



KEYSER MARSTON ASSOCIATES™
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Robert Dmohowski, Senior Planner
City of Oceanside

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From: KEYSER MARSTON ASSOCIATES, INC.

Date: March 10, 2022

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Subject: South Morro Hills – Overview of Economic Viability

I. INTRODUCTION

SAN DIEGO
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A. Objective

The City of Oceanside (City) is currently drafting a Community Plan for the South Morro Hills (SMH) area. The City seeks to preserve farmland by accommodating agritourism and housing while preserving agricultural resources and facilitating long-term viability of farming operations. Dyett & Bhatia (D&B) prepared the Draft Framework (Framework) for the SMH Community Plan in April 2021. The draft Framework identifies alternative residential development concepts, including the clustering of housing units on smaller parcels, with the balance of the property conserved as farmland.

The City requested that Keyser Marston Associates, Inc. (KMA) assess the economic viability of the draft Framework development concepts and other alternative land use types/densities for the SMH Community Plan area.

B. Methodology

In completing this assignment, KMA undertook the following principal work tasks:

- Reviewed the draft SMH Framework and other background documents related to the proposed residential development scenarios.

- Worked in conjunction with D&B and the City to develop four (4) residential development scenarios on a prototypical 80-acre site. These scenarios are as follows:
 - (1) Scenario 1: Existing Zoning – single-family residential development with a density of 0.40 units per net acre on 100% of the 80-acre site.
 - (2) Scenario 2: Existing Zoning with Clustered Development – single-family residential development with a density of 1.60 units per net acre on 25% of the 80-acre site, with the balance of the site preserved for agricultural/open space.
 - (3) Scenario 3: Proposed Framework – single-family residential development with a density of 4.00 unit per net acre on 25% of the 80-acre site, with the balance of the site preserved for agricultural/open space.
 - (4) Scenario 4: Proposed Framework with Transfer of Development Rights (TDR) – single-family residential development with a density of 8.00 units per net acre (assuming double the density is transferred from a sending site) on 25% of the 80-acre site, with the balance of the site preserved for agricultural/open space.
- Collected and reviewed relevant market data for the trade area and comparable rural communities in San Diego County (County).
- Conducted outreach to stakeholders regarding supportable land values, home values, and agricultural easement programs.
- Reviewed third-party roadway and wastewater infrastructure cost estimates for build-out of the SMH Community Plan.
- Evaluated the economic viability of the four (4) residential development scenarios in terms of supportable land value generated to the property owner.
- Reviewed the County of San Diego’s Purchase of Agricultural Conservation Easement (PACE) Program in comparison to supportable land value in the SMH area.

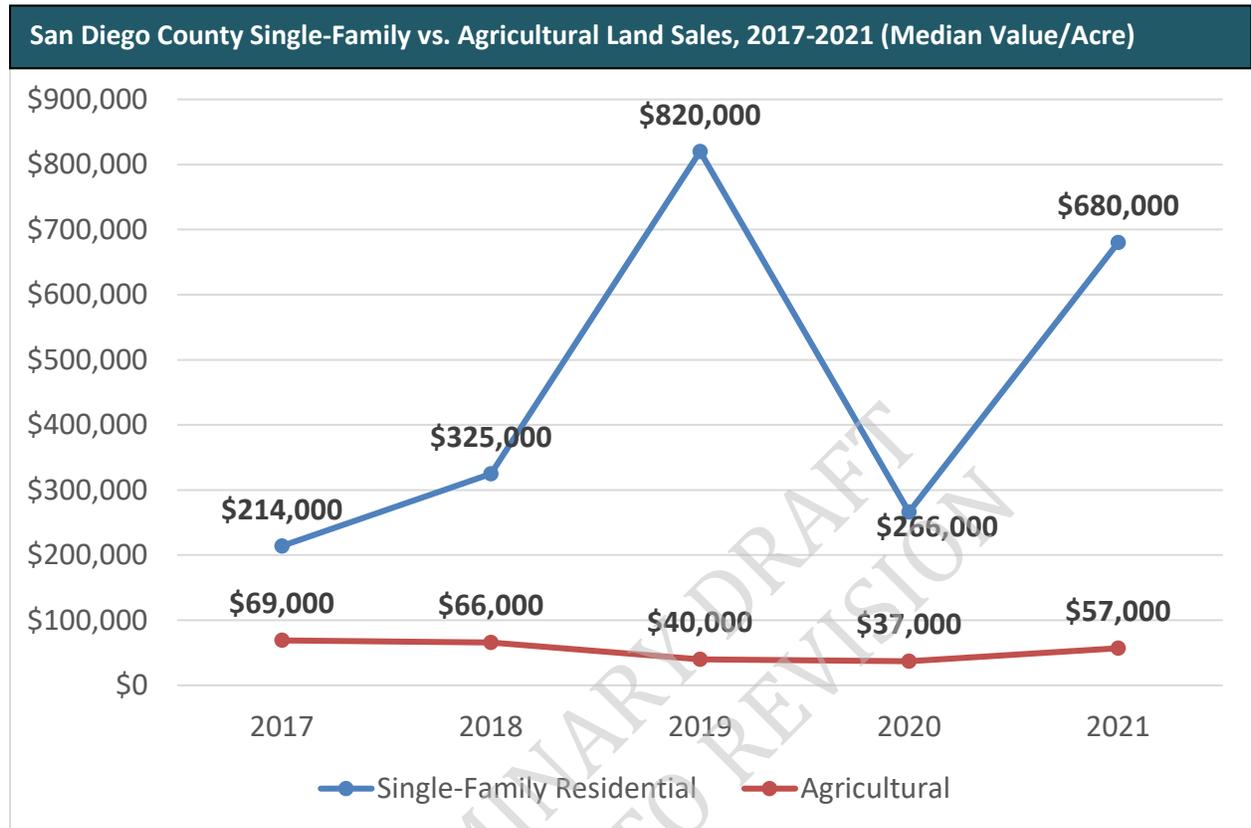
II. KEY FINDINGS

Based on this assessment, KMA can conclude the following:

- Single-family residential land values have experienced a significantly higher average annual growth rate than agricultural land values.
- Scenario 3 (per the Framework) is significantly more feasible than Scenarios 1 or 2.
- Under certain market conditions, developers will be incentivized to pursue TDR acquisition from other (sending) properties (Scenario 4).
- Given the significantly higher supportable land values for residential development, it appears that an agricultural easement program would be prohibitively expensive.

III. OVERVIEW OF LAND VALUE TRENDS

To provide an overview of land value trends, KMA evaluated land sales for single-family residential development and agricultural land in San Diego County over a 5-year period. As shown below, the median value per acre for single-family residential development experienced an average annual growth rate of 33.5%, growing from \$214,000 per acre in 2017 to \$680,000 per acre in 2021. By comparison, the median value per acre for agricultural land experienced an average annual growth rate of *negative* 4.7%, declining from \$69,000 per acre in 2017 to \$57,000 per acre in 2021.



IV. IDENTIFICATION OF LAND USE ALTERNATIVES

KMA evaluated four (4) alternative residential development scenarios on a prototypical 80-acre site. A description of each scenario is presented below. As shown, Scenarios 2 through 4 assume that 75% of the site will be preserved for agricultural/open space uses. Scenario 1 does not assume the preservation of agriculture. In addition, it is assumed that the area preserved for agricultural/open space cannot include residential uses. Densities across each scenario vary from 0.40 units per net acre in Scenario 1 to 8.00 units per net acre in Scenario 4. In addition, as densities increase, average residential lot size per unit decreases, from 2.38 acres per lot in Scenario 1 to 0.10 acres per lot in Scenario 4. A detailed description of each scenario is provided in Table 1 of the Appendix.

80-Acre Prototypical Scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Existing Zoning	Existing Zoning w/ Cluster	Proposed Framework	Proposed Framework w/ TDR
Net Developable Site	80 Acres	20 Acres	20 Acres	20 Acres
Preserved Agricultural/Open Space	N/A	75%	75%	75%
Density (Units/Net Acre)	0.40	1.60	4.00	8.00
Single-Family Units	32 Units	32 Units	80 Units	160 Units
Building Area Home	3,500 SF	3,000 SF	2,500 SF	1,750 SF
Average Lot Size/Unit	2.38 Acres	0.56 Acres	0.21 Acres	0.10 Acres

Scenario 4 assumes a TDR program where landowners may sell their development rights (sending site) to a buyer (receiving site) who wishes to develop housing at a density higher than 4.00 units per net acre (1.00 unit per gross acre). A TDR program will allow the concentration of development in portions of the SMH area where services can be provided more efficiently and to incentivize farmland conservation. For this scenario, KMA illustrated the site as a receiving site buying an equivalent amount of development rights, doubling the density and potential unit count.

V. FINANCIAL FEASIBILITY ANALYSIS OF LAND USE ALTERNATIVES

KMA evaluated each of the above scenarios in terms of supportable land value per gross acre. Supportable land value can be defined as the amount that a developer can afford to pay for the development of the property after considering the estimated development costs, achievable value upon completion, and an industry standard developer profit. The key inputs of this evaluation are summarized in the following table and more detail is provided in Table 2 of the Appendix.

80-Acre Prototypical Scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Existing Zoning	Existing Zoning w/ Cluster	Proposed Framework	Proposed Framework w/ TDR
Wastewater ⁽¹⁾	n/a	n/a	\$12,400/unit	\$12,400/unit
Roads ⁽¹⁾	n/a	n/a	\$24,000/unit	\$24,000/unit
In-Tract Improvements ⁽²⁾	\$1.00/SF Net	\$2.50/SF Net	\$5.00/SF Net	\$5.00/SF Net
Value Per SF Home	\$425	\$415	\$400	\$425
Cost of Sale	3.0%	3.0%	2.0%	2.0%
Target Developer Profit	12.0%	12.0%	8.0%	8.0%

(1) Based on a review of the April 2021 South Morro Hills Community Plan Proposed Draft Framework.
 (2) Assumes site preparation/grading and internal circulation/utilities.

Based on the above assumptions, KMA prepared financial feasibility analyses, which yield conclusions of supportable land value per acre across each scenario. To evaluate relative feasibility, KMA compared Scenario 1 to Scenarios 2, 3, and 4. The initial KMA findings are as follows:

80-Acre Prototypical Scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Existing Zoning	Existing Zoning w/ Cluster	Proposed Framework	Proposed Framework w/ TDR
Supportable Land Value Per Gross Acre	\$134,000	\$96,000	\$149,000	\$115,000 - \$172,000

- Existing zoning with clustered development (Scenario 2) is less feasible than existing zoning (Scenario 1).
- The proposed Framework (Scenario 3) is more feasible than existing zoning (Scenario 1).

- The proposed Framework with TDR (Scenario 4) can be more feasible than existing zoning (Scenario 1) depending on the amount of payment to the sending property owner. KMA assumed that between 25% and 50% of the supportable land value in Scenario 4 would be paid to the sending site.

VI. POTENTIAL FOR AN AGRICULTURAL EASEMENT PROGRAM FOR SMH

KMA also evaluated the potential for an agricultural easement program for the SMH area. As noted in Section III, single-family residential land values significantly exceed agricultural land values. Moreover, the four (4) residential land use scenarios support higher land values than agricultural use. For comparison purposes, KMA reviewed the County's PACE Program and conducted a follow-up interview with County staff. The PACE Program promotes the long-term preservation of agricultural land in the County and is available for unincorporated areas. The PACE Program allows willing agricultural property owners to receive a one-time compensation in exchange for the placement of a perpetual easement on their property that limits future uses to agriculture. The easement value is determined as the difference between the current market value of the property, as determined by an appraiser, and the restricted value of the property with the conservation easement.

As shown in Table 3 of the Appendix, PACE Program easement values during 2013 to 2022 ranged from \$500 to \$15,000 per acre. The median and average values per acre were \$3,300 and \$4,400 per acre, respectively. These values are substantially lower than the achievable residential land values estimated for the SMH area. On this basis, then, KMA can conclude that an easement program in the City would be prohibitively expensive under current market conditions.

VII. LIMITING CONDITIONS

1. The analysis contained in this document is based, in part, on data from secondary sources such as State and local government, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.
2. The analysis assumes that neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
3. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.

4. The feasibility analysis reflects generalized market and financial assumptions for a prototypical site and does not consider site-specific and project-specific factors such as the cost of relocation burdens, traffic impacts, remediation of toxics (if any), and mitigation measures required through the approval process.
5. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity.
6. The analysis, opinions, recommendations, and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.
7. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).
8. KMA is not acting as a Municipal Advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
9. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

attachments

APPENDIX
FEASIBILITY ANALYSIS

SOUTH MORRO HILLS COMMUNITY PLAN
CITY OF OCEANSIDE

PRELIMINARY DRAFT
SUBJECT TO REVISION

TABLE 1

**POTENTIAL DEVELOPMENT SCENARIOS
SOUTH MORRO HILLS COMMUNITY PLAN
CITY OF OCEANSIDE**

	Existing Scenario	Existing Scenario - Cluster	Proposed Framework	
			w/ out TDR	w/ TDR
I. Site Area				
A. Gross Site Area	80.0 Acres	80.0 Acres	80.0 Acres	80.0 Acres
B. Developable Site @	100%	25%	25%	25%
C. Net Acres	80.0 Acres	20.0 Acres	20.0 Acres	20.0 Acres
II. Density				
A. Maximum	0.40 Units/Gross Acre	0.40 Units/Gross Acre	1.00 Units/Gross Acre	1.00 Units/Gross Acre
B. Effective	0.40 Units/Net Acre	1.60 Units/Net Acre	4.00 Units/Net Acre	8.00 Units/Net Acre
III. Units				
A. Existing	32 Units	32 Units	80 Units	80 Units
B. Add: Development Rights Received	0 Units	0 Units	0 Units	80 Units
C. Total Units	32 Units	32 Units	80 Units	160 Units
IV. Average Lot Size				
A. Circulation Factor	5%	10%	15%	20%
B. Average Lot Size				
Square Feet	103,455 SF	24,503 SF	9,257 SF	4,356 SF
Acres	2.38 Acres	0.56 Acres	0.21 Acres	0.10 Acres

TABLE 2

SUPPORTABLE LAND VALUE
SOUTH MORRO HILLS COMMUNITY PLAN
CITY OF OCEANSIDE

I. Project Description	Existing Scenario			Existing Scenario - Cluster			Proposed Framework						
							w/ out TDR			w/ TDR			
A. Gross Site Area	80.00 Acres			80.00 Acres			80.00 Acres			80.00 Acres			
B. (Less) Preserved Agricultural Land	0.00 Acres			(60.00) Acres			(60.00) Acres			(60.00) Acres			
C. Net Developable Site Area	80.00 Acres			20.00 Acres			20.00 Acres			20.00 Acres			
D. Total Units	32 Units			32 Units			80 Units			160 Units			
E. Building Area Per Home	3,500 SF			3,000 SF			2,500 SF			1,750 SF			
F. Average Lot Size	2.38 Acres			0.56 Acres			0.21 Acres			0.10 Acres			
II. Total Development Costs	Total	Per Unit	Comments	Total	Per Unit	Comments	Total	Per Unit	Comments	Total	Per Unit	Comments	
A. On/Off-Site Improvement Costs													
Wastewater (1)	\$0	\$0	\$0.00 /SF Net	\$0	\$0	\$0.00 /SF Net	\$992,000	\$12,400	\$1.14 /SF Net	\$1,984,000	\$12,400	\$2.28 /SF Net	
Roads (1)	\$0	\$0	\$0.00 /SF Net	\$0	\$0	\$0.00 /SF Net	\$1,920,000	\$24,000	\$2.20 /SF Net	\$3,840,000	\$24,000	\$4.41 /SF Net	
In-Tract Improvements (2)	\$3,485,000	\$109,000	\$1.00 /SF Net	\$2,178,000	\$68,000	\$2.50 /SF Net	\$4,356,000	\$54,000	\$5.00 /SF Net	\$4,356,000	\$27,000	\$5.00 /SF Net	
Subtotal On/Off-Site Improvement Costs	\$3,485,000	\$109,000	\$1.00 /SF Net	\$2,178,000	\$68,000	\$2.50 /SF Net	\$7,268,000	\$91,000	\$8.34 /SF Net	\$10,180,000	\$64,000	\$11.69 /SF Net	
Add: Indirects/Financing Costs	\$523,000	\$16,000	15% of Subtotal	\$327,000	\$10,000	15% of Subtotal	\$1,090,000	\$14,000	15% of Subtotal	\$1,527,000	\$10,000	15% of Subtotal	
Add: Contingency	\$174,000	\$5,000	5% of Subtotal	\$109,000	\$3,000	5% of Subtotal	\$363,000	\$5,000	5% of Subtotal	\$509,000	\$3,000	5% of Subtotal	
Total On/Off-Site Improvement Costs	\$4,182,000	\$131,000	\$1.20 /SF Net	\$2,614,000	\$82,000	\$3.00 /SF Net	\$8,721,000	\$109,000	\$10.01 /SF Net	\$12,216,000	\$76,000	\$14.02 /SF Net	
B. Homebuilder Costs													
Landscape Improvements	\$871,000	\$27,000	\$0.25 /SF Net	\$436,000	\$14,000	\$0.50 /SF Net	\$871,000	\$11,000	\$1.00 /SF Net	\$1,307,000	\$8,000	\$1.50 /SF Net	
Septic System	\$240,000	\$7,500	\$2 /SF Net	\$240,000	\$7,500	\$3 /SF Net	\$0	\$0	\$0.00 /SF Net	\$0	\$0	\$0.00 /SF Net	
Building Construction	\$16,800,000	\$525,000	\$150 /SF GBA	\$15,840,000	\$495,000	\$165 /SF GBA	\$35,000,000	\$438,000	\$175 /SF GBA	\$51,800,000	\$324,000	\$185 /SF GBA	
Amenities	\$320,000	\$10,000	Allowance	\$320,000	\$10,000	Allowance	\$800,000	\$10,000	Allowance	\$1,600,000	\$10,000	Allowance	
Subtotal Direct Costs	\$18,231,000	\$570,000	\$163 /SF GBA	\$16,836,000	\$526,000	\$175 /SF GBA	\$36,671,000	\$458,000	\$183 /SF GBA	\$54,707,000	\$342,000	\$195 /SF GBA	
Add: Indirects/Financing Costs	\$6,381,000	\$199,000	35% of Directs	\$5,893,000	\$184,000	35% of Directs	\$12,835,000	\$160,000	35% of Directs	\$19,147,000	\$120,000	35% of Directs	
Add: Contingency	\$912,000	\$29,000	5% of Directs	\$842,000	\$26,000	5% of Directs	\$1,834,000	\$23,000	5% of Directs	\$2,735,000	\$17,000	5% of Directs	
Total Homebuilder Costs	\$25,524,000	\$798,000	\$228 /SF GBA	\$23,571,000	\$737,000	\$246 /SF GBA	\$51,340,000	\$642,000	\$257 /SF GBA	\$76,589,000	\$479,000	\$274 /SF GBA	
C. Total Development Costs	\$29,706,000	\$928,000	\$265 /SF GBA	\$26,185,000	\$818,000	\$273 /SF GBA	\$60,061,000	\$751,000	\$300 /SF GBA	\$88,805,000	\$555,000	\$317 /SF GBA	
III. Net Sales Proceeds	Total	Units	Per SF	Per Unit	Total	Units	Per SF	Per Unit	Total	Units	Per SF	Per Unit	
A. Gross Sales	\$47,600,000	32	\$425	\$1,487,500	\$39,840,000	32	\$415	\$1,245,000	\$80,000,000	80	\$400	\$1,000,000	
B. (Less) Cost of Sale (3)	(\$1,428,000)			(\$45,000)	(\$1,195,000)			(\$37,000)	(\$1,600,000)			(\$20,000)	
C. (Less) Target Developer Profit (4)	(\$5,712,000)			(\$179,000)	(\$4,781,000)			(\$149,000)	(\$6,400,000)			(\$80,000)	
D. Net Sales Proceeds	\$40,460,000			\$1,264,000	\$33,864,000			\$1,058,000	\$72,000,000			\$900,000	
IV. Residual Land Value	Total			Total			Total			Total			
A. Net Sales Proceeds	\$40,460,000			\$33,864,000			\$72,000,000			\$107,136,000			
B. (Less) Total Development Costs	(\$29,706,000)			(\$26,185,000)			(\$60,061,000)			(\$88,805,000)			
C. Residual Land Value	\$10,754,000			\$7,679,000			\$11,939,000			\$18,331,000			
Per Unit	\$336,000 /Unit			\$240,000 /Unit			\$149,000 /Unit			\$115,000 /Unit			
Per SF Net Land Area	\$3 /SF Net Land Area			\$9 /SF Net Land Area			\$14 /SF Net Land Area			\$21 /SF Net Land Area			
Per Gross Acre	\$134,000 /SF Gross Acre			\$96,000 /SF Gross Acre			\$149,000 /SF Gross Acre			\$229,000 /SF Gross Acre			
D. Net Residual Land Value	Not Applicable			Not Applicable			Not Applicable			Low		High	
Residual Land Value										\$18,331,000	\$18,331,000		
(Less) Value to Sender										50% (\$9,166,000)	25% (\$4,583,000)		
Net Residual Land Value										\$9,165,000	\$13,748,000		
Per Unit										\$57,000	\$86,000		
Per SF Net Land Area	\$11	\$16											
Per Gross Acre	\$115,000	\$172,000											

(1) Based on review of April 2021 South Morro Hills Community Plan Proposed Draft Framework.
 (2) Site preparation/grading and internal circulation/utilities.
 (3) Assumed at 3.0% of value for Existing Scenarios and 2.0% of value for Proposed Framework.
 (4) Assumed at 12.0% of value for Existing Scenarios and 8.0% of value for Proposed Framework.

TABLE 3

**COUNTY OF SAN DIEGO PACE PROGRAM EASEMENT PURCHASES
GENERAL PLAN UPDATE - PHASE II
CITY OF OCEANSIDE**

<u>Location</u>	<u>Easement Value</u>	<u>Acres</u>	<u>\$/SF</u>	<u>\$/Acre</u>	<u>Year</u>
Bonsall	\$75,000	5.00	\$0.34	\$15,000	2014
Hidden Meadows	72000	5.20	\$0.32	\$13,846	2022
Valley Center	\$58,500	5.34	\$0.25	\$10,950	2020
Bonsall	\$190,400	19.14	\$0.23	\$9,948	2014
Julian	\$231,000	25.00	\$0.21	\$9,240	2014
Julian	\$90,000	9.83	\$0.21	\$9,153	2019
Valley Center	133000	16.13	\$0.19	\$8,246	2022
Crest-Dehesa	\$15,000	1.98	\$0.17	\$7,576	2014
Fallbrook	\$182,000	26.06	\$0.16	\$6,984	2019
Valley Center	\$201,250	29.05	\$0.16	\$6,928	2016
Fallbrook	\$61,200	9.85	\$0.14	\$6,213	2016
NC Metro	\$188,550	30.46	\$0.14	\$6,190	2019
Ramona	\$102,500	20.33	\$0.12	\$5,042	2016
Valley Center	\$202,200	42.13	\$0.11	\$4,799	2014
Valley Center	\$200,000	43.37	\$0.11	\$4,611	2014
Jamul	\$112,000	24.75	\$0.10	\$4,525	2014
Pauma Valley	\$105,000	23.3	\$0.10	\$4,506	2016
Ramona	\$361,500	81.99	\$0.10	\$4,409	2016
Pauma Valley	292500	72.44	\$0.09	\$4,038	2022
Fallbrook	\$75,000	20.86	\$0.08	\$3,595	2013
Fallbrook	52000	14.47	\$0.08	\$3,594	2022
Fallbrook	\$169,250	49.77	\$0.08	\$3,401	2015
Valley Center	\$341,750	102.45	\$0.08	\$3,336	2014
Valley Center	\$341,750	103.05	\$0.08	\$3,316	2014
Jamul	\$62,500	19.40	\$0.07	\$3,222	2014
Valley Center	\$188,400	64.1	\$0.07	\$2,939	2015
Ramona	\$93,750	32.08	\$0.07	\$2,922	2018
Pala-Pauma Valley	\$608,470	211.54	\$0.07	\$2,876	2016
Descanso	\$500,000	181.66	\$0.06	\$2,752	2021
Fallbrook	\$300,000	117.31	\$0.06	\$2,557	2013
Warner Springs	\$50,000	20.00	\$0.06	\$2,500	2018
El Cajon	\$383,632	154.23	\$0.06	\$2,487	2019
El Cajon	\$381,000	154.84	\$0.06	\$2,461	2019
Warner Springs	\$1,047,000	427.76	\$0.06	\$2,448	2013
Fallbrook	\$82,000	34.42	\$0.05	\$2,382	2015
Valley Center	\$94,250	40.58	\$0.05	\$2,323	2021
Pauma Valley	525000	239.34	\$0.05	\$2,194	2022
Fallbrook	\$305,000	143.41	\$0.05	\$2,127	2019
Fallbrook	\$306,873	144.54	\$0.05	\$2,123	2019
Pala-Pauma	\$136,000	64.76	\$0.05	\$2,100	2020
Campo	\$192,000	91.7	\$0.05	\$2,094	2013
Warner Springs	\$74,800	41.58	\$0.04	\$1,799	2015
Lakeside	\$68,750	44.92	\$0.04	\$1,530	2013
Campo	\$196,000	160.00	\$0.03	\$1,225	2014
Potrero	\$80,000	79.45	\$0.02	\$1,007	2013
Campo	\$48,750	73.00	\$0.02	\$668	2018
Jacumba	\$75,000	148.15	\$0.01	\$506	2018
Minimum	\$15,000	1.98	\$0.01	\$506	2013
Maximum	\$1,047,000	427.76	\$0.34	\$15,000	2022
Median	\$169,250	42.13	\$0.08	\$3,316	2016
Average	\$205,373	73.85	\$0.10	\$4,440	2017