



City Council

Special-Regular Meeting Agenda

<i>Mark Turner</i>	-	<i>Mayor</i>
<i>Marilyn Librers</i>	-	<i>Mayor Pro Tem</i>
<i>Soraida Iwanaga</i>	-	<i>Council Member</i>
<i>Yvonne Martínez Beltrán</i>	-	<i>Council Member</i>
<i>Miriam Vega</i>	-	<i>Council Member</i>

Wednesday, October 22, 2025

5:00 p.m. Closed Session

6:00 p.m. Regular Session

**Council Chamber Building
17555 Peak Avenue, Morgan Hill, CA 95037**

Morgan Hill City Council meetings are held in person with the option for the public to attend in-person or participate by teleconference/video conference. Information on how the public may observe and participate in the meeting is below.

MEETING PARTICIPATION

Morgan Hill City Council meetings are held in person. The community may attend in person or via Zoom (video/teleconference). The meetings are also live-streamed on the City's website and Facebook page.

As a courtesy, and technology permitting, members of the public may attend online. However, the City cannot guarantee that the public's access to online technology will be uninterrupted, and technical difficulties may occur from time to time. Unless required by the Ralph M. Brown Act, the meeting will continue despite technical difficulties for participants using the online option.

Those wishing to participate in the meetings remotely must register in advance at <https://bit.ly/CityCouncilZoomRegistration>. Additionally, Zoom participants must be running the latest version or will be required to update to the latest version before being able to join the meeting remotely.

Remote participation is also available by calling (669) 900-9128 and entering webinar id: 873 3200 8380#. Dial *9 to raise your hand, and be called upon to speak for up to 3

minutes. Dial *6 to unmute.

PUBLIC COMMENT

Public comment may be offered verbally at the meeting or in writing before the meeting. Public comment is limited to three minutes, but the Mayor may adjust time limits for individual or total comments while ensuring all viewpoints are heard, encouraging speakers to avoid repetition, and allowing a designated spokesperson for organized support or opposition to present longer if needed.

Those attending remotely may only offer public comment for items on the agenda in one of four categories:

- Consent Calendar
- Other Business
- Public Hearings
- Closed Session

Public comment will be heard from those attending in person first with the submission of a speaker card. Once that is complete, we will move to those on Zoom that have their hand raised. Following public comment from Zoom, we will close the public comment period for that item.

Remote public comment for items not on the agenda will not be accepted.

Written public comment may be submitted to the City Clerk:

- In person at the City Council Meeting;
- Via email to ccpubliccomment@morganhill.ca.gov; or
- Hand delivered or mailed to the City Clerk at 17575 Peak Avenue, Morgan Hill, CA 95037

Please email your comments to the City Clerk no later than 3:00 p.m. on Tuesday (the day before the City Council meeting) so that your comments can be submitted to the members of the City Council with sufficient time to review them. You may continue to provide written comments up to noon on Wednesday (the day of the meeting), although Council Members may not have sufficient time to review them before the meeting. Public comments submitted to the City Clerk after noon (12:00 p.m.) the day of the meeting will be provided to the City Council as time allows.

Written comments WILL NOT be read aloud during the City Council Meeting. Please note that written comments are posted on the City's website. It is recommended that you do not include any personal information that you do not want to be posted on the web. Please be advised that communications directed to the City Council are public records and are subject to disclosure pursuant to the California Public Records Act and Brown Act unless exempt from disclosure under the applicable law. Communications will NOT be edited for redactions and will be printed/posted as submitted.

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 or by email at 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.

SPECIAL/REGULAR MEETING

A special meeting of the City Council is called at 5:00 p.m. for the purpose of conducting a closed session.

SPECIAL MEETING

5:00 p.m. Closed Session

CALL TO ORDER

ROLL CALL ATTENDANCE

DECLARATION OF POSTING AGENDA

CLOSED SESSION

CONFERENCE WITH LABOR NEGOTIATORS

Authority: Pursuant Government Code Section 54957.6

City Negotiators: Christina Turner, City Manager; Donald Larkin, City Attorney; Michael Horta, Human Resources Director; Dat Nguyen, Finance Director; Chris Ghione, Assistant City Manager, Public Services

Employee Organization: Morgan Hill Police Officers Association; AFSCME Local 101 Morgan Hill; Community Service Officers Association; Employees Covered under Management Resolution #23-051

PUBLIC COMMENT FOR CLOSED SESSION ITEMS

ADJOURN TO CLOSED SESSION

REGULAR MEETING

6:00 p.m.

SILENT INVOCATION

PLEDGE OF ALLEGIANCE

CITY COUNCIL REPORTS

Mayor Turner

CITY MANAGER'S REPORT

CITY ATTORNEY'S REPORT

OTHER REPORTS

PUBLIC COMMENT FOR ITEMS NOT ON THE AGENDA

This opportunity for public comment is for items that are not on the agenda. If you would like to make comments on an item that is on the agenda, please wait until we get to that item to offer your comments. Members of the public are entitled to address the City Council concerning any item within the Morgan Hill City Council's subject matter jurisdiction. Public comments are limited to no more than three minutes. Except for certain specific exceptions, the City Council is prohibited from discussing or taking action on any item not appearing on the posted agenda. Public comment is intended for comments. Questions posed during public comment are not generally answered. If you have questions, please send them to the City Clerk at ccpubliccomment@morganhill.ca.gov to receive a response. (See additional noticing at the end of this agenda)

ADOPTION OF AGENDA

OTHER BUSINESS

1. **HOUSING UPDATE**
Recommendation:
Receive report and provide feedback.

2. **ECONOMIC DEVELOPMENT UPDATE**
Recommendation:
Receive report and provide feedback.

FUTURE COUNCIL INITIATED AGENDA ITEMS

Note: in accordance with Government Code Section 54954.2(a), there shall be no discussion, debate and/or action taken on any request other than providing direction to staff to place the matter of business on a future agenda.

ADJOURNMENT

NOTICE

Any documents produced by the City and distributed to the majority of the City Council less than 72 hours prior to an open meeting, will be made available for public inspection at the City Clerk's Counter at City Hall located at 17575 Peak Avenue, Morgan Hill, CA, 95037 and at the Morgan Hill Public Library located at 660 West Main Avenue, Morgan Hill, California, 95037 during normal business hours. (Pursuant to Government Code 54957.5)

PUBLIC COMMENT

Members of the Public are entitled to directly address the City Council concerning any item described in the notice of this meeting during consideration of that item. If you wish to address the Council on any item on this agenda, please complete a speaker request card located in the foyer of the Council Chambers and deliver it to the Minutes Clerk before the City Council discussion on the item. You are not required to give your name on the speaker card to speak to the Council, 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 City Council 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 City Council.

Persons interested in proposing an item for the City Council agenda should contact a member of the City Council who may request an item on the agenda for a future City Council meeting. Council 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 City Council at, or prior to the Public Hearing on these matters.

The time within which judicial review must be sought of the action by the City Council, 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 City Council 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.

SUSTAINABLE MORGAN HILL



Vision

To sustain a safe, inclusive, socially responsible, environmentally conscious, and economically sound community.

Choose Morgan Hill

The City of Morgan Hill is the best community for people to live, work, visit, and operate their businesses.

Strategic Priorities 2024-2025

- Fiscal Sustainability
- Affordable Housing and Homelessness
- Community Engagement
- Economic Development and Tourism
- Transportation
- Healthy Community

City Council Ongoing Priorities

- Enhancing Public Safety and Quality of Life
- Protecting the Environment and Preserving Open Space and Agricultural Land
- Maintaining and Enhancing Infrastructure
- Supporting our Youth, Seniors, and Entire Community
- Fostering a Positive Organizational Culture
- Preserving and Cultivating Public Trust
- Preserving our Community History
- Enhancing Diversity and Inclusiveness
- Advocating for Local, Regional, and State Legislative Initiatives



CITY COUNCIL STAFF REPORT

MEETING DATE: October 22, 2025

PREPARED BY:

John Lang, Housing and Economic Mobility Director

APPROVED BY: City Manager

HOUSING UPDATE

RECOMMENDATION(S)

Receive report and provide feedback.

COUNCIL PRIORITIES, GOALS & STRATEGIES

City Council Ongoing Priorities

Maintaining and Enhancing Infrastructure

Supporting our Youth, Seniors, and Entire Community

Preserving our Community History

Enhancing Diversity and Inclusiveness

2024-2025 Strategic Priorities

Affordable Housing and Homelessness

Economic Development and Tourism

Guiding Documents

Morgan Hill 2035 General Plan

REPORT NARRATIVE:

INTRODUCTION:

The purpose of this report is to provide an update on the various activities of the City's Housing and Homelessness programs. This report also provides background on the laws that inform the administration of the City's housing efforts. This report aims to provide an overview of the following areas:

1. Housing's Mission
2. Legislative Framework
 - a. Regional Housing Needs Allocation (RHNA) and Local Control
 - b. Housing Laws and RHNA Compliance
 - c. RHNA Progress
3. Housing Stock and Current Housing Pipeline
4. What is Affordable Housing?
5. Inclusionary Housing Ordinance

6. Below Market Rate Program
 - a. HouseKeys
7. Unhoused
8. Economic Mobility
9. Current Initiatives and Conclusion
 - a. Critical Challenges to Inventory and Capacity
 - b. Future Focus

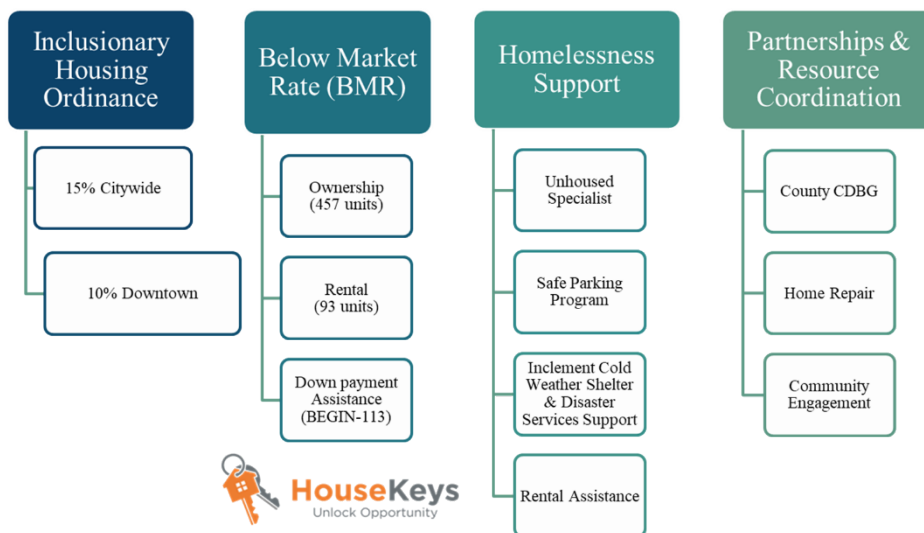
1. Housing's Mission

The City of Morgan Hill is committed to ensuring that its current and future residents have access to diverse housing options. Morgan Hill has a long-standing commitment to providing affordable housing options for both moderate and lower-income families, guided by its General Land Use Plan and its Housing Element. The vision includes housing for families of various sizes, ages, and incomes, as well as infill development and preservation of agriculture.

Morgan Hill's housing mission is grounded in the City's 2035 General Plan with a goal to improve, preserve, and create safe, quality, rental, and ownership housing in Morgan Hill for residents at all income levels. For many years, the City Council has identified housing and homelessness as a key strategic area as part of the City Council's annual priorities in the Sustainable Morgan Hill work plan.

The Housing Division consists of a Housing and Economic Mobility Director, a Housing Coordinator, an Unhoused Specialist, and a grant-funded limited-term (30-month) Economic Opportunity Program Officer (starting December 2025). To implement the Housing, Homelessness, and Economic Mobility goals, the City utilizes a range of partnerships, collaborations, and contract services to achieve service goals. The image below illustrates the Housing work program.

Image 1. Housing Division's Service Delivery and Areas of Responsibility



The Housing program is focused on implementing the Housing Element goals:

1. Provide a diversified housing stock to meet the full range of future community housing needs.
2. Encourage Extremely Low-Income (ELI) housing production, increasing the availability of affordable and workforce housing.
3. Advance equity and inclusion throughout the City.
4. Preserve and rehabilitate existing housing supply.
5. Promote housing for people experiencing homelessness.
6. Provide adequate housing for groups with special needs.
7. Increase community outreach and promote education about affordable housing.

State law requires each local government in California to adopt a Housing Element as part of its General Plan, demonstrating how the community will meet the existing and projected housing needs of residents at all income levels. The state also requires Morgan Hill to comply with social justice and anti-discrimination housing practices and advance policies to prevent homelessness to meet the jurisdiction's "fair share" of the regional housing need, known as the Regional Housing Needs Allocation (RHNA). Cities are required to plan and zone the land in a way that meets the RHNA. The RHNA is determined in collaboration with the Association of Bay Area Governments (ABAG) based on State population projections, regional employment patterns, and socioeconomic conditions. The City is currently required to produce 1,037 housing units at various income levels for the current sixth housing cycle of 2023 to 2031. In addition to the Housing Element and RHNA, the housing programs are guided by the [City's Inclusionary Housing Ordinance](#) (IHO), the [Below Market Rate Program](#), the [Santa Clara County Community Plan to End Homelessness](#), and the [City's ELEVATE Morgan](#)

[Hill Economic Mobility Plan.](#)

The Housing and Homelessness work efforts are grounded on five pillars focused on the production of housing, promotion of housing programs, preservation of existing housing stock, prevention of homelessness, and protection of the quality of life for existing and new residents.

2. Legislative Framework

The City's affordable housing program has benefited from a robust affordable housing portfolio established during the voter-approved Residential Development Control System (RDCS) that was in place from 1977 to 2019. RDCS controlled the pacing of housing development and required the contribution of Below Market Rate (BMR) housing units. However, due to the nature of RDCS, projects focused mostly on housing ownership; consequently, the production of low and very low-income units was limited, as those units tended to be in rental. RDCS was initially put on hold through 2025 by the State's adoption of the Housing Crisis Act of 2019, also known as Senate Bill 330 (SB 330), to address the Statewide housing shortage and affordability crisis, and was later extended to 2030. With the passage of recent laws this year, the requirements of SB 330 have been made permanent. Since the enactment of SB 330, the State has passed dozens of laws that create by-right ministerial or streamlined routes and restrict local changes in an effort to accelerate housing production, reduce delays, and ensure jurisdictions meet RHNA targets.

a. Regional Housing Needs Allocation (RHNA) and Local Control

The City's 2035 General Plan provides a framework for development, setting goals for land use, transportation, growth management, economic development, and housing. The City, through its General Plan and Zoning Code, regulates development to ensure orderly and paced growth, and plans for the necessary infrastructure and services needed. Within the General Plan, the Housing Element plans for housing development that is responsive to the RHNA housing targets.

These guiding documents, along with environmental review and the permitting process, provide the City with the "local control" necessary to manage growth. Historically, cities determined how much housing is built, where, what product types, and under what standards. In recent years, however, municipalities in California have been losing local control over their housing production. State laws are increasingly limiting local authority to address California's housing crisis. These new laws prioritize building housing, create ministerial/by-right pathways, limit new local requirements, and strengthen state enforcement on local government.

While the City's ability to influence housing legislation during this housing crisis is very limited, the City works with the League of California Cities (CalCities) to engage on legislation that affects the City. The City submits letters of support or opposition on legislation that impacts the City and works with State, Federal, and Regional legislative bodies to create awareness about Morgan Hill's needs. The best tool the City has to maintain as much local control as possible is to meet the RHNA targets, which provides

the City with significant advantages, such as exempting the City from some of the State's most powerful enforcement mechanisms, such as [SB 35](#)/SB 423. Meeting RHNA targets reduces the risk of state intervention and shields the City from the stricter penalties and enforcement tools of state housing law. Additionally, cities that comply are less vulnerable to costly lawsuits from developers, housing rights organizations, and the State, which can result in substantial fines and legal fees.

b. Housing Laws and RHNA Compliance

Compliance is determined by a city's actual housing production, not just its planning documents. The state tracks the number of planning and building permits issued for each income level throughout the planning cycle on an annual basis. Even after meeting its RHNA construction targets, a city can still violate state housing law through other actions:

- **Denial of a Conforming Project:** A city cannot automatically deny a housing project that is consistent with objective standards (such as height, density, and setback rules). Under the Housing Accountability Act (HAA), denial is only permitted if a project creates an unmitigatable, specific, adverse impact on public health or safety that was established before the application.
- **Failure to Implement Housing Element Programs:** Adopting a compliant plan is insufficient; a city must actively implement the programs outlined in its Housing Element.
- **Failure to [Affirmatively Further Fair Housing \(AFFH\)](#):** Cities must take proactive steps to counteract segregation and discrimination. Policies that create barriers for low-income residents can be a violation.
- **Blocking Housing Through Zoning Practices:** A city may violate the law if it uses zoning overlays or implements other land use regulations that contradict the goals of the Housing Element and hinder housing development, even if sites are technically available.

There are significant penalties for cities that violate the Housing Law. Penalties can range from \$10,000 to \$50,000 per unit under the [Housing Accountability Act](#). AB 2023 and SB 1037 allow for fines up to \$10,000 per day. Cities can also face loss of permitting authority or de-certification of the Housing Element, enabling Builder's Remedy projects.

c. RHNA Progress

Each year, the City is required to submit an Annual Progress Report to the California Department of Housing and Community Development (HCD) on the implementation of Morgan Hill's 2035 General Plan and the 2023-2031 Housing Element. The report is due April 1st of each year and reports on the previous calendar year's activities and progress towards meeting state-adopted RHNA goals.

The City has a total RHNA goal of 1,037 units for the current cycle. Four hundred and fifty of these units are designated above moderate rates and are considered market rate. The remaining 587 units are below market rate (affordable). To secure affordable

housing, the City requires new housing developments to provide 15% (10% in Downtown) of the units as BMRs. This means that to secure all the necessary affordable housing units (587), the City needs to construct approximately 3,913 units during the cycle ($3,913 \times .15 = 587$). To date, the City has achieved a total of 815 units permitted. The City has met and exceeded the low-income requirement. Despite exceeding the low-income goal requirement, the City still needs to achieve 324 units (115 very low units, 98 moderate units, and 111 above moderate units) to meet the other affordability goals. The City has created a RHNA Progress [page](#) on the City's website to showcase our progress towards RHNA, list all Annual Progress reports, and provide information on Statewide and Local Housing Element implementation efforts.

3. Housing Stock and Current Housing Pipeline

The City's housing stock comprises 15,233 homes, of which 77% are single-family homes and 74% are owner-occupied. Over 53% of the housing stock was built before 1990. There are 2,400 rental units, and approximately 50% of them are deemed affordable. The City has an extensive portfolio of nearly 500 units in the Below Market Rate ownership program.

Currently, the City is processing approximately 2,497 housing units, of which 528 are BMRs or 100% affordable units. Most of the projects are single-family or townhome ownership units. Examples of projects include Borello Ranch Estates (243 ownership), Rosewood (120 ownership), The Lumber Yard (49 ownership), the Gates (49 ownership), Crosswinds (269 ownership), DeNova (93 ownership), Manzanita Park (67 ownership). Rental products include Ten South (259), Magnolias (66), and AMG (100). All the projects can be found on the City's Planning Department website, and a PowerPoint with the most [significant residential](#) and commercial/industrial projects is updated regularly.

In addition to these projects, several smaller housing projects are being built throughout the City. The City is also processing one Builders' Remedy project (two other projects have been settled)—this housing project is on an industrial site where the City was subject to Builder's Remedy due to the timing in the certification of the City's Housing Element by HCD. Additionally, approximately 2,000 housing units are being proposed in adjacent County land, surrounding the City. While these projects are currently being planned with private water and sewer systems, they would impact the City's infrastructure and need for services. Information on Builder's Remedy and other regulations can be found on the City's [Housing Laws and Development Processes page](#).

4. What is Affordable Housing?

Affordable housing is housing that a household can pay for, while still having money left over for other necessities like food, transportation, and health care. This means that "affordable" depends on a household's income.

The federal government defines housing as affordable when it consumes no more than 30 percent of a household's gross monthly income for rent and utilities, or mortgage-

loan principal and interest, property taxes, insurance, utilities, and homeowner association dues.

Who needs affordable housing? Everyone. Whether you are a high-income earner or an hourly wageworker, affordable housing is needed by everyone. The reality is that rent or home prices that are affordable will vary from one household to the next, but the need for housing that is affordable remains the same for everyone.

The housing needs of some families are met adequately by the private market. However, a growing share of the population cannot afford the cost of housing and is “severely cost-burdened.” This means that individuals and families pay half or more of their income on housing. The lowest-income households are the most impacted and can find themselves in a bind, and even moderate-income renters are struggling to pay the rent or mortgage. [The Key Findings Report: 2019 County Health Rankings, by County Health Rankings & Roadmaps \(CHR&R\)](#), shows that severely cost-burdened households experience greater food insecurity, more child poverty, and worse health outcomes.

To qualify for affordable, income-restricted housing, individual or family income must fall within a specified range. Most income-restricted rental housing in Santa Clara County is affordable to households that make less than 80% of the area median income (AMI), with recent efforts focusing on housing for extremely low-income (ELI) households. Most income-restricted ownership housing in Santa Clara County is affordable to households that make less than 120% of AMI.

- **HUD:** The federal government agency, Housing and Urban Development (HUD), publishes annual income limits for various housing programs, such as Section 8/Housing Choice Voucher, based on AMI. HUD's limits are the foundation for most affordable housing calculations.
- **HCD:** California's Department of Housing and Community Development (HCD) takes HUD's income limits and then applies California-specific factors, including the "hold harmless" policy that prevents decreases in income limits from one year to the next.
- **AMI:** AMI is the midpoint of a region's household income distribution. This means half of the households in an area earn more than the AMI, and the other half earn less.

HUD calculates the AMI for each metropolitan area. Income categories are then identified based on percentages of the AMI and adjusted based on household size.

Extremely Low Income (ELI): Up to 30% of AMI.

Very Low Income (VLI): Up to 50% of AMI.

Lower Income (Low Income) (LI): Up to 80% of AMI.

Moderate Income: Up to 120% of AMI.

The income limits for different household sizes can be determined once the median income for a household of four people is determined. In 2025, the median income for a family of four in Santa Clara County is \$195,200. With the median income figure,

various affordability levels can be determined by Household size (Table 1- Income Limits)

Table 1. Income Limits for Santa Clara County by Housing Occupancy

		Household of 1	Household of 2	Household of 3	Household of 4	Typical Housing Occupancy
Affordability Levels	Acutely Low < 15%	\$20,500	\$23,450	\$26,350	\$29,300	Rental
	Extremely Low < 30%	\$42,200	\$48,200	\$54,250	\$60,250	Rental
	Very Low Income < 50%	\$70,350	\$80,400	\$90,450	\$100,450	Rental
	Low Income < 80%	\$111,700	\$127,650	\$143,600	\$159,550	Rental/ Ownership
	Median Income	\$136,500	\$156,150	\$175,700	\$195,200	Ownership
	Moderate Income < 120%	\$164,000	\$187,400	\$210,850	\$234,250	Ownership

Source: 2025 State of California HCD income limits

Total household income and size determine whether the household is deemed qualified and at what level of affordability.

When we look at Morgan Hill household incomes relative to the stock of homes that are available (to rent or own) in Morgan Hill (not including public assistance housing), there is a noticeable shortage of homes available for the number of households that need affordable housing compared to the number of homes available at market rate for those

households that exceed affordability requirements (meaning they have options).

Table 2. Income Levels and Existing Morgan Hill Housing Inventory

Income Levels	# of Morgan Hill Households	Existing Housing Inventory
ELI - Extremely Low-Income Households (less than or equal to 30% of the AMI)	2,135	130 Units
VLI - Very Low-Income Households (31% to 50% of the AMI)	1,765	696 Units
LI - Low-Income Households (51% to 80% AMI)	1,730	370 Units
MEDIAN - Barely above Low-Income Households to the median (81% to 100% AMI)	1,380	560 Units
ABOVE MOD - Moderate to Above Moderate Households (100% + AMI)	7,845	12,391 Units (market rates)

AMI = Area Median Income

To further illustrate who could benefit from affordable housing, the table below shows jobs located within Morgan Hill and their advertised annual salaries (Table 3). Professions such as postal carriers, dental assistants, and even an Engineering I position would qualify for very low-income housing. A vocational nurse would be considered low income. At the same time, teachers, social workers, and even police officers would qualify for moderate affordable housing.

Table 3: Morgan Hill Jobs by Salary

Job Title	Annual Salary	Local Business	AMI Level
Engineer 1	\$47,840	Marriott Hotel	Very Low
Dental Assistant	\$51,000	Bay Area Kids Dentist	Very Low
Postal Carrier	\$52,877	United States Postal Service	Very Low
Licensed Vocational Nurse (LVN)	\$77,357	Morgan Hill Unified School District	Low
Grade K-2 Teacher (Top step)	\$116,532	Morgan Hill Unified School District	Moderate
Social	\$129,009	County of	Moderate

Worker III		Santa Clara	
Morgan Hill Police Officer (mid-point)	\$138,400	City of Morgan Hill	Moderate

Sources: Caljobs, City of Morgan Hill, Morgan Hill Unified School District, and Indeed

5. Inclusionary Housing Ordinance

On July 25, 2018, the City Council adopted Ordinance No. 2278, the [City's Inclusionary Housing Ordinance](#) (IHO). Before this ordinance, the City had administered affordable housing through the Residential Development Control System (RDCS). Morgan Hill Municipal Code (MHMC) Chapter 14.04 (Inclusionary Housing) requires developers to construct a certain percentage of housing units (generally 15% of the total units) in new residential projects for low-and moderate-income buyers and renters. These units (below market rate-BMR) are made available at affordable rents or sales prices and are deed-restricted for affordability for a minimum of 45 years. An important aspect of the IHO is that it requires BMR units to be geographically and proportionately dispersed, of the same design and quality, and meet the average bedroom and bathroom count across the whole project.

The Inclusionary Housing Ordinance is the predominant way in which the Housing Program achieves the development of affordable units and how we achieve our RHNA goals. While most BMR units are required to be built, the ordinance permits residential projects to fee out of 50% of the restricted units by paying a "housing in-lieu fee" as an alternative means of compliance. Housing in-lieu fees are needed to address situations in which the application of the inclusionary requirement results in a fraction of a unit. Housing in Lieu Fees are also useful to better align with some specific projects, provide local match dollars, to leverage 100% affordable projects, and provide the housing program with funds for rehabilitating units, program management and other housing and homeless support activities. Under the IHO, the payment of in-lieu fees can be considered in cases that are consistent with the following guiding principles:

1. As provided in Section 14.04.040 A, whenever application of the requirements of this Chapter results in a fractional number of .49 or less of required Inclusionary Units.
2. For all other residential projects, upon determination by City Council that payment of an in-lieu fee is preferred to building inclusionary units onsite, or one of the other alternatives described in 14.04.070, considering the following:
 - i. Whether the production of the proposed inclusionary units will fill a need in an affordable housing category or some other prioritized housing need area.
 - ii. Whether the proposed inclusionary units are in a category for which the City has already met its RHNA goal, and therefore, payment of a fee may be preferred to achieve alternative housing goals, for example, the development of housing affordable to extremely low-income households.

- iii. Whether there is a specific identifiable project that the City can support with the fees.
- iv. Whether affordable units are appropriate in the specific project, for example a custom lot project.

Fees collected as part of the in-lieu fee payments reside in a special Housing Fund that is utilized to support the rehabilitation, acquisition, and funding for additional affordable housing throughout Morgan Hill.

6. Below Market Rate Program

The City of Morgan Hill's Below Market Rate Housing (BMR) Homeownership and Rental Program helps qualifying buyers and renters obtain affordably priced homes and apartments meeting income restrictions. Today, the BMR Program portfolio comprises nearly 457 ownership and 93 rental income-restricted units. New residential construction is required to designate 10 to 15 percent of all units affordable based on the affordable requirements of the Inclusionary Housing Ordinance.

To be eligible for a BMR unit, participating homebuyers and renters must first be verified income eligible. On the Homeownership side, buyers must be pre-approved to qualify for a fixed-rate, fixed-term mortgage financially and must have a minimum three percent down payment from their funds to purchase a BMR home. Applicants are placed in a lottery for an opportunity to purchase or rent a unit when it becomes available, either through new construction or resale/vacancy of an existing unit. Priority in the lottery process is provided for eligible buyers who live or work within the city limits. BMR units have a resale affordability restriction recorded on the title to preserve the long-term affordability of the unit for 45 years (ownership) and 55 years (rental) at the time of sale or lease. The BMR rental prices are consistent with the State's Housing and Community Development's income guidelines and adjusted for household size.

a. HouseKeys

Since July 2015, the City has contracted with Nyanda and Associates, LLC, a California Limited Liability Company doing business as HouseKeys, to perform the administration of the BMR Program and manage the City's loan portfolio. HouseKeys, Inc. administers the City's BMR Program on behalf of the City. The program administration includes the sale or rental of BMR units, marketing, outreach and education, qualification of home buyers and renters; and general asset management, which includes monitoring for compliance, providing annual BMR valuation updates to the County Tax Assessor, and many other activities required to maintain the integrity and sustainability of the BMR program. HouseKeys also provides support and guidance on complex transactional scenarios that arise because of administering a robust portfolio with varying historical rules and requirements, "layered" down payment assistance, and various financing structures and sources of funds.

The City funds the HouseKeys contract with housing funds secured through the City's IHO and the former Successor Agency housing funds (from its prior Redevelopment

Agency) with no impact on the City's General Fund. The current contract with HouseKeys is a four-year contract that runs through fiscal year 2027-2028.

7. Unhoused

The definition of "homeless" includes any person living in a temporary location, such as a shelter or a place not fit for human habitation (encampment, car, abandoned building, etc.), according to the Department of Housing and Urban Development.

The Santa Clara County Office of Supportive Housing tracks the levels of homelessness via a Point-In-Time count. Point-in-Time (PIT) count data is the primary data used for federal funding allocations and national estimates of homelessness. The PIT Count, conducted biennially, is the process the County uses to implement strategies to move individuals and families experiencing homelessness towards stable housing.

In May 2025, the County released the [County-wide figures](#). The Morgan Hill-specific 2025 PIT count results show 69 individuals unhoused in Morgan Hill. This number is significantly lower than the 2023 count that assumed 230 unhoused individuals. Similar to the County, 76% of unhoused residents in Morgan Hill sleep in a vehicle.

Homelessness is the result of various social and economic systemic failures, many of which disproportionately impact communities of color. While homeless residents live with the reality of survival outdoors, housed residents and businesses also feel the pressure in their neighborhoods. Morgan Hill, being a smaller city and less urban, certainly experiences homelessness at a much lower rate than our neighboring jurisdictions; however, the process of solving homelessness is equally complex with significantly less resources, requiring us to focus on having a meaningful impact and outcomes.

Since 2021, thanks to a grant by Destination Home and now funded by the City's Housing Division, the City has a full-time position dedicated to the unhoused community. The City's Unhoused Specialist is the main point of contact to assist individuals that are experiencing homelessness or are on the verge of losing their housing. With a trauma-informed approach, the Unhoused Specialist builds trust and relationships to assist our unhoused residents access the Santa Clara County coordinated entry system that matches individuals experiencing homelessness to housing resources via the Vulnerability Index—Service Prioritization Decision Assessment Tool (VI-SPDAT). This assessment considers medical and social risk factors and income, which places the individual on a Countywide list that determines housing placement based on need and opportunity. The assessment is the first and most critical step to matching people to housing.

To support the homelessness efforts, the City works with faith-based community organizations that create the much-needed safety net of resources. A key effort that should be noted is the Safe Park Program, a pet-friendly overnight stay at a local church for eight homeless families (25 people max) living in their cars where they receive coordinated assessment, services, meals, and support with the goal of

providing some stability while they wait for permanent housing. The City contributes funds towards case management. It should be noted that the Housing Element requires the City to explore a homeless shelter within the RHNA cycle. For years, the City has discussed a second shelter location for single men similar to the Safe Park Program.

The City also establishes an Inclement Cold Weather Shelter in partnership with Community Christian Church and South County Community Services (formerly known as South County Compassion Center). This is a free shelter bed for single men during inclement weather days. The City funds the overnight security costs and conducts referrals and assessment coordination.

Homelessness is a multidisciplinary issue that impacts City departments, such as Police, Fire, Public Services, Code Compliance, and Housing. As a result, the City uses a coordinated cross-departmental approach to responding to encampments to address the quality-of-life health and safety issues. Each department has a distinct role; Housing's role is to conduct outreach, engagement, and support. Public Services manages encampments in the City's public right-of-way. Code Compliance manages issues on private property and collaborates with Valley Water, Caltrans, and Union Pacific Railroad to address encampments on their properties. The Police Department manages people living in vehicles on city streets and supports departments, businesses, and agencies. The City's multi-departmental approach to homelessness and a dedicated Unhoused Specialist has provided great results for the City. In 2024, the City processed 268 referrals, connected with 247 individuals, prevented homelessness for 32 individuals or families and housed 26 unhoused individuals.

8. Economic Mobility

The City of Morgan Hill's 2023 Housing Needs Assessment identified gaps in community needs, specifically for the Spanish-speaking Hispanic population and their connection to housing, jobs, services, and sense of belonging. According to the City of Morgan Hill's 2023 Housing Needs Assessment, the Hispanic/Latinx population, which comprises 34% of the population, has the highest poverty rate, are disproportionately renters, and are the most severely cost-burdened, with people spending more than 50% of their income on housing. This ethnicity group also has the highest overcrowding rate.

To advance this work, the City applied for and received a \$35,000 grant from the International City/County Management Association (ICMA) and in April 2023, the City was selected to participate in ICMA's first Economic Mobility and Opportunity Cohort (EMOC) along with nine other cities and counties in the nation to participate in the ICMA's- EMOC program. The ICMA grant helped fund ELEVATE Morgan Hill, an economic mobility framework that identifies the key challenges within the community and offers strategies and actions that focus on connecting Spanish-speaking and lower-income community members to jobs and housing resources while enhancing their sense of belonging.

ELEVATE Morgan Hill found key barriers to economic prosperity, economic

sustainability, and socio-economic disparities. The study found:

- 28% of all residents rely on some form of financial assistance.
- Morgan Hill home values have increased over 100% between 2009 and 2022, from \$695,935 to \$1,400,000.
- Rents have increased nearly 60% between 2012 and 2023, from \$1,620 to \$2,590.
- 50% of Morgan Hill residents are cost-burdened (which means that they spend more than 50% of their income on housing).
- The number one issue for the community is access to housing. Healthcare and childcare were the second and third highest issues for people that responded to the English “I Belong, Morgan Hill” survey.
- Access to housing was number one for the Spanish survey. However, the next biggest concerns were access to jobs and access to education.
- 41% of Spanish speakers said they worry about having sufficient food.

The City has taken great strides to advance economic mobility. Below are some of the accomplishments to date:

2023	City receives \$35,000 grant from ICMA and is selected to participate in the first nationwide Economic Mobility and Opportunity Cohort.
2024	City hosts a first-of-its-kind Economic Mobility Symposium within the region.
2024	City Council accepts the ELEVATE Morgan Hill Economic Mobility report.
2025	City hosts a small Economic Mobility and Opportunity conference (part of ICMA's 2024 Economic Mobility Cohort) for ICMA with representatives from 15 local governments nationwide, ranging from Arizona to Maryland.
2025	City launches a Spanish small business entrepreneurship program and graduates the first class of participants and kicks off the second program for English speakers.
2025	City repositions the Housing Director position as Housing and Economic Mobility Director.
2025	City secured a 30-month grant of \$416,500 from ICMA to fund staffing to expand the City's economic mobility initiatives.

2025	City is participating in ICMA Economic Mobility cohort convening and is in the process of recruiting an Economic Opportunity Program Officer.
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9. Current Initiatives and Conclusion

The Housing Division is focused on the implementation of the City’s housing, homelessness and economic mobility policies, programs and services. The high cost of living has made it extremely difficult for people to secure housing or remain in their current housing. The struggle the Morgan Hill families are facing is visible in the hundreds of late water payment notices the City of Morgan Hill issues monthly, the people living in their vehicles or on the street and the 1,000 Morgan Hill Unified School District students that are housing insecure. The City builds affordable housing to meet the demands of the community, conform with State requirements, prevent homelessness and attract companies to Morgan Hill.

To accomplish the City’s housing mission, the City administers a wide range of affordable housing programs to keep people off the streets, attract employers to Morgan Hill and support the housing needs of the community. This work requires a strong and extensive safety net of partners (public agencies, non-profits, and housing developers) that help with the continuum of housing (Image 2- Continuum of Housing showcases these relationships that support the ownership and rental housing production).

Image 2. Continuum of Housing

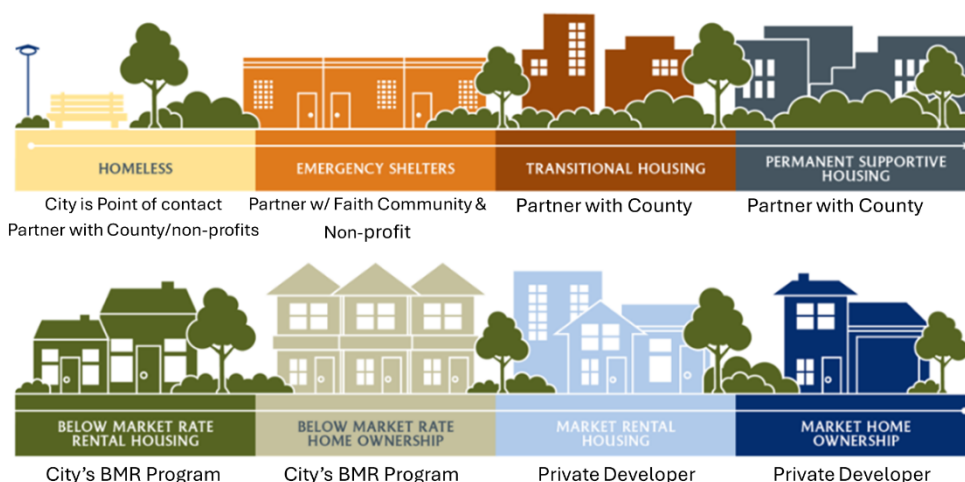


Image Source: City of San Luis Obispo

The Housing Division's mandate is the complex implementation of the City's housing and homelessness policies, programs, and services. This work is essential to meeting both State-mandated housing production requirements and the City's independent commitment to ensuring diverse, accessible housing options for its current and future

population.

A core achievement is the administration of the City's BMR Program, which currently represents one of the largest affordable housing portfolios in the county per capita. This robust program has successfully generated nearly 500 first-time opportunities for income-qualified residents. In recent years, the City has also supported the construction of key affordable rental projects, including the Morgan Hill Senior Project, the Royal Oak farm worker housing project, and the Village at Madrone project, which provide crucial community and workforce housing.

a. Critical Challenges to Inventory and Capacity

The current housing landscape, however, presents several significant threats to maintaining this inventory and serving the community's highest-need populations:

- **BMR Inventory Decline:** The BMR portfolio faces decline as some of the legacy projects approved during the RDCS era are nearing the end of their affordability covenants and are sunsetting.
- **Funding Shortfalls:** Critical funding for resident assistance, particularly downpayment assistance, is currently diminishing. This funding has been essential for connecting people to housing and assisting them with required deposits. The work the Unhoused Specialist does relies heavily on these flexible funds that in addition to rental assistance, sometimes help reconnect the unhoused to family by supporting gas payments or car repairs.
- **Affordability Instability:** The Housing Program is challenged by new State Laws governing mobile home parks that allow for the updating of rental agreements, which introduces potential instability that threatens naturally occurring affordable housing options for seniors and other fixed-income residents. The City is currently processing one request and will be updating the Mobile Home Rent Ordinance in 2026.
- **Homeless Services Gap:** The City's largest homeless demographic is single males. Currently, the City's Safe Parking Program provides a temporary, safe place for people living in their vehicles (excluding RVs/Trailers) while they work toward securing permanent housing. The program is administered by the South County Community Services at the Morgan Hill Bible Church. This program is exclusively available to women or families, leaving a significant population underserved.
- **Extremely Low-Income Need:** Morgan Hill has approximately 2,500 families that need extremely low (ELI) and very low (VLI) income housing and only about 130 units that match that income category. The City needs ELI and VLI housing to support these families and to meet its RHNA targets.

b. Future Focus

To address the challenges above, the Housing Division will focus on an ambitious workplan comprising 70 distinct items over the next year. These items are directly linked to the implementation of the Housing Element and the ELEVATE Economic

Mobility plan. The new Economic Opportunity Program Position will provide an opportunity for the City to bring together a coalition of local businesses, educational institutions, faith-based communities, and nonprofits to develop programs and resources that will provide not only a safety net of resources for the community but the resources they need to prosper.

To successfully ensure the delivery of essential services, and achieve the City's long-term community development and fiscal stability goals, the Housing Division recognizes and appreciates the support of the Community, the City Council and the network of public agencies, local employers, non-profit partners, and housing developers that contribute to Morgan Hill's success.

COMMUNITY ENGAGEMENT:

Notices of the Housing update were shared with the Community through the City's 411 and also via email to the City's partners.

ALTERNATIVE ACTIONS:

Not Applicable

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

Staff periodically updates the City Council and Community on Housing.

FISCAL AND RESOURCE IMPACT:

Not Applicable.

CEQA (California Environmental Quality Act):

Not a project.



City of Morgan Hill Housing and Homelessness Program



Legislative Framework



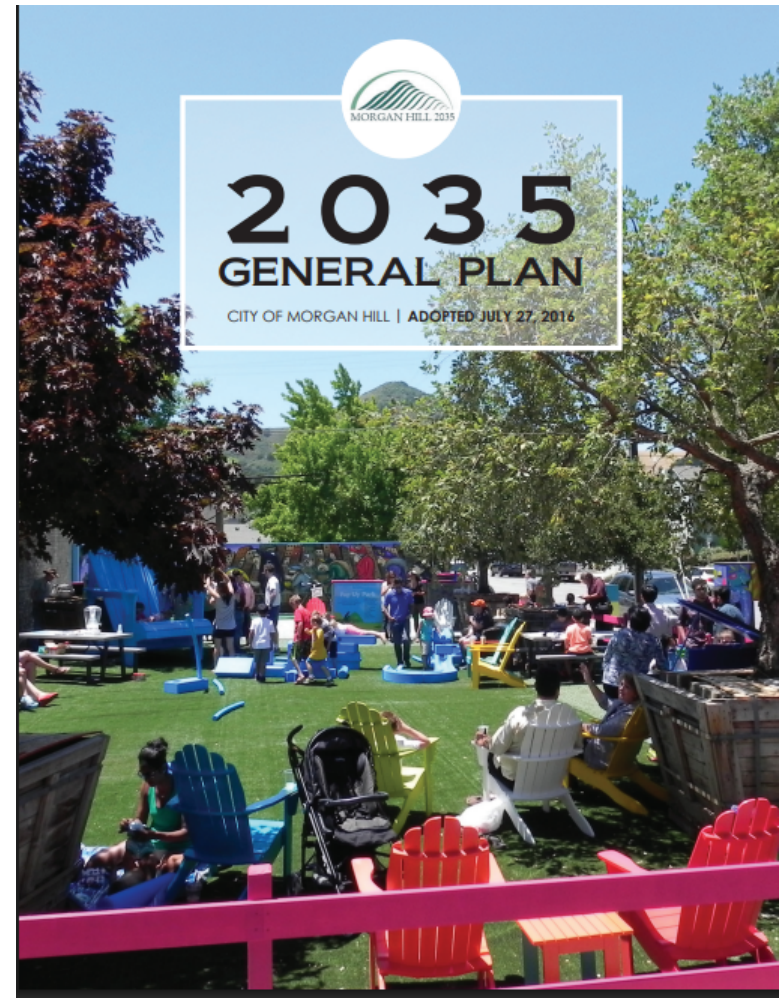
Morgan Hill 2035

Adopted in 2016

- Zoning and CEQA shaped growth and preserved rural character
- General Plan emphasized controlled expansion
- Community input central to approvals via RDCS

2019

- Statewide housing shortage and affordability crisis led to legislative intervention
- Focus: accelerate housing production, reduce delays, and ensure jurisdictions meet RHNA targets
- Result: a web of laws that create by-right, ministerial or streamlined routes and restrict local changes during project review



'Local Control' Over Housing in California Is Limited



In the last five years, “local control” has been legally redefined by multiple state laws that constrain local discretionary control over housing approvals.

These laws prioritize building housing, create ministerial/by-right pathways, limit new local requirements, and strengthen state enforcement.

Specific mechanisms reducing local control

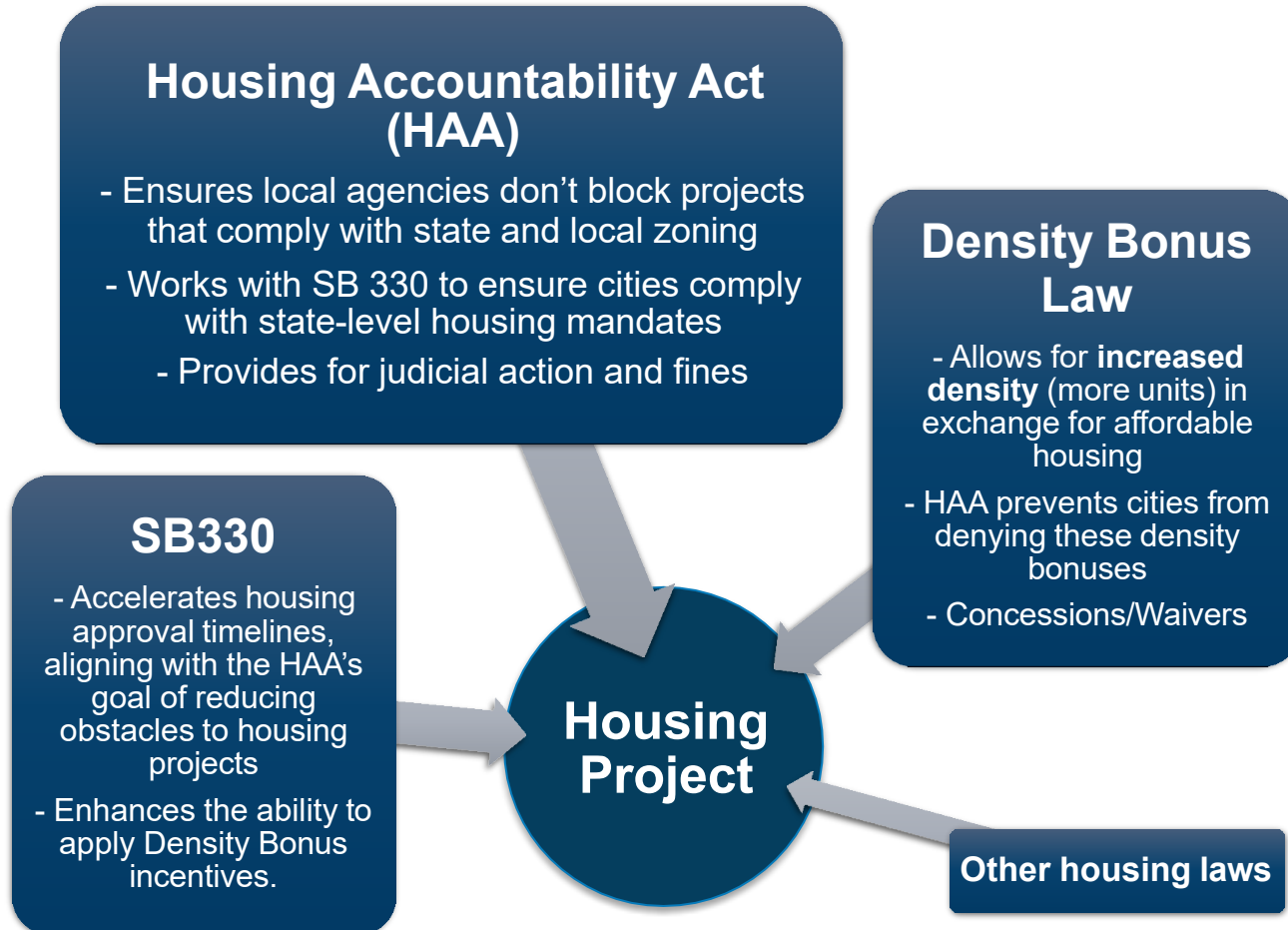
- Ministerial approvals & streamlining (removes discretionary hearings and CEQA for qualifying projects)
- By-right/zoning overrides when a project meets objective standards or is consistent with housing element designations
- Statutory limits on imposing new local conditions, fees, or delaying tactics during permit review
- Density incentives and bonuses that change allowable development if affordable housing commitments are met

Key Statutes Reshaping Land Use Authority



Law	Year	Impact on Morgan Hill
SB 35	2017	Single application, changed to SB330
SB 9	2021	Duplexes and lot splits allowed citywide
AB 2011	2022	Housing allowed in commercial zones like Monterey Rd
Builder's Remedy	2023	1,901 units proposed during noncompliance
SB 684/SB1123	2023/4	Small lot subdivisions bypass review
AB 130	2025	CEQA exemptions for infill projects
AB 2243	2025	Housing allowed in large shopping centers

Legislation's role on Housing



When a City Can Still Deny a Project



- Cities must use objective standards already adopted before application is filed
- Denial is only allowed if:
 - Project violates zoning or building codes
 - Poses clear health/safety risks (threshold is very high)
 - Fails to meet labor or affordability mandates
 - Conflict with state/federal law
- CEQA review often preempted by state law

Noncompliance Carries Legal and Financial Risk



- Housing Accountability Act: \$10,000- \$50,000 per unit
- AB 2023 & SB 1037: fines up to \$10,000/day
- Loss of permitting authority - Courts may appoint receivers to approve housing (Huntington Beach precedent)
- Decertification of the Housing Element enabling Builder's Remedy projects (Portola Valley, St. Helena and Norwalk)

Implications for Morgan Hill



- More streamlined projects, fewer public hearings
- Pressure to deliver affordable housing
- Lobby and advocate for improvements to Housing Element process for the 7th Cycle
- Balancing act between growth, character, and infrastructure
- Continue to enforce objective, codified standards
- Collaboration with state agencies and developers is essential

Affordable Housing Below Market Rate Program



Morgan Hill Housing Services Pillars



Guiding Documents



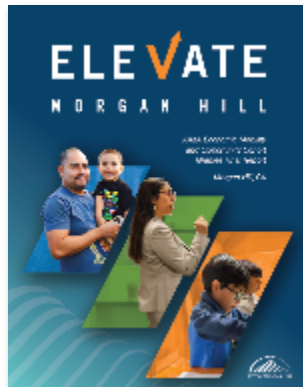
General Plan 2035
Housing Element



Inclusionary
Housing Ordinance
(IHO)



Community Plan to
End Homelessness

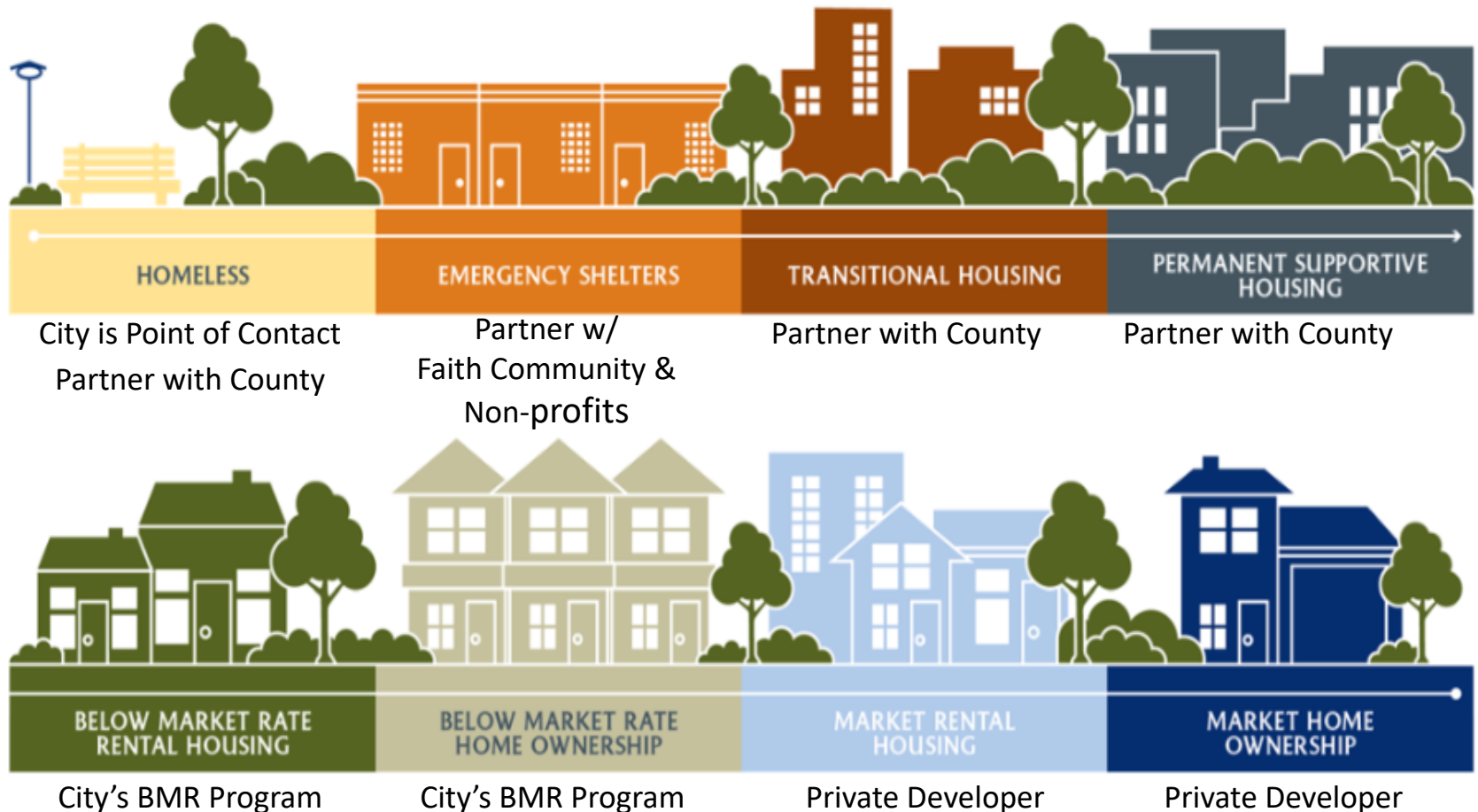


ELEVATE
Morgan Hill



BMR Program
Participation and
Ownership Guides

Continuum of Housing in Morgan Hill



Types of Housing

Ownership



Who is served

- Market Rate
- Affordable (BMR)

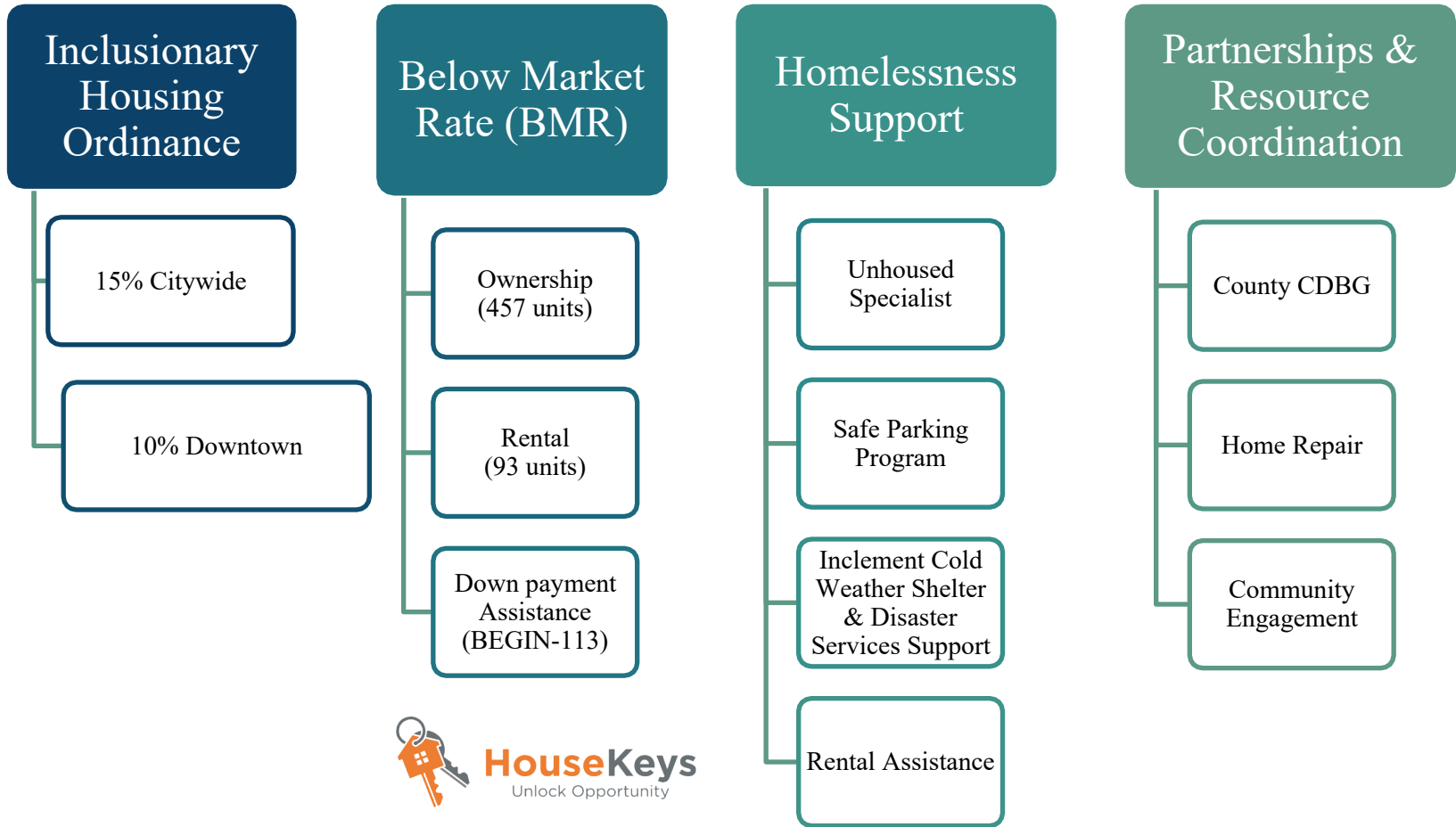
Rental



Who is served

- Market Rate
- Affordable (BMR)
- Seniors (restricted)
- Farm Workers (restricted)
- Veterans (restricted)

Housing Program Verticals



Inclusionary Housing Ordinance



- Inclusionary Housing Ordinance (IHO) was created in 2018. Prior to IHO, inclusionary housing requirements were accomplished through the Residential Development Control System (RDACS).
- Projects are required to provide affordable housing units: **10% (in Downtown), 15% (outside of Downtown).**
- Projects are allowed to fee out up to 50% of obligation by right. Anything greater, requires City Council approval (for projects with 10+ units).
- Current Below Market Rate (BMR) portfolio includes 457 ownership properties and 93 rentals.

2023 Housing Element



- **Goal 1.** Provide a diversified housing stock to meet the full range of future community housing needs.
- **Goal 2.** Encourage Extremely Low-Income (ELI) housing production, increasing the availability of affordable and workforce housing.
- **Goal 3.** Advance equity and inclusion throughout the City.
- **Goal 4.** Preserve and rehabilitate existing housing supply.
- **Goal 5.** Promote housing for people experiencing homelessness.
- **Goal 6.** Provide adequate housing for groups with special needs.
- **Goal 7.** Increase community outreach and promote education about affordable housing.

2025 Income Limits



		Household of 1	Household of 2	Household of 3	Household of 4	Typical Housing Occupancy
Affordability Levels	Acutely Low < 15%	\$20,500	\$23,450	\$26,350	\$29,300	Rental
	Extremely Low < 30%	\$42,200	\$48,200	\$54,250	\$60,250	Rental
	Very Low Income < 50%	\$70,350	\$80,400	\$90,450	\$100,450	Rental/ Ownership
	Low Income < 80%	\$111,700	\$127,650	\$143,600	\$159,550	Rental/ Ownership
	Median Income	\$136,500	\$156,150	\$175,700	\$195,200	Ownership
	Moderate Income < 120%	\$164,000	\$187,400	\$210,850	\$234,250	Ownership

What is the Need?



Over 5,000 Morgan Hill families need affordable housing.

Morgan Hill only has 130 homes available to meet the needs of over 2,000 extremely low-income residents.

Morgan Hill housing costs have increased from about \$695,935 in 2009 to over \$1,400,000 in 2023.

Type	Families	Available Units	%
Extremely Low Income	2,135	130	6%
Very Low Income	1,765	696	39%
Low Income	1,730	370	21%
Total	5,630	1,196	21%

Local Worker Pay Alignment with Morgan Hill Affordable Housing



Job Title	Annual Salary	Business	AMI Level (1 person HH)
Engineer 1	\$47,840	Marriott Hotel	Very Low
Dental Assistant	\$51,000	Bay Area Kids Dentist	Very Low
Postal Carrier	\$52,877	United States Postal Service	Very Low
Licensed Vocational Nurse (LVN)	\$77,357	Morgan Hill Unified School District	Low
Grade K-2 Teacher (Top step)	\$116,532	Morgan Hill Unified School District	Moderate
Social Worker III	\$129,009	County of Santa Clara	Moderate
Morgan Hill Police Officer (mid-point)	\$138,400	City of Morgan Hill	Moderate

Sources include Caljobs, City of Morgan Hill, Morgan Hill Unified School District, and Indeed.

Regional Housing Needs Allocation (RHNA)



6th Cycle RHNA Goals (2023-2031)*			
Income	RHNA Goal	Permits Issued	Goal Remaining
Very Low	262	147	115
Low	151	253	0
Moderate	174	76	98
Above Moderate	450	339	111
Total	1,037	815	324

**Through 2024 APR Report*

- Very Low and Low-Income housing are typically rental housing product.
- Above Moderate means market rate.
- Moderate product tends to be close to market rate due to high AMI limits.

Housing Projects in the Pipeline



Top Housing Projects Actively Processing or Under Construction	
Borello Ranch Estates (243 Ownership)	Crosswinds (269 Ownership)
Rosewood (120 Ownership)	Ten South (259 Rental)
The Lumber Yard (49 Ownership)	Magnolia's (66 Rental)
Andalusia (49 Ownership)	DeNova (93 Ownership)
The Gates (49 Ownership)	Manzanita Park (67 Ownership)

Currently processing 2,497 housing units (528 are BMRs or 100% Affordable units).

Majority of projects are single family or townhomes.

City is processing one builder's remedy project

Recent Affordable Housing Projects (Rental)



Village at Madrone

249 Affordable
Apartments



Royal Oak Village

72 Units
Rapid Rehousing +
Farm Worker Housing



Senior Housing

82 Age-restricted
Apartments

UNHOUSED COMMUNITY SUPPORT



Unhoused Community Support



Unhoused Specialist

Safe Park Program

Inclement Cold Weather Shelter

Disaster Services Support

Rental Assistance

Unhoused Specialist



The Unhoused Specialist is responsible for connecting Morgan Hill's unhoused population and vulnerable community with resources and proper services, with the primary goal to solve or prevent homelessness.

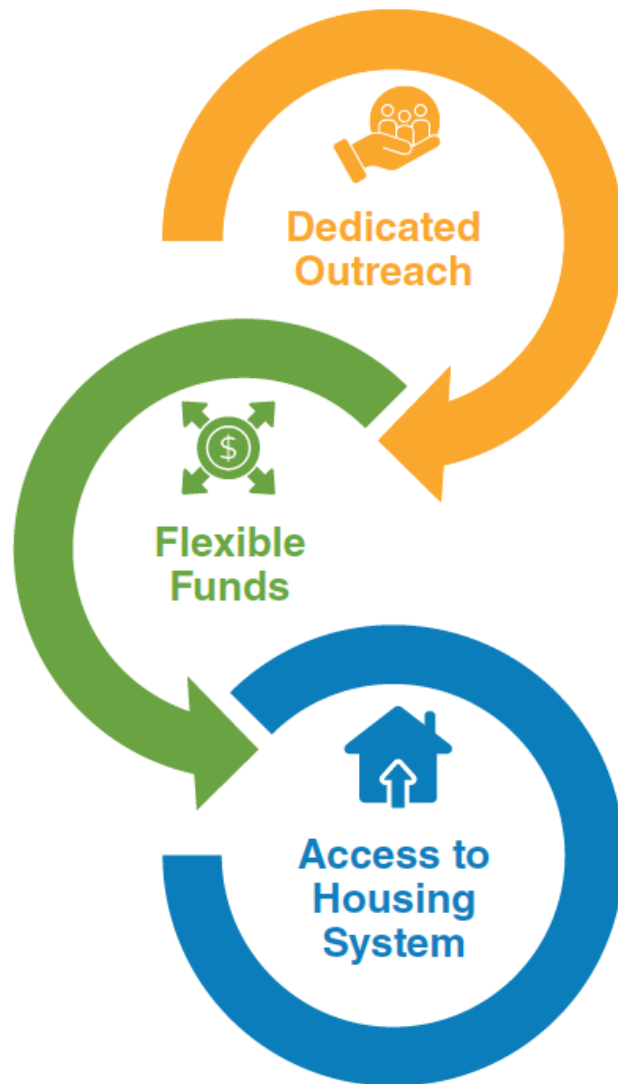


Brian Malicdem

Brian.Malicdem@morganhill.ca.gov

(669) 286-0585

The City's successful homelessness response strategy is based on three distinct components:



- 1 Dedicated Outreach:** A dedicated Unhoused Specialist with a background in social work and a mental health lens which provides real time support.
- 2 Flexible Funds:** Partnerships with St. Vicent DePaul, Edward Boss Prado Foundation and other community organizations that provide resources and funding that is flexible to meet the varying needs of the community (e.g. money for gas, car repair, hotel vouchers, rent-gap money, furniture, clothing, and food).
- 3 Access To Housing System:** The Unhoused Specialist has access to the Santa Clara County's Vulnerability Index Service Prioritization Decision Assessment Tool (VISPDAT) system, which evaluates and prioritizes who gets help based on their need. The Unhoused Specialist can enlist individuals on the spot and update their applications based on new information.

Morgan Hill Homeless Count



Year	Point in Time
2025*	69
2023	230
2022	60
2019	114
2017	388
2015	81
2013	61



Economic Mobility



Elevate Morgan Hill



2023	City receives \$35,000 grant from ICMA and is selected to participate in the first nationwide Economic Mobility and Opportunity Cohort.
2024	City hosts a first-of-its-kind Economic Mobility Symposium within the region.
2024	City Council accepts the ELEVATE Morgan Hill Economic Mobility report.
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2025	City secures a 30-month grant of \$416,500 from ICMA to fund staffing to expand the City's economic mobility initiatives.
2025	City is participating in ICMA Economic Mobility cohort convenings and in the process of recruiting an Economic Opportunity Program Officer.

Future Issues and Next Steps



Issues on the Horizon



- BMR inventory declines outpacing additions
- Supportive services funding is declining
- Rental exemptions sunset in 2025 resulting in future housing instability for manufactured homes
- Homeless services gap
- Extremely Low-Income units needed

Next Steps



Advance various action items:

- 47 Housing Element action items
- 12 Economic Mobility Framework initiatives
- 6 Housing stability policies associated with ABAG's Transit Orientated Community grants
- 5 Review and update housing policies and guidelines to further improve upon the Inclusionary Housing Ordinance and the Below Market Rate program.

Questions





CITY OF MORGAN HILL

CITY OF MORGAN HILL

408-779-7272 • morganhill.ca.gov
17575 Peak Ave. Morgan Hill, CA 95037

The City of Morgan Hill is one of the fastest growing and most desirable communities in Santa Clara County. The City's mission is to create quality housing for residents at all income levels and provide rental and ownership opportunities. The City is currently overseeing 20 residential housing projects, comprising of approximately 4,000 dwelling units. These units are either under construction, pending building permit issuance, or in the entitlement phase.

Morgan Hill has approximately 46,000 residents with a sustained growth rate of 2% per year. Morgan Hill is a diverse community comprised of 44% White, 34% Hispanic and 15% Asian.

Homes	Rentals	
16,000	3,200	
Affordable Apartments	Market Rate Apartments	Mobile Homes
1,700	1,500	800+

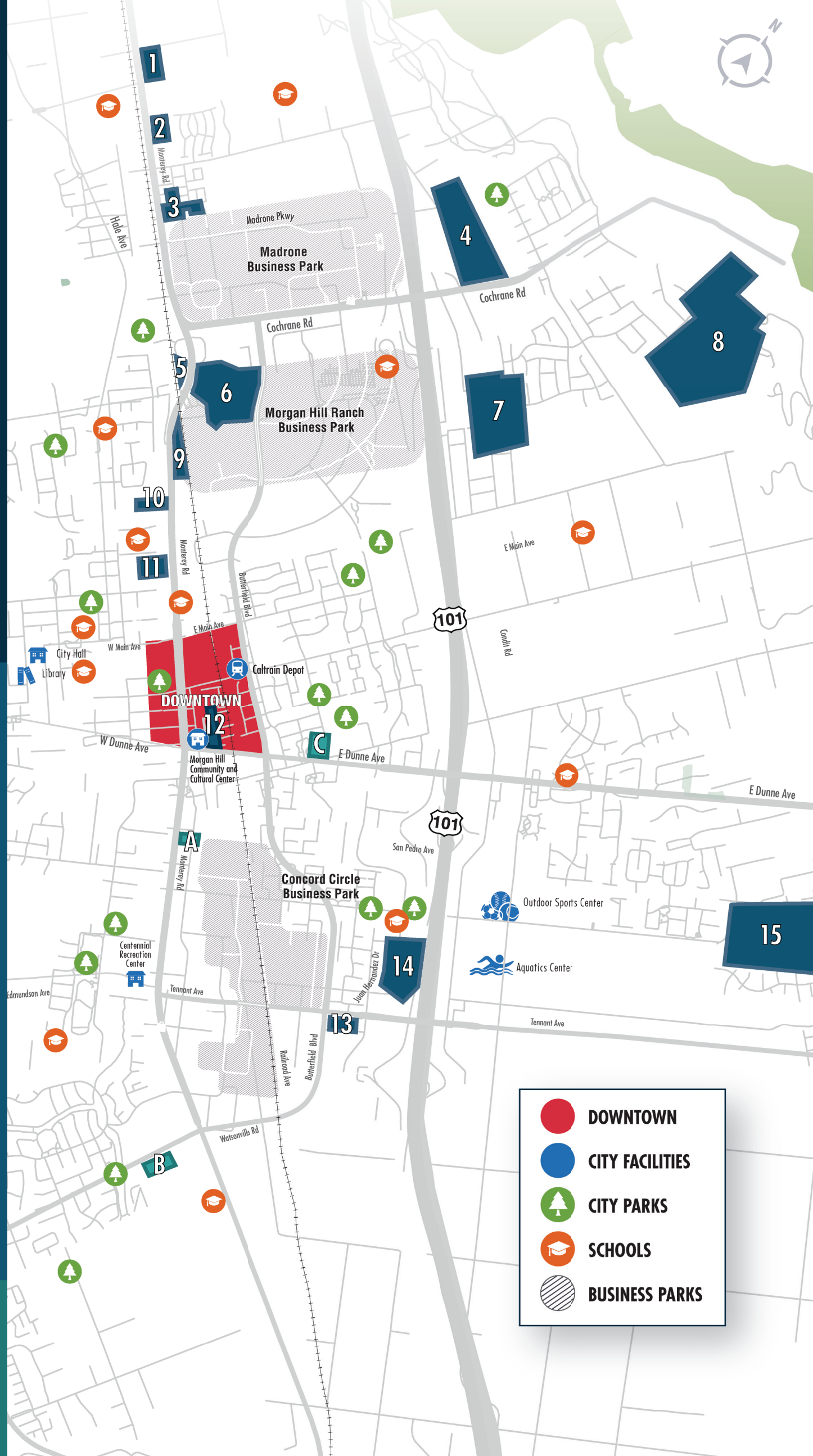
HOUSING PROJECTS

- 1 Manzanita Park - 67 Units
- 2 DeNova Homes - 93 Units
- 3 Village of Madrone - 249 Units
- 4 Cochrane Commons Phase II - 498 Units
- 5 The Gates - 49 Units
- 6 Vida - 398 Units
- 7 Crosswinds - 269 Units
- 8 Borello Ranch Estates - 243 Units
- 9 Jasper - 101 Units
- 10 The Magnolias - 66 Units
- 11 Monterey – AMG - 150 Units
- 12 The Lumberyard - 49 Units
- 13 Tennant Ten - 259 Units
- 14 Rosewood - 120 Units
- 15 New Horizons - 320 Units

RECENTLY COMPLETED

- A Morgan Hill Senior Housing - 82 Units
- B Royal Oak Village - 73 Units
- C Andalusia - 46 Units

CITY OF MORGAN HILL HOUSING PROJECTS



THE 5 PILLARS OF HOUSING



Production of New Affordable Housing Units



Preservation of Existing Affordable Housing Inventory



Promotion of Housing Programs



Prevention of Homelessness



Protection of Quality of Life for New and Existing Neighborhoods

HOUSING PROJECTS

KEY WITH DEFINITIONS

Processing Entitlements: The project is in the process to seek City approval for its proposed development.

Processing Building Permits: The project is in the process of obtaining construction documents/permits.

Approved: The project has acquired all permits required to start construction.



1
Manzanita Park
by North Corridor Investors

Description: 67 multi-family units (10 affordable), located on Monterey Road & Tilton Avenue.
Status: Approved



2
DeNova Homes
by DeNova Homes

Description: 93 multi-family units (14 affordable), located at 19380 Monterey Road.
Status: Approved



3
Village of Madrone
by Jemcor Development Partners

Description: 249 rental units (100% affordable), located along Monterey Road at Madrone Parkway.
Status: Under Construction



4
Cochrane Commons Phase II
by Browman Development

Description: Mixed-use project with up to 498 multi-family and rental units (75 affordable), and up to 135,000 SF of commercial.
Status: Processing Entitlements



5
The Gates
by City Ventures

Description: 49 units, located at Monterey Road and Cochrane Road.
Status: Processing Entitlements



6
Vida
by MBK Rental Living

Description: 398 rental units (78 affordable), located between Monterey Road & Butterfield Boulevard.
Status: Under Construction



7
Crosswinds
by Dividend Homes

Description: 269 multi-family units (40 affordable), located by Half Road to the east.
Status: Processing Entitlements



8
Borello Ranch Estates
by Toll Brothers

Description: 243 single-family units, located south of Cochrane Road between Peet Road and Half Road.
Status: Approved



9
Jasper
by Trumark Properties

Description: 101 multi-family units (15 affordable) and 2,900 SF of commercial retail, located at 18110 Monterey Road.
Status: Under Construction



10
The Magnolias
by First Community Housing

Description: 66 rental units (100% affordable), located at 17965 Monterey Road.
Status: Approved



11
Monterey-AMG
by AMG and Associates

Description: 150 units (100% affordable), located at 17910 Monterey Road
Status: Processing Entitlements



12
The Lumberyard
by Van Daele

Description: 49 multi-family units and 3,076 SF office space in conjunction with the realignment of Depot Street, located on the East side of Depot Street.
Status: Under Construction



13
Tenant Ten
by Ten South

Description: 259 multi-family units, located at 740 Tenant Avenue
Status: Processing Entitlements



14
Rosewood
by Brookfield

Description: 120 multi-family units (9 affordable), located on the southeast quadrant of Juan Hernandez & Barrett Avenue.
Status: Processing Building Permits



15
New Horizons
by Morgan Hill Devco

Description: Mixture of 320 single-family units (46 affordable), located on Hill Road & Barrett Avenue.
Status: Processing Entitlements

CITY COUNCIL STAFF REPORT MEETING DATE: October 22, 2025

PREPARED BY:

Matt Mahood, Economic Development Director

APPROVED BY: City Manager

ECONOMIC DEVELOPMENT UPDATE

RECOMMENDATION(S)

Receive report and provide feedback.

COUNCIL PRIORITIES, GOALS & STRATEGIES

City Council Ongoing Priorities

Maintaining and Enhancing Infrastructure

2024-2025 Strategic Priorities

Fiscal Sustainability

Economic Development and Tourism

Guiding Documents

Economic Blueprint

Morgan Hill 2035 General Plan

REPORT NARRATIVE:

Executive Summary

The City's Economic Blueprint (Blueprint), adopted unanimously by the City Council in 2017, and reaffirmed in 2024, guides Morgan Hill's efforts to grow a strong, diverse economy while enhancing quality of life. The Blueprint focuses on attracting investment, development, and jobs to generate revenue that supports essential city services and infrastructure.

Since its adoption, the Blueprint has provided a framework for economic development and supported the City in the attraction of private investment that has bolstered the economic strength of the City with the attraction of new jobs, new infrastructure and continues to elevate the City in the areas of innovation, advanced manufacturing, healthcare, retail and tourism.

Over the last eight years, over 85% of the Blueprint's activities have been accomplished. Below is an overview of the accomplishments:

Innovation & Advanced Manufacturing

- Industrial inventory grew from 6.8 to 8.2M sq. ft., with 560,000 SF of additional inventory currently processing entitlements.
- Vacancy fell from 19–21% (2017) to 3–6%, then rose to 14.9% (2024) following the completion of Butterfield 5 Tech Park, Cochrane Technology Park and Republic National Distribution Company's (RNDC) departure.

- Companies such as Daikin, PTEC Solutions, Toray Advanced Composites, Paramit, Pinnacle Exhibits, and Sempera Organics expanded their footprints in Morgan Hill.
- Focusing on advanced manufacturing continues with efforts such as Manufacturing Day and marketing and promotion efforts like the recent (2024-2025) Manufacture Morgan Hill campaign marketing the City's competitive advantages.
- Multiple policy and zoning updates were completed, such as the Industrial Preservation and Optimization Policy to protect and modernize zoning.

Retail

- Retail vacancy has dropped from 5.2% to 4.4%, with continued demand for small business space.
- The new Evergreen Retail Center, under development, is supporting new tenants such as Chick-fil-A, Raising Cane's, Taco Bell, and Tractor Supply Company.
- Completed the Retail Concentration Strategy to focus retail development in viable retail locations.
- The Downtown Property Business Improvement District (PBID) was established in 2023 to boost vibrancy, safety, and cleanliness in Downtown and to share these costs with Downtown property owners.

Tourism

- Established a Tourism Business Improvement District (Visit Morgan Hill) and approved a 10- year renewal in 2024 to market Morgan Hill for sports recreation, wine/agriculture tourism, and events.
- Advanced two new hotel projects: Hotel MOHI – a 77-room luxury boutique hotel under construction and the Evergreen Village Hotel – a 116-room fully entitled project currently on hold due to current economic constraints.
- Established a Hotel Incentive Program that supports new hotel development and existing hotel reinvestment.
- Established several small community events, including Sidewalk Saturdays, Doggy Days of Summer, and the Food and Wine Festival.

Healthcare

- Entitled a Mixed-Use project that resulted in the attraction of Sutter Health to the Community.
- Sutter Health opened a medical office facility on Juan Hernandez and is currently processing entitlements for additional medical space.
- Processed zoning updates to allow medical uses citywide.
- The County of Santa Clara refurbished the DePaul Health Center and opened a Valley Health Center Morgan Hill providing a range of services, including primary care, specialty care, urgent care, laboratory, and radiology services.

While Morgan Hill's economic development strategy continues to yield benefits and show strength across key commercial sectors, the City is not immune to the broader economic slowdown. Current market conditions have cooled some of the momentum, resulting in various projects being placed on hold. A key area of concern is the diminishing inventory of commercial and industrial land, which the

City depends on for future jobs and revenue growth. With current housing laws, the City is likely to continue to see the pressure of housing development in commercial and industrial lands, further threatening the City's long-term economic sustainability. Currently, there are only 93.64 acres of industrial and 108.42 acres of commercial vacant land available for job and revenue-generating uses (see Exhibit 2). In December 2023, City staff provided a memo to City Council outlining a strategy to preserve and protect Commercial Zoned lands (see Exhibit 3).

The City's 2025/2026 Economic Development priorities are focused on aggressive revenue generation and improving the business climate. Key goals include attracting high-value, tax-generating uses like hotels, auto dealers, and destination retail, and actively attracting tenants to the new industrial business parks. The work program includes continuing to streamline and modernize the City's municipal codes and permitting processes. The City is also focused on advancing economic mobility and small business support, including programs like the new business entrepreneurship program for Spanish-speaking residents. Finally, while Economic Development cannot solely solve the City's financial needs, the team is hyper-focused on attracting businesses and developments that expand the City's tax base.

ECONOMIC DEVELOPMENT BRIEFING

Background

The [Economic Blueprint](#) is founded on guiding principles from the General Plan, Morgan Hill 2035, and incorporates feedback from over 400 residents, businesses, and community leaders engaged and invested in the future of Morgan Hill. The Blueprint is intended to further the Community's quality of life by attracting investment, development, and jobs that will ensure continued economic prosperity, which in turn generates revenues to support essential City services and improve critical City infrastructure. The Blueprint was developed over a 2-year collaborative process and adopted unanimously by the City Council in 2017.

The Blueprint has been focused on driving economic prosperity and vitality by advancing 13 strategies and 35 action items across the following four key industries:

Innovation and Advanced Manufacturing: Grow existing companies, attract new industry, and grow high-quality jobs. Support and advance the entitlement and permit process of new developments. Promote and market Morgan Hill as a premier location for commercial and industrial investment.

Retail: Grow retail offerings and strengthen commercial nodes. Develop a retail incubator program and a retail concentration strategy. Utilize incentives and available tools to attract new investments that increase both jobs and revenue for the Community.

Tourism: Grow leisure, agriculture, wine country and recreational tourism. Continue to nurture Downtown's transformation as a community gathering place. Implement Property Based Improvement District and manage parking supply. Support additional lodging investments and partner with Visit Morgan Hill to implement activations that support tourism and vibrancy.

Healthcare: Grow and foster medical and diagnostic services by advancing and supporting the entitlement process for medical facilities. Promote and market Morgan Hill as a desired location for medical and diagnostic providers.



Over the past seven years, City staff have successfully completed more than 85% of the action items identified in the Blueprint. Below is an overview of the key achievements tied to these action items, with a more detailed description and analysis provided in Exhibit 1 — Economic Blueprint Work Program.

In 2024, following a review of the Blueprint's strategies and action plans, the City Council reaffirmed that the Economic Blueprint remains relevant and directed that the City continue to use the document as a guide for its ongoing Economic Development efforts.

Innovation and Advanced Manufacturing

Over the course of the last six years, the City of Morgan Hill has been very intentional in prioritizing efforts within the Innovation and Advanced Manufacturing industry to encourage new investment and development. The City has enabled multiple Fee Freeze and Fee Financing Agreements with developers to encourage their investment in new projects. As a result, the City has grown its industrial inventory to approximately 8.2 million square feet, not including an additional 560,000 square feet going through entitlement for future construction. When the Blueprint was adopted, the industrial vacancy rate ranged between 19% to 21%. In recent years, the industrial vacancy rate significantly decreased from 3% to 6%, which essentially meant there was no available inventory, causing existing businesses to expand elsewhere. The recent addition of new industrial buildings and the loss of one major tenant (RNDC closed all California operations) have brought the industrial vacancy rate to approximately 14.9%. Today, the City of Morgan Hill has the best Class A industrial space in the greater Silicon Valley and is well positioned to capture the expansion of existing companies and to attract new research and development (R&D) and advanced manufacturing users.

In 2021, the City enacted a new Industrial Preservation and Optimization Policy to protect industrial lands as employment lands while also encouraging and expanding medical uses.

To encourage continued investment and to foster an environment that supports business growth, the City utilizes and promotes the ChooseMorganHill.com website, conducts ongoing annual Manufacturing Day events to promote the industry, and actively markets available/vacant industrial locations in key business publications. The City also co-produced two virtual webinars with the Silicon Valley Business Journal, "Meet Morgan Hill" and "Choose Morgan Hill," to highlight and

promote the industrial and commercial investment opportunities in Morgan Hill.

In 2024 and early 2025, to further develop and promote the City's competitive advantage as a destination for innovation, advanced manufacturing, and R&D users, the economic development team employed a [Manufacture Morgan Hill](#) campaign. Staff utilized videos, articles, social media and a paid media campaign to highlight the importance and advantages of manufacturing in our City, and to strengthen our Community by attracting new businesses, supporting existing manufacturers, and drawing in top talent. Recent examples of advertising and earned media articles covering Morgan Hill are provided in Exhibits 5 and 6.

The main strategic approach under the Innovation and Advanced Manufacturing pillar is to actively communicate with property owners and brokers to support the attraction of industrial tenants to the new industrial buildings. One key policy opportunity is to update the parking standards and minimums to capitalize on available land to maximize industrial investment and job creation. When the opportunity arises, the City should strengthen language in the General Plan to conform with the Blueprint's strategies. Additionally, the City should work with property owners to amend restrictive Planned Developments (PD) and/or create Zoning Overlays to increase user flexibility, as well as explore incentives to encourage medical and professional office development.

Retail

The City of Morgan Hill has 2.6 million square feet of developed retail/commercial space. Given Morgan Hill's relatively small population (approximately 45,000) and a shared retail trade area with South San Jose and Gilroy, the City is viewed as "over-retailed," making retail development challenging. While the retail vacancy rate is low at 4.4%, the City has experienced long-term vacancies for "Junior Tenant" spaces at Cochrane Plaza (25K SF) and Laurel Oaks (26K SF) and has been challenged to attract development in three fully entitled shopping centers: Madrone Village Phase II (4.4 acres), Cochrane Commons Phase II (135K SF), and Evergreen Village (10+ acres). Although there are a handful of buildings and large retail spaces that have experienced prolonged vacancies, there are no current blight issues associated with these buildings or locations. In fact, many small businesses struggle to find available space to locate or relocate within the commercial/retail space in the City of Morgan Hill. In December 2023, the City Council requested information regarding a Commercial Vacancy Tax. In response to this request, City staff prepared a memo to address the benefits and challenges of implementing a Commercial Vacancy Tax. See Exhibit 4.

In 2018, the City completed the Monterey Corridor Study, which included a Retail Capacity Study suggesting that at full build out, Morgan Hill can only support an additional 1.3 million square feet of new retail development. Therefore, the City needs to be strategic and prevent retail in areas that will not be successful and that will ultimately compete and 'water down' the retail viability of premium retail centers. The Retail Study identified the sites along the Monterey Corridor that could be viable for retail development. As a result, City staff have implemented a Retail Concentration Strategy to prioritize retail development areas so that the City does not undermine core retail hubs.

To support retail attraction, staff proactively engages with retail brokers, property owners, and participates in regional International Council of Shopping Centers (ICSC) conferences to stay current on market trends, gain insights from industry experts, and build relationships with potential tenants and investors. The team also maintains updated retail marketing materials, publishes a blog, and distributes a regular eNewsletter to promote Morgan Hill's retail opportunities.

In 2024 and 2025, staff worked closely with local brokers and contacts established through ICSC to recruit new sales tax-generating businesses and fill existing vacancies. These efforts have resulted in several new businesses now open, under construction, or in the entitlement process, including Chick-fil-A, Grocery Outlet, Taco Bell, Raising Cane's, Philz Coffee, El Pollo Loco, and Tractor Supply Company.

Vehicle Sales (auto dealerships) are a major contributor to the City's sales tax revenue, and City staff continues to prioritize both the retention of existing dealerships and the recruitment of new investment in this sector. To encourage growth, the City has successfully used its Auto Incentive Policy to attract investments from The Ford Store Morgan Hill, Victory Honda, and Morgan Hill Chrysler Dodge Jeep Ram.

In late 2023, the City Council adopted a Vehicle Sales Overlay with Design Guidelines for the Trammell Crow North 30 property. However, due to shifting market conditions, rising interest rates, and a national decline in auto sales, the development opportunity window was missed.

In the coming month, City staff and the Planning Commission will recommend that the City Council amend the Condit Road Auto Planned Development (PD) Area and the Laurel Avenue PD Area to allow additional auto dealerships within these zones. Supporting these amendments would provide greater flexibility to attract future dealership investment.

Downtown

Downtown Morgan Hill is not just a commercial center; it is the social and cultural hub of the Community. The City's 2009 Downtown Specific Plan envisions Downtown as a vibrant, walkable, and economically successful focal point for the community and a "gem within Silicon Valley." Downtown also serves as an economic engine and supports job and tourism attraction efforts. Unlike other shopping centers that are privately held, Downtown is owned by multiple individuals and thus requires the City to provide oversight, guidance and investment. In 2022, the City created a Downtown Property Business Improvement District (PBID), to enhance Downtown's safety and cleanliness, increase sales tax generation, and actively manage and market the Downtown District as a destination. The City has contracted with the Downtown Morgan Hill Improvement District (DMHID), a 501c6 non-profit, to manage the Downtown PBID. DMHID is now responsible for the "Sidewalk Saturdays" and "Twilight Market" outdoor retail programs, conducting regular sidewalk power-washing to help clean the Downtown sidewalks, marketing and promotions of the District that includes a Downtown business marketing brochure, and the festive lighting at Depot Park and on the Monterey Road median. The PBID also contributed funds to support the Downtown Flock Camera Pilot Program launched by the Morgan Hill Police Department.

The Downtown has seen significant growth, mostly in food and beverage venues. These new businesses include: Ancora Vino, The Silos, Stacks, MOHI Farm, Chocotella Crepe, Morgan Hill Creamery, Cura Contemporary & Vera Restaurant, Bean & Barrel Coffee, Sushi Confidential, Giorgio's, and most recently Pre-Hispanic MX Cuisine. In addition, in early 2025, Leal Hospitality completed significant renovations to the former Republic Title building at 17485 Monterey Road, opening Luxe by Leal, a new Downtown destination that combines floral experiences, event decor rentals, farm-to-table dining, and a collaborative workspace.

Sales tax collection from this Downtown district, comprised of over 100 independent businesses, has outpaced growth of other shopping centers with big-box retail anchors. However, a challenge for Downtown is the limited available and modern retail space. Staff will work with property owners to support the rehabilitation of older buildings. It is unlikely that another mixed-use development will be constructed in the next few years, but in the meantime, staff will continue to work collaboratively with the PBID to create and promote programming for creative retailing like the Sidewalk Saturdays and Twilight Market and other special events that support retail growth and attract visitors. With the addition of the fine art gallery, Cura Contemporary (completed in 2024), staff is also seeking opportunities to expand "maker-space" retail to support the arts and the long-term viability of the gallery.

To encourage additional retail investment, and in alignment with the Economic Blueprint, City staff will continue to bring forward its recommendations on policies, incentives, and zoning changes that

best support the growth of sales tax, transient occupancy tax (TOT), and property tax to support the General Fund and long-term fiscal sustainability. Staff is currently collaborating with the Morgan Hill Police Department to update the City's Entertainment Permit process to support more live music and entertainment. This item is expected to come to City Council soon.

Tourism

In 2019, the City of Morgan Hill successfully implemented the Tourism Business Improvement District (TBID), Visit Morgan Hill, to support the marketing and promotion of Morgan Hill as a regional destination for recreation, agri-tourism and dining. Unfortunately, immediately after its launch, the COVID-19 pandemic decimated the tourism and hospitality industry. While it has been a rough tourism economy, Visit Morgan Hill has completed the following significant milestones:

- Completed a Destination Strategic Plan
- Completed a Tourism Branding and Launch Campaign
- Established Comprehensive, High-Performing Marketing Programs
- Established Processes and Benchmarks for Hotel Sales Leads
- Established Local and Regional Partnerships
- Developing a Destination Magazine (January 2026)

Visit Morgan Hill's focus is to build brand recognition and develop partnerships that will generate new opportunities to attract visitors to the area and generate spending and overnight stays, resulting in added Transient Occupancy Tax (TOT) and Sales Tax revenue to the City. In 2023, the City renewed the Tourism Business Improvement District (TBID) for an additional ten (10) years with the ability to increase its current 1.5% tax rate to up to 3% over the 10 years. This will allow Visit Morgan Hill to continue to actively promote and drive tourism initiatives for the City of Morgan Hill and capitalize on the post-pandemic economic cycle of improved tourism and hospitality.

Attracting visitors increases spending that supports the local economy while generating additional sales tax revenue for the City. In addition, a more direct and significant gain is when visitors spend the night at a local hotel and contribute to the City's Transient Occupancy Tax, which represents 5% of the City's General Fund.

Lodging

Currently, the City has two Upscale class hotels, four Upper Midscale class hotels, and two new hotels in the pipeline. The other hotels are Midscale or Economy hotels, and have long-term stays that do not significantly contribute to the City's TOT. Growing, improving, and diversifying the City's lodging options is a critical component to the tourism strategy and the City's economic sustainability.

In the last 10 years, hotel development has occurred throughout the region. However, Morgan Hill has been unable to capitalize on these hotel development cycles. In 2019, the City's Planning Commission and City Council approved a General Plan Zoning Amendment to allow for the development of two four-story hotels, a Marriott and a Hilton, adjacent to the Madrone Plaza Shopping Center off Cochrane Road. However, in 2020, a coalition of Morgan Hill hotel owners opposing the construction of the two new hotels gathered signatures to place a referendum on the ballot opposing the zoning amendment. ([link to the Morgan Hill Times article](#)). The referendum measure passed, and the hotels were never built. The referendum's passage also sent a chilling message to the hotel development community that Morgan Hill was a risky place for investment and not friendly to hotel development. Despite this setback, staff continues to promote Morgan Hill for hotel development. In 2022, the City Council adopted a new [Hotel Incentive Strategy and Policy](#) to attract new hotel investment and support existing hotels' reinvestment in their facilities.

Increased construction costs and elevated interest rates have created significant challenges for new hotel development. The City currently has a fully entitled 116-room hotel project within the Evergreen Village development. However, in late 2024, the developer placed the project on an indefinite hold due to current market and lodging industry conditions.

In September 2024, the City Council approved a Sales Tax and Transient Occupancy Tax (TOT) Sharing Agreement with Leal Hospitality to support the construction and completion of Hotel MOHI — a 77-room, luxury, full-service boutique hotel in Downtown Morgan Hill. The project is being developed in partnership with Appellation Hospitality, led by renowned celebrity chef Charlie Palmer, who has earned 20 Michelin stars over his distinguished career. Hotel MOHI is anticipated to open in Spring 2026. Upon completion, this project — along with the newly renovated Luxe building and the Cura Contemporary art center — will serve as a significant catalyst for attracting additional visitors, creating new jobs, and generating further private investment in Morgan Hill's Downtown.

The most substantial impact the City can have on continuing to grow tourism and General Fund revenue is to support hotel development. The majority of existing hotels in Morgan Hill have surpassed their intended operational lifespan. While the physical structure of a commercial building may be designed to last 50 to 60 years or more, the economic life of a hotel is significantly shorter due to the rapid onset of obsolescence and changing guest demands. Unlike other commercial buildings, a hotel's "life" is often defined by its economic viability and ability to stay competitive, which requires a constant cycle of maintenance and renovation. A major renovation or brand change is often required to cure functional obsolescence, re-start the economic life cycle, and return the hotel to a growth phase. Alternatively, hotels that do not invest in maintaining their franchises (flags/brand) are required to "re-flag" or go independent. Existing hotels are not always able to update their facilities, which has led to the current makeup of lodging in Morgan Hill. The City would benefit from new hotel investment, more hotel redevelopment/reinvestment, and the creation of new tourism assets such as the City's sports and recreation venues. In a separate report, the Council will receive an update on the plans to grow youth sports and other recreation facilities.

Marketing

Visit Morgan Hill has a robust and growing marketing effort that has placed Morgan Hill on the tourism circuit with earned media and a growing digital footprint. A key milestone is an effort that is underway in partnership with the City of Morgan Hill's Economic Development team and the Downtown Morgan Hill Improvement District—a *Destination Magazine*. The magazine will spotlight Morgan Hill and the greater South County region, serving as both a lifestyle guide and a visitor resource. Readers can expect a dynamic mix of travel and tourism features, including local culture, events, dining, shopping, and attractions—all designed to inspire and inform both residents and visitors. The inaugural edition will be released ahead of a historic year for the Bay Area, with the magazine distributed to visitors attending major global sporting events hosted in nearby Santa Clara and San Jose: the 2026 Super Bowl (February), the NCAA Basketball Tournament (March), and the FIFA World Cup (June/July).

In addition to the Destination Magazine publication, the City, in partnership with local businesses and nonprofits, will curate and support a series of activations aligned with these events—showcasing Morgan Hill as a vibrant destination and community hub for visitors from around the world.

Healthcare

Morgan Hill residents have long expressed the desire to gain access to a full range of healthcare and medical services. In addition to providing expanded services for residents, growing the City's healthcare industry will help create high-quality jobs for residents, many of whom are employed in the medical industry. Santa Clara County purchased the DePaul Health Center in 2018. In late 2023, the County completed significant renovations and is now offering Primary Care, Urgent Care

with extended hours and weekends, Pediatrics, Women's Health, Outpatient Pharmacy Services, Laboratory Services, and Imaging Services.

To grow medical services in Morgan Hill, the City updated the zoning code to allow medical services in almost all zoning designations in the City, including residential, commercial, and industrial areas. Staff have been actively promoting available locations for new medical uses and facilities.

In recent years, the City rezoned the 8 acres at the southeast corner of Juan Hernandez Drive and Barrett Avenue for the future development of new healthcare and medical facilities, called Rosewood. The City's Economic Development Team worked with the property owner/developer to promote and market Morgan Hill and the Rosewood site as a desirable location for medical users. In late 2023, the property owner/developer issued a Request For Proposals (RFP) to medical providers throughout the greater San Francisco Bay Area. In May 2024, Sutter Health completed its acquisition of the site and leased the existing medical facilities on the adjoining property. Sutter Health recently completed a Subsequent Environmental Impact Report (SEIR) for the Rosewood Medical project requesting changes to the existing Planned Development Master Plan that increases the maximum medical/commercial square footage, raises building heights, eliminates floor area ratio (FAR) and expands other permitted uses ancillary to a medical facility. The Economic Development Team is supportive of these requested amendments and will work internally to support the entitlement and permitting process to expedite construction of any new medical facilities.

The City's current focus is to support the entitlement of Rosewood Medical Center and to continue to market and promote the area for medical services.

Economic Mobility

In 2023, the City of Morgan Hill was selected as one of ten cities in the nation to participate in an Economic Mobility Cohort with the International City/County Management Association (ICMA) through a grant from the Gates Foundation. The City received the grant to explore local economic mobility strategies. This work and grant were timely as the City's Housing Element had identified the need for the City to connect Spanish-speaking residents to local housing and job opportunities. Through this process, the City has learned that one in four businesses in Morgan Hill are Hispanic-owned, yet less than 5% of the COVID recovery loans issued to Morgan Hill businesses went to Hispanic-owned businesses. This gap speaks to the opportunity to improve outreach and enhance communications with the City's Spanish-speaking community. In 2024, the City Council approved "ELEVATE Morgan Hill," an Economic Mobility plan to improve economic prosperity for all Morgan Hill residents. The strategies and actions in the report focus on connecting Spanish-speaking and lower-income community members to jobs and housing resources while enhancing their sense of belonging.

As an initial step in the implementation of ELEVATE Morgan Hill, the City partnered with Renaissance Entrepreneurship Center to provide training, consulting, capital access, and support for Morgan Hill entrepreneurs, graduating its first Spanish-language cohort of 20 participants in October 2025, with additional [English and Spanish cohorts set to launch in January 2026](#).

Additionally, in July 2025, the City launched the [Disability Access Improvement Program](#) to support small businesses in making their spaces more accessible for community members with disabilities. Eligible businesses can receive up to \$5,000 in reimbursement grants. This program not only helps businesses improve accessibility for customers and employees but also provides protection against potential legal issues related to non-ADA compliant spaces.

Success Metrics

The Economic Blueprint identified success metrics that measure key economic indicators such as sales tax, unemployment and hotel occupancy. Overall, the Economic Blueprint has proven to be a

very useful tool for the City to attract investment. Below is the updated Success Metric Indicator chart that compares economic indicator metrics from 2017 to 2025.

Success Metric Indicator		2017 Baseline	Sep-25
Maintain Quality Of Life	Unemployment Rate for Residents of Morgan Hill	4.1%	5.30%
	Jobs/Housing Ratio	1.42	1.14
	Number of Retail Businesses in Morgan Hill	112	116
Fiscal Sustainability And Resilancy	Amount of Annual Sales Tax Revenue (Millions)	\$9.49	\$12.19
	Amount of Annual Property Tax Revenue (Millions)	\$10.68	\$19.05
	Amount of Annual TOT (Millions)	\$2.74	\$2.47
	Commercial Vacancy Rate	5.2%	4.4%
Job Growth	Amount of Total Jobs in Morgan Hill	15,700	18,856
	Business to Business Revenue (Millions)	\$1.18	\$1.17
	Number of Medium Sized Companies	115	104
Tourism	Percentage of Residents That Work in Morgan Hill	28.0%	36.5%
	Number of Hotel Rooms Available for Occupancy	898	898
	Hotel Occupancy as Reported by Hoteliers	70.0%	64.1%

Much progress has been made on the action items listed in the Economic Blueprint and the City has benefited from this strategic and visionary document. The City has increased the number of jobs available to residents and has done fairly well with sales tax and property tax growth. TOT revenue was showing incremental growth until it was stalled by the COVID-19 pandemic. As the City seeks to understand and address its long-term fiscal sustainability, current market conditions and challenges should be considered, and the overall economic development goals should be clarified.

Current Market Conditions & Strategic Work Plan

The City of Morgan Hill's commercial real estate market is active and strategically positioned for continued growth. This position is driven by its prime location, available land supply, and competitive cost structure compared to core Silicon Valley. While several sectors are performing well, moderate vacancies in certain areas necessitate targeted economic development strategies. Below are key market highlights:

Key Market Highlights & Outlook			
Sector	Key Metric	Data	Market Trend & Outlook
Industrial / R&D	Vacancy Rate	14.9% (Available space)	Morgan Hill is a cost-effective alternative to higher-priced Silicon Valley. Attracting advanced manufacturing, clean tech, and R&D users. Future investments, however, are awaiting a "sustained moment of calm" in the global economy.
	Inventory	~8.2M sq. ft. built; 560,000 sq. ft. under entitlement	
	Land Supply	~93 acres of vacant industrial land.	
Retail / Commercial	Vacancy Rate	4.4% (Healthy, stable environment)	Retail sales growth of 1.7%–2.1% Y-o-Y. Increasing demand for community-serving retail, medical uses, and neighborhood-focused mixed-use projects.
	Inventory	~2.6M sq. ft. built; 6,000 sq. ft. under construction	
	Land Supply	~108 acres of commercially zoned land.	
Office / Flex Space	Current Vacancy	9.00%	Activity is concentrated in medical, flex, and R&D-oriented office uses. Traditional large office development remains unlikely in the near term due to regional market trends and remote work dynamics.
	Y-o-Y Change	Decreased to 4.9% (over the last year)	
	Inventory	~1.3M sq. ft. built; Zero under construction	

Opportunities and Challenges

Morgan Hill is strategically positioned for growth, leveraging its competitive land costs and strong industrial base to attract advanced manufacturing and R&D businesses from higher-cost Bay Area markets. Retail demand is healthy, supported by the growing population, and economic catalysts (Downtown hotel, fine art gallery) are expected to drive additional investment.

The City faces several key obstacles, including financial feasibility issues due to high interest rates and construction costs, and the need to modernize older retail spaces. A major long-term risk to fiscal health is the loss of commercial/industrial properties to housing development. Furthermore, the City must navigate strong regional competition for employers and mitigate the burden of State regulatory barriers on the development review process.

Strategic Outlook: 2025/2026 Economic Development Work Plan

The Economic Development workplan is underpinned by the fundamental pillars of economic development—Business Retention & Expansion (BRE), Marketing & Promotions, Development & Investment (Ombudsman role), and Policy & Programs (incentives, policy recommendations)—while specifically targeting the reduction of barriers to commercial and industrial investment. To support the attraction of new investment, the Economic Development team works to remove barriers to development and fosters programs to help businesses thrive. Currently, staff is working on:

- **Attracting Revenue-Generating Users** (Hotel, Auto, Retail)
- **Supporting Tenanting** of industrial buildings
- **Providing Business Assistance Services** (PBID, TBID, Small Business Support)
- **Modernizing the Zoning Code:** Updating restrictive zoning (Planned Developments, FAR, parking) and streamlining permits (Entertainment Permits)
- **Targeting Investment:** Expanding Zoning Overlays and actively supporting the tenanting of vacant industrial buildings
- **Supporting Projects:** Expediting construction via ombudsman services and fee agreements

Conclusion:

Morgan Hill's commercial, retail, and industrial markets remain fundamentally sound, with near-term opportunities to attract new investment and jobs. By protecting and leveraging its remaining land supply, highlighting its strategic location, and fostering a business-friendly environment, the City can continue to support sustainable economic growth while responding to shifting market conditions.

Attachments:

Exhibit 1: Economic Blueprint Work Program
 Exhibit 2: Vacant Commercial and Industrial Lands Map
 Exhibit 3: Commercial Preservation Strategy Memo
 Exhibit 4: Commercial Vacancy Tax Memo
 Exhibit 5: Examples of Advertising
 Exhibit 6: Examples of Articles covering Morgan Hill

COMMUNITY ENGAGEMENT:

Inform

ALTERNATIVE ACTIONS:

Not Applicable

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

In 2017, the City Council adopted the Economic Blueprint.
 In 2024, the City Council received an update and progress report regarding the effectiveness of the Economic Blueprint. At that time, the City Council reaffirmed that the Economic Blueprint remains relevant.

FISCAL AND RESOURCE IMPACT:

No fiscal impact associated with this report.

CEQA (California Environmental Quality Act):

Not a Project

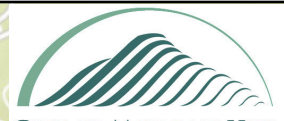
Exhibit 1: 2017 Economic Blueprint Work Program

INDUSTRY	Action Item	STRATEGY & ACTION ITEMS	STATUS	COMMENTS
INNOVATION & ADVANCED MANUFACTURING	PRESERVE INDUSTRIAL LANDS			
	1	Adopt an Employment (Industrial) Land Preservation Policy	Complete	
	2	Strengthen General Plan language to prevent conversion of Industrial Lands		
	IMPROVE AND FACILITATE DEVELOPMENT OF CRITICAL INFRASTRUCTURE			
	3	Create a Telecommunications Master Plan to Improve Access to Fiber	Complete	Shifted from MP to implement actions under the guidance of the Telecommunications Report.
	ATTRACT DEVELOPMENT			
	4	Update Zoning Code and Parking Requirements to Modernize Zoning Code and Allow for New Hybrid of Developments that are considered "Class A" Industrial "Flex Space"		
	5	Explore Incentive Programs to Attract Industry-Specific Development	On-going	Consider Incentive Program for Office Development.
	6	Allow Greater Intensification (FAR) and Taller Buildings to Increase Value of Employment Lands		Requires GP Amendment.
	7	Complete the Monterey Corridor Flex-Zoning Update and Optimize Development Opportunity	Complete	
	8	Streamline Permitting Process by allowing Administrative Approvals as Part of Zoning Code Update	Complete	
	FOSTER AN ENVIRONMENT THAT SUPPORTS BUSINESS GROWTH			
9	Deploy Open-Counter Online Business Ombudsman Platform	Complete		
10	Market Economic Blueprint Vision, Process & Incentives to Attract Business Investment	On-going		
11	Formalize City's Expedited process and market it	On-going		
SUPPORT EDUCATIONAL FACILITIES & A LIFE LONG LEARNING ECOSYSTEM				
12	Connect Education Assets to Industry	On-going	Mfg Roundtable, Mfg Day, Employer Tours complete. Opportunity for additional workforce development/internship programs.	

RETAIL	RETAIL FLEXIBILITY			
	13	Develop a Retail Concentration Strategy	Complete	
	14	Continually Revisit Retail Industry Trends & Requirements	On-going	
	15	Pursue Sports Recreation Uses as Anchor Tenants, increase Permitted Use Allowance up to 15k sq. ft.	Complete	Updating Condit PD
	16	Re-evaluate and Propose Changes to Shopping Center - Site Specific Zoning Requirements	On-going	
	17	Update Zoning to Allow Incidental Wine, Beer and Alcohol Tasting Rooms and Distilleries in Downtown and throughout the City in Commercial and Industrial Zoned Areas	Complete	i.e. Alara Cellars, Lightpost Winery.
	18	Promote Co-Working in Commercial Nodes	On-going	
	SUPPORT DOWNTOWN DEVELOPMENT			
	19	Identify Parking Management Strategies	On-going	Implementing delivery/drop off zones, short-term parking in 2026
	20	Encourage Housing Development & Office Tenants	On-going	City Ventures, Sunsweet, Granary, Lumberyard
	21	Create Business Improvement District (BID) to Support Downtown Improvements and Programming	Complete	
	22	Terminate Administrative Permit Process for Morgan Hill Plaza Shopping Center	Complete	

TOURISM	ENHANCE FACILITY UTILIZATION AND GROW SPORTS/RECREATION FACILITIES			
	23	Upgrade the Outdoor Sports Center & Aquatics Center (Infrastructure & Amenities)	On-going	Master Plan Update completed, improved lighting and grass.
	24	Develop a Financing Plan to Construct and Operate New Sports/Recreation Facilities		
	SUPPORT LODGING			
	25	Ensure General Plan and Zoning Code Address Bed & Breakfasts, Airbnb and Hotel Development		Amend Zoning Code to allow B&B in residential areas.
	26	Develop Plan to Help Upgrade or Transition Aging Hotel Facilities	On-going	Hotel Incentive Plan complete. Some redevelopment limited by FAR or Zoning.
	27	Identify Pre-Approved Lodging Sites	Complete	Updating Condit PD
	LEVERAGE RESOURCES THROUGH PROFESSIONAL LINKAGES AND PARTNERSHIPS			
	28	Work with Hotels to Develop a Tourism Based Improvement District (TBID) to help Finance Capital Improvements to Sports Recreation Facilities and to Promote and Market the Region	Complete	TBID is not funding capital improvements
	29	Collaborate with Regional Partners to Enhance Branding, Marketing and Promotions of Regional Assets	On-going	
	SUPPORT A TOURISM ENVIRONMENT			
30	Target Retail Attraction to Sport Recreation, Entertainment, Boutique and Food Retailers	On-going		
31	Continue to Create a Lively Downtown with Entertainment Offerings	On-going	Updating Entertainment Permit Ordinance	
MEDICAL	EXPAND LOCATIONS OF WHERE MEDICAL USES ARE ALLOWED			
	32	Ensure General Plan & Zoning Code Allow Medical Uses	Complete	
	ACTIVELY PROMOTE LOCATIONS FOR MEDICAL USES			
	33	Identify & Market Pre-Approved Medical Sites	On-going	
	34	Increase Outreach and Engagement with Medical Service Providers	On-going	
	35	Create & Implement a Targeted Marketing Campaign	On-going	

City of Morgan Hill: Vacant Commercial and Industrial Lands (1+ acres)



CITY OF MORGAN HILL

City of Morgan Hill GIS
10/3/2025

ID	APN	ACRES	Zoning
1	72625026	7	IL
2	72625091	4.02	IL
3	72625092	4.63	IL
4	72631004	4.07	IL
5	72631025	2.4	IL
6	72631038	2.65	IL
7	72633025	5.03	IL
8	72633026	3.39	IL
9	72634006	10	IL
10	72634013	2.1	IL
11	72634031	2.49	IL
12	72635015	2.25	CI
13	72658006	2.21	CG
14	72658011	2.88	CG
15	72658012	4.05	CG
16	72831014	7.68	CH
17	72831014	21.02	CH
18	72837069	10.72	CH
19	77904074	6.11	CG
20	81702034	3.2	IL
21	81706026	2.85	IL
22	81706028	2.56	IL
23	81706060	8.89	IL
24	81708015	5.97	CH
25	81708019	2.34	CH
26	81708029	5.17	CS
27	81708030	4.5	CH
28	81709046	5.53	CH
29	81711024	2.52	CG
30	81711073	5.92	CI
31	81712011	7.68	CG
32	81712022	5.04	CG
33	81729028	12.34	IL
34	81732058	2.18	IG
35	81757009	3.27	IL
36	81758011	3.37	IG
37	81708032	11.26	CH
38	81713020	1.25	CG
39	81713021	1.98	CG
40	81713022	1.95	CG
41	81713024	1.5	CG
42	81713035	2.53	CG

Zoning

 Commercial
 Industrial
 Builders Remedy





Memorandum

Development Services

Date: December 19, 2023

To: City Council

From: Christina Turner, City Manager

Subject: Morgan Hill Commercial Preservation Strategy

Summary: This memorandum is in response to a City Council request for information about the City of Morgan Hill's strategy to preserve and protect Commercial Zoned lands.

With the State's passage of Assembly Bill 2011 (AB2011) and Senate Bill 6 (SB6), which took effect on July 1, 2023, locally zoned Commercial or Retail lands are under extreme pressure to either develop as commercial properties or potentially be developed as residential. The specific standards that apply for AB2011 and SB6 are complicated, but the following [link](#) provides a technical overview of the provisions of AB2011 and SB6. The following is a brief summary of each law.

AB2011

AB2011 creates a CEQA-exempt, ministerial approval process for multifamily housing developments. The law provides for slightly different qualifying criteria (1) for 100-percent affordable projects and (2) for mixed-income projects located in "commercial corridors." AB 2011 projects must pay prevailing wages to construction workers, among other labor standards. AB 2011 contains significant locational/geographic criteria including no housing within 500 feet of a freeway.

SB6

SB6 does not create any new approval process. However, projects meeting SB 6 criteria may invoke SB 35 and the Housing Accountability Act. SB 6 projects may be either a 100-percent residential project or a mixed-use project where at least 50 percent of the square footage is dedicated to residential uses. SB 6 applications are not exempt from CEQA but need not provide any affordable housing. SB 6 projects are required to pay prevailing wages and utilize a "skilled and trained workforce." SB 6 does not apply to properties located on or adjoined to a site where more than one-third is dedicated to industrial use.

The two State laws not only apply to undeveloped greenfields, but also to existing Commercial or Retail properties that may be underperforming.

The City's Economic Development Department in partnership with the Planning Department has done an assessment of the vacant commercial property across the City. The City currently has approximately 120 acres of vacant commercial/retail land. Staff believes that approximately 95 acres are at high-risk of conversion and 25 acres are at a lower risk of conversion. It is believed that established Planned Development districts that include master plans could be exempt from AB2011 and SB6, but it is unknown whether that interpretation would be challenged. Staff is unable to assess which developed commercial/retail properties are at risk of conversion, but those commercial/retail sites that are struggling with high vacancy rates or those with businesses that are struggling will be at a higher risk than those that have higher performing retail users.

The Economic Development division's approach to the preservation and utilization of commercial properties has been driven by the goals and objectives outlined in the City's 2035 General Plan and 2017 Economic Blueprint (EBP).

Preserve Industrial Lands

EBP Action #1 – Adopt an Employment (Industrial) Land Preservation Policy

As vacant land becomes more constrained, pressure to convert industrial and commercial lands to residential will intensify to meet the growing housing demand and the new pressures from AB2011 and SB6. In March 2022, the City Council adopted the adoption of the Industrial Preservation and Optimization Policy placing restrictions on non-employment generating uses while increasing the ability of a preferred use, medical office, to locate within the light industrial zones.

Attract Development

EBP Action #4 – Update the Zoning Code

The main tool the City has to regulate land development is the Zoning Code. To attract companies to locate or expand in Morgan Hill, the City should ensure the zoning regulations are modernized to support today's industry trends. Since the approval of the EBP, the City has implemented numerous zoning text amendments to support economic development. Recently the City Council approved Vehicle Sales (-VS) Overlay increasing the amount of land available to attract potential auto dealers. Auto dealers are a preferred user of commercial lands since they generate significant general fund revenue. City staff will continue to look for opportunities to update the Zoning Code to attract preferred users.

EBP Action #5 – Explore Incentive Programs to Attract Industry-Specific Development

Often the cost of new development is cost prohibitive, especially during periods of high economic growth where the cost of construction is continuously increasing, interest rates are high, cost of land is high, and impact fees are high. The City can explore and utilize incentive programs to freeze fees, finance impact fees, and create incentive programs for preferred uses. The City Council has recently approved fee freeze agreements and fee financing agreements to support additional future commercial and industrial development, as well as approved the Hotel Incentive Program (October 2022). The City Council has previously used incentives to attract Vehicle Sales users to the City of Morgan Hill.

Retail Attraction

EBP Action 13 – Develop a Retail Concentration Strategy

In order to keep the key commercial corridors healthy, the City should consider eliminating retail/commercial requirements where retail is not going to succeed. The Economic Development team has been generally supportive of the recent General Plan amendments that have occurred to rezone commercial properties located at:

- Cochrane Commons II by Browman Development – Originally proposed to include 350,000 square feet of retail, the site has been vacant for 16 years despite multiple proposals and tenant solicitations. The project was amended in November 2022 to include 498 residential units and maintain 135,000 square feet of retail space.
- The Gates by City Ventures – A 3.82-acre site along Monterey Road converted from commercial to mixed-use. Due to the site’s location and natural features, this site was going to be very difficult to develop as a stand-alone retail/commercial site. The 2015 Lisa Wise Consulting retail report for the Monterey Corridor identified retail nodes that should be prioritized and protected. This site was not identified as an important retail site. Staff worked with and supported the housing development that maintained a very small retail footprint consistent with the goal to concentrate retail in areas that will help support that use.

EBP Action #14 – Continually Revisit Retail Industry Trends & Requirements

The retail industry is dynamic and constantly evolving. The Economic Development team engages in numerous activities related to retention and attraction, brand and marketing, and collaboration with brokers and developers. The following are a few examples areas where staff engages with the purpose to stay abreast of retail trends, promote retail opportunities, and develop relationships with retail brokers:

- International Council of Shopping Centers (ICSC) – Opportunity to meet with commercial users, developers and commercial real estate brokers who are expanding (Monterey, CA Conference – Spring, San Diego, CA - Fall).
- Silicon Valley Business Journal Publications & Events.
- Silicon Valley Economic Development Alliance Annual Conference (November).
- On-going communication with commercial real estate brokers.
- On-going communication with property owners and developers.
- On-going communication and retention/expansion visits to key sales tax generators.
- Quarterly HDL Sales Tax Report Review and Conference Call.
- Regular webinars focused on retail trends and analysis.

Next Steps

The City Economic Development staff will continue to prioritize the retention and development of commercial retail users across the City to generate new and increased sales tax that is critical to the fiscal sustainability of the City. City staff continue to bring forward its recommendations on policies, incentives and zoning changes that best support the growth sales tax, transient occupancy tax (TOT), and property tax to support the General Fund and long-term fiscal sustainability.



Memorandum Development Services

Date: January 19, 2024
To: Christina Turner, City Manager
From: Matt Mahood, Economic Development Director
Subject: Commercial Vacancy Tax

Summary: This memorandum is in response to a City Council request for information about the implementation of a Commercial Vacancy Tax. A Commercial Vacancy Tax is a policy instrument employed to combat the issue of extended vacancies in commercial real estate. This type of tax is imposed on owners of commercial properties that remain unoccupied for a specified period as a way to incentivize property owners to lease their properties and deter property owners from holding onto properties for speculative purposes.

While this strategy can aid in addressing urban blight, there are potential challenges associated with this tax, as its effectiveness can vary based on market conditions and the specifics of its implementation. Key considerations include setting an appropriate tax rate that is effective yet not overly burdensome, establishing clear criteria for assessing vacancies, providing exemptions or exceptions under certain circumstances such as economic downturns, and ensuring efficient administrative oversight for the assessment, collection, and enforcement of the tax. Overall, while a commercial vacancy tax aims to promote occupancy in commercial properties and invigorate local economies, it is not a common strategy as the unintended consequences could be more damaging to the City's goal to attract quality and long-term investment. Very few cities use this program and those that do are larger cities that suffer from extensive vacancies and struggle with resulting blight issues. Below are some recent implementation examples:

1. San Francisco: Implemented a vacancy tax in which property owners are charged a fee for spaces vacant for over six months. Revenue collected from the vacancy tax is applied towards affordable housing initiatives. San Francisco's Commercial Vacancy Tax, introduced in 2020, is a municipal initiative targeting long-standing vacancies in commercial properties. The tax was proposed largely in response to the practice of landlords intentionally keeping properties vacant, often holding out for higher-paying tenants. This policy applies specifically to ground floor, street-facing commercial

properties in 32 designated districts within the City. The tax rates start at \$250 per linear foot of storefront facing the street, escalating to \$500 in the second year and \$1,000 for each subsequent year. A key aspect of the policy is the requirement for every owner, lessee, and sublessee of a taxable commercial space to file a Commercial Vacancy Tax Return, irrespective of whether the space is vacant. This filing helps determine who is responsible for paying the tax, which generally falls on the party entitled to possession of the property. Enforcement and compliance of the tax fall under the purview of the San Francisco Office of the Treasurer and the Tax Collector. Its success and impact, however, continue to be subjects of debate, especially in the evolving landscape of urban commercial real estate.

https://codelibrary.amlegal.com/codes/san_francisco/latest/sf_business/0-0-0-48971

2. Oakland: Implemented Measure W in 2018, known as the Vacant Property Tax, imposes a tax on a range of properties, with rates varying based on the property type. Residential and non-residential properties are taxed at a rate ranging between \$3,000 to \$6,000 per parcel. The tax is also applicable to undeveloped parcels at a rate of \$6,000 per parcel. A property is deemed vacant if it is utilized for less than 50 days within a calendar year. Property owners are notified annually about the potential applicability of this tax and are provided with an opportunity to contest the vacancy status or apply for exemptions through the Oakland Vacant Property Tax Portal.
<https://cao-94612.s3.us-west-2.amazonaws.com/documents/Measure-W-City-of-Oakland.pdf>
<https://cao-94612.s3.us-west-2.amazonaws.com/documents/Vacant-Property-Tax-Ordinance-13571-CMS.pdf>
3. Berkeley: Implemented Measure M in 2022, also known as the Vacancy Tax, to address real estate speculation and encourage the utilization of vacant residential properties. This tax only applies to residential units. This policy applies to residential units vacant for over six months within a year. Initially, the tax is set at \$3,000 for the first property and \$6,000 for each additional property. After the first year, these rates double, reaching \$6,000 to \$12,000 per unit, with adjustments for inflation. The measure primarily targets properties consistently vacant for extended periods, as identified in the Rent Registry. Exemptions are in place for specific scenarios such as nonprofits, low-income seniors, owner-occupied properties with fewer than four units, properties under construction, or in probate. The tax aims to deter speculative practices by corporate property owners and address the social issue of neighborhood blight due to long-term vacancies. However, some concerns have been raised regarding the tax's broad application and its potential effectiveness in Berkeley's unique rental market.

<https://berkeleyca.gov/sites/default/files/documents/Measure%20M%20-%20November%208%2C%202022%20Election.pdf>

Administrative Challenges:

Implementing a vacancy tax necessitates the establishment of robust mechanisms for monitoring and verifying vacant properties, a process that can be resource-intensive and complex. This challenge has been evident even in a city as resource rich as San Francisco, which has encountered difficulties in administering such a tax. Municipalities must define clear criteria to determine what constitutes a 'vacant' property, considering factors like the duration of vacancy, reasons for vacancy, and the specific type of commercial property. This task is further complicated when dealing with properties that are only partially occupied or used intermittently. Furthermore, the potential for property owners to circumvent the tax, perhaps by falsely reporting occupancy or exploiting legislative loopholes, presents another layer of complexity. To counteract these challenges, municipalities must develop reliable systems for monitoring and reporting as well as stringent enforcement mechanisms. This could include conducting regular inspections and audits to ensure compliance.

Economic Considerations:

The economic considerations surrounding the implementation of a commercial vacancy tax are multifaceted, requiring a careful balance to ensure both effectiveness and fairness. At its core, the tax is designed to incentivize property owners to lease out persistent vacant commercial spaces, thereby reducing vacancy rates and stimulating local economic activity. However, the tax raises significant concerns about its broader economic impact. While it can generate additional revenue for local governments, which can be reinvested in community services or infrastructure improvements, there is a risk that property owners might transfer the cost of the tax to tenants through higher rents. Such an outcome could counteract the intended effect of the tax and place a greater financial burden on businesses. Moreover, the tax could negatively influence the overall investment in commercial properties. In areas with lower demand, the additional financial burden might deter investment, leading to unintended consequences such as decreased property values or reduced economic development. Implementing a progressive tax structure or providing exemptions for certain owners could help mitigate these concerns. Finally, the policy must be adaptable to changing market conditions. Economic downturns, shifts in commerce trends, and other market dynamics can significantly affect the demand for commercial space. Allowing flexibility in the policy, such as temporary suspensions or adjustments during economic downturns, could be crucial in mitigating negative impacts on property owners and the wider economy. While a commercial vacancy tax presents an opportunity to address urban challenges and stimulate economic activity, its success hinges on a nuanced understanding of its economic implications.

Alternative Approaches:

Alternative approaches to address prolonged commercial property vacancies beyond the implementation of a vacancy tax can encompass a variety of strategies. One such approach involves modifying zoning and land use regulations and simplifying the permitting process to allow a broader spectrum of uses within commercial zones. Financial incentives also serve as a compelling alternative. Rather than penalizing property owners for vacancies, cities can offer tax credits, reduced property taxes, or renovation subsidies to those who lease their vacant spaces. Public-Private Partnerships (PPPs) present an opportunity for joint initiatives to activate vacant spaces, potentially leading to community spaces or business incubators, with shared investment and benefits to the parties involved. Finally, encouraging temporary use of vacant spaces through pop-up shops, art installations, or event spaces can bring immediate life to areas with high vacancy rates.

For example, the City of Santa Cruz created “Downtown Pops” a Retail Pilot Program in which the City leased the ground floor directly from the private property owner and then provided a subsidized sublease of the space to retail startups as a way to create a pipeline of retailers that can eventually cover the full rent. Alternatively, the City can engage with community groups in repurposing vacant properties which can lead to innovative, and community-serving uses, such as gardens, markets, or cultural centers. In summary, there are several collaborative approaches that the City can use to encourage the occupancy of commercial properties that may be more effective than a punitive tax.

Fiscal Impacts

Because a Commercial Vacancy Tax is a new tax, in order to be implemented, it would require voter approval. The estimated staff time to prepare the ballot measure is approximately 15 hours. The cost for the ballot measure is approximately \$60,000 if placed on the ballot of a regular election in which there are also Council seats on the ballot.

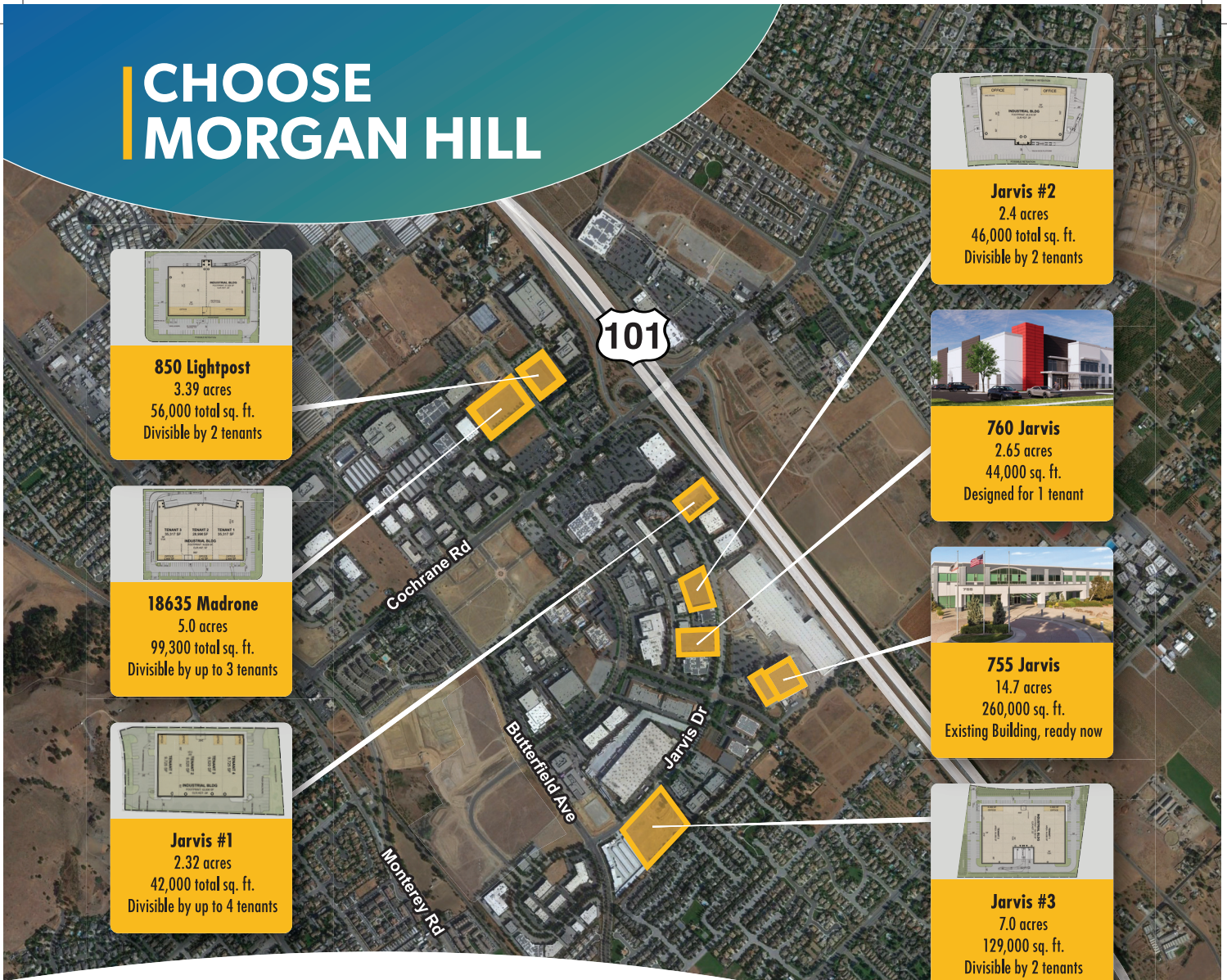
Current Vacancy Rates

The most current vacancy rates in Morgan Hill are 11.1% for industrial and 5.1% for commercial/retail. Morgan Hill is considered to have a low vacancy rate. Historically, Morgan Hill has had a 2-3% vacancy rate in the industrial category, but with the completion of several projects over the last 12 months, the City’s vacancy rate has grown but so too has the City’s ability to retain businesses that need to grow and expand and increased the City’s ability to attract new businesses. Although there are a handful of buildings and large retail spaces that have experienced prolonged vacancies, there are no current blight issues associated with these buildings or locations. In fact, many small businesses struggle to find available space to locate or relocate within the commercial/retail space in the City of Morgan Hill.

Conclusion

After evaluating the potential implementation of a Commercial Vacancy Tax in Morgan Hill, staff have determined that this approach is not advisable. The potential administrative costs and the tax's possible deterrent effect on investment and development outweigh the uncertain gains. The broader economic impacts of a vacancy tax are also not entirely predictable at this point.

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Morgan Hill is a sophisticated Silicon Valley community that supports industry and innovation with over 6.5 million SF of industrial, R&D, and manufacturing space in three large business parks. With 150 acres of vacant industrial land and over 1 million SF of new Class A industrial buildings in the pipeline, Morgan Hill is ready for your company's relocation or expansion.

Morgan Hill has a significant employment base in advanced manufacturing and wholesale, with projected growth in health, education, finance, insurance, real estate, and information technology. The city's location in south Silicon Valley offers a reverse commute and access to our region's best amenities—providing an ideal balance between jobs, housing, recreation, and open spaces.

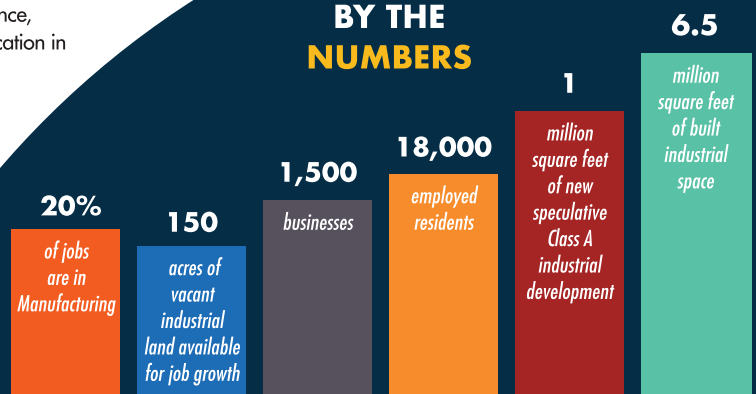
Companies located in Morgan Hill:

Anritsu, Specialized Bicycle Components, Toray Advanced Composites, Wolfspeed, Phoenix DeVentures, Paramit and Sakata Seeds.

Learn more at ChooseMorganHill.com



BY THE NUMBERS



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760 Jarvis
44,000 SF
Entitled
Construction Ready



Butterfield 5 Tech Park
324,645 SF
4 Class A Industrial Buildings
Available Now



Cochrane Tech Center
501,314 Total SF
5 Class A Industrial Buildings
Under Construction



755 Jarvis
260,000 SF
High End Adv Mfg Building
Available Now

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Morgan Hill is a sophisticated Silicon Valley community that supports industry and innovation with over 7.1 million SF of industrial, R&D, and manufacturing space in three large business parks. With 90 acres of vacant industrial land and over 1 million SF of new Class A industrial buildings in the pipeline, Morgan Hill is ready for your company's relocation or expansion.

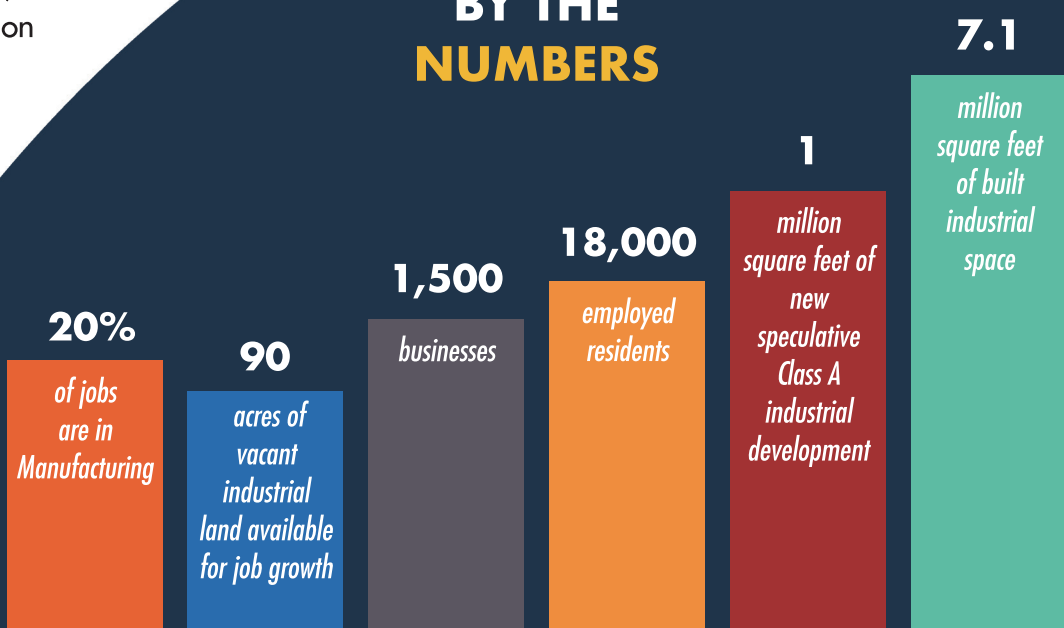
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Anritsu, Specialized Bicycle, Toray Advanced Composites, Wolfspeed, Pinnacle Exhibits, Paramit, Shoe Palace, Sunbasket and Marki Microwave.

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BY THE NUMBERS



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of room to grow.



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Opportunity knocks.

Our growing community
has opportunities for
healthcare providers.

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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.

MORGAN HILL ECONOMIC DEVELOPMENT

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

Edith Ramirez
Assistant City Manager

408-310-4633

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- Over 100,000 residents in South Santa Clara County
- Community mindset toward healthy, active lifestyles
- Available workforce and housing, including affordable housing
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From the Silicon Valley Business Journal:

<https://www.bizjournals.com/sanjose/news/2022/07/29/morgan-hill-downtown-2022.html>

Here's what's new in Downtown Morgan Hill

Jul 29, 2022, 3:24pm PDT **Updated: Jul 29, 2022, 3:38pm PDT**

The Business Journal's List this week enumerates the biggest non-retail employers in Morgan Hill, largely a mix of manufacturers, construction firms and high-tech companies.

But this 45,000-resident city in southern Santa Clara Count also boasts a pedestrian-friendly, tourist-attracting downtown that has some buildings that are more than a century old. And that area appears to be thriving.

Morgan Hill's downtown strip — centered around Monterey Road between East Main Avenue and East Fifth Street — has added several new shops, eateries and a wine tasting room this year. At least one downtown establishment is planning to expand.

Here are some of the newer venues you can visit:



TOMAS OVALLE

Bartender Austin Gillespie pours a beer at The Running Shops and Hops, which used to be a running shoe store but morphed into a popular brewery in Morgan Hill.

Alara Cellars, 90 E. 3rd St., Suite 70: Janu Arasu began to explore wine making in 2013. Two years later, she produced her first vintage for Alara Cellars. She opened a tasting room elsewhere in 2017 but shut it down when the Covid-19 pandemic hit. Arasu opened its new downtown location in April. It's the only wine tasting room in Morgan Hill's center, she said.

"It feels great to reopen and it feels great to be a part of downtown Morgan Hill, especially now," she said. "It's just this next up-and-coming downtown area with a lot of new restaurants and new businesses. It feels good to be a part of it."

Colibri Gallery, 17505 Monterey Road: Longtime Morgan Hill residents Daniel and Kathy McCranie opened this art gallery and framing shop in Fall 2020. The business had its best month ever in April, gallery Director Ellie Honl said. She declined to say exactly how much revenue it made, but said it pulled in \$15,000 more than expected. With the wind at its back, Colibri, which has a focus on Bay Area artists, is getting ready to grow.

"We are going to be breaking ground this fall on a two-story, custom-designed building that will have an art gallery, wine bistro, event space and also space to hold art workshops," Honl said.

Urbn Ranch, 17270 Monterey Road, Suite 100: Erika Dellamaggiore opened this home and garden accessories store with her sister and mother in May. They wanted to create a shop where "people can come, chill out," said Dellamaggiore, a Morgan Hill resident for 32 years. The store has a vintage vibe with retro items, furniture, flowers and gifts.

"A lot of people say, 'I just want to hang out here.' That makes me happy," she said.

Tomas Ovalle

Staff Photographer

Silicon Valley Business Journal



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From the Silicon Valley Business Journal:

<https://www.bizjournals.com/sanjose/news/2022/08/04/morgan-hill-industrial-policy.html>

Morgan Hill carves industrial path to bring more advanced manufacturing to city (Video)

Aug 4, 2022, 7:00am PDT **Updated: Aug 4, 2022, 1:23pm PDT**

Editor's note: Join the Business Journal for a special virtual event Aug. 11 to hear more about Morgan Hill's approach to development. Register for the free event [here](#).

A few minutes north of Morgan Hill's downtown stand five new buildings in a 410,000-square-foot campus called the Butterfield 5 Tech Park.

It's everything the city of Morgan Hill wants: new industrial space for a region that's hungry for it, buildings that are suitable for advanced manufacturing and life-sciences uses with key amenities like numerous electric-vehicle charging stations. Plus, Butterfield 5 is something Morgan Hill's leaders definitely do not want it to be — a warehouse distribution center for the likes of Amazon.com Inc.



TOMAS OVALLE

The Butterfield 5 property at 18225 Butterfield Boulevard in Morgan Hill.

Trammell Crow, the Dallas-based commercial real estate developer, built Butterfield 5 before signing a tenant for the project. In June, as it finished construction, Trammell sold the development for \$111 million — more than \$291 a square foot — to Invesco Ltd., an Atlanta-based investment management company.

The addition of the industrial center wasn't just big for Morgan Hill, a city of 48,000 in the southern portion of Santa Clara County. It was the only new industrial development that came online in the second quarter in all of Silicon Valley at a time when demand for such space in the area outpaces available supply by millions of square feet.

"Morgan Hill is going to have attention for a good stretch," said Brian Matteoni, executive vice president of CBRE, which is handling leasing for Butterfield 5. "They have an existing base of occupiers, some blue-ribbon companies, that have already landed in the market over the years. So it's a proven sector of Silicon Valley."

The city has about 6.8 million existing square feet of industrial, R&D and warehouse space, according to the latest quarterly report from brokerage firm Colliers. That's about 2% of the entire industrial stock of Silicon Valley — in a city that's just under thirteen square miles in size.

With strong demand for industrial space in the region, real estate investors are being drawn to Morgan Hill, and the city government is augment its healthy retail sector with additional industrial employers.

"There's only so much retail that 48,000 people can support," said Matthew Mahood, the city's economic development director. He continued: "The more employers and employees that come into a city ... that's going to ultimately support additional commercial retail."

Manufacturing gets advanced

Located within the 380-acre Morgan Hill Ranch Business Park – the fifth largest business park in Silicon Valley – Butterfield 5 is just one of several recent industrial developments in the city. Among the others:

A 501,314-square-foot industrial development Trammel Crow is readying for construction on the eastern side of U.S. Highway 101, south of the Cochrane Road exit.

Silicon Valley Glass' 31,172-square-foot headquarters and manufacturing facility, which it completed last year.

Shoe Palace's newly built industrial and office building, which is nearly double the space of its previous headquarters next door. The shoe retailer sold that building — a 258,122-square-foot facility — in early June.

A joint venture of Ridge Capital Investors and Westbrook Partners paid about \$45 million, or \$174 a foot, for the Shoe Palace building, located at 755 Jarvis Dr. The purchase was the first in Morgan Hill for Ridge or Westbrook. The firms made the move to get closer to south Santa Clara County's manufacturing hub, said CBRE's Matteoni, who brokered the deal and is the property's leasing agent.

There's a lot of "truly organic growth" in advanced manufacturing happening in the area, said David Karol, Ridge's managing director. Companies that are already operating in Morgan Hill are continuing to expand there. That's helping spur demand for spaces like the former Shoe Palace headquarters, he said.

This momentum isn't by accident, city officials say. But it's starting to become self-sustaining. Investments by well known companies offers a signal to other businesses that the Morgan Hill market is maturing, said Edith Ramirez, who had Mahood's job before becoming assistant city manger.

"Our economic blueprint and our vision to support growth puts us in a position to attract investors like Trammell Crow," she said.

Ridge and Westbrook decided to buy an older property rather than developing a new one, because they could see a return more quickly, Karol said. Ridge Capital, Westbrook and the CBRE team are putting \$2 million into a renovation and expect to put it up for lease within a short window, he said.

But even as it stands, the property has a lot to like, Karol said. Originally constructed for Abbott Labs' manufacturing operations,

it has plenty of electrical capacity for cooling and to power operations and has copious amounts of parking for employees.

“Where can anyone get more than 200,000 square feet under one roof, with that sort of power, parking and cooling?” he said.

What the city doesn’t want

While Morgan Hill embraces its industrial sector, it’s saying no to warehouse distribution facilities.

“Morgan Hill has been more of a rural community for much of its history,” said Mahood. “The challenge that we have is protecting a very high quality of life that the residents have come to expect, while we also try to grow our employment base, and our revenue base.”

Mahood, who stepped into his job last summer after nine years as head of the Silicon Valley Organization, said that balancing act is what led to a “conversation about how we don’t want to be a distribution center city.”

In mid-March, the City Council adopted what it called an Industrial Preservation and Optimization Policy that would essentially eliminate the construction of any future large warehouse, distribution, or parcel sorting facilities in Morgan Hill. In November, city voters will decide if it stays.

The policy was part of a larger economic framework set up in 2017 to bolster advanced manufacturing — a natural goal given that 20% of Morgan Hill’s workforce already was in that sector, Ramirez said.

As the city matures, its industrial space is becoming more constrained and “severely” limited, said Nick Gaich, CEO of the Morgan Hill Chamber of Commerce.

“How we preserve that for our future economies is very important,” he said.

The city’s industrial policy imposes a number of restrictions — including new limits on dock door heights, door-to-square-foot-ratios and ceiling heights — as a way to guarantee that only new manufacturing and research-and-development projects get built.

“That really signals to the business development community that we’re going to prohibit future large distribution use,” Mahood said. “We are going to encourage advanced manufacturing uses.”

Part of that effort involves actively recruiting manufacturing companies to Morgan Hill, said Gaich, the founder of healthcare consulting firm Gaich and Associates, which is based in the city. Instead of Morgan Hill being seen as a “commuter town,” the policy aims to turn the city into a destination for employers and a potential home for their employees, he said.

“It’s a way to just memorialize the community’s intent with directly where we want to go,” said Gaich, who also co-owns Craft Roots, a vegan bar and grill in the city’s downtown.

“Preserving the industrial land that we have in front of us for advanced manufacturing, research, development, etc. is an important element of us continuing to grow and mature,” he said.

Supply and demand

Morgan Hill’s rise as an industrial hub comes as demand for such space throughout Silicon Valley keeps rising. Across the region, CBRE recently counted 44 potential tenants or companies shopping for space averaging at least 132,000 square feet. In total, demand for industrial space amounts to 5.8 million square feet, according to a CBRE report analyzing regional real estate in the second quarter. Yet there were only five properties with more than 100,000 square feet available for lease, the report stated.

Ridge Capital’s Karol expects demand to remain high. With dwindling land available for new ground-up development and rising construction costs, investors are trying to satisfy prospective tenants with existing industrial. “The supply is going to be a challenge in the near term,” Karol said.

Even existing industrial space is harder to find these days. In part that’s because of pressure to demolish and convert older industrial spaces to other “better and higher uses,” said Colin Yasukochi, CBRE’s executive director of the Tech Insights Center.

Industrial was previously considered a “lower value use” that many municipalities have not prioritized, because it’s low-density,

Yasukochi said. That perception is starting to change. “You could probably argue that these days, it’s the best performing property out there by far,” he said.

Rents are only expected to go higher because of the demand and supply imbalance, Yasukochi said.

At the end of the second quarter, Morgan Hill had both an 11.1% vacancy and availability rate, the second highest in the region. The only area to have more industrial space available was downtown San Jose, which has less than half of Morgan Hill’s overall industrial square footage.

While it’s one of the only cities left with industrial space, it’s also one of the cheapest places to lease such properties. The average rent there is \$1.25 per square foot, compared to \$1.43 a foot in North San Jose or \$1.63 a foot in Fremont, according to Jones Lang LaSalle Inc.

But these rents aren’t likely to stay low for long, said Karol. “We do see that the supply is not keeping up with demand – currently, historically, or going forward,” Karol said. “So we think [supply] will continue to cause upward pressure on rents as well.”

Even the economic uncertainty that’s hit many sectors of the economy isn’t enough to temper enthusiasm for Morgan Hill’s industrial market, Karol said. One reason for that is that manufacturing work has to be done on site. And having workers physically inside industrial facilities gives investors a more tangible idea of how these spaces are used, Karol said.

One of the final hurdles for Morgan Hill is a perception that the city is further away from the epicenter of Silicon Valley than it actually is, Ramirez said.

“For us, growing that connective tissue with the rest of Silicon Valley is interesting,” she said.

Chelsea Nguyen-Fleige

Reporter

Silicon Valley Business Journal



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From the Silicon Valley Business Journal:
<https://www.bizjournals.com/sanjose/news/2022/08/08/matthew-mahood-talks-morgan-hill.html>

Matthew Mahood reflects on a year spent as Morgan Hill's economic development director

Aug 8, 2022, 3:25pm PDT

Editor's note: Join the Business Journal for a special virtual event Aug. 11 to hear more about Morgan Hill's approach to development. Register for the free event [here](#).

Matthew Mahood has been leading Morgan Hill's economic development efforts for a little more than a year now.

In some ways, it was a big change from Mahood's last job. For nine years, he had been CEO of the Silicon Valley Organization, now known as the San Jose Chamber of Commerce. Mahood exited the SVO in October 2020 amid a controversy over a racist ad that was posted on the organization's website as part of its political action committee's campaign against a City Council candidate. *(Come back Tuesday for the second part*



TOMAS OVALLE

Matt Mahood, Morgan Hill's economic development director, is a big believer in the South County city.

of this interview, where Mahood talks about that incident and its aftermath.)

But in other ways, being Morgan Hill's economic development director is a kind of return to form for Mahood — the 56 year old has long been a business booster. That's largely what he did as head of the SVO and, for the nine years preceding that, as the CEO of the Sacramento Metropolitan Chamber of Commerce. In his latest role, he can also draw on his earlier business experiences; before his chamber days, Mahood was a top manager at Webvan Group Inc., BAX Global Inc. and FedEx Corp.

I chatted with Mahood earlier this month about his decision to take the Morgan Hill job and what the city is doing to encourage companies to do business there. The following excerpts were edited for length and clarity.

Before you took this job, what was your interaction with the city of Morgan Hill?

I'd had a long-standing relationship with the city and Edith Ramirez in the Office of Economic Development, because we had worked collaboratively on several projects. And I had met with several of their companies during my time with the (San Jose) Chamber of Commerce, coming down and meeting with their businesses.

When Morgan Hill put together their economic development blueprint, Edith actually came to me as a leader in the business community and said, "Hey, can I get some of your input on this process? And, what do you think should be some of Morgan Hill's priorities in economic development?"

I also spent some time coming down to Morgan Hill, as my wife and I liked to hike and get out and do things on the weekend. We had really kind of discovered downtown Morgan Hill several years ago. So, I kind of knew the community. I didn't know it in depth, but I knew the momentum and the energy that was developing in Morgan Hill.

How did the job come about?

It was probably, six, seven months after I left the SVO. I was doing a job search, and I saw a posting for an economic development

manager/director position in (the) city of Morgan Hill. I reached out to Edith and said, "Hey, what do you think? Do you think I'm a potential fit for this job?" I think her response was, "Are you kidding?" And I said, "No, I'm not kidding." And so, then she says, "Yeah, but there's a process." And I'm like, "OK."

Before I'd even applied for the job, we started having a conversation about me doing some consulting on a project that they were working on — their industrial preservation policy, where they needed some help. After that, I threw my name in the hat, and then went through their interview process, which was rigorous.

Was there a learning curve for you, shifting from a chamber of commerce to city work?

One year later, I'm still learning. I spent 32 years in the private sector, doing economic development and problem solving, always from an employer perspective or from a business perspective. Then to jump to the public side, seeing the processes and the policies, and understanding why those are in place, navigating that process from a city perspective, it's very different.

I think that's in part why they hired me, to bring this private-sector perspective. Morgan Hill is viewed as being business friendly, but how do you make it even more business friendly? How do you make it even more responsive? How do you look at processes to make them better and streamline them and kind of give it a private-sector perspective? But at the same time, you need to protect the interests of the city and the community.

How do you go about doing that, making Morgan Hill more business friendly?

As an organization, what's interesting is we're talking about our values. What's our belief system? We say we're business friendly, but what does that really mean? How quickly can we react when somebody brings in a plan for a building? Do we just check the boxes and give them the plan back and say, "Thanks, but this is what you need to go fix?" Or do we walk them through the process and help them solve for the problems that they might have in their development proposal?

I often use the example of a gentleman who I helped recruit when I was at the Sacramento Metro Chamber a long time ago. He had this mantra, "get the customer to success." So ultimately, what I want our mantra to be within City Hall is, "The business community, they are our customers. The developers, they are our customers. They're paying for services. They're paying for plan reviews and reports. How do we help them get to success?"

How do you encourage more industrial projects to move to Morgan Hill?

Unlike our neighbors to the north, we do have available land, and we actually do have some pretty large available properties now. There's a 260,000 square-foot-advanced manufacturing facility that's available now. You have 410,000 square feet at Butterfield 5 (Tech Park) where the shelves are built but they need some tenant improvements. But within six months with tenant improvements, boom, you're ready. That's not the case to the north. And the rents (here) are lower. And, look, it's 20 miles down the 101 to Morgan Hill, so it's a pretty quick drive. The business parks are right off the freeway, with easy access, and access to a workforce that's based in Morgan Hill.

Beyond industrial, how do you go about bolstering the city's hospitality industry?

Morgan Hill has some unique assets. We obviously are part of the Santa Clara County wine region. We have some amazing wineries and our first downtown tasting room. Also, Morgan Hill has a burgeoning and growing wedding venue industry and a downtown hotel that's getting back under construction later this fall. We are the home of Specialized Bicycle (Components), so we're building a brand around being a great place to come and bicycle.

And the last piece, I think, is the Sports Center in Morgan Hill. It's an outdoor recreational facility. It's got 10 full-size athletic fields for soccer. It has an aquatic center that's known for being very fast and a lot of records have been set there. The hosting of regional sporting events in Morgan Hill helps bring a lot of weekend stays into the community as well. And those folks like to go out and eat. They like to go do other activities.

Longer term, we're looking at how do we develop other recreational activities and utilize some of our other assets to build upon the agricultural roots of Morgan Hill to make it kind of a destination place to come visit.

J. Jennings Moss

Editor-in-Chief and General Manager
Silicon Valley Business Journal



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From the Silicon Valley Business Journal:

<https://www.bizjournals.com/sanjose/news/2023/10/13/morgan-hill-2023-real-estate-snapshot-special.html>

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COMMERCIAL REAL ESTATE

'THE CITY CHECKS ALL OF THE BOXES'


Morgan Hill is growing up but wants to maintain its small-town charm.

A woman walks down Monterey Rd. where many of the restaurants are situated in Morgan Hill.

TOMAS OVALLE / SILICON VALLEY BUSINESS JOURNAL



By [Kevin V. Nguyen](#) – Reporter, Silicon Valley Business Journal
Oct 13, 2023

 Listen to this article 5 min



Morgan Hill has been operating with the same economic blueprint since 2017.

The city has long been known as an emerging rural town with land and open space available for development. In recent years, city officials have focused on providing opportunities for its residents, old and new, to be able to work in town.

According to the city's office of economic development, more than 75% of Morgan Hill's nearly 50,000 residents leave the city to go to their jobs, usually heading north. In order to make the city less of a bedroom community, officials are focused on growing and providing space for four industries within its borders: industrial and advanced manufacturing, hospitality, retail, and health care.

"Morgan Hill has benefitted from having a clear economic plan," said Edith Ramirez, the city's assistant manager for community development. "That provided a clear path to advance zoning for sectors that the city wanted to support."

The fruits of that labor have appeared in the following:

- **Butterfield 5 Technology Park:** A recently completed five-building industrial campus, developed by Trammell Crow/CBRE and sold to Atlanta-based Invesco Ltd. last year for \$119 million.
- **Cochrane Tech at 101:** Another Trammell Crow/CBRE development that broke ground late last year and will contain more than 500,000 square feet of industrial space.
- **Hotel MOHI:** A five-story luxury boutique hotel to be located in the city's popular downtown. Paused during the pandemic, the project has recently gotten approvals and financing to expand from 60 to 73 guest rooms. Construction has resumed and is expected to be complete by December 2025.
- **Shoe Palace:** Sold its 258,122-square-foot headquarters and warehouse for \$45 million and moved into a brand new facility next door that's twice the size.

While Morgan Hill continues to enjoy steady population growth, it hasn't been immune from the recent economic slowdown that's affected the broader Silicon Valley region,

said Matthew Mahood, the city's economic development director. He pointed to the temporarily paused Hotel MOHI project.

“People with expansion plans started to move back on them,” Mahood said.



Edith Ramirez is the City of Morgan Hill's Assistant City Manager for Development Services, overseeing the Development Services Department in Morgan Hill and Matt Mahood, Economic Development Director, City of Morgan Hill.

TOMAS OVALLE

The vacancy rate for industrial space in Silicon Valley held steady at below 3% in the third quarter, according to CBRE. But with the recent completion of Butterfield 5 with tenant signed yet and Shoe Palace's old headquarters now vacant and available for lease, that number has spiked to near 14% in Morgan Hill, Mahood said.

“We have the room for people to move into,” he said. “Now, we just need them to do it.”

Morgan Hill has enlisted CBRE to market those properties. The city's fundamental selling points remain strong, said Rob Shannon, an executive vice president at the brokerage. Shannon's team has been selling prospective companies located north on U.S. Highway 101 on the idea of relocating, he said.

“A space like (Butterfield 5) is huge for anyone that wants to scale or consolidate multiple operations,” Shannon told The Business Journal. He continued: “Morgan Hill (now) has the Class A space that can accommodate those demands.”

Among the things the city can accommodate are manufacturing of products related to artificial intelligence, data servers or electric car batteries, Shannon said.

“The city checks all of the boxes,” he said. “The average household income is high and the population is technical, which means a lot of smart people are choosing this place.”

Growth for whom?

More money making its way down south is good for business. But Morgan Hill can't just focus on catering to the already affluent, said Mahood, who previously served as the CEO of San Jose's Chamber of Commerce.

“We need affordable housing for our teachers and service workers, not just CEOs,” Mahood said.

If the city doesn't make good on that commitment, state law may interfere with Morgan Hill's carefully laid-out commercial plans.

Like San Jose to its north, Morgan Hill hasn't yet gotten the state Department of Housing and Community Development to sign off on its blueprint for housing development for the next eight years. The state has directed the city to build 1,037 new homes by 2031. Morgan Hill has until the end of the year to get the state to approve its plan for developing those residences.

While it awaits that approval, it is subject to the so-called builder's remedy, a process that limits cities' ability to block residential projects as long as those developments include a certain amount of affordable housing. The builder's remedy can be used to get around cities' zoning rules or general plans.

Morgan Hill has already seen several proposals made under the provision, Mahood said.

“That is concerning,” Mahood said.

Still, he's optimistic overall.



CHOOSE **MORGAN HILL**

ECONOMIC DEVELOPMENT

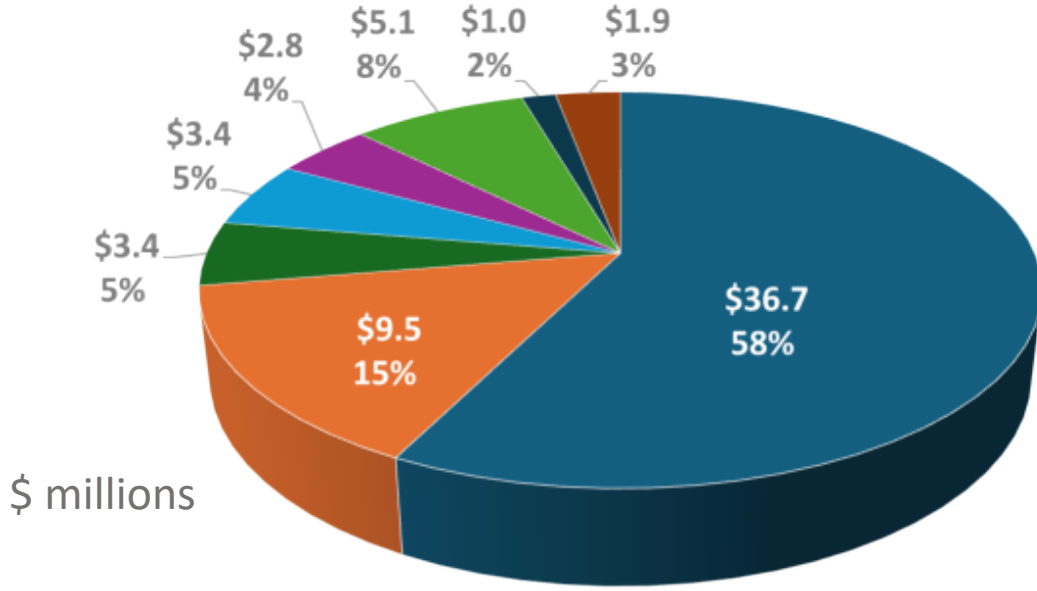
October 22, 2025

| Economic Development

The City's Economic Development efforts continue to focus on implementing the Economic Blueprint strategies and actions to help build long-term fiscal sustainability and improve the quality of life for residents through the generation of jobs and revenue that support City services and infrastructure.

General Fund Total Revenues \$63.8 million

Economic Development supports the General Fund.
58% of the City's FY26 Total Revenue are derived from taxes (Sales, TOT, Property and other).



- Taxes
- Current Services
- Franchise Fees
- Transfers
- Rentals & Interest Income
- Use of Reserves
- Budget Savings
- Other

TAX COLLECTION

Residents & Visitors Pay/Spend



Property Tax

Sales Tax

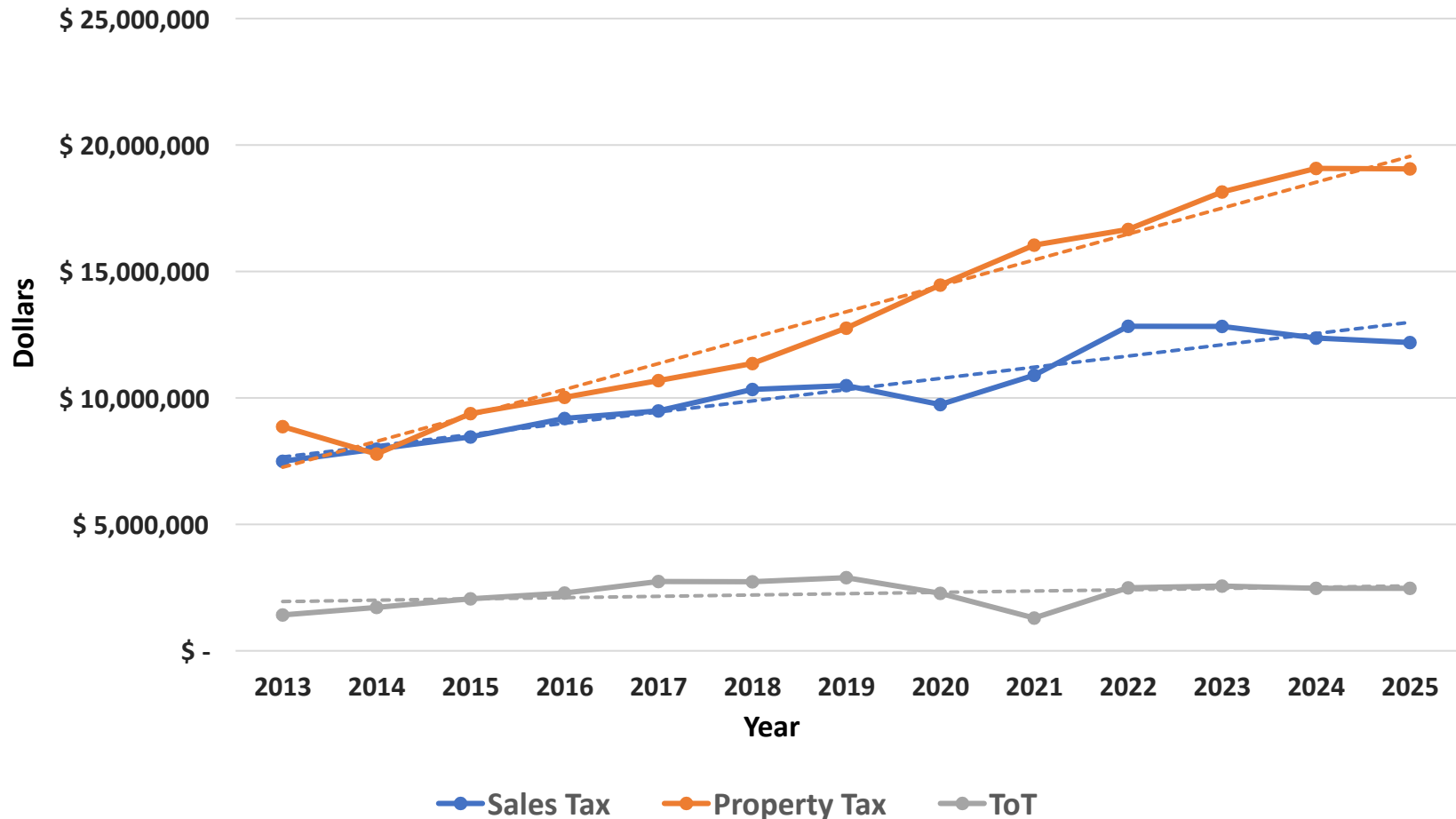
TOT
(Transient Occupancy Tax)

Morgan Hill Receives



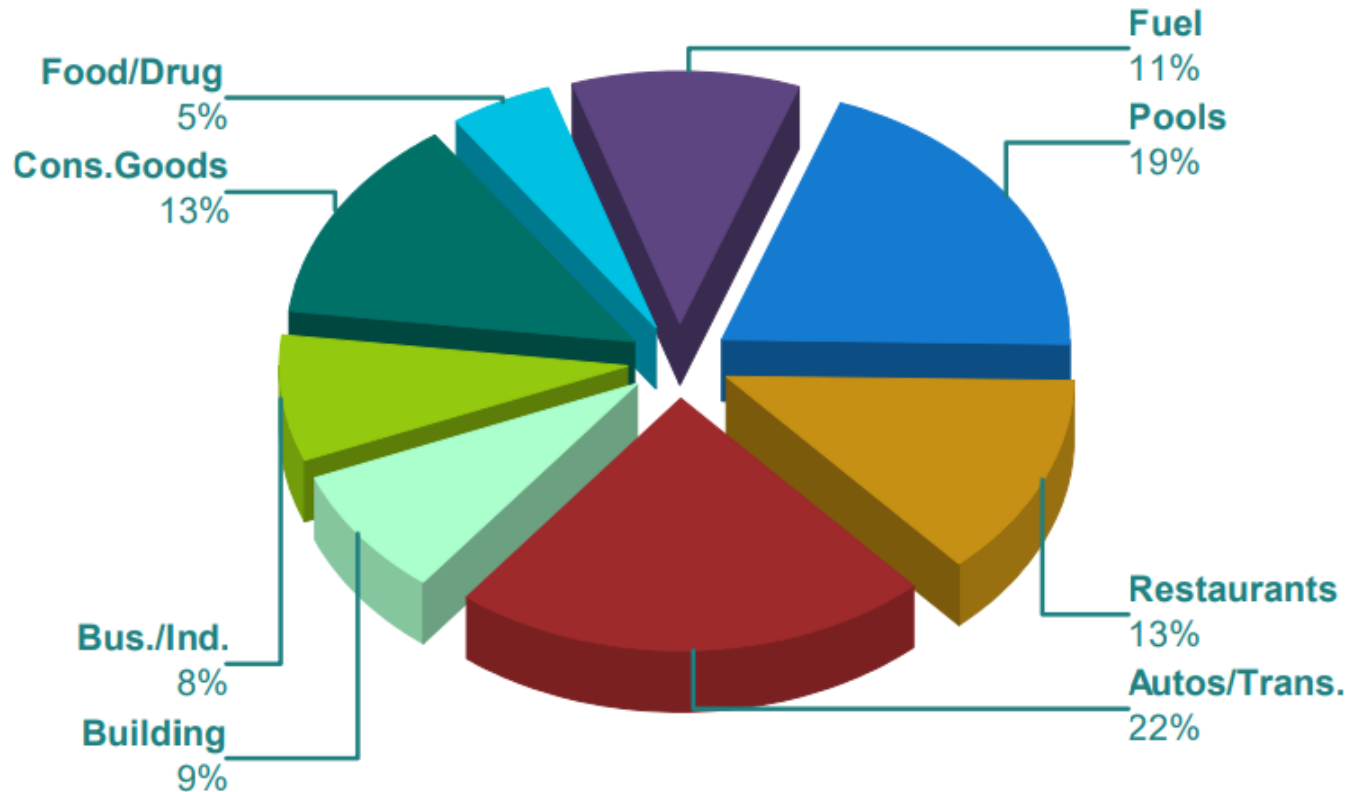
Taxes Collected

Sales, Property, and Transient Occupancy Tax



Sales Tax Collection By Category

Sales Tax collections FY25 are \$12.2 million



*ADJUSTED FOR ECONOMIC DATA

RETAIL IMPACT

Did you know?

Tax revenue from new businesses helps our community.



TAX Revenue



1 Hotel



1.5 Police Officers



TAX Revenue



1 Dealership



2.5 Police Officers



TAX Revenue



1 Costco



4.5 Police Officers



A CLEAR VISION



Four Industry Areas



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.

INNOVATION & ADVANCED MANUFACTURING

Challenges

- Economic climate slowed all Silicon Valley expansions
- Interest rates affecting flow of investment capital
- High construction costs

Opportunities

- Best Class A Industrial space in greater Silicon Valley
- 14.9% vacancy rate
- Good mix of product size and type

INNOVATION & ADVANCED MANUFACTURING

- Two (2) Butterfield 5 Tech Park buildings fully leased.
- Actively working with CBRE to market Cochrane Tech Center.
- Local company expansions include Toray, Paramit, Pinnacle Exhibits and Sempera Organics.



SEMPERA
ORGANICS



| RETAIL

Challenges

- Over-retailed for population under 50,000
- Share trade area with San Jose and Gilroy
- High cost of greenfield development
- Limited small retail space availability
- Several retail vacancies underway

Opportunities

- Downtown District is in high demand
- Freeway-fronting sites
- Condit and Laurel Planned Development Updates

RETAIL

Recently Opened: Grocery Outlet, Chick-fil-A, Luxe Design & Décor, Hiram & Diana Boutique, Chocotella Crepe Shop, Stacks, Cura Contemporary and Vera Restaurant, and Pre-Hispanic MX Cuisine

Under construction: Raising Cane's, Taco Bell

Coming Soon: Philz Coffee, Tractor Supply, El Pollo Loco



| TOURISM

Challenges

- Slow recovery from COVID-19 pandemic
- High cost of construction
- Aging hotel inventory

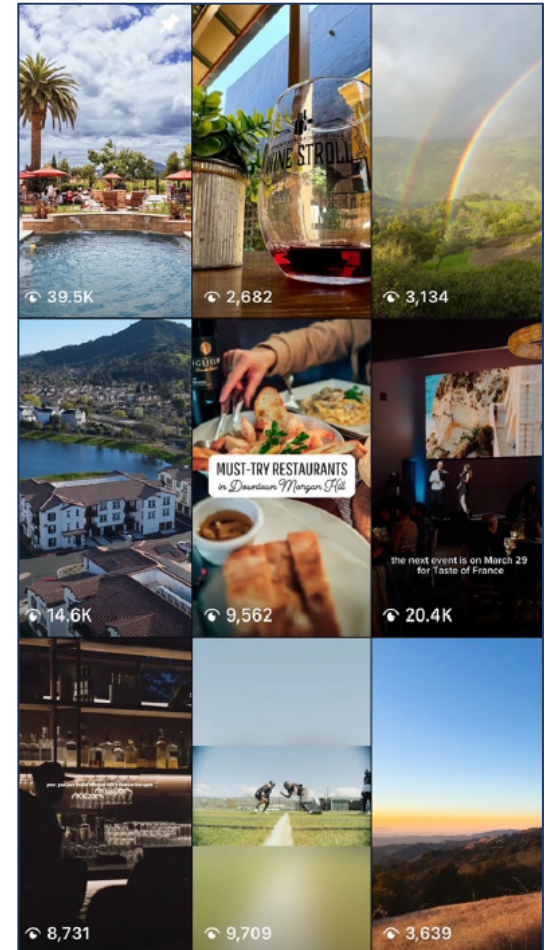
Opportunities

- Downtown full-service hotel under construction
- Entitled 116-room hotel on Cochrane Road
- Expand sports, entertainment, and recreation assets
- Hotel Incentive Plan
- 2026 Super Bowl and FIFA games



TOURISM

- New fine art gallery and events center
- Established a 1% for art ordinance
- Public Art Master Plan underway
- Destination Magazine underway
- Strong Visit Morgan Hill marketing presence



| HEALTHCARE

Challenges

- Market population is small for large providers
- Limited space available for satellite providers
- Medical tenant improvements are costly

Opportunities

- Sutter Health Medical Center
- Medical allowed in all zones
- EIR for medical center expansion near completion



STRATEGIC EFFORTS

- **Business Retention & Expansion**

- Business Support, Tools, Resources & Information
- Businesses of all sizes and all industries
- Workforce development & business entrepreneurship

- **Marketing & Promotion**

- Website, Blogs, Social Media, e-Newsletter, Advertising, Conferences, Events, Presentations, Community Meetings

- **Support Development & Investment**

- Ombudsman, Grants, Tax Programs, Broker Communication, Tours

- **Policy & Programs**

- Incentives, Zoning, Research & Studies



CHOOSE **MORGAN HILL**



QUESTIONS?

From: [John Kent](#)
To: [CC Public Comment](#)
Cc: [Matt Mahood](#); [Brittney Sherman](#); [Edith Ramirez](#)
Subject: [EXTERNAL] Highest Praise for MH Economic Development Department
Date: Friday, October 17, 2025 1:37:19 PM

Greetings,

Since I am unable to attend the October 23rd meeting in person, I wanted to submit my thoughts in writing.

The City's Economic Development Department is doing great work on many levels. Over the years, the Department has helped us secure tenants for our shopping centers, provided us with valuable market data and research insights, assisted with the turf conversion project at Vineyard Town Center, provided support and oversight for permit applications, and been an advocate for Morgan Hill at real estate conferences such as the International Council of Shopping Centers (ICSC).

We are truly grateful for the excellent services that have been provided by the City of Morgan Hill team.

Thanks and best wishes,

John

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