product San Jose MSA

Source: Economy.com

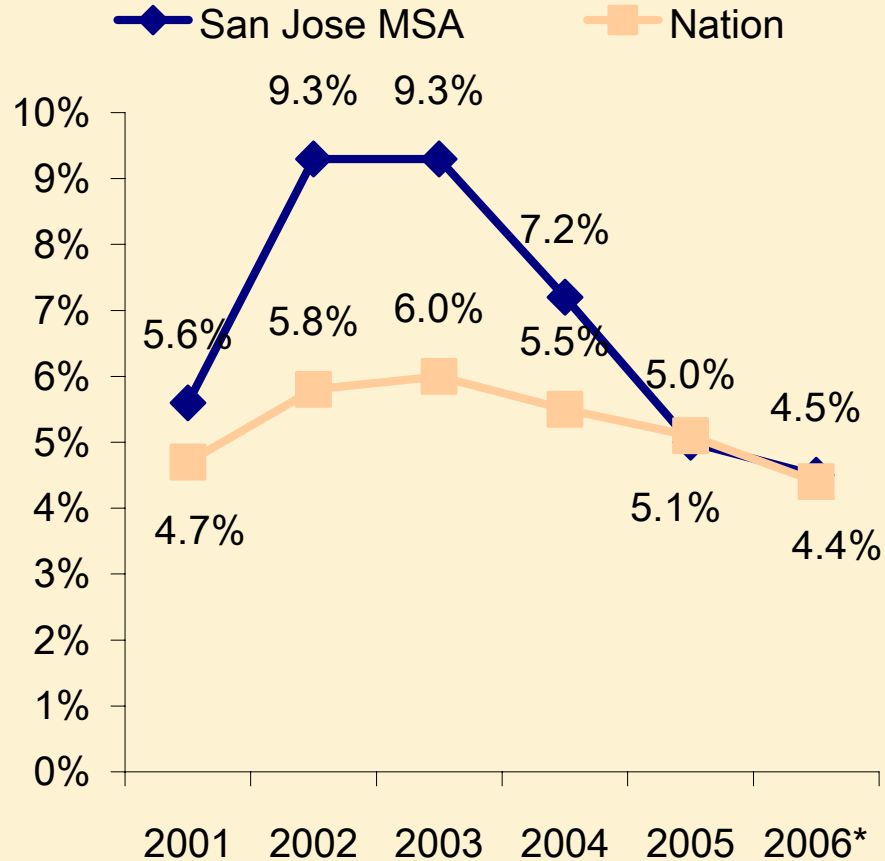
JOB GROWTH HAS STARTED



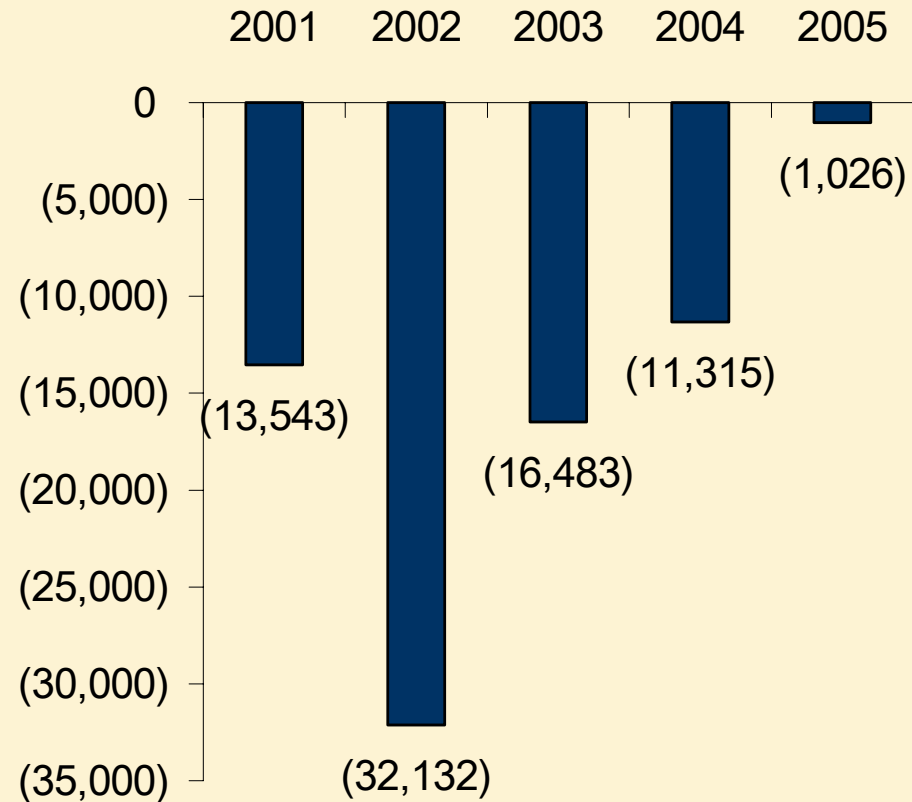
8,500 of the 12,000 new jobs were gained in the last 12 months (Sept. 05-06)

Job Growth, San Jose MSA

UNEMPLOYMENT AT NATIONAL NORM; LABOR MARKET ADJUSTED

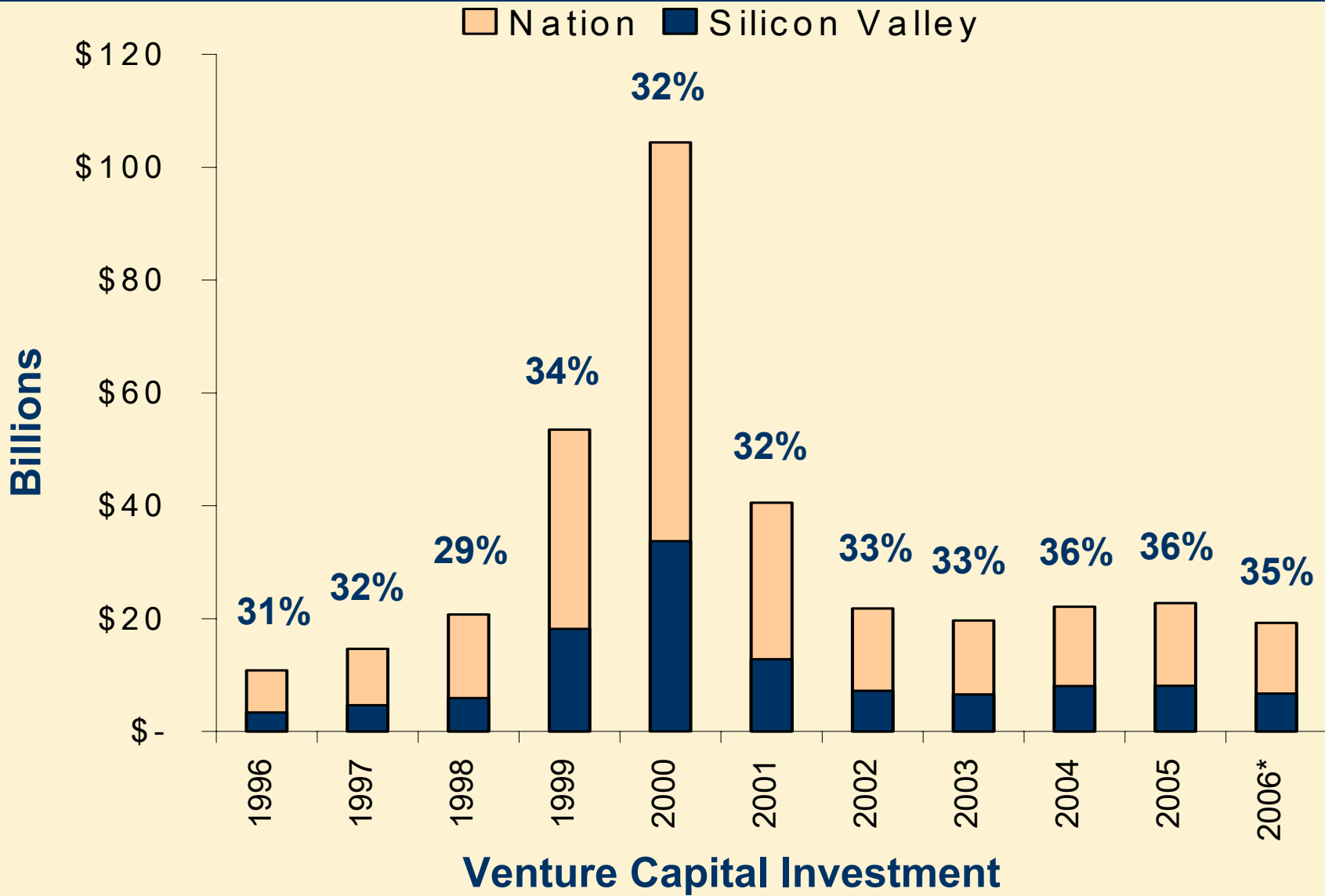


**Unemployment,
San Jose MSA**



**Net Migration,
San Jose MSA**

VC INVESTMENT IS UP THIS YEAR



CAN'T ESCAPE NATIONAL CONTEXT

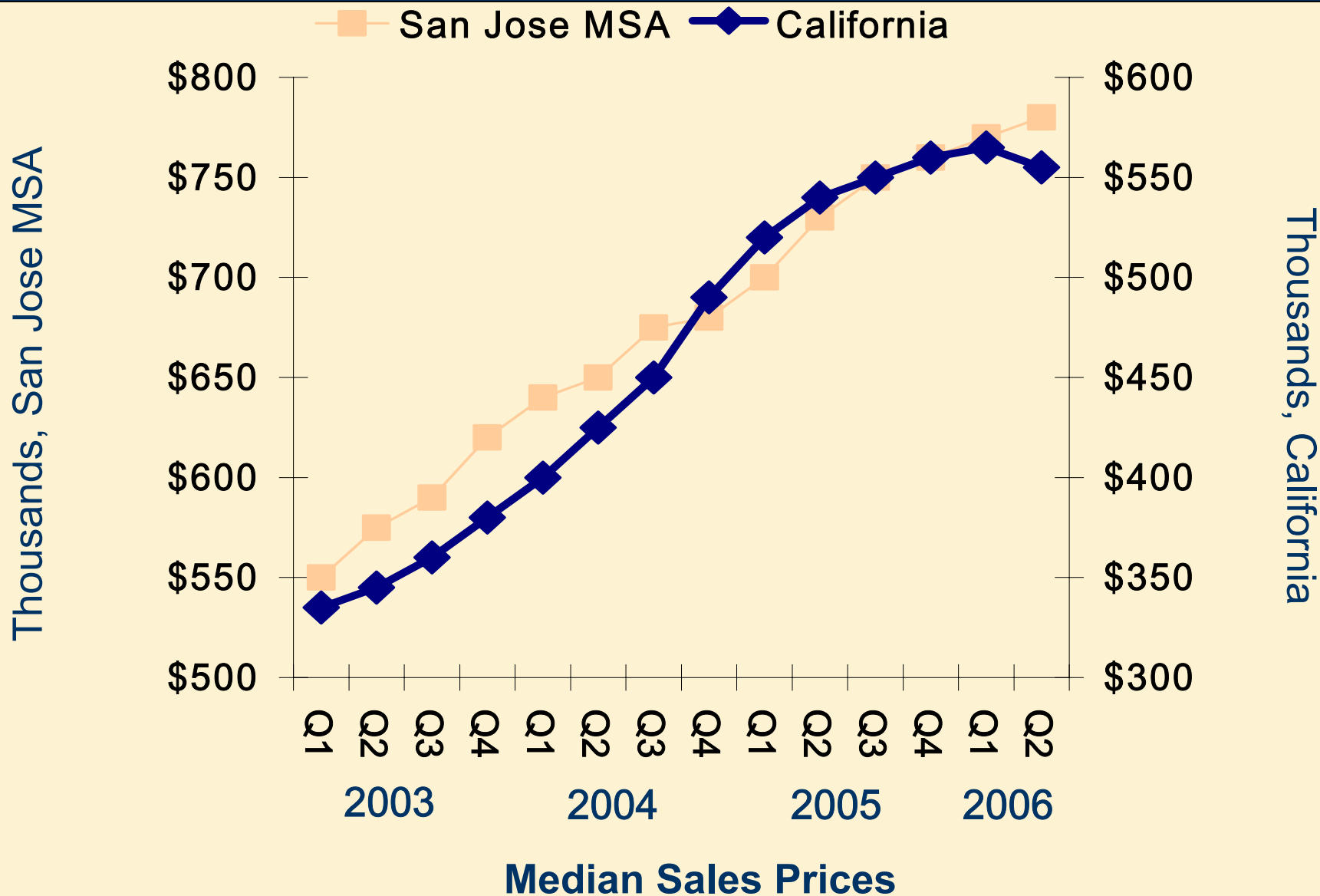
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- ✓ National Housing Downturn
- ✓ War/Uncertainty
- ✓ Inflation Concerns

+

- ✓ Oil Prices Down
- ✓ Long-Term Interest Rates Down
- ✓ Exports Up
- ✓ Unemployment at 5-Year Low

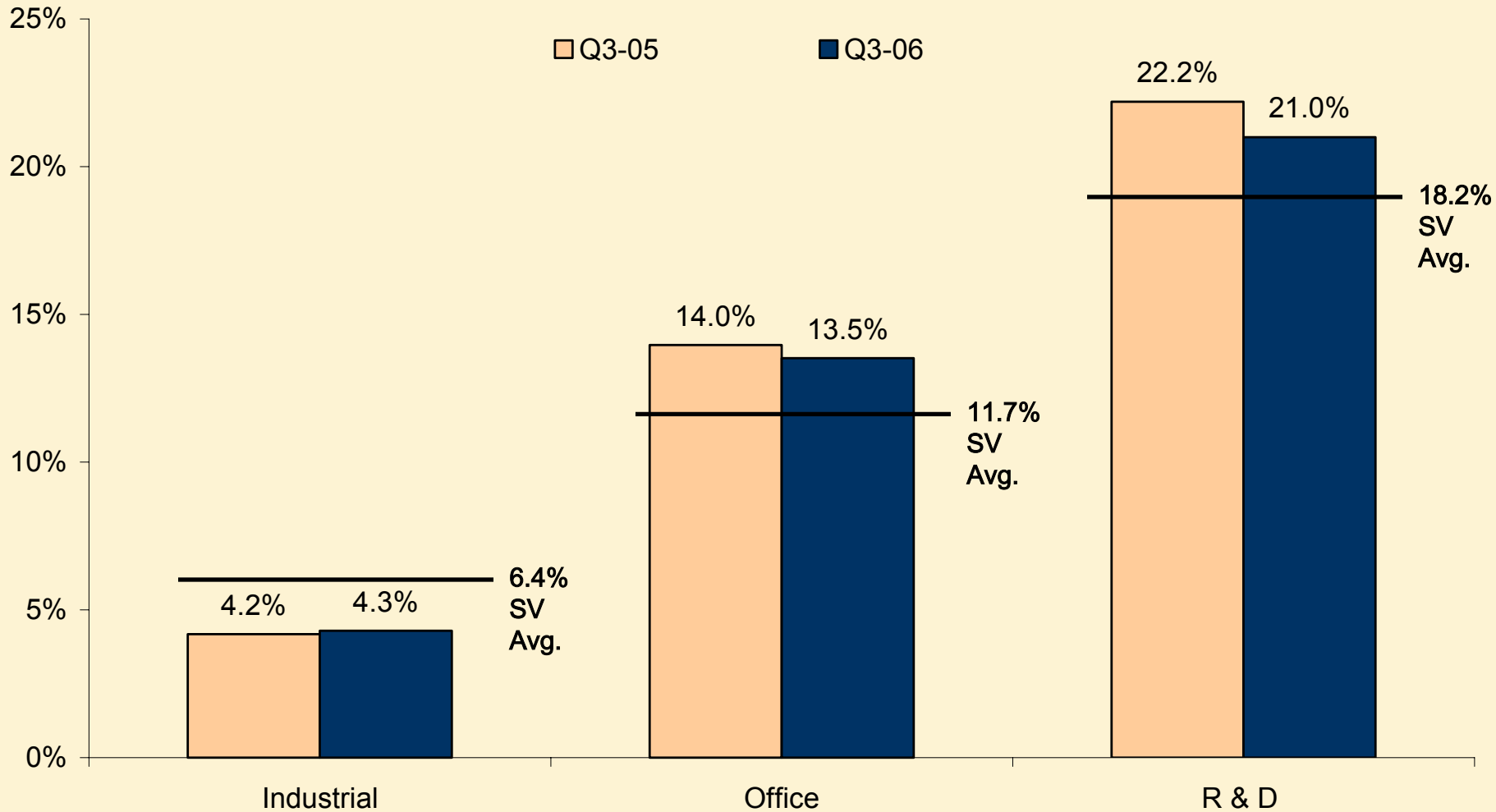
EXPERTS EXPECT RELATIVELY MODERATE DECLINE IN SAN JOSE HOUSING MARKET



LOCAL JOB GROWTH PROJECTIONS

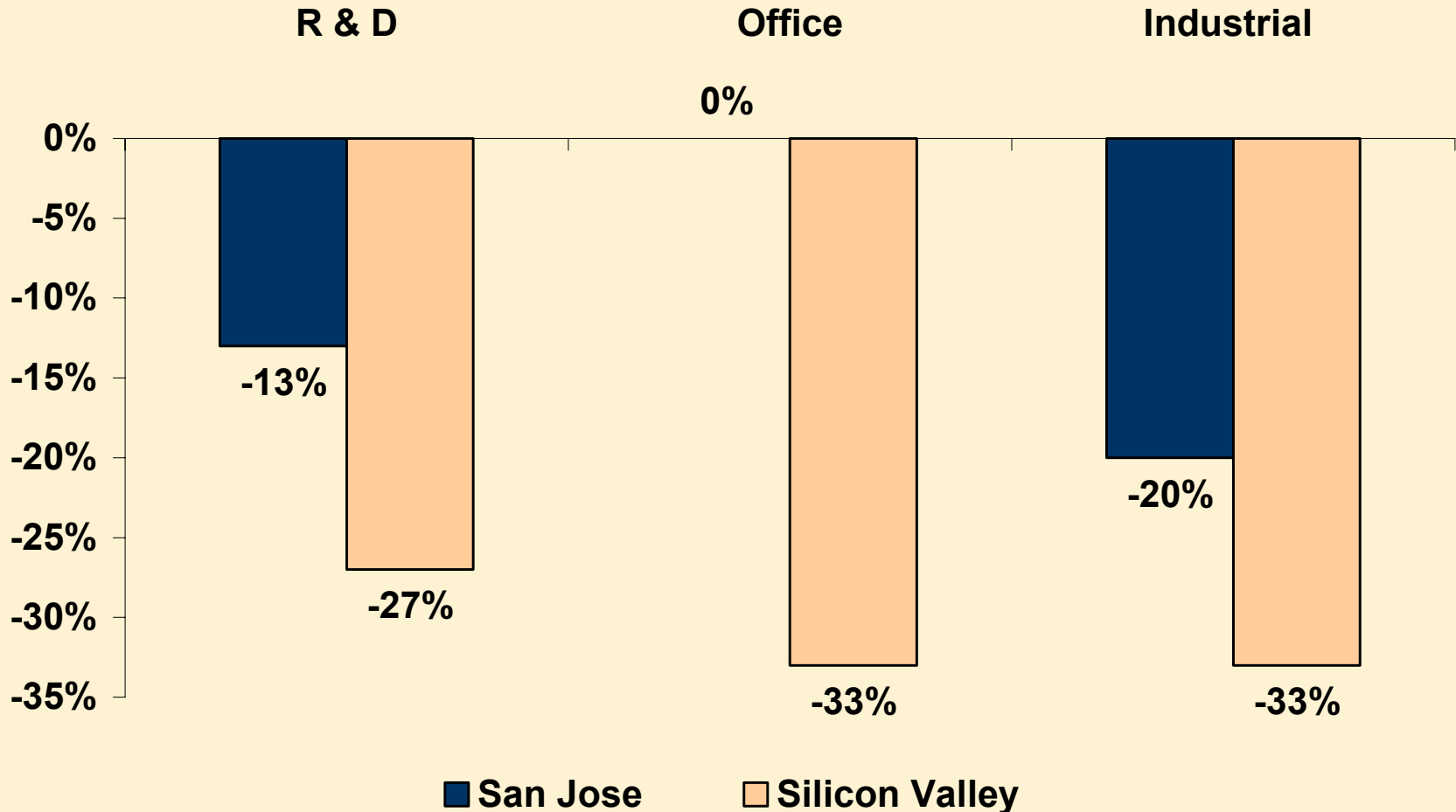
- Most likely: Job creation in new companies will slightly exceed continuing layoffs in some existing companies. Population-serving sectors grow.
- Less than 1% employment growth in 2006, 2007, 2008; just above 1% for 2009 and 2010
- If housing holds steady, near-term slowdown in early 2007 may not materialize.

SAN JOSE'S VACANCY IMPROVES, OFFICE/R&D LAGS REGION



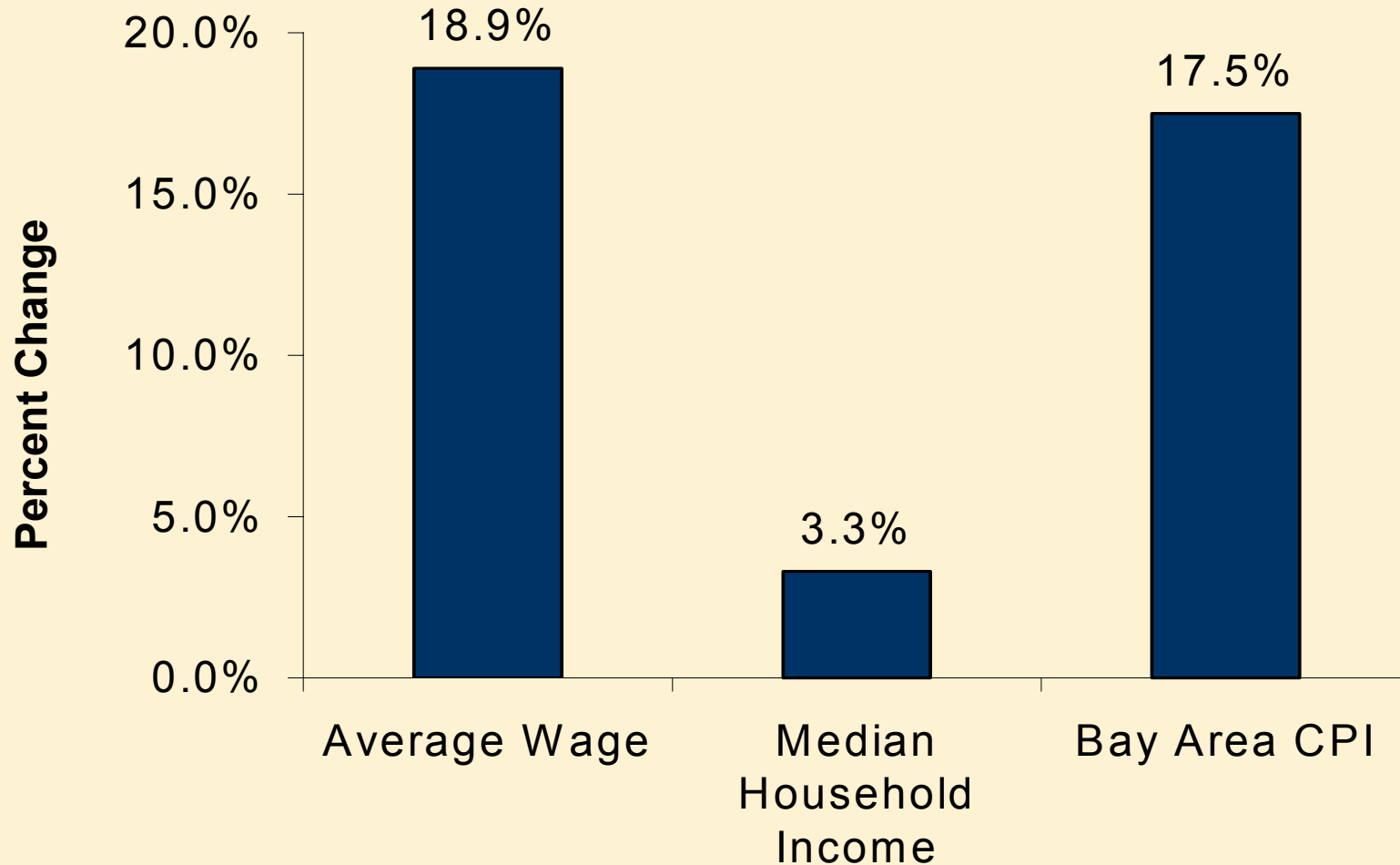
Vacancy Rates, San Jose 05-06

SAN JOSE'S REAL ESTATE ABSORPTION LAGS BEHIND VALLEY



Reduction in Available Square Feet, Sep 03-Sep 06

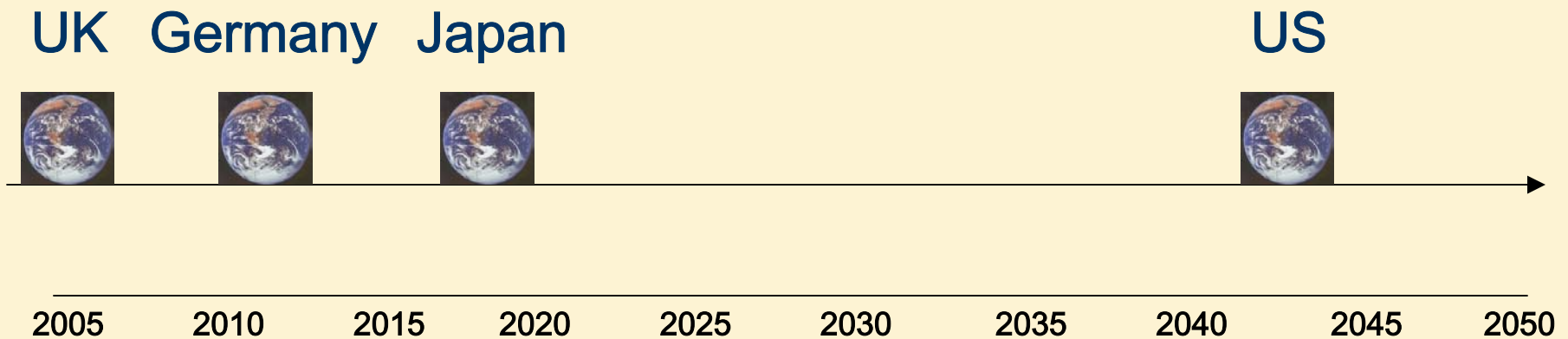
AVERAGE WAGES ALIGN WITH CPI, HOUSEHOLD INCOME NOT



**Income Growth Compared to Consumer Prices
Santa Clara County, 1999-2005**

III. Factors Driving Economic Change and Opportunity

DECLINING SIGNIFICANCE OF U.S. IN GLOBAL ECONOMY



Year that China expected to surpass
largest national economies

China drives rise of "Innovative Asia"

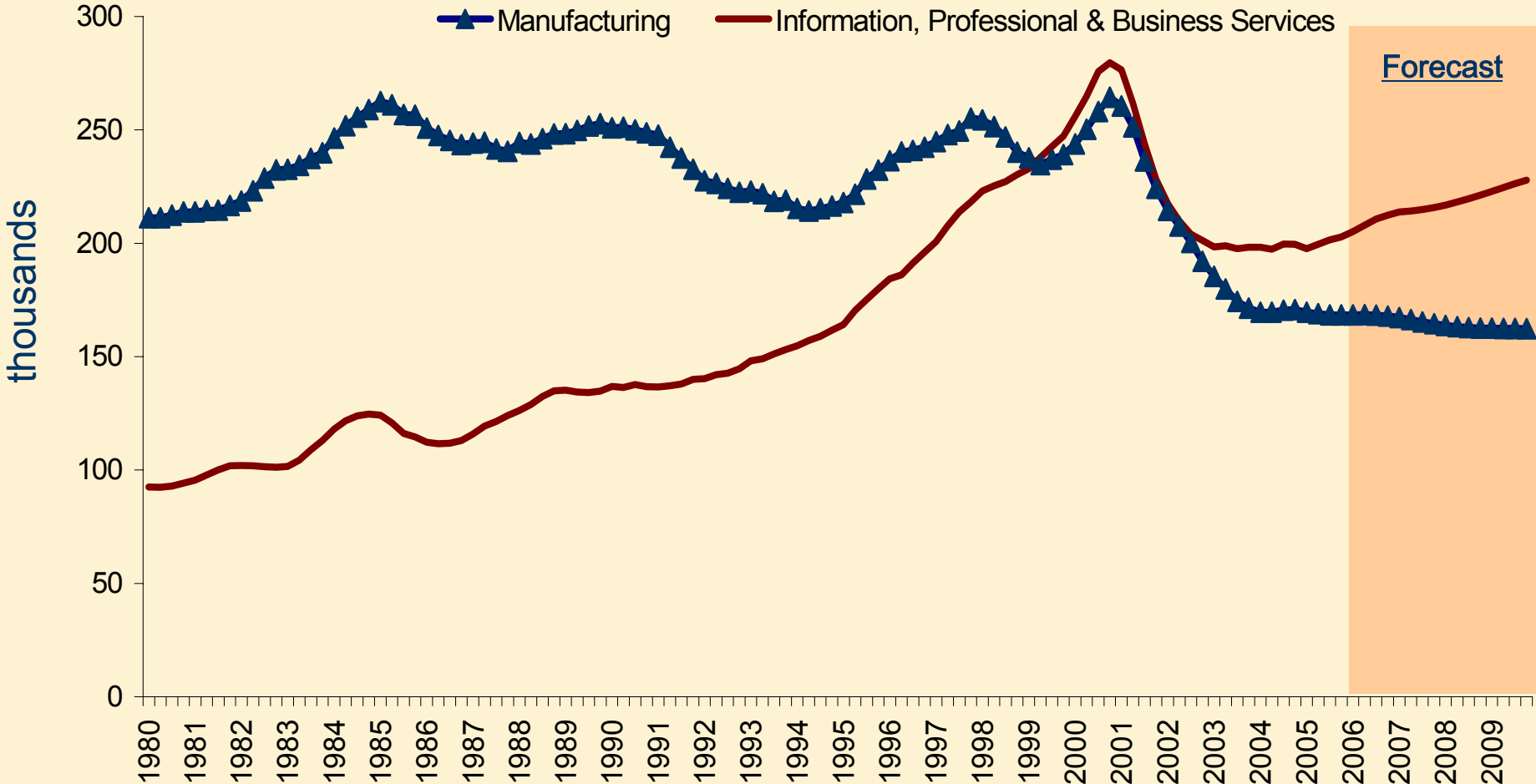
OUR REGION'S ROLE IN GLOBAL ECONOMY

- ✓ Idea generation/concept development
- ✓ New business creation
- ✓ Global business leadership
- ✓ Advanced technology research
- ✓ Cross-disciplinary innovation

ARE PROMISING GROWTH AREAS

- ✓ Web 2.0: consumer and business internet
- ✓ Convergence: nano+bio+info
- ✓ Green technology, including alternative energy
- ✓ Health, including personalized medicine
- ✓ Services productivity and innovative services

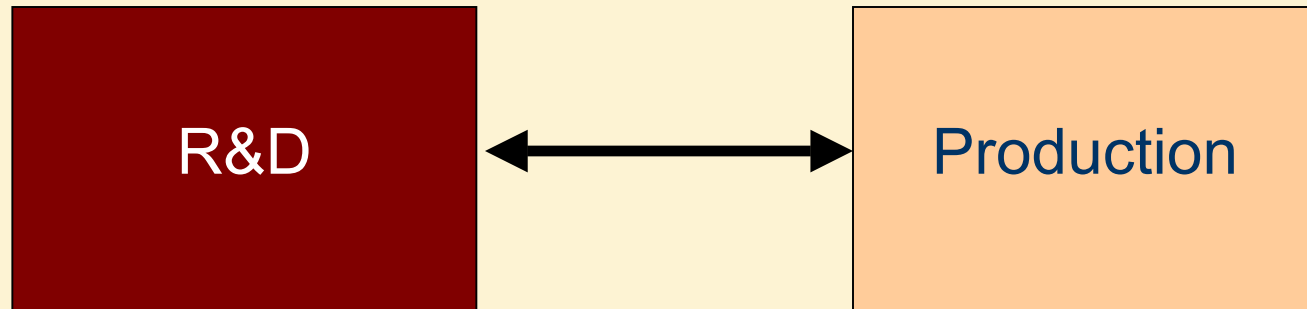
GLOBAL SHIFT TO SERVICES



Jobs in San Jose MSA

Source: Property & Portfolio Research

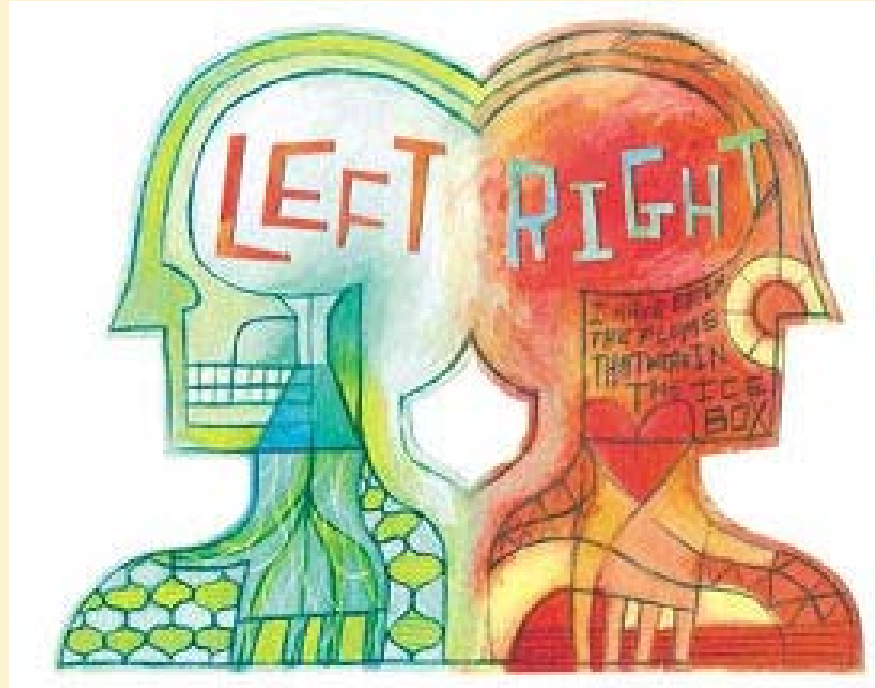
BUT, MANUFACTURING STILL MATTERS HERE...



- ✓ Pilot Lines
- ✓ Highly Efficient, Automated
- ✓ Highly Customized
- ✓ Very High Value

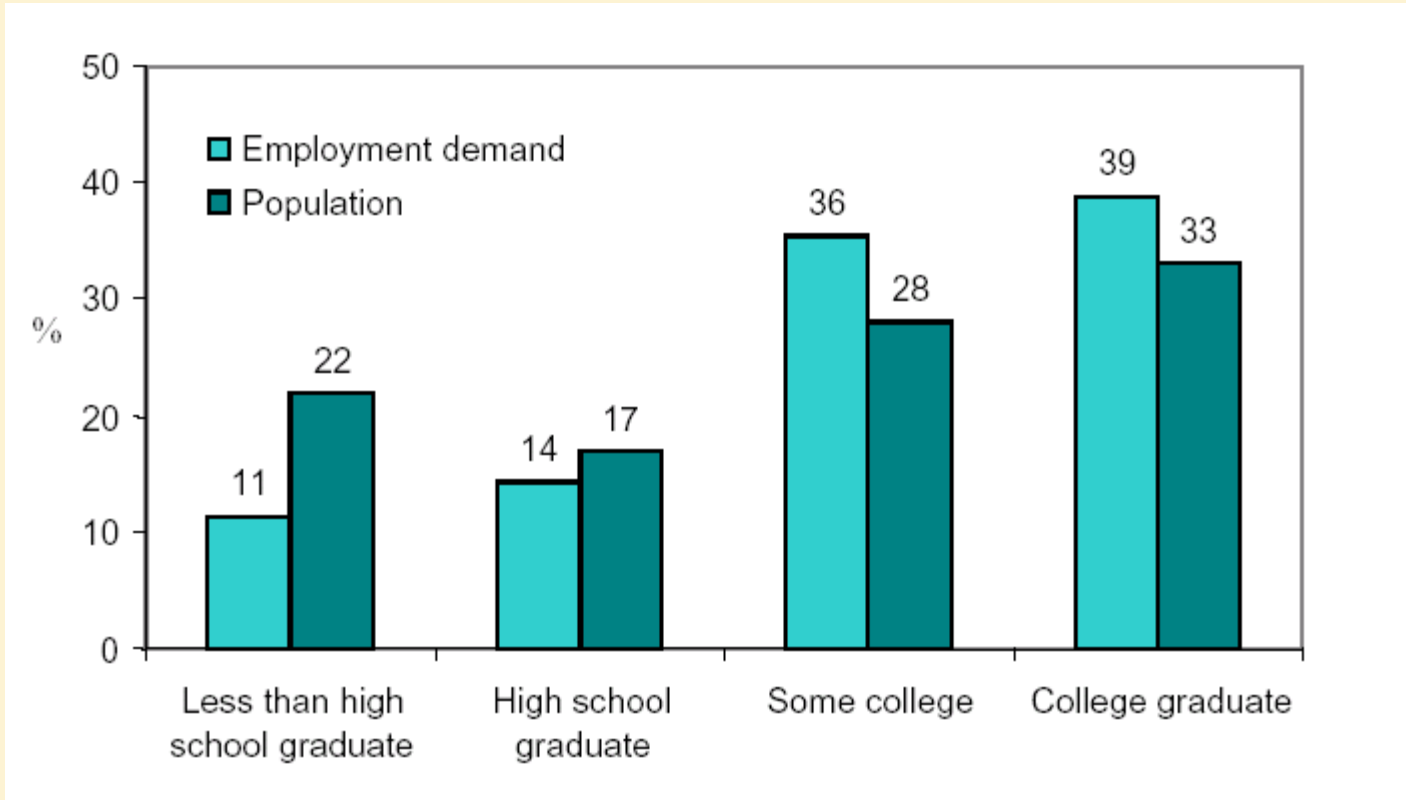
A MORE CONSUMER-ORIENTED, CROSS-DISCIPLINARY VALLEY

- Logical
- Mathematical
- Linear
- Sequential
- Verbal
- Rational



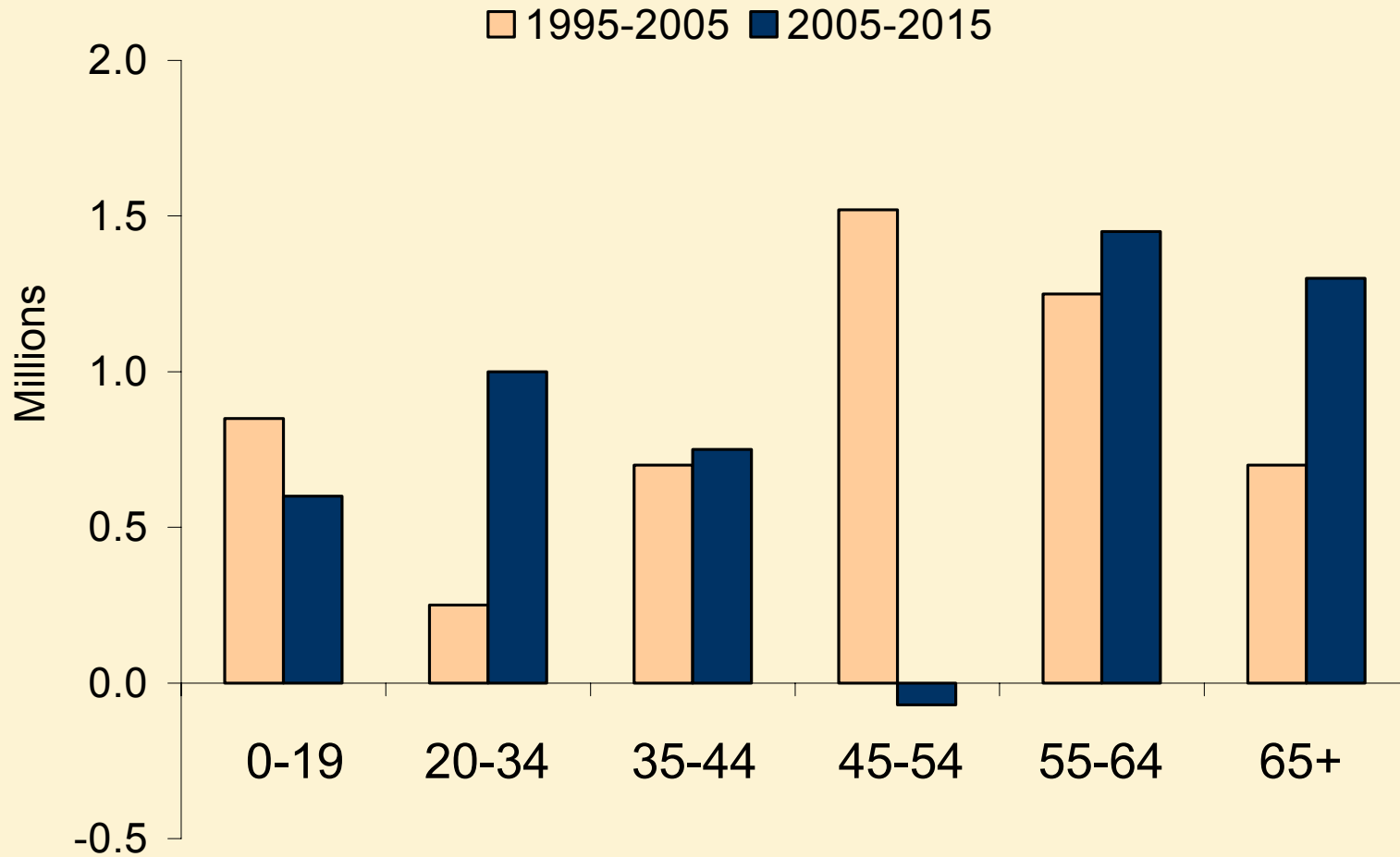
- Intuitive
- Artistic
- Nonlinear
- Simultaneous
- Visual
- Emotional

MORE, BUT NOT MOST, JOBS WILL REQUIRE COLLEGE DEGREE



Education Projections for 2020, California

SLOW GROWTH IN CORE WORKFORCE DEMOGRAPHIC



Population Growth by Age Group, California

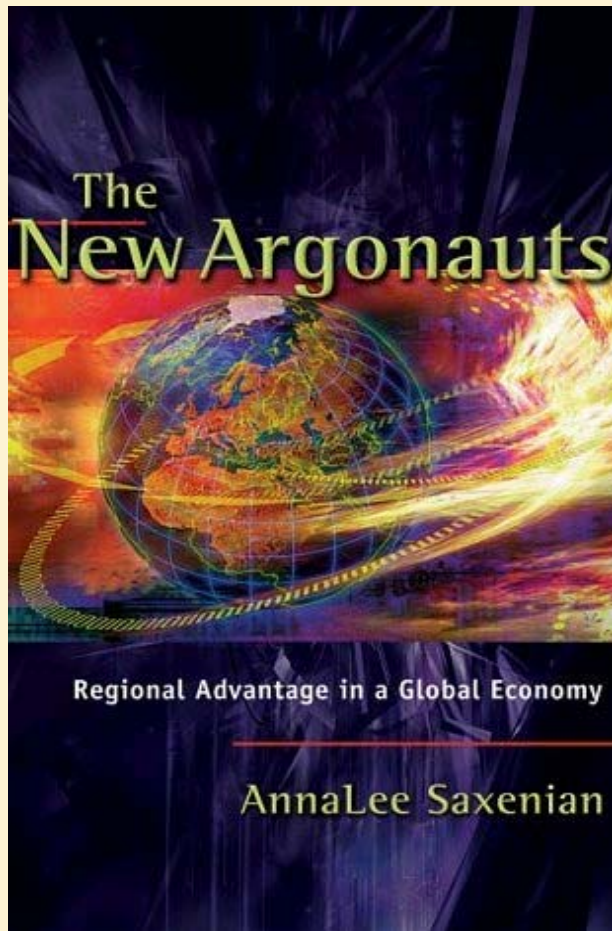
A RESIDENT PROFILE DISTINCT AMONG HIGH-TECH HUBS

Rank	City	Foreign Born
1	Miami	58%
2	L.A.	40
3	San Jose	38
4	New York	37
5	Houston	29

Country of Origin, San Jose MSA	
Mexico	23.0%
Other Asia	20.7
Vietnamese	13.9
Chinese	13.8
Indian	11.4
European	8.8
Other Countries (Africa, Oceania, Americas)	8.5

American Community Survey, 2005

THE NEW ARGONAUTS: “BRAIN CIRCULATION”



- ✓ Taiwan
- ✓ China
- ✓ India

- ✓ Vietnam
- ✓ Mexico

CONSTANT CHANGE

“Change is only another word for learning...If you want to change, try learning, or more precisely, if you want to be more in control of your change, try taking learning more seriously.”

-Charles Handy

HOW LOCAL GOVERNMENT AFFECTS THE ECONOMY

Role of Local Government	Key Success Factors
<p>#1 Adopts Policies to Shape the Qualities of the Community</p> <p>...that make it attractive to attract, retain, and develop talent</p>	<ul style="list-style-type: none"> ✓ Variety of quality neighborhoods, range of housing types and prices ✓ Vibrant downtown & commercial centers ✓ Distinctive arts, culture, & entertainment ✓ Outdoor recreation & environment quality ✓ Safety
<p>#2 Determines How Land is Used & Facilities are Developed</p> <p>...in order to ensure balanced & quality community development</p>	<ul style="list-style-type: none"> ✓ Transparent, inclusive planning and clear land use policies ✓ Timely, predictable permitting process ✓ Land available for development and redevelopment ✓ Adaptability to changing circumstances ✓ Regulations enforced fairly and consistently
<p>#3 Provides Local Infrastructure to Ensure Business Efficiency & Investment</p>	<ul style="list-style-type: none"> ✓ World-accessible airport ✓ Accessible, connected road, public transit, bike, and pedestrian networks ✓ Dependable and cost-effective utilities ✓ Ubiquitous high-speed Internet access ✓ Civic facilities (e.g. Convention Center)

HOW LOCAL GOVERNMENT AFFECTS THE ECONOMY (Cont'd)

Role of Local Government	Key Success Factors
<p>#4 Spends Money on Capital Projects & Public Services</p>	<ul style="list-style-type: none"> ✓ High level of customer satisfaction ✓ Efficient expenditure of public resources ✓ Investments well maintained over time ✓ Economic stimulus to local community, where appropriate
<p>#5 Supports Development of the Local Workforce</p> <p>...that is skilled, productive, and able to learn lifelong</p>	<ul style="list-style-type: none"> ✓ Early childhood education ✓ Strong K-12 system ✓ Training/lifelong skill acquisition ✓ Efficient labor market/career progression ✓ Infrastructure for economic participation
<p>#6 Supports Innovation and Entrepreneurship</p> <p>...creating an environment that supports risk-taking, industry change, and business partnering</p>	<ul style="list-style-type: none"> ✓ Access to R&D assets ✓ Support for business start-up and expansion ✓ Widespread technology adoption ✓ International business linkages ✓ Emerging industries nurtured

HOW LOCAL GOVERNMENT AFFECTS THE ECONOMY (Cont'd.)

Role of Local Government	Key Success Factors
<p>#7 Establishes Policies to Align Business Behavior with Community Goals</p> <p>...aligned with community values & goals</p>	<ul style="list-style-type: none"> ✓ Values role of local businesses ✓ Considers impact of public decisions on the economy ✓ Thoughtful and inclusive policy development process ✓ Adopts fair and reasonable policies
<p>#8 Communicates the Community's assets, advantages, and aspirations</p> <p>...internally & externally</p>	<ul style="list-style-type: none"> ✓ Compelling community identity ✓ Clear, consistent, and honest communication of message
<p>#9 Provides Leadership for Long-Term Economic Success</p>	<ul style="list-style-type: none"> ✓ Shared community vision ✓ Gather, analyze, and report data ✓ Public-private-nonprofit partnerships, regional collaboration ✓ Vigilance about competition ✓ Capture external resources