



May 17, 2016

Honorable Mayor Steve Tate  
Morgan Hill City Council  
City of Morgan Hill  
17575 Peak Avenue  
Morgan Hill, CA 95037

Re: 2016 Residential Development Control System Biennial Review

Dear Mayor Tate and Members of the City Council:

On behalf of MWest PropCo XXIII LLC (“MWest”), we are writing to provide comments on the May 10, 2016 Staff Report and Planning Commission recommendations regarding the 2016 Residential Development Control System (“RDCS”) Biennial Review. For the reasons outlined below, we respectfully request that the City Council take the following actions:

- Establish a 2-year competition for FY 2018-19 solely for large MF Rental (> 150) projects, with a set-aside of 85 – 95 units in FY 2019-20;
- Support the Planning Commission’s recommendation to allocate the full 282 allotments in FY 2018–19 based on the Adjusted 2016 Population;
- Set aside a total of 120 allotments for MF Rental (>150) in FY 2018-19; and
- Direct the Planning Commission to re-allocate any unused allotments after Sept. 1, 2016 to the large MF Rental category in recognition of the City’s critical need for rental housing.

#### **Update on Butterfield Village and Technology Center**

In May 2015, the Morgan Hill City Council re-designated 19.5+/- acres of the larger 58-acre MWest-Butterfield site to MF Medium Density Residential (14 – 21 du/acre) to foster more workforce oriented rental housing in proximity to jobs and to help catalyze industrial development within the Morgan Hill Ranch Business Park. In addition, MWest made the following commitments to:

- Attract businesses by offering a premier environment for small (10,000 – 27,000 SF), medium (40,000 – 80,000 SF) and large (125,000 – 250,000 SF) incubators & manufacturers;
- Integrate up to 400+/- units of rental housing in a walkable community offering attractive lifestyle amenities; provide up to 5 acres of public and private parks and recreation, and explore the feasibility of converting the City’s 7.9-acre detention pond for public open space;
- Update the 1980s industrial park master plan to meet current market needs and become “business ready” by entering into a long-term Development Agreement (“DA”) with the City;
- Complete Butterfield Road frontage improvements and the Sutter Drive Extension as soon as practicable to create immediately accessible lots to attract users (est. cost of \$3 - \$4 million).

Over the past 9 months, MWest and City Staff have been working collaboratively to advance both the residential and industrial components of the overall site plan to create a signature project for Morgan Hill.

### Industrial Park

In August 2015, MWest filed an application with the City for a DA providing for up to 600,000SF of office/industrial and R&D space on approximately 33 acres of the 58-acre site. In April 15, 2016, we submitted a Preliminary Review Plan for the industrial project which includes detailed architectural, landscape architectural, and civil engineering drawings. City Staff and MWest intend to bring the Preliminary Review Plan to the Planning Commission for feedback this summer, and shortly thereafter to bring the industrial DA to the Planning Commission and City Council for approval. In parallel, we will also be processing a series of lot line adjustments/parcel maps to reconfigure the existing industrial lot pattern to meet the needs of tenants and users in the marketplace.

### Apartments

On September 1, 2015, MWest submitted a plan for approximately 385 apartments along with an application for 165 allotments in the 2015 RDCS competition. Unfortunately, as novices to the RDCS, the project did not achieve a minimum passing score. Nevertheless, the City Council continued to express support for the goal of catalyzing economic development through the integration of rental housing on this important site. In order to address Staff and the Planning Commission's concerns, MWest has made substantial revisions to the residential site plan and architectural design, including the dedication of a large parcel for a community park (4+/- acres). MWest intends to submit an RDCS Preliminary Review application in mid-June, and a formal application for the 2016 competition by September 1st. Based on a much better understanding of the current rules and criteria, and having been through the competition once already, we are confident that the project will receive a highly competitive score in the 2016 competition.

### Phasing

Now is an opportune time when both the industrial and residential markets are strong. In order to commence construction on the apartments as well as portions of the infrastructure necessary to jump start industrial development, if successful in the 2016 competition, MWest will need a predictable number of allotments. Although not ideal, the 385+/- unit apartment community could be developed in 3 phases. The first phase is the largest and most important in terms of establishing a sense of place and community from the outset. A key objective of the first phase is to build the project's interior Main Street and architectural edge leading to the Leasing Center and Clubhouse, which houses the pool, fitness center and other amenities. At this time, if we are successful in the competition, our goal would be to include 8 - 9 garden-style (3 story walk-up) buildings of approximately 18 - 20 units each in the first phase, for a total of approximately 160 - 165 units.

### **The City of Morgan Hill has a critical need for rental housing**

Morgan Hill remains deficient in rental housing and the demand for lifestyle-oriented apartment communities far outweighs supply. There are only 4 traditional MF rental communities (> 20 units) in Morgan Hill totaling 333 units, representing just 2.4% of the City's housing stock. All of these projects were built between 1986 and 1999. Based on current market surveys, the vacancy rate for MF rental housing in Morgan Hill is less than 1 percent. A common "rule of thumb" is that a 5% rental vacancy rate represents a market in balance for supply and demand, allowing enough vacancy for tenant movement

between units. With a 99%+ occupancy rate, the rental market in Morgan Hill is severely constrained, putting renters at a disadvantage with respect to options and affordability.

The *City of Morgan Hill 2035 Existing Conditions White Paper “Population and Housing,”* May 16, 2013, prepared by Bay Area Economics for the General Plan Update, recommends that the City diversify its housing stock by providing more MF rental housing to stay competitive for jobs (emphasis added):

“Despite recent achievements . . . Morgan Hill **will likely need to accommodate a larger share of workforce housing available to low- and moderate-income households to remain economically competitive in the future.** . . . Although many workers commute from residences in other communities for lifestyle reasons, **employers who are trying to recruit a high-quality work force will seek communities that can offer a range of housing options that their employees can afford.**”

### **Precedent for a Separate Multi-Year Competition for Large Multi-Family Rental Projects**

Compared to SF detached projects, it is especially difficult to break up a MF project into multiple phases. It is not feasible to simply build half a building, and it takes a critical mass of buildings to successfully market a life-style oriented rental community. **Recognizing the special challenges inherent in building MF projects, and in order to foster greater diversity of housing types and affordability in Morgan Hill, the City Council has – on multiple occasions - established multi-year competitions for larger MF projects (> 150 units).** For example, in the *Outline for Residential Development Control System Process, July 29, 2013* (FY 2015-16), Staff wrote: “To address the critical need for new market-rate rental housing, the City Council authorized a separate multi-year RDCS competition for a large multi-family rental development . . . The City Council directed that a portion of the current competition FY 2015-16 building allotment (80 units) be reserved for the separate large multi-family rental competition. This would be a two-year competition with another 80 units available to large multi-family rental projects in FY 2016-17 and up to 84 units available the third year (FY 2017-18) as needed to complete a project.”

Similarly, in the *April 1, 2015 City Council Staff Report Proposed Building Allotment Set-Asides for FY 2017-18*, Staff recommended “a general one-year competition with a two year competition only for multi-family rental projects because multi-family projects require greater certainty for a larger number of units to be feasible.” The City set-aside 80 units for FY 2017-18 and 85 units for 2018-19, for a total of 165 units, which were ultimately awarded to Condit Evergreen.

### **Recommendations for 2016 RDCS Competition**

Other than MWest-Butterfield, there are few (if any) sites remaining within the City limits that can accommodate apartment communities of any scale. Given the pent-up demand for rental housing in Morgan Hill and the needs of local employers to remain competitive for jobs, the sooner the City can facilitate construction of new apartments, the better. MWest is excited and ready to compete in the 2016 RDCS competition with a plan that is uniquely positioned to help bridge the rental housing gap, to offer an affordable and desirable alternative to homeownership, and to catalyze economic development on the balance of the 58-acre site with an innovative vision for one of the City’s core industrial lands.

If the City Council elects to establish a 2-year competition for MF Rental (> 150) with a set-aside of units for FY 2019-20 as requested below, and depending upon the number of allocations available for large MF rental for FY 2018-19, as well as the number of unused allocations that may become available after September 1, 2016, we believe that it is possible to accumulate a sufficient number of allocations to commence our first phase of development.

Establish a 2-year Competition for MF Rental Projects >150 units

Consistent with past efforts to encourage large scale MF projects, we are asking the City Council to establish a **2-year competition for FY 2018-19, with a set aside of 85 – 95 units in FY 2019-20**. We understand that the criteria are likely to change next year if the RDCS update is approved by the voters. However, since the City has and can limit the 2-year competition to the large MF rental category, we fail to see any downside in doing so, especially if it will help accelerate the timing of a project of significance to the community. Further, in readying ourselves for the 2016 RDCS competition, and in discussions with City Staff on the DA for the industrial project, we are poised to make sizeable commitments – including public parks, trails, roads and infrastructure - based on the current RDCS criteria. We understand that we will need to compete again in the future to secure the balance of allotments, but we hope the City Council will develop a policy sensitive to the needs of projects such as ours that “straddle” two RDCS programs.

Allocate the full 282 units and Increase the Multi-Family Set Aside

We support the Planning Commission’s recommendation to allocate a total of 282 units in the upcoming competition. From the lengthy discussion during the Commission’s thoughtful consideration, it was apparent that this year’s applicants, including MWest, will be competing for too few allocations. Of the 282 units, 20% (57 units) must be set aside for affordable projects, leaving 25 additional allotments. The Planning Commission recommends that these units be allocated to On-Going Projects, although Staff believes that 15 units should be sufficient to accommodate projects expected to compete this year. At this time, the Commission’s recommendation is to set aside 95 units in the large MF rental category. However, 85 of the 95 units were previously awarded to Condit Evergreen, which leaves just 10 units. **Should the Council accept the Commission’s recommendation to allocate 282 units, we respectfully request that 25 of the units be allocated to MF Rental (> 150) in anticipation of a large rental project coming forward, thereby increasing the total number of allotments to 120 units.**

Prioritize Unused Allocations for Multi-Family Rental

Although there are a limited number of allocations that can be set-aside at the outset of the competition, unused allocations from any category may be reallocated if, after September 1, 2016, no applicant comes forward to compete in that category. For example, at this time, Staff is unaware of any applicants for the Affordable (50 units) category. Similarly, Staff is unaware of any applicants in the MF Rental (small) category (10 units). **The City Council could, at its discretion, and in recognition of the critical demand for rental housing and that a large rental project will be competing this year, direct the Planning Commission to re-allocate any unused allotments to the large MF Rental category.**

**Conclusion**

For all the reasons stated above, we respectfully request that the City Council: (1) Establish a 2-year competition solely for large MF rental projects, with 85 – 95 units set-aside in FY 2019-20; (2) Approve 282 allotments for FY 2018-19 to meet the needs of a competitive field of applicants, (3) Increase the set-aside in the MF Rental (>150) category by 25 units from 95 to 120 units, and (4) Direct the Planning Commission to allocate any unused allotments after September 1, 2016 to the large MF Rental category,

Thank you in advance for your consideration and we look forward to the upcoming competition.

Very Truly Yours,



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