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Report: Silicon Valley in decline

BY BRIAN BERGSTEIN
AP Business Writer

PALO ALTO -- Silicon Valley may become a victim of its own success.

A report released Wednesday says the sprawling area south of San Francisco could lose its place as the world's premier high-tech zone because of the high costs of living and doing business here, a shortage of qualified workers and worsening traffic.

The second annual report from Joint Venture: Silicon Valley Network, a regional organization, and the A.T. Kearney consulting firm said local governments need to do more to address such quality-of-life issues.

While most blue-chip companies are anchored here for now, innovative start-ups are increasingly finding more attractive environments in such other "Internet clusters" as Massachusetts' Route 128, Germany's "Silicon Saxony" and Singapore's "Intelligent Island," the report said.

"People definitely are not as positive or optimistic as

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'everything's going to be fine' as they were, say, two years ago," said the report's lead author, A.T. Kearney consultant Praveen Madan. "A lot of people are feeling the pain of these growth challenges."

For example, the median home price in Santa Clara County -- home to northern California's largest city, San Jose -- passed \$500,000 in the last year. Many service workers have been priced out of the region, and two-hour commutes from less expensive areas are not unheard of.

Last year's report reached similar conclusions about the problems facing Silicon Valley, the home of dozens of the biggest names in technology and the Internet, such as Intel Corp., Oracle Corp. and Yahoo! Inc. and countless new start-ups, incubators and venture capital firms.

But this year's study, based on interviews of executives at more than 100 companies, placed an increased emphasis on the need for local governments to help.

Madan said many Silicon Valley companies want more collaboration between local governments and faster execution of their plans to build affordable housing, improve congestion and increase job training. The companies' wish list also includes a lower tax burden for start-ups.

At a panel discussion of the report Wednesday near Stanford University, Mountain View Mayor Rosemary Stasek pointed out that high-tech companies are asking local government to do more but still seeking such breaks as sales tax exemptions on electronic commerce. And property taxes, local governments' other main source of revenue, have been strictly limited in California by Propositions 13 and 218.

"Give us the resources and we will solve these problems, because we have the biggest stake in them," Stasek said.

Michelle Montague-Bruno, spokeswoman for the Silicon Valley Manufacturing Group, which tries to foster collaboration between its 200 member companies and local leaders, said many companies also are worried about whether the power grid can keep up. In a heat wave in June, state regulators imposed rolling blackouts in northern California, partly because of the demands of the plugged-in New Economy.

But despite the tax benefits, new technology parks and other perks being offered to high-tech companies in other places,

there are several things unique to Silicon Valley -- such as its entrepreneurial spirit and an impressive talent pool from Stanford and the University of California, Berkeley.

``Sand Hill Road cannot be franchised like Starbucks," said Daphne Carmeli, president and chief executive of Metreo Inc., referring to the Menlo Park street that is home to many of the area's venture capitalist firms.

Cisco Systems Inc., which has about 14,000 workers in Silicon Valley, cited such factors in deciding to expand in San Jose rather than elsewhere. The Internet equipment company plans a \$1.3 billion office complex in San Jose's Coyote Valley that has been closely coordinated with the city but criticized by environmentalists and slow-growth advocates.

``We believe it's a very attractive place to stay," Cisco spokesman Steve Langdon said, ``at the same time acknowledging there are issues that need to be addressed on a regional basis and collaboratively between governments, businesses and interests and community groups."

On the Net:

Joint Venture: Silicon Valley Network --
<http://www.jointventure.org>

Silicon Valley Manufacturing Group --<http://www.svmg.org>



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