Just how feasible is UCSC proposal?

Second of three articles
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SANTA CRUZ — If UCSC goes ahead with its proposed 100-acre "Research and Development Center," will private industry come to lease the land?

The answer to that question figures heavily into what's known as the "financial feasibility" of the project, which is aimed at attracting tenants involved in fundamental and applied research, or in "product development in (fields) in which university faculty are engaged."

The R&D park's financial prospects have been the subject of repeated study over the last two years. In late 1982, a San Francisco-based consulting firm, the Land Economics Group, concluded that there was "sufficient demand for high-technology facilities ... to ensure timely absorption of the 500,000-600,000 square feet of space contemplated for development by UC Santa Cruz."

But the consultants also stated that a project devoted almost purely to research and development activities, as contemplated in an initial "fact-finding" study, would be "infeasible." The UCSC R&D park would need to draw a mix of research and manufacturing operations to succeed, the consultants said.

Currently, the R&D park project's economic feasibility is being studied by two groups: a committee appointed by the UCSC Academic Senate, and a panel of local "experts" appointed by Chancellor Robert Sinsheimer.

Spokesmen at other universities which have established R&D parks have indicated that their institutions' basic research programs have played an important role in drawing private firms to the developments.

By its own accounting, UCSC is "thin" in research. Current funding for basic research at UCSC is in the $6 million to $8 million-a-year range, compared to tens and hundreds of millions of dollars annually at other schools.

Development pressures in adjacent areas have also figured into the success of R&D parks at other university campuses.

UCSC is physically isolated from industrial development, in a community where the thrust of public policy is to retard, if not actively discourage, growth.

Can the UCSC campus overcome these seeming handicaps and successfully develop its own R&D center?

According to a spokesman for the university, UCSC's lack of a deep bench when it comes to research is no handicap. What the campus lacks in quantity, it makes up in quality.

The Land Economics Group's 103-page study suggests, however, that UCSC officials should not count on existing campus research programs to draw private industry to the campus. Still, the consultants indicate, UCSC has other attractions — a beautiful setting, and cheaper land, housing and labor — to offer expanding high-tech companies in nearby Silicon Valley.

But there is also reason to believe that the Santa Cruz area's comparative advantage over intensely developed Silicon Valley in land and housing costs is no longer enough to draw high-tech companies to the university campus.

According to Stephen Reed, UCSC community relations director, the Santa Cruz campus can count on its "strong interdisciplinary program," which pulls together "people we've got who are really outstanding in their fields," to lure industry to a campus research park.

"You don't have to measure it (UCSC's research programs) in the same way you measure academic strength at UC San Diego or Berkeley," said Reed, contending that UCSC's admittedly small constellation of academic stars would be a sufficient draw for the park.

Reed said that while half the R&D park's space would be taken up by the computer electronics industry, the university could expect to attract tenants from other areas as well, ranging from companies involved in "native plant research," to genetic and chemical engineering firms, to social science "think tanks" and polling firms.

"You have to look beyond the obvious," Reed said.

Reed suggested that UCSC's earth sciences and astronomy programs would be particularly strong draws for the R&D park.

"From a couple of very strong people in earthquake prediction and earth sciences," he said, "there's a whole field of tenants who would want to locate here.

"In terms of astronomy," said Reed, "we have a world-renowned department.

"It's not hard to consider them as a magnet for firms involved in astronomical research and instrumentation."

The consultants who studied the park's financial prospects were not so sanguine about the USCS campus' academic attractions.

In the case of instrumentation firms, for example, the Land Economics Group surveyed 13 Santa Clara Valley companies and reported that, "affiliation with UC Santa Cruz will not be a major drawing force." Two firms surveyed, the consultants said, "thought Santa Cruz would be a good location," because of lower housing and labor costs. But 11 firms, the consultants reported, "said that Santa Cruz would not be attractive."

The surveyed instrumentation firms' reasons for not wanting to locate here do not augur well for UCSC. One firm, the consultants reported, "did not believe Santa Cruz could supply enough trained labor to satisfy its needs." Three others, the consultants said, "explicitly stated that the campus does not possess enough faculty expertise in their product areas to warrant relocation."

And, the consultants noted, three seismic instrumentation firms "thought it would be difficult for UC Santa Cruz to compete with other universities for seismic research and development firms, which are currently concentrated in the southwest United States."

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In all, the Land Economics Group surveyed 56 Silicon Valley high-technology firms. Of the firms contacted by the consultants, five indicated they would be "interested" in locating facilities on the UCSC campus, 13 "said they thought the campus would be attractive but were not contemplating relocation," and 23 companies "reported that they were not interested in the site." The consultants said that 15 other firms "either did not have enough information or did not respond to the question."

The consultants said that "insufficient faculty expertise or departmental size in relevant fields" was a factor most commonly cited by companies to explain why they would not be interested in setting up shop in Santa Cruz. Other factors cited by the firms, they said, were Santa Cruz' "isolation from vendors and suppliers, distance from airports and inadequate labor pool."

Despite the generally discouraging findings of their industrial survey, the Land Economics Group still concluded that UCSC would succeed in drawing firms to the campus. UCSC's chief drawing cards, they said, are "less expensive housing, lower labor costs, and more environmental amenities."

The consultants did not base their conclusion that these factors would be sufficient to assure the R&D park's success on the industrial survey results, but, rather, on "interviews with facility planners and industrial real estate brokers." Those interviews, they reported, revealed "that Santa Cruz can capture a significant share of new development because it offers a high level of amenities and lower costs ... than Santa Clara County."

But if UCSC goes ahead with its proposed R&D park, it will not be competing for business with Santa Clara County alone. In this county, the university will face competition for park tenants from existing, or soon-to-be-developed industrial acreage in Scotts Valley and Watsonville. In the latter location, land, housing and labor is less costly than in Santa Cruz.

In San Benito County, where land and housing is cheaper still, the city of Hollister is actively courting high-tech firms.

And even in Santa Clara County, the industrial development envelope is expanding into the Morgan Hill and Gilroy areas, where land and housing costs are lower than in Silicon Valley, and less than in the Santa Cruz area.

UCSC's "competition" is much broader, however, than competing developments in Santa Cruz, San Benito and Santa Clara counties. Despite an assertion by the Land Economics Group study that "many firms (wish) to remain close to Silicon Valley," it appears that, increasingly, high-tech firms are looking beyond the confines of the coast and the state for new-facility sites.

The straws are already in the wind:

•When Silicon Valley-based Intel Corp. decided to build a new plant recently, the company opted for a site in Sacramento.

•When more than a dozen high-tech firms from throughout the country joined forces at the end of 1982 to form a research consortium known as the Micro-Electronics and Computer Technology Corp., the group decided to locate its research facility at the University of Texas's Balcones Research Center in Austin.

•Two years ago, when member companies of the Silicon Valley-based Semiconductor Industry Association decided to form their own research arm, the Semiconductor Research Corporation, it was decided to locate the new facility at North Carolina's Research Triangle research park. According to Semiconductor Research Corp. Executive Director Larry Sumney, "Silicon Valley was not even considered, primarily because of the difficulty of recruiting people for the area."

Sumney called the UCSC consultants' assumption that Silicon Valley firms looking for new sites will look first in nearby areas "unrealistic."

Kent Mathewson, an adjunct lecturer in urban studies at the Lyndon B. Johnson School of Public Affairs at the University of Texas in Austin, offered a succinct summation of the competition UCSC will face if it goes ahead with its R&D Center. Said Mathewson, who has studied "high-tech enclaves" from coast to coast, "It's a world-quality league you're into now."