



Exhibit C. Market Feasibility Assessment



COUNTY OF
SAN DIEGO

Planning and Development Services 5510 Overland Avenue
San Diego, CA 92123 sandiegocounty.gov



KEYSER MARSTON ASSOCIATES

MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

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Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Buena Creek Focus Area – Market Assessment

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I. INTRODUCTION

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) focus areas within the unincorporated area of the County. The focus areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. This assessment reflects the market support and development potential for residential development within the Buena Creek Focus Area (Focus Area).

In completing this assessment, KMA undertook the following principal work tasks for the Focus Area:

- (a) Reviewed other market feasibility studies and/or information from the County
- (b) Evaluated long-term residential market demand
- (c) Reviewed existing inventory and projects in the pipeline
- (d) Assessed potential improvements to existing infrastructure
- (e) Identified criteria for five (5) candidate sites for testing the feasibility of residential development

II. EXECUTIVE SUMMARY

This section presents a summary of the key findings from the KMA market assessment. Table II-1 below presents a summary fact sheet of the opportunities and constraints, evaluation of market demand, and criteria for five (5) candidate sites for the residential development feasibility analysis. Supportable market demand is evaluated in the near-term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and “weak,” meaning unlikely to occur.

To complement the findings in the market assessment, KMA will produce, under a separate report, financial feasibility analyses of various residential development concepts on the selected candidate sites.

Table II-1: Fact Sheet – Buena Creek Focus Area



Key Market Opportunities and Constraints for Residential Development	<i>Opportunities for Residential Development:</i> <ul style="list-style-type: none">• Capture new residents that are employed within the high-quality office markets of North County/State Route 78 (SR 78) corridor• Supplement the existing/strong residential development trends in both Vista to the west and San Marcos to the southeast• Concentrate higher density multi-family development near the Buena Creek Sprinter Station and along South Santa Fe Avenue• Encourage low density residential at the northern and southern areas of the Focus Area near existing single-family development and schools• Increase the variety of housing options available to new and existing residents, including affordable housing <i>Constraints for Residential Development:</i> <ul style="list-style-type: none">• Lower median household income than the County as a whole (Region)• Low residential land values when compared to other areas of the Region

Table II-1: Fact Sheet – Buena Creek Focus Area

	<ul style="list-style-type: none"> • Land assembly may be required to create appropriately sized and configured development sites • Certain properties are challenged by sloping topography • Lack of infrastructure improvements in certain areas 														
Projected Growth in Housing Units	<table border="1"> <thead> <tr> <th colspan="3">Projected Growth (2025-2050)</th> </tr> <tr> <th></th><th>Total Units</th><th>Units/Year</th></tr> </thead> <tbody> <tr> <td>Low Capture</td><td>915 Units</td><td>37 Units/Year</td></tr> <tr> <td>High Capture</td><td>1,373 Units</td><td>55 Units/Year</td></tr> </tbody> </table>			Projected Growth (2025-2050)				Total Units	Units/Year	Low Capture	915 Units	37 Units/Year	High Capture	1,373 Units	55 Units/Year
Projected Growth (2025-2050)															
	Total Units	Units/Year													
Low Capture	915 Units	37 Units/Year													
High Capture	1,373 Units	55 Units/Year													
Potential Residential Development Typologies	For-Sale Residential Development Typologies														
	 Small Lot Single-Family	Type V 2 Stories	10 Units/Acre												
	 Townhomes	Type V 2-3 Stories	15 to 20 Units/Acre												
	Rental Residential Development Typologies														
	 Stacked Flat with Tuck-Under Parking	Type V 3+ Stories	30+ Units/Acre												
	 Garden Style Apartments	Type V 2-3 Stories	20 to 25 Units/Acre												

Table II-1: Fact Sheet – Buena Creek Focus Area

Evaluation of Market Demand	Market Demand for Residential Typologies			
		Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
	For-Sale			
	Small-Lot Single-Family	Strong	Strong	Strong
	Townhomes	Strong	Strong	Strong
	Rental			
	Stacked Flat with Tuck-Under Parking	Weak	Moderate	Strong
	Garden Style Apartments	Moderate	Strong	Strong
Criteria for Five (5) Candidate Sites for Potential Residential Development¹	<ul style="list-style-type: none">• Parcel sizes ranging from 1/2 acre to 3+ acres• Vacant or underutilized properties²• Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range• In-fill properties, particularly ones with the potential for land assemblage with adjacent properties			

¹ Source: Criteria for Selecting Candidate Sites for Financial Feasibility Modeling Memorandum to County, MIG, May 2024.

² Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

III. OVERVIEW OF FOCUS AREA

A. *Description and Environs*

The Focus Area consists of 2.52 square miles and is presented in Exhibit III-1. The Focus Area is well situated within North County and is bordered by the cities of San Marcos and Vista. The Focus Area has access to State Route 78 (SR 78) and the Buena Creek Sprinter Station, the only light rail station in the unincorporated County.

The Focus Area can generally be characterized as containing primarily large-lot single-family homes and agricultural uses, with limited commercial and industrial uses. Existing General Plan Land Uses include General Commercial, Limited Impact Industrial, Neighborhood Commercial, Office Professional, Public/Semi-Public Facilities, Village Core Mixed-Use, and Village Residential. Residential densities in the Village Residential areas range from 2 to 30 dwelling units per acre. Current allowable zoning within the Focus Area includes General Commercial (C36), Mobile Home Residential (RMH), Urban Residential (RU), Limited Industrial (M52), Rural Residential (RR), Multi and Variable Residential Family Residential (RV), General Agriculture (A72), and Transportation and Utility Corridor (S94).

B. *Demographic Overview*

This section provides a comparative evaluation of demographic factors for the Focus Area relative to the County as a whole (Region). An overview is presented in Table III-1 below. As shown, the Buena Creek Focus Area population accounts for 7,708 out of the Region's 3.3 million total population. Households in the Focus Area are larger in size (3.1 persons per household) when compared to the Region at 2.7 persons per household. Unemployment rate in the Focus Area is higher at 5.7% versus the Region at 4.9%. Additionally, the Focus Area has slightly less ownership housing and slightly more rental housing when compared to the Region.

Exhibit III-1: Buena Creek Focus Area

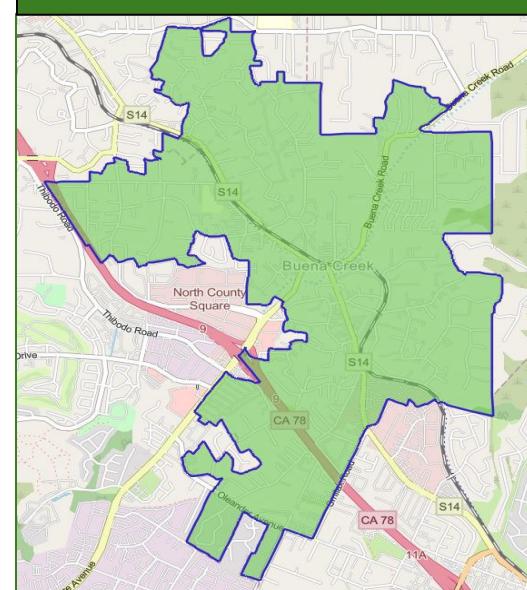


Table III-1: Demographic Overview, 2023 ⁽¹⁾		
	County of San Diego (Region)	Buena Creek Focus Area
Population	3,325,723	7,708
Households	1,172,264	2,474
Average Household Size	2.74	3.08
Median Age	36.7	35.6
Unemployment Rate	4.9%	5.7%
Owner Occupied Housing Units	51.5%	49.2%
Renter Occupied Housing Units	42.5%	45.9%

(1) Esri Business Analyst Online, May 2024.

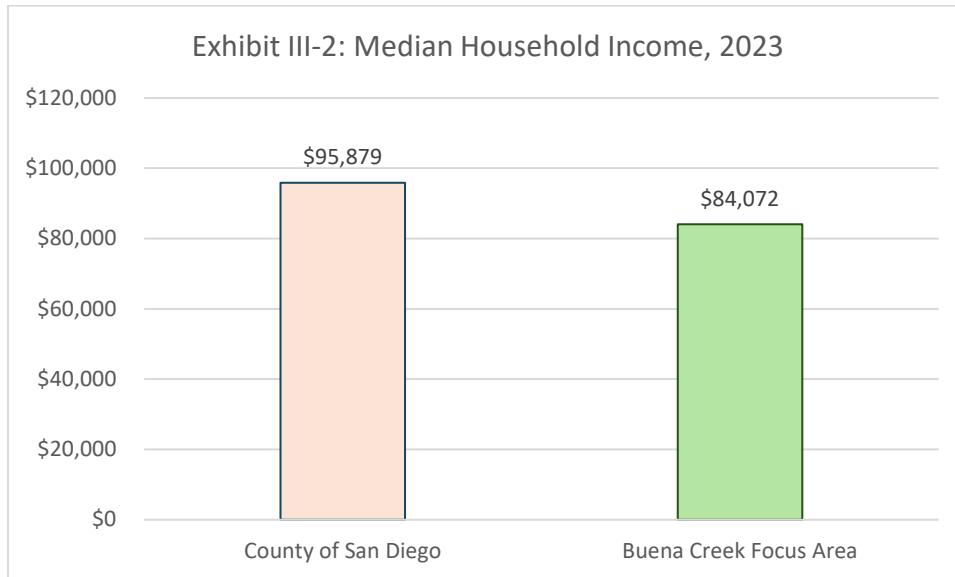
C. Household Income Distribution

The distribution of 2023 household income for the Focus Area vs. the Region is presented in Table III-2. As shown, the Focus Area is similar to the Region, with slightly more households earning less than \$75,000 per year. Similarly, the Region contains more households earning above \$150,000 per year when compared to the Focus Area.

Table III-2: Household Income Distribution, 2023 ⁽¹⁾				
	County of San Diego (Region)		Buena Creek Focus Area	
Income Distribution	Households	Percent	Households	Percent
< \$75K	466,548	40%	1,089	44%
\$75K - \$99K	137,923	12%	371	15%
\$100K - \$149K	234,349	20%	470	19%
\$150K+	333,420	28%	544	22%
Total	1,172,240	100%	2,474	100%

(1) Esri Business Analyst Online, May 2024.

With respect to median household income, Focus Area income is 12% lower than the Region. As shown in Exhibit III-2 below, the Focus Area's median household income is approximately \$84,000, whereas the Region income is approximately \$96,000.



Source: Esri Business Analyst Online, May 2024.

D. Public Transit and Neighborhood Amenities

KMA evaluated the public transit and neighborhood amenities in close proximity to the Focus Area. The presence of these amenities, or lack thereof, can be factors influencing the demand for residential development. With respect to public transit, the Focus Area is served by North County Transit District (NCTD) bus stops, primarily along South Santa Fe Avenue and Robelini Drive. The area is also served by NCTD's Sprinter at the Buena Creek Station, providing east-west accessibility from Escondido to Oceanside, with connections to the Coaster commuter rail service.

KMA analyzed the neighborhood amenities available within a 3-mile radius of the center of the Focus Area (Trade Ring), as illustrated in Exhibit III-3 below.

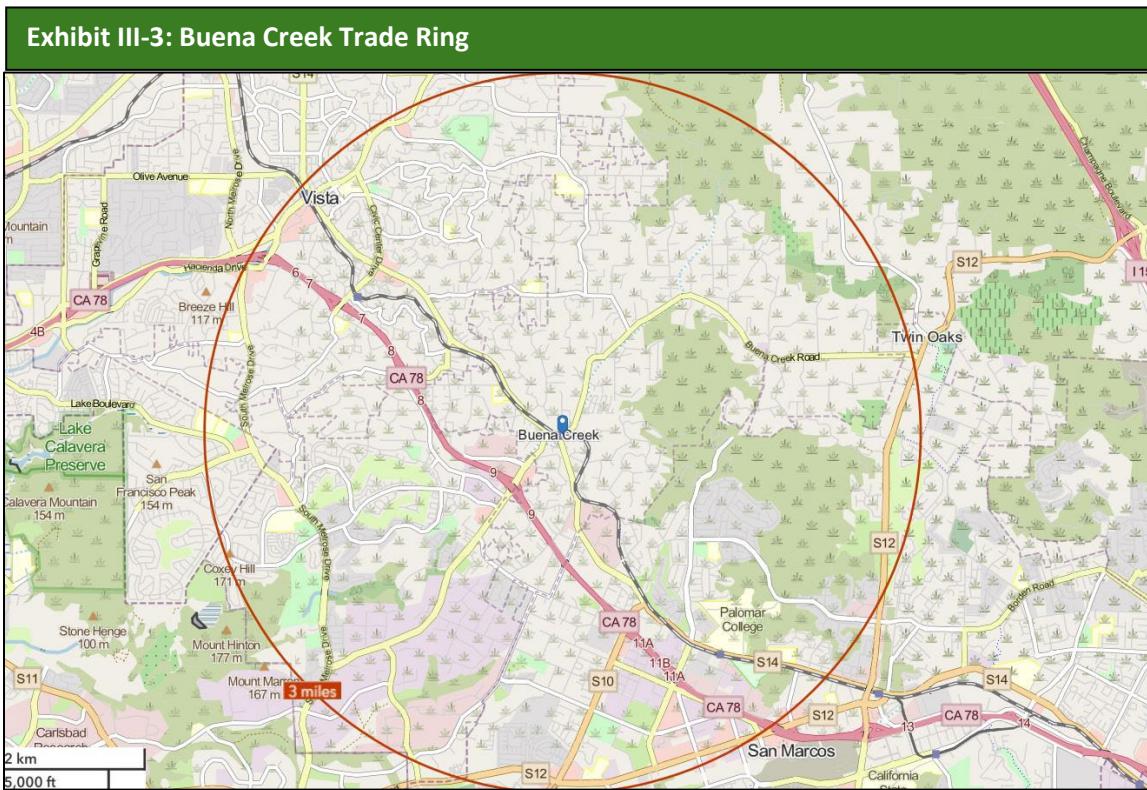


Table III-3 presents amenities within the Trade Ring that serve existing residents. As shown, the Trade Ring contains an ample number of schools/educational facilities, neighborhood parks/recreation, and grocery stores and pharmacies. Notably, the Trade Ring includes several North County Transit District (NCTD) bus stops and the Buena Creek Sprinter Station. The presence of these public transit amenities provides an opportunity to increase transit ridership and provide additional public transit infrastructure. Although there are no hospitals within the Trade Ring, just outside the Trade Ring is the Tri City Medical Park. Additionally, the North County Square shopping center adjacent to the Focus Area offers major retailers such as Target, Walmart, and Living Spaces.

Table III-3: Neighborhood Amenities – Trade Ring	
Public Transit	<ul style="list-style-type: none">• Sprinter (Buena Creek Station)• North County Transit District bus stops
Schools/Educational Facilities	<ul style="list-style-type: none">• Hannalei Elementary School• Monte Vista Elementary School• Beaumont Elementary School• Vista Magnet Middle School• Rancho Minerva Middle School• San Marcos Middle School• Rancho Buena High School• Vista Adult School• Palomar College
Hospital/Medical Centers	<ul style="list-style-type: none">• Kaiser Permanente Vista Medical Offices• Vista Family Health Center
Neighborhood Parks/Recreation	<ul style="list-style-type: none">• Inland Rail Trail – Buena Creek• Buena Vista Park• Shadow Ridge Park• Thibido Park• Pala Vista Park• Valley View Park• Quail Valley Park
Grocery Stores and Pharmacies	<ul style="list-style-type: none">• Walmart Supercenter• Target Grocery• El Leon Market• Mi Ranchito Produce• Stater Bros. Markets

E. Residential Market Trends

Utilizing CoStar Group, Inc (CoStar), an industry leader in commercial real estate information, KMA conducted a survey of residential land sales from January 2021 to May 2024 for the Trade Ring. As shown in Table III-4, land values in the Trade Ring reflect a median of \$28 per square foot (SF) and an average of \$27 per SF. The KMA survey found that, although there have been sales in the Trade Ring, there have been no land sales within the Focus Area boundary for the period analyzed. Sales generating the highest land values (above \$30 per SF) are primarily located in the cities of San Marcos and Vista. These sales reflect entitled sites for the purpose of developing multi-family housing. By comparison, land sales for the development of single-family homes ranged between \$10 and \$20 per SF. The

difference in land value for multi-family versus single-family housing is an indicator of market demand and development potential for higher density multi-family product types.

Table III-4: Survey of Residential Land Sales, January 2021 to May 2024, Buena Creek Trade Ring⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
15	\$5/SF Land	\$63/SF Land	\$28/SF Land	\$27/SF Land
(1) Source: CoStar Group, Inc.				
(2) Reflects a 3-mile radius from the mid-point of the Buena Creek Focus Area (1923 Buena Creek Road, Vista).				

KMA also conducted a survey of apartment building sales in the Trade Ring from January 2021 to May 2024. As shown in Table III-5, apartment buildings sold at a median price of \$323,400 per unit and an average price of \$349,600 per unit. Two (2) sales in Vista and San Marcos exceeded \$500,000 per unit. Both sales were Class A apartment complexes built after 2014 within highly amenitized residential areas and in close proximity to a Sprinter Station. This indicates that there is demand for residential development within the Trade Ring, especially near key public transit locations.

Table III-5: Survey of Apartment Building Sales, January 2021 to May 2024, Buena Creek Trade Ring⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
12	\$222,200/Unit	\$575,400/Unit	\$323,400/Unit	\$349,600/Unit
(1) Source: CoStar Group, Inc.				
(2) Reflects a 3-mile radius from the mid-point of the Buena Creek Focus Area (1923 Buena Creek Road, Vista). Excludes apartment buildings with less than 25 units.				

With respect to apartment buildings in the Focus Area boundary, KMA found that no new apartments have been built in the last 20 years. There is currently an inventory of 11 apartment buildings over 10 units in size. These developments contain a total of 577 units, with an average unit size of 788 SF. As shown in Table III-6, monthly rent in the first quarter 2024 was \$2,170, or \$2.78 per SF. Since 2014, rents in the Focus Area have experienced a relatively high average annual increase of approximately 6.2%. Vacancy rates have also remained low over the past 10 years, averaging 3.1%. For comparison purposes, a healthy vacancy rate in the apartment industry averages 5.0%.

Table III-6: Apartment Rents, Buena Creek Focus Area⁽¹⁾

Year	Average Unit Size	Monthly Rent ⁽²⁾	Rent Per SF	Average Annual Growth Rate (2014-2024)
2024	788 SF	\$2,170	\$2.78	6.24%
2014	788 SF	\$1,185	\$1.51	

(1) Reflects apartment buildings with 10 units or more within the Buena Creek Focus Area.

(2) Reflects effective rent defined as the actual rental rate achieved by the landlord after deducting the value of concessions from the base rental rates that are paid or given to the tenant.

Using median household income, KMA estimated the supportable apartment rent for Focus Area households and compared this rent to supportable apartment rents in the neighboring cities of San Marcos, Vista, and the Region. As shown in Table III-7, Focus Area households can support apartment rents of \$2,330, lower than San Marcos, Vista, and Region households.

Table III-7: Supportable Apartment Rents by Area

	Focus Area	City of San Marcos	City of Vista	County of San Diego (Region)
Median Household Income⁽¹⁾	\$84,072	\$103,083	\$86,101	\$95,879
Income Allocation to Housing	35%	35%	35%	35%
Monthly Income Available for Housing	\$2,452	\$3,007	\$2,511	\$2,796
(Less) Utilities⁽²⁾	(\$120)	(\$120)	(\$120)	(\$120)
Supportable Apartment Rent	\$2,330	\$2,890	\$2,390	\$2,680

(1) Source: Esri, Business Analyst Online.
 (2) Reflects utility allowance schedule per the County of San Diego, effective March 1, 2024. Assumes a two bedroom unit.

KMA also analyzed for-sale housing trends for single-family and townhome/condominium units for the three (3) zip codes overlapping the Focus Area. As shown in Table III-8, the median sales price for single-family units in 2024 ranged from \$896,590 to \$994,000. By comparison, the median sales price for townhome/condominium units ranged from \$579,500 to \$648,720.

Table III-8: For-Sale Housing Trends by Zip Code, January 2024 to March 2024 ⁽¹⁾		
Type	Year to Date ⁽²⁾	
	Closed Sales	Median Sales Price
Single-Family		
Vista South - 92081	42	\$994,000
Vista West - 92083	35	\$896,590
Vista East - 92084	62	\$955,000
Townhome/Condominium		
Vista South - 92081	18	\$648,720
Vista West - 92083	16	\$579,500
Vista East - 92084	15	\$590,000

(1) Source: Greater San Diego Association of Realtors. Reflects 92081, 92083, 92084 zip codes.
(2) Reflects January 2024 through March 2024 time period.

Using median household income, KMA estimated the supportable sales price for Focus Area households and compared this sales price to supportable prices in the neighboring cities of San Marcos, Vista, and the Region. As shown in Table III-9, Focus Area households can support a for-sale unit price of \$397,000, lower than San Marcos, Vista, and the Region. It is important to note that supportable sales prices above are substantially below current market values. This is an indicator of the affordability housing crisis throughout the Region.

Table III-9: Supportable Sales Prices by Area				
	Focus Area	City of San Marcos	City of Vista	County of San Diego (Region)
Median Household Income (1)	\$84,072	\$103,083	\$86,101	\$95,879
Annual Income Available for Housing @ 35%	\$29,425	\$36,079	\$30,135	\$33,558
Income Available for Mortgage (2)	\$20,825	\$26,379	\$21,435	\$24,258
Supportable Mortgage @ 4.6% Interest Rate (3)	\$337,031	\$426,914	\$346,906	\$392,581
Add: Down Payment @ 15%	\$59,550	\$75,300	\$61,200	\$69,300
Supportable For-Sale Unit Price (Rounded)	\$397,000	\$502,000	\$408,000	\$462,000

(1) Source: Esri, Business Analyst Online.
 (2) KMA estimate based on \$350/month HOA and 1.10% tax rate. Excludes costs related to maintenance and insurance.
 (3) Source: Bankrate.com. Reflects the national average 30-year fixed mortgage APR from 2019 through 2023.

F. Projects in Planning and Under Construction

According to CoStar, there are eight (8) residential projects either proposed or under construction within the Trade Ring. As shown in Table III-10, collectively, these projects will add an estimated 850 housing units to the residential inventory. Of the eight (8) projects, six (6) developments are rental apartments projects, with three (3) serving affordable households; two (2) of these will serve senior populations.

Table III-10: Projects in Planning/Under Construction				
Project Name	Address	Product Type	Number of Units	Current Status
Estrella	600 W. Richmar Avenue, San Marcos	Affordable rental apartments	96 units	Under construction
Harveston	1501 Wingwood Lane, Vista	For-sale single-family homes	45 units	Under construction
La Sabela	2357 South Santa Fe Avenue, Vista	Senior affordable rental apartments	85 units	Under construction

Table III-10: Projects in Planning/Under Construction				
Project Name	Address	Product Type	Number of Units	Current Status
Capalina Apartments	240 North Rancho Santa Fe Road, San Marcos	Rental apartments	119 units	Proposed
Kensho Residential	404 Lado de Loma Dr, Vista	Rental apartments	183 units	Proposed
Melrose Matagual	560 S Melrose Drive, Vista	For-sale single-family homes	34 units	Proposed
Park Avenue Apartments	165 Eucalyptus Avenue, Vista	Rental apartments	176 units	Proposed
Santa Fe Apartments	2357 South Santa Fe Avenue, Vista	Senior affordable rental apartments	112 units	Proposed
Total Units			850 units	

IV. RESIDENTIAL DEVELOPMENT POTENTIAL

A. Factors Impacting Development Potential

Demographic & Market Trends

When compared to the Region, the Focus Area contains larger household sizes, slightly lower median household income, higher unemployment rate, and a lower proportion of owner-occupied housing units. The Focus Area contains more households earning less than \$75,000 when compared to the Region. Additionally, existing rents for multi-family apartments are slightly lower than the Regional average. However, North County remains one of the highest housing cost areas when compared to other parts of the region due to its accessibility to employment centers, quality schools, and recreational amenities.

Neighborhood Amenities

As discussed in the prior section, the Trade Ring contains an ample amount of neighborhood amenities. The Trade Ring allows Focus Area residents to purchase goods in the apparel, general merchandise, home furnishings/appliances, and building/hardware retail categories. The proximity of a variety of public transit options provides an opportunity to concentrate new residential development near or around existing transit stops. Moreover, the Trade Ring contains high quality schools/education, medical centers, neighborhood parks, and grocery and pharmacy stores to serve existing and future residents. These amenities are crucial to attract new residential development to the Focus Area.

Housing Legislation

In recent years, the State of California (State) Legislature has passed several Senate Bills (SB) and Assembly Bills (AB) encouraging housing production. These bills may positively impact the production of residential development within the Focus Area. Key housing bills are summarized below.

- *SB 2 (2017)* – established a permanent source of funding intended to increase affordable housing. The revenue from SB 2 is dependent on real estate transactions and provides financial assistance to local governments for eligible housing-related projects and programs to assist in addressing the unmet housing needs of their local communities.
- *AB 1486 (2020)* – amends the Surplus Land Act (SLA), requiring public agencies interested in selling or leasing a property to go through a structured sale disposition process that first exposes the property to a State published list of affordable housing developers and other interested parties.
- *SB 743 (2020)* – requires the amount of driving and length of trips – as measured by vehicle miles traveled (VMT) – be used to assess transportation impacts on the environment for California Environmental Quality Act (CEQA) review. These impacts will be mitigated by options such as Transportation Demand Management (TDM), increasing transit services, or providing for active transportation such as walking and biking.
- *SB 9 (2022)* – streamlines the process for a homeowner to create a duplex or subdivide an existing lot.
- *SB 10 (2021)* – provides cities or counties with an easier path for upzoning residential neighborhoods close to job centers, public transit, and existing urban areas. Under SB 10, cities or counties can choose to authorize construction of up to ten units on a single parcel without requiring an environmental review (otherwise mandated under CEQA).
- *AB 976 (2023)* – permanently extends the ability of property owners to build affordable, rental accessory dwelling units (ADUs), also known as “granny flats,” by extending the rental unit provisions of AB 881 (2020), which would have expired in 2025. The provisions allow owners to build rental ADUs on the same property as their existing rentals.
- *AB 1287 (2023)* – modifies the State Density Bonus Law (SB 1818) to create additional density bonuses for developers who provide deed-restricted affordable units beyond the previous maximum percentages in the law. Under the new law, the additional 5% of units provided for very low-income

households would entitle the developer to an extra 20% density bonus. Stacked on top of the 35% bonus provided for the 15% set-aside under the original law, this results in a total bonus of 55%. The new additional bonuses provided under AB 1287 could allow for density bonuses of up to 100% of base density.

Construction Costs

Another factor impacting production of new residential development is the rising costs of construction. These costs are primarily governed by market supply and demand factors. Currently, demand for building materials is high, while supply is limited due to global shortages and disruptions, causing prices to rise. This increase is reflected in the Construction Cost Index (CCI), a measure of the average cost of construction based on prices of materials, labor, and equipment. CCI for the State experienced an annual growth rate during 2016 to 2020 ranging from 1.3% to 3.6%. By comparison, from 2021 to 2023 the annual growth ranged from 9.3% to 13.4%. On a national basis, from 2020 through 2023, costs for concrete have increased by 15%, lumber by 16%, and steel by 22%. Other factors contributing to this increase in cost include rising insurance premiums, high interest rates, and limited availability of labor. The continued rising costs of construction present residential development feasibility challenges, where many developers cannot deliver residential projects at entry level rents/prices.

Infrastructure Requirements

New residential development also requires enhancement of surrounding public facilities and infrastructure, including roads, water, sewer, sidewalks, and parks. New development in the Focus Area is also challenged due to the need to apply for and access adjacent water, sewer, and utility districts. Portions of the Focus Area lack the enhanced infrastructure needed to support competitive new market-rate residential development. The cost to upgrade infrastructure and facilities is continuing to rise, hindering demand and construction of new residential development.

B. Summary of Stakeholder Interviews

KMA participated in a series of interviews with key stakeholders, including developers, non-profit organizations, and industry associations. The objective of the stakeholder interviews was to better understand barriers, necessary amenities, potential infrastructure needs, and opportunities for residential development within the unincorporated areas of the County. Table IV-1 presents the overview of barriers and solutions mentioned by the key stakeholders that the County may consider to encourage the production of housing in each Focus Area.

Table IV-1: Summary of Stakeholder Interviews

Current Barriers to Residential Development	<p><i>Programs and Policies:</i></p> <ul style="list-style-type: none">• Timing of permitting, entitlement, and review processes increase risk and uncertainty• County requires a larger number of technical studies as compared to other jurisdictions• Vehicle Miles Traveled (VMT) requirements are too restrictive in non-VMT efficient areas• Parking requirements do not align with current residential market trends• Low density residential zoning hinders developers' ability to fully build out a site to its maximum potential after considering easements, sloping, and on-site stormwater mitigation measures <p><i>Financial Factors:</i></p> <ul style="list-style-type: none">• Construction costs (labor and materials) are increasing at all-time highs• High interest rates increase developers' borrowing costs• Proposed Statewide budget cuts will limit funding sources for affordable housing• Lack of infrastructure in rural communities causes extraordinary construction costs• High insurance costs may hinder developers from building in high-risk fire areas
Potential Solutions to Encourage Residential Development	<ul style="list-style-type: none">• Provide a streamlined permitting, entitlement, and review process with single project manager to oversee a development application from A-Z• Enhance the ability for projects to undergo ministerial approval and eliminate the need for CEQA or public hearings• Establish Program EIRs for Community Plan Updates or Specific Plans• Increase density on existing low density residential zoned parcels, where appropriate• Enhance County's ability to work in partnership with developers to invest in and develop infrastructure improvements (primarily water and sewer)• Provide methods for off-site stormwater mitigation• Establish an infrastructure financing district(s) in strategic areas• Consider acquiring and consolidating parcels to create catalyst development sites• Conduct regular (or annual) amendments to zoning regulations to align with changes in the housing market to ensure housing production can be achieved

Under the direction of the Board of Supervisors, the County has made several efforts to address the challenges that developers have faced when attempting to construct housing in the unincorporated areas of the County. These actions include:

1. The May 2023 adoption of Guaranteed Timelines for: (a) 100% affordable housing and emergency shelters; (b) VMT efficiency and in-fill area housing; and (c) work force housing. The Guaranteed Timelines will allow for expedited timelines for discretionary review, CEQA environmental studies, building permit plan check, and septic reviews.
2. The preparation of a Programmatic Environmental Impact Report (PEIR) for key areas, expected to be presented to the Board of Supervisors in October 2024.

C. Potential Residential Development Opportunities

Projected Demand in Housing Units

KMA reviewed historical housing inventory trends in the Focus Area, Trade Ring, and the Region. As shown in Table IV-2, the Trade Ring experienced a growth in housing units from 2000 to 2020 that accounted for 2.4% of Regional growth. By comparison, the Focus Area experienced a growth in housing units from 2000 to 2020 that represented 0.07% of Regional growth.

Table IV-2: Historic Annual Growth in Housing Units ⁽¹⁾	
	Annual Growth 2000-2020
San Diego County (Region)	9,416 Units/Year
Trade Ring as % of Region	224 Units/Year 2.4%
Buena Creek Focus Area	7 Units/Year
Focus Area as % of Region	0.07%

(1) Source: Esri.

Based on this historic growth and current County initiatives to promote residential development within this area, KMA anticipates that the Focus Area can capture a share of future Regional growth ranging from a low of 0.50% to a high of 0.75%. Capture rates within the Focus Area are expected to be higher than historic rates as there is limited supply of land within the Region and increased investment interest in in-fill communities. As a result, KMA projects that the Focus Area has the potential to add between 915 and 1,373 units between 2025 and 2050 as shown in Table IV-3.

Table IV-3: Projected Annual Growth in Housing Units – Focus Area		
	Projected Growth 2025-2050	
	Total Units	Units/Year
San Diego County (Region) (1)	183,079 Units	7,323 Units/Year
Buena Creek Focus Area		
Low Capture (0.50%)	915 Units	37 Units/Year
High Capture (0.75%)	1,373 Units	55 Units/Year

(1) Based on SANDAG Series 14 Growth Forecast.

Comparable Residential Development Projects

KMA projects that the Focus Area can support a diverse range of ownership and rental housing product types. There is an opportunity to concentrate medium to high density multi-family development, including for-sale townhomes/rowhomes and stacked flat rental apartments, at the center of the Focus Area and along South Santa Fe Avenue. These areas benefit from access to transit services such as the NCTD Buena Creek Sprinter Station and bus routes along South Santa Fe Avenue and Robelini Drive. Low density residential development, such as small-lot and zero lot line (ZLL) single-family homes, should be encouraged in the northern and southern portions of the Focus Area.

Affordable housing development also presents an opportunity to increase demand for a range of housing types within the Focus Area. In many communities, development of affordable rental housing has demonstrated the potential to spur development of market-rate housing. Comparable experiences in Old Town Temecula, Vista Village, and Downtown Lemon Grove demonstrate that investments in affordable housing developments led to subsequent commercial revitalization and market-rate housing development. Within the Trade Ring, since 2020, three (3) affordable rental housing projects have been built, including The Grove (Wakeland Housing and Development Corporation), Alora Apartments (Affirmed Housing Group), and Paseo Artist Village (Community HousingWorks). In addition, La Sabilia (Wakeland Housing and Development Corporation), an 85-unit senior affordable housing development is under construction at 2357 South Santa Fe Avenue in the Focus Area. Within the Trade Ring (south of the Focus Area), Estrella (Affirmed Housing Group) is under construction with a 96-unit garden-style affordable apartment project. The construction of affordable housing in the Trade Ring enhances the development potential of market-rate housing.

KMA identified potential residential development typologies that would be likely to occur within the Focus Area within the near- to long-term. These typologies reflect our experience with comparable projects in North County and similar communities elsewhere in the Region. Table IV-4 presents a brief project description for two (2) for-sale and two (2) rental residential development types that respond to

anticipated market conditions in the Focus Area. As shown, the likely construction types are all Type V low-rise wood-frame buildings.

Table IV-4: Potential Residential Development Typologies – Buena Creek Focus Area			
	Construction Type	Target Density (Units/Acre)	Typical Average Unit Size
For-Sale Residential Development Typologies			
	Type V 2 Stories	10 Units/Acre	2,100 SF
Small Lot Single-Family			
	Type V 2-3 Stories	15 to 20 Units/Acre	1,350 SF
Townhomes			
Rental Residential Development Typologies			
	Type V 3+ Stories	30+ Units/Acre	800 SF
Stacked Flat with Tuck-Under Parking			
	Type V 2-3 Stories	20 to 25 Units/Acre	900 SF
Garden Style Apartments			

Based on a review of the factors impacting residential development, potential residential development typologies, and current market conditions, KMA projected market support for each of the residential development typologies. This market demand is evaluated in the near term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and

“weak,” meaning unlikely to occur. The factors that KMA relied on in determining “strong,” “moderate,” and “weak” market demand for the near-, mid-, and long-term include evaluations of demographic trends; availability of neighborhood amenities, public facilities and infrastructure, and transit services; proximity to high-quality employment; residential market factors, such as land and building values and rents; and the amount and type of recent and proposed development activity. Increases/decreases in market demand can be anticipated as changes occur with respect to one or more of these factors.

As shown in Table IV-5, KMA believes that market demand for for-sale housing will be strong in the near-to long-term. Conversely, market support for rental residential is anticipated to be weak/moderate in the near-term and grow to strong in the long-term. Examples of factors that could increase market demand for residential development in the mid- to long-term include improvements in neighborhood amenities, public facilities, and/or transit services; gains in high-quality employment in close commuting distance; and increases in market rents/sales values.

Table IV-5: Market Demand for Residential Typologies, Buena Creek Focus Area			
	Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
FOR-SALE			
Small-Lot Single-Family	Strong	Strong	Strong
Townhomes	Strong	Strong	Strong
RENTAL			
Stacked Flat with Tuck-Under Parking	Weak	Moderate	Strong
Garden Style Apartments	Moderate	Strong	Strong

Under a separate report, KMA analyzed the financial feasibility of potential residential development prototypes for the Focus Area’s five (5) candidate sites. The analyses include estimates for development costs, value upon completion, targeted developer return, and/or potential funding sources. The outcome of the financial pro forma analyses illustrates the feasibility, in terms of residual land value or financing gap, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. The KMA financial feasibility report measures residual land values for each development prototype against recent comparable land sales to draw conclusions about financial feasibility.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. 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. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. 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.
4. 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. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County 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 County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County 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 County 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.



KEYSER MARSTON ASSOCIATES

MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Laura Stetson, AICP, Principal
Moore Iacofano Goltzman, Inc. (MIG)

BERKELEY

DEBBIE M. KERN
DAVID DOEZEMA

From: KEYSER MARSTON ASSOCIATES, INC.

LOS ANGELES

KATHLEEN H. HEAD
KEVIN E. ENGSTROM

JULIE L. ROMEY
TIM BRETZ

Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Valle de Oro/Casa de Oro – Market Assessment

SAN DIEGO

PAUL C. MARRA
LINNIE A. GAVINO

EMERITUS

A. JERRY KEYSER
TIMOTHY C. KELLY

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) focus areas within the unincorporated area of the County. The focus areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. This assessment reflects the market support and development potential for residential development within the Valle de Oro/Casa de Oro Focus Area (Focus Area).

In completing this assessment, KMA undertook the following principal work tasks for the Focus Area:

- (a) Reviewed other market feasibility studies and/or information from the County
- (b) Evaluated long-term residential market demand
- (c) Reviewed existing inventory and projects in the pipeline
- (d) Assessed potential improvements to existing infrastructure
- (e) Identified criteria for five (5) candidate sites for testing the feasibility of residential development

II. EXECUTIVE SUMMARY

This section presents a summary of the key findings from the KMA market assessment. Table II-1 below presents a summary fact sheet of the opportunities and constraints, evaluation of market demand, and criteria for five (5) candidate sites for the residential development feasibility analysis. Supportable market demand is evaluated in the near-term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and “weak,” meaning unlikely to occur.

To complement the findings in the market assessment, KMA will produce, under a separate report, financial feasibility analyses of various residential development concepts on the selected candidate sites.

Table II-1: Fact Sheet – Valle de Oro/Casa de Oro Focus Area

	
Key Market Opportunities and Constraints for Residential Development	<p><i>Opportunities for Residential Development:</i></p> <ul style="list-style-type: none">• Potential to capture Countywide residential demand through development initiatives such as the Campo Road Corridor Revitalization Specific Plan• Supplement the existing/strong residential development trends in La Mesa• Concentrate high density multi-family and mixed-use development along the Campo Road commercial corridor• Encourage low density residential and the western, northern, and southern areas of the Focus Area near existing single-family uses• Increase a variety of housing options available to new and existing residents, including affordable housing• Leverage existing multi-family residential development activity within the Focus Area, primarily in La Mesa <p><i>Constraints for Residential Development:</i></p> <ul style="list-style-type: none">• Lower median household income than the County as a whole (Region)

Table II-1: Fact Sheet – Valle de Oro/Casa de Oro Focus Area

	<ul style="list-style-type: none"> • Higher unemployment rate than the Region • Land assembly may be required to create appropriately sized and configured development sites • Lack of diverse transit opportunities/infrastructure 		
Projected Annual Growth in Housing Units	<div style="text-align: center;"> Projected Growth 2025-2050 </div>		
	Total Units		Units/Year
	Low Capture	1,373 Units	55 Units/Year
Potential Residential Development Typologies	For-Sale Residential Development Typologies		
	 Townhomes	Type V 2-3 Stories	15 to 20 Units/Acre
	Rental Residential Development Typologies		
	 Stacked Flat with Tuck-Under Parking	Type V 3+ Stories	30+ Units/Acre
	 Garden Style Apartments	Type V 2-3 Stories	20 to 25 Units/Acre

Table II-1: Fact Sheet – Valle de Oro/Casa de Oro Focus Area

Evaluation of Market Demand	Market Demand for Residential Typologies			
		Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
	For-Sale			
	Townhomes	Moderate	Moderate	Strong
	Rental			
	Stacked Flat with Tuck-Under Parking	Weak	Moderate	Strong
Criteria for Five (5) Candidate Sites for Potential Residential Development¹	Garden Style Apartments	Moderate	Moderate	Strong

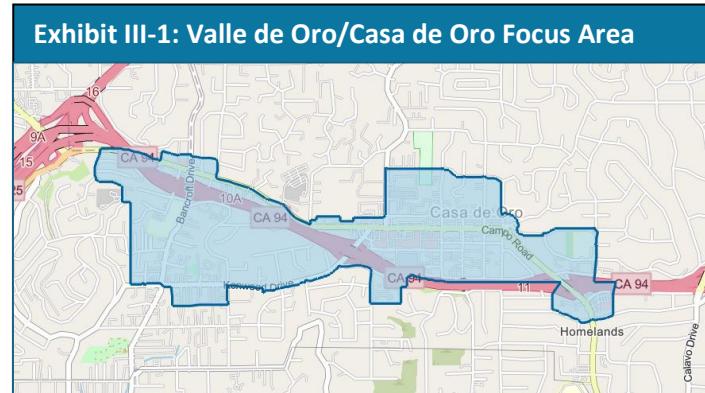
¹ Source: Criteria for Selecting Candidate Sites for Financial Feasibility Modeling Memorandum to County, MIG, May 2024.

² Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

III. OVERVIEW OF FOCUS AREA

A. Description and Environs

The Focus Area consists of 0.81 square miles and is presented in Exhibit III-1. The Focus Area is well situated within East County and is adjacent to the cities of La Mesa, El Cajon, Lemon Grove, and Rancho San Diego. The Focus Area encompasses a portion of State Route 94 (SR 94) and nearby access to SR 125.



The Focus Area can generally be characterized by its commercial corridor surrounded by urban and single-family residential. Existing General Plan Land Uses include General Commercial, Limited Impact Industrial, Neighborhood Commercial, Office Professional, Public/Semi-Public Facilities, Village Core Mixed-Use, and Village Residential. Current zoning within the Focus Area includes General Commercial (C36), Heavy Commercial (C37), Specific Plan (S88), Single-Family Residential (RS), Urban Residential (RU), Limited Industrial (M52), Transportation and Utility Corridor (S94). Current allowable densities in the General Commercial and Heavy Commercial areas range from 7 to 40 dwelling units per acre. The Focus Area is also within the Valle de Oro Community Plan and contains the Campo Road Corridor Revitalization Specific Plan (adopted in January 2023). The Specific Plan covers 60 acres centered on Campo Road between Rogers Road and Granada Avenue and serves as the commercial and civic center of the Casa de Oro community. The maximum allowable density for both residential and non-residential development is a 2.0 floor area ratio (FAR) for the Main Street District (parcels adjacent to sidewalk north and south of Campo Road) and 1.0 for the Gateway District (parcels at the major entrances at the intersections of Campo Road with Kentwood Drive and Granada Avenue).

B. Demographic Overview

This section provides a comparative evaluation of demographic factors for the Focus Area relative to the County as a whole (Region). An overview is presented in Table III-1 below. As shown, the Focus Area population accounts for 5,575 out of the Region's 3.3 million total population. Households in the Focus Area are slightly larger in size (2.8 persons per household) when compared to the Region at 2.7 persons per household. Unemployment rate in the Focus Area is higher at 6.2% versus the Region at 4.9%. Additionally, the Focus Area consists of less ownership housing and more rental housing when compared to the Region.

Table III-1: Demographic Overview ¹⁾

	County of San Diego (Region)	Valle de Oro/ Casa de Oro Focus Area
Population	3,325,723	5,575
Households	1,172,264	1,954
Average Household Size	2.74	2.82
Median Age	36.7	35.1
Unemployment Rate	4.9%	6.2%
Owner Occupied Housing Units	51.5%	45.9%
Renter Occupied Housing Units	42.5%	54.1%

(1) Esri Business Analyst Online, May 2024.

C. Household Income Distribution

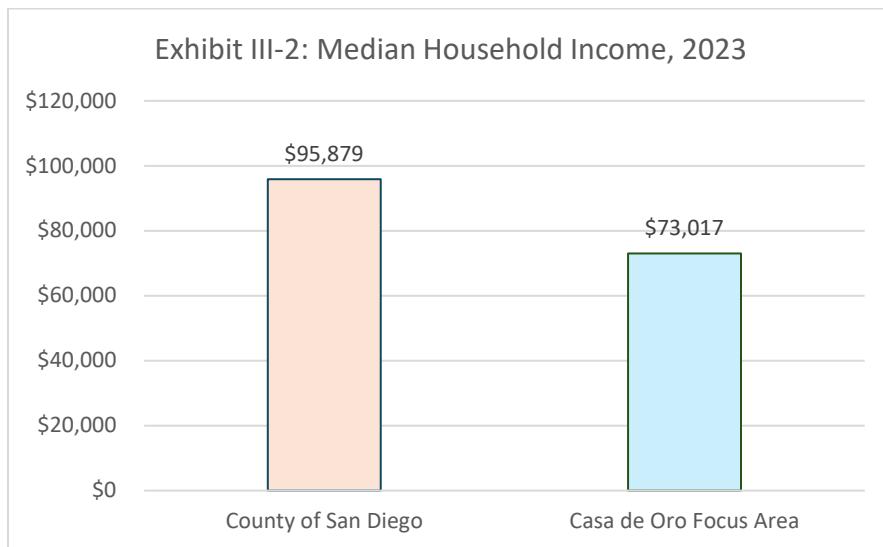
The distribution of 2023 household income for the Focus Area vs. the Region is presented in Table III-2. As shown, the Focus Area is comprised of many more households earning less than \$75,000 per year when compared to the Region. Additionally, the Region contains more households earning above \$150,000 per year when compared to the Focus Area.

Table III-2: Household Income Distribution, 2023 ⁽¹⁾

	County of San Diego (Region)	Valle de Oro/ Casa de Oro Focus Area		
Income Distribution	Households	Percent	Households	Percent
< \$75K	466,548	40%	998	51%
\$75K - \$99K	137,932	12%	176	9%
\$100K - \$149K	234,349	20%	360	18%
\$150K+	333,420	28%	420	22%
Total	1,172,240	100%	1,954	100%

(1) Esri Business Analyst Online, May 2024.

With respect to median household income, Focus Area income is 24% lower than the Region. As shown in Exhibit III-2 below, the Focus Area's median household income is approximately \$73,000, whereas the Regional income is approximately \$96,000.



Source: Esri Business Analyst Online, May 2024.

D. Public Transit and Neighborhood Amenities

KMA evaluated the public transit and neighborhood amenities in close proximity to the Focus Area. The presence of these amenities, or lack thereof, can be factors influencing the demand for residential development. With respect to public transit, the Focus Area is serviced by several San Diego Metropolitan Transit System (MTS) bus stops along Campo Road and Bancroft Drive.

KMA analyzed the neighborhood amenities available within a 3-mile radius of the Focus Area (Trade Ring), as illustrated in Exhibit III-3 below.

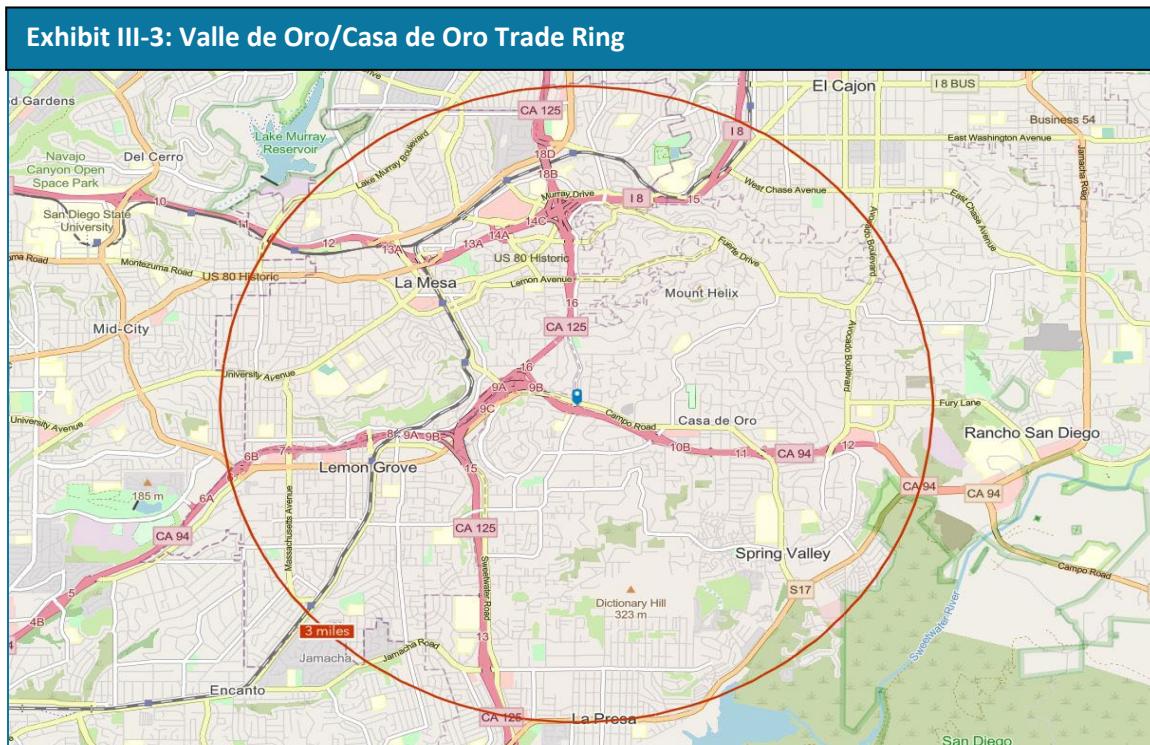


Table III-3 presents amenities within the Trade Ring that serve existing residents. As shown, the Trade Ring contains an ample number of schools/educational facilities, neighborhood parks/recreation, and grocery stores and pharmacies. Notably, the Trade Ring includes several MTS bus stops and the Spring Street Trolley Station. The presence of these public transit amenities provides an opportunity to increase transit ridership and provide additional public transit infrastructure. Sharp Grossmont Hospital, the largest hospital in East San Diego County, is also within the Trade Ring. Additionally, the Grossmont Center regional mall is located within the Trade Ring and contains retail anchors such as Target, Macy's, Walmart, and Barnes & Noble. KMA notes that many of the public transit and neighborhood amenities within the Trade Ring are concentrated west of the Focus Area within the cities of Lemon Grove and La Mesa.

Table III-3: Public Transit Neighborhood Amenities, Trade Ring

Public Transit	<ul style="list-style-type: none"> MTS bus stops MTS Trolley Stations (Massachusetts Avenue Station, Lemon Grove Depot, Spring Street Station, La Mesa Trolley Station, Grossmont Trolley Station, and Amaya Trolley Station)
Schools/Educational Facilities	<ul style="list-style-type: none"> JCS Manzanita Elementary Lemon Grove Academy Elementary School

Table III-3: Public Transit Neighborhood Amenities, Trade Ring

	<ul style="list-style-type: none">• Spring Valley Elementary School• Avondale Elementary School• Highlands Elementary School• Loma Elementary School• College Preparatory Middle School• Helix Charter High School• Mount Miguel High School• Acton Academy San Diego East• Trinity Christian School• Perelandra College
Hospital/Medical Centers	<ul style="list-style-type: none">• Sharp Grossmont Hospital• La Mesa Medical Plaza• Chase Avenue Family Health Center• Grossmont Spring Valley Family Health Center• Lemon Grove Family Health Center
Neighborhood Parks/Recreation	<ul style="list-style-type: none">• Dictionary Hill County Preserve• Mount Helix Park• Eucalyptus Park• Harry Griffen Park• La Mesita Park• Jackson Park• Highwood Park• Berry Street Park• Lemon Grove Park• Sweetwater Place County Park• East County Community Center
Grocery Stores and Pharmacies	<ul style="list-style-type: none">• Albertsons• Grocery Outlet• Vons• Sprouts• Food4Less

E. Residential Market Trends

Utilizing CoStar Group, Inc (CoStar), an industry leader in commercial real estate information, KMA conducted a survey of residential land sales from January 2021 to May 2024 for the Trade Ring. As shown in Table III-4, land values in the Trade Ring reflect a median of \$46 per square foot (SF) and an average of \$47 per SF. The KMA survey found that, although there have been sales in the Trade Ring, there have been no land sales within the Focus Area boundary for the period analyzed. Sales generating the highest land values (above \$50 per SF) are primarily located in the cities of San Diego and La Mesa. These sales reflect entitled sites for the purpose of developing multi-family and Accessory Dwelling Unit (ADU) housing. By comparison, sales for townhomes and single-family homes ranged from \$6 to \$46 per SF land. The difference in land value for multi-family versus single-family/ADU housing is an indicator of more demand and higher development potential for higher density multi-family product types.

Table III-4: Survey of Residential Land Sales, January 2021 to May 2024, Trade Ring⁽¹⁾⁽²⁾

Number of Land Sales	Minimum	Maximum	Median	Average
9	\$5/SF Land	\$114/SF Land	\$46/SF Land	\$47/SF Land

(1) Source: CoStar Group, Inc.

(2) Reflects sales within a 3-mile radius from the mid-point of the Valle de Oro/Casa de Oro Focus Area (9111 Campo Road).

KMA also conducted a survey of apartment building sales in the Trade Ring from January 2021 to May 2024. As shown in Table III-5, apartment buildings sold at a median price of \$253,150 per unit and an average price of \$248,377 per unit. One (1) sale in Lemon Grove exceeded \$400,000 per unit. The sale was a Class A apartment complex built in 2017 within a commercial corridor and in close proximity to the MTS Orange Line. This indicates that there is demand for residential development within the Trade Ring, especially near public transit.

Table III-5: Survey of Apartment Building Sales, January 2021 to May 2024, Trade Ring⁽¹⁾⁽²⁾

Number of Land Sales	Minimum	Maximum	Median	Average
22	\$94,300 /Unit	\$419,600 /Unit	\$253,150 /Unit	\$248,377 /Unit

(1) Source: CoStar Group, Inc.

(2) Reflects sales within a 3-mile radius from the mid-point of the Casa de Oro Focus Area (9111 Campo Road). Excludes apartment buildings with less than 25 units.

With respect to apartment buildings in the Focus Area boundary, KMA found that no new apartments with more than 10 units have been built in the last 20 years. KMA notes that the 6-unit Casa de Oro

Townhomes were built in 2008. There is currently an inventory of 36 apartment buildings (with more than 10 units) containing a total of 1,235 units, with an average unit size of 880 SF. As shown in Table III-6, monthly rent in the first quarter 2024 was \$2,030, or \$2.32 per SF. Since 2014, rents in the Focus Area have experienced an average annual increase of approximately 5.3%. Vacancy rates have increased over the past 10 years from 5.0% to 5.9%. For comparison purposes, a healthy vacancy rate in the apartment industry averages 5.0%.

Table III-6: Apartment Rents, Valle de Oro/Casa de Oro Focus Area ⁽¹⁾				
Year	Average Unit Size	Monthly Rent ⁽²⁾	Rent Per SF	Average Annual Growth Rate (2014-2024)
2024	880 SF	\$2,030	\$2.32	5.3%
2014	880 SF	\$1,206	\$1.36	
(1) Reflects apartment buildings with 10 units or more within the Valle de Oro/Casa de Oro Focus Area boundary. (2) Reflects effective rent defined as the actual rental rate achieved by the landlord after deducting the value of concessions from the base rental rates that are paid or given to the tenant.				

Using median household income, KMA estimated the supportable apartment rent for the Focus Area and compared this rent to supportable apartment rents in the neighboring cities of El Cajon, La Mesa, as well as the Region. As shown in Table III-7, the Focus Area can support apartment rents of \$2,010, lower than La Mesa and the Region, but higher than El Cajon.

Table III-7: Supportable Apartment Rents by Geography				
	Focus Area	City of El Cajon	City of La Mesa	County of San Diego (Region)
Median Household Income ⁽¹⁾	\$73,017	\$63,815	\$79,844	\$95,879
Income Allocation to Housing	35%	35%	35%	35%
Monthly Income Available for Housing	\$2,130	\$1,861	\$2,329	\$2,796
(Less) Utilities ⁽²⁾	(\$120)	(\$120)	(\$120)	(\$120)
Supportable Apartment Rent	\$2,010	\$1,740	\$2,210	\$2,680
(1) Source: Esri, Business Analyst Online. (2) Reflects utility allowance schedule per the County of San Diego, effective March 1, 2024. Assumes a two-bedroom unit.				

KMA also analyzed for-sale housing trends for single-family and townhome/condominium units for the two (2) zip codes containing the Focus Area. As shown in Table III-8, the median sales price for single-

family units in 2024 ranged from \$760,000 to \$1,055,000. By comparison, the median sales price for townhome/condominium units ranged from \$556,000 to \$657,500.

Table III-8: For-Sale Housing Trends by Zip Code, January 2024 to March 2024 ⁽¹⁾		
Type	Year to Date ⁽²⁾	
	Closed Sales	Median Sales Price
Single-Family		
La Mesa/Mount Helix- 91941	49	\$1,055,000
Spring Valley - 91977	75	\$760,000
Townhome/Condo		
La Mesa/Mount Helix- 91941	6	\$556,000
Spring Valley - 91977	22	\$657,500
(1) Source: Greater San Diego Association of Realtors. Reflects 91941 and 91977 zip codes.		
(2) Reflects January 2024 through March 2024 time period.		

Using median household income, KMA estimated the supportable sales price for the Focus Area and compared this sales price to supportable apartment rents in the neighboring cities of El Cajon, La Mesa, as well as the Region. As shown in Table III-9, the Focus Area can support a for-sale unit price of \$336,000, lower than La Mesa and Region, but higher than El Cajon. It is important to note that supportable sales prices above are substantially below current market values. This is an indicator of the affordability housing crisis throughout the Region.

Table III-9: Supportable Sales Prices by Geography				
	Focus Area	City of El Cajon	City of La Mesa	County of San Diego (Region)
Median Household Income ⁽¹⁾	\$73,017	\$63,815	\$79,844	\$95,879
Annual Income Available for Housing @ 35%	\$25,556	\$22,335	\$27,945	\$33,558
Income Available for Mortgage ⁽²⁾	\$17,656	\$15,035	\$19,645	\$24,258
Supportable Mortgage @ 4.6% Interest Rate ⁽³⁾	\$285,741	\$243,328	\$317,937	\$392,581

Table III-9: Supportable Sales Prices by Geography				
	Focus Area	City of El Cajon	City of La Mesa	County of San Diego (Region)
Add: Down Payment @ 15%	\$50,400	\$42,900	\$56,100	\$69,300
Supportable For-Sale Unit Price (Rounded)	\$336,000	\$286,000	\$374,000	\$462,000
(1) Source: Esri, Business Analyst Online. (2) KMA estimate based on \$350/month HOA and 1.10% tax rate. (3) Source: Bankrate.com. Reflects the national average 30-year fixed mortgage APR from 2019 through 2023.				

F. Projects in Planning and Under Construction

According to CoStar, there are four (4) residential projects either proposed or under construction within the Trade Ring. As shown in Table III-10, collectively, these projects will add more than 219 housing units to the residential inventory. Of the four (4) projects, at least two (2) will contain affordable housing units.

Table III-10: Projects in Planning/Under Construction			
Address	Product Type	Number of Units	Current Status
5061 72 nd Street	Market-Rate/Affordable	23 Units	Under Construction
8181 Allison Avenue	Affordable	147 Units	Under Construction
7617 El Cajon Boulevard	Market	TBD	Proposed
5220 Wilson Street	TBD	49 Units	Proposed
Total		219 Units	

IV. RESIDENTIAL DEVELOPMENT POTENTIAL

A. Factors Impacting Development Potential

Demographic and Market Trends

When compared to the Region, the Focus Area contains larger household sizes, much lower median household income, higher unemployment rate, and less owner occupied housing units. The Focus Area contains many more households earning less than \$75,000 when compared to the Region. Additionally, existing rents for multi-family apartments are slightly below the Regional average.

Neighborhood Amenities

The Focus Area boundary contains limited neighborhood amenities and residents within the Focus Area generally have to travel to adjacent communities within the Trade Ring to purchase goods in the apparel, general merchandise, home furnishings/appliances, and building/hardware retail categories. The proximity of a variety of public transit options provides an opportunity to concentrate new residential development near or around existing transit stops. Moreover, the Trade Ring contains high quality schools/education, medical centers, neighborhood parks, and grocery and pharmacy stores to serve existing and future residents. These amenities are crucial to attract new residential development to the Focus Area.

Housing Legislation

In recent years, the State of California (State) Legislature passed several Senate Bills (SB) and Assembly Bills (AB) encouraging housing production. These bills may positively impact the production of residential development within the Focus Area. Key housing bills are summarized below.

- *SB 2 (2017)* – established a permanent source of funding intended to increase affordable housing. The revenue from SB 2 is dependent on real estate transactions and provides financial assistance to local governments for eligible housing-related projects and programs to assist in addressing the unmet housing needs of their local communities.
- *AB 1486 (2020)* – amends the Surplus Land Act (SLA), requiring public agencies interested in selling or leasing a property to go through a structured sale disposition process that first exposes the property to a State published list of affordable housing developers and other interested parties.

- *SB 743 (2020)* – requires the amount of driving and length of trips – as measured by vehicle miles traveled (VMT) – be used to assess transportation impacts on the environment for California Environmental Quality Act (CEQA) review. These impacts will be mitigated by options such as Transportation Demand Management (TDM), increasing transit services, or providing for active transportation such as walking and biking.
- *SB 9 (2022)* – streamlines the process for a homeowner to create a duplex or subdivide an existing lot.
- *SB 10 (2021)* – provides cities or counties with an easier path for upzoning residential neighborhoods close to job centers, public transit, and existing urban areas. Under SB 10, cities or counties can choose to authorize construction of up to ten units on a single parcel without requiring an environmental review (otherwise mandated under CEQA).
- *AB 976 (2023)* – permanently extends the ability of property owners to build affordable, rental accessory dwelling units (ADUs), also known as “granny flats,” by extending the rental unit provisions of AB 881 (2020), which would have expired in 2025. The provisions allow owners to build rental ADUs on the same property as their existing rentals.
- *AB 1287 (2023)* – modifies the State Density Bonus Law (SB 1818) to create additional density bonuses for developers who provide deed-restricted affordable units beyond the previous maximum percentages in the law. Under the new law, the additional 5% of units provided for very low-income households would entitle the developer to an extra 20% density bonus. Stacked on top of the 35% bonus provided for the 15% set-aside under the original law, this results in a total bonus of 55%. The new additional bonuses provided under AB 1287 could allow for density bonuses of up to 100% of base density.

Construction Costs

Another factor impacting production of new residential development is the rising costs of construction. These costs are primarily governed by market supply and demand factors. Currently, demand for building materials is high, while supply is limited due to global shortages and disruptions, causing prices to rise. This increase is reflected in the Construction Cost Index (CCI), a measure of the average cost of construction based on prices of materials, labor, and equipment. CCI for the State experienced an annual growth rate during 2016 to 2020 ranging from 1.3% to 3.6%. By comparison, from 2021 to 2023 the annual growth ranged from 9.3% to 13.4%. On a national basis, from 2020 through 2023, costs for concrete have increased by 15%, lumber by 16%, and steel by 22%. Other factors contributing to this increase in cost include rising insurance premiums, high interest rates, and limited availability of labor.

The continued rising costs of construction present residential development feasibility challenges, where many developers cannot deliver residential projects at entry level rents/prices.

Infrastructure Requirements

New residential development also requires enhancement of surrounding public facilities and infrastructure, including roads, water, sewer, sidewalks, and parks. Depending on the increased user capacity of future development in the Focus Area, new developments may lack adequate water and sewer infrastructure. Portions of the Focus Area lack the enhanced infrastructure needed to support competitive new market-rate residential development. The cost to upgrade infrastructure and facilities is continuing to rise, hindering demand and construction of new residential development.

B. Summary of Stakeholder Interviews

KMA conducted a series of interviews with key stakeholders, including developers, non-profit organizations, and associations. The objective of the stakeholder interviews was to better understand barriers, necessary amenities, potential infrastructure needs, and opportunities for residential development within the unincorporated areas of the County. Table IV-1 presents the overview of barriers and solutions mentioned by the key stakeholders that the County may consider to encourage the production of housing in each focus area.

Table IV-1: Summary of Stakeholder Interviews

Current Barriers to Residential Development	<p><u>Programs and Policies:</u></p> <ul style="list-style-type: none">• Timing of permitting, entitlement, and review processes increase risk and uncertainty• County requires a larger number of technical studies as compared to other jurisdictions• Vehicle Miles Traveled (VMT) requirements are too restrictive in non-VMT efficient areas• Parking requirements do not align with current residential market trends• Low density residential zoning hinders developers' ability to fully build out a site to its maximum potential after considering easements, sloping, and on-site stormwater mitigation measures <p><u>Financial Factors:</u></p> <ul style="list-style-type: none">• Construction costs (labor and materials) are increasing at all-time highs• High interest rates increase developers' borrowing costs
----------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Table IV-1: Summary of Stakeholder Interviews

	<ul style="list-style-type: none">• Proposed Statewide budget cuts will limit funding sources for affordable housing• Lack of infrastructure in rural communities causes extraordinary construction costs• High insurance costs may hinder developers from building in high-risk fire areas
Potential Solutions to Encourage Residential Development	<ul style="list-style-type: none">• Provide a streamlined permitting, entitlement, and review process with single project manager to oversee a development application from A-Z• Enhance the ability for projects to undergo ministerial approval and eliminate the need for CEQA or public hearings• Establish Program EIRs for Community Plan Updates or Specific Plans• Increase density on existing low density residential zoned parcels, where appropriate• Enhance County's ability to work in partnership with developers to invest in and develop infrastructure improvements (primarily water and sewer)• Provide methods for off-site stormwater mitigation• Establish an infrastructure financing district(s) in strategic areas• Consider acquiring and consolidating parcels to create catalyst development sites• Conduct regular (or annual) amendments to zoning regulations to align with changes in the housing market to ensure housing production can be achieved

Under the direction of the Board of Supervisors, the County has made several efforts to address the challenges that developers have faced when attempting to construct housing in the unincorporated areas of the County. These actions include:

1. The May 2023 adoption of Guaranteed Timelines for: (i) 100% affordable housing and emergency shelters; (ii) VMT efficiency and in-fill area housing; and (iii) work force housing. The Guaranteed Timelines will allow for expedited timelines for discretionary review, CEQA environmental studies, building permit plan check, and septic reviews.
2. The preparation of a Programmatic Environmental Impact Report (PEIR) for key areas, expected to be presented to the Board of Supervisors in October 2024.

C. Potential Residential Development Opportunities

Projected Demand in Housing Units

KMA reviewed historical housing inventory trends in the Focus Area, Trade Ring, and the Region as a whole. As shown in Table IV-2, the Trade Ring experienced a growth in housing units from 2000 to 2020 that accounted for 1.7% of Regional growth. By comparison, the Focus Area experienced a growth in housing units from 2000 to 2020 that represented 0.02% of Regional growth.

Table IV-2: Historic Annual Growth in Housing Units ⁽¹⁾	
	Annual Growth 2000-2020
San Diego County (Region)	9,416 Units/Year
Valle de Oro/Casa de Oro Trade Ring	160 Units/Year
<i>Trade Ring as % of Region</i>	1.7%
Valle de Oro/Casa de Oro Focus Area	2 Units/Year
<i>Focus Area as % of Region</i>	0.02%

(1) Source: Esri.

Based on this historic growth and current County initiatives to promote residential development within this area, KMA anticipates that the Focus Area can capture a share of future Regional growth ranging from a low of 0.75% to a high of 1.00%. Capture rates within the Focus Area are expected to be higher than historic rates as there is limited supply of land within the Region and increased investment interest in in-fill communities. The Focus Area also contains an abundance of underutilized improved properties that could be redeveloped into residential uses. As a result, KMA projects that the Focus Area has the potential to add between 1,373 and 1,831 units between 2025 and 2050 as shown in Table IV-3.

Table IV-3: Projected Annual Growth in Housing Units, Valle de Oro/Casa de Oro Focus Area		
	Projected Growth 2025-2050	
	Total Units	Units/Year
San Diego County (1)	183,079 Units	7,323 Units/Year
Valle de Oro/Casa de Oro Focus Area		
Low Capture (0.75%)	1,373 Units	55 Units/Year
High Capture (1.00%)	1,831 Units	73 Units/Year

(1) Based on SANDAG Series 14 Growth Forecast.

Comparable Residential Development Projects

KMA projects that the Focus Area can support a range of ownership and rental housing product types. Medium to high density multi-family development, including for-sale townhomes/rowhomes and stacked flat rental apartments, should be concentrated on the east side of the Focus Area along Campo Road. Low density residential development, such as small-lot and zero lot line (ZLL) single-family homes, should be encouraged in the western, northern, and southern portions of the Focus Area.

In many communities, development of affordable rental housing has demonstrated the potential to spur development of market-rate housing. Comparable experiences in Old Town Temecula, Vista Village, and Downtown Lemon Grove demonstrate that affordable housing developments did not impair the construction of commercial and market-rate residential development. Rather, initial investments in affordable housing in these districts have led to subsequent commercial revitalization and market-rate housing development. Since 2020, two (2) affordable rental housing projects have been built within the Trade Ring, in La Mesa, including the Trio Townhomes and 58-unit apartments at 7911 University Avenue. There have also been three (3) market-rate/affordable mixed-income projects built since 2020. In addition, 8181 Allison Avenue (USA Properties) a 147-unit mid-rise apartment project, is currently under construction within the Trade Ring. The denser affordable rental housing projects have been transit-oriented development in close proximity to the La Mesa Boulevard trolley station. The construction of affordable housing in the Trade Ring enhances the development potential of market-rate housing.

KMA identified potential residential development typologies that would be likely to occur within the Focus Area. These typologies reflect our experience with comparable projects in East County and similar communities elsewhere in the Region. Table IV-4 presents a brief project description and typical financial parameters associated with each two (2) for-sale and two (2) rental residential development types that respond to anticipated market conditions in the Focus Area. As shown, the likely construction types are Type V low-rise wood-frame buildings.

Table IV-4: Potential Residential Development Typologies - Valle de Oro/Casa de Oro Focus Area			
	Construction Type	Target Density (Units/Acre)	Typical Average Unit Size
For-Sale Residential Development Typologies			
	Type V 2-3 Stories	15 to 20 Units/Acre	1,350 SF
Rental Residential Development Typologies			
	Type V 3+ Stories	30+ Units/Acre	750 SF
	Type V 2-3 Stories	20 to 25 Units/Acre	900 SF

Based on a review of the factors impacting residential development, potential residential development typologies, and current market conditions, KMA determined the near-, mid-, and long-term market support for each of the residential development typologies. This market demand is evaluated in the near term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and “weak,” meaning unlikely to occur. The factors that KMA relied on in determining “strong,” “moderate,” and “weak” market demand for the near-, mid-, and long-term included evaluations of demographic trends; availability of neighborhood amenities, public facilities, infrastructure, and transit services; proximity to high-quality employment; residential market factors, such as land and building values and rents; and the amount and type of recent and proposed development activity. Increases/decreases in market demand can be anticipated as changes occur with respect to one or more of these factors.

As shown in Table IV-5 below, KMA believes that market demand for rental ranges from weak/moderate in the near-term to strong in the long-term. Conversely, market support for for-sale residential is

anticipated to remain moderate in the near-term and grow strong in the long-term. Examples of factors that could increase market demand for residential development in the mid- to long-term include improvements in neighborhood amenities, public facilities, and/or transit services; gains in high-quality employment in close commuting distance; and increases in market rents/sales values.

Table IV-5: Market Demand for Residential Typologies, Valle de Oro/Casa de Oro Focus Area

	Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
FOR-SALE			
Townhomes	Moderate	Moderate	Strong
RENTAL			
Stacked Flat with Tuck-Under Parking	Weak	Moderate	Strong
Garden Style Apartments	Moderate	Moderate	Strong

Under a separate report, KMA analyzed the financial feasibility of potential residential development prototypes for the Focus Area's five (5) candidate sites. The analyses include estimates for development costs, value upon completion, targeted developer return, and/or potential funding sources. The outcome of the financial pro forma analyses illustrates the feasibility, in terms of residual land value or financing gap, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. The KMA financial feasibility report measures residual land values for each development prototype against recent comparable land sales to draw conclusions about financial feasibility.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. 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. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. 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.
4. 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. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County 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 County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County 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 County 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.



KEYSER MARSTON ASSOCIATES

MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Laura Stetson, AICP, Principal
Moore Iacofano Goltzman, Inc. (MIG)

BERKELEY

DEBBIE M. KERN
DAVID DOEZEMA

From: KEYSER MARSTON ASSOCIATES, INC.

LOS ANGELES

KATHLEEN H. HEAD
KEVIN E. ENGSTROM

JULIE L. ROMEY
TIM BRETZ

Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Lakeside – Market Assessment

SAN DIEGO

PAUL C. MARRA
LINNIE A. GAVINO

EMERITUS

A. JERRY KEYSER
TIMOTHY C. KELLY

I. INTRODUCTION

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) focus areas within the unincorporated area of the County. The focus areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. This assessment reflects the market support and development potential for residential development within the Lakeside Focus Area (Focus Area).

In completing this assessment, KMA undertook the following principal work tasks for the Focus Area:

- (a) Reviewed other market feasibility studies and/or information from the County
- (b) Evaluated long-term residential market demand
- (c) Reviewed existing inventory and projects in the pipeline
- (d) Assessed potential improvements to existing infrastructure
- (e) Identified criteria for five (5) candidate sites for testing the feasibility of residential development

II. EXECUTIVE SUMMARY

This section presents a summary of the key findings from the KMA market assessment. Table II-1 below presents a summary fact sheet of the opportunities and constraints, evaluation of market demand, and criteria for five (5) candidate sites for the residential development feasibility analysis. Supportable market demand is evaluated in the near-term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and “weak,” meaning unlikely to occur.

To complement the findings in the market assessment, KMA will produce, under a separate report, financial feasibility analyses of various residential development concepts on the selected candidate sites.

Table II-1: Fact Sheet –Lakeside Focus Area	
	 
Key Market Opportunities and Constraints for Residential Development	<p><i>Opportunities for Residential Development:</i></p> <ul style="list-style-type: none">• Supplement the existing/strong residential development trends in Santee• Encourage low density residential within existing single-family residential zones, primarily along Winter Gardens Boulevard• Concentrate high density multi-family development near Woodside Avenue to the north and Pepper Drive to the south <p><i>Constraints for Residential Development:</i></p> <ul style="list-style-type: none">• No current projects in planning within the Focus Area and surrounding environs• Low residential land values when compared to other areas of the Region• Lower median household income than the Region• Certain properties are challenged by sloping topography• Lack of infrastructure improvements in certain areas

Table II-1: Fact Sheet –Lakeside Focus Area

Projected Annual Growth in Housing Units	Projected Growth 2025-2050		
	Total Units		Units/Year
	Low Capture	275 Units	11 Units/Year
High Capture		549 Units	22 Units/Year
Potential Residential Development Typologies	For-Sale Residential Development Typologies		
		Type V 2 Stories	10 Units/Acre
		Type V 2-3 Stories	15 to 20 Units/Acre
	Rental Residential Development Typologies		
		Type V 3+ Stories	30+ Units/Acre
		Type V 2-3 Stories	20 to 25 Units/Acre

Table II-1: Fact Sheet –Lakeside Focus Area

		Market Demand for Residential Typologies		
		Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
For-Sale				
Evaluation of Market Demand	Medium Lot Single-Family	Moderate	Strong	Strong
	Townhomes	Moderate	Moderate	Strong
Rental				
Criteria for Five (5) Candidate Sites for Potential Residential Development¹	Stacked Flat with Tuck-Under Parking	Weak	Weak	Moderate
	Garden Style Apartments	Weak	Moderate	Moderate
<ul style="list-style-type: none"> • Parcel sizes ranging from 1/2 acre to 3+ acres • Vacant or underutilized properties² • Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range • In-fill properties, particularly ones with the potential for land assemblage with adjacent properties 				

¹ Source: Criteria for Selecting Candidate Sites for Financial Feasibility Modeling Memorandum to County, MIG, May 2024.

² Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

III. OVERVIEW OF FOCUS AREA

A. *Description and Environs*

The Focus Area consists of 2.44 square miles and is presented in Exhibit III-1. The Focus Area is situated within East County and is east of Santee and north of El Cajon. The Focus Area is accessible through State Route 67 (SR-67) and is just north of Interstate 8 (I-8).

The Focus Area can generally be characterized by a commercial corridor and multi-family residential along Woodside Avenue and Winter Gardens Boulevard, encompassed by single-family/mobile home residential. Existing General Plan Land Uses include General Commercial, Limited Impact Industrial, Neighborhood Commercial, Office Professional, Public/Semi-Public Facilities, and Village Residential. Current residential densities range from 2.5 to 40 units per acre.

Current zoning within the Focus Area includes Office Professional (C30), Residential-Office Professional (C31), General Commercial-Residential (C34), General Commercial (C36), Heavy Commercial (C37), Service Commercial (C38), General Impact Industrial (M54), Multi-Family Residential (RM), Mobile Home Residential (RMH, RMH10, RMH5, RMH7, RMH8, RMH9), Rural Residential (RR), Single-Family Residential (RS), Urban Residential (RU), Variable Family Residential (RV), and Specific Plan (S88).

B. *Demographic Overview*

This section provides a comparative evaluation of demographic factors for the Focus Area relative to the County as a whole (Region). An overview is presented in Table III-1 below. As shown, the Focus Area population accounts for 14,557 out of the Region's 3.3 million total population. Household size in the Focus Area are equal to the Region at 2.7 persons per household. Unemployment rate in the Focus Area is lower at 3.7% versus the Region at 4.9%. Additionally, the Focus Area is comprised of more ownership and rental housing when compared to the Region.

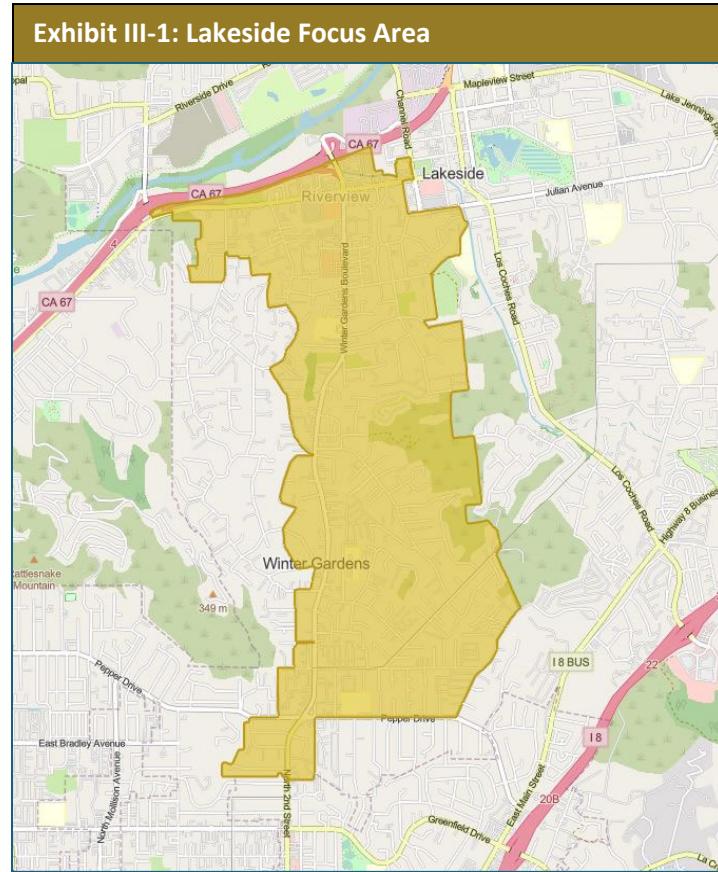


Table III-1: Demographic Overview, 2023 ⁽¹⁾		
	County of San Diego (Region)	Lakeside Focus Area
Population	3,325,723	14,557
Households	1,172,264	5,261
Average Household Size	2.74	2.74
Median Age	36.7	38.4
Unemployment Rate	4.9%	3.7%
Owner Occupied Housing Units	51.5%	54.7%
Renter Occupied Housing Units	42.5%	45.3%

(1) Esri Business Analyst Online, May 2024.

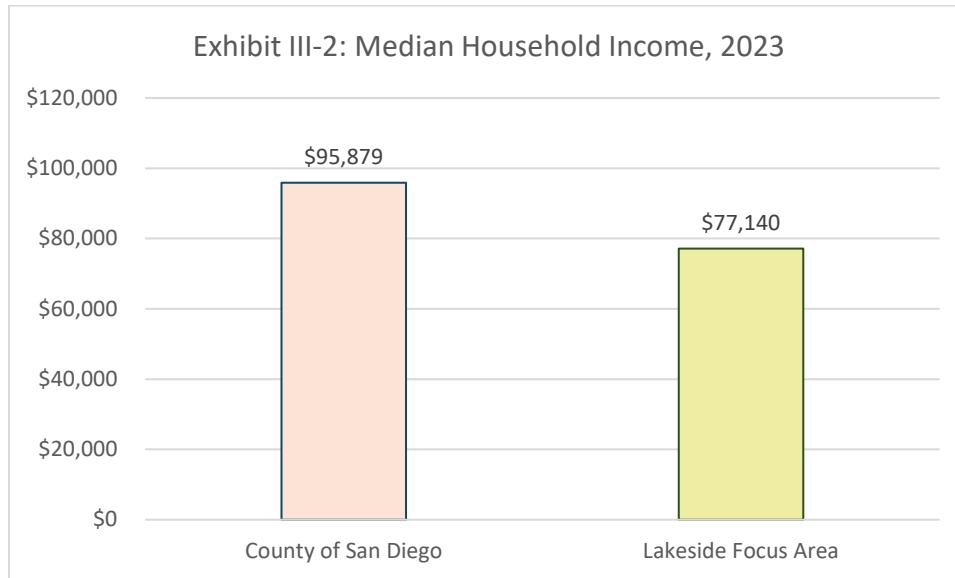
C. Household Income Distribution

The distribution of 2023 household income for the Focus Area vs. the Region is presented in Table III-2. As shown, the Focus Area is comprised of more households earning less than \$75,000 per year when compared to the Region. Moreover, the Region is comprised of more households earning above \$150,000 per year when compared to the Focus Area.

Table III-2: Household Income Distribution, 2023 ⁽¹⁾				
	County of San Diego (Region)	Lakeside Focus Area		
Income Distribution	Households	Percent	Households	Percent
< \$75K	466,548	40%	2,532	48%
\$75K - \$99K	137,932	12%	843	16%
\$100K - \$149K	234,349	20%	859	16%
\$150K+	333,420	28%	1,027	20%
Total	1,172,249	100%	5,261	100%

(1) Esri Business Analyst Online, May 2024.

With respect to median household income, Focus Area income is 20% lower than the Region. As shown in Exhibit III-2 below, the Focus Area's median household income is approximately \$77,000, whereas the Regional income is approximately \$96,000.



Source: Esri Business Analyst Online, May 2024.

D. Public Transit and Neighborhood Amenities

KMA evaluated the public transit and neighborhood amenities in close proximity to the Focus Area. The presence of these amenities, or lack thereof, can be factors influencing the demand for residential development. With respect to public transit, the Focus Area is served by several San Diego Metropolitan Transit System (MTS) bus stops, primarily along Winter Gardens Boulevard.

KMA analyzed the neighborhood amenities available within a 3-mile radius of the center of the Focus Area (Trade Ring), as illustrated in Exhibit III-3 below.

Exhibit III-3: Lakeside Trade Ring

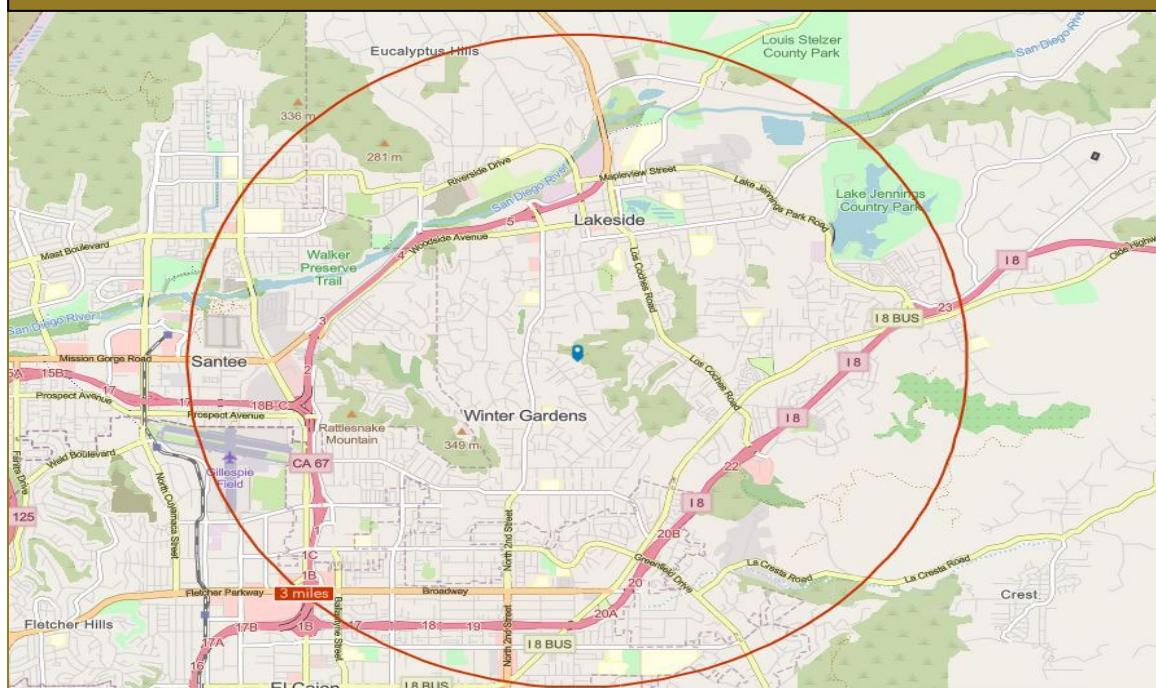


Table III-3 presents amenities within the Trade Ring that serve existing residents. As shown, the Trade Ring contains an ample number of schools/educational facilities and neighborhood parks/recreation. The Trade Ring contains several MTS bus stops along Winter Gardens Boulevard, Pepper Drive, and Main Street. The Trade Ring contains a medical center and a skilled nursing facility hospital; however, it is distant from larger hospitals such as the Sharp Grossmont Hospital. The Trade Ring contains many grocery stores and pharmacies, three (3) of which are located within the Focus Area.

Table III-3: Public Transit Neighborhood Amenities, Trade Ring

Public Transit	<ul style="list-style-type: none">• MTS bus stops
Schools/Educational Facilities	<ul style="list-style-type: none">• Marilla Lakeside Early Advantage Pre school• Riverview Elementary• Winter Gardens Elementary• WD Hall Elementary• Magnolia Elementary• Lemon Crest Elementary• Lakeview Elementary• Lakeside Farms Elementary

Table III-3: Public Transit Neighborhood Amenities, Trade Ring

	<ul style="list-style-type: none">• Pepper Drive Elementary• Lindo Park Elementary• Lakeside Middle School• Tierra Del Sol Middle School• Montgomery Middle School• River Valley High School• Granite Hills High School• Learn4Life Lakeside High School• El Capitan High School• Santana High School• EMSTA College• San Diego Christian College
Hospital/Medical Centers	<ul style="list-style-type: none">• Edgemoor Hospital• Broadway Medical Clinic
Neighborhood Parks/Recreation	<ul style="list-style-type: none">• Lakeside Linkage County Preserve• Sky Ranch Park• Rattlesnake Mountain Preserve• Shadow Hill Park• Lakeside Sports Park• Pocket Park• Lindo Lake County Park• Cactus County Park• Lakeside's River Park Conservatory• Magnolia Park• Bostonia Park• Albert Van Zanten Park• Lake Jennings Country Park• Lakeside Teen and Community Center• FUNbelievable Kids Play Center
Grocery Stores and Pharmacies	<ul style="list-style-type: none">• Rite Aid• Albertsons• Grocery Outlet• Walgreens• Wintergarden's Market• Walmart Supercenter

Table III-3: Public Transit Neighborhood Amenities, Trade Ring

	<ul style="list-style-type: none">• Smart & Final• Food 4 Less• Vons• Sprouts• Leo's Lakeside Pharmacy• CVS
--	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------

E. Residential Market Trends

Utilizing CoStar Group, Inc (CoStar), an industry leader in commercial real estate information, KMA conducted a survey of residential land sales from January 2021 to May 2024 for the Trade Ring. As shown in Table III-4, there were only three (3) sales reflecting land values with a median of \$28 per square foot (SF) and an average of \$26 per SF. KMA notes that no sales have occurred within the Focus Area for this time period.

Table III-4: Survey of Residential Land Sales, January 2021 to May 2024, Trade Ring⁽¹⁾⁽²⁾

Number of Land Sales	Minimum	Maximum	Median	Average
3	\$8 /SF Land	\$42 /SF Land	\$28 /SF Land	\$26 /SF Land

(1) Source: CoStar Group, Inc.
(2) Reflects sales within a 3-mile radius from the mid-point of the Lakeside Focus Area (12079 Thistle Braes Terrace).

KMA also conducted a survey of apartment building sales in the Trade Ring from January 2021 to May 2024. As shown in Table III-5, apartment buildings sold at a median price of \$251,350 per unit and an average price of \$260,969 per unit. Two (2) sales occurred within the Focus Area. One (1) sale in El Cajon exceeded \$400,000 per unit. The sale was a Class B apartment complex built in 1988 with pedestrian access to bus stops in a predominantly residential area.

Table III-5: Survey of Apartment Building Sales, January 2021 to May 2024, Trade Ring⁽¹⁾⁽²⁾

Number of Land Sales	Minimum	Maximum	Median	Average
16	\$151,100 /Unit	\$436,900 /Unit	\$251,350 /Unit	\$260,969 /Unit

(1) Source: CoStar Group, Inc.
(2) Reflects sales within a 3-mile radius from the mid-point of the Lakeside Focus Area (12079 Thistle Braes Terrace). Excludes apartment buildings with less than 25 units.

With respect to apartment buildings in the Focus Area boundary, KMA found that one (1) new apartment building with more than 10 units has been built in the last 20 years – the 80-unit Silver Sage Apartments built in 2011. There is currently an inventory of 55 apartment buildings (with more than 10 units) containing a total of 2,253 units, with an average unit size of 827 SF. As shown in Table III-6, monthly rent in the first quarter 2024 was \$1,891, or \$2.33 per SF. Since 2014, rents in the Focus Area have experienced an average annual increase of approximately 5.6%. Vacancy rates have remained low and have decreased over the past 10 years from 2.5% to 2.1%. For comparison purposes, a healthy vacancy rate in the apartment industry averages 5.0%.

Table III-6: Apartment Rents –Lakeside Focus Area⁽¹⁾

Year	Average Unit Size	Monthly Rent ⁽²⁾	Rent Per SF	Average Annual Growth Rate (2014-2024)
2024	827 SF	\$1,891	\$2.33	5.6%
2014	827 SF	\$1,099	\$1.35	

(1) Reflects apartment buildings with 10 units or more within the Lakeside Focus Area boundary.

(2) Reflects effective rent defined as the actual rental rate achieved by the landlord after deducting the value of concessions from the base rental rates that are paid or given to the tenant.

Using median household income, KMA estimated the supportable apartment rent for the Focus Area and compared this rent to supportable apartment rents in the neighboring cities of El Cajon, La Mesa, as well as the Region. As shown in Table III-7, the Focus Area can support apartment rents of \$2,130, lower than La Mesa and Region, but higher than El Cajon.

Table III-7: Supportable Apartment Rents by Geography

	Focus Area	City of El Cajon	City of La Mesa	County of San Diego (Region)
Median Household Income⁽¹⁾	\$77,140	\$63,815	\$79,844	\$95,879
Income Allocation to Housing	35%	35%	35%	35%
Monthly Income Available for Housing	\$2,250	\$1,861	\$2,329	\$2,796
(Less) Utilities⁽²⁾	(\$120)	(\$120)	(\$120)	(\$120)
Supportable Apartment Rent	\$2,130	\$1,740	\$2,210	\$2,680

(1) Source: Esri, Business Analyst Online.

(2) Reflects utility allowance schedule per the County of San Diego, effective March 1, 2024. Assumes a two bedroom unit.

KMA also analyzed for-sale housing trends for single-family and townhome/condominium units for the zip code containing the Focus Area. As shown in Table III-8, the median sales price for single-family units in 2024 was \$827,000. By comparison, the median sales price for townhome/condominium units was \$450,500.

Table III-8: For-Sale Housing Trends by Zip Code, January 2024 to March 2024 ⁽¹⁾		
Year to Date ⁽²⁾		
Type	Closed Sales	Median Sales Price
Single-Family		
Lakeside (92040)	57	\$827,000
Townhome/Condo		
Lakeside (92040)	20	\$450,000
(1) Source: Greater San Diego Association of Realtors. Reflects 92040 zip code.		
(2) Reflects January 2024 through March 2024 time period.		

Using median household income, KMA estimated the supportable sales price for the Focus Area and compared this sales price to supportable apartment rents in the neighboring cities of El Cajon, La Mesa, as well as the Region. As shown in Table III-9, the Focus Area can support a for-sale unit price of \$358,000, lower than La Mesa and the Region, but higher than El Cajon. It is important to note that supportable sales prices above are substantially below current market values. This is an indicator of the affordability housing crisis throughout the Region.

Table III-9: Supportable Sales Prices by Geography				
	Focus Area	City of El Cajon	City of La Mesa	County of San Diego (Region)
Median Household Income ⁽¹⁾	\$77,140	\$63,815	\$79,844	\$95,879
Annual Income Available for Housing @ 35%	\$26,999	\$22,335	\$27,945	\$33,558
Income Available for Mortgage ⁽²⁾	\$18,799	\$15,035	\$19,645	\$24,258
Supportable Mortgage @ 4.6% Interest Rate ⁽³⁾	\$304,239	\$243,328	\$317,937	\$392,581

Table III-9: Supportable Sales Prices by Geography				
	Focus Area	City of El Cajon	City of La Mesa	County of San Diego (Region)
Add: Down Payment @ 15%	\$54,000	\$42,900	\$56,100	\$69,300
Supportable For-Sale Unit Price (Rounded)	\$358,000	\$286,000	\$374,000	\$462,000
(1) Source: Esri, Business Analyst Online. (2) KMA estimate based on \$350/month HOA and 1.10% tax rate. Excludes costs related to maintenance and insurance. (3) Source: Bankrate.com. Bankrate.com. Reflects the national average 30-year fixed mortgage APR from 2019 through 2023.				

F. Projects in Planning and Under Construction

According to CoStar, there are no multi-family apartment projects under construction or proposed within the Trade Ring.

IV. RESIDENTIAL DEVELOPMENT POTENTIAL

A. Factors Impacting Development Potential

Demographic and Market Trends

When compared to the Region, the Focus Area contains similar household sizes, lower median household income, lower unemployment rate, and higher owner occupied housing units. The Focus Area contains more households earning less than \$75,000 when compared to the Region. Additionally, existing rents for multi-family apartments are lower than the Regional average.

Neighborhood Amenities

The Focus Area boundary contains limited neighborhood amenities such as grocery stores and pharmacies. However, residents within the Focus Area generally must travel within the Trade Ring to adjacent communities to purchase goods in the apparel, general merchandise, home furnishings/appliances, and building/hardware retail categories. The proximity of a variety of public transit options provides an opportunity to concentrate new residential development near or around existing transit stops. The Trade Ring contains high quality schools/education, medical centers,

neighborhood parks, and grocery and pharmacy stores to serve existing and future residents. These amenities are crucial to attract new residential development to the area.

Housing Legislation

In recent years, the State of California (State) Legislature passed several Senate Bills (SB) and Assembly Bills (AB) encouraging housing production. These bills may positively impact the production of residential development within the Focus Area. Key housing bills are summarized below.

- *SB 2 (2017)* – established a permanent source of funding intended to increase affordable housing. The revenue from SB 2 is dependent on real estate transactions and provides financial assistance to local governments for eligible housing-related projects and programs to assist in addressing the unmet housing needs of their local communities.
- *AB 1486 (2020)* – amends the Surplus Land Act (SLA), requiring public agencies interested in selling or leasing a property to go through a structured sale disposition process that first exposes the property to a State published list of affordable housing developers and other interested parties.
- *SB 743 (2020)* – requires the amount of driving and length of trips – as measured by vehicle miles traveled (VMT) – be used to assess transportation impacts on the environment for California Environmental Quality Act (CEQA) review. These impacts will be mitigated by options such as Transportation Demand Management (TDM), increasing transit services, or providing for active transportation such as walking and biking.
- *SB 9 (2022)* – streamlines the process for a homeowner to create a duplex or subdivide an existing lot.
- *SB 10 (2021)* – provides cities or counties with an easier path for upzoning residential neighborhoods close to job centers, public transit, and existing urban areas. Under SB 10, cities or counties can choose to authorize construction of up to ten units on a single parcel without requiring an environmental review (otherwise mandated under CEQA).
- *AB 976 (2023)* – permanently extends the ability of property owners to build affordable, rental accessory dwelling units (ADUs), also known as “granny flats,” by extending the rental unit provisions of AB 881 (2020), which would have expired in 2025. The provisions allow owners to build rental ADUs on the same property as their existing rentals.

- **AB 1287 (2023)** – modifies the State Density Bonus Law (SB 1818) to create additional density bonuses for developers who provide deed-restricted affordable units beyond the previous maximum percentages in the law. Under the new law, the additional 5% of units provided for very low-income households would entitle the developer to an extra 20% density bonus. Stacked on top of the 35% bonus provided for the 15% set-aside under the original law, this results in a total bonus of 55%. The new additional bonuses provided under AB 1287 could allow for density bonuses of up to 100% of base density.

Construction Costs

Another factor impacting production of new residential development is the rising costs of construction. These costs are primarily governed by market supply and demand factors. Currently, demand for building materials is high, while supply is limited due to global shortages and disruptions, causing prices to rise. This increase is reflected in the Construction Cost Index (CCI), a measure of the average cost of construction based on prices of materials, labor, and equipment. CCI for the State experienced an annual growth rate during 2016 to 2020 ranging from 1.3% to 3.6%. By comparison, from 2021 to 2023 the annual growth ranged from 9.3% to 13.4%. On a national basis, from 2020 through 2023, costs for concrete have increased by 15%, lumber by 16%, and steel by 22%. Other factors contributing to this increase in cost include rising insurance premiums, high interest rates, and limited availability of labor. The continued rising costs of construction present residential development feasibility challenges, where many developers cannot deliver residential projects at entry level rents/prices.

Infrastructure Requirements

New residential development also requires enhancement of surrounding public facilities and infrastructure, including roads, water, sewer, sidewalks, and parks. Depending on the increased user capacity of future development in the Focus Area, new developments may lack adequate water and sewer infrastructure. Portions of the Focus Area lack the enhanced infrastructure needed to support competitive new market-rate residential development. The cost to upgrade infrastructure and facilities is continuing to rise, hindering demand and construction of new residential development.

B. Summary of Stakeholder Interviews

KMA conducted a series of interviews with key stakeholders, including developers, non-profit organizations, and associations. The objective of the stakeholder interviews was to better understand barriers, necessary amenities, potential infrastructure needs, and opportunities for residential development within the unincorporated areas of the County. Table IV-1 presents the overview of barriers and solutions mentioned by the key stakeholders that the County may consider to encourage the production of housing in each focus area.

Table IV-1: Summary of Stakeholder Interviews

Current Barriers to Residential Development	<p><i>Programs and Policies:</i></p> <ul style="list-style-type: none">• Timing of permitting, entitlement, and review processes increase risk and uncertainty• County requires a larger number of technical studies as compared to other jurisdictions• Vehicle Miles Traveled (VMT) requirements are too restrictive in non-VMT efficient areas• Parking requirements do not align with current residential market trends• Low density residential zoning hinders developers' ability to fully build out a site to its maximum potential after considering easements, sloping, and on-site stormwater mitigation measures <p><i>Financial Factors:</i></p> <ul style="list-style-type: none">• Construction costs (labor and materials) are increasing at all-time highs• High interest rates increase developers' borrowing costs• Proposed Statewide budget cuts will limit funding sources for affordable housing• Lack of infrastructure in rural communities causes extraordinary construction costs• High insurance costs may hinder developers from building in high-risk fire areas
Potential Solutions to Encourage Residential Development	<ul style="list-style-type: none">• Provide a streamlined permitting, entitlement, and review process with single project manager to oversee a development application from A-Z• Enhance the ability for projects to undergo ministerial approval and eliminate the need for CEQA or public hearings• Establish Program EIRs for Community Plan Updates or Specific Plans• Increase density on existing low density residential zoned parcels, where appropriate• Enhance County's ability to work in partnership with developers to invest in and develop infrastructure improvements (primarily water and sewer)• Provide methods for off-site stormwater mitigation• Establish an infrastructure financing district(s) in strategic areas• Consider acquiring and consolidating parcels to create catalyst development sites

Table IV-1: Summary of Stakeholder Interviews

	<ul style="list-style-type: none">Conduct regular (or annual) amendments to zoning regulations to align with changes in the housing market to ensure housing production can be achieved
--	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Under the direction of the Board of Supervisors, the County has made several efforts to address the challenges that developers have faced when attempting to construct housing in the unincorporated areas of the County. These actions include:

1. The May 2023 adoption of Guaranteed Timelines for: (i) 100% affordable housing and emergency shelters; (ii) VMT efficiency and in-fill area housing; and (iii) work force housing. The Guaranteed Timelines will allow for expedited timelines for discretionary review, CEQA environmental studies, building permit plan check, and septic reviews.
2. The preparation of a Programmatic Environmental Impact Report (PEIR) for key areas, expected to be presented to the Board of Supervisors in October 2024.

C. Potential Residential Development Opportunities

Projected Demand in Housing Units

KMA reviewed historical housing inventory trends in the Focus Area, Trade Ring, and the Region. As shown in Table IV-2, the Trade Ring experienced a growth in housing units from 2000 to 2020 that accounted for 1.6% of Regional growth. By comparison, the Focus Area experienced a growth in housing units from 2000 to 2020 that represented 0.20% of Regional growth.

Table IV-2: Historic Annual Growth in Housing Units⁽¹⁾

	Annual Growth 2000-2020
San Diego County (Region)	9,416 Units/Year
Lakeside Trade Ring	152 Units/Year
<i>Trade Ring as % of Region</i>	1.6%
Lakeside Focus Area	19 Units/Year
<i>Focus Area as % of Region</i>	0.20%

(1) Source: Esri.

Based on this historic growth and current County initiatives to promote residential development within this area, KMA anticipates that the Focus Area can capture a share of Regional growth ranging from a low of 0.15% to a high of 0.30%. As shown in Table IV-3, KMA projects that the Focus Area has the potential to add between 275 and 549 units between 2025 and 2050.

Table IV-3: Projected Annual Growth in Housing Units, Lakeside Focus Area		
	Projected Growth 2025-2050	
	Units	Units/Year
San Diego County (1)	183,079 Units	7,323 Units/Year
Lakeside Focus Area		
Low Capture (0.15%)	275 Units	11 Units/Year
High Capture (0.30%)	549 Units	22 Units/Year

(1) Based on SANDAG Series 14 Growth Forecast.

Comparable Residential Development Projects

KMA projects that the Focus Area can support a range of ownership and rental housing product types. Low density residential development, such as medium-lot, small-lot, and zero lot line (ZLL) single-family homes, should be encouraged within existing single-family residential zones, primarily along Winter Gardens Boulevard. Medium to high density multi-family development, including for-sale townhomes/rowhomes and stacked flat rental apartments, should be concentrated to the north of the Focus Area along Woodside Avenue and to the south near Pepper Drive.

KMA identified potential residential development typologies that would be likely to occur within the Focus Area. These typologies reflect our experience with comparable projects in North County and similar communities elsewhere in the Region. Table IV-4 presents a brief project description and typical financial parameters associated with each two (2) for-sale and two (2) rental residential development types that respond to anticipated market conditions in the Focus Area. As shown, the likely construction types are Type V low-rise wood-frame buildings.

Table IV-4: Potential Residential Development Typologies –Lakeside Focus Area			
	Construction Type	Target Density (Units/Acre)	Typical Average Unit Size
For-Sale Residential Development Typologies			
	Type V 2 Stories	10 Units/Acre	2,700 SF
Medium Lot Single-Family			
	Type V 2-3 Stories	15 to 20 Units/Acre	1,350 SF
Townhomes			
Rental Residential Development Typologies			
	Type V 3+ Stories	30+ Units/Acre	800 SF
Stacked Flat with Tuck-Under Parking			
	Type V 2-3 Stories	20 to 25 Units/Acre	900 SF
Garden Style Apartments			

Based on a review of the factors impacting residential development, potential residential development typologies, and current market conditions, KMA determined the near-, mid-, and long-term market support for each of the residential development typologies. This market demand is evaluated in the near term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and “weak,” meaning unlikely to occur. The factors that KMA relied on in determining “strong,” “moderate,” and “weak” market demand for the near-, mid-, and long-term include evaluations of demographic trends; availability of neighborhood amenities, public facilities, infrastructure, and transit services; proximity to high-quality employment; residential market

factors, such as land and building values and rents; and the amount and type of recent and proposed development activity. Increases/decreases in market demand can be anticipated as changes occur with respect to one or more of these factors.

As shown in Table IV-5 below, KMA believes that market demand for for-sale residential ranges from moderate in the near-term to strong in the long-term. Conversely, market support for rental residential is anticipated to be weak in the near-term and grow to moderate in the long-term. Examples of factors that could increase market demand for residential development in the mid- to long-term include improvements in neighborhood amenities, public facilities, and/or transit services; gains in high-quality employment in close commuting distance; and increases in market rents/sales values.

Table IV-5: Market Demand for Residential Typologies, Lakeside Focus Area			
	Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
FOR-SALE			
Medium Lot Single-Family	Moderate	Strong	Strong
Townhomes	Moderate	Moderate	Strong
RENTAL			
Stacked Flat with Tuck-Under Parking	Weak	Weak	Moderate
Garden Style Apartments	Weak	Moderate	Moderate

Under a separate report, KMA analyzed the financial feasibility of potential residential development prototypes for the Focus Area's five (5) candidate sites. The analyses include estimates for development costs, value upon completion, targeted developer return, and/or potential funding sources. The outcome of the financial pro forma analyses illustrates the feasibility, in terms of residual land value or financing gap, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. The KMA financial feasibility report measures residual land values for each development prototype against recent comparable land sales to draw conclusions about financial feasibility.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. 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. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. 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.
4. 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. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County 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 County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County 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 County 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.



KEYSER MARSTON ASSOCIATES

MEMORANDUM

ADVISORS IN:

REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Laura Stetson, AICP, Principal
Moore Iacofano Goltzman, Inc. (MIG)

BERKELEY

DEBBIE M. KERN
DAVID DOEZEMA

From: KEYSER MARSTON ASSOCIATES, INC.

LOS ANGELES

KATHLEEN H. HEAD
KEVIN E. ENGSTROM

JULIE L. ROMEY
TIM BRETZ

Date: August 6, 2024

Subject: County of San Diego – Development Feasibility Analysis
Spring Valley – Market Assessment

SAN DIEGO

PAUL C. MARRA
LINNIE A. GAVINO

EMERITUS

A. JERRY KEYSER
TIMOTHY C. KELLY

I. INTRODUCTION

As part of a Development Feasibility Analysis (DFA), the County of San Diego (County) has requested that Keyser Marston Associates, Inc. (KMA) assess the development potential and feasibility of residential development on key sites in four (4) focus areas within the unincorporated area of the County. The focus areas identified by the County include the communities of Buena Creek, Valle de Oro/Casa de Oro, Lakeside, and Spring Valley. This assessment reflects the market support and development potential for residential development within the Spring Valley Focus Area (Focus Area).

In completing this assessment, KMA undertook the following principal work tasks for the Focus Area:

- (a) Reviewed other market feasibility studies and/or information from the County
- (b) Evaluated long-term residential market demand
- (c) Reviewed existing inventory and projects in the pipeline
- (d) Assessed potential improvements to existing infrastructure
- (e) Identified criteria for five (5) candidate sites for testing the feasibility of residential development

II. EXECUTIVE SUMMARY

This section presents a summary of the key findings from the KMA market assessment. Table II-1 below presents a summary fact sheet of the opportunities and constraints, evaluation of market demand, and criteria for five (5) candidate sites for the residential development feasibility analysis. Supportable market demand is evaluated in the near-term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and “weak,” meaning unlikely to occur.

To complement the findings in the market assessment, KMA will produce, under a separate report, financial feasibility analyses of various residential development concepts on the selected candidate sites.

Table II-1: Fact Sheet – Spring Valley Focus Area

	 
Key Market Opportunities and Constraints for Residential Development	<p><i>Opportunities for Residential Development:</i></p> <ul style="list-style-type: none">• Supplement the existing/strong residential development trends in Eastern Chula Vista• Concentrate medium to high density multi-family and mixed-use development along Grand Avenue and Jamacha Boulevard• Encourage lower density residential in and adjacent to existing low density residential zones, primarily along Jamacha Boulevard <p><i>Constraints for Residential Development:</i></p> <ul style="list-style-type: none">• No current projects in planning within the Focus Area and surrounding environs• Low single-family home values• Low multi-family residential apartment rents• Higher unemployment rate when compared to the County as a whole (Region)• Distant from larger medical centers• Current commercial corridor is primarily auto-oriented

Table II-1: Fact Sheet – Spring Valley Focus Area

Projected Growth in Housing Units	Projected Growth 2025-2050	
	Total Units	Units/Year
	Low Capture	915 Units
For-Sale Residential Development Typologies		
Potential Residential Development Typologies		Type V 2 Stories 10 Units/Acre
		Type V 2-3 Stories 15 to 20 Units/Acre
Rental Residential Development Typologies		
		Type V 3+ Stories 30+ Units/Acre
		Type V 2-3 Stories 20 to 25 Units/Acre

Table II-1: Fact Sheet – Spring Valley Focus Area

Evaluation of Market Demand	Market Demand for Residential Typologies			
		Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
	For-Sale			
	Small-Lot Single-Family	Weak	Weak	Weak
	Townhomes	Weak	Moderate	Moderate
	Rental			
	Stacked Flat with Tuck-Under Parking	Weak	Weak	Moderate
	Garden Style Apartments	Weak	Moderate	Moderate
Criteria for Five (5) Candidate Sites for Potential Residential Development ¹	<ul style="list-style-type: none"> • Parcel sizes ranging from 1/2 acre to 3+ acres • Vacant or underutilized properties² • Existing General Plan land use designations and/or zoning classifications with allowable densities ranging from 2 to 40 units per acre, with a focus on sites with allowances in the 15 to 30 units per acre range • In-fill properties, particularly ones with the potential for land assemblage with adjacent properties 			

¹ Source: Criteria for Selecting Candidate Sites for Financial Feasibility Modeling Memorandum to County, MIG, May 2024.

² Underutilized properties can be considered that demonstrate either (1) existing improvements at a lower density level than the General Plan land use designation allows, and/or (2) low existing assessed values measured in terms of existing building value relative to land area.

III. OVERVIEW OF FOCUS AREA

A. Description and Environs

The Focus Area consists of 2.54 square miles and is presented in Exhibit III-1. The Focus Area is situated within East County and is east of San Diego and Lemon Grove. The Focus Area is bifurcated by State Route 125 (SR 125).

The Focus Area can generally be characterized by its retail adjacent to SR 126, auto-oriented uses along Grand Avenue and Jamacha, single-family residential, and the Spring Valley Swap Meet. Existing General Plan Land Uses include General Commercial, Limited Impact Industrial, Neighborhood Commercial, Office Professional, Public/Semi-Public Facilities, and Village Residential. Current zoning within the Focus Area includes Limited Agriculture (A70), Office Professional (C30), Residential-Office Professional (C31), Convenience Commercial (C32), General Commercial (C36), Heavy Commercial (C37), Limited Industrial (M52), General Impact Industrial (M54), Multi-Family Residential (RM), Mobile Home Residential (RMH12), Rural Residential (RR), Single-Family Residential (RS), Urban Residential (RU), Variable Family Residential (RV), Open Space (S80), Transportation and Utility Corridor (S94).

B. Demographic Overview

This section provides a comparative evaluation of demographic factors for the Focus Area relative to the County as a whole (Region). An overview is presented in Table III-1 below. As shown, the Focus Area population accounts for 18,920 out of the Region's 3.3 million total population. Households in the Focus Area are larger in size (3.4 persons per household) when compared to the Region at 2.7 persons per household. Unemployment rate in the Focus Area is higher at 8.7% versus the Region at 4.9%. Additionally, the Focus Area contains much more ownership housing and less rental housing when compared to the Region.

Exhibit III-1: Spring Valley Focus Area

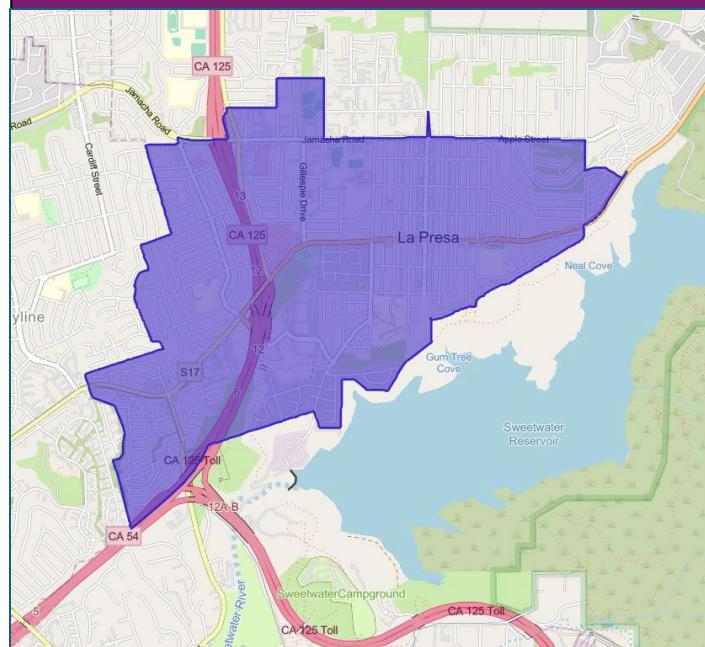


Table III-1: Demographic Overview, 2023 ⁽¹⁾		
	County of San Diego (Region)	Spring Valley Focus Area
Population	3,325,723	18,920
Households	1,172,264	5,433
Average Household Size	2.74	3.45
Median Age	36.7	34.6
Unemployment Rate	4.9%	8.7%
Owner Occupied Housing Units	51.5%	63.4%
Renter Occupied Housing Units	42.5%	36.6%

(1) Esri Business Analyst Online, May 2024.

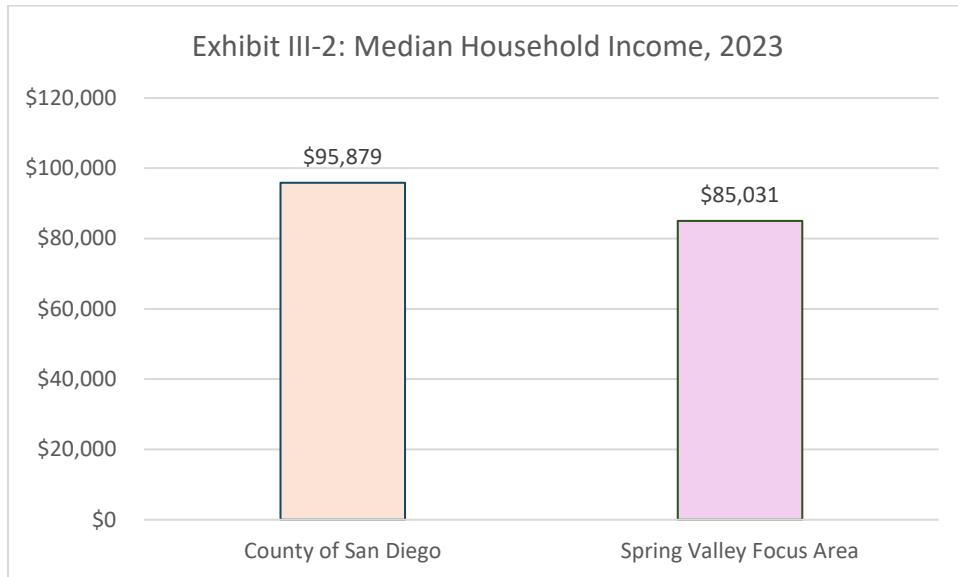
C. Household Income Distribution

The distribution of 2023 household income for the Focus Area vs. the Region is presented in Table III-2. As shown, the Focus Area is comprised of slightly more households earning less than \$75,000 per year when compared to the Region. Moreover, the Region is comprised of more households earning above \$150,000 per year when compared to the Focus Area.

Table III-2: Household Income Distribution, 2023 ⁽¹⁾				
	County of San Diego (Region)	Spring Valley Focus Area		
Income Distribution	Households	Percent	Households	Percent
< \$75K	466,548	40%	2,396	44%
\$75K - \$99K	137,932	12%	690	13%
\$100K - \$149K	234,349	20%	1,271	23%
\$150K+	333,420	28%	1,076	20%
Total	1,172,249	100%	5,433	100%

(1) Esri Business Analyst Online, May 2024.

With respect to median household income, Focus Area income is 11% lower than the Region. As shown in Exhibit III-2 below, the Focus Area's median household income is approximately \$85,000, whereas the Region income is approximately \$96,000.



Source: Esri Business Analyst Online, May 2024.

D. Public Transit and Neighborhood Amenities

KMA evaluated the public transit and neighborhood amenities in close proximity to the Focus Area. The presence of these amenities, or lack thereof, can be factors influencing the demand for residential development. With respect to public transit, the Focus Area is serviced by several San Diego Metropolitan Transit System (MTS) bus stops, primarily along Sweetwater Road, Jamacha Road, and Jamacha Boulevard.

KMA analyzed the neighborhood amenities available within a 3-mile radius of the center of the Focus Area (Trade Ring), as illustrated in Exhibit III-3 below.

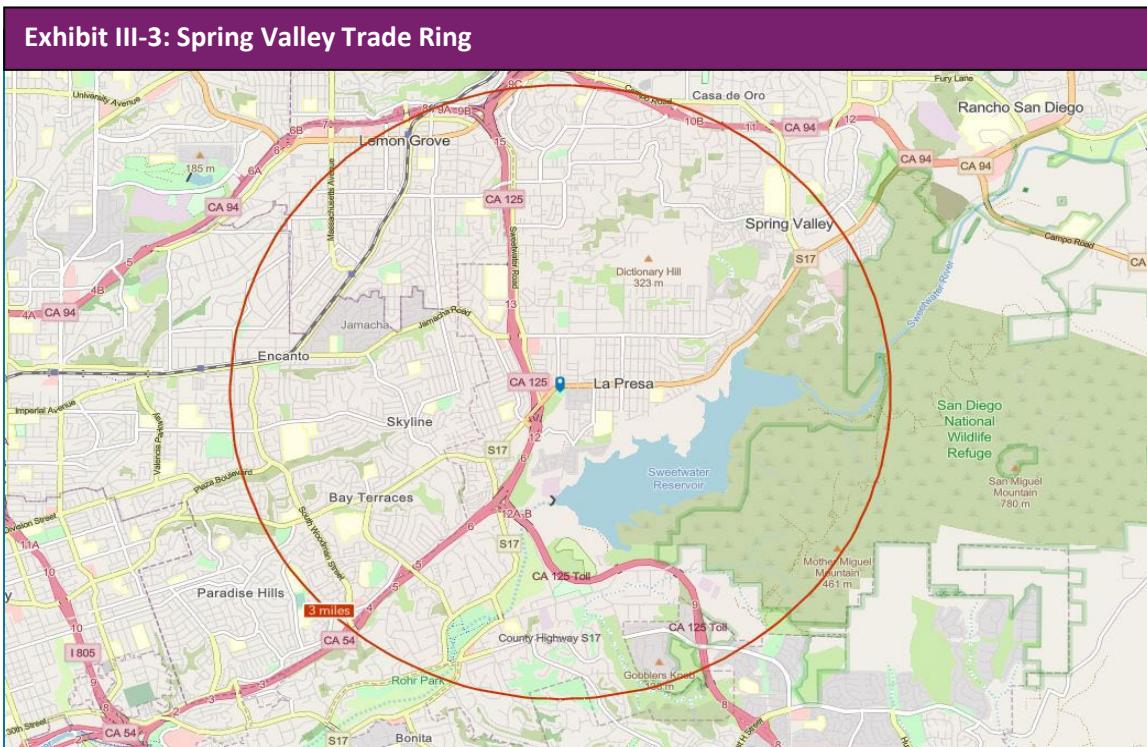


Table III-3 presents amenities within the Trade Ring that serve existing residents. As shown, the Trade Ring contains an ample number of schools/educational facilities and neighborhood parks/recreation. The Trade Ring contains several MTS bus stops as well as access to the MTS Orange Line trolley, west of the Focus Area in Lemon Grove. The Trade Ring contains two (2) family health centers but is distant from larger medical centers/hospitals. The Trade Ring contains four (4) grocery stores and pharmacies, two (2) of which are located within the Focus Area.

Table III-3: Public Transit Neighborhood Amenities, Trade Ring

Public Transit	<ul style="list-style-type: none"> • MTS bus stops • MTS Green and Orange Line Stops
Schools/Educational Facilities	<ul style="list-style-type: none"> • Spring Valley Elementary School • Lemon Grove Academy Elementary School • Mount Miguel High School • Avondale Elementary School • Audubon K-8 School • Freese Elementary School • Sunnyside Elementary School • La Presa Elementary School

Table III-3: Public Transit Neighborhood Amenities, Trade Ring

	<ul style="list-style-type: none">• Rancho Elementary School• Bethune Elementary School• Sweetwater Springs Community Elementary School• Grossmont Secondary School• Bell Junior High School• Lemon Grove Middle School• Morse Senior High School• Monte Vista High School• STEAM Academy• Kempton Street Elementary• Quest Academy• Highlands Elementary
Hospital/Medical Centers	<ul style="list-style-type: none">• Grossmont Spring Valley Family Health Center• Lemon Grove Family Health Center
Neighborhood Parks/Recreation	<ul style="list-style-type: none">• Spring Valley County Park• Lamar County Park• Sweetwater Regional Park• Sweetwater Reservoir• Dictionary Hill County Preserve• Boone Park• Christopher Wilson Park• Keiller Park• Berry Street Park• Skyline Hills Park• Lemon Grove Park• Treganza Heritage Park• Lomita Park
Grocery Stores and Pharmacies	<ul style="list-style-type: none">• Albertsons Grocery Store and Pharmacy• Rite Aid Pharmacy• Sprouts• Ralphs

E. Residential Market Trends

Utilizing CoStar Group, Inc (CoStar), an industry leader in commercial real estate information, KMA conducted a survey of residential land sales from January 2021 to May 2024 for the Trade Ring. As shown in Table III-4, land values in the Trade Ring reflect a median of \$6 per square foot (SF) and an average of \$12 per SF. The KMA survey found that the lowest sale (\$1 per SF) occurred within the Focus Area. The sale generating the highest land value (at \$46 per SF) was in Lemon Grove and proposed for the development of townhomes.

Table III-4: Survey of Residential Land Sales, January 2021 to May 2024, Trade Ring ⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
6	\$1 /SF Land	\$46 /SF Land	\$6 /SF Land	\$12 /SF Land
(1) Source: CoStar Group, Inc.				
(2) Reflects sales within a 3-mile radius from the mid-point of the Spring Valley Focus Area (8735 Jamacha Boulevard).				

KMA also conducted a survey of apartment building sales in the Trade Ring from January 2021 to May 2024. As shown in Table III-5, apartment buildings sold at a median price of \$218,250 per unit and an average price of \$201,490 per unit. One (1) sale in Lemon Grove exceeded \$400,000 per unit. The sale was a Class A apartment complex built in 2017 within a commercial corridor and in close proximity to the MTS Orange Line. This indicates that there is demand for residential development within the Trade Ring, especially near public transit.

Table III-5: Survey of Apartment Building Sales, January 2021 to May 2024, Trade Ring ⁽¹⁾⁽²⁾				
Number of Land Sales	Minimum	Maximum	Median	Average
10	\$86,600 /Unit	\$419,600/Unit	\$218,250 /Unit	\$201,490 /Unit
(1) Source: CoStar Group, Inc.				
(2) Reflects sales within a 3-mile radius from the mid-point of the Spring Valley Focus Area (8735 Jamacha Boulevard). Excludes apartment buildings with less than 25 units.				

With respect to apartment buildings in the Focus Area boundary, KMA found that one (1) new apartment building with more than 10 units has been built in the last 20 years – the 16-unit Jamacha Villas built in 2009. There is currently an inventory of 26 apartment buildings (with more than 10 units) containing a total of 1,115 units, with an average unit size of 833 SF. As shown in Table III-6, monthly rent in the first quarter 2024 was \$1,588, or \$1.95 per SF. Since 2014, rents in the Focus Area have experienced an average annual increase of approximately 4.4%. Vacancy rates have remained low and

have decreased over the past 10 years from 3.8% to 3.1%. For comparison purposes, a healthy vacancy rate in the apartment industry averages 5.0%.

Table III-6: Apartment Rents, Spring Valley Focus Area⁽¹⁾				
Year	Average Unit Size	Monthly Rent⁽²⁾	Rent Per SF	Average Annual Growth Rate (2014-2024)
2024	833 SF	\$1,588	\$1.95	4.4%
2014	833 SF	\$1,034	\$1.27	

(1) Reflects apartment buildings with 10 units or more within the Spring Valley Focus Area boundary.
 (2) Reflects effective rent defined as the actual rental rate achieved by the landlord after deducting the value of concessions from the base rental rates that are paid or given to the tenant.

Using median household income, KMA estimated the supportable apartment rent for the Focus Area and compared this rent to supportable apartment rents in the neighboring cities of La Mesa, Lemon Grove, as well as the Region. As shown in Table III-7, the Focus Area can support apartment rents of \$2,360, higher than La Mesa and Lemon Grove, but lower than the Region.

Table III-7: Supportable Apartment Rents by Geography				
	Focus Area	City of La Mesa	City of Lemon Grove	County of San Diego (Region)
Median Household Income⁽¹⁾	\$85,031	\$79,844	\$75,487	\$95,879
Income Allocation to Housing	35%	35%	35%	35%
Monthly Income Available for Housing	\$2,480	\$2,329	\$2,202	\$2,796
(Less) Utilities⁽²⁾	(\$120)	(\$120)	(\$120)	(\$120)
Supportable Apartment Rent	\$2,360	\$2,210	\$2,080	\$2,680

(1) Source: Esri, Business Analyst Online.
 (2) Reflects utility allowance schedule per the County of San Diego, effective March 1, 2024. Assumes a two bedroom unit.

KMA also analyzed for-sale housing trends for single-family and townhome/condominium units for the zip code containing the Focus Area. As shown in Table III-8, the median sales price for single-family units in 2024 was \$760,000. By comparison, the median sales price for townhome/condominium units was \$657,500.

Table III-8: For-Sale Housing Trends by Zip Code, January 2024 to March 2024 ⁽¹⁾		
Type	Year to Date ⁽²⁾	
	Closed Sales	Median Sales Price
Single-Family		
Spring Valley (91977)	75	\$760,000
Townhome/Condo		
Spring Valley (91977)	22	\$657,500

(1) Source: Greater San Diego Association of Realtors. Reflects 91977 zip code.
(2) Reflects January 2024 through March 2024 time period.

Using median household income, KMA estimated the supportable sales price for the Focus Area and compared this sales price to supportable apartment rents in the neighboring cities of La Mesa, Lemon Grove, as well as the Region. As shown in Table III-9, the Focus Area can support a for-sale unit price of \$403,000, higher than La Mesa and Lemon Grove, but lower than the Region. It is important to note that supportable sales prices above are substantially below current market values. This is an indicator of the affordability housing crisis throughout the Region.

Table III-9: Supportable Sales Prices by Geography

	Focus Area	City of La Mesa	City of Lemon Grove	County of San Diego (Region)
Median Household Income (1)	\$85,031	\$79,844	\$75,487	\$95,879
Annual Income Available for Housing @ 35%	\$29,761	\$27,945	\$26,420	\$33,558
Income Available for Mortgage (2)	\$21,161	\$19,645	\$18,320	\$24,259
Supportable Mortgage @ 4.6% Interest Rate (3)	\$342,463	\$317,937	\$296,495	\$392,581
Add: Down Payment @ 15%	\$60,450	\$56,100	\$52,500	\$69,300
Supportable For-Sale Unit Price (Rounded)	\$403,000	\$374,000	\$349,000	\$462,000
(1) Source: Esri, Business Analyst Online. (2) KMA estimate based on \$350/month HOA and 1.10% tax rate. Excludes costs related to maintenance and insurance. (3) Source: Bankrate.com. Reflects the national average 30-year fixed mortgage APR from 2019 through 2023.				

F. Projects in Planning and Under Construction

According to CoStar, there are no multi-family apartment projects under construction or proposed within the Trade Ring.

IV. RESIDENTIAL DEVELOPMENT POTENTIAL

A. Factors Impacting Development Potential

Demographic and Market Trends

When compared to the Region, the Focus Area contains much larger household sizes, slightly lower median household income, much higher unemployment rate, and many more owner-occupied housing

units. The Focus Area contains more households earning less than \$75,000 when compared to the Region. Additionally, existing rents for multi-family apartments are much lower than the Region average.

Neighborhood Amenities

The Focus Area boundary contains limited neighborhood amenities and residents within the Focus Area generally have to travel to adjacent communities within the Trade Ring to purchase goods in the apparel, general merchandise, home furnishings/appliances, and building/hardware retail categories. The proximity of a variety of public transit options provides an opportunity to concentrate new residential development near or around existing transit stops. Moreover, the Trade Ring contains high quality schools/education, medical centers, neighborhood parks, and grocery and pharmacy stores to serve existing and future residents. These amenities are crucial to attract new residential development to the area.

Housing Legislation

In recent years, the State of California (State) Legislature passed several Senate Bills (SB) and Assembly Bills (AB) encouraging housing production. These bills may positively impact the production of residential development within the Focus Area. Key housing bills are summarized below.

- *SB 2 (2017)* – established a permanent source of funding intended to increase affordable housing. The revenue from SB 2 is dependent on real estate transactions and provides financial assistance to local governments for eligible housing-related projects and programs to assist in addressing the unmet housing needs of their local communities.
- *AB 1486 (2020)* – amends the Surplus Land Act (SLA), requiring public agencies interested in selling or leasing a property to go through a structured sale disposition process that first exposes the property to a State published list of affordable housing developers and other interested parties.
- *SB 743 (2020)* – requires the amount of driving and length of trips – as measured by vehicle miles traveled (VMT) – be used to assess transportation impacts on the environment for California Environmental Quality Act (CEQA) review. These impacts will be mitigated by options such as Transportation Demand Management (TDM), increasing transit services, or providing for active transportation such as walking and biking.
- *SB 9 (2022)* – streamlines the process for a homeowner to create a duplex or subdivide an existing lot.

- *SB 10 (2021)* – provides cities or counties with an easier path for upzoning residential neighborhoods close to job centers, public transit, and existing urban areas. Under SB 10, cities or counties can choose to authorize construction of up to ten units on a single parcel without requiring an environmental review (otherwise mandated under CEQA).
- *AB 976 (2023)* – permanently extends the ability of property owners to build affordable, rental accessory dwelling units (ADUs), also known as “granny flats,” by extending the rental unit provisions of AB 881 (2020), which would have expired in 2025. The provisions allow owners to build rental ADUs on the same property as their existing rentals.
- *AB 1287 (2023)* – modifies the State Density Bonus Law (SB 1818) to create additional density bonuses for developers who provide deed-restricted affordable units beyond the previous maximum percentages in the law. Under the new law, the additional 5% of units provided for very low-income households would entitle the developer to an extra 20% density bonus. Stacked on top of the 35% bonus provided for the 15% set-aside under the original law, this results in a total bonus of 55%. The new additional bonuses provided under AB 1287 could allow for density bonuses of up to 100% of base density.

Construction Costs

Another factor impacting production of new residential development is the rising costs of construction. These costs are primarily governed by market supply and demand factors. Currently, demand for building materials is high, while supply is limited due to global shortages and disruptions, causing prices to rise. This increase is reflected in the Construction Cost Index (CCI), a measure of the average cost of construction based on prices of materials, labor, and equipment. CCI for the State experienced an annual growth rate during 2016 to 2020 ranging from 1.3% to 3.6%. By comparison, from 2021 to 2023 the annual growth ranged from 9.3% to 13.4%. On a national basis, from 2020 through 2023, costs for concrete have increased by 15%, lumber by 16%, and steel by 22%. Other factors contributing to this increase in cost include rising insurance premiums, high interest rates, and limited availability of labor. The continued rising costs of construction present residential development feasibility challenges, where many developers cannot deliver residential projects at entry level rents/prices.

Infrastructure Requirements

New residential development also requires enhancement of surrounding public facilities and infrastructure, including roads, water, sewer, sidewalks, and parks. Portions of the Focus Area lack the enhanced infrastructure needed to support competitive new market-rate residential development. Depending on the increased user capacity of future development in the Focus Area, new developments

may lack adequate water and sewer infrastructure. The cost to upgrade infrastructure and facilities is continuing to rise, hindering demand and construction of new residential development.

B. Summary of Stakeholder Interviews

KMA conducted a series of interviews with key stakeholders, including developers, non-profit organizations, and associations. The objective of the stakeholder interviews was to better understand barriers, necessary amenities, potential infrastructure needs, and opportunities for residential development within the unincorporated areas of the County. Table IV-1 presents the overview of barriers and solutions mentioned by the key stakeholders that the County may consider to encourage the production of housing in each focus area.

Table IV-1: Summary of Stakeholder Interviews

Current Barriers to Residential Development	<p><u>Programs and Policies:</u></p> <ul style="list-style-type: none">• Timing of permitting, entitlement, and review processes increase risk and uncertainty• County requires a larger number of technical studies as compared to other jurisdictions• Vehicle Miles Traveled (VMT) requirements are too restrictive in non-VMT efficient areas• Parking requirements do not align with current residential market trends• Low density residential zoning hinders developers' ability to fully build out a site to its maximum potential after considering easements, sloping, and on-site stormwater mitigation measures <p><u>Financial Factors:</u></p> <ul style="list-style-type: none">• Construction costs (labor and materials) are increasing at all-time highs• High interest rates increase developers' borrowing costs• Proposed Statewide budget cuts will limit funding sources for affordable housing• Lack of infrastructure in rural communities causes extraordinary construction costs• High insurance costs may hinder developers from building in high-risk fire areas
Potential Solutions to Encourage Residential Development	<ul style="list-style-type: none">• Provide a streamlined permitting, entitlement, and review process with single project manager to oversee a development application from A-Z• Enhance the ability for projects to undergo ministerial approval and eliminate the need for CEQA or public hearings

Table IV-1: Summary of Stakeholder Interviews

	<ul style="list-style-type: none">• Establish Program EIRs for Community Plan Updates or Specific Plans• Increase density on existing low density residential zoned parcels, where appropriate• Enhance County's ability to work in partnership with developers to invest in and develop infrastructure improvements (primarily water and sewer)• Provide methods for off-site stormwater mitigation• Establish an infrastructure financing district(s) in strategic areas• Consider acquiring and consolidating parcels to create catalyst development sites• Conduct regular (or annual) amendments to zoning regulations to align with changes in the housing market to ensure housing production can be achieved
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Under the direction of the Board of Supervisors, the County has made several efforts to address the challenges that developers have faced when attempting to construct housing in the unincorporated areas of the County. These actions include:

1. The May 2023 adoption of Guaranteed Timelines for: (i) 100% affordable housing and emergency shelters; (ii) VMT efficiency and in-fill area housing; and (iii) work force housing. The Guaranteed Timelines will allow for expedited timelines for discretionary review, CEQA environmental studies, building permit plan check, and septic reviews.
2. The preparation of a Programmatic Environmental Impact Report (PEIR) for key areas, expected to be presented to the Board of Supervisors in October 2024.

C. Potential Residential Development Opportunities

Projected Demand in Housing Units

KMA reviewed historical housing inventory trends in the Focus Area, Trade Ring, and the Region. As shown in Table IV-2, the Trade Ring experienced a growth in housing units from 2000 to 2020 that accounted for 1.4% of Regional growth. By comparison, the Focus Area experienced a growth in housing units from 2000 to 2020 that represented 0.08% of Regional growth.

Table IV-2: Historic Annual Growth in Housing Units ⁽¹⁾	
	Annual Growth 2000-2020
San Diego County (Region)	9,416 Units/Year
Spring Valley Trade Ring	134 Units/Year
<i>Trade Ring as % of Region</i>	<i>1.4%</i>
Spring Valley Focus Area	7 Units/Year
<i>Focus Area as % of Region</i>	<i>0.08%</i>

(1) Source: Esri.

Based on this historic growth and current County initiatives to promote residential development within this area, KMA anticipates that the Focus Area can capture a share of future Regional growth ranging from a low of 0.50% to a high of 0.75%. Capture rates within the Focus Area are expected to be higher than historic rates as there is limited supply of land within the Region and increased investment interest in in-fill communities. The Focus Area also contains an abundance of underutilized improved properties that could be redeveloped into residential uses. As a result, KMA projects that the Focus Area has the potential to add between 915 and 1,373 units between 2025 and 2050 as shown in Table IV-3.

Table IV-3: Projected Annual Growth in Housing Units, Spring Valley Focus Area

	Projected Growth 2025-2050	
	Units	Units/Year
San Diego County (Region) ⁽¹⁾	183,079 Units	7,323 Units/Year
Spring Valley Focus Area		
Low Capture (0.50%)	915 Units	37 Units/Year
High Capture (0.75%)	1,373 Units	55 Units/Year

(1) Based on SANDAG Series 14 Growth Forecast.

Comparable Residential Development Projects

KMA projects that the Focus Area can support a range of ownership and rental housing product types. Medium to high density multi-family development, including for-sale townhomes/rowhomes, garden apartments, and stacked flat rental apartments either standalone or within a mixed-use configuration, should be concentrated along both Grand Avenue and Jamacha Boulevard. Lower density residential development, such as small-lot and zero lot line (ZLL) single-family homes, should be encouraged in existing low density residential zones, primarily along Jamacha Boulevard to complement existing single-family uses.

In many communities, development of affordable rental housing has demonstrated the potential to spur development of market-rate housing. Comparable experiences in Old Town Temecula, Vista Village, and Downtown Lemon Grove demonstrate that affordable housing developments did not impair the construction of commercial and market-rate residential development. Rather, initial investments in affordable housing in these districts have led to subsequent commercial revitalization and market-rate housing development. It should be noted, however, that no affordable housing projects have been built in the Trade Ring since 2001 (San Martin De Porres Apartments at 9119 Jamacha Road).

KMA identified potential residential development typologies that would be likely to occur within the Focus Area. These typologies reflect our experience with comparable projects in North County and similar communities elsewhere in the County. Table IV-4 presents a brief project description and typical financial parameters associated with each two (2) for-sale and two (2) rental residential development types that respond to anticipated market conditions in the Focus Area. As shown, the likely construction types are Type V low-rise wood-frame buildings.

Table IV-4: Potential Residential Development Typologies – Spring Valley Focus Area

	Construction Type	Target Density (Units/Acre)	Typical Average Unit Size
For-Sale Residential Development Typologies			
 Small Lot Single-Family	Type V 2 Stories	10 Units/Acre	2,100 SF
Rental Residential Development Typologies			
 Townhomes	Type V 2-3 Stories	15 to 20 Units/Acre	1,350 SF
 Stacked Flat with Tuck-Under Parking	Type V 3+ Stories	30+ Units/Acre	800 SF

Table IV-4: Potential Residential Development Typologies – Spring Valley Focus Area			
	Construction Type	Target Density (Units/Acre)	Typical Average Unit Size
 Garden Style Apartments	Type V 2-3 Stories	20 to 25 Units/Acre	900 SF

Based on a review of the factors impacting residential development, potential residential development typologies, and current market conditions, KMA determined the near-, mid-, and long-term market support for each of the residential development typologies. This market demand is evaluated in the near term (0 to 5 years), mid-term (5 to 10 years), and long-term (10 or more years). In addition, the following metrics were used as part of this evaluation: “strong,” meaning highly likely to occur; “moderate,” meaning likely to occur; and “weak,” meaning unlikely to occur. The factors that KMA relied on in determining “strong,” “moderate,” and “weak” market demand for the near-, mid-, and long-term include evaluations of demographic trends; availability of neighborhood amenities, public facilities, infrastructure, and transit services; proximity to high-quality employment; residential market factors, such as land and building values and rents; and the amount and type of recent and proposed development activity. Increases/decreases in market demand can be anticipated as changes occur with respect to one or more of these factors.

As shown in Table IV-5 below, KMA believes that market demand for rental is weak in the near term and will grow to moderate in the long term. Conversely, market demand for for-sale residential is anticipated to be weak in the near-term and grow to weak/moderate in the long-term, depending on product type. Examples of factors that could increase market demand for residential development in the mid- to long-term include improvements in neighborhood amenities, public facilities, and/or transit services; gains in high quality employment in close commuting distance; and increases in market rents/sales values.

Table IV-5: Market Demand for Residential Typologies, Spring Valley Focus Area			
	Near-Term (0-5 Years)	Mid-Term (5-10 Years)	Long-Term (10+ Years)
FOR-SALE			
Small-Lot Single-Family	Weak	Weak	Weak
Townhomes	Weak	Moderate	Moderate
RENTAL			
Stacked Flat with Tuck-Under Parking	Weak	Weak	Moderate
Garden Style Apartments	Weak	Moderate	Moderate

Under a separate report, KMA analyzed the financial feasibility of potential residential development prototypes for the Focus Area's five (5) candidate sites. The analyses include estimates for development costs, value upon completion, targeted developer return, and/or potential funding sources. The outcome of the financial pro forma analyses illustrates the feasibility, in terms of residual land value or financing gap, of each development prototype. Residual land value is defined as the maximum land value supported by a proposed development. It is calculated by estimating the total project value upon completion and subtracting the estimated total development costs, inclusive of an industry standard target developer return, required to develop the project. The KMA financial feasibility report measures residual land values for each development prototype against recent comparable land sales to draw conclusions about financial feasibility.

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.
2. 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. No guarantee is made as to the possible effect on development of current or future Federal, State, or local legislation including environmental or ecological matters.
3. 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.
4. 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. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.
5. Any estimates of development costs, project income, and/or value in this evaluation are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be predictions of the future for the specific project. No warranty or representation is made that any of these estimates or projections will actually materialize.
6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.
7. KMA is not advising or recommending any action be taken by the County 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 County and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the County 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 County 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.