

CHAPTER 8 MARKET CONDITIONS



8 MARKET CONDITIONS

8.1 INTRODUCTION

This chapter evaluates the economic, real estate, and fiscal conditions and trends that will inform the land use policies and alternatives considered as part of the City of San Marcos’s General Plan Update. **It should be clearly noted that the majority of this analysis was prepared in early 2020, prior to the COVID-19 pandemic. While the information contained within this Chapter continues to be relevant, the City will complete additional market research as part of its comprehensive General Plan Update to consider the impacts of the COVID-19 pandemic and understand how this event has changed, and will continue to change, market conditions in the City and region. This information will be prepared in late 2021 and shared under separate cover.**

Baseline socio-economic and market trends can provide important information on where the City is headed under “business-as-usual” conditions. They are also intended to ensure that future land use alternatives being considered as part of the General Plan process are realistic and achievable from an economic perspective. Specifically, the findings will inform the following inter-related General Plan issues:

- **Economic Development:** What economic sectors have the strongest growth potential in the City? How can the General Plan help promote growth in these sectors, assuming the City is interested in this outcome?
- **Land Use (Re-) Development Feasibility:** What are the market prospects for various real estate development and investment projects in the City being considered for growth and/or change?
- **Economic Impacts of Land Use Policy:** What are the economic and market implications of various policies or land use regulations being considered as part of the General Plan Update?
- **Fiscal Sustainability:** How will various General Plan land use alternatives or policies affect the long-term fiscal health of the City and its ability to effectively provide adequate public services and infrastructure?

This baseline economic analysis is based on a review of publicly available data from a variety of sources as documented herein. It is important to note that the information provided is not intended as deterministic in terms of the type or amount of land use that should be considered going forward. Future development patterns will be influenced by a variety of factors, some external to the General Plan, and others that have and will continue to be directly shaped by local land use policies.

Further, the baseline analysis presented here does not incorporate input from the community at large, nor is it intended to reflect or address the opinions or preferences of San Marcos residents. Community and stakeholder outreach activities are being conducted as part of the broader General Plan Update study process, as reflected in separate deliverables from the De Novo Planning Group consultant team.

Finally, it is worth noting again, that this chapter was prepared in early 2020 as the nation and world sought to address the coronavirus pandemic, an unprecedented public health crisis. During this period protecting public health is a top priority. Additional discussion of the short and potential longer-term ramifications of the coronavirus crisis for the General Plan process are referenced where relevant herein, and will be further examined under separate cover.

8.2 TRADE AREA

As with the discussion regarding demographics in Chapter 1, this analysis focuses on data metrics for the City of San Marcos and provides data on other geographic areas for context and comparison purposes.

The Trade Area, which includes the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista (see Figure 1-1), represents the core area of economic and market activity that impacts San Marcos, and is defined based on geographical mobility considerations that tend to focus a large share of regional economic activity. Most prominent among these features is State Route 78, which connects the five cities together and serves as a major commuter route for workers to move between the cities as well as connect to other parts of San Diego County and southern Orange County. The five cities also represent the majority of the population of the North County region of San Diego County.

It is worth noting the economies of the five cities of the Trade Area are very interconnected. Economic activity is not constrained by municipal boundaries, and economic development coordination and cooperation on a regional level often leads to economic growth that is greater than the sum of its parts. In recognition of this, the five cities have invested in supporting and furthering this interconnected economic activity through a partnership called Innovate78. The partnership allows the cities to build on each other's economic strengths and promote the area's overall skilled workforce, quality of life, and business incentives and resources in attracting and supporting new industries, businesses, and residents. The partnership is further supported through collaboration with the San Diego Economic Development Corporation, which is focused on promoting regionwide economic growth. The City can continue to play its part in supporting this partnership through the General Plan, by targeting land use that will promote Trade Area development strengths and opportunities, and through economic development strategies that underline the importance of continued regional cooperation.

8.3 ECONOMIC PROFILE AND TRENDS

8.3.1 Jobs and Industry Distribution and Trends

San Marcos has about 15 percent of the jobs within the Trade Area, and outpaced the Trade Area and County in job growth from 2010 to 2017 (see Table 8-1). Jobs in the City are split 80 percent / 20 percent between service-producing and goods-producing sectors, compared to an 85 percent / 15 percent split in the County. However, the City saw a relatively small amount of growth in its goods-producing sector compared to the Trade Area and County. Specifically, the City lost manufacturing jobs but added construction jobs in this period, while the Trade Area and County saw large increases in both sectors.

Industry sectors in the City that grew faster than overall job growth include management, healthcare, administration, education, accommodations and food service, and wholesale trade. The City noticeably lagged behind the Trade Area and County in creation of jobs in professional services, which is typically a higher-paying sector. Meanwhile, it outpaced these larger geographies in other higher-paying sectors such as real estate and finance and insurance, but these two sectors remain a small part of the economy overall. All of these trends have implications for real estate development in the City, which will be discussed further in subsequent sections.

The City's largest employers, shown in Table 8-2, are reflective of its largest industry sectors, particularly education, health care, and manufacturing. The three largest employers—Palomar College, San Marcos Unified School District, and CSUSM—employ nearly 7,000 people, representing a quarter of total City jobs. While education jobs can vary in skills and wages, these are institutions that tend to be more geographically stable and can also support the creation of jobs in a variety of other sectors. The City's 2019 community profile shows that while higher-education institutions in the City confer more than 9,500 degrees and certificates annually, just 4 percent of alumni of those institutions work in the City while 29 percent work in San Diego and 14 percent work in other Trade Area cities.¹ Additionally, employees working at jobs in the City have slightly lower levels of educational attainment compared to City residents and to workers in the Trade Area and County. Both metrics suggest an opportunity to attract more jobs to the City in industries that require the higher education levels of residents and recent graduates.

CSUSM and Palomar College have also seen growing enrollments and have plans to increase student numbers even more over the next 5-10 years. Both institutions have invested and are planning future investments in development projects around their campuses, and are driving other new large-scale developments—most notably, the North City project next to CSUSM, which includes the University's Extended Learning building and The Quad student housing building.

¹ From 2019 San Marcos Community Profile, prepared by City of San Marcos Economic Development Department.

Table 8-1 Jobs By Industry

Industry Sector	San Marcos		Trade Area [1]		San Diego County	
	# (2017)	Share % Ch. '10-'17	# (2017)	Share % Ch. '10-'17	# (2017)	Share % Ch. '10-'17
Total	34,717	100%	226,184	100%	1,289,224	100%
Goods-Producing						
Agriculture, Forestry, Fishing and Hunting	44	0%	1,203	1%	8,084	1%
Mining, Quarrying, and Oil and Gas Extraction	0	0%	8	0%	332	0%
Utilities	98	0%	1,192	1%	6,754	1%
Construction	2,675	8%	17,993	8%	76,944	6%
Manufacturing	4,025	12%	29,526	13%	107,389	8%
Subtotal	6,842	20%	49,922	22%	199,503	15%
Service-Producing						
Wholesale Trade	1,993	6%	13,648	6%	51,159	4%
Retail Trade	3,320	10%	27,847	12%	126,256	10%
Transportation and Warehousing	690	2%	3,070	1%	25,232	2%
Information	244	1%	2,787	1%	25,437	2%
Finance and Insurance	464	1%	4,689	2%	44,520	3%
Real Estate and Rental and Leasing	535	2%	3,764	2%	26,205	2%
Professional, Scientific, and Technical Services	1,407	4%	14,956	7%	131,987	10%
Management of Companies and Enterprises	199	1%	2,734	1%	22,511	2%
Admin & Support, Waste Mgmt and Remediation	2,890	8%	12,793	6%	78,761	6%
Educational Services	5,971	17%	21,506	10%	125,663	10%
Health Care and Social Assistance	4,420	13%	27,339	12%	168,288	13%
Arts, Entertainment, and Recreation	366	1%	6,499	3%	31,310	2%
Accommodation and Food Services	3,739	11%	22,778	10%	144,316	11%
Other Services (excluding Public Administration)	1,324	4%	8,146	4%	47,526	4%
Public Administration	313	1%	3,706	2%	40,550	3%
Subtotal	27,875	80%	176,262	78%	1,089,721	85%

[1] Trade Area is the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista

Source: LEHD; Economic & Planning Systems

Table 8-2 Largest Employers in San Marcos (2019)

Organization	Sector	Number of Employees
Palomar Community College	Education	2,485
San Marcos Unified School District	Education	2,464
California State University San Marcos	Education	1,883
Hunter Industries, Inc.	Manufacturing	806
United Parcel Service, Inc.	Transportation	551
Southern California Permanente Medical Group	Healthcare	445
Costco Wholesale	Retail	363
North County Health Services	Healthcare	250
Lusardi Construction Co.	Construction	250
Wal-Mart Stores, Inc.	Retail	243
Fluid Components International, LLC	Manufacturing	230
Oncore Manufacturing Services, LLC	Manufacturing	212
Village Square Healthcare Center	Healthcare	208
Hollandia Dairy, Inc.	Manufacturing/Trade	206
Welk Resort Group, Inc	Accommodations	200

Source: San Marcos 2019 Comprehensive Annual Financial Report

8.3.2 Commute Trends

As an integral part of the North County economy, and particularly given the presence of its large education institutions, San Marcos has a dynamic inflow and outflow of workers and residents through the City each day. The City currently functions more as an employment center than a residential center, with a jobs-to-household ratio of 1.19—slightly higher than both the Trade Area and the County, as shown in Table 8-3.

Table 8-3 Jobs-to-Household Ratio

	San Marcos	Trade Area [2]	San Diego County
Jobs [1]	34,717	226,184	1,289,224
Households [1]	29,171	210,733	1,118,980
Jobs/HH Ratio	1.19	1.07	1.15

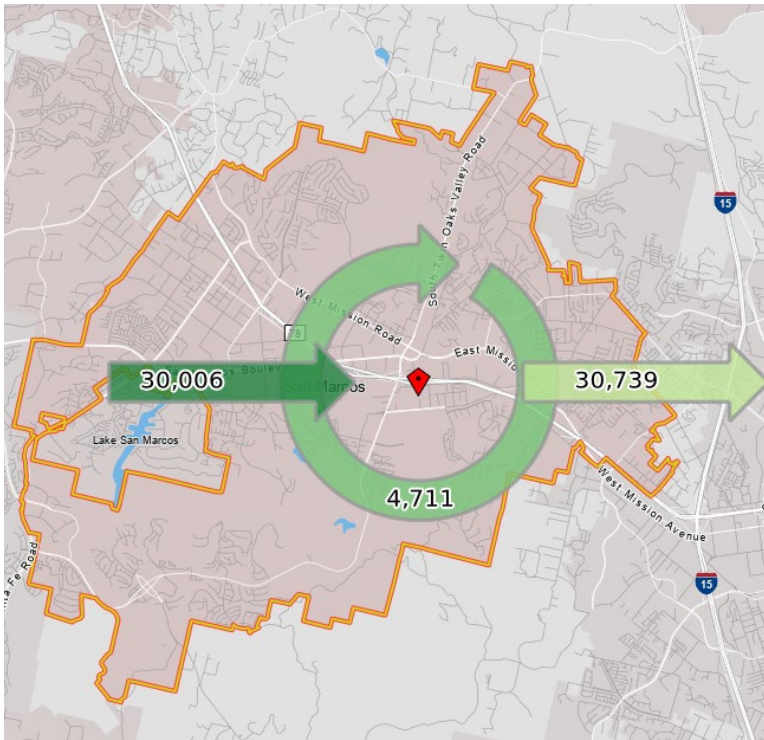
[1] 2017 total primary jobs estimates and 2018 occupied housing unit estimates

[2] Trade Area is the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista

Source: LEHD; ACS; Economic & Planning Systems

As shown in Figure 8-1, there are about 30,000 residents who commute out from the City each day and other 30,000 workers who commute in. While the single most-common work destination for San Marcos residents is the City of San Diego, a plurality of residents (43 percent) work in one of the Trade Area cities, including San Marcos itself (see Table 8-4). Similarly, nearly half of workers in San Marcos come from the City or other Trade Area cities (see Table 8-5). This underlines the interconnectedness of the Trade Area’s economy.

Figure 8-1 Inflow/Outflow of San Marcos Workers and Residents



Source: LEHD

Table 8-4 Top Ten Work Destinations for San Marcos Residents

Work Destination	Number	% of Total
San Diego city, CA	7,071	19.9%
San Marcos city, CA	4,711	13.3%
Carlsbad city, CA	4,160	11.7%
Escondido city, CA	2,594	7.3%
Vista city, CA	2,346	6.6%
Oceanside city, CA	1,586	4.5%
Encinitas city, CA	1,034	2.9%
Los Angeles city, CA	807	2.3%
Poway city, CA	598	1.7%
Irvine city, CA	497	1.4%
All Other Locations	<u>10,046</u>	28.3%

Source: LEHD; Economic & Planning Systems

Table 8-5 Top Ten Origins of San Marcos Workers

Origin of Employee	Number	% of Total
San Marcos	4,711	14%
Escondido	4,169	12%
San Diego	3,275	9%
Oceanside	2,908	8%
Vista	2,449	7%
Carlsbad	1,645	5%
Los Angeles	757	2%
Encinitas	701	2%
Chula Vista	428	1%
Fallbrook	415	1%
All Other Locations	13,259	38%

Source: LEHD; Economic & Planning Systems

A comparison of the sectors in which residents work with those located in the City provides insight into areas where residents’ skills do not match local employment opportunities. For example, there are over 2,500 more City jobs in the education sector than there are residents working in education. On the other end of the spectrum, there are 1,750 more residents working in the finance and insurance sector than could be accommodated by City finance and insurance jobs.

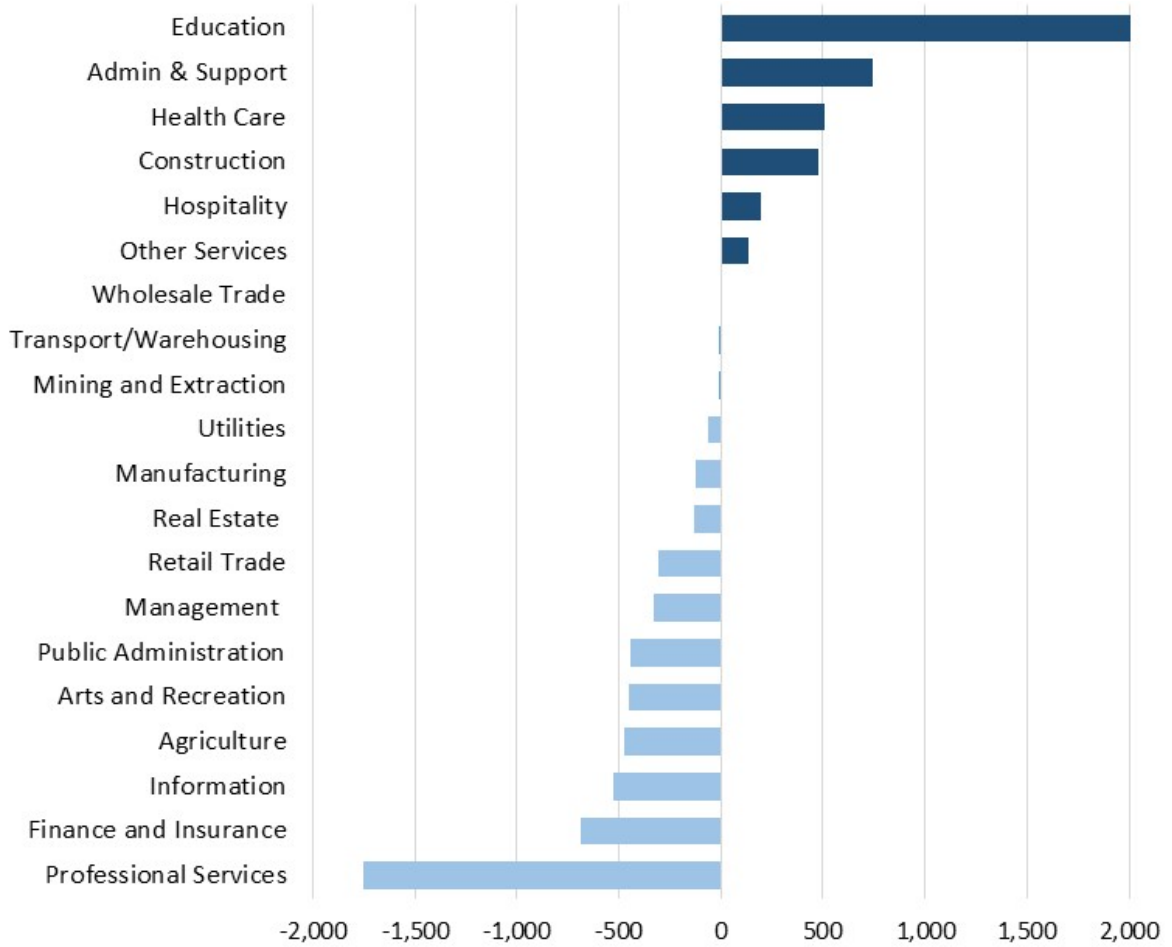
Table 8-6 provides a breakdown of resident employment by industry, and Figure 8-2 shows the differences between City jobs and resident employment for all industry sectors. Positive numbers indicate industries where there are more City jobs than residents working in the industry, and negative numbers indicate industries with more residents working in them than there are jobs in the City. While no city can or should perfectly match their job opportunities to the skills of their residents, there are benefits to closing some of these gaps, and the General Plan Update process will allow the City to identify strategies to address them.

Table 8-6 Resident Employment By Industry

Industry Sector	San Marcos		Trade Area [1]		San Diego County	
	# (2017)	Share % Ch. '10-'17	# (2017)	Share % Ch. '10-'17	# (2017)	Share % Ch. '10-'17
Total Primary Jobs	35,450	100%	246,482	100%	1,300,656	100%
Goods-Producing						
Agriculture, Forestry, Fishing and Hunting	521	1%	3,639	1%	10,523	1%
Mining, Quarrying, and Oil and Gas Extraction	8	0%	87	0%	475	0%
Utilities	161	0%	1,198	0%	6,364	0%
Construction	2,201	6%	15,664	6%	73,890	6%
Manufacturing	4,152	12%	26,010	11%	105,757	8%
Subtotal	7,043	20%	46,598	19%	197,009	15%
Service-Producing						
Wholesale Trade	1,988	6%	13,332	5%	55,224	4%
Retail Trade	3,623	10%	25,719	10%	129,741	10%
Transportation and Warehousing	694	2%	5,244	2%	32,960	3%
Information	768	2%	5,042	2%	28,750	2%
Finance and Insurance	1,151	3%	7,932	3%	47,251	4%
Real Estate and Rental and Leasing	665	2%	4,893	2%	26,529	2%
Professional, Scientific, and Technical Services	3,158	9%	21,376	9%	129,213	10%
Management of Companies and Enterprises	532	2%	3,825	2%	22,809	2%
Admin & Support, Waste Mgmt and Remediation	2,148	6%	15,494	6%	82,297	6%
Educational Services	3,460	10%	21,478	9%	123,597	10%
Health Care and Social Assistance	3,912	11%	29,007	12%	166,844	13%
Arts, Entertainment, and Recreation	815	2%	6,045	2%	30,459	2%
Accommodation and Food Services	3,544	10%	26,101	11%	141,684	11%
Other Services (excluding Public Administration)	1,189	3%	8,438	3%	46,110	4%
Public Administration	760	2%	5,958	2%	40,179	3%
Subtotal	28,407	80%	199,884	81%	1,103,647	85%

[1] Trade Area is the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista
Source: LEHD, Economic & Planning Systems

Figure 8-2 Difference in Jobs By Industry held by San Marcos Workers versus San Marcos Residents



Source: LEHD; EPS

8.3.3 Wages

The median wage earned by City residents is slightly higher than the Trade Area and slightly lower than the County, although all three are within a \$1,600 range (see Table 8-7). Industries in which City residents earn more than County residents include wholesale trade, transportation/warehousing, finance and insurance, and professional services, among others. The growth in the number of City residents employed in these industries specifically has also outpaced the growth in employed City residents overall. These trends together correspond with the City's household income growth described in the previous section.

It is also notable that City and Trade Area residents earn more than workers countywide in both industries that traditionally require higher levels of educational attainment (such as professional services and finance and insurance) and those that do not necessarily require post-secondary, or in some cases even high school degrees (such as wholesale trade and transportation/warehousing). This data shows that in many sectors, the Trade Area is offering better paying jobs relative to the County.

Table 8-7 Median Wage by Industry for Resident Workforce

Industry	San Marcos		Trade Area [1]	San Diego County
	Median Wage	% of Workers		
Professional, scientific, and technical services	\$99,966	8.2%	\$88,680	\$81,959
Utilities	\$80,750	0.8%	\$96,725	\$86,168
Public administration	\$80,167	2.6%	\$73,272	\$69,833
Wholesale trade	\$80,125	2.9%	\$56,895	\$52,406
Information	\$74,537	1.9%	\$77,860	\$78,974
Finance and insurance	\$74,188	3.0%	\$69,463	\$66,461
Educational services	\$73,662	7.9%	\$63,542	\$59,687
Manufacturing	\$62,803	12.7%	\$61,357	\$66,995
Transportation and warehousing	\$62,655	2.5%	\$53,568	\$48,555
Median Annual Wage	\$51,882	-	\$51,319	\$52,923
Real estate and rental and leasing	\$51,641	2.7%	\$58,810	\$53,690
Arts, entertainment, and recreation	\$51,382	2.9%	\$48,339	\$40,229
Construction	\$43,311	6.8%	\$45,407	\$50,420
Retail trade	\$42,031	10.4%	\$37,856	\$37,786
Health care and social assistance	\$41,143	12.0%	\$46,072	\$50,990
Accommodation and food services	\$30,313	8.2%	\$28,383	\$28,919
Other services except public administration	\$29,763	6.2%	\$32,828	\$35,495
Admin and support and waste mgmt services	\$27,933	6.7%	\$32,414	\$35,134
Agriculture, forestry, fishing and hunting	\$26,397	1.3%	\$29,971	\$26,590
Mining, quarrying, and oil and gas extraction	-	0.2%	\$150,804 [2]	\$53,686
Management of companies and enterprises	-	0.1%	\$112,739 [3]	\$102,346

Source: U.S. Census; American Community Survey; Economic & Planning Systems

[1] Trade Area is the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista. Value shown represents a weighted average of the median wages for each city, weighted by total number of employees in each industry by city.

[2] Incomplete wage data reported by ACS for all cities within trade area; value shown is for Carlsbad only, which is home to 31 percent of all Trade Area employees in this industry.

[3] Incomplete wage data reported by ACS for all cities within trade area; value shown incorporates wage data for Vista and Oceanside only, which are home to 16 percent and 28 percent of all Trade Area employees in this industry respectively.

8.3.4 Job Growth Projections

SANDAG projects a nearly 30 percent increase in jobs in San Marcos over the next 20 years—faster than the Trade Area and County, and faster than growth seen between 2010 and 2017. Realizing this growth will require the City to pursue policies that support both an appropriately-skilled and educated workforce to fill the jobs of the future, as well as land use patterns that allow for the space needs of these jobs. These policies will be addressed in the Economic Development Element of the General Plan.

Table 8-8 Projected Employment Growth, 2020 to 2040

Employment	San Marcos Trade Area [1] San Diego County		
2020	45,783	265,897	1,520,180
2040	59,106	304,088	1,715,156
% Change from 2020 to 2040	29%	14%	13%

[1] Trade Area is the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista

Source: SANDAG 2012-2050 Growth Forecast; Economic & Planning Systems

8.4 RESIDENTIAL REAL ESTATE MARKET

This chapter provides an overview of the residential real estate market in San Marcos. The makeup of the City's housing stock and trends in housing affordability is a physical manifestation of the demographic characteristics discussed in the previous chapter.

8.4.1 Composition of Housing Stock

Like the rest of the Trade Area and County, the City's housing stock consists primarily of owner-occupied single-family homes. As shown in Table 8-9, this product type makes up 49 percent of all housing units in the City, the same proportion as the Trade Area and slightly higher than the County overall. The City's proportion of units within multifamily buildings—which includes duplexes and four-plexes as well as larger apartment buildings—is 26 percent, below the proportion of similar unit types in the Trade Area and the County. Although the City has also a relatively high proportion of housing units defined as "Other," which primarily includes mobile homes, a more affordable option for homeownership, these units have declined over time.

While housing in San Marcos is mostly owner-occupied—61 percent versus 39 percent renter-occupied—the proportion of owner-occupied units has been decreasing since 2000. A similar trend can be seen in the Trade Area and County. Most of this shift has occurred in single-family homes. An increasing number of these homes have shifted to renter-occupied, likely a reflection both of the challenges that many households face in attaining home ownership, as well as a consequence of many households losing their homes during the Recession.

Paralleling population trends, the City's housing stock has grown faster than the Trade Area and the County since 2000—around 3.5 percent growth annually over the 18-year period—although it slowed considerably between 2010 and 2018 (see Table 8-10). In the same period, the City's vacancy rate remained flat, relatively low (below five percent), and below the Trade Area and County. In other words, the City has generally been successful in absorbing its new housing stock over the past two decades, even during the Recession.

Table 8-9 Trends in Tenure by Housing Type, Occupied Units, 2000-2018

Category	2000			2010			2018	
	San Marcos	Trade Area [1]	San Diego County	San Marcos	Trade Area [1]	San Diego County	San Marcos	Trade Area [1]
Percent Tenure								
Owner-Occupied	66%	60%	55%	63%	60%	56%	61%	56%
Renter-Occupied	34%	40%	45%	37%	40%	44%	39%	44%
Percent Type								
Single-Family	56%	61%	61%	62%	64%	62%	61%	63%
<i>Owner-Occupied</i>	47%	51%	48%	51%	51%	48%	49%	49%
<i>Renter-Occupied</i>	9%	11%	13%	11%	12%	14%	12%	15%
Multifamily	25%	31%	35%	27%	30%	34%	26%	31%
<i>Owner-Occupied</i>	1%	3%	4%	2%	3%	5%	2%	3%
<i>Renter-Occupied</i>	23%	28%	31%	25%	27%	29%	24%	28%
2-4 Units	3%	7%	7%	4%	6%	7%	4%	6%
5+ Units	22%	25%	27%	23%	24%	27%	22%	25%
Other [2]	19%	7%	4%	12%	6%	4%	13%	6%
<i>Owner-Occupied</i>	18%	6%	4%	11%	5%	3%	11%	5%
<i>Renter-Occupied</i>	2%	1%	1%	1%	1%	1%	2%	1%

[1] Trade Area is the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista

[2] "Other" housing types include mobile homes, boats, RVs, and vans

Source: U.S. Census; American Community Survey; Economic & Planning Systems

Table 8-10 Trends in Housing Units and Vacancy, 2000-2018

Item	2000	2010	2018	Ann. % Chg. '00- '18	Ann. % Chg. '10- '18
San Marcos					
Total Units	18,862	26,818	30,639	3.5%	1.8%
Vacancy Rate	4.0%	4.5%	4.8%		
Trade Area [1]					
Total Units	187,105	211,840	223,977	1.1%	0.7%
Vacancy Rate	4.4%	7.0%	5.9%		
San Diego County					
Total Units	1,040,149	1,154,874	1,204,884	0.9%	0.5%
Vacancy Rate	4.4%	8.1%	7.1%		

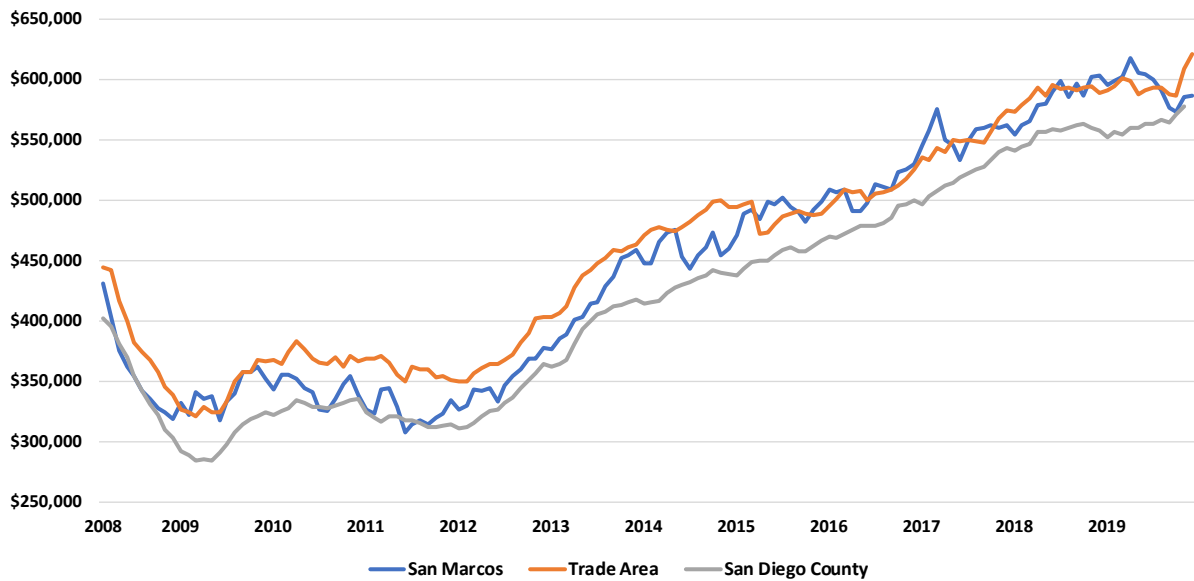
[1] Trade Area is the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista

Source: U.S. Census; American Community Survey; Economic & Planning Systems

8.4.2 Housing Price and Rent Trends

After suffering a dip during the Recession, home prices in the City, Trade Area, and County have been on a strong upward trajectory since 2012. As shown in Figure 8-3, the City and Trade Area’s median home sale prices have remained relatively close over that period, with the Trade Area median about five percent higher than the City’s on average in 2019. Both areas have generally had higher median sale prices than the County overall—about five to six percent higher in 2019.

Figure 8-3 Median Home Sale Price in San Marcos, Trade Area, and San Diego County (2008-2019)

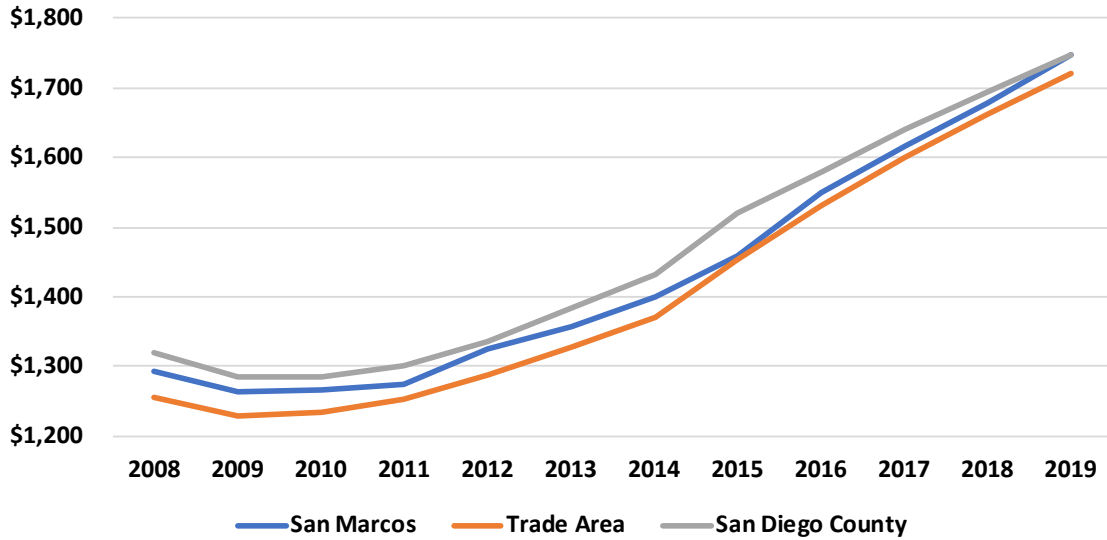


Trade Area is the weighted average of the median home sales prices of Carlsbad, Escondido, Oceanside, San Marcos, and Vista, weighted by number of home sales.
 Source: Zillow; Economic & Planning Systems

Market Conditions

Average asking rents in the City, Trade Area, and County started on a steady upward trajectory in 2010, and rents in 2019 are over 35 percent above 2010 levels in all three geographies, as shown in Figure 8-4. While rents in the County overall have generally been above the City and Trade Area, they have all been within \$100 of each other throughout the 2008-2019 period. In 2019, the City's average asking rent was the same as the County, about \$1,750 per month.

Figure 8-4 Average Asking Rents in San Marcos, Trade Area, and San Diego County (2008-2019)



Trade Area includes cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista.
Source: CoStar; Economic & Planning Systems

Strong and growing housing prices and rents in San Marcos, which are in line with regional and statewide trends, have also contributed to a high proportion of households that are considered cost-burdened.² As shown in Table 8-11, about one-third of homeowners in the City are cost-burdened, including 13 percent who are severely cost-burdened. Additionally, over half of renter households are cost-burdened, with 30 percent being severely cost-burdened. It is likely that some of these households include students not living in campus housing, whose cost-burdened status may be considered temporary, although still of concern. For those cost-burdened households including working professionals, it will be important for the City to consider strategies to facilitate the development of more housing supply, including deed-restricted affordable housing, in order to alleviate cost pressures and remain a city accessible to a wide range of households.

Table 8-11 Household Cost Burden Status By Tenure for San Marcos (2018)

Cost Burden (% of Income Spent on Housing Costs)	San Marcos
<i>Owner-Occupied</i>	
Not Cost Burdened (<30%)	56%
Cost Burdened (30%+)	33%
<i>Severely Cost Burdened (50%+)</i>	<i>13%</i>
<i>Renter-Occupied</i>	
Not Cost Burdened (<30%)	39%
Cost Burdened (30%+)	56%
<i>Severely Cost Burdened (50%+)</i>	<i>30%</i>

Source: U.S. Census; American Community Survey; EPS

² The Department of Housing and Urban Development (HUD) categorizes households as cost-burdened if they spend 30 percent or more of their income on housing costs, and severely cost-burdened if they spend 50 percent or more of their income on housing costs.

8.5 COMMERCIAL REAL ESTATE MARKET

8.5.1 Overview

The commercial real estate sector represents a physical manifestation of the San Marcos economy. This chapter provides an overview of the primary commercial real estate sectors in the City in terms of total inventory. Industrial uses represent the most predominant commercial real estate product type in the City terms of square feet, followed by retail, office, and flex space (see Table 8-12).

Table 8-12 Overview of San Marcos Commercial Real Estate Sector

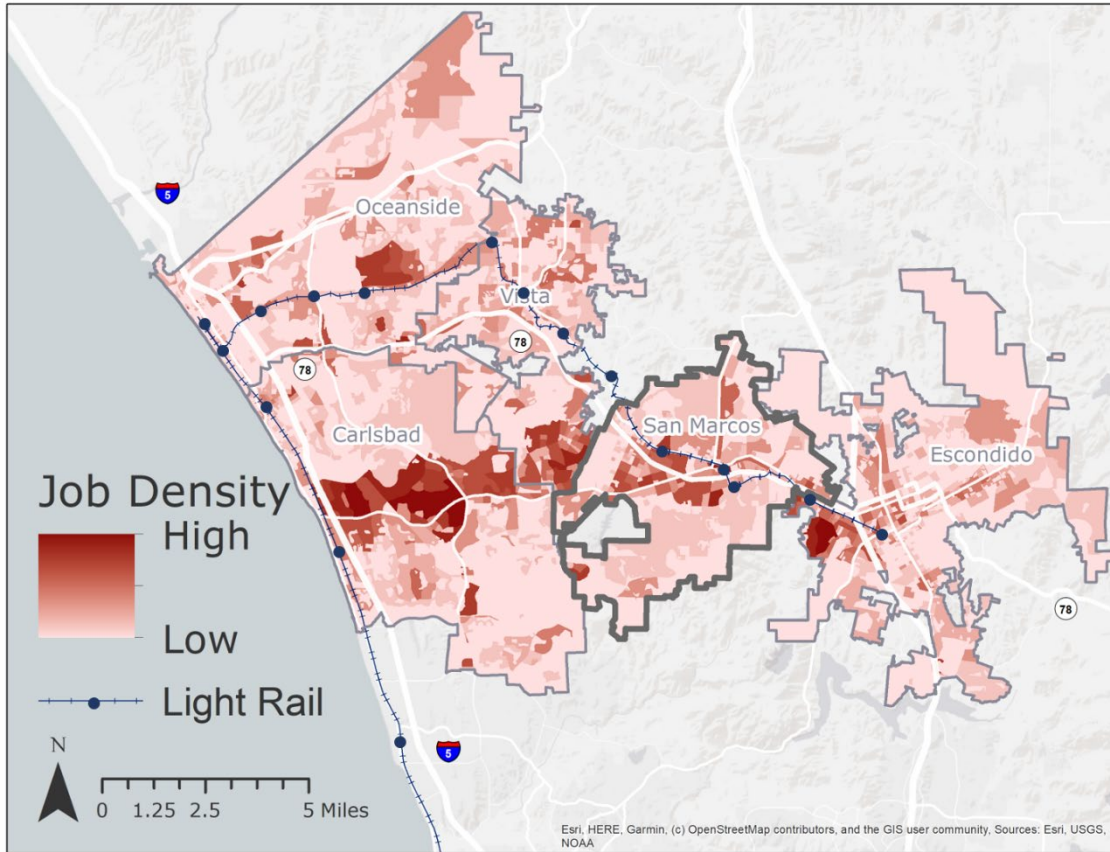
Real Estate Product Type	Total Building Square Feet (as of Q4 2019)	
	Amount	% of Total
Office	1,668,479	11%
Industrial	8,040,105	51%
Flex [1]	1,115,708	7%
Retail	4,833,660	31%
Total	15,657,952	100%

[1] Flex includes buildings that accommodate a mix of industrial, R&D, and office uses.

Source: CoStar; EPS

Figure 8-5 shows the density of jobs located throughout the Trade Area in 2017, which provides insight into the distribution of commercial development. Jobs in the region are concentrated around major transportation corridors, including Route 78, Route 76, and Interstate 5. There are also several job clusters adjacent to the Area’s light rail system. A number of the City’s Specific Plan areas that are targeted for more development, including the University District and San Marcos Creek areas, are already areas of higher job density, suggesting they are well-positioned as sites of further economic growth.

Figure 8-5 2017 Trade Area Jobs Density (with Light Rail Lines/Stations)



A further description of the market dynamics in the City’s commercial real estate sectors is provided below. As with demographic and housing metrics, comparison statistics are included for the Trade Area and for San Diego County.

8.5.2 Industrial

Industrial space in San Marcos accounts for more than half of all commercial space in the City, and 17 percent of all industrial space in the Trade Area, as shown in Table 8-13. The space is primarily clustered in several industrial/business parks along Route 78, with an additional cluster along La Costa Meadows Drive in the southern part of the City which includes the headquarters of Hunter Industries, one of the City’s largest employers.

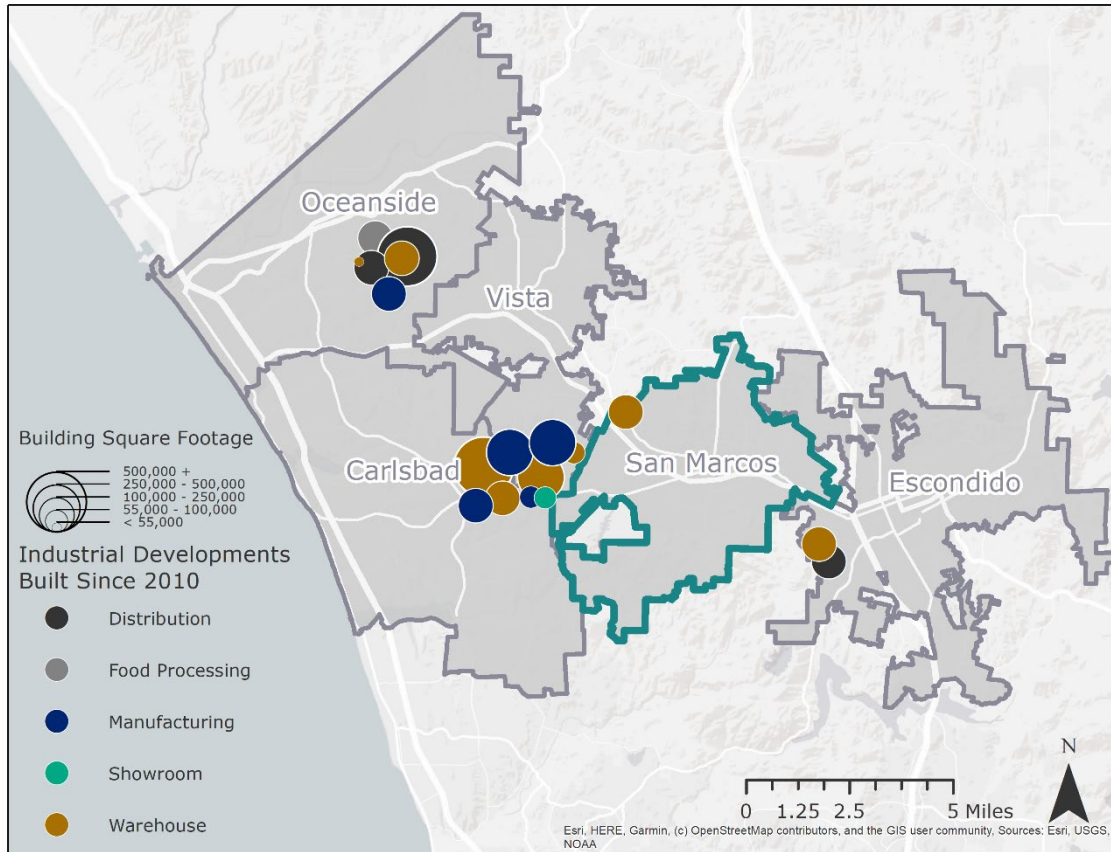
Table 8-13 Industrial Space Trends

Item (as of Q4 2019)	San Marcos	Trade Area [1]	San Diego County
Performance			
NNN Rent per Square Foot	\$11.32	\$11.43	\$11.78
Vacancy	8.4%	7.5%	4.7%
Inventory			
Square Feet	8,040,105	46,688,718	146,001,804
Share of Trade Area	17%	-	-
Share of County	5.5%	32%	-
Growth 2010 - Q4 2019			
Net New Inventory	222,028	3,990,446	6,172,366
% of Total Inventory	2.8%	8.5%	4.2%
Share of Trade Area	5.6%	-	-
Share of County	3.6%	64.7%	-

[1] Trade Area includes the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista.

Source: CoStar; EPS

The City added about 222,000 square feet of industrial space to its inventory over the past decade, an increase of less than three percent. All of the space was in a single four-building industrial campus on Bosstick Boulevard (the *production* development by RAF Pacifica Group). At the same time, industrial inventory in the Trade Area overall grew by 8.5 percent. Much of this new space has been built in Oceanside and Carlsbad, primarily in warehouse and distribution facilities (see Figure 8-6). This corresponds with regional growth in the transportation and warehousing sector, where jobs grew by nearly 30 percent in the Trade Area since 2010. The new industrial inventory in the Trade Area accounts for almost two-thirds of all new industrial space built in the County, reflecting that the Trade Area’s locational advantages near major regional transportation corridors and existing land use patterns and development supporting industrial uses are attractive to developers of these facilities.

Figure 8-6 Trade Area Industrial Space Built Since 2010

At the same time that inventory is being added, industrial space vacancy rates in the City and Trade Area have been increasing, particularly over the past five years, and are higher than for the County overall. In the Trade Area, net absorption of industrial space has been also been positive during the same time period. So although new space is not being absorbed as fast as it is being built, the trajectory suggests that it will continue to be absorbed.

San Marcos, on the other hand, has seen net negative absorption of its industrial space over the past five years, and less than half of the space at the *production* campus is currently listed as leased. While the City has seen increases in the number of wholesale trade and transportation and warehousing jobs—jobs typically housed in industrial space—it has seen a decline in its manufacturing jobs. At the same time, manufacturing jobs are growing Trade Area-wide, as are jobs in other sectors utilizing newer format industrial spaces, such as life sciences and breweries. These statistics suggest that there is and will be opportunity for the City to capture the industrial space demands in the future, a fact confirmed by a number of proposed and in process development projects in the City that include new industrial space.

8.5.3 Flex

Although flex space is closely related to industrial space, it is a distinct use and tends to be associated more closely with research and development and light industrial/ manufacturing uses. Flex space makes up seven percent of commercial space in the City and ten percent of space in the Trade Area. While flex space rents in the City and Trade Area are below those of the County, they are higher than industrial rents across the board (see Table 8-14). The City also has a lower flex vacancy rate than the Trade Area and County, although it has not added any new space in this category over the past ten years.

Table 8-14 Flex Space Trends

Item (as of Q4 2019)	San Marcos	Trade Area [1]	San Diego County
Performance			
NNN Rent per Square Foot	\$12.40	\$14.96	\$25.89
Vacancy	6.5%	9.1%	7.7%
Inventory			
Square Feet	1,115,708	11,008,561	49,764,410
Share of Trade Area	10%	-	-
Share of County	2.2%	22%	-
Growth 2010 - Q4 2019			
Net New Inventory	0	367,777	2,605,636
% of Total Inventory	0.0%	3.3%	5.2%

[1] Trade Area includes the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista.

Source: CoStar; EPS

8.5.4 Retail

Retail is the second largest commercial real estate sector in the City, comprising over 30 percent of the overall space. While the City's retail space has higher vacancy rates than the Trade Area and County, it has also been adding inventory at a faster rate. Retail rents in the City are comparable to the Trade Area overall but lower than rents in the County (see Table 8-15).

Table 8-15 Retail Space Trends

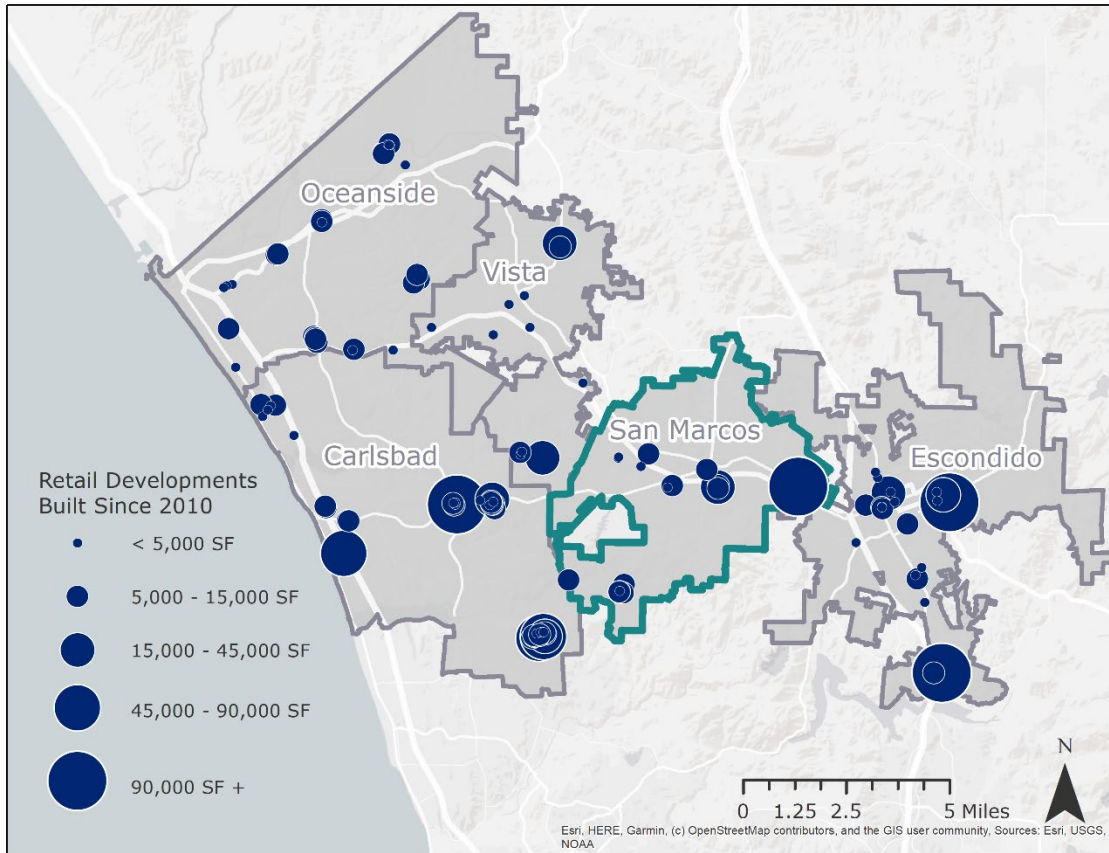
Item (as of Q4 2019)	San Marcos	Trade Area [1]	San Diego County
Performance			
NNN Rent per Square Foot	\$19.83	\$19.64	\$24.27
Vacancy	6.3%	4.5%	3.8%
Inventory			
Square Feet	4,833,660	33,039,904	140,988,798
Share of Trade Area	15%	-	-
Share of County	3.4%	23%	-
Growth 2010 - Q4 2019			
Net New Inventory	266,863	1,486,865	5,374,242
% of Total Inventory	5.5%	4.5%	3.8%
Share of Trade Area	17.9%		
Share of County	5.0%	27.7%	

[1] Trade Area includes the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista.

Source: CoStar; EPS

While other Trade Area cities have seen more retail development since 2010, particularly Carlsbad and Escondido (see Figure 8-7), there have been some notable retail additions in the City. Most of the new retail space built in the City since 2010 was contained in a new Costco store, but there were also space additions in North City at The Quad and Block C developments and at the San Elijo Town Center, both of which are mixed-use residential/retail projects. The completed projects in North City, a planned mixed-use "urban village" located near CSUSM and within the University District Specific Plan area, represent just a fraction of 700,000 square feet of mixed-use retail space proposed for that Specific Plan area.

Figure 8-7 Trade Area Retail Space Built Since 2010



Retail Leakage

Comparing San Marcos’s taxable sales per capita by major business type categories with the Trade Area and San Diego County can provide a useful benchmark for assessing the City’s relative retail strengths and weaknesses. As illustrated in Table 8-16, San Marcos sees sales “leakage” as compared to the Trade Area and County in the categories of motor vehicles and parts, clothing stores, gas stations, food and beverage stores, and food and drinking places.³ Some of this leakage can be attributed to clustering of certain uses—for example, auto dealerships tend to co-locate in “auto mall” areas, which in North County are located in Carlsbad and Escondido. Similarly, clothing stores often locate in regional malls and lifestyle centers, none of which are located in San Marcos.

Other categories suggest growth opportunities. For example, while the City’s per capita leakage in sales at food and beverage stores and food and drinking places is not large, it does suggest potential for further growth. These are also retail types that lend themselves to mixed-use environments, particularly food and drinking places. Additionally, there are several categories where the City has greater average per capita sales than the Trade Area and County, including home furnishings and appliances, general merchandise, and building

³ Leakage is defined as per capita retail sales that fall below the overall per capita sales for the Trade Area or County.

materials and garden equipment, suggesting that the City is home to regional clusters of these retail types.

Table 8-16 Taxable Sales per Capita per Category, Calendar Year 2018

Category				San Marcos vs.	San Marcos vs. SD
	San Marcos Trade Area [1]	San Diego County	Trade Area	Trade Area	County
Population (2018)	94,709	634,991	3,302,833		
Total Retail and Food Services	\$12,657	\$13,657	\$12,682	(\$1,000)	(\$25)
Motor Vehicle and Parts Dealers	\$1,167	\$3,507	\$2,313	(\$2,339)	(\$1,146)
Home Furnishings and Appliance Stores	\$1,786	\$672	\$747	\$1,114	\$1,039
Building Material and Garden Equipment	\$1,738	\$1,221	\$920	\$517	\$818
Food and Beverage Stores	\$716	\$841	\$759	(\$125)	(\$43)
Gasoline Stations	\$1,107	\$1,476	\$1,303	(\$369)	(\$196)
Clothing and Clothing Accessories Stores	\$603	\$1,049	\$1,156	(\$445)	(\$553)
General Merchandise Stores	\$2,414	\$1,787	\$1,544	\$628	\$870
Food Services and Drinking Places	\$1,969	\$2,021	\$2,422	(\$51)	(\$453)
Other Retail Group	\$1,157	\$1,085	\$1,518	\$72	(\$361)
All Other Outlets	\$3,469	\$4,155	\$5,194	(\$686)	(\$1,725)
Total All Outlets	\$16,126	\$17,812	\$17,876	(\$1,686)	(\$1,750)

[1] Trade Area includes the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista.

Source: California Board of Equalization; EPS

It is important to note that the overall positive net absorption of retail space in the City and Trade Area over the past five years, coupled with low vacancy rates, would typically imply a market approaching a supply equilibrium and signal an opportunity for new construction. However, the pronounced and ongoing structural shift in retail at the national level has partially undermined this traditional growth model. In particular, the growth of e-commerce presents a significant threat to brick and mortar retail expansion, particularly in categories such as consumer electronics, appliances, clothing and clothing accessories, and books and music.

One approach to combatting online retail sales erosion is for developers and retail operators to create services and environments that cannot be replicated online. This can be accomplished by retail environments with a strong sense of place, special programming to encourage repeat visits, and other forms of in-person experience, coupled with a mix of other uses. The concept of North City is a prime example of this model, one that can serve not only as a regional destination for dining, entertainment, and shopping, but as a center of activity that attracts and retains residents and businesses. The General Plan’s Economic Development Element will further consider the changing landscape of the retail economy over time and incorporate policy-level direction to enable San Marcos to support additional efforts to stay competitive in the regional retail and commercial environments.

8.5.5 Office

While the San Marcos office sector is relatively small, accounting for about 11 percent of commercial space, it is also the fastest growing, with almost 10 percent of the City's inventory built since 2010. The City's office vacancy rate is half that of the Trade Area, even with comparable rents, as shown in Table 8-17. At the same time, both the City and Trade Area have had positive net absorption of office space, indicating that the City is absorbing its new office space more successfully than the Trade Area as a whole.

Table 8-17 Office Space Trends

Item (as of Q4 2019)	San Marcos	Trade Area [1]	San Diego County
Performance			
Gross Rent per Square Foot	\$27.44	\$28.43	\$33.66
Vacancy	6.2%	12.2%	8.5%
Inventory			
Square Feet	1,668,479	15,359,299	116,253,094
Share of Trade Area	11%	-	-
Share of County	1.4%	13%	-
Growth 2010 - Q4 2019			
Net New Inventory	161,202	1,402,643	7,202,821
% of Total Inventory	9.7%	9.1%	6.2%
Share of Trade Area	11.5%		
Share of County	2.2%	19.5%	

[1] Trade Area includes the cities of Carlsbad, Escondido, Oceanside, San Marcos, and Vista.

Source: CoStar; EPS

Common office-oriented sectors such as professional services, real estate, finance and insurance, and information represent less than ten percent of all jobs in the City, and growth in those sectors made up just 2.5 percent of new jobs added from 2010 to 2017. However, more than half of all office space in the City, and nearly all of the new space added since 2010, is for medical office use. This includes the PIMA Medical Institute building in North City and the Kaiser Permanente Medical Center. This is accompanied by an increase of 2,000 jobs in the City's health care sector since 2010, over 30 percent of all jobs added in that time period.

The healthcare sector will likely continue to drive growth in office space, particularly with the recently-announced Kaiser Permanente hospital and expansion of Scripps Health facilities. However, the City does have a resident workforce with the skills to work in other office-oriented sectors, as illustrated by the large number of residents who commute out

of the City to jobs in professional services, finance and insurance, and information. This may present the City with an opportunity to attract more of these jobs, particularly if it can support the development of in-demand office space formats as part of a dynamic, mixed-use environment.

8.5.6 Hospitality

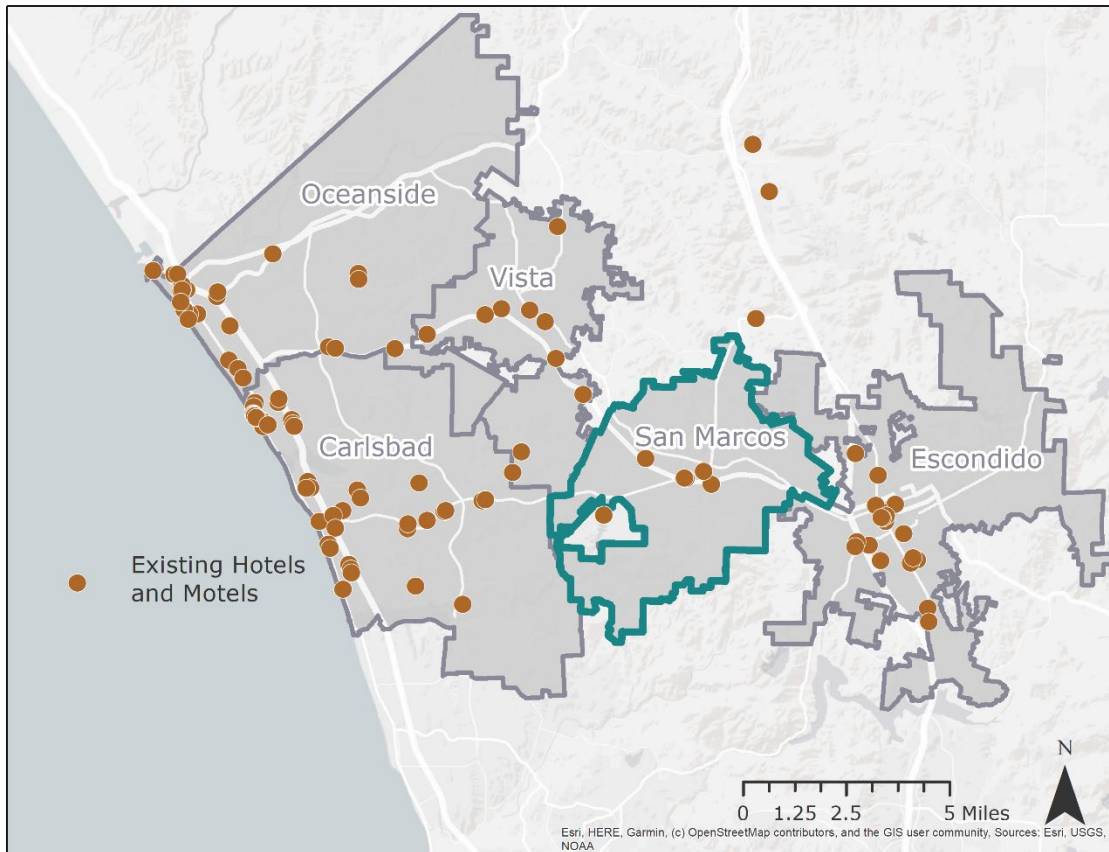
Within the context of the Trade Area, hotel development in San Marcos is limited. The City has about 600 rooms across seven hotels, representing less than seven percent of all rooms in the Trade Area (see Table 8-18). As shown in Figure 8-8, the majority of the Trade Area hotels and rooms are in Carlsbad, followed by Oceanside, reflecting the larger tourist economies of those beach cities.

Table 8-18 Hotel Inventory in San Marcos and Trade Area

Name	Number of Rooms	Year Built	Star Rating
San Marcos Hotels			
Hampton Inn	69	-	3
Golden Door Spas	40	1958	1
Lakehouse Hotel & Resort	142	-	3
Residence Inn	112	2010	3
Fairfield Inn & Suites San Diego North	85	2017	3
Ramada Inn Limited	85	-	3
Days Inn	84	-	3
Total	617		
Trade Area		Most Recent	
One-Star Hotels	114	1978	N/A
Two-Star Hotels	1,435	2015	N/A
Three-Star Hotels	5,948	2018	N/A
Four-Star Hotels	1,071	2019	N/A
Five-Star Hotels	478	2017	N/A
Total	9,046		
San Marcos Share	6.8%		

Source: CoStar; TripAdvisor; Economic and Planning Systems

Figure 8-8 Location of Hotels in Trade Area



The City’s low inventory of hotel rooms, while not surprising given its lack of tourist attractions, has implications for the City’s budget. In 2018 the City collected approximately \$1.3 million in transient occupancy tax (TOT)—the lowest amount among the five Trade Area cities.⁴ However, TOT levels in the City have been on an upward trajectory over the past decade. The City’s major industries, particularly higher education and healthcare, do typically have a need for lodging facilities, and planned expansions of the City’s major employers in those industries present an opportunity for future growth in this real estate sector. That said, the hospitality sector is expected to be the hardest hit by the coronavirus pandemic, which may limit investment and expansion in the near term.

⁴ Visit California, “California Travel Impacts: 2000-2018p,” April 2019.

8.6 FISCAL TRENDS

The General Plan Update can alter the trajectory of the City’s budget resources and needs, particularly through changes in land use growth patterns, service standards, and facility needs. Changes and growth in land use in the City will impact both the major revenue sources for the General Fund, including property and sales taxes, and the major services funded by the General Fund, including public safety and public works. The analysis in this chapter will identify the current distribution of and trends in those sources and uses, and identify areas of fiscal opportunities or challenges that will be affected by the General Plan.

An additional consideration is the funding of public improvements needed to support new growth and development projected in the General Plan. This funding does not generally come from the General Fund, but rather via other financing mechanisms. As part of the General Plan process, EPS will produce a memo that identifies and evaluates a set of available financing tools and resources that the City may use to address one-time and/or on-going costs related to public improvements associated with the General Plan.

8.6.1 Revenue and Expenditure Categories

This section looks at the distribution of revenues and expenditures in the City’s fiscal year 2018-19 projected budget (as reported in the FY 2019-20 adopted budget), focusing on categories that will be most directly impacted by the land use decisions made through the General Plan process.

General Fund Revenues

Revenues sources that are most impacted by changes in land use include property tax, sales tax, transient occupancy tax, and license and permit fees. In San Marcos, property taxes are the single largest contributor to the City’s General Fund, representing 28 percent of revenue, followed closely by sales tax at 21 percent, as shown in Figure 8-9. Transient occupancy tax is a relatively low contributor, representing just two percent of revenues, as are licenses and permits, representing six percent. Key factors affecting potential growth in these sources include the following:

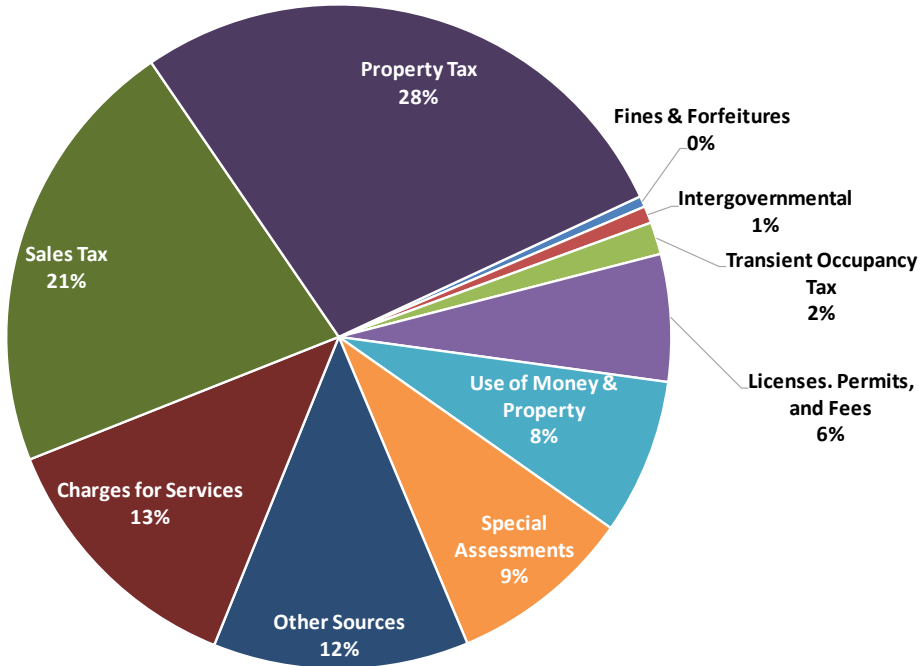
- **Property Tax:** San Marcos receives an average of about 7 percent of total property tax revenue collected within the City limits, a relatively modest allocation compared to the Countywide average of 16 percent allocation. While the General Plan Update can consider opportunities to grow the City’s assessed value, it faces strong limitations in changing the property tax rate or tax allocation factor, which is regulated by State law. Growth in property assessed value is limited to 2 percent per year absent a market transaction or physical alteration. Consequently, annual growth in property tax above 2 percent generally requires new development or investment property and/or turn-over from market transactions. While the General Plan can have a direct impact on the former, its influence on the latter is more nuanced.
- An additional consideration for the City as it relates to property tax revenues is the fact that its large employers in the education sector (such as CSUSM and Palomar College) and hospitals such as the new Kaiser Hospital are largely tax-exempt. Additional growth of these institutions will have overall economic benefits to the City but will not necessarily contribute to municipal revenue growth.

- **Sales Tax:** While San Marcos has a relatively healthy retail sector, substantial Trade Area competition and national changes in consumer behavior stemming from e-commerce and other factors will affect long-term growth in taxable sales. The General Plan can provide a variety of incentives, tools, and policies that can help this sector strategically adapt to these external forces.
- **Transient Occupancy Tax:** As noted in the previous chapter, the City's hotel sector is quite modest, and TOT is a minor contributor to the General Fund. Opportunities for new hotel demand and development are likely to be driven by the needs of the City's large and growing education and healthcare industries. The General Plan can play an important role in both through land use policy, initiatives that expand the local economy, and the provision and support of attractive community amenities that complement hospitality uses.
- **License and Permit Fees:** The license and permit fee category includes franchise fees (primarily paid by utility companies), business permit and license fees, and developer fees. New development and business activity drive these fees, so while land use plans that involve new development will have a positive impact on this source, these revenues will slow as the City becomes increasingly built out.

General Fund Expenditures

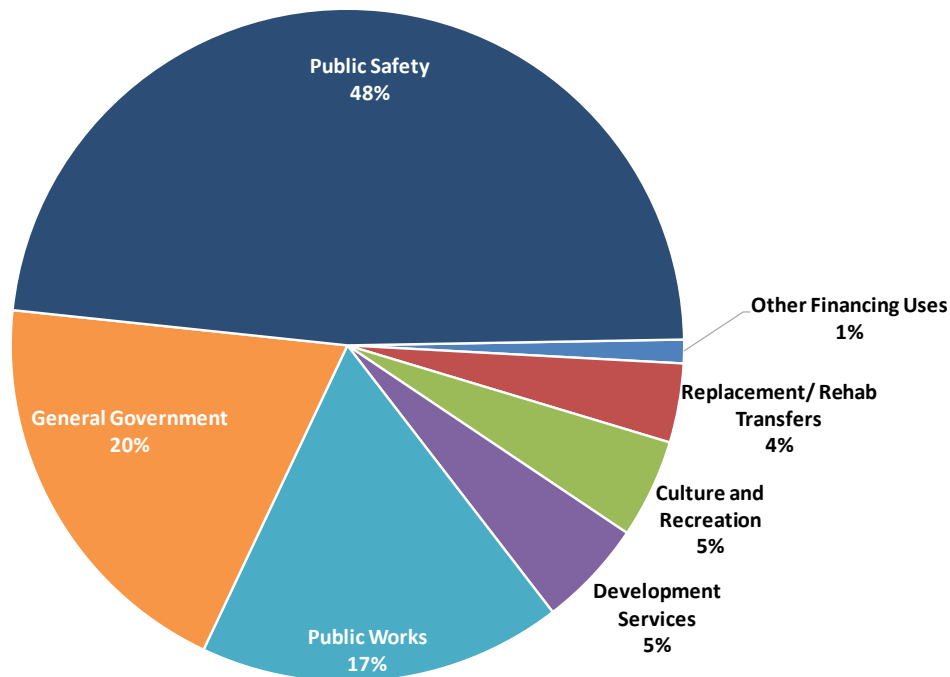
The General Fund is the primary fund to pay for basic city services, programs, and daily operations of the City. General fund expenditures by category are shown in Figure 8-10. In FY 2018-2019, nearly half of the general fund budget was allocated to public safety, including police and fire services; about 20 percent was allocated to general government; and 17 percent was allocated to public works. Public safety and public works in particular are categories significantly impacted by changes and growth in land use patterns. New development and new populations put additional burden on law enforcement, fire departments, and public infrastructure, particularly if the growth involves a larger service area. An important consideration for the General Plan is land use patterns which promote density and infill can mitigate, although not eliminate, this burden.

Figure 8-9 San Marcos General Fund Revenue Distribution by Category, FY18-19 (Projected)



Note: Excludes revenues categorized as "miscellaneous"
 Source: City of San Marcos Adopted Annual Operations and Capital Budget, FY2019-20

Figure 8-10 San Marcos General Fund Expenditure Distribution by Category, FY18-19 (Projected)

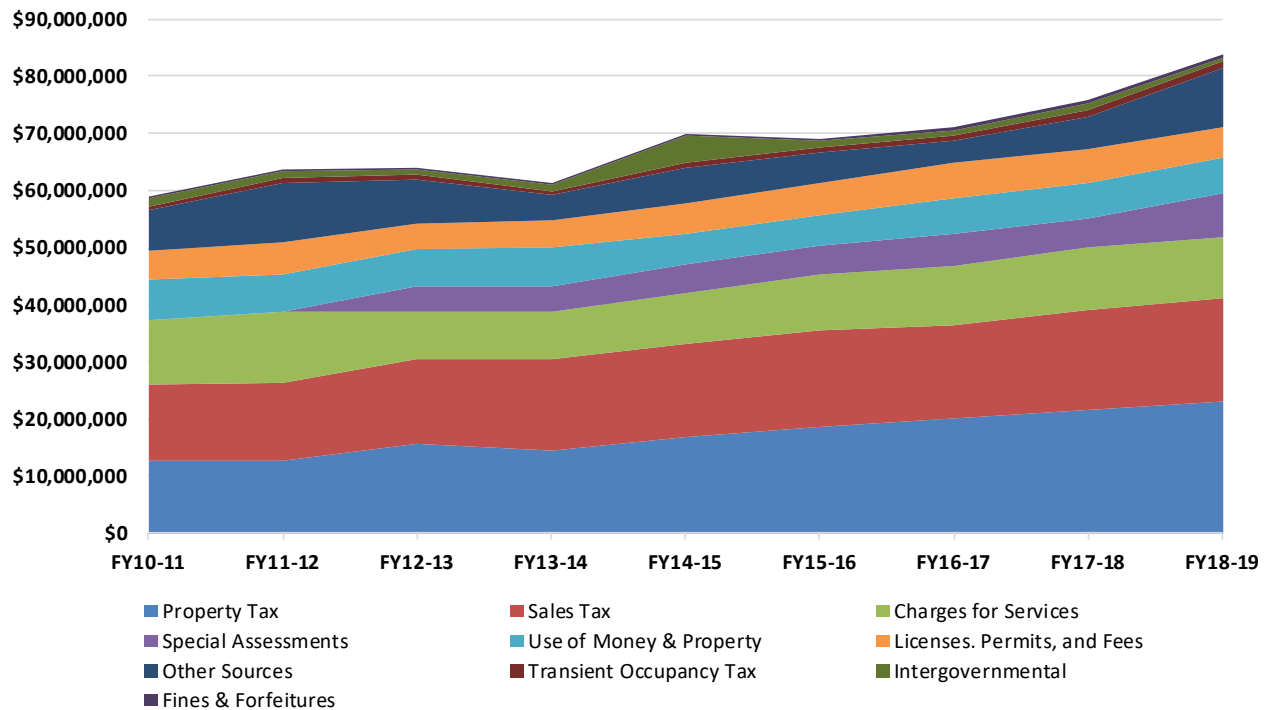


Source: City of San Marcos Adopted Annual Operations and Capital Budget, FY2019-20

8.6.2 Revenue and Expenditure Trends

Other than a big spike in expenditures in fiscal year 2014-15, due to several one-time investments by the City, San Marcos’s General Fund revenues and expenditures have been on a steady upward trajectory from 2010 through 2019. Revenues overall increased by 42 percent—an annual growth rate of four percent, faster than regional inflation in the same period. For the past five years, property tax has been the largest revenue contributor to the General Fund, overtaking sales tax and demonstrating the positive fiscal impacts of new development. Most other sources have remained generally stable in their relative contributions over the past decade.

Figure 11 Trend in San Marcos General Fund Revenues, FY10/11 to FY18/19⁵

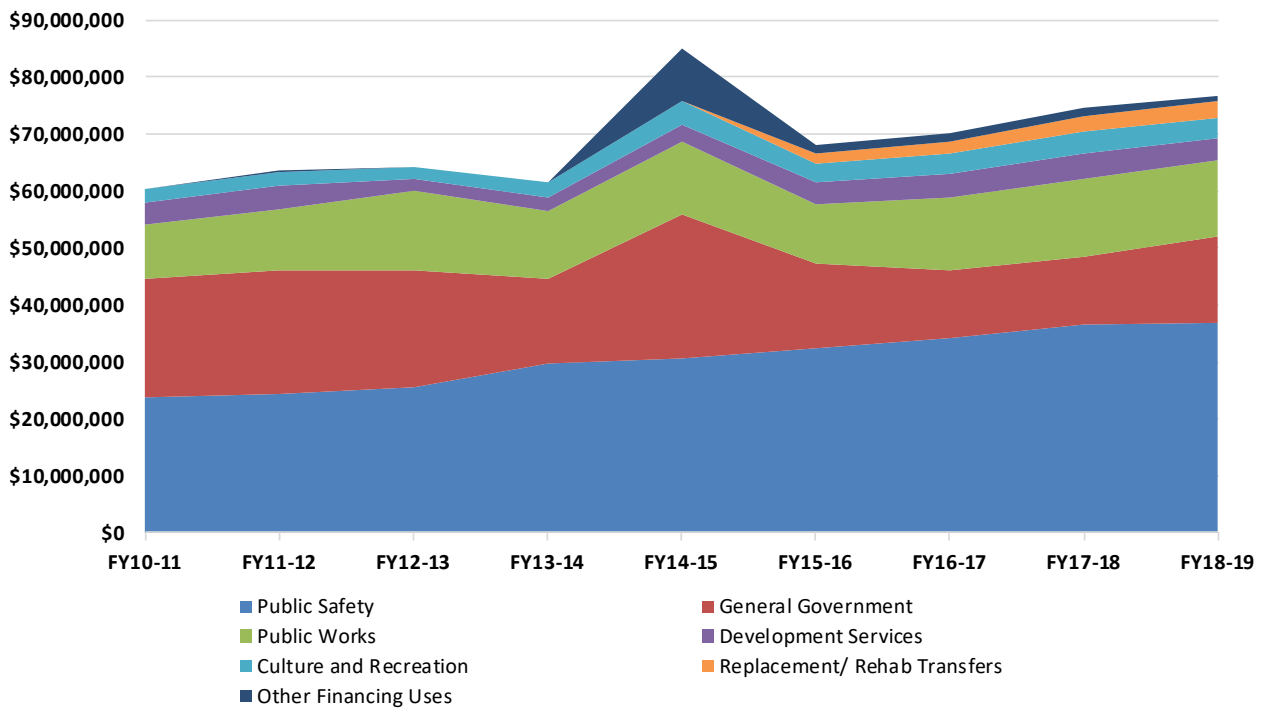


Source: City of San Marcos Adopted Budgets

⁵ Graph excludes Miscellaneous revenues. Property Tax includes Property Tax in-lieu of Motor Vehicle License Fund revenues. Licenses, Permits, and Fees includes Developer Fees. General Fund Transfers to Rehab and Replacement funds began in FY 15/16.

Expenditures have grown more slowly than revenues—27 percent, or 2.7 percent on average annually—although still faster than regional inflation. Budget expenditures for public safety have grown the most, followed by public works expenditures. General government expenditures had the most decline. As discussed above, more growth will bring more needs in these largest expenditure categories. In most cases, growth will also contribute to increased property tax revenues, although increased growth and service needs among the City’s tax-exempt employers may pose a fiscal challenge.

Figure 8-12 Trend in San Marcos General Fund Expenditures, FY10/11 to FY18/19⁶



Source: City of San Marcos Adopted Budgets

⁶ Public Works includes Stormwater and Program Management expenditures.

8.7 KEY MARKET FINDINGS

This section summarizes the key findings related to recent trends and potential future opportunities impacting the City's demographic and economic makeup, residential and non-residential land uses, and fiscal position. In addition to relying on the analysis contained in this chapter, the key findings below also reflect important demographic trends presented in Chapter 1.

In general, the City has seen substantial growth in population, jobs, and development since 2000, although growth was faster from 2000 to 2010 than from 2010 to 2018. The City is expected to see more population and jobs growth over the next two decades (with corresponding demand for housing and commercial space), albeit at a more modest rate than the last two decades. The General Plan process will allow the City to identify and support the types of new development that will best position it to maintain a strong economy and high quality of life.

1. **San Marcos's growth in population and affluence over the past decade has outpaced that of the Trade Area and County, and regional projections suggest it will continue to grow, although at a more modest pace. At the same time, despite being the home of two large institutions of higher learning, the City's proportion of residents in the young and mid-career professional age groups (aged 20-44 years) has fallen more than its comparison geographies.** San Marcos's population grew by 72 percent from 2000 to 2018, and by 20 percent in just the past decade, compared to 9 to 10 percent growth in the Trade Area and County. Median household income in the City also grew by 10 percent in real (2018\$) dollars since 2010, while Trade Area and County households saw no growth. Projections by regional agencies suggest that the City could see an additional 15 percent growth in population over the next 20 years.

The City's median age is in the middle of the Trade Area cities, and has increased slightly over the past ten years. This has been accompanied by a decline in the proportion of residents younger than 45 years old and a growth in the proportion over 55 years old. A loss of residents in these prime working age groups can have an impact on economic growth, and San Marcos should consider strategies to help grow this population in the future. In particular, the City should capitalize on opportunities to retain recent graduates of its large regional institutions of higher education.

2. **City residents have higher levels of educational attainment than the Trade Area overall, and lower unemployment than the Trade Area and County. However, many residents working in higher-earning industries are commuting out of the City for those jobs.** Nearly 45 percent of City residents hold an associate's, bachelor's, or graduate/professional degree, and the City's school district has a 95 percent graduation rate, metrics which are attractive to future residents and employers. The City's unemployment rate is just 4.5 percent, and the number of employed residents has increased by nearly 45 percent since 2010. However, even though the City itself is jobs-rich, over 85 percent of residents commute out of the City for work. An industry-by-industry comparison highlights clear areas of mismatch between the types of jobs that residents hold and the types of jobs available in the City, with particular disparities in the education and professional services sectors.

3. **Job growth in the City since 2010 has been faster than in the Trade Area and County, a trend projected to continue over the next 20 years. More than half of that growth has been in the education and healthcare sectors, with more growth in those sectors expected in the future.** Overall, the number of jobs in the City grew by over 20 percent from 2010 to 2017. Industry sectors that grew faster than overall job growth included office-focused industries such as management, healthcare, administration, and education; service-sector jobs in accommodations and food service; and industrial-focused jobs in wholesale trade. However, the City lagged behind the Trade Area and County in creation of jobs in professional services, which is typically a higher-paying sector and employs nine percent of City residents.

The City's three largest employers are all in the education sector and represent a quarter of total City jobs. The education sector not only provides jobs across a spectrum of skills and wages, but can also support jobs in a variety of industries, as well as new development activity. There has also been significant growth in the City's healthcare sector, which is the second-largest sector in the City. Thirty percent of all new jobs added since 2010 were in healthcare, and the new Kaiser Permanente Hospital is projected to add several hundred more.

4. **Along with its population and jobs, the City has added housing units at a faster rate than the Trade Area and County. Demand for housing in the City remained strong throughout the past 20 years, even during the Recession, and home prices and rents have been on an upward trajectory since 2011.** Even as the City grew its housing inventory by more than 60 percent over the past 20 years, it maintained a relatively low (below five percent) vacancy rate that was also consistently lower than the Trade Area and County. This demonstrates a continued strong demand for housing in the City, further underlined by steady growth in City home prices and rents in the post-Recession period. Median home prices in the City are 5-6 percent higher than in the County and almost double their 2011 levels, and average City rents today are the same as the County and 35 percent above 2010. These increases have economic and fiscal benefits, but they have also likely contributed to the high proportion of households that are cost-burdened (paying more than 30 percent of their income towards housing costs). Like cities throughout California, San Marcos will have to consider ways to address its housing affordability levels and encourage the production of units that are accessible to lower- and moderate-income households.
5. **While industrial space is the dominant nonresidential land use in the City, there are market opportunities for growth in targeted types of retail and office space in strategic locations. There may also be long-term opportunities for the City to see growth in hospitality uses, which could in turn provide a boost for municipal revenues.** While industrial space is the dominant nonresidential land use in the City, it has also seen slower growth and net absorption than the Trade Area over the past decade. Most new growth in Trade Area industrial space has been in warehouse and distribution uses, capitalizing on the Area's proximity to major regional transportation corridors. Manufacturing jobs are also growing Trade Area-wide. These trends represent an opportunity for the City to position itself to capture future industrial space demands.

Retail and office space inventory in the City has grown faster than industrial inventory since 2010. Economic trends suggest opportunity for continued growth in both land

uses. For retail, the City's move towards promoting denser, mixed-use developments in core areas such as the University District Specific Plan align with changing preferences for shopping and dining, and will allow the City to capture greater shares of retail spending by residents in both the City and Trade Area. Office space growth has primarily involved medical office space, and the strength of that sector will likely continue with the addition of the new Kaiser Hospital. The production of new general office space, particularly in the context of mixed-use development, can also support the attraction of job sectors that are currently lacking in the City, such as professional services.

The City's hotel sector is relatively small, representing just seven percent of all hotel rooms in the Trade Area. Yet, the sector has impacts on both spending in the City and the diversity of the City's municipal revenue sources, through transient occupancy tax (TOT). While the City does not have a strong tourism economy like some of its neighbors, there are lodging demands driven by the education and healthcare industries that can drive additional hospitality development in the long-term. That said, the hospitality sector is expected to be the hardest hit by the coronavirus pandemic, which may limit investment and expansion in the near future.

The City's General Fund revenues have increased faster than expenditures over the past ten years, with both outpacing inflation. Property and sales tax are the primary revenue contributors to the fund, with public safety, general government and public works representing most of the expenditures. The General Plan will have implications for future growth and needs in all of these categories. The General Plan's land use plan will impact revenues collected and costs borne by the City. Revenues sources that are most impacted by changes in land use include property tax and sales tax, which together represent almost half of the City's General Fund revenues; and transient occupancy tax (TOT) and license and permit fees, which today are small contributors to the General Fund. Since expanded property tax and fee revenues are linked to new development, the City may want to position itself to have a mix of other sources if growth slows. The exact pact and timeframe for recovery from the COVID-19 pandemic remains unclear, and the impact of COVID-19 on this issue is unknown/yet to be seen.

Growth also brings increased service needs. The City already allocates half of its General Fund to public safety and over 15 percent to public works. New development and new populations put additional burden on these services, particularly if the growth involves a larger service area. While corresponding growth in revenues may offset these additional costs, an important consideration for the General Plan is to ensure land use patterns and public service standards that can mitigate this burden.