



## **Special-Regular Meeting Agenda**

### **Planning Commission**

*Mohammad Habib - Chair*  
*Malisha Kumar - Vice-Chair*  
*Joseph Mueller - Planning Commissioner*  
*Wayne Tanda - Planning Commissioner*  
*Laura Gonzalez-Escoto - Planning Commissioner*  
*Liam Downey - Planning Commissioner*  
*Juan Miguel Munoz-Morris - Planning Commissioner*

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**Tuesday, September 22, 2020 6:00 pm**

**Virtual Meeting**

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### **MEETING GUIDELINES**

In accordance with Executive Order N-25-20 and guidance from the California Department of Public Health on gatherings, remote public participation is allowed. We will address the Order in the following ways:

Members of the public may NOT physically attend meetings at the Morgan Hill City Council Chamber.

The Planning Commission meeting will be live-streamed on Channel 17 and on the City's website. Those members of the public wishing to participate remotely may do so via the electronic meeting at: <http://bit.ly/092220PlanningCommissionmtg> or by calling in to: (669) 900-9128, then enter the meeting id: 839 4802 5656.

Public comment for Planning Commission meetings will be accepted via email to [pcpubliccomment@morganhill.ca.gov](mailto:pcpubliccomment@morganhill.ca.gov). Members of the public participating in the electronic meeting wishing to speak may do so during public comment.

### **SPECIAL/REGULAR MEETING**

**A special meeting of the Planning Commission is called at 6:00 p.m. for the purpose of conduction a workshop.**

6:00 p.m. Workshop

7:00 p.m. Regular Meeting

## **SPECIAL MEETING**

6:00 p.m. Workshop

### **CALL TO ORDER**

### **ROLL CALL ATTENDANCE**

### **DECLARATION OF POSTING AGENDA**

Pursuant to Government Code Section 54954.2

### **WORKSHOP**

#### **1. PLANNING COMMISSION WORKSHOP ON INDUSTRIAL POLICIES**

Recommendation:

Accept the report and provide feedback on industrial preservation concentration policies.

## **REGULAR MEETING**

7:00 p.m.

### **OPEN PUBLIC COMMENT PERIOD**

Members of the public are entitled to address the Planning Commission concerning any item within the Morgan Hill Planning Commission's subject matter jurisdiction. Public comments are limited to no more than three minutes. Except for certain specific exceptions, the Planning Commission is prohibited from discussing or taking action on any item not appearing on the posted agenda. (See additional noticing at the end of this agenda)

### **ORDERS OF THE DAY**

### **PUBLIC HEARINGS**

#### **2. ZA2020-0003- ZONING TEXT AMENDMENT AMENDING TABLE 18.26-1 (PERMITTED LAND USES IN THE INDUSTRIAL ZONING DISTRICTS) OF SECTION 18.26.020 (LAND USE REGULATIONS) OF CHAPTER 18.26 (INDUSTRIAL ZONING DISTRICTS); SECTION 18.108.040 (DESIGN PERMIT) OF CHAPTER 18.108 (SPECIFIC PERMIT REQUIREMENTS); SECTIONS 18.124.050 (INDUSTRIAL USES) AND 18.124.060 (TRANSPORTATION, COMMUNICATION, AND UTILITY USES) OF CHAPTER 18.124 (LAND USE DEFINITIONS) OF TITLE 18 (ZONING) OF THE MUNICIPAL CODE OF THE CITY OF MORGAN HILL REGARDING E-COMMERCE DISTRIBUTION USES AND DESIGN REVIEW FOR LARGE PROJECTS**

Recommendation:

1. Open/close the public hearing; and
2. Adopt Resolution recommending City Council approval of the Zoning Amendment.

## **DIRECTOR'S REPORT/ANNOUNCEMENTS**

### **ADJOURNMENT**

## NOTICE

*All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act that are distributed to a majority of the legislative body less than 72 hours prior to an open session, will be made available for public inspection at the Office of the City Clerk at Morgan Hill City Hall located at 17575 Peak Avenue, Morgan Hill, CA, 95037 at the same time that the public records are distributed or made available to the legislative body. (Pursuant to Government Code 54957.5)*

## PUBLIC COMMENT

*Members of the Public are entitled to directly address the Commission concerning any item that is described in the notice of this meeting, before or during consideration of that item. If you wish to address the Commission on any issue that is on this agenda, please complete a speaker request card located in the foyer of the Commission Chambers, and deliver it to the Minutes Clerk prior to discussion of the item. You are not required to give your name on the speaker card in order to speak to the Commission, but it is very helpful. When you are called, proceed to the podium and the Mayor will recognize you. If you wish to address the Commission on any other item of interest to the public, you may do so during the public comment portion of the meeting following the same procedure described above. Please limit your comments to three (3) minutes or less.*

*Please submit written correspondence to the Minutes Clerk, who will distribute correspondence to the Commission.*

*Persons interested in proposing an item for the Commission agenda should contact a member of the Commission who may plan an item on the agenda for a future Commission meeting. Should your comments require Commission action, your request may be placed on the next appropriate agenda. Commission discussion or action may not be taken until your item appears on an agenda. This procedure is in compliance with the California Public Meeting Law (Brown Act) Government Code §54950.*

*City Council Policies and Procedures (CP 03-01) outlines the procedure for the conduct of public hearings. Notice is given, pursuant to Government Code Section 65009, that any challenge of Public Hearing Agenda items in court, may be limited to raising only those issues raised by you or on your behalf at the Public Hearing described in this notice, or in written correspondence delivered to the Commission at, or prior to the Public Hearing on these matters.*

*The time within which judicial review must be sought of the action by the Commission, which acted upon any matter appearing on this agenda is governed by the provisions of Section 1094.6 of the California Code of Civil Procedure.*

*For a copy of Commission Policies and Procedures CP 97-01, please contact the City Clerk's office (408) 779-7259, (408) 779-3117 (fax) or by email [cityclerk@morganhill.ca.gov](mailto:cityclerk@morganhill.ca.gov).*

## AMERICANS WITH DISABILITIES ACT (ADA)

*In compliance with the Americans with Disabilities Act, if you are a disabled person and you need a disability-related modification or accommodation to participate in this meeting, please contact the City Clerk's Office at (408)779-7259, (408)779-3117 (fax) or by email [cityclerk@morganhill.ca.gov](mailto:cityclerk@morganhill.ca.gov). Requests must be made as early as possible and at least two-full business days before the start of the meeting.*





## **PLANNING COMMISSION STAFF REPORT**

### **MEETING DATE: September 22, 2020**

PREPARED BY: Edith Ramirez, Economic Development Director  
APPROVED BY: Jennifer Carman, Community Development Director

## **PLANNING COMMISSION WORKSHOP ON INDUSTRIAL POLICIES**

### **RECOMMENDATION(S)**

Accept the report and provide feedback on industrial preservation concentration policies.

### **POLICY CONSIDERATIONS:**

Should the City adopt an Industrial Preservation Policy or what strategies, or actions should the City take to support Industrial Preservation policy?

### **PROJECT SUMMARY:**

In 2017, the City adopted an Economic Blueprint, an economic development strategy designed to guide land use, policy development, and budget decisions with the intent to foster economic growth, ensure fiscal sustainability and promote community vitality by attracting investment, development, and jobs. The Economic Blueprint identified four core industries for the City, 13 strategies and 35 action items. Amongst these items, the Economic Blueprint recommended adopting an Employment (Industrial) Land Preservation Policy (Action #1); Strengthening General Plan Language to Prevent Conversion of Industrial Lands (Action #2) and developing a Retail Concentration Strategy (Action #13) and eliminate retail/commercial requirements where retail is not going to succeed.

In preparation for this work, the Economic Development Team, in partnership with the Urban Land Institute (ULI) and the Silicon Valley Economic Development Alliance (SVEDA) hosted four independent seminars with industry experts, planning and economic development professionals to better understand today's market at a national, regional and local level; the future of industrial and retail sectors, especially post-Covid-19, and identify tactical strategies for Morgan Hill to consider that will support our industrial preservation and retail concentration goals. In addition, earlier in the year, Strategic Economics performed an analysis of the City's remaining industrial and commercial vacant properties (Attachment "Industrial and Commercial Market Analysis Memo").

The main purpose of the September 22, 2020 Planning Commission workshop is to share information gleaned from the ULI Technical Assistance Panel (Attachment Link-ULI TAP Panel Presentation), SVEDA industry expert panels, the City practitioner panel, and Strategic Economics' analysis of Morgan Hill's vacant lands inventory.

Staff seeks feedback from the Commission that will inform the industrial preservation policy or related actions.

## **BACKGROUND:**

In April 2017, the City Council unanimously adopted the 2017 Morgan Hill Economic Blueprint; an economic development strategy intended to foster economic growth by attracting investment, development, and jobs that will ensure fiscal sustainability and vitality for the community. The Economic Blueprint is the result of an extensive community engagement effort with residents, businesses, community-based organizations, community leaders from various industries (*thought leaders*), industry leaders from outside of Morgan Hill (*pathfinders*) and economic development professionals (*peer reviewers*). The Economic Blueprint is designed to guide land use, policy development, and budget decisions.

The Economic Blueprint identifies four industries that are key to Morgan Hill's future growth and further fiscal sustainability. The four key industries are:

1. **Innovation and Advanced Manufacturing** -- *Grow existing companies, attract new industry and grow professional jobs.*
2. **Retail** -- *Grow retail offerings and strengthen commercial nodes.*
3. **Tourism** -- *Grow leisure, agriculture, wine country & recreational tourism.*
4. **Health Care** -- *Grow and foster the medical service and diagnostics industry by attracting services and facilities.*

## **The Importance of Jobs**

A diverse industry base helps support a range of job opportunities for Morgan Hill residents. Despite a favorable jobs-housing balance, according to the 2018 U.S. Census, 74% of Morgan Hill working residents leave Morgan Hill to work. This phenomenon seems to indicate that there is not the "right" balance between the types of jobs, and the skills of residents. Moreover, nearly 75% of commuting residents drive alone despite High-Occupancy Vehicle (HOV) lanes existing most of the distance between San Jose and Morgan Hill. A majority of commuting residents drive longer than 30 minutes to and from work. This pattern negatively impacts quality of life, stresses the City's and region's transportation infrastructure, and is environmentally unsustainable.

An additional factor that can impact the City's future jobs is the conversion of industrial land to residential uses. Over the past 15 years, a significant amount of the City's industrial land has been lost to conversion. In 2013, there were 294 acres of vacant industrial land available. Today, Morgan Hill has approximately 234 acres of industrial land available for development and virtually no product available for lease or sale with historically low vacancy rates in office and R&D.

There are several industry categories where the makeup of Morgan Hill business does not mirror the rest of Silicon Valley. Information, professional, scientific, education and healthcare service careers are under-represented in Morgan Hill. Expanding job

opportunities in these sectors, as well as continuing to attract advanced manufacturers, can help improve the match between resident skill sets and the jobs offered in Morgan Hill.

### **Loss of Industrial Lands**

In 2013, there were 294 acres of vacant industrial land available. Today Morgan Hill has only approximately 234 acres of industrial land available for development and virtually no product available for lease with historically low vacancy rates for both office and R&D.

As vacant land becomes more constrained, pressure to convert industrial land to residential will intensify to meet the growing housing demand. In less than seven years, the total number of available industrial acres in the City has declined from 294 to 234 acres, reducing the future supply to 25-165 years depending upon market absorption. It is possible that within the current time horizon of the newly adopted Morgan Hill 2035 General Plan all available industrial land will be depleted.

### **ANALYSIS:**

In July 2020, the City hosted both the Urban Land Institute Technical Assistance Panel and the Silicon Valley Economic Development Alliance four virtual sessions with industrial, commercial, and retail industry experts to further understand the retail and industrial building markets and the impact of COVID-19 on the future of these sectors. Key highlights from the four-expert panels suggested that the industrial market while impacted by the pandemic, is expected to recover and will continue to see strong demand for cold storage, food operations and storage, distribution and last mile-delivery facilities.

The Urban Land Institute Technical Assistance Panel provided the following findings and recommendations related the industrial market.

- Morgan Hill has 6.5 million square feet of industrial product.
- Most industrial space is used for manufacturing and warehouse.
- According to JLL's Industrial Momentum Index, Morgan Hill is well positioned with its community fundamentals, but consumer demand is lacking in the advanced industry spectrum. Overall, it fairs "average" in comparison to other cities in Northern California. Morgan Hill needs to develop substantial industrial to balance its industry real estate.
- Currently eCommerce accounts for 50% of demand in the US market and 80% of the demand in Silicon Valley. Morgan Hill needs to capitalize on the e-Commerce market demand to build speculative product to capture advanced industries, but it must have facilities available.
- Grocery and food and beverage delivery have spiked
- Manage the shift from brick and mortar retail to e-Commerce

- A distribution center in Morgan Hill would reduce vehicle miles traveled by delivery vans by 1.6 million miles (assuming 75 vans to service local population).
- Localized last-mile distribution also helps minimize road infrastructure degradation by taking 561 cars off the road.
- Retail's required adaptation has been accelerated by COVID-19, forcing retailers to re-think their business models

At the request of Morgan Hill, municipal practitioners from both Planning and Economic Development departments from the cities of Redwood City, Fremont, San Mateo, Cupertino, San Jose, Campbell, Burlingame, and Milpitas participated in a session to assist the City of Morgan Hill identify strategies to help protect employment lands and address the impacts of retail contraction and could serve as tactical recommendations for the City's Industrial Preservation and Retail Concentration policies. Below are the recommendations from that virtual session:

### **INDUSTRIAL PRESERVATION**

1. **Use it!** The best way to preserve industrial/employment lands is to use them for their industrial purpose. These lands become threatened when they remain vacant
2. **Incent Industrial.** Explore how fee structures and taxes aligned with land use outcomes. Explore ways to incentivize industrial development.
3. **Allow for makerspaces** by similar and complementary uses.
4. **Activate ground floor** of industrial with a mix of uses. Allow for mixed use within industrial. Consider office or other uses.
5. **Be Flexible.** Nothing is pure/single use. Users have a blend of uses and operations.
6. **Use land buffers** and other natural buffers to separate industrial uses from other uses.
7. **Create designations** like Priority Production Areas to support industrial zones at a regional level.
8. **Hold the line.** Prioritize wanted uses such as OEM (original equipment manufacturer).
9. **Brand, market and promote** industrial parks.
10. **Recognize the role and growth of e-commerce**
  - a. County sales tax pools have become the fastest growing revenue generation segment for cities
  - b. **Identify locations and parameters appropriate for Distribution Centers**
  - c. Consider appropriate zones
  - d. Consider size limitations
  - e. Use development agreements
11. **Consider post-COVID-19 uses.** The pandemic may create new products and uses that are not currently articulated in city codes. Be flexible to allow for new industries and new operations.
12. **Revisit CNF-17 language in General Plan and replace 'discourage' with 'prohibit' conversion of industrial lands.**

13. **Limit discretion of CUP** uses to employment-generating uses.

14. Consider **limitations based on proximity**. Set 'distancing' requirements for less desired uses.

The City's Economic Blueprint has identified industrial preservation as a key strategy for long-term economic sustainability. Employment lands generate revenue and create jobs. Both which support City services and improve quality of life. With the COVID-19 pandemic, cities across the nation are having similar discussions to create resiliency through land use decisions. Many cities, like Morgan Hill, are heavily reliant on sales tax and property tax and those that have a strong business-to-business tax base are doing better through this economic crisis. In a separate but related item, also on September 22<sup>nd</sup>, at the request of the City Council, City staff will present a City-initiated text amendment to the Zoning Code to refine industrial land use classifications. The draft ordinance proposes to prohibit large fulfillment centers and parcel sorting centers and identifies areas where parcel hubs (also known as last mile deliver centers) could be permitted or conditionally permitted. Additionally, City Staff is recommending changes to the Design Permit Process in the Municipal Code to require Planning Commission review of large projects. The Planning Commission and community will be able to provide feedback on the proposed text amendment at the September 22<sup>nd</sup> Planning Commission meeting. The draft ordinance is scheduled to go before the City Council on October 21, 2020 at which time the community will have another opportunity to provide comments and feedback along with the City Council.

Staff seeks feedback from the Planning Commission on what specific actions are recommended to be considered to support Industrial Preservation, either through a policy or by independent action items.

#### **CEQA (California Environmental Quality Act):**

A workshop is an administrative activity that is not a project as it will not result in direct or indirect physical changes in the environment.

#### **LINKS/ATTACHMENTS:**

1. Industrial and Commercial Market Analysis Memo
2. ULI TAP-Morgan Hill (YouTube link)
3. ULI Technical Assistance Panel Presentation (Weblink)
4. July 1-SVEDA Speaker Panel on Industrial (YouTube link 1)
5. July 1-SVEDA Speaker Panel on Industrial (YouTube link 2)
6. July 1-SVEDA Speaker Panel Industrial Presentation
7. JLL Northern California Industrial Momentum Index Report
8. July 8-SVEDA Speaker Panel on Retail (YouTube link 1)
9. July 8-SVEDA Speaker Panel on Retail (YouTube link 2)
10. July 8-SVEDA Speaker Panel Retail Presentation
11. Morgan Hill ULI TAP Report Out Summary
12. July 1-SVEDA Speaker Panel Industrial Summary
13. July 8 SVEDA Speaker Presentation Retail-Summary

## 14. Staff Presentation - Industrial Preservation Workshop



## MEMORANDUM

To: Edith Ramirez and John Lang, City of Morgan Hill

From: Sujata Srivastava and Heather Bromfield

Date: July 1, 2020

Project: Industrial and Retail Commercial Market Memo

Subject: Morgan Hill Economic and Fiscal Analysis

### I. INTRODUCTION

The City of Morgan Hill retained Strategic Economics to provide an updated analysis of the industrial and retail commercial market, to guide the city's future land use planning on commercial and industrial lands. This memo summarizes the supply and demand for vacant lands to support employment uses, including industrial, R&D, and office, and retail commercial uses. To estimate the market for industrial, R&D, warehousing uses, this memorandum report builds on Strategic Economics' 2013 "Economic and Fiscal Impact Analysis of Industrial Land Conversion" report and the 2015 "Morgan Hill Industrial Land Study Update." For the commercial retail analysis, the study builds on the 2017 retail analysis performed by Lisa Wise Consulting.

This report is organized into four chapters. Following this introduction, Chapter II summarizes the key findings and recommendations drawn from the analysis. Chapter III describes Morgan Hill's economic position within Santa Clara County, including demographic, market, and employment trends. Chapter IV provides an updated estimate of the potential supply and projected demand for industrial, R&D, and office space in Morgan Hill. Chapter V summarizes the commercial retail market conditions. Note that the analysis and findings reflect market conditions as of the Fall of 2019.

The analysis of the City's available land for development considers the total acreage of undeveloped parcels citywide and does not assess how any development constraints on any parcels may affect the likelihood of future development. This is important to note because several of the undeveloped parcels designated for industrial development have constraints such as natural hazards, soil contamination, or access issues. As a result, these parcels may be slow to develop, particularly if building rents remain lower than what would be justified to undertake costly remediate or hazard mitigation improvements.

## II. SUMMARY OF FINDINGS

### Industrial/R&D/Warehouse Market

- **Morgan Hill continues to be an attractive destination for industrial users, including manufacturers, machine shops, and assembly businesses.** Morgan Hill has lower industrial rents than other cities in southern Santa Clara county, which drives interest from firms seeking to relocate. Currently, there are several indicators of the City's industrial market strength, including development proposals for new buildings on vacant industrial land and the absorption of vacant building space over the last four years.
- **The number of jobs in industrial and R&D employment categories has decreased despite multiple indicators of the strength of Morgan Hill's industrial real estate market.** The number of manufacturing jobs in the city decreased by almost ten percent between 2000 and 2016 despite overall citywide jobs gains of about five percent during the same period. Similarly, employment in the Professional, Scientific, and Technical Services category decreased by about 30 percent and employment in the Information sector decreased by over 50 percent during this period. However, brokers are currently reporting high demand for manufacturing building space and a large number of industrial and warehouse development proposals have been submitted to the city for review. The conflicting findings can potentially be explained by current data limitations, given that as of Fall of 2019 employment data at the industry level was only available through 2016 and more jobs may have been added in industrial and R&D job categories in the last four years. A second possible explanation is there may be fewer jobs required to complete manufacturing work, which would be in line with regional and national trends towards the introduction of automation into more manufacturing practices.
- **The supply of vacant land in Morgan Hill can accommodate projected demand in manufacturing, warehouse, and R&D uses for the next 25 to 165 years.** These figures include all land citywide designated as Industrial and Commercial/Industrial. In 2015, the comparable figures were 30 to 77 years. If only land designated as Industrial is considered, the supply of land would be sufficient to accommodate demand for 18 to 116 years. Although the acreage of vacant industrial lands has decreased since 2015, the conservative estimate for the number of years of supply has increased since the 2015 study due to projections that employment growth in industrial job categories may be lower in the future.
- **If all current development proposals on vacant industrial lands were to be approved and built, the city would have between 15 and 95 years of land supply suitable for industrial development.** Currently, 104 acres out of 234 total acres of vacant Industrial and Commercial/Industrial land, or about 44 percent, are proposed for development. If only land designated as Industrial is considered, the supply of land without development proposals is estimated to be between 11 and 70 years.
- **Knowledgeable local brokers are reporting that existing industrial tenants in Morgan Hill are actively seeking space for expansion but are unable to find available building space.** Brokers are reporting that some firms have had to leave Morgan Hill in order to expand because they were unable to find available industrial space within the city and were unwilling or unable to finance the construction of new space within the city themselves.
- **Speculative industrial projects have been proposed and would add sought-after new inventory to the market.** Speculative development, as opposed to build-to-suit development, reflects developer confidence that they would be able to tenant new buildings at rents that will support a developer return on investment. New building inventory could help to meet demand from



## Industrial and Retail Commercial Market Memo

businesses that are looking to expand within Morgan Hill, or for those who are looking to relocate to Morgan Hill from more costly markets.

- **Despite the speculative industrial projects that have been proposed, brokers in the area are uncertain if present market rents will provide a sufficient financial return to developers.** Industrial brokers have reported that rents are currently still too low to justify the risks associated with constructing speculative industrial projects in most cases. Some of the projects in the pipeline may take time to break ground. If rents continue to increase, the completion of speculative industrial projects will become more likely.

## Retail Commercial Market

- **The retail sector in Morgan Hill has been stable over the last few years.** According to metrics including vacancy rates, retail rents, and taxable sales for shopping centers, the retail sector appears to be performing well, even as nationally the retail sector is undergoing a major restructuring.
- **In line with the citywide trends, most of Morgan Hill's individual shopping centers have healthy vacancy rates and stable taxable sales.** Vacancy rates at shopping centers are under 10% for all but three of the city's seven shopping centers and stable taxable sales values over time. Taxable sales values have on average increased over the last four quarters ending in the first quarter of 2019, with a major dip in auto sales as the likely reason for a large decrease in citywide taxable sales in the final quarter analyzed.
- **The Cochrane Road and Downtown area along Monterey Road are currently the city's best performing areas for retail, as demonstrated by the concentration of pipeline retail development and the likelihood of additional industrial employment growth in this area.** All but one of the recently constructed retail projects have been located in these two areas, suggesting that this area is seeing significant demand for retail and services. Additionally, proposed industrial projects which would increase employment in the area may continue to add demand for retail and services in these areas, especially in the Cochrane Road area.
- **New pipeline retail is being developed primarily in mixed-use projects, which is in line with growing interest of retailers to be co-located near non-retail to enhance customer traffic.** The retail commercial development pipeline includes up to 61,000 square feet of planned retail space within Evergreen Village, a new mixed-use center which will include a hotel, medical offices, and a senior living center. An additional 4,000 square feet of space is under construction within mixed-use residential projects, primarily in Morgan Hill's Downtown.
- **Based on current national and local trends, there is unlikely to be sufficient retail demand to result in the construction of a major new shopping center in the near term.** Morgan Hill should not anticipate the construction of another new shopping center within the next 15 years, and development of a new center could potentially take longer than this. This assessment is based on an analysis of recent retail construction trends in Morgan Hill, the increasing share of sales occurring via e-commerce nationally, and the relatively modest projected increases in employee and residential populations in Morgan Hill which will limit the potential for additional retail demand.

### III. EMPLOYMENT OVERVIEW

Strategic Economics reviewed historical employment data from the Metropolitan Transportation Commission (MTC) and the Census Bureau's Zip Code Business Patterns, which is the most recent data source available for Morgan Hill. This section summarizes the employment trends as they relate to the potential demand for industrial, R&D, and office space.

#### Employment Trends

Between 2000 and 2016, the total number of jobs in Morgan Hill increased by 4.9 percent, or 826 jobs. This net increase in jobs captures job losses during the Great Recession, as well as the gains during the recovery. Santa Clara County's rate of job growth was lower during this time, at 2.2 percent.

FIGURE 1: TOTAL JOBS IN MORGAN HILL AND SANTA CLARA COUNTY, 2000-2016

|                    | 2000    | 2009    | 2016      | % Change<br>2000-2009 | % Change<br>2009-2016 | % Change<br>2000-2016 |
|--------------------|---------|---------|-----------|-----------------------|-----------------------|-----------------------|
| Morgan Hill        | 16,764  | 16,345  | 17,590    | -2.5%                 | 7.6%                  | 4.9%                  |
| Santa Clara County | 999,519 | 850,828 | 1,021,748 | -14.9%                | 20.1%                 | 2.2%                  |

Note: Data excludes public sector employment.

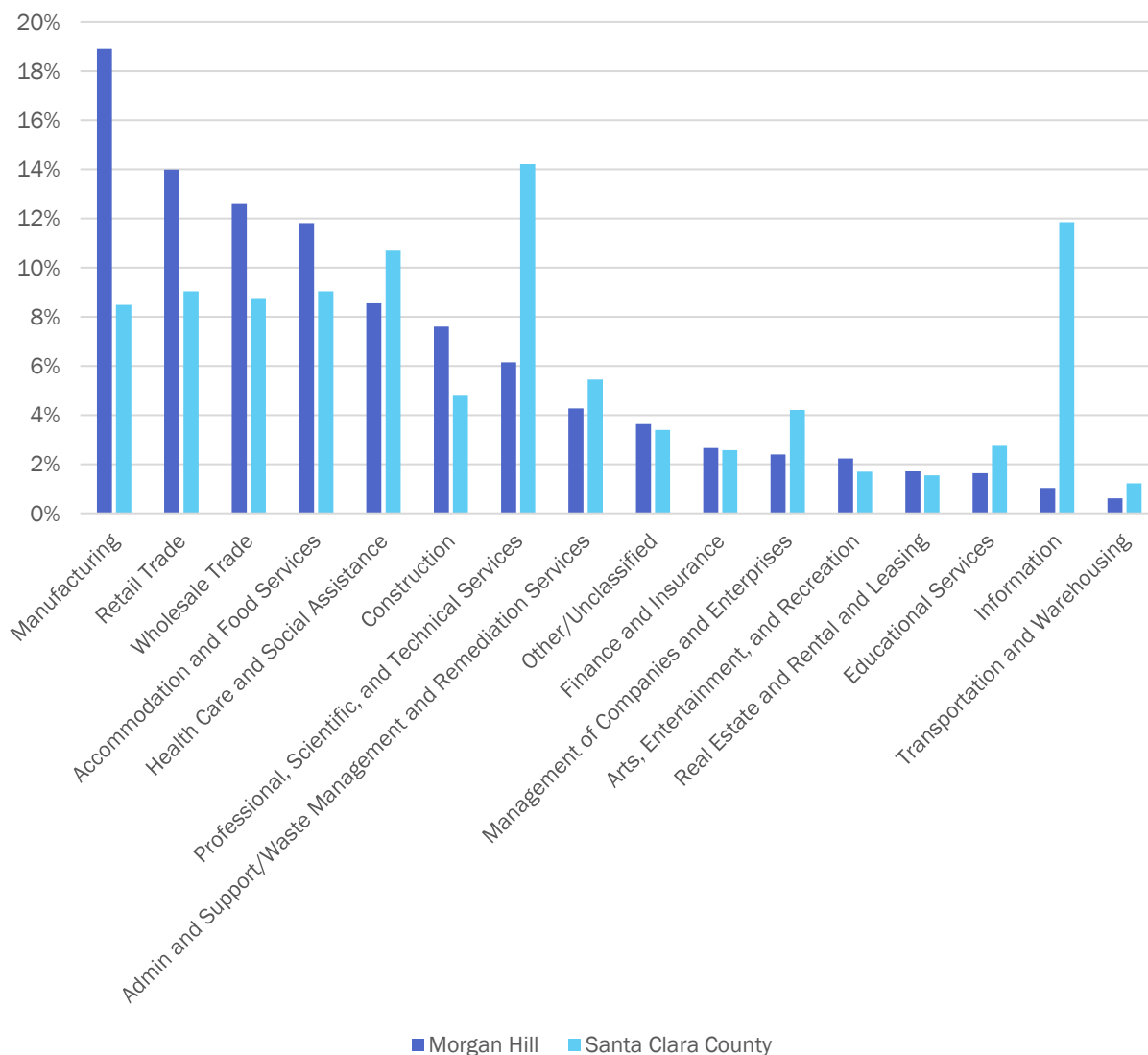
Source: County Business Patterns, 2019; MTC, 2019; Strategic Economics, 2019.

**Morgan Hill's strongest industry sectors are Manufacturing, Retail Trade, Wholesale Trade, and Accommodation and Food Services.** These industries are much more concentrated in Morgan Hill than the County, and collectively make up more than half of the city's total employment. Manufacturing accounts for almost 19 percent of Morgan Hill's employment, followed by Retail Trade at 14 percent, as displayed in Figure 2.

**Compared to Santa Clara County, Morgan Hill has a significantly lower share of jobs in the Professional, Scientific, and Technical Services and Information, which typically include firms that occupy tech office/R&D space.** Professional, Scientific, and Technical Services jobs account for about 14 percent of the county's employment, compared to six percent in Morgan Hill. Additionally, almost 12 percent of jobs in Santa Clara County are in the Information sector, compared to one percent in Morgan Hill. Within Santa Clara County, employment in these tech industry sectors are highly concentrated in the northern part of the county, in Mountain View, Palo Alto, Sunnyvale, Santa Clara, and North San José.

## Industrial and Retail Commercial Market Memo

FIGURE 2: EMPLOYMENT BY SECTOR IN MORGAN HILL AND SANTA CLARA COUNTY, 2016



Source: County Business Patterns, 2019; Strategic Economics, 2019.

Between 2000 and 2016, the largest number of jobs in Morgan Hill were added in the Health Care and Social Assistance; Accommodations and Food Services; Wholesale Trade, and Retail Trade sectors. The change in the number of jobs by employment categories is presented in Figure 3, and the percent change is shown in Figure 5.

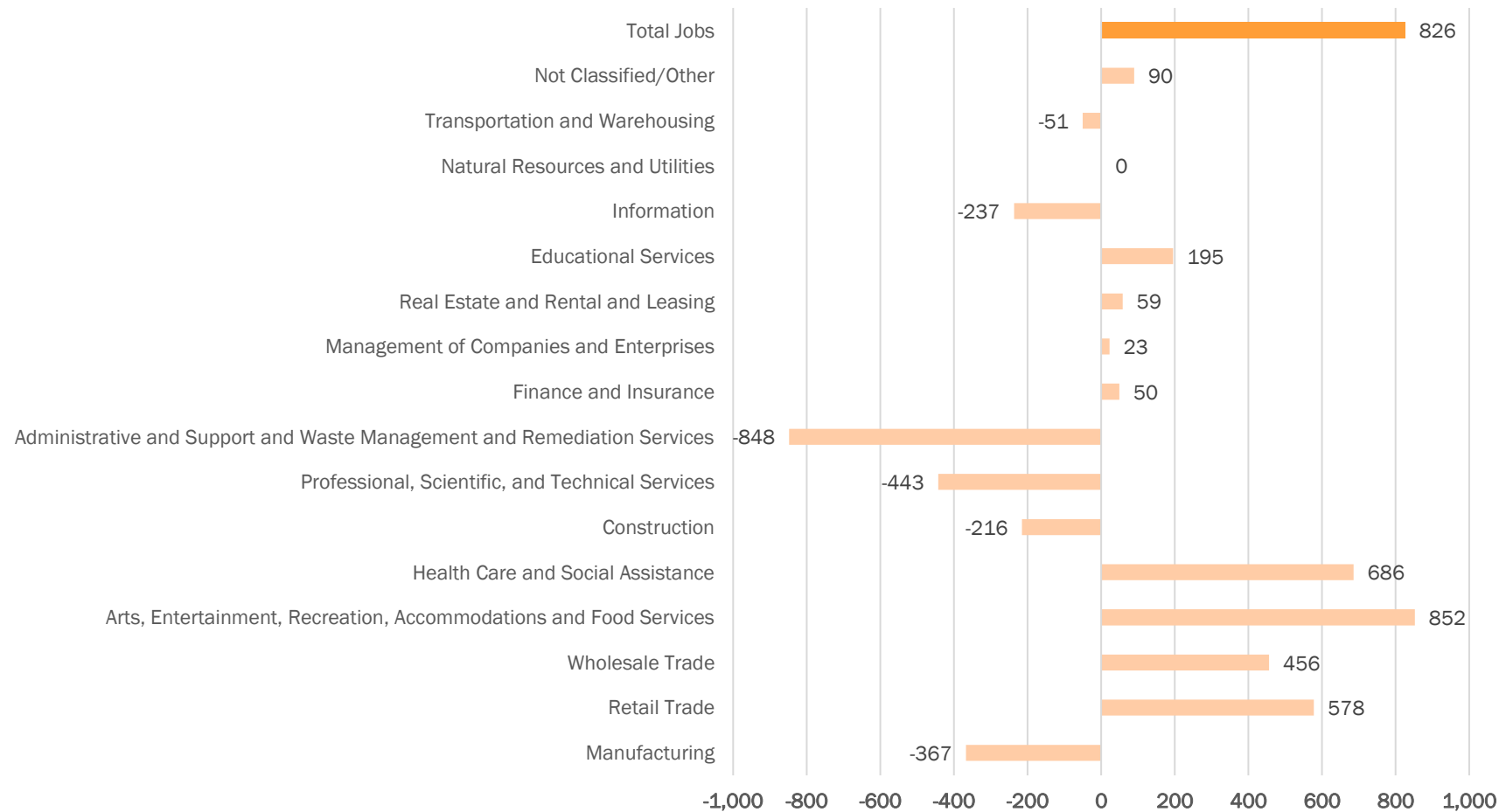
The employment composition by industry in Morgan Hill has shifted slightly from 2000 to 2016. Today, Health Care and Social Assistance; Retail Trade; and Arts, Entertainment, Recreation, and Accommodations/Food Services hold a greater share of total jobs, as shown in Figure 4. The share of jobs in Manufacturing, Wholesale Trade, Information, and Professional, Scientific, and Technical Services have declined.

## Industrial and Retail Commercial Market Memo

**While Manufacturing jobs declined from 2000 to 2016, this sector is still by far the largest industry in Morgan Hill.** The city lost a total of 367 manufacturing jobs between 2000 and 2016 and the share of Morgan Hill employment in manufacturing decreased from 22 percent to 19 percent, as shown in Figure 3 and Figure 5. However, there are several Manufacturing subcategories that have witnessed dramatic growth over the last seven years, especially cabinetry and materials manufacturing. These include Household and Institutional Furniture and Kitchen Cabinet Manufacturing; Fruit and Vegetable Preserving and Specialty Food Manufacturing; Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing; Other Fabricated Metal Product Manufacturing; and Electrical Equipment Manufacturing. This data is presented in Figure 6.

## Industrial and Retail Commercial Market Memo

FIGURE 3: CHANGE IN JOBS IN MORGAN HILL, 2000-2016

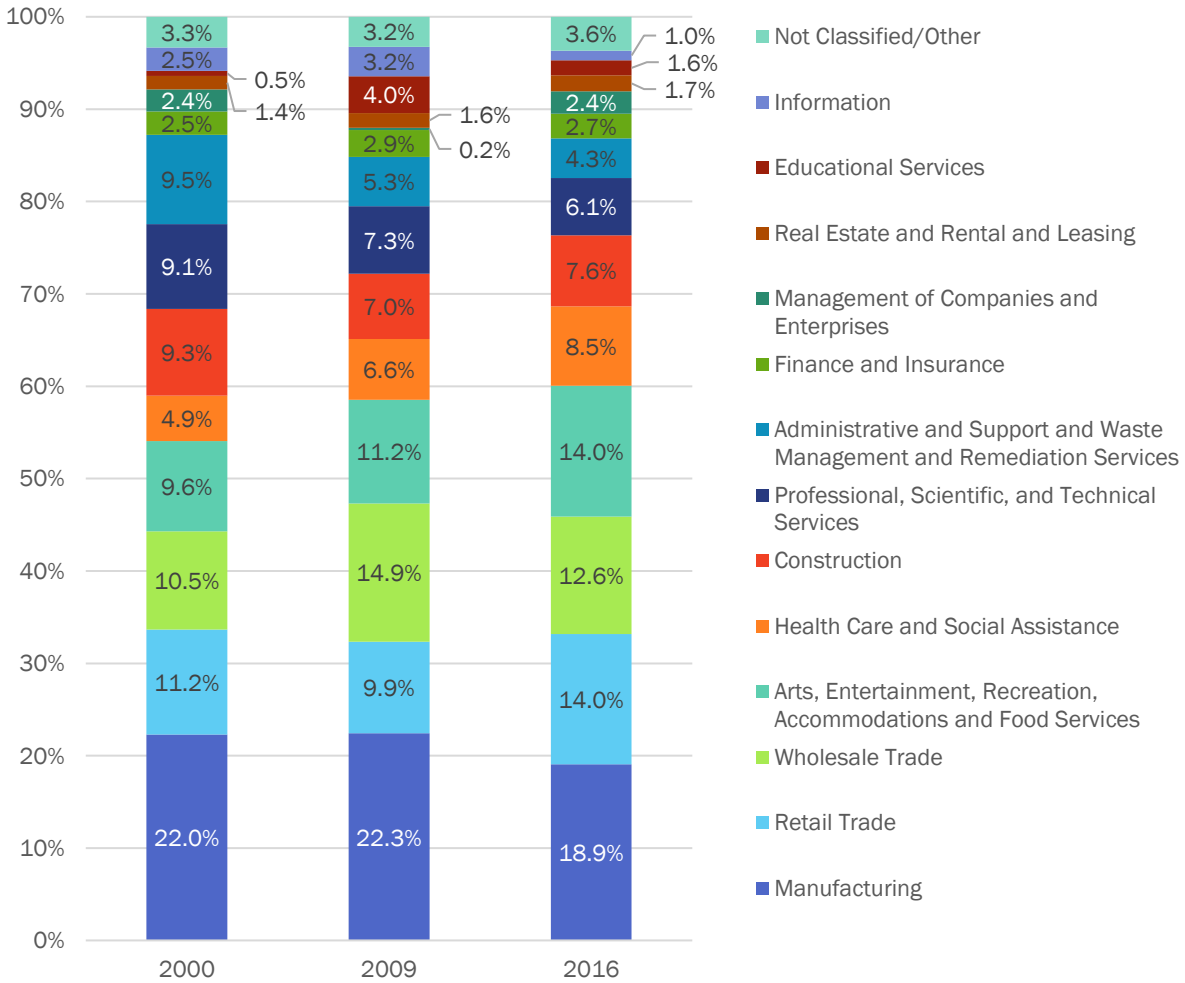


Source: County Business Patterns, 2019; Strategic Economics, 2019.

July 1, 2020

## Industrial and Retail Commercial Market Memo

FIGURE 4: MORGAN HILL EMPLOYMENT COMPOSITION BY YEAR, 2000, 2009 AND 2016

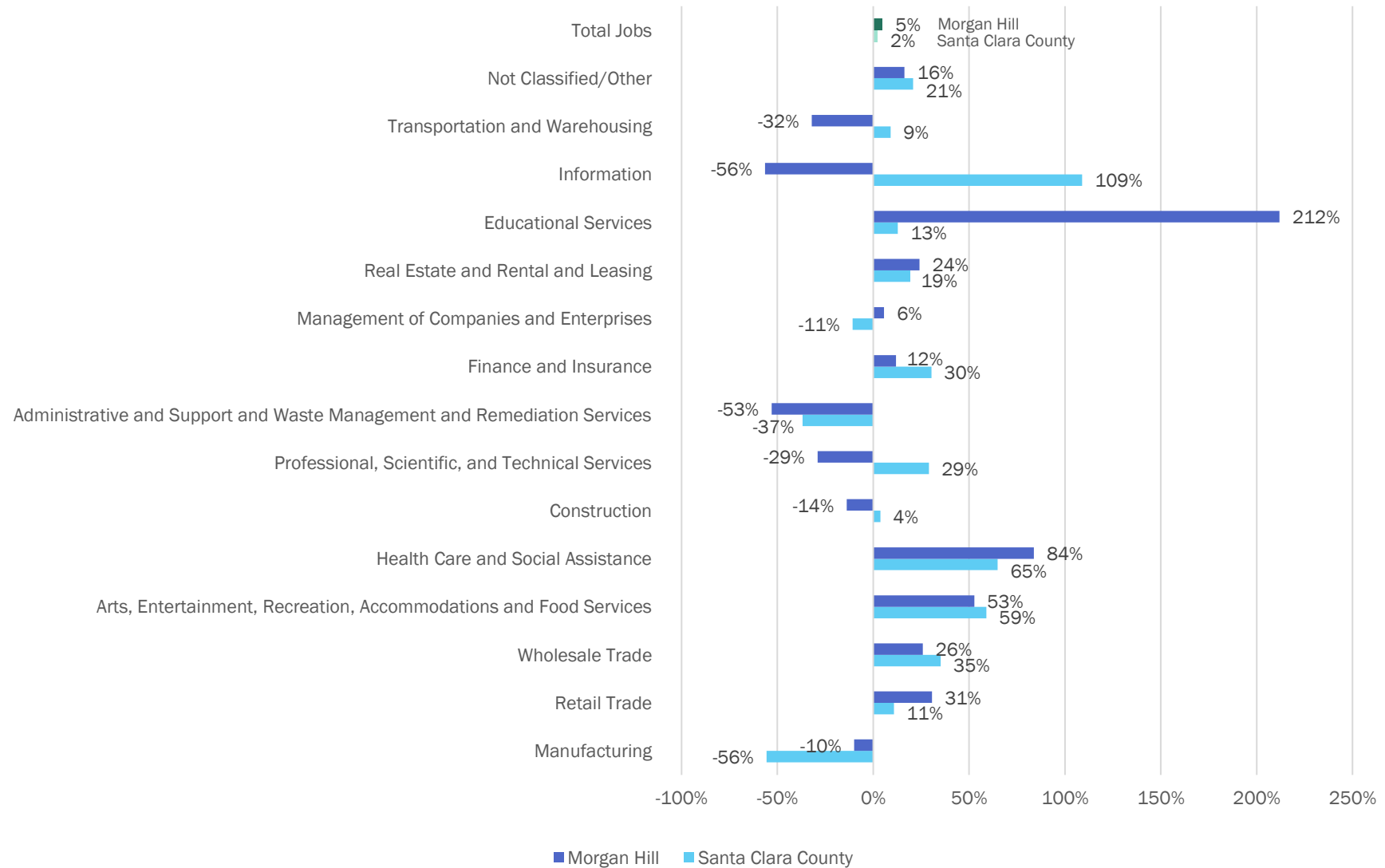


Note: Natural Resources and Transportation and Warehousing employment sectors are not presented; each of these accounted for less than 1% of total employment for all three years in this time series.

Source: County Business Patterns, 2019; Strategic Economics, 2019.

## Industrial and Retail Commercial Market Memo

FIGURE 5: PERCENT CHANGE IN EMPLOYMENT BY EMPLOYMENT SECTOR IN MORGAN HILL AND SANTA CLARA COUNTY, 2000-2016



Note: Natural Resources employment is not presented because it accounted for less than 1% of total employment in Morgan Hill both 2000 and 2016.  
 Source: Census Business Patterns, 2019; Strategic Economics, 2019.

## Industrial and Retail Commercial Market Memo

FIGURE 6: 2009-2016 JOBS ESTIMATES FOR TOP 10 MANUFACTURING JOBS CATEGORIES IN 2016

| NAICS | Manufacturing Category                                                               | 2016           |                                       | 2009           |                                       | 2009-2016                         |
|-------|--------------------------------------------------------------------------------------|----------------|---------------------------------------|----------------|---------------------------------------|-----------------------------------|
|       |                                                                                      | Number of jobs | Percent of manufacturing jobs in 2016 | Number of jobs | Percent of manufacturing jobs in 2009 | Percent change in jobs, 2009-2016 |
| 3345  | Navigational, Measuring, Electromedical, and Control Instruments Manufacturing       | 660            | 19.8%                                 | 1011           | 27.7%                                 | -53.3%                            |
| 3371  | Household and Institutional Furniture and Kitchen Cabinet Manufacturing              | 416            | 12.5%                                 | 47             | 1.3%                                  | 88.8%                             |
| 3344  | Semiconductor and Other Electronic Component Manufacturing                           | 375            | 11.3%                                 | 647            | 17.7%                                 | -72.8%                            |
| 3327  | Machine Shops; Turned Product; and Screw, Nut, and Bolt Manufacturing                | 344            | 10.3%                                 | 426            | 11.7%                                 | -24.0%                            |
| 3372  | Office Furniture (including Fixtures) Manufacturing                                  | 182            | 5.5%                                  | 175            | 4.8%                                  | 3.9%                              |
| 3114  | Fruit and Vegetable Preserving and Specialty Food Manufacturing                      | 175            | 5.2%                                  | 0              | 0%                                    | 100.0%                            |
| 3252  | Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments Manufacturing | 175            | 5.2%                                  | 75             | 2.0%                                  | 57.3%                             |
| 3329  | Other Fabricated Metal Product Manufacturing                                         | 146            | 4.4%                                  | 35             | 0.9%                                  | 76.4%                             |
| 3353  | Electrical Equipment Manufacturing                                                   | 112            | 3.4%                                  | 10             | 0.3%                                  | 91.5%                             |
| 3391  | Medical Equipment and Supplies Manufacturing                                         | 89             | 2.7%                                  | 24             | 0.7%                                  | 73.0%                             |

Source: County Business Patterns, 2019; Strategic Economics, 2019.

Attachment: Industrial and Commercial Market Analysis Memo (2867 : Industrial Policies)



## Major Employers

To show the spatial patterns of employment in Morgan Hill, Strategic Economics mapped the top private sector employers in the city based on data in the City's 2017-2018 Comprehensive Annual Financial Report. The top fourteen private sector employers are mapped in Figure 7.

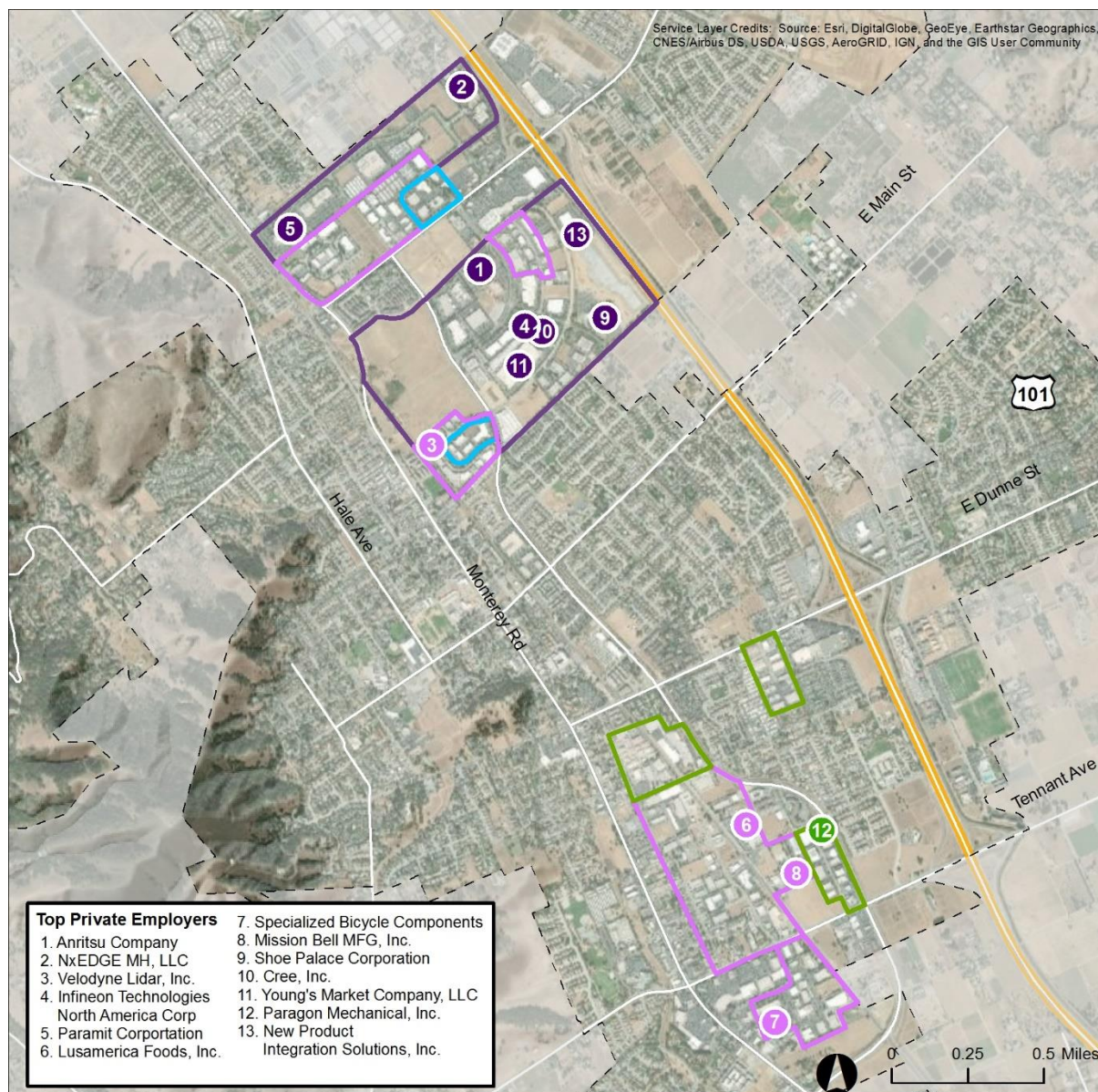
**Most of the city's largest private employers are located at the northern end of the city in the employment areas surrounding Cochrane Road.** Many of the city's top employers are users of industrial and R&D space. Interviews with commercial brokers confirm that Cochrane Road is the most desirable industrial area in Morgan Hill for larger employers. This finding has not changed since the previous industrial land studies.

**The city's fourteen largest private employers collectively account for about a quarter of total employment in Morgan Hill.** The number of employees for each of the largest employers is presented in Figure 8.

**Many of the city's top private sector employers in 2018 were not among the Morgan Hill's top employers in 2008.** Of the 14 largest private employers in 2018, only Anritsu Company, Infineon Technologies (now known as Cree Wolfspeed), Paramit Corporation, Specialized Bicycle Components, Mission Bell Manufacturing, and Hospira, were among the City's top private sector employers in both 2018 and 2008. This indicates that there have been a number of firms that have expanded quickly in Morgan Hill over the last ten years.

## Industrial and Retail Commercial Market Memo

FIGURE 7: INDUSTRIAL CONCENTRATIONS AND TOP PRIVATE EMPLOYERS IN MORGAN HILL, 2018



## Industrial Concentrations and Top Private Employers in Morgan Hill

## Top Employers by Industrial Concentration

- Industrial/ Auto Oriented
- R&D/Industrial, Large Floorplate
- R&D/Industrial, Mixed Floorplate

## Industrial Concentrations

- Industrial/ Auto Oriented
- Office
- R&D/Industrial, Large Floorplate
- R&D/Industrial, Mixed Floorplate

- Morgan Hill City Boundary
- Boundary
- Highways

Sources: Strategic Economics, 2019; City of Morgan Hill, 2019.



## Industrial and Retail Commercial Market Memo

FIGURE 8: TOP 13 PRIVATE SECTOR EMPLOYERS IN MORGAN HILL

| Rank                                  | Employer                                                                     | Number of Employees, 2018 | Percent of Total Employment |
|---------------------------------------|------------------------------------------------------------------------------|---------------------------|-----------------------------|
| 1                                     | Anritsu Company/Anritsu Americas Sales Company                               | 583                       | 3.49%                       |
| 2                                     | NxEDGE MH, LLC                                                               | 557                       | 3.34%                       |
| 3                                     | Velodyne Lidar, Inc                                                          | 516                       | 3.09%                       |
| 4                                     | Infineon Technologies North America Corp/Infineon Technologies Americas Corp | 403                       | 2.41%                       |
| 5                                     | Paramit Corporation                                                          | 340                       | 2.04%                       |
| 6                                     | Lusamerica Foods, Inc.                                                       | 282                       | 1.69%                       |
| 7                                     | Specialized Bicycle Components                                               | 282                       | 1.69%                       |
| 8                                     | Mission Bell MFG, Inc                                                        | 233                       | 1.40%                       |
| 9                                     | Shoe Palace Corporation                                                      | 227                       | 1.36%                       |
| 10                                    | Cree, Inc                                                                    | 212                       | 1.27%                       |
| 11                                    | Young's Market Company, LLC                                                  | 158                       | 0.95%                       |
| 12                                    | Paragon Mechanical, Inc                                                      | 129                       | 0.77%                       |
| 13                                    | New Product Integration Solutions, Inc                                       | 129                       | 0.77%                       |
| <b>Total, Top Employers</b>           |                                                                              | <b>4,051</b>              | <b>24.26%</b>               |
| <b>Total, Citywide Employment [1]</b> |                                                                              | <b>16,701</b>             |                             |

[1] Citywide employment figure includes both private sector and public sector employment.  
Source: Morgan Hill Comprehensive Annual Financial Report, FY 2017-2018.

## IV. INDUSTRIAL LANDS ANALYSIS AND MARKET OVERVIEW

This section builds upon demand and supply estimates found in the 2013 “Economic and Fiscal Impact Analysis of Industrial Land Conversion” report and the 2015 “Industrial Land Study Update”. Based on updated employment forecasts, the analysis revises demand estimates for industrial lands and buildings in Morgan Hill. This section also updates the 2015 estimates of industrial land and building supply. Subsequently, the projected demand for industrial employment space is compared with the city’s supply of industrial buildings and land. The results are expressed as “years of supply,” or the ratio of the total potential supply in each scenario to projected annual average demand for employment space. These results are complemented with qualitative findings from broker interviews regarding the potential for future development.

Since the completion of the 2015 report, the City’s industrial land and building supply has decreased slightly due to an approved General Plan amendment that resulted in one parcel conversion to a residential land use designation, and the absorption of about 75,000 square feet of existing industrial building area as of Fall of 2019, as previously vacant space became leased. Additionally, a significant portion of the vacant industrial lands are currently proposed for development.

The geography of Morgan Hill’s industrial areas is discussed first. The assumptions that were used to develop the demand and supply scenarios are detailed in the Appendix: Assumptions section.

### Existing Industrial Areas

The industrial employment lands in Morgan Hill are located in four major subareas, which are mapped in Figure 9. Subarea 1 is the Morgan Hill Ranch Business Park, located south of Cochrane Road and east of Butterfield Boulevard. This area houses the city’s largest employers and is considered a core employment area. Subarea 2 is located north of Cochrane Road, bounded by Highway 101 to the east and Monterey Road on the west, and is also considered a core employment area. Subarea 3 is located in the Morgan Hill Ranch Business Park west of Butterfield Boulevard and houses the largest available vacant industrial site. Subarea 3 is considered a future employment area. Subarea 4 is the industrial district south of Dunne. This area contains heavier industrial users and is defined as an established industrial area.

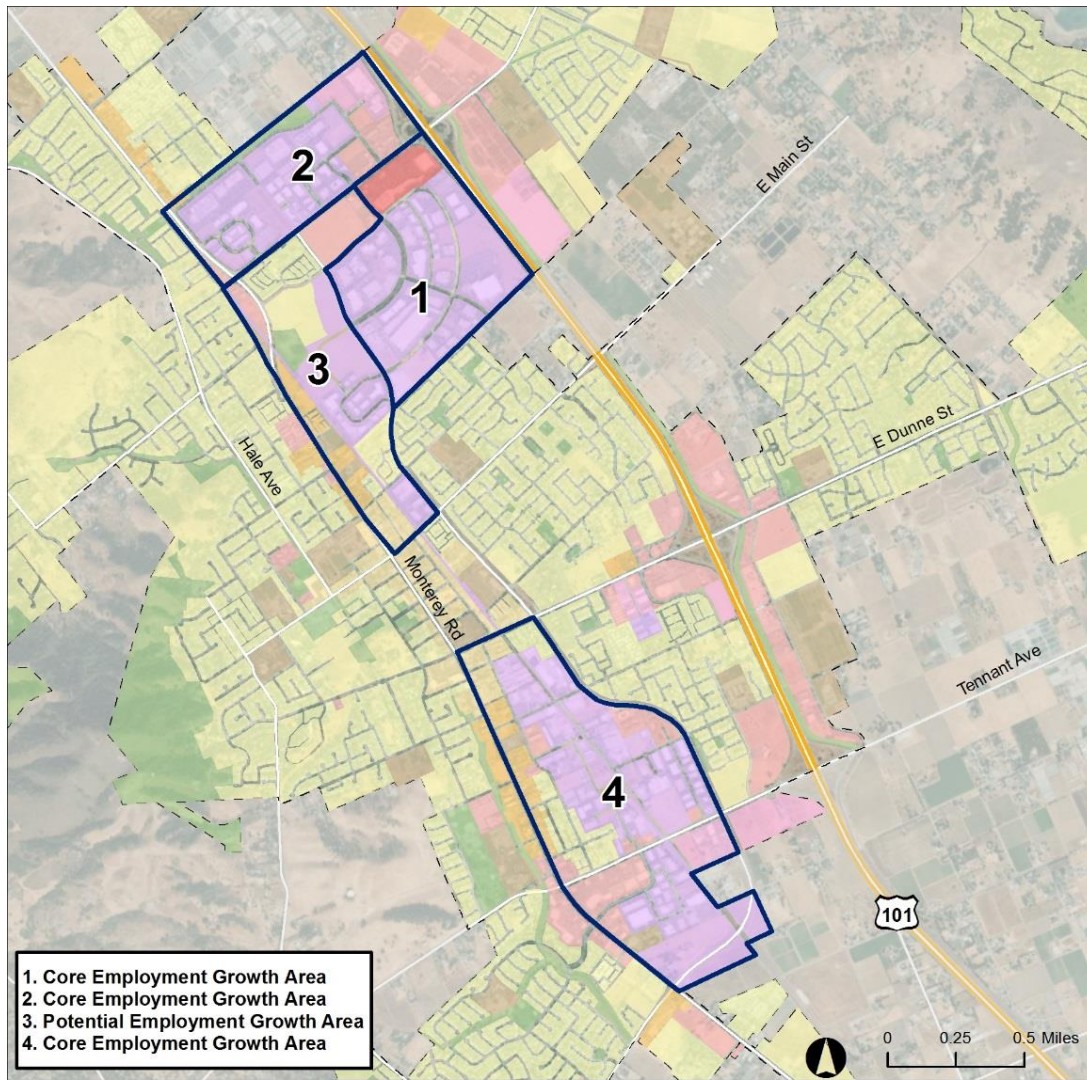
**The Cochrane Road area (Subareas 1, 2, and 3 in Figure 9) continues to be the strongest location for future industrial, R&D, and warehouse uses.** Home to most of Morgan Hill’s largest employers, Subareas 1 and 2 include most of the city’s newest and largest industrial and commercial buildings, and are most attractive for businesses considering moving to Morgan Hill. Subarea 3 is the location for two major development pipeline projects on large vacant parcels with consolidated ownership, including one for an industrial park with an adjacent residential component, and one mixed-use retail, hotel, and senior living project that is now under construction. Because of its location off of the first Highway 101 exit in Morgan Hill for commuters coming from San Jose, as well as the presence of services and retail in the area, it is a more desirable location for industrial businesses than Subarea 4.

**The area south of Dunne Avenue (Subarea 4 in Figure 9) plays an important role in Morgan Hill’s economy by providing relatively low-cost space for small manufacturers and auto-oriented businesses.** This area is well established for smaller industrial uses, and offers fewer opportunities for large-scale commercial or industrial development when compared to the Cochrane Road industrial subareas.



## Industrial and Retail Commercial Market Memo

FIGURE 9: MORGAN HILL CORE EMPLOYMENT SUBAREAS



## Parcels by General Plan Designation: Morgan Hill

## Description

- Commercial
- Commercial/Industrial
- General Commercial
- Mixed Use Flex
- Mixed Use

- Residential
- Open Space
- Sports/Recreation/Leisure
- Industrial
- Public Facilities
- Rural County

## Subareas

- Morgan Hill City Boundary
- Parks
- Highways

Service Layer Credits: Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community

Sources: Strategic Economics, 2019; City of Morgan Hill, 2019.



## Industrial, R&D, and Office Market Overview

This section presents existing inventory, rents, and vacancy data for industrial building products in Morgan Hill. Strategic Economics reviewed data from two real estate data tracking sources, Costar and Colliers, which have different methodologies for tracking and reporting on real estate inventory. The inventory data available as of Fall of 2019 from both sources are reported in Figure 10.

**Warehouse and industrial building space is in high demand in Morgan Hill.** Both quantitative data and broker interviews indicate that there is currently very little available warehouse and industrial building space.

**Morgan Hill continues to be an attractive destination for industrial firms that are relocating from outside of the city.** Brokers have reported that firms interested in relocating to Morgan Hill include San Jose-based companies seeking more affordable rents and firms for which Morgan Hill is the city of residence for business' owners or for a significant share of the business' workforce.

**Knowledgeable local brokers confirm that there is currently demand for industrial space from manufacturing, machining, and assembly firms in excess of the supply of building space.** Existing industrial tenants in Morgan Hill are seeking space for expansion but are unable to do so because of the lack of available space. Brokers are reporting that some firms have had to leave Morgan Hill in order to expand because they were unable to find affordable built space within the city.

## Industrial and Retail Commercial Market Memo

FIGURE 10: INVENTORY, VACANCY RATES, AND RENTS IN MORGAN HILL FOR INDUSTRIAL BUILDINGS BY TYPE

|                               | Number of<br>Buildings [1] | Inventory        |                  | Vacancy Rate |           | Net Absorption YTD |              | Rents (annual, per sq. ft.) |              |
|-------------------------------|----------------------------|------------------|------------------|--------------|-----------|--------------------|--------------|-----------------------------|--------------|
|                               |                            | Costar [2]       | Colliers [3]     | Costar       | Colliers  | Costar             | Colliers     | Costar [4]                  | Colliers [5] |
| Warehouse                     | 47                         | 1,601,300        | 482,538          | 1.6%         | 0.0%      | -18,204            | Not reported | \$11.96                     | Not reported |
| R&D                           | 36                         | 1,688,743        | 2,819,449        | 7.7%         | 6.5%      | 7,355              | -28,176      | \$11.34                     | \$9.96       |
| Other Industrial              | 56                         | 1,159,142        | 2,550,234        | 4.0%         | 1.8%      | -32,565            | 40,204       | \$20.13                     | \$14.40      |
| <b>Total/Weighted Average</b> | <b>139</b>                 | <b>4,449,185</b> | <b>5,852,221</b> | <b>5%</b>    | <b>4%</b> | <b>-43,414</b>     | <b>-</b>     | <b>\$13.85</b>              | <b>-</b>     |

[1] Reported by Costar,

[2] All Costar data reflects 2019 YTD values

[3] All Colliers data reflects Q2 2019 values

[4] Represents effective rents

[5] Represents asking rents

Sources: Costar, 2019; Colliers, Q2 2019; Strategic Economics, 2019.

## Industrial and Retail Commercial Market Memo

## PROPOSED DEVELOPMENTS AND DEVELOPMENT POTENTIAL FOR INDUSTRIAL USES

Based on findings from interviews with knowledgeable local brokers and a review of currently proposed developments, this section provides assessments on the future likelihood for development of Morgan Hill's employment lands.

**Industrial rents have continued to rise over several years and as of Fall of 2019 had reached the point at which speculative industrial developments have been proposed.** As shown in Figure 11, one industrial speculative development projects has been approved. According to area brokers, several other projects in the development pipeline which are being built by firms currently located in Morgan Hill may also be intended for speculative development, rather than being planned expansion space for those businesses. In recent years, market rents for industrial spaces in Morgan Hill have not been sufficiently high to attract speculative industrial development. These conditions may be changing as rents continue to climb, and other Santa Clara County locations become increasingly costly for industrial users. If rents continue to increase in Morgan Hill, new speculative industrial development projects may be feasible.

**The majority of proposed industrial development projects, and all of the major development projects, in Morgan Hill are concentrated in and around Employment Centers, 1, 2, and 3.** Proposed projects are mapped in Figure 15 in the Supply of Industrial Land and Buildings section. Note that the General Plan designations shown on the map correspond to the current designations and do not reflect any applications for General Plan amendments.

FIGURE 11: PLANNED AND PROPOSED INDUSTRIAL DEVELOPMENT PROJECTS, 2019

| Name                                              | Project Type              | Industrial Sq. Ft. | Office Sq. Ft. | Total Sq. Ft. | Status   |
|---------------------------------------------------|---------------------------|--------------------|----------------|---------------|----------|
| Butterfield Technology Park                       | Industrial                | 600,000            |                | 600,000       | Proposed |
| Carpenter's Training Center                       | Industrial                | 20,000             | 35,000         | 55,000        | Proposed |
| Morgan Hill Technology Park                       | Industrial and Commercial |                    |                | 1,044,600     | Proposed |
| Applied Motion Products                           | Industrial                | 48,000             |                | 48,000        | Proposed |
| Techcon                                           | Industrial and Commercial |                    |                | 40,399        | Proposed |
| Shoe Palace Expansion                             | Industrial and Commercial |                    |                | 503,000       | Approved |
| GSA Expansion                                     | Industrial                | 40,000             |                | 40,000        | Approved |
| Speculative Industrial Building - Madrone Parkway | Industrial                | 31,172             |                | 31,172        | Approved |
| Goyle-AU Energy                                   | Industrial                | 22,400             |                | 22,400        | Proposed |
| Level 10 Construction                             | Industrial and Commercial |                    |                | 70,266        | Proposed |
| Ceballos Construction                             | Industrial and Commercial | 8,700              | 8,400          | 17,100        | Proposed |

Sources: City of Morgan Hill, 2019; Strategic Economics, 2019.



## Projecting Demand for Industrial Employment Land

In order to understand how Morgan Hill's supply of industrial land might compare to future demand for employment uses, Strategic Economics used the employment forecasts from the Metropolitan Transportation Commission (MTC) to estimate future employment growth in Morgan Hill. Then, Strategic Economics converted the projected jobs into building square footage using assumptions about the space required for each employee and the type of built space (industrial, office, R&D, or warehouse) occupied by different industries. These demand projections are intended to represent a range of the possible future scenarios, rather than provide a single number of new jobs for which Morgan Hill should specifically plan. Strategic Economics also constructed a second demand projection using the same methodology but using the historical rate of job growth between 2000 and 2018 to estimate average annual change in the future.

Figure 12 shows the employment demand scenarios on which this range is based. Scenarios 1 and 2 are based on ABAG/MTC's most recent employment projections, published in July 2019.<sup>1</sup> ABAG/MTC's projections forecast that Morgan Hill's employment in all job categories will grow by 74 new jobs a year between 2020 and 2040. This would represent a substantial reduction in the recent rate of employment growth in Morgan Hill, given that the city added an average of about 451 jobs a year between 2000 and 2018 in all job categories. Scenario 3 assumes that the historical rate of employment growth from the 2000 to 2018 period would remain constant in the future.

In order to determine how many square feet of industrial, R&D, office, and warehouse space new employees would require, Strategic Economics distributed the projected employment growth by sector and then by building type. Assumptions regarding the percent of jobs in each industry category that would be housed in each building type are shown in Figure 24 in the Appendix. Finally, Strategic Economics converted the employment numbers into demand for building space, using rules of thumb about the number of square feet required for each employee. Scenarios 2 and 3 are based on current employment densities: about 500 square feet per worker for industrial space, 800 square feet per worker for warehousing, and 350 for R&D/Office. Scenario 1 assumes that the recent trend towards higher density office and R&D space would continue, with the amount of space allotted per worker falling to 300 square feet for R&D/Office.

- **Current projections built on MTC forecasts and on revised historical job growth trends result in estimates of between 46 and 285 new jobs per year in industrial job categories in Morgan Hill.** These estimates, presented in Figure 12, reflect industrial, warehousing, and R&D job categories. The conservative employment projections for Morgan Hill represents a significant decrease since the most recent demand analysis was conducted in 2013. According to forecasts at that time, the annual change in job growth for industrial categories in Morgan Hill was estimated to be between 109 and 261 jobs per year, depending on whether the analysis utilized 2030 forecasts from the Association of Bay Area Governments (ABAG, now ABAG/MTC) or forecasts built on a review of historical job growth.

**Depending on the employment forecast, there is an estimated demand for between 19,400 and 127,200 square feet per year of industrial, warehousing, and R&D/office space, or a total of 388,000 to 2,544,000 square feet by 2040.** The 19,400 to 127,200 square foot range represents the projected annual average demand over the coming decades; in any given year, demand could be higher or lower

<sup>1</sup> Accessed from <http://opendata.mtc.ca.gov/datasets/projections-2040-by-jurisdiction-jobs-and-employment/data>

**Industrial and Retail Commercial Market Memo**

depending on national, regional, and local economic conditions. These estimates reflect a blended value of projected space needed for building types which vary considerably in their employment densities, including warehouse buildings which have relatively low employment densities and manufacturing and R&D/Office space, which have higher employment densities.

## Industrial and Retail Commercial Market Memo

FIGURE 12: PROJECTED EMPLOYMENT DEMAND SCENARIOS

| Scenarios                                                     | Industrial | Warehousing | R&D/Office | Total Industrial/<br>Warehousing/<br>R&D/Office Jobs | Retail/<br>Other Jobs | Total All Jobs |
|---------------------------------------------------------------|------------|-------------|------------|------------------------------------------------------|-----------------------|----------------|
| <b>1. ABAG/MTC Employment Projection (High Densities)</b>     |            |             |            |                                                      |                       |                |
| Annual Average New Jobs                                       | 14         | 5           | 27         | 46                                                   | 27                    | 74             |
| Square Feet per Employee                                      | 500        | 800         | 300        |                                                      |                       |                |
| Total Building Demand, 2020-2040 (Sq. Ft.)                    | 136,000    | 88,000      | 164,000    | 388,000                                              |                       |                |
| Average Annual Building Demand (Sq. Ft.)                      | 6,800      | 4,400       | 8,200      | 19,400                                               |                       |                |
| <b>2. ABAG/MTC Employment Projection (Current Densities)</b>  |            |             |            |                                                      |                       |                |
| Annual Average New Jobs                                       | 14         | 5           | 27         | 46                                                   | 27                    | 74             |
| Square Feet per Employee                                      | 500        | 800         | 350        |                                                      |                       |                |
| Total Building Demand, 2020-2040 (Sq. Ft.)                    | 136,000    | 88,000      | 190,000    | 414,000                                              |                       |                |
| Average Annual Building Demand (Sq. Ft.)                      | 6,800      | 4,400       | 9,500      | 20,700                                               |                       |                |
| <b>3. Historic Employment Growth Rate (Current Densities)</b> |            |             |            |                                                      |                       |                |
| Annual Average New Jobs                                       | 84         | 34          | 167        | 285                                                  | 166                   | 451            |
| Square Feet per Employee                                      | 500        | 800         | 350        |                                                      |                       |                |
| Total Building Demand, 2020-2040 (Sq. Ft.)                    | 838,000    | 536,000     | 1,170,000  | 2,544,000                                            |                       |                |
| Average Annual Building Demand (Sq. Ft.)                      | 41,900     | 26,800      | 58,500     | 127,200                                              |                       |                |

Note: Columns may not add due to rounding.

Source: California Economic Development Department, 2018; ABAG/MTC, 2019; Strategic Economics, 2020.

## Supply of Industrial Land and Buildings

The supply estimates presented in this section were calculated under two different sets of assumptions regarding the vacant land available for industrial development, both of which are presented in Figure 13. The first set of calculations reflect the supply of all land in Morgan Hill designated as Industrial according to the General Plan. The second reflects the supply of all land designated as either Industrial or Commercial/Industrial within the city boundaries, with the understanding that Commercial/Industrial lands could be developed for non-industrial uses as well as for retail commercial uses. While the City of Morgan Hill currently anticipates that most proposals on lands designated as Commercial/Industrial will be for commercial projects, a recent General Plan update changed the allowable uses on these properties to encompass manufacturing and other industrial uses.

For the calculations of Industrial supply alone and the Industrial plus Commercial/Industrial supply, land supply is calculated first for all parcels and separately for only the parcels that do not have developments currently proposed. Figure 25 in the Appendix: Assumptions section provides more detailed supply calculations, followed by a description of the assumptions relevant to this analysis.

- **As of Fall of 2019, there are 234 total acres of vacant land suitable for industrial uses located within the city, slightly lower than the supply in 2015.** Of these, 161 acres are designated as Industrial and an additional 73 acres are designated as Commercial/Industrial, as shown in Figure 13. As of 2015 the total vacant land suitable for industrial uses was 247 acres. Since the 2015 report, a proposal to re-designate an Industrial area as Residential in Employment Center 3 was approved for a General Plan Amendment, resulting in the reduction of some vacant Industrial land. Morgan Hill's inventory of vacant land suitable for industrial uses is mapped in Figure 14.
- **The amount of vacant building space for Industrial uses is lower than it was in 2015.** Currently, the vacant building area for Industrial, R&D, and Office uses is about 194,000 square feet according to the real estate data firm Costar, whereas in 2015 this figure was at about 273,000 square feet. The decrease in available space indicates that there is sustained demand for Industrial building product in Morgan Hill.
- **Because revised job forecasts currently indicate a decreased demand for employment lands, the supply of land suitable for Industrial employment uses has increased significantly since 2015 and is now sufficient to accommodate projected demand for approximately 25 to 165 years.** In other words, the total potential supply of industrial, R&D, warehouse, and office space, including vacant lands and buildings, is enough to satisfy between 25 and 165 years of industrial demand, depending on the pace of job growth (Figure 13). For comparison, the results of the 2015 supply analysis indicated that there were 34 to 77 years of supply on all lands suitable for industrial development citywide. These figures account for all land zoned as Industrial and Commercial/Industrial.
- **If all of the city's current development proposals were to be approved and all proposed projects were built, Strategic Economics estimates that there would still be 15 to 95 years of land supply suitable for industrial uses.** About 45% of the vacant Industrial and Commercial/Industrial land within the city boundaries is currently proposed for development, as shown in Figure 13, meaning that they are either under review or have received certain approvals from the city. Vacant lands proposed for development and their zoning designations are mapped in Figure 15.

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- Considering vacant parcels and buildings designated exclusively as Industrial, the current supply of land is between 18 and 116 years. If only the Industrial lands without development proposals are taken into consideration, the supply is sufficient to accommodate demand for 11 to 70 years.

FIGURE 13: SUMMARY OF INDUSTRIAL LAND SUPPLY BY GENERAL PLAN DESIGNATION AND DEVELOPMENT PROPOSAL STATUS, 2019

|                                                  | Industrial and Commercial/Industrial |                                                  | Industrial Alone |                                                  |
|--------------------------------------------------|--------------------------------------|--------------------------------------------------|------------------|--------------------------------------------------|
|                                                  | Total                                | Total, Excluding Land with Development Proposals | Total            | Total, Excluding Land with Development Proposals |
| Vacant Industrial Land (In Acres)                | 234                                  | 130                                              | 161              | 93                                               |
| Years of Supply - High End Demand Projection [1] | 25                                   | 15                                               | 18               | 11                                               |
| Years of Supply - Low End Demand Projection [2]  | 165                                  | 95                                               | 116              | 70                                               |

[1] Historic Employment Growth Rate (Current Densities) Scenario

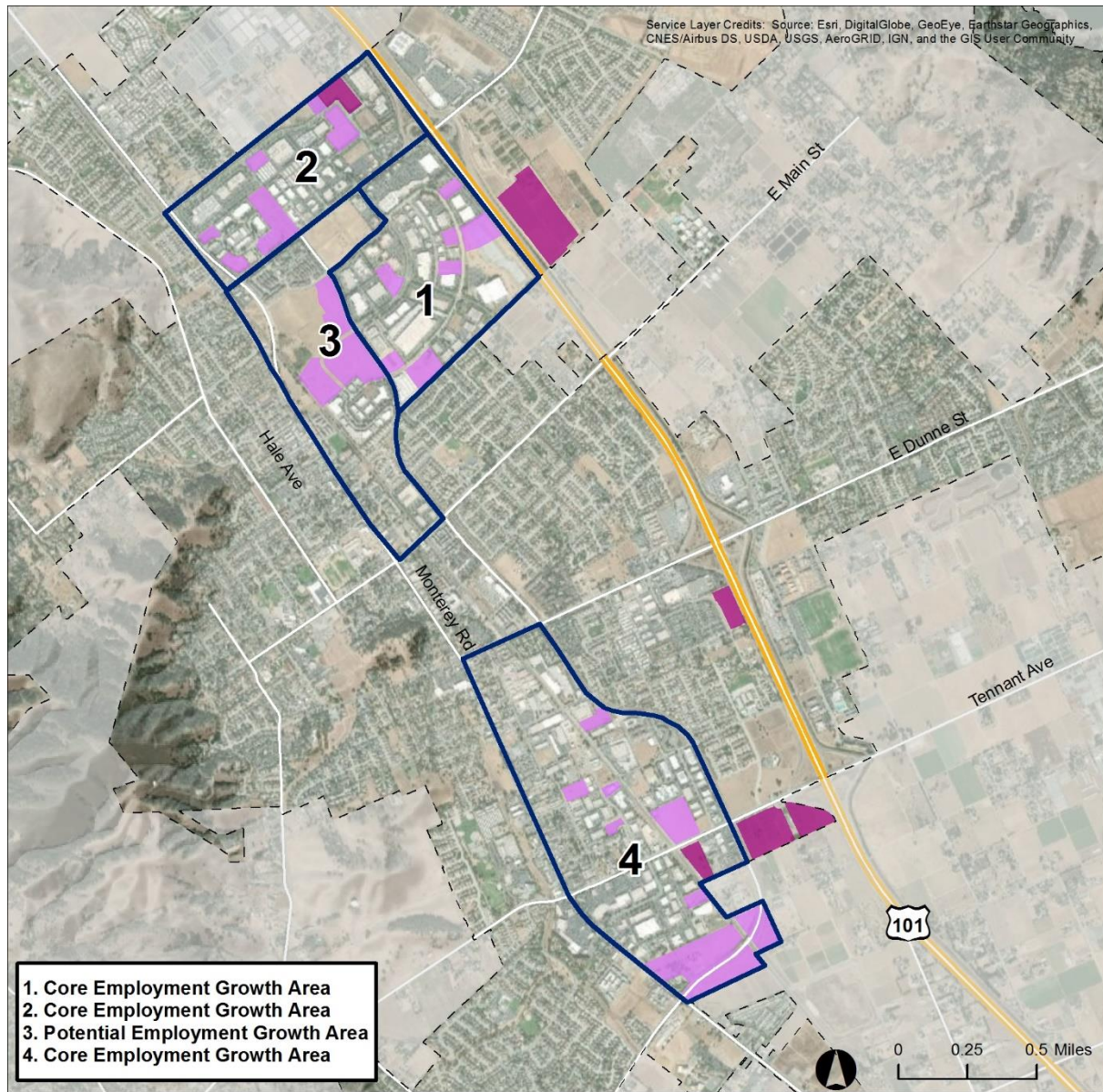
[2] ABAG Employment Projection (High Densities) Scenario

Sources: City of Morgan Hill, 2019; Costar, 2019; ABAG/MTC, 2019; Strategic Economics, 2019.



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FIGURE 14: VACANT PARCELS SUITABLE FOR INDUSTRIAL USES, 2019



## Vacant Parcels by General Plan Designation: Industrial Parcels, Morgan Hill

| Description           |                           |
|-----------------------|---------------------------|
| Industrial            | Industrial                |
| Commercial/Industrial | Commercial/Industrial     |
| Parks                 | Parks                     |
| Highways              | Highways                  |
|                       | Morgan Hill City Boundary |
|                       | Subareas                  |

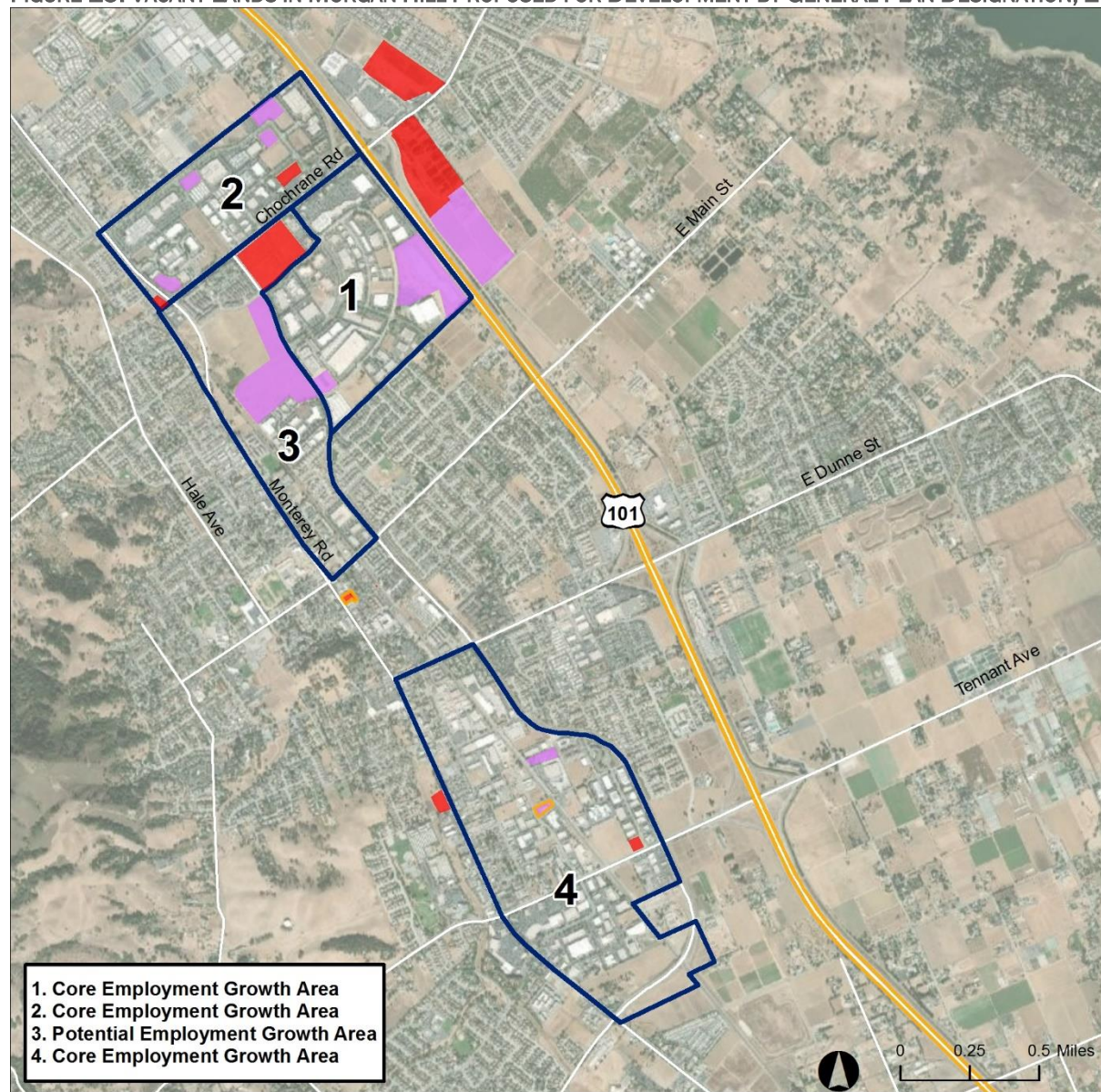
Sources: Strategic Economics, 2019; City of Morgan Hill, 2019.





## Industrial and Retail Commercial Market Memo

FIGURE 15: VACANT LANDS IN MORGAN HILL PROPOSED FOR DEVELOPMENT BY GENERAL PLAN DESIGNATION, 2019



## Morgan Hill Vacant Parcels and Proposed Projects

## Proposed Project Type

- Commercial
- Industrial
- Under Construction Projects
- Subareas
- Highways

Service Layer Credits: Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community

Sources: Strategic Economics, 2019; City of Morgan Hill, 2019.





## V. RETAIL COMMERCIAL MARKET OVERVIEW

This section provides an overview of the Morgan Hill retail market to draw conclusions about future demand for additional retail development. It updates the Monterey Corridor Market Analysis completed by Lisa Wise Consulting, which analyzed citywide retail trends from the Great Recession through 2017. This section also analyzes the performance of the city's shopping centers by location, the current retail commercial development pipeline, and the inventory of vacant parcels in the city that are zoned for commercial uses and which could potentially support retail development in the future. In addition, this section introduces information on national and regional retail trends to deliver broader context on the factors affecting the retail industry and how they are likely to play out within Morgan Hill.

### Recent Retail Trends in Morgan Hill

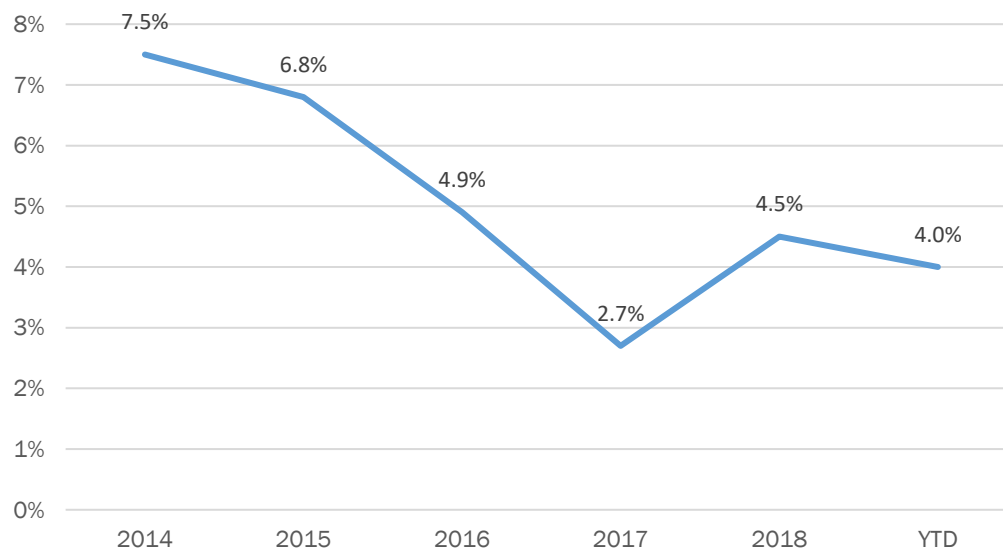
This section reviews various metrics of the performance of the city's retail overall and within the city's major shopping centers. The analyses are intended to supplement the citywide findings from the Monterey Corridor Market Analysis published in 2017. Vacancy rates, retail building rents, and taxable sales values are presented and analyzed for both the city of Morgan Hill, while vacancy rates and taxable sales with spatial information to discuss the performance of shopping centers in relation to their location within the city.

#### CITYWIDE RETAIL PERFORMANCE

- **Retail vacancy rates have risen slightly in the last couple of years and are currently at four percent.** Vacancy rates for Morgan Hill are displayed in Figure 16. As shown, since 2015, Morgan Hill's vacancy rates have stayed below five percent, which is considered very strong in the retail industry.
- **As vacancy rates have decreased, retail rents have increased to approximately \$31 per square foot per year.** Rents have risen by approximately 5.8 percent since the most recent retail analysis was performed for the city in 2017. Sustained growth in retail rents is another indicator that retail in the city is performing well. This data is presented in Figure 17.

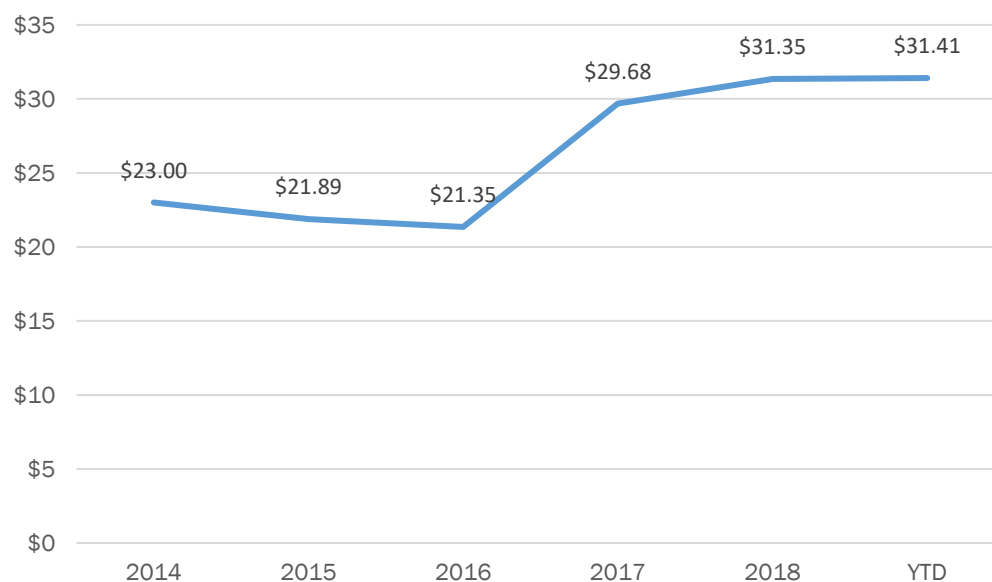
## Industrial and Retail Commercial Market Memo

FIGURE 16: RETAIL VACANCY RATES IN MORGAN HILL, 2014-2019



Sources: Costar, 2019; Strategic Economics, 2019.

FIGURE 17: RETAIL RENTS (NNN) IN MORGAN HILL, 2014-2019



Sources: Costar, 2019; Strategic Economics, 2019.

## PERFORMANCE OF SHOPPING CENTERS

Strategic Economics examined the taxable sales for the city's major shopping centers to better understand the sales activity at individual centers. This information was combined with available data from Costar on leasable area to calculate the taxable sales per square foot for each shopping center in addition to vacancies. Based on all of these indicators, Strategic Economics summarized the overall performance of the city's shopping centers. Note that taxable sales per square foot has several limitations, including:

- Non-retail businesses which occupy retail space, including gyms, movie theaters, and banks, generate low sales tax revenue, but could still be important tenants and activity generators in shopping centers;
- Auto dealerships and gas stations result in significantly higher taxable sales than other types of retail stores.

**On balance, taxable sales from retail in Morgan Hill have increased over the last two years.** The data presented in Figure 18 reflects taxable sales in all of the city's major shopping centers, plus the Downtown area bounded by Dunne Avenue and Main Avenue. These totals exclude taxable sales in areas that see primarily business-to-business taxable sales, including Morgan Hill Ranch, the Madrone Parkway area, and Concord Circle. The dip in taxable sales observed in the first quarter of 2019 was driven overwhelmingly by decreases in sales at the NW Dunne shopping center, which is discussed in more detail below.

**Most of Morgan Hill's individual shopping centers are performing relatively well.** Most of the city's seven shopping centers have healthy vacancy rates and taxable sales that have remained roughly consistent over a two-year period. Only one shopping center – Cochrane Plaza – has both a high vacancy rate and consistently low taxable sales, indicating that its performance may be flagging.

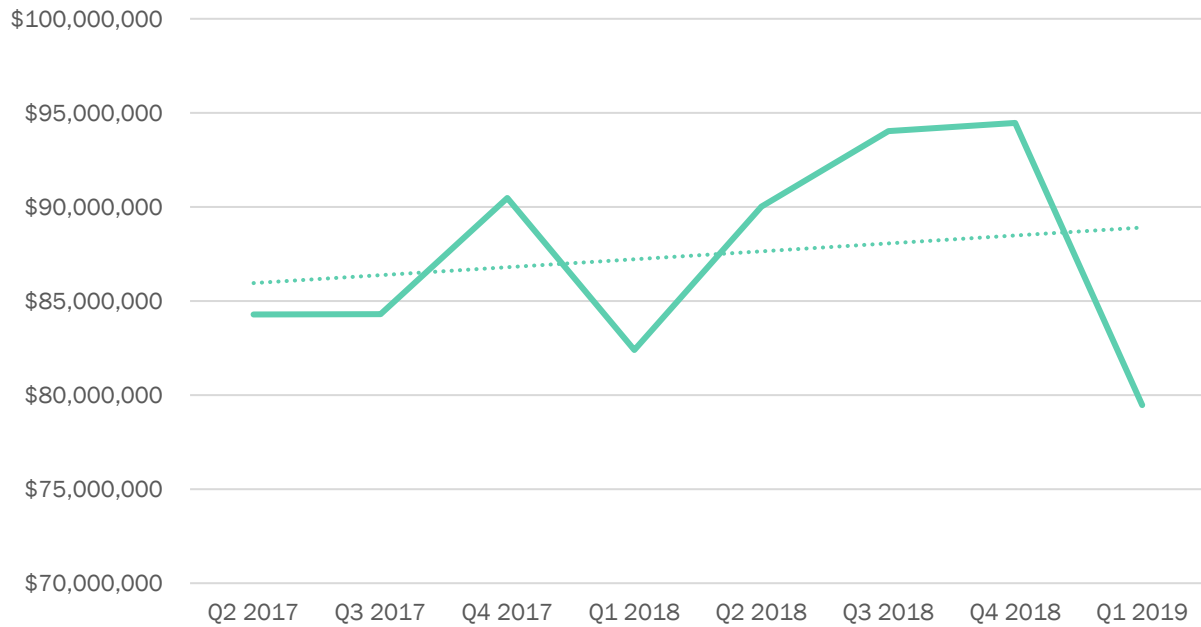
**Currently, all but three of the city's seven shopping centers have healthy vacancy rates.** As shown in Figure 20, the three centers with high vacancy rates include Madrone Village, Cochrane Plaza and Laurel Oaks. In some cases, these vacancies may be temporary due to the departure of larger tenants.

**Taxable sales have been stable for each shopping center except for NW Dunne, which is dominated by automobile sales.** Figure 19 presents the taxable sales per square foot values in each shopping center for each of the last eight quarters, ending with the first quarter of 2019, and Figure 21 maps shopping centers by their taxable sales per square foot metric.

**On a per-square-foot basis (excluding auto sales), Cochrane Commons and Vineyard Town Center are the city's strongest performing centers.** These two centers are anchored by convenience retailers, including Target and Safeway, and provide for the daily needs of residents, employees, and visitors to Morgan Hill. Most other retail centers are providing a considerably lower amount of revenue per square foot.

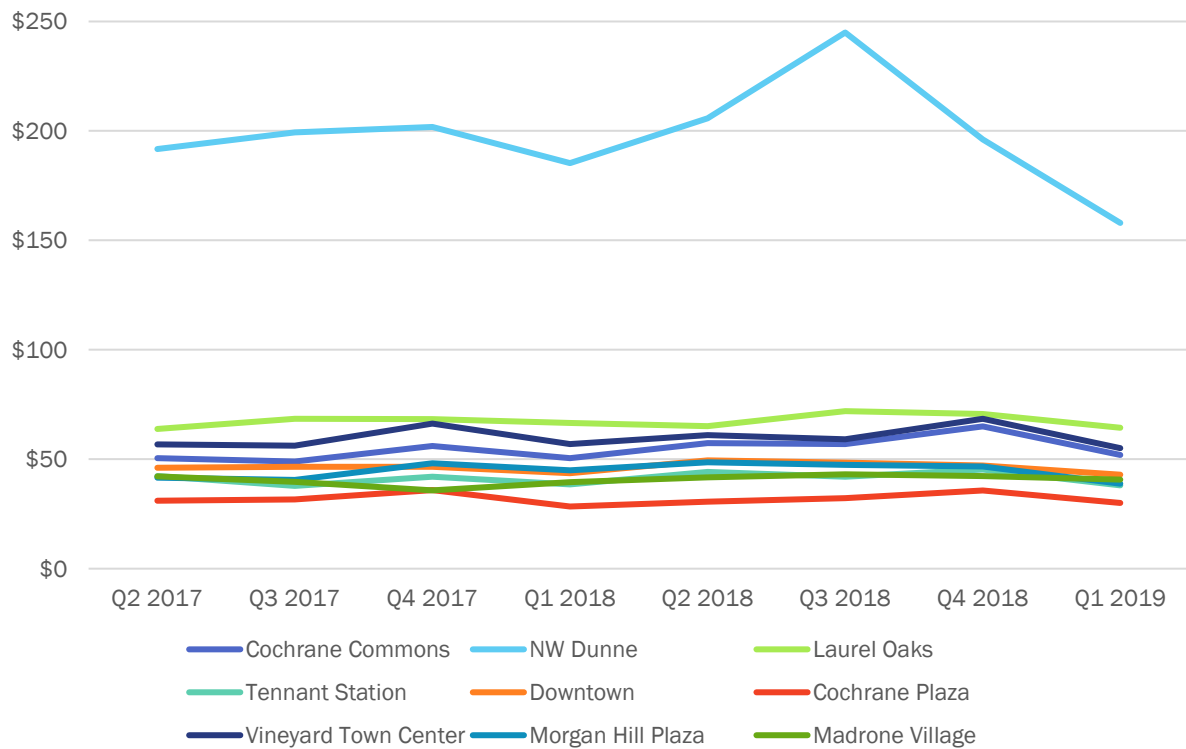
## Industrial and Retail Commercial Market Memo

FIGURE 18: TAXABLE SALES GENERATED IN DOWNTOWN AND IN SHOPPING CENTERS IN MORGAN HILL, Q2 2017 - Q1 2019



Source: City of Morgan Hill, 2019; Strategic Economics, 2019

FIGURE 19: QUARTERLY TAXABLE SALES PER SQUARE FOOT OF RETAIL BY SHOPPING CENTER IN MORGAN HILL, Q2 2017 - Q1 2019



Source: City of Morgan Hill, 2019; Costar, 2019; Strategic Economics, 2019.

## Industrial and Retail Commercial Market Memo

FIGURE 20: TAXABLE SALES AND VACANCY RATES OF MORGAN HILL SHOPPING CENTERS

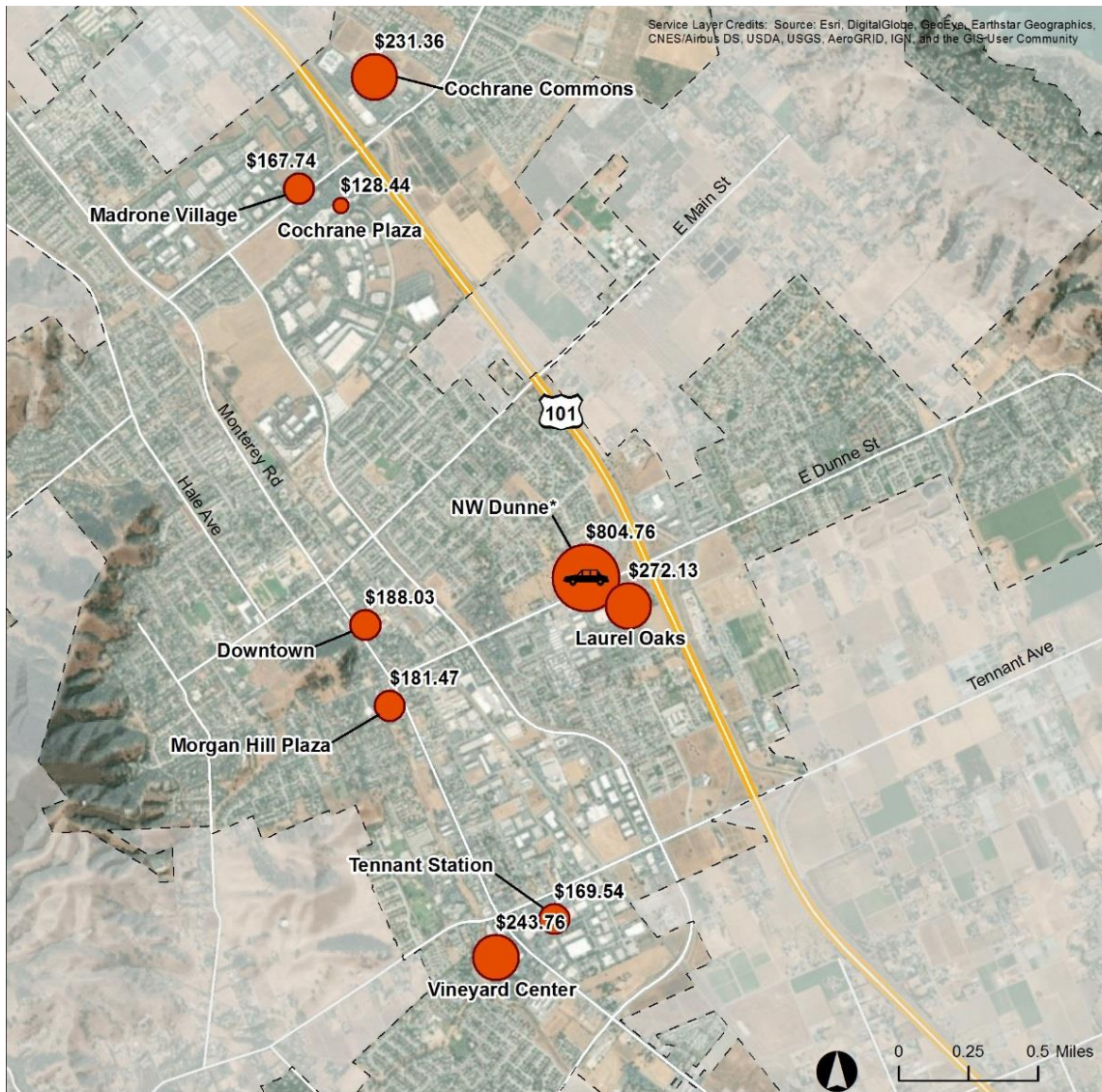
| Shopping Center         | Anchor Tenants<br>(if applicable)         | Taxable Sales<br>(Q2 2018 – Q1 2019) | Taxable Sales per Sq. Ft.<br>(Q2 2018 – Q1 2019) | Vacancy Rate<br>(2019 YTD) |
|-------------------------|-------------------------------------------|--------------------------------------|--------------------------------------------------|----------------------------|
| Cochrane Commons        | Target                                    | \$71,414,800                         | \$231.00                                         | 3%                         |
| NW Dunne                | N/A                                       | \$70,059,800                         | \$805.00                                         | 0%                         |
| Laurel Oaks             | Safeway; Home Depot<br>Nob Hill Foods; TJ | \$56,798,500                         | \$272.00                                         | 13%                        |
| Tennant Station         | Maxx                                      | \$44,951,500                         | \$170.00                                         | 3%                         |
| Downtown                | N/A                                       | \$35,196,200                         | \$188.00                                         | 1%                         |
| Cochrane Plaza          | Walmart                                   | \$32,415,100                         | \$128.00                                         | 13%                        |
| Vineyard Town<br>Center | Safeway                                   | \$27,171,000                         | \$244.00                                         | 0%                         |
| Morgan Hill Plaza       | Ross; Dollar Tree                         | \$15,356,700                         | \$181.00                                         | 2%                         |
| Madrone Village         | None                                      | \$4,614,600                          | \$168.00                                         | 18%                        |

Source: Costar, 2019; City of Morgan Hill, 2019; Strategic Economics, 2019.

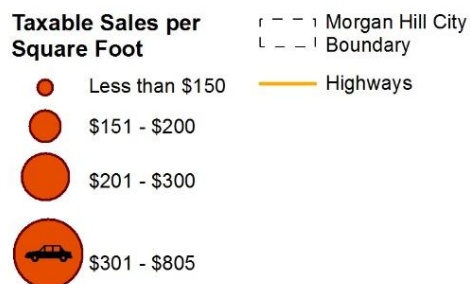


## Industrial and Retail Commercial Market Memo

FIGURE 21: TAXABLE SALES PER SQUARE FOOT OF RETAIL FOR MORGAN HILL SHOPPING CENTERS, Q2 2018 – Q1 2019



Taxable Sales per Square Foot of Retail: Morgan Hill Retail Areas, Q2 2018 - Q1 2019



\*NW Dunne Retail Area contains Victory Honda of Morgan Hill, inflating the Taxable Sales per Square Foot.

Sources: Strategic Economics, 2019; City of Morgan Hill, 2019.





## CURRENT DEVELOPMENT PIPELINE AND GEOGRAPHY OF NEW DEVELOPMENT

Recent retail development and planned retail is concentrated in two locations: along Cochrane Road and in Downtown Morgan Hill along Monterey Road, and are almost exclusively being developed in **mixed-use arrangements**. The sole exception to this was a CVS that added approximately 15,000 square feet of retail on Dunne Street. Development pipeline retail projects are shown in Figure 22 and new and planned retail is mapped in Figure 23.

A majority of projects that have added retail space to Morgan Hill's inventory since 2010 have occurred in the form of small, ground-floor components of mixed-use developments. Other projects include additions to existing shopping centers, a small shopping center with spaces suitable primarily for food service establishments, and the stand-alone CVS store. Only one of the retail development pipeline projects is a major new shopping center.

Evergreen Village, a new, mixed-use project on Cochrane Avenue is currently undergoing site prep and has the potential to add a total of about 61,000 square feet of retail space. This represents the largest planned addition to the city's retail inventory since the first phase of the Cochrane Commons shopping center was completed in 2007.

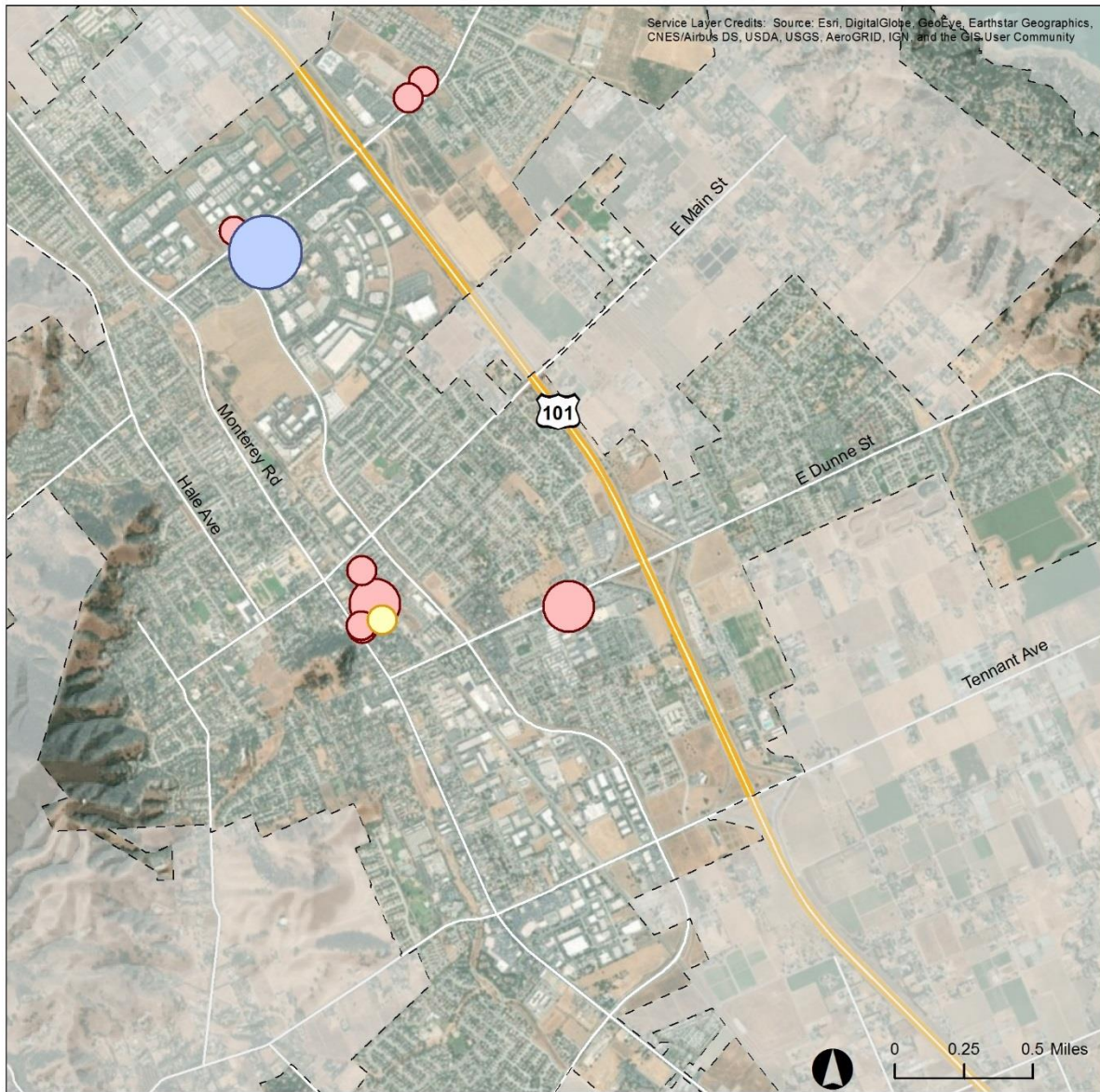
FIGURE 22: RETAIL COMMERCIAL DEVELOPMENT PIPELINE PROJECTS, 2019

| Name                | Project Type                                            | Retail Sq. Ft. | Office Sq. Ft. | Other Commercial Sq. Ft. | Total Sq. Ft.  | Status             |
|---------------------|---------------------------------------------------------|----------------|----------------|--------------------------|----------------|--------------------|
| Evergreen Village   | Retail, Office, and Hotel                               | 61,700         | 49,000         | 83,397                   | 194,097        | Approved           |
| Granary Expansion   | Gym                                                     |                |                | 3,747                    |                | Under Construction |
| Sunsweet Apartments | Retail and Office (within Mixed-Use Apartment Building) | 7,053          |                |                          | 7,053          | Under construction |
| Granada Hotel       | Hotel                                                   | 21,127         |                | 47,787                   | 68,914         | Under construction |
| <b>Total</b>        |                                                         | <b>64,700</b>  | <b>52,000</b>  | <b>87,144</b>            | <b>200,097</b> |                    |

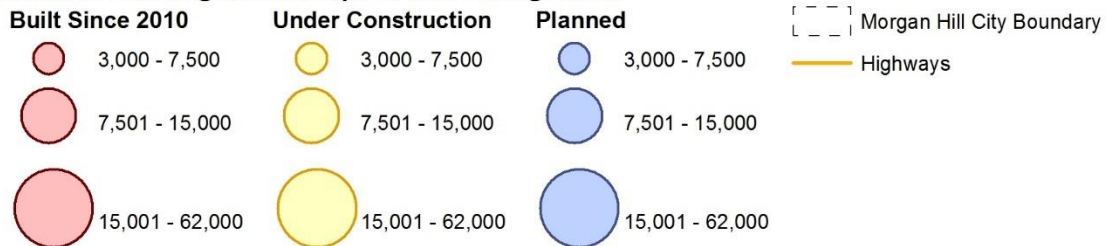
Sources: City of Morgan Hill, 2019; Strategic Economics, 2019.

## Industrial and Retail Commercial Market Memo

FIGURE 23: RECENTLY COMPLETED AND PIPELINE RETAIL, 2019



**Recently Built, Under Construction, and Planned Retail by Rentable Building Area in Square Feet: Morgan Hill**



Sources: Strategic Economics, 2019; City of Morgan Hill, 2019.



## Development Potential for Retail Commercial Uses

The potential for additional retail development in Morgan Hill is a function of both national and local trends. Nationally, the retail industry is currently restructuring itself in response to various conditions, especially e-commerce. The years 2017 through 2019 have seen record store closings and very few retail categories are seeing a net increase of store openings.<sup>2</sup> The retail centers which are best positioned to thrive in this new retail context include those with mixed-use and experiential elements, including dining and entertainment. Local conditions that are relevant for retail commercial development potential are discussed below.

- **Proposed retail commercial projects are concentrated in Employment Centers 1, 2, and 3, in close proximity to many of the city's major employers and to a large number of the currently proposed industrial projects.** This reflects the preferences of retailers to be located in areas that can receive pass-through traffic from commuters. Proposed projects on lands designated for retail commercial uses are presented in Figure 15 in the Supply of Industrial Land and Buildings section.
- **The areas which have recently seen the greatest amount of new retail development and proposals in the pipeline include the Cochrane Road area and Downtown Morgan Hill, although it is unclear how much additional retail could be supported in this area.** Future development of industrial buildings in the Cochrane Road area could have the effect of creating additional retail demand in the area from future employees, the planned mixed-use development on Cochrane Road could absorb much of this new demand, especially given that some of these projects may not be approved or completed.
- **There is some demand for Morgan Hill's vacant retail commercial space, but available parcels are significantly larger than what most potential users are seeking.** According to brokers, the greatest market interest for vacant parcels comes from auto dealers and hotels. Many of the vacant commercial parcels in the city are large enough to support major regional shopping centers, but current demand is for smaller properties.
- **According to the Lisa Wise Consulting study and broker interviews, the relatively modest growth in population and employment in Morgan Hill is unlikely to support another regional shopping center in the next 15 years.** The most recent large-format retail center built in Morgan Hill was Cochrane Commons (2007). Currently the Evergreen Village center, a mixed-use development that will include restaurants, retail, offices, and a senior living facility, is undergoing site work and most of the pads had either been ground-leased or are in negotiation. While this center is entitled for up to 61,000 square feet of retail, developers who hold ground leases are showing greater interest in developing restaurant space rather than retail space, according to local brokers. As a result, if current trends are to continue, it is very unlikely that a major regional shopping center that would appropriate for the size of the vacant commercial parcels in Morgan Hill would occur within the next 15 years.

<sup>2</sup> New York Times, April 12, 2019. "U.S. Retail Stores' Planned Closings Already Exceed 2018 Total." <https://www.nytimes.com/2019/04/12/business/retail-store-closings.html>

## APPENDIX: ASSUMPTIONS

### Demand Analysis

FIGURE 24: JOB DISTRIBUTION BY BUILDING TYPE ASSUMPTIONS

| Sector                                     | % of Total Workforce<br>[1] | Job Distribution by Building Type |             |            |       |
|--------------------------------------------|-----------------------------|-----------------------------------|-------------|------------|-------|
|                                            |                             | Industrial                        | Warehousing | R&D/Office | Other |
| Manufacturing, Wholesale, Construction [2] | 37%                         | 50%                               | 20%         | 30%        |       |
| Financial, Professional, Technical [3]     | 17%                         |                                   |             | 90%        | 10%   |
| Health & Education Services                | 16%                         |                                   |             | 70%        | 30%   |
| Retail, Accommodation & Food Services      | 24%                         |                                   |             |            | 100%  |
| Other [4]                                  | 7%                          |                                   |             |            | 100%  |
| Total                                      | 100%                        |                                   |             |            |       |

[1] Based on Morgan Hill's employment by industry in 2018 (California Economic Development Department)

[2] Includes Manufacturing, Wholesale, Transportation & Warehousing, and Construction jobs.

[3] Includes Professional, Scientific and Technical Services; Finance, Insurance, & Real Estate; Information; Management of Companies and Enterprises; and Administration, Support, & Waste Management.

[4] Includes Other Services and Natural Resources & Utilities.

Source: California Economic Development Department, 2018; Strategic Economics, 2019.



## Supply Analysis

FIGURE 25: SUPPLY PROJECTIONS FOR INDUSTRIAL AND COMMERCIAL/INDUSTRIAL LAND, 2019

| Assumptions                                                                 | Industrial and Commercial/Industrial |                                                  | Industrial Alone |                                                  |
|-----------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------|------------------|--------------------------------------------------|
|                                                                             | Total                                | Total, Excluding Land with Development Proposals | Total            | Total, Excluding Land with Development Proposals |
| <b>Vacant Industrial Land</b>                                               |                                      |                                                  |                  |                                                  |
| In Acres                                                                    | 234                                  | 130                                              | 161              | 93                                               |
| In Square Feet                                                              | 10,197,653                           | 5,661,669                                        | 7,024,576        | 4,049,196                                        |
| Maximum Building Coverage                                                   | 30%                                  | 30%                                              | 30%              | 30%                                              |
| Maximum Building Area (Acres)                                               | 70.2                                 | 39.0                                             | 48.4             | 27.9                                             |
| Maximum Building Area (Sq. Ft.) [1]                                         | 3,059,296                            | 1,698,501                                        | 2,107,373        | 1,214,759                                        |
| <b>Existing Vacant Industrial, R&amp;D, Office, and Warehouse Buildings</b> |                                      |                                                  |                  |                                                  |
| Total Vacant Building Area (Sq. Ft.) [2]                                    |                                      | 194,900                                          |                  |                                                  |
| 75% of Building Area (Sq. Ft.)                                              |                                      | 146,200                                          |                  |                                                  |
| <b>Total Potential Supply (Sq. Ft.).</b>                                    | <b>3,205,496</b>                     | <b>1,844,701</b>                                 | <b>2,253,573</b> | <b>1,360,959</b>                                 |
| <b>Demand Compared to Supply</b>                                            |                                      |                                                  |                  |                                                  |
| <b>High End Demand Projection [3]</b>                                       |                                      |                                                  |                  |                                                  |
| Annual Average Demand                                                       |                                      |                                                  | 127,200          |                                                  |
| Years of Supply                                                             | 25                                   | 15                                               | 18               | 11                                               |
| <b>Low End Demand Projection [4]</b>                                        |                                      |                                                  |                  |                                                  |
| Annual Average Demand                                                       |                                      |                                                  | 19,400           |                                                  |
| Years of Supply                                                             | 165                                  | 95                                               | 116              | 70                                               |

[1] Assumes maximum building coverage ratio of 30% and FAR of 1, based on current market conditions.

[2] Costar, 2019.

[3] Historic Employment Growth Rate (Current Densities) Scenario.

[4] ABAG Employment Projection (High Densities) Scenario.

Sources: City of Morgan Hill, 2019; Costar, 2019; ABAG/MTC, 2019; Strategic Economics, 2019.

## Industrial and Retail Commercial Market Memo

The following describes the key assumptions used in the supply analysis.

- Employment Growth:** Overall, Strategic Economics projects demand for between 19,400 and 127,200 square feet a year of industrial, warehousing, R&D, and office space, or a total of 194,000 to 1,272,000 square feet by 2030. The 19,400 to 127,200 square foot range represents the projected annual *average* demand over the coming decades; in any given year, demand could be more or less depending on national, regional, and local economic conditions. The low end of the range is based on Association of Bay Area Government's 2019 projections, which forecast that Morgan Hill's employment will grow by 46 new industrial jobs a year over a twenty-year period. This would represent a substantial reduction in the rate of employment growth in Morgan Hill over the past eight years. The high end of the range is based on the historic rate of employment in Morgan Hill between 2000 and 2018, when the City added 451 jobs per year.
- Demand for New Industrial, R&D, and Office space:** In order to determine how many square feet of industrial, R&D, office, and warehouse space these new employees would require, Strategic Economics distributed the projected employment growth by sector and then by building type. Strategic Economics then converted the employment numbers into demand for building space, using rules of thumb about the number of square feet required for each employee (500 square feet per worker for industrial space, 800 square feet per worker for warehousing, 300 to 350 square feet for R&D and Office).
- Lot Coverage:** Aerial photographs of the city's newest business parks (e.g. Morgan Hill Ranch and Madrone Business Park) show that recent industrial and commercial development in the city has tended to be one-story high, with the total ground floor area covering no more than 30 percent of the available land area. The analysis assumes that this land use pattern (30 percent coverage ratio, 1-story development) is maintained.
- Absorption of Existing Vacant Space:** All of the scenarios further assume that 75 percent of the currently vacant buildings in Morgan Hill – about 194,900 square feet – will be absorbed before new development occurs, allowing for some ongoing vacancies caused by friction in the market and obsolescence of some of the existing building stock.
- Total Potential Building Area:** Includes both the maximum building area that could be developed on the vacant industrial land area considered in the scenario (subject to the lot coverage assumptions discussed above), and the 194,900 square feet of existing inventory that is expected to be absorbed into the market before new development occurs.
- Development Constraints on Vacant Land:** This analysis did not account for any development constraints that may be present on vacant land. Some industrially-designated parcels in Morgan Hill currently have constraints such as natural hazard risks, soil contamination, and roadway access issues, all of which would require improvements prior to new development. These parcels will likely develop after all other potential development sites have been exhausted, as they will not be as viable for development in consideration of the higher costs of development associated with required land improvements.

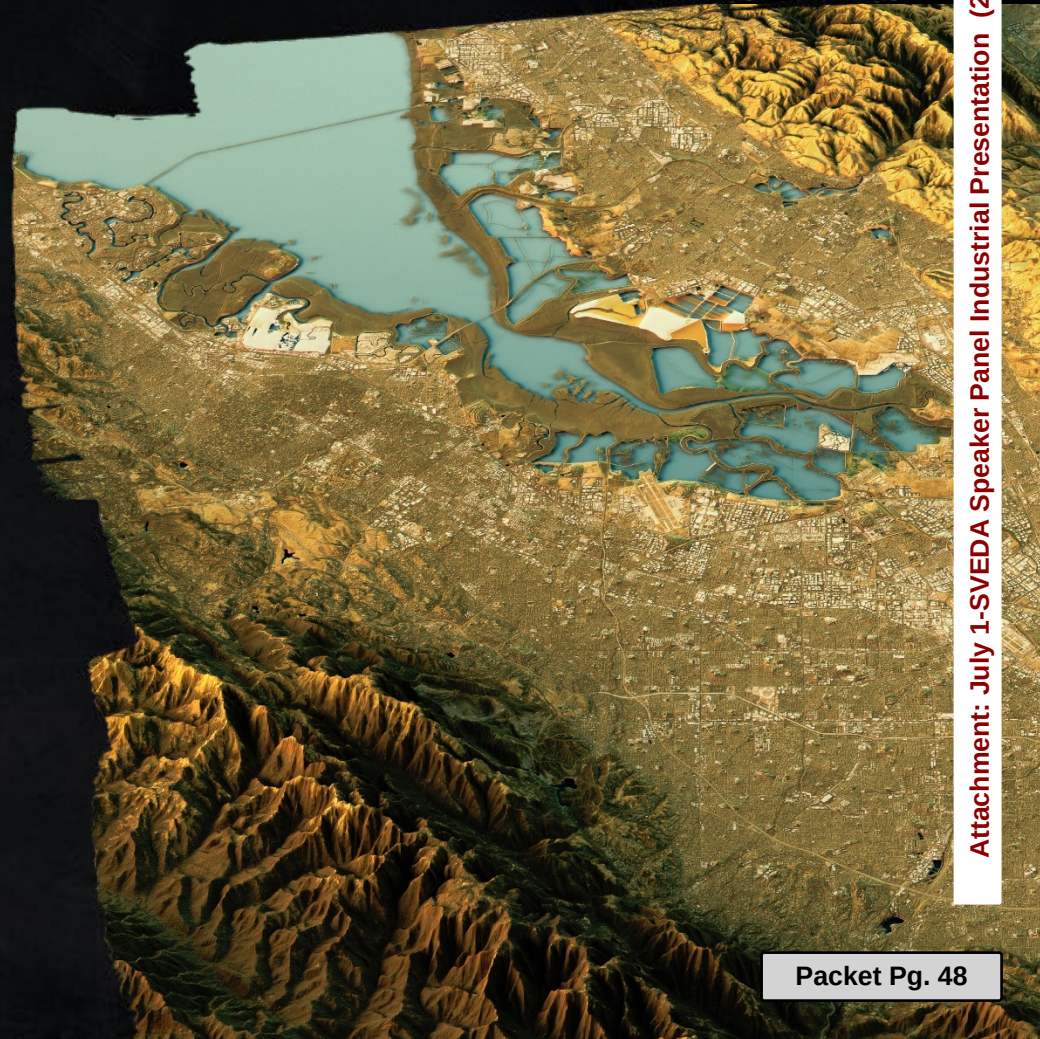


# Silicon Valley

## Economic Overview

Prepared by Greg Matter, Alexander Quinn, and Heather Belfor

July 01, 2020







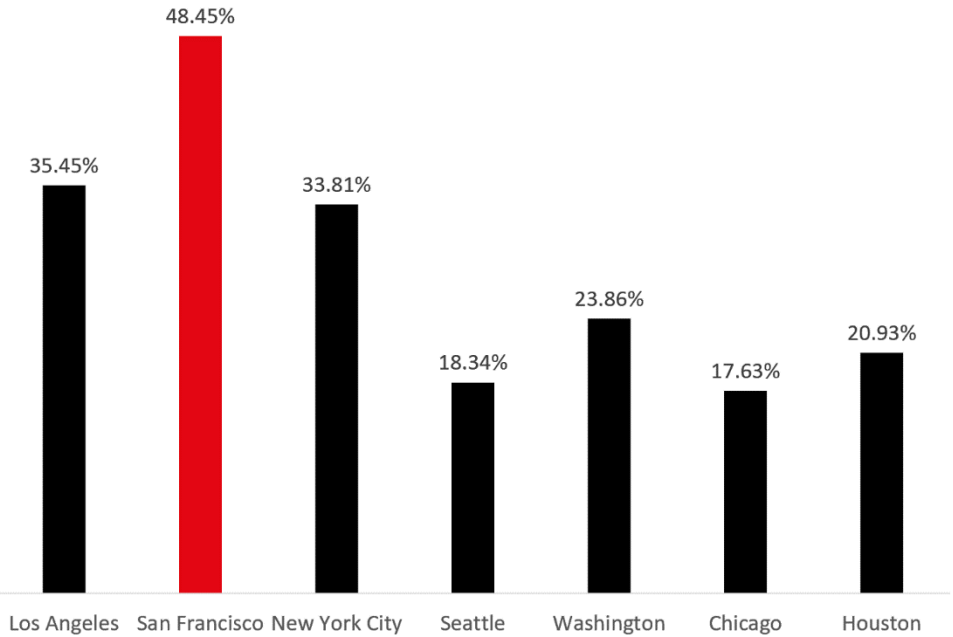
## Agenda

1. COVID-19 impacts to National and Local economy
2. Sectors to emerge from COVID-19
3. The Future of Industrial
4. Emergence of E-Commerce
5. Industrial Momentum Index



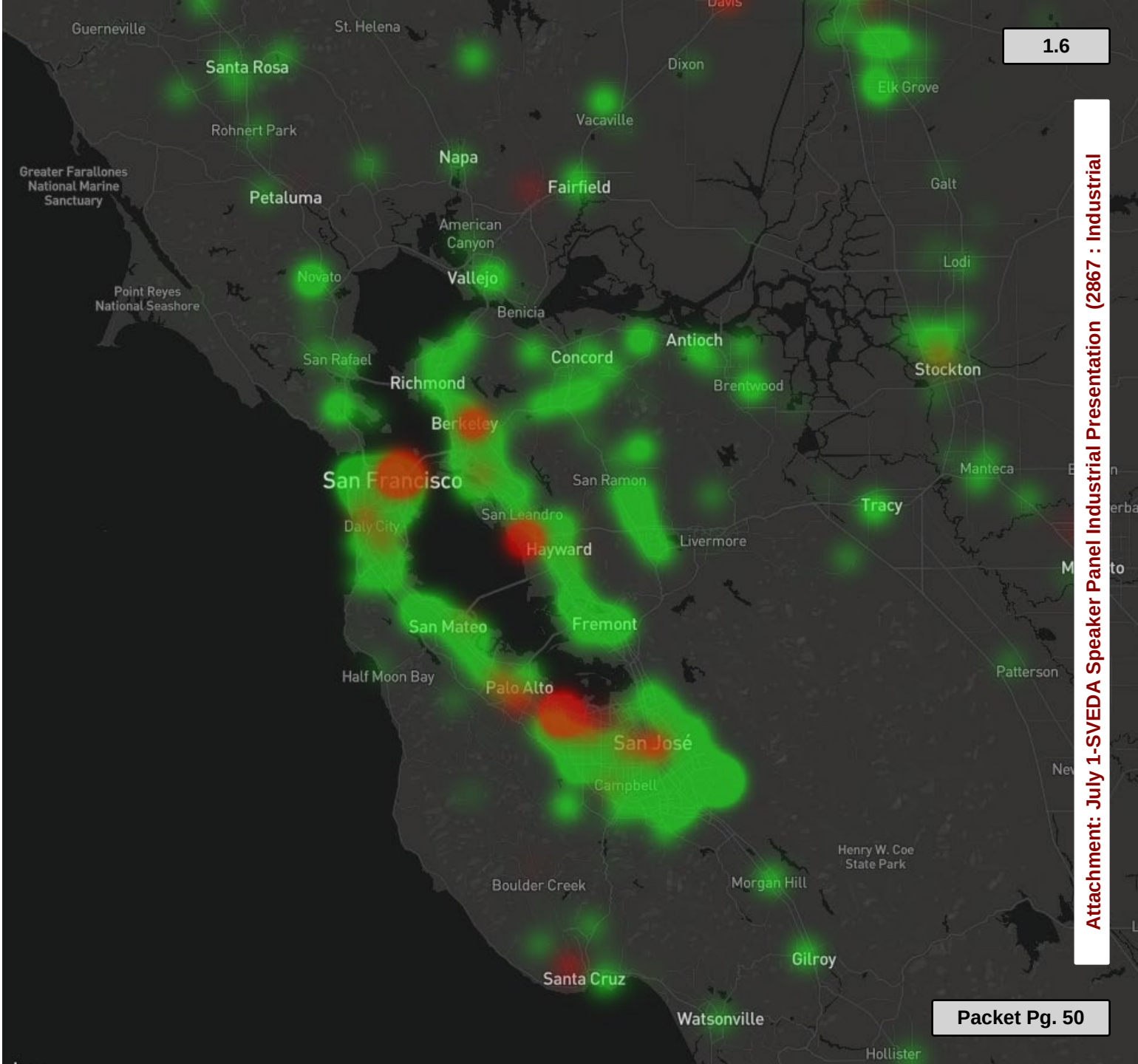
# State of the Bay Area

Increase in Internet Traffic, Major Metros



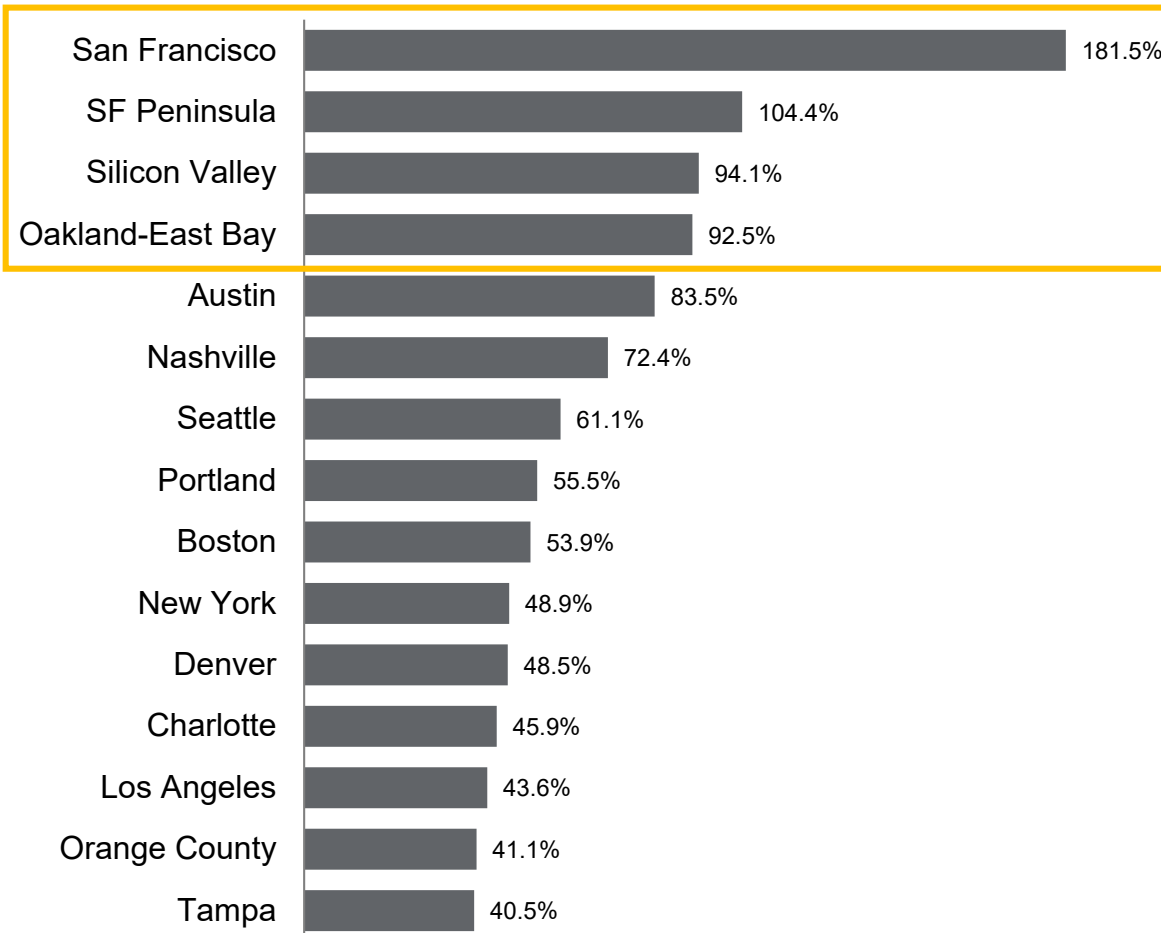
Source: Cloudflare, 2020

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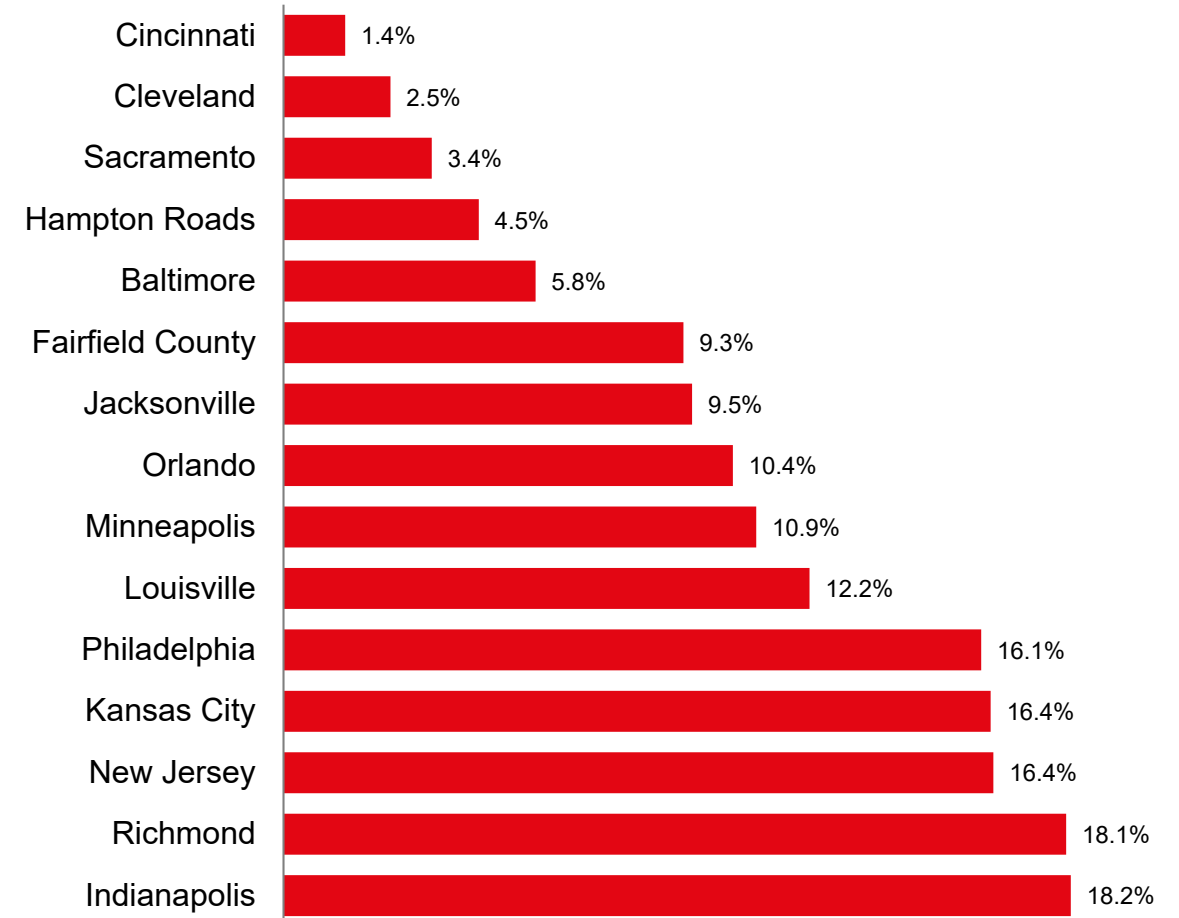


# Bay Area office lead all markets in rent growth since 2009

Fastest rent growth since Q4 2009

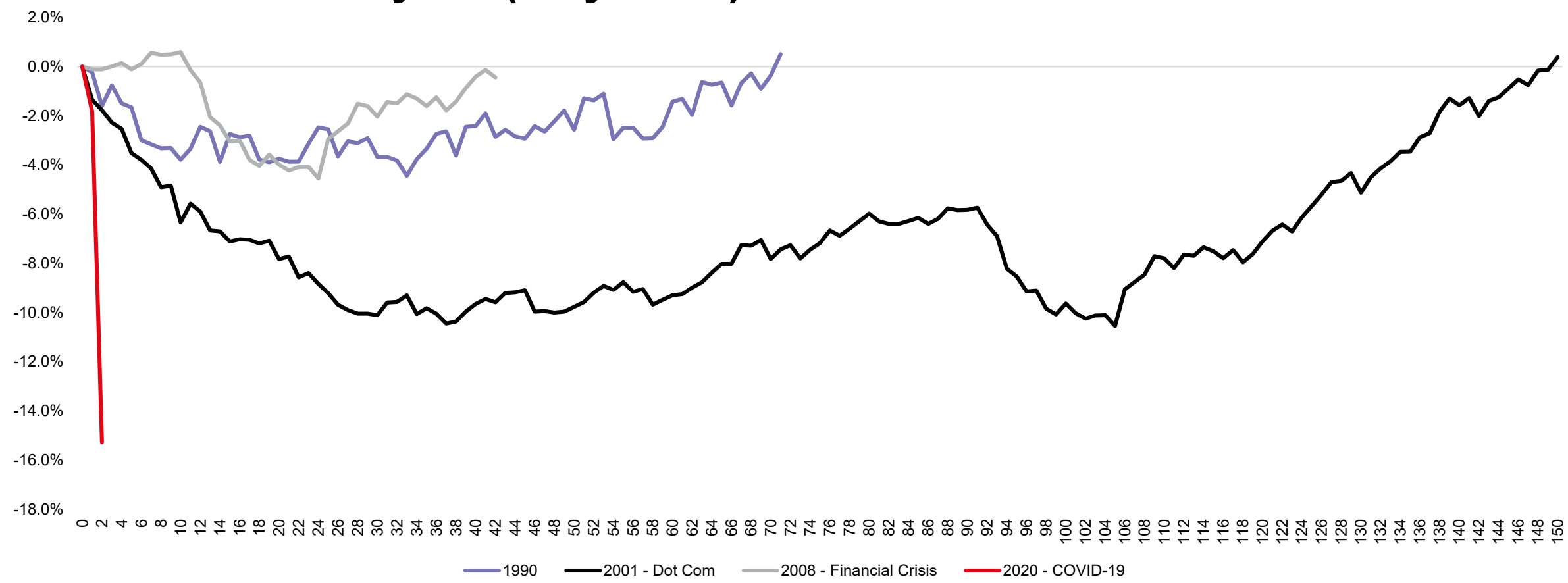


Slowest rent growth since Q4 2009

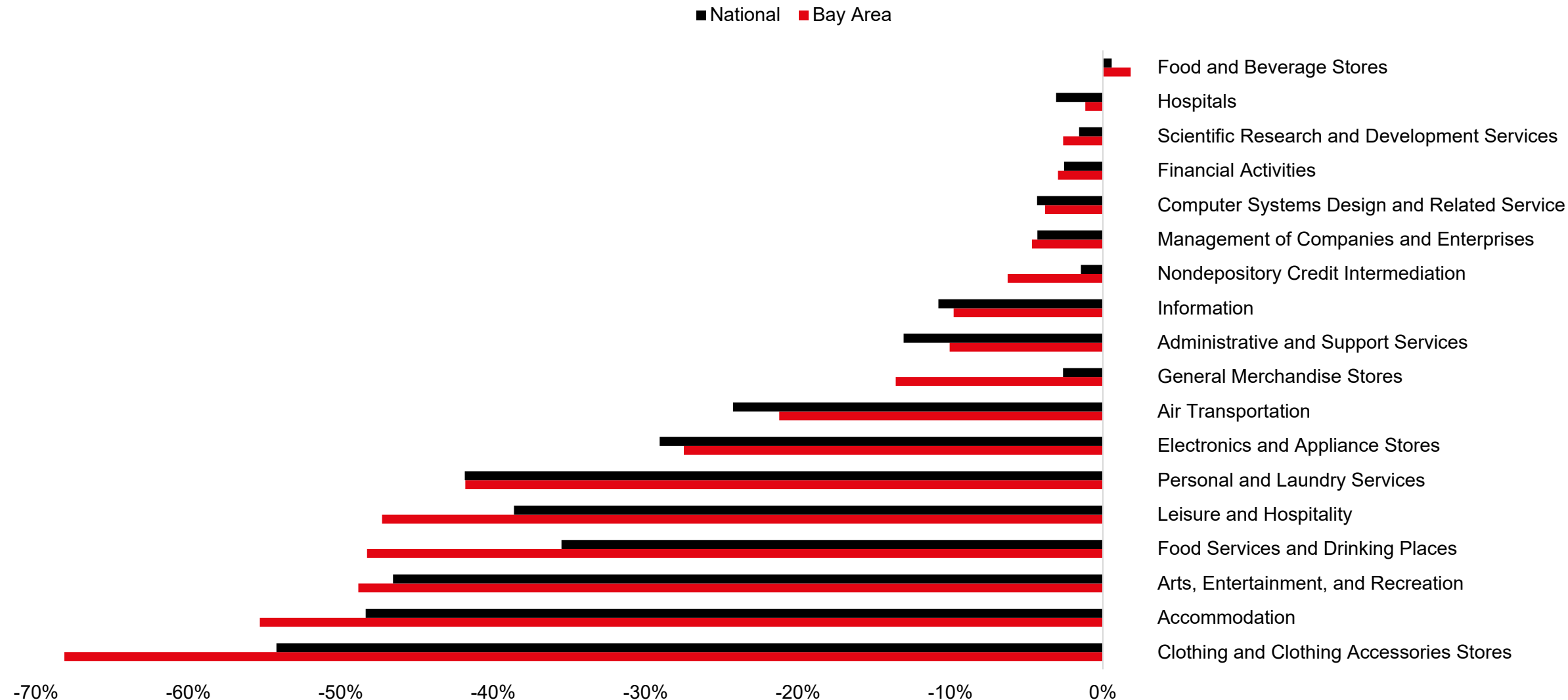




# While many job losses are temporary, Bay Area employment levels in May 2020 dropped by 521,000 compared to the same month last year (May 2019)



# Bay Area employment losses most severe in retail, entertainment, transportation, and hospitality sectors



Attachment: July 1-SVEDA Speaker Panel Industrial Presentation (2867 : Industrial



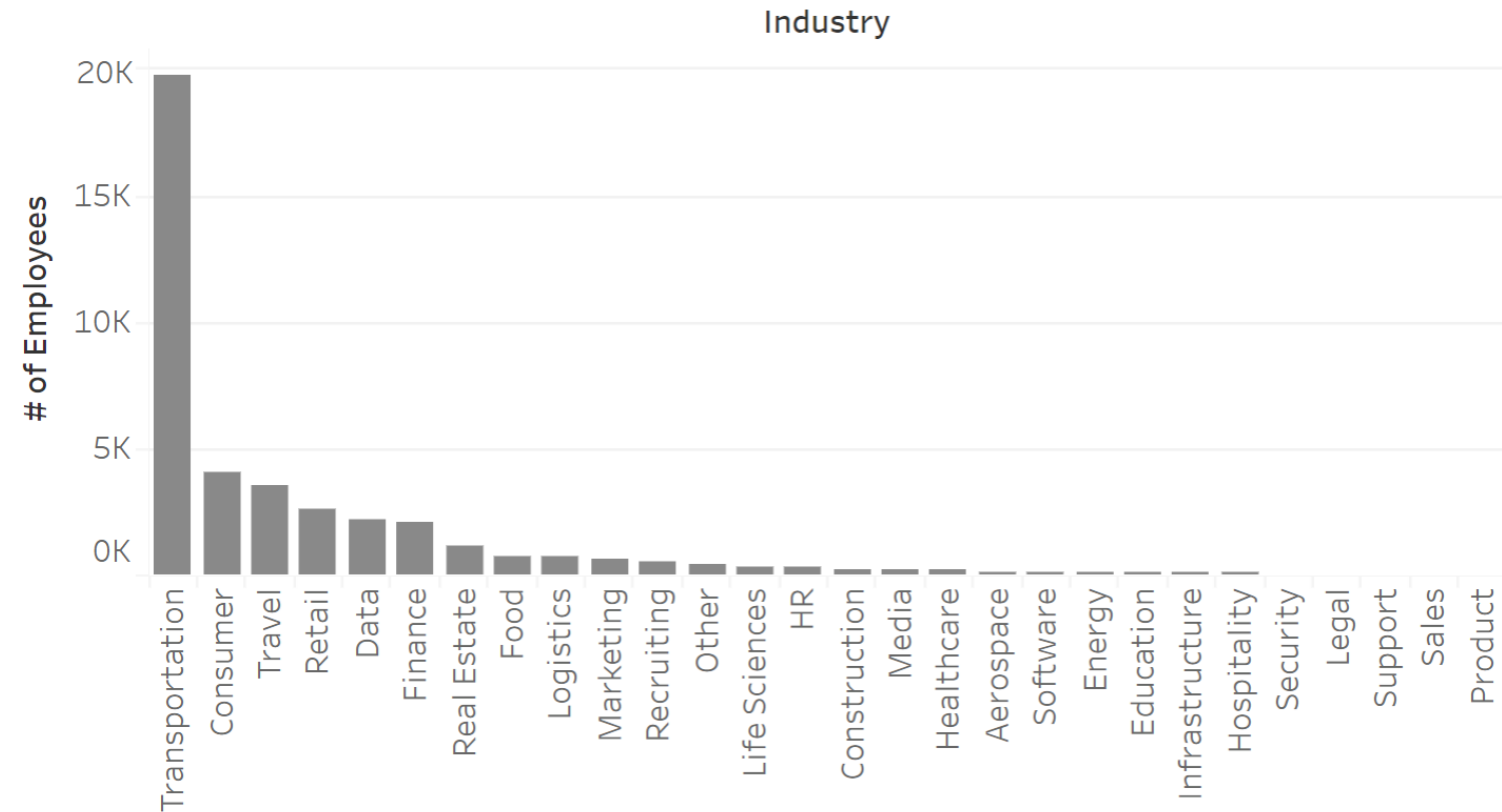
# Technology sector layoffs are a mostly associated with travel, transportation, and retail.

## Tech Layoffs (multiple sources)

### Layoffs by Company

| Company      |        |
|--------------|--------|
| Tesla        | 11,083 |
| Uber         | 6,700  |
| Airbnb       | 1,900  |
| Nutanix      | 1,457  |
| Stitch Fix   | 1,400  |
| Yelp         | 1,000  |
| Lyft         | 982    |
| Juul         | 900    |
| Tripadvisor  | 900    |
| Intuit       | 715    |
| Deliv        | 669    |
| Opendoor     | 600    |
| Oh My Green  | 516    |
| Eventbrite   | 500    |
| Lending Club | 460    |

### Layoffs by Industry

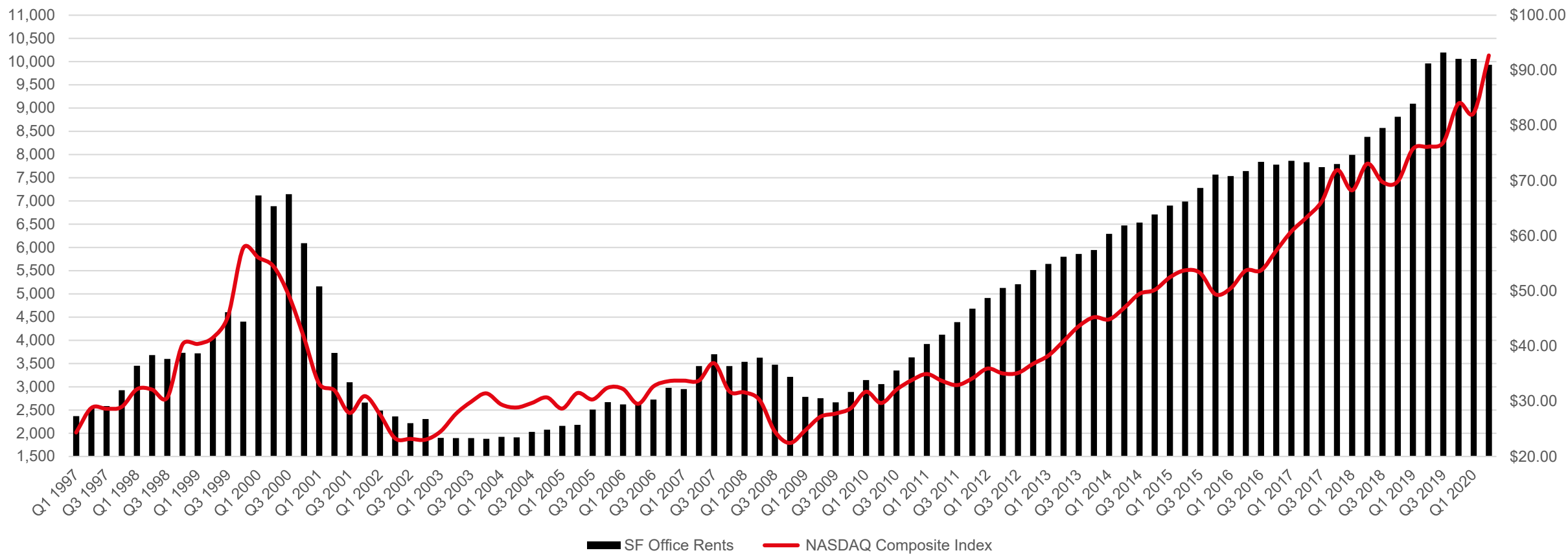


[https://analytics4.jll.com/t/Research/views/TableauLayoffData/GreaterBayAreaLayoffData/Heather.Belfor@am.jllnet.com/bea994cc-719f-4077-a340-f1a27cee992a?:display\\_count=n&:showVizHome=n&:origin=viz\\_share\\_link](https://analytics4.jll.com/t/Research/views/TableauLayoffData/GreaterBayAreaLayoffData/Heather.Belfor@am.jllnet.com/bea994cc-719f-4077-a340-f1a27cee992a?:display_count=n&:showVizHome=n&:origin=viz_share_link)



# A change in average asking rents in San Francisco and Silicon Valley lag approximately two quarters behind on the NASDAQ Index which would imply rent growth (**\*\*all other things being equal**)

NASDAQ Index versus San Francisco Office Asking Rents  
1st Quarter 1997 - 2nd Quarter 2020\*

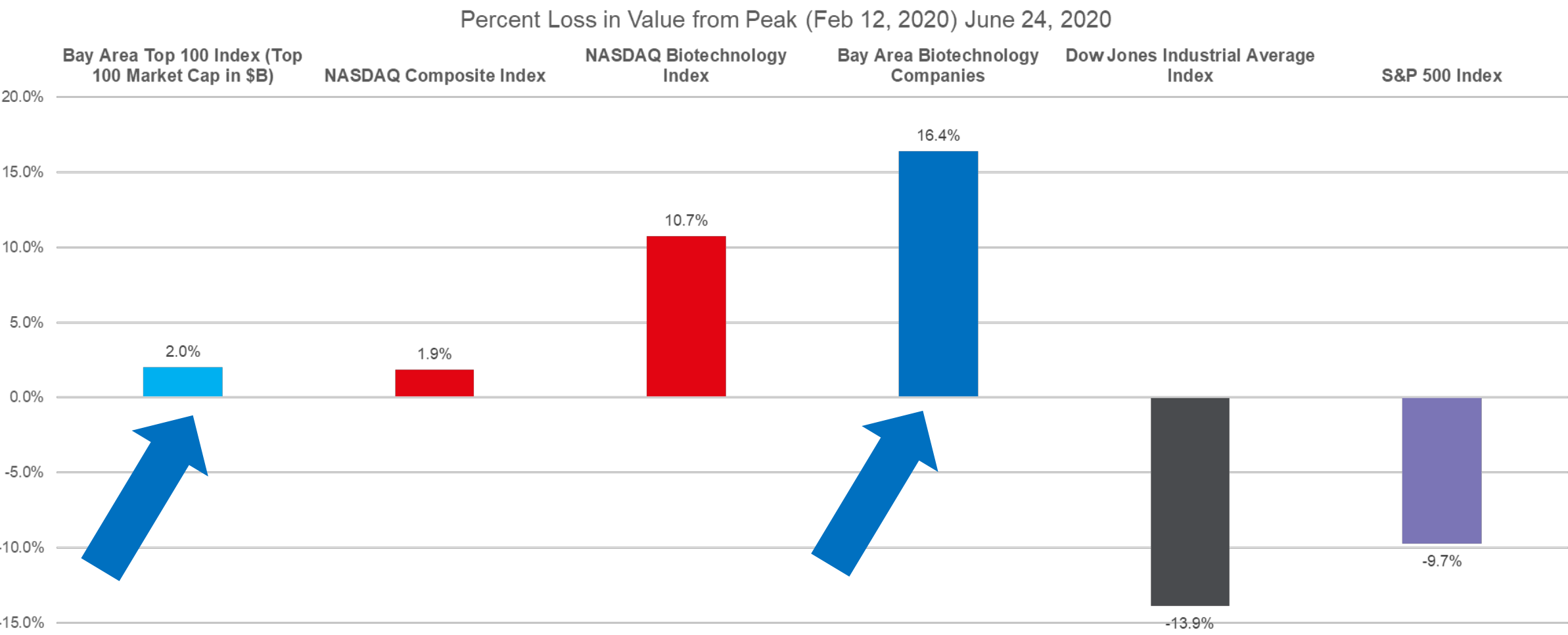


**In normal environments, NASDAQ would inform prevailing office rents San Francisco and Silicon Valley.**

\*Asking rent data is preliminary with NASDAQ levels pulled from end of day June 23<sup>rd</sup>.  
Source: JLL Research, Google Finance



# Bay Area Top 100 companies have held their value compared to major indexes

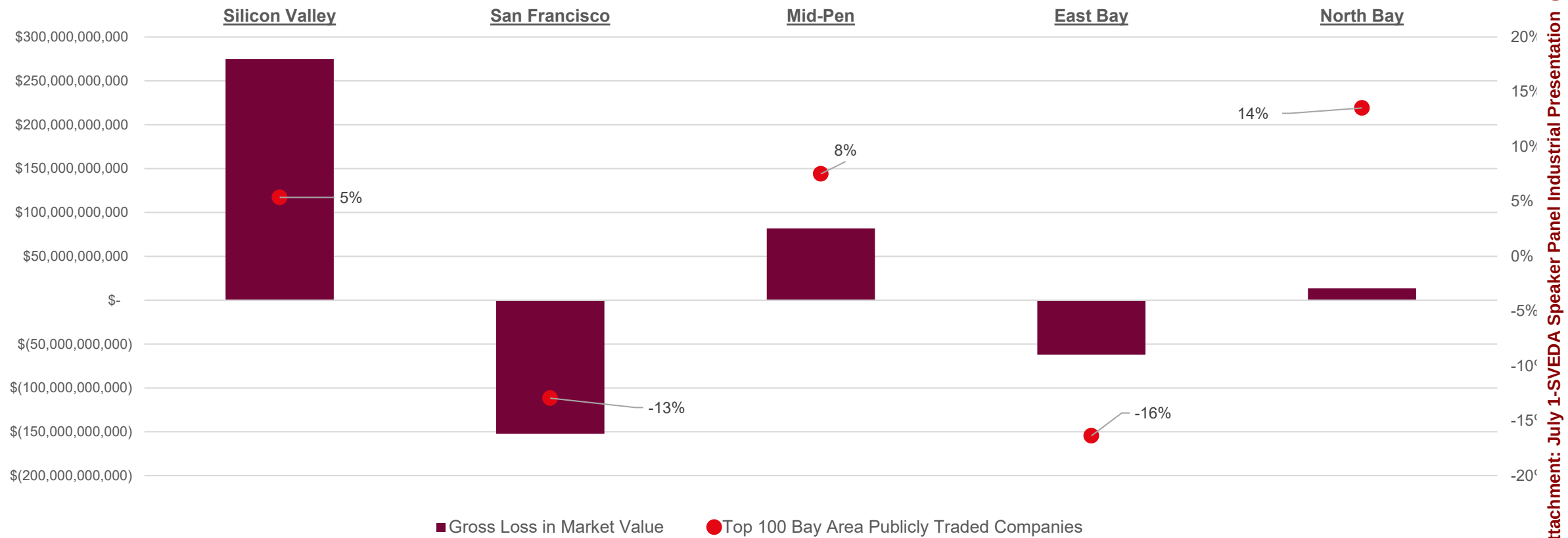


Attachment: July 1-SVEDA Speaker Panel Industrial Presentation (2867 : Industrial

The market cap of Bay Area companies is growing faster than national indexes

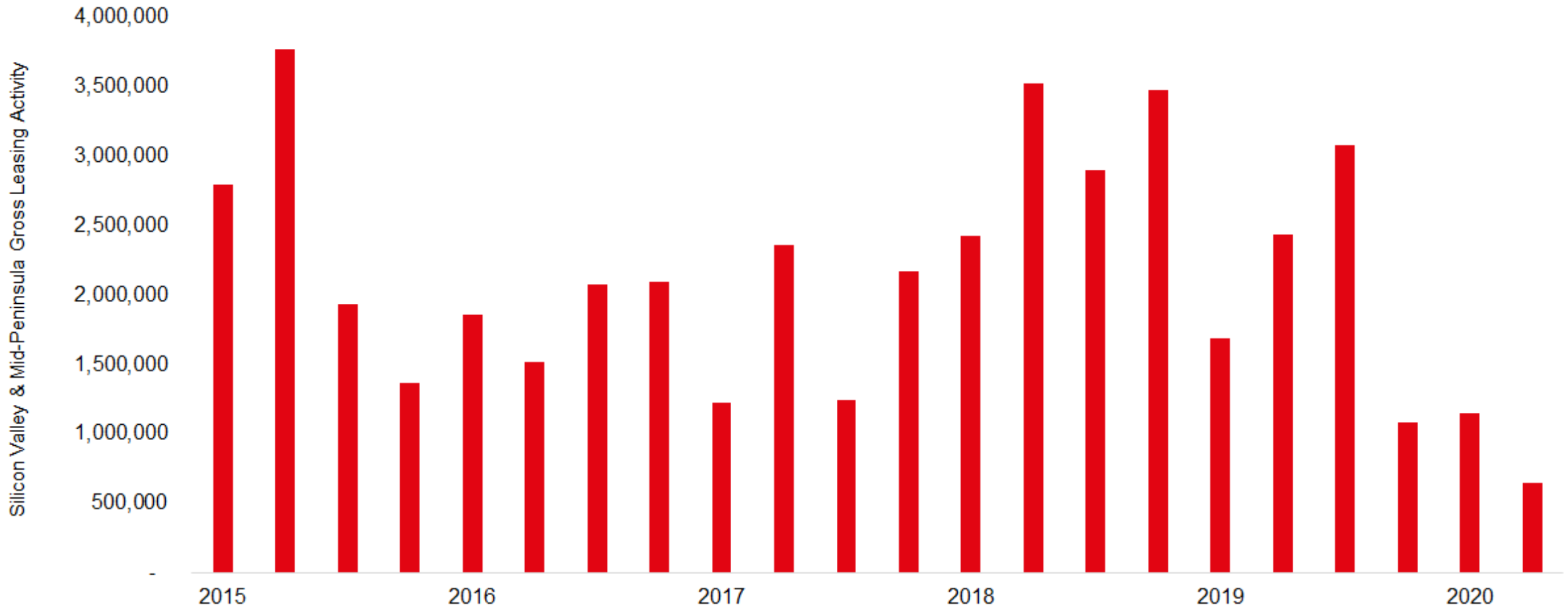
# Silicon Valley and Mid-Peninsula have nothing to worry about according to the public markets.

Top 100 Publicly Traded Companies by Region  
(Change in Market Value since February 12th) June 24th



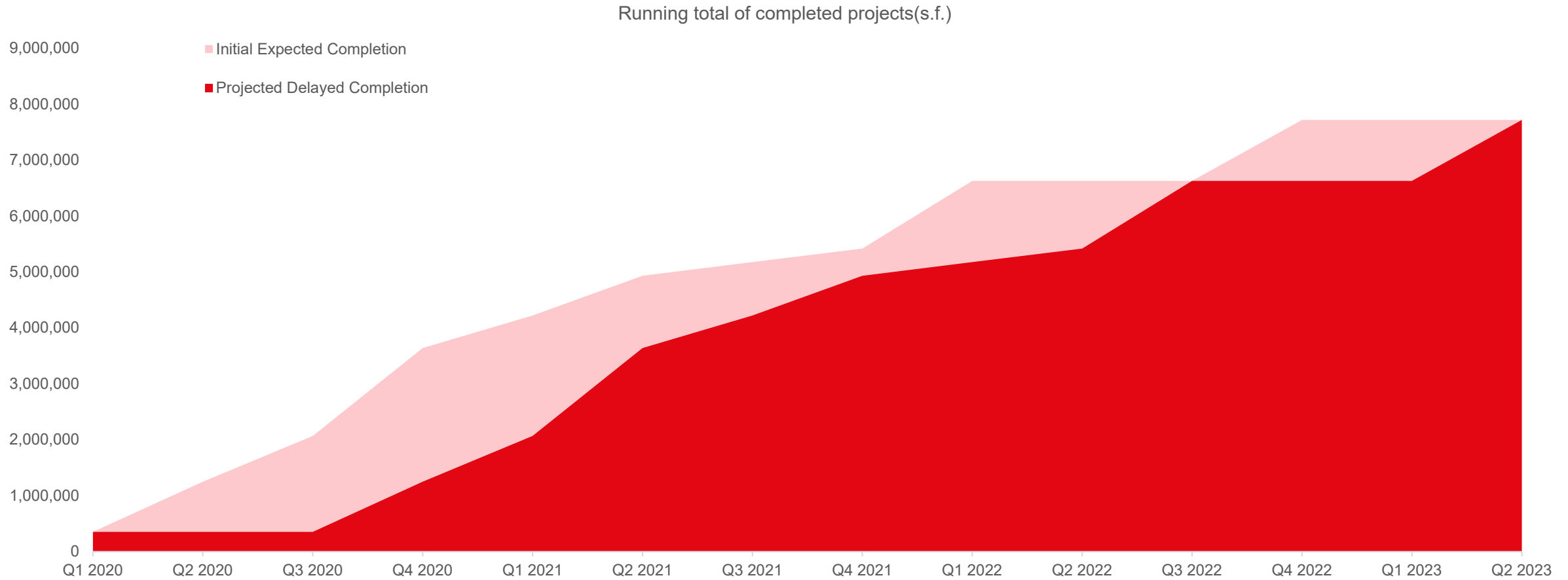
Attachment: July 1-SVEDA Speaker Panel Industrial Presentation (2867 : Industrial

# Q2 2020 office leasing activity in Mid-Peninsula and Silicon Valley was down 73.3% from Q2 2019



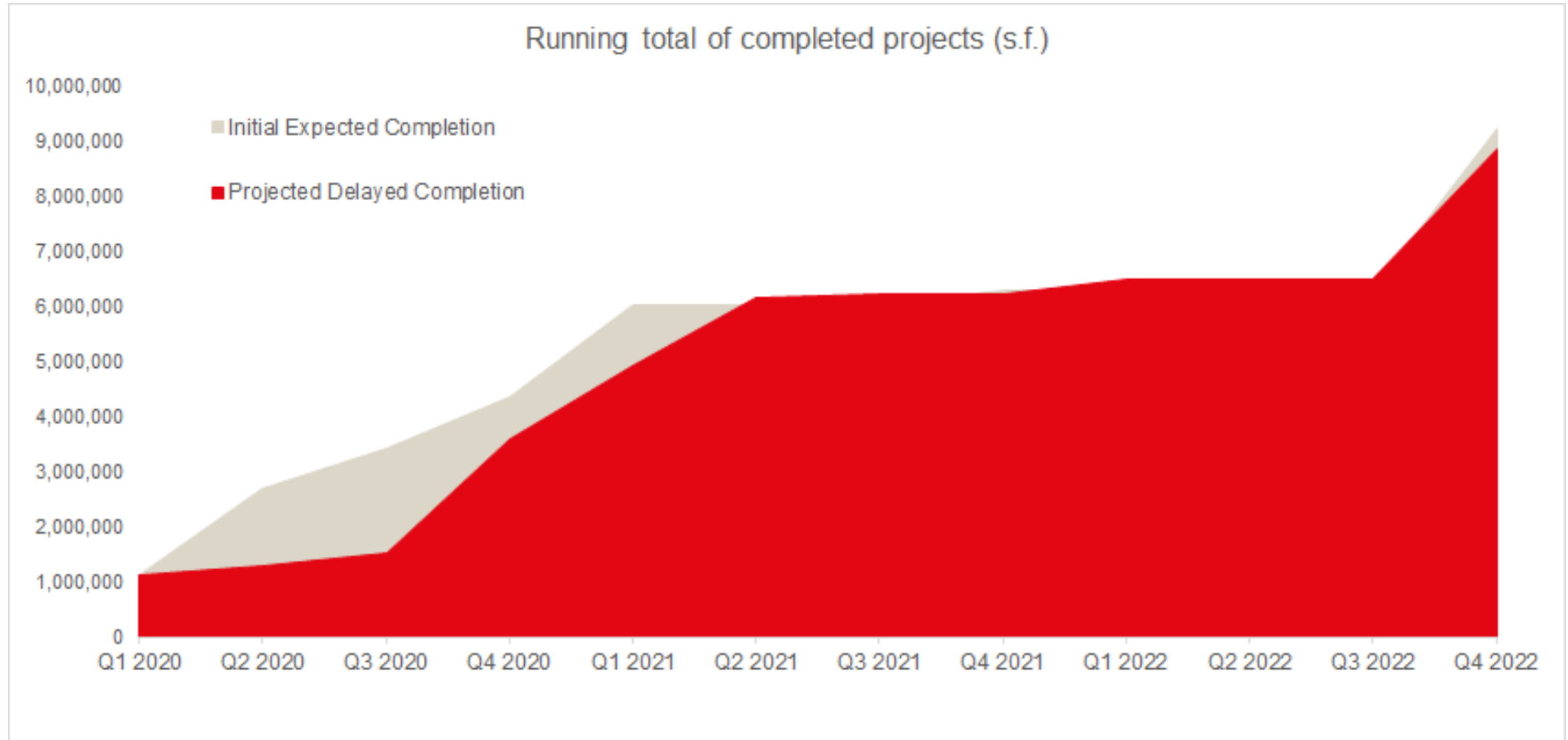


# COVID-19 likely to delay commercial construction cycle and pace speculative development into 2021 and 2022



Potential risk of over construction during the recession has subsided due to construction delays

# Industrial construction cycle and pace of speculative development is back on track for 2022



# Technology is in nearly everything and therefore much more diversified compared to the dot.com boom.



Technology companies are much more diversified compared to 2000.

# The Path Forward

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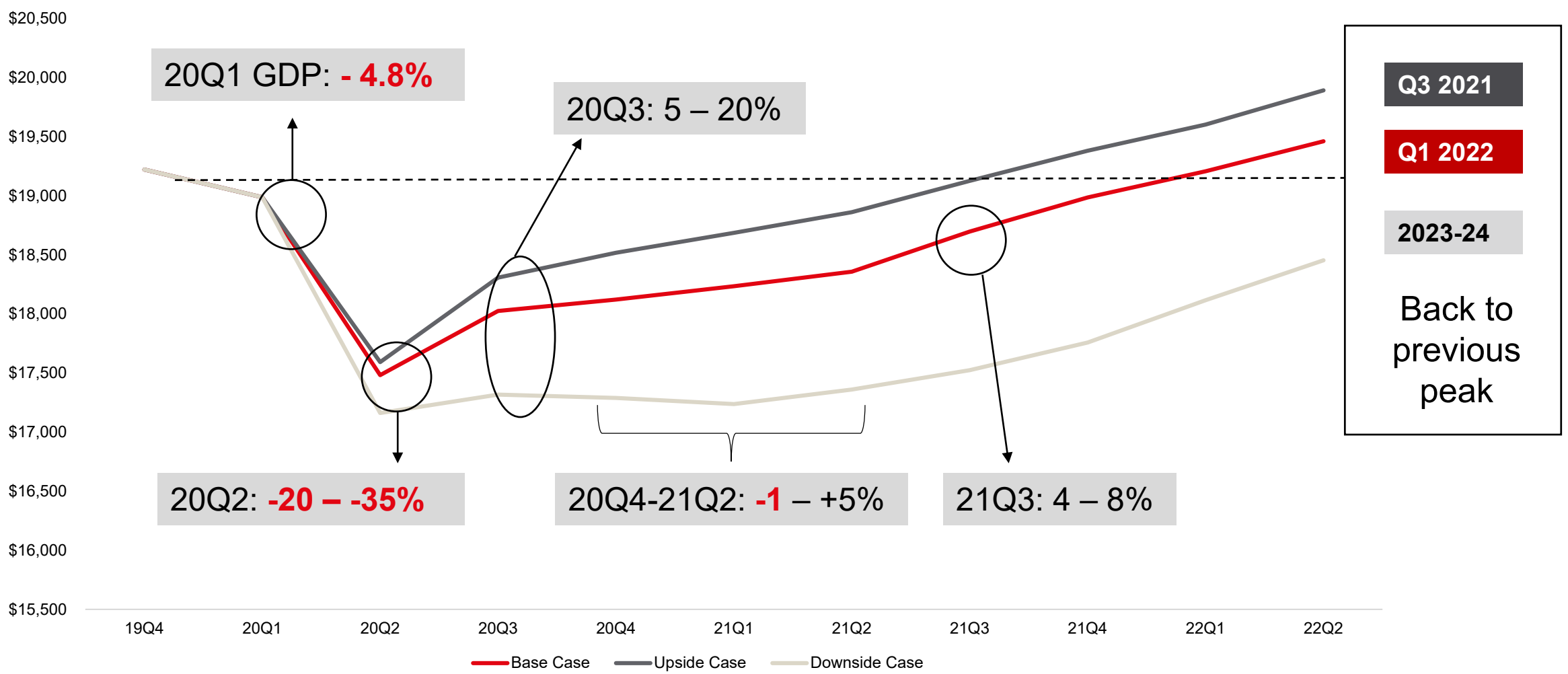


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Attachment: July 1-SVEDA Speaker Panel Industrial Presentation (2867 : Industrial

# Economic scenarios for the path forward – still a wide range, but shape may be coming into focus

Real GDP scenarios, \$Billions

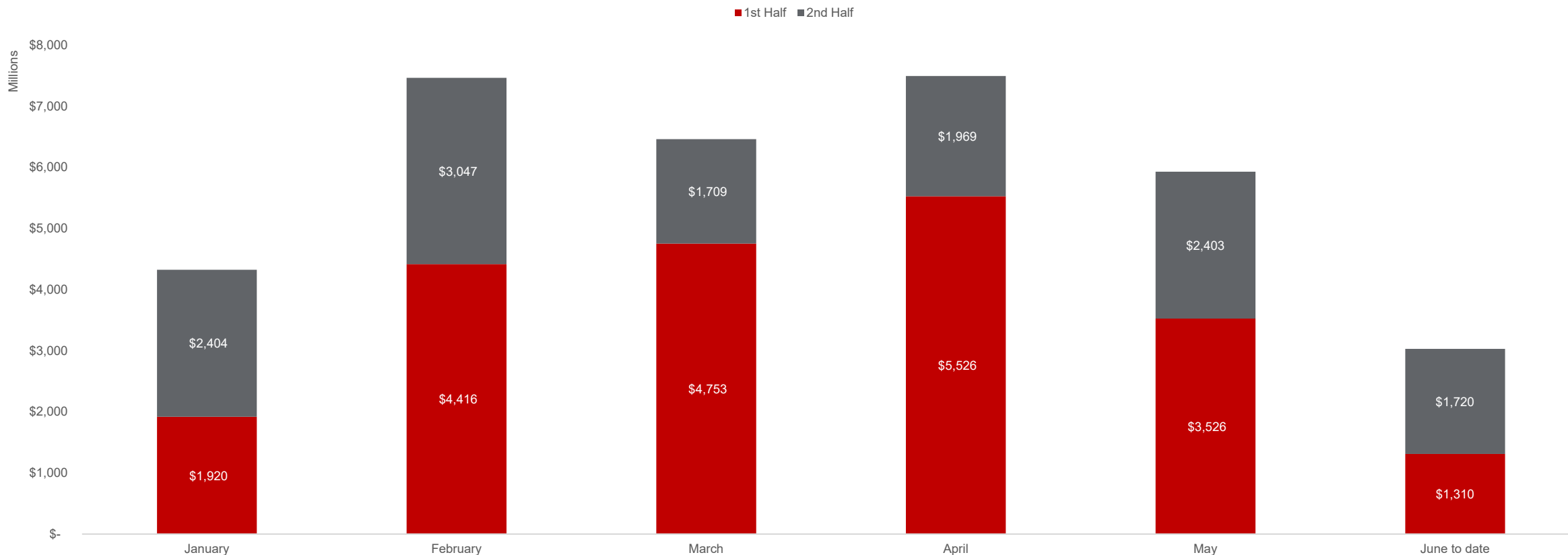




# Bay Area VC funding shows no slowdown since COVID-19

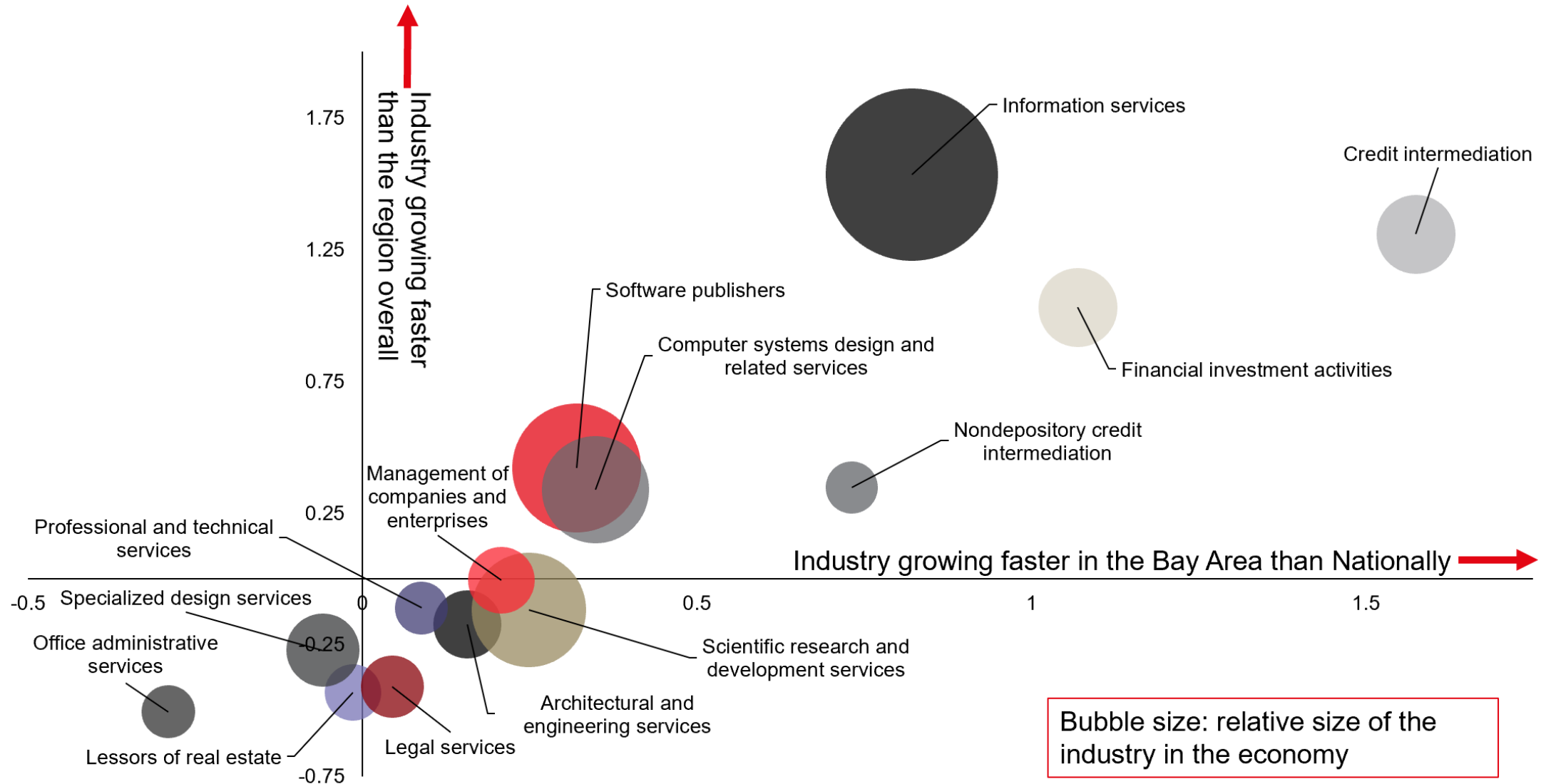
Approximately \$9.6 billion of VC investments have been made in the Bay Area since shelter-in-place orders (March 15) and over \$30 billion in 2020.

Bay Area Venture Capital Funding in 2020



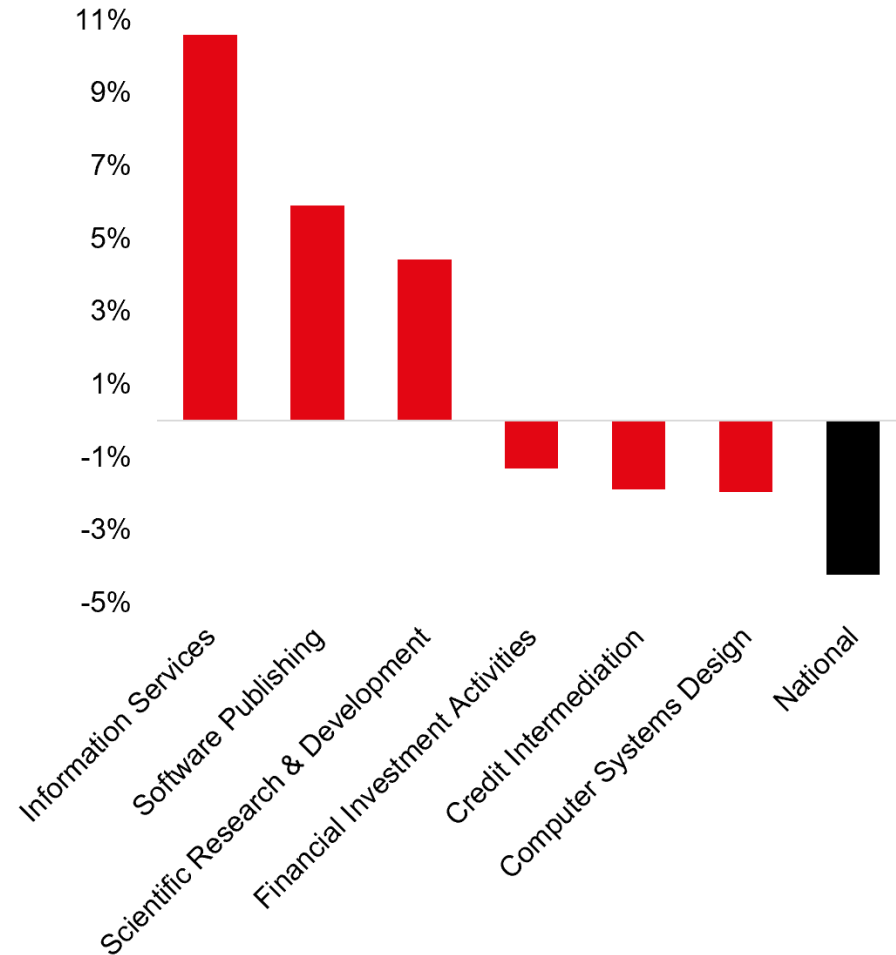
In Q1 2020, the Bay Area accounted for 33% of all venture capital spending globally implying concentration in existing local unicorns, including AirBnB, Stripe, and Palantir.

# Bay Area concentrated in growth industries

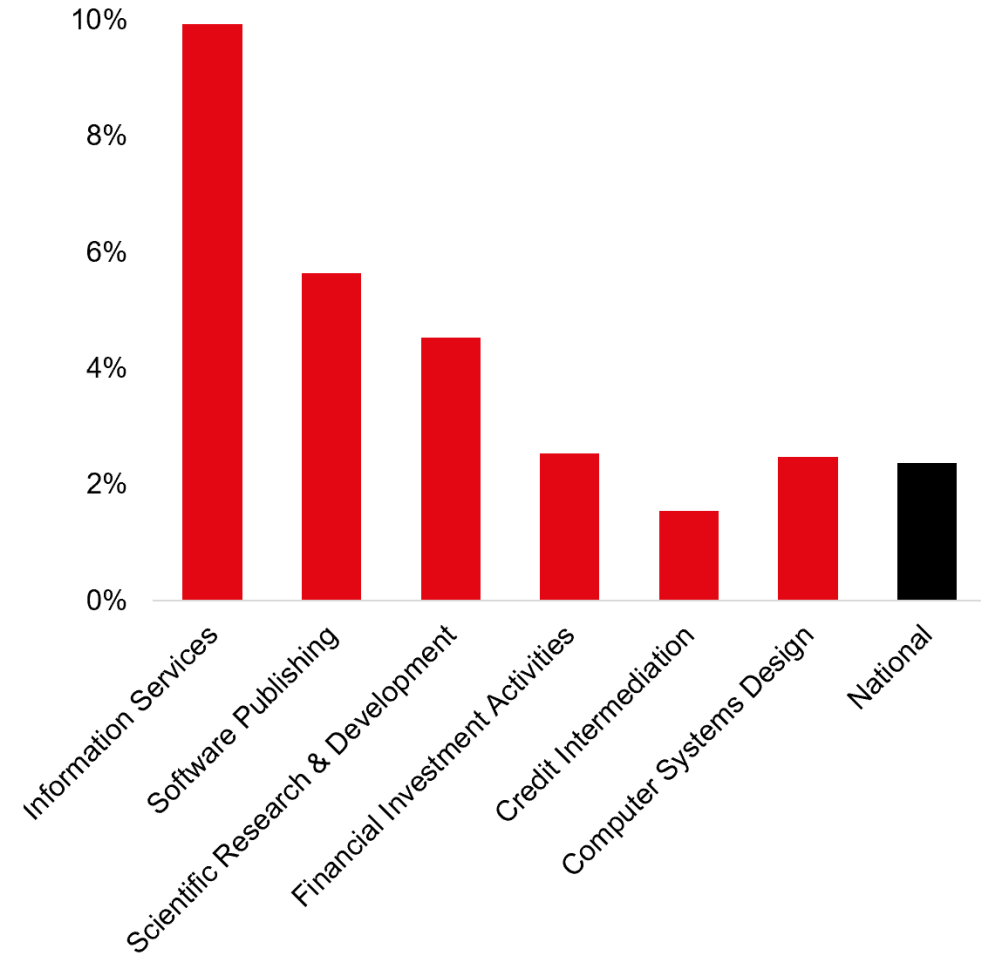


# Industries concentrated in the Bay Area are forecasted to be more resilient and grow faster out of the recession

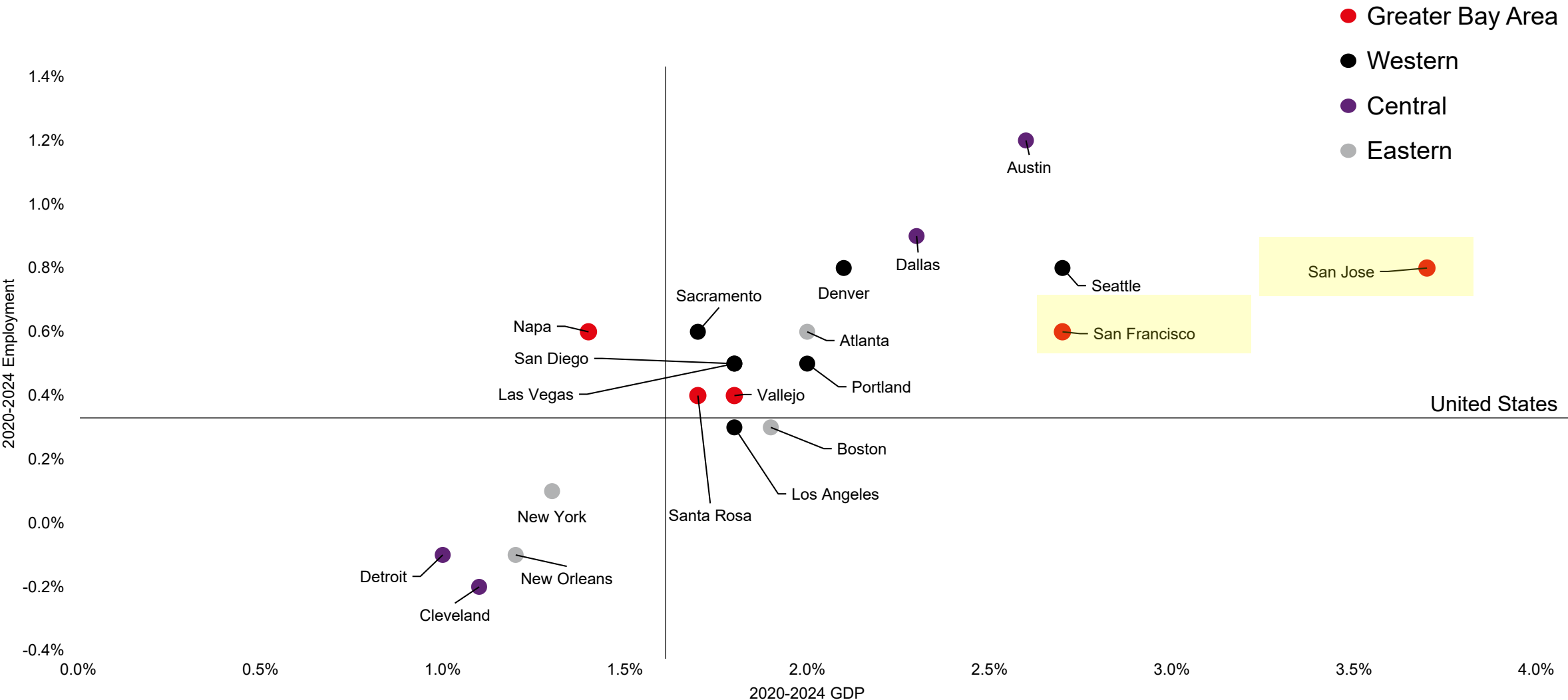
2020 Forecasted Employment Growth



2021-2025 Average Annual Employment Growth



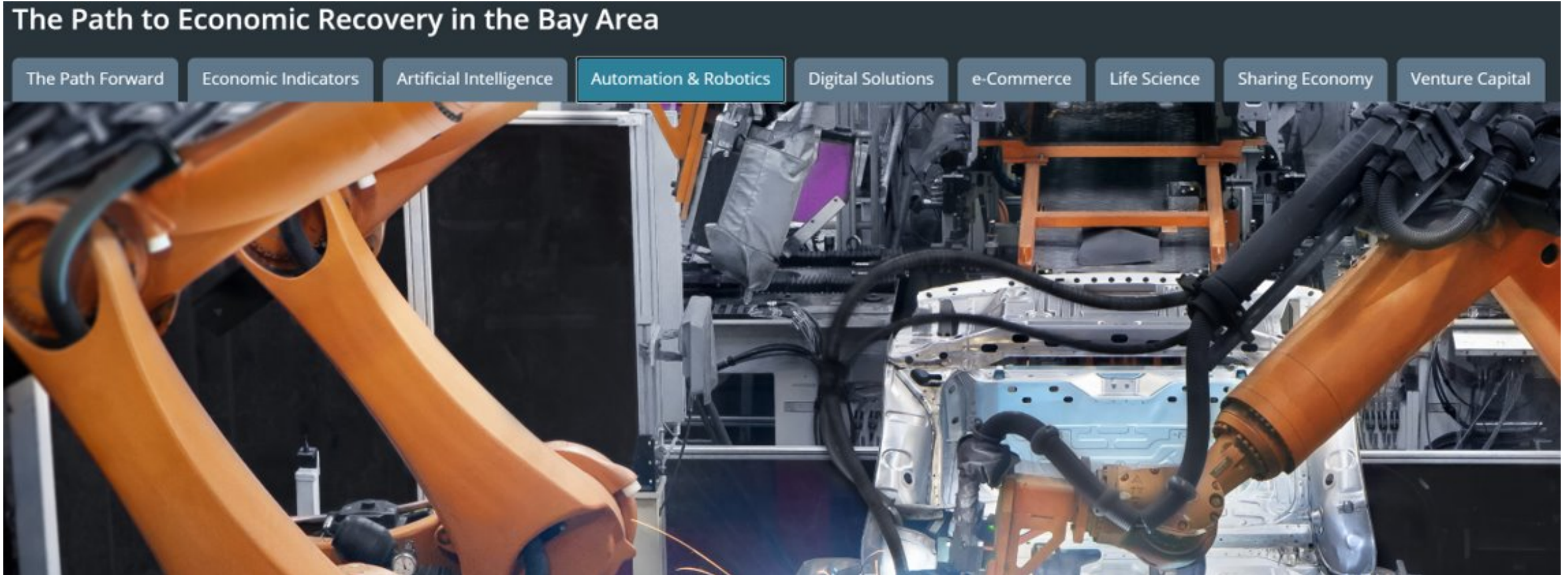
# Tech hubs projected to recover faster than hospitality/entertainment and traditional manufacturing centers



Attachment: July 1-SVEDA Speaker Panel Industrial Presentation (2867 : Industrial

Source: JLL Research, Oxford Economics  
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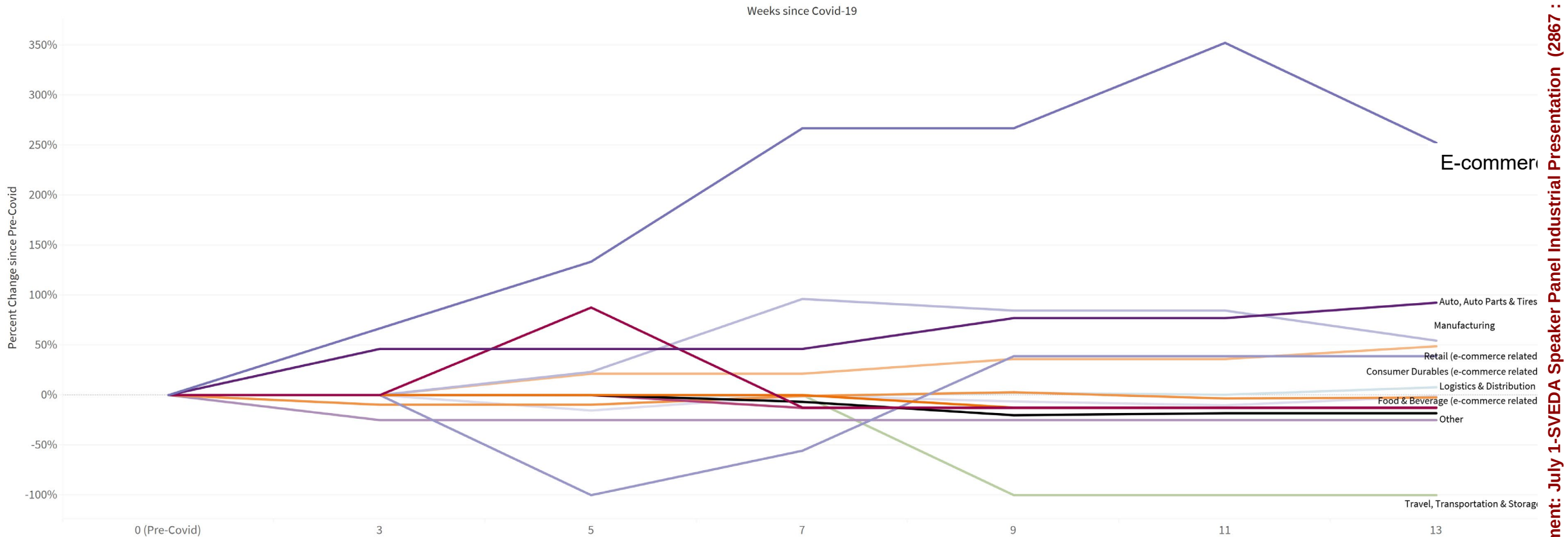
# Bay Area Future Economy



<https://arcg.is/anSKG>



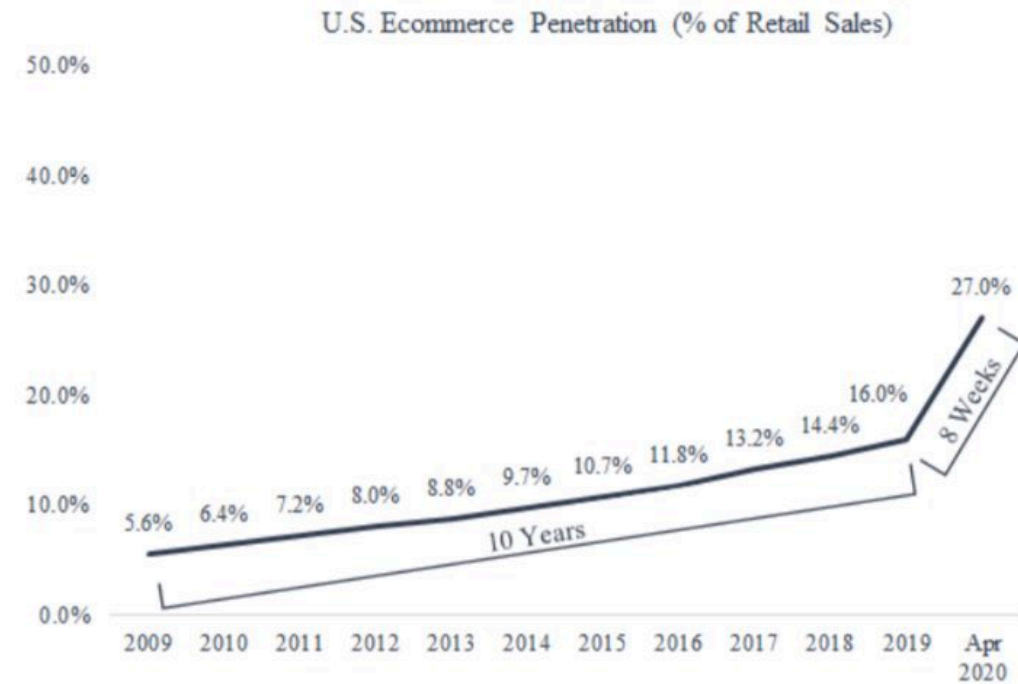
# Tenants in the Market



# E-commerce – a shift in consumer habits

- **Accelerating pace of e-commerce adoption due to changing consumer habits.**

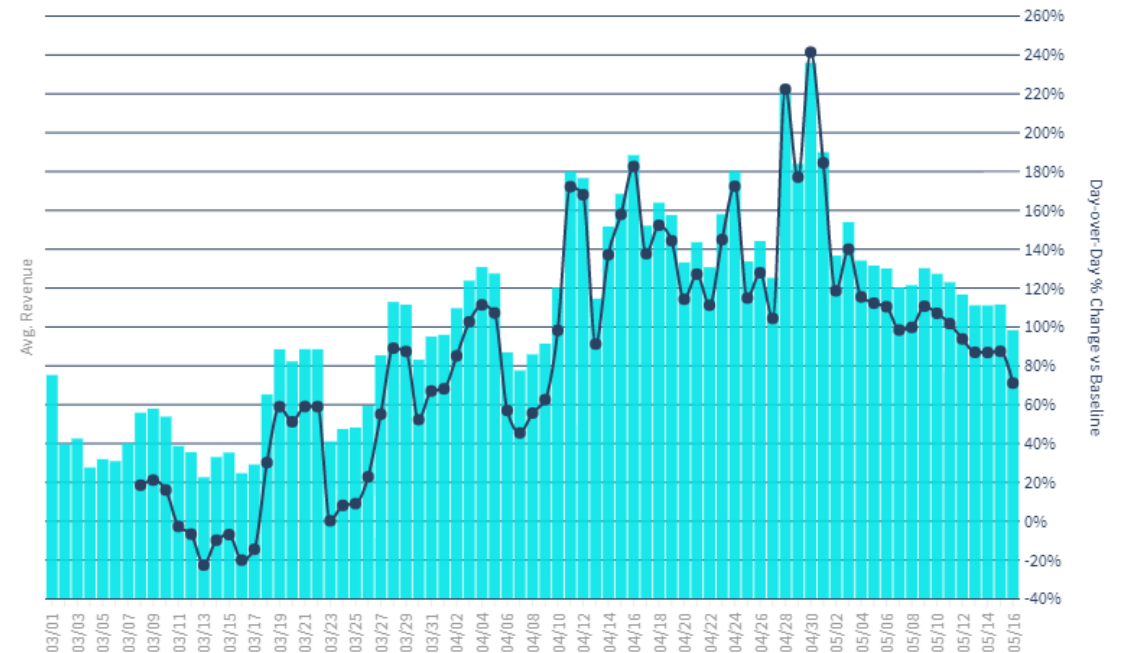
In the first eight weeks of shelter-in-place restrictions, e-commerce sales as a share of total retail sales increased by **68.7 percent** since 2019. This will likely taper as restrictions ease, but many are likely to continue shopping online with e-commerce spending still up from the pre-COVID-19 baseline.



Source: Bank of America, U.S. Department of Commerce, ShawSpring Research

Rev. Change +87.38%; Spend Change +46.85%

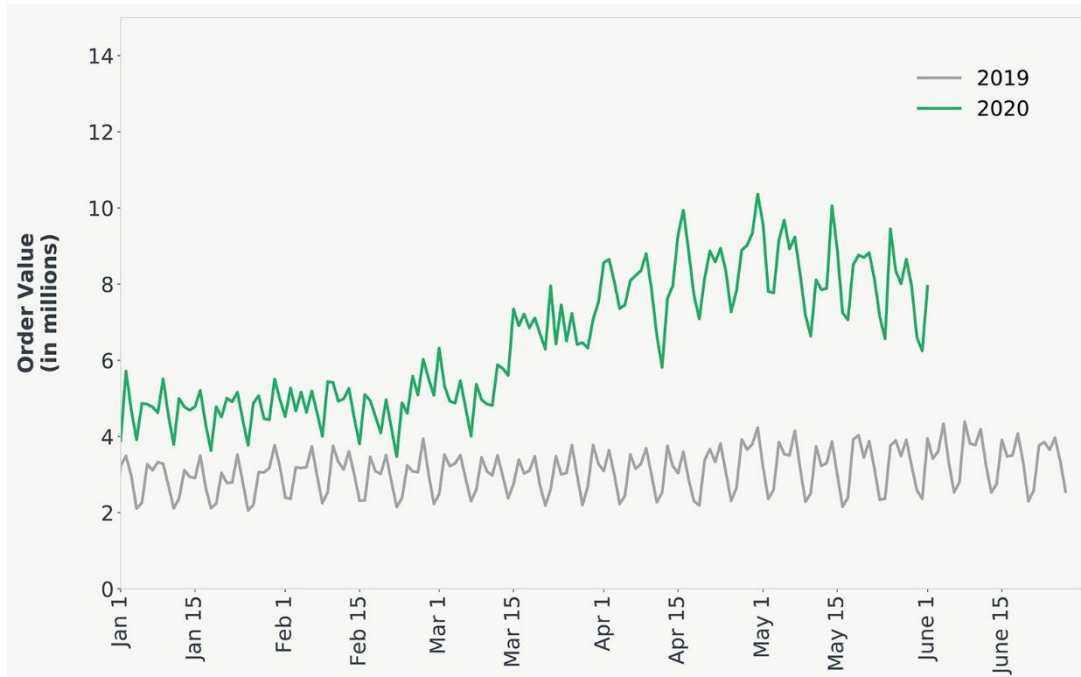
Mar. 1-7 (Baseline) vs Mar. 8 and Beyond



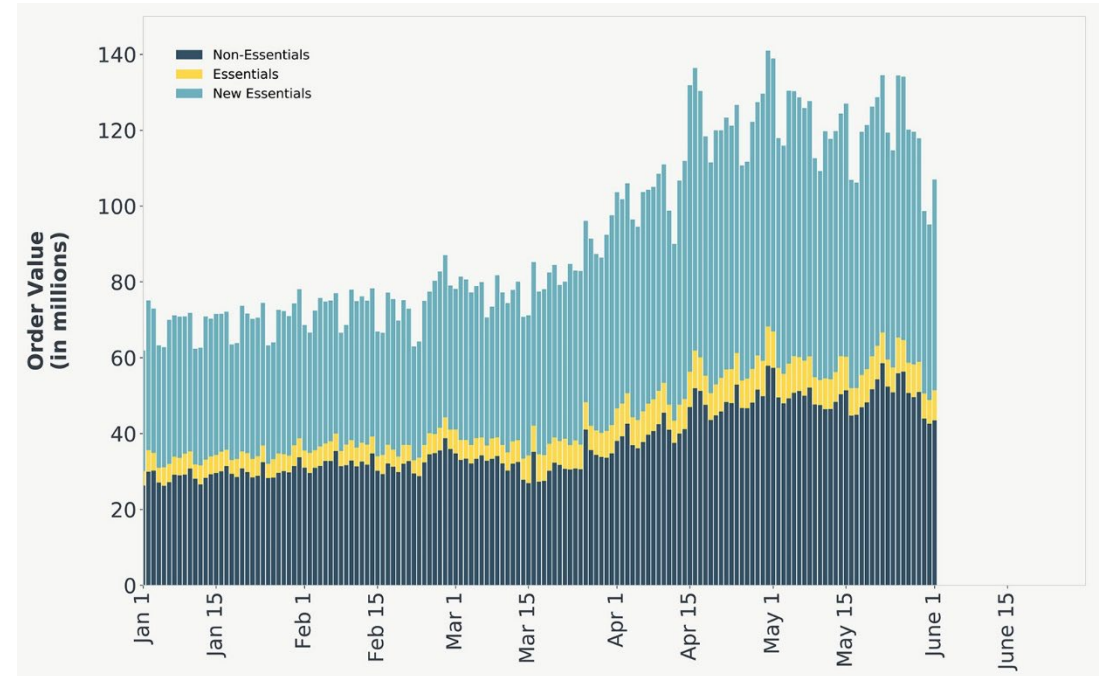
# E-commerce - Emergence of grocery delivery

## •The rise of grocery delivery

Food & Beverage has historically lagged other retail goods categories in terms of e-commerce market penetration. Order volumes quadrupled from 2019 during the height of the quarantine, and continue to remain elevated even as municipalities reopen.



Food & Beverage



All Categories

Source: Klaviyo

# Managing the shift from Retail to E-commerce

1.6



With demand for E-commerce increasing daily, it is important for cities to have a plan for managing growth

Sustainability needs  
to be addressed on a  
**regional level.**

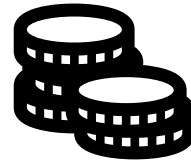
To be a good  
neighbor, a few  
things to consider:



Infrastructure degradation



Environmental impacts



Loss of point of sale tax revenue  
due to retail shift to e-commerce

# How local last mile facilities can play a role

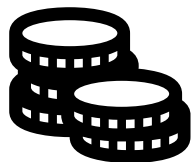
Comparing a fulfillment center in Morgan Hill vs San Jose



By utilizing a distribution center in Morgan Hill, vehicle miles traveled by delivery vans is reduced by **1.6M** miles. Assuming 75 vans to service the local population, that's 21,862 miles per van per year.



As a direct result of less miles driven, greenhouse gas emissions also decrease. The reduction in greenhouse gases is the equivalent of taking **561** cars off the road.



Transportation cost savings for an operator work out to approximately **\$2.4M** annually, which equals nearly **\$8** per square foot in annual rent savings on a 300,000 SF building.



# Revenue Opportunity

Mitigate retail sales tax decline by utilizing a portion of the operational savings

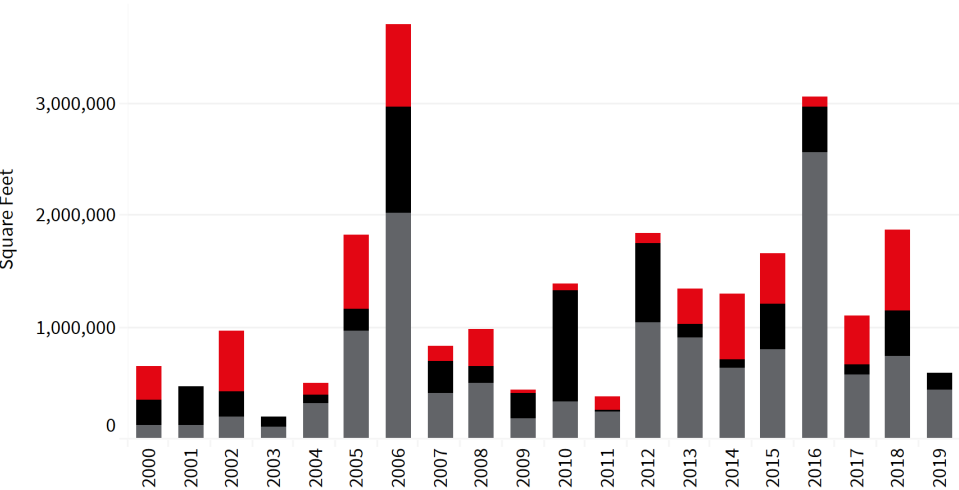


With the potential for operational savings of approximately **\$2.4M** annually, there is an opportunity for Morgan Hill to capitalize on this savings in the form of additional traffic impact fees or community benefits.

Based on a 300,000 SF last mile facility, 75 vans (2 trips each assumes 150 roundtrips per day)

# Industrial Inventory Crisis

Demolished Inventory since 2000 by Year

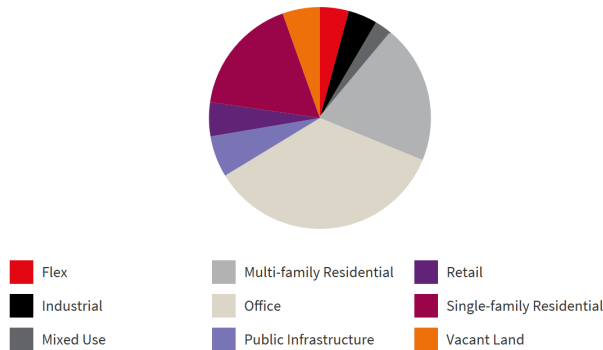


Select Market to Interactive

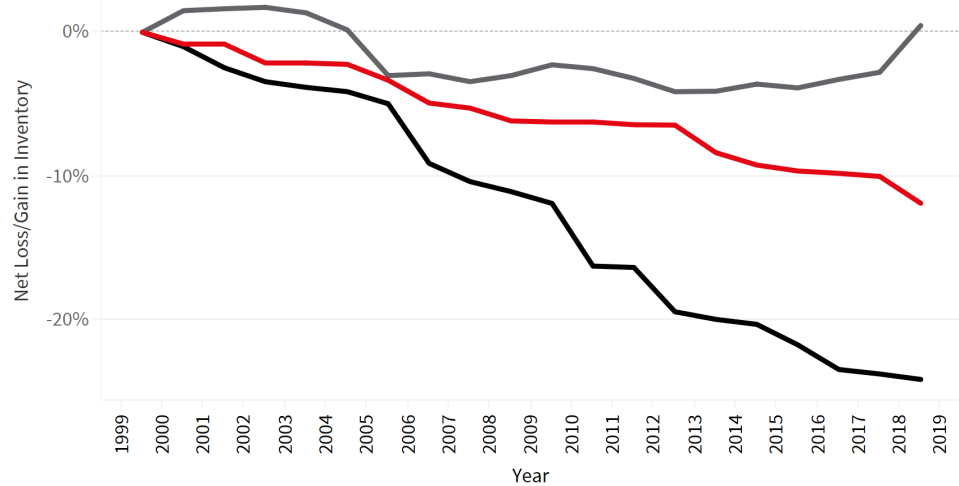
All

- Market
- Mid-Peninsula
  - San Francisco
  - Silicon Valley

Demolished Inventory by New Status



Select the following: Percent Change in Inventory since 2000



|                | Total Inventory | Demolished Inventory | Net Loss/Gain in Inventory |
|----------------|-----------------|----------------------|----------------------------|
| Mid-Peninsula  | 32,994,718      | 6,157,316            | -11.91%                    |
| San Francisco  | 17,470,313      | 7,344,826            | -24.18%                    |
| Silicon Valley | 82,002,291      | 13,594,143           | 0.47%                      |

# JLL Northern California Industrial Momentum Index



## Community Fundamentals Index

- 2019 Total Population
- 2019-2024 Population: Annual Growth Rate
- 2010-2019 Population: Annual Growth Rate
- 2019 Median Age
- 2019 Per Capita Income 2019 Total Households
- 2019 Unemployment Rate
- 2013-2017 ACS Average Commute to Work in Minutes
- 2019 Employed Civilian Population Age 16+
- Ratio of Resident Jobs to Resident Population
- Share of HHs that can afford median home price



## Advanced Industries Index

- Bachelors/Grad Density Advanced Industries
- Density Advanced Industry Occupations Startups Since 2015
- VC Funding
- Inventor City – Patent
- Average of Mean Scale Score - Test Score - Math - All High Schools
- STEM number



## Industrial Real Estate Index

- Inventory
- % Zoned Industrial
- New Construction as Share of Inventory (since 2008) Class A as Share of Inventory
- Avg Age
- 5-Year Percent Change in Vacancy 5-Year Change in Vacancy
- 5-Year Percent Change in Rent 5-Year Change in Rent
- 5-Year Total Absorption
- 5-Year Total Absorption as Percent of Stock



## Consumer Demand Index

- 2013-2017 ACS Average Commute to Work in Minutes Population Density
- Millennial Density
- Generation X Density
- 2013-2017 ACS Households w/Pop <18: Family
- 2019 Total Households Median Disposable Income Average HH Size
- Consumer Expenditures per capita (e-commerce related by households)
- Households that make more than \$100,000



## Industrial Labor Index

- Manufacturing Industry Density
- Manufacturing Headcount Growth Rate (2009 to 2019)
- Manufacturing 2019 Resident Worker
- Manufacturing Location Quotient
- Warehouse/Distribution Industry Density
- Warehouse/Distribution Headcount Growth Rate (2009 to 2019)
- Warehouse/Distribution 2019 Resident Worker
- Warehouse/Distribution Location Quotient

## Fun Facts

48

Variables

122K

Unique  
Data Points

64

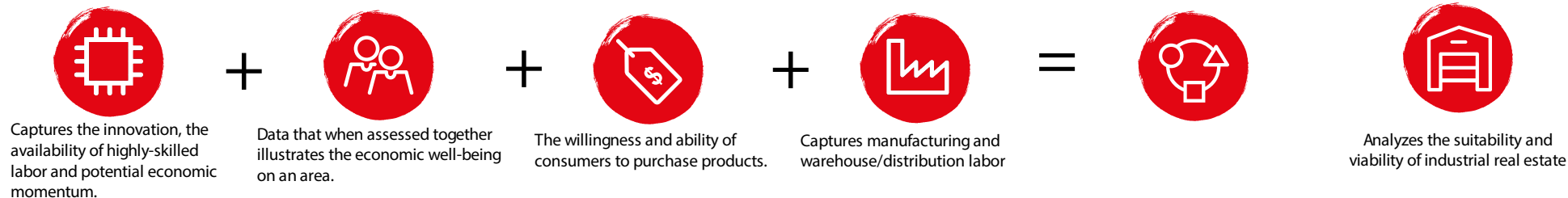
Cities

# Comparing Silicon Valley

1.6

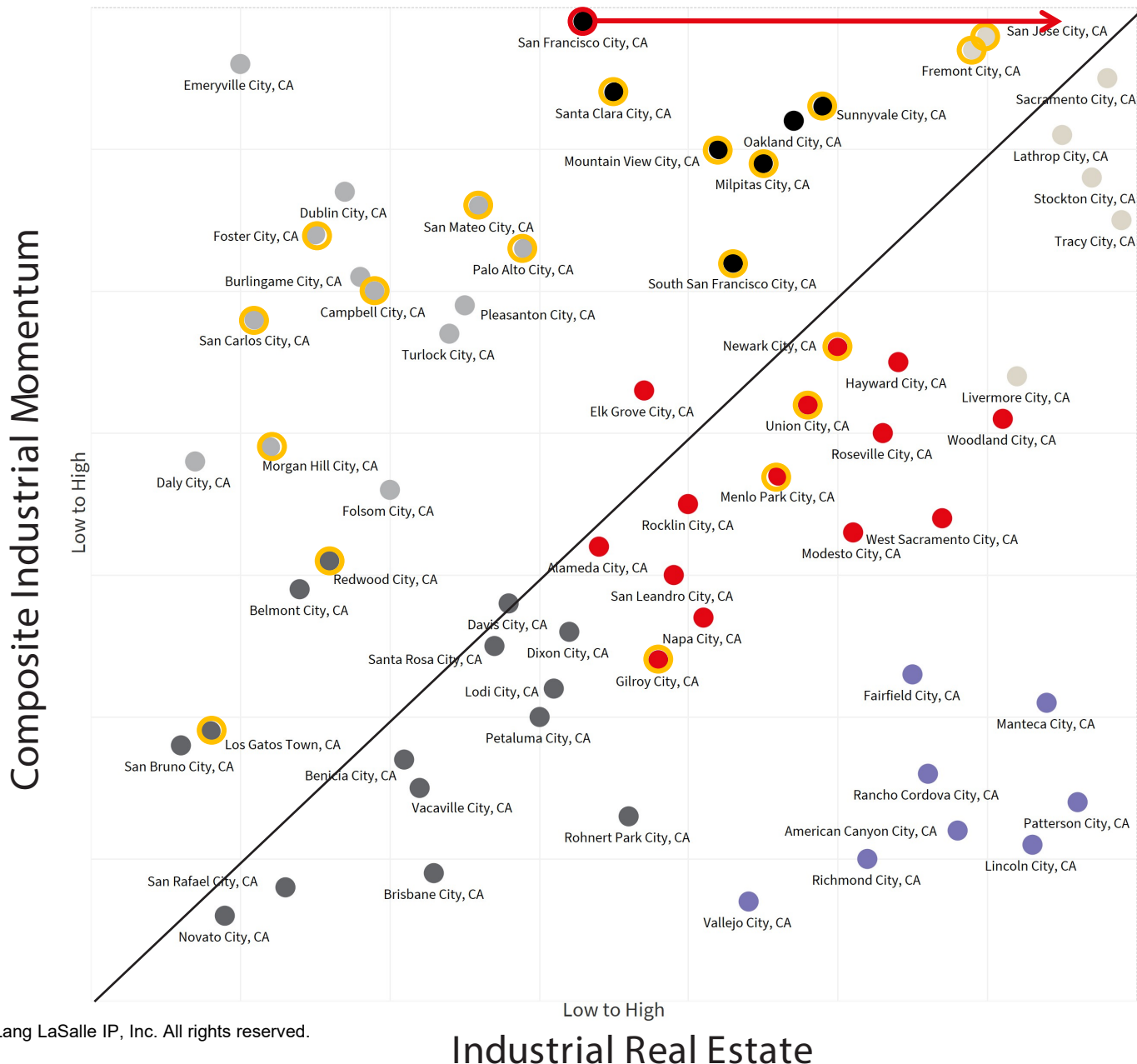


## JLL Industrial Momentum Index



| Rank | Advanced Industries | Community Fundamentals | Consumer Demand | Industrial Labor Profile | Composite Momentum | Industrial Real Estate |
|------|---------------------|------------------------|-----------------|--------------------------|--------------------|------------------------|
| 1    | San Francisco       | San Jose               | San Francisco   | Lathrop                  | San Francisco      | Tracy                  |
| 2    | San Jose            | San Francisco          | San Jose        | Tracy                    | San Jose           | Sacramento             |
| 3    | Sunnyvale           | Dublin                 | Daly City       | Turlock                  | Sacramento         | Stockton               |
| 4    | Emeryville          | Sacramento             | Sunnyvale       | Fremont                  | Tracy              | Patterson              |
| 5    | Santa Clara         | Emeryville             | Foster City     | Stockton                 | Lathrop            | Lathrop                |
| 6    | Mountain View       | Santa Clara            | Mountain View   | West Sacramento          | Stockton           | Manteca                |
| 7    | Fremont             | Mountain View          | San Mateo       | Sacramento               | Fremont            | Lincoln                |
| 8    | Palo Alto           | Roseville              | Oakland         | San Jose                 | Sunnyvale          | Livermore              |
| 9    | Oakland             | Fremont                | Santa Clara     | South San Francisco      | Oakland            | Woodland               |
| 10   | San Mateo           | Folsom                 | Palo Alto       | Woodland                 | Santa Clara        | San Jose               |
| 11   | Burlingame          | Sunnyvale              | San Carlos      | San Francisco            | Milpitas           | Fremont                |
| 12   | Sacramento          | Oakland                | Milpitas        | Hayward                  | Stockton           | American Canyon        |
| 13   | Foster City         | Rocklin                | Burlingame      | Emeryville               | Dublin             | West Sacramento        |
| 14   | Campbell            | Pleasanton             | Sacramento      | Patterson                | San Mateo          | Rancho Cordova         |
| 15   | Pleasanton          | Livermore              | Fremont         | Newark                   | Tracy              | Fairfield              |

# Comparing Silicon Valley



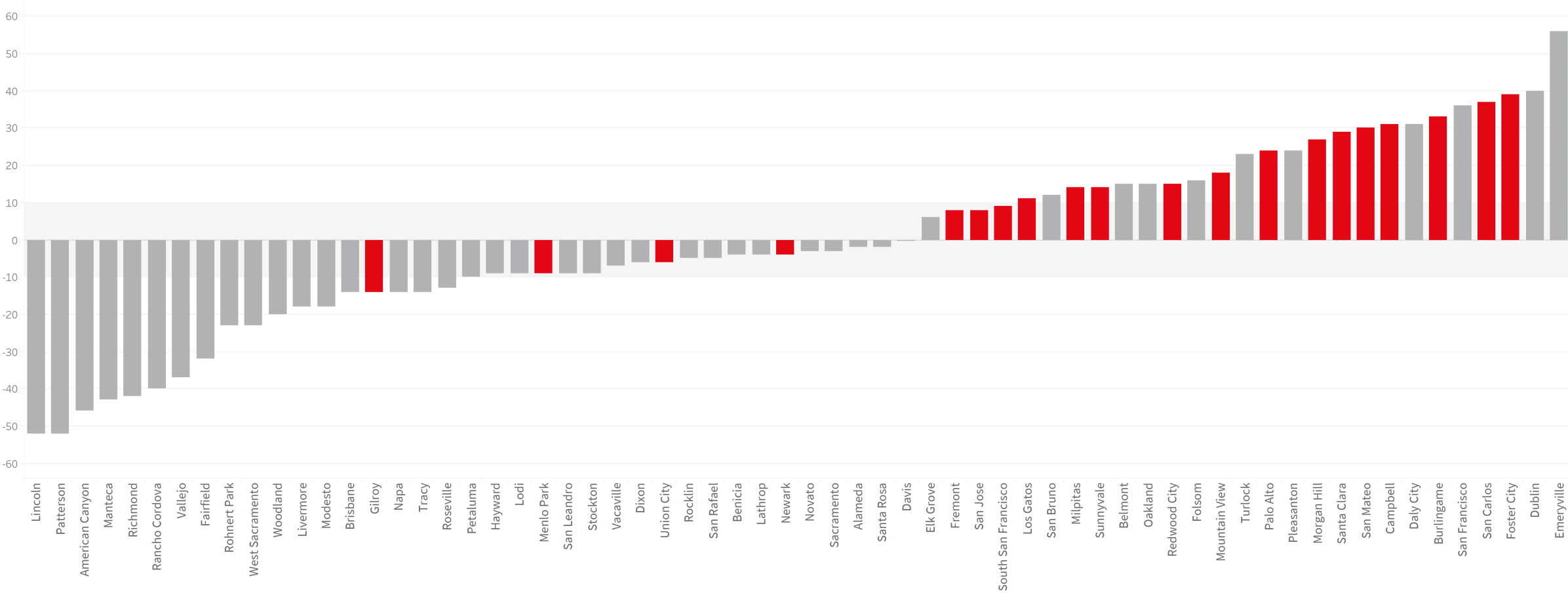
San Francisco will only reach a balanced position through the creation of up to 18M SF of industrial space.

|                |                                                                         |
|----------------|-------------------------------------------------------------------------|
| Superstars     | High performing on both demand and supply.                              |
| Emerging       | Robust labor pool matched with a solid consumer base.                   |
| Balanced       | Middle performers on both industrial demand and supply                  |
| Talent-rich    | Strong labor and consumer base, lagging in real estate.                 |
| Supply-centric | Strong real estate fundament but lagging on talent and consumer demand. |
| Idle           | Lagging in both demand and supply.                                      |



# Comparing Silicon Valley

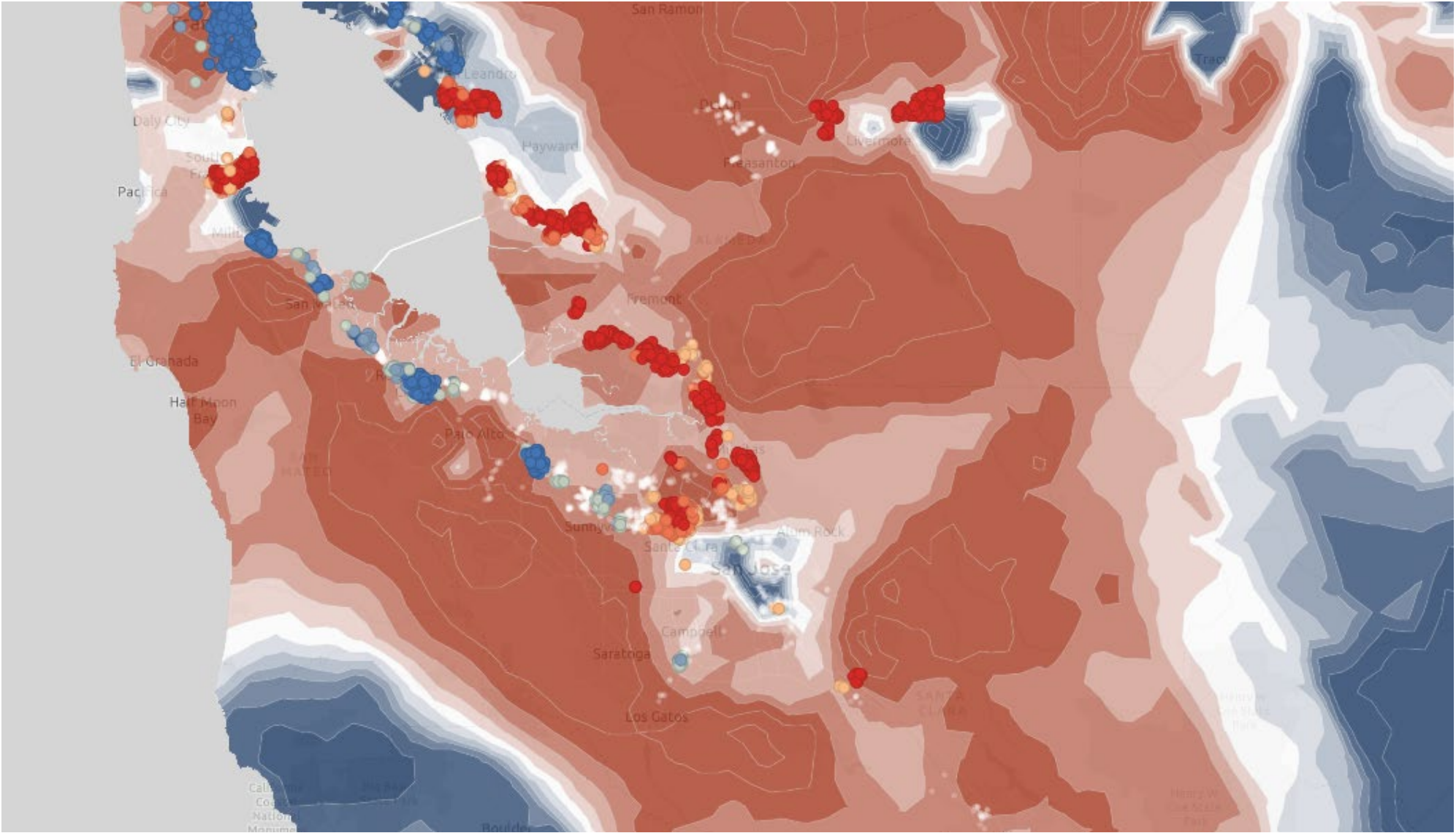
Difference between Composite Industrial Momentum and Industrial Real Estate



Cities to the Left are Skewed toward Industrial Real Estate ||||| Cities to the Right are Skewed toward Composite Industrial Momentum

Attachment: July 1-SVEDA Speaker Panel Industrial Presentation (2867 : Industrial

# Consumer Demand vs. Real Estate



Attachment: July 1-SVEDA Speaker Panel Industrial Presentation (2867 : Industrial

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*JLL Research Report*

# Northern California Industrial Momentum Index





JLL's Northern California Industrial team is proud to introduce its first Northern California Industrial Momentum Index. We analyze the regional demographics, economics, workforce and real estate factors that impact locational decisions. With this index we also hope to offer a glimpse into how this data can be tailored to a business or investment strategy. Additionally, the index is extremely insightful for municipalities that wish to better understand their industrial landscape and may have an imbalance of industrial or flex real estate compared to local demand or availability of local labor.



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## Quick guide to Northern California Industrial Momentum Index:

# What we were thinking

With diminishing industrial inventories and shifting occupier trends toward localization, the index is intended to aid in the discussion with cities, residents, occupiers and investors. The index is broken down into the following categories:

### Community demand

#### Community Fundamentals Index Consumer Demand Index

- These capture community sustainability and viability, as well as consumer demand.
- It is important for companies and investors looking to enter a community to understand the consumer base that supports business growth and the economic and demographic fundamentals that support long-term sustainability.
- Cities must understand how their community supports the economic ecosystem around them.

### Talent base

#### Advanced Industries Index Industrial Labor Pool Index

- These illustrate availability of highly skilled workers across advanced industries and blue-collar manufacturing and warehouse/distribution workers.
- Companies and investors looking for locational opportunities should understand the local labor pool and how it may sustain future growth.
- It is also important for cities to understand the dynamics and resiliency of their labor force in order to attract more business.

### Real estate supply

#### Industrial Real Estate Index

- This index provides occupiers and owners with a holistic picture of the market before they move operations or invest.
- It is important for companies and investors to understand real estate fundamentals before relocating or expanding so they can make sound decisions.
- Cities need to know how they stack up against other cities in the region that are vying for similar industries to enter or expand in their municipalities.

## Methodology

64 municipalities

- Industrial and flex inventory as a share of market
- Top cities for advanced industries employees

Advanced industries—Brookings Institute definition + e-commerce (48 four-digit NAICS codes)

Industrial labor profile—169 independently selected six-digit NAICS codes

15+ data sources, 48 variables and 122,000 unique data points



# Composite Industrial Momentum Index vs. Industrial Real Estate Index

## Community Demand + Talent Base vs. Real Estate Supply

The two community demand indices and the two talent base indices were combined to create the Composite Industrial Momentum Index. Each of these four indices was given equal weight in the composite. The purpose of this composite was to compare if talent and demand together are in balance with real estate supply in each municipality.

Based on this comparison, the 64 cities were placed into clusters that describe their balance between real estate supply and demand/talent.

The clusters are as follows:



### Superstar

High-performing on both demand and supply. These cities have a robust industrial sector and the diverse labor and consumer base to support it now and into the future.



### Idle

Lagging in both demand and supply, many of these cities perform well in some key demographic factors, but low rankings in a couple of variables like population density, incomes and labor pool can pull these cities down. These cities are generally characterized by smaller industrial operations and a built-out environment that constrains future growth.



### Balanced

Middle performers on both industrial demand and supply. These cities have a healthy industrial sector with the labor and consumer base to support industrial operations within the city.



### Supply-centric

Strong real estate fundamentals but lagging on talent and consumer demand. These cities have the land and an industrial-friendly environment to support future development, but the talent is often derived from neighboring communities.



### Talent-rich

Strong labor and consumer base but lagging in the real estate component. These cities often feed the talent for neighboring cities as they rank well on the labor and consumer demand components, but a small supply of industrial product limits the existing potential of these cities.



### Emerging

Robust labor pool matched with a solid consumer base. These cities have solid existing industrial bases with a diverse labor supply and consumer demand, but land constraints pose one of the biggest challenges to future development.

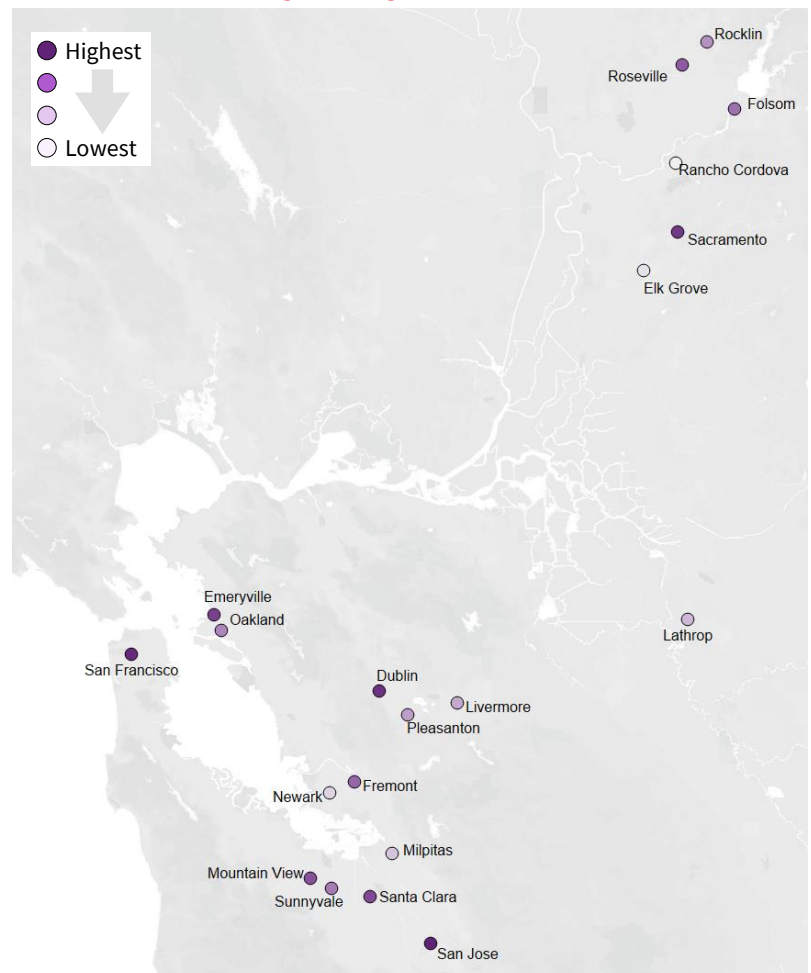


# Community Fundamentals Index

Fundamentals from an economic perspective includes the basic quantitative and qualitative data that, when assessed together, illustrates the economic well-being of an area. We created the Community Fundamentals Index so that we could analyze the fundamentals of each municipality to prompt a dialogue about community viability and sustainability.

| City           | Index | Index ranking |
|----------------|-------|---------------|
| San Jose       | 43.44 | 1             |
| San Francisco  | 41.68 | 2             |
| Dublin         | 29.13 | 3             |
| Sacramento     | 26.39 | 4             |
| Emeryville     | 25.46 | 5             |
| Santa Clara    | 24.35 | 6             |
| Mountain View  | 23.27 | 7             |
| Roseville      | 22.59 | 8             |
| Fremont        | 22.23 | 9             |
| Folsom         | 21.54 | 10            |
| Sunnyvale      | 21.00 | 11            |
| Oakland        | 20.91 | 12            |
| Rocklin        | 20.68 | 13            |
| Pleasanton     | 20.57 | 14            |
| Livermore      | 19.71 | 15            |
| Lathrop        | 19.70 | 16            |
| Milpitas       | 19.21 | 17            |
| Newark         | 17.75 | 18            |
| Elk Grove      | 17.55 | 19            |
| Rancho Cordova | 17.14 | 20            |

Index by location weighted highest to lowest



## Analysis

It comes as no surprise that some of the largest cities in both size and population in the Northern California region are ranked among the top cities in this index. Cities with populations of over 100,000 people include San Jose, San Francisco, Sacramento, Santa Clara, Roseville, Fremont, Sunnyvale, Oakland and Elk Grove. **Cities with larger populations have a larger demand base for retail goods and services and a bigger talent pool to sustain healthy economic activity.**

Per capita income as a metric comes with some limitations, such as the inability to account for income disparity, poverty, wealth or savings. However, it is a useful metric to determine the average per-person income to evaluate the standard of living of a population. **Nine of the top 20 cities have per capita incomes of more than \$50,000.** Of these top cities, Mountain View has the highest per capita income at \$74,778. Among all 64 cities, Palo Alto has the highest per capita income at \$94,346.

Cities with a large share of households that can afford the median-priced home, an indication of higher housing affordability, can indicate future growth or sustainability because households generally have an easier time staying in their community and, if housing costs increase in surrounding areas, more households may begin to gravitate toward such communities. **More than 70 percent of households can afford the median-priced home in 13 of the top 20 cities in the index.** Of these cities, Lathrop and Elk

Grove have the highest share of households at 88 percent and 86 percent, respectively, and both ranked the highest for this metric of all 64 cities in the index. Given the low levels of affordability in the immediate Bay Area, some households are migrating toward the Sacramento area and the Central Valley in search of higher affordability, with many of the top 20 cities in the index benefiting from this inflow of new residents, further bolstering their real estate fundamentals. It is somewhat unsurprising that the least affordable city in the index, Burlingame, has high home prices, thereby limiting affordability.

The median age of the population in a city can indicate the viability of an area, depending on the perspective of the analysis. For this index, a municipality ranked higher if the median age was younger because younger families generally drive significant economic activity: their need for goods and services tends to be higher, and younger communities usually grow in the future as households start families and expand.

**Among the 10 youngest communities, eight are located in the Sacramento and Central Valley area.** Much of this is tied to affordability, as mentioned before. **As affordability continues to decline in the Bay Area, many communities in these areas should continue to benefit from the inflow of new residents,** particularly younger households that are purchasing their first home and choose to commute further in exchange for greater affordability.

## Variables from highest to lowest weight given in Index

- Total population
- Per capita income
- Share of households that can afford median home price
- Median age
- Employed civilian population age 16+
- Annual population growth rate (2019–2024)
- Annual population growth rate (2010–2019)
- Total households
- Unemployment rate
- Average commute to work in minutes
- Ratio of resident jobs to civilian population 16+

## Did you know?

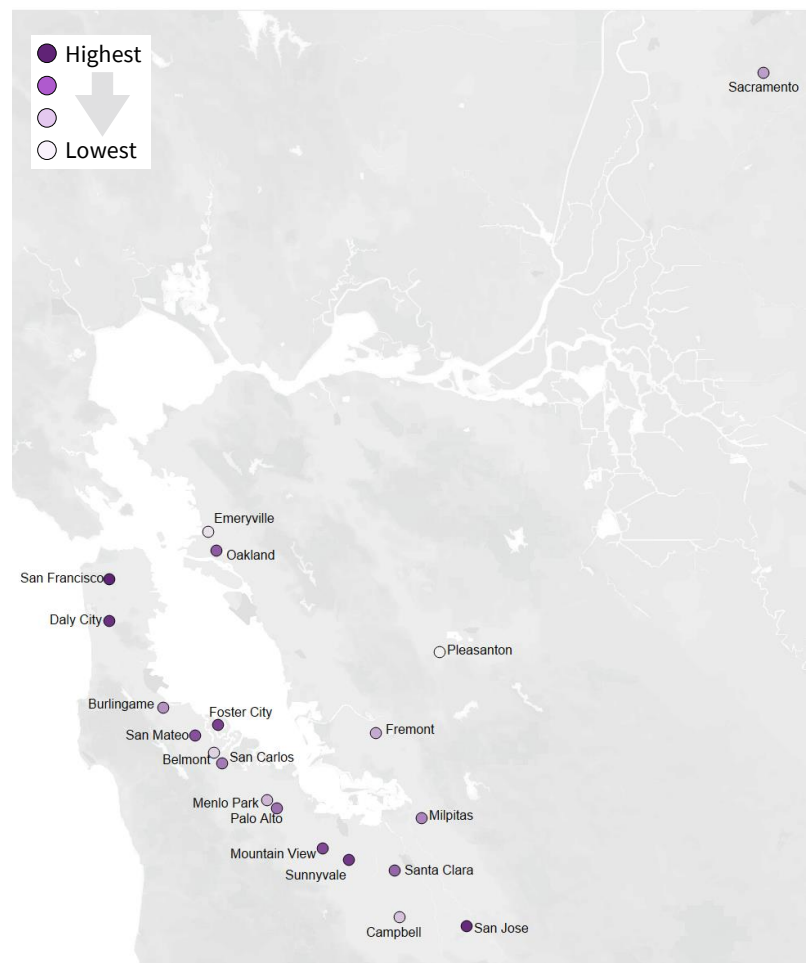
Did you know that Davis is the youngest city with a median age of 28 and that Dublin was the fastest growing city from 2010 to 2019?

# Consumer Demand Index

Consumer demand is commonly defined as the willingness and ability of consumers to purchase products. The Consumer Demand Index was created to capture the last-mile/urban infill demand within each municipality's geographical boundary. Although some cities may not have the industrial capacity to service consumer demand within their boundaries, this index can identify potential supply-oriented cities that can service broader demand or a cluster of cities. Locational decisions for suppliers are often based on these dynamics.

| City          | Index | Index ranking |
|---------------|-------|---------------|
| San Francisco | 71.73 | 1             |
| San Jose      | 50.46 | 2             |
| Daly City     | 34.00 | 3             |
| Sunnyvale     | 31.75 | 4             |
| Foster City   | 30.72 | 5             |
| Mountain View | 29.30 | 6             |
| San Mateo     | 29.05 | 7             |
| Oakland       | 28.70 | 8             |
| Santa Clara   | 28.10 | 9             |
| Palo Alto     | 27.38 | 10            |
| San Carlos    | 27.33 | 11            |
| Milpitas      | 26.25 | 12            |
| Burlingame    | 25.83 | 13            |
| Sacramento    | 25.29 | 14            |
| Fremont       | 25.07 | 15            |
| Menlo Park    | 24.98 | 16            |
| Campbell      | 24.79 | 17            |
| Belmont       | 24.68 | 18            |
| Emeryville    | 23.73 | 19            |
| Pleasanton    | 23.31 | 20            |

Index by location weighted highest to lowest





## Analysis

The number of households or population density within a municipality is one way to measure consumer demand because they can indicate the potential purchasing power within an area. Additionally, other proxies for consumer demand can be household income, as higher-income households generally have more disposable income to spend on goods, and consumer expenditures per capita. It is not surprising that some of the largest cities in size and population, such as San Francisco, San Jose, and Sacramento, as well as municipalities with higher incomes, including Sunnyvale and Santa Clara, tend to rank high in both the Community Fundamentals and Consumer Demand Indices.

If municipalities have higher consumer expenditures per capita it could mean a variety of things, including potentially larger disposable incomes and greater purchasing power. In the case of this index, consumer expenditures per capita was used a proxy for consumer spending in each city on goods that could be purchased online for delivery. Fifteen of the top 20 cities with the highest consumer expenditures per capita were also ranked within the top 20 in the Consumer Demand Index. **Most of the cities with the highest consumer expenditures per capita were located in the Bay Area.**

Households that contain families have sizable purchasing power, particularly families with children. Families with children are also likely to buy goods online for convenience purposes.

Therefore, **family households with children is a good indicator of the size of the consumer base in a municipality.** Additionally, communities with lots of family households could indicate future growth of the consumer base as these families expand in size. Largely because the cities are so big, San Jose, San Francisco, Sacramento and Oakland all rank among the highest for this metric across all 64 cities. Cities that rank high in this metric but are not included in the top 20 cities within this index, mostly because incomes or per capita expenditures are relatively lower, are Stockton, Modesto, Elk Grove, Santa Rosa, Hayward, Roseville, Fairfield, Vallejo, Tracy, Richmond and Vacaville. Cities such as these are ideal for young families because of the higher single-family for-sale inventory and significant new housing construction.

Millennials and Generation Xers represent a significant share of the consumer base, particularly for e-commerce goods. Millennials, because of age and utilization of technology, have significant purchasing power that will only increase over time as more of them start families; however, **Generation X represents the largest share of e-commerce sales.**<sup>1</sup> Further along in their careers and more likely to have a family than millennials, it is no surprise that this generation raised on the cusp on consumer technology has embraced speed and convenience. As a result, measuring the density of residents within each generation can be an indication of how large the consumer base is.

## Variables from highest to lowest weight given in Index

- Consumer expenditures per capita
- Total households
- Population density
- Family households with population less than 18 years old
- Millennial density
- Generation X density
- Average household size
- Average commute to work in minutes
- Median disposable income
- Number of households that make more than \$100,000

## Did you know?

Did you know that close to 50% of online shoppers are Generation Xers and the top ten cities with the most disposable income are all located within the Bay Area?

<sup>1</sup> Cooper Smith, "[Gen X and Baby Boomers Present a Huge Opportunity for E-Commerce Companies](#)," *Business Insider*, July 7, 2014,

# Advanced Industries Index

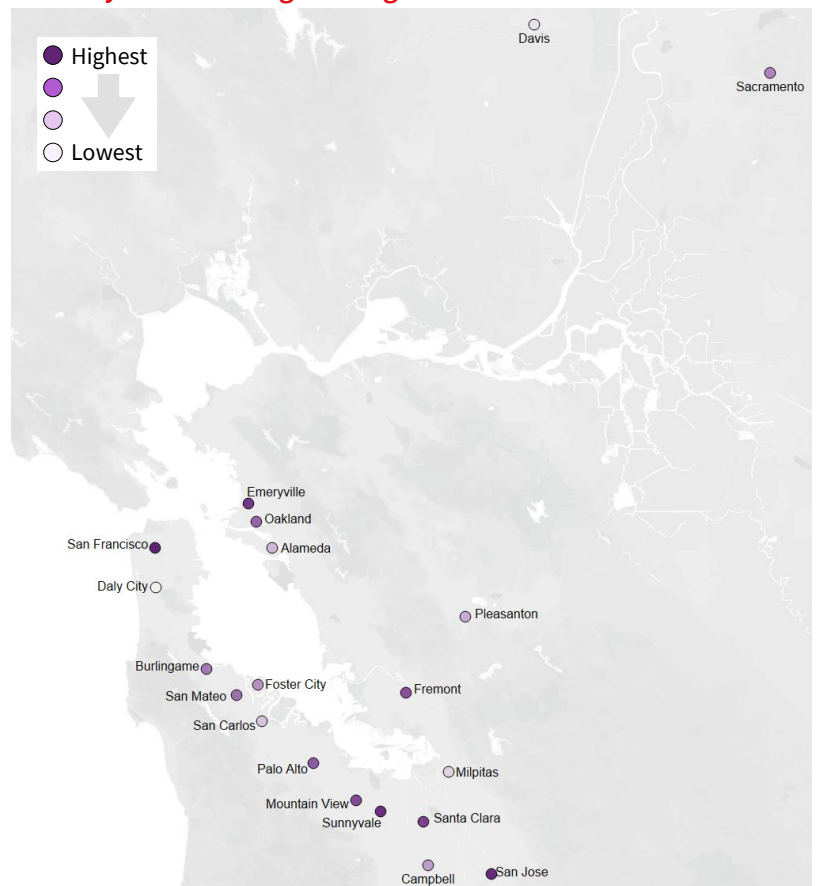
We created the Advanced Industries Index for the purpose of capturing innovation, the availability of highly skilled labor and potential future economic momentum. We included a variety of variables to round out the advanced industry story.

Advanced manufacturing is, according to the Brookings Institute, “characterized by its deep involvement with technology research and development (R&D) and STEM (science, technology, engineering, and math) workers[;] the sector encompasses 50 industries ranging from

manufacturing industries such as auto-making and aerospace to energy industries such as oil and gas extraction to high-tech services such as computer software and computer system design, including for health applications.” We expanded the Brookings Institute’s definition to include e-commerce-related industries. We have called this revised definition “advanced industries.” With fulfillment centers becoming more autonomous thanks to robotics, AI and advances in mobility, there has been a huge push to modernize last-mile logistics with high capital investment into high-tech innovations.

| City          | Index | Index ranking |
|---------------|-------|---------------|
| San Francisco | 78.48 | 1             |
| San Jose      | 53.54 | 2             |
| Sunnyvale     | 25.61 | 3             |
| Emeryville    | 25.47 | 4             |
| Santa Clara   | 22.55 | 5             |
| Mountain View | 20.42 | 6             |
| Fremont       | 20.37 | 7             |
| Palo Alto     | 20.33 | 8             |
| Oakland       | 19.74 | 9             |
| San Mateo     | 17.73 | 10            |
| Burlingame    | 16.78 | 11            |
| Sacramento    | 15.37 | 12            |
| Foster City   | 14.73 | 13            |
| Campbell      | 14.57 | 14            |
| Pleasanton    | 12.38 | 15            |
| Alameda       | 12.36 | 16            |
| San Carlos    | 12.28 | 17            |
| Milpitas      | 11.87 | 18            |
| Davis         | 11.77 | 19            |
| Daly City     | 11.76 | 20            |

Index by location weighted highest to lowest



## Analysis

The top 20 cities have strong reputations for containing ample advanced industries and highly educated residents, with some viewed globally as top innovation centers. Cities with many people that work in advanced industry occupations were generally ranked among the top 20 cities within this index. Seven of the top 10 cities with the highest number of advanced industry occupations were ranked among the top 20 cities in the index. **San Jose and San Francisco each have more than 220,000 advanced industry occupations, followed by Sacramento, Oakland, Fremont and Sunnyvale, all with more than 50,000.**

Similar to the number of advanced industry occupations, cities with a large number of advanced industries relative to the size of the municipality generally also ranked high in this index. The five cities that ranked the highest for advanced industries density across all 64 cities were Emeryville, Burlingame, Santa Clara, Campbell and Mountain View, whereas Lathrop, Patterson, Lincoln, Dixon and American Canyon ranked the lowest.

**Cities with a high number of residents with bachelor's and graduate degrees relative to the size of the municipality were also generally ranked among the top 20 cities in the index.** For advanced industries to be successful it is essential to have a large enough base of highly skilled or educated talent located nearby. In fact, 16 of the top

20 cities with the highest bachelor's and graduate degree density were also ranked among the top 20 cities in the advanced industries index, with many of these cities located near top-tier universities, like the University of California system, Santa Clara and Stanford. Cities like Foster City, Daly City, Davis and Alameda, which had a lower number of advanced industry occupations relative to other cities in the index were pulled into the top 20 in part because of a high density of highly educated residents.

The number of patents and startups can serve as proxy indicators of innovation or entrepreneurship and likely signals prime locations for advanced industry companies. Additionally, patent registration reflects the generation of new ideas, as well as the ability for businesses to capitalize on these ideas and grow, thereby generating economic activity. **San Francisco had the largest number of startups form since 2015 with more than 3,000, followed by Palo Alto, San Jose, Mountain View, Sunnyvale, Santa Clara and Oakland.**

## Variables from highest to lowest weight given in Index

- Advanced industry occupations
- Bachelor's/graduate degree density
- Advanced industries density
- Number of startups since 2015
- Patents (2010 to 2019)
- Number of STEM degrees
- Venture capital funding since 2018
- Average mean scale test score in math for high school

## Did you know?

Did you know that Fremont ranks among the top five for patents at 26,234 and Palo Alto is ranked the highest for high school math scores?



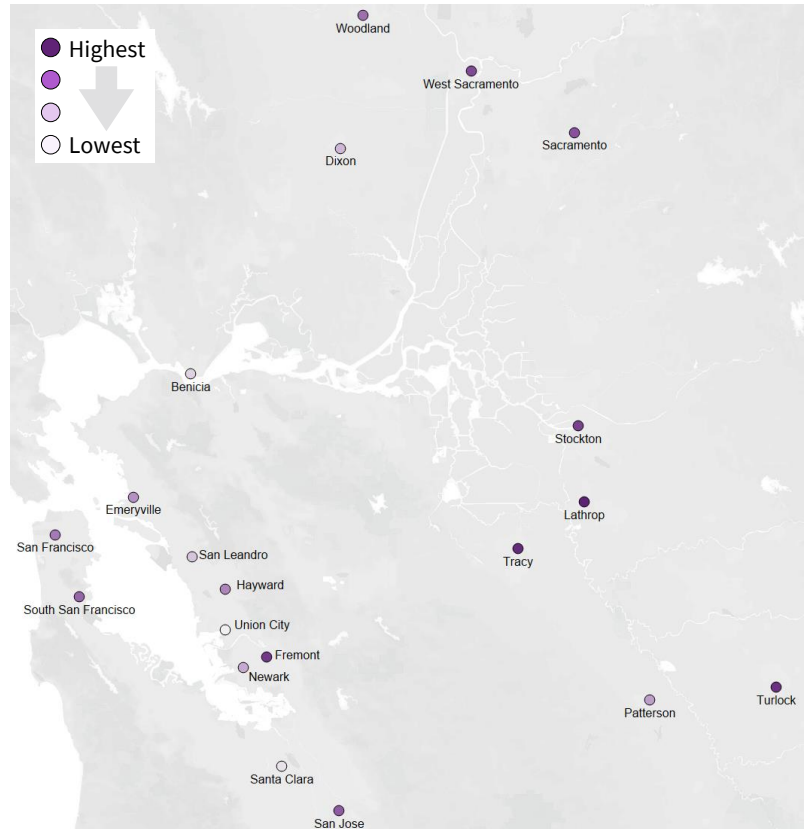
# Industrial Labor Profile Index

Labor is largely considered to be one of the main driving forces of the economy. In periods of both economic growth and contraction, labor shortages can plague industries. When unemployment is high, there are often still labor shortages for specific types of work—this is typically exacerbated during times of robust economic growth and affects labor productivity across the board. Places with a strong existing labor base are more likely to benefit from a positive feedback loop, suggesting a resilience and elasticity in the labor pool.

We created the Industrial Labor Index for the purpose of capturing manufacturing and warehouse/distribution labor, the two pillars of industrial labor. We chose to address these categories separately and analyze them separately as each type of labor can indicate a different business case for potential employers. We focused specifically on industrial labor because we believe other indices have adequately addressed other demographic factors.

| City                | Index | Index ranking |
|---------------------|-------|---------------|
| Lathrop             | 57.93 | 1             |
| Tracy               | 37.55 | 2             |
| Turlock             | 34.63 | 3             |
| Fremont             | 33.35 | 4             |
| Stockton            | 31.64 | 5             |
| West Sacramento     | 30.99 | 6             |
| Sacramento          | 30.47 | 7             |
| San Jose            | 29.67 | 8             |
| South San Francisco | 26.78 | 9             |
| Woodland            | 26.71 | 10            |
| San Francisco       | 23.61 | 11            |
| Hayward             | 23.35 | 12            |
| Emeryville          | 23.27 | 13            |
| Patterson           | 23.21 | 14            |
| Newark              | 22.76 | 15            |
| Dixon               | 22.60 | 16            |
| San Leandro         | 21.36 | 17            |
| Benicia             | 21.14 | 18            |
| Santa Clara         | 20.30 | 19            |
| Union City          | 19.86 | 20            |

Index by location weighted highest to lowest



## Analysis

The top 20 cities in the Industrial Labor Profile Index have had historically large clusters of industrial-related industries and hence have large industrial labor forces. San Francisco is one outlier in the top 20 because many industrial industries there have shrunk in recent decades, replaced by more advanced industries. However, because of its large population there is still a significant base of industrial laborers, thereby pushing it into the top 20.

**Nearly half of these cities are in the Central Valley and Sacramento area, where many industrial industries are thriving.**

The manufacturing and warehouse/distribution location quotients are an indicator of the city's specialization by comparing the occupations' share of regional employment with its share of national employment. A location quotient more than 1 would imply that a city has a proportionate manufacturing or warehouse/distribution labor force that is greater than the national average. As a result, this may imply higher future growth and sustainability in that community for such industries because of lower barriers to entry for new investors and companies. **Cities that rank among the top 10 for both location quotients include Lathrop, West Sacramento, Woodland, Newark and South San Francisco.** Turlock ranks the highest among all 64 cities for manufacturing location quotient; it has more than three times the manufacturing labor force of the national average. Lathrop ranks the

highest for warehouse/distribution location quotient, with nearly six times the labor force of the national average.

When this is coupled with a strong warehouse/distribution real estate base, **Lathrop is well-balanced from both an industry and occupation perspective.**

The manufacturing and warehouse/distribution industry density represents how many individual businesses are in each municipality relative to its size. A high density can signify a significant cluster of industries. Cities that ranked among the top 10 for manufacturing and warehouse/distribution density include Emeryville, Santa Clara, San Francisco, Burlingame, San Carlos, Campbell and San Leandro. Across all 64 cities, **Napa ranked the highest for manufacturing density and Emeryville for warehouse/distribution density.** Most of these cities have experienced a decline in industrial product in recent years as office and residential development increases. As a result, the industries that remain may be forced out due to high costs and/or lack of new supply.

## Variables from highest to lowest weight given in Index

- Manufacturing Location Quotient
- Manufacturing Industry Density
- Number of Resident Manufacturing Workers
- Manufacturing Headcount Growth Rate (2009 to 2019)
- Warehouse/Distribution Location Quotient
- Warehouse/Distribution Industry Density
- Number of Resident Warehouse/Distribution Workers
- Warehouse/Distribution Headcount Growth Rate (2009 to 2019)

## Did you know?

Did you know that Napa ranks the highest for manufacturing industry density because of the wine industry and that Tracy ranks the highest for both manufacturing and warehouse/distribution headcount growth rates between 2009 and 2019?

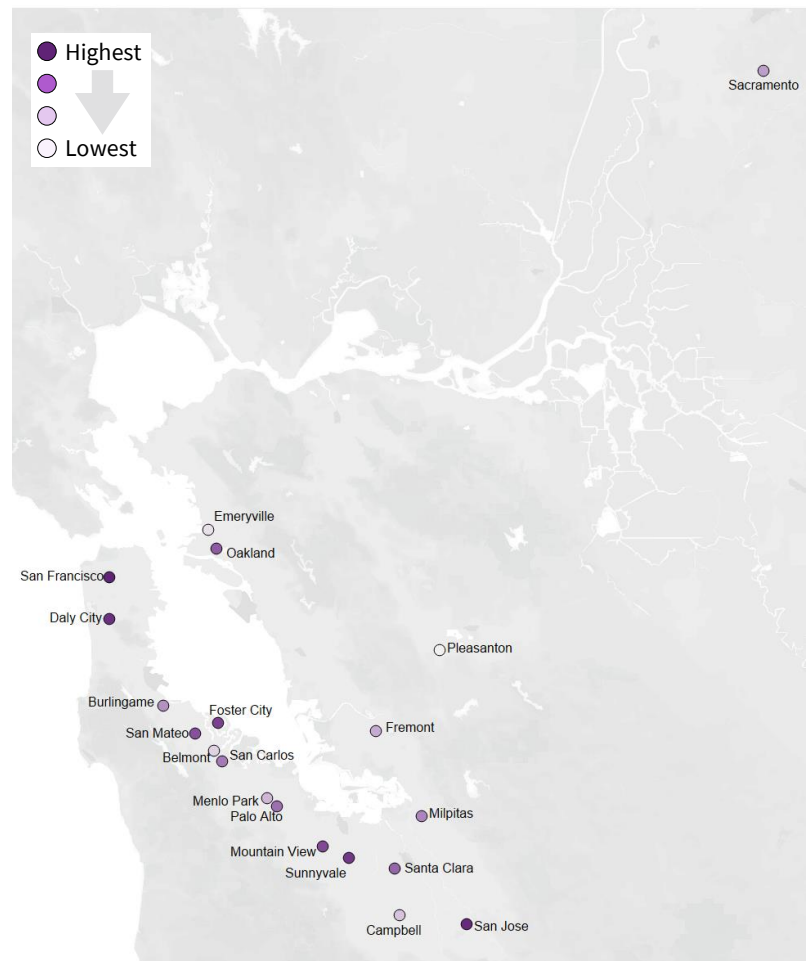


# Industrial Real Estate Index

Real estate forms the basis of an industrial operation. In a market with a solid industrial real estate outlook, occupiers can stand to benefit from spillover effects and owners can expect a stable investment. For this reason, we included the Industrial Real Estate Index so we could analyze the suitability and viability of the real estate in each municipality to provide occupiers and owners with a holistic picture of the market before they move operations or invest.

| City            | Index | Index ranking |
|-----------------|-------|---------------|
| Tracy           | 37.80 | 1             |
| Sacramento      | 34.78 | 2             |
| Stockton        | 34.27 | 3             |
| Patterson       | 29.99 | 4             |
| Lathrop         | 28.24 | 5             |
| Manteca         | 24.38 | 6             |
| Lincoln         | 24.27 | 7             |
| Livermore       | 21.98 | 8             |
| Woodland        | 21.64 | 9             |
| San Jose        | 20.83 | 10            |
| Fremont         | 20.48 | 11            |
| American Canyon | 20.42 | 12            |
| West Sacramento | 19.65 | 13            |
| Rancho Cordova  | 19.61 | 14            |
| Fairfield       | 17.36 | 15            |
| Hayward         | 16.98 | 16            |
| Roseville       | 16.33 | 17            |
| Richmond        | 16.16 | 18            |
| Modesto         | 15.54 | 19            |
| Newark          | 15.16 | 20            |

Index by location weighted highest to lowest



## Analysis

The top 20 cities in the Industrial Real Estate Index represent a diverse cross-section of the region, from urban infill areas in San Jose and Fremont to big-block warehouses and master-planned industrial parks in Tracy and Sacramento. One thread that ties these cities together is a commitment to the industrial sector in zoning and urban planning considerations.

**The top 20 cities have an average of 19.6 percent zoned industrial land, compared to a regional average of 11.1 percent.** Twelve of the top 20 cities are above the regional average, including Rancho Cordova, Patterson, Tracy, American Canyon and Sacramento.

New construction since 2008 and Class A product as a share of inventory is another good proxy of a city's commitment to industrial operations. Enough supply of new space ensures that industries will be able to fulfill modern manufacturing and fulfillment needs. **Land-rich markets like Patterson and Tracy top the list of new construction** as retailers look to these affordable markets for their regional distribution centers. On the other hand, land-constrained cities like **Fremont and Newark also round out the top 20 as developers sought urban infill opportunities for last-mile distribution strategies and took advantage of the skilled talent for advanced manufacturing operations.**

Long-term trends are also an important consideration for tenants and investors looking for a stable market before committing to a

business decision. Although high rent growth may be looked upon unfavorably by some occupiers, for the purpose of the index, rent growth was considered a positive. Landlords are inclined to push rents when demand outpaces supply; thus, strong rent growth is indicative of strong demand for a market despite tight conditions and other exogenous factors. **Six of the 10 cities with the strongest rent growth are found in Silicon Valley and the San Francisco Mid-Peninsula (Menlo Park, San Mateo, Belmont, Palo Alto, Mountain View and South San Francisco).** The inverse relationship between rent growth and the percent of zoned industrial land is stronger than the relationship between rent growth and existing supply, suggesting that a premium for zoning restrictions that limit future industrial growth is priced into rents more than limited supply alone. This in part can explain the triple-digit five-year growth in many of these cities.

## Variables from highest to lowest weight given in Index

- Inventory
- Percent zoned industrial
- New construction as a share of inventory
- Class A as a share of inventory
- Average age of industrial inventory
- 5-year percentage change in rent
- 5-year change in rent
- 5-year total net absorption
- 5-year total net absorption as percentage of stock
- 5-year percentage change in vacancy
- 5-year change in vacancy

## Did you know?

Did you know that Tracy has the most five-year total absorption with 8.1 million square feet and Fremont leads the Bay Area cities in terms of five-year total absorption with 2.6 million square feet?

# Appendix

The Composite Industrial Momentum Index is comprised of the four indices to the left.

| Cluster color  |                 | Community Fundamentals |      | + | Consumer Demand |      | + | Advanced Industries |      | + | Industrial Labor Profile |      | = | Composite Industrial Momentum |      | Industrial Real Estate |      |
|----------------|-----------------|------------------------|------|---|-----------------|------|---|---------------------|------|---|--------------------------|------|---|-------------------------------|------|------------------------|------|
|                |                 | Index                  | Rank |   | Index           | Rank |   | Index               | Rank |   | Index                    | Rank |   | Index                         | Rank | Index                  | Rank |
| Balanced       | Alameda         | 8.24                   | 56   |   | 21.77           | 25   |   | 12.36               | 16   |   | 11.35                    | 43   |   | 13.43                         | 38   | 8.47                   | 36   |
| Supply centric | American Canyon | 9.01                   | 52   |   | 14.82           | 44   |   | 3.32                | 56   |   | 13.10                    | 36   |   | 10.06                         | 58   | 20.42                  | 12   |
| Idle           | Belmont         | 11.32                  | 44   |   | 24.68           | 18   |   | 11.15               | 22   |   | 3.13                     | 62   |   | 12.57                         | 41   | 0.03                   | 56   |
| Idle           | Benicia         | 8.02                   | 57   |   | 10.60           | 57   |   | 4.75                | 45   |   | 21.14                    | 18   |   | 11.13                         | 53   | 2.92                   | 49   |
| Idle           | Brisbane        | 7.38                   | 58   |   | 9.51            | 59   |   | 3.61                | 54   |   | 13.63                    | 34   |   | 8.53                          | 61   | 4.00                   | 47   |
| Talent rich    | Burlingame      | 6.76                   | 60   |   | 25.83           | 13   |   | 16.78               | 11   |   | 17.06                    | 24   |   | 16.60                         | 19   | 2.13                   | 52   |
| Talent rich    | Campbell        | 10.62                  | 48   |   | 24.79           | 17   |   | 14.57               | 14   |   | 15.86                    | 27   |   | 16.46                         | 20   | 2.43                   | 51   |
| Talent rich    | Daly City       | 4.07                   | 63   |   | 34.00           | 3    |   | 11.76               | 20   |   | 5.64                     | 58   |   | 13.87                         | 32   | -7.41                  | 63   |
| Idle           | Davis           | 13.82                  | 33   |   | 21.31           | 26   |   | 11.77               | 19   |   | 2.52                     | 63   |   | 12.36                         | 42   | 6.15                   | 42   |
| Idle           | Dixon           | 12.29                  | 40   |   | 10.86           | 55   |   | 1.84                | 62   |   | 22.60                    | 16   |   | 11.90                         | 44   | 7.94                   | 38   |
| Talent rich    | Dublin          | 29.13                  | 3    |   | 22.78           | 23   |   | 9.10                | 26   |   | 9.06                     | 49   |   | 17.52                         | 13   | 1.49                   | 53   |
| Balanced       | Elk Grove       | 17.55                  | 19   |   | 19.16           | 30   |   | 8.11                | 29   |   | 13.65                    | 33   |   | 14.62                         | 27   | 8.95                   | 33   |
| Talent rich    | Emeryville      | 25.46                  | 5    |   | 23.73           | 19   |   | 25.47               | 4    |   | 23.27                    | 13   |   | 24.48                         | 4    | -4.85                  | 60   |
| Supply centric | Fairfield       | 15.29                  | 27   |   | 12.90           | 49   |   | 4.33                | 49   |   | 14.06                    | 31   |   | 11.64                         | 47   | 17.36                  | 15   |
| Talent rich    | Folsom          | 21.54                  | 10   |   | 17.34           | 34   |   | 8.26                | 28   |   | 8.11                     | 52   |   | 13.81                         | 34   | 2.79                   | 50   |
| Talent rich    | Foster City     | 16.14                  | 24   |   | 30.72           | 5    |   | 14.73               | 13   |   | 7.52                     | 53   |   | 17.28                         | 16   | 1.04                   | 55   |
| Superstar      | Fremont         | 22.23                  | 9    |   | 25.07           | 15   |   | 20.37               | 7    |   | 33.35                    | 4    |   | 25.25                         | 3    | 20.48                  | 11   |
| Balanced       | Gilroy          | 14.86                  | 28   |   | 16.36           | 37   |   | 4.62                | 46   |   | 10.78                    | 45   |   | 11.65                         | 46   | 10.35                  | 32   |
| Balanced       | Hayward         | 14.79                  | 29   |   | 15.93           | 39   |   | 6.38                | 37   |   | 23.35                    | 12   |   | 15.11                         | 25   | 16.98                  | 16   |
| Superstar      | Lathrop         | 19.70                  | 16   |   | 5.17            | 64   |   | 1.68                | 63   |   | 57.93                    | 1    |   | 21.12                         | 9    | 28.24                  | 5    |
| Supply centric | Lincoln         | 16.42                  | 23   |   | 8.43            | 62   |   | 3.10                | 58   |   | 10.86                    | 44   |   | 9.70                          | 59   | 24.27                  | 7    |
| Superstar      | Livermore       | 19.71                  | 15   |   | 19.87           | 28   |   | 7.76                | 31   |   | 13.08                    | 37   |   | 15.10                         | 26   | 21.98                  | 8    |
| Idle           | Lodi            | 12.73                  | 39   |   | 12.44           | 51   |   | 2.87                | 60   |   | 17.65                    | 23   |   | 11.42                         | 48   | 7.68                   | 39   |
| Idle           | Los Gatos       | 9.57                   | 50   |   | 23.00           | 22   |   | 10.69               | 23   |   | 2.25                     | 64   |   | 11.38                         | 51   | -6.64                  | 62   |
| Supply centric | Manteca         | 14.57                  | 30   |   | 11.12           | 53   |   | 2.94                | 59   |   | 16.98                    | 25   |   | 11.40                         | 49   | 24.38                  | 6    |
| Balanced       | Menlo Park      | 13.35                  | 35   |   | 24.98           | 16   |   | 10.13               | 24   |   | 6.82                     | 55   |   | 13.82                         | 33   | 12.59                  | 24   |
| Emerging       | Milpitas        | 19.21                  | 17   |   | 26.25           | 12   |   | 11.87               | 18   |   | 16.95                    | 26   |   | 18.57                         | 11   | 12.51                  | 25   |
| Balanced       | Modesto         | 13.81                  | 34   |   | 16.01           | 38   |   | 6.26                | 39   |   | 17.91                    | 22   |   | 13.49                         | 37   | 15.54                  | 19   |
| Talent rich    | Morgan Hill     | 16.84                  | 21   |   | 19.20           | 29   |   | 5.57                | 42   |   | 14.09                    | 30   |   | 13.92                         | 31   | -2.53                  | 58   |
| Emerging       | Mountain View   | 23.27                  | 7    |   | 29.30           | 6    |   | 20.42               | 6    |   | 5.01                     | 60   |   | 19.50                         | 10   | 11.60                  | 28   |
| Balanced       | Napa            | 11.51                  | 42   |   | 15.86           | 40   |   | 5.38                | 43   |   | 15.29                    | 29   |   | 12.01                         | 43   | 11.52                  | 29   |
| Balanced       | Newark          | 17.75                  | 18   |   | 16.73           | 35   |   | 4.59                | 48   |   | 22.76                    | 15   |   | 15.46                         | 24   | 15.16                  | 20   |

Attachment: JLL Northern California Industrial Momentum Index Report (2867 : Industrial Policies)

## Appendix

The Composite Industrial Momentum Index is comprised of the four indices to the left.

| Cluster color  |                     | Community Fundamentals |      | + | Consumer Demand |      | + | Advanced Industries |      | + | Industrial Labor Profile |      | = | Composite Industrial Momentum |      | Industrial Real Estate |      |
|----------------|---------------------|------------------------|------|---|-----------------|------|---|---------------------|------|---|--------------------------|------|---|-------------------------------|------|------------------------|------|
|                |                     | Index                  | Rank |   | Index           | Rank |   | Index               | Rank |   | Index                    | Rank |   | Index                         | Rank | Index                  | Rank |
| Idle           | Novato              | 3.49                   | 64   |   | 11.04           | 54   |   | 4.82                | 44   |   | 6.95                     | 54   |   | 6.57                          | 64   | -5.46                  | 61   |
| Emerging       | Oakland             | 20.91                  | 12   |   | 28.70           | 8    |   | 19.74               | 9    |   | 19.64                    | 21   |   | 22.24                         | 8    | 12.69                  | 23   |
| Talent rich    | Palo Alto           | 15.91                  | 25   |   | 27.38           | 10   |   | 20.33               | 8    |   | 4.79                     | 61   |   | 17.10                         | 17   | 6.55                   | 41   |
| Supply centric | Patterson           | 9.00                   | 53   |   | 9.01            | 61   |   | 0.68                | 64   |   | 23.21                    | 14   |   | 10.47                         | 56   | 29.99                  | 4    |
| Idle           | Petaluma            | 10.69                  | 47   |   | 15.02           | 43   |   | 6.56                | 35   |   | 13.30                    | 35   |   | 11.39                         | 50   | 7.06                   | 40   |
| Talent rich    | Pleasanton          | 20.57                  | 14   |   | 23.31           | 20   |   | 12.38               | 15   |   | 9.48                     | 48   |   | 16.43                         | 21   | 5.01                   | 45   |
| Supply centric | Rancho Cordova      | 17.14                  | 20   |   | 8.17            | 63   |   | 3.57                | 55   |   | 15.39                    | 28   |   | 11.07                         | 54   | 19.61                  | 14   |
| Idle           | Redwood City        | 10.93                  | 46   |   | 21.24           | 27   |   | 11.43               | 21   |   | 8.62                     | 51   |   | 13.05                         | 39   | 1.05                   | 54   |
| Supply centric | Richmond            | 8.72                   | 55   |   | 10.51           | 58   |   | 3.95                | 53   |   | 12.49                    | 39   |   | 8.92                          | 60   | 16.16                  | 18   |
| Balanced       | Rocklin             | 20.68                  | 13   |   | 14.46           | 45   |   | 6.49                | 36   |   | 12.70                    | 38   |   | 13.58                         | 35   | 11.34                  | 30   |
| Idle           | Rohnert Park        | 11.31                  | 45   |   | 14.29           | 46   |   | 6.29                | 38   |   | 8.86                     | 50   |   | 10.19                         | 57   | 8.82                   | 34   |
| Balanced       | Roseville           | 22.59                  | 8    |   | 15.35           | 42   |   | 7.19                | 33   |   | 11.55                    | 42   |   | 14.17                         | 30   | 16.33                  | 17   |
| Superstar      | Sacramento          | 26.39                  | 4    |   | 25.29           | 14   |   | 15.37               | 12   |   | 30.47                    | 7    |   | 24.38                         | 5    | 34.78                  | 2    |
| Idle           | San Bruno           | 9.00                   | 54   |   | 23.10           | 21   |   | 8.27                | 27   |   | 5.03                     | 59   |   | 11.35                         | 52   | -7.66                  | 64   |
| Talent rich    | San Carlos          | 14.01                  | 32   |   | 27.33           | 11   |   | 12.28               | 17   |   | 12.01                    | 41   |   | 16.41                         | 22   | -2.75                  | 59   |
| Emerging       | San Francisco       | 41.68                  | 2    |   | 71.73           | 1    |   | 78.48               | 1    |   | 23.61                    | 11   |   | 53.87                         | 1    | 8.26                   | 37   |
| Superstar      | San Jose            | 43.44                  | 1    |   | 50.46           | 2    |   | 53.54               | 2    |   | 29.67                    | 8    |   | 44.28                         | 2    | 20.83                  | 10   |
| Balanced       | San Leandro         | 7.30                   | 59   |   | 17.41           | 33   |   | 6.10                | 41   |   | 21.36                    | 17   |   | 13.04                         | 40   | 10.82                  | 31   |
| Talent rich    | San Mateo           | 13.03                  | 38   |   | 29.05           | 7    |   | 17.73               | 10   |   | 10.17                    | 46   |   | 17.49                         | 14   | 5.42                   | 44   |
| Idle           | San Rafael          | 4.20                   | 62   |   | 15.45           | 41   |   | 7.29                | 32   |   | 6.62                     | 56   |   | 8.39                          | 62   | -0.59                  | 57   |
| Emerging       | Santa Clara         | 24.35                  | 6    |   | 28.10           | 9    |   | 22.55               | 5    |   | 20.30                    | 19   |   | 23.82                         | 6    | 8.51                   | 35   |
| Idle           | Santa Rosa          | 10.54                  | 49   |   | 16.73           | 36   |   | 8.10                | 30   |   | 12.12                    | 40   |   | 11.87                         | 45   | 6.15                   | 43   |
| Emerging       | South San Francisco | 9.08                   | 51   |   | 22.65           | 24   |   | 9.17                | 25   |   | 26.78                    | 9    |   | 16.92                         | 18   | 11.69                  | 27   |
| Superstar      | Stockton            | 16.69                  | 22   |   | 18.78           | 31   |   | 7.10                | 34   |   | 31.64                    | 5    |   | 18.55                         | 12   | 34.27                  | 3    |
| Emerging       | Sunnyvale           | 21.00                  | 11   |   | 31.75           | 4    |   | 25.61               | 3    |   | 13.65                    | 32   |   | 23.00                         | 7    | 14.51                  | 21   |
| Superstar      | Tracy               | 14.05                  | 31   |   | 13.65           | 48   |   | 4.60                | 47   |   | 37.55                    | 2    |   | 17.46                         | 15   | 37.80                  | 1    |
| Talent rich    | Turlock             | 12.06                  | 41   |   | 12.31           | 52   |   | 3.19                | 57   |   | 34.63                    | 3    |   | 15.55                         | 23   | 4.98                   | 46   |
| Balanced       | Union City          | 13.26                  | 37   |   | 18.25           | 32   |   | 6.15                | 40   |   | 19.86                    | 20   |   | 14.38                         | 28   | 13.99                  | 22   |
| Idle           | Vacaville           | 15.50                  | 26   |   | 14.21           | 47   |   | 4.28                | 50   |   | 9.73                     | 47   |   | 10.93                         | 55   | 3.49                   | 48   |
| Supply centric | Vallejo             | 6.23                   | 61   |   | 10.81           | 56   |   | 4.16                | 52   |   | 6.42                     | 57   |   | 6.90                          | 63   | 11.80                  | 26   |
| Balanced       | West Sacramento     | 11.45                  | 43   |   | 9.03            | 60   |   | 2.58                | 61   |   | 30.99                    | 6    |   | 13.51                         | 36   | 19.65                  | 13   |
| Balanced       | Woodland            | 13.35                  | 36   |   | 12.77           | 50   |   | 4.24                | 51   |   | 26.71                    | 10   |   | 14.27                         | 29   | 21.64                  | 9    |





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### About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.



# Retail Reimagination

## Think Outside The Box

1.10

Attachment: July 8-SVEDA Speaker Panel Retail Presentation (2867 : Industrial Policies)

Silicon Valley Economic Development Alliance (SVEDA)



Kosmont Retail NOW!®

1601 N. Sepulveda Blvd., #382  
Manhattan Beach, CA 90266

[www.kosmont.com](http://www.kosmont.com) | @KosmontTweets

Ken K. Hira

President, Kosmont Companies  
Co-Chair, ICSC P3 Retail Advisory Board

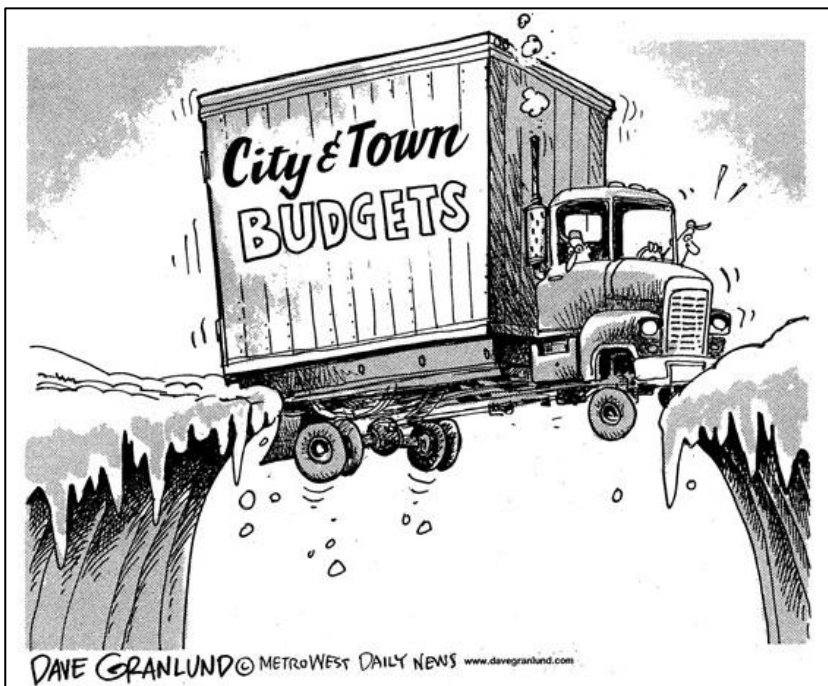
949.226.0288 | [khira@kosmont.com](mailto:khira@kosmont.com) | @kenkhira

Packet Pg. 100

# HEADLINES!

## CORONA VIRUS CRIPPLES CITIES!

Cities across the nation are grappling with the fallout from COVID-19... revenues need resolution.



## MALLS MAY BE OPENING...

How will reopening work? New protocols: clean and contactless ...serve customers...shop safe!

## ...BUT MANY STORES STILL SHUT

Some may survive, some won't ... Simon reopening 49+ malls and outlet centers subject to government guidelines ... providing masks, hand sanitizer, and temperature screening.  
#RetailReimagination

## DOORSTEP ECONOMY

Walmart introduces Express Delivery...Amazon hiring 175,000 workers & Prime Now quick delivery...Instacart and DoorDash expand food delivery...Ralph introducing one-hour delivery

The new normal:  
curbside pickup & doorstep delivery  
#KosmontRetailNOW!®





# Retail / Land Use Revolution ... *Accelerated*

# You Say You Want A Revolution?





# The Evolution of Retail



**Essential** – Historically, downtown shopping districts were the center of the universe and a community's primary draw, bringing a local character to shopping, dining, and entertainment.



**Emergence** – The first enclosed shopping mall was designed by Victor Gruen in the 1950s, bringing a revolutionary shopping concept to the suburbs.



**Expansion** – Mall concepts grew tremendously through the 1960s – 1980s, with new malls constructed as regional centers.



**Enlargement** – The spread of enclosed malls gave way to power centers and big box retail in the 1990s, fixated on even greater sizes of retail spaces.



**Elevation** – Lifestyle centers focus on upscale consumers and luxury brands, with boutique collections of stores paired with leisure amenities and landscaped designs in the 2000s.



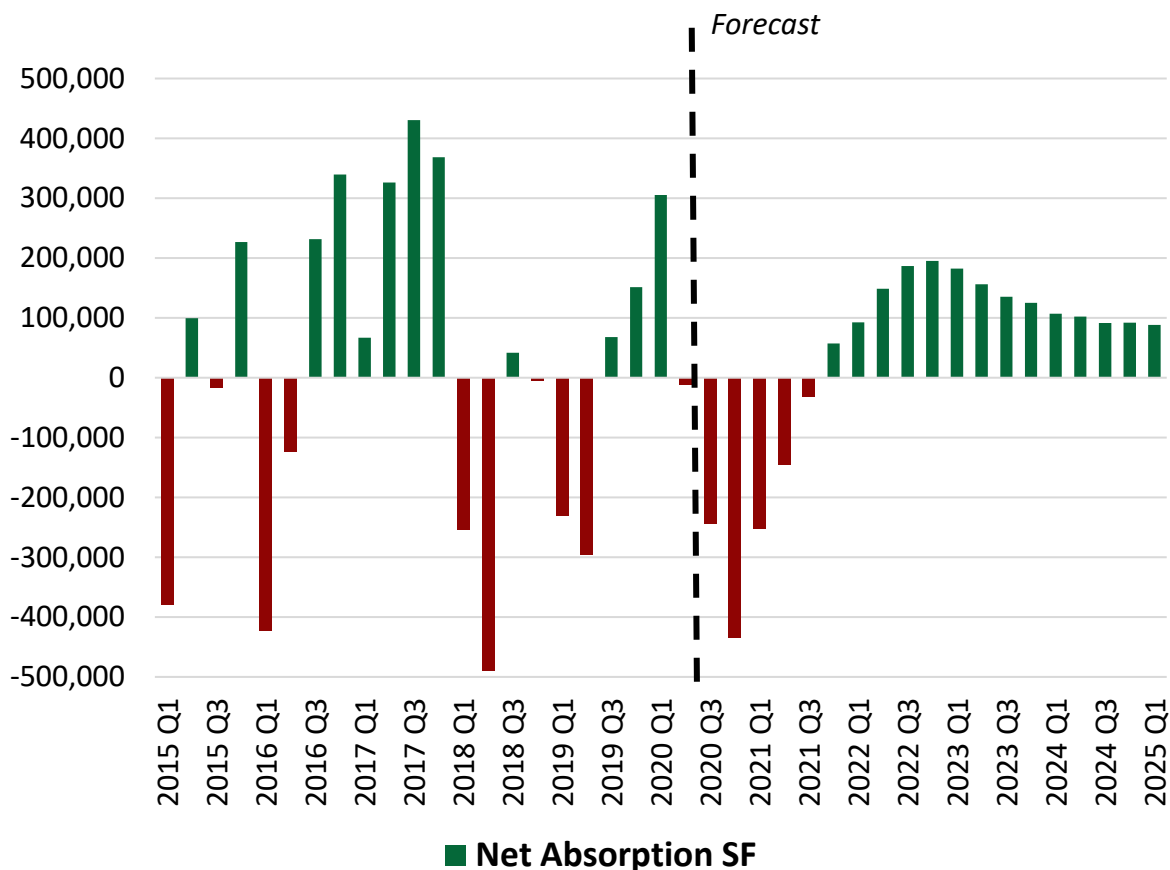
**Evolution** – Today, significant store closures, brought upon by the rise of online-shopping and shifting consumer tastes, have led to greater mall vacancies and struggling downtown districts, reinforcing the need to create blended use and “think outside the box.”



# Retail Reimagination Dashboard

## CoStar: History & Forecast

### SVEDA Submarkets - Retail Net Absorption (SF)



## A Decade of Change Occurred in a *Month*



E-Commerce



Food / Grocery  
Delivery



Malls &  
Outlet Centers



Store Closures

## Impact on Communities

Sales Tax | Employment | Shopping Centers / Districts

## Econ. Dev. Strategic Considerations

Reimagination of Retail Centers to "blended" use / Tax Incremental  
TIF Districts / Outdoor & Open Space are anchors / flex-zoning

Source: CoStar

# Retail Recovery Index

Retail/Land Use  
Revolution

1.10



## Short-Term

Flexibility & Safe Reopening:  
Street/sidewalk usage, curbside, online, delivery, cleaning, appointments, lower occupancy

Landlords, business owners & cities need to collaborate



## Mid-Term

Boost key retail – engagement, essentials & experiences

Workshops for small-business resources

Re-dustrial: retail / industrial blend



## Long-Term

Reimagine struggling retail centers through “blended-use” development

Plan for changing habits and trends

Outdoor amenities are the new “anchor”

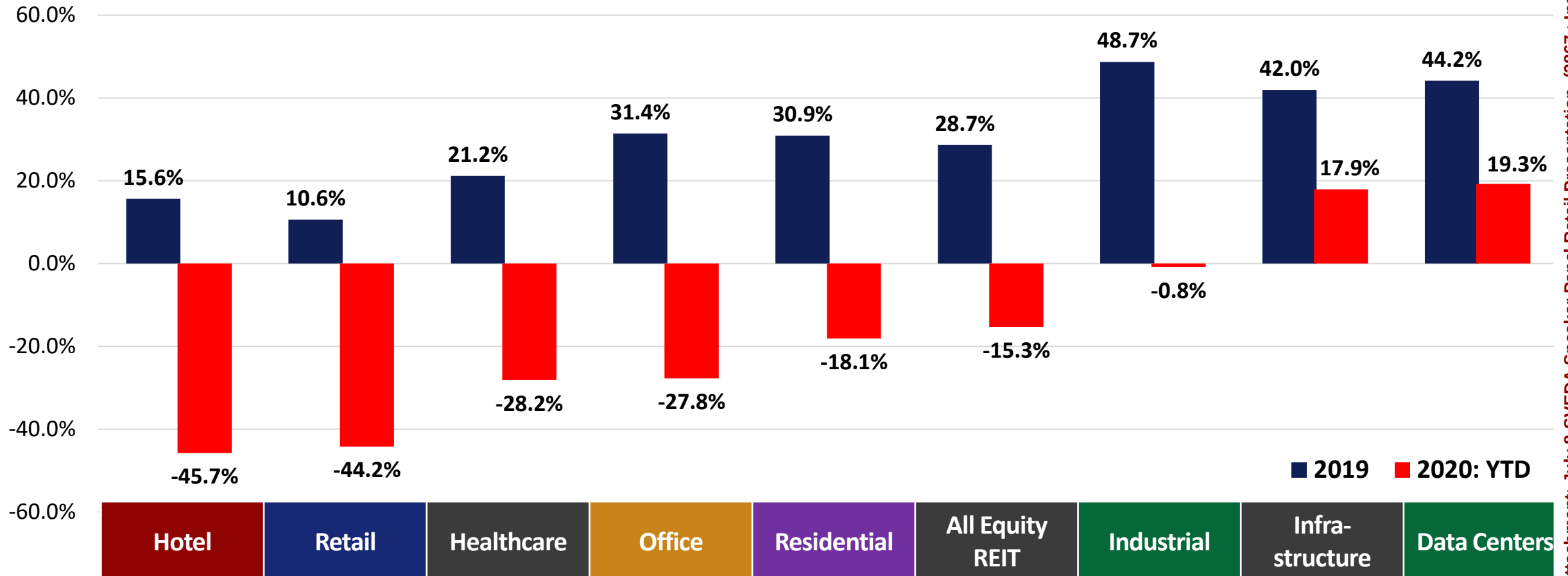
# Winners & Losers

Market Performance Shows COVID-19 Resiliency

Retail/Land Use  
Revolution

1.10

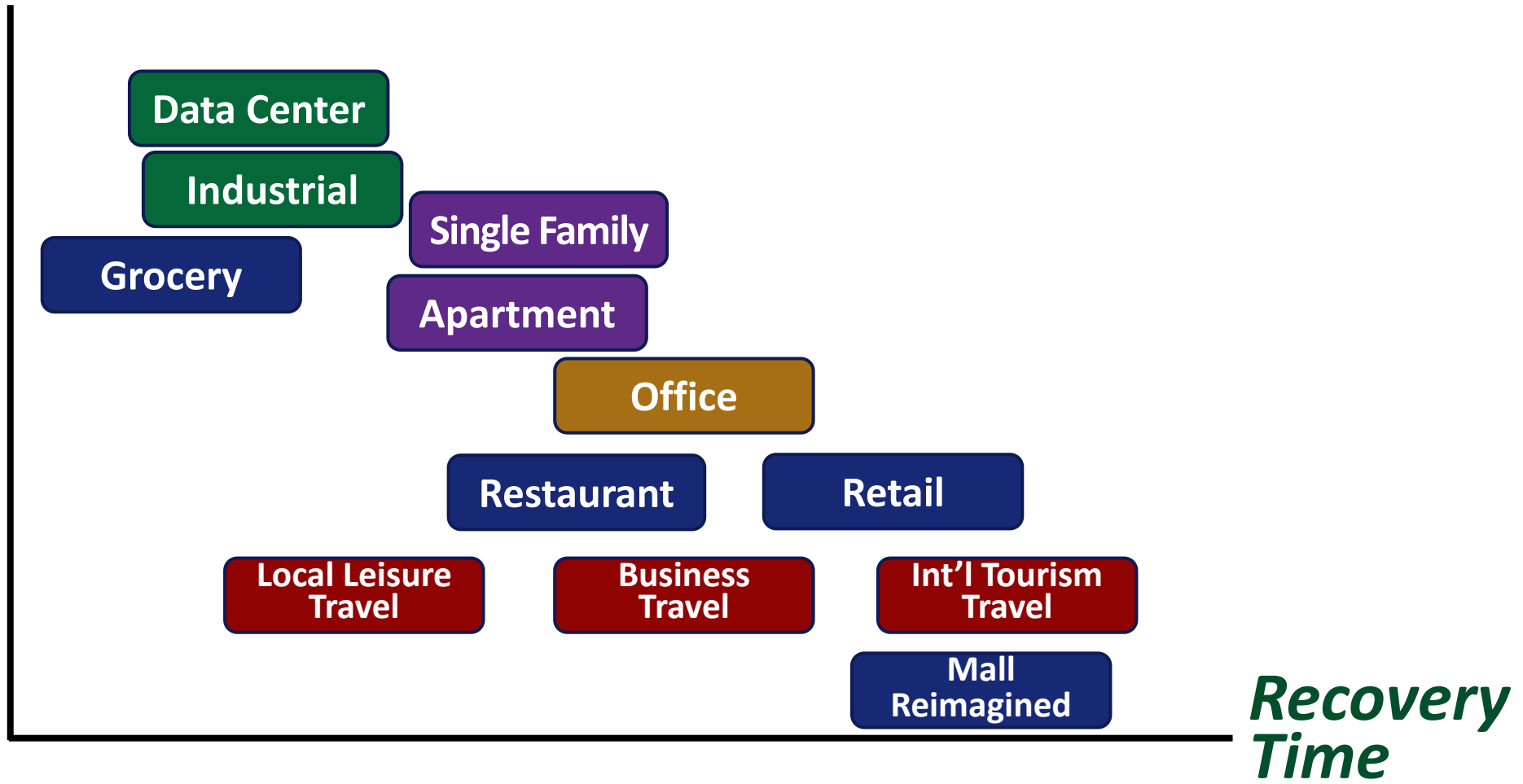
US Public REIT Performance by Sector, Total Return (%), 2019 & 2020 YTD (as of May 31)



Attachment: July 8-SVEDA Speaker Panel Retail Presentation (2867 : Industrial Policies)

# The Pace of Resiliency & Recovery

*Current  
Resiliency*

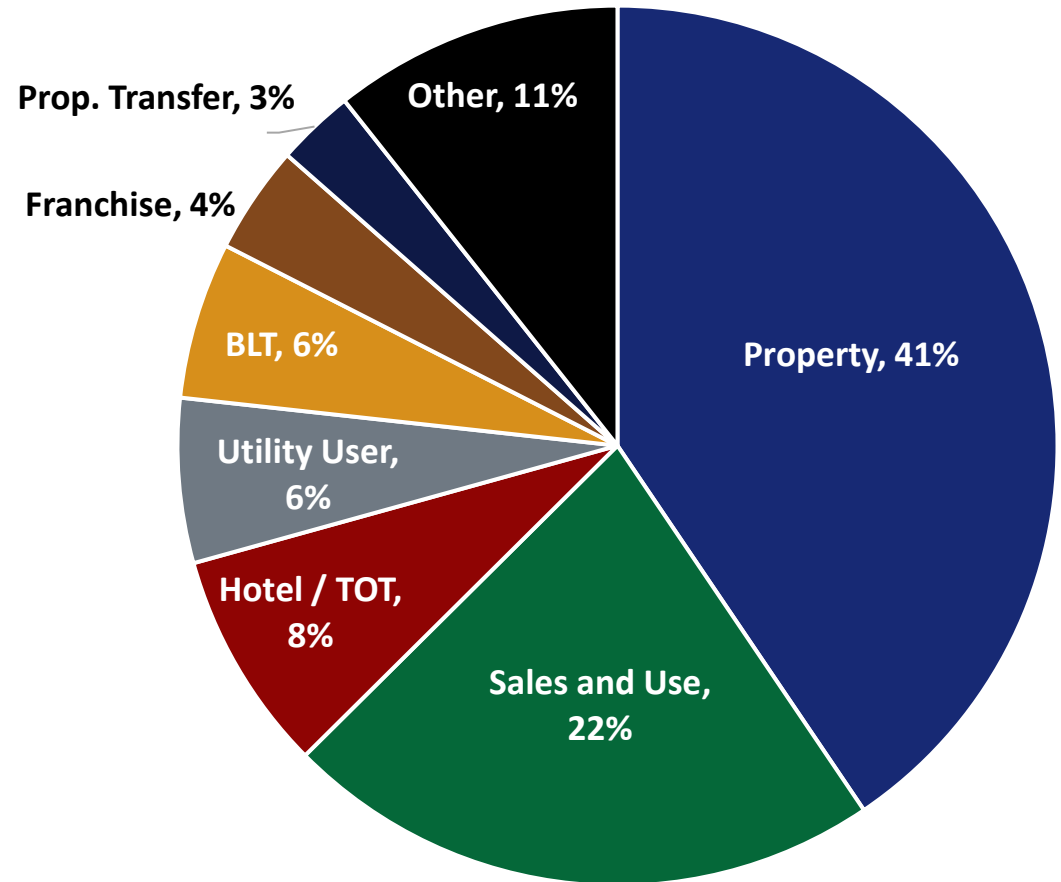




# Private Sector Loss = Public Sector Loss

| Tax                      | Timing                         | Impacts                      |
|--------------------------|--------------------------------|------------------------------|
| Property Tax             | Delayed                        | Mild / Moderate              |
| Sales Tax                | Immediate / mid-term recovery  | Varies / Severe              |
| Hotel Tax                | Immediate / long-term recovery | Varies / Severe              |
| Utility User             | Immediate / mid-term recovery  | Varies / Mild                |
| Business / Franchise Tax | Delayed                        | Moderate                     |
| Property Transfer Tax    | Immediate                      | Severe for now; will recover |

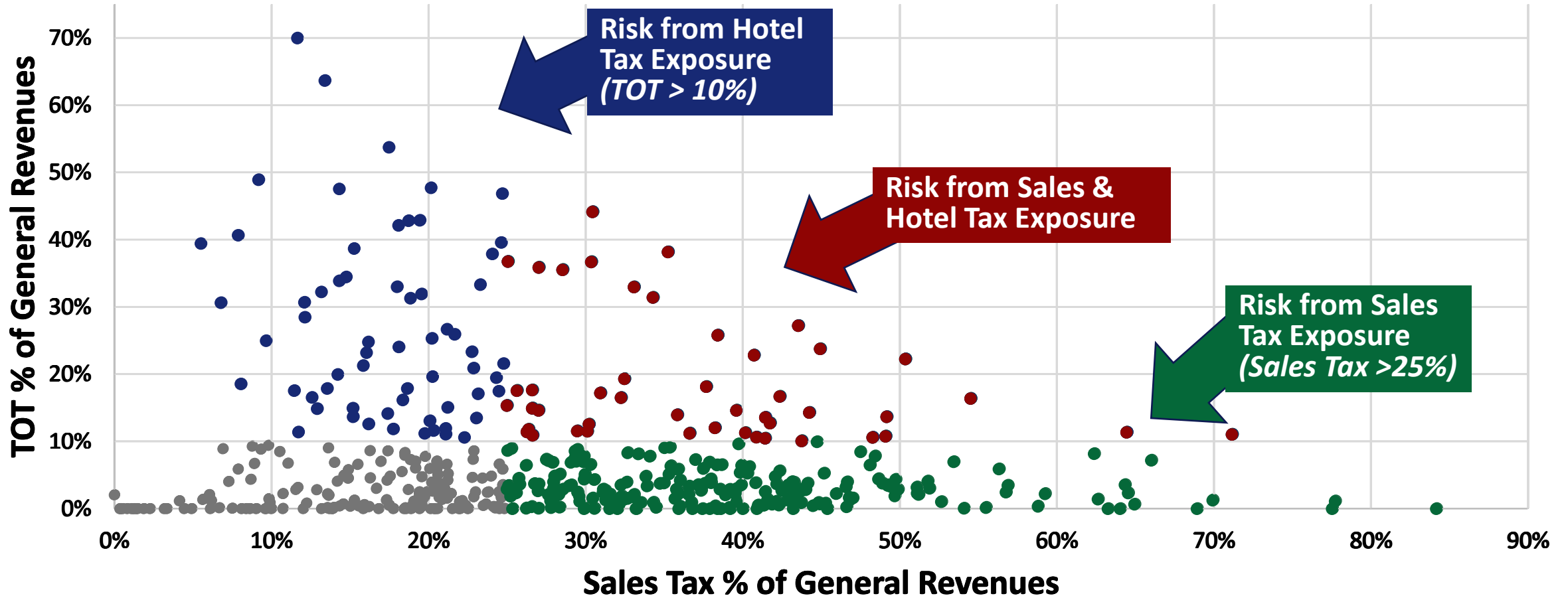
California City Tax Revenues





# Sales & Hotel Tax Reliance

*The Median California City Collects >1/3 of Tax Revenue from Sales + TOT*



# Sales & Hotel Tax Reliance

## Silicon Valley Economic Development Alliance Cities

| City          | Prop. Tax % | Sales Tax % | TOT % |
|---------------|-------------|-------------|-------|
| Burlingame    | 28.1%       | 19.5%       | 42.9% |
| Campbell      | 37.5%       | 36.6%       | 11.2% |
| Cupertino     | 35.1%       | 40.9%       | 10.6% |
| Foster City   | 24.4%       | 22.8%       | 23.3% |
| Fremont       | 41.4%       | 26.7%       | 3.7%  |
| Gilroy        | 34.7%       | 43.3%       | 3.9%  |
| Hayward       | 33.9%       | 31.1%       | 2.5%  |
| Los Altos     | 61.2%       | 9.3%        | 8.8%  |
| Los Gatos     | 50.1%       | 25.0%       | 8.7%  |
| Menlo Park    | 42.0%       | 15.2%       | 15.0% |
| Milpitas      | 30.1%       | 26.3%       | 11.4% |
| Morgan Hill   | 28.4%       | 27.7%       | 7.1%  |
| Mountain View | 65.2%       | 14.6%       | 5.0%  |

| City                | Prop. Tax % | Sales Tax % | TOT % |
|---------------------|-------------|-------------|-------|
| Newark              | 34.7%       | 30.1%       | 11.5% |
| Pacifica            | 58.6%       | 7.9%        | 5.9%  |
| Palo Alto           | 36.8%       | 24.3%       | 19.5% |
| Redwood City        | 54.1%       | 20.5%       | 7.1%  |
| San Carlos          | 39.3%       | 30.6%       | 4.3%  |
| San Jose            | 33.7%       | 17.5%       | 4.8%  |
| San Mateo           | 47.1%       | 19.8%       | 7.8%  |
| Santa Clara         | 39.1%       | 39.6%       | 14.6% |
| Santa Cruz          | 31.2%       | 23.1%       | 13.5% |
| South San Francisco | 31.9%       | 17.4%       | 14.2% |
| Sunnyvale           | 50.1%       | 21.1%       | 12.0% |
| Union City          | 42.7%       | 20.6%       | 5.1%  |

Source: California State Controller's Office,  
FY 2017 – 2018, Accessed May 2020

# New Rules & New Tools

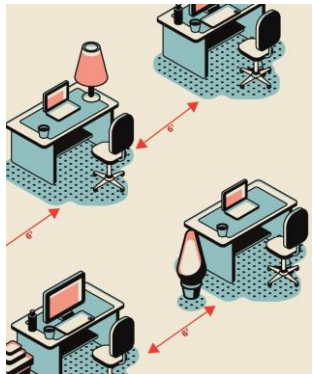


# How do we get out of the crisis?

## Reimagine Retail with Innovation

New Rules  
New Tools

1.10



BE HEALTHY, BE CLEAN



Attachment: July 8-SVEDA Speaker Panel Retail Presentation (2867 : Industrial Policies)

# The New Equation for Retail

*Public and Private Partners need to be Flexible and Collaborative*

New Rules &  
New Tools

1.10

*It's Time to  
Think Outside  
the Box!*

**Blended Use:  
Integration**

**Blended Space:  
Living Room**

**New Anchors:  
Residential, Office**

**Outdoor Space  
& Landscaping**

**New Uses:  
Health & Wellness**

**Amenities &  
Attractions**

**Programming  
& Pop-ups**

Attachment: July 8-SVEDA Speaker Panel Retail Presentation (2867 : Industrial Policies)





**ICSC P3 Retail** advocacy for Public Private Partnerships that connects retail professionals with the public sector to foster collaboration & turn ideas into successful community development partnerships.

<https://www.icsc.com/who-we-are/community-development>

**ICSC Events** such as Idea Exchanges, regional Deal Making conferences, and Webinars provides forum for P3 connection

<https://www.icsc.com/attend-and-learn/events>

**ICSC Coronavirus Resources** provides research, best practices, data, and other information related to Coronavirus and retail reopening / recovery

<https://www.icsc.com/coronavirus>



*"You cannot solve a problem with the same thought process that was part of creating the problem."*

*- Albert Einstein*



**Ken K. Hira**

President , Kosmont Companies  
khira@kosmont.com

*Economic Development, Finance and Real Estate Advisory since 1986*

#### — OUR MISSION —

*We are founded on the pursuit of four pillars of strength ...*

*Innovation, Integration, Intelligence, and Integrity*

*We are on the cutting edge of products and services.*

*We achieve financial success for our public and private sector clients.*

*We are committed to community prosperity and quality of life.*

*Our professional standards are of the highest excellence.*

City of Morgan Hill  
June 12, 2020  
ULI TAP

### **Background:**

Established in 1936, the Urban Land Institute (ULI) is a non-profit education and research institute with over 45,000 members across the globe-2,200 in the Bay Area. The mission of ULI is to provide leadership in the responsible use of land and in creating sustainable thriving communities worldwide. ULI has had a long history of providing unbiased, pragmatic solutions and best practice advice on land use and sustainable development.

One feature of ULI is its Technical Assistance Panels (TAP). ULI's Technical Assistance Panels have helped sponsors identify strategic, practical solutions for the most challenging issues facing today's communities through cultivating a multi-disciplinary team of local experts from ULI's membership, who, together, collaborate to address a challenge.

The City of Morgan Hill invited the Urban Land Institute San Francisco Tap to help address the following key land use questions:

1. What are the most important considerations, from both a quantitative and qualitative perspective, that the City should consider when making vacant industrial land policy decisions? What are the policy considerations that should be included in the Industrial Preservation Conservation?
2. What are the most important criteria that the City should consider when deciding what to do with vacant retail designated land and existing retail center? What policy recommendations should be included in the Retail Concentration Policy

The panel consisted of the six experts:

- Lynn Sedway, Principal and President, Sedway Consulting,
- David Baum, Principal, Municipal Financial Services,
- Steve Chamberlin, Founder, Chamberlin Associates,
- Greg Matter, Managing Director, JLL,
- Josh Shumsky, Managing Director, Newmark Knight Frank; and,
- Pam White, Partner, Guild Retail Partners.

Morgan Hill is experiencing most dramatic inflection point of our time. The unprecedented times caused by the COVID19 pandemic creates uncertainty as to what is next, and therefore, cannot rely on past trends as the future may look very different. A Jobs and Housing balance is important.

### **Financial Tool Considerations: David Baum, Principal, Municipal Financial Services**

Morgan Hill's assets include an excellent AA credit rating and its strong reliance on its property tax. 30% of the General Fund comes from property tax revenue. Morgan Hill will not see a drop in property tax until 2020-2021 when County Assessor does Prop A appeals to write down values of property. Morgan Hill's other key sources of funding include its sales tax followed by

Transient Occupancy Tax. The latter two are strongly affected by COVID-19. The City should consider the following potential tax revenue generators:

#### **Parcel Tax**

- Increase Property Tax. The City could issue a new property tax that would require a ballot measure and a vote of 50% plus 1 vote for approval.

#### **Sales Tax**

- Morgan Hill's current sales tax is at 9%. It could increase its sales tax by  $\frac{1}{4}$  to  $\frac{1}{2}$ . Gilroy is a 9% and San Jose has a 9.25% sales tax.

#### **Utility User Tax**

- Morgan Hill could add a tax to its electricity, water, gas telecommunications. Other cities like Gilroy and San Jose have imposed similar taxes.

#### **Property Transfer Tax**

- Morgan Hill can increase existing property transfer tax.

#### **Business License Tax**

- Warehouse space dominates in Morgan Hill. Morgan Hill has 0% vacancy. Morgan Hill could have a targeted a business tax for new warehouse development.

#### **Industrial Preservation: Steve Chamberlin, Chamberlin Associates**

Users, not buildings, drive change. A good example is South San Francisco where the life science industry slowly dominated the market. Morgan Hill has done a terrific job of capturing the quantitative information such as market rents and occupancy rates. Morgan Hill needs to capture the qualitative things by asking important key questions. These questions will help the city understand its market and where it's going.

**Recommendation:** Ask the following key qualitative questions:

1. Where did you come from?
2. Why did you move?
3. What alternative did you consider?
4. How did you choose this location?
5. What would you change to make it perfect?
6. Where did you/your employees live?
7. How much will your firm grow in the next 5 years?
8. What could the City do to help your firm?
9. Where did you come from?

#### **Brokerage Market Perspective: Greg Matter, JLL, Managing Director**

Morgan Hill has 6.5 million square feet of industrial product. Most industrial space is used for manufacturing and warehouse. Morgan Hill has 0% vacancy. JLL used its Industrial Momentum Index (see attached) to identify how demand will look at in the future. According to JLL's Industrial Momentum Index, Morgan Hill is well positioned with its community fundamentals, but consumer demand is lacking in the advanced industry spectrum. Overall, it fairs "average" in comparison to other cities in Northern California. Morgan Hill needs to develop substantial industrial to balance its industry real estate.

## E-Commerce

Morgan Hill can tap into the eCommerce emerging trend. Currently eCommerce accounts for 50% of demand in the US market and 80% of the demand in Silicon Valley. Morgan Hill can capitalize on the e-Commerce market demand to build speculative product to capture advanced industries, but it must have facilities available.

- COVID19 has accelerated the increase in e-Commerce
  - 83% purchase are made online
  - Retail sales has jumped 68%
  - Grocery and food and beverage delivery have spiked
- Managing the shift from brick and mortar retail to e-commerce
  - A distribution center in Morgan Hill, would reduce vehicle miles traveled by delivery vans by 1.6 million miles (assuming 75 vans to service local population)
  - Localized last-mile distribution also helps minimize road infrastructure degradation.
  - Localized last-mile distribution also has environmental benefits by taking 561 cars off the road. Less miles traveled decreases greenhouse gases.
  - Transportation cost- \$2.4 million annually equals \$8 per square feet in annual rent saving
  - Morgan Hill could impose impact fees/community benefits fees on certain uses

## Retail Overview, Josh Shumsky, Managing Director, Newmark Knight Frank

Retail is adapting not dying. COVID19 has changed the retail environment. Retail will continue to grow and adapt. Adaptation occurs in several ways, mostly in its omni channel retail strategy and approach in both the e-commerce presence and the brick and mortar retail sector.

- Retail's required adaptation has been accelerated by COVID19, forcing retailers to re-think their business models.  
 Certain categories are especially challenged such as gyms and entertainment  
 At the same time, there is pent up demand fueled by the current shelter-in-place with a significant number of new groups coming back and looking to expand.

## Customer Demand Drivers

- The City's lack of population density coupled with prior caps on growth allowed certain retailers to service Morgan Hill from Gilroy/S. San Jose retail stores.
- Morgan Hill should think how to expand the Trade Area (Expanded) to draw outside consumers. The right location and tenant mix will draw from outside of Morgan Hill.
- The ease of access for commercial sites along the Highway 101 adjacent sites are poised to attract outside customers to spend within the City. The recent Butterfield expansion is a good example where there is an increase in traffic counts.

## Retail Demand Drivers Site specific (versus customer specific)

There are several retail demand drivers that are considering for site selection, including f

- Freeway Orientation
- Traffic Counts
- Visibility
- Signage



- Strong Demographics
- Cost to Open

COVID19 has furthered enhanced the pressure to rely on second generation retail space which is more affordable. It will be challenging to get ground-up retail investment until the retail vacancies are absorbed. If the goal is to increase investment in Morgan Hill, land-use designation flexibility is key. Retail anchor space is being re-purposed throughout the Country. Developers and retail owners have a finite amount to invest. Retailers have choices of where to invest. Use flexibility and community support will enhance Morgan Hill's ability to compete for that investment. While retail rents are a key driver to tenant-decision making, rents will not supersede demand fundamentals (traffic counts, visibility, strong demographics, etc.)

### **Is Morgan Hill Over Retailed? Pam White, Principal, Guild Retail Partners**

The TAP evaluated existing retail centers in terms of their vacancy and development opportunities and vacant commercial parcels. Given the limited amount of time available, the TAP chose to focus on retail uses as the aspect of commercial development. The TAP evaluated the viability of the existing Cochrane Plaza Shopping Center and the China Bay commercial parcel on E. Dunne and Biederman. Below is TAP reactions to both examples:

#### **Cochrane Plaza Shopping Center**

- 250,00 SF of retail space; two large anchor tenants (Hobby Lobby and Wal-Mart) and inline retail shops and multiple property owners. The Center has a significant amount of vacant or underutilized space.
- Vacant space in center is not conducive to redevelopment given the parking field and location within the center. Existing easements often restrict redevelopment (too expensive to buy out long-term leases). And
- Use restrictions in anchor leases limit redevelopment especially if parking is perceived as limited. While there are vacancies in the center, the above issues will challenge the redevelopment of the Shopping Center. Morgan Hill demographics (low resident count) and high cost of construction make vertical-mixed-use not viable or sustainable for Morgan Hill.

#### **Vacant Commercial Land**

When looking at vacant land for retail uses as opposed to other commercial uses, the TAP used the China Bay Site on E. Dunne- Biederman (15.76 Acres) as an example. This site is zone commercial and while this is one of the larger available commercial vacant properties and appears developable, the site has several challenges:

- Demographics both within the community and local (low resident count)
- Lack of car counts along the local streets
- While grocery anchor centers remain in demand nationwide, Morgan Hill is over grocer-ed
- Vanishing retail concepts nationwide and few new concepts
- Repurposing of vacant retail/boxes will continue

The TAP suggested looking at other uses (i.e. not retail) for part or all for this site.

- The City should also consider driving hotel development and regional tourism. Hotels offer numerous benefits:
- Increased productivity of existing businesses

- Draw people to Morgan Hill community via restaurant and wineries
- Revenue Generation: when patrons stay in Morgan Hill hotels, so do their sales tax

### Overall Recommendations

- Quality design is important to all communities. Ensure developers to place importance on design. Morgan Hill could benefit from creating more awareness of wineries by creating an easy to find website and directory. Look flexibility in uses and understand to continue to drive those uses and sales tax to the city

### Q&A Section:

**Greg: You have mentioned that advanced industry is lacking. For this community we are seeking those kinds of jobs. You mentioned that having distribution/warehouse, is one of those paths to get there. Question: Is there a way to get to advanced industry without it?**

A: When analyzing and doing a site selection we look at community characteristics. Morgan Hill does not score high enough in the density of the population; and its workforce is not substantial enough to necessitate for R&D and Office component. It is an evolution of the community. It does have a highly educated community, density is not there, developers are not going to come in to develop specialized buildings on a speculative basis. Look at Fremont and Newark as examples, where they have enabled and allowed a warehouse/distribution component as a piece of the industrial puzzle, which gets developments to occur. Pacific Commons in Fremont is another great example of where they built speculative development. Pacific Commons built over a 1M square feet, and the first tenants were Amazon last-mile and a Facebook facility for R&D and other retail spaces. They were able to leverage both an eCommerce component and a distribution component to get other uses and other occupiers. It is a challenge, but City can attract. Buildings won't be built with only one component and on a speculative basis.

**David: You talked about ways City could increase revenue. Historically this community has not passed sales tax measures. What are the types of fees that could be attached to that type of development? Impact fees must have a nexus.**

A: I talked about tax measure. If you do an analysis of your fees, certainly you can find ways to generate some impact fees if they are aligned with cost of service. Someone that is experienced, should look at fee schedule and restructuring those fees to meet real cost.

**We have a downtown which many feel could be right for a lane reduction program. Reducing it to one lane, each direction. The assumption is that this will reduce traffic but will also slow it down and create traffic interest in the downtown. Do retailers understand focus vs. high traffic counts?**

A: Good example is Los Gatos. They have a similar issue with cut through traffic during the summer, which cripples their downtown. Morgan Hill traffic is peak trip generated. This could be a mistake and harm the downtown. Traffic in Morgan Hill makes downtown a focus. It makes commuters see and experience the downtown. If you reduced it to one lane more folks will use

Butterfield. As a retailer it would pose a challenge and may be a reason not to pursue a space downtown.

**Can business license on warehouse square footage be implemented without a ballot measure?**

No. because business license is a tax.

**On the example you used you provided for the less miles warehouse that generated \$2.4M, how big was that facility used for the example?**

A: The modeling was based on a model that I did on a 3,000 SF facility with 75 vans or 150 round trips per day, specifically to service Morgan Hill. This would not be a distribution center to service broader Silicon Valley, so that would have been to bring a less-miles operation locally to service your community.

**As eCommerce grows, it seems to me that there will be a shift from storefront to warehouse, how do we ensure that we don't end up with large uninviting facilities?**

A: In regard to eCommerce and its growth, as it compares to retail. You will see a lot of the big box retailers, the 1.2 million sq. footers, those go out to Tracy/Stockton because they can fulfill the region a bit better than Morgan Hill. Morgan Hill does not look anywhere like Tracy when it comes to the distribution market, and it doesn't have the access to the population that the Central Valley has. In fact, some of the latest deals have been further north, like Sacramento and a good chunk of the North West. I do not think there is a great threat for big box or large distribution centers to overwhelm Morgan Hill, nor Gilroy or South San Jose. These would be strictly to service the community, similar to that of the US Postal Service, UPS and FedEx.

**How can we as a City explore the application of MUF zoning or flex zoning to residential to incentivize and facilitate home businesses and generate new potential revenues?**

A: Ultimately as we look at flex zoning related to home businesses. It will become more critical with the unemployment rise that we've seen recently as a result of COVID-19, it is important to have flexibility in zoning. There are a lot of home businesses. I don't think these types of businesses will have an impact on retail centers. I currently work with a retailer, that does have a home business that wants to expand. Having a home business really helped him get into the industry. It can lead to a larger footprint.

**Shifting the conversation back to retail. We are a little concerned that we might see quite a bit of vacancies in our shopping centers. We have some concerns that our shopping centers are a little bit older, some of them, prior to COVID-19 had a healthy amount of vacancies already. What do you see from a market perspective? What is the conversation out there? And what would be your best recommendation for us? Our Economic Blueprint already identifies retail concentration as one of the key strategies to focus on. How do we make sure that our shopping centers remain healthy and thriving instead of watering down the retail throughout the entire city? Any thoughts?**

A1: In addition to retail vacancies, we are seeing large shopping malls that are really on the verge of going out of business or growing out of business. There has been quite a move to

reuse a portion of malls for other uses, like housing or entertainment. I think Morgan Hill finds itself in that situation. Where there are many smaller retail centers that may be repurposed to higher and better uses in this climate.

A2: There are some older centers that have historical vacancies. The first place starts with the ownership of those centers and they have to be aggressively seeking new tenants and be flexible in working with the city but some of those owners for whatever reason, maybe they are large and have income streams and they don't want to put the capital in. It starts with a dialogue with city staff and the owners of these shopping centers. Owners need to be open to new ideas, or even selling the centers. If you have a center that is having a difficult time maybe adding residential uses could be an option, as an example. Cities have to remain open to that because I don't think any of us on this panel see a large growth in retail coming in the next few years, eCommerce changed that. Both the city and shopping center owners have to remain open to other uses.

A3: The conversation of location, location, location has changed and now has added an element of foot traffic, foot traffic, foot traffic. It's how do we get people to the projects and ways to do that may not be with additional retail users, it could be flexible zoning or horizontal mixed use, it could be various aspects that will ultimately design something to get people to drive and stop in these centers. Back to the question of downtown and traffic counts. They are important. There are elements a retailer will utilize, like a college admissions counselor might say if you check all these boxes, then we might look at your application. If you don't, then we won't. I think that right now, looking at this piece, it's important to understand that foot traffic is not generated just by anchor retail but by uses like hotels.

# JLL Silicon Valley Economic Overview

July 1, 2020

By: Hilary Holeman

Speaker Alexander Quinn:

- Bay Area lead all markets in rent growth since 2009
- Since COVID-19:
  - layoffs are mostly associated with travel, transportation, and retail
  - Bay Area Top 100 companies have held their market value
  - office leasing activity has taken a wait and see approach to future spaces
  - delay of commercial construction into ...
  - delay of industrial construction ....
  - Technology companies are much more diversified compared to 2000
- The Path to Economic Recovery
  - <https://jll.maps.arcgis.com/apps/MapSeries/index.html?appid=dbcb2c51a43e4f9b91bedff96ec5d23e>
  - Best case scenario, quick recovery back to previous peak in Q3 2021
  - Base case scenario, not as rosy, back to previous peak in Q1 2022
  - Industries concentrated in the Bay Area are forecasted to grow faster than the national economy overall
  - Sectors seeing growth are: artificial intelligence, automation & robotics, digital solutions, life sciences, e-Commerce, and sharing economy

Speakers Greg Matter & Heather Belfor:

- In the first 8 weeks of COVID e-commerce sales increased 68.7% since 2019
- Emergence of grocery delivery
- Important for cities to plan regionally for increased demand of e-commerce
- By utilizing a distribution center in Morgan Hill:
  - vehicle miles traveled by delivery vans is reduced
  - greenhouse emissions decreases
  - transportation cost savings
  - community could capitalize on additional traffic impact fees
- Bay Area economy is moving towards local industrial
- JLL Northern California Industrial Momentum Index:
  - helps investors/occupiers decide where to grow their business
  - helps municipalities understand industrial landscape, viability and sustainability of their community as it relates to consumer demand and servicing consumer demand, dynamics of resiliency of local labor force to foster economic momentum
  - Morgan Hill ranked “Talent-rich” with strong labor and consumer base, lagging in real estate

## Q & A:

Q: Where is the tipping point of flex use and balance of zoning?

A: Cities need to recognize we are amid an industrial revolution and need to think about how we define industrial.



Bottom line is preservation of industrial space. Being too strict in certain segments we are going to have prolonged vacancy – 80% of demand in Silicon Valley is e-commerce. Utilize e-commerce as the means to get more spec industrial built in your community.

Q: How to get the jobs that the community wants? What are aspirational markets we should be getting to in the next 50 years?

A: Hub and spoke concept of main office and satellite offices is getting play and will help suburban communities. Regarding industrial space...accommodate your local demand and make sure you have a balanced community to accommodate that demand.

Industrial is flexible (i.e. desire for R&D and office space together)

E-commerce is building from the ground up – not the R&D, AI, or manufacturing industries

**Chat:**

Sales Tax could be generated by getting share of e-commerce sales based on the square footage of industrial space provided

Data centers are not classified as industrial - tend to cluster – although low number of jobs

Can a last mile distribution center today be adapted over time and serve other types of uses in need of large format flex space? Yes! Flexibility of industrial buildings enables a multitude of uses and meets parking needs.

**Closing Comments by Greg Matter:**

Reality of demand today is that vacancy will persist with the use restrictions that we are seeing based on what demand is today. Incredible that industrial has just meant e-commerce. Want to make sure each community can position itself to attract other sectors that they want.

Retail & Industrial Preservation Notes from July 8 SVEDA Speaker Presentation  
By: Olivia Nunez

## Retail Concentration presentations from Rick Hira, Christina Firstenberg and Rick Hearn

### Key Ideas/Concepts:

- Pandemic has created a land-use revolution (already in motion prior to the pandemic):
  - Cities need to allow flexibility in zoning/zoning that can shape retail centers with:
    - tax increment districts
    - outdoor spaces/ outdoor seating/outdoor amenities will become the anchor tenant
    - Cities need to get rid of parking restrictions/ratios
    - Cities need to allow small businesses the ability to have industrial uses. For example, retail owners may need to package and mail their products. Retailers may need to design their stores to include retail in the front and a roll-up door in the back for pick-up.
  - Residential and retail may become the dynamic duo; need to integrate projects to the market space.
  - Now is the time to work with shopping centers to change CCNR's
  - Blended Retail is the new trend: where you have blended uses in one shopping center such as: dental, pet-care, drive thru's, wellness/health center etc.
  - Cities need to reform their tax base
- Now is a good time up update outdated Economic Develop Strategies and General Plans
  - 10-year plans do not work in a new fast paced environment
  - Planning codes based on retail size do not reflect the retail world today. Codes must now reflect shopping to go, shopping online and delivery services.
  - Planners need to also understand the trends and be flexible
- Retail space will decrease- new norm.
- Community needs to be educated by industry leaders on the importance of change using webinars/seminars.

### Lessons learned from the presentations:

- Retail trends change every ten years; retail is currently at a paradigm shift. (Firstenberg/Hearn)
- Retail needs to innovate and evolve to survive a post pandemic world
- 25% of retail will not reopen (Firstenberg/Hearn)
- Industrial is withstanding the pandemic and thriving among the infrastructure and food industries.
- Many cities are too reliant on sales tax revenues & TOT (Hira PPT Slide 12)
- Cities need to look at how they can combine retail and residential and make it for their communities
- Now is a good time to update Economic Development Strategies
- New equation for Retail should integrate the following: blended space, outdoor space, blended use, new anchor including residential, amenities and attractions health and wellness, pop ups



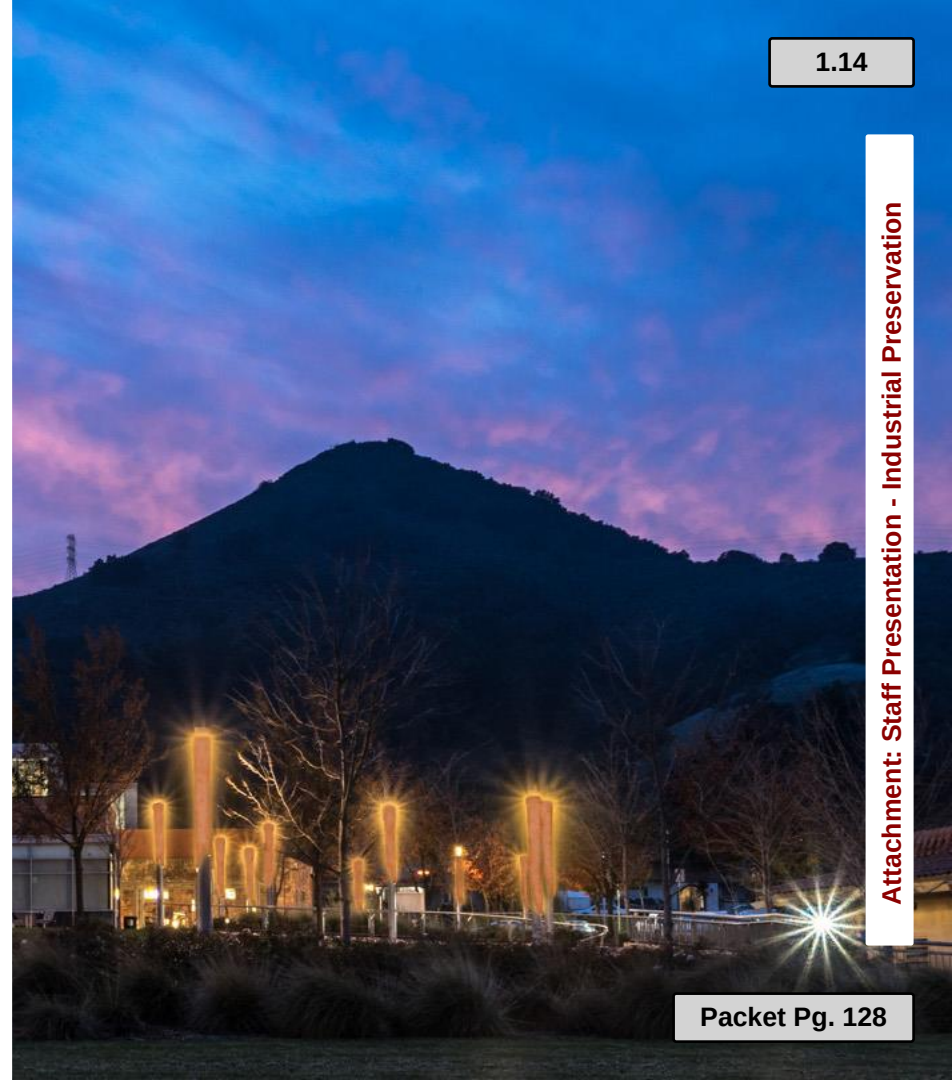
# Planning Commission Workshop

City of Morgan Hill

September 22, 2020

## Agenda:

1. Why are we here?
2. Review Strategic Economics Study
3. Review Vacant Lands Inventory
4. Review Findings from ULI & SVEDA
5. Discussion & Input



# WHY ARE WE HERE?

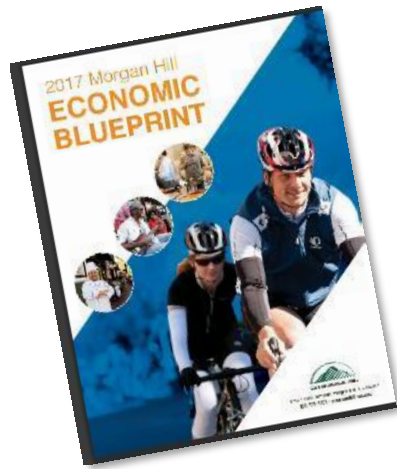
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Attachment: Staff Presentation - Industrial Preservation



# Economic Blueprint



**Innovation and Advanced Manufacturing**  
Grow existing companies, attract new industry and grow professional jobs.

## Retail

Grow retail offerings and strengthen commercial nodes.

## Tourism

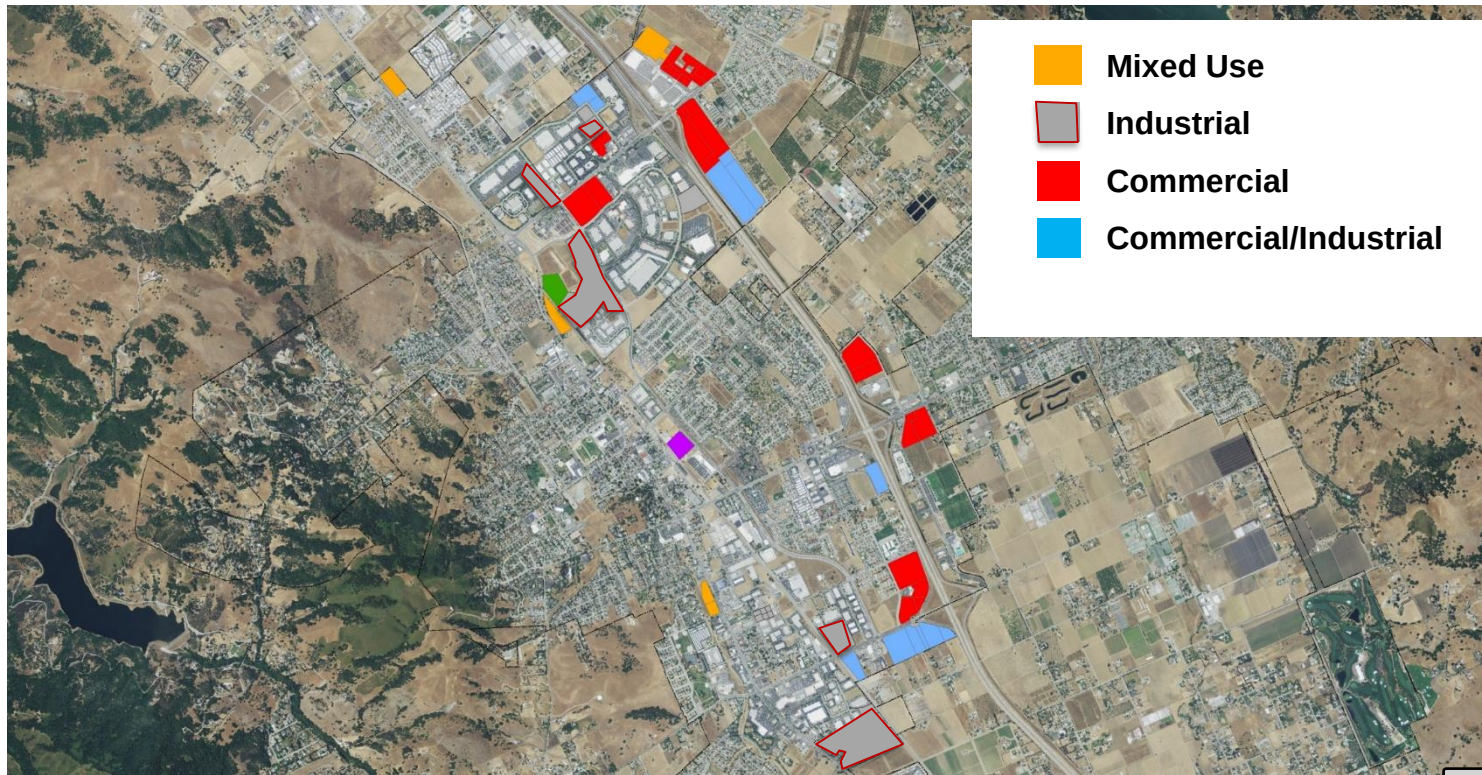
Grow leisure, agriculture, wine country and recreational tourism.

## Healthcare

Grow and foster the medical service and diagnostics industry by attracting services and facilities.



# VACANT LAND 5+ ACRES



# KEY PROJECTS UNDERWAY

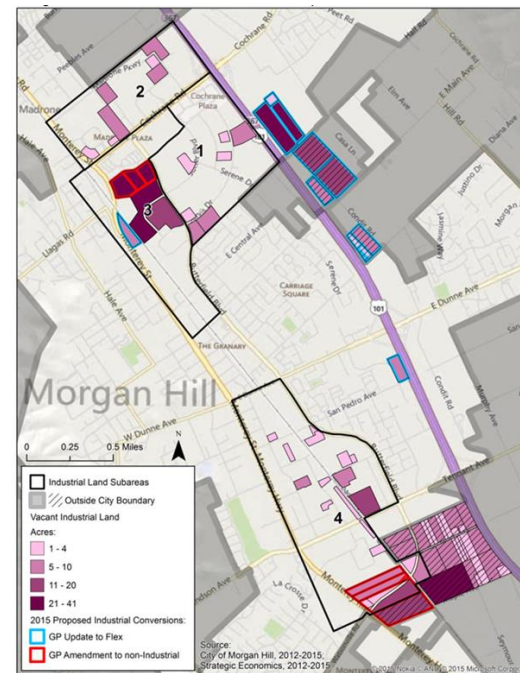
Residential is growing at a steady 2% annual rate. Downtown revitalization has attracted multiple mixed-use developments and over \$1.3 million of private investment. Many commercial/industrial developments underway.

## Some Key Projects in the Pipeline

- Shoe Palace 503,000 SF Expansion
- Golden State Assembly 40,000 SF Expansion
- 31,000 Silicon Valley Glass industrial building
- Carpenter's Union 55,000 SF Training Center Expansion
- 20-Acre Evergreen Village Shopping Center
- Applied Motion Products 21,000 SF industrial building (relocation)
- Level 10 Construction 78,000 SF industrial building (proposed)
- Trammell Crow 1.1 MSF Industrial Development (proposed)

# JOBS AND INDUSTRY

- 7 MSF of Industrial Space
- 21,600+ Employed residents
- 19% Jobs in manufacturing
- 70% of Morgan Hill residents commute for work
- Over 1,200 businesses in Morgan Hill



- Strategic Economics updated 2013 and 2015 industrial lands study
- Strategic Economic also analyzed commercially designated lands, building on the 2017 Retail/Commercial Capacity Study by Lisa Wise Consulting



# STRATEGIC ECONOMICS STUDY

## Industrial Findings

1.14

- Morgan Hill continues to be an attractive destination for industrial users, including manufacturers, machine shops, and assembly businesses
- Morgan Hill Ranch and Madrone Business Parks continue to be the strongest location for future industrial, R&D, and warehouse uses.

Attachment: Staff Presentation - Industrial Preservation

# STRATEGIC ECONOMICS STUDY

## Industrial Findings

1.14

- Vacant land industrial supply can accommodate 25 to 165 years of projected demand
  - in manufacturing, warehouse, and R&D uses for the next
  - includes lands designated as industrial/commercial
  - these figures have declined from the previous analysis
- With current projects, available land horizon drops to 19 to 95 years

Attachment: Staff Presentation - Industrial Preservation

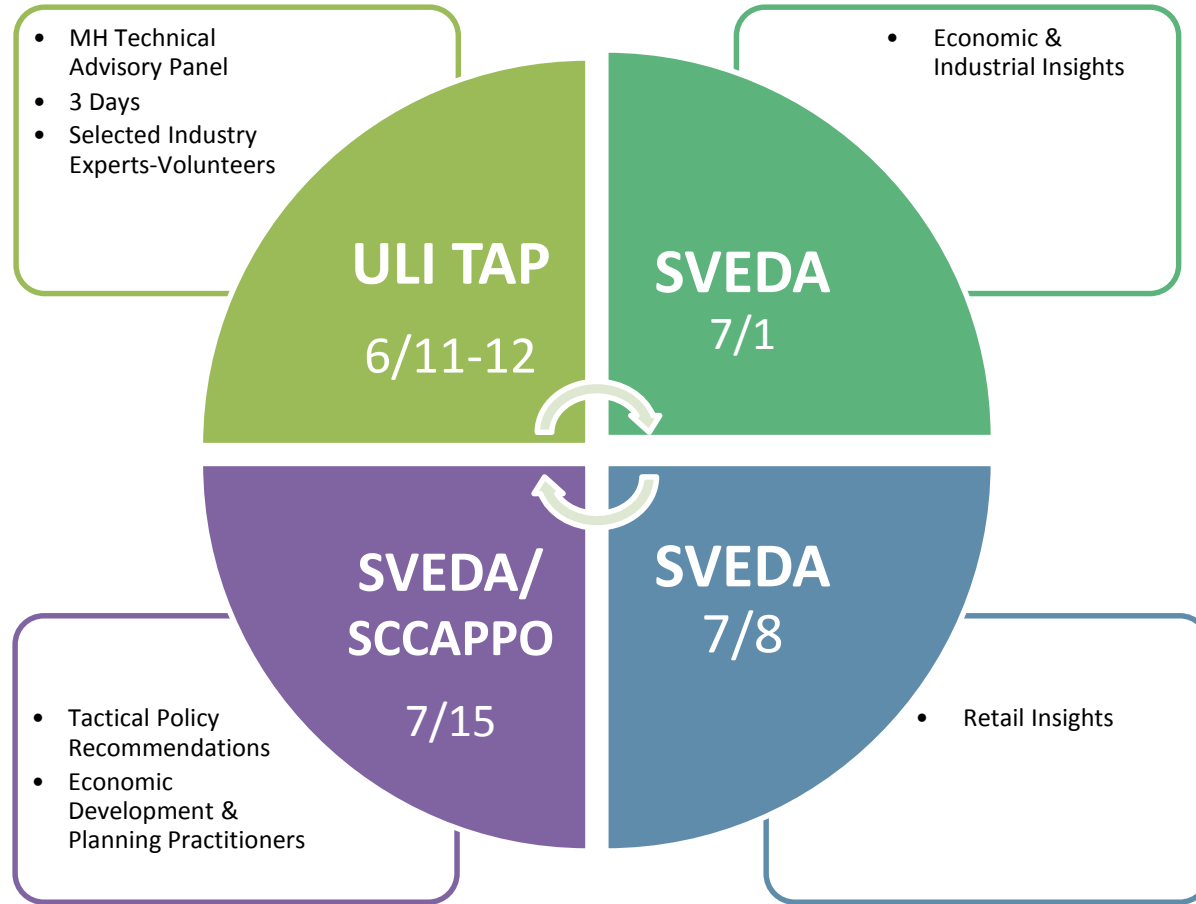
# STRATEGIC ECONOMICS STUDY

## Industrial Findings

1.14

- More demand than building supply for manufacturing, machining, and assembly
- Job growth in manufacturing and R&D declined due to specialization
- Morgan Hill firms have left to expand due to lack of industrial space
- Inability by individual companies to construct new space

Attachment: Staff Presentation - Industrial Preservation



# Panelists



**Lynn Sedway**  
Principal & President  
Sedway Consulting



**David Baum**  
Principal  
Municipal Financial Services



**Steve Chamberlin**  
Founder  
Chamberlin Associates



**Greg Matter**  
Managing Director  
JLL



**Josh Shumsky**  
Managing Director  
Newmark Knight Frank



**Pam White**  
Partner  
Guild Retail Partners





# Highlights

- ❖ Morgan Hill is well positioned with its community fundamentals, but consumer demand is lacking
- ❖ Overall, it fairs “average” in comparison to other cities in Northern California.
- ❖ Morgan Hill needs to develop substantial industrial to balance its industry real estate.
- ❖ Currently eCommerce accounts for 50% of demand in the US market and 80% of the demand in Silicon Valley. Morgan Hill can capitalize on the e-Commerce market demand to build speculative product to capture advanced industries, but it must have facilities available.

1.14

ULI  
6/11-1

Attachment: Staff Presentation - Industrial Preservation

# Highlights

- ❖ COVID-19 has accelerated the increase in e-Commerce
- ❖ 83% purchase are made online
- ❖ Retail sales have jumped 68%
- ❖ Grocery and food and beverage delivery have spiked
- ❖ A distribution center in Morgan Hill would reduce vehicle miles traveled by delivery vans by 1.6 million miles (assuming 75 vans to service local population).
- ❖ Localized last-mile distribution also helps minimize road infrastructure degradation
- ❖ With a localized last-mile distribution there is an environmental benefit by taking 561 cars off the road. Less miles traveled decreased greenhouse gases.
- ❖ Morgan Hill could impose impact fees/community benefit fees on certain uses

1.14

ULI  
6/11-1

Attachment: Staff Presentation - Industrial Preservation



**Greg Matter**  
JLL Managing Director



**Alexander Quinn**  
JLL Director of Research, Northern California



**Heather Belfor**  
JLL Research Manager

1.14

# SVEDA

## Industrial Insights July 1

Attachment: Staff Presentation - Industrial Preservation

## SVEDA

Industrial  
Insights  
July 1

Attachment: Staff Presentation - Industrial Preservation

- ❖ Key Highlights
- ❖ Bay Area lead all markets in rent growth since 2009
- ❖ Since COVID-19:
  - ❖ Bay Area Top 100 companies have held their market value
  - ❖ Office leasing activity has taken a wait and see approach to future spaces
  - ❖ Technology companies are much more diversified compared to 2000
- ❖ Industries concentrated in the Bay Area are forecasted to grow faster than the national economy overall
- ❖ Sectors projected to grow: artificial intelligence, automation & robotics, digital solutions, life sciences, e-Commerce, and sharing economy

## SVEDA

Industrial  
Insights  
July 1

Attachment: Staff Presentation - Industrial Preservation

- ❖ Key Highlights Cont.
- ❖ In the first 8 weeks of COVID e-commerce sales increased 68.7% since 2019
- ❖ Emergence of grocery delivery
- ❖ Important for cities to plan regionally for increased demand of e-commerce
- ❖ Bay Area economy is moving towards local industrial
- ❖ Morgan Hill ranked “Talent-rich” with strong labor and consumer base, lagging in real estate



- ❖ Silicon Valley Economic Development Alliance
- ❖ Santa Clara County Association of Planning Officials

|              |             |           |
|--------------|-------------|-----------|
| Redwood City | Campbell    | Milpitas  |
| San Mateo    | Fremont     | Cupertino |
| Burlingame   | Morgan Hill | San Jose  |

# Industrial Preservation

- ❖ Expected to recover
- ❖ Strong demand for:
  - ❖ Cold Storage
  - ❖ Food Operations
  - ❖ Storage
  - ❖ Distribution
  - ❖ Last-mile Delivery Facilities

# Industrial Preservation

- ❖ Use it!
- ❖ Align fees and taxes to support Industrial uses
- ❖ Prioritize wanted uses
- ❖ Brand, Market & Promote

# Industrial Preservation

- ❖ Prohibit conversion of industrial land to residential uses
- ❖ Limit discretion of CUPs to employment-generating uses
- ❖ Be Flexible:
  - ❖ Allow for makerspaces
  - ❖ Consider post-COVID-19 uses
  - ❖ Activate ground floor
- ❖ Set 'distancing' requirements for less than desired uses
- ❖ Use land buffers

# Recognize the current and future role and growth of e-commerce

- ❖ Identify locations and parameters appropriate for distribution center
- ❖ Consider appropriate zones
- ❖ Consider size limitations
- ❖ Use development agreements

Note: County sales tax pools have become the fastest growing revenue generation segment for cities



## What are we solving for?

- Secondary Market
- Low Rents
- Green Belt
- Cost of Greenfield Development

## What are we solving for?

A new look, a  
new voice for  
Economic  
Development

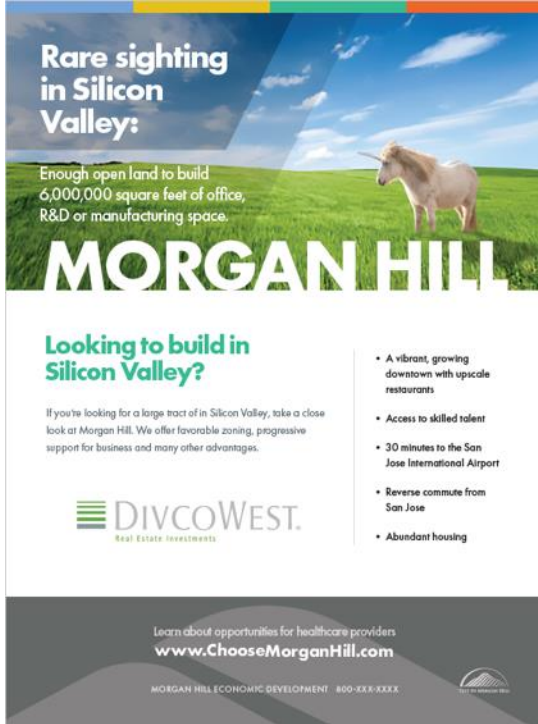


Love where  
you work.

Morgan Hill is a vibrant and growing community 30 minutes from the San Jose International Airport, and one of the last untapped opportunities in Silicon Valley.

Businesses love Morgan Hill, and we love them right back: the established, the emerging, the expanding and the entrepreneurial. We don't just welcome new businesses, we actively work to support them with a pro-business, pro-development environment. With our business-friendly zoning and public policies, you'll find your corner working to make it easy every step of the way.

## What are we solving for?



**Rare sighting in Silicon Valley:**

Enough open land to build 6,000,000 square feet of office, R&D or manufacturing space.

# MORGAN HILL

**Looking to build in Silicon Valley?**

If you're looking for a large tract of in Silicon Valley, take a close look at Morgan Hill. We offer favorable zoning, progressive support for business and many other advantages.

**DIVCO WEST.**  
Real Estate Investments

- A vibrant, growing downtown with upscale restaurants
- Access to skilled talent
- 30 minutes to the San Jose International Airport
- Reverse commute from San Jose
- Abundant housing

Learn about opportunities for healthcare providers  
[www.ChooseMorganHill.com](http://www.ChooseMorganHill.com)

MORGAN HILL ECONOMIC DEVELOPMENT 800-XXX-XXXX



**Opportunity knocks.**

Our growing community has opportunities for healthcare providers

# MORGAN HILL

**Love where you work**

With a growing population, we're looking for urgent care and specialty clinics to open locations in Morgan Hill. If you haven't been to Morgan Hill lately, it's time to take a close look.

*"Priority zoning gives healthcare providers their choice of available land in 90% of our districts."*

**Edith Ramirez**  
Director of Economic Development

**Consider the advantages**

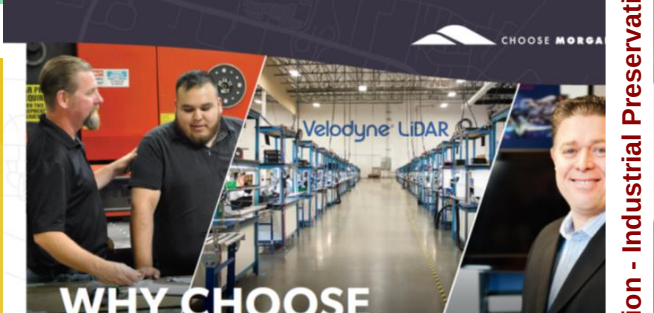
- xxx,xxx South Santa Clara County residents
- Community mindset toward healthy, active lifestyles
- Available workforce and housing, including affordable housing
- Growing, vibrant downtown with upscale restaurants and wineries

Learn about opportunities for healthcare providers  
[www.ChooseMorganHill.com](http://www.ChooseMorganHill.com)

MORGAN HILL ECONOMIC DEVELOPMENT 800-XXX-XXXX

## What are we solving for?

- Articulate value proposition
- Provide useful tools (OpenCounter, Oppsites)
- Targeted marketing (SVBJ, ICSC)
- Create a new image (re-brand)
- Communicate Success



### WHY CHOOSE MORGAN HILL

**A Flourishing Center of Industry**

Morgan Hill is a sophisticated Silicon Valley community that supports industry and innovation. The city offers 6.5 million square feet of industrial, R&D, and manufacturing space in three large business parks. Morgan Hill is home to companies such as Anritsu Corporation, Specialized Bicycle Components, Toray Advanced Composites, WolfSpeed, Phoenix DeVentures, and Sakata Seeds.

The city has a significant and growing employment base in the areas of manufacturing and wholesale, with projected growth in the sectors of health, education, finance, insurance, real estate, and information technology. Its location in south Silicon Valley offers relatively new, high-quality space at lower costs, over 150 acres of industrial vacant land, and a reverse commute. Morgan Hill's location offers employees access to the great outdoors, providing an ideal balance between jobs, housing, recreation, and open space.

**"Morgan Hill is a perfect place for Toray Advanced Composites' US Headquarters. Since Morgan Hill is the southern tip of Silicon Valley, it has the feel of a tech coupled with the serenity of the South Valley." city is very conducive to business and supportive of company and our growth. The location and proximity to international airports are convenient for our customers and suppliers who come to visit.**

**Scott Unger**  
Group President of Toray Advanced Composites

**BY THE NUMBERS**

|             |                                                          |
|-------------|----------------------------------------------------------|
| 6.5 MILLION | square feet of Commercial/Industrial Space               |
| 18,000      | employed residents                                       |
| 1,500       | companies                                                |
| 150         | acres of vacant industrial land available for job growth |
| 20%         | of jobs are in Manufacturing                             |

**TOP MANUFACTURING NICHE IN MORGAN HILL**

 Food Manufacturing
  Sports/Recreation Manufacturing

**Attachment: Staff Presentation - Industrial Preservation**





# Questions Comments Discussion





## **PLANNING COMMISSION STAFF REPORT**

### **MEETING DATE: September 22, 2020**

PREPARED BY: Jennifer Carman, Community Development Director  
 APPROVED BY: Jennifer Carman, Community Development Director

#### **ZA2020-0003- ZONING TEXT AMENDMENT AMENDING TABLE 18.26-1 (PERMITTED LAND USES IN THE INDUSTRIAL ZONING DISTRICTS) OF SECTION 18.26.020 (LAND USE REGULATIONS) OF CHAPTER 18.26 (INDUSTRIAL ZONING DISTRICTS); SECTION 18.108.040 (DESIGN PERMIT) OF CHAPTER 18.108 (SPECIFIC PERMIT REQUIREMENTS); SECTIONS 18.124.050 (INDUSTRIAL USES) AND 18.124.060 (TRANSPORTATION, COMMUNICATION, AND UTILITY USES) OF CHAPTER 18.124 (LAND USE DEFINITIONS) OF TITLE 18 (ZONING) OF THE MUNICIPAL CODE OF THE CITY OF MORGAN HILL REGARDING E-COMMERCE DISTRIBUTION USES AND DESIGN REVIEW FOR LARGE PROJECTS**

#### **RECOMMENDATION(S)**

1. Open/close the public hearing; and
2. Adopt Resolution recommending City Council approval of the Zoning Amendment.

#### **POLICY CONSIDERATIONS:**

Should the City of Morgan Hill create land use classifications for e-commerce uses and distinguish these businesses from warehouse and distribution uses? Should the City of Morgan Hill prohibit fulfillment centers and parcel sorting facilities? Should the City of Morgan modify design permit standards to elevate buildings and developments of certain sizes to Planning Commission for review?

#### **BACKGROUND:**

The Council, Commission and members of the community have raised concerns about recently approved and/or proposed large development projects along the 101 corridor. There is a particular concern that the City's current zoning regulations do not adequately regulate e-commerce facilities, so that large industrial buildings can be developed as e-commerce, heavy distribution "fulfillment centers" served by hundreds of large semi-trucks daily. The Council has also directed staff to develop more specific criteria for determining what projects are referred to the Planning Commission for design review. This ordinance addresses these concerns by creating definitions for e-commerce facilities in the industrial zones, and by creating criteria that requires large

projects to be elevated to the Planning Commission for design review, while still giving the Planning Director flexibility to elevate any other smaller projects that she determines to be significant.

As the Commission is aware, there is an initiative currently circulating that also attempts to address e-commerce facilities and large development projects. The initiative takes a different approach, by defining facilities by building features only, rather than by use. Staff is concerned that this approach will result in unintended consequences. There are several existing manufacturing businesses in our industrial areas that would be classified as “fulfillment centers” under the initiative by building size, ceiling height and number of dock doors. These businesses would be unable to modify or expand their facilities to meet future needs. Other businesses would be prohibited from converting existing drive through doors or punch-outs to dock-high-doors to address all those concerns, staff recommends an approach that utilizes both building feature and use to regulate e-commerce facilities.

The initiative also attempts to modify the administrative authority to approve discretionary permits. This ordinance incorporates some of the initiative proposal. However, as described further under “Next Steps” below, it is anticipated that further action will be needed to limit staff approval of discretionary permits. These changes cannot be made through this ordinance and will require further discussion with property owners in the Morgan Hill Ranch Business Park (Cochrane, west of Highway 101, including Sutter and Jarvis Drives.).

## **PROJECT DESCRIPTION**

Provided are proposed text amendments to the Morgan Hill Municipal Code that are intended to:

1. Create definitions and standards for E-Commerce uses that are distinctive and separate from typical Warehouse and Distribution uses
2. Prohibit Fulfillment Center uses (Heavy Distribution)
3. Create thresholds for design review permits that require Planning Commission review.

To achieve these goals, the draft ordinance (Attachment 2) contains the following proposed use definitions and standards:

### **Proposed Definitions:**

#### **E-Commerce Distribution.**

**Heavy Distribution.** A Fulfillment Center or similar use with a minimum gross floor area of 200,000 square feet and a minimum ceiling height of 24 feet. The Fulfillment Center’s primary purpose is storage and distribution of e-commerce products to consumers or

end-users, either directly or through a Parcel Hub. Heavy Distribution is prohibited in all zones in the City of Morgan Hill.

**Parcel Sorting Facilities.** Establishments for the sorting and or re-distribution of parcels or products from Heavy Distribution (Fulfillment Centers) to a Parcel Hub via intramodal transit truck to truck.

**Parcel Hub.** A “Last Mile” facility or similar establishment for the processing and/or re-distribution of parcels or products. A Parcel Hub’s primary function is moving a shipment from one mode of transport to another for delivery directly to consumers or end-users.

**Parcel Hub, Large.** A parcel hub facility 75,000 square feet or more in building area.

**Parcel Hub, Small.** A parcel hub facility less than 75,000 square feet in building area.

**Warehousing and Distribution (Wholesale).** A use engaged in storage, wholesale and distribution of manufactured products, supplies, and equipment to retailers; to industrial, commercial, institutional, farm, or professional business users; or to other wholesalers; or acting as agents or brokers in buying merchandise for or selling merchandise to such persons or companies. Includes merchant wholesalers; agents, merchandise or commodity brokers, and commission merchants; assemblers, buyers and associations engaged in the cooperative marketing of farm products; and bottling works.

**Light Fleet-Based Services.** Passenger transportation services, medical transport, and other businesses that rely on fleets of three or more vehicles with rated capacities less than 10,000 pounds. Includes parking, dispatching, and offices for taxicab and limousine operations, ambulance services, nonemergency medical transport, local messenger and document delivery services, and similar businesses. Excludes towing operations (see “Towing and Impound”) or delivery services with two or fewer fleet vehicles on site (see “Business Support Services”).

### Update Land Use Regulations Table 18.26-1

| Key<br>P Permitted Use<br>A Administrative Use Permit required<br>C Conditional Use Permit required<br>– Use not allowed | Zoning District |    |    |    |    | Additional Regulations |
|--------------------------------------------------------------------------------------------------------------------------|-----------------|----|----|----|----|------------------------|
|                                                                                                                          | CI              | IO | IC | IL | IG |                        |
| <u>E-Commerce Distribution</u>                                                                                           |                 |    |    |    |    |                        |
| <u>Heavy Distribution</u>                                                                                                | –               | –  | –  | –  | –  |                        |
| <u>Parcel Sorting Facilities</u>                                                                                         | –               | –  | –  | –  | –  |                        |
| <u>Parcel Hub Small &lt; 75,000 sq. ft.</u>                                                                              | –               | –  | –  | P  | P  |                        |
| <u>Parcel Hub Large &gt; 75,000 sq. ft.</u>                                                                              | –               | –  | –  | C  | C  |                        |

|                                                   |   |       |       |   |   |  |
|---------------------------------------------------|---|-------|-------|---|---|--|
| Warehousing and Distribution (Wholesale)          |   |       |       |   |   |  |
| Warehousing and Distribution, Large               | C | C [3] | C [3] | C | P |  |
| Warehousing and Distribution, Small               | C | C [3] | C [3] | P | P |  |
| Warehousing and Distribution with Outdoor Storage | C | -     | -     | C | C |  |

### Changes to Design Permit processing:

The draft ordinance also changes the approval authority for any structure with more than 100,000 square feet of floor area, a building height greater than 40 feet or any residential development of more than 200 units from the Community Development Director/Development Services Director to the Planning Commission.

### ANALYSIS:

The proposed Zoning Amendment has been analyzed with respect to consistency with the: 1) General Plan; 2) Zoning Ordinance; and, 3) California Environmental Quality Act.

#### 1. General Plan

The proposed amendments are consistent with the General Plan, specifically policies in the Land Use Element, including Policy CNF-2.1 (Orderly Development), which promotes sensible, orderly growth that will promote the local economy.

#### 2. Zoning Ordinance

The purpose of the Zoning Code is to implement the General Plan and to protect the public health, safety, and welfare. The City may approve a Zoning Amendment only if the following findings are made:

- a. The proposed amendment is consistent with the General Plan and any applicable specific plan as provided by Government Code Section 65860.

#### Consistent

The proposed zoning text amendment for e-commerce uses is consistent with the General Plan in that it follows and clarifies current land use development standards for industrial uses.

- b. The proposed amendment will not be detrimental to the public interest, health, safety, convenience, or welfare of the City.

#### Consistent

A land use program for e-commerce uses that includes a CUP for each use allows the approval bodies to evaluate each use to ensure they will not be detrimental to the City.

Elevating Design Review for significant projects to Planning Commission also creates additional opportunities for public input and interest.

- c. The proposed amendment is internally consistent with other applicable provisions of the zoning code.

#### Consistent

The proposed revisions for e-commerce uses are internally consistent with the overall zoning code. The land use changes require a CUP for each use above 75,000 and overall development standards consistent with the zone district each business would be located within.

### **3. California Environmental Quality Act (CEQA):**

This ordinance is categorically exempt from environmental review pursuant to Section 15061(b)(3) of the California Environmental Quality Act (CEQA) Guidelines, the proposed text amendment to the Morgan Hill Zoning Code is not a project with potential for causing a significant effect on the environment requiring California Environmental Quality Act (CEQA) analysis.

#### **NEXT STEPS:**

##### Morgan Hill Ranch Business Park:

This ordinance is just one step to address some of the concerns that have been raised about the development process. One issue that is not addressed by either this ordinance or the initiative measure is the outdated Morgan Hill Ranch Business Park Planned Development Agreement, which was approved in 1981. This agreement requires all discretionary permits for projects in the Business Park to be issued by staff rather than Planning Commission or City Council.

Although the agreement has expired, it has been adopted as part of the Planned Unit Development Zoning for the Business Park. The PUD zoning was amended and partially restated by initiative in 1987. Staff is currently exploring options to modify the PUD zoning to remove the requirement for administrative approval of discretionary permits.

##### E-Commerce Land Uses in Commercial Districts:

In addition to online businesses, many brick-and-mortar shops have begun operating e-commerce delivery services. These services can be operated out of existing stores, out of adjacent or nearby facilities, or through smaller warehouse-type facilities. Staff is monitoring developments in retail delivery services and will bring forth recommendations regarding whether and how to permit and regulate those uses in commercial zoning districts.

#### **COMMUNITY ENGAGEMENT:**



A 10-day public hearing notice was published in the Friday, September 11 edition of the Morgan Hill Times pursuant to Government Code Sections 65090-65096. Notice was also provided on the City of Morgan Hill website and via social media.

**LINKS/ATTACHMENTS:**

1. Resolution for Ordinance
2. 2020 Zoning Code Amendments-Final

**RESOLUTION NO. 20-08**

**A RESOLUTION OF THE PLANNING COMMISSION OF THE CITY OF MORGAN HILL RECOMMENDING APPROVAL OF AMENDMENT TO TITLE 18, ZONING CODE TO ZA2020-0003-ZONING TEXT AMENDMENT AMENDING TABLE 18.26-1 (PERMITTED LAND USES IN THE INDUSTRIAL ZONING DISTRICTS) OF SECTION 18.26.020 (LAND USE REGULATIONS) OF CHAPTER 18.26 (INDUSTRIAL ZONING DISTRICTS); SECTION 18.108.040 (DESIGN PERMIT) OF CHAPTER 18.108 (SPECIFIC PERMIT REQUIREMENTS); SECTIONS 18.124.050 (INDUSTRIAL USES) AND 18.124.060 (TRANSPORTATION, COMMUNICATION, AND UTILITY USES) OF CHAPTER 18.124 (LAND USE DEFINITIONS) OF TITLE 18 (ZONING) OF THE MUNICIPAL CODE OF THE CITY OF MORGAN HILL REGARDING E-COMMERCE DISTRIBUTION USES AND DESIGN REVIEW FOR LARGE PROJECTS**

**WHEREAS**, this proposed Ordinance (Zoning Amendment ZA2020-0003) was considered by the Planning Commission of the City of Morgan Hill at its regular meeting of September 22, 2020; and

**WHEREAS**, the Planning Commission has reviewed recommendations contained in the September 22, 2020, staff report on this item; and

**WHEREAS**, testimony received at a duly noticed public hearing, along with other materials have been considered in the review process.

**NOW, THEREFORE, BE IT RESOLVED BY THE PLANNING COMMISSION OF THE CITY OF MORGAN HILL THAT:**

**SECTION 1.** The Planning Commission hereby finds that the proposed amendments to the Zoning Code established by this ordinance herein described are compatible with the goals, objectives and policies of the General Plan of the City of Morgan Hill including, the General Plan policies in the Land Use Element, for example Policy CNF-2.1 (Orderly Development), which promotes sensible, orderly growth that will promote the local economy. The proposed zoning text amendment for e-commerce uses is consistent with the General Plan in that it follows and clarifies current land use development standards for industrial uses.

**SECTION 2.** The proposed amendments will not be detrimental to the public interest, health, safety, convenience, or welfare of the City. A land use program for e-commerce uses that includes a CUP for each use allows the approval bodies to evaluate each use to ensure they will not be detrimental to the City. Elevating Design Review for significant projects to Planning

Commission also creates additional opportunities for public input and interest.

**SECTION 3.** The proposed revisions for e-commerce uses are internally consistent with the overall zoning code. The land use changes require a CUP for each use above 75,000 and overall development standards consistent with the zone district each business would be located within.

**SECTION 4.** The Planning Commission hereby recommends approval of proposed changes to the text of the Morgan Hill Municipal Code amending table 18.26-1 (Permitted Land Uses in the Industrial Zoning Districts) of Section 18.26.020 (Land Use Regulations) of Chapter 18.26 (Industrial Zoning Districts); Section 18.108.040 (Design Permit) of Chapter 18.108 (Specific Permit Requirements); Sections 18.124.050 (Industrial Uses) and 18.124.060 (Transportation, Communication and Utility Uses) of Chapter 18.124 (Land Use Definitions) which are shown by strike-out text for deletions, and underline text for additions. All text amendments recommended to be made as shown in the draft ordinance (Attachment 2 to the staff report).

**PASSED AND ADOPTED THIS 22<sup>nd</sup> DAY OF SEPTEMBER 2020, AT A REGULAR MEETING OF THE PLANNING COMMISSION BY THE FOLLOWING VOTE:**

**AYES:**                      **COMMISSIONERS:**

**NOES:**                      **COMMISSIONERS:**

**ABSTAIN:**                      **COMMISSIONERS:**

**COMMISSIONERS:**

**ABSENT:**

**ATTEST:**

**APPROVED:**

\_\_\_\_\_  
**JENNA LUNA, Deputy City Clerk**

\_\_\_\_\_  
**MOHAMMAD HABIB, Chair**

## ORDINANCE NO. , NEW SERIES

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING TABLE 18.26-1 (PERMITTED LAND USES IN THE INDUSTRIAL ZONING DISTRICTS) OF SECTION 18.26.020 (LAND USE REGULATIONS) OF CHAPTER 18.26 (INDUSTRIAL ZONING DISTRICTS); SECTION 18.108.040 (DESIGN PERMIT) OF CHAPTER 18.108 (SPECIFIC PERMIT REQUIREMENTS); SECTIONS 18.124.050 (INDUSTRIAL USES) AND 18.124.060 (TRANSPORTATION, COMMUNICATION, AND UTILITY USES) OF CHAPTER 18.124 (LAND USE DEFINITIONS) OF TITLE 18 (ZONING) OF THE MUNICIPAL CODE OF THE CITY OF MORGAN HILL REGARDING E-COMMERCE DISTRIBUTION USES AND DESIGN REVIEW FOR LARGE PROJECTS

THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES ORDAIN AS FOLLOWS:

**Section 1.** Table 18.26-1 (Permitted Land Uses in the Industrial Zoning Districts) of Section 18.26.020 (Land Use Regulations) of Chapter 18.26 (Industrial Zoning Districts) of Title 18 (Zoning) is hereby amended to read as follows (additions in underline, deletions in strikeout):

### 18.26.020– Land Use Regulations

**A. Permitted Land Uses.** Table 18.26-1 identifies land uses permitted in the industrial zoning districts.

**TABLE 18.26-1 PERMITTED LAND USES IN THE INDUSTRIAL ZONING DISTRICTS**

| Key<br>P Permitted Use<br>A Administrative Use Permit required<br>C Conditional Use Permit required<br>– Use not allowed | Zoning District |    |    |    |    | Additional Regulations |
|--------------------------------------------------------------------------------------------------------------------------|-----------------|----|----|----|----|------------------------|
|                                                                                                                          | CI              | IO | IC | IL | IG |                        |
| <b>Residential Uses</b>                                                                                                  |                 |    |    |    |    |                        |
| Caretaker Quarters                                                                                                       | -               | -  | -  | C  | C  |                        |
| <b>Public and Quasi-Public Uses</b>                                                                                      |                 |    |    |    |    |                        |
| Colleges and Trade Schools                                                                                               | C               | C  | C  | C  | C  |                        |
| Community Assembly                                                                                                       | C               | -  | -  | C  | C  |                        |
| Instructional Services                                                                                                   | A               | -  | -  | -  | -  |                        |
| Medical Offices and Clinics                                                                                              | A               | -  | -  | -  | -  |                        |
| Parks and Recreational Facilities                                                                                        | C               | -  | -  | C  | C  |                        |
| Public Safety Facilities                                                                                                 | C               | -  | -  | C  | C  |                        |
| <b>Commercial Uses</b>                                                                                                   |                 |    |    |    |    |                        |
| Adult Businesses                                                                                                         | -               | -  | P  | P  | P  | 18.92.020              |
| Animal-Related Commercial Uses                                                                                           |                 |    |    |    |    |                        |
| Animal Boarding                                                                                                          | C               | -  | -  | C  | C  |                        |
| Veterinarian Clinics and Hospitals                                                                                       | A               | A  | A  | C  | C  |                        |

|                                       |       |       |       |       |       |             |
|---------------------------------------|-------|-------|-------|-------|-------|-------------|
| Banks and Financial Institutions      | C [4] | -     | -     | -     | -     |             |
| Business Support Services             | P     | C     | P     | P     | P     |             |
| Cinemas and Theaters                  | A     | -     | -     | -     | -     |             |
| Commercial Recreation, Indoor         |       |       |       |       |       |             |
| ≤ 15,000 sq. ft.                      | P     | C     | C     | C     | C     |             |
| > 15,000 sq. ft.                      | C     | C     | C     | C     | C     |             |
| Eating and Drinking Uses              |       |       |       |       |       |             |
| Restaurants, Fast Food                | C [4] | - [5] | - [5] | - [5] | - [5] |             |
| Restaurants, Sit-Down                 | C [4] | - [5] | - [5] | - [5] | - [5] |             |
| Tasting Rooms                         | P [6] | -     | -     | A [6] | A [6] |             |
| Lodging Facilities                    |       |       |       |       |       |             |
| Hotels and Motels                     | P     | -     | -     | -     | -     |             |
| Mini-Storage                          | -     | -     | -     | C     | C     | 18.92.100   |
| Personal Service                      | C [4] | - [5] | - [5] | - [5] | - [5] |             |
| Plant Nurseries                       | C     | -     | -     | P     | P     |             |
| Professional Offices                  | P     | P     | P     | P     | P     |             |
| Retail                                |       |       |       |       |       |             |
| Building Materials                    | C     | -     | -     | P     | P     |             |
| Convenience Markets                   | C [4] | - [5] | - [5] | - [5] | - [5] |             |
| General Retail                        | C [4] | - [5] | - [5] | - [5] | - [5] |             |
| Home Improvement Centers              | C     | -     | -     | C     | C     |             |
| Large Commodity Retail                | C     | -     | -     | C     | C     |             |
| Vehicle-Related Uses                  |       |       |       |       |       |             |
| Towing and Impound                    | -     | -     | -     | C     | P     |             |
| Vehicle Repair and Maintenance, Major | -     | -     | -     | C     | P     |             |
| Vehicle Repair and Maintenance, Minor | -     | -     | -     | P     | P [1] |             |
| Wholesaling                           | P     | -     | -     | P     | P     |             |
| Retail                                |       |       |       |       |       |             |
| Building Materials                    | C     | -     | -     | P     | P     |             |
| Convenience Markets                   | C [4] | - [5] | - [5] | - [5] | - [5] |             |
| General Retail                        | C [4] | - [5] | - [5] | - [5] | - [5] |             |
| Home Improvement Centers              | C     | -     | -     | C     | C     |             |
| Large Commodity Retail                | C     | -     | -     | C     | C     |             |
| Vehicle-Related Uses                  |       |       |       |       |       |             |
| Towing and Impound                    | -     | -     | -     | C     | P     |             |
| Vehicle Repair and Maintenance, Major | -     | -     | -     | C     | P     |             |
| Vehicle Repair and Maintenance, Minor | -     | -     | -     | P     | P [1] |             |
| Wholesaling                           | P     | -     | -     | P     | P     |             |
| <b>Industrial Uses</b>                |       |       |       |       |       |             |
| Construction and Material Yards       | C     | C     | C     | P     | P     | 18.36.030.C |
| <u>E-Commerce Distribution</u>        |       |       |       |       |       |             |
| <u>Heavy Distribution</u>             | -     | -     | -     | -     | -     |             |
| <u>Parcel Sorting Facilities</u>      | -     | -     | -     | -     | -     |             |



|                                                        |                       |       |       |          |          |  |
|--------------------------------------------------------|-----------------------|-------|-------|----------|----------|--|
| <u>Parcel Hub Small &lt; 75,000 sq. ft.</u>            | –                     | –     | –     | <u>P</u> | <u>P</u> |  |
| <u>Parcel Hub Large &gt; 75,000 sq. ft.</u>            | –                     | –     | –     | <u>C</u> | <u>C</u> |  |
| Food and Beverage Production                           |                       |       |       |          |          |  |
| < 5,000 sq. ft. [7]                                    | A [2]                 | A [2] | A [2] | P [2]    | P [2]    |  |
| 5,000 sq. ft. to 10,000 sq. ft. [7]                    | C [2]                 | C [2] | C [2] | P [2]    | P [2]    |  |
| > 10,000 sq. ft.                                       | C                     | C     | C     | P [2,8]  | P [2,8]  |  |
| Manufacturing, Light                                   | P                     | C [3] | C     | P        | P        |  |
| Manufacturing, General                                 | –                     | –     | –     | –        | C        |  |
| Research and Development                               | P                     | P     | P     | P        | P        |  |
| Salvage and Wrecking                                   | –                     | –     | –     | –        | C        |  |
| Warehousing and Distribution ( <u>Wholesale</u> )      |                       |       |       |          |          |  |
| Warehousing and Distribution, Large                    | C                     | C [3] | C [3] | C        | P        |  |
| Warehousing and Distribution, Small                    | C                     | C [3] | C [3] | P        | P        |  |
| Warehousing and Distribution with Outdoor Storage      | C                     | –     | –     | C        | C        |  |
| <b>Transportation, Communication, and Utility Uses</b> |                       |       |       |          |          |  |
| Freight Terminals and Transfer                         | –                     | –     | –     | –        | C        |  |
| Light Fleet-Based Services                             | C                     | –     | C     | P        | P        |  |
| Recycling Facilities                                   |                       |       |       |          |          |  |
| Reverse Vending Machine                                | P                     | C     | C     | P        | P        |  |
| Recycling Collection Facility                          | C                     | –     | –     | C        | C        |  |
| Recycling Processing Facility                          | –                     | –     | –     | –        | C        |  |
| Utilities, Major                                       | –                     | –     | –     | C        | C        |  |
| Wireless Communications Facilities                     | See Chapter 18.96     |       |       |          |          |  |
| <b>Agriculture and Natural Resource Uses</b>           |                       |       |       |          |          |  |
| Crop Cultivation                                       | –                     |       | –     |          |          |  |
| <b>Other Uses</b>                                      |                       |       |       |          |          |  |
| Accessory Uses                                         | See Chapter 18.44     |       |       |          |          |  |
| Temporary Uses                                         | See Section 18.92.150 |       |       |          |          |  |

**Notes:**

[1] Retail sale of automotive products allowed only when ancillary to a vehicle repair and maintenance use. Retail display areas for automotive products may not exceed 25 percent of the building floor area.

[2] Must be 150 feet or more from a residential zoning district, otherwise requires a CUP.

[3] Permitted only when ancillary to another permitted use.

[4] Allowed as a primary use only when the Planning Commission finds that the use supports the primary job-generating uses within a business park setting.

[5] Allowed when accessory to a permitted primary use subject to the limitations in Section 18.26.020.D (Accessory Uses).

[6] Allowed only when accessory to a brewery, winery, or other alcoholic beverage production facility. Tasting rooms must be located within the building occupied by the primary use and may not exceed 5,000 square feet or 10 percent of the gross floor area of the building, whichever is less.

[7] On-site wholesale or retail sales required.

[8] Conditional Use Permit required when the type of food being produced will emit a generally offensive odor. Examples include primary processing of seafood, coffee roasting, pickled foods, or processes involving primarily fat and oils.

**Section 2.** Section 18.108.040 (Design Permit) of Chapter 18.108 (Specific Permit Requirements) of Title 18 (Zoning) is hereby amended to read as follows:

### **18.108.040 – Design Permit**

**A. Purpose.** A Design Permit is a discretionary action that enables the City to ensure that

proposed development exhibits high quality design consistent with the General Plan and any other applicable specific plan or area plan adopted by the City Council. The Design Permit process is also intended to ensure that new development and uses are compatible with their surroundings and minimize negative impacts on neighboring properties.

**B. Review Authority.**

1. ~~Except as provided below, The~~ Community Development Director shall review and act on all Design Permit applications.
2. The Community Development Director may ~~refer~~-elevate any Design Permit application under his or her authority to the Planning Commission for review and final decision.
3. The City Council shall review and act on all Design Permit applications for new City projects (e.g., new municipal buildings, parks) determined by the Community Development Director to be significant in accordance with Subsection D below.
4. Except for new City projects, the Planning Commission shall act on any Design Permit Application for any other projects determined by the Community Development Director to be significant in accordance with Subsection D below.

**C. When Required.** The following types of projects require a Design Review permit:

1. Three or more new residential units.
2. One or more new residential unit on a sensitive site as defined in Subsection E (Sensitive Sites) below.
3. New non-residential buildings, structures physical site improvements determined to be significant in accordance with Subsection D (Significant Projects) below.
4. Additions to existing buildings, structures, or other physical site improvements visible from a public right-of-way and determined to be significant in accordance with Subsection D (Significant Projects) below. Single-family homes are exempt unless the home is on a sensitive site as defined in Subsection E below.
5. Additions to existing residences located on a sensitive site as defined in Subsection E below.
6. Site alterations that change the topography of the currently developed site area on a sensitive site as defined in Subsection E below.
7. Relocation of existing buildings, structures or other physical site improvements.
8. Exterior changes to existing buildings, structures or other site improvements determined to be significant in accordance with Subsection D (Significant Projects) below. Single-family homes are exempt unless the home is on a sensitive site as defined in Subsection E below.
9. Grading of more than 50 cubic yards on slopes greater than ten percent.
10. New accessory structures including secondary dwelling units or guest homes on a sensitive site as defined in Subsection E below.
11. City projects, including but not limited to municipal buildings, parks and open spaces, landscaping within the right-of-way, and street furniture.

12. Other projects determined by the Community Development Director to be significant or which may adversely affect the environment or adjacent development.

#### **D. Significant Projects.**

1. The Community Development Director shall determine whether a project in Subsection C above is significant and thus requires a Design Review permit. When determining if a project is significant, the Community Development Director shall consider:
  - a. The visual prominence of the project when viewed from the public right-of-way and/or private property;
  - b. The project height, mass, and area of site disturbance;
  - c. The type, character, and proximity of adjacent development; and
  - d. The potential of the project to create adverse impacts on adjacent uses or the community at large.
2. Any structure with more than 100,000 square feet of floor area or a building height greater than 40 feet, not including projections allowed by-right under Table 18.56-1, is presumed to be significant for purposes of this Chapter.
3. Any residential development of more than 200 units is presumed significant for purposes of this chapter.
- 2.4. The Community Development Director's determination that a project is significant may be appealed to the Planning Commission in accordance with Chapter 18.112 (Appeals).

#### **E. Sensitive Sites.**

1. The Community Development Director may require a Design Permit for a project located on a sensitive site where a Design Permit may not otherwise be required.
2. The Community Development Director's determination that a site is sensitive and that a Design Permit is required may be appealed to the Planning Commission in accordance with Chapter 18.112 (Appeals).
3. The City shall consider a site to be sensitive if the site:
  - a. Contains a notable natural feature such as a hillside, ridgeline, watercourse, major drainage way or floodplain;

**Section 3.** Section 18.124.050 (Industrial Uses) of Chapter 18.124 (Land Use Definitions) of Title 18 (Zoning) is hereby amended to read as follows:

#### **18.124.050 – Industrial Uses**

**A. Construction and Material Yards.** Storage of construction materials and/or heavy equipment on a site other than a construction site.

#### **B. E-Commerce Distribution.**

1. Heavy Distribution. A Fulfillment Center or similar use with a minimum gross

floor area of 200,000 square feet and a minimum ceiling height of 24 feet. The Fulfillment Center's primary purpose is storage and distribution of e-commerce products to consumers or end-users, either directly or through a Parcel Hub. Heavy Distribution is prohibited in all zones in the City of Morgan Hill.

**2. Parcel Sorting Facilities.** Establishments for the sorting and or re-distribution of parcels or products from Heavy Distribution (Fulfillment Centers) to a Parcel Hub via intramodal transit truck to truck.

**3. Parcel Hub.** A "Last Mile" facility or similar establishment for the processing and/or re-distribution of parcels or products. A Parcel Hub's primary function is moving a shipment from one mode of transport to another for delivery directly to consumers or end-users.

**a. Parcel Hub, Large.** A parcel hub facility 75,000 square feet or more in building area.

**b. Parcel Hub, Small.** A parcel hub facility less than 75,000 square feet in building area.

**A.C. Food and Beverage Production.** A manufacturing establishment producing or processing food products or beverages for off-site consumption and wholesale distribution where the processing of food is primarily from previously prepared or farmed ingredients.

**B.D. Manufacturing, Light.** The manufacture, predominantly from previously prepared materials, of finished products or parts, including processing, fabrication, assembly, treatment, and packaging of such products, and incidental storage, sales and distribution of such products, but excluding basic industrial processing and custom manufacturing. Includes manufacture of electric and electronic instruments and devices. Excludes saw and planing mills and manufacturing uses involving primary production of wood, metal or chemical products from raw materials.

**C.E. Manufacturing, General.** Manufacturing of products from extracted or raw materials or recycled or secondary materials, or bulk storage and handling of such products and materials. Includes operations such as agriculture processing, apparel manufacturing; photographic processing plants; leather and allied product manufacturing; wood product manufacturing; paper manufacturing; chemical manufacturing; plastics and rubber products manufacturing; nonmetallic mineral product manufacturing; primary metal manufacturing; fabricated metal product manufacturing; and automotive and heavy equipment manufacturing.

**D.F. Research and Development.** A facility for scientific research and the design, development, and testing of electrical, electronic, magnetic, optical, pharmaceutical, chemical, and biotechnology components and products in advance of product manufacturing. Includes assembly of related products from parts produced off site where the manufacturing activity is secondary to the research and development activities.

**E.G. Salvage and Wrecking.** Storage and dismantling of vehicles and equipment for sale of parts, as well as their collection, storage, exchange or sale of goods including, but not limited to, any used building materials, used containers or steel drums, used tires, and

similar or related articles or property.

**F.H. Warehousing and Distribution (Wholesale).** A use engaged in storage, wholesale and distribution of manufactured products, supplies, and equipment to retailers; to industrial, commercial, institutional, farm, or professional business users; or to other wholesalers; or acting as agents or brokers in buying merchandise for or selling merchandise to such persons or companies. Includes merchant wholesalers; agents, merchandise or commodity brokers, and commission merchants; assemblers, buyers and associations engaged in the cooperative marketing of farm products; and bottling works.

1. **Warehousing and Distribution, Large.** A warehousing distribution facility 75,000 square feet or more in building/or use area.
2. **Warehousing and Distribution, Small.** A warehousing distribution facility or use less than 75,000 square feet in building area.
3. **Outdoor Storage.** Storage of commercial goods in open lots.

**Section 4.** Subsection B (Light Fleet Based Services) of Section 18.124.060 (Transportation, Communication, and Utility Uses) of Chapter 18.124 (Land Use Definitions) of Title 18 (Zoning) is hereby amended to read as follows:

**A. Light Fleet-Based Services.** Passenger transportation services, ~~local-delivery services~~, medical transport, and other businesses that rely on fleets of three or more vehicles with rated capacities less than 10,000 pounds. Includes parking, dispatching, and offices for taxicab and limousine operations, ambulance services, nonemergency medical transport, local messenger and document delivery services, and similar businesses. Excludes towing operations (see “Towing and Impound”) or delivery services with two or fewer fleet vehicles on site (see “Business Support Services”).

**Section 5. Severability.** Should any provision of this ordinance be deemed unconstitutional or unenforceable by a court of competent jurisdiction, such provision shall be severed from the ordinance, and such severance shall not affect the remainder of the ordinance.

**Section 6. Effective Date; Posting.** This Ordinance shall take effect on \_\_\_\_\_, 2020. The City Clerk is hereby directed to publish this Ordinance or a summary thereof pursuant to Government Code Section 36933.

This ordinance was introduced at a meeting of the City Council held on the \_\_\_\_\_ day of \_\_\_\_\_, 2020, and adopted at a meeting held on the \_\_\_\_\_ day of \_\_\_\_\_, 2020, and said ordinance was duly passed and adopted in accordance with law by the following vote:

**AYES: COUNCIL MEMBERS:**

**NOES: COUNCIL MEMBERS:**

**ABSTAIN: COUNCIL MEMBERS:**

**ABSENT: COUNCIL MEMBERS:**



**ATTEST:****APPROVED:**\_\_\_\_\_  
IRMA TORREZ, City Clerk\_\_\_\_\_  
RICHARD CONSTANTINE, Mayor**CERTIFICATE OF THE CITY CLERK**

**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA**, do hereby certify that the foregoing is a true and correct copy of Ordinance No. \_\_\_\_\_, New Series, adopted by the City Council of the City of Morgan Hill, California at their regular meeting held on the \_\_\_\_ day of \_\_\_\_\_, 2020.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

DATE: \_\_\_\_\_

\_\_\_\_\_  
IRMA TORREZ, City Clerk