



May 1, 2015

Honorable Mayor Steve Tate
Members of the Morgan Hill City Council
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)

Honorable Mayor and Members of the City Council:

The purpose of this letter is to clarify the entitlement process and MWest's commitments going forward should the City Council choose to adopt the proposed General Plan Amendment (GPA-14-04) for the MWest-Butterfield property on May 6, 2015.

The proposal that we are bringing forward to the City Council reflects our understanding that the City's goal is not simply to preserve or "land bank" vacant industrial land, but to expand its economic base through the strategic deployment of initiatives that serve to catalyze industrial development and attract jobs.

Over the years, some of the most capable professionals in the development industry have tried unsuccessfully to get industrial development going on this large 58-acre site located west of Butterfield within the Morgan Hill Ranch Business Park. MWest's core competency is office/R&D/industrial development; we have an expansive portfolio of over 7 million square feet, the second largest in Silicon Valley. Our portfolio gives us a vast network of relationships and unrivaled access to premier tenants and users, knowledge of their locational preferences and requirements, and a rare platform upon which to build a successful strategy for marketing and developing our properties in Morgan Hill.

The Power of the Vision

Based on our expertise and breadth of knowledge of the marketplace, MWest believes that *a fresh and innovative approach is required to catalyze development*. Based on direct market feedback and the growing examples throughout the Bay Area of businesses desiring housing near their campuses (e.g.; Tesla, Facebook), we propose to:

- (1) Create a compelling vision to entice companies to locate here by offering a first class environment with space for small (10,000 – 27,000 SF), medium (40,000 SF – 80,000 SF) and large (125,000 – 250,000 SF) incubators and R&D manufacturers,
- (2) Integrate rental housing for their employees so they can walk or bike to work, and provide attractive lifestyle amenities, recreation and open space;
- (3) Update the 1980s master plan to meet current market needs and become "business ready" (including site plan, tentative map, product design, architecture, and related entitlements);
- (4) Invest in interior roads to create immediately accessible lots (an est. cost of \$3 - \$4 million).

Under the framework outlined below, the City and MWest would work collaboratively throughout the process to design, market and implement an innovative master plan for the 58-acre site. MWest's commitment includes preliminary capital expenditures and indebtedness totaling nearly \$5 million. Although the GPA is the first step,

there are many steps in the planning process to follow, and multiple checkpoints along the way. The following describes MWest's commitments and provides an overview of the anticipated entitlement process.

Should the City Council adopt the GPA for the reconfigured 19.5 acres, MWest commits to the following:

- I. Within six months of City Council's approval of the GPA, MWest commits to make an application for an updated Industrial Park Master Plan on a 38.5 acre portion of the property, including but not limited to PD Zoning, Development Agreement ("DA"), VTM and EIR, for a premier industrial park accommodating a wide range of users with a capacity of up to 600,000 SF of office/R&D/industrial space;
- II. MWest commits to taking the steps necessary to make the site "business ready" to catalyze near term development. "Business ready" means that MWest will invest in entitlements and infrastructure to remove the current market barriers associated with an outdated master plan (e.g.; entitlement risk, uncertain improvement costs, and inadequate infrastructure), thereby accelerating the timing of development so that once end users have been identified, all that is required to build is design review and ministerial building permits;
- III. On a parallel track, MWest commits to processing remaining entitlements for up to 409 apartments and up to 5 acres of parks and recreation space on 19.5 acres of the property, at a density of 14 – 21 du/acre, to include PD zoning, VTM, DA, and application for inclusion in the City's residential allocation process for multi-family projects;
- IV. MWest commits to work with the City to discuss potential options for converting the 7.6-acre City owned Detention Parcel for use as a public park and open space to be enjoyed by the existing and future industrial and residential neighborhoods;
- V. MWest commits to make an application for a land exchange for the 7.6 acre Detention Basin to reconfigure the parcel to improve the efficiency of the plan for industrial, residential and open space;
- VI. MWest commits to continuously engage a qualified and motivated broker familiar with the Morgan Hill industrial market and to provide routine market updates to City staff, no less than quarterly;
- VII. MWest commits to continue to actively market the 38.5-acre industrial property to prospective users in Morgan Hill, throughout Silicon Valley and beyond, and to jointly collaborate with the City of Morgan Hill's Economic Development Director in developing a strategic plan for outreach to prospective users;
- VIII. MWest commits to comprehensively study and evaluate the detention and stormwater quality needs of the entire 58-acre site, including the continued need for both the Detention Basin and the MWest Overflow Parcel and, if City determines that the facilities are no longer needed based on the completion of the Butterfield Stormwater Channel and other regional improvements, City will vacate (at City Council's discretion) the existing utility easement encumbering the Overflow Parcel;
- IX. MWest commits to make an application for a Development Agreement covering the proposed 38.5-acre industrial portion of the property. The DA would provide for a range of commitments, milestones and community benefits, including but not limited to:
 - (a) Establishment of a process between the City and MWest for the timely processing of entitlements, community benefits, and appropriate milestones;
 - (b) MWest will request to work with the City to establish a Mello Roos Community Facilities District, or other suitable financing mechanism, for the financing and construction of the extension of Sutter

Road, as well as the internal access road located behind the industrial buildings at the north end of Butterfield (“the interior roads”). The total estimated value of improvements is \$3 – \$4 million;

- (c) Upon securing financing at terms acceptable to MWest, MWest commits to construct the interior roads as soon as practicable to facilitate and expedite the marketing of the site to prospective users;
- (d) If desired by the City, MWest will assist with the conversion of up to 7.6 acres of land currently owned by the City and used for storm water detention to allow for public access, natural open space, trails and recreation uses;
- (e) MWest and the City to agree on public improvements to the 7.6-acre detention parcel to be funded and constructed by MWest. Such improvements may include: native plantings, public gardens, walking and biking trails, benches and picnic areas, shade structures, par course or exercise equipment, dog run, public parking and/or other amenities;
- (f) Provide for appropriate transitions and buffers between existing residential and industrial uses, and proposed uses within the Property;
- (g) Provide for bicycle and pedestrian connections throughout the site, including connections to the existing Jarvis neighborhood and neighboring industrial uses, and a multi-use pedestrian and bicycle path along the Butterfield Boulevard frontage;
- (h) MWest commits to developing a Transportation Demand Management plan to promote alternate means of transportation and to reduce single-occupancy vehicle trips to and from the area;
- (i) MWest and City would jointly seek to establish a bus stop on Butterfield Boulevard;
- (j) MWest and City to explore the feasibility of incorporating a small cafe within the project.

Taking Advantage of the Market Window

This is an opportunistic moment in time when both the industrial and residential markets are strong. Waiting until the General Plan Update concludes will likely delay the project for 18 months to 2 years or more. Unfortunately, market windows can close as fast as they open. It is important not to get complacent. The industrial market in Morgan Hill is cyclical. The last time vacancy rates were at this level was during the economic boom of the late 1990s. Within just two years following the “dot.com bust”, vacancy rates spiked to over 20%.

MWest is committed to collaborating with the City and business community to take Morgan Hill’s economic base to the next level. With the strategy outlined above, MWest looks forward to creating and developing a master plan that will ultimately add over 10% to the City’s industrial base (600,000 SF), generate 1,200+/- jobs and \$20 - \$25 million in annual retail spending, and provide critically needed rental housing for Morgan Hill.

Very Truly Yours,



Chad Froman, Director
MWest



Kerry M. Williams,
Project Director



ABOUT MWEST

MWest is a partnership between DivcoWest and TPG Real Estate, a vertically integrated real estate investment company headquartered in Santa Clara:

- We focus on acquiring, re-positioning, developing and operating a community of office, R&D, industrial and residential projects in Silicon Valley 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

