INDUSTRIAL LANDS AND SOUTHEAST QUADRANT MARKET STUDY

Prepared for

The City of Morgan Hill

Prepared by

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CONTENTS

Section 1

INTRODUCTION

In early 2003 the City Council appointed an Advisory Committee to undertake a study of the Urban Limit Line/Greenbelt. In June 2005 the City Council gave direction to staff regarding the ULL/GB project description for the City's General Plan Amendment-- with the exception of the Southeast Quadrant. (See Figure 1 for a delineation of the SEQ.) During that process there were many different ideas regarding what should happen with the SEQ. (See Appendix A for a summary of these proposals.) In order to better inform the next steps, the Council agreed to prepare an industrial lands market study prior to deciding the appropriate next steps for planning of the SEQ.

In July 2006 Pacific Group was retained to prepare an Industrial Lands Study and Southeast Quadrant Market Study. This study will not present a final decision regarding the SEQ. It will be used, along with other considerations to discuss whether or not preparation of a specific plan for the SEQ is warranted; whether the next General Plan Update should address the SEQ; or whether to leave the area designation as is.

The primary issues addressed in this study include:

1. What is the amount and suitability of industrial land within the City’s Urban Growth Boundary?

2. Is this sufficient for projected demand, both in the short and long term?

3. Is the land in SEQ in the area of Tennant and Murphy (most of which is outside of UGB) better suited for future industrial development than the vacant land within the UGB?

4. Is there a market potential for privately operated recreation/sports uses in the SEQ?

The evaluation of industrial land was conducted during August and September 2006. The survey of potential sports and recreation users was conducted during October of 2006.

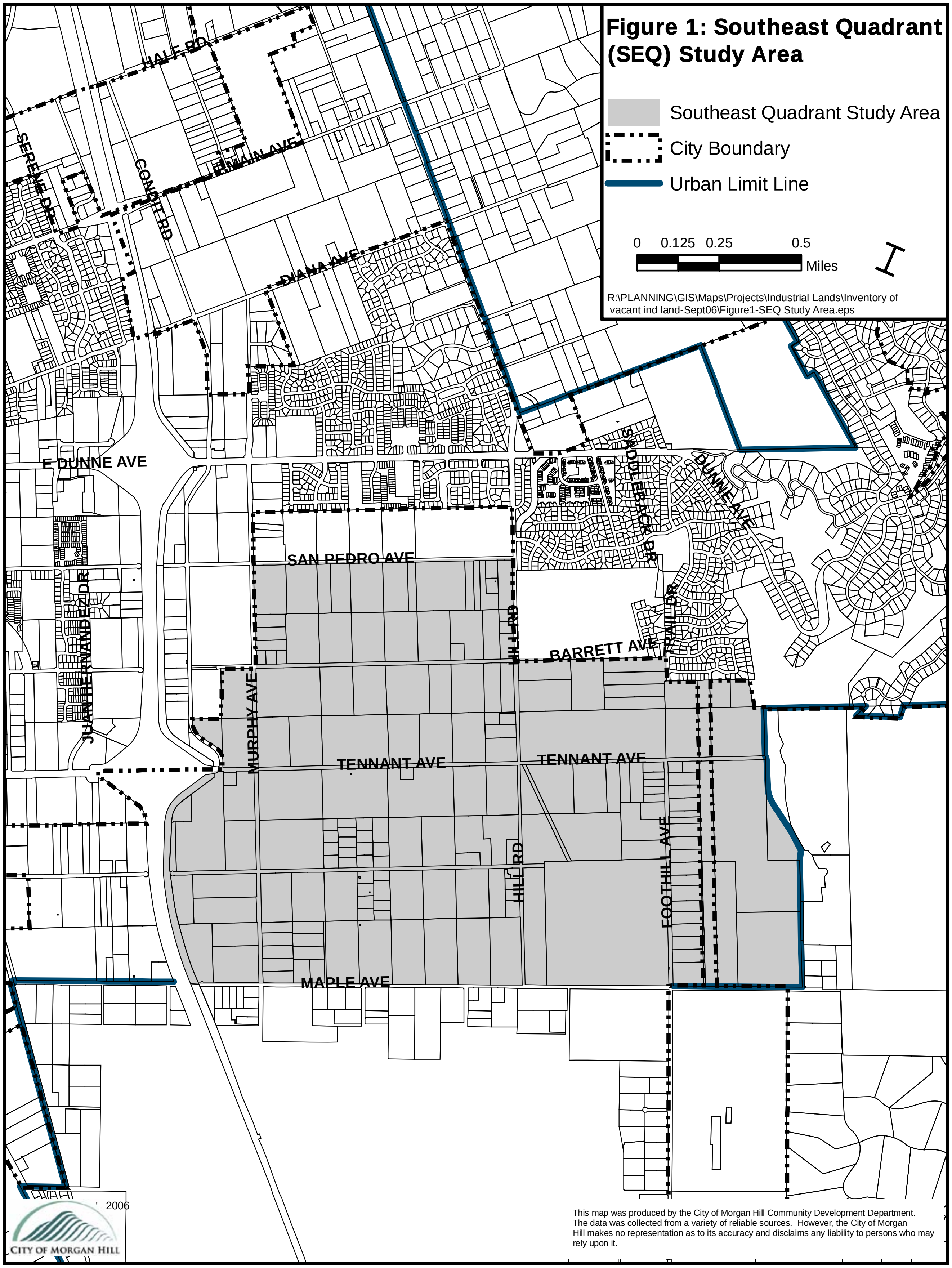

Figure 1: Southeast Quadrant (SEQ) Study Area
Southeast Quadrant Study Area
City Boundary
Urban Limit Line
0 0.125 0.25 0.5
Miles
R:\PLANNING\GIS\Maps\Projects\Industrial Lands\Inventory of vacant ind land-Sept06\Figure1-SEQ Study Area.eps
HALE RD
SERENE DR
CONDIT RD
E MAIN AVE
DIANA AVE
E DUNNE AVE
SADDLEBACK DR
DUNNE AVE
SAN PEDRO AVE
JUAN HERNANDEZ DR
HILL RD
BARRETT AVE
TRAIL DR
MURPHY AVE
TENNANT AVE
TENNANT AVE
HILL RD
FOOTHILL AVE
MAPLE AVE
2006
CITY OF MORGAN HILL
This map was produced by the City of Morgan Hill Community Development Department.
The data was collected from a variety of reliable sources. However, the City of Morgan Hill makes no representation as to its accuracy and disclaims any liability to persons who may rely upon it.

Section 2

EXECUTIVE SUMMARY

This section presents a brief summary of the findings of the report. The detailed analysis is presented in the body of this report.

NEED FOR INDUSTRIAL LAND

This analysis compared the existing supply of industrial land within Morgan Hill's Urban Growth Boundary to the projected demand for industrial land. There are numerous scenarios that could be used for this comparison. For example, all vacant industrial land could be considered. On the other hand it could be useful to consider only developed business park land that is vacant. Such an analysis can be conducted on the basis of projected land requirements or built square feet requirements. These are equivalent analyses because land can be converted to required building space based on Floor Area Ratios (FARs).

Table S-1 presents four scenarios for comparing available industrial land and vacant buildings with the projected industrial demand in Morgan Hill.

Table S-1
POTENTIAL INDUSTRIAL SQUARE FEET IN MORGAN HILL UGB
(Four Scenarios)

	Scenario			
Assumptions	**1**	**2**	**3**	**4**
Land	**All Vacant**	**All Vacant**	**All PUD/Bus Park**	**Dev'd. PUD/Bus Park**
Buildings	**All Vacant**	**75% of Vacant**	**75% of Vacant**	**75% of Vacant (4)**
Vacant Land (Acres)	556	556	417	227
Potential Bldg. Sq Ft				
Vacant Land (1)	8,480,145	8,480,145	6,357,750	3,468,160
Vacant Buildings (2)	1,241,872	931,404	931,404	931,404
Total Potential Sq Ft	9,722,017	9,411,549	7,289,154	4,399,564
Required Sq Ft Per Year (3)	144,043	144,043	144,043	144,043
Years of Inventory	67	65	51	31

(1) FAR=.35.
(2) See Table 6.
(3) From Table 16, based on current sq ft per employee standards.
(4) Includes: S of Tennant/W. of RR; MHR; Sutter Bus. Park; Madrone Bus Park; Adams Court.

Scenario 1 assumes that all of the currently vacant buildings will be absorbed. Scenarios 2, 3 and 4 each assume that only 75% of the currently vacant buildings will be absorbed over time. This allows some vacancy for normal market inefficiencies and also for the limited number of buildings which may be (or become) obsolete. The required square feet is based on the ABAG projection of employment through 2030.

As shown in this table, under each scenario the number of years of available industrial land and building inventory in Morgan Hill ranges from 31 to 67 years, depending on which vacant acres are included in the inventory. Even the most optimistic scenario (#4-only developed business parks) indicates an existing inventory of industrial land and buildings that is adequate for projected demand for 31 years. This scenario <u>does not include</u> any of the vacant land in the area South of Tennant/E of the Railroad (Zone #2).

When the time comes, in 20 years or so, to decide where new industrial land should be developed, it will be appropriate to make a detailed evaluation of the available zones for future development. If unforeseeable economic and/or land use events occur that decreases supply or increases demand for space, then an earlier evaluation could perhaps be warranted.

This report provides a preliminary evaluation which indicates that the land in the SEQ appears at this time to be more suitable for industrial development than the land in the South of Tennant/E of the Railroad area (Zone #2).

POTENTIAL FOR SPORTS-RECREATION USES IN SEQ

The primary purpose of this section of the report is to determine whether lands located within the “Southeast Quadrant” (SEQ) would be suitable for designation and development of a destination-regional-community sports and recreation area, to add to the uses that already exist in that area. The primary task in this section is to contact a sample of private companies to determine on a preliminary basis if there is some interest in developing privately financed recreation and sports uses in the SEQ.

The concept of a regional destination sports and recreation area which is evaluated here is somewhat unique in several ways:

1. The uses would be primarily privately funded.
2. The area would be master planned with conditions and development guidelines.
3. The emphasis would be on sports, outdoor recreation and family activities as opposed to entertainment and amusements. (arcades, nightclubs, etc.).
4. Individual facilities would be independently owned and operated.
5. While specialized retail related to particular sports and recreation activities would be allowed, it would not be intended as a shopping center to compete with existing retail in the area.

This study is not intended to seek firm commitments from developers or operators. This could not happen in any case, because the City does not own the land in the SEQ. However, in order to gauge the potential interest in privately developed recreation and sports uses in the area we contacted over 25 developers and/or operators of recreation facilities. Naturally this is a preliminary selected survey and many other potential developers and operators could be contacted.

The primary conclusions from the survey of potential developer/operators are:

1. There was a good deal of interest shown in this concept and this site from local, regional and even national groups.

2. The Southeast Quadrant area has the ability to attract local population, regional population and tourists. Even national companies were aware of the image and popularity of the Monterey Peninsula as a tourist destination, and Morgan Hill is “on the way” to the Monterey Peninsula.

3. The commercial recreation business is undergoing a difficult period because development costs have risen faster than potential revenues. This has caused a certain amount of shake-out in the industry with smaller operators being acquired or going out of business.

4. The users contacted and any private commercial recreation uses will want to be in the Urban Service Area for utilities and approvals. (Just as the developer of a business park would).

5. Many of the users indicated that some amount of related retail and restaurants would be needed to make money.

6. The timing of the project was a plus and a minus. Some developers were looking for a more immediate opportunity. But most were comfortable with a longer time frame as long as they are kept informed of when it is appropriate to approach property owners.

7. The size of the parcels desired ranged from five acres to several hundred.

8. The uniqueness and the quality of the development will be important to draw the regional population and the visitor base.

9. In virtually all cases the developers indicated a willingness to adjust their concepts to accommodate the City by providing an outdoor-oriented experience.

10. The primary advantages of the site that were mentioned most frequently were:
    - The proximity to San Jose and Monterey Peninsula
    - The future growth potential in the area
    - Freeway visibility and access
    - Relatively low land prices

11. The primary disadvantages that were mentioned most frequently were:
    - The need to develop city utilities
    - The time to assemble land
    - The time required to annex the lands
    - (In a few cases) the need for some City support (planning, financial, etc)

Section 3

DEMOGRAPHIC BACKGROUND

POPULATION

The City of Morgan Hill is located about 10 miles south of San Jose. Table 1 presents the projected population for cities in Santa Clara County.

Table 1
PROJECTED POPULATION BY CITY

SUBREGIONAL AREA	2000	2005	2010	2015	2020	2025	2030
CAMPBELL**	39,286	39,300	40,300	40,900	41,800	42,500	43,400
CUPERTINO**	52,970	55,400	57,100	58,500	59,900	60,200	60,200
GILROY**	48,065	53,500	60,000	62,300	64,600	65,600	66,400
LOS ALTOS**	30,254	30,000	30,400	30,800	31,400	31,600	31,500
LOS ALTOS HILLS**	9,455	9,900	10,100	10,300	10,500	10,600	10,700
LOS GATOS**	31,889	32,100	32,700	33,400	34,200	34,800	35,500
MILPITAS**	62,810	65,500	70,400	76,500	82,400	86,900	91,400
MONTE SERENO**	4,284	4,400	4,500	4,500	4,700	4,700	4,800
MORGAN HILL**	38,156	41,000	45,100	46,800	48,900	49,700	50,000
MOUNTAIN VIEW**	70,877	72,000	76,000	80,600	84,500	87,200	89,600
PALO ALTO**	71,914	74,000	78,300	82,900	86,600	89,100	92,200
SAN JOSE**	941,998	985,000	1,049,800	1,118,800	1,196,900	1,264,400	1,339,400
SANTA CLARA**	102,361	108,700	117,400	123,600	130,100	135,400	142,100
SARATOGA**	30,384	30,900	31,700	32,400	33,300	33,800	33,900
SUNNYVALE**	133,086	133,000	135,800	140,600	146,900	152,500	159,100
REMAINDER	14,796	15,400	15,900	16,200	16,600	16,800	16,900
SANTA CLARA COUNTY	**1,682,585**	**1,750,100**	**1,855,500**	**1,959,100**	**2,073,300**	**2,165,800**	**2,267,100**

** Indicates sphere of influence is used.

Source: ABAG Projections 2005.

The projected population shown for Morgan Hill for 2020 is 48,900. This is consistent with the population projection in the general plan of 48,000 by 2020, based on the Measure C limit of about 250 new units per year.

HOUSEHOLD INCOME

Table 2 presents projected mean household income for the cities in Santa Clara County. As shown, the Morgan Hill mean household income is higher than the surrounding cities of San Jose and Gilroy.

Table 2
MEAN HOUSEHOLD INCOME BY CITY
(In 2000 Dollars)

Area	2000	2005	2010	2015	2020	2025	2030	05-30 Annual % Change
CAMPBELL**	89,800	80,800	87,000	93,800	99,400	106,000	113,500	1.6%
CUPERTINO**	134,700	118,500	127,700	136,900	146,400	155,500	163,400	1.5%
GILROY**	82,200	72,100	79,400	89,400	95,300	101,000	105,700	1.9%
LOS ALTOS**	191,200	172,000	185,300	198,000	207,900	219,500	230,800	1.4%
LOS ALTOS HILLS**	286,900	243,500	273,000	305,500	331,000	352,600	374,600	2.2%
LOS GATOS**	146,100	125,700	135,800	150,500	155,500	164,800	173,300	1.5%
MILPITAS**	106,700	98,700	107,700	116,300	124,800	131,900	138,600	1.6%
MONTE SERENO**	238,600	207,600	224,900	245,800	264,700	281,500	299,700	1.8%
MORGAN HILL**	111,500	96,400	106,000	118,100	125,600	132,900	138,900	1.8%
MOUNTAIN VIEW**	97,200	88,400	95,100	102,500	108,500	115,500	125,000	1.7%
PALO ALTO**	142,500	141,000	147,200	153,400	167,000	178,700	189,400	1.4%
SAN JOSE**	93,400	90,400	96,000	101,700	106,700	113,200	119,400	1.3%
SANTA CLARA**	90,800	81,000	87,900	94,500	100,000	108,000	116,000	1.7%
SARATOGA**	203,700	179,300	193,100	207,600	221,200	235,600	250,100	1.6%
SUNNYVALE**	99,300	90,300	98,600	106,100	112,900	117,600	123,600	1.5%
REMAINDER	95,500	85,000	91,100	98,400	106,200	115,000	123,300	1.8%
County Total	**105,300**	**94,500**	**101,800**	**109,700**	**116,200**	**122,700**	**129,000**	**1.5%**

Source: ABAG, Projections 2005.

As shown, the mean household income declined during the 2000 to 2005 period in the county, in San Jose and in Morgan Hill. From 2005 into the future, Morgan Hill's mean household income is projected to increase at an annual rate (1.8%) just slightly above the County-wide average rate of 1.5%.

JOBS

Table 3 presents the estimated jobs in Morgan Hill, San Jose and the County for the 2000 to 2005. As shown, the number of jobs in all sectors declined in the county, in San Jose and in Morgan Hill. Note that these figures include an estimate for self-employed and thus may somewhat overstate the potential demand for industrial buildings.

Table 3
JOBS IN SANTA CLARA COUNTY

Total Jobs	2000	2005	Percent of County 2000	Percent of County 2005	% Change 2000-2005
Santa Clara County	1,044,130	903,840			
San Jose	432,480	375,750	41.4%	41.6%	87%
Morgan Hill	15,220	14,520	1.5%	1.6%	95%
Gilroy	20,770	22,430	2.0%	2.5%	108%
Mfg,Whls, Trans					
Santa Clara County	346,529	276,450			80%
San Jose	132,060	106,080	38.1%	38.4%	80%
Morgan Hill	4,700	4,130	1.4%	1.5%	88%
Gilroy	4,060	3,970	1.2%	1.4%	98%
Finanial, Profess.					
Santa Clara County	211,250	176,950			84%
San Jose	83,320	70,800	39.4%	40.0%	85%
Morgan Hill	2,200	2,030	1.0%	1.1%	92%
Gilroy	2,130	2,180	1.0%	1.2%	102%

Source: ABAG, Projections 2005

The number of jobs in Morgan Hill is only 4% of the jobs in San Jose and only 1.6% of the jobs in the County. It is interesting to note that Morgan Hill's manufacturing jobs and office jobs declined more over this period than Gilroy's did.

Table 4 presents a more detailed breakdown of job categories for 2005. Note that Morgan Hill has a substantially higher percent of its jobs in retail that the County average and a lower percent in professional and financial jobs than the County average.

Table 4
JOBS BY INDUSTRY FOR MORGAN HILL, SAN JOSE AND THE COUNTY
2005

	Jobs			Percent Distribution		
	Morgan Hill	**San Jose**	**County Total**	**Morgan Hill**	**San Jose**	**County Total**
Ag and Natural Resources	490	1,280	4,500	3%	0%	0%
Mfg, Whls, Transp	4,130	106,080	276,450	28%	28%	31%
Retail	2,070	38,280	87,160	14%	10%	10%
Financial/Professional Services	2,030	70,800	176,950	14%	19%	20%
Health Education & Recreation	4,090	105,260	241,840	28%	28%	27%
Other Jobs (1)	1,710	54,770	116,940	12%	15%	13%
Total Jobs	14,520	375,750	903,840	100%	100%	100%

(1) Includes construction and public administration.

Source: ABAG, Projections 2005

It is interesting to note the ratio between the number of jobs and the number of households in a city. For the county overall, there are 1.5 jobs for every household. The figures for the Sphere of influence for selected cities are shown below.

Campbell	1.4
Cupertino	1.6
Gilroy	1.5
Morgan Hill	1.1
Mountain View	1.8
Palo Alto	3.4
San Jose	1.2
Santa Clara	2.7
County	1.5

As shown, Morgan Hill provides the lowest number of jobs per resident household of all the cities listed.

Another way to evaluate this is to calculate the ratio of the number of jobs in the city compared to the number of employed residents in the city. This ratio is show below for the sphere of influence for these cities.

Campbell	1.25
Cupertino	1.47
Gilroy	1.08
Morgan Hill	0.87
Mountain View	1.62
Palo Alto	3.11
San Jose	0.93
Santa Clara	2.22
County	1.23

As shown, Morgan Hill provides the lowest number of jobs per resident household of all the cities listed, but could be considered "balanced", with 1.1 jobs per household and .93 jobs per employed resident. The Morgan Hill General Plan calls for a jobs/housing balance, but does not include a specific goal or define a method for determining "balance".

Section 4

INDUSTRIAL LAND & BUILDINGS SUPPLY

This section of the report estimates the available inventory of industrial land and buildings in Morgan Hill. For purposes of this report, industrial development is broadly defined to include manufacturing, warehouse, office and R&D. The suitability and development capacity of the land and building inventory will be discussed in a later section of this report.

LAND

Table 5 presents a summary of the existing vacant industrial land within the Morgan Hill Urban Growth Boundary. This table separates the land by zone and also indicates the land that is zoned PUD/Industrial versus a general industrial zoning (ML, MC, MG). As shown, there is a total of 556 vacant industrial acres in Morgan Hill. Of this amount, 417 acres are in PUDs, areas designated for PUD development or in existing planned business parks. When only the land which has existing backbone infrastructure is counted, there is a total of 217 acres of vacant industrial land in PUDs and business parks. (This excludes the area N. of Tennant and S. of E. Dunne.)

Table 5
PROFILE OF VACANT INDUSTRIAL LAND IN MORGAN HILL

Zone				Acres			
				Vacant	With a Dwelling	Without a Dwelling	# of Vacant Parcels (1)
1	P	D	S of Tennant/W of R.R.	62	1	61	6
2	P	U	S of Tennant/E of R.R.	147	44	104	28
3		D	N of Tennant/S of E.Dunne	56	-	56	20
4	p	D	Joleen	-	-	-	0
5			S of Dunne/E of Walnut	6	-	6	1
6			Butterfield/Central	15	-	15	2
7	P	D	Morgan Hill Bus Park	125	-	125	27
8	P	U	E of 101/Diane to Half	74	7	67	11
9	P		E of 101/N of Half	31	-	31	3
10	p	D	Sutter Bus Park	8	-	8	4
11	p	D	Adams Court	10	0	10	2
12	p	D	Cochrane Bus Park	-	-	-	0
13	P	D	Madrone Bus Park	22	-	22	6
Total Vacant Industrial Land				556	52	504	110
PUD/Bus Park: Developed & undeveloped(2)				417	51	366	81
PUD/Bus Park: Developed only				227	2	226	45

P=PUD zoning currently or required for development.
p=Business Park or planned development.
U=Outside City limit; inside UGB. (Undeveloped.)
D=Developed sites avaialable.

(1) Includes parcels with a dwelling.
(2) Includes business parks which are not PUDs and E of 101/N of Half.
Note: excludes 27 vacant acres of land zoned CO for Administrative Offices.

As shown, there is a total of 556 vacant industrial acres in the Morgan Hill UGB. Of this amount, 417 acres are in PUD zones or business parks. The primary concentrations of vacant PUD or business park land are:

	Acres
S of Tenant/E of R.R. *	147
Morgan Hill Ranch	125
East of 101/Diane to Half *	74
Madrone Business Park	22
Total	368

*=Undeveloped land outside City Limit but inside the UGB.

Figure 2 shows the location of the vacant industrial acres in Morgan Hill and indicates which parcels in the South of Tennant/East of Railroad area contain a dwelling unit.

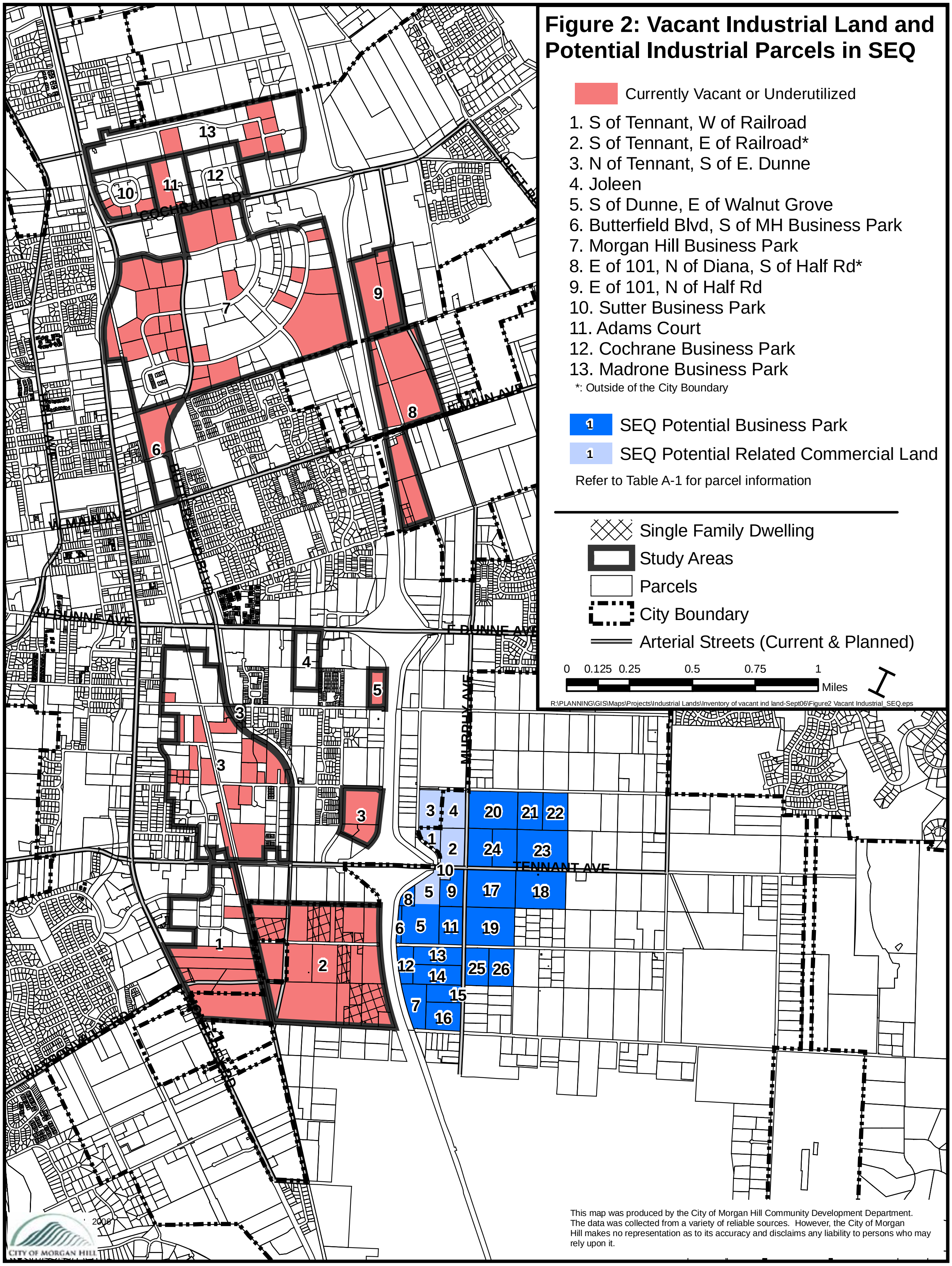
Figure 2: Vacant Industrial Land and Potential Industrial Parcels in SEQ
Currently Vacant or Underutilized
1. S of Tennant, W of Railroad
2. S of Tennant, E of Railroad*
3. N of Tennant, S of E. Dunne
4. Joleen
5. S of Dunne, E of Walnut Grove
6. Butterfield Blvd, S of MH Business Park
7. Morgan Hill Business Park
8. E of 101, N of Diana, S of Half Rd*
9. E of 101, N of Half Rd
10. Sutter Business Park
11. Adams Court
12. Cochrane Business Park
13. Madrone Business Park
*: Outside of the City Boundary
SEQ Potential Business Park
SEQ Potential Related Commercial Land
Refer to Table A-1 for parcel information
Single Family Dwelling
Study Areas
Parcels
City Boundary
Arterial Streets (Current & Planned)
0 0.125 0.25 0.5 0.75 1
Miles
COCHRANE RD
W MAIN AVE
E MAIN AVE
W DUNNE AVE
E DUNNE AVE
MURPHY AVE
TENNANT AVE
This map was produced by the City of Morgan Hill Community Development Department. The data was collected from a variety of reliable sources. However, the City of Morgan Hill makes no representation as to its accuracy and disclaims any liability to persons who may rely upon it.
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SEQ-Potential Industrial Land-The ULL/GB Report indicated that approximately 200 acre business park/industrial area should be considered near the Tennant and Murphy Avenue intersections east of Highway 101. Additional adjacent land was suggested for related commercial space. The report further indicated that this land may need to be campus style development to be consistent with the Enhanced Rural Landscape theme. The nature and precise location and size of the industrial uses were not specified in that report.

During the course of this study we reviewed the area located near the Tennant and Murphy Avenue intersections and contacted several property owners in this area. Based on this, Figure 2 identifies parcels that might be used as a business park in the area. Approximately 250 acres are shown as a possible location for a business park. In addition another 40 acres are shown as a possible location for adjacent and related retail uses. This area simply represents potentially available land. It does not indicate that any specific land planning has been done.

Appendix Table B-1 list these parcels and their acreage and indicates whether there is a dwelling unit. However it should be noted that:

- None of the property owners has made a formal commitment to such a use.
- No development company has evidenced the financial commitment necessary to such a development.
- A Minimum of 100 contiguous acres (and ideally up to 200 acres) would be necessary to justify the infrastructure costs of such a development and to prepare a coherent land plan.

BUILDINGS

For purposes of this study industrial buildings include the following types:

- Office
- R&D
- Manufacturing (Ind)
- Warehouse (WH)

While some office users could be developed on Administrative Office land (CO), for all intents and purposes for future development virtually any user in these categories can be accommodated on the City's industrial and PUD land.

Table 6 presents data on the existing square feet of buildings in each of these categories in Morgan Hill. This table also shows the vacant space in each category as of July 2006.

Table 6
SUMMARY OF RECENT TRENDS IN INDUSTRIAL AND OFFICE SPACE IN MORGAN HILL
(July 2006)

	Office	RD	WH	Ind	Total
Building Base	534,860	2,688,925	371,380	2,044,236	5,639,401
Total Available	111,731 [1]	572,648	252,028	305,465	1,241,872
Total Vacant Rate	21%	21%	68%	15%	22%

1 Includes 61,000 occupied space for sublease.

Source: Colliers International

As shown in this table, there is approximately 1.24 million square feet of space available representing a 22% vacancy rate. This vacant space does not include hidden vacancy which occurs when:

- Space is rented well below market because no other prospects are available,
- Space that is occupied at below maximum usage but is not put on the market because the market is weak.

Both of these circumstances exist in Morgan Hill and thus there is some hidden vacancy which is not reflected in these figures.

OTHER MARKETS

While the amount of vacant space in Morgan Hill is the most important factor, it is also useful to review the available space in the surrounding markets. Table 7 summarizes the vacant industrial space in Silicon Valley.

Table 7
AVAILABLE INDUSTRIAL SPACE IN SILICON VALLEY
(July 2006)

	Office	RD	WH	Ind	Total Vacant
San Jose	3,896,429	10,025,140	1,712,335	1,805,875	17,439,779
Gilroy	21,581	159,116	273,005	164,299	618,001
Morgan Hill	111,731	572,648	252,028	305,465	1,241,872
Santa Clara	1,671,997	4,589,069	233,249	731,942	7,226,257
Sunnyvale	841,027	3,736,664	21,750	249,534	4,848,975
Milpitas	154,408	3,788,835	618,161	227,295	4,788,699
Other	2,666,699	8,161,656	800,822	1,086,421	12,715,598
Total	9,363,872	31,033,128	3,911,350	4,570,831	48,879,181
Available Rate	16%	20%	10%	8%	17%

Source: Colliers International

As can be seen there is a substantial amount of <u>vacant space in Morgan Hill and these surrounding markets—49,000,000 square feet</u>. Morgan Hill's market for industrial uses has historically been significantly affected by the San Jose market and tends to lag the San Jose market. The demand for industrial space in Morgan Hill is dependent on a strong market and low vacancies in San Jose.

Coyote Valley

The City of San Jose is preparing a Specific Plan and EIR for the 7,000 acre Coyote Valley area located a few miles north of Morgan Hill. The draft land use map identifies areas to accommodate over 50,000 new “industry-driving and business support” jobs.
According to the Notice of Preparation of the EIR, the Industrial/office/R&D workplaces would include corporate/technical offices, research and development laboratories, professional/service office, and light industrial uses. Most of the industrial/office/R&D space is planned for the northern portion of the Coyote Valley development area and along Monterey Road, with some located near the center of the area near the proposed lake.

The market study for Coyote Valley projected 18,000 new workspace (office/industrial) jobs by 2020, which would require 5.7 million square feet of new work space. These projections assumed Coyote Valley would simply capture a share of the total employment projections for San Jose. Even these estimates were based on jobs projections that are 2.3 times higher than the current ABAG jobs projections for San Jose.

Thus, the actual size and timing of new workspace development in Coyote Valley is uncertain at best. However, if this development proceeds, a significant amount of new development (or development shifted from other areas of San Jose) would be added in an area just a few miles north of Morgan Hill and closer to the heart of Silicon Valley. This would represent significant new competition for Morgan Hill industrial space. Whether Morgan Hill or positively or negatively impacted will depend on the extent of infrastructure and other costs that are reflected in the cost of Coyote Valley space, and how that compares to cost of locating in Morgan Hill. While Morgan Hill is located further away from the core of San Jose and Silicon Valley, it would not be located very far away from the new Coyote Valley space, and users may elect to locate in Morgan Hill if costs are lower and employer and employee needs can be accommodated.

Section 5

SUITABILITY AND DEVELOPMENT STANDARDS

This section of the report discusses the suitability of the available industrial space in Morgan Hill as well as the area in the SEQ under consideration for industrial development. Then, based on current and projected FARs, the development capacity of this space is evaluated.

LAND SUITABILITY

Not all industrial lands are suitable for all type of users. High-tech and R&D users generally prefer a campus like setting. Small manufacturers may be seeking smaller spaces and lower rents. Light industrial uses may need outdoor storage and large open indoor spaces. Thus it is important for a city to maintain a wide range of inventory in terms of size, quality, and price. That is, some land may be unsuitable for some users but suitable for others. On the other hand, undeveloped land needs to be judged in terms of its ease and cost of development.

Table 8 presents a listing of the "suitability" (advantages and disadvantages) of the various zones of industrial land in Morgan Hill. A summary of these characteristics for the largest vacant land areas is presented below.

1. S of Tennant/W of Railroad (62 acres)-suitable for some users but not ideal for major users and companies seeking high image location.

2. S of Tennant/E of Railroad (147 acres)-This area was added to the Urban Growth Boundary in the 2001 General Plan Update. There are some potential problems which could discourage development in this area. (There is more discussion of this below where this area is compared with land in the SEQ.)

3. N of Tennant/S of E Dunne (56 acres)-older industrial area, which still offers a range of parcel sizes. Suitable for many users. But does not offer a campus like setting.

7. Morgan Hill Ranch-(125 acres). All of this land is considered suitable and prime land for industrial development. It is an attractive campus like setting which appeals to the full range of industrial users.

*8. E of 101/Diana to Half-(*74 acres). This area was added to the Urban Growth Boundary in the 2001 General Plan Update. This area appears to be adequately served by major utility lines up to the site. Proximity to the freeway is an added advantage.

Table 8
SUITABILITY OF INDUSTRIAL ZONES IN MORGAN HILL

Zone	Advantages	Disadvantages	Vacant Acres
1	**S of Tennant/W of R.R.**		62
	development must be PUD	few remaining parcels	
		scattered parcel locations	
		parcel size and shape not ideal	
		access less direct	
2	**S of Tennant/E of R.R.**		147
	proximity to freeway	many parcels-needs assembly	
	Butterfield extension will enhance area	difficult to access utilities	
	development must be PUD	residential units raise the land price	
		Butterfield extension could delay	
		Butterfield extension uses 20 acres	
3	**N of Tennant/S of E.Dunne**		56
	exisiting infrastructure	scattered parcels	
	opening of Butterfield improved image	not planned development	
		some older structures	
4	**Joleen**		-
5	**S of Dunne/E of Walnut**		6
		freestanding parcel	
6	**Butterfield-S. of MHR**		15
		freestanding parcel	
7	**Morgan Hill Ranch Bus Park**		125
	fully developed sites	no significant disadvantantages	
	quality image		
8	**E of 101/Diana to Half**		74
	good access to utilities	no significant disadvantantages	
	freeway access and visibility		
9	**E of 101/N or Half**		31
	single owner	no significant disadvantantages	
10	**Sutter Bus Park**		8
	virtually built out	no significant disadvantantages	
11	**Adams Court**		10
	virtually built out	no significant disadvantantages	
12	**Cochrane Bus Park**		-
	built out	no significant disadvantantages	
13	**Madrone Bus Park**		22
	well planned development	no significant disadvantantages	
		Total Acres	**556**

Comparison of South of Tennant and the SEQ

South of Tennant/E of Railroad

This area was included in the UGB as part of the 2001 General Plan update. The 147 acres are designated for industrial use. However, extension of Butterfield Road will utilize approximately 20 acres of this land, leaving only 127 acres for a business park.

Access-major access route would be from Tennant using the Butterfield extension. The timing of extension unknown, but with the recent extension of the Redevelopment Agency's capabilities, timing could be accelerated. The General Plan says this area must develop as a single PUD, so any developer would either need to know the right of way and be assured of the completion of the Butterfield extension before committing to develop, or would develop Butterfield as part of a large development project.

The City is in the process of establishing an official location and design for Butterfield Blvd. from Tennant Ave. to Watsonville. The 1992 EIR has been amended to reflect currently proposed alignment. The City anticipates completing the plan line in early 2007. There is no time line for construction yet because the current funding scheme involves the use of a federal grant. The current funding scheme calls for a federal grant with a City match using traffic impact fees. The project will become eligible for federal grant funds because it is contained in the VTP 2030 document. As noted, the Redevelopment Agency could decide to become involved in implementation of this improvement. The current alignment would utilize approximately 20 acres of land.

Drainage-the site drains to south (below the grade of Tennant). Possible future retention pond south of Maple (Timing unknown). A developer could build retention pond on site-but this is costly.

Sewer-main line would eventually come from Tennant south along Butterfield. Has challenge of moving effluent uphill, and the railroad tracks on the west side may present an obstacle. Some options include going under tracks or down to East Middle.

Water-maybe go under tracks to Monterey or use a pressurized system. Creates a dead-end line which is a problem for firefighting if break occurs.

Ease of Assembly-the area consists of 147 acres on 27 parcels, of which 15 contain a single family dwelling. These dwellings are scattered throughout the area. There has been no survey of the owners to determine which might be willing to sell their land for industrial uses. However, it should be noted that the existence of a single family dwelling would raise the price of the land considerably, because many of these homes are on smaller parcels. Recent sales in the area indicate a price per square foot in the range of $8.50 to $9.50 for parcels with single family dwellings on 3 acres or less. Even assuming that larger parcels with homes would have lower prices per square foot of land, the overall average price per square foot (include parcels without dwellings) would probably be in the range of $5.00 to $6.00 per square foot, which is high for unimproved industrial land. Furthermore, it would be difficult for a developer to tie up these homes on options until sufficient parcels are available to build a business park.

Summary. The site faces significant challenges and added costs to provide utilities. Timing for extension of Butterfield and new detention pond are unknown although the Redevelopment Agency could decide to facilitate completion of these projects. Assembly would be likely be quite difficult and costly.

SEQ (Tennant/Murphy/Fisher)

The ULL Study suggested 200 acres for a business park and 45 acres for related commercial development. No specific area was designated but the area around Tennant and Murphy was suggested. Figure 2 above and Appendix table B-1 identify 250 acres in this area and provide more detail in their characteristics.

Access-is good, directly off of Tennant Avenue. Tennant interchange may require enhancement.

Drainage-on-site retention required.

Water-water lines along Condit are adequate.

Sewer-main line at Barrett is uphill from the site. Developer would need to pay some of the cost to run a line to Barrett and install a major sewer lift station. Barrett main line would need to be upgraded from 12" to 15" pipe. Cost would be covered by development impact fees.

Ease of assembly-There are 15 dwelling units in the 250-acre SEQ business park area, of which five are owner occupied. A recent informal survey by one of the property owners was able to reach 8 of the property owners with dwelling units and all indicated their willingness to participate in a business park development. The dwellings in this area are primarily rental properties. All of the dwelling units in the SEQ are on 10-20 acre parcels. However, even assuming that these owners would require a price to compensate for the dwelling, it is estimated that overall price for land for a developer in this area would be in the range of $3.00 per square foot. (A recent sale of a home and 10 acres in the SEQ represented an average price of $2.70 per square foot of land.)

Summary: The area is well situated to access major utility lines and assembly would be relatively easy. However, most of the area is outside of the City's Urban Growth Boundary and Urban Service Area.

BUILDINGS SUITABILITY

Just as with land, industrial buildings have different characteristics which appeal to different segments of the market. Certain buildings may appeal to an R&D firm while others appeal to a light manufacturing company. Some buildings may have severe disadvantages such as size, lack of amenities, poor access, or inappropriate tenant improvements. However it is also true that these disadvantages can be offset by a lower price. A building that needs substantial improvements will rent for less than a newly built building. Again, the inventory should provide a range of buildings in terms of amenities, size, price and so forth.

A good example of such a property is the old Leybold building in the 16000 block of Vineyard. That building is approximately 30,000 s.f. It needed a new roof and HVAC system, along with a lot of new interior improvements. As a result, the new buyer paid somewhere in the neighborhood of $110 p.s.f. and probably put another $50-$60 p.s.f. into new improvements, and still was at a cost basis below new construction in the $200- $225 p.s.f. range.

In other words obsolete buildings (lacking amenities and features) often can be marketed at the right price. On the other hand, it is also true that in order to attract a certain type of large high tech company it will be important to have a sufficient inventory of high quality buildings or land in a well planned business park.

Based on discussions with local brokers and inspection of the various industrial areas in the City, we estimate that the amount of vacant industrial buildings which are of such low quality as to not be marketable, is probably less than 10% of the vacant inventory. While it may be that in selected prime locations in San Jose, over the next few years there could be a limited number of cases where “obsolete” buildings are torn down and replaced by new structures. This is only likely to occur in areas where land prices are in the $25 to $30 per square foot range. Currently improved land in Morgan Hill is in the $10 to $13 range and industry representatives do not expect any activity of this type in Morgan Hill for at least 10 years or longer.

DEVELOPMENT STANDARDS

This section of the report considers development standards only from market point of view. (There may be other planning considerations that will affect the City’s development standards.)

A large share of the vacant industrial land in Morgan Hill is either in a PUD or in an area that will require a PUD development. The guidelines for PUDs are very flexible. It currently allows virtually any use except residential and retail not related to the industrial users.

Many cities define their development standards in terms of Floor Area ratios (FARs) rather than setbacks and height limits. The actual FARs in Morgan Hill industrial areas are shown in Table 9.

Table 9
CURRENT FARs IN MORGAN HILL

Morgan Hill Ranch	0.34
Madrone Business Park	0.37
Concord Circle	0.42
All Industrial Land	0.34

These FARs are within the normal range for industrial development.

The Coyote Valley Market analysis does not discuss FARs. The Coyote Valley physical plan does not provide any data regarding the current FARs in San Jose. The Plan visualizes FARs up to 8.5 (20 story buildings) and an average FAR of .55 in workspaces but gives no analysis or documentation to justify this.

The potential trend towards higher density development is predicated to a large extent on a future industrial market with more limited land supply and higher land prices. Furthermore, these increased densities are expected to occur in more urban areas. Since the current trends do not support these expectations, it is unlikely that market forces will demand significantly higher FARs in Morgan Hill over the next 15-20 years.

Potential Changes That Affect FARs

The following types of changes if implemented could result in a minor increase in FARs:

- Define development standards in terms of FARs
- Allow office building heights of 4-5 floors, assuming adequate parking is available
- Allow general/administrative office uses in PUDs.
- Allow smaller parcel sizes in PUDs.

The future FARs in Morgan Hill will depend upon the amount and mix of new workspace, which is difficult to predict. There will probably be little change in the overall City-wide FAR, since changes in FARs will affect only new development and will occur gradually over many years. New employment will be accommodated in both existing vacant buildings and new buildings.

While it may be that in selected prime markets in San Jose, over the next few years there may be some intensification of development, the consensus among industry representatives is that this is unlikely to happen in Morgan Hill for 10 years or more. For purposes of this study, to be conservative, we estimate that the average FARs for new jobs in Morgan Hill over the next 20 years will remain at 0.35.

Even if FARs were to rise, the increase would be relatively gradual because many new jobs will go into existing vacant space and the trend toward higher FARs would take place over time. As shown in Table 10, even if half of all new industrial jobs were in new space at a higher FAR, there would be a relatively small increase in FAR for new jobs.

Table 10
ESTIMATED CURRENT AND PROJECTED FARs
For Morgan Hill Industrial Space

	Ind/ Wrh	R&D	Office	Overall Workspace
Estimated Current	0.33	0.35	0.40	0.35
New Development only (to 2030)	0.40	0.40	0.45	0.41
Average for New jobs	0.37	0.38	0.43	0.38

Section 6

PROJECTED INDUSTRIAL LAND DEMAND

This section of the report presents projected industrial demand in Morgan Hill. First new jobs are projected. Then these jobs are converted to demand for land based on standards for space needs per employee and FARs. The primary source for projected jobs in Morgan Hill is the ABAG *Projections 2005*. This is the source which is typically used for planning studies for Bay Area Cities and it was used in the employment projections for the Coyote Valley planning. The 2005 projections were the most current available when this analysis was conducted. It should be noted that recently released 2007 Projections for jobs in Morgan Hill by 2030 are approximately 13% lower than the 2005 Projections.

JOBS PROJECTION

Table 11 presents projected jobs for the county and Morgan Hill. The total jobs in Morgan Hill are projected to increase from 14,520 in 2005 to 27,570 by 2030—an increase of 13,050 jobs or at a 3.6% average annual rate.

Table 11
PROJECTED JOBS BY INDUSTRY FOR SANTA CLARA COUNTY
2000 to 2030

Total Jobs	**2000**	**2005**	**2010**	**2015**	**2020**	**2025**	**2030**
Santa Clara County	1,044,130	903,840	992,420	1,077,050	1,161,930	1,249,090	1,339,970
San Jose	432,480	375,750	419,710	464,040	514,220	564,510	617,790
Morgan Hill	15,220	14,520	16,490	19,170	21,760	24,330	27,570
Gilroy	20,770	22,430	25,360	30,420	32,690	33,970	34,950
Mnf,Whls, Trans							
Santa Clara County	346,529	276,450	302,420	328,120	354,860	382,420	410,500
San Jose	132,060	106,080	117,730	129,530	142,370	155,530	168,930
Morgan Hill	4,700	4,130	4,690	5,490	6,280	7,030	7,980
Gilroy	4,060	3,970	4,520	5,480	5,950	6,200	6,400
Finanial, Profess.							
Santa Clara County	211,250	176,950	196,260	213,190	228,750	245,340	264,160
San Jose	83,320	70,800	79,060	87,730	97,080	106,650	117,210
Morgan Hill	2,200	2,030	2,360	2,770	3,140	3,500	4,010
Gilroy	2,130	2,180	2,530	3,090	3,320	3,450	3,590

Source: ABAG Projections 2005

As shown there was a decline in employment in Santa Clara County during the 2000 to 2005 period of 15%. It is expected to take almost 10 years to return to the same level of employment as in 2000. Many in the Silicon Valley business community point out that future job growth will be constrained not only by competitive disadvantages of the area but also by the rapid rise of high tech centers around the world. Many of the mid to low end computer jobs, particularly in manufacturing and assembly, have shifter to lower-wage areas such as China, Singapore and India. The recent *2007 Projections* prepared by the Silicon Valley Leadership Group, identified 13 such high tech centers overseas. This report also compared Silicon Valley to 11 other tech centers in the U.S. on the basis of such completive indicators as housing affordability, traffic congestion, educational performance, electricity costs and state tax rates. Based on these criteria, Silicon Valley came in last. There is also some concern about the potential effects that the recent California greenhouse gas controls will have on job growth in the State.

An additional indicator of the underlying strength of the high tech sector is the amount of venture capital invested. According to the National Venture Capital Association, total venture capital investments nationwide in 2006 Q3 were $6.2 billion, which represents only 23% of the amount invested in 2000 Q3. In Silicon Valley the 2006 Q3 total was $2 billion, which represents 23% of the amount in 2000 Q3.

Table 11 shows that total jobs in Santa Clara County declined 2.7% per annum from 2000 to 2005. Total jobs in Morgan Hill declined 0.9% per annum over the same period. Total jobs in the County are projected to increase at 1.9% per annum over the 2005 to 2030 period. Total jobs in Morgan Hill are projected by ABAG to increase at 3.6% per annum over the same period.

Table 12 presents a more detailed breakdown of projected jobs by category for Morgan Hill.

Table 12
PROJECTED JOBS IN MORGAN HILL
2005 to 2030

								Increase: 05-30	
	2000	**2005**	**2010**	**2015**	**2020**	**2025**	**2030**	**Ann. %**	**Number**
Ag and Nat Resouc	480	490	460	460	480	510	540	0.4%	50
Mfg, Whls, Transp	4,700	4,130	4,690	5,490	6,280	7,030	7,980	3.7%	3,850
Retail	2,200	2,070	2,350	2,720	3,080	3,450	3,900	3.5%	1,830
Fin/ProfServices	2,200	2,030	2,360	2,770	3,140	3,500	4,010	3.9%	1,980
Health Educ & Rec	3,860	4,090	4,670	5,420	6,120	6,860	7,760	3.6%	3,670
Other Jobs	1,780	1,710	1,960	2,301	2,660	2,980	3,380	3.9%	1,670
Total Jobs	15,220	14,520	16,490	19,170	21,760	24,330	27,570	3.6%	$\boxed{13,050}$

Source: ABAG Projection 2005.

By way of historical comparison, Table 13 presents historical job growth in Santa Clara County for the 15-year period from 1990 to 2005.

Table 13
HISTORICAL TRENDS IN JOBS GROWTH IN SANTA CLARA COUNTY
1990-2005

					Annual % Change			
	1990	**1995**	**2000**	**2005**	**'90-'95**	**'95-'00**	**'00-'05**	**'90-'05**
Total, All Industries	820,900	837,800	1,036,400	858,600	0.4%	4.7%	-3.4%	0.3%
Manufacturing	255,700	229,000	255,800	168,600	-2.1%	2.3%	-6.8%	-2.3%
Computer&Electronic Products	170,700	157,500	176,500	114,500	-1.5%	2.4%	-7.0%	-2.2%
Financial Activities	32,900	30,400	34,000	35,900	-1.5%	2.4%	1.1%	0.6%
Professional and Bus. Services	107,400	139,900	220,200	159,000	6.1%	11.5%	-5.6%	3.2%
Educational and Health Services	71,600	77,600	85,200	95,700	1.7%	2.0%	2.5%	2.2%
All Other	353,300	360,900	441,200	399,400	0.4%	4.4%	-1.9%	0.9%

Source: California Employment Development Department.

As shown total employment had a dramatic increase in the 1995-2000 period but an equally dramatic decline in the 2000-2005 period. Thus over the total 15 years jobs have increased only 0.3% per annum. Equally important, over this same 15 year period manufacturing jobs (including computers and electronics) have declined 2.3% per annum.

FACTORS THAT AFFECT TRENDS

Morgan Hill has long been viewed as an attractive secondary market for new industry. As a result, it has been subject to the same fluctuations in employment as San Jose. Morgan Hill offers the advantage of being close to San Jose but providing a less dense and more livable environment. Local brokers report that when a company executive has strong ties to the south bay, Morgan Hill can be an attractive location for a business.

There are several other factors that could have some influence on the long term trends affecting the region, as outlined above.

Measure C-the limit on residential development. Currently this limit has little effect on the industrial market. Recent trends in the housing market have slowed the demand for housing. Local builders report that new units constructed have not reached the 250 limit in other periods of a slow housing market. However, if there were to be an upturn in job growth in the region, the existence of a housing cap could give the impression that employee housing would be difficult. As noted earlier in this report, the jobs/housing ratio for Morgan Hill is currently the lowest among major cities in the region.

Proximate Housing-on the other hand, the driving time to housing in the Hollister area and in south San Jose is relatively short. Thus in many cases, it can be demonstrated that adequate housing in a wide price range does exist within a reasonable driving time for most employees. The reverse commute also contributes to this advantage.

Workforce-Morgan Hill is also located midway between the highly trained higher income workforce to the north and the lower skilled lower income workforce to the south.

Impact Fees

In the 2004-2005 South Bay Area Cost of Development Survey, conducted by the Homebuilders Association of Northern California, Morgan Hill ranked third highest (behind Santa Clara and Palo Alto) among eight cities in total development fees for a 100,000 square foot R&D building. Morgan Hill's total fees were estimated at $840,400; San Jose at 460,366.

A 2006 report prepared for Venture Corporation, indicates that the traffic impact fees for a 3,000 square foot office building in Morgan Hill are significantly higher than Gilroy or Fremont for medical offices and banks. Fees for standard office space are lower in Morgan Hill than in Gilroy. See Table 14 below.

Table 14
TRAFFIC IMPACT FEE FOR
3,000 SQ FT OFFICE

	Standard	Medical	Bank
Morgan Hill	25,860	50,820	83,160
Gilroy	31,680	31,680	31,680
Fremont	19,080	19,080	19,080

Regional Access-Morgan Hill is well located along Highway 101. This location allows easy access to the San Jose airport to the north as well as to the agricultural suppliers to the south. The distance from 85/280 bypass in Mountain View to the 85/101 junction is 19 miles. The distance from the 85/101 junction to Cochrane Road in Morgan Hill is 9 miles.

American Institute of Mathematics (AIM)-The City recently approved the American Institute of Mathematics on a golf course property. This project will certainly add to the image and identity of Morgan Hill. The presence of such a research facility could enhance to identity of Morgan Hill as a location for certain businesses.

There may well be math-related industries/businesses (e.g. biotech, alternative energies, etc.) that would take a second look at Morgan Hill because of the presence of AIM. This study is not conducting a cluster analysis or an economic development analysis. However, it seems reasonable to expect that AIM will to some extent enhance the image of Morgan Hill as a location for selected hi-tech businesses. Further research would be needed to determine the types of businesses that would be attracted by the presence of AIM.

However, overall none of these factors appears to be significant enough to be likely to dramatically change the underlying trend for the region and the combined effects of slowing economic growth and a seriously overbuilt market in the region and in Morgan Hill.

PROJECTED INDUSTRIAL LAND DEMAND

This subsection first projects jobs by industry category, then converts these projected jobs into required new space based on FARs and sq. ft. per employee standards.

Table 15 presents a percentage allocation of jobs to various types of buildings. This table then applies these percentage factors to the ABAG's projected jobs in Morgan Hill to estimate the number of projected new jobs in each category of workspace.

Table 15
DISTRIBUTION OF NEW JOBS BY BUILDING TYPE
2005 to 2030

	Percent of Jobs in Industrial Space					
	Ind/ Wh	**R&D**	**Office**	**Total Industrial**	**Other (2)**	**Total**
Ag and Natural Resources	10%		10%	20%	80%	100%
Mfg, Whls, Transp	70%	20%	10%	100%	0%	100%
Retail	5%			5%	95%	100%
Financial/Professional Services			90%	90%	10%	100%
Health Education & Recreation			70%	70%	30%	100%
Other Jobs (1)	15%	15%	60%	90%	10%	100%
Total Jobs						

	New Jobs in Industrial Space (4)					
	Ind/ Wh	**R&D**	**Office**	**Total Industrial**	**Other (2)**	**Total (3)**
Ag and Natural Resources	5	-	5		40	50
Mfg, Whls, Transp	2,695	770	385		-	3,850
Retail	92	-	-		1,739	1,830
Financial/Professional Services	-	-	1,782		198	1,980
Health Education & Recreation	-	-	2,569		1,101	3,670
Other Jobs	251	251	1,002		167	1,670
Total New Jobs	3,042	1,021	5,743	9,806	3,245	13,050
Average Annual New Jobs				392		522

(1) Government, information, construction.
(2) Retail space, hospitals, schools or outdoor work, which cannot be accommodated on industrial lands..
(3) Increase in jobs from 2005 to 2030 from Table 12.
(4) Total new jobs allocated based on percent shown above.

As shown in this table, there will be approximately 9,800 new jobs in industrial space in Morgan Hill over the 2005 to 2030 period.

Table 16 projects the demand for various types of industrial space based on the projected employment figures shown in Table 12 and the allocation of these jobs shown in Table 15.

Table 16
REQUIRED SQUARE FEET AND ACRES FOR INDUSTRIAL USES BY 2030

	Current Density Scenario				
	Ind/ WH	**R&D**	**Office**	**Total Industrial**	**Per Year**
Total New Jobs (2)	3,042	1,021	5,743	9,806	392
Square Ft per Employee (1)	500	350	300		
Square Feet Required	1,521,000	357,175	1,722,900	3,601,075	144,043
FAR (2)	0.33	0.35	0.40	0.35	
Acres Required	106	23	99	228	9

	Higher Density Scenario				
	Ind/ WH	**R&D**	**Office**	**Total Industrial**	**Per Year**
Total New Jobs (2)	3,042	1,021	5,743	9,806	392
Square Ft per Employee (1)	500	300	250		
Square Feet Required	1,521,000	306,150	1,435,750	3,262,900	130,516
FAR (2)	0.37	0.38	0.43	0.38	
Acres Required	96	19	78	192	8

(1) From discussion with industry representatives and Coyote Valley Study.
(2) From Table 10.

As can be seen, the projected need for new industrial land in Morgan Hill is approximately 8-9 acres per year. Over the next 25 years this represents 200 to 225 acres. This analysis is based on a projected annual demand for 130,000 to 144,000 square feet of industrial space in Morgan Hill over the next 25 years, depending if square feet per industrial employee standards become more dense.

OTHER INDICATORS OF POTENTIAL DEMAND

In order to put theses projections in context, we reviewed various other indicators of industrial land demand.

Recent Absorption Trends

Table 17 presents recent data from Colliers International on the absorption trends for industrial space in Morgan Hill. This table shows that over the past three years, the total annual increase in *occupied* industrial space (all types) in Morgan Hill has been 25,000 square feet. This is a very small number compared to the projected annual net absorption of 7.0 million square feet for Silicon Valley overall. The industrial category experienced an average annual absorption in Morgan Hill of 80,624 sf per year; however the office, R&D and warehouse sectors in Morgan Hill all had negative absorption over the past three years.

Table 17
CHANGE IN OCCUPIED SPACE IN MORGAN HILL
2003 to 2006

Q2 06	**Office**	**R&D**	**Industrial**	**WH**	**Total**
Building base	524,860	2,688,900	2,044,336	371,380	5,629,476
Available	111,731	572,648	305,465	252,028	1,241,872
Occupied	413,129	2,116,252	1,738,871	119,352	4,387,604
Q2 05					
Building base	524,860	2,595,925	2,044,336	371,380	5,536,501
Available	33,291	349,907	387,444	172,440	943,082
Occupied	491,569	2,246,018	1,656,892	198,940	4,593,419
Q2 04					
Building base	532,495	2,712,381	2,050,357	374,720	5,669,953
Available	76,527	447,543	424,308	8,000	956,378
Occupied	455,968	2,264,838	1,626,049	366,720	4,713,575
Q2 03					
Building base	522,022	2,608,000	2,006,000	374,720	5,510,742
Available	51,279	418,890	509,000	219,938	1,199,107
Occupied	470,743	2,189,110	1,497,000	154,782	4,311,635
Change in Occupied					
'05-'06	(78,440)	(129,766)	81,979	(79,588)	(205,815)
'04-'05	35,601	(18,820)	30,843	(167,780)	(120,156)
'03-'04	(14,775)	75,728	129,049	211,938	401,940
Total ('03-'06)	(57,614)	(72,858)	241,871	(35,430)	75,969
Average ('03-'06)	(19,205)	(24,286)	80,624	(11,810)	$\boxed{25,323}$

Note: Available space includes occupied but on the market.

Source: Colliers International

Experience of Morgan Hill Ranch

The developer of Morgan Hill Ranch has stated that they have not sold a piece of land in the past five years. In assessing the marketplace, the developer determined that business condominiums were a niche not addressed by the market. As a result the property owner developed spec office space to be sold as condominiums. The first building sold out but the second building has experienced slower sales in part because similar products are available in most Silicon Valley cities. The developer has 35 such developments throughout Northern California.

Urban Limit Line –Economic Analysis

The economic consultant (EPS) for the Urban Limit Line Study, in their Economic Evaluation of the Plan (September 30, 2004) stated the following regarding industrial land uses in the area:

Market conditions are currently not favorable for such uses along the 101 corridor, given the technology market downturn and the vast supply of competitive built space and well located vacant sites.

ABAG Projections 2007-Based on preliminary information provided to the City, it appears that their projections for new jobs in Morgan Hill over the next 25 years will be reduced by 3,000 jobs (-24%) from their 2005 projection.

City Development Approvals. The City of Morgan Hill has not approved a development permit for a new industrial building in the past four years. In the past four years the only approvals for office space have been a 3,600 square foot building, a 21,800 square foot condo commercial building in Morgan Hill Ranch, and the Police Department building.

Overhang in the Market-There is currently a total of 49,000,000 square feet of vacant industrial and office space in Silicon Valley, which represents approximately seven years of inventory based on current industry projections of 7.0 million square feet of net absorption per year.

SUMMARY OF NEED FOR INDUSTRIAL LAND

The final step in this analysis is to compare the existing supply of industrial land within Morgan Hill's Urban Growth Boundary to the projected demand for industrial land. There are numerous scenarios that could be used for this comparison. For example, all vacant industrial land could be considered. On the other hand it could be useful to consider only developed business park land that is vacant. Such an analysis can be conducted on the basis of projected land requirements or built square feet requirements. These are equivalent analyses because land can be converted to required building space based on FARs.

Table 18 presents four scenarios for comparing available industrial land and vacant buildings with the projected industrial demand in Morgan Hill.

Table 18
POTENTIAL INDUSTRIAL SQUARE FEET IN MORGAN HILL UGB
(Four Scenarios)

	Scenario			
Assumptions	**1**	**2**	**3**	**4**
Land	**All Vacant**	**All Vacant**	**All PUD/Bus Park**	**Dev'd. PUD/Bus Park**
Buildings	**All Vacant**	**75% of Vacant**	**75% of Vacant**	**75% of Vacant (4)**
Vacant Land (Acres)	556	556	417	227
Potential Bldg. Sq Ft				
Vacant Land (1)	8,480,145	8,480,145	6,357,750	3,468,160
Vacant Buildings (2)	1,241,872	931,404	931,404	931,404
Total Potential Sq Ft	9,722,017	9,411,549	7,289,154	4,399,564
Required Sq Ft Per Year (3)	144,043	144,043	144,043	144,043
Years of Inventory	67	65	51	31

(1) FAR=.35.
(2) See Table 6.
(3) From Table 16, based on current sq ft per employee standards.
(4) Includes: S of Tennant/W. of RR; MHR; Sutter Bus. Park; Madrone Bus Park; Adams Court.

Scenario 1 assumes that all of the currently vacant buildings will be absorbed. Scenarios 2, 3 and 4 each assume that only 75% of the currently vacant buildings will be absorbed over time. This allows some vacancy for normal market inefficiencies and also for the limited number of buildings which may be (or become) obsolete.

As shown in this table, under each scenario the number of years of available industrial land and building inventory in Morgan Hill ranges from 31 to 67 years, depending on which vacant acres are included in the inventory. Even the most optimistic scenario (#4-only developed business parks) indicates an existing inventory of industrial land and buildings that is adequate for projected demand for 31 years. This scenario does not include any of the vacant land in the area South of Tennant/E of the Railroad (Zone #2).

When the time comes, in 20 years or so, to decide where new industrial land should be developed, it will be appropriate to make a detailed evaluation of the available zones for future development. This report provides a preliminary evaluation which indicates that the land in the SEQ appears at this time to be more suitable for industrial development than the land in the South of Tennant/E of the Railroad area (Zone #2).

POSSIBLE OPTIONS TO ENHANCE THE MARKET

It is very difficult to predict the precise size and features of every site that will be demanded in Morgan Hill over the next 25 years. To illustrate the point, each building and user will require a different site size. A 50,000 square foot industrial building with an FAR of .35 would require a site of 3.2 acres. A 10,000 square foot building would require 0.64 acres. The distribution of available sites by size is shown in Table 19.

Table 19
DISTRIBUTION OF VACANT INDUSTRIAL PARCELS BY SIZE

	Vacant in UGB		Excluding Land Added in 2001 (1)	
Size	#	%	#	%
20.0 -- 28.0	1	1%	0	0%
15.0 -- 19.9	5	5%	2	3%
10.0 -- 14.9	6	5%	5	7%
8.0 -- 9.9	9	8%	3	4%
6.0 -- 7.9	9	8%	4	6%
4.0 -- 5.9	15	14%	10	14%
3.0 -- 3.9	12	11%	10	14%
2.0 -- 2.9	27	25%	19	28%
1.0 -- 1.9	17	15%	10	14%
under 1.0	9	8%	6	9%
Total Parcels	110	100%	69	100%
Total Acres	556		304	

(1) Excludes zones 2, 8 and 9.

Of course in many cases smaller parcels can be aggregated or larger parcels can be subdivided to accommodate a particular user. Thus there is a very wide range of site sizes available. The map in Figure 2 can be a useful tool to use in presenting site options to prospective builders and companies.

As noted earlier in this report, he following types of changes if implemented could result increase in FARs:

- Define development standards in terms of FARs
- Allow office building height of 3-4 floors, assuming adequate parking is available
- Allow general/administrative office uses in PUDs
- Allow smaller parcel sizes in PUDs

In general, the distinction between office and R&D and industrial uses has become less relevant. For all practical purposes all of these uses are generally allowed in “business parks”.

To influence the future demand for existing Morgan Hill buildings and sites, the City could consider the following options:

- The City should consider revising its use restrictions in PUDs to reflect the marketplace, and allow office uses on virtually any newly developed lot in a PUD.

- The City should consider allowing lot sizes down to ½ acre in PDs. These lots would appeal to a broader range of users but could also be aggregated for a larger user. The developer of Morgan Hill Ranch indicates that the current trend is that companies are looking for smaller lots to develop and own.

- City staff should continue to keep abreast of trends by working closely with brokers to monitor the size and types of sites and buildings that are available.

- The City should continue focusing its marketing efforts on touting its locational strengths and quality of life, which could also include targeting CEOs with strong ties to the South County area and encouraging them to locate/relocate in Morgan Hill.

- With regard to significantly obsolete buildings, the City should consider developing a strategy to encourage the reuse of such buildings, possibly including the use of RDA funds to demolish or rehabilitate such buildings. (As noted earlier in this report, such a step is normally only justified economically by a private investor when land prices are higher than those currently in Morgan Hill.)

- The City could consider developing a strategy to reduce the cost of development in order to encourage private investment, such as through involvement of the Redevelopment Agency to construct public infrastructure projects, which could result in impact fee reductions for developers.

Section 7

POTENTIAL FOR SPORTS & RECREATION USES IN THE SEQ

The primary purpose of this section of the report is to determine whether lands located within the "Southeast Quadrant" (SEQ) would be suitable for designation and development of a destination-regional-community sports and recreation area, to add to the uses that already exist in that area. The primary task in this section is to contact a sample of private companies to determine on a preliminary basis if there is some interest in developing privately financed recreation and sports uses in the SEQ.

The goals for establishing such a destination area would be to:

- Provide a higher economic use for landowners in the area than the current Rural County uses.
- Utilize existing investment in hotels.
- Generate fiscal benefits.
- Provide amenities for community use.
- Take advantage of the US 101/Tennant interchange.

This effort is not a reinvestigation of the City owned Morgan Hill Outdoor Sports Complex, which the City has already spent a great deal of time planning and evaluating. Rather, this report explores the potential for other, privately funded, complementary recreation-related uses for some amount of the private land in the SEQ.

The area has developed with many hotels, gas stations and restaurants along Condit Road just off the 101/Tennant and Dunne interchanges, and there is a desire by some in the community not to lose the existing CYSA destination/regional-serving soccer use in the area. There is also some sentiment that there may be a market for other private/commercial recreation uses in the area, given Morgan Hill's reputation as a regional sports and recreation center, and the agglomeration of such uses that already exist in that area.

Furthermore, such a destination area could leverage off the existing open space and recreation assets in the area including outstanding county and State parks, which offer opportunities for camping, hiking, horseback riding, fishing, water recreation and mountain biking. Golf courses and lakes are located nearby. About 45 minutes to the west are the beach and resort areas of Aptos, Capitola and Santa Cruz.

THE CONCEPT
The concept of a regional destination sports and recreation area which is evaluated here is somewhat unique in several ways:

1. The uses would be primarily privately funded.
2. The area would be master planned with conditions and development guidelines.
3. The emphasis would be on sports, outdoor recreation and family activities as opposed to entertainment and amusements. (arcades, nightclubs, etc.).
4. Individual facilities would be independently owned and operated.
5. While specialized retail related to particular sports and recreation activities would be allowed, it would not be intended as a shopping center to compete with existing retail in the area.

The concept of including a variety of related activities in one area is not unique. This concept is used frequently in the entertainment and amusement business to create synergy among the uses and to establish a critical mass of activity to help establish identity for the project. Furthermore, it should be noted that many of these uses will be less intensive than the commercial uses typically found in an urban area.

The population of 1.8 million residents in Santa Clara County and the 7.1 million residents in the 7-county San Francisco Bay Area, represents a substantial pool of potential users for the area. In addition the location on Highway 101 and within a short drive of the Monterey Peninsula provides the added advantage of access to a significant year-round tourist base.

However, because of the uniqueness of the concept, the significant locational advantages of the area, and the variety of uses contemplated, this study includes direct contact with numerous potential users to test the level of interest in the market. The results of these contacts are summarized in this section.

The City of Morgan Hill could consider creating a General Plan land use designation and zoning what would allow a range of private recreation and public/quasi-public recreation and event uses. Uses could include country clubs, golf courses, driving ranges, tennis clubs and athletic fields. Other private recreational uses could include recreational vehicle parks and campgrounds. Ancillary commercial uses such as food concessions, bars and restaurants could be allowed in conjunction with such private uses. Public and quasi-public uses such as the County Fair and community festivals could be allowed uses, which could also be designed to accommodate farmers markets, swap meets, antique fairs, and flea market uses. Ancillary commercial uses would also be allowed with such public/quasi-public uses.

Finally, it should be noted that there are numerous examples of projects where the public sector has invested substantial dollars to develop sports facilities in a sports complex.

The National Sports Center (Minn.) was built in 1991 with $25 million in state money and is run by the state. It includes:

- 52 soccer fields
- 12,000 seat outdoor stadium
- 250-meter cycling velodrome

- 58,000 square foot indoor sports hall
- Cafeteria and Residence Hall
- Schwan Super Rink, 4-sheet ice arena

The City of Frisco Texas and the surrounding county have developed substantial sports facilities in a major complex which includes:

- Superdrome bicycle facility
- Baseball Park
- Conference Center
- Soccer Center
- Arts Center.

The total cost of these facilities (in 1997-1999 dollars) was $230 million. Of this amount, the public sector provided $171 million (75%).

While these types of projects are interesting, they are not considered to be comparable to the concept that is being evaluated in this report. If Morgan Hill should decide to move in this direction and fund substantial investment in major regional sports facilities, this would need to be evaluated in a separate study.

CURRENT USES IN THE SEQ

Morgan Hill Outdoor Sports Complex

The City of Morgan Hill owns and operates an Aquatics Center, located just off the Highway 101/Tennant interchange at Condit Rd. The facility serves both the community and regional/destination users, and has hosted major aquatics competitive events.

The City has adopted a Sports and Aquatics Complex Master Plan, which calls for the 36-acre soccer fields (currently operated by CYSA) to be transitioned to the following community-serving types of fields: 6 soccer fields (with one or two lighted on synthetic turf for football and soccer use); 2 baseball fields (Pony-Colt); Bronco field; batting cages; 3 sand volleyball courts; basketball court; playground; 2 restroom buildings; concession building; administration building; fabric-covered playground; and corporation yard. A parking lot across the frontage of the site provides joint-use parking with the Aquatics Center, as it is connected to the Center's parking lot.

Hotels

Currently there are five hotels along Condit Road directly across from the subject lands in the SEQ.

	Rooms
Holiday Inn Express	85
Quality Inn	83
Microtel Inn	59
Comfort Inn	53
Ramada Inn	101
Total	381

CYSA
City staff has held conversations with CYSA and they are very interested in retaining use and scheduling control of the remaining 9 grass soccer fields (after the proposed artificial turf fields are improved) as a separate lease on an interim basis, until the Outdoor Sports Complex takes over these fields. Once the 1 or 2 synthetic fields and improvements are made, CYSA will have priority scheduling privileges for those areas on weekends but the City will retain scheduling and maintenance control of those amenities for the community. The concessions, restrooms, and parking lot improvements are intended to benefit all users of the complex and CYSA may request to use them at an additional charge. Monday through Friday, the city will follow a community based priority system.

Other Existing Attractions
Other recreation attractions in the SEQ include El Toro Miniature Golf; and Pedrizetti Winery with its tasting room that accommodates 40 people and garden patio which accommodates 160 people.

Specialized Bicycles is planning to build a concept store at the new commercial building at Dunne/Murphy just to the north of the SEQ.

POTENTIAL USES ON PRIVATE LAND
This study is not intended to seek firm commitments from developers or operators. This could not happen in any case, because the City does not own the land in the SEQ. However, in order to gauge the potential interest in privately developed recreation and sports uses in the area we contacted over 25 developers and/or operators of recreation facilities. Naturally this is a preliminary selected survey and many other potential developers and operators could be contacted. In each case the developer/operator was given background material on the SEQ and asked if they would be interested in this area to develop a recreation project. The background material provided to each company clearly indicated:

- The city is undertaking a preliminary evaluation and has not decided to proceed with annexation.
- The land is privately owned and would remain so.
- The developments would be privately financed.
- There will be a period of delay before the land is annexed to the City.
- The land will be restricted to use for sports and recreation uses and a limited amount of recreation-related retail.
- In general the uses are expected to involve relatively low intensity development, with substantial useable open space retained.
- A developer could develop one attraction or master plan a larger area.

Based on those who responded positively, following is a brief description of the types of projects they would consider in the area. No physical or environmental issues are evaluated here. The primary purpose of the contacts was to gauge the level of market interest in the SEQ for recreation uses.

CYSA
The current lease extension being discussed with CYSA is for a short term lease. Once the Morgan Hill Outdoor Sports Complex expands (in 4-5 years), CYSA will need an alternative location for its soccer fields. Based on discussions with the President of CYSA, they indicated that they would like to stay in Morgan Hill in the SEQ area. However, this would depend on the availability of land and the price.

They are currently considering ways to privately finance these fields. They will need low land costs. In addition they are considering ways to increase revenues, such as higher fees, expanded food and beverage operations and parking fees. Currently their annual budget for these fields is $150-$180,000 with a loss of $50-$75,000.

The Coliseum Recreation Group (TCG)
In March 2005, TCG submitted a proposal for privately operated indoor sports complex on 2.5 acres to be included as part of the City’s planned Outdoor Sports Complex. The building proposed was to be 85,000 square feet, expanding to 100,000 square feet. The concept includes: Ph I: indoor soccer, flag football, lacrosse, 6 volleyball courts, 3 basketball courts, physical therapy clinic, fitness center, gym, retail, restaurant, Ph II: rock climbing, in-line hockey, bocce ball, outdoor skate park. In addition TCG requested access to the outdoor facilities for up to 10 weekends per year. The Coliseum was to be operated as a club with annual dues and monthly fees, as well as team fees.

The estimated costs were $15.0 million. In addition the City was requested to pay for required off-site improvements. TCG proposed to pay the City a lease payment of $80,000 in year 1, increasing to $128,000 by year 15. After evaluation by the City staff and discussions with TCG, the City and TCG were unable to reach agreement on the lease payment and various other matters regarding the lease.

However, based on recent contact with representative of TCG, they are now considering developing their concept as an entirely private venture on private land. They indicated that the SEQ would be an idea location for this concept, if the site is close to other complementary recreation facilities. It would also be important if urban services were available up to their site and if an adequate site could be obtained at a reasonable price or lease rate. They may also seek some assistance from the City in terms of approval assistance and reduced development fees.

San Jose Soccer Complex Foundation
This organization, which represents all of the community soccer teams in District II, recently purchased 171 acres off Highway 25 near Shore Road. The price was $1.9 million. However they still need to raise the money for construction.

There is some chance that they will decide to sell off this site if they could find 50 acres at a reasonable price in the SEQ. They would like to accommodate approximately 20 soccer fields.

In this case they would buy the land and build the fields but they would like the City to help by:

- Providing offsite infrastructure
- Expediting the approvals
- Reducing development fees.

Sabrecats
The San Jose SaberCats arena football team is currently seeking a new location for a practice facility for the team. The facility would include an outdoor and indoor practice field, small office building and related locker rooms and weight training facilities. They estimate this will require approximately five acres.

The background information on the SEQ and the potential for sports related uses in the area was related to the SaberCats management. Based on this information and discussions with the consultant, the SaberCats indicated that the SEQ appears to be a suitable location for their facility. They expect to make a decision within the next year and hope to move within 2-3 years. They asked to be kept informed of the progress on annexing this area to the City.

Sports Fantasia
A group of local promoters have developed a concept for a family entertainment facility, which they would like to locate in the SEQ if land prices are reasonable. They are in the process of raising venture capital for this project.

Sports Fantasia is a family entertainment facility which will house an estimated of one hundred thousand square foot indoor/outdoor activities. The current concept is to combine an organic theme restaurant, a well-equipped hi-tech sports bar, kids educational electronic-games, rock climbing wall, an indoor multi-sports facility with stadium type seating, outdoor performance stage, a grass sitting area and health-related retail outlets. The estimate they will need approximately 8 acres for this project.

The County Fair
The County Fair is produced and presented by the Santa Clara County Fairgrounds Management Corporation, a non-profit service / educational organization under the auspices of the Santa Clara County Board of Supervisors. The Fairgrounds encompasses 180 acres with seven major buildings, an Arena with 35,000 sq. feet of space, five event stages, and a satellite wagering facility. Approximately 100 acres (including parking) are used for the Fair. The Fair is a 3 day event. Throughout the year there are several hundred events at the Fairgrounds. The Board of Supervisors recently approved $4.5 million for repairs and improvements to the county fairgrounds.

There has long been discussion about developing the fairgrounds more intensely as an urban exposition/trade show venue. Probably in Early 2007 the County will begin a master plan update. It is possible that as a result of that planning the Fair itself will be relocated.

The management of the Fair has indicated that they might consider revamping the Fair into an old fashioned fair that focuses more on the livestock and other 4-H activities in a more rural setting. If it appears that their fair operation is not compatible with future development plans at the Fairgrounds they would consider other sites. If they do, they would be interested in moving South County, since that is where most of their participants live. They are familiar with the SEQ and indicated that this would be a good location. They also pointed out that it would probably be best if there were other uses for the site since they are only active a few days a year. Other fairs and festivals (for example the Mushroom Festival) could also utilize their site. However, they would like to have some of the infrastructure (stables, expo areas, etc) available on the site year round. They would also consider operating a separate facility, such as an equestrian center, if this could generate revenues for the Fair.

A regional flea market has expressed interest in being informed of the progress of SEQ planning, as that user may be interested in pursuing a concept for about 60 acres that would provide a site for a synergistic variety of uses that would include recreational uses along with space for activities such as farmers markets, swap meets and other events.

San Jose Giants

The San Jose Giants are planning to move out of their current facility within 2-3 years. They are currently talking with the City of San Jose about one site and the County regarding the Fairgrounds site. Furthermore, because the Oakland A's have signed an agreement to relocate to Fremont, the A's may need to compensate the Giants because they are within 7 miles of the Giants stadium. In this case, there would likely be an agreement where the Giants would receive some compensation in exchange for the Giants moving farther away from Fremont.

The President of the Giants indicated that they know Morgan Hill and would be willing to consider the SEQ location. Based on discussion with the S.J Giants, such a facility would require 18-30 acres and would cost $22-$26 million. The facility would seat 5,000 and could be used for other events. Thus it could be a partnership. (Morgan Hill, Giants, other promoter, naming rights, etc.)

Unfortunately at this time, the San Jose Giants are looking for a government entity (City or County) to pay most of the cost of the stadium. This expectation is based in part on the financing plan provided by the City of Stockton for a new minor league stadium, which included $20 million of public money using redevelopment funds.

Thus, at this time the potential for a Giants stadium in the SEQ appears to be unlikely. However, in the event that the Giants are unable to reach agreement with the City of San Jose or the County for a new stadium, their interest in the SEQ might be revived.

Major League Soccer

The Oakland Athletics have an option to purchase a Major League Soccer team through 2009. They are currently looking for a site for a stadium and required parking. They would like to include 12-15 youth soccer fields as well. A representative of the Oakland

Athletics indicated that they are familiar with the SEQ and could consider this as a possible location. They would like to be kept informed of the City's decision regarding annexation of this area.

The Oakland Athletics also indicated that they might be interested in developing the 12-15 soccer fields as a stand alone project. They would consider this if, in exchange, they could acquire other land in the City (either in the SEQ or elsewhere) and obtain permits for commercial or residential development. A similar approach would be used if they also build a major league soccer stadium in the SEQ.

All Season Extreme, Inc

All Season Extreme is a development company that specializes in artificial snow recreation. They have a joint venture with Snoflex of Europe, where they have built 13 such projects, using Snoflex as the surface on the ski mountain. They also have a concept called Extreme Mountain, for a man made mountain (built on scaffolding) that can be developed in a flat urban area. Based on discussions with various representatives of the company, they are interested in the SEQ and would like to tour the area if the City decides to proceed with their plan for a regional recreation area. They would like to be considered as the master developer of the area as well as the developer for the Extreme Mountain component.

BMX Track (ABA. NBL)

For the past 25 years, the American Bicycle Association has been providing countless people the opportunity to experience "the world's greatest extreme sport, BMX!" The ABA is an association that was created by track operators, for track operators, to provide centralized rules and regulations as well as insurance. They have over 270 tracks across the US and Canada and over 60,000 members.

The director of New Track development for ABA stated they are very interested in partnering in the development of a new BMX facility in the SEQ. In this case the ABA would act as the developer and work to identify and establish a local operator. They are confident we can secure a local operator as we have a large population of ABA members in the SF Bay area. They would like to be kept informed on the progress of the SEQ planning.

The National Bicycle League also indicated an interest in the SEQ location. They stated they need a track in this area. Their current business model generates limited revenues, sufficient only to cover expenses of the races. Thus for now, purchasing or leasing land would be difficult. All of their tracks are on public land and open to the public without charge.

Golf Driving Range

The Golf Range Association of America is the trade association for golf driving ranges in the U.S. Based on our discussions with the Director, they believe the SEQ is a very attractive location. They indicated a good deal of interest and said they could provide the names of several potential investors/owners for the facility should the City proceed with annexation.

New Mark Entertainment
New Mark Entertainment has developed and operated a 22 acre entertainment center facility in Austin, TX. This center contains a 50,000 square foot building consisting of a full scale pizza buffet-style restaurant, interactive arcade games, laser tag, a rock climbing wall, party and event rooms, two (18-hole) miniature golf courses, two go-karts tracks, batting cages, bumper boats, and a kiddie play area. Newmark owns and operates, Boomers! located in Bakersfield, CA, and Malibu Castle in Redondo Beach, CA, which is slated for a major renovation and re-branding in 2005. Newmark is under development with an indoor restaurant/ family entertainment center concept in Mesa, AZ named “Amazing Jake’s” that contains 80,000 square feet under one roof. This facility contains a full-scale pizza, pasta, soup, salad, and dessert bar, as well as an interactive arcade, laser tag, bumper cars, rock climbing wall, indoor go-kart track, 12 lanes of bowling, and amusement rides. Newmark plans to roll this concept out nationwide. They indicated that the SEQ would be a good location for either an Amazing Jake’s or other concept. They believe that a site that could be available in 2008 or 2009 would be appealing.

Zuma Fun Centers
Zuma Fun Centers is a fast-growing entertainment company currently operating 9 amusement parks throughout the U.S. operating under the brands Zuma, Fiddlesticks, Funtasticks, Camelot**,** and Mountasia offering food and attractions such as miniature golf, go-karts, laser tag, batting cages, arcade games and other entertainment. They provide an exciting environment in which to host celebrations of all types including birthday parties**,** youth group functions**,** field trips**,** company picnics and team- building events**.**

Representatives of the company indicated they are familiar with the Morgan Hill Area and are favorable on the area, especially in the long term. They can provide the capital; it is more of an issue of the time required to develop the property. They typically just acquire existing operations, but if the site is right they would team up with a developer to do a build to suit. They asked to be kept informed on the process.

Tennis Club
We contacted several people in the local area who are involved in the tennis community, including the President of the Gilroy Tennis Club which has 300 members and no facility. All of those contacted thought there would be a good deal of interest in a high quality private tennis club environment if the land price would allow development at a reasonable costs.

All of those contacted indicated that there was a shortage of tennis courts in the area and there are no private clubs between San Jose and Hollister. Several contacts indicated there is likely to be a local group of investors and tennis enthusiast who could provide financing for construction. The San Jose Tennis and Racquet Club has 900 members. Family dues are $150/month.

REI
REI operates more than 80 stores in 27 states. Retail stores range in size from 10,000 square feet to 95,000 square feet and include a variety of facilities for testing equipment including bike test trails, climbing pinnacles and camp stove demonstration tables.
REI stores also provide opportunities to learn about the outdoors and muscled-powered sports through frequent in-store clinics, REI sponsored events and through association with local outdoor organizations.

We contacted several representatives of REI. Currently they have stores in:

- Fremont
- Saratoga
- Mt. View

They have just closed a deal to do a 30,000 square foot store in Fort Ord in Marina. However they did request that we keep them informed and it might be that in a year or two they would consider another store in this area.

Any Mountain (Specialty Sports)
Founded in 1972, Any Mountain, Ltd. provides quality outdoor, ski and snowboard equipment, apparel and accessories. In 2005, Any Mountain was acquired by Denver, Colorado based Specialty Sports Venture (SSV). SSV has over 120 specialty retail stores from Colorado's Front Range through South Lake Tahoe, California,

Representatives of SSV indicated that on a preliminary basis, the SEQ looks like an appropriate location for a store. However, because of prior commitments they will not be looking for a new store location in the short term. They are looking at a number of different sites and expansion strategies from San Jose all the way through Sacramento. They are in active negotiations for several locations in the greater Bay Area and will have to see how those go before entertaining other opportunities. They asked to be kept informed on the planning process for the SEQ.

Bass Pro
Bass Pro Shops is a privately held sporting goods and outdoor goods store headquartered in Springfield, Missouri. In addition to the Outdoor World store located in Springfield, MO, Bass Pro Shops has over 30 large retail stores in the United States and one in Canada. It also owns and operates subsidiaries such as Tracker Boats, Big Cedar Lodge, and Redhead.

In 1984, construction began on the Outdoor World Showroom in Springfield, MO. Big Cedar Lodge opened in 1984 on Table Rock Lake. In 2000, the State of Missouri made use of Outdoor World's popularity as a tourist destination, and opened the Wonders of Wildlife museum next door to the store in Springfield.

Bass Pro, one of the most recognizable national outdoor retailers. Bass Pro Shops' unique, award-winning, outdoor stores are known for combining retail with entertainment, conservation and outdoor education. Weekly free outdoor skills workshops are offered at all stores for kids, women, novice adults and families. It is also not unusual to see various groups, including Boy Scout and Girl Scout troops, as well as school and church groups, and others on field trips to Bass Pro Shops stores to learn about the great outdoors in the comfort of the great indoors of Bass Pro Shops.

They have three stores under development in California:

- Sacramento
- Rancho Cucamonga
- Manteca

Several representatives of Bass Pro are familiar with Morgan Hill, having visited there about two years ago searching for a site.

Based on discussions with company representatives, they indicate that they are generally looking to open stores with 100,000 to 140,000 square feet of area. They need highway visibility. Their stores are usually done as a joint venture with a developer building additional development around their store. For example, in October 2006, Bass Pro Shops announced plans to build an outdoor in Richmond Va. It will anchor a 180 acre destination retail project being developed by Holladay Properties. The store may also include their famous Islamorada Fish Company restaurant.

We also contacted Holladay Properties and they indicated that they are very enthusiastic about Morgan Hill and on a preliminary basis they are interested in the SEQ, particularly any site that provides freeway visibility. They would like to be kept informed of the progress of the City in planning and annexing this area.

It should be noted that “Cabellas” and “Offshore Angler” stores also offer goods to supply needs for hunting, fishing and outdoor pursuits; these particular stores and other like stores were not contacted as part of this study but could also be interested.

Outdoor Resorts

The President of Alpine RV suggested that we contact Outdoor Resorts regarding the potential for a high quality RV park in the SEQ. Founded in 1969, Outdoor Resorts is widely recognized as the foremost developer of luxury recreational vehicle resorts in the United States. In its 30-year history, the company has developed 25 resorts and hosted millions of rental guests. Locations are chosen based on the beauty of the surrounding area and proximity to premier vacation destinations like beaches, mountains, lakes and national parks. Outdoor Resorts currently operates 12 properties, with more under development. They include amenities like tennis courts, swimming pools and golf courses.

Based on preliminary discussions with the owner and the President, Outdoor Resorts believe the SEQ would be a good location for an RV Park. They currently have parks in Temecula and Palm Springs. They have been looking for a location in Northern California and based on a review of the background material they believe the SEQ would be ideal.

Their RV parks are sold as condominiums but are available to the public through a rental pool arrangement. On a preliminary basis they believe they would probably like to acquire about 50 acres for the RV sites and possibly another 50 acres for a 9 or 18-hole executive golf course. Once the City decides to annex the area, they would like to visit the site.

Harley Davidson

We contacted the owner of the Harley Davidson dealership in Morgan Hill, which is located on Condit road just outside of the SEQ. On a preliminary basis, they believe there may be a need to expand their current operation at some time in the future. Most likely this would include a separate facility to accommodate their rental business. At that time, they might be interested in acquiring the SEQ property directly across Condit from their current location.

CONCLUSIONS

The primary conclusions from the survey of potential developer/operators are:

1. There was a good deal of interest shown in this concept and this site from local, regional and even national groups.

2. The site has the ability to attract local population, regional population and tourists. Even national companies were aware of the image and popularity of the Monterey Peninsula as a tourist destination, and Morgan Hill is “on the way” to the Monterey Peninsula.

3. The commercial recreation business is undergoing a difficult period because development costs have risen faster than potential revenues. This has caused a certain amount of shake-out in the industry with smaller operators being acquired or going out of business.

4. The users contacted and any private commercial recreation uses will want to be in the Urban Service Area for utilities and approvals. (Just as the developer of a business park would).

5. Many of the users indicated that some amount of related retail and restaurants would be needed to make money.

6. The timing of the project was a plus and a minus. Some developers were looking for a more immediate opportunity. But most were comfortable with a longer time frame as long as they are kept informed of when it is appropriate to approach property owners.

7. The size of the parcels desired ranged from five acres to several hundred.

8. The uniqueness and the quality of the development will be important to draw the regional population and the visitor base.

9. In virtually all cases the developers indicated a willingness to adjust their concepts to accommodate the City by providing an outdoor-oriented experience.

10. The primary advantages of the site that were mentioned most frequently were:
    - The proximity to San Jose and Monterey Peninsula
    - The future growth potential in the area
    - Freeway visibility and access
    - Relatively low land prices

11. The primary disadvantages that were mentioned most frequently were:
    - The need to develop city utilities
    - The time to assemble land
    - The time required to annex the lands
    - (In a few cases) the need for some City support (planning, financial, etc)

12. It is difficult to predict the absorption rate of this land based on this preliminary assessment. The actual amount of land demand over time would depend on:
    - Number and location of the acres available
    - Uses allowed
    - Conditions (traffic, lights, noise, etc)
    - Market conditions

13. The users contacted are representative of interest at this point in time. The specific users could change over time. But they indicate a good level of interest from developers and operators in the potential for sports and recreation-oriented development in the SEQ.

14. It will be important to make decision regarding annexation soon and proceed with this process. Most private developers would loose interest if they felt that this land would not be available for a long time.

These conclusions are based on the limited time and contacts during this assignment. Additional outreach would likely identify even more recreation developers/operators who would be interested in the SEQ as a potential location.

Issues During Implementation

This section of the report does not present final recommendations but rather indications of the level of interest from the market. The decision of whether to proceed with annexation will depend on many factors, including:

- LAFCO approval
- Fiscal impacts
- Which uses would be allowed and under which conditions
- Timing for the process

If the decision is made to proceed with annexation, there are several important issues to consider:

1. There should probably be a survey of the property owners regarding their interest in this concept to determine more precisely which land is available for development.

2. An arrangement should be structured to assure that only specific uses are allowed. This could be accomplished through a Specific Plan, a Master Plan or zoning. Perhaps a special PD-Rec zoning could be created.

3. Since some parcels are suitable for more intensive, highway oriented uses and others for lower intensity outdoor uses, there may be a need for a revenue sharing agreement among the owners to encourage participation among a broader group of property owners. This might take the form of a Common Area Charge that is used to provide amenities (low-profit uses) and/or open space dedication.

There is obviously a good deal of detailed planning and evaluation necessary to implement this concept if the City decides to do so.

APPENDIX A

ALTERNATIVE RECOMMENDATIONS RELATED TO PLANNING OF THE SOUTHEAST QUADRANT (SEQ) AND RELATIONSHIP TO URBAN LIMIT LINE/GREENBELT PLANNING

In early 2003 the City Council appointed an Advisory Committee to undertake an Urban Limit Line/Greenbelt Study, in order to implement policies of the General Plan. In June 2005 the City Council considered the ULL Committee's Urban Limit Line/Greenbelt Report. The staff report accompanying the Report informed the City Council that in addition to the Advisory Committee's recommendation for the Southeast Quadrant (SEQ), there were a variety of other recommendations from other groups regarding the SEQ, as well as a staff recommendation. The various SEQ recommendations are summarized below:

Urban Limit Line-Greenbelt Advisory Committee recommended that an Area Plan be developed for the SEQ with the following allocation of land uses:

- Industrial/Business Park: 200 +/- acres
- Commercial: 45 +/- acres
- Large Lot Residential (existing): 130 acres
- Parks, trails, creek corridors and scenic setbacks: 375 to 500 +/- acres
- Varying residential densities: 375 to 500 +/- acres with up to 2,000 dwelling units

Specific plans would refine the Area Plan and establish implementation rules and expectations.

Kennett, Beasley, Tichinin Proposal ("KBT Proposal") did not specifically propose an SEQ Area Plan. Land for an industrial park would be accommodated if the Industrial Land Market Study indicates that industrial land in the SEQ is warranted. A key aspect of the KBT Proposal was the emphasis on creating mechanisms to support acquisition of greenbelt (agricultural and open space) lands and/or easements, through exactions from developers within the City, ag/open space conversion impact mitigation/fees (e.g. one-for-one acquisition/easement when land is urbanized/developed), and/or voter-approved bond, tax, or benefit assessment district to acquire Greenbelt lands. It could be surmised that a key area that KBT would propose for preservation would be SEQ lands. This could be addressed through an Area Plan that would designate SEQ agricultural/open space/greenbelt lands.

SEQ Property Owner Group Proposal ("Owner Group Proposal"). The Southeast Quadrant Property Owners concurred with the idea of an Area Plan, but wanted increased acreage for urban uses and decreased amounts of open space. Owners noted that the SEQ could become a unique open space and recreational area for the whole City, as it is already the location of the Aquatics Center and city soccer/recreational fields. Specific plans would refine the Area Plan with an initial focus on industrial and commercial areas, and Measure C would be amended to allow for earlier opportunity for housing in the SEQ. Supported greenbelt or open space acquisition measures that are not paid or supported entirely by SEQ property owners, but paid for by all of the people of Morgan Hill, such as through a property tax, transfer fee, fees paid by industrial/commercial development, bond measure, etc.

Existing General Plan ("No Project Proposal"). The current General Plan text and policies would permit an Area Plan if the City wished to prepare one. However, there would be no requirement to have the Area Plan. The area near Tennant Avenue and Highway 101 that is currently inside the Urban Growth Boundary would remain within the UGB but creation of an industrial park would require future UGB and General Plan amendments. Other urban uses in the SEQ could also occur with General Plan amendments and annexation-related approval by LAFCO.

Staff recommended deferring planning for the SEQ until completion of the Industrial Land Market Study, which the City Council agreed with. After completion of the ILMS, the Planning Commission and City Council will consider its conclusions and determine *whether, to what extent, and when* the SEQ should be planned for future urban development. The range of choices to be considered could include, but not be limited to:

- The Council could determine that the only urban development desired for the SEQ is an industrial park in the vicinity of the 101/Tennant interchange, and that the rest should be "Rural County"; likely to be a mix of small agricultural and rural residential uses. The Council would then provide direction for location and timing of applying the industrial land designation/prezoning.
- The Council could determine that more, or even all, of the SEQ should be held in reserve for urban development. In that case, the Council should provide direction at that time regarding whether further study of urban uses should occur as part of the next General Plan Update, or at some other time, such as through preparation of an Area Plan in advance of the next General Plan Update.
- In light of the above considerations, the Council could consider in the future whether a program to acquire land and/or conservation easements in the SEQ area is desired as part of the city's "greenbelt" program, or whether reliance on existing parcel pattern and County zoning (any new parcels could not be less than 20 acres) is adequate. It is estimated that under existing County zoning there is potential for an additional 80 dwelling units in the SEQ.

Staff recommended the Advisory Committee's recommendations regarding development of a Greenbelt Financing and Implementation Program, and recommended doing further study of funding mechanisms after completion of the Industrial Land Market Study.

The Advisory Committee recommended a targeted program for acquisition of Greenbelt land in fee title or conservation easements with first priority being the east side of El Toro, the Edmundson/DeWitt/Sunset area and undeveloped hillside parcels on the east side of the valley north of Dunne Avenue. Existing Transfer of Development Credit (TDC) fees and the Open Space Authority local funding program would be used. The Committee indicated that an Open Space impact fee for new development should be considered, and grants and the possibility of using General Obligation Bonds should be explored. Minimal to no use of the City's General Fund is assumed.

Staff recommended and the City Council directed completion of the ULL/GB General Plan Amendment, completion of the Industrial Land Market Study, and conduct of the above-described "Southeast Quadrant Discussion", before further, more detailed analysis of greenbelt financing and implementation options would occur. The workplan would include analysis and recommendations regarding existing and potential greenbelt funding and implementation mechanisms. This phase of the greenbelt program would address staffing, including investigation of the possibility of contracting for services with another agency.

At the June 2005 meeting, the City Council acted to provide direction to staff regarding the Project Description for the General Plan Amendment/CEQA document for the Urban Limit Line and Greenbelt, but excluded the SEQ. At that time, the City Council determined that it would be premature to take any actions regarding the SEQ until after the recommended Industrial Land Market Study (ILMS) was completed, at which time the Planning Commission and City Council would be able to consider its findings and determine whether, to what extent, and when the SEQ should be planned for future urban development. It was also recognized that further, more detailed analysis of greenbelt financing and implementation should await completion of the ILMS and a "Southeast Quadrant Discussion".

After completion of the CEQA document, the City Council approved the Urban Limit Line/Greenbelt General Plan Amendment in April 2006.

With the concurrence of the Council Regional Planning & Transportation Committee, staff deferred release of the Request for Proposals for the ILMS until the Coyote Valley Specific Plan further evolved, so that the consultant's work could be carried out in the context of understanding anticipated Coyote Valley market and financial considerations. The ILMS and "Southeast Quadrant Discussion" is part of the Planning Division's FY 2006/07 work program, as part of the "Phase II" of Urban Limit Line and Greenbelt planning activities. The Pacific Group was hired in June 2006 to prepare the Industrial Lands and Southeast Quadrant Market Study.

The scope of work for the Industrial Land and Southeast Quadrant Market Study includes as assessment of all the industrial/office lands in the city's Urban Growth Boundary, and also evaluates the potential market demand for lands in the SEQ for "Destination-Regional-Community Sports and Recreation" uses that would complement and build upon existing recreation and leisure-oriented uses in the area, such as for regional soccer tournament fields, private commercial recreation uses, and other related destination/regional-serving sports and recreation uses. The sports/recreation concept was a feature of the SEQ Property Owner Group Proposal outlined above.

APPENDIX B

POTENTIAL PARCELS FOR BUSINESS PARK IN SEQ

Table B-1
POTENTAL PARCELS FOR A BUSINESS PARK IN SEQ

	Parcel	APN	Acres	BP	Commer	House on Property	Owner Occupied	Preliinary support
	1	817-13-8	3.85		3.85	no		
	2	817-13-11	10.00		10.00	no		
	3	817-13-36	8.54		8.54	no		
	4	817-13-37	10.00		10.00	no		
	5	817-14-4	22.64	15.64	7.00	no		
	6	817-14-5	1.52	1.52		no		
	7	817-14-8	8.61	8.61		no		
	8	817-14-9	2.23	2.23		no		
	9	817-14-11	8.75	8.75		yes		x
	10	817-14-12	1.25	1.25	1.25	no		
	11	817-14-14	9.04	9.04		yes		
	12	817-14-17	5.76	5.76		no		
	13	817-14-19	10.00	10.00		yes	yes	x
	14	817-14-21	9.57	9.57		yes	yes	x
	15	817-14-22	6.48	6.48		yes		
	16	817-14-23	10.72	10.72		yes		x
	17	817-16-1	20.00	20.00		no		
	18	817-16-5	20.00	20.00		yes	yes	x
	19	817-16-14	20.00	20.00		yes		x
	20	817-17-1	20.00	20.00		yes	yes	
	21	817-17-2	10.00	10.00		yes		
	22	817-17-3	10.00	10.00		yes		
	23	817-17-08	20.00	20.00		yes	yes	
	24	817-17-9	20.00	20.00		yes		x
	25	817-15-01	10.00	10.00		yes		
	26	817-15-02	10.00	10.00		yes		
A	Total Acres		288.96	250	41			
B	Total w home			194				
C	With home & indicated support			99				
D	Without a home			56				
	C+D			155	41			