



# Otay Ranch Town Center Market and Commercial Lands Analysis

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## Introduction

HR&A Advisors, Inc. (“HR&A”) was retained by Brookfield Properties (“Brookfield”) to conduct a retail market analysis and commercial lands analysis for the City of Chula Vista (“City” or “Chula Vista”). These analyses will help the City’s Development Services Department understand the potential economic implications of a new zoning designation for an estimated 16.40 acres of the Otay Ranch Town Center (“the Site”) and inform the City’s decision on Brookfield’s proposal to rezone the Site for residential uses. Please note, the analyses presented represent a snapshot in time and future demand for residential and retail uses is subject to change.

The Town Center is located on the southern FC-1 portion of the Freeway Commercial Sectional Planning Area (“SPA”), in the eastern portion of the City of Chula Vista (Figure 1). The Otay Ranch Town Center is a 670,000 square foot regional lifestyle center that opened in 2006 with anchor retailers such as Macy’s, Ulta Beauty, Bath & Body Works, and Barnes & Noble. The Town Center is adjacent to California State Route 125 at the intersection of Birch Road and Eastlake Parkway, and is centrally located within the larger, master planned Otay Ranch General Plan area which has added substantial new housing and commercial development over the last several years. Immediately north of the Otay Ranch Town Center, Baldwin and Sons is developing 22 acres of the Freeway Commercial FC-2 site with approximately 900 multi-family units, and 15,000 square feet of retail commercial uses, 300 hotel rooms and a two-acre park. Similarly, south of the Otay Ranch Town Center, the Millenia community was approved in 2019 and is entitled to include more than 1,500 housing units and 140,000 square feet of community-serving retail and restaurants.

Brookfield is seeking to rezone the Site to allow for up to 840 residential units with the option for ground-floor commercial uses. The goal is to elevate the Town Center into a vibrant mixed-use community with complementary residential and retail uses. Currently, the Site is entitled for 960,000 square feet of commercial uses. The proposed scenario would reduce the commercial entitlement to 816,000 square feet to allow for up to 840 residential units.

Current uses on the site include 37,200 square feet of retail, 598 surface parking spaces and an interim soccer field and playground. Brookfield plans to preserve the existing 37,200 square feet of retail currently on the Site and add 600 to 650 market rate rental housing units. An additional 190 to 240 units may be added in a future development phase along with structured parking.

Figure 1: Otay Ranch Town Center Local Context



Source: Esri, HR&A

## Findings

HR&A's analyses resulted in the following conclusions that can inform the City's decision to potentially rezone the site to allow for residential uses.

- **Chula Vista and the South Bay boast a number of existing regional shopping centers that compete with the Otay Ranch Town Center.** Numerous large format department store retailers are located within nine miles of the site at the Westfield Plaza Bonita and other shopping centers. These regional shopping centers include anchors such as Macy's, Nordstrom Rack, Target, and JCPenney. Furthermore, the Otay Ranch Town Center must also compete with outlet shopping at the border which includes numerous specialty stores, like Calvin Klein, NIKE, and Coach.
- **While the City of Chula Vista is a major shopping center destination and retail is performing fairly well after COVID, Chula Vista has seen over 140,000 square feet of negative retail absorption in shopping centers since 2020, primarily due to a department store closure.** Online shopping comprises a growing share of retail sales across the nation and this trend has only accelerated as a result of the COVID pandemic, leading to several closures for large-scale brick-and-mortar retailers. As a result of these trends, retailers are rethinking their strategies and large retailers like Macy's, Nordstrom, and Bloomingdales are moving towards smaller footprint store models.
- **Otay Ranch Town Center has not been immune to these trends.** In 2014 and 2015 there were several closures of major national chain stores at the Otay Ranch Town Center such as The GAP,

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Justice, Banana Republic, and REI. These spaces were successfully filled with non-traditional shopping center lessees such as a gym and a grocery store.

- **Taxable retail sales have been stagnant in Chula Vista**, especially in the General Merchandise category. Retail uses at the Site would likely capture demand from the General Merchandise and Clothing and Clothing Accessories retail demand categories.
- **Our demand analysis found nominal current demand for General Merchandise and Clothing & Clothing Accessories stores today and limited demand for General Merchandise and Clothing & Clothing Accessories across an approximately 30-year period**, indicating that it would be challenging for today's retail market to support substantial new retail development in these categories. There is greater demand for retail in the Grocery, Specialty Food and Liquor Stores, Restaurants, and Building Materials, Garden Equipment and Supply Stores categories. With exception to restaurants these retailers are not typically found in a regional shopping center.
- **Demand for multi-family residential is strong in Chula Vista.** In Chula Vista there is demand for over 1,700 market rate multifamily units a year. Over the next 20 years, this demand is projected to grow to approximately 37,300 units, cumulatively. The vast majority of new units are currently being delivered within Otay Ranch. While there are a significant number of units entitled and in planning phases, not all units are likely to be developed and there would still be demand for more than 22,000 units if all of the current entitlements were absorbed.
- **The Commercial Lands Analysis suggests that demand and supply of available land are just slightly out of balance, under current intensities.** Assuming 124 net acres of land may be available for future retail development and a FAR of 0.35 for available land, Chula Vista could accommodate 1,890,500 square feet of new retail development based on existing zoned commercial land. This is 6 percent less than the total demand for retail in Chula Vista over the next 28 years: 2,009,800 square feet, revealing that the City has marginally less commercially zoned land than needed to meet demand. It should be noted that there are opportunities for retail property owners to build at slightly higher intensity on vacant and developed retail properties in the future which could help Chula Vista accommodate all of the 2050 projected retail demand.
- **This report concludes that the near-term demand is limited for traditional retail categories that you would find within a regional center, such as clothing stores and general merchandise, relative to other categories such as grocery stores and building materials, but there is, nonetheless, moderate long-term demand for retail at the Site, likely in small to mid-sized formats.** Furthermore, there is strong demand for multifamily residential in Otay Ranch, and the addition of retail to the Site may be a benefit to the overall performance of the shopping center.

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## Retail Market Scan

The following section summarizes the findings from HR&A's retail market scan for the City of Chula Vista as it relates to the Otay Ranch Town Center. HR&A analyzed national trends in online retail spending, analyzed the supply of brick-and-mortar retailers in the City and adjacent to the Site, and identified trends in the performance of those retailers. The purpose of the analysis is to understand if there is an opportunity to add retail to the Otay Ranch Town Center site. The retail market analysis came to the following conclusions:

1. Online retail spending continues to grow, creating competition for traditional, large footprint, brick-and-mortar retailers in Otay Ranch.
2. There are other lifestyle centers that serve as the main competition for the Otay Ranch Town Center: 1) The Chula Vista Center; 2) Westfield Plaza Bonita. These centers include large-footprint department stores such as Macy's, Nordstrom Rack, Target, and JCPenney, nine miles from the site.
3. There is demand for up to 160,800 square feet of retail at the Otay Ranch Town Center, but very little demand in the General Merchandise and Clothing and Clothing Accessories categories, indicating that adding a big-box department store to the Site is unlikely to be supported by the market.

### National Retail Trends

There are several trends currently remaking brick-and-mortar retail in Chula Vista and across the US. This includes the trend in growing online shopping, the COVID-19 pandemic and stay-at-home orders which kept many shoppers away from in-person shopping center and were a significant challenge to retailers, and the resulting retraction of retail footprints.

Over the last decade, online shopping across the U.S. has increased its share of retail sales consistently year over year, compared to brick-and-mortar retailers. This is true even as in-store shopping enjoyed a healthy recovery in 2021 when pandemic-related restrictions were lifted. The total dollars spent in online sales have steadily increased over the last 10 years to \$960,000 in 2021, which is more than four times online retail spending in 2011 (Figure 2). Given recent trends, the share of online retail sales is likely to continue to grow for the foreseeable future.

Overall, retail categories typically found in shopping centers have experienced a larger portion of sales moving online, a trend that has only been expedited due to the COVID-19 pandemic. Since 2019, the Clothing and Clothing Accessories Stores and Sporting Goods retail categories had the largest share of retail sales dedicated to online shopping (Figure 3).

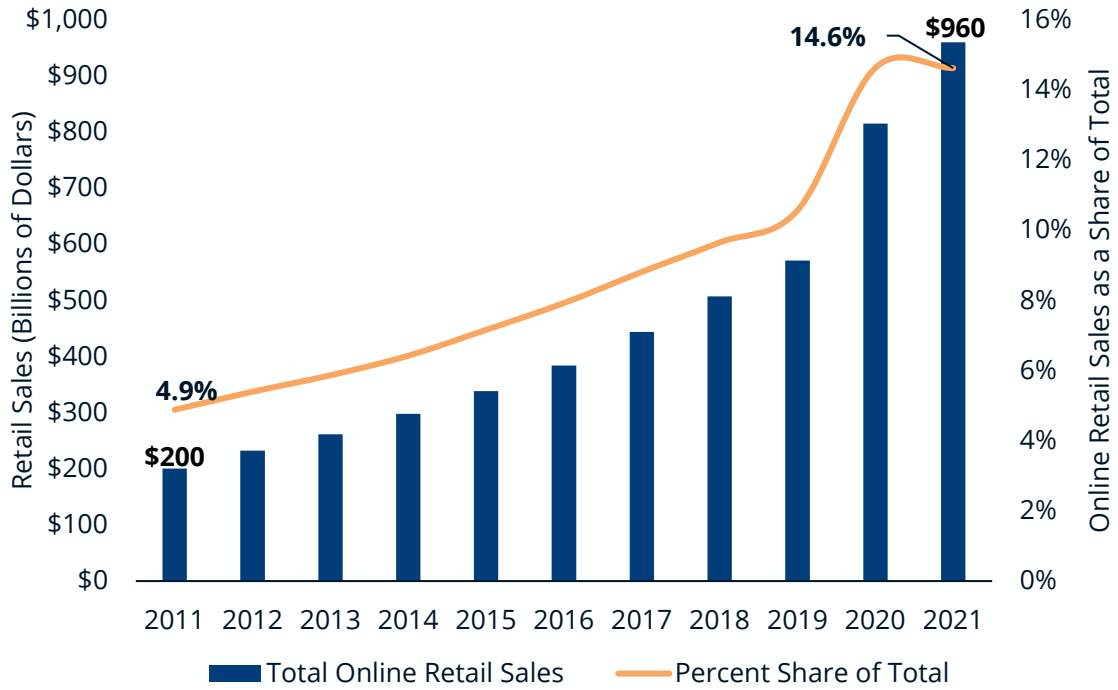
Department stores are moving towards showroom and hybrid-ecommerce models, with smaller brick-and-mortar footprints. While department stores have historically thrived as the anchor tenants for large regional malls, department stores such as Macy's and Nordstrom are embracing an online presence. Online sales accounted for 35 percent and 40 percent of online sales in 2021 for Macy's and Nordstrom, respectively. These types of department stores have begun opening smaller shops such "The Market" from Macy's, Bloomie's from Bloomingdale's, and Nordstrom Local. On average, Nordstrom Local stores occupy an approximately 3,000 square foot footprint, compared to the average Nordstrom, which occupies 140,000 square feet of mall space.<sup>1</sup>

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<sup>1</sup> Thomas, Lauren, "Nordstrom to roll out smaller stores with no merchandise, more experiences," (CNBC, 2017)

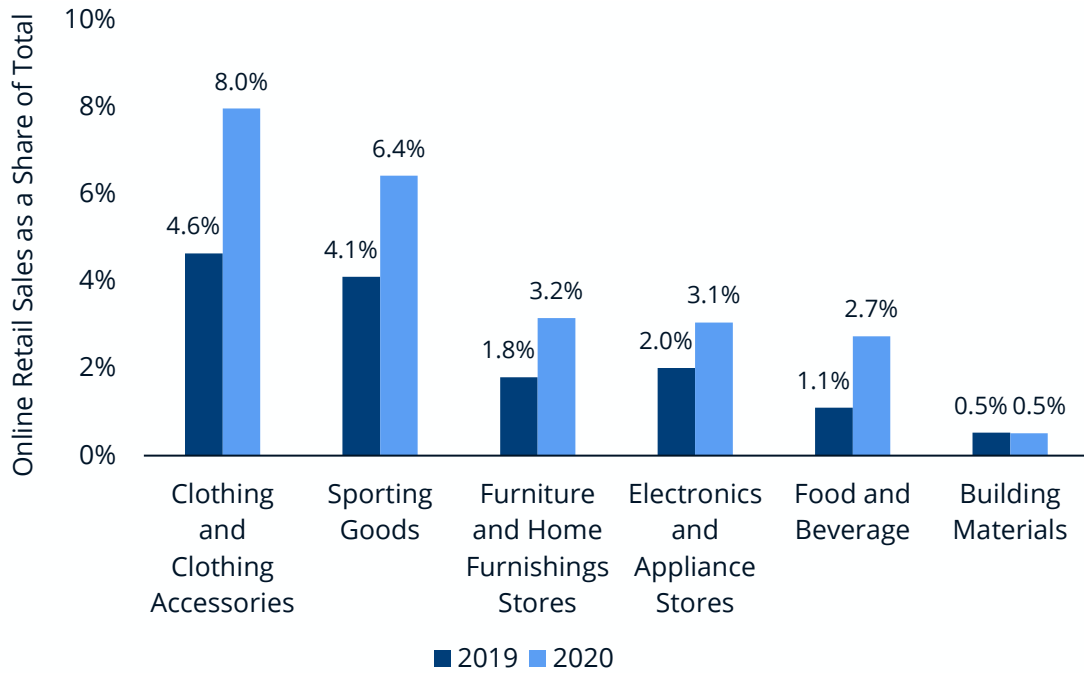
As online shopping continues to grow and big-box retailers move towards smaller, more experiential models, it is increasingly unlikely the Otay Ranch Town Center will attract a traditional department store to the Site.

Figure 2: Online Retail Sales as Share of Total Retail Sales | United States, 2011-2021



Source: U.S. Census Bureau

**Figure 3: Online Retail Sales as Share of Total Retail Sales by Retail Categories | United States, 2011-2021**



Source: U.S. Census Bureau

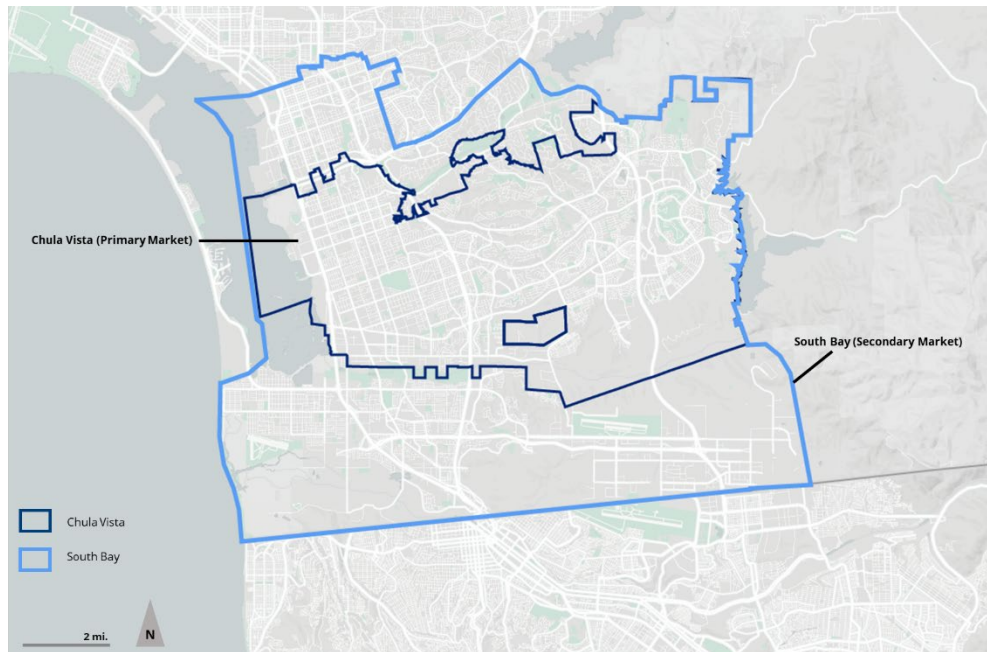
### Chula Vista Market Context

This analysis evaluates the existing retail markets in Chula Vista and the South Bay (Figure 4). Chula Vista is located in the southern portion of San Diego County, near the United States-Mexico border. The City is the second largest in the county (behind San Diego), and includes an estimated 10.3 million square feet of retail space, with approximately 67 percent of that retail contained in shopping centers.

The South Bay submarket includes Chula Vista, National City, Imperial Beach, and portions of southern San Diego. The South Bay includes an estimated 19.4 million square feet of retail space, with approximately 59 percent of that retail contained in shopping centers.



**Figure 4: Geographies of Analysis | Chula Vista and the South Bay**



Source: ESRI, HR&A

## Competitive Retail Supply

Shopping center retail in the South Bay is clustered around major freeways, including the Interstate 5, Interstate 805, and California State Route 125 (Figure 5). Furthermore, most of the shopping center retail in the South Bay, 60 percent, is concentrated in Chula Vista. The following section reviews the key shopping centers that compete with the Otay Ranch Town Center, and the three major retail areas in the South Bay.

### South Bay Shopping Centers

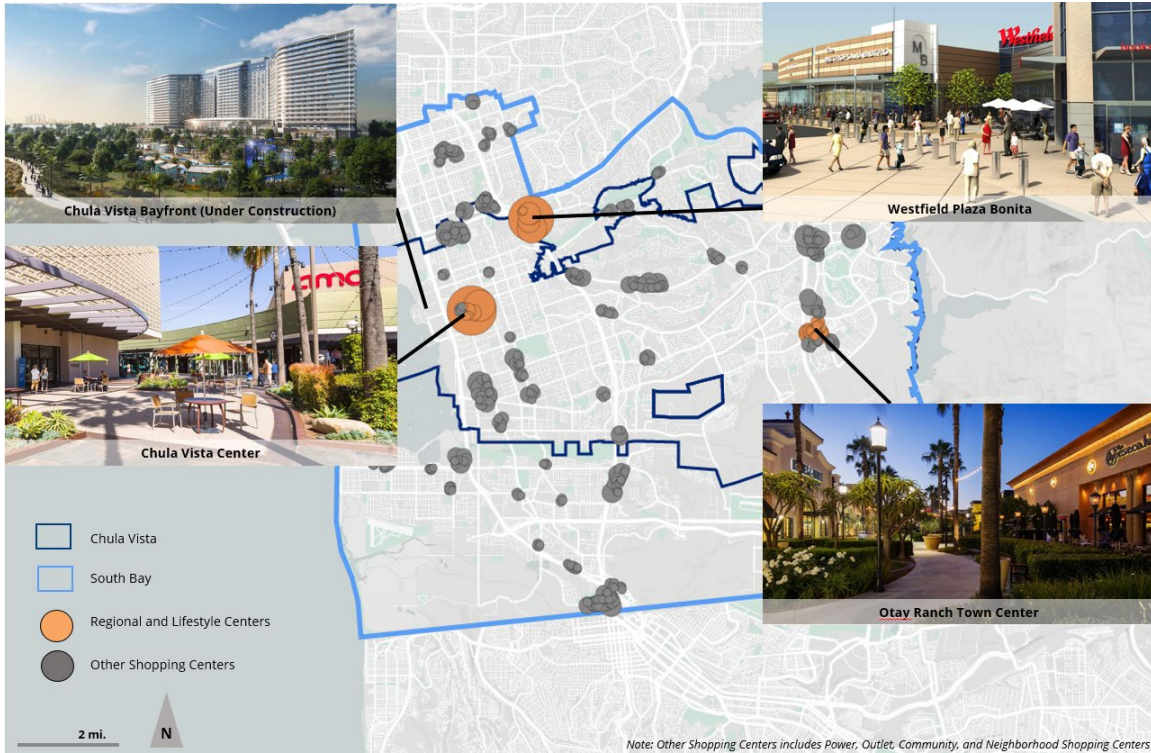
The largest shopping center in the South Bay is the Westfield Plaza Bonita in National City. The Westfield Plaza Bonita was built in 1980 and, near the border of National City and Chula Vista, is located approximately nine miles from the Otay Ranch Town Center. The shopping center includes more than one million square feet with anchor retailers such as Macy's, Nordstrom Rack, Target, and JCPenney. The center has gone through several expansions that have included the addition of an AMC Theatres and a Crunch Fitness.

The Chula Vista Center, one of the oldest lifestyle centers in the area, is located along Broadway in the western portion of the City. The 860,000-square-foot center includes anchor retailers such as Macy's, JCPenney and Burlington. A Sears closed here in 2020 and since then, the 13.3-acre site was approved for 244 town homes.

From 2016 to 2020, vacancy rates within shopping centers in the City had consistently been below four percent before sharply increasing to around nine percent due to the closure of Sears at the Chula Vista Center. The Chula Vista Bayfront project is currently under construction near the Chula Vista Center and will include a 1,600-room hotel as well as a 275,000-square-foot convention center that will likely bring new retail demand to this part of the City upon an expected completion date in 2025.

The Westfield Plaza Bonita and Chula Vista Center directly compete with the Otay Ranch Town Center, offering a similar makeup of tenants that include department stores, smaller clothing and apparel stores, an assortment of restaurants as well as non-store retailers.

**Figure 5: Regional Shopping Centers | Chula Vista and the South Bay**



Source: ESRI, HR&A

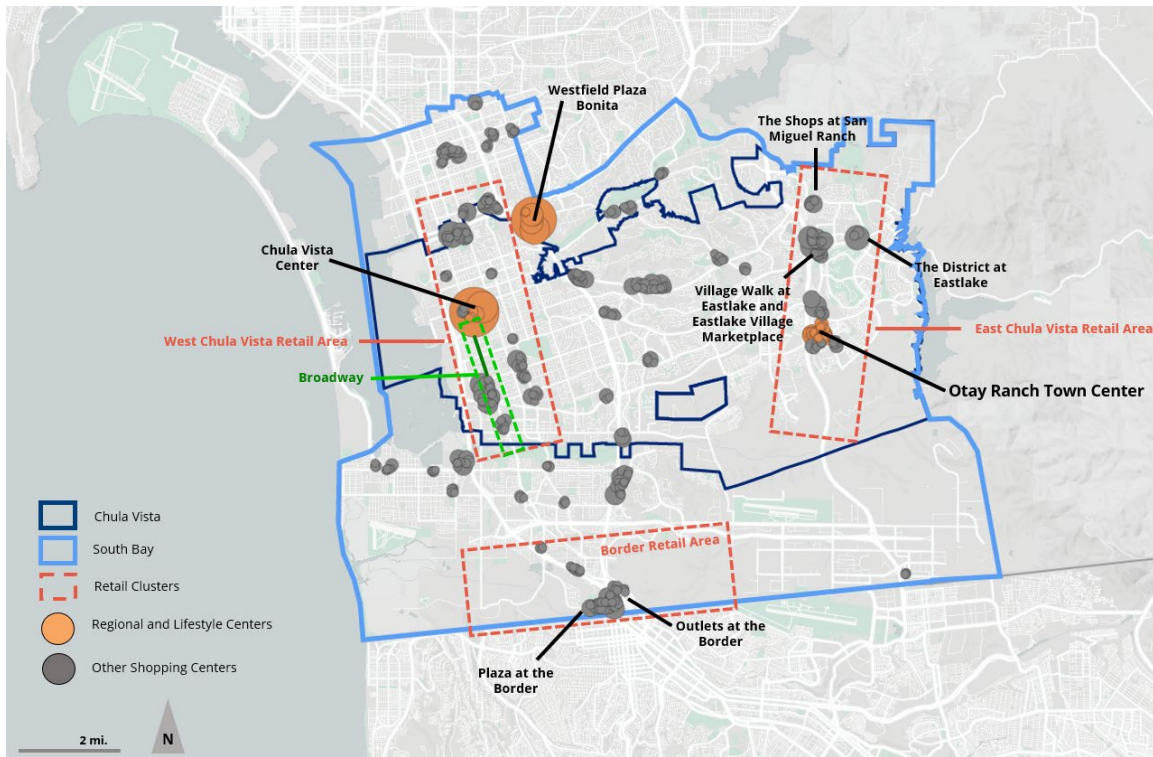
Image Sources: Brookfield Properties, Port of San Diego, Saiful Bouquet Structural Engineers

**Retail Areas in the South Bay**

There are three primary retail areas within the South Bay: West Chula Vista, the Border, and East Chula Vista (Figure 6). West Chula Vista had historically been the core of commercial activity in the City, particularly along Broadway, H Street, and portions of Third Avenue where there is more than 1 million square feet of strip center and freestanding retail between D Street and Quintard Street.

The West Chula Vista area is home to the Chula Vista Center, and several community and power centers that include Walmart, Costco, Target, 99 Cents Only Store, and Grocery Outlet. Besides the Chula Vista Center, the retail in West Chula Vista is largely neighborhood and community serving with a cluster of discount retailers. Besides the Chula Vista Center, West Chula Vista retail does not compete with the Otay Ranch Town Center.

Figure 6: Selected Retail Areas | Chula Vista and the South Bay



Source: ESRI, HR&A

The retail area near the United States-Mexico border takes advantage of one of the busiest border crossings in the country at San Ysidro to capture cross-border spending. From 1997 to 2019, the border has had an average of nearly 27 million personal vehicle passengers annually. The major shopping destination here is the 560,000 square foot Las Americas Premium Outlets which includes an estimated 125 specialty stores such as Calvin Klein, NIKE, Coach, and Banana Republic. Additionally, two more smaller shopping centers have been built nearby in the last decade. This includes the nearly 110,000 square foot community shopping center Plaza at the Border, as well as the 135,000-square-foot Plaza Palmera outlet center built in 2015 that includes popular stores such as H&M, Justice, Foot Locker, and Express.

These three shopping centers have performed well with a combined vacancy rate of around three percent since 2014. However, outside of these regional centers, there are several community and neighborhood shopping centers within this cluster that have not performed as well with vacancy rates that have exceeded 10 percent since 2017. The outlet centers near the United States-Mexico border depend largely on cross-border traffic and offer a similar variety of retailers and restaurants to the Otay Ranch Town Center. While these shopping centers will directly compete for cross-border visitors, Otay Ranch Town Center should benefit from continued household growth in East Chula Vista, where there are nearly 14,000 units currently in the planning phase or under construction<sup>2</sup>.

<sup>2</sup> City of Chula Vista, "Active Planning Projects", <https://www.chulavistaca.gov/departments/development-services/city-projects>

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## East Chula Vista Retail Area

The retail destinations in East Chula Vista are largely supported by a variety of planned communities such as Eastlake, Otay Ranch, and Rolling Hills Ranch. The East Chula Vista retail area includes the Otay Ranch Town Center, which is located within a larger cluster of retail and another cluster of retail in the northern portion of this area as identified in Figure 6. Over the last several years, shopping center retail has performed well in East Chula Vista. After vacancy rates peaked at seven percent in 2014, they have steadily declined since then to just under one percent, coinciding with the buildout of several new housing projects at nearby Millenia as well as a new hotel.

### Otay Ranch Town Center

The Otay Ranch Town Center is the largest shopping center in East Chula Vista. It is a 670,000 square foot regional lifestyle center, built in 2006, and located along California State Route 125 near the intersection of Eastlake Parkway and Birch Road (Figure 7). The Otay Ranch Town Center was developed within the Otay Ranch General Development Plan which was intended to create a balanced community with a variety of housing, open space, shopping and entertainment uses, and public facilities that would support future growth in Chula Vista. The center boasts major retailers such as Macy's, Ulta Beauty, Bath & Body Works, and Barnes & Noble in addition to a variety of restaurants and an AMC theater.

### Otay Ranch Town Center Adjacent Retail

The Otay Ranch Town Center is immediately adjacent to three neighborhood and community retail centers (Figure 7), including the 140,000-square-foot Millenia Town Center to the south, opened in 2019. The Millenia community includes over 1,500 housing units and community-serving retail such as Ross Dress for Less, Home Goods, Buy Buy Baby, World Market, and various quick-service restaurants. The Eastlake Terraces is a nearly 200,000-square-foot community retail center to the north of the Site, including Home Depot, Walmart, and Walgreens. The Marketplace, southeast of the Site, is a 100,000 square foot neighborhood center including a Vons and Sally Beauty. These retail centers are not direct competition for the Otay Ranch Town Center, since they are made up of neighborhood-serving retail tenants such as grocery stores, clothing stores, and household goods stores.

### Additional Retail

The shopping centers in the northern part of the East Chula Vista retail area include a mix of neighborhood and community serving retail destinations. The two largest shopping centers are the 212,000 square foot Village Walk at Eastlake and the 396,000-square-foot Eastlake Village Marketplace which include Target, Lowe's, Trader Joe's, and Sprouts Farmers Market in addition to a variety of fast food and casual restaurants. To the east and south of the Village Walk, smaller community centers with tenants like Kohl's and Vons attract local East Chula Vista resident shoppers. The Shops at San Miguel Ranch and the District at Eastlake are two community centers located nearby, offering personal service retail tenants (e.g. martial arts, nail salon, Crunch Fitness) or operate as entertainment destinations (e.g. Sky Zone Trampoline Park, Play City, Speed Circuit) in addition to an assortment of restaurants. While some of the individual businesses may directly compete with those at Otay Ranch Town Center, these community centers are likely attracting patrons from the surrounding residential neighborhoods, whereas the Otay Ranch Town Center is likely drawing visitors both locally and regionally.

Figure 7: Otay Ranch Town Center and Surrounding Shopping Centers



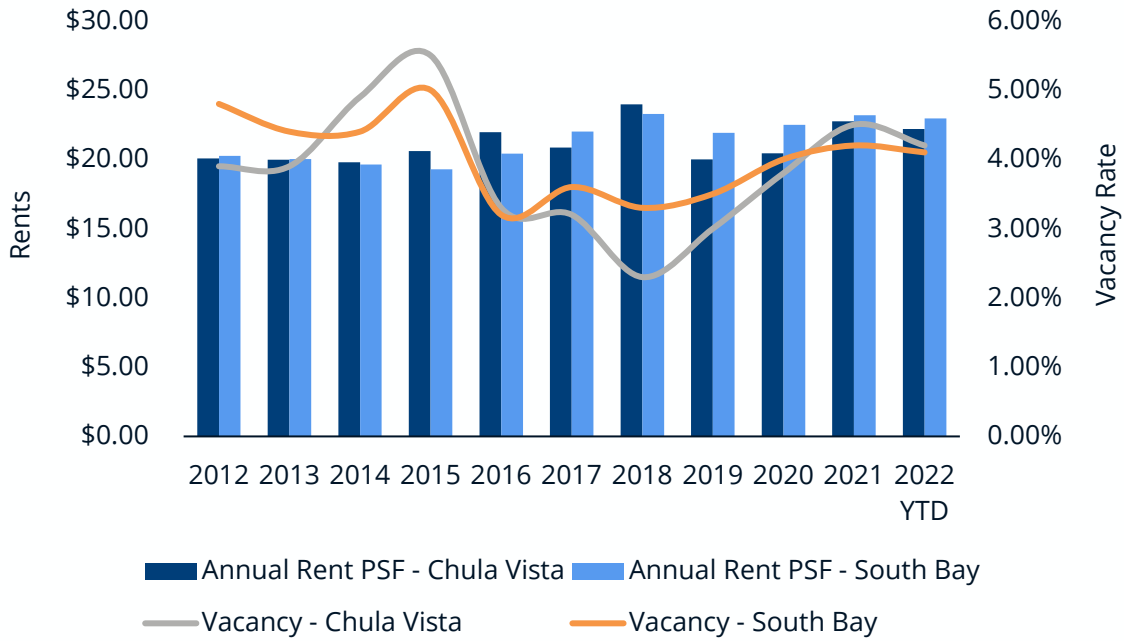
Source: ESRI, HR&A

## Retail Performance

**The Chula Vista retail market is exhibiting signs of recovery from the COVID-19 pandemic; rents have grown over the last three years, and vacancy rates are starting to trend downward, but the market is still challenged as brick-and-mortar retailers close and are replaced by non-retail uses and grocery stores.** Chula Vista rents and vacancies have largely tracked with the South Bay over the last decade (Figure 8). From 2014 to 2015, Chula Vista experienced a spike in vacancies that can be attributed to vacancies at the Otay Ranch Town Center and more than 100,000 square feet of retail space going vacant in the northwest quadrant of the City. The vacant space was converted into a variety of stores that includes an ALDI, Smart & Final, and a Hobby Lobby. In addition, several restaurants and retailers closed at the Otay Ranch Town Center, including Gap, Justice, Banana Republic, and REI. Many of these closures reflect the overall performance the individual retailers such as Gap announcing the closure of 350 Gap and Banana Republic Stores across North America by the end of 2023, and Justice announcing the closure of all locations by early 2021. The mall replaced a large portion of that vacant space with Planet Fitness and Barons Market. The addition of a gym is representative of a larger trend of regional malls investing in non-retail assets to attract new visitors. The addition of Barons Market, a grocery store, should also benefit the shopping center as the Food and Beverage retail category has experienced a substantial increase in sales in recent years. While vacancies at the center peaked at around 10 percent in 2013, with the addition of the gym and grocery store the center currently boasts a vacancy of below one percent.

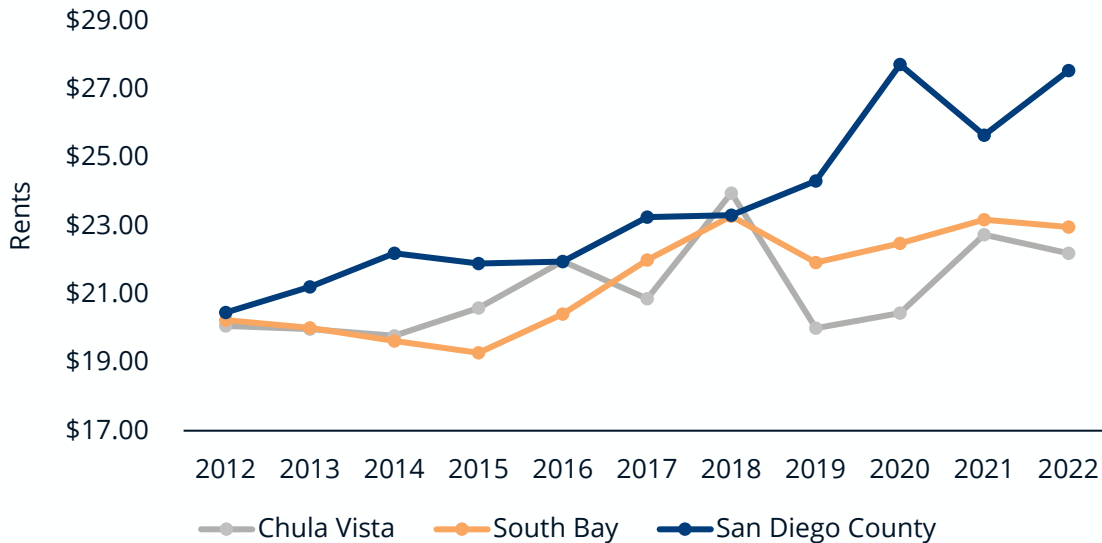
Additionally, while retail rents in the City increased in the beginning of the decade, they have not fully recovered to pre-pandemic levels. While the South Bay and Chula Vista experienced declines in rents during the pandemic, San Diego County experienced an increase in rents, further widening the rent gap between the County and Chula Vista and the South Bay (Figure 9).

**Figure 8: Comparative Retail Rents and Vacancy Rates | Chula Vista and the South Bay, 2012-2022**



Source: CoStar

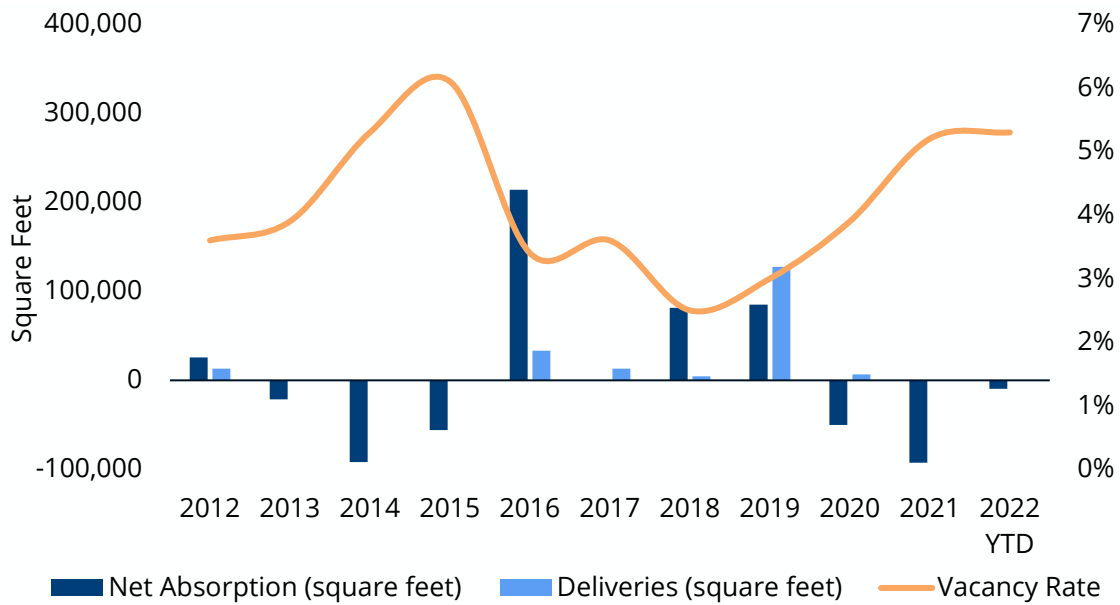
**Figure 9: Comparative Rents for All Retail | Chula Vista, the South Bay, San Diego County, 2012-2022**



Source: CoStar

The Millenia Town Center opened in 2019 and was the most recent shopping center retail delivery in Chula Vista. Since 2020, Chula Vista has experienced negative absorption of approximately 150,000 square feet in shopping center retail (Figure 10). The negative absorption that has recently occurred is largely due to the closing of Sears in the Chula Vista Center (located in the West Chula Vista retail area), which remains largely vacant today. Despite the six percent vacancy rate citywide, shopping centers within the Otay Ranch area have maintained vacancy rates at one percent or below since 2019.

**Figure 10: Shopping Center Net Absorption, Deliveries, and Vacancy Rates | Chula Vista, 2012-2022**



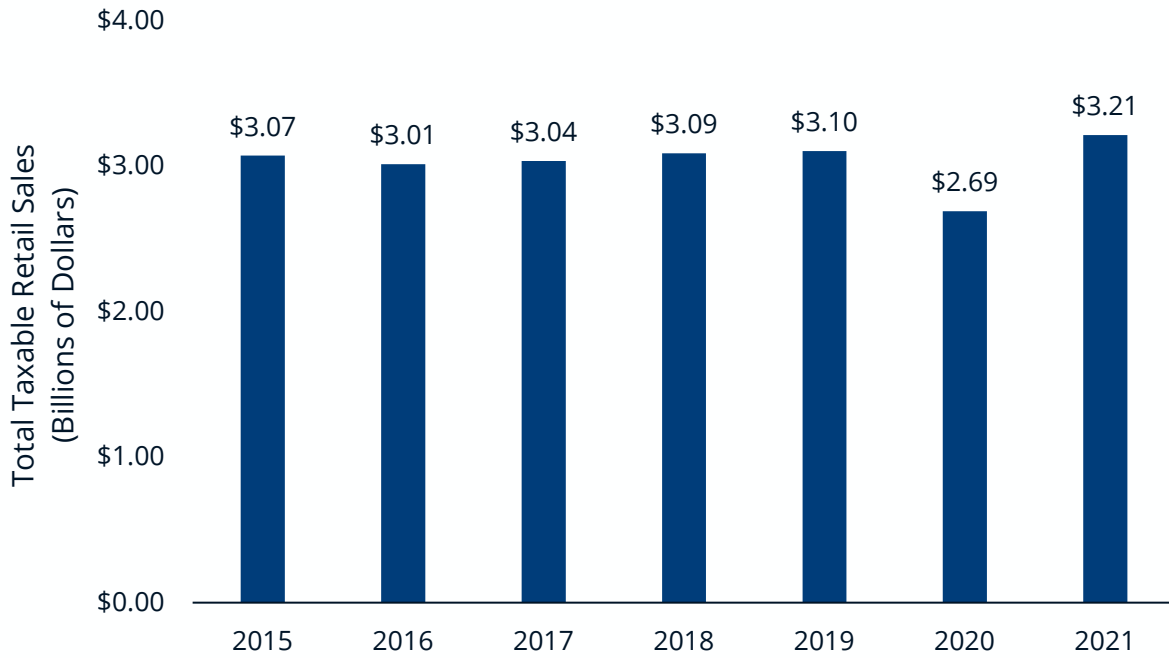
Source: CoStar

### Taxable Sales Analysis

HR&A analyzed taxable sales data from the California Department of Tax and Fee Administration to understand historic trends in retail sales in Chula Vista.

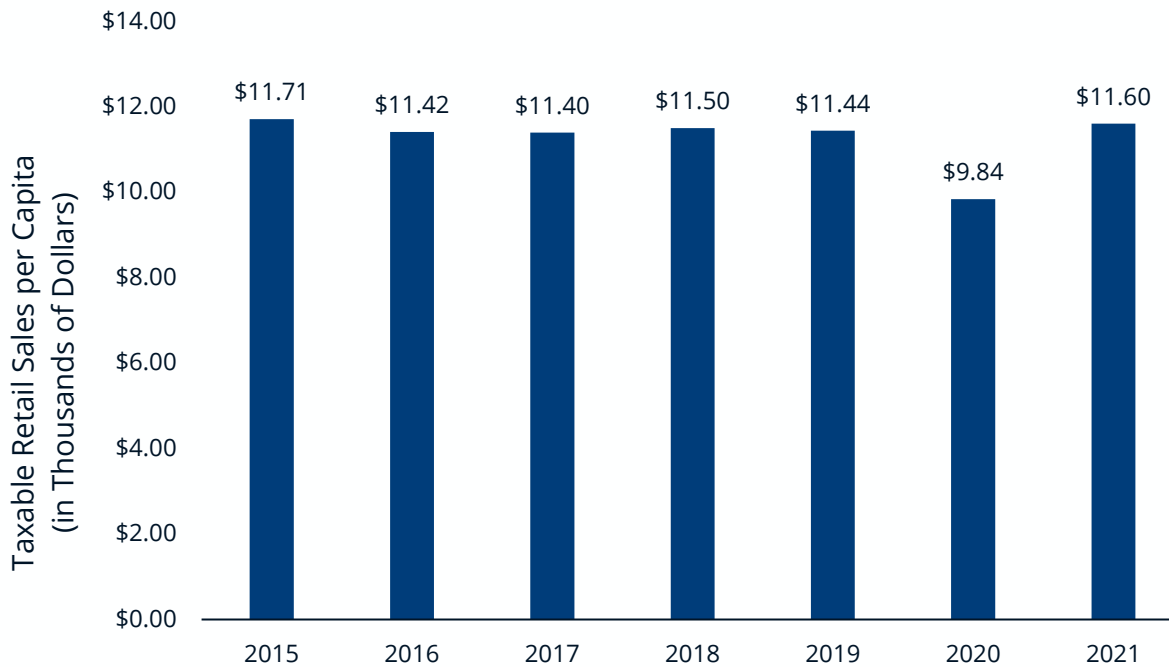
**Trends in Chula Vista’s taxable retail sales are relatively stagnant, as online retail sales continue to capture share of the retail market.** Taxable retail sales in Chula Vista grew by only approximately four-and-a-half percent between 2015 and 2021 (Figure 11). Growth was stagnant between 2015 and 2019, only growing by approximately one percent before a sharp decline in 2020 due to the COVID-19 pandemic. However, retail sales quickly recovered in 2021 to levels higher than pre-pandemic sales. Taxable retail sales per capita have recovered since the peak of the pandemic with an overall decline since 2015 (Figure 12).

Figure 11: Total Taxable Retail Sales | Chula Vista, 2015-2021 (in Billions of 2022 Dollars)



Source: California Department of Tax and Fee Administration

Figure 12: Taxable Retail Sales per Capita | Chula Vista, 2015-2021 (in Thousands of 2022 Dollars)

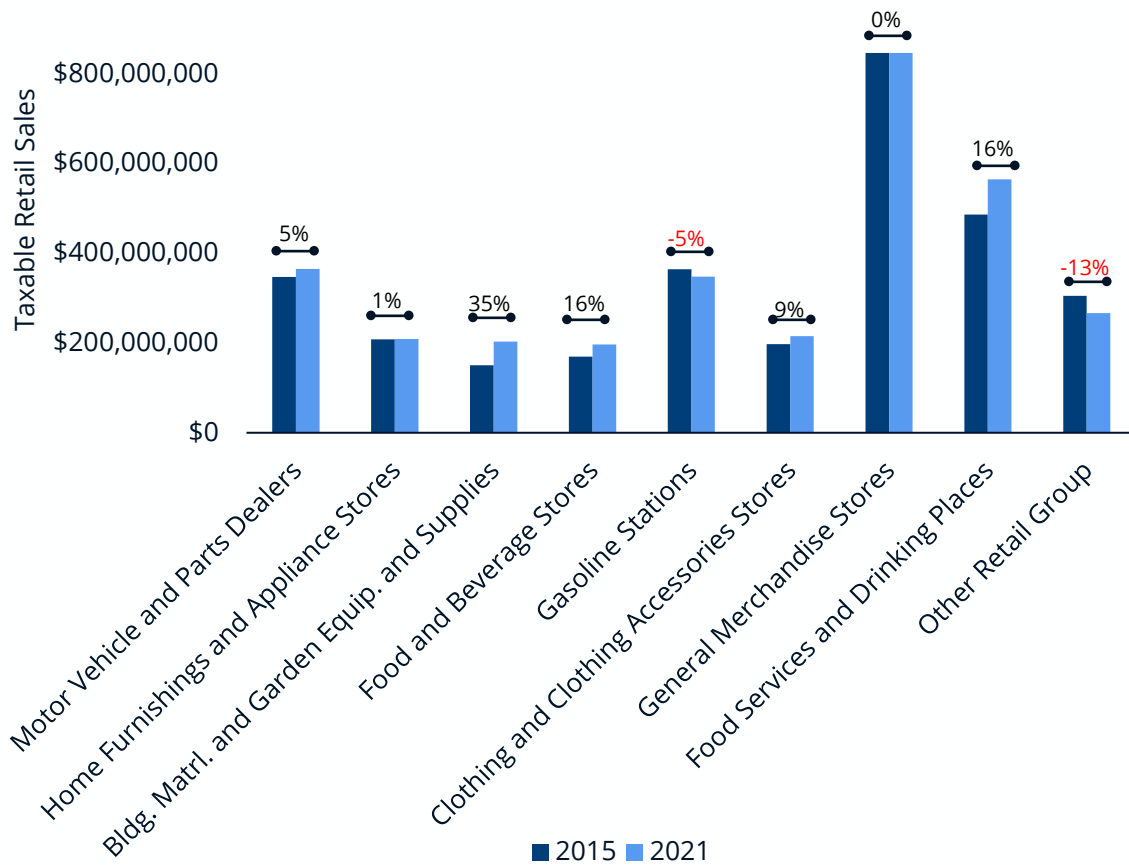


Source: California Department of Tax and Fee Administration



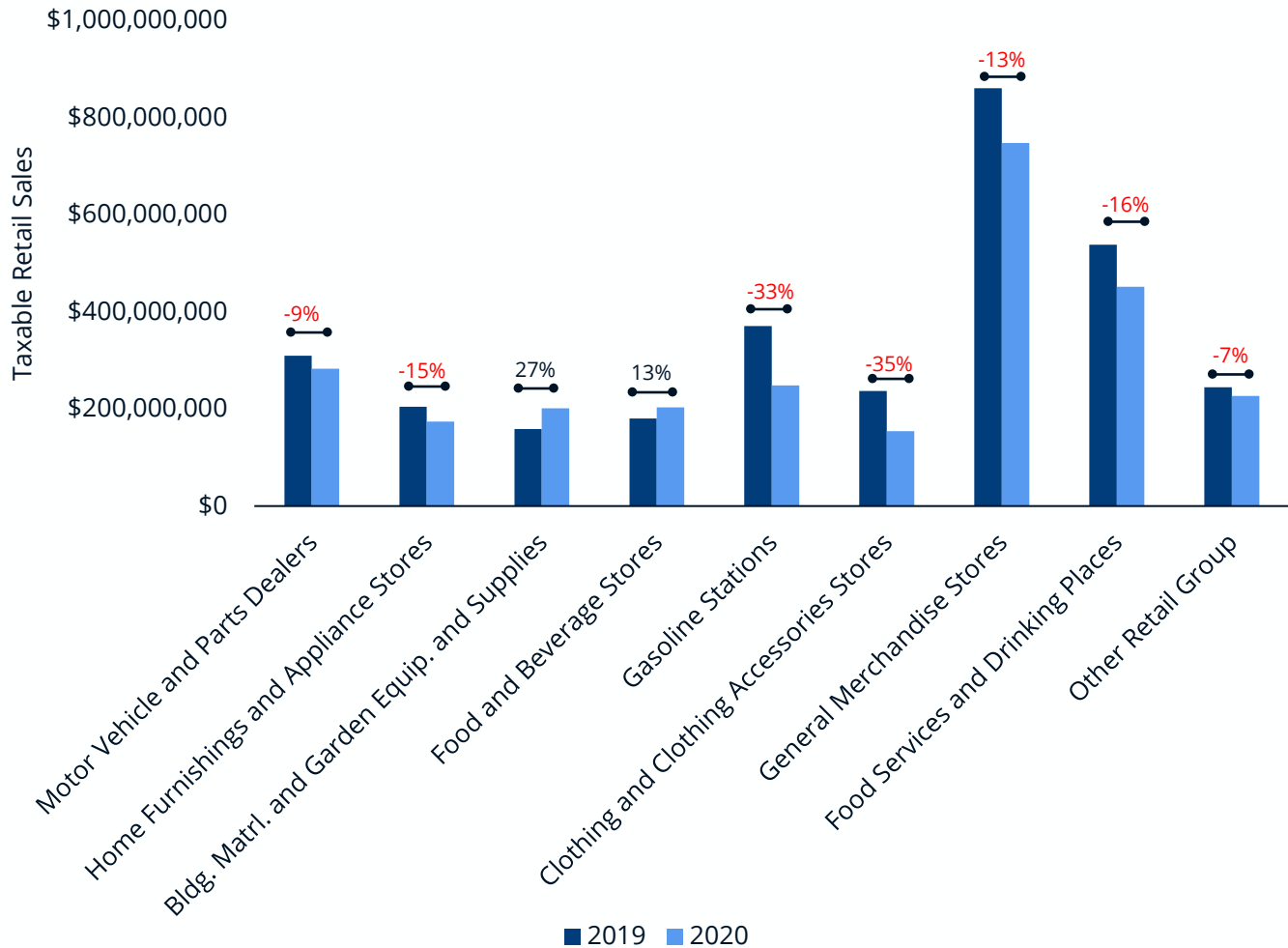
Retail sales in Chula Vista are largely driven by the General Merchandise and Food Services and Drinking Places categories, which account for 26 and 18 percent of total retail sales in the City, respectively, but the retail sales in the General Merchandise category have been stagnant. Sales in the Food Services category have grown by approximately 16 percent since 2015, but sales in General Merchandise (most big-box mall retailers fall in this category) have not grown since 2015 (Figure 13). Clothing and Clothing Accessories Stores, which account for a much smaller share of total sales, have grown by approximately nine percent since 2015, indicating that there may be an opportunity for clothing stores to grow in the City. The Other Retail Group category (which includes retailers such as office supplies, pet supplies, florists, and used merchandise) experienced the largest decline at around 13 percent.

**Figure 13: Taxable Retail Sales by Category | Chula Vista, 2015 and 2021 (in 2022 dollars)**



Source: California Department of Tax and Fee Administration

**Figure 14: Year-Over-Year Change in Retail Sales by Category | Chula Vista, 2019-2020 (in 2022 dollars)**



Source: California Department of Tax and Fee Administration

### Retail Demand Analysis

Retail demand is generated from three categories of shoppers: 1) existing and projected residents within Chula Vista and the larger South Bay region; and 2) non-resident workers who commute into the City during the day; and 3) visitors who cross the U.S.-Mexico border to shop into Chula Vista. These categories represent the shoppers that are likely to comprise the bulk of demand for retail in the City. This analysis evaluates spending patterns for each of the three groups, and estimates retail demand for the Site that is captured from the City of Chula Vista, and the South Bay.

### Retail Demand Methodology

HR&A projected the potential demand for different retail categories in the City of Chula Vista by estimating current spending, less current retail sales in the City. It should be noted that this analysis excludes new and used vehicle sales and gasoline sales because it is unlikely that these retail categories will be considered as a future retail use for Otay Ranch Town Center and is considered a different type of retail than traditional brick-and-mortar shops and restaurants.

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Current household spending is generated from Claritas, a firm with a robust database of consumer research, which is sorted into different retail categories that comprise the retail trade sectors determined by the North American Industry Classification System (NAICS). Our analysis evaluates spending for the City of Chula Vista, the primary market, and the South Bay, secondary market (which is exclusive of the spending in Chula Vista). Current spending is applied to household growth projections from SANDAG to estimated future household spending<sup>3</sup>.

Non-resident worker spending is estimated from the International Council of Shopping Centers (ICSC). The ICSC is a global trade association that publishes information related to ongoing trends regarding shopping centers. Spending is estimated per worker, which is applied to non-resident current and projected worker<sup>4</sup> in Chula Vista.

Finally, cross-border visitors<sup>5</sup> and their spending habits are based on estimates from SANDAG and the United States Department of Transportation. Chula Vista benefits from adjacency to two major border entries into Mexico: San Ysidro and Otay Mesa. Combined, the two crossings had an annual average of more than 38 million personal vehicle passengers prior to the pandemic. An estimated 61 percent of border crossings coming into San Diego County are related to shopping. It is estimated that Chula Vista captures approximately seven percent of those shoppers based on the City's overall share of retail space in the County. Spending habits from SANDAG are aggregated across selected retail categories to estimate total spending from cross-border visitors.

Estimated spending from households, workers, and cross-border visitors is combined for total estimated spending for each geography. By subtracting estimated sales from Claritas estimated spending, the analysis determines if there is an unmet spending or surplus. If the result is a positive number, then there is unmet spending (i.e. potential demand). If the result is a negative number, there is a surplus (i.e. little to no demand). The unmet spending or surplus amount is then divided by average sales per square foot for the selected retail categories to estimate supportable square footage. Projected retail demand from future households is calculated in a similar manner and is added to the current unmet spending to understand Total Project Demand. Finally, the anticipated pipeline of proposed or under construction retail projects are subtracted from the supportable square footage to approximate total demand in Chula Vista and at the Site.

### **Retail Demand in Chula Vista Primary Market**

This analysis shows that there is currently an unmet spending potential of approximately \$397 million in Chula Vista, translating into demand for nearly one million square feet of retail space (Figure 15). Today, there is minimal demand in the General Merchandise and Furniture and Home Furnishings Stores retail categories, due to the large surplus of inventory within each category. Based on projected resident spending (estimated at \$576 million), demand for retail space will grow to approximately two million square feet across Chula Vista over the next 28 years (Figure 16). The retail categories with the largest demand include Grocery, Specialty Food, and Liquor Stores, Restaurants, and Building Materials, Garden Equipment, and Supply Stores. These three categories have experienced the fastest growth in taxable retail sales for the

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<sup>3</sup> Existing households are based on the California Department of Finance and future households are based on projections from the San Diego Association of Governments (SANDAG).

<sup>4</sup> Employment demand includes individuals that do not live in Chula Vista, but commute to work in the City as determined by the Longitudinal Employer-Household Dynamics (LEHD) program.

<sup>5</sup> The analysis evaluates demand from visitors who cross the U.S.-Mexico border to shop in Chula Vista. Cross-border visitors are estimated using data from the United States Department of Transportation and cross border tourism studies.

entire city since 2015, as mentioned previously in the taxable retail sales section of the report. The General Merchandise category has experienced very little growth in taxable retail sales since 2015. While there is minimal demand within the General Merchandise category today, demand in the future is projected to grow to approximately 230,000 square feet across a 28-year period.

Based on the Otay Ranch Town Center’s historic share of sales tax, the analysis estimated the site could capture between five (low) and eight (high) percent of retail demand in the City, especially as eastern Chula Vista continues to grow. While the Otay Ranch Town Center can capture 100,000 to 170,000 square feet of retail across the next 28 years, demand is highest for neighborhood uses such as grocery stores, restaurants and building materials. General merchandise and clothing and clothing accessories have minimal demand across the next 28 years. **The results of the demand analysis as well as trends in this retail category suggest that the retail market would be challenged to support a large-scale department store in the next 10 to 15 years.**

### Retail Demand in the South Bay

The analysis follows the same methodology for calculating retail demand in the South Bay region (Figure 17). The surrounding South Bay market, outside of Chula Vista, is considered the secondary market. After accounting for Chula Vista’s retail demand (approximately 78 percent of all demand in the South Bay) the remaining retail demand in the South Bay is approximately one million square feet, of which it is estimated that the Otay Ranch Town Center could capture an additional 28,000 to 38,000 square feet (Figure 18).

**Figure 15: Estimated Current Retail Demand in Chula Vista**

Retail Category	Current Spending Potential (A)	Current Sales (B)	Current Unmet Spending Potential or Surplus (A-B)
Health & Personal Care Stores	\$271,000,000	\$233,200,000	\$37,800,000
Miscellaneous Store Retailers	\$96,900,000	\$49,400,000	\$47,500,000
Grocery, Specialty Food, and Liquor Stores	\$777,800,000	\$581,400,000	\$196,400,000
General Merchandise	\$490,500,000	\$627,400,000	(\$136,900,000)
Restaurants	\$610,500,000	\$474,200,000	\$136,300,000
Drinking Places - Alcoholic Beverages	\$22,500,000	\$16,600,000	\$5,900,000
Furniture & Home Furnishings Stores	\$87,300,000	\$97,600,000	(\$10,300,000)
Building Materials, Garden Equip. & Supply Stores	\$294,900,000	\$212,300,000	\$82,600,000
Electronics & Appliance Stores	\$43,900,000	\$40,000,000	\$3,900,000
Clothing & Clothing Accessories Stores	\$215,300,000	\$196,000,000	\$19,300,000
Sporting Goods, Hobby, Book & Music Stores	\$45,000,000	\$30,500,000	\$14,500,000
<b>Total</b>	<b>\$2,955,600,000</b>	<b>\$2,558,600,000</b>	<b>\$397,000,000</b>

Source: HR&A

**Figure 16: Chula Vista Estimated Current and Projected Retail Demand and the Otay Ranch Town Center Capture**

Retail Category	Current Unmet Spending Potential or Surplus (A)	Sales PSF	Current Supportable SF (B)	Projected Resident Spending (C)	Sales PSF	Projected Future Supportable SF (D)	Total Projected Supportable SF (B+D)
Health & Personal Care Stores	\$37,800,000	\$830	45,500	\$52,300,000	\$830	63,000	108,500
Miscellaneous Store Retailers	\$47,500,000	\$225	212,800	\$15,900,000	\$225	70,700	283,500
Grocery, Specialty Food, and Liquor Stores	\$196,400,000	\$735	266,400	\$154,800,000	\$735	210,600	477,000
General Merchandise	(\$136,900,000)	\$370	0	\$85,500,000	\$370	231,100	231,100
Restaurants	\$136,300,000	\$755	181,100	\$127,600,000	\$755	169,000	350,100
Drinking Places - Alcoholic Beverages	\$5,900,000	\$640	9,100	\$4,100,000	\$640	6,400	15,500
Furniture & Home Furnishings Stores	(\$10,300,000)	\$315	0	\$16,200,000	\$315	51,400	51,400
Building Materials, Garden Equip. & Supply Stores	\$82,600,000	\$475	174,200	\$70,800,000	\$475	149,100	323,300
Electronics & Appliance Stores	\$3,900,000	\$705	5,500	\$7,400,000	\$705	10,500	16,000
Clothing & Clothing Accessories Stores	\$19,300,000	\$425	45,400	\$32,000,000	\$425	75,300	120,700
Sporting Goods, Hobby, Book & Music Stores	\$14,500,000	\$310	47,000	\$9,500,000	\$310	30,600	77,600
<b>Total</b>	<b>\$397,000,000</b>		<b>987,000</b>	<b>\$576,100,000</b>		<b>1,067,700</b>	<b>2,054,700</b>
<i>Less: Anticipated Pipeline</i>							<i>44,930</i>
<b>Total Supportable Square Footage</b>							<b>2,009,800</b>
<b>Low: 5% Capture at Otay Ranch Town Center</b>							<b>100,500</b>
<b>High: 8% Capture at Otay Ranch Town Center</b>							<b>160,800</b>

Source: HR&A

**Figure 17: Estimated Current Retail Demand in the Secondary Market**

Retail Category	Current Spending Potential (A)	Current Sales (B)	Unmet Spending Potential or Surplus (A-B)
Health & Personal Care Stores	\$196,100,000	\$177,200,000	\$18,900,000
Miscellaneous Store Retailers	\$75,000,000	\$80,000,000	(\$5,000,000)
Grocery, Specialty Food, and Liquor Stores	\$497,500,000	\$683,100,000	(\$185,600,000)
General Merchandise	\$347,100,000	\$683,900,000	(\$336,800,000)
Restaurants	\$412,800,000	\$461,400,000	(\$48,600,000)
Drinking Places - Alcoholic Beverages	\$63,600,000	\$9,100,000	\$54,500,000
Furniture & Home Furnishings Stores	\$46,900,000	\$72,900,000	(\$26,000,000)
Building Materials, Garden Equip. & Supply Stores	\$178,600,000	\$243,700,000	(\$65,100,000)
Electronics & Appliance Stores	\$34,400,000	\$46,300,000	(\$11,900,000)
Clothing & Clothing Accessories Stores	\$154,200,000	\$292,200,000	(\$138,000,000)
Sporting Goods, Hobby, Book & Music Stores	\$71,500,000	\$36,600,000	\$34,900,000
<b>Total</b>	<b>\$2,077,700,000</b>	<b>\$2,786,400,000</b>	<b>(\$708,700,000)</b>

Source: HR&A

**Figure 18: Secondary Market Estimated Current and Projected Retail Demand and the Otay Ranch Town Center Capture**

Retail Category	Current Unmet Spending Potential or Surplus (A)	Sales PSF	Current Supportable SF (B)	Projected Resident Spending (C)	Sales PSF	Projected Future Supportable SF (D)	Total Projected Supportable SF (B+D)
Health & Personal Care Stores	\$18,900,000	\$830	22,900	\$41,900,000	\$830	50,500	73,400
Miscellaneous Store Retailers	(\$5,000,000)	\$225	0	\$12,100,000	\$225	53,800	53,800
Grocery, Specialty Food, and Liquor Stores	(\$185,600,000)	\$735	0	\$123,500,000	\$735	168,000	168,000
General Merchandise	(\$336,800,000)	\$370	0	\$67,500,000	\$370	182,400	182,400
Restaurants	(\$48,600,000)	\$755	0	\$96,000,000	\$755	127,200	127,200
Drinking Places - Alcoholic Beverages	\$54,500,000	\$640	85,200	\$2,900,000	\$640	4,500	89,700
Furniture & Home Furnishings Stores	(\$26,000,000)	\$315	0	\$11,600,000	\$315	36,800	36,800
Building Materials, Garden Equip. & Supply Stores	(\$65,100,000)	\$475	0	\$53,700,000	\$475	113,100	113,100
Electronics & Appliance Stores	(\$11,900,000)	\$705	0	\$5,800,000	\$705	8,200	8,200
Clothing & Clothing Accessories Stores	(\$138,000,000)	\$425	0	\$24,100,000	\$425	56,700	56,700
Sporting Goods, Hobby, Book & Music Stores	\$34,900,000	\$310	112,600	\$7,100,000	\$310	22,900	135,500
<b>Total</b>	<b>(\$708,700,000)</b>		<b>220,700</b>	<b>\$446,200,000</b>		<b>824,100</b>	<b>1,044,800</b>
<i>Less: Anticipated Pipeline</i>							91,900
<b>Total Supportable Square Footage</b>							<b>952,900</b>
<b>Low: 3% Capture at Otay Ranch Town Center</b>							<b>28,600</b>
<b>High: 4% Capture at Otay Ranch Town Center</b>							<b>38,100</b>

Source: HR&A

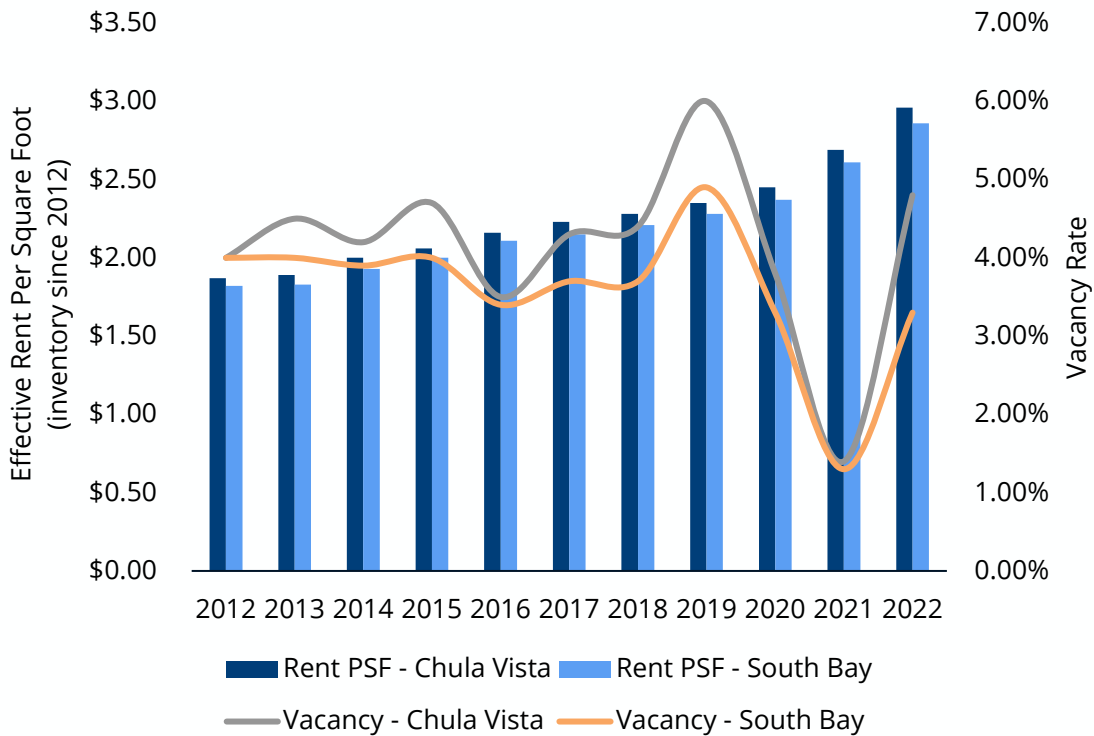
## Residential Market Trends

Brookfield’s proposed rezone would allow up to 840 residential units with the option for ground-floor commercial uses on the Site. This section describes high-level residential market conditions in Chula Vista, and the South Bay, and characterizes the recent residential deliveries in Otay Ranch.

### Multifamily Residential Market

The rental markets in the South Bay have become more competitive in recent years, with effective rents steadily increasing for both geographies (Figure 19). Chula Vista is a higher performing residential market, with consistently higher rents relative to the South Bay. In both geographies, the average per square foot rents grew three percent per year from 2012 to 2020. From 2020 to 2022, rents grew by approximately 10 percent each year.

**Figure 19: Apartment Rents and Vacancy Rates | Chula Vista and the South Bay, 2012-2022**

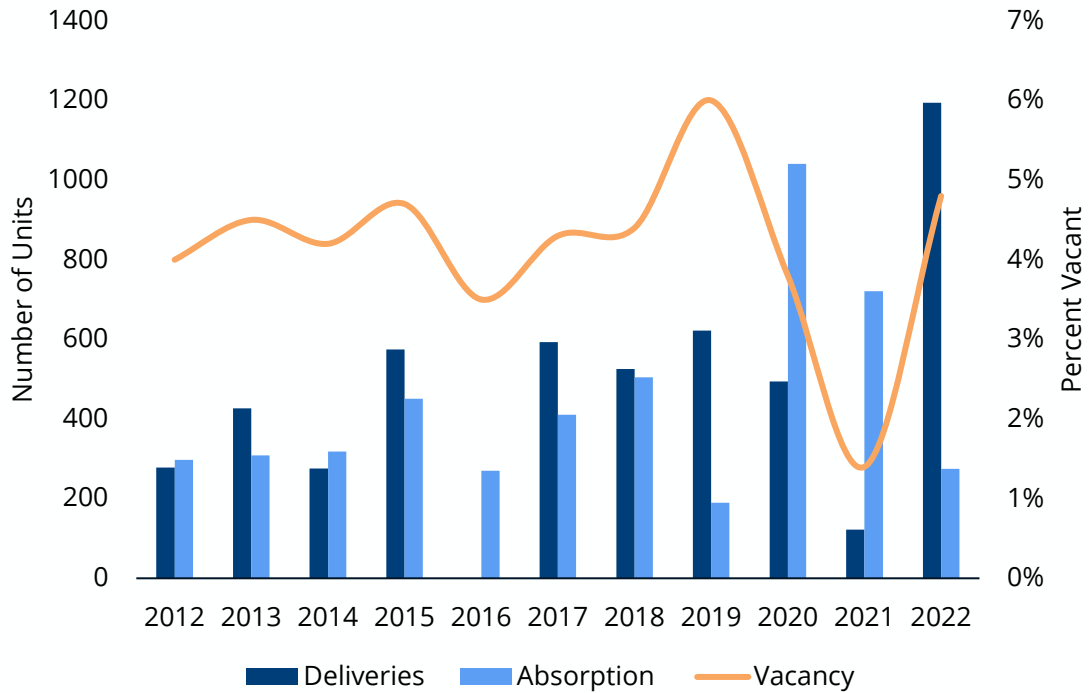


Source: CoStar

Chula Vista is attracting more and more residents, especially in the wake of the COVID-19 pandemic as households seek more suburban residential communities and larger homes. Within the last year, Chula Vista saw 1,194 units delivered, which is the greatest number of annual units delivered in the last 10 years, 572 more units than the second highest annual delivery (Figure 20). With exception to 2016, deliveries and absorption levels stayed relatively close to each other from 2012 to 2018, stabilizing vacancy rates between four and five percent. The lowest vacancy rate over the last 10 years for both Chula Vista and the South Bay was in 2021, due to the low number of deliveries and above average demand for multifamily units as households moved to Chula Vista suburbs during the COVID-19 pandemic (Figure 20, Figure 21). In 2022, vacancy rates climbed back up for both geographies because of developments like Enclave Heritage (Figure 23) and the Avalyn at Millenia, which delivered over 800 units alone.

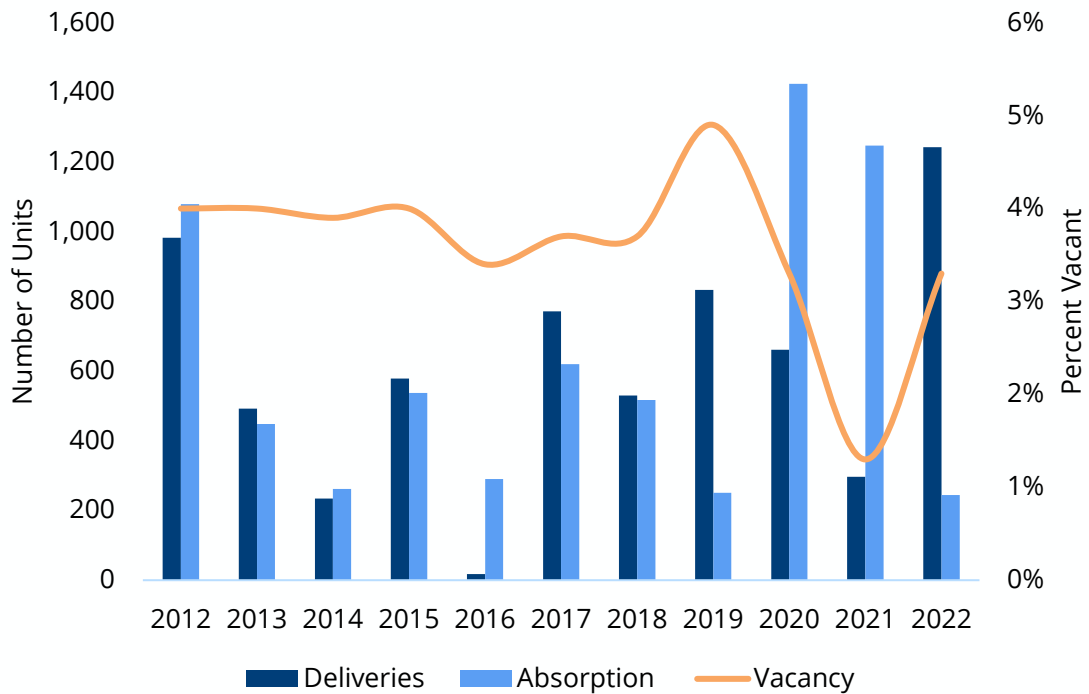


**Figure 20: Apartment Unit Delivery, Absorption, and Vacancy Rates | Chula Vista, 2012-2022**



Source: CoStar

**Figure 21: Apartment Unit Delivery, Absorption, and Vacancy Rates | The South Bay, 2012-2022**



Source: CoStar

On average, newly developed multi-family rental projects in Chula Vista are asking for rents in the range of \$2.74 to \$3.25 per square foot. These projects range from 253 to 480 units, mostly one- and two-bedrooms (Figure 23).

**Figure 22: Recent Rental and For Sale Housing Unit Projects | Chula Vista**



**Figure 23: Recent Rental Housing Unit Projects | Chula Vista**

**Enclave Heritage**



1800 Santa Carolina Rd

- Built in 2022
- 405 units (all three-bedrooms)
- 1,623 average SF per unit
- \$2.74 average rent per SF

**Avalyn at Millenia**



1774 Metro Ave

- Built in 2020
- 297 units (mostly one- and two-bedrooms)
- 1,051 average SF per unit
- \$2.83 average rent SF (\$2.49-\$3.10 per SF)

**The Club at Enclave**



1629 Santa Venetia St

- Built in 2022
- 480 units (mostly one- and two-bedrooms)
- 1,039 average SF per unit
- \$3.07 average rent per SF (\$2.79-\$3.58 per SF)

**The Residences at Cota Vera**



1575 Camino Altezza

- Built in 2020
- 280 units (mostly one- and two-bedrooms)
- 868 average SF per unit
- \$3.52 average rent per SF (\$3.11-\$5.20 per SF)

**Rivue**



1902 Millenia Ave

- Built in 2019
- 253 units (mostly one-bedrooms)
- 998 average SF per unit
- \$3.14 average rent per SF (\$2.40-\$3.13 per SF)

*Source: CoStar*

The for-sale residential market is more competitive in Chula Vista than in the South Bay across the condominium and townhome typologies. Collectively, these units are selling for \$406 per square foot, on average. Comparing the two geographies, the average sale price for owned units in Chula Vista is \$547,400, compared to \$538,600 for the South Bay. Townhomes in Chula Vista and the South Bay region sell for an average of \$577,900 to \$578,300, whereas the range for condominiums is \$520,300 to \$531,100. The higher average sale price for townhomes reflects the fact that townhomes have a larger unit size than condos.

On average, townhomes and condos built in Chula Vista since 2012 sold for approximately \$630,000 in the last two years. 2054 Luzon Lane, built in 2021 as part of the Suwerte community and adjacent to the Site, is currently listed at \$650,000 (Figure 24).

**Figure 24: Recent For-Sale Housing Unit Projects | Chula Vista**

**1921 Plaza Cuarzo**



- Built in 2019
- Sold for \$625,000, \$418 per SF
- Three-bedroom, 1,495 SF

**1923 Corte Zafiro**



- Built in 2019
- Sold for \$630,000, \$365 per SF
- Three-bedroom, 1,724 SF

**2144 Stellar Way**



- Built in 2019
- Sold for \$632,000, \$428 per SF
- Three-bedroom, 1,475 SF

**1405 Santa Victoria Rd**



- Built in 2017
- Sold for \$625,000, \$324 per SF
- Three-bedroom, 1,928 SF

**2054 Luzon Lane**



- Built in 2021
- Listed at \$650,000, \$393 per SF
- Three-bedroom, 1,652 SF

Source: CoStar

**Demand for Multifamily Residential**

This analysis estimates demand for market rate rental and for-sale residential units by estimating the number of income eligible households in Chula Vista and the South Bay. The analysis does not include demand for affordable housing, however there is significant need for subsidized affordable housing and housing options at lower price points. Based on current rents and sale prices, households must make at least \$124,000 per year for renters and \$158,000 per year for owners to afford to live in Chula Vista without being cost burdened.<sup>6</sup> Fifty-five percent of current renter households in Chula Vista are cost burdened.

<sup>6</sup> A household that spends 30 percent or more of their gross income on housing costs is considered cost burdened.

<sup>7</sup> City of Chula Vista, "Active Planning Projects",

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There are two components in estimating multifamily demand: turnover and household growth. Turnover rates estimate the number of current residents that enter the market by looking for a multifamily home within the area, each year. HR&A calculated renter and owner turnover in Chula Vista and the South Bay using geographic mobility data from the 2020 American Community Survey Five-Year Estimates to estimate the number of multifamily households who move annually (approximately nine percent of total households in Chula Vista and 10 percent in the South Bay). From this pool of households looking to rent or purchase a multifamily home, demand is limited to households in age and income groups that prefer and can afford the typical new multifamily product (e.g., apartment, condo, townhome) in the area. Household growth estimates the number of new households that will enter the multifamily housing market over time. HR&A used the State of California Department of Finance household projections and adjusted them to derive income-qualified households in Chula Vista and the South Bay.

Based on this analysis, there is demand for 1,700 market rate multifamily units per year in Chula Vista (

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Figure 25). Over the next 20 years, this demand is projected to grow to 37,300 units. The analysis assumes demand for housing units will grow along with population growth according to the California Department of Finance 2050 population projections.

It is worth noting that out of the nearly 15,000 units in the planning phase or entitled in Chula Vista, nearly 14,000 of those housing units are in Eastern Chula Vista alone<sup>7</sup>. If all of these units were to be built over a 20-year period there would still be unmet demand for over 22,000 units throughout Chula Vista. Despite the significant outstanding amount of entitled units, not all entitled units get built and the phasing of some projects may occur even beyond a 20-year period. The Eastern Area has annually delivered an estimated 600 multi-family units (compared to 640 units in the entire City including Otay Ranch)<sup>8</sup> on average over the last five years, with strong absorption in the last three years, as shown in Figures 20 and 21.

Additionally, while Chula Vista would be on track to meet its 2021-2029 Regional Housing Needs Assessment (RHNA) cycle for 4,667 market rate units if all entitled units are built, the California Department of Housing and Community Development determined that 171,685 units are needed in the San Diego County region between 2021 and 2029<sup>9</sup>. Since 2015, the region produced about 10,000 units per year<sup>10</sup>. If this pattern were to continue until 2029, there would be a deficit of more than 90,000 units that are still needed to meet the region's housing allocation, demonstrating that there is additional demand at the regional housing level.

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<sup>7</sup> City of Chula Vista, "Active Planning Projects",  
<https://www.chulavistaca.gov/departments/development-services/city-projects>

<sup>8</sup> CoStar

<sup>9</sup> SANDAG, "6<sup>th</sup> Cycle Regional Housing Needs Assessment Plan", 2021

<sup>10</sup> Molnar, Phillip. "San Diego County built fewer homes last year. Some cities built hardly anything". *The San Diego Union-Tribune*. March 9, 2023. <https://www.sandiegouniontribune.com/business/story/2023-03-09/san-diego-county-built-fewer-homes-last-year-some-cities-built-hardly-anything#:~:text=San%20Diego%20County%20built%20fewer%20homes%20in%202022%20than%20it,compared%20to%2010%2C163%20in%202021>.

**Figure 25: Multifamily Residential Demand | Chula Vista**

	Rental Unit Demand	For-Sale Unit Demand	Total Demand
Eligible Households*	25,900	15,400	41,300
Renter/Owner Estimate*	40%	60%	48%
Renter/Owner Market (Households)*	10,300	9,400	19,700
Turnover Rate	9%	8%	9%
Annual Demand (Units)	980	750	1,700
Cumulative 5-year Demand	5,000	3,800	8,800
Cumulative 10-year Demand	10,200	7,900	18,100
Cumulative 20-year Demand	21,100	16,200	37,300

\*Note: Eligible households represent the number of potential market-rate renters or homeowners in Chula Vista, The Renter/Owner Market (Households) represents the actual number of renters and homeowners in Chula Vista that would be in demand for market rate rental and for-sale units based on the percentage of eligible households.

*Source: HR&A Analysis of Esri and 2020 American Community Survey Five-Year Estimates*

## Commercial Lands Analysis

Chula Vista’s General Plan, which was adopted in 2005, embraces the City’s growing importance as an employment center in the region. In an effort to be more than a bedroom community, the General Plan calls for an increase in the jobs to housing ratio and attraction of revenue generating land uses (i.e., uses other than residential), which can diversify its economy and support fiscal sustainability. The Plan also describes a vision for Chula Vista in 2030, which includes “vibrant urban areas providing a mixture of commercial; residential; civic; and cultural amenities,” that “add to Chula Vista’s character and secure its standing as the primary hub of the South Bay area.”<sup>11</sup>

### Retail Land Inventory

To achieve its General Plan goals, the City requires sufficient land to accommodate future retail development. HR&A analyzed the inventory of land with retail uses in the City (Figure 26). In Chula Vista, 1,030 acres of land are currently being used for retail land uses. Of the land with retail uses, 746 acres are located on retail-zoned land (Commercial Retail, Commercial Visitor, Mixed Use Commercial, Mixed Use Residential, Mixed Use Transit Focus Area). Two hundred eighty-four (284) acres of retail are located on non-retail zoned land, most of which is located on industrial-zoned parcels (210 acres, see Figure 27). Retail uses are also located on parcels zoned for residential, professional and office commercial, and unzoned land.

**Figure 26: Retail Land Inventory | Chula Vista**

Zoning	Developed Acres	Developed Acres with Retail Land Use	Vacant Acres	Gross Vacant Acres with Future Retail Potential	Net Vacant Acres with Future Retail Potential
<b>Zoned for Retail</b>					
Commercial Retail	505	364	4	4	3
Commercial Visitor	17	9	1	1	1
Mixed Use Commercial	63	33	14	14	11
Mixed Use Residential	1,192	266	94	94	75
Mixed Use Transit Focus Area	156	75	4	4	3
<b>Subtotal</b>	<b>1,934</b>	<b>746</b>	<b>116</b>	<b>116</b>	<b>93</b>
<b>Not Zoned for Retail</b>					
Professional and Office Commercial	177	19	23	3	2
Industrial (Limited and General)	1,101	210	149	28	23
Residential (High, Low-Medium, Medium, Urban Core)*	14,368	35	2,994		
Unzoned	437	20	197	8	7
<b>Subtotal</b>	<b>16,083</b>	<b>284**</b>	<b>3,363</b>	<b>39</b>	<b>31</b>
<b>Total</b>	<b>18,017</b>	<b>1,030</b>	<b>3,479</b>	<b>155</b>	<b>124</b>

\*We assume that retail is not allowed within the residential zoned land.

\*\* Non-retail zoned retail uses are mapped in Figure 27.

*Source: HR&A Analysis of City of Chula Vista Data*

<sup>11</sup> Planning and Building Department, “Chapter 4: Vision and Themes” (City of Chula Vista, 2005), V&T-2

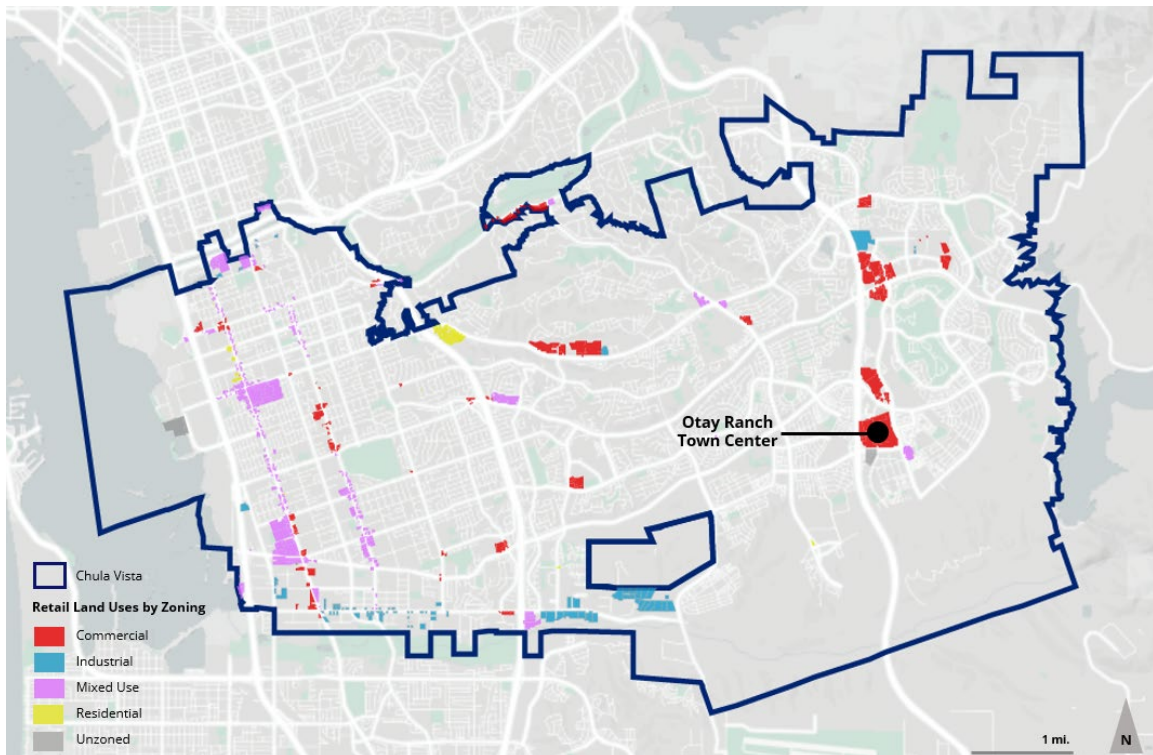


## Land for Future Retail Development

Most future retail development is likely to occur on vacant land zoned for retail uses, but a smaller share of future retail development will continue to be developed on non-retail zoned land. Chula Vista has 3,479 acres of vacant land that could potentially be developed with retail, commercial, industrial, or medium to high density residential uses. Most of this vacant land is zoned for residential in the southeastern portion of the City (Figure 28). There are 116 acres of vacant land zoned to permit retail uses, 94 acres of which are zoned Mixed Use Residential. The analysis also assumes that retail uses will continue to be developed on non-retail-zoned land at the same rate as existing retail uses are located on non-retail-zoned land. For example, 19 percent of developed industrial-zoned land has current retail uses. If 19 percent of vacant industrial land develops to retail uses in the future, 28 acres of vacant industrial land may have the potential to be used for retail. The analysis applied the same methodology to other land that is not explicitly zoned for retail but has current retail uses with exception to land zoned for residential use (where we have assumed that retail will not be allowed), concluding that 39 acres of vacant, non-retail zoned land may be developed with future retail uses. Including vacant retail-zoned land and vacant non-retail-zoned land, 155 acres may be available for future retail uses.

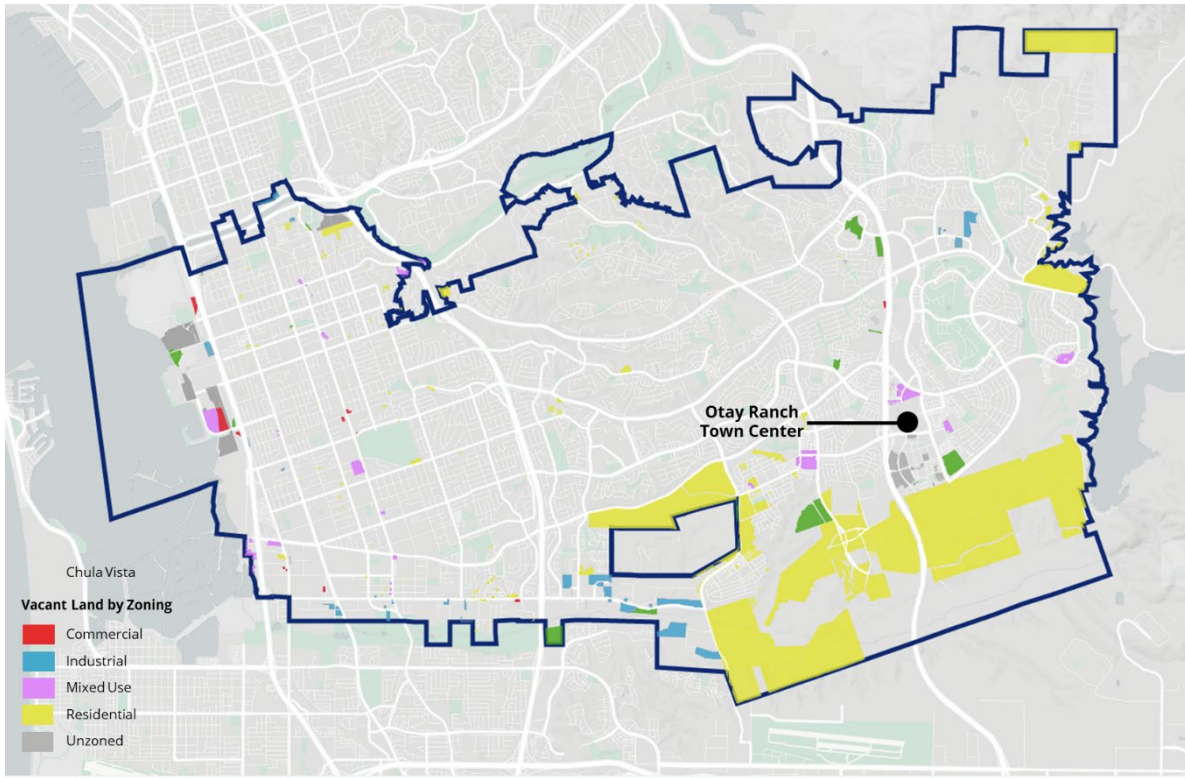
Using the City of Chula Vista's assumption that 20 percent of total land is not developable (e.g. reserved for roads or other infrastructure, or the grade is too steep to accommodate development), "net developable" land is calculated as 80 percent of total land area. **One hundred twenty-four (124) acres of net developable land may be available for future retail uses in Chula Vista.**

Figure 27: Retail Land Uses by Zoning | Chula Vista



Source: City of Chula Vista, Esri, HR&A

Figure 28: Vacant Land | Chula Vista



Source: City of Chula Vista, Esri, HR&A

### Land Available for Future Retail Use Compared to Projected Retail Demand

The Chula Vista General Plan stipulates a range of floor area ratios (“FAR”) of 0.25 to 1.5 for commercial retail, commercial visitor, and mixed-use commercial retail zones. Existing retail space in the City has an average FAR of 0.31<sup>12</sup>. Assuming 124 net acres of land may be available for future retail development and an FAR of 0.35, Chula Vista could accommodate approximately 1,890,500 square feet of new retail development. At the current citywide average FAR, this is slightly less (6 percent) than the total demand for retail in Chula Vista over the next 28 years: 2,009,800 square feet. It should be noted that retail may be developed at a higher intensity in the future and there are also opportunities to increase retail intensity on many current retail sites by adding built area to parking lots.

<sup>12</sup> Current retail FAR is calculated using the current inventory of retail built square feet and retail land area in the City of Chula Vista (CoStar).

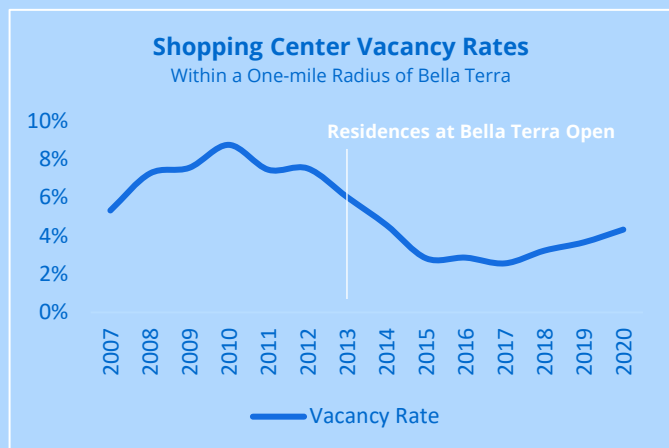
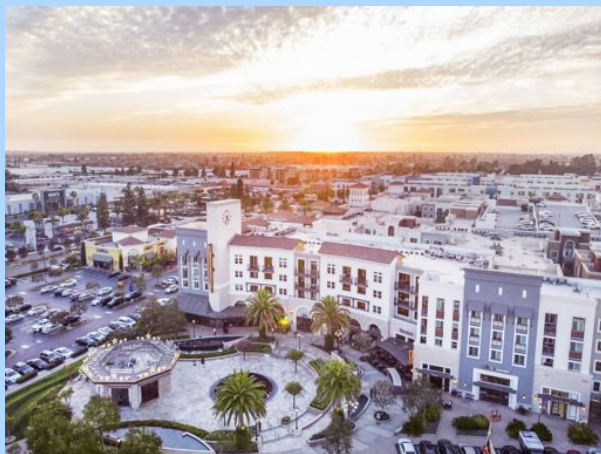
## Case Study #1: Residences at Bella Terra

The Bella Terra shopping center is located in the coastal city of Huntington Beach in Southern California. The 852,000-square-foot regional mall was built on the site of the former Huntington Center, an 840,000 square foot enclosed shopping mall, originally opened in 1966. After years of decline, the mall was rebranded as Bella Terra in 2005 and DJM Capital Partners led a series of improvements to create an outdoor, lifestyle center. Key improvements included a movie theater, new restaurants, and replacing an underutilized amphitheater with a stage, lawn, and beer-and-wine garden. Existing tenants include Kohl's, Whole Foods Market, REI, and World Market, in addition to a Costco located elsewhere on the site.

The Residences at Bella Terra were a key component of revitalizing the shopping center. Built in 2013, the 467-unit development (70 affordable units) is located on the former site of a Montgomery Ward department store that was closed in 2001 and remained vacant until the construction of the apartment building. Since opening, the apartment building has maintained a vacancy rate of about four percent, which is on par for apartment buildings citywide.

The area immediately surrounding Bella Terra has experienced substantial growth in new housing units over the last decade, contributing to the success of the area's shopping centers. An estimated 72 percent of new housing units built in the City have been within a one-mile radius of the shopping center, with the Residences at Bella Terra as one of the largest developments during that time period. Prior to that influx of housing, vacancy rates at all shopping centers within that one-mile radius were estimated at about seven percent. However, since 2014, vacancy rates have declined and ranged between three and four percent for shopping centers, outperforming the rest of the City as well as their nearest competitor, the Westminster Mall, where vacancy rates have been above five percent, revealing a relationship between the addition of housing in proximity to retail destinations.

Furthermore, the City approved a new mixed-use housing development at Bella Terra in 2022 that would include 300 units and 25,000 square feet of ground-floor retail space. Similar to the Residences at Bella Terra, the project would replace a department store in the existing 149,000-square-foot Burlington Coat Factory and is anticipated to be completed by 2026.



## Case Study #2: Palisade UTC

Westfield UTC is a regional shopping mall located in the University City community in the City of San Diego. The nearly two-million-square-foot regional center is strategically located near both Interstate 805 and Interstate 5, the University of California, San Diego, and in proximity to quality jobs and the wealthy communities of LA Jolla and Del Mar. Originally built in 1977 as the University Towne Centre, it has undergone several major renovations over the last decade with an estimated cost of \$600 million. Notable additions have included the addition of AMC Theatres, an expanded 24-Hour Fitness Super Sport Club, a new and expanded Nordstrom, new offices, and a large variety of new restaurants and stores. In addition to Nordstrom, other retailers include Macy's, Louis Vuitton, Michael Kors, and Forever 21. Between 2014 and 2018, tenant sales reportedly grew by 54 percent. The growth in sales was attributed in part to the several renovations that occurred during that time period.

Palisade UTC is a 300-unit, 23-story luxury apartment building (which also includes 30 affordable units), built in 2019 as part of several mall renovations. Palisade UTC was built on a portion of the parking lot near Macy's in the southern portion of the site. Palisade UTC was Westfield's first residential development, a result of an effort by the company to identify several properties across the globe to convert underused space into residential assets. Palisade UTC opened in August 2019, and by December was about 50 percent leased. At the same time, the shopping center was still enjoying a substantial growth in retail sales (nearly 11 percent year-over-year) and a vacancy rate at under five percent.

Today, Palisade UTC has a vacancy rate at about six percent (an estimated 283 units are occupied) while Westfield UTC has a vacancy rate at nearly 11 percent. The high vacancy rate at the regional center is largely due to Nordstrom relocating within the mall in 2018, and the original Nordstrom space remaining vacant. Prior to 2018, the mall had maintained a vacancy rate below one percent. In 2022, Westfield announced plans to demolish the former Nordstrom building.

These series of renovations and expansions have positioned the mall well for the future. While other nearby malls have either permanently closed (Westfield Horton Plaza) or experienced the loss of anchor department stores (Westfield Mission Valley), Westfield UTC has continued to be successful in retaining major tenants and creating new ways to attract people to the mall. The large investments in adding a residential tower, expanding the 24-Hour Fitness, and adding new office space contributed to the strong performance of the mall in the years prior to the pandemic, demonstrating the positive impact that non-retail assets can have on retail centers.



Source: CoStar



Source: Shutterstock