

From: [Kerry Williams](#)
To: [Planning Commission](#)
Cc: [Andrew Crabtree](#); [Gina Paolini](#); [Karen Nelson](#)
Subject: MWest Comment Letter on RDCS Biennial Report
Date: Tuesday, May 10, 2016 2:42:53 PM
Attachments: [MWest Butterfield Letter to PC Commission re RDCS 5.10.16.pdf](#)

Chair Mueller and Morgan Hill Planning Commission –

On behalf of MWest Properties, please accept the attached comment letter regarding tonight's discussion of the 2016 RDCS Biennial Report. We apologize for the late submittal, but the Staff Report was published on Friday and it took some time for us to prepare a thoughtful response.

Thank you in advance for your consideration,

Kerry

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May 10, 2016

Morgan Hill Planning Commission
City of Morgan Hill
17575 Peak Avenue
Morgan Hill, CA 95037

Re: 2016 Residential Development Control System Biennial Review

Dear Chair Mueller and Members of the Planning Commission:

On behalf of MWest PropCo XXIII LLC (“MWest”), we are writing to provide comments on the May 10, 2016 Staff Report regarding the 2016 Residential Development Control System (“RDCS”) Biennial Review. For the reasons outlined below, we request that the Planning Commission consider allocating the full 282 potential annual allotments identified in the Staff Report based on the Adjusted 2016 Population, less 85 units previously awarded the Condit-Evergreen project in the 2015 competition for FY 2018/2019 (part of a 2-year allotment), for a net total allotment of 197 units. We further request that the Planning Commission set aside 42 allotments of the 197 for large scale MF rental projects (> 150 units). Finally, we are requesting that the Planning Commission recommend to City Council a 2-year competition for FY 2018/19 for large scale MF rental projects, with an award of 85 allotments for MF projects in FY 2019/2020.

Background

The City’s Housing Element Policies HE-1e and HE-1f require the set-aside of an average of 30 percent of new RDCS housing allotments for multi-family (“MF”). A minimum of 30 percent of new MF units must be rentals. In the 2015 RDCS competition, a large MF rental project (Condit-Evergreen) was awarded a 2-year allotment, including 85 units for FY 2018/19. This project will be re-competing this year for the balance of their project (3 units).

Section 18.78.182 of the Morgan Hill Municipal Code provides for a growth rate of approximately 250 new units per year to reach a population of 48,000 by the year 2020. Based upon current Department of Finance figures, Staff estimates that the 2016 Adjusted Population is 44,420 residents, resulting in a remaining growth capacity by 2020 of 3,580 residents. Assuming 3.17 persons per household (a conservative number when compared to MF rental housing, which is closer to 2.7 pph), the City could award a total of 282 allocations this year. Staff is recommending, however, that the 2016 annual allotment be capped at 250 units. Subtracting the 85 units previously awarded would leave only 165 allotments for Fiscal Year 2018/19. As the 85 units come out of the MF category, Staff recommends that only 10 units be set aside for large scale MF rental projects, and 10 units for smaller rental projects. Staff is recommending a 1-year competition for FY 2018/19 allotments in light of the pending RDCS update.

The City remains critically deficient in MF rental housing

Only 2.4% of City’s housing stock is in traditional apartment communities of 20 units or more

Despite the Housing Element goals and policies that encourage the production of rental housing, the City has a long way to go to meet the pent-up market demand for traditional rental housing. There has been

much discussion during the General Plan and RDCS Update workshops concerning the appropriate balance of single family versus multi-family housing stock. This has largely been a subjective discussion aimed at retaining the desired character of Morgan Hill. Based on the City’s particular definition of single family versus multi-family, and whether one includes duets and duplexes, the existing housing stock in Morgan Hill is somewhere between 20% - 30% multi-family and 70% - 80% single family. However, the City’s definitions differ from industry standards, which tend to more accurately reflect the breakdown of rental versus for-sale housing. **Thus, the above percentages mask the serious deficiency the City has in more traditional forms of rental housing.**

In the *City of Morgan Hill 2035 Existing Conditions White Paper “Population and Housing,”* dated May 16, 2013, prepared by Bay Area Economics (“BAE”) for the City’s General Plan Update, BAE reports that in 2013, just 12% of the housing stock (1,615 units) was multi-family (under the standard definition). A breakdown of the mix of housing units by type is provided in **Appendix A-3: Housing Units by Type of Structure** (attached). By comparison, the percentage of MF housing stock in Santa Clara County and California averaged 33.1% and 31% respectively. **This table better highlights the problem renters face in finding housing options in the City; only 2.4% of Morgan Hill’s housing stock (316 units in 2013) is located in traditional apartment communities of 20 units or more.**

In 2013 there were 12,383 households in Morgan Hill, of which approximately 30% were renters (see **Appendix A-2: Household Tenure, 2000 – 2013**, attached). Thus, the majority of renters appear to be occupying non-traditional forms of rental housing, either by renting directly from homeowners of single family detached homes or attached condominiums or perhaps secondary units.

Apartment vacancy rates are critically low (less than 1%)

There are just four traditional rental communities in Morgan Hill totaling 333 units. All of these projects were built between 1986 and 1999). A current market survey conducted by MWest’s consultants for the competitive market area indicates that despite the aging supply, the vacancy rate for MF rental housing in Morgan Hill is less than 1 percent. A common “rule of thumb” is that a 5 percent 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 the City of Morgan Hill is severely constrained, putting renters at a disadvantage with respect to options and affordability.

Multi-Family Rental Housing Construction in the City of Morgan Hill

	Built	Renovated	Units	Vacancy Rate
Monte Vista at Garden Hill	1989	2013	138	98%
Las Casas de San Pedro	1988	--	65	100%
La Crosse Village	1986	--	80	98%
Vineyard Court	1999	--	50	100%
Total Units			<u>333</u>	<u>99%</u>

Source: The Concord Group, Morgan Hill Market Survey, April 12, 2016

Opportunities for More MF Rental Housing in the General Plan and RDCS Updates

Bay Area Economics recommends that the City diversify the housing stock by providing more MF rental housing to: (1) give residents options “that cater to different types of households and housing preferences” and (2) “help the City adapt to changing demographics that can be expected over the next 20 years.” Further, the Report highlights the importance of MF rental housing to the City’s ability 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.** Local stakeholders from both real estate industry groups and business groups who participated in discussions organized as part of the Morgan Hill 2035 process indicated that relatively low proportions of employees who work for Morgan Hill-based companies actually live within the City. 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.** This suggests an opportunity for Morgan Hill to work to expand the supply of housing units affordable to lower and moderate-income households.”

And further:

“Along with the aging of the population, **other prevailing demographic trends, such as more people living alone or without children and preferences for urban living on the part of younger “knowledge” workers, will likely combine to shift overall housing demand towards higher density residential product types in mixed-use environments,** including affordable as well as market rate units.

Multi-family housing should not be viewed strictly as a product for people unable to afford single-family detached homes, but also as a product that will appeal to households across the income spectrum for whom this type of housing is a preference for the reasons stated above. **To the extent that modifications to the City’s RDCS are considered as part of the General Plan Update process, the City should consider whether it is possible to make adjustments that will encourage production of greater proportions of new housing that is affordable to middle-income households (e.g. people who cannot afford typical single-family detached homes in Morgan Hill) . . . which may include more modestly priced for-sale homes as well as market rate rental units.**”

Update on Butterfield Village and Technology Center

In May 2015, mindful of the policy recommendations cited above, the Morgan Hill City Council re-designated 19.5+/- acres of the larger 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:

- (1) Create a compelling mixed-use vision to attract businesses by offering a first class environment for small (10,000 – 27,000 SF), medium (40,000 SF – 80,000 SF) and larger (125,000 – 250,000 SF) incubators and R&D manufacturers;
- (2) Integrate up to 400+/- units of MF rental housing for their employees so they can walk or bike to work, and enjoy attractive lifestyle amenities;
- (3) Provide up to 13 acres of public and private parks and recreation space, including the potential conversion of the City’s 7.9-acre detention pond for public open space;
- (4) Update the 1980s industrial master plan to meet current market needs and become “business ready” by entering into a long-term DA with the City and securing related entitlements;
- (5) Invest in interior road(s) as soon as practicable to create immediately accessible lots (an estimated cost of \$3 - \$4 million).

Dual track permitting

Since that time, MWest and City Staff have been working collaboratively to advance both the residential and industrial components in parallel to create a signature project for Morgan Hill.

Last year, MWest submitted a plan for approximately 385 rental units along with an application for 165 allotments in the 2015 RDCS competition. Unfortunately, as novices to the RDCS, MWest did not achieve a minimum passing score. Although the City Council continues to express support for the overall project vision, in order to address Staff and the Planning Commission’s concerns, MWest has worked with Staff to make substantial revisions to the residential site plan and architectural design, including the dedication of a large parcel (3 – 4 acres) for a community park. 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.

In parallel, as promised, MWest filed an application with the City for a Development Agreement for up to 600,000SF of office/industrial/R&D space, and we have submitted a Preliminary Review Plan for the industrial project in the context of the entire 65-acre site. 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 Development Agreement for the industrial project to the Planning Commission and City Council for approval.

Recommendations for 2016 RDCS Competition

The Planning Commission and City Council may award more or less than 250 allotments in any given competition, provided that the overall average remains “approximately 250 units.” Since 2008, the number of annual allotments has ranged from 197 to 270, with the majority of the competitions below 250. In fact, an allotment of 282 for the FY 2018/19 competition would allow the City to remain on track to reach a population of 48,000 by 2020, while also supporting needed development of multi-family rental housing consistent with Housing Element policies. Further, the City Council may elect to establish a 2-year allotment for the FY 2018/19 competition, including 85 MF units for FY 2019/20 as requested, to enhance the feasibility for larger scale projects.

As a matter of policy, even after approval of the Condit-Evergreen project, Morgan Hill is still deficient in rental housing and the demand for lifestyle-oriented apartment communities far outweighs supply. As a practical matter, other than MWest-Butterfield, there are few remaining sites within the City that can

accommodate apartment projects of any scale. Thus, the MWest-Butterfield project is uniquely positioned to help bridge the rental housing gap, to offer an affordable and desirable alternative to homeownership to help local businesses attract and retain jobs, and to catalyze economic development with an innovative vision for one of the City's core industrial lands.

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. Therefore, we are requesting that the Planning Commission recommend to City Council approval of 282 allotments for FY 2018/19, less 85 previously awarded, for a net total of 197 allotments, of which at least 42 would be set aside for large scale MF rental projects. Further, we request that the Planning Commission and City Council establish a 2-year allotment which would include at least 85 allocations for large scale MF projects in FY 2019/2020.

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

Very Truly Yours,



Chad Froman, Director
MWest

Kerry M. Williams

Kerry M. Williams,
Project Director

Cc: Steve Rymer, City Manager
Andrew Crabtree, Planning Director
Edith Ramirez, Economic Development Manager
Gina Paolini, Senior Planner

ATTACHMENTS

Appendix A-2: Household Tenure, 2000-2013

Household Type	Morgan Hill			
	2000		2013	
	Number	Percent	Number	Percent
Owners	7,857	71.8%	8,993	70.0%
Renters	3,088	28.2%	3,845	30.0%
Total	10,945	100.0%	12,838	100.0%

Household Type	Santa Clara County			
	2000		2013	
	Number	Percent	Number	Percent
Owners	338,663	59.8%	359,614	57.4%
Renters	227,208	40.2%	266,810	42.6%
Total	565,871	100.0%	626,424	100.0%

Household Type	California			
	2000		2013	
	Number	Percent	Number	Percent
Owners	6,546,396	56.9%	7,198,853	55.9%
Renters	4,956,503	43.1%	5,685,124	44.1%
Total	11,502,899	100.0%	12,883,977	100.0%

Sources: Nielsen Marketplace, 2013; BAE, 2013.

Appendix A-3: Housing Units by Type of Structure, 2000-2013

Type of Residence	Morgan Hill		Santa Clara County		California	
	2000	2013	2000	2013	2000	2013
Single Family Detached	7,149	8,787	324,202	349,864	6,887,563	8,129,643
Single Family Attached	1,435	1,878	52,648	68,881	931,962	998,701
Multifamily 2 Units	214	157	11,133	13,584	326,915	369,245
Multifamily 3-19 Units	1,205	1,142	94,589	109,670	2,037,765	2,377,262
Multifamily 20-49 Units	137	141	27,652	34,733	616,331	705,721
Multifamily 50+	172	175	49,371	58,854	844,378	899,975
Mobile Home/Other (a)	898	1,138	19,734	19,863	569,635	556,683
Total	11,210	13,418	579,329	655,449	12,214,549	14,037,230

Multifamily Housing Unit **1,728** **1,615** **182,745** **216,841** **3,825,389** **4,352,203**

Type of Residence	Morgan Hill		Santa Clara County		California	
	2000	2013	2000	2013	2000	2013
Single Family Detached	63.8%	65.5%	56.0%	53.4%	56.4%	57.9%
Single Family Attached	12.8%	14.0%	9.1%	10.5%	7.6%	7.1%
Multifamily 2 Units	1.9%	1.2%	1.9%	2.1%	2.7%	2.6%
Multifamily 3-19 Units	10.7%	8.5%	16.3%	16.7%	16.7%	16.9%
Multifamily 20-49 Units	1.2%	1.1%	4.8%	5.3%	5.0%	5.0%
Multifamily 50+	1.5%	1.3%	8.5%	9.0%	6.9%	6.4%
Mobile Home/Other (a)	8.0%	8.5%	3.4%	3.0%	4.7%	4.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Multifamily Housing Unit **15.4%** **12.0%** **31.5%** **33.1%** **31.3%** **31.0%**

Notes:

(a) Includes standard mobile homes as well as boats, RVs, vans, and other vehicles that serve as a primary residence.

Sources: Nielsen Marketplace, 2013; BAE, 2013.