

## MEMORANDUM

To: City of San Marcos General Plan Advisory Committee (GPAC)

From: Jason Moody and Julie Cooper, Economic & Planning Systems

Subject: November 15, 2021

Date: San Marcos Economic Development Topics

### Introduction

This memorandum provides a high-level update to a baseline economic and fiscal conditions Report prepared by Economic & Planning Systems (EPS) in March 2020, shortly before the City temporarily paused the General Plan Update process due to the Covid-19 pandemic. EPS has actively monitored the impacts of the pandemic on socio-economic factors relevant to the General Plan process, including jobs and migration patterns, real estate development, and municipal finance. As part of the General Plan re-start, EPS has reviewed its key findings of the March 2020 Report to identify and update conditions and trends that have evolved or changed in a material way.

An analysis of baseline socio-economic and market trends is 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 from this work 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?

*The Economics of Land Use*



Economic & Planning Systems, Inc.  
949 South Hope Street, Suite 103  
Los Angeles, CA 90015-1454  
213 489 3838 tel

Oakland  
Sacramento  
Denver  
Los Angeles

[www.epsys.com](http://www.epsys.com)

Among other things, this memo is designed to provide background information to support the November 18<sup>th</sup>, 2021 General Plan Advisory Committee (GPAC) meeting. As part of this process, we are interested in what GPAC members see as important economic development opportunities for the City, and land use policies that may support those opportunities. The input received at this meeting will also inform the goals, objectives, and policies of the Economic Development and Fiscal Sustainability Elements. To advance this discussion, this memo addresses the following inter-related topics, with a focus on how the pandemic has affected San Marcos in each:

- Jobs and Housing
- The Retail Sector
- The Office Sector
- The Industrial Sector
- The Hospitality Sector

## **Jobs and Housing**

In the two decades prior to 2019, the number of residents in San Marcos grew by over 70 percent and the number of jobs grew by over 75 percent, far outpacing overall growth within the 78 Corridor and San Diego County. Economic sectors of strength have included office-focused industries such as healthcare, administration, and education; service-sector jobs in accommodations and food service; and industrial-focused jobs in wholesale trade.

Today, most jobs in the City are filled by workers commuting to San Marcos from other places, while the vast majority of residents commute to jobs in other cities. The local sectors where there is significant in-commuting (i.e. filled by non-residents) include education, administration, and healthcare. Meanwhile, the notable sectors that San Marcos residents commute out to include professional services, finance and insurance, and information sectors.

While the pandemic caused a short-term precipitous drop in jobs, more than 90 percent of jobs lost have returned in the nation, the state, and the San Diego metro area. At the same time, pre-pandemic migration trends among young professionals from central cities to suburban locations have continued, if not accelerated, particularly among households with workers who were working from home and were attracted to more affordable and more spacious units.

Looking ahead, the sectors that were strong in San Marcos before the pandemic—particularly education and healthcare—are likely to remain strong areas of growth. At the same time, the City should consider policies that will attract job sectors that are better aligned with their residents' skills, such as professional services. Such policies, including those that support entrepreneurship and small business growth, will also help the City retain graduates from its local educational institutions.

## **Retail**

Retail is the second largest commercial sector in San Marcos and is critical to the City's fiscal health (sales tax represents around 30 percent of General Fund revenues). In the decade before the pandemic, the City added around 260,000 square feet of new retail space, primarily contained within the new Costco, as well as in mixed-use developments in North City and San Elijo Town Center. The completed projects in North City represented just a fraction of 700,000 square feet of mixed-use retail space proposed for that area.

The pandemic reversed some recent trends in retail – namely, big box “essential” retail saw significant gains while “experiential” retail such as dining and small local businesses were hard hit by closures and stay at home orders. At the same time, e-commerce sales skyrocketed, growing by 20 percent virtually overnight. In general, these trends meant that San Marcos sales tax revenues stayed relatively stable, particularly as a recent Supreme Court decision has increased local sales tax collection from out-of-state e-commerce.<sup>1</sup>

As pandemic related restrictions have loosened and case counts decreased, experiential retail has begun to make a comeback, and pent-up demand will likely bolster the prospects for the type of mixed-use centers of dining, entertainment, and local retail represented by North City. Additionally, major essential retailers have adapted to accommodate both in-store and online purchasing and will maintain some level of physical presence even as they grow their online sales, as evidenced by the development of a new Costco in the City. Retail types that are likely to recover the slowest are those clustered in regional malls and strip centers, as shoppers find it easier and more desirable to shop close to home or on-line.

## Office

Office is the City’s smallest commercial sector, accounting for about 11 percent of the City’s commercial inventory. Additionally, San Marcos office space accounts for only about 10 percent of total space in the 78 Corridor. Most space added in the decade before the pandemic was for medical office uses, aligning with the growth in local healthcare jobs. Other major office users in the City include its many educational institutions.

While many offices emptied out in the early months of the pandemic, the companies who occupied them were generally well-positioned to adapt to remote working arrangements and continued to operate productively. While many companies are still operating completely remotely or with a hybrid arrangement, most anticipate at least a partial return to the office, suggesting that the demand for office space will come back to some degree. One potential trend, given the tight labor market, is that companies may look to locate closer to where their workers live to improve commute conditions.

With the opening of the new Kaiser facility, San Marcos is likely to continue to see demand for medical office space, both for auxiliary medical services and complementary/adjacent sectors such as medical tech. Educational institutions are also likely to continue to need quality office space close to their campuses. The key opportunity for San Marcos will be the development of Class A office space in dynamic mixed-use locations that, combined with a highly skilled resident workforce, can attract the professional services jobs that many residents have historically commuted out to. Space that supports entrepreneurship and innovation initiatives and programs, in cooperation with local educational institutions and regional employers, can also generate job growth and momentum that will attract other companies to the City.

---

<sup>1</sup>On June 21, 2018, The United States Supreme Court ruled 5-4 in *South Dakota v. Wayfair* that states can mandate that businesses without a physical presence in a state with more than 200 transactions or \$100,000 in-state sales collect and remit sales taxes on transactions in the state. This decision has greatly increased sales tax revenue for many California jurisdictions.

## Industrial

Industrial is the City's largest commercial sector by square footage. Prior to the pandemic, the City was experiencing a relatively high vacancy rate in its industrial space as compared to the 78 Corridor overall, and a decline in manufacturing jobs. Regional growth in industrial development had mainly been occurring in the warehouse and distribution sector, which favored cities closer to I-5, such as Oceanside and Carlsbad.

The rise of e-commerce during the pandemic had a significant impact on the demand for warehouse and distribution space. The high need for distribution functions, especially "last mile" requirements for e-commerce has attracted investments in virtually every US market, and the expected future growth in e-commerce's share of retail sales will continue to drive this demand. Additionally, disruptions to the global supply chains may influence re-shoring of advanced manufacturing services, increasing demand for industrial and flex space. This presents a particular opportunity for areas in major coastal gateways and major freeway intersections, as well as secondary and tertiary markets proximate to tech concentrations such as San Diego. There is also increasing interest in "local made" experiential industrial products, such as breweries, distilleries, roasteries, and other local food and drink products, that can drive space demand.

Some of San Marcos' recent industrial developments seem to align with the above trends. The full lease-up of the *production* industrial development, which includes major food manufacturing, as well as the planned Karl Strauss brewpub, represents future opportunities to capture the interest in "local made" products. And with appropriate space, the City can capitalize on the San Diego's region strength in life sciences, especially the booming sector of biotech. While "industrial" may conjure up images of large blocky buildings surrounded by a sea of parking, the types of light manufacturing and flex space that these uses typically locate in can co-exist and be synergistic with office and retail uses in a more attractive and accessible format.

## Hospitality

As compared to its more tourist-centric neighbors, San Marcos' supply of hotel rooms is small – just 7 percent of the total rooms along the 78 Corridor. While this does not have a significant impact on economic activity per se, it does have fiscal implications in limiting transient occupancy tax (TOT) revenues, which currently represent only 2 percent of General Fund revenues. The existing conditions report identified the need in the education and healthcare sectors for hotel facilities, representing a potential opportunity for some future growth in the sector.

Hospitality was one of the hardest hit sectors during the pandemic, with hotel occupancies cratering in the few first months. While occupancies have made a strong comeback more recently, the recovery has been uneven. Markets depending on business and conference/convention travelers have remained depressed, while tourist markets, particularly those with ample outdoor activities, have exceeded even 2019 occupancy rates.

In San Marcos, hotel projects that were paused during the pandemic are coming back, including plans for a hotel in North City. While hospitality is likely to remain a small sector in San Marcos, it will be an important complement to growth in education and healthcare, as well as regional activity centers such as North City. The City's relatively low dependence on TOT was positive

from a fiscal perspective during the pandemic, but diversity of revenue sources should remain an important fiscal goal for City going forward.

## **Discussion Questions**

Please consider the following questions in preparation for the November 18<sup>th</sup> GPAC meeting:

1. Which locations in the City are most appropriate for different land uses – for example, retail (regional and community-level), office, industrial, and hospitality?
2. What types of jobs do you see as under-represented in the City and that may present an opportunity for growth?
3. What retail types do you see as under-represented in the City and that may present an opportunity for growth?
4. Do you see industrial development as an important growth sector for San Marcos? What concerns do you have?
5. Do you see hospitality development as an area of opportunity and/or need in San Marcos?
6. Based on your experience and background what should the City do to further advance prospects for desired land uses?