

ECONOMIC DEVELOPMENT

San Marcos General Plan Update

GPAC Meeting #6

November 18, 2021

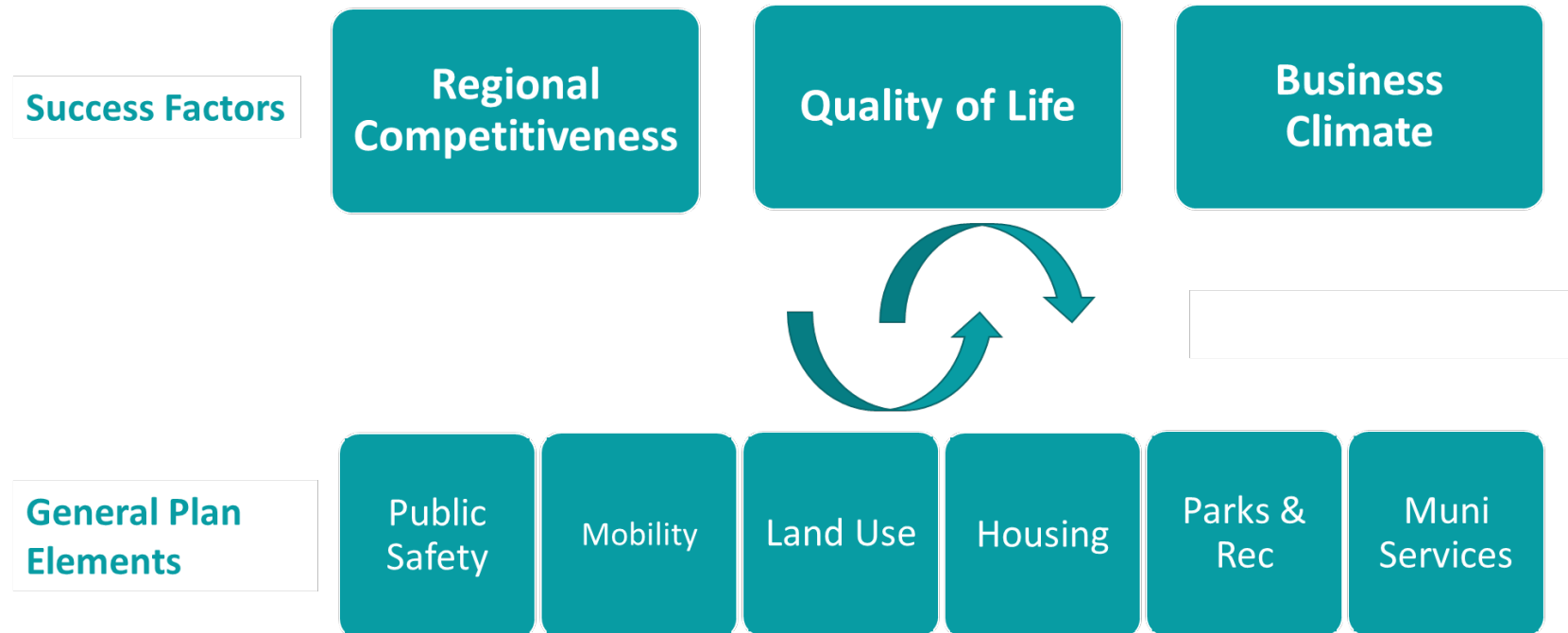


Economic & Planning Systems, Inc.
The Economics of Land Use

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ROLE OF ECONOMICS IN GENERAL PLAN

- Promoting economic vibrancy and resiliency is key part of planning process
- Economic Development policies underpin and intertwine with other Elements of General Plan



AGENDA FOR TONIGHT

- Key economic and land use topics considered:
 - Jobs and Housing
 - Retail
 - Office
 - Industrial
 - Hospitality
- Key questions:
 - What were the local conditions pre-pandemic?
 - How has the pandemic impacted prospects, both nationally and locally?
 - What strategies might City consider to advance economic development goals?

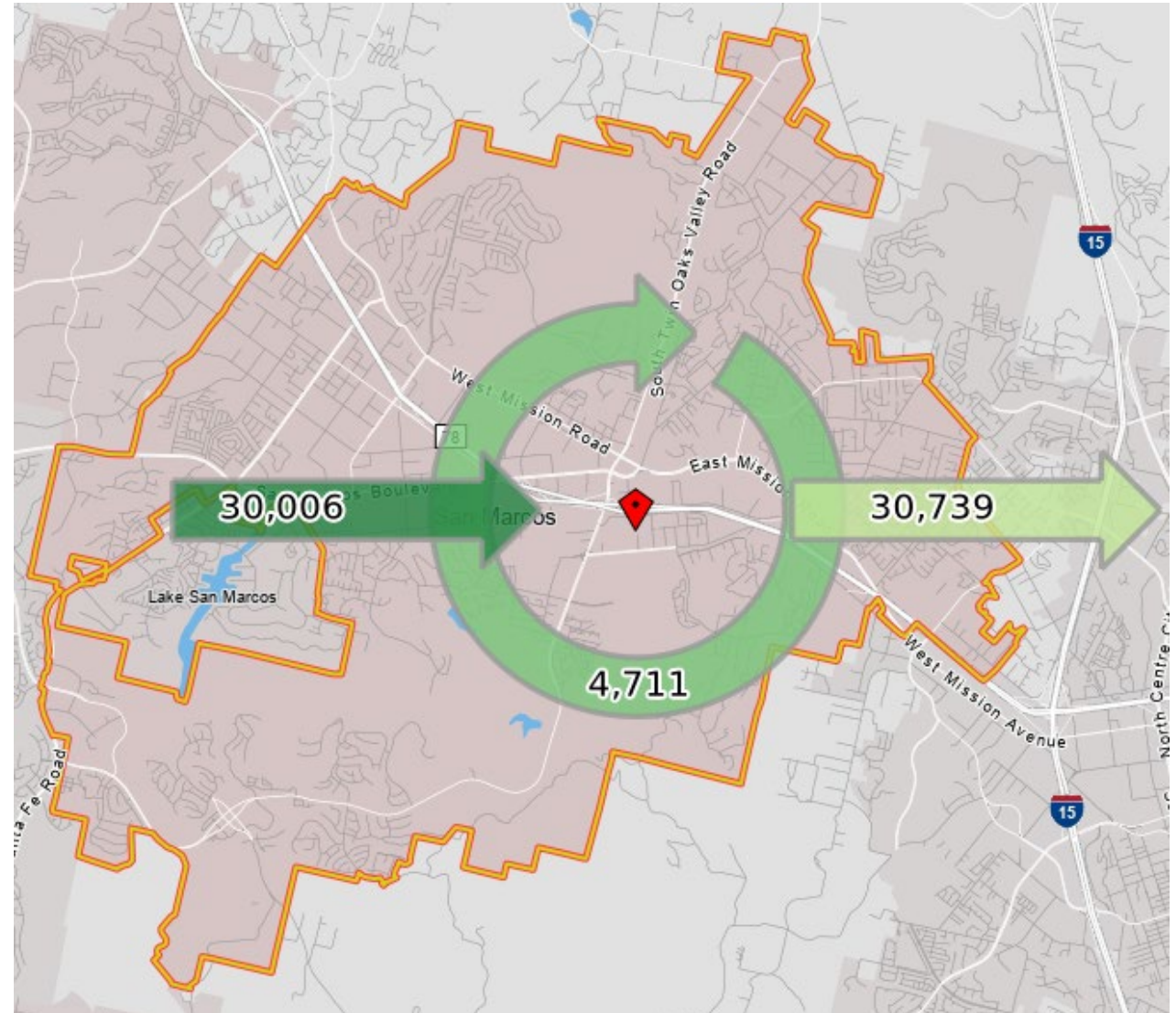
EPS WORK COMPLETED TO-DATE

- Demographic, real estate, and fiscal conditions and trends Report in March 2020
- On-going monitoring of pandemic-related impacts on:
 - Jobs
 - Migration and commute patterns
 - Real estate markets (e.g., housing, retail, office, hospitality)
- Updated findings of March 2020 Report to address evolving trends and changing circumstances

JOBS, POPULATION, AND HOUSING

POPULATION AND JOB TRENDS

- Jobs grew by over 75% from 2002 to 2017, compared to 30% in 78 Corridor and 20% in County
- Population grew by over 70% from 2000 to 2018, compared to 20% in 78 Corridor and County
- Most residents commute out of City while local jobs are filled by in-commuters



JOBS AND THE PANDEMIC

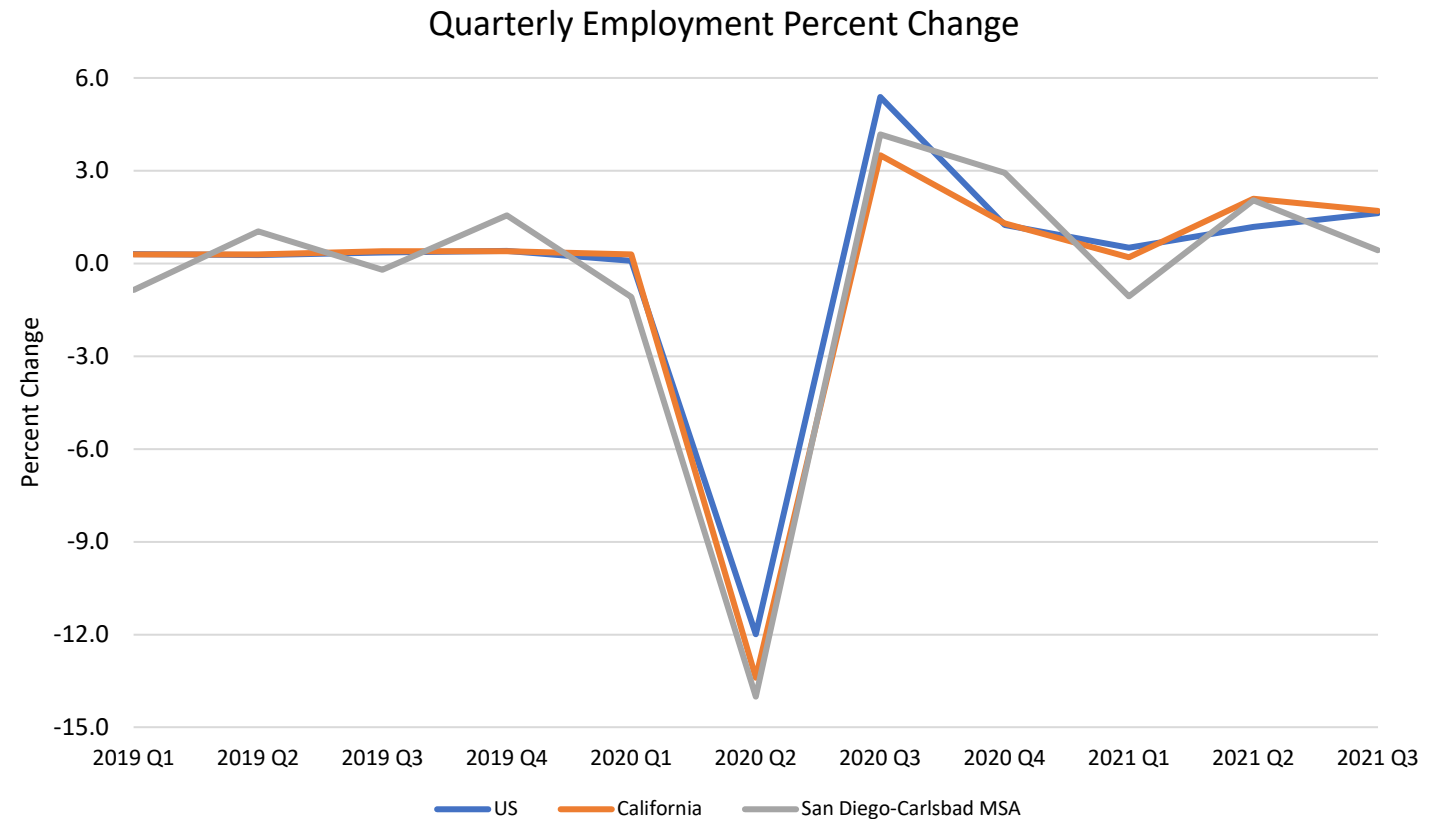
The pandemic led to precipitous job loss, followed by sharp but rocky recovery

Q2 2020 job loses:

- US: 12%
- California: 13%
- San Diego Metro: 14%

Job recovery as of Q3 2021:

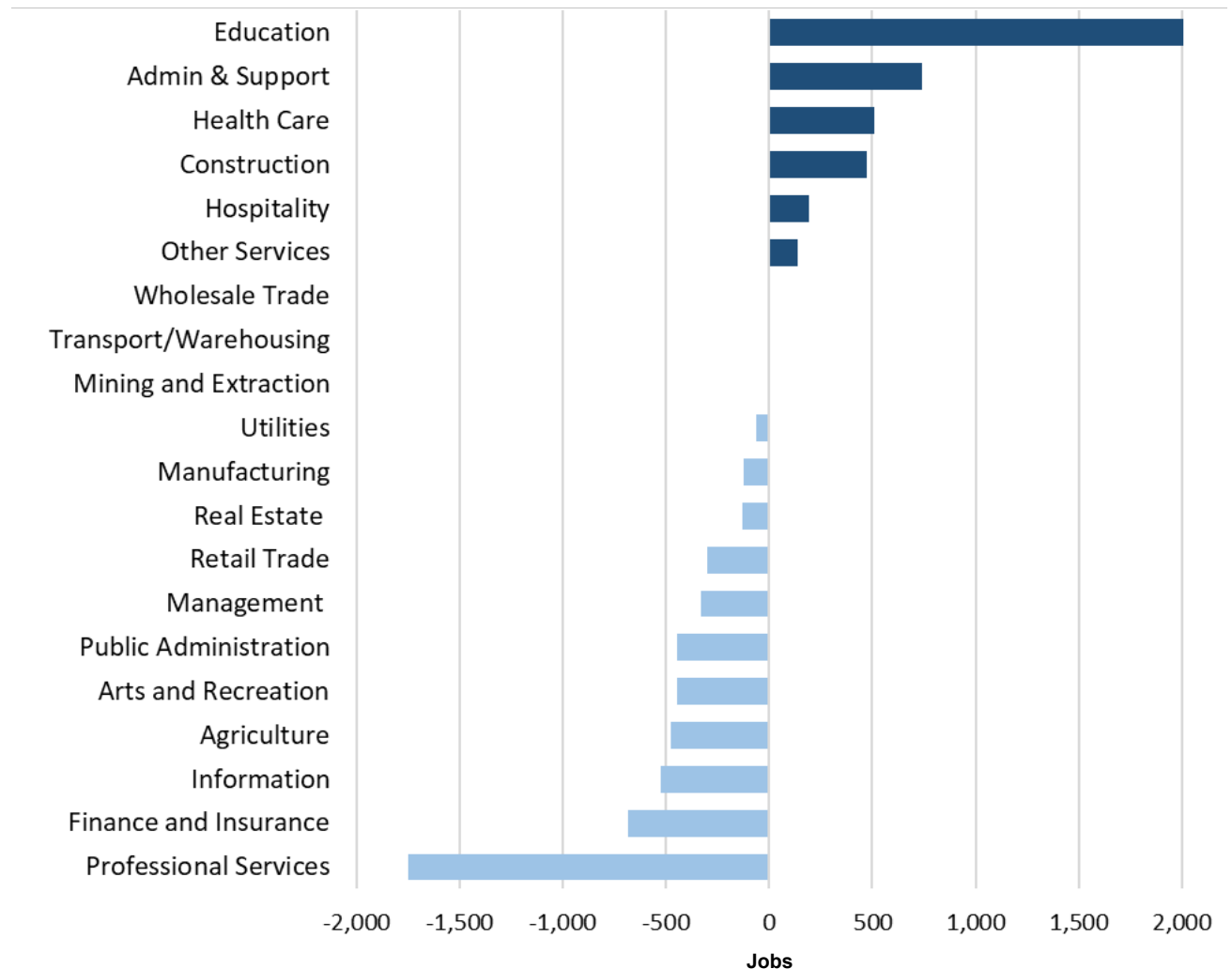
- US: 97%
- California: 94%
- San Diego metro: 93%



EMPLOYED RESIDENTS VERSUS LOCAL JOBS

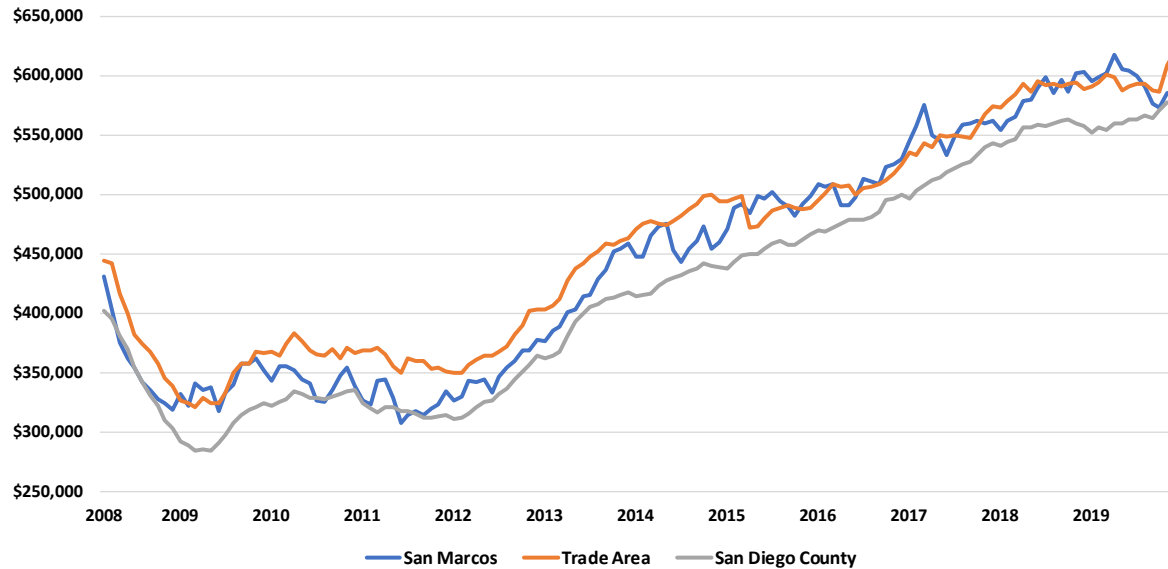
- More in-commuters employed in lower paying sectors:
 - Education
 - Admin. & Support
- Residents commute out to higher paying sectors
 - Professional services
 - Finance & Insurance
- 55% of San Marcos residents make more than \$40K/year compared to 48% of workers

Difference in Jobs By Industry held by San Marcos Workers versus Residents, 2017



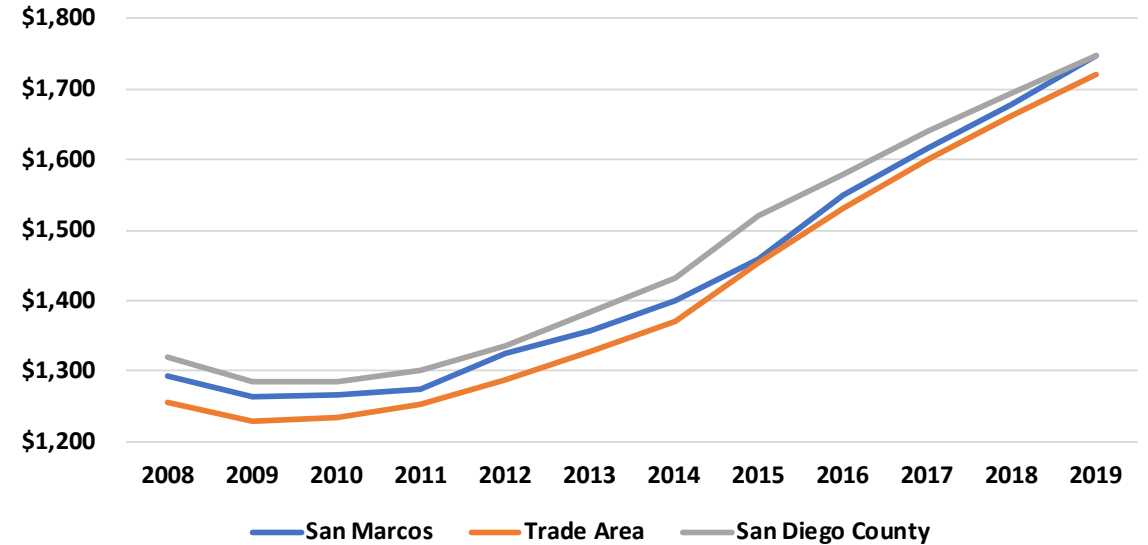
HOUSING PRE-PANDEMIC

Average Home Values, 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

Average Rents, 2008–2019



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

- Steady upward trajectory in home values / rents since 2011
- San Marcos has lower vacancy rate than region despite adding residential units at a faster pace

PANDEMIC REINFORCES HOUSING DEMAND TRENDS

- Urban living and amenities became somewhat devalued by extended “stay-at-home” and business closures
- Work-from-home policies increased prioritization for residential space and quality
- Households that left urban centers for more space and affordability may drive demand for urban-style amenities in their new locations



ECONOMIC GROWTH OPPORTUNITIES

- Healthcare and education sectors likely to remain strong job generators
- Growth in professional services can provide jobs to residents working and university graduates
- Regional economic strengths include biotech, food manufacturing, and other light manufacturing
- Support entrepreneurship and small business growth, in partnership with educational institutions



*Raging Cider and Mead Co. Taphouse
Source: San Diego Reader*

RETAIL

RETAIL IN SAN MARCOS PRE-PANDEMIC

- City experiences retail leakage in most categories (exceptions include General merchandise, appliances, home improvement)
- Sales tax accounted for about 30% of City's General Fund revenues in 2018
- Besides Costco, primary additions in North City/University District.
- Mirroring national trends toward mixed-use, experiential environments replacing traditional shopping center model

Per Capital Retail Sales

Category	San Marcos Compared To:	
	Trade Area	County
Total Retail and Food Services	(\$1,000)	(\$25)
Motor Vehicle and Parts Dealers	(\$2,339)	(\$1,146)
Home Furnishings and Appliance Stores	\$1,114	\$1,039
Building Material and Garden Equipment	\$517	\$818
Food and Beverage Stores	(\$125)	(\$43)
Gasoline Stations	(\$369)	(\$196)
Clothing and Clothing Accessories Stores	(\$445)	(\$553)
General Merchandise Stores	\$628	\$870
Food Services and Drinking Places	(\$51)	(\$453)
Other Retail Group	\$72	(\$361)
All Other Outlets	(\$686)	(\$1,725)
Total All Outlets	(\$1,686)	(\$1,750)

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

RETAIL DURING THE PANDEMIC

Reversal of fortunes?

- Precipitous decline in discretionary and experiential spending – the very sectors that sustained “brick & mortar” pre-pandemic
- Non-discretionary/essential “big box” retail categories saw significant uptick (potential “hoarding” effect)

Boom for e-commerce

- E-Commerce grew by about 20% virtually overnight
- Due to Wayfair decision, sales tax is now collected on out-of-state purchases as well

In San Marcos, sales tax revenues in Q2 2021 outpaced Q2 2019, led by sales related to e-commerce, automotive purchases, and building materials

RETAIL OPPORTUNITIES FOR SAN MARCOS

Maintaining diversified and supported retail sector is critical to City's fiscal health

- Many major essential retailers have adapted to accommodate both in-store and online purchasing, and will maintain some level of physical presence
- Preference for nearby neighborhood/ community retail has grown during pandemic
- Trend could bolster retail opportunities not currently available in town
- Pent-up enthusiasm for dining and entertainment may bolster mixed-use activity centers such as University District/ North City



OFFICE

OFFICE PRE AND POST PANDEMIC

San Marcos Pre-pandemic

- City's smallest commercial sector (about 11% of total) but fastest-growing
- Most new space caters to medical sector
- Traditional demand sectors (e.g., professional services, FIRE, information), represent about 3% of jobs added over last decade

Pandemic Impacts less pronounced:

- Higher educated workforce
- Telecommuting and other technology capabilities facilitates remote work
- Less susceptible to supply chain disruptions or retail shocks
- Suburban markets with lower densities and lease rates more resilient than central business districts



Kaiser Permanente Hospital, San Marcos
Source: San Diego Business Journal

MODELS FOR RE-ENTRY AND ADAPTATION

Office modification and protocol (e.g. CDC)



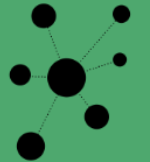
- Reconfigure work stations (6 feet apart / barriers)
- Common area signage and distancing
- Face coverings, temperature checks
- Cleaning protocol and sanitizer

Increased work-from-home flexibility



- Create official policies and guidelines
- Facilitate speedy adaptation of technology

Gravitate to new culture of work



- Central office becomes the brand and cultural hub
- Worker Rotation model
- Continued suburbanization of peripheral functions

OFFICE OPPORTUNITIES FOR SAN MARCOS

Provide space and resources that support synergies between universities, entrepreneurship/ innovation initiatives, and regional employers

- Growing educational institutions may drive demand for well-located office space
- Class A space in dynamic mixed-use locations may be attractive to employers facing staff crunches and resistance to long commutes
- New Kaiser facility may drive need for additional medical office (e.g., support services and med tech)



CSUSM Innovation Hub / Extended Learning Building
Source: CSU San Marcos

INDUSTRIAL

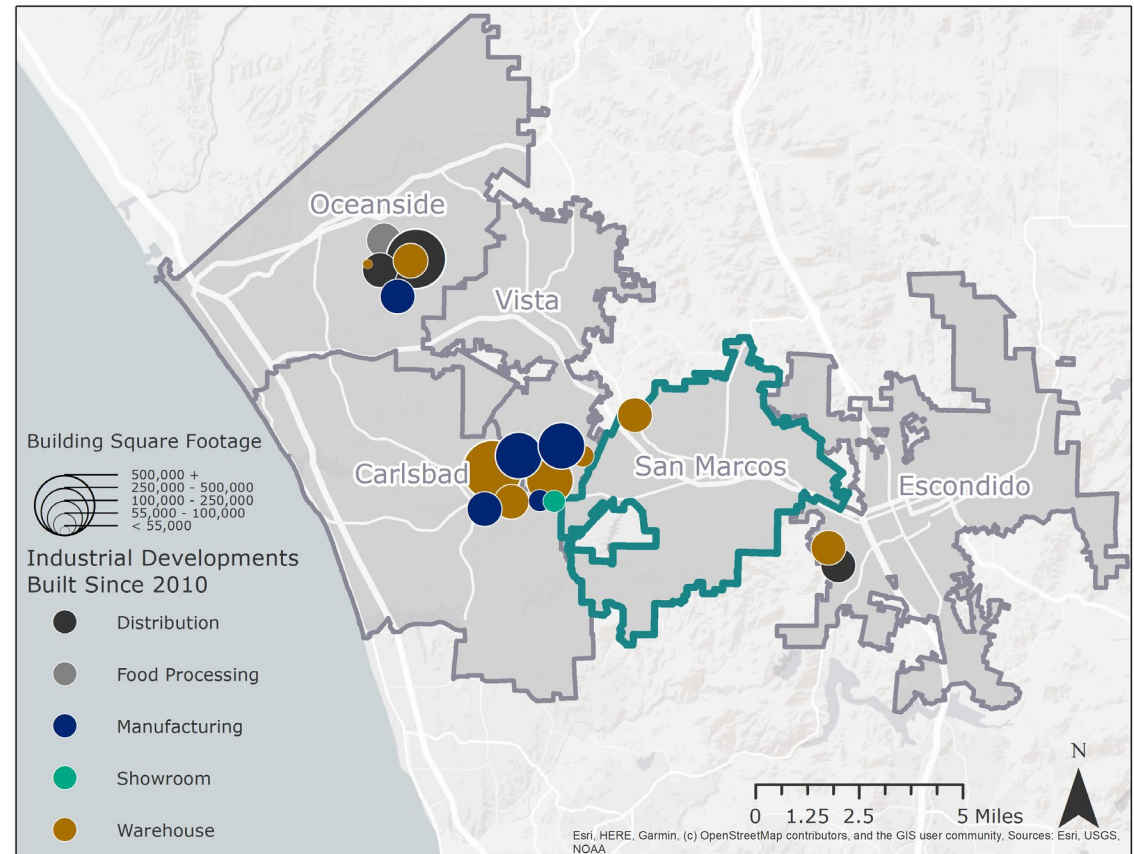
INDUSTRIAL IN SAN MARCOS PRE-PANDEMIC

Industrial space accounts for more than half of commercial space in the City

- But vacancy rate higher than the North County and City adding space at a slower rate

Recent growth in the warehouse and distribution sector, favoring cities closer to I-5, such as Oceanside and Carlsbad

Manufacturing jobs using light industrial space (e.g., life sciences and food production), also growing in region faster than San Marcos



INDUSTRIAL DURING THE PANDEMIC

Evolution of retail and rise of e-commerce driving industrial and warehousing growth nationally and regionally

Disruption to global supply chains may influence re-shoring of advanced manufacturing services, increasing demand for industrial space

- Presents opportunity for coastal gateways and major freeway intersections, as well as secondary and tertiary markets proximate to tech concentrations (e.g., San Diego)
- Increasing interest in “local made” experiential industrial products, such as breweries, distilleries, roasteries, other food and drink production

INDUSTRIAL OPPORTUNITIES FOR SAN MARCOS

- Production industrial development, including food manufacturing, aligns with broader industrial trends
- The burgeoning Life sciences / biotech sector is in a major cluster / demand generator
- Well designed Industrial/light manufacturing space – can co-exist/be synergistic with office and retail uses



“Production” development, Building A
Source: LoopNet

HOSPITALITY

HOSPITALITY PRE AND POST PANDEMIC

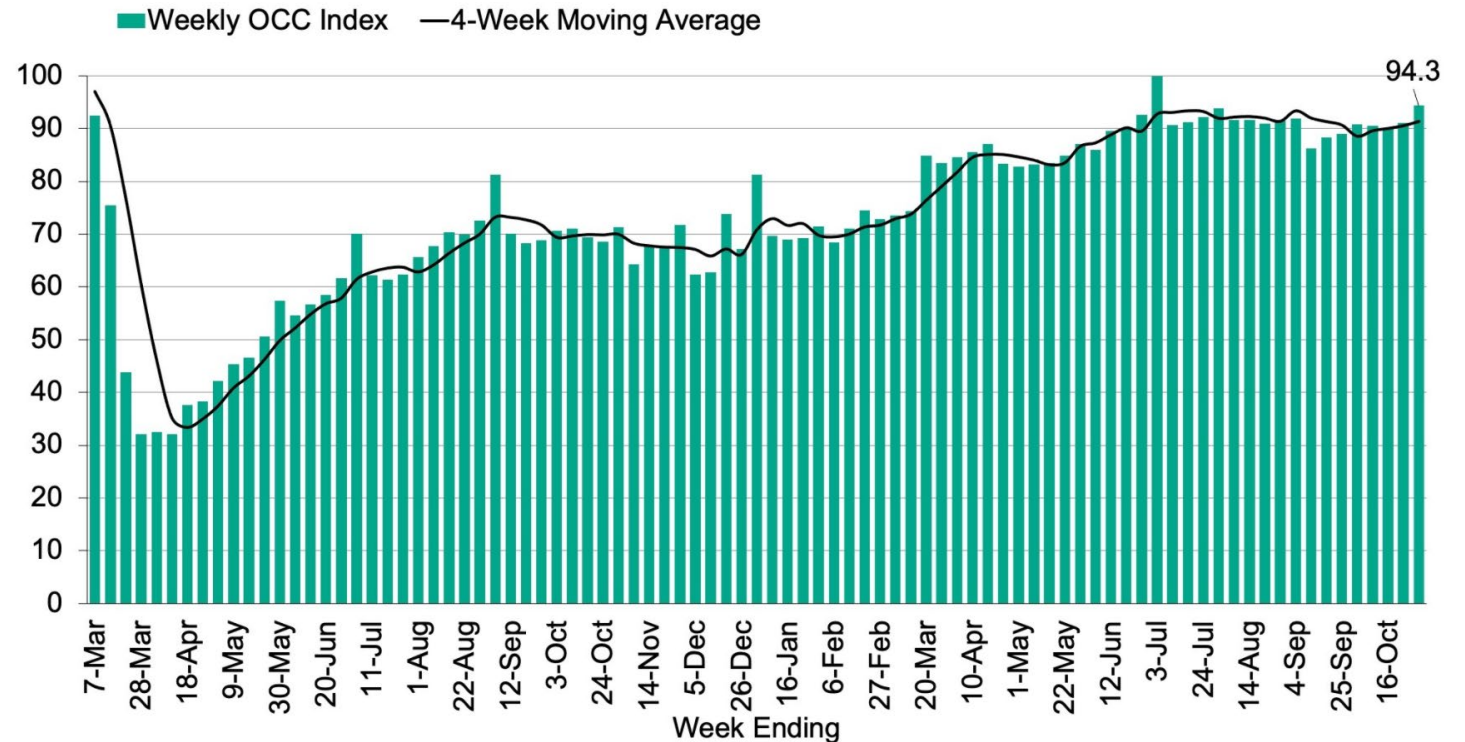
San Marcos Pre-Pandemic

- Supply of hotel rooms is small relative to more tourist-centric neighbors
- Transient Occupancy taxes represent only 2 percent of General Fund revenues – but low dependence dampened impact of pandemic

Pandemic Impacts

- Precipitous national decline, followed by gradual recovery
- Conference/convention markets remain depressed while tourist locations are exceeding 2019 levels

US Weekly Occupancy Indexed to 2019



Source: STR, 2021 © CoStar Group

HOSPITALITY OPPORTUNITIES FOR SAN MARCOS

Hotel projects paused during the pandemic are coming back, including plans for hotel in North City

Sector likely to remain relatively small but an important to:

- Growth in education, healthcare, professional services
- Regional activity centers such as the University District
- Diversification of City tax base



DISCUSSION AND NEXT STEPS

DISCUSSION QUESTIONS

- Which locations in the City are most appropriate for different land uses – retail (regional and community-level), office, industrial, and hospitality?
- What types of jobs do you see are under-represented in the City, that residents are commuting out for?
- What retail types do you see are under-represented in the City, that residents are traveling out of the City for?
- Do you see industrial development as an important growth sector for San Marcos? What concerns do you have?
- Do you see hospitality development as an area of opportunity and/or need in San Marcos?

NEXT STEPS

- Feedback from GPAC will inform continued refinements for land use plan
- EPS will work with Consultant Team to conduct fiscal impact and fiscal sustainability analysis of land use plan
- EPS will develop Economic Development and Fiscal Sustainability Element with focused set of goals, objectives, and actions to guide City policy in these areas