



CITY OF OCEANSIDE

JUNE 2021

BACKGROUND REPORT #1: MARKET ANALYSIS

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in association with Dyett & Bhatia



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I INTRODUCTION

I.1 Background

In May 2019, the City of Oceanside (City) adopted two new General Plan elements: (1) the Economic Development Element (EDE) and (2) the Energy and Climate Action Element (ECAE). The EDE outlines goals and policies organized around the themes of quality of life, prosperity, resilience, and collaboration. The ECAE outlines goals and policies related to energy efficiency/renewable energy, smart growth and multimodal transportation, zero waste, water conservation, local agriculture, urban greening, and sustainable consumption. These two elements were accompanied by the City's first Climate Action Plan (CAP), which outlines both mandatory and voluntary emissions reduction measures that promote energy efficiency, renewable energy, smart growth and multimodal transportation, solid waste reduction, water conservation, urban forestry, and agricultural land preservation. Taken together, the EDE, ECAE, and CAP constituted the first phase of a comprehensive General Plan Update (GPU).

The second phase of the GPU is intended to update the following General Plan elements: Land Use, Circulation, Housing, Conservation, Open Space, Community Facilities, Public Safety, and Noise. These updated elements will provide guidance for the City's future over a long-term planning horizon. As part of this second phase, the City is also drafting plans for specific areas in the City, including the South Morro Hills Community Plan (SMHCP) and the Smart and Sustainable Corridors Specific Plan (SSCSP).

To support these efforts, primarily the update of the Land Use Element, the City requested that Keyser Marston Associates, Inc. (KMA) analyze current real estate market conditions and land use trends in order to identify opportunities for future land use and accommodate for projected growth within the City.

I.2 Report Organization

This report has been organized as follows:

- Section 2 presents the KMA key findings.

- Section 3 presents an evaluation of local demographic trends.
- Section 4 presents national, state, and local employment trends.
- Section 5 presents an overview of existing land use patterns.
- Section 6 presents a market overview and opportunities for employment uses.
- Section 7 presents a market overview and opportunities for residential uses.
- Section 8 presents a market overview and opportunities for retail uses.
- Section 9 presents a market overview and opportunities for hotel uses.
- Finally, Section 10 details limiting conditions pertaining to the KMA market analysis.

2 KEY FINDINGS

KMA evaluated market conditions with respect to three major land use categories: employment (office, industrial, flex/research and development [flex/R&D]), residential, retail, and hotel. For purposes of this study, flex/R&D refers to buildings designed to be versatile, which may be used in combination with office (corporate headquarters), R&D, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses. This assessment involved:

- Review of regional and economic trends in land use and development
- Collection and review of third-party market data related to inventory, absorption, vacancy, rental rates, and property values
- Analysis of potential market and economic impacts for each land use as result of the coronavirus pandemic (COVID-19)

Based on this evaluation, KMA assessed market support in the near-, mid-, and long-term; prepared projections of market demand; and identified potential locations, by Neighborhood Planning Area and consolidated into four (4) areas using the current Council District boundaries (Areas), for each land use.

Table 2-1 below presents the KMA assessment of market support and potential locations for each land use in the near-, mid-, and long-term. More detail regarding the potential locations for future development is presented in Sections V through IX of this report.

Table 2-1: Market Support by Land Use and Potential Locations for Future Development

Demand by Land Use, through 2050	Near-Term (0 to 5 years)	Mid-Term (5 to 10 years)	Long-Term (10+ years)	Potential Locations for Future Development
Office	Weak	Moderate	Moderate	Areas 1, 3, and 4
Industrial	Moderate	Strong	Strong	Areas 3 and 4
Flex/R&D	Moderate	Strong	Strong	Areas 3 and 4
Residential	Strong	Strong	Strong	Areas 1, 2, and 4 (multi-family); Area 2 (single-family)
Retail	Weak	Moderate	Moderate	Areas 1, 3, and 4
Hotel	Moderate	Strong	Strong	Areas 1, 2, 3, and 4

Table 2-2 presents the estimated supportable demand in non-residential building area square feet (SF)/residential units/rooms for each land use through 2050. It should be noted that these projections are not limited by the City's available inventory of vacant and potentially redevelopment land under current land use and zoning designations. Rather, they are based solely on the City's projected growth in employment, population, and tourism.

Table 2-2: Supportable Building Area SF/Unit/Room Demand by Land Use, City of Oceanside, through 2050

Demand by Land Use, through 2050	Low	High
Office	900,000 SF	1,600,000 SF
Industrial	4,600,000 SF	8,500,000 SF
Flex/R&D	1,100,000 SF	2,200,000 SF
Residential	21,000 Units	33,000 Units
Retail	645,000 SF	1,163,000 SF
Hotel	3,300 Rooms	4,000 Rooms



The KMA projection of supportable new development in the City is based solely on market demand and does not address financial feasibility. In view of the COVID-19 pandemic, the KMA market forecasts considered factors that are likely to reduce potential demand for non-residential space. However, the true economic impacts of the pandemic continue to remain unknown.

3 DEMOGRAPHIC TRENDS

KMA reviewed demographic trends in the city and San Diego County (county), including population, households, and household income.

As shown in Table 3-1, in 2020, the City contained 177,335 residents and 63,720 households. The median household income was \$73,552, significantly lower than the county.

Table 3-1: Summary of Key Demographic Factors, 2020

	City	County
Population	177,335	3,343,355
Households	63,720	1,177,935
Average Household Size	2.84	2.79
Median Age	37.1	36.6
Median Household Income	\$73,552	\$82,947

Table 3-2 below summarizes historic population and housing unit growth trends for the city and county based on data provided by the United States (U.S.) Census and the San Diego Association of Governments (SANDAG). As indicated in the table, from 2010-2020, the city grew at a slower pace than the county as a whole.

Table 3-2: Population and Housing Units, Average Annual Growth, 2010-2020 (1)

	City	County
Population	0.6%	0.8%
Housing Units		
Single-Family	0.2%	0.3%
Multi-Family	0.4%	0.9%
Other	0.1%	0.1%
Total Housing Units	0.3%	0.5%

(1) State of California, Department of Finance, E-5 Population and Housing Estimates for Cities, Counties and the State. Sacramento, California, May 2020.

4 EMPLOYMENT TRENDS

4.1 National/State

According to the U. S. Bureau of Labor Statistics (BLS), in September 2019, the national unemployment rate fell to 3.5%, the lowest it has been in 50 years. The U.S. economy experienced steady growth since mid-2009 and, by 2014, had completely recovered from the economic impacts of the 2008 Great Recession. This pattern continued and by February 2020, U.S. unemployment remained low at a rate of 3.5%. The key industry sectors experiencing growth prior to 2020 were Educational and Health Services; Professional and Business Services; Leisure and Hospitality; and Construction. However, due to the adverse impacts of COVID-19, from February to June, total U.S. nonfarm employment is estimated to have declined by a net of 14.7 million. In addition, as of June 2020, unemployment increased to 11.1%. In the US, COVID-19 has prompted various levels of quarantines and lockdowns in all 50 states. This has negatively impacted different industries in the economy including, among others: consumption; investments; arts, entertainment, recreation, and restaurants; and manufacturing. As a result, the job loss as of June 2020 was comprised of Retail Trade; Education and Health Services; Manufacturing; Professional and Business services; Wholesale Trade; Financial Activities; and Other Services. The timing of economic recovery remains uncertain and dependent on lifting quarantine and lockdown restrictions and finding medical solutions to the pandemic. Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Consolidated Appropriations Act, and American Rescue Plan, the Federal government has taken a broad range of steps to provide economic stimulus in response to COVID-19.

Before imposing quarantine and lockdown restrictions, the State of California (state) was experiencing an unprecedented economic expansion, adding more than 3.4 million jobs over 10 years and accounting for 15% of the nation's job growth. The state also experienced a record low unemployment rate of 3.9% in February 2020. However, due to the adverse impacts of COVID-19, by June 2020, the state unemployment rate increased to 14.9%. From June 2019 to June 2020, nonfarm employment in the state experienced a net loss of 1.7 million jobs. This decrease was attributed to job losses in the following sectors: Leisure & Hospitality; Trade, Transportation, and Utilities; Professional and Business Services; Construction; Education & Health Services; Manufacturing; and Other Services. This data was gathered the week of June 12, 2020 and predates the full economic impact of COVID-19.

Again, timing of an economic recovery remains uncertain and dependent on the full lifting of both quarantine and lockdown restrictions.

4.2 San Diego County

Prior to the impacts of COVID-19, in the fourth quarter of 2019, the county unemployment rate was 2.8%, the 10th lowest among the 25 most populous U.S. metropolitan areas. The low unemployment rate was attributed to growth in the following sectors:

- Industrial and lab users added 15,600 jobs since the prior year. These added jobs industrial and lab users include: Construction (8,600 jobs), Manufacturers (4,500 jobs), Scientific Research and Development (1,800 jobs), and Transportation and Warehousing (700 jobs). Examples of jobs in these sectors include building construction, machine shops, printing and related services, DNA technologies research, air transportation, and warehousing and storage.
- Office users added 7,900 jobs over the prior year. These added jobs included: Professional, Scientific, and Technical Services (7,500 jobs) and Financial Activities (200 jobs). Examples of jobs in these sectors include legal services, accounting, architectural engineering, specialized design services, and investment banking.
- Grocery Stores, Personal Services, and Hospitality/Recreation added nearly 4,100 jobs. Examples of jobs in these sectors include food stores, repair and maintenance, personal and laundry services, and lodging.
- Conversely, during this same time period, job loss occurred in Retail and Food Services (3,400 jobs) and Retail (1,200 jobs) Examples of jobs in these sectors include food preparation, beverages for immediate consumption, and general merchandise stores.

However, by June 2020, according to the State Employment Development Department (EDD), county unemployment grew to 219,200, or 13.9%. From June 2019 to June 2020, total nonfarm employment in the county decreased by 153,600. The following sectors experienced the highest job losses in the county: Leisure & Hospitality (57,300); Trade, Transportation, and Utilities (21,900); Government (20,400); Educational & Health Services (15,900); Other Services (15,300); and Professional & Business Services (6,300).

4.3 City of Oceanside

According to the U.S. Census Bureau 2018 American Community Survey (ACS), the unemployment rate in the City was 4.9%. Table 4-1 below presents the most recent employment breakout for the City (2017) in terms of primary jobs according to the U.S. Census Bureau Center for Economic Studies. Primary jobs consist of one private or public sector job per worker, where the primary job is the highest paying job held by an individual.

Table 4-1: Primary Jobs, City of Oceanside, 2017 (1)

North American Industry Classification System (NAICS) Industry Sector (2)	Number	Percent of Total	Average Annual Growth (2011-2017)
Health Care and Social Assistance	6,033	15.0%	3.9%
Retail Trade	5,505	13.7%	2.1%
Accommodation and Food Services	4,980	12.4%	5.5%
Educational Services	4,941	12.3%	2.3%
Manufacturing	4,349	10.8%	16.1%
Administration & Support, Waste Management and Remediation	2,077	5.2%	-2.5%
Construction	1,823	4.5%	6.3%
Other Services (excluding Public Administration)	1,663	4.1%	1.7%
Professional, Scientific, and Technical Services	1,543	3.8%	-7.8%
Wholesale Trade	1,503	3.7%	-1.3%
Transportation and Warehousing	1,066	2.7%	16.7%
Arts, Entertainment, and Recreation	874	2.2%	-0.4%
Public Administration	824	2.1%	-1.3%
Agriculture, Forestry, Fishing and Hunting	596	1.5%	-2.2%
Information	541	1.3%	5.2%
Real Estate and Rental and Leasing	538	1.3%	-2.4%
Finance and Insurance	522	1.3%	0.1%
Management of Companies and Enterprises	515	1.3%	0.8%
Utilities	219	0.5%	5.0%
Mining, Quarrying, and Oil and Gas Extraction	0	0.0%	-100.0%
Total Primary Jobs	40,112	100.0%	2.9%

- (1) Reflects Primary Jobs - public and private-sector jobs, one job per worker, where a primary job is the highest paying job for an individual worker. Source: U.S. Census Bureau, Center for Economic Studies.
- (2) Refers to the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

As shown above, the top five (5) North American Industry Classification System (NAICS) employment sectors in the City are comprised of: Health Care and Social Assistance (15.0%); Retail Trade (13.7%); Accommodation and Food Services (12.4%); Educational Services (12.3%); and Manufacturing (10.8%). As discussed in the previous section, nationwide, the key industry sectors experiencing growth prior to 2020 were Educational and Health Services; Professional and Business Services; Leisure and Hospitality; and Construction.

Table 4-2 below presents the current top private and public employers in the City.

Table 4-2: Top Public and Private Employers, City of Oceanside (1)

Private		Public	
Employer Name	NAICS Sector	Employer	NAICS Sector
Genentech Pharmaceuticals	Professional, Scientific, and Technical Services	Oceanside Unified School District	Educational Services
Te Connectivity	Manufacturing	Camp Pendleton	Public Administration
Hydranautics	Manufacturing	City of Oceanside	Public Administration
Nitto Denko	Information	Mira Costa Community College	Educational Services
Gilead Sciences	Professional, Scientific, and Technical Services	North County Transit District	Public Administration
Hobie Cat	Manufacturing	Tri-City Medical Center	Health Care and Social Assistance

(1) Source: City of Oceanside website.

From 2011 to 2017, NAICS employment sectors that experienced a high average annual growth rate in the City include Transportation and Warehousing (16.7% per year), Manufacturing (16.1% per year), Construction (6.3% per year), Accommodation and Food Services (5.5% per year), and Information (5.2% per year).

Due to COVID-19, it is anticipated that the City will experience near-term job losses similar to the county and state in sectors such as Leisure & Hospitality; Trade, Transportation, and



Utilities; Government; Educational & Health Services; Professional and Business Services; and Other Services. A report regarding COVID-19 Impacts on the San Diego Regional Economy published by SANDAG in October 2020 states that job loss was highest in Tourism (-37%), Retail (-15%), and Education (-21%). By contrast, the innovation sector, which includes communication technology, biotechnology, and cleantech, experienced only a 1% job loss.

5 OVERVIEW OF EXISTING LAND USE PATTERNS

As shown in Table 5-1 below, according to the City’s existing General Plan Land Use and Zoning, the City is comprised of over 27,000 acres with a large amount of land zoned for residential (44.4%), agriculture (12.9%), open space (9.9%), industrial (7.0%), and commercial (4.8%). By comparison, neighboring Carlsbad is primarily comprised of residential (27.0%), open space (25.0%), recreation (8.0%), industrial (5.0%), and commercial (3.0%). Notably, on a proportionate basis, Carlsbad’s land use mix is characterized by significantly less residential land area, more open space, less employment land, and a nominal amount of commercial land area.

Table 5-1: Land Area by Existing Zoning (1)

	Existing Plan Zoning	
	Acres (2)	Percent
Residential	11,984	44.4%
Road/Right of Way (ROW)	3,567	13.2%
Agriculture	3,497	12.9%
Open Space	2,677	9.9%
Industrial	1,880	7.0%
Commercial	1,287	4.8%
PUT	647	2.4%
Civic	594	2.2%
Specific Plan	463	1.7%
Downtown	285	1.1%
Harbor	110	0.4%
SOI	20	0.1%
Total Acres	27,012	100.0%

(1) Source: Dyett & Bhatia

(2) Includes residential (19 acres) and road/ROW (1 acre) within the City’s Sphere of Influence (SOI).

The City can be divided into 17 Neighborhood Planning Areas. For purposes of this analysis, KMA consolidated these Neighborhood Planning Areas into four (4) larger areas using the current Council District boundaries (Areas). These four (4) Areas are presented in Exhibit 5-1 below.

Exhibit 5-1: Map of Neighborhood Planning Areas/Council Districts (Areas)

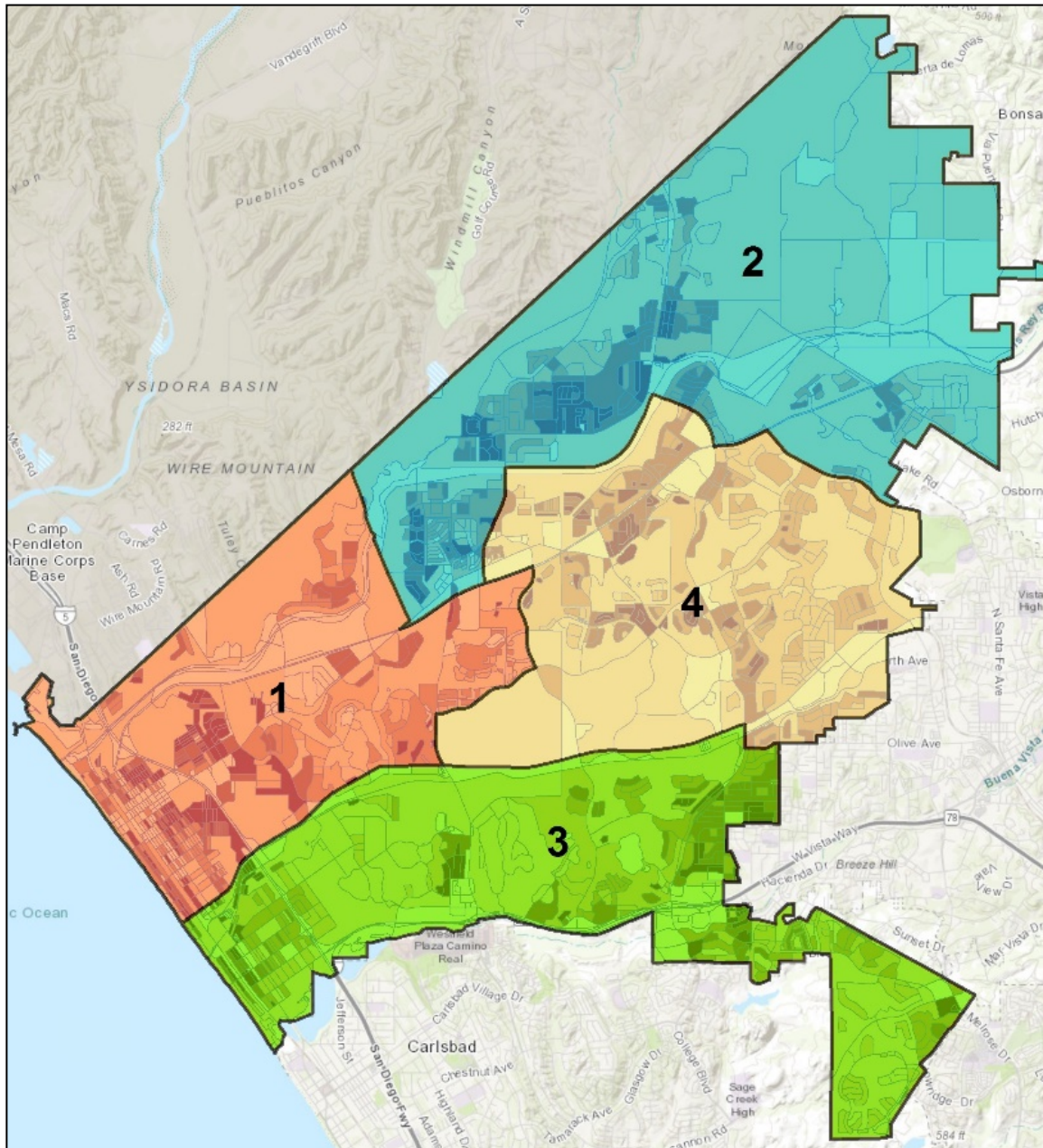


Table 5-2 below provides an overview description of each Area, including location, various neighborhoods, defining land uses, and key characteristics.

Table 5-2: Overview Description of Neighborhood Planning Areas/Council Districts (Areas)

	Area 1 (Northwest)	Area 2 (Northeast)	Area 3 (Southwest)	Area 4 (Central)
Neighborhoods	<ul style="list-style-type: none"> • Townsite • East Capistrano Side • Loma Alta • Oceana • Airport 	<ul style="list-style-type: none"> • San Luis Rey • North Valley • Morro Hills • Guajome 	<ul style="list-style-type: none"> • Fire Mountain • Mira Costa • Tri City • Lake • Ocean Hills • South Oceanside 	<ul style="list-style-type: none"> • Ivey Ranch Rancho Del Oro • Peacock
Existing Housing Units (1)	<ul style="list-style-type: none"> • 17,443 units 	<ul style="list-style-type: none"> • 14,236 units 	<ul style="list-style-type: none"> • 19,392 units 	<ul style="list-style-type: none"> • 16,933 units
Existing Jobs (1)(2)	<ul style="list-style-type: none"> • 12,629 jobs 	<ul style="list-style-type: none"> • 3,111 jobs 	<ul style="list-style-type: none"> • 19,415 jobs 	<ul style="list-style-type: none"> • 14,109 jobs
Defining Land Uses	<ul style="list-style-type: none"> • Arterial Commercial • Single-Family • Multi-Family • Schools • Airport • Open Space/Park • Hotel/Motel • Industrial Park 	<ul style="list-style-type: none"> • Agriculture • Orchard or Vineyard • Field Crops • Golf Course • Single-Family • Parks • Schools • Auto Dealership • Warehousing 	<ul style="list-style-type: none"> • Arterial Commercial • Single-Family • Multi-Family • Mobile Home • Schools • Junior College • Hospital • Industrial Park • Community Shopping Center 	<ul style="list-style-type: none"> • Single-Family • Multi-Family • Industrial Park • Schools • Vacant Land • Neighborhood Shopping Center
Amenities	<ul style="list-style-type: none"> • Downtown mixed-use and visitor district • Beaches • Oceanside Pier • Freeways (I-5, SR-76) • Oceanside Transit Center • San Luis Rey River 	<ul style="list-style-type: none"> • South Morro Hills agricultural district • Guajome Regional Park • Freeway (SR-76) • San Luis Rey River 	<ul style="list-style-type: none"> • Transit (Sprinter) • South Oceanside business district • Beaches • Freeways (I-5, SR-78) • Loma Alta Creek • Buena Vista Creek 	<ul style="list-style-type: none"> • El Corazon Specific Plan • SoCal Sports Complex • Rancho Del Oro Community Park • Freeway (SR-76)
Major Shopping Centers	<ul style="list-style-type: none"> • Mission Square • Oceanside Plaza 	<ul style="list-style-type: none"> • MarketPlace Del Rio 	<ul style="list-style-type: none"> • College Plaza Shopping Center • Quarry Creek Plaza 	<ul style="list-style-type: none"> • Old Grove Marketplace • Mission

	Area 1 (Northwest)	Area 2 (Northeast)	Area 3 (Southwest)	Area 4 (Central)
	<ul style="list-style-type: none"> Oceanside Village Square 		<ul style="list-style-type: none"> El Camino North Center Pacific Coast Plaza 	Marketplace <ul style="list-style-type: none"> Plaza Rancho Del Oro Rancho Del Oro Gateway Shopping Center
Major Business/ Industrial Parks	<ul style="list-style-type: none"> Oceanside Industrial Park 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Pinamonti Industrial Park 	<ul style="list-style-type: none"> Seagate Corporate Center Oceanside Gateway Business Park
Other Major Uses	<ul style="list-style-type: none"> Oceanside Municipal Airport Adjacent to Camp Pendleton Main Gate 	<ul style="list-style-type: none"> Adjacent to Camp Pendleton North 	<ul style="list-style-type: none"> Mira Costa College Tri-City Medical Center 	<ul style="list-style-type: none"> Mission San Luis Rey

(1) Source: Dyett & Bhatia. March 8, 2021.

(2) Assumed to be employment by place of work.

A brief description of each Area is presented below:

- Area 1** is characterized by natural, tourist, and transit amenities. Its most distinctive assets include Downtown, Oceanside City Beach, Oceanside Pier, and adjacency to the Marine Corps Base Camp Pendleton main gate. Downtown has seen rapid growth in recent years, with new hotels, condominiums, townhomes, restaurants, and other attractions. Most recently, S.D. Malkin Properties is underway with the construction of a master-planned Oceanside Beach Resort Hotel comprising 389 luxury hotel rooms. Demand for hotel/resort development has also expanded to the eastern portions of the City, with the Ocean Kamp project, a proposed 92-acre mixed-use project that is planned to include a 300-room hotel and 700 multi-family units. Area 1 also includes the Oceanside Transit Center (Transit Center), which provides various forms of transit services through Amtrak, Metrolink, and the North County Transit District (Sprinter/Coaster). The Transit Center also offers Greyhound lines and Breeze bus services.
- Area 2** encompasses low-intensity, single-family residential development and the City's agricultural district, South Morro Hills (SMH). SMH encompasses approximately 3,500 acres and the area is known for producing a variety of crops, including container plants, berries, avocados, and citrus fruits. Recently, there has been increased development interest in the area as reflected in the formerly proposed North River Farms project. The North River Farms project consisted of a general

plan amendment, rezone, vesting tentative map and development plan along with certification of an EIR and adoption of CEQA findings. The City Council approved the North Rivers Farms project in November 2019; however, the project was not approved by voters in November 2020. The project would have added 585 residential units, 30,000 SF of commercial, 14,400 SF of restaurant/retail, and 30 acres of agricultural uses to the SMH area.

- **Area 3** is characterized by South Oceanside (South O), Mira Costa College, Tri-City Medical Center, and the east-west Sprinter rail line adjacent to Oceanside Boulevard. South O is located south of Oceanside Boulevard and north of the Buena Vista Lagoon. South O offers a vibrant business district along South Coast Highway, as well as a variety of housing options, including beachfront estates, single-family homes, and mobile homes. Area 3 also contains a community college (Mira Costa College) and hospital (Tri-City Medical Center). This area also contains a high concentration of retail/shopping centers just north of The Shoppes at Carlsbad. Recently, the City's Planning Commission approved the development of three (3) hotels totaling 426 rooms along the Buena Vista Creek and lagoon, adjacent to the City of Carlsbad.
- **Area 4** contains Mission San Luis Rey, the 465-acre El Corazon Specific Plan Area, and the City's major industrial and business parks. This area contains high-quality employment, with concentrations of businesses in the sectors of Clean Technology (CleanTech), Pharmaceuticals, Manufacturing, and Warehousing. The Area also contains Embry-Riddle Aeronautical University. The Area has been experiencing demand for hotel rooms, primarily along Rancho Del Oro Drive, between the El Corazon Plan Area and Seagate Corporate Center.

6 MARKET OVERVIEW AND OPPORTUNITIES – EMPLOYMENT USE

6.1 Background

This section presents an overview of current market conditions, market demand projections, key issues affecting demand, and potential development opportunities for employment space in the City. For purposes of this study, employment space is comprised of office, industrial, and flex/R&D uses. CoStar, a commercial real estate information company, defines each use as follows:

- *Office* – primary intended use is to house employees of companies that produce a product or service primarily for support services such as administration, accounting, marketing, information processing and dissemination, consulting, human resources management, financial and insurance services, educational and medical services, and other professional services
- *Industrial* – buildings adapted for a combination of uses such as assemblage, processing, and/or manufacturing products from raw materials or fabricated parts; additional uses include warehousing, distribution, and maintenance facilities; self-storage facilities are also tracked as an industrial type
- *Flex/R&D* – buildings designed to be versatile, which may be used in combination with office (corporate headquarters), research and development, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses

KMA reviewed current market reports (2nd Quarter 2020) published by commercial real estate firm, Voit Real Estate Services, for employment space. Table 6-1 presents market factors with respect to rentable SF, vacancy, and average asking lease rate for the City and the county. As shown in Table 5-1, the City contains approximately 11.7 million SF (4.0%) of the county's 299.8 million SF of employment space. The City has a lower overall vacancy at 4.7% when compared to the county's 7.5%, indicating a healthy market demand. Conversely, with respect to employment space rents, City rents are generally lower than the

county. While lower rents for employment space may prove a disincentive to some developers, they result in lower occupancy costs for new and expanding businesses. This may be an important incentive to price-sensitive users such as local entrepreneurs, R&D firms, and other technology upstarts.

Table 6-1: Market Factors for Employment Space (2nd Quarter 2020) (1)

	Rentable SF	Vacancy Rate	Average Asking Lease Rate (Per SF Per Month) (2)
City			
A. Industrial	9,333,300	4.2%	\$1.03/SF MG
B. Office (3)	1,350,466	9.1%	\$1.98/SF FSG
C. Flex/R&D	983,643	3.0%	\$0.94/SF NNN
D. Total Employment Space - City	11,667,409	4.7%	\$0.94 - \$1.98
County			
A. Industrial	145,147,400	5.0%	\$1.06/SF MG
B. Office (3)	104,531,185	10.7%	\$2.96/SF FSG
C. Flex/R&D	50,081,725	8.3%	\$2.00/SF NNN
D. Total Employment Space - County	299,760,310	7.5%	\$1.06 - \$2.96

(1) Source: Voit Real Estate Services Market Reports, 2nd Quarter 2020

(2) Rents reflect full service gross (FSG), a commercial lease where the tenant pays a base rent and the landlord pays for all operating expenses; triple-net (NNN) rents, a lease in which a tenant is responsible for all expenses associated with their proportional share of occupancy of the building; or Modified Gross (MG), a lease where the tenant pays one or more of the expenses in addition to the rent.

(3) Consists of buildings greater than 100,00 SF.

With respect to COVID-19, the long-term impacts on the employment space market are unknown at this time. Currently, the unemployment rate in the county is 13.9%, slightly lower than the state at 14.9%. The unemployment rate is a key indicator of employment space demand. However, it is uncertain whether these job losses are temporary or permanent. The employment situation will continue to be in flux and any potential government actions such as lockdowns or additional economic stimulus may positively or negatively impact employment space demand. Should the work-from-home trend sustain post-pandemic, the employment space most impacted is likely to be office, which represents a small portion of the City’s non-residential space.

As shown in Table 6-2, KMA also reviewed historic occupied building area for the City and county by type of employment space. The purpose of this evaluation was to estimate the

average annual change in occupied SF as a proxy for historic absorption by type of employment space. In addition, KMA evaluated the total change in occupied SF. As shown, total employment space in the City experienced substantially higher growth than the county as a whole. The City nearly doubled its occupied employment space from 2004-2020.

Table 6-2: Change in Occupied SF (1)

Employment Space Type	Average Annual Change in Occupied SF 2004-2020		Total % Change in Occupied SF 2004-2020	
	City	County	City	County
Office	44,000 SF/Year	1,401,000 SF/Year	135%	32%
Industrial	256,000 SF/Year	919,000 SF/Year	85%	12%
Research & Development	44,000 SF/Year	929,000 SF/Year	284%	48%
Total Employment Uses	345,000 SF/Year	3,249,000 SF/Year	98%	23%

(1) Based on annual and quarterly market reports from VOIT Real Estate Services.

6.2 Demand Projection

Based on the above evaluation, KMA formulated a projection of Citywide employment space growth through 2050. To project growth of employment space, KMA applied an average annual growth rate to each employment sector. The average annual growth rate for each sector was determined through a review of industry literature and data, with respect to historical patterns, current employment profile, and growth forecasts for each industry. In addition, KMA considered the long-term potential economic impacts of COVID-19 on the employment sector. In order to account for a probable ongoing decrease in demand as a result of accelerated telecommuting, a reduction factor of between 5% and 15% was applied to the assumed number of SF per employee. As shown in Table 6-3, KMA projects demand for office space for the period 2020 to 2050 ranging from a low of 900,000 SF to a high of 1.6 million SF. During this same time period, it is estimated that industrial space will increase by 4.6 million SF to 8.5 million SF. Lastly, Flex/R&D space is estimated to increase by 1.1 million SF to 2.2 million SF from 2020 to 2050. While KMA considers these projections reasonable for planning purposes, it is the nature of forecasting that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are

likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.

Table 6-3: Employment Space Demand Projection, 2020-2050 – City of Oceanside

	Office	Industrial	Flex/R&D
I. Low Projection			
A. Average Annual Growth Rate	2.1%		
B. Estimated New Employees	4,500	10,700	3,500
C. SF Per Employee (Adjusted for Accelerated Telecommuting)	212.5	475.0	360.0
D. Total Employment Space Demand, 2020-2050	900,000 SF	4,600,000 SF	1,100,000 SF
SF Per Year	28,800 SF	153,300 SF	38,000 SF
II. High Projection			
A. Average Annual Growth Rate	3.2%		
B. Estimated New Employees	8,400	19,600	6,700
C. SF Per Employee (Adjusted for Accelerated Telecommuting)	212.5	475.0	360.0
D. Total Employment Space Demand, 2020-2050	1,600,000 SF	8,500,000 SF	2,200,000 SF
SF Per Year	54,100 SF	282,400 SF	73,200 SF

It should be noted that the KMA projection of employment space demand in the City is based solely on market demand and does not address financial feasibility. In view of the COVID-19 pandemic, the KMA market forecasts considered factors that are likely to reduce potential demand for employment space. However, unanticipated events and circumstances as a result of unforeseen events (i.e., the long-term impacts of the pandemic) may change the results of this demand forecast.

6.3 Key Issues Affecting Demand

Based on a review of national, regional, and local employment trends, KMA identified a number of issues likely to affect market demand for new employment space:

- The City's land area is dominated by residential and institutional uses. As a result, only a small percentage of the City's land area is designated for employment uses, contributing to a jobs-to-housing ratio imbalance.
- The City is bounded by the Pacific Ocean to the west, wildland to the north, and sparsely populated areas to the east. The geographic location of the City may reduce the potential market area for retail and office uses.

- The City is not centrally located in the county and must compete with other, more established employment centers and clusters. There is a higher concentration of strong employment uses in Downtown San Diego, University Towne Center (UTC), Sorrento Valley, and other job centers. These job centers have a high concentration of Professional, Scientific, and Technical Services; Health Care & Social Assistance; and Finance & Insurance. In addition, the City is adjacent to Carlsbad, a strong employment center with key industries in Action Sports; Life Sciences; Information and Communications Technology (ICT), and Clean Technology (CleanTech), many with great access to McClellan-Palomar Airport, which can handle large corporate jets and has historically offered scheduled commercial flights as well.
- Some industrial sites are occupied by non-industrial uses. These conditional non-industrial uses are commercial uses that are attracted to the sites' lower occupancy costs. This mix can be both positive and negative for industrial sites. As an asset, the conditional uses allow for retail and recreational facilities in close proximity to employees currently within and around industrial sites. Conversely, conditional uses (i.e., restaurant, retail, recreational) in close proximity to industrial/office uses may limit the type of tenants and operations that can coexist within the industrial sites.
- It is anticipated that telecommuting/home businesses will continue to grow. The expansion of new technology will increase the likelihood of telecommuting, which may decrease demand for physical employment space. The impacts of COVID-19 are also likely to accelerate the trend toward telecommuting, especially in the office sector.

6.4 Potential Development Opportunities

KMA considered current and historic market factors, forecasted demand, and key issues to evaluate the City's development potential for employment space in the near-, mid-, and long-term. As shown in Table 6-4, KMA believes that there is moderate demand for employment space in the near-term and strong demand for employment space in the mid- to long-term. In terms of office development, COVID-19 has the potential to dramatically increase vacancies in the short-term. However, in the mid- to long-term (five or more years), employment growth will continue to drive up demand for office space. Future office space demand is likely to shift to more amenitized work environments, with smaller and/or shared work stations, including flexible "hubs (central) and spokes (satellite)" spaces.

Table 6-4: Market Support for Employment Uses

	Near-Term	Mid-Term	Long-Term
Office	Weak	Moderate	Moderate
Industrial	Moderate	Strong	Strong
Flex/R&D	Moderate	Strong	Strong
Total Employment Space	Moderate	Strong	Strong

The City, in conjunction with property owners and/or other key stakeholders, can expand opportunities for employment space through the following recommended actions:

- Concentrate office uses in Area 1, where a mix of multi-family residential, retail, and office (live/work/play) should be encouraged. Area 1 contains the City’s Downtown district, which already contains a concentration of higher-quality office space, transit access, and other amenities. Office uses could also occur in Area 4, to complement existing business park uses, and Area 3 in the form of medical offices. Additionally, there is an existing concentration of medical offices in Area 3, as evidenced by Scripps Clinic Medical Center at Jefferson Street and Vista Way, as well as additional medical office (Oceanside Pharmacy, Rady Children’s Urgent Care, etc.) at SR-76 and Rancho del Oro Drive.
- Preserve vacant land in Area 1, along Mission Avenue and SR-76, in particular for business park uses to continue to attract high-quality employment to the area.
- Continue to create a distinct industrial district, through marketing initiatives and planning/zoning controls for Areas 3 and 4. Consider preserving remaining vacant land and underutilized commercial areas to expand industrial and flex/R&D uses, primarily concentrated between SR-76 and SR-78 from El Camino Real to College Boulevard.
- Foster the development of flex/R&D uses along or near the SR-78 corridor and Rancho Del Oro Drive. Moreover, the City should continue to collaborate with the cities of Carlsbad, Escondido, San Marcos, and Vista as part of Innovate78. Continue to attract innovative businesses related to Manufacturing; Health Care Services; CleanTech; Life Science and Biotechnology; ICT; and Sports and Active Lifestyle Products and Services as stated in the City’s EDE. In addition, attract new tenants to the City that are synergistic with existing industrial/R&D tenants.
- Attract industrial tenants that are linked to the e-commerce industry (i.e., warehousing and shipping factories).

7 MARKET OVERVIEW AND OPPORTUNITIES – RESIDENTIAL USE

This section presents an overview of current market conditions, market demand projections, key issues affecting demand, and potential development opportunities with respect to residential uses in the City.

7.1 County Residential Market

According to Yardi Matrix, a commercial real estate data and research firm, multi-family rents in the county were down 0.3% on a trailing three-month basis in April 2020, with an overall average rent of \$1,979, \$500 above the U.S. average. It is projected that 9,200 units are currently under construction and an additional 28,000 units were in the planning and permitting stages. This indicates that despite the economic impacts of COVID-19, multi-family development will continue to be steady as state and local officials implement policy changes (i.e., moratorium on residential evictions), safety guidelines on construction sites, and digital permitting processes for developers.

According to the San Diego Association of Realtors (SDAR), the average sales price for single-family for-sale homes in June 2020 was \$869,000, an increase of 6.3% from the prior year. Although average sales price increased, sales volume and number of sold listings decreased from the prior year by 8.6% and 14.0%, respectively.

7.2 City Residential Market

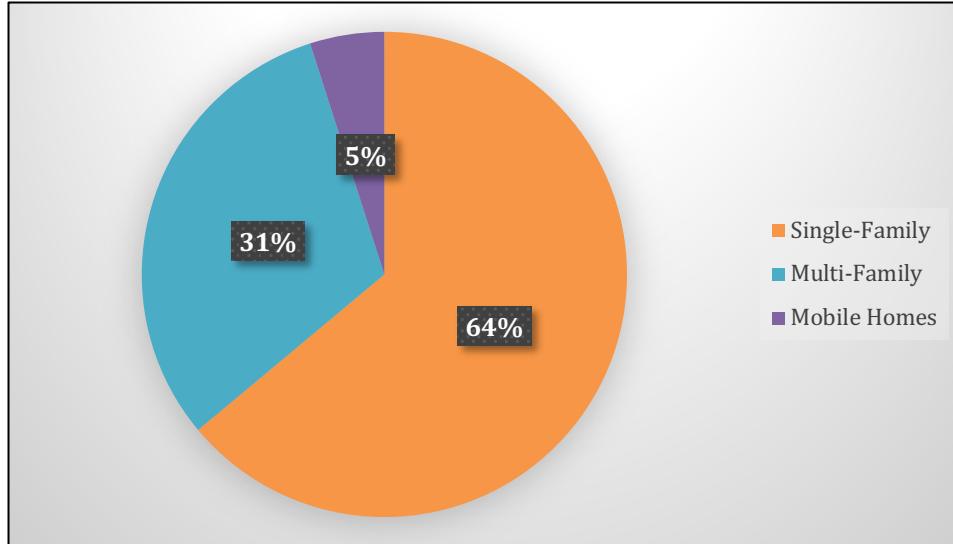
County development trends indicate that production of new multi-family housing will continue at a steady rate. It is expected that the City will follow a similar pattern as that of the county.

KMA identified a number of issues likely to affect market demand for new residential development in the City:

- The City's residential units are primarily single-family residential uses (64%) compared to multi-family residential uses (31%).

- There are a total of 62,073 housing units in the City, distributed as follows:

Exhibit 7-1: Existing Mix of Housing Units, City



- The San Diego Association of Governments (SANDAG) 6th Cycle of Regional Housing Needs Assessment (RHNA) requires all cities across the region to provide a total of 171,685 units. The City’s 6th Cycle RHNA allocation requirement is 5,443 residential units to be provided between 2021 and 2029 for very low, low, moderate, and above moderate-income households.
- The median sales price for single-family home resales in the City are as follows:

Table 7-1: Median Sales Price for Single-Family Homes, City vs. County (1)

Zip Code	Median Sales Price
92054 (City)	\$698,000
92056 (City)	\$578,000
92057 (City)	\$555,000
92058 (City)	\$555,000
County	\$656,000

(1) Source: CoreLogic. Southern California Home Resale Activity, Home Sales Recorded in June 2020.

- The median sales price for condominium resales in the City are as follows:

Table 7-2: Median Sales Price for Condominiums, City vs. County (1)

Zip Code	Median Sales Price
92054 (City)	\$470,000
92056 (City)	\$373,000
92057 (City)	\$367,000
92058 (City)	\$382,000
County	\$450,000

(1) Source: CoreLogic. Southern California Home Resale Activity, Home Sales Recorded in June 2020.

- Based on recent apartment listings, the average rents in the City by apartment unit type are presented below:

Table 7-3: Estimated Average Rent, City of Oceanside (1)

Studio (City)	\$1,448
One-Bedroom (City)	\$1,512
Two-Bedroom (City)	\$1,885
Three-Bedroom (City)	\$2,530
Average City	\$1,512
County (2)	\$1,996

(1) Source: Apartments.com

(2) Source: Yardi Matrix

7.3 Demand Projection

KMA prepared a demand projection for Citywide residential units through 2050. The KMA analysis was based on the anticipated growth of housing units in the county and applying capture rates to estimate the number of housing units that can be supported in the City.

Table 7-4 presents historical capture rates of new housing development for the City in comparison with the county. In 2000, the City contained 5.7% of the total housing units in the county. By 2020, this share had dropped to 5.4%. This trend reflects the gradual build-out

of the City’s residentially zoned land, while other areas of the county still have remaining greenfield sites for development.

Table 7-4: Historical Housing Inventory Trends, City vs. County

	2000	2010	2020	Average Annual Change (2000-2020)
City	59,581	64,435	66,078	325
County	1,040,149	1,164,028	1,226,879	9,337
City as % of County	5.7%	5.5%	5.4%	3.5%

As shown in Table 7-5, based on the City’s historical capture rate of countywide residential growth, KMA estimates that the City has the potential to capture between 4.0% and 6.5% of the county’s new units. This KMA forecast takes into account the City’s location with respect to regional employment concentrations, commuting patterns, and existing and anticipated transit services. On this basis, KMA estimates that the City can support a total of 21,000 units to 33,000 units through 2050.

Table 7-5: Summary of Residential Demand, 2020-2050

	Low	High
County of San Diego, Additional Housing Units through 2050 ⁽¹⁾	509,000 17,967 units/year	total units
City Capture	4.0%	6.5%
City Units Per Year (Rounded)	700 Units/Year	1,100 Units/Year
Total Units	21,000 Units	33,000 Units

(1) Based on May 2018 SANDAG estimates. It is estimated that approximately 509,000 housing units will be needed by 2050.

7.4 Key Issues Affecting Demand

Based on a review of regional and local residential trends, KMA identified a number of issues likely to affect residential development within the City:

- The state, the county, and the City are not producing an adequate supply of housing units. According to the California Department of Housing and Community Development’s Final Statewide Housing Assessment, the state will need to add approximately 1.8 million additional housing units from 2018 to 2025. Moreover, by 2029, the county and City will have to add an estimated 171,685 units and 5,443 units, respectively.
- State and regional trends indicate an increasing segment of the population prefers housing in mixed-use districts, with walkable environments, diverse land uses, a variety of goods and services, and access to public transit command higher economic values over auto-oriented, single-family detached subdivisions.
- From 2020 to 2029, the vast majority of anticipated population growth in the county can be attributed to an aging population. As shown In Table 7-6, by 2029, population age 60 and over is projected to increase by approximately 138,000, accounting for 94% of the total absolute change. This age group is also expected to be the fastest growing during this time period, experiencing an average annual growth rate of 2.0%. By contrast, the prime working age groups of 20 to 39-year-olds and 40 to 59-year-olds are projected to grow at annual rates of only 0.1% and 0.4%, respectively.

Table 7-6: Population Growth by Age Group, County (1)

	2020		2029		Absolute Change	Percent of Total Change	Average Annual Change
Age Group	Total	% of Total	Total	% of Total	of 2020-2029		
0-19	869,131	26%	846,632	24%	(22,499)	-15%	-0.3%
20-39	1,015,635	30%	1,020,663	29%	5,028	3%	0.1%
40-59	796,975	24%	822,600	23%	25,625	18%	0.4%
60+	688,677	20%	826,470	24%	137,793	94%	2.0%
Total	3,370,418	100%	3,516,365	100%	145,947	100%	0.5%

(1) Source: State of California, Department of Finance, P-2: County Population Projections (2010-2060).

- There is continued development pressure to redevelop/rezone non-residential land to residential and mixed-use development in the City. The pressure to rezone may conflict with the development goals of the City, due to reduce land inventory available for future economic expansion. Additionally, the introduction of residential

units may not be compatible with existing and anticipated industrial/business park uses.

- Developers are not taking advantage of existing multi-family and mixed-use capacity along the Coast Highway corridor, other than in the Downtown core, and Oceanside Boulevard. The relative lack of developer interest in these older corridors can be attributed to the fact that current residential market values and market rents do not support the higher development costs associated with higher-density construction and structured parking, in addition to the acquisition costs associated with existing improved properties. Typically, the existing older non-residential uses on a potential development site within these corridors are occupied by viable businesses that are producing a revenue stream for the property owner. Although the existing improvements may be outdated and exhibiting signs of disinvestment, the current owner will not be incentivized to sell or redevelop the property until a new project can support a land value that exceeds the current asset value.

7.5 Potential Development Opportunities

Considering current and historic market factors, forecasted demand, and key issues with respect to demand for residential uses, KMA believes that there is strong demand for residential uses in the near-term and this trend will continue through the long-term.

Table 7-7: Market Support for Residential Uses

	Near-Term	Mid-Term	Long-Term
Residential	Strong	Strong	Strong

The City, in conjunction with property owners and/or other key stakeholders, can expand opportunities for residential development through the following recommended actions:


- Work with property owners and developers to stimulate multi-family and mixed-use development. For example, the City could provide development incentives (i.e., Program Environmental Impact Reports [EIRs], expedited permitting processes, Development Impact Fees scaled to residential unit size, etc.) to encourage mixed-use/multi-family development in in-fill locations and along transit corridors. Key opportunities for multi-family/mixed-use development are located in Area 1 (Downtown, adjacent to Pier), Area 2 (South Oceanside), and Area 4 (vacant and under-utilized land along Sprinter rail line/Oceanside Boulevard corridor).

- Concentrate low-intensity residential that encourage compatibility with the rural/agricultural environment in Area 2.
- Continue to evaluate physical, economic, planning, and other obstacles to developing medium- to higher-density multi-family mixed-use development.
- Promote connectivity -- including streets/roads, multi-modal transit, pedestrian/bike connections, shared parking arrangements -- between residential development and future employment space uses.
- Where feasible, establish one or more mixed-use districts/nodes east of Interstate 5 (I-5) in order to create an urban village style development with high walkability and other quality of life amenities. Recent examples that are being implemented by master plan developers include North City in San Marcos and Millenia in Chula Vista. However, there are other examples in the region where the local jurisdiction adopted a master plan that private developers and property owners are pursuing a variety of projects pursuant to the plan. These include the Little Italy neighborhood in Downtown San Diego, Grantville community in San Diego, and Carlsbad Village, among others. The City can help facilitate the desired turnover and re-use of older non-residential properties by adopting Specific Plans and Program EIRs that allow multi-family and mixed-use development.
- Create opportunities for a range of housing product types, including low- to medium-density residential development such as small-lot and zero lot line (ZLL) single-family, townhomes/rowhomes, and stacked flat apartments/condominiums with tuck-under parking. These product types will address the evolution of housing demand away from medium- and large-lot single family home formats as the population ages and household size declines. Additionally, most of these housing formats – all configured as Type V wood-frame construction – are more likely to be feasible in the near- to mid-term. Higher-density mixed-use/multi-family apartment and condominium buildings with structured parking could be feasible in the long-term as market rents/sales prices rise and need for parking is reduced. Table 7-8 below presents examples of residential development that may satisfy these future housing needs in the near- to mid-term.

Table 7-8: Comparable Residential Development Projects

Project	Type	City	Stories	Units
 Cleveland Street Single-Family Homes (former City Corporation Yard site)	Small-lot Single-Family	Oceanside	2	37
 RowHomes on F Street	Rowhomes (42 Units/Acre)	Downtown San Diego	3	17
 CityMark Paseo	Townhomes	La Mesa Village	3	18
 Origen – Civita	Townhomes	Mission Valley	3	200
 Celsius	Apartments with Tuck-Under Parking	Lemon Grove	4	102

Table 7-8: Comparable Residential Development Projects

Project	Type	City	Stories	Units
 North City Block C	Apartments	San Marcos	5	198

8 MARKET OVERVIEW AND OPPORTUNITIES – RETAIL

8.1 Background

This section presents an overview of current market conditions, market demand projections, key issues, and potential development opportunities with respect to retail uses in the City.

CoStar, a commercial real estate information company, categorizes retail uses as follows:

- *General Retail* – single tenant freestanding general purpose commercial buildings with parking; many single retail buildings fall into this use code, especially when they do not meet any of the more detailed use code descriptions
- *Malls* – combined retail center types of Lifestyle Center, Regional Mall and Super Regional Mall
- *Power Centers* – typically consists of several freestanding anchors and only a minimum amount of small specialty tenants, dominated by several large anchors, including discount department stores, off-price stores, warehouse clubs, or "category killers," i.e., stores that offer tremendous selection in a particular merchandise category at low prices
- *Shopping Centers* – combined retail center types of Community Center, Neighborhood Center and Strip Center

- *Specialty Centers* – combined retail center types of Airport Retail, Outlet Center, and Theme/Festival Center

KMA reviewed current market reports (2nd Quarter 2020) published by commercial real estate firm Voit Real Estate Services, with respect to retail space. A comparison of the retail inventory of North County Submarket, which includes the City, versus the county is presented in Table 8-1 below. As shown, the North County Submarket contains approximately 25.1% of the county’s retail space. The North County Submarket experiences lower vacancy in General Retail, Malls, and Specialty Centers and experiences higher vacancy in Power Centers and Shopping Centers. A lower vacancy rate indicates market strengths in these retail categories. In general, retail rents in the North County Submarket are lower than the county overall.

Table 8-1: Market Factors for Retail Uses (2nd Quarter 2020) (1)

	Rentable SF	Vacancy Rate	Average Asking Lease Rate (Per SF Per Month) (2)
I. North County (3)			
A. General Retail	11,680,184	2.7%	\$1.91/SF NNN
B. Malls	4,283,139	3.9%	---
C. Power Centers	33,080,779	4.4%	---
D. Shopping Centers	15,106,133	7.6%	\$1.70/SF NNN
E. Specialty Centers	369,833	0.1%	----
F. Total Retail Space – North County	34,520,068	5.1%	\$1.76/SF NNN
II. County			
A. General Retail	54,500,363	2.9%	\$2.57/SF NNN
B. Malls	14,740,451	4.0%	---
C. Power Centers	12,044,787	2.7%	\$2.17/SF NNN
D. Shopping Centers	54,425,136	5.9%	\$1.96/SF NNN
E. Specialty Centers	1,662,551	6.0%	\$1.42/SF NNN
F. Total Retail Space - County	137,373,288	4.2%	\$2.22/SF NNN

(1) Source: Voit Real Estate Services Market Reports, 2nd Quarter 2020.

(2) Rents reflect triple net (NNN), a lease in which a tenant is responsible for all expenses associated with their proportional share of occupancy of the building.

(3) Includes the Cities of Oceanside, Carlsbad, Escondido, San Marcos, and Vista.

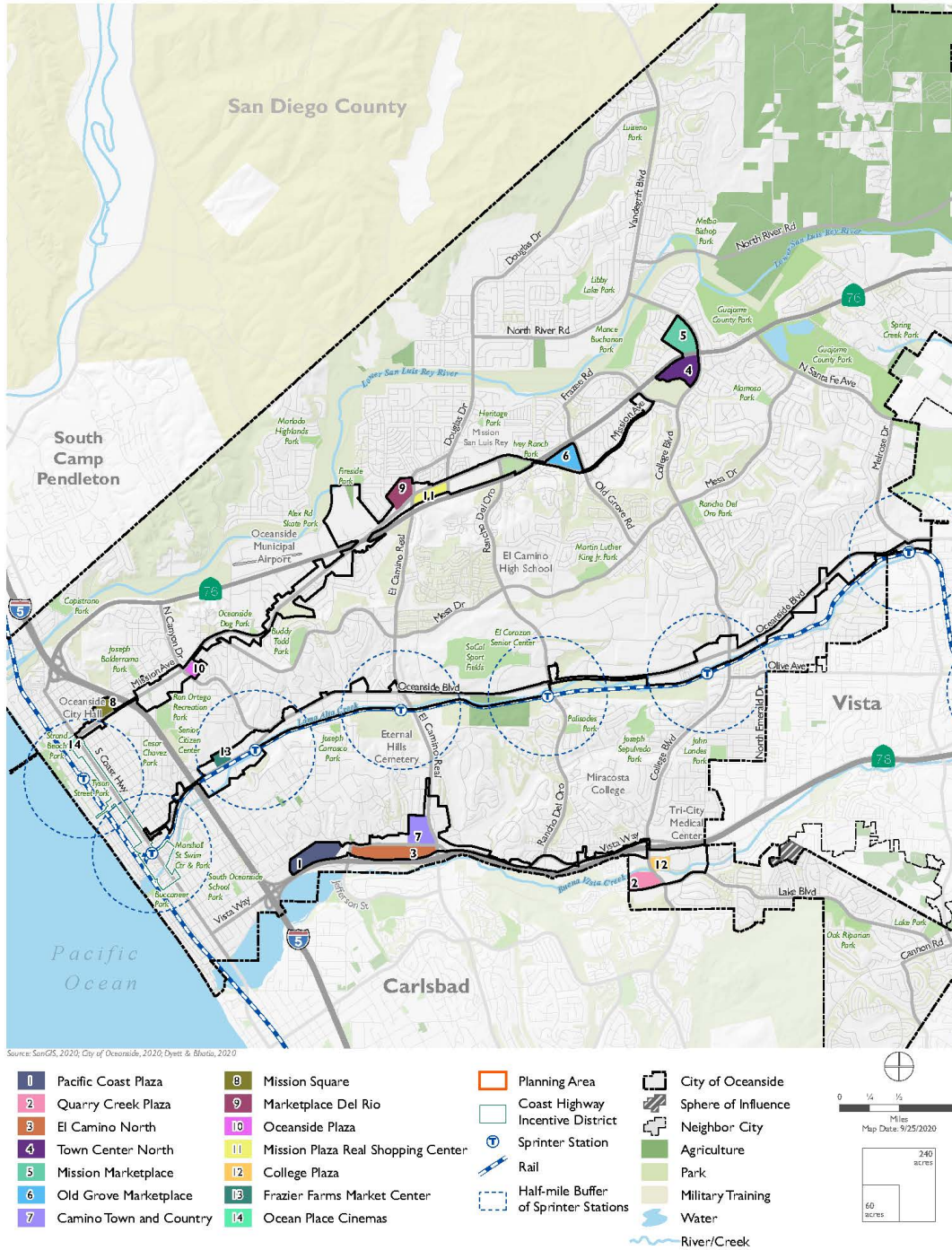
As shown in Table 8-2 and Exhibit 8-1 below, the City contains eight (8) major shopping centers ranging from approximately 80,000 SF to 450,000 SF. These shopping centers are primarily concentrated along major freeways – north and south, along I-5, and east and west, along SR-76 and SR-78.

Table 8-2: Major Shopping Centers, City of Oceanside (1)

Shopping Center	Anchors	Gross Leasable Area (SF)
Pacific Coast Plaza	Walmart, Stater Bros., Best Buy, Dick’s Sporting Goods	450,000 SF
Quarry Creek	Walmart, Kohl’s, PetSmart, Albertsons	367,000 SF
El Camino North	LA Fitness, Ross	364,563 SF
Town Center North	Walmart, Vons	353,657 SF
Mission Marketplace	Regal Cinemas, Sprouts Farmers Market, Ross, Big Lots	348,320 SF
Old Grove Marketplace	Lowe’s, Ralphs	249,620 SF
Camino Town & Country	Target, Jo-Ann Fabric & Craft, WinCo Foods	232,958 SF
Mission Square	Walmart Neighborhood Market, 99 Cents Only Stores	146,342 SF
Marketplace Del Rio	Stater Bros., Walgreens	128,674 SF
Oceanside Plaza	Dollar Tree	114,546 SF
Mission Plaza Real Shopping Center	Petco, Dollar Tree	96,204 SF
College Plaza	Grocery Outlet, Hobby Lobby	88,610 SF
Frazier Farms Market Center	Frazier Farms	82,175 SF
Ocean Place Cinemas	Regal Cinemas	79,804 SF

(1) Source: Esri Business Analyst Online, 2020.

Exhibit 8-2: Major Shopping Centers, City of Oceanside



Just south of the City boundary is The Shoppes at Carlsbad, an indoor shopping mall located in the City of Carlsbad. The Shoppes at Carlsbad is undergoing a multi-phase transfor-

mation, with a proposal for apartment units, a hotel, and additional retailers to be built on the western portion of the mall site. The City's shopping centers adjacent to The Shoppes at Carlsbad include El Camino North, Camino Town & Country, and Pacific Coast Plaza. These shopping centers can benefit from the transformation of The Shoppes at Carlsbad and may have an opportunity to capture additional retail spending from the mall's patrons.

8.2 Demand Projection

KMA estimated projected market demand for retail uses to 2050. This market demand projection considered market support from existing residents, new residents, and new workers using new employment space. In addition, KMA included factors to reflect:

- a) anticipated decrease in demand resulting from the accelerated trend toward on-line shopping
- b) potential increased capture of shoppers from outside the City
- c) Incremental sales absorption through increased productivity of existing retail space

The evaluation of market support from existing residents was based on estimates of retail leakage within the City and the estimated potential sales that could be recaptured within the City. Leakage refers to when retail expenditures (demand) exceed actual retail sales (supply) in a given area. As shown in Table 8-3, the City's total retail leakage is estimated to be \$332.0 million annually. Retail categories experiencing the highest leakage in the City include Clothing & Clothing Accessories Stores; Health & Personal Care Stores; and General Merchandise Stores. Through initiatives by the City and real estate developers, the City may succeed in recapturing a portion of this retail sales leakage. For example, City policies can help support new development in the City, including new and updated retail centers.

Table 8-3: Retail Sales Leakage, City of Oceanside (1)

	Current Annual Sales	Estimated Sales Export
Miscellaneous Store Retailers	(\$11.2 M)	
Electronics & Appliance Stores	(\$18.5 M)	
Food & Beverage Stores	(\$25.1 M)	
Furniture & Home Furnishing Stores	(\$38.1 M)	
General Merchandise Stores	(\$60.1 M)	
Health & Personal Care Stores	(\$74.5 M)	
Clothing & Clothing Accessories Stores	(\$104.3 M)	
Total	(\$332.0 M)	

(1) Source: Esri Business Analyst Online, 2020..

In addition to the potential recapture of a portion of the City’s existing retail sales leakage, KMA also projected retail space demand from new residents and employees. As shown in Table 8-4, KMA estimates that the City can support additional retail development of 645,000 SF to 1.2 million SF through 2050. Importantly, only a small portion of demand is estimated to be derived from recapture of existing retail sales leakage. The vast majority of new retail space demand is anticipated to be from new residents and employees.

This estimate does not take into consideration the increasing pressure on brick-and-mortar stores due to on-line sales. The current pandemic has seen increased solidification not only by Amazon, but also larger-format and specialty retailers such as Target, Walmart, and Best Buy that are enjoying record sales growth at the expense of department stores and mom-and-pop operations.

According to the U.S. Census, e-commerce retail sales represented 16.1% of total retail sales during second quarter 2020 – an increase of 44.4% from the second quarter 2019, while total retail sales decreased 3.4% in the same period. Even if retail demand were to pick up post-pandemic, increasing on-line sales would result in continued competitive pressure on existing stores, especially those in categories with easy on-line substitution.

Table 8-4: Summary of Retail Use Demand through 2050

	Low	High
Potential Recapture of Retail Sales Leakage	81,000 SF	141,000 SF
Demand from New Residents	480,000 SF	754,000 SF
Demand from New Employees	276,000 SF	515,000 SF
Subtotal	837,000 SF	1,410,000 SF
(Less) Adjustment for Accelerate On-line Shopping	(167,000) SF	(212,000) SF
(Less) Adjustment for Incremental Sales Absorption Through Increased Productivity of Existing Retail Space	(84,000) SF	(141,000) SF
Add: Demand from Beyond City	59,000 SF	106,000 SF
Estimated Retail Space Demand, 2020-2050	645,000 SF	1,163,000 SF

8.3 Key Issues Affecting Demand

Based on a review of regional and local trends in the retail market, KMA identified a number of issues likely to affect residential development within the City:

- Retail industry contraction and consolidation. Demand for e-commerce/on-line shopping has increased through the years, reducing demand for brick-and-mortar retail stores and overall demand for in physical space for retail. This downward trend has been further exacerbated by the COVID-19 pandemic.
- The City’s retail space inventory includes older properties that are economically obsolete, as evidenced by high vacancies and/or underutilized space. These centers may represent potential opportunities for reinvestment and/or conversion to mixed-use development.
- Retail center owners and developers will continue to face the challenge of creating retail experiences that cannot be re-created on-line. These may include both experiential retail and/or mixed-use destinations that offer shopping, dining, services, and other amenities in a walkable environment. Experiential retail generally refers to an immersive retail experience that offers consumers a chance to buy an experience rather than just an object or service. Examples of experiential retail include retail spaces with bars, food, movie screenings, yoga, and other forms of entertainment. Examples of mixed-use destinations in the San Diego region include One Paseo in Del Mar Heights (San Diego), Millenia in Chula Vista, and North City in San Marcos, among others.

8.4 Potential Development Opportunities

Considering current and historic market factors, forecasted demand, and key issues with respect to demand for retail uses, KMA believes that there is weak demand in the near-term and this will increase to a moderate demand in the long-term.

Table 8-5: Market Support for Retail Space

	Near-Term	Mid-Term	Long-Term
Retail	Weak	Moderate	Moderate

The City, in conjunction with property owners and/or other key stakeholders, can expand opportunities for retail space through the following recommended actions:

- Promote ground-floor neighborhood-serving retail in mixed-use districts, primarily in Downtown and South Oceanside, or Areas 1 and 3.
- Continue to foster existing retail/shopping center concentrations in Area 1 (east of I-5, along Mission Avenue) and Area 3 (east of I-5, along Vista Way, adjacent to The Shoppes at Carlsbad).
- Identify opportunities for repositioning/conversion of older retail developments along Oceanside Boulevard adjacent to the Sprinter rail line in Areas 3 and 4.
- Accommodate for new land use patterns that reflect the paradigm shift from auto-oriented, single-family detached subdivisions to medium- to high-density multi-family/mixed-use development.
- Locate neighborhood-serving retail in close proximity to existing and new residential development.
- Collaborate with the business and development community to create experiential retail opportunities in existing and new shopping centers.

9 MARKET OVERVIEW AND OPPORTUNITIES – HOTEL

9.1 County Hotel Market

In 2018, the county hotel market experienced a historical peak for the sixth straight year at approximately 79% occupancy. In addition, the average daily hotel room rate (ADR) achieved a high of \$166, an increase of 3.9% from 2017. The county hotel market is defined by the presence of federal government and military bases, theme parks, as well as beaches, casinos, racetracks, shopping venues, golf courses, and the San Diego Convention Center. According to CBRE Commercial Real Estate Services' (CBRE's) 2020 Southern California Lodging Forecast, the county can be divided into nine (9) submarkets: Downtown San Diego/Embarcadero, San Diego Bay, La Jolla, Mission Bay, Mission Valley/Old Town, North City/University Towne Center (UTC)/Sorrento Mesa, North Coastal, I-15/Kearny Mesa, and South Bay.

Table 9-1 below presents 2018 and 2019 hotel market performance by submarket. As shown, the Downtown San Diego/Embarcadero submarket, fueled by the Convention Center, experienced the highest occupancy in 2019. During this same year, the La Jolla submarket experienced the highest ADR at \$257. Conversely, the South Bay submarket experienced both the lowest occupancy (72%) and ADR (\$107).

Table 9-1: Hotel Market Performance, County Submarkets (1)

Submarket	Occupancy (2019)	Average Daily Rate (ADR)	
		2018	2019
Downtown San Diego/ Embarcadero	82%	\$218	\$223
San Diego Bay Market	80%	\$243	\$245
La Jolla	77%	\$254	\$257
Mission Bay	77%	\$199	\$204
Mission Valley/Old Town	79%	\$142	\$146
North City/University Towne Center (UTC)/ Sorrento Mesa	84%	\$181	\$188
North Coastal Market	77%	\$192	\$192
I-15/Kearny Mesa	76%	\$137	\$141

Table 9-1: Hotel Market Performance, County Submarkets (1)

Submarket	Occupancy (2019)	Average Daily Rate (ADR)	
		2018	2019
South Bay	72%	\$107	\$107

(1) CBRE Southern California Lodging Forecast, 2020.

9.2 North Coastal Hotel Market

The North Coastal submarket includes the cities of Del Mar, Carlsbad, and Oceanside. Factors driving hotel demand in this submarket include the Del Mar racetrack and fairgrounds, beaches, shopping outlets, and theme parks. CBRE estimates that in 2019, occupancy increased to 77.3%, a 3.0% increase from the prior year. By contrast, in 2019, ADR was estimated at \$192, or a slight increase of 0.1% from the prior year. Table 9-2 below presents historic and forecasted trend data for the North Coastal submarket.

Table 9-2: Historic and Forecasted Hotel Market Performance, North Coastal Submarket (1)

Year	Occupancy	ADR
2014	73.9%	\$176
2015	80.1%	\$181
2016	82.3%	\$182
2017	77.4%	\$187
2018	76.5%	\$192
2019 (Estimate)	77.3%	\$192
2020 (Forecast)	77.0%	\$195

(1) CBRE Southern California Lodging Forecast, 2020.

9.3 City Hotel Market

- As presented in Table 9-3 below, there are currently 29 hotel/timeshare properties within the City comprised of 2,305 rooms and/or timeshares.

Table 9-3: Number of Hotel Rooms/Timeshares, City of Oceanside (1)

	Hotel Name	Stars (2)	Number of Rooms/ Timeshares
1	Wyndham (2007)	1/2	168
2	Trendwest		160
3	Marriott Springhill Suites	★★★ 1/2	149
4	Marriott Courtyard		142
5	Motel 6 Plaza Drive		137
6	Marriott Residence Inn		125
7	Best Western Plus- Oceanside Palms		114
8	Holiday Inn Carmelo		110
9	Super 8 Martys Valley Inn		106
10	Marina Del Mar	---	104
11	Extended Stay America	★★ 1/2	101
12	Best Western Oceanside	★★ 1/2	80
13	Roadway Inn & Suites (Marriott Residence Inn)		80
14	Days Inn at the Coast		79
15	Travel Lodge/ Quality Inn & Suites	★★ 1/2	77
16	Comfort Suites Marina	★★ 1/2	72
17	Ramada Limited		68
18	Quality Inn and Suites	★★ 1/2	63
19	Motel 6		62
20	Oceanside Marina Suites		57
21	Motel 9		47
22	La Quinta	★★ 1/2	41
23	Beachwood Motel		30
24	Harbor Inn & Suites		28
25	Coast Inn		27
26	The Fin Hotel		27
27	Oceanside Inn and Suites		25
28	Hilltop Motel		15
29	Ocean Breeze Inn	★★ 1/2	11
	Total Rooms/Timeshares		2,305

(1) Source: City of Oceanside, September 22, 2020.

(2) Based on internet research, i.e., hotels.com and tripadvisor.com.

- Of the North Coastal cities, the City has one of the lowest transient occupancy tax (TOT) rates at 10.0%, compared to Solana Beach (13.0%) and Del Mar (11.5%). Neighboring Carlsbad has a similar TOT rate of 10.0%.
- As shown in Table 9-4 below, the City’s TOT collection accounted for 2.48% of the county total, the second highest among the county’s North Coastal cities. This indicates the relative size of the City hotel market in relation to other North Coastal cities such as Carlsbad (7.89% of the county total) and Solana Beach (0.61% of the county total).
- From 2010 to 2019, the City’s TOT collection experienced an average annual rate increase of 11.0%, the highest among the county’s North Coastal cities and the county as a whole. This growth reflects the development, and absorption, of new hotels within the City.

Table 9-4: Transient Occupancy Tax (TOT) Collection, North Coastal Cities vs. County, FY 2010-2019 (1)

Jurisdiction	TOT Rate	FY 2010	FY 2019	Average Annual Rate Increase 2010-2019	FY 2019 % of County
Carlsbad	10%	\$11,486,000	\$26,241,000	10%	7.98%
Del Mar	11.5%	\$1,506,000	\$2,977,000	8%	0.91%
Encinitas	10%	\$1,184,000	\$2,776,000	10%	0.84%
Oceanside	10%	\$3,107,000	\$8,151,000	11%	2.48%
Solana Beach	13%	\$943,000	\$2,019,005	9%	0.61%
County		\$162,900,000	\$328,638,000	8%	

(1) Source: San Diego Tourism Authority.

There are approximately ten (10) new construction/expansion hotel projects under construction, approved, or with applications on file with the City. These projects will add approximately 1,105 additional hotel rooms to the City. Most significant among these proposed new hotels are the following:

- The Oceanside Beach Resort (389 rooms), currently under construction and set to open in Spring 2021
- The Inns at Buena Vista Creek (426 rooms), currently in the planning process

The City's proximity to beaches, recreational facilities, business parks, and other tourist-oriented amenities – and its recent strong hotel performance – are promising factors supporting future hotel development and expansion in the City. Expansion of hotel development in the City and county will be dependent on the anticipated recovery of the national Accommodation and Food Services sector as a whole, which includes the lodging market. Based on hotel performance forecasts from HVS Southern California, a global hospitality consulting firm, the lodging market in the county is not expected to reach pre-COVID-19 occupancy by 2024.

9.4 Demand Projection

KMA formulated a projection of hotel room night demand for the City until 2050. This projection was based on low/high forecasts of growth for the tourism/leisure, commercial/corporate, and meeting/groups market segments. These growth factors reflect review of historical hotel performance in the region and recent additions to hotel supply in the City. In addition, they also consider the potential increasing share of visitor nights captured by short-term rentals rather than hotels. These growth forecasts were also adjusted to reflect a decrease in demand due to the impacts of COVID-19, anticipated to last until 2024. This hotel room night demand projection was then converted to anticipated net number of hotel rooms, assuming stabilized market occupancy at 75%. This projection accounts for new hotels currently under construction. KMA further assumed that the introduction of the Oceanside Beach Resort, a four-star, full-service hotel, will introduce a new market to the City, accessing hotel room demand previously untapped by the City. Table 9-5 below summarizes the KMA methodology to project hotel room demand within the City. As shown, KMA projects that total hotel room demand in the City through 2050 will range from 3,300 to 4,000 rooms, or between 109 and 135 rooms per year.

Table 9-5: Projected Hotel Room Demand by 2050

	Low	High
I. Annual Rate of Increase by Market Segment		
A. Tourism/Leisure (1)	3.5%/Year	4.0%/Year
B. Commercial/Corporate (1)	2.5%/Year	3.0%/Year
C. Meeting/Groups (1)	3.0%/Year	3.5%/Year
II. Projected Total Hotel Room Demand by 2050 (2)	5,971 Rooms	6,744 Rooms
III. (Less) Existing Supply (3)	(2,704) Rooms	(2,704) Rooms
IV. Incremental Hotel Room Demand by 2050 (Rounded) Per Year	3,267 Rooms 3,300 Rooms 109 Rooms/Year	4,040 Rooms 4,000 Rooms 135 Rooms/Year

- (1) Due to the impacts of COVID-19, assumes an annual rate of increase for Tourism/Leisure (2.5%), Commercial/Corporate (1.5%), and Meetings/Groups (1.0%) until 2024.
- (2) Includes Oceanside Beach Resort. Assumes the introduction of this resort will introduce a new market to the City, accessing hotel room demand previously un-tapped by the City.
- (3) Includes existing hotel rooms/timeshares and hotel rooms currently under construction.
Source: City of Oceanside, September 22, 2020.

9.5 Potential Development Opportunities

Considering current and historic market factors, forecasted demand, and key issues with respect to demand for hotel uses, KMA believes that there is moderate demand in the near-term and this will increase to a strong demand in the mid- to long-term.

	Near-Term	Mid-Term	Long-Term
Hotel	Moderate	Strong	Strong

In conjunction with property owners and/or other key stakeholders, the City can expand opportunities for hotel development through the following recommended actions:

- Significant opportunities for hotel development occur in Area 1, west of I-5 in general and in Downtown in particular. There is also potential to draw from the



synergistic impacts of the Oceanside Beach Resort currently under construction.

- Encourage hotel development in Areas 2 and 4 where corporate offices and business parks are expected to continue to grow and expand.
-
- Continue to seek new opportunities for hotel development in close proximity to existing and new tourist amenities throughout the City. For example, the South Morro Hills community in Area 2 presents an opportunity to incorporate low-density visitor accommodations such as a bed & breakfast.

10 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. Market feasibility is not equivalent to financial feasibility; other factors apart from the level of demand for a land use are of crucial importance in determining feasibility. These factors include the cost of acquiring sites, 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.