



Otay Ranch Town Center Fiscal Impact Analysis

Prepared by: HR&A Advisors

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HR&A

Executive Summary

Brookfield Properties has retained HR&A Advisors Inc. ("HR&A") to estimate the net annual fiscal impacts of the proposed Freeway Commercial mixed-use amendment ("Project") on the City of Chula Vista's General Fund. The net fiscal impact of the Project was prepared using the City of Chula Vista's existing fiscal impact model, "CV FIA-20 Year Model 2022-07-31 – FY22-23 Update FINAL", ("City Fiscal Impact Model"). This report provides the results and supporting calculation details of the net fiscal impacts of the Project.

Key Findings

HR&A used the City Fiscal Impact Model, detailed in Appendix A, to evaluate the cost and revenue projections in two scenarios across a multi-year period. The Base Scenario analyzes the fiscal impacts of the current entitlement of retail square footage less existing uses that could be absorbed onsite. The Proposed Scenario analyzes the fiscal impacts of the proposed entitlements, which includes the addition of proposed residential units, and the balance of remaining retail square footage.

Currently, there is 670,000 square feet of existing retail space on the greater FC-1 Site and a total entitlement of 960,000 square feet. In the Base Scenario, there are no residential units entitled and there is 290,000 square feet of remaining retail square footage entitled. Based on a retail demand analysis conducted by HR&A as part of the Market and Commercial Lands Analysis Report, only 167,000 square feet of retail square footage could be absorbed over 20 years at the site (see Figure 5). For the Base Scenario, this analysis evaluated the net fiscal impacts of 167,000 square feet of retail.

The entitlement for the Proposed Scenario includes 840 residential units and a reduction in retail square footage to 816,000 square feet. It is assumed that the remaining 146,000 square feet of entitled retail would be absorbed over 20 years.

The difference between the annual net fiscal impacts of the Base and Proposed Scenarios is the total annual net fiscal impact of the Project (Figure 1). Year 5 is the first year the retail square footage could be absorbed in the Base and Proposed Scenarios. The Project has a positive annual net fiscal impact across the 20-year period, with an annual net fiscal impact of \$137,628 in Year 20, which is when the Proposed Scenario would be fully built out.

Figure 1: Net Fiscal Impact of Freeway Commercial Amendment - Select Annual Results

Fiscal Impacts	Year 5	Year 10	Year 15	Year 20
Base Scenario Annual Fiscal Impacts	\$27,119	\$125,426	\$124,858	\$169,872
Proposed Scenario Annual Fiscal Impacts	\$261,336	\$292,486	\$298,415	\$307,500
Net Annual Fiscal Impact (Delta of Base and Proposed)	\$234,217	\$167,062	\$173,557	\$137,628

Source: HR&A, City of Chula Vista

Introduction

The Otay Ranch Town Center is a 670,000 square foot, 86-acre regional lifestyle center. The retail center is located on the FC-1 Site, part of the Freeway Commercial Sectional Planning Area ("SPA"), in the eastern portion of the City of Chula Vista ("City") (Figure 2). 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.

Figure 2: Otay Ranch Town Center Local Context



Source: Esri, HR&A

Existing Entitlements and Proposed Amendment

Currently, the FC-1 Site is entitled for 960,000 square feet of retail uses. The proposed land use amendment would include up to 840 residential units and 816,000 square feet of retail uses (Figure 3). This analysis evaluates the net fiscal impacts of the remaining FC-1 Site entitlement, which does not include existing retail on the Site, (Base Scenario) relative to the proposed amendment (Proposed Scenario). The analysis is focused on the 16.40 acre Study Area shown in Figure 2.

Figure 3: Existing Land Use Entitlements and Entitlements under the Proposed Amendment

	Base Scenario		Proposed Scenario	
	Total Entitlement	Remaining Entitlement (Total less Existing)	Total Entitlement	Remaining Entitlement (Total less Existing)
Rental Housing Units	0 Units	0 Units	840 Units	840 Units
Commercial Retail	960,000 SF	290,000 SF	816,000 SF	146,000 SF

Source: Brookfield Properties

Projected Absorption Schedule

HR&A developed a 20-year absorption schedule for the Base and Proposed Scenarios based on the residential and retail demand analysis conducted by HR&A in December 2022 as part of the Otay Ranch Town Center Market and Commercial Lands Analysis ("Market and Commercial Lands Analysis").

Rental Housing Absorption

The rental housing absorption schedule is based on an apartment demand analysis conducted as part of the Market and Commercial Lands Analysis. The analysis found that there is demand for approximately 1,000 rental housing units in Chula Vista per year. HR&A assumes the FC-1 Site would capture 30 percent of rental housing demand in the City, and can therefore support 300 units per year. This assumption is based on the annual apartment deliveries in Otay Ranch and Chula Vista. According to Costar, approximately 640 apartments have been delivered annually in the City over the last 5 years, with approximately 600 of those deliveries in Otay Ranch. Furthermore, approximately 30 percent were in the immediate vicinity of the Site, which is the basis for the project site's capture rate.

The analysis assumes that development would not start for 3 years, beginning with 300 units in Year 3 and Year 4, followed by 240 units in Year 5.

Figure 4: Rental Housing Absorption Assumptions

Demand for Rental Housing Units, Chula Vista	1,000 Units
FC-1 Site Capture Rate	30%
Annual Absorption of Multifamily Units	300 Units

Source: HR&A Residential Demand Analysis as part of the Market and Commercial Land Analysis Report, 2023.

Retail Absorption

The retail absorption schedule is based on a retail demand analysis conducted as part of the Market and Commercial Lands Analysis. The demand analysis projected the potential demand for different retail categories across 28 years in the City of Chula Vista and for the FC-1 Site by estimating (1) current spending, less current retail sales in the City and (2) spending by projected new residents across the next 20 years. Based on this analysis, it is estimated that the total retail supportable at the site is 198,900 square feet over the next 28 years; approximately 85,290 square feet of that total is supportable today, with the balance of approximately 114,000 spread across the next 28 years, or approximately 4,100 square feet per year (Figure 5) While the current entitlement allows for an additional 290,000 square feet of retail square footage, it is assumed that the site would not be able to absorb that square footage over 20 years. HR&A assumed that retail would not be built on the site until Year 5 and Year 6, with the remaining retail square footage absorbed, in average building sizes of at least 40,000 SF, in Year 10 and Year 20.

Based on the retail demand analysis, the maximum buildout for the Base Scenario would take more than 20 years to be fully built out, whereas the Proposed Scenario, which has a smaller retail component, is supportable within 20 years (Figure 6). The retail demand identifies maximum supportable retail at 167,000 SF across 20 years.

Figure 5: Calculation of Projected Retail Absorption

Onsite Retail Demand from Chula Vista (2022-2050)	160,800 square feet
Onsite Retail Demand from Secondary Market (2022-2050)	<u>38,100 square feet</u>
Total Retail Supportable Onsite based on Demand Model	198,900 square feet
<u>Estimated Phasing</u>	
Immediate Absorption based on support from Current Unmet Demand	85,000 square feet
Remaining Retail Demand over 28 Years	114,000 square feet
<i>Annual Retail Absorption (114,000 sf/ 28 years)</i>	<i>4,100 square feet</i>
Assumed Retail Absorption over Project Buildout (20 years)	82,000 square feet
Cumulative Absorption (Immediate + 20 Year Buildout) Based on Demand	167,000 square feet

Figure 6 : Projected Absorption Schedule

Year	1	2	3	4	5	6	7	8	9	10
Base Scenario										
Rental Units Delivered	0	0	0	0	0	0	0	0	0	0
Rental Units (Cumulative)	0	0	0	0	0	0	0	0	0	0
Retail SF Delivered	0	0	0	0	40,000	45,000	0	0	0	41,000
Retail SF (Cumulative)	0	0	0	0	40,000	85,000	85,000	85,000	85,000	126,000
Proposed Scenario										
Rental Units Delivered	0	0	300	300	240	0	0	0	0	0
Rental Units (Cumulative)	0	0	300	600	840	840	840	840	840	840
Retail SF Delivered	0	0	0	0	40,000	45,000	0	0	0	41,000
Retail SF (Cumulative)	0	0	0	0	40,000	85,000	85,000	85,000	85,000	126,000

Year	11	12	13	14	15	16	17	18	19	20
Base Scenario										
Rental Units Delivered	0	0	0	0	0	0	0	0	0	0
Rental Units (Cumulative)	0	0	0	0	0	0	0	0	0	0
Retail SF Delivered	0	0	0	0	0	0	0	0	0	41,000
Retail SF (Cumulative)	126,000	126,000	126,000	126,000	126,000	126,000	126,000	126,000	126,000	167,000
Proposed Scenario										
Rental Units Delivered	0	0	0	0	0	0	0	0	0	0
Rental Units (Cumulative)	840	840	840	840	840	840	840	840	840	840
Retail SF Delivered	0	0	0	0	0	0	0	0	0	20,000
Retail SF (Cumulative)	126,000	126,000	126,000	126,000	126,000	126,000	126,000	126,000	126,000	146,000

Source: HR&A, Brookfield Properties

Methodology

This analysis uses the City Fiscal Impact Model to evaluate the net fiscal impacts to the City from the Proposed Scenario. To calculate the net fiscal impact of the Project, HR&A developed a set of inputs to the model and compared the net fiscal impacts of the Proposed Scenario to the net fiscal impacts of the Base Scenario. For this analysis, HR&A only analyzed fiscal impacts of the remaining entitlement, i.e. the amount of entitled space that has not yet been developed, on the 16.40 acre Study Area.

Using the City Fiscal Impact Model, HR&A evaluated the City tax revenues and service costs associated with the Base and Proposed Scenario, across a multi-year period. Updated capitalized value, land assessed value, sales per square feet, and absorption estimates were used to identify project revenues, including property taxes, VLF-In Lieu fees, sales taxes, and licenses and permits, using the model. The City Fiscal Impact Model was also used to estimate fiscal expenditures generated by residential and retail components of the Project.

HR&A used the key assumptions of the City Fiscal Impact Model, but a few adjustments were necessary, including the use of capitalized value and adjustments to sales taxes, based on the conceptual nature of the land use program and the mixed-use nature of the Proposed Scenario.

Capitalized Value and Property Taxes

HR&A used a capitalized value approach to calculate the value of new rental housing units and retail buildings. Capitalized value of the projects, less the assessed land value, is used as a proxy for constructed assessed value. These values were used to estimate property taxes and MVLF in-lieu fees.

Residential and Retail Capitalized Value

The capitalized value for the retail and residential portions of the project is calculated based on the potential new development in the Base and Proposed Scenarios (Figure 7 and Figure 8). Key assumptions for this analysis include potential rents, average square feet per unit, occupancy rates, operating expenses, and a capitalization rate. These values were gathered using CoStar from recent comparable properties in Otay Ranch such as Avalyn at Millenia (1774 Metro Avenue), The Club at Enclave (1629 Santa Venetia Street), and Rivue (1902 Millenia Avenue)¹.

Figure 7: Capitalized Value - Base Scenario

Base Scenario (Retail)	
Gross SF	167,000
Monthly Rent/SF	\$2.00
Annual Rent per SF	\$24.00
Occupancy	95%
Effective Gross income	\$3,807,600
Less: OpEx	(\$190,380)
NOI	\$3,617,220
Cap Rate	6.00%
Capitalized Value	\$60,287,000

Source: HR&A, CoStar

¹ See the December 2022 Otay Ranch Town Center Market and Commercial Lands Analysis for more information on each comparable property.

Figure 8: Capitalized Value - Proposed Scenario

Proposed Scenario (Residential)		Proposed Scenario (Retail)	
Number of Units	840	Gross SF	146,000
Monthly Rent/SF	\$3.00	Monthly Rent/SF	\$2.00
Annual Rent per SF	\$36.00	Annual Rent per SF	\$24.00
Occupancy	95%	Occupancy	95%
Effective Gross income	\$30,164,400	Effective Gross income	\$3,328,800
Less: OpEx	<u>(\$10,557,540)</u>	Less: OpEx	<u>(\$166,440)</u>
NOI	\$19,606,860	NOI	\$3,162,360
Cap Rate	4.00%	Cap Rate	6.00%
Capitalized Value	\$491,171,500	Capitalized Value	\$52,706,000

Source: HR&A, CoStar

Current Assessed Value of Proposed Project

The current assessed land value for the entire FC-1 Site is approximately \$41,341,000 based on the 2022 assessed value as prepared by the San Diego County Assessor’s Office and Recorder/County Clerk’s Office. The Study Area’s land value is estimated based on the proportion it makes up of the FC-1 Site. Comprising approximately 19.1 percent of the entire site, the Study’s Area’s estimated land value is approximately \$7,894,000.

Sales and Use Tax

Sales and use tax inputs include the anticipated gross leasable area, occupancy rate, and sales per square foot. The annual sales and use taxes to the City are calculated based on the sales per square foot of the occupiable leasable area and the total sales and use tax per capita. The estimated sales per square foot for the occupiable leasable area is based on the performance of the Otay Ranch Town Center prior to the COVID-19 pandemic².

Onsite Sales Tax Adjustment

In the City Fiscal Impact Model, sales and use tax is calculated per capita as well as per square foot for the retail portion, without accounting for on-site spending by the new households at the new retail buildings. HR&A adjusted the model to only account for offsite resident spending.

HR&A used market rents to estimate a conservative average household income³. HR&A used a series of assumptions for the percentage of household spending that is taxable and consumer spending that were used in a previous version of the City of Chula Vista’s fiscal model. This previous model estimated how much spending occurred by type of center. Using these assumptions, HR&A conservatively removed the full regional spending estimate of 10 percent for these onsite residents.

Using these assumptions, the City would generate approximately \$177 per household annually in sales tax revenue from new residents. Excluding all regional shopping center spending (which would include spending at Otay Ranch Town Center) the offsite sales tax revenue is estimated at approximately \$160 per household (Figure 9).

² Otay Ranch Town Center performance was provided by the City of Chula Vista.

³ An average unit size of 1,050 square feet was used to calculate market rents.

Figure 9: Estimated Household Spending

Estimated Household Spending Onsite	
Estimated Household Income	\$94,500
Expenditures	73%
Percent Taxable	32%
Capture in City of Chula Vista	80%
Total Taxable Income	\$17,660
Estimated Sales to City of Chula Vista	1%
Estimated Annual Sales Tax Revenue to City per Household	\$177
Estimated Allocation of Sales to Regional Shopping Center (Onsite)	10%
Estimated Annual Sales Tax Revenue to City per Household (Adjusted)	\$160

Source: HR&A, CoStar, Previous City of Chula Vista Fiscal Model

Fiscal Impacts

The following section describes the estimated fiscal impacts of the Base Scenario and Proposed Scenario (Figure 10). Results are reported for a 20-year period.

The annual net fiscal impact associated with the Project over the 20-year period is summarized in Figure 11. The Project is expected to generate a net fiscal revenue to the City of Chula Vista beginning in Year 3, when the apartments begin to be absorbed. In Year 20, the Project is expected to have a net fiscal impact of \$138,000.

Project revenues over the 20-year period are detailed in Figures 1A and 1B in the Appendix. Annual projected revenues associated with the Project increase each year over the 20-year period. The largest increase occurs between Years 4 and 5 (\$622,329) when the rest of the residential units are absorbed. The largest sources of revenues throughout the 20-year period are from property taxes and VLF in-lieu fees.

Project expenditures over the five-year period are also detailed in Figures 1A and 1B. Annual projected expenditures associated with the Project increase each over the 20-year period. The largest increase occurs between Years 4 and 5 (\$526,330) when the rest of the units are absorbed. The largest sources of expenditures throughout the 20-year period are from Police and Fire Services.

Figure 9: Net Fiscal Impacts Over 20 Years – Base and Proposed Scenario (Thousands of Dollars)

Year	1	2	3	4	5	6	7	8	9	10
Base Scenario										
General Fund Revenues	\$0	\$0	\$0	\$0	\$139	\$322	\$329	\$336	\$342	\$527
General Fund Expenditures	\$0	\$0	\$0	\$0	(\$112)	(\$244)	(\$250)	(\$257)	(\$264)	(\$402)
Net Revenues/ Shortfall	\$0	\$0	\$0	\$0	\$27	\$78	\$78	\$78	\$78	\$125
Proposed Scenario										
General Fund Revenues	\$0	\$0	\$523	\$1,081	\$1,703	\$1,911	\$1,943	\$1,975	\$2,008	\$2,219
General Fund Expenditures	\$0	\$0	(\$443)	(\$916)	(\$1,442)	(\$1,622)	(\$1,658)	(\$1,699)	(\$1,737)	(\$1,927)
Net Revenues/ Shortfall	\$0	\$0	\$79	\$165	\$261	\$290	\$285	\$276	\$270	\$292
Net Fiscal Impacts	\$0	\$0	\$79	\$165	\$234	\$211	\$206	\$198	\$192	\$167

Year	11	12	13	14	15	16	17	18	19	20
Base Scenario										
General Fund Revenues	\$538	\$548	\$559	\$571	\$582	\$594	\$606	\$618	\$630	\$860
General Fund Expenditures	(\$412)	(\$423)	(\$434)	(\$445)	(\$457)	(\$469)	(\$482)	(\$494)	(\$507)	(\$690)
Net Revenues/ Shortfall	\$126	\$125	\$125	\$125	\$125	\$124	\$124	\$124	\$123	\$170
Proposed Scenario										
General Fund Revenues	\$2,267	\$2,315	\$2,364	\$2,414	\$2,466	\$2,518	\$2,572	\$2,627	\$2,683	\$2,846
General Fund Expenditures	(\$1,972)	(\$2,019)	(\$2,067)	(\$2,117)	(\$2,167)	(\$2,220)	(\$2,273)	(\$2,328)	(\$2,385)	(\$2,539)
Net Revenues/ Shortfall	\$295	\$296	\$297	\$298	\$298	\$299	\$299	\$299	\$299	\$307
Net Fiscal Impacts	\$169	\$170	\$172	\$173	\$174	\$174	\$175	\$175	\$176	\$138

Source: HR&A, City of Chula Vista