



April 7, 2015

Mr. Steve Rymer, City Manager
City of Morgan Hill
17575 Peak Avenue
Morgan Hill, CA 95037

RE: MWest-Butterfield General Plan Amendment Application Amendment and Additional Information for City Council Reconsideration (File No. GPA-14-04)

Dear Mr. Rymer:

MWest is a partnership between DivcoWest and TPG Real Estate and is dedicated to the creation of world class innovation centers for Silicon Valley's progressive workforce. In anticipation of our hearing for reconsideration scheduled for May 6, 2015, MWest PropCo XXIII LLC ("MWest") is pleased to present certain revisions and additional background information in support of its application (File No. GPA-14-04) (the "GPA") for a change from *Industrial* to *Multi-Family Medium Residential* for a 19.5 acre portion of its 58-acre property (the "property" or "site") located at Butterfield Boulevard and Jarvis Drive in the City of Morgan Hill, CA ("City").

MWest is excited to bring forward a comprehensive vision for the ultimate development of the entire 58-acre site, including potentially the 7.6-acre City-owned parcel, focused on achieving the City's dual goals of economic expansion and greater housing diversity. Relying upon MWest's extensive experience, this letter outlines our intent to create a first class, mixed-use, live/work/play environment in the City of Morgan Hill.

In addition, MWest is proposing two new, alternative configurations for the residential parcel to address issues of compatibility raised by our industrial neighbors. Both options, described in detail in **Section 2** below, would relocate the proposed housing towards the center and western boundary of the site, and would retain industrial along the full length of the Butterfield Drive frontage, thus ensuring compatibility of future uses.

Butterfield Village and Technology Centre

Butterfield Village and Technology Centre will provide a premier campus environment for innovation-based companies, with convenient access to transit and transportation infrastructure, retail services, and affordably priced rental housing, featuring the following key elements:

- 550,000 – 600,000 square feet of first class office/industrial/R&D capacity
- 1,100 – 1,700 new permanent jobs¹
- Up to 400 superior quality apartment homes, within walking/biking distance of jobs and transit
- \$20 - \$25 million in annual retail expenditures in Morgan Hill at build-out²
- Flexibility to accommodate small, mid and large scale office/R&D users and manufacturers
- A home for local Morgan Hill companies with expansion needs
- Up to 13 acres of public parks and open space (20% of the larger 65-acre site) using a creative and potentially mutually beneficial re-use opportunity for the City's 7.6-acre detention parcel

¹ Average range of 350 – 500 square feet per employee

² Extrapolation based on February 2015 Fiscal Impact Study by Strategic Economics showing development of 19.5 acres would generate over \$7 million in annual taxable sales for industrial uses and over \$9 million for apartments. Development of the 58 acres under the mixed-use alternatives described herein are projected to generate \$20 - \$25 million in annual retail expenditures.

SECTION 1: PUBLIC BENEFITS OF A MIXED-USE APPROACH

For the City Council's consideration, MWest has designed **two dynamic, Mixed-Use Plan Alternatives**, described in detail in **Section 2** below, which provide significant community benefits, including the unique opportunity to:

- Enhance the City's economic competitiveness through development of one of the largest, privately owned, land parcels in town in collaboration with one of Silicon Valley's most experienced industrial developers.
- Create a comprehensive vision for the entire property that meets the dual goals of economic expansion and housing diversity, while ensuring that new development will be seamlessly integrated with existing residential and industrial neighborhoods and provide public access to dedicated parks and open space.
- Provide critically needed, high quality rental housing, in close proximity to jobs and the City's major employment centers, designed to meet the lifestyle needs of the Bay Area's competitive workforce
- With future City Council approval, potentially repurpose the City's 7.6-acre detention basin (now a land-locked parcel that may no longer be needed for detention) into a community resource with public open space amenities (e.g.; walking/biking/fitness trails, picnic areas, dog run) to be funded by MWest.
- Alternatively, the reconfigured City parcel could serve as an economic opportunity for the City with potential development of up to an additional 150,000+/- square feet of office/industrial/R&D space.

Both Alternatives Address the Primary Concerns Raised by the City

MWest's proposal, under either Mixed Use Plan Alternative, addresses the primary concerns raised by the City:

1. Loss of prime industrial land –Through a Development Agreement to be negotiated with the City, MWest will commit to developing the balance of the site in to a state of the art technology/industrial park. MWest will invest the necessary entitlement costs to ready the site for development so that the property – which has stood vacant for decades – can finally reach its potential.
2. Compatibility with East of Butterfield industrial uses – In response to specific concerns raised by our neighbors along Butterfield Drive, MWest has redesigned the plan to relocate the residential so that the entire Butterfield frontage will remain industrial. This change will eliminate any potential conflicts between existing industrial uses and future development.
3. Sufficient infrastructure and services to form a complete neighborhood – The plan will ensure the entire site is thoughtfully planned and that all elements of the project are well supported by services to form a complete neighborhood, with access to parks, open space, ped/bike connections, retail and transit.

SECTION 2: APPLICATION REVISIONS AND MIXED-USE PLAN ALTERNATIVES

MWest's Extensive Industrial Experience

Headquartered in Santa Clara, MWest is a partnership between two of the most experienced office/R&D/industrial developers and asset managers in the United States: DivcoWest and TPG Real Estate. We focus on acquiring, re-positioning, developing and operating a community of office, R&D, industrial and residential projects that meet the demands of a progressive workforce. Our strategy is to provide superior work

environments that support collaboration, productivity and employee well-being. MWest currently owns a portfolio totaling over 7 million square feet of commercial properties located across Silicon Valley.

Description of Residential Parcel Alternatives

For the City Council's consideration, MWest has prepared two new alternatives for the configuration of the 19.5-acre residential parcel, which are depicted in the attached **Illustrative Site Plan and Land Use Plan Exhibits**. Both **Alternative A** and **Alternative B** would facilitate the future integration of industrial development, high quality rental housing, and open space into a highly attractive live/work/play environment.

City Owned Parcel/Detention Basin

The key difference between the two land use plan alternatives relates to whether and how the plan takes advantage of what we see as a creative, mutually beneficial opportunity to repurpose the vacant 7.6 acre City-owned parcel ("City parcel") located adjacent to Monterey Road. This City parcel has historically been used for regional storm water detention, but as we understand from the City's consulting hydrologist, now that regional storm water improvements within Morgan Hill Ranch and along Butterfield Drive have been completed, it may no longer be needed for flood control purposes.

Alternative A

Alternative A could accommodate up to 550,000 square feet of first class office/industrial/R&D space, up to 409 garden and townhome style apartments (with an average density of 21 du/acre), 4.6 acres of public and private parks within the residential area, 0.9 acres of open space within the industrial area, and potentially up to 7.6 acres of public trails and open space amenities on the City parcel, at the discretion of the City, for a total of 13.1 acres of parks and open space, or 20% of the entire 65-acre site.

Alternative A would maintain the City parcel in its current configuration, which does not afford as efficient a layout for the overall site plan, but could still provide a wonderful open space resource to be shared by existing and future residents and employees in the Morgan Hill Ranch area. As shown on the **Illustrative Site Plan – Alternative A**, this area could provide a range of recreational amenities, such as public walking and biking trails winding through natural open space, a par course/fitness trail, picnic areas, dog run, and multi-purpose meadow. We understand the City would need to approve this park use of the City parcel at a later date, so while this is our recommendation and preference, we have confirmed with our technical team that our future residential layout can be achieved without any use or improvement to the City parcel.

Alternative B

Alternative B, our preferred plan, could accommodate up to 600,000 square feet of first class office/industrial/R&D space, up to 409 apartment homes, 3.7 acres of public and private parks within the residential area, 0.9 acres of open space within the industrial area, and potentially up to 7.6 acres of public trails and open space amenities on the City parcel, at the discretion of the City, for a total of 12.2 acres of parks and open space, or 19% of the entire 65-acre site.

We recommend reconfiguration of the City parcel as shown on the **Land Use Plan – Alternative B**, (maintaining the same acreage (7.6 acres)) to allow for a large manufacturer or other user of up to 250,000+/- square feet, and to allow for more efficient circulation and design of the residential parcel. As shown on the **Illustrative Site Plan – Alternative B**, reconfiguration would create an opportunity for an exceptional public open space resource unlike any other in Morgan Hill, designed to serve the existing Jarvis neighborhood and Morgan Hill Ranch tenants, as well as future residential/industrial uses.

Alternatively, as shown on **Land Use Plan – Alternative B-1**, the proposed reconfiguration of the City parcel could also allow the City the option to reap economic benefits from the site through disposing of a portion of the property (by lease or sale) for industrial development (approx. 150,000+/- square feet) by repurposing it and giving it frontage along the interior access road.

If the City ultimately elects to move forward with **Alternative B**, we do understand that the City's decision regarding the City parcel will need additional investigation and that the City Council would need to approve, in its discretion, a property exchange or other similar agreement to make a final determination with respect to the use and disposition of the land. With that in mind, we request that the City Council **approve Alternative A** as the default configuration of the General Plan Amendment, but **also approve** the configuration of the General Plan Amendment **for Alternative B, contingent on the City Council's future approval, in its discretion, of an agreement related to the City parcel.**

Design Ensures Compatibility with Butterfield Industrial Uses

Please note that in both land use plan alternatives, we have reconfigured the residential portion of the plan so that industrial uses would run the full length of the Butterfield frontage to ensure compatibility with neighboring industrial uses. Based on current and projected market demand, both land use plan alternatives would also create a range of parcel size options to accommodate smaller office/R&D users, mid-size companies looking for expansion space, as well as larger manufacturers or distributors. At an average FAR of .35, these lots could accommodate office/R&D/industrial facilities ranging from 15,000 to nearly 250,000 square feet. Both plans also include a multi-use bike/pedestrian path along the full length of the Butterfield frontage, affording both employees and residents easy access to Downtown Morgan Hill.

Residential Use is the Most Appropriate Use along Jarvis Drive

Although we have relocated the apartments away from Butterfield Boulevard, we have purposefully designed the majority of the Jarvis Drive frontage to remain residential in character. The proposed medium density multi-family housing (comparable in density to the Taylor Morrison project now under construction) is the most appropriate use for the Jarvis frontage, and will serve as an important buffer/transitional use between the existing Jarvis neighborhood and future industrial uses to the south. The Jarvis neighborhood is a small but cohesive community. Our goal is to integrate the Butterfield Village residences with the Jarvis Drive residences to create a neighborhood of scale, integrity and architectural distinction, interconnected via bike and pedestrian pathways, with access to shared community amenities, public parks and open space.

SECTION 3: ADDITIONAL BACKGROUND AND CONTEXTUAL INFORMATION

Background

Site History

The MWest property consists of a series of parcels located within the Morgan Hill Ranch, a 350+ acre business park originally developed in the early to mid-1980s. The park was sold in the early 1990s to Venture Corp, which repositioned the development to a first class and well maintained business environment. Morgan Hill Ranch is home to a wide range of technology and manufacturing based companies, including Sakata Seed America (bio-tech seed), Young's Market (beverage distribution) and Anritsu (microwave communications), Morgan Hill's largest employer.

In late 2012, MWest acquired 58 acres of the Ranch located west of Butterfield Drive as part of a larger portfolio acquisition. MWest is looking to strategically position the property to compete with Silicon Valley offerings.

Despite the successful development and operation of businesses in the core area of the Ranch on the east side of Butterfield, and the development of a smaller commercial subdivision to the south of the site, the expansive area west of Butterfield has remained vacant for decades. The property was previously subdivided into 32 lots that are no longer reflective of current market needs. The site requires a fresh vision and a well-considered approach that maximizes the potential to capture interest from users in this highly competitive market.

Industrial Market Context and Marketing Strategy

Though not located in the heart of Silicon Valley, Morgan Hill has developed a solid office/industrial/R&D base of about 5.6 million square feet, largely made up of manufacturing and wholesale trade centered companies. Nevertheless, over 260+ acres of industrially zoned land remain vacant in the City. At historic average absorption rates (about 3.0 acres per year), and a projected annual absorption of 45,000 square feet (about 155 jobs), it will take up to 90 years for the City to realize the potential of this land.³

Morgan Hill is primarily a market for companies looking to cost-effectively own and occupy their own buildings. The market continues to be constrained by the large availability of competitively priced space in Silicon Valley, making speculative development infeasible at this time. Vacancies in South San Jose, for example, average around 16% for office/R&D space. Although industrial vacancy rates in Morgan Hill are presently low (3%), average rents are still 30%-40% below levels required to economically justify new development. There has been very little leasing activity in town over the past few years. Interest rates for financing through the U.S. Small Business Administration Loan Program have been extremely favorable, making it highly attractive for companies to buy instead of lease.

Based on MWest's extensive experience and knowledge of the marketplace, in order to kick-start development as quickly as possible, we would design the Butterfield Technology Centre to accommodate: (1) businesses with modest space needs in the 15,000 – 27,000 square foot range, (2) companies already residing in Morgan Hill that need expansion space in the 18,000 – 85,000 square foot range, and (3) we would set aside a larger parcel for a major user in need of 150,000 – 250,000 square feet. Down the road, if the market dynamics change, MWest would certainly consider building a more speculative project.

Lack of Housing Diversity in Morgan Hill

Morgan Hill is a predominantly single-family community. There has not been a new apartment project developed in the City in over 20 years. While other cities throughout the Bay Area and California have dramatically increased their shares of rental housing (to an average of 30 – 40% of total stock), Morgan Hill's percentage of multi-family rental product has actually *declined* since the year 2000, to just 12% of the total housing stock. Not surprisingly, Morgan Hill's affordability rating is high compared to the County average.⁴

Getting the Site "Business Ready"

Based on the history of the property to date, MWest understands very clearly that Morgan Hill is looking to foster additional industrial development to secure its economic future. Although it is not possible to change the market fundamentals, we believe that we and the City can take certain strategic steps to enhance the marketability of the site for industrial users.

In its present condition, **the site is not "business ready."** Companies making locational decisions are looking to minimize their costs and risks. For prospective users/buyers, the property presents uncertainties regarding how soon they can build and the cost to ready the site for development. These risks put the site at a disadvantage

³ *Economic and Fiscal Impact Analysis of Proposed Industrial Land Conversion in Morgan Hill: Cochrane Road Site*, August 8, 2013, Strategic Economics.

⁴ Morgan Hill 2035 Existing Conditions White Papers, Population and Housing, Public Review Draft May 2013

when compared to improved lots that are ready to go. Having a fully entitled plan with flexible design standards, state of the art amenities, and a method for the sharing of on and off-site improvements, will ensure the land is ready for development and in turn attract greater interest in the property.

The Synergistic Relationship between Economic Expansion and Housing

Readying the site for development will help, but **incorporating critically needed rental housing into the plan is the best strategy the City can employ to spark economic growth.** While the City has a keen interest in strengthening its economic base, the City needs a greater diversity of housing opportunities, including near its employment center of the Morgan Hill Ranch Business Park, if it wants to continue to attract quality employers. Morgan Hill Ranch and area companies such as Anritsu, Prism Electronics, Phoenix Deventures and CalDoor support rental housing on the MWest site so that their employees, many of whom cannot afford to buy a home, can walk or bike to work.

According to the Silicon Valley Leadership Group, which has endorsed our proposal, companies place the close proximity of affordably priced housing for their workers at the top of their lists when making locational decisions. Increasingly, major companies are encouraging cities to plan for housing near their campuses or else, quite simply, they will locate elsewhere. Thus, planning for mixed-use developments that allow for employees to live near their jobs is not only a smart, sustainable strategy, but it sends a signal to employers that the City understands their priorities.

Process and MWest's Commitment

Based on policy discussions surrounding the need for new multi-family rental housing in the Morgan Hill Ranch area, in March 2014, with the consent of the City Council, MWest applied for a General Plan Amendment for 19.5 acres (APN 726-25-061, 726-25-078, 726-25-079) at the north end of the property from Industrial to MF Medium Residential (14 – 21 du/acre), with a potential capacity of up to 409 units. A full Environmental Impact Report was prepared pursuant to the California Environmental Quality Act.

On February 4, 2015, the City Council voted to table the consideration of MWest's GPA request, and directed Staff to consider the proposal as part of the City's pending General Plan Update. Though the Council recognized the pressing need for new rental housing in town, members expressed reservations about the impacts on the loss of prime industrial land, the need to address compatibility issues raised by neighboring industrial users, and a desire to protect against the future loss of industrial land on the balance of the site.

On February 18, 2015, MWest requested, and the City Council directed staff to schedule a reconsideration hearing in light of MWest's commitment to bring back a revised proposal to address the specific concerns raised. At this time, as described in Section 1, MWest is proposing to amend its application for a change in land use on 19.5 acres of the property from Industrial to Multi-Family Medium Residential (14 – 21 du/acre) to correspond to one of the two alternatives described above, as determined by the City Council.

Following adoption of the GPA, if approved by the City Council, MWest commits to immediately apply for and fund entitlements for the 38-acre Butterfield Technology Centre, including but not limited to: EIR, Planned Development zoning, subdivision, and a Development Agreement which will ensure that the majority of the property will be developed for industrial uses.

On a parallel track, MWest would take steps to process the necessary entitlements for the apartment homes, including but not limited to: zoning, vesting tentative map, and application for residential allocations. Concurrently, MWest would work with the City to discuss potential options for converting the City parcel for use as a public park and open space to be enjoyed by the existing and future industrial and residential neighborhoods.

CONCLUSION

The MWest site is unique in Morgan Hill because of its size, location, and the fact that the entire property is under one ownership. Thus, MWest can offer the City a rare opportunity to meet the dual needs of economic expansion and greater housing diversity through an exemplary, mixed use design prepared by a team of some of the regions most experienced industrial and residential urban designers and architects.

We thank you for the opportunity to present this revised GPA application and look forward to working with you and your team to create an exciting and innovative project that advances the City's policy objectives.

Very Truly Yours,



Chad Froman, Director
MWest

Kerry M. Williams

Kerry M. Williams

w/Encl: Conceptual Site Plan Exhibits

- Illustrative Site Plan – Alternative A
- Land Use Plan – Alternative A
- Illustrative Site Plan – Alternative B
- Land Use Plan – Alternative B
- Land Use Plan – Alternative B-1
- Project Imagery

CC: Mayor Steve Tate and Members of the City Council
Leslie Little, Assistant City Manager
Andrew Crabtree, Community Development Director
Edith Ramirez, Economic Development Director
Renee Gurza, City Attorney
Tamsen Plume, Holland & Knight
Jennifer Hernandez, Holland & Knight