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January 10, 2017

Terry Linder, Project Planner
Edith Ramirez, OED
City of Morgan Hill
Planning Department
17575 Peak Avenue
Morgan Hill, CA 95037

SUBJECT: ZA-16-08/DA-16-09 Sunsweet Mixed Use, Response to the Staff Report Findings

Dear Terry,

On behalf of the Sunsweet Morgan Hill partnership we would like to thank you for working tirelessly during the holiday break to develop the staff report that provides the Planning Department's comments on the Sunsweet Mixed Use Project's application plans, submitted to the City in November 2016. By the means of this memorandum, we would like to inform you about revisions that were made to our plans after we had the chance to review findings in the staff report that was made available January 5, 2017.

The Staff Report states that our proposed development is consistent with the overall intent, goals, and policies of the General Plan and Specific Plan which was the goal we had in mind when we were developing our PUD Application plans. There are still certain details in your "areas of requested flexibility" report that deviate from the Downtown Specific Development Standards, although we believe that the variances that we are asking for will make the project stronger and its' uses more vibrant. To make our proposal even stronger we've addressed the major comments in your report to make our plans more consistent with the City Zoning Code and Downtown Specific Plan Development Standards.

For your review, we are providing our responses to each item listed under the "areas of requested flexibility" below:

"Three to five-foot increase to the maximum allowed building height"

The majority of the building along its perimeter is approximately 55 feet from the ground level to the top of the roof line.

The maximum height of the elevations that include residential lofts on the upper floor is 58 feet, which is just 3 feet above the maximum height limit. However, to lower the perceived building height and minimize shadow impact, the upper floor residential lofts are set back from the building setback lines by a few feet.

"A 12-stall reduction in the number of required parking spaces"

To address your comment regarding the shortage of leasing office parking spaces within the subterranean parking, we have challenged our architect to reconfigure the parking lot to add additional spaces that are required for the leasing office space per

the Downtown Specific Plan. Based on the Downtown Parking Requirement Rates, the project will need to provide 8 parking spaces dedicated to the leasing office on a permanent basis, even though our management company has indicated that, based on its' experience with similar projects, the leasing office will need no more than 3 parking spaces.

Nevertheless we were able to revise the parking floor layout to include 128 stalls that will be used by the residents, management / maintenance personnel, prospective tenants, and guests. After making this change, we are 100% compliant with the City's parking requirement rates.

“A 58 percent reduction in the overall required commercial square footage”, and “A 30-40-foot reduction in the reduction in the required commercial space depth”

To develop the project's retail program and estimate the need for ground floor retail spaces based on the market demand and pedestrian / vehicular traffic counts in this location, Sunsweet Mixed Use partnership has consulted with its commercial brokerage team at Newmark Cornish & Carey who represent the ownership group interests on other mixed-use projects in its portfolio. This team has demonstrated the outstanding ability to forecast demand for retail space in various locations and fill retail spaces with the broad range of retail tenants from successful local business to regional and national users.

A vivid example of the team's performance is at Meridian @ Midtown, Republic Urban's project located in Midtown, San Jose. This project's retail space is 100% leased and occupied by the following users: Chase Bank, Breakfast/Brunch family restaurant, Starbucks, Subway Sandwiches, Urgent Care, and nail salon. The configuration of retail space at Meridian, including depth and overall areas), and its overall ratio to the total leasable space is similar to the Sunsweet Mixed Use project. Thus we are confident that Sunsweet's retail program is adequate and will allow us to satisfy the design needs of potential tenants looking to locate in the vibrant Morgan Hill Downtown.

One of the challenges that our development team is facing on this project, in regards to retail space, is to make sure that we don't over incorporate retail in our mixed use project. According to the recent Feasibility Analysis, prepared by Keyser Marston Associates for the City of San Jose's Housing Department, vertically integrated mixed use projects (i.e. residential in upper floors with non-residential in the ground floor of the same building) tend to have development economics that are less financially feasible than all-residential projects. The commercial spaces in mixed-use projects are generally more difficult to lease than residential units, commercial rental rates are lower while Type I retail shell construction costs remain high due to the deficit of affordable workforce in the region. The study results suggest that an average project's retail component starts to have a significant impact on the overall economics of the project when it reaches 8% of the total leasable square footage. In case of Sunsweet Mixed Use, the proposed retail area is approximately 7.5% of the total leasable area (6,424 SF / 86,276 SF) which provides a balance between residential and

commercial components of the project and ensures that one doesn't negatively impacts the other.

"Inclusion of a ground floor office use on Third Street"

The 2000-sq. ft. area designated for the apartment and retail leasing office will be allocated approximately 1000 square feet for the site office that would house the management personnel, incorporating one office, with a "back of house" storage area for supplies and equipment. In addition to meeting with the prospective tenants, the manager's office will have a constant flow of visitors including the residents who would like to pay their bills, schedule service appointments and private events, drop off or pick up their dry cleaners orders, etc.

The rest of the leasing office square footage will be utilized by the residents and guests, allowable for work, socializing, and enjoying complimentary snacks and espresso drinks.

The leasing office's close proximity to the outdoor plaza will also ensure the better interaction between the street and indoor ground floor uses, providing the activation of the ground floor uses both during the day and at night.

The lobby area and office location adjacent to the retail area would further assist in supporting the retail tenants by increasing visibility and creating a cohesive sense of community/neighborhood.

We very much appreciate your time and effort on this project.

Sincerely,



Michael Van Every
President/CEO
Republic Urban Properties