MARKET STUDY
Palomar Gateway District
Chula Vista, CA

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Prepared for:
City of Chula Vista

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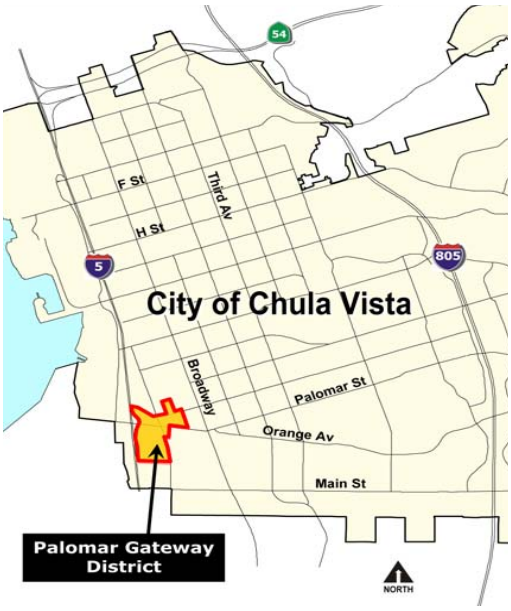
I. INTRODUCTION

Gafcon, Inc. (Gafcon) was selected by the City of Chula Vista to prepare a Market Study that will assist in the preparation and adoption of a Specific Plan for the area in Southwest Chula Vista known as the Palomar Gateway District. The primary goal of the Palomar Gateway District Specific Plan is to implement the General Plan Smart Growth vision for a higher-density residential, pedestrian and transit-oriented development with a mix of shops and office near a transit station. The Specific Plan is intended to enable development to occur in a cohesive manner with appropriate scale, density, urban design, infrastructure, and reflect the community's vision as a unique place. The potential for the Palomar Gateway District to evolve from a relatively low-density auto-focused interchange into a higher density (20 – 40 dwelling units per acre) transit oriented community has been recognized both by SANDAG's Smart Growth Concept Map, which designated the Palomar Gateway District as a "Community Center", and by Chula Vista's 2005 General Plan, which calls for the district to be developed as a Transit Focus Area.

The purpose of this study is to determine whether the vision to be adopted in the Specific Plan is compatible with the area's current and future market demands. This study also identifies strategies to promote market investment into transit-oriented land uses within the Palomar Gateway District. To evaluate these opportunities, the following approach was taken as part of this study:



- Meet with City staff, review existing studies, and conduct site reconnaissance.
- Analyze existing market conditions to identify feasible market opportunities.
- Interview area stakeholders to identify area's opportunities and constraints.
- Forecast near and long-term demand potential for key land uses.
- Evaluate existing policy and identify strategies to promote the development of key land uses.

II. STAKEHOLDER INTERVIEWS

As part of this study, Gafcon conducted interviews with San Diego and local area real estate professionals to help provide a deepened understanding of the Palomar Gateway District's opportunities and strengths. Industry experts interviewed included: Area Brokers; Developers/Property Owners; Investors; Real Estate Debt Placement Professionals; and Planners/Designers.

Qualitative interviews were conducted based on an informal conversational interview approach and were conducted by phone and in person. Interviewees were generally asked questions related to the feasibility of implementing the vision of the Palomar Gateway District as a Transit Focus Area. In order to help illicit honest responses, interviewees were informed prior to the interview that their responses would be kept confidential and were intended to only help provide depth to the analysis conducted as part of this study.

Interviews conducted as part of this study were limited and informal and are not intended to generate measurable data and findings generally provided in a comprehensive market survey with a deep survey population.

The following list summarizes general thoughts shared by interviewees as part of the study's interviews:

- Streets in District area provide high traffic counts for retail.
- Chula Vista's office market is struggling.
- Mixed-use around Trolley Station ties in with rail line access and growing TOD trends.
- Chula Vista Bayfront represents an exciting opportunity for the City. Bayfront represents a more attractive area for office and residential.
- Some mixed-use projects in the City have struggled from a retail perspective.
- Sufficient parking must be provided as part of any mixed-use retail. Parking allowances probably shouldn't be provided because of TOD/mixed-use land use. Most retail business will be driven from auto trips.
- Most major retailers have parking requirements that mandate traditional parking ratios.
- District will remain auto focused due to area's big box retailers and traffic.
- The City is difficult to work with for developers.
- Retail/office space as part of mixed-use development shouldn't be required.
- Negative/low price perception of District from residential market perspective.
- Development costs for mixed-use project/parking may be too high for area pricing.
- Second floor office space above retail as part of a mixed-use project doesn't work.
- TOD improvements should not inhibit access to existing retailers.

III. OVERVIEW OF PALOMAR GATEWAY DISTRICT

The Palomar Gateway District is located at the interchange of Palomar Street and the Interstate 5 freeway. The Palomar Gateway District consists of an area of approximately 100-acres that is considered the major southern gateway to the City of Chula Vista for visitors entering both from the freeway and from the blue line trolley. The district radiates from the Palomar Transit Station at the intersection of Palomar Street and Industrial Boulevard, with a mix of light industrial, retail and single/multi-family housing extending north and south of Palomar St. and Industrial Blvd.

Existing residential development in the area generally contains densities ranging from about 5 to 20 dwelling units per acre with the residential area largely concentrated south of Palomar St. Several residential lots in this area are large, roughly 1.0-acre, with varying intensities of development. Several lots have been redeveloped over time to provide multiple single-family homes or multi-family projects. This area south of Palomar St. also contains a small amount of commercial and industrial use at the south end of the District.

The northwest corner of the District, north of Palomar St., contains a mix of residential, industrial, commercial, and a Motel. The northeast corner of Industrial Blvd. and Palomar St. contains a commercial property that contains several warehouse buildings that provide commercial and light industrial uses. The District also contains a recently completed park at the north end of the District, north of Oxford St.

Directly adjacent to the Palomar Gateway District to the east is a major concentration of retailers that provide a significant draw to the Palomar Gateway District area. The retailers are primarily concentrated in the Palomar St./Broadway intersection area. Major big box retailers in this area include: Costco; Target; and Wal-Mart.

IV. EXISTING MARKET CONDITIONS

U.S. Market

After enduring a severe recession and financial crisis in 2008 and early 2009, the U.S. economy appears to be showing signs of regained strength. 2010 should mark the year where frozen credit markets began to thaw, consumers shopped again, job losses slowed, and the overall economy, as measured by Gross Domestic Product (GDP) transitioned to positive growth.

Although signs of improvement have emerged, one can still easily point to clouds of concern that hang over our economy. One of the biggest areas of concern is anemic job growth. Damaged by a deep recession in 2008 and early 2009, the U.S. economy lost about 8.4 million jobs through the end of 2009, leaving one in ten workers unemployed and looking for new work. Although it appears job losses peaked in 2009 and reversed the trend in 2010, unemployment levels are still currently close to 10 percent and we have still not seen broad based hiring on a significant level. Nonetheless, employers are expected to take on more employees as the economy continues a mild recovery in 2011.

Today's housing sector represents both a threat and opportunity for our economy. To add some perspective on how quickly and dramatically the housing landscape changed, we can look to housing starts. In 2005, new housing starts peaked in the U.S. at 2.1 million units, the highest level since 1972. However, with the recent housing crash came a decline in housing starts to 554,000 units in 2009, the lowest level seen since 1959, when this recorded data began. In part due to low interest rates and homebuyers incentives, housing starts have reversed the recent trend of decline toward a trend of moderate growth. This trend is expected to continue in tandem with a slowly improving U.S. economy; however, mortgage defaults, available credit, reduced homebuyer incentives, and limited job growth will continue to be weights for a housing sector pushing up from its bottom.

With an improved job front, pent up consumer demand, and a robust stock market, Consumer spending should increase about 3.0 percent in 2011. Similarly, housing prices should also improve in 2011. Overall, the U.S. economy is expected to grow about 3.0 percent in 2011.

California Market

In line with the U.S. economy, California's economy is also slowly beginning to recover from 2009 lows. Although a modest recovery emerged in 2010, the damage caused by the significant recession has left deep wounds that will take a number of years to heal. Fortunately for California, the process of healing appears under way.

Peaking in July 2007, California's payroll employment peak of 15.2 million jobs rapidly eroded in 2008 and 2009. By December 2009, California payroll employment bottomed out at 13.8 million jobs. Based on this measure, the California state recession lasted 29 months with 1.4 million job losses, or a decrease of 9.2 percent.

While California's economy appears to be pulling out of recessionary lows, the state's economy faces unique challenges. To begin, the state's budget deficit will need to be addressed immediately in a meaningful way. Fortunately 2010 brought improved fiscal revenues, however, the state continues to incur a deficit that will need to be filled with increased tax revenues and or reductions in expenses. Both tactics for dealing with the deficit will be challenging and may have an adverse impact on the state's job picture. Although the employment picture is expected to improve in 2011, unemployment will likely still remain around 10 percent.

Although new home construction recently showed improved signs of life, activity has subsided as federal tax credits have expired. At the moment, the housing market sits in an uncertain position where on one hand, job growth has improved and interest rates remain low, while on the other hand, a potential flood of foreclosures hangs over the market. The expected pickup in jobs and personal income along with continued low interest rates is expected to offset existing negative conditions and create a 2011 market where the median price increases modestly up around 2 to 3 percent.

San Diego Market

Similar to California's economy, San Diego County's construction, real estate, manufacturing, and retail trade sectors all suffered significant employment declines. San Diego is expected to report a net loss in jobs for 2010. Nonfarm employment in San Diego County is likely to fall by 8,700 jobs (-0.7 percent) in 2010 following a 5.3 percent drop in 2009. In 2011, the employment picture is expected to moderately improve with a 1.4 percent increase in nonfarm employment. The County's unemployment rate should average 10.7 percent in 2010 compared with a 9.7 percent average in 2009. For 2011, the unemployment rate is expected to decline to 10.2 percent.

San Diego's housing market is expected to show moderate improvements in 2011. To provide some perspective on recent market shifts, we can look back to 2003 when permitted housing units peaked at 18,314 units. This in large part was driven by the downtown condo development surge. As a comparison, 2009 recorded just 2,989 residential permits while 2010 recorded 3,342 residential permits. 2010's increase above the prior year's permit totals marked a 11.8% year-over-year increase.

Out of the 40 California apartment submarkets evaluated in the 2010 USC Lusk Center Southern California Multifamily Report, only four submarkets showed average rent increases. Of those four positive markets, three were located in San Diego County. Through 2011, the Lusk Center has forecasted stable-to-increasing rents for the rents in Inland Empire and San Diego County.

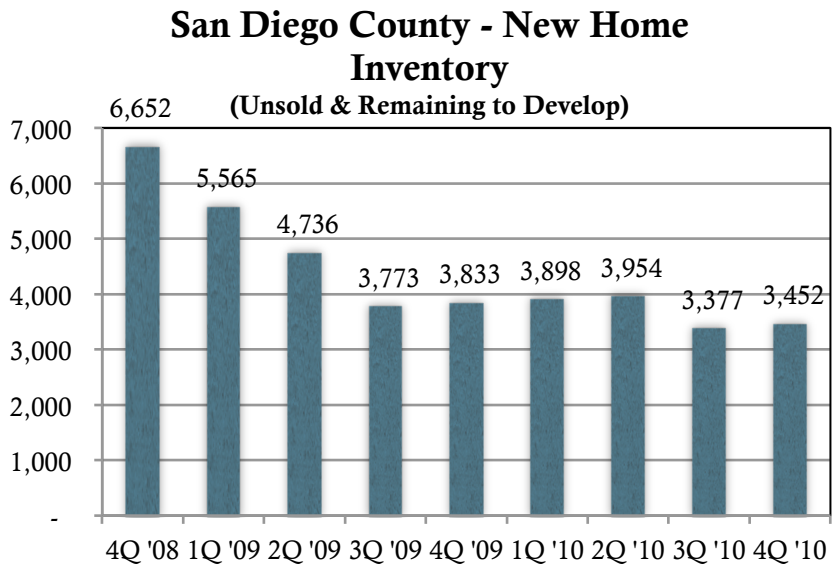
Nonresidential construction continued to decline in 2010, dropping 9.2 percent from 2009 (after falling 45 percent in 2009). Office vacancy continues to be a problem in the office sector, with office vacancies reaching 20.4 percent in the first quarter of 2010 and ended 2010 at 19.4%. The industrial office sector has fared better with a reported 12.5% vacancy rate in the first quarter of 2010.

V. RESIDENTIAL MARKET ASSESSMENT

New Home Market

San Diego County's new home market ended 2010 at an all-time low. According to MarketPointe Realty Advisors, there were only 421 net sales countywide in the 2010's fourth quarter. This represents a 12 percent drop from the previous quarter and is the lowest quarterly level on record. From an annual perspective, 2010's sales output was 17 percent below 2009 levels and is more than 85 percent less than the peak in 2004.

Despite reaching new lows, some positive signs are beginning to become visible. New home pricing is showing signs of stabilizing. Pricing for attached homes declined less than 1 percent in the fourth quarter of 2010. However, if Downtown projects are excluded from this analysis, countywide pricing for attached housing nearly increased 7 percent for the fourth quarter. Pricing for detached housing remained largely unchanged on a price per square foot basis, increasing only 1 percent in the fourth quarter.



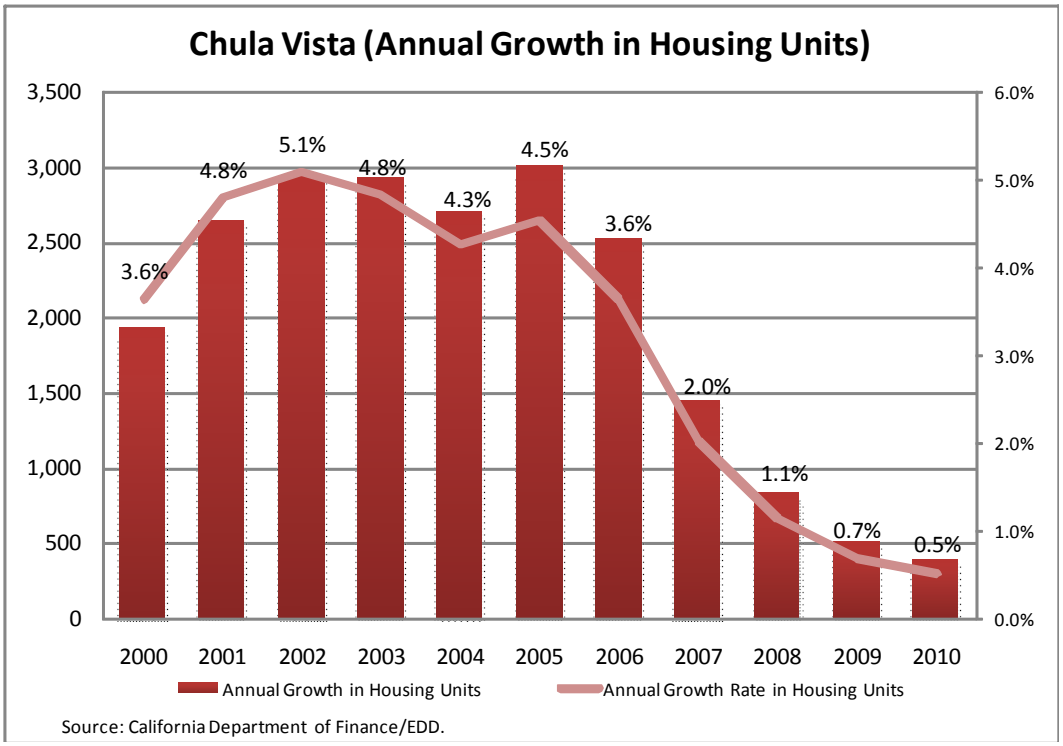
Source: MarketPointe Realty Advisors

In the fourth quarter of 2010, San Diego's inventory of new homes stood at 3,452 units. In comparison, inventory levels at the end of 2009 were 3,833 units. 2010's year-end inventory levels represents a 10 percent drop from 2009 levels. Based on current sales rates, offered and unsold attached inventory represents about a five month supply of housing with unreleased inventory adding an additional 15 months. In the detached sector there exists about a three-month supply of available and unsold units with about a twelve-month supply of unreleased inventory.

The South County new home market is primarily comprised of Chula Vista, National City, and Imperial Beach. In terms of total units provided by new home projects throughout the county, South County represents about 29% of the county's market. Total sales in South County during the fourth quarter of 2010 represented about 15 percent of countywide sales.

At the end of 2010, there were seven attached new home projects with 54 unsold units and 379 units remaining for development. In terms of detached projects, the South County market includes 16 new projects with 93 unsold units and 385 units available for development. Fourth quarter pricing for South County sales was well below countywide averages. For attached units, the average sales price per unit was $318,505 as compared to a countywide average of $560,509. Pricing for detached units was similarly lagging the countywide average with a South County average sales price of $532,666 per unit versus $626,132 countywide.

As shown in the table below, the first half of the past decade marked a period of tremendous growth for Chula Vista. Average annual growth in units from 2000 to 2005 was about 2,590 per year, or a simple average annual growth rate of about 4.5%. In contrast, the second half of the decade captured a precipitous decline in growth, as the average annual growth in housing during this period was about 1,140 units per year, with considerably less recorded in 2009 and 2010. Annual growth over this period averaged about 1.6%.



In terms of issued residential permits, 2010 marked a year of notable improvement for Chula Vista. According to the Construction Industry Research Board, 266 residential permits were recorded in Chula Vista in 2009. In 2010, 518 permits were recorded, marking a 94.7% increase. Behind the city of San Diego, Chula Vista was the second most active city in San Diego County in terms of permit activity.

Table V.I below compares sales and pricing data for single-family and condominium resales for the month of April in San Diego's South County market. The Palomar Gateway District lies within Chula Vista's designated South market that largely covers the southwest portion of Chula Vista. The South County Market overall experienced a 29.8% year-over-year drop in April sales for single-family homes. Pricing however remained fairly stable with only a 1.2% decline in median pricing. Similarly, condominium sales volume dropped 24.7%, however, year-over-year median pricing improved 5.9%.

As shown in the table, sales volume in Chula Vista was impaired equally across all submarkets for single-family housing with mixed results in pricing. Median pricing for single-family housing across Chula Vista's submarkets ranged from $271,500 in the South market up to $472,000 in Chula Vista's Northeast market. South County's overall median price for single-family resales through April 2011 is $321,500.

South County condominium resale volume dipped in concert with single-family sales, dropping 24.7% from April 2010 levels. Pricing however improved 5.9% over the prior April bringing the April 2011 median price to $170,500. In terms of the Chula Vista markets, median condominium pricing ranged from $135,000 in the South market to $230,000 in the Southeast market.

Overall, Chula Vista's South Market outperformed South County averaged for sales and pricing for both single-family and condominium resales.

Table V.I

Home Sales & Median Prices - April 2011

San Diego - South County Market (Year-over-Year Comparison)

		Resale											
		Single-Family						Condominiums					
	Zip	# of Units Sold			Median Price			# of Units Sold			Median Price		
Place	Code	2010	2011	% Change	2010	2011	% Change	2010	2011	% Change	2010	2011	% Change
Chula Vista N	91910	48	40	-16.7%	$322,500	$316,000	-2.0%	15	17	13.3%	$150,000	$155,500	3.7%
Chula Vista S	91911	55	47	-14.5%	$264,500	$271,500	2.6%	21	21	0.0%	$126,000	$135,000	7.1%
Chula Vista - E. Lake - Otay Ranch	91913	58	44	-24.1%	$378,000	$345,000	-8.7%	23	25	8.7%	$229,000	$182,500	-20.3%
Chula Vista NE	91914	15	11	-26.7%	$458,000	$472,000	3.1%	8	10	25.0%	$228,000	$215,000	-5.7%
Chula Vista SE	91915	40	25	-37.5%	$415,000	$386,500	-6.9%	19	15	-21.1%	$230,000	$250,000	8.7%
Bonita	91902	14	13	-7.1%	$412,500	$430,000	4.2%	1	4	300.0%	$125,000	$116,000	-7.2%
Imperial Beach	91932	9	7	-22.2%	$295,000	$256,500	-13.1%	18	10	-44.4%	$95,250	$226,500	137.8%
National City	91950	27	14	-48.1%	$205,000	$184,000	-10.2%	17	4	-76.5%	$77,000	$133,500	73.4%
Nestor	92154	63	30	-52.4%	$290,000	$271,000	-6.6%	27	5	-81.5%	$150,000	$120,000	-20.0%
San Ysidro	92173	7	5	-28.6%	$235,000	$225,000	-4.3%	9	8	-11.1%	$105,000	$110,000	4.8%
Total - South County:		**336**	**236**	**-29.8%**	**$325,500**	**$321,500**	**-1.2%**	**158**	**119**	**-24.7%**	**$161,000**	**$170,500**	**5.9%**

Source: DataQuick Information Systems

Table V.II below takes a longer view of the South County market in comparing 2009 total sales to 2010 total sales. South County single-family resales sales volume in 2010 declined 21.4% from 2009 sales with sales dropping from 4,006 to 3,149 in 2010. In line with South County's annual drop, Chula Vista single-family sales also declined 21%. The biggest sales decline in Chula Vista occurred in the City's South Market, where 2010 sales volume dropped 35% from 2009 levels. Of the 3,149 recorded single-family sales in South County in 2010, 2,041 or 65% occurred in Chula Vista.

Median pricing across all Chula Vista and South County markets improved. For the South County market as a whole, median pricing for single-family homes increased 6.8%. Increases across Chula Vista's submarkets ranged from 1.3% to 8.3%. South County's median resale price for a single-family home was $334,000 in 2010. Chula Vista's Northeast market posted the highest median price at $500,000 while the lowest median price was recorded in the City's South market at $270,000.

Condominium sales in South County showed some positive signs, declining only 3.1% in 2010 from 2009. Median pricing in the condominium sector remained stable, increasing 1.1% from 2009 levels. For Chula Vista's Condominium market, 2009 saw 1,040 sales compared to 998 sales in 2010, representing a 4.0% year-over-year decline. Median pricing for condominiums increased in all Chula Vista submarkets with the exception of the (East Chula Vista/East Lake/Otay Ranch) submarket. The East submarket posted a 2.3% year-over-year decline in median prices for condominiums. The South County's median price for condominiums in 2010 was $180,000, increasing $2,000 over the 2009 median price. Once again, Chula Vista's South market recorded the lowest median price at $135,000 while the Southeast market posted the highest median price in 2010 at $217,000.

Table V.II

Annual Home Sales (2010 vs. 2009)
San Diego County - South County Market

		Resale											
		Single-Family						Condominiums					
	Zip	# of Units Sold			Median Price			# of Units Sold			Median Price		
Place	Code	2009	2010	% Change	2009	2010	change	2009	2010	% Change	2009	2010	% Change
Chula Vista N	91910	519	455	-12.3%	$305,000	$325,000	6.6%	211	188	-10.9%	$151,250	$165,000	9.1%
Chula Vista S	91911	726	470	-35.3%	$250,000	$270,000	8.0%	195	189	-3.1%	$130,000	$135,000	3.8%
Chula Vista - E. Lake - Otay Ranch	91913	589	507	-13.9%	$375,000	$380,000	1.3%	291	289	-0.7%	$215,000	$210,000	-2.3%
Chula Vista NE	91914	288	228	-20.8%	$482,500	$500,000	3.6%	106	123	16.0%	$215,500	$217,000	0.7%
Chula Vista SE	91915	462	381	-17.5%	$360,000	$390,000	8.3%	237	209	-11.8%	$235,000	$235,000	0.0%
Bonita	91902	157	141	-10.2%	$425,000	$460,000	8.2%	41	27	-34.1%	$170,000	$157,500	-7.4%
Imperial Beach	91932	109	102	-6.4%	$267,500	$295,000	10.3%	84	97	15.5%	$182,500	$115,000	-37.0%
National City	91950	310	234	-24.5%	$180,000	$210,000	16.7%	106	105	-0.9%	$104,000	$138,500	33.2%
Nestor	92154	694	540	-22.2%	$279,000	$285,000	2.2%	262	242	-7.6%	$150,000	$155,000	3.3%
San Ysidro	92173	152	91	-40.1%	$240,000	$270,000	12.5%	114	127	11.4%	$94,250	$99,000	5.0%
Total - South County:		**4,006**	**3,149**	**-21.4%**	**$312,750**	**$334,000**	**6.8%**	**1647**	**1596**	**-3.1%**	**$178,000**	**$180,000**	**1.1%**

Source: MDA DataQuick

New home sales in April 2011 remained unchanged from April 2010. As shown in Table V.III, April sales for new homes recorded at 35 sales for both 2009 and 2010. Median pricing for the South County Market increased about 5.3%, although this increase was only generated from a small base of sales that could be influenced by product mix. Similar to the home resale market, Chula Vista dominated the South County market activity posting 28 of the 35 new home sales in April 2009 and 29 of the 35 home sales in April 2010. Median

Table V.III

Home Sales & Median Prices - April 2011

San Diego - South County Market (Year-over-Year Comparison)

	New Single-Family/Condominiums					
	# of Units Sold			Median Price		
Place	2010	2011	% Change	2010	2011	% Change
Chula Vista N	1	2	100%	$485,000	$252,000	-48.0%
Chula Vista S	2	0	-100.0%	$257,500	n/a	n/a
Chula Vista - E. Lake - Otay Ranch	11	8	-27.3%	$412,000	$380,000	-7.8%
Chula Vista NE	2	10	400.0%	$670,000	$620,750	-7.4%
Chula Vista SE	12	9	-25.0%	$377,250	$339,500	-10.0%
Bonita	0	0	n/a	n/a	n/a	n/a
Imperial Beach	1	1	0.0%	$177,500	$339,000	91.0%
National City	3	3	0.0%	$206,500	$155,000	-24.9%
Nestor	2	2	0.0%	$258,000	$260,000	0.8%
San Ysidro	1	0	-100.0%	$290,000	n/a	n/a
Total - South County:	**35**	**35**	**0.0%**	**$375,000**	**$395,000**	**5.3%**

Source: DataQuick Information Systems

pricing for Chula Vista's new sales declined significantly over the prior year's April.

As shown in Table V.IV below, South County's new home market in 2010 remained largely unchanged from 2009. 2010 sales for new single-family and condominiums recorded at 545, a decline of 17 units or 3.0% from the 2009 level of 562. Chula Vista experienced a 5.1% drop in year-over-year sales, dropping from 470 new homes sales in 2009 to 446 in 2010. Three of Chula Vista's five submarkets posted strong year-over-year gains, however, Chula Vista's East Lake/Otay Ranch and Southeast submarkets pulled down annual gains. Median pricing for the South County market declined 2.8% over 2009, dropping from $360,000 in 2009 to $350,000 in 2010.

Table V.IV
Annual Home Sales (2010 vs. 2009)
San Diego County - South County Market

Place	Zip Code	New Single-Family/Condominiums # of Units Sold 2009	2010	% Change	Median Price 2009	2010	% Change
Chula Vista N	91910	13	25	92.3%	$283,500	$305,000	7.6%
Chula Vista S	91911	14	32	128.6%	$240,000	$257,500	7.3%
Chula Vista - E. Lake - Otay Ra	91913	213	151	-29.1%	$336,000	$360,000	7.1%
Chula Vista NE	91914	66	100	51.5%	$693,000	$598,000	-13.7%
Chula Vista SE	91915	164	138	-15.9%	$379,500	$350,000	-7.8%
Bonita	91902	7	5	-28.6%	$220,000	$505,000	129.5%
Imperial Beach	91932	1	8	700.0%	$251,500	$177,500	-29.4%
National City	91950	38	56	47.4%	$338,500	$225,000	-33.5%
Nestor	92154	39	21	-46.2%	$404,500	$261,500	-35.4%
San Ysidro	92173	7	9	28.6%	$255,000	$161,000	-36.9%
Total - South County:		**562**	**545**	-3.0%	**$360,000**	**$350,000**	**-2.8%**

Source: MDA DataQuick

South County's actively selling new home communities were evaluated as part of this study. Table V.V on the following page summarizes actively selling communities in the South County. All 26 of the communities audited as part of the South County market are located in the Chula Vista market. On average, 2011 first quarter sales at each community averaged about 0.47 sales per week. Out of the 2,697 total units, 1,659 units were sold to date through the end of March 2011. Of the 1,038 unsold units, 899 are remaining to be developed and 139 are developed and unsold. All new communities are located in Chula Vista's eastern sector with a large share of communities in Otay Ranch.

Table V.V
San Diego's South County Q1, 2011
Development Summary Table By Community

Development/Developer	Community/ MasterPlan	Sales/Week CurQtr	Sales/Week Cum	Ranges Price	Ranges Sqft	Ranges $/Sqft	Sales Start Map/Page #	LotSize/ Concept	Total Units	Total Sold	CurQtr Sold	Unsold	Remain ForDev
ANDORRA @ EASTLAKE SUMMIT	CHULA VISTA	0.33	0.34	$319,990	1,445	$174.88	7-May-05	0	135	107	4	4	24
CORNERSTONE COMMUNITIES	EASTLAKE SUMMIT			$389,990	2,230	$221.44	108	TOWNHOMES					
JACARANDA II @ LOMAS VERDES	CHULA VISTA	0.25	0.39	$410,261	1,935	$183.89	15-May-10	4000	109	18	3	9	82
MCMILLIN COMPANIES	LOMAS VERDES			$449,990	2,447	$212.02	114	DETACHED					
MOSAIC @ LOMAS VERDES	CHULA VISTA	0.00	0.37	$237,900	1,175	$181.35	16-Jun-07	0	218	74	0	7	137
SHEA HOMES	LOMAS VERDES			$324,900	1,656	$202.46	119	TOWNHOME					
TAPESTRY @ LOMAS VERDES	CHULA VISTA	0.00	0.22	$343,900	1,822	$167.28	28-Jul-07	2000	98	44	0	5	49
SHEA HOMES	LOMAS VERDES			$376,900	2,253	$188.74	126	DETACHED					
TERRACOTTA @ LOMAS VERDES	CHULA VISTA	0.83	0.38	$329,990	1,577	$194.49	26-Aug-06	3075	132	93	10	5	34
MCMILLIN COMPANIES	LOMAS VERDES			$399,990	2,010	$209.52	127	DETACHED					
ANACAPA @ OTAY RANCH	CHULA VISTA	1.00	1.00	$369,900	2,221	$166.54	1-Mar-11	3000	49	5	5	2	42
KANE DEVELOPMENT	OTAY RANCH			$374,900	2,249	$166.69	107	DETACHED					
CASITAS DE AVILA @ OTAY RANCH	CHULA VISTA	0.08	0.21	$309,900	1,648	$157.82	18-Sep-10	2000	61	6	1	3	52
HERITAGE BUILDING & DEVELOPMENT	OTAY RANCH			$346,900	2,198	$189.25	109	DETACHED					
MONTEREY @ OTAY RANCH	CHULA VISTA	3.66	3.66	$340,990	1,917	$167.81	19-Feb-11	2890	95	22	22	13	60
KB HOME	OTAY RANCH			$364,990	2,175	$177.87	117	DETACHED					
PRESIDIO @ OTAY RANCH	CHULA VISTA	0.40	0.40	$419,900	2,571	$163.13	1-Mar-11	3000	40	2	2	5	33
KANE DEVELOPMENT	OTAY RANCH			$433,900	2,610	$166.24	122	DETACHED					
SANTA RITA @ OTAY RANCH	CHULA VISTA	0.25	0.17	$427,900	2,439	$172.73	18-Sep-10	4500	23	5	3	2	16
HERITAGE BUILDING & DEVELOPMENT	OTAY RANCH			$442,900	2,564	$175.44	123	DETACHED					
VILLAS DE AVILA @ OTAY RANCH	CHULA VISTA	0.00	0.10	$288,900	1,342	$177.79	18-Sep-10	0	76	3	0	6	67
PACIFIC COAST COMMUNITIES	OTAY RANCH			$309,900	1,743	$215.27	130	DUPLEX					
MONET @ OTAY RANCH-HILLSBOROUGH	CHULA VISTA	0.32	0.77	$222,900	1,000	$187.88	23-Apr-05	0	255	242	4	13	0
PACIFIC COAST COMMUNITIES	OTAY RANCH-HILLSBOROUGH			$264,900	1,368	$222.90	116	SIXPLEX					
CYPRESS LANE @ MONTECITO RIDGE	CHULA VISTA	0.75	0.36	$359,900	1,511	$209.04	17-Jun-06	2700	89	89	3	0	0
KANE DEVELOPMENT	OTAY RANCH-MONTECITORIDGE			$399,900	1,913	$238.18	112	DETACHED					
MONTE SERENO @ MONTICITO RIDGE	CHULA VISTA	0.08	0.24	$499,900	2,978	$167.07	28-Jun-06	4250	95	60	1	7	28
OAKWOOD DEVELOPMENT	OTAY RANCH-MONTECITORIDGE			$519,900	3,108	$169.54	118	DETACHED					
SANTA BARBARA @ MONTECITO RIDGE	CHULA VISTA	0.16	0.20	$488,900	2,825	$158.69	7-Nov-06	4250	96	48	2	4	44
PACIFIC COAST COMMUNITIES	OTAY RANCH-MONTECITORIDGE			$512,900	3,232	$173.06	124	DETACHED					
TERRAZA @ MONTECITO RIDGE	CHULA VISTA	1.33	0.28	$390,000	2,508	$141.18	8-Jul-07	2600	85	55	16	4	26
SUNRISE COMPANY	OTAY RANCH-MONTECITORIDGE			$404,990	2,833	$161.47	128	DETACHED					
PALMA @ ROLLING HILLS RANCH	CHULA VISTA	0.25	0.56	$554,990	2,555	$195.12	15-Jan-10	20000	54	36	3	5	13
CORNERSTONE COMMUNITIES	ROLLING HILLS RANCH			$678,990	3,285	$217.21	120	DETACHED					
ESTRELLA @ SAN MIGUEL RANCH	CHULA VISTA	0.66	0.26	$536,100	3,244	$149.27	26-Jun-06	4000	69	67	8	2	0
SHEA HOMES	SAN MIGUEL RANCH			$568,900	3,811	$165.25	113	DETACHED					
MARAVILLA @ SAN MIGUEL RANCH	CHULA VISTA	0.16	0.24	$727,200	3,814	$161.34	19-Jun-06	10200	74	60	2	4	10
SHEA HOMES	SAN MIGUEL RANCH			$804,000	4,983	$190.66	115	DETACHED					
PATRIA @ SAN MIGUEL RANCH	CHULA VISTA	0.66	0.87	$517,500	2,687	$171.56	27-Feb-10	20000	52	50	8	2	0
TRI POINTE HOMES	SAN MIGUEL RANCH			$573,183	3,341	$192.59	121	DETACHED					
AGAVE @ WINDINGWALK	CHULA VISTA	0.25	0.62	$302,900	1,464	$206.89	18-Jan-06	0	175	170	3	5	0
SHEA HOMES	WINDINGWALK			$344,900	1,581	$220.94	105	TOWNHOME					
AMBER @ WINDINGWALK	CHULA VISTA	0.16	0.41	$440,900	2,342	$181.06	17-Jun-06	4600	119	104	2	1	14
SHEA HOMES	WINDINGWALK			$484,900	2,678	$188.25	106	DETACHED					
CLOVER @ WINDINGWALK	CHULA VISTA	0.00	0.31	$288,900	1,579	$171.23	23-Jun-07	0	112	63	0	9	40
SHEA HOMES	WINDINGWALK			$369,900	1,891	$204.49	110	FOURPLEX					
CORDOVA @ WINDINGWALK	CHULA VISTA	0.00	0.36	$295,900	1,638	$172.74	14-Jul-07	0	180	70	0	12	98
BROOKFIELD HOMES	WINDINGWALK			$369,900	2,011	$184.92	111	SIXPLEX					
SAPPHIRE @ WINDINGWALK	CHULA VISTA	0.08	0.28	$486,900	2,589	$168.38	17-Jun-06	4600	80	72	1	4	4
SHEA HOMES	WINDINGWALK			$514,900	3,046	$188.06	125	DETACHED					
TRELLIS @ WINDINGWALK	CHULA VISTA	0.50	0.38	$430,900	2,361	$177.82	29-Jul-06	3800	126	94	6	6	26
BROOKFIELD HOMES	WINDINGWALK			$465,900	2,620	$187.19	129	DETACHED					
26 Total Projects		**12.16**	**13.38**						**2,697**	**1,659**	**109**	**139**	**899**
Average Per Development		**0.47**	**0.51**										

Source: MarketPointe Realty Advisors

Rental Market

San Diego's rental housing market performed relatively well throughout the recent downturn. As shown in Table V.VI, the average monthly rental rate in San Diego in March 2011was $1,335. This represents a 1.47 percent increase over March 2010's average and only 0.7 percent below the all time high recorded in September 2008. The overall countywide vacancy rate increased to 5.06 percent, however, this measure is slightly skewed with the release of 435 units from Downtown's Vantage Pointe project. Excluding this project, and its 331 vacancies from the vacancy analysis, would result in a countywide vacancy rate of 4.8 percent.

San Diego's South County rental market primarily includes Chula Vista, National City, and Imperial Beach. With 17,615 rental units, South County represents 15 percent of the countywide market, as measured by MarketPointe's audit of apartment properties with at least 25 units. Of South County's 17,615 total units, about 53% or 9,390 are located in Chula Vista.

In comparison to countywide averages, the South County market enjoys a lower vacancy rate of 4.19 percent vs. the countywide average of 5.06 percent. Of the audited units in Chula Vista, a vacancy rate of 4.4% was identified. South County's average monthly rental rate of $1,188 is about 11% lower than the countywide average of $1,335. The following table provides an overview of San Diego County's rental market:

Table V.VI
San Diego Rental Housing Market

Market	Total Projects	Total Units	Total Rented	Total Vacant	Vacancy Factor	Weighted Average		
						Rent	Sq. Ft.	$/Sq. Ft.
East County	156	16,868	16,022	846	5.02%	$1,119	846	$1.32
Highway 78 Corridor	182	24,966	23,701	1,265	5.07%	$1,187	862	$1.38
Interstate 15 Corridor	71	11,627	11,037	590	5.07%	$1,403	879	$1.60
North County Coastal	98	19,422	18,584	838	4.31%	$1,657	948	$1.75
San Diego Central	166	27,543	25,845	1,698	6.16%	$1,437	837	$1.72
South County	132	17,615	16,877	738	4.19%	$1,188	851	$1.40
TOTAL	**805**	**118,041**	**112,066**	**5,975**	**5.06%**	**$1,335**	**868**	**$1.54**

Source: MarketPoint Realty Advisors

In terms of future rental housing, a total of 9,127 units included in 48 projects have been identified countywide as part of MarketPointe's 2011 Q1 Rental Trends Report. The future housing includes units under construction, approved, and in the planning stages. Of this total, 10 projects and 1,707 units were identified in the South County market.

As shown in Table V.VII on the following page, 61 apartment projects were identified in Chula Vista. The projects identified in the table were included as part of MarketPointe Realty Advisors 2011 Q1 Rental Trends Update. Apartment complexes larger than 25 units were included in the analysis. Chula Vista apartment communities average about 154 units per property with units averaging about 872 square feet. Chula Vista monthly rental rates averaged $1,169 compared to a South County average of $1,188 and a countywide average of $1,335. Chula Vista's apartment market is largely comprised of older apartment communities with the average age of construction in 1978. Of Chula Vista's 61 audited apartment communities, only five were constructed after the year 2000. In the Chula Vista/Imperial Beach market area, Garden Communities is completing a 644-unit project, Greenfield Village.

Table V.VII
Summary of Chula Vista Apartment Properties
Mar-11

Development/Owner	Zip	Weighted Average Rent	Weighted Average Sqft	Weighted Average $/sqft	Lease Start	Units	Leased	Vacant	Vacancy Rate
A POINT OF VIEW APARTMENTS/VIEW POINTE	91910	$1,212	816	$1.49	Aug-90	37	33	4	10.8%
BAY BREEZE	91910	$785	460	$1.71	Jan-58	58	58	0	0.0%
BAY POINTE APARTMENTS	91910	$1,224	906	$1.35	Jan-85	33	31	2	6.1%
BEACON COVE	91910	$1,341	860	$1.56	Mar-86	176	166	10	5.7%
BONITA HILLS APARTMENTS	91910	$1,429	942	$1.52	Jan-78	94	91	3	3.2%
CANYON VILLA	91910	$1,484	978	$1.52	Jan-81	183	170	13	7.1%
CASA VICTORIA	91910	$928	697	$1.33	Jan-73	136	133	3	2.2%
CENTRE TOWER APARTMENTS	91910	$1,061	934	$1.14	Jan-68	92	92	0	0.0%
EUCALYPTUS GROVE	91910	$1,255	701	$1.79	Dec-86	376	357	19	5.1%
EUCALYPTUS PARK VIEW	91910	$1,149	818	$1.40	Dec-88	53	52	1	1.9%
ONE PARK	91910	$1,227	847	$1.45	Jul-87	94	94	0	0.0%
PARK REGENCY APARTMENTS	91910	$695	390	$1.78	Jan-57	125	121	4	3.2%
ROYAL APARTMENTS - CHULA VISTA	91910	$775	450	$1.72	Jan-64	128	125	3	2.3%
SOMERSET APARTMENTS - CHULA VISTA	91910	$975	800	$1.22	Jan-59	96	95	1	1.0%
SOUTH BAY TOWERS APARTMENTS	91910	$879	860	$1.02	Jan-69	132	125	7	5.3%
ST. THOMAS APARTMENTS	91910	$1,233	892	$1.38	Sep-89	77	75	2	2.6%
TELEGRAPH CANYON APARTMENTS	91910	$948	691	$1.37	Jan-69	94	88	6	6.4%
TERRA NOVA VILLAS	91910	$1,332	800	$1.66	Jan-85	232	216	16	6.9%
THE GEORGIAN	91910	$1,067	993	$1.07	Jan-69	35	35	0	0.0%
TOSCANA AT RANCHO DEL REY	91910	$1,675	1,074	$1.56	Jul-90	500	460	40	8.0%
VILLAGES AT BONITA GLEN	91910	$1,087	983	$1.11	Jan-74	295	263	32	10.8%
VISTAN APARTMENTS	91910	$990	768	$1.29	Jan-64	352	352	0	0.0%
WINDSONG	91910	$1,158	813	$1.42	Jun-90	104	101	3	2.9%
WOODLAND HILLS APARTMENTS	91910	$1,355	1,133	$1.20	Jan-72	60	59	1	1.7%
WOODLAWN COLONIAL	91910	$908	806	$1.13	Jan-72	160	150	10	6.3%
WOODLAWN GARDENS	91910	$1,066	831	$1.28	Jan-69	150	135	15	10.0%
WOODLAWN WEST APARTMENTS	91910	$895	650	$1.38	Jan-66	117	113	4	3.4%
ALVA GARDENS	91911	$1,262	887	$1.42	Oct-87	65	64	1	1.5%
ANGELINA TERRACE	91911	$1,365	1,064	$1.28	Jan-75	75	73	2	2.7%
BRANDYWINE	91911	$1,091	781	$1.40	Jan-86	48	45	3	6.3%
CASA DE PALOMAR	91911	$1,202	913	$1.32	Jan-81	80	78	2	2.5%
CASTLE ARMS	91911	$808	679	$1.19	Jan-77	120	116	4	3.3%
COUNTRY APARTMENTS	91911	$938	800	$1.17	Jan-72	144	140	4	2.8%
COUNTRY CLUB VILLAGE	91911	$1,143	1,008	$1.13	Jan-68	107	106	1	0.9%
EAST ORANGE VILLAGE	91911	$1,261	1,060	$1.19	Jan-77	128	124	4	3.1%
GREENBRIAR	91911	$1,122	713	$1.57	Jan-85	100	97	3	3.0%
JAMES PLACE	91911	$1,006	1,066	$0.94	Jan-85	32	32	0	0.0%
MALIBU SOUTH APARTMENTS	91911	$1,169	849	$1.38	Jan-75	140	132	8	5.7%
ORANGE GLEN APARTMENTS	91911	$1,046	720	$1.45	Jan-85	124	119	5	4.0%
PALM VILLAS	91911	$1,196	951	$1.26	Apr-90	42	41	1	2.4%
PARK PALOMAR APARTMENTS	91911	$793	522	$1.52	Jan-64	476	476	0	0.0%
PARK VIEW - CHULA VISTA	91911	$1,093	824	$1.33	Jan-76	37	37	0	0.0%
SEAWIND APARTMENTS	91911	$1,091	740	$1.47	Jan-70	200	184	16	8.0%
SEVILLA APARTMENTS/ALEXAN SEVILLA	91911	$1,714	1,101	$1.56	Mar-01	156	140	16	10.3%
SIERRA PARK APARTMENTS	91911	$1,212	1,213	$1.00	Jan-66	120	118	2	1.7%
SOUTH BAY APTS./NAPLES COURT/ALDERWOOD	91911	$1,116	652	$1.71	Jan-72	167	164	3	1.8%
SUNSET VILLA APARTMENTS	91911	$985	830	$1.19	Jan-67	155	151	4	2.6%
THE MISSIONS AT SUNBOW	91911	$1,591	1,002	$1.59	Aug-02	336	299	37	11.0%
VILLA GRANADA	91911	$1,175	1,023	$1.15	Jan-69	203	199	4	2.0%
VILLA K	91911	$940	800	$1.18	Jan-70	75	68	7	9.3%
VILLA MARINA	91911	$1,160	778	$1.49	May-86	175	172	3	1.7%
VILLA NAPOLI	91911	$1,078	836	$1.29	Jan-82	146	140	6	4.1%
VILLA SEVILLE	91911	$1,271	1,064	$1.19	Jan-68	123	122	1	0.8%
VISTA DEL CORONADO	91911	$1,075	923	$1.16	Jan-69	224	213	11	4.9%
VISTA KNOLLS	91911	$943	892	$1.06	Jan-74	74	74	0	0.0%
VISTA LANE	91911	$846	656	$1.29	Jan-73	150	149	1	0.7%
VISTA PACIFIC VILLAS	91911	$1,224	950	$1.29	Jan-81	55	54	1	1.8%
CAMDEN SIERRA @ OTAY RANCH	91913	$1,656	1,018	$1.63	Jun-02	422	384	38	9.0%
MARQUIS VILLAS AT OTAY RANCH	91913	$2,457	1,964	$1.25	Jul-08	98	97	1	1.0%
PINNACLE AT OTAY RANCH	91913	$1,589	1,055	$1.51	Aug-01	364	353	11	3.0%
TERESINA AT LOMAS VERDES	91913	$1,576	976	$1.61	Dec-99	440	427	13	3.0%
Total:	**61**	**---**	**---**	**---**	**---**	**9,390**	**8,978**	**412**	**4.4%**
Average:	**---**	**$1,169**	**872**	**$1.34**	**Jul-78**	**154**	**147**	**7**	**4.4%**

Source: MarketPointe Realty Advisors & Gafcon.
* Rental rates and SF averages are simple averages based on community weighted averages.

As shown in Table V.VIII below, about 93% of Chula Vista's apartment properties are generally located in the City's western sector. Roughly 44% of Chula Vista's apartment properties are located in the City's North market (Zip 91910), with 49% located in the South market (Zip 91911) and the remaining properties are located in East Lake/Otay Ranch area (Zip 91913). In terms of the distribution of apartment units, about 42% are located in the North market; 43% in the South market; and 14% are located in the East Lake/Otay Ranch area.

Table V.VIII
Chula Vista Apartment Market Overview
Mar-11

Place	ZIP	# of Properties	# of Properties (% of Total)	Total Units	Units (% of Total)	Total Units Leased	Total Units Vacant	Vacancy Rate
Chula Vista N	91910	27	44%	3,989	42%	3,790	199	5.0%
Chula Vista S	91911	30	49%	4,077	43%	3,927	150	3.7%
Chula Vista - E. Lake - Otay Ranch	91913	4	7%	1,324	14%	1,261	63	4.8%
Chula Vista NE	91914	---	---	---	---	---	---	---
Chula Vista SE	91915	---	---	---	---	---	---	---
	Total:	**61**	**100%**	**9,390**	**100%**	**8,978**	**412**	**4.4%**

Source: MarketPointe Realty Advisors & Gafcon.

As shown in the following chart V.IX, monthly rental rates for the North and South markets are roughly equal at $1,116 and $1,131 respectively. On a per square foot basis however, the North market enjoys slightly higher rates of $1.38 per square foot as compared to the South market average of $1.29. The East Lake/Otay on the other hand, receives the highest rents for Chula Vista with average monthly rents of $1,819 or $1.45 per square foot. The stronger rents recorded in the East Lake/Otay Ranch are largely attributed to premiums associated with newer properties, larger floor plans, and preferred locations.

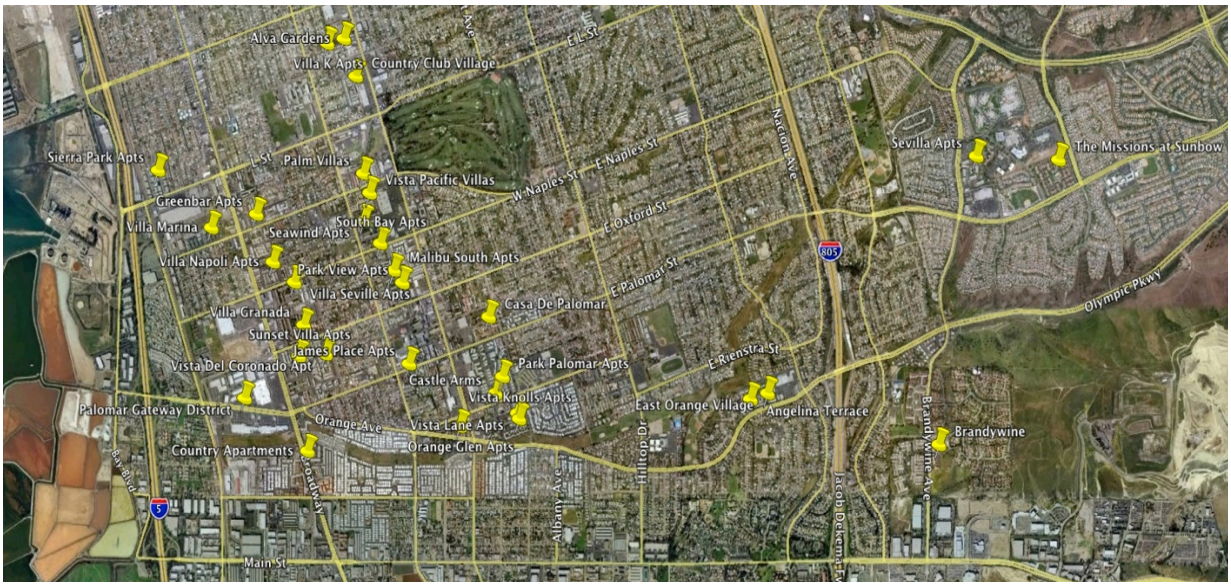
Table V.IX
Chula Vista Apartment Market Overview (Market Averages)
Mar-11

Place	ZIP	# of Properties	Avg. # of Units	Avg. Date of Lease Start	Avg. Monthly Rent per Unit	Avg. SF per Unit	Avg. Monthly Rent per SF
Chula Vista N	91910	27	148	Aug-75	$1,116	811	$1.38
Chula Vista S	91911	30	136	Nov-77	$1,131	877	$1.29
Chula Vista - E. Lake - Otay Ranch	91913	4	331	Feb-11	$1,819	1,253	$1.45
Chula Vista NE	91914	---		---	---	---	---
Chula Vista SE	91915	---		---	---	---	---
	Total Average:	**---**	**154**	**Jul-78**	**$1,169**	**872**	**$1.34**

Source: MarketPointe Realty Advisors & Gafcon.

* Rental rates and SF averages are simple averages based on community weighted averages.

There are currently no major market-rate apartment properties located directly within the Palomar Gateway District. The following map provides the locations of the 30 apartment properties identified in Chula Vista's South market. As shown in the following image of Chula Vista's South Market, the majority of Chula Vista's South Apartment market properties can be found running along Broadway and 4th Avenue.



The five closest apartment communities to the Palomar District are summarized in Table V.X below. The adjacent projects listed are generally located within 0.5 miles of the Trolley Station and are older properties, constructed between 1968 and 1972. Vacancy rates are well below the countywide average of 5.06% and range from 0.8% to 4.9%. Average monthly rents from these communities are below the countywide average of $1,335.

Table V.X

Summary of Select Apartment Communities Adjacent to Palomar Gateway District

	Distance	Weighted Average			Ranges			Lease				Vacancy
Development	Trolley Station	Rent	Sqft	$/sqft	Rent	Sqft	$/Sqft	Start	Units	Leased	Vacant	Rate
COUNTRY APARTMENTS	**0.4 miles**	$938	800	$1.17	$825	700	$1.17	Jan-72	144	140	4	2.8%
					$995	850	$1.18					
SUNSET VILLA APARTMENTS	**0.4 miles**	$985	830	$1.19	$850	680	$1.14	Jan-67	155	151	4	2.6%
					$1,150	1,012	$1.25					
VILLA GRANADA	**0.5 miles**	$1,175	1,023	$1.15	$875	700	$1.10	Jan-69	203	199	4	2.0%
					$1,475	1,256	$1.25					
VISTA DEL CORONADO	**0.5 miles**	$1,075	923	$1.16	$890	756	$1.13	Jan-69	224	213	11	4.9%
					$1,250	1,110	$1.18					
VILLA SEVILLE	**0.6 miles**	$1,271	1,064	$1.19	$875	700	$1.17	Jan-68	123	122	1	0.8%
					$1,475	1,256	$1.25					

Source: MarketPointe Realty Advisors and Gafcon

Housing Demand

Housing demand projections for the Palomar Gateway District were developed as part of this study. These projections are intended to measure potential market demand for multi-family housing over a 20-year horizon. Because of the uncertainty inherent with a long-term forecast, as well as, the lack of a specifically defined development project, the forecast provided in this study is intended to provide general projections for general land use planning purposes.

As part of Gafcon's development of demand projections for the Palomar Gateway District, the San Diego Association of Government's (SANDAG) 2050 Regional Growth Forecast was utilized as a basis for future market trends. SANDAG's forecast for San Diego County projects housing to grow from 1,140,654 units in 2008 to 1,262,488 units in 2020. This increase of 121,834 housing units represents an overall percentage increase of 10.7% over the twelve-year period, or a simple annual average of 0.89% housing unit growth per year.

For Chula Vista, SANDAG projects that Chula Vista's rate of housing growth will outpace the rate of growth expected for the San Diego Region. From 2008 to 2020, Chula Vista's housing is expected to increase from 77,484 to 88,185 units. This housing increase of 10,701 represents a 13.8% increase during the forecast period or a simple annual average of 1.15%. Chula Vista's housing growth is expected to outpace the region in part due to comparatively higher job growth rates coupled with available land, land use plans and policy, and anticipated areas of growth, primarily in the city's eastern sector.

SANDAG's housing projections for San Diego's South Suburban Market, as shown in Table V.XI on the following page, indicate total housing units will grow from about 112,391 housing units in 2010 to about 143,027 housing units in 2030. In total, 30,636 units are expected to be added by 2030, or about 1,532 units per year over the twenty-year forecast horizon. This represents a simple average annual growth rate in housing units of about 1.4%. Housing growth during this period is expected to occur disproportionately in the multi-family sector, as 73% to 78% of housing units added through 2030 are anticipated to be multi-family units.

Table V.XI

HOUSING DEMAND - SAN DIEGO'S SOUTH SUBURBAN MARKET

	2010	2012	2015	2020	2030
San Diego - South Suburban Market					
Population	386,303	398,604	417,055	448,240	489,096
Cummulative Growth		12,301	30,752	61,937	102,793
Avg. Annual Growth		6,150	6,150	6,194	5,140
Avg. Annual Growth (%)		1.6%	1.6%	1.6%	1.3%
Housing					
Single Family Housing	71,231	71,879	73,030	76,043	77,921
Cummulative Growth		648	1,799	4,812	6,690
Avg. Annual Growth		324	360	481	335
Avg. Annual Growth (%)		0.5%	0.5%	0.7%	0.5%
Share of Cummulatiave Growth		24%	24%	26%	22%
Multi-Family Housing	41,160	43,193	46,806	54,829	65,106
Cummulative Growth		2,033	5,646	13,669	23,946
Avg. Annual Growth		1,016	1,129	1,367	1,197
Avg. Annual Growth (%)		2.5%	2.7%	3.3%	2.9%
Share of Cummulative Growth		76%	76%	74%	78%
Total	112,391	115,071	119,836	130,872	143,027
Cummulative Growth		2,680	7,445	18,481	30,636
Avg. Annual Growth		1,340	1,489	1,848	1,532
Avg. Annual Growth (%)		1.2%	1.3%	1.7%	1.4%

Source: SANDAG and Gafcon

SANDAG's housing projections for Chula Vista, as shown in Table V.XII below, indicate total housing units will grow from about 74,489 housing units in 2010 to about 91,306 housing units in 2030. In total, about 16,817 units are expected to be added by 2030, or about 841 units per year over the twenty-year forecast horizon. This represents a simple average annual growth rate in housing units of about 1.1%. As the forecast horizon moves out into 2030, Chula Vista's rate of growth decreases as its base of housing grows and the supply of developable land declines.

In 2010, Chula Vista was estimated to have 74,489 single-family and multi-family units. Of this total, 47,923 units, or 64% of total housing units, were estimated to be single family units. Multi-family units were estimated to total 26,656 units, or 36% of total housing units. Looking to the future, multi-family units are anticipated to comprise a larger share of Chula Vista's housing supply. Throughout the forecast horizon, single-family units are estimated to grow at an average annual growth rate ranging from 0.4% to 0.7%. Conversely, multi-family units are forecasted by SANDAG to grow at an average annual rate of 1.0% to 2.6%.

Similar to South County's projected growth, housing growth is expected to occur disproportionately in the multi-family sector, as 69% to 77% of housing units added through 2030 are anticipated to be multi-family units. Through 2012, 1,244 units of the 1,795 total projected housing units are anticipated by SANDAG to be multi-family housing units. By 2030, multi-family units are projected to represent 43% of the city's housing supply as compared to 36% as estimated in 2010.

Table V.XII

HOUSING DEMAND - CHULA VISTA

	2010	2012	2015	2020	2030
Chula Vista					
Population	237,595	241,561	247,509	267,427	289,044
Cummulative Growth		3,966	9,914	29,832	58,647
Avg. Annual Growth		1,983	1,983	2,983	2,932
Avg. Annual Growth (%)		0.8%	0.8%	1.3%	1.2%
Single Family Housing	47,923	48,413	49,593	50,898	51,762
Cummulative Growth		490	1,670	2,975	3,839
Avg. Annual Growth		245	334	298	192
Avg. Annual Growth (%)		0.5%	0.7%	0.6%	0.4%
Share of Cummulative Growth		49%	46%	30%	23%
Multi-Family Housing	26,566	27,086	28,500	33,600	39,544
Cummulative Growth		520	1,934	7,034	12,978
Avg. Annual Growth		260	387	703	649
Avg. Annual Growth (%)		1.0%	1.5%	2.6%	2.4%
Share of Cummulative Growth		51%	54%	70%	77%
Total	74,489	75,499	78,093	84,498	91,306
Cummulative Growth		1,010	3,604	10,009	16,817
Avg. Annual Growth		505	721	1,001	841
Avg. Annual Growth (%)		0.7%	1.0%	1.3%	1.1%

Source: SANDAG and Gafcon

As part of this study, Gafcon forecasted multi-family housing demand for the Palomar Gateway District. Utilizing, Chula Vista's multi-family housing projections generated by SANDAG, Gafcon applied feasible market capture rates to the City's forecasted multi-family housing growth through 2030. The capture rates applied to SANDAG's growth forecast are based on the assumption that potential future multi-family projects in the Palomar Gateway District will provide attractive design features, amenities, finishes, and servicing consistent with competitively offered new multi-family programs. The applied capture rates also consider the strength of the Palomar District's location relative to other major existing and planned projects in Chula Vista (Ex. Downtown/Urban Core, Bayfront development, & East Lake/Otay Ranch). For this study, Gafcon projected the multi-family housing projects located in the Palomar Gateway District could capture 5% - 10% of future market demand in Chula Vista for multi-family housing. This study anticipates that future growth throughout the City will continued to be largely captured in the City's East Lake/Otay Ranch submarket. In the longer term, the study anticipates that western project areas (Downtown/Urban Core & Bayfront) will establish themselves as market draws.

A range of capture rates was provided to reflect the likely varying range of competitive product releases and their relative strength to future District projects. The lower range of the capture rate scenario represents the anticipated scenario for the District while the upper range of 10% reflects a more aggressive capture rate scenario. These capture rate scenarios are applied to anticipated multi-family growth for both for sale and for rent housing units.

Even with many uncertainties at the time of this study, Gafcon believes the Palomar Gateway District currently possesses attributes that position the area to be competitive in the current and future multi-family marketplace. Future housing growth is anticipated to be focused in the City's eastern side, and as such, was projected to capture the majority of future demand as part of this study. The Western half of the City has the potential to create new demand for multi-family housing based on the potential progress of the Urban Core and Bayfront project areas. This study assumes plans for the Urban Core and Bayfront become realized over the back end of the forecast horizon and therefore capture a majority of demand in the City's western sphere during that period. Factors that could influence the distribution of future capture rates throughout the city include: Number of competitive projects active in the marketplace; Progress of the District as a Transit Focus Area; Market Value of District projects; Progress of City's other project areas; and Market Value of other projects.

As shown in Table V.XIII below, applying a capture rate of 5% to Chula Vista's projected multi-family housing growth through 2030 results in a theoretical demand for 649 multi-

family housing units in the Palomar Gateway District. In applying a 10% capture rate to forecasted citywide multi-family housing growth, a theoretical demand of 1,298 multi-family housing units for the Palomar Gateway District was projected. It's important to note that units projected in this study represent a theoretical demand and not an expected delivery of units to the Palomar Gateway District. With the exception of the 5-acre lot on southwest corner of Industrial Blvd. and Palomar St., the Palomar Gateway District is largely built out. Redeveloping existing developed lots is typically challenging, both in terms of time and cost. Furthermore, the District is comprised of a large number of residential lots. In order to accommodate larger scale multi-family developments, lots may need to be assembled. Assembling lots for larger scale development may inhibit the District's ability to accommodate future demand.

Table V.XIII

HOUSING DEMAND - PALOMAR GATEWAY DISTRICT

	2010	2012	2015	2020	2030
Chula Vista - Housing Forecast					
Single Family Housing Units					
Cummulative Growth		490	1,670	2,975	3,839
Avg. Annual Growth		245	334	298	192
Multi-Family Housing Units					
Cummulative Growth		520	1,934	7,034	12,978
Avg. Annual Growth		260	387	703	649
Total					
Cummulative Growth		1,010	3,604	10,009	16,817
Avg. Annual Growth		505	721	1,001	841
Palomar Gateway District - Multi-Family Demand (Upper Range)					
Capture Rate (% of Citywide MF Demand)		10.0%	10.0%	10.0%	10.0%
Demand for Multi-Family Units (Cummulative)		52	193	703	1,298
Demand for Multi-Family Units (Annual Avg.)		26	39	70	65
Palomar Gateway District - Multi-Family Demand (Lower Range)					
Capture Rate (% of Citywide MF Demand)		5.0%	5.0%	5.0%	5.0%
Demand for Multi-Family Units (Cummulative)		26	97	352	649
Demand for Multi-Family Units (Annual Avg.)		13	19	35	32

Source: SANDAG and Gafcon

Housing Conclusions

Situated within walking distance of shopping, restaurants, and trolley access, the Palomar Gateway District provides an attractive opportunity for multi-family housing development. In particular, a vacant site located adjacent to the Palomar Trolley Station on the southwest corner of Palomar and Industrial represents an attractive multi-family site as a five-acre undeveloped site with frontage along Palomar St. and adjacent to the Palomar Trolley Station.

In the near term, development of for-sale multi-family housing will continue to be a challenge. The required investment returns for investors to develop multi-family projects will continue to be inhibited by compressed market pricing, high shadow inventory levels, strict lending standards, and sagging investor/consumer sentiment. This study assumes demand for new housing will begin the return to historically normal levels beginning in 2012.

The development of higher density multi-family for-sale programs in lower priced communities may lag behind higher priced areas, as the high development costs associated with high-density development will be less likely to be absorbed in lower priced communities. Pricing in Chula Vista's South Market is below average when compared to Chula Vista, South County, and the San Diego region as a whole.

Conversely, demand for rental housing in the near term appears strong in the San Diego region and Chula Vista. Chula Vista's South Market contains 30 of Chula Vista's 61 major apartment complexes. Chula Vista's South Market has a vacancy rate of 3.7% compared to a citywide average of 4.4%. San Diego County as a whole has a vacancy rate of 5.06% and South County has a vacancy rate of 4.19%. Low vacancy rates and an aging inventory of apartment complexes in Chula Vista's South Market coupled with the District's proximity to shopping and transit, provides compelling conditions for rental housing development in the Palomar Gateway District.

Near and long-term market supply/demand conditions are anticipated to be favorable for rental housing within the Palomar Gateway District. Below average rental rates in Chula Vista's South Market, however, present a potential inhibitor to future investment. Through March 2011, Chula Vista's South Market average rental rate was recorded at $1.29 per square foot as compared to San Diego South County's average of $1.40 and a San Diego countywide average of $1.54 per square foot. Part of South Chula Vista's rental rate gap can be attributed to an aging rental-housing inventory.

Another challenge in expanding the Palomar Gateway District's supply of housing is the limited amount of undeveloped sites within the District. With the possible exception of the five-acre lot along Palomar St., assembling multiple lots in order to accommodate larger scale multi-family projects will be challenging for potential investors. There are, however, more available opportunities for smaller scale redevelopments involving underutilized lots around 1.0-acre.

From a planning perspective, the General Plan land use designations applied to the Palomar Gateway District provide the appropriate densities at the appropriate locations in order to accommodate transit-oriented multi-family projects.

Demand for multi-family housing in the Palomar Gateway District was forecast over a 20-year horizon. Demand was forecasted to range from 649 to 1,298 multi-family units through 2030. The lower range of this study's forecast is considered a more realistic scenario for the District, as it assumes the District will capture 5.0% of Chula Vista's future multi-family housing demand. This capture rate assumes the East Lake/Otay Ranch market will continue to capture the majority of Chula Vista's housing growth. It also, assumes future redevelopment projects areas such as the Downtown/Urban Core and Bayfront will capture the largest share of West Chula Vista's growth in the future, as these areas grow closer to realizing their visions. The area around the Bayfront E St. Trolley Station was also considered to be a competitive location to capture a small share of future housing demand. An upper range to the forecast was included to provide scale for an optimistic scenario.

The District's limited supply of undeveloped sites will likely limit future growth and prevent the District from achieving the total demand forecasted in this study. There are currently about 400 dwelling units in the District. Utilizing the General Plan land use designations can result in a maximum of 2,400 dwelling units, resulting in a net increase capacity for 2,000 additional units. Based on this study's forecasted housing demand, as well as, the limited supply of undeveloped sites, the build out capacity for the District will not be achieved.

In order to help stimulate new rental housing development in the Palomar Gateway District, conditions of approval should provide flexibility in recognition of the District's challenges, as well as, the investment thresholds required to initiate development. Potential planning targets to integrate commercial uses into a residential development should be promoted through incentives as opposed to requirements for approval.

The following list summarizes major opportunities and challenges the Palomar Gateway District provides as an area for residential development:

Opportunities:

+ Within walking distance of trolley station
+ Within walking distance of restaurant/retail opportunities
+ Proximity to freeway on/off-ramp
+ Location between San Diego and Mexico
+ Vacant five-acre lot on Palomar St./Industrial Blvd.
+ Large and underutilized residential lots south of Palomar St.
+ Recent public infrastructure improvements
+ Proximity to Chula Vista Bayfront Plan Area
+ Aging apartment properties
+ Affordability to other to other residential markets and TOD project areas
+ Development of previously underutilized large lots (Approximately 1.0-acre) with multiple housing units indicates some market and investor interest in the area

Challenges:

- Auto oriented focus
- Restricted pedestrian connectivity (Retail, park, bike paths, etc.)
- Low Income
- Traffic congestion
- Minimal sense of community/place
- Mixed market perception
- Secondary commercial users (Ex. North east corner of Industrial Blvd./Palomar St.)
- Land assembly
- Low rents and pricing
- Limited supply of undeveloped land
- High cost of mixed-use/high-density development relative to surrounding pricing and incomes
- Existing District park is isolated from residential center of the District, south of Palomar St.

VI. RETAIL MARKET ASSESSMENT

Retail Market

San Diego's retail market ended 2010 with some reason for optimism. For three consecutive quarters, retail demand posted positive net absorption. According to Colliers International, countywide net absorption for 2010 totaled 241,818 square feet. With only 249,000 square feet of new countywide retail space delivered in 2010, total direct vacancy remained unchanged at 5.5%. In the first quarter of 2008, retail rental rates peaked at a historical high of $2.14 per square foot. Since that peak, rental rates have declined almost 15%, reaching $1.84 per square foot in the fourth quarter of 2010.

San Diego's countywide retail market, as measured by Colliers International, totals 121,831,264 square feet. The Chula Vista/Bonita market sits within the South County sub-market. The South County market totals 15,835,035 square feet or about 13 percent of the countywide total. In terms of proposed future retail projects, of the San Diego County's 1,915,879 square feet of proposed future retail projects, almost 30 percent is being proposed in South County's market, including 350,823 square feet in the Chula Vista/Bonita market. Furthermore, of South County's proposed projects, about 59 percent is being proposed in the Chula Vista/Bonita area. In terms of vacancy rates, the Chula Vista/Bonita market ended 2010 at 5.1 percent as compared to a South County rate of around 4.9 percent and a countywide average of 5.5 percent. Lease rates for the Chula Vista/Bonita averaged $1.81 per square foot, exceeding the South County average of $1.71 per square foot and almost equaling the countywide average of $1.84 per square foot.

Table VI.I below summarizes San Diego County's retail market:

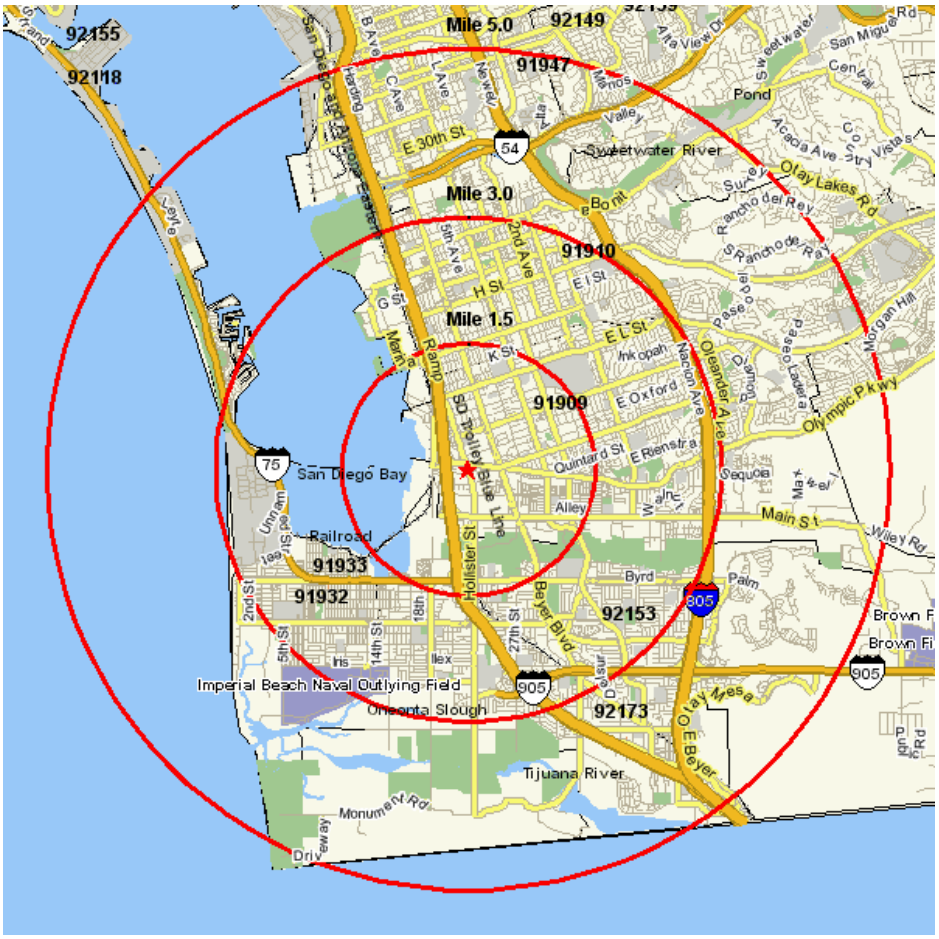
Table VI.I
SD Retail Market
2010 Q4

Submarket	# of Bldgs	Total Inventory	Direct Vacancy Rate	YTD Net Absorption	Under Construction	Proposed SF	Avg Rental Rate
Central San Diego	2,948	35,216,339	5.0%	233,544	20,000	415,337	$ 2.01
East County	1,473	18,074,608	5.5%	(104,632)	3,729	39,984	$ 1.44
I-15 Corridor	434	7,142,983	3.0%	53,862	18,030	36,465	$ 2.38
North County	2,520	37,889,188	6.6%	10,987	23,819	831,295	$ 1.80
North San Diego	474	7,673,111	5.1%	31,779	-	-	$ 2.36
South County							
Chula Vista/Bonita	540	8,477,453	5.1%	46,204	-	350,823	$ 1.81
National City	243	3,302,402	7.0%	(47,799)	12,958	25,557	$ 1.58
San Ysidro/Imperial Beach	295	4,055,180	2.8%	17,873	-	216,418	$ 1.61
South County Total	**1,078**	**15,835,035**	**4.9%**	**16,278**	**12,958**	**592,798**	**$ 1.71**
San Diego County Total	**8,927**	**121,831,264**	**5.5%**	**241,818**	**78,536**	**1,915,879**	**$ 1.84**

Source: Colliers International

Demographic Overview

As part of this study, Gafcon analyzed demographic, household expenditure, and retail sales data provided by The Nielsen Company/Claritas for 1.5-mile, 3.0-mile, and 5.0-mile trade areas surrounding the Palomar Gateway District. The map below represents the trade area rings evaluated in this study:



The Palomar Trolley Station was designated as a center point for the Palomar Gateway District's trade area. A 1.5-mile radius surrounding the Trolley Station was evaluated and recognized as the primary trade area for supporting community level retail. The study assumes that households within this trade area will provide the primary support for potential neighborhood retail uses in the District. As shown in Table VI.II, population within the primary trade area is relatively low at 41,587 people. Attributing to this population level is the fact that a significant portion of this trade area crosses into the San Diego Bay. Additionally, a large portion of this trade area is occupied by commercial land uses.

Household income within this trade area is relatively low with a median household income of $40,240. As the trade area extends to 3.0-miles, median household income increases to $47,620. Extending the trade-area further out to 5-miles generates a median household income of $51,973.

The Palomar Gateway District and the surrounding area are primarily comprised of Hispanic or Latino households. Within the District's primary trade area (0 – 1.5 miles), people of Hispanic or Latin origin represent 73.7% of the population. For the City of Chula Vista, about 58.0% of the population is of Hispanic or Latino origin.

Workers within the District's trade areas have an average work commute of about 27 minutes. The primary trade area, however, has fewer cars per household than the secondary trade areas. For the 1.5-mile trade area, residents average about 1.64 cars per household. Extending out to three miles generates an average of about 1.84 vehicles per household. Vehicles per household average about 1.87 within the 5-mile trade area. With fewer cars per household, public transportation is utilized more in the primary trade area. Within the primary trade area, 7.3% of workers utilize public transportation to work as compared to 6.5% for residents within the secondary (3.0-mile) trade area. Similarly, more people walk to work in the primary trade area (3.1%) as compared to the secondary trade area (1.9%).

TABLE VI.II
DEMOGRAPHIC SNAPSHOT (Palomar Gateway District Trade Area)

Description	0 - 1.5 Mile Radius	0 - 3.0 Mile Radius	0 - 5.0 Mile Radius	Chula Vista
Population	41,587	189,839	321,354	243,916
Households	13,639	59,580	97,277	71,697
Persons per Household	3.04	3.17	3.21	3.30
Median Household Income	$40,240	$47,620	$51,973	$66,955
% Hispanic or Latino Origin	73.7%	66.5%	63.7%	58.0%
Median Age	31.3	32.4	32.1	33.4
Language				
Speak Only English at Home	31.5%	38.3%	38.4%	---
Speak Spainish at Home	62.3%	54.0%	52.9%	---
Other	6.2%	7.8%	8.7%	---
Average Number of Vehicles	1.64	1.84	1.87	---
Average Travel Time to Work	27.43	27.45	27.02	---
Occupation Classification				
Blue Collar	26.4%	24.4%	23.1%	---
White Collar	47.1%	51.8%	54.1%	---
Service and Farm	26.5%	23.8%	22.9%	---
Transporation to Work				
Drove Alone	68.3%	71.8%	72.1%	---
Car Pooled	16.7%	14.5%	14.1%	---
Public Transportation	7.3%	6.5%	5.9%	---
Walked	3.1%	1.9%	2.1%	---
Bicycled	0.3%	0.5%	0.4%	---
Other Means	1.1%	1.0%	1.3%	---
Worked at Home	3.2%	3.8%	4.1%	---

Source: The Nielsen Company and SANDAG

Retail Demand

Retail demand projections for the Palomar Gateway District were developed as part of this study. These projections are intended to measure potential market demand for retail land uses over a 20-year horizon. Because of the uncertainty inherent with a long-term forecast, as well as, the lack of a specifically defined development project, the forecast provided in this study is intended to provide general projections for general land use planning purposes.

The Palomar Gateway District is part of a unique retail market that is comprised of separate markets. As part of this study, each market was evaluated individually and collectively to measure total potential retail demand. For this study, primary and secondary markets were evaluated. Primary markets are defined as existing households within a 1.5-mile radius of the Palomar Trolley Station, as well as, projected future Palomar Gateway District households. Secondary markets were defined as cross borders shoppers, area workers, and households with a 5.0-mile radius of the Palomar Trolley Station.

Primary Market – Existing Residents

The District's primary retail market for this study is defined as existing households within a 1.5-mile radius of the Palomar Trolley Station. Demographic and expenditure data generated by Claritas was evaluated by Gafcon to measure household expenditure capacity/demand and retail sales/supply within the trade area. Demand within the primary trade area was derived by Claritas from the Consumer Expenditure Survey, which is administered by the U.S. Bureau of Labor Statistics. The survey consists of a Quarterly Interview Survey and a Diary Survey that provide information on buying habits, expenditures, income, and consumer characteristics. Retail sales/supply within the primary trade area was derived by Claritas from the Census of Retail Trade, made available by the U.S. Census. Consumer expenditure data was then compared to retail sales data by retail category. Retail categories that were determined to be compatible land uses with a transit focus area were evaluated. As such, retail categories such as, building material, garden equipment, motor vehicle, and gasoline stores were not evaluated as part of this study.

As shown in Table VI.III on the following page, household expenditures within the 1.5-mile trade area total $265.4M. This total represents expenditures households within the trade area made in the listed retail categories. Total retail sales were reported at $567.7M. The total for retail sales represents reported sales by retailers within the designated trade area. In total, the data suggests that the supply of retail in the District far exceeds the expenditure capacity of trade area households. This imbalance is largely driven by the relatively low number of households in the primary trade area and the high concentration of major

retailers within the trade area. With the trade area's strong retail concentration, expenditures are likely being pulled from households outside the primary trade area.

Table VI.III
Retail Demand - Primary Market Area (0 - 1.5-Mile Trade Area)
Existing Households w/in Primary Trade Area

Retail Category	2010 Demand (Consumer Expenditures)	2010 Supply (Retail Sales)	Sales Opportunity	Capture Rate	$ per SF Avg.	Square Footage Opportunity
Furniture, Home Furnishings, & Electronics	$17,375,769	$20,898,252	($3,522,483)	10%	$400	NA
Food & Beverage Stores	$69,062,382	$142,603,221	($73,540,839)	40%	$500	NA
Health and Personal Care Stores	$25,228,782	$34,319,213	($9,090,431)	30%	$700	NA
Clothing and Clothing Accessories	$21,678,333	$32,236,957	($10,558,624)	20%	$300	NA
Sporting Goods, Hobby, Book, & Music Stores	$8,134,352	$24,186,896	($16,052,544)	15%	$300	NA
General Merchandise Stores	$64,178,017	$218,015,708	($153,837,691)	20%	$315	NA
Misc. Store Retailers	$9,975,002	$20,053,768	($10,078,766)	10%	$350	NA
Food Service and Drinking Places	$49,768,877	$75,357,164	($25,588,287)	35%	$400	NA
Total	**$265,401,514**	**$567,671,179**	**($302,269,665)**	---	---	**NA**

Sources: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey; Census of Retail Trade; Claritas; Bizminer; & Gafcon.

Individual retail categories were also evaluated to identify specific retail opportunities. In retail categories where household expenditures exceed trade area supply for related categories, potential retail sales opportunities were identified. Specific retail capture rates based on historical retail market trends were applied to each retail category in order to quantify sales that can reasonably be captured within the designated trade area. Industry standard sales per square foot averages, provided by Bizminer, were applied to the potential sales revenue in order to estimate potential square footage demanded for the retail category in demand.

As shown in Table VI.III, the expenditure capacity of households within the primary trade were found to be considerably lower than the existing level of retail sales/supply in the trade area. As such, new retail opportunities from trade area households were not identified.

Primary Market – Future Residents

In addition to existing households within the primary trade area, potential retail demand from future Palomar Gateway District households was also measured. Average household expenditure data was evaluated for Chula Vista based on California State Board of Equalization data. Based on this data, average household expenditures by retail categories were calculated. Household expenditure averages were then applied to forecasted Palomar Gateway District households in order to calculate expenditure potential in total and by retail category. Industry standard retail capture rates were then applied the future household expenditure capacity to calculate reasonable expenditures in the project area. With captured sales potential figures, industry sales per square footage averages were applied to each retail category to convert sales demand to square footage demand.

As shown in Table VI.IV below, two separate retail demand scenarios are provided. Each scenario is based on the study's housing demand forecast. The lower range scenario is based on housing projections provided in this study that assume the Palomar Gateway District captures 5.0% of Chula Vista's future multi-family housing demand. The upper range scenario assumes the District captures 10% of Chula Vista's future multi-family housing demand. Under the lower range scenario, a total of 8,172 square feet of retail demand is anticipated to be generated from future District households. The upper range scenario generates a potential demand of 16,344 square feet of retail from future residents.

Table VI.IV

Retail Demand - Primary Market
Future District Households

	Avg. Annual Household Expenditures	Capture Rate	Sales/SF	2012	2015	2030
LOWER RANGE SCENARIO						
Cummulative Multi-Family Demand	---	---	---	97	352	649
Cummulative Retail Demand (Square Feet)						
Furniture, Home Furnishings, & Electronics	$ 2,033	10%	$ 400	49	179	330
Food and Beverage Stores	$ 1,634	40%	$ 500	126	460	848
Clothing and Accessories Stores	$ 1,656	20%	$ 300	107	388	716
General Merchandise Stores	$ 8,615	20%	$ 315	529	1,924	3,549
Food Service and Drinking Places	$ 3,917	35%	$ 400	331	1,205	2,224
Other Retail Group	$ 2,720	10%	$ 350	75	273	504
			Supportable SF	**1,218**	**4,429**	**8,172**
UPPER RANGE SCENARIO						
Cummulative Multi-Family Demand	---	---	---	193	703	1,298
Cummulative Retail Demand (Square Feet)						
Furniture, Home Furnishings, & Electronics	$ 2,033	10%	$ 400	98	358	660
Food and Beverage Stores	$ 1,634	40%	$ 500	253	919	1,696
Clothing and Accessories Stores	$ 1,656	20%	$ 300	214	777	1,433
General Merchandise Stores	$ 8,615	20%	$ 315	1,058	3,847	7,099
Food Service and Drinking Places	$ 3,917	35%	$ 400	663	2,411	4,448
Other Retail Group	$ 2,720	10%	$ 350	150	547	1,009
			Supportable SF	**2,436**	**8,858**	**16,344**

Sources: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, Census of Retail Trade, U.S. Census, Claritas, & Gafcon.

Given the primary trade area's significant retail base, its current disproportionate relationship of retailers to households, and the relatively minimal retail demand projected from future District residents, it's anticipated that demand generated directly from District residents will be negligible.

Secondary Market – 1.5 to 5.0 Mile Trade Area

The clustering of major big box retailers, such as Target, Costco, and Wal-Mart, within the primary trade area market creates a synergy in attracting household shoppers from outside of the primary trade area. Based on this condition, the primary trade area was extended to capture potential expenditures from households outside the primary trade area.

A trade area from 1.5 to 5.0-miles was evaluated to capture a secondary market that is a support base for retailers adjacent to the Palomar District. In order to evaluate this market, data was measured for a 5.0-mile radius trade area and the Palomar Trolley Station. Totals from this trade area were subtracted from the 1.5-mile trade area to capture the market area from 1.5 to 5.0-miles. As shown in Table VI.V below, the following retail categories present potential opportunities: Food and beverage; Health and personal care, Sporting goods/hobbies/music, Miscellaneous stores, and food service and drinking places. Sales opportunities in terms of revenues were applied to capture rates that the primary trade area could reasonably capture form this secondary market.

Capture rates were reduced to reflect diminishing demand that accompanies increased distances and shopping opportunities. As calculated in the primary markets, theoretically captured sales revenue was applied to industry average sales per square foot indices to estimate a potential demand in square footage by retail category. Based on the assumptions noted in Table VI.V, a total of 48,365 square feet of retail space can potentially be captured in the primary trade area from secondary markets households.

Table VI.V
Retail Demand - Secondary Market Area (1.5 - 5.0-Mile Trade Area)
Households within Secondary Market

Retail Category	2010 Demand (Consumer Expenditures)	2010 Supply (Retail Sales)	Sales Opportunity	Capture Rate	$ per SF Avg.	Square Footage Opportunity
Furniture, Home Furnishings, & Electronics	142,173,482	176,346,232	(34,172,750)	5%	$400	NA
Food & Beverage Stores	470,520,533	435,257,393	35,263,140	20%	$500	14,105
Health and Personal Care Stores	180,215,096	160,265,973	19,949,123	10%	$700	2,850
Clothing and Clothing Accessories	168,111,608	395,514,410	(227,402,802)	10%	$300	NA
Sporting Goods, Hobby, Book, & Music Stores	65,289,090	40,278,546	25,010,544	7%	$300	5,836
General Merchandise Stores	465,358,293	889,992,730	(424,634,437)	10%	$315	NA
Misc. Store Retailers	75,588,047	74,315,167	1,272,880	5%	$350	182
Food Service and Drinking Places	353,885,332	350,247,381	3,637,951	15%	$400	1,364
Total	**1,921,141,481**	**2,522,217,832**	**(601,076,351)**	**--**	**--**	**24,337**

Sources: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey; Census of Retail Trade; Claritas; Bizminer; & Gafcon.

Secondary Market – Cross Border Shoppers

The Palomar Gateway District is a major southern gateway to the City of Chula Vista. In particular, cross border visitors from Mexico can easily access the Palomar Gateway District area from the freeway and the blue line San Diego Trolley. Site visits at District area retail properties by Gafcon, as well as, analysis of trade area retail sales data, review cross border related studies, and interviews with Stakeholders indicate Cross Border shoppers have a significant impact on Chula Vista and District area retailers.

Table VI.VI on the following page represents Gafcon's estimate of retail expenditures from cross border shoppers. The assumptions that serve as the primary basis for this study's cross border shopper estimates are primarily based on secondary data sources that examine cross border activity. In a study prepared by The Center for Border Economic Studies (The Economic Impact of Mexican Visitors Along the U.S. Mexican Border: A Research Synthesis, 2005), northbound border crossings by Mexicans into San Diego County were found to total 19,101,000 in 2004 with San Diego County expenditures estimated at $2,731,230,000. A different source, The University of Autonoma de Baja California estimated that Baja residents spend $1,600,000,000 annually in the San Diego region (Based on a 2001 survey). In another study released by the San Diego Dialogue (Who Crosses the Border: A View of San Diego/Tijuana Metropolitan Region, 1994), it was estimated that 50% of border crossers make Chula Vista their first stop and Border Crossers spend $1,500,000,000 on taxable items. With a lack of definitive historical data tracking this activity and changing economic conditions since previous surveys, Gafcon estimated cross border expenditures at $2,000,000,000 for this study.

For this study, Gafcon assumed Chula Vista captures 30% of cross border retailer expenditures, or $600,000,000 in retail sales annually based on annual expenditures of $2,000,000,000. In the San Diego Dialogues 1994 study, it was estimated that Chula Vista captured about 50% of San Diego County Cross Border shoppers. With increased shopping opportunities within border communities and a lack of regularly updated data tracking cross border expenditures, this study assumes a more conservative capture rate of 30%.

Based on the Palomar Gateway District's proximity to the Mexican border, direct freeway trolley and freeway access, and high concentration of major retailers in the District area, this study assumes the Palomar Gateway District market area captures about 20% of Chula Vista's cross border shopping expenditures. This capture rate is considered conservative, as comprehensive data to refine area capture rates is not available. With this capture rate, the study estimates that the Palomar Gateway District market area captures about $120,000,000 in cross border retail sales. The captured total of $120,000,000 was then adjusted to exclude retail categories considered inconsistent with retail uses found in Transit Focus Areas. Retail categories excluded include: Building Material Stores; Gasoline Stores; and Motor

Vehicles. Excluding these retail categories resulted in $101,811,611 of sales demand for the Palomar Gateway District trade area. Comparing the estimated cross border sales total to the primary trade area's measured sales of $574,339,105 indicates that Cross Border Sales are estimated to account for about 18% of the primary trade area's total measured retail sales.

Utilizing market sales per square foot averages by retail category results in total square foot retail demand generated from Cross Border shoppers at about 249,271 square feet. Of this total, the Clothing and Accessories retail category was estimated to have a demand of about 68,155 square feet. The General Merchandise Store category was the retail category with the second highest measured demand.

Overall, retail space supported from Cross Border shoppers in the Palomar Gateway District trade area is estimated to be significant at about 249,271 square feet.

Table VI.VI
Palomar Gateway District
Cross Border Shopping - Sales Capture Potential

Market Assumptions:		
SDCO Border Crossers	19,101,000	
SDCO Expenditures by Border Crossers	$2,000,000,000	*est.*
Expenditures per party	$105	
Chula Vista Capture Rate	30%	
Chula Vista Captured Sales	$600,000,000	
Palmor Gateway District Market		
(Capture Rate, % of Chula Vista Sales)	20%	
Palmor Gateway District Market (Sales Demand)	$120,000,000	All Retail Categories
Palmor Gateway District Market (Net Sales Demand)	$101,811,611	(Excludes: Bldg, Auto, Gas)

Retail Category	**Sales**	**Sales/SF**	**Square Footage Opportunity**
Furniture, Home Furnishings, & Electronics	$4,811,219	$410	11,735
Food and Beverage Stores	$19,122,851	$560	34,148
Health and Personal Care Stores	$6,985,659	$850	8,218
Clothing and Clothing Accessories	$25,898,808	$380	68,155
Sporting Goods, Hobby, Book, Music Stores	$2,252,341	$310	7,266
General Merchandise Stores	$17,770,408	$310	57,324
Misc. Store Retailers	$11,189,700	$400	27,974
Food Service and Drinking Places	$13,780,626	$400	34,452
Total (Excludes: Bldg/Auto/Gas):	**$101,811,611**		**249,271**

1.5-Mile Trade Area Retail Sales	$574,339,105
Cross Border Sales as a % of Trade Area Sales	18%

Sources:
The Economic Impact of Mexican Visitors - Along the Mexican Border, Center for Border Economic Studies (2005); Who Crosses the Border: A View of the San Diego/Tijuana Metropolitan Region, A Report of San Diego Dialogue (1994); Gafcon.

Secondary Market – Area Workers

Workers within the Palomar Gateway District's primary trade area provide additional retail market support. In order to calculate the number of workers surrounding the Palomar Gateway District, Gafcon utilized the U.S. Census Bureau's Longitudinal Employer-Household Dynamics data mapping tool. Utilizing the LEHD data mapping tool, the Palomar Trolley Station was selected as the center point of a designated 1.5-mile radius. From this data ring, 9,620 jobs were estimated to be located in the Palomar Gateway District's 1.5-mile trade area.

The map below is an LEHD data map that represents job distributions within Palomar Gateway District's primary area.

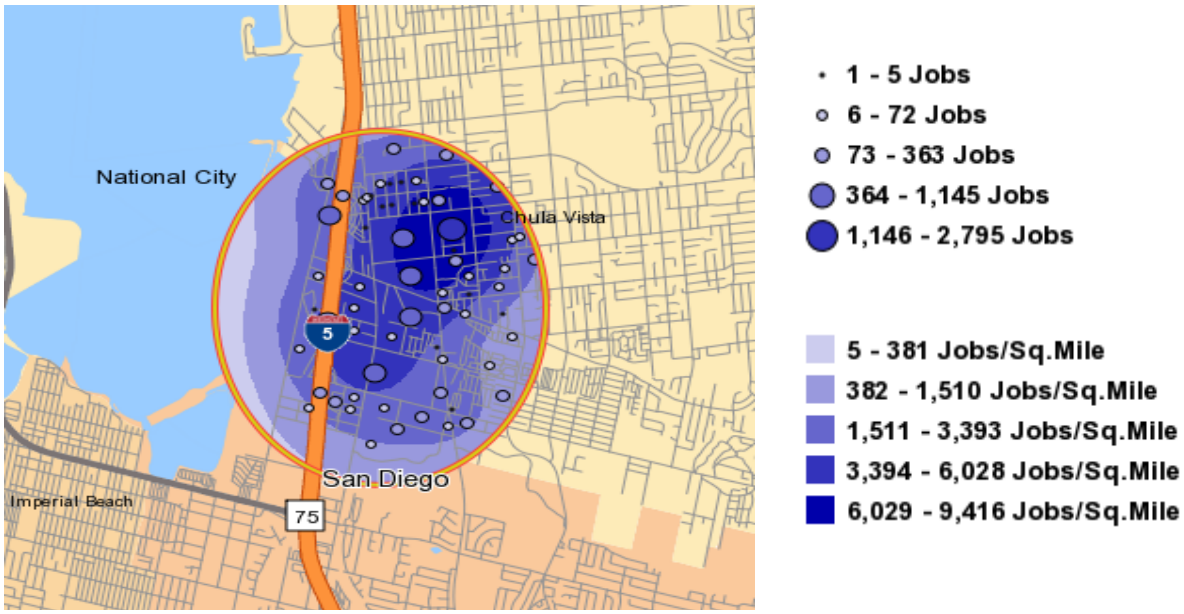


Table VI.VII on the following page provides a detailed breakdown of jobs within the Palomar Gateway District's trade area. Jobs within the trade area are primarily comprised of below average income jobs with 70.1% of the jobs providing monthly earning of $3,333 or less. The highest share of jobs consists of retail, education, and manufacturing jobs with professional services only accounting for 2.1% of the area total. Educational services, retail/wholesale trade, and manufacturing/Transportation/Warehouse combined account for about 63% of the area's total jobs. Jobs are largely occupied by Hispanic or Latinos, about 59%. In terms of worker education levels, about 18% of area workers have attained a bachelors or advanced degree.

Table VI.VII
Work Area Profile Report
1.5-Mile Radius around Palomar Trolley Station

Job Categories	2009 # of Jobs	Share
Total All Jobs	9,620	100.0%
Jobs by Worker Age		
Age 29 or younger	2,331	24.2%
Age 30 to 54	5,542	57.6%
Age 55 or older	1,747	18.2%
Jobs by Earnings		
$1,250 per month or less	2,996	31.1%
$1,251 to $3,333 per month	3,747	39.0%
More than $3,333 per month	2,877	29.9%
Jobs by NAICS Industry Sector		
Agriculture, Forestry, Fishing and Hunting	38	0.4%
Mining, Quarrying, and Oil and Gas Extraction	0	0.0%
Utilities	15	0.2%
Construction	345	3.6%
Manufacturing	961	10.0%
Wholesale Trade	493	5.1%
Retail Trade	2,086	21.7%
Transportation and Warehousing	347	3.6%
Information	63	0.7%
Finance and Insurance	140	1.5%
Real Estate and Rental and Leasing	108	1.1%
Professional, Scientific, and Technical Services	200	2.1%
Management of Companies and Enterprises	34	0.4%
Administration & Support, Waste Management and Remediation	257	2.7%
Educational Services	2,144	22.3%
Health Care and Social Assistance	583	6.1%
Arts, Entertainment, and Recreation	87	0.9%
Accommodation and Food Services	612	6.4%
Other Services (excluding Public Administration)	788	8.2%
Public Administration	319	3.3%
Jobs by Worker Ethnicity		
Not Hispanic or Latino	3,918	40.7%
Hispanic or Latino	5,702	59.3%
Jobs by Worker Educational Attainment		
Less than high school	2,099	21.8%
High school or equivalent, no college	1,473	15.3%
Some college or Associate degree	1,969	20.5%
Bachelor's degree or advanced degree	1,748	18.2%
Educational attainment not available (workers aged 29 or younger)	2,331	24.2%

Source: U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics (Beginning of Quarter Employment, 2nd Quarter of 2002-2009)

In a study conducted by the International Council of Shopping Centers (Office Worker Spending Patterns, 2004), ICSC estimated that office workers in suburban areas within large metropolitan areas spent about $143 per week at retail stores before arriving home. Based on the relatively low ratio of office jobs within the primary trade area, the area's job type composition and relatively low worker income levels in the area, Gafcon assumed weekly worker expenditures will average $85 per week. Based on the high concentration of major retailers within the primary trade area, Gafcon applied a 60% capture rate to worker expenditures.

As shown in the Table VI.VIII below, supportable sales generated from trade area workers are estimated at $25,531,000. Based on an average sale per square foot rate of $400, retail space demanded from area workers was estimated at 61,328 square feet.

Table VI.VIII
Market Area Jobs
Sales Capture Potential

Market Area Jobs (1.5-Mile Trade Area)	9,620
Capture Rate	60%
Avg. Weekly Worker Expenditures	$85.00
Avg. Annual Work Weeks	50
Supportable Sales	$ 24,531,000
Avg. Sales per Square Foot	$400
Supportable Square Feet:	**61,328**

Sources: U.S. Census Bureau, LEHD Origin-Destination Employment Statistics, & Gafcon

Secondary Market – Trolley Riders

This study assumes area households, workers, and cross-border shoppers drive the largest share of trolley ridership into the Palomar Trolley station. Since this study includes demand projections for these retail markets, it is assumed that any additional demand outside of these measured consumer markets consumer markets is minimal. The small share of riders who may fall outside of these measured categories are not expected to generate notable retail demand due to the small estimated size of this potential population and the assumption that trolley ridership alone generally does not generate significant retail

demand from riders. In a study prepared by Brion & Associates (Retail Analysis of Dublin Transit Center Specific Plan, 2003), it was determined that BART riders did not generate meaningful retail demand. In this study, Black BART Inc., the largest retail concessionaire within the BART system, reported that Black BART only captured about 3% of riders and the average expenditure was about $3.50 per transaction. Since this study already captures area residents, workers, and cross-border shoppers, any residual retail demand from riders outside these measured categories is considered to be negligible and as such, is not included in this study.

Retail Conclusions

The Palomar Gateway District area is a major center of retail activity. Favorable traffic counts, retail clustering, site configurations, freeway/street access, and proximity to the border have made this area around Palomar St. and Broadway an attractive location for a wide range of retailers.

As shown in Table VI.IX below, overall current and future retail demand potential for the Palomar Gateway District was determined to be limited. As part of this analysis, Gafcon developed separate demand projections for primary and secondary markets. Primary markets were considered existing households within a 1.5-mile radius of the Palomar Trolley Station, as well as, future households forecasted as part of this study to potentially be developed in the Palomar Gateway District. Existing trade area households were determined to generate about $265.4M in retail expenditures while future households were projected to generate $26.7M in expenditures at build out.

Table VI.IX
Summary of Total Retail Demand
Palomar Gateway District Primary Market

	Sales Demand - Primary Markets		Sales Demand - Secondary Markets						
Retail Category	Existing Households	Future Households	Households[1]	Cross Border Shoppers	Workers	Forecasted Expenditures	Total Supply (Primary Market)	Total Sales Opportunity	Total Space Opportunity (Square Feet)
Furniture, Home Furnishings, & Electronics	17,375,769	1,748,458	-	4,811,219	1,606,038	25,541,484	20,898,252	4,643,232	11,608
Food & Beverage Stores	69,062,382	6,949,486	7,052,628	19,122,851	6,383,420	108,570,767	142,603,221	(34,032,454)	0
Health and Personal Care Stores	25,228,782	2,538,677	1,994,912	6,985,659	2,331,890	39,079,921	34,319,213	4,760,708	6,801
Clothing and Clothing Accessories	21,678,333	2,181,409	-	25,898,808	2,003,723	51,762,273	32,236,957	19,525,316	65,084
Sporting Goods, Hobby, Book, & Music Stores	8,134,352	818,529	1,750,738	2,252,341	751,856	13,707,816	24,186,896	(10,479,080)	0
General Merchandise Stores	64,178,017	6,457,991	-	17,770,408	5,931,959	94,338,375	218,015,708	(123,677,333)	0
Misc. Store Retailers	9,975,002	1,003,747	63,644	11,189,700	921,987	23,154,080	20,053,768	3,100,312	8,858
Food Service and Drinking Places	49,768,877	5,008,054	363,795	13,780,626	4,600,126	73,521,478	75,357,164	(1,835,686)	0
Total:	**265,401,514**	**26,706,350**	**11,225,717**	**101,811,611**	**24,531,000**	**429,676,192**	**567,671,179**	**(137,994,986)**	**92,352**

Notes: (1) Household demand from secondary market based on upper range of forecast.

Secondary markets were also evaluated individually and included: Households within a more distant 1.5 to 5.0-mile radius of the Palomar Trolley Station; Cross border shoppers; and workers within the primary trade area. Due to diminished retail capture rates associated with a retailer's increased distances from households, households within the secondary trade area (1.5 to 5.0-miles) were estimated to generate retail expenditures of $11.2M in the primary trade area. With the Palomar Gateway District market area's proximity to the Mexican border, it's concentration of major retailers, and its favorable access, expenditures from Cross Border shoppers were estimated at $101.8M. Workers within the District's primary trade area were projected to generate $24.5M in retail expenditures.

Expenditure estimates for primary and secondary markets were combined to result in a total retail expenditure forecast of $429.7M. This total was compared to actual expenditures within the primary trade area. As part of this analysis, expenditure estimates by retail

category were compared to actual primary trade area expenditures by retail category in order to identify specific retail opportunities by retail type. In total, current retail expenditures in the primary trade area were estimated at $567.7M, resulting in no sales opportunities in total. However, when evaluating retail supply and demand projections by retail category, a few retail categories were found to provide potential retail demand opportunities.

On a square foot basis, the following retail categories were found to represent potential retail demand opportunities:

1. Furniture & Electronics (11,608 square feet)
2. Health & Personal Care (6,801 square feet)
3. Clothing & Accessories (65,084 square feet)
4. Food Service & Drinking Places (8,858 square feet)

It's important to note that the retail categories found in this study to provide demand potential do not limit potential market opportunities for other retail categories where competitive retailers enter the markets with a competitive advantages that allows these retailers to capture market share from existing retailers. As such, these projections should be viewed as a theoretical demand to provide general parameters for better understanding the area's measurable retail market dynamics.

The District's currently undeveloped 5-acre site on the southwest corner of Palomar St. and Industrial Blvd. provides limited opportunities as a retail only site. Based on the site's size, retail development on the site would likely not be able to accommodate a large anchor retailer. As such, a potential retail development concept would likely be a strip center development. While this type of development is assumed to be feasible from a physical development standpoint, it is Gafcon's opinion that this type of development is already well represented in the Palomar Gateway District market area and development of a strip center development would be an impediment to implementing the vision of the District as a Transit Focus Area.

The area north of Palomar St. is developed with a mix of residential and commercial land uses. Due to the concentration of residential lots on the northwest corner of Palomar St. and Industrial Blvd., relevant retail development is not feasible in this area without the process of assembling individual residential lots. Another area on the northeast corner of Palomar St. and Industrial Blvd. is currently developed as a business park. Although it appears to have been designed for more traditional business park users, the property has evolved to become a center for wholesale retailer type users. In terms of location, size, configuration, and street frontage, this site represents a good site for a traditional

community retail center. Due to the anticipated significant redevelopment costs associated with redeveloping this site, mixed-use development of this site is not anticipated in the near term. Longer-term prospects for the redevelopment of this site may improve with increased residential pricing. Even with the potential for improved residential pricing, the costs associated with acquiring an existing/active commercial property and clearing the site for the development of a mixed-use project creates an extremely challenging financial hurdle for investors to receive a targeted return on investment. Overcoming these financial hurdles is typically more attainable in markets with higher price premiums that help overcome heavy initial investments.

Future retail space in the Palomar Gateway District as part of a mixed-use project should be focused along Palomar St. in order to help maximize shopper visibility and access. Retail categories identified in this study as representing potential demand can be integrated into intelligently designed mixed-use developments. As noted above, other retailers may also have the opportunity to be competitive based their unique competitive strengths.

Retail programs that are integrated into mixed-use developments may have challenges and opportunities unique from traditional retail developments. Some challenges with integrating retail uses into residential projects include: Restricted vehicle access, limited retail clustering/synergies, limited parking, limited retail floor space configurations, restricted uses, and restricted visibility.

The currently undeveloped five-acre site sits between the I-5 Freeway and Industrial Blvd. A potential mixed-use development program that provides ground floor retail fronting Palomar St. may be at risk of restricted pedestrian traffic. The area west of the I-5 Freeway can primarily be characterized by low-density residential and light industrial land uses. This area lacks a high concentration of households or workers that could potentially cross the I-5 Freeway and walk eastward into the District. Furthermore, while pedestrian access is available on the bridge that crosses the I-5 Freeway, freeways can sometimes serve as an impediment to welcoming leisurely pedestrian movement generally associated with pedestrian oriented communities. North/south traffic along Industrial Blvd. and the Blue rail line may potentially inhibit pedestrian movement moving westward across these transportation lines. Pedestrian friendly crossings, bridges, or tunnels could be help mitigate such impediments but would be costly relative to the limited amount of retail that would likely be generated as part of a mixed-use residential project.

In an effort to better facilitate pedestrian traffic, initial retail delivered as part of a mixed-use development project within the District may be initially concentrated on Palomar St. fronting sites east of Industrial Blvd. Focusing retail uses in these areas may help minimize

potential pedestrian barriers and allow more opportunities for shoppers from existing surrounding retail properties to more easily interact with new retail opportunities.

Potential retail that is integrated into a mixed-use project on the five-acre site should be more heavily oriented toward the Palomar St./Industrial Blvd. intersection. Focusing retail in this area within site of the Palomar Trolley Station will help draw trolley users and shoppers from neighboring retail properties. Secondly, the concept of place making as part of the Trolley Station will be more strongly communicated with a visual connection between mixed-use retail and the Trolley Station.

In considering potential development conditions for mixed-use projects in the Palomar Gateway District, flexibility of uses will be critical in allowing developers to respond to marketplace conditions. Based on interviews with area stakeholders, it is recommended that retail uses not be a required element of future developments in the District. Retail uses can be integrated into mixed-use residential projects, but should only be done so to meet compelling market fundamentals.

Limited areas of retail demand have been identified in the project area's market area as part of this study. The current General Plan land use designations that are applied to the Palomar Gateway District generate a potential capacity for retail that is far above potential demand identified in this study. Approximately 37 acres have been designated as Mixed-use Transit Focus. This land use designation allows retail and office uses a FAR of 1.0. Based on the retail demand levels projected as part of this study, the commercial land use capacity provided by the General Plan land use designations far exceeds the projected demand for retail space.

The following list summarizes major opportunities and challenges the Palomar Gateway District provides as an area for retail development:

Opportunities:

+ Within walking distance of transit station
+ High auto traffic counts
+ Synergies related to retail clustering
+ Proximity to freeway on/off-ramp
+ Proximity to Mexican border
+ Community-wide draw from adjacent major retailers (Costco, Walmart, Target)
+ Vacant five-acre lot on Palomar/Industrial (Retail frontage along Palomar St.)

Challenges:

- Traffic congestion
- Unappealing pedestrian connectivity to all retail properties
- Limited pedestrian traffic
- Pedestrian barriers (I-5 Freeway, Industrial Blvd., Trolley Crossing)

VII. OFFICE MARKET ASSESSMENT

Office Market

San Diego County's office market appears to be stabilizing and is showing some modest signs of improvement. As shown in Table VII.I below, about 164,000 square feet of space was absorbed countywide in the fourth quarter of 2010. This brought the total net absorption for 2010 to a positive 606,800 square feet. In contrast, San Diego County's office market had a combined negative absorption of about 1.4 million square feet in 2009/2008 combined. San Diego's positive absorption in 2010 helped improve the countywide total vacancy rate to 19.4%. On a net vacancy basis, vacancies that exclude subleased space, countywide office vacancy decreased from 17.4% in 2009 to 16.9% in 2010.

Table VII.I

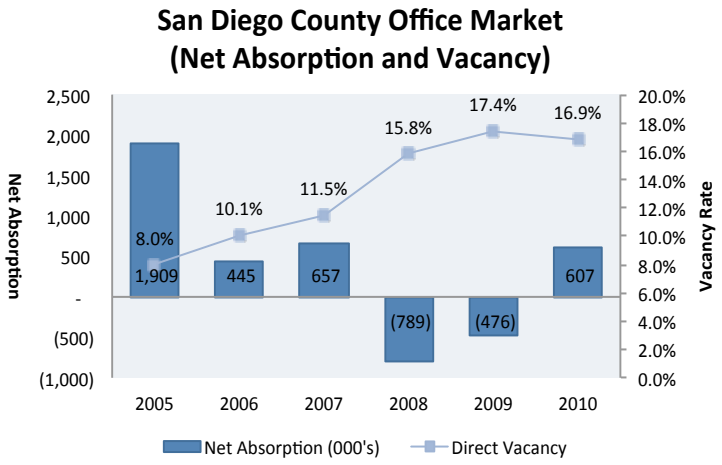
San Diego Office Market
2010 Q4

	Total SF	% of Subtotal	% of Grand Total	Vacant SF	Total Vacancy	YTD Absorption	2010 Rate of Absorption	Asking Rent Class A	Asking Rent Class B
North County									
Carlsbad	4,108,791	31.7%	5.7%	1,335,357	32.5%	22,333	0.5%	$ 2.40	$ 2.29
Encinitas	726,404	5.6%	1.0%	106,055	14.6%	39,230	5.4%	$ 3.27	$ 2.39
Escondido	857,643	6.6%	1.2%	225,560	26.3%	(29,526)	-3.4%	$ 2.57	$ 1.80
Oceanside	874,395	6.7%	1.2%	218,599	25.0%	28,498	3.3%	$ 2.04	$ 1.80
Rancho Bernardo	4,023,433	31.0%	5.6%	607,538	15.1%	616,400	15.3%	$ 2.91	$ 1.94
San Marcos	932,553	7.2%	1.3%	231,273	24.8%	(11,111)	-1.2%	$ 2.59	$ 2.03
Solana Beach	754,021	5.8%	1.0%	142,510	18.9%	(8,108)	-1.1%	$ 2.88	$ 2.27
Vista	690,914	5.3%	1.0%	240,438	34.8%	(48,250)	-7.0%	$ 1.79	$ 1.48
Subtotal	**12,968,154**	**100.0%**	**17.9%**	**3,112,357**	**24.0%**	609,466	**4.7%**	**$ 2.46**	**$ 2.12**
Central County									
56 Corridor	470,225	1.1%	0.6%	-	0.0%	-	0.0%	$ -	$ -
Del Mar	4,347,056	10.2%	6.0%	886,799	20.4%	152,323	3.5%	$ 3.12	$ 2.74
Eastgate	2,094,747	4.9%	2.9%	412,665	19.7%	(125,102)	-6.0%	$ 2.50	$ 2.30
Governor Park	898,465	2.1%	1.2%	163,521	18.2%	165,979	18.5%	$ 1.86	$ 1.91
Kearny Mesa	7,183,916	16.9%	9.9%	890,806	12.4%	53,124	0.7%	$ 2.30	$ 1.96
La Jolla	1,025,490	2.4%	1.4%	128,186	12.5%	(10,408)	-1.0%	$ 3.35	$ 2.79
Miramar	891,689	2.1%	1.2%	143,562	16.1%	18,541	2.1%	$ 1.95	$ 1.74
Mission Valley	6,631,329	15.6%	9.2%	1,080,907	16.3%	17,072	0.3%	$ 2.45	$ 2.04
Poway	1,250,061	2.9%	1.7%	457,522	36.6%	(9,876)	-0.8%	$ 2.63	$ 2.46
Rose Canyon	300,134	0.7%	0.4%	60,027	20.0%	(37,566)	-12.5%	$ 1.50	$ 1.32
Scripps	1,595,839	3.8%	2.2%	698,977	43.8%	(143,381)	-9.0%	$ 2.43	$ 1.89
Sorrento Mesa	5,287,703	12.4%	7.3%	935,923	17.7%	46,979	0.9%	$ 2.45	$ 2.10
Sorrento Valley	396,865	0.9%	0.5%	57,545	14.5%	33,257	8.4%	$ 1.70	$ 1.67
Torrey Pines	5,824,427	13.7%	8.0%	850,366	14.6%	(103,845)	-1.8%	$ 3.44	$ 3.17
UTC	4,328,560	10.2%	6.0%	978,255	22.6%	122,019	2.8%	$ 2.58	$ 2.17
Subtotal	**42,526,506**	**100.0%**	**58.8%**	**7,739,824**	**18.2%**	**179,116**	**0.4%**	**$ 2.72**	**$ 2.23**
South County									
Chula Vista - East	981,068	5.8%	1.4%	393,408	40.1%	15,950	1.6%	$ 2.33	$ 2.29
Chula Vista - West	792,767	4.7%	1.1%	116,537	14.7%	21,590	2.7%	$ 2.77	$ 1.98
Downtown	9,750,011	57.8%	13.5%	1,813,502	18.6%	(219,198)	-2.2%	$ 2.52	$ 2.38
East County	1,824,377	10.8%	2.5%	233,520	12.8%	15,191	0.8%	$ 2.35	$ 2.04
National City	474,815	2.8%	0.7%	234,559	49.4%	31,004	6.5%	$ -	$ 1.80
Old Town	1,161,758	6.9%	1.6%	205,631	17.7%	(44,261)	-3.8%	$ 2.71	$ 1.93
Uptown	1,874,948	11.1%	2.6%	159,371	8.5%	(2,050)	-0.1%	$ -	$ 2.14
Subtotal	**16,859,744**	**100.0%**	**23.3%**	**3,152,772**	**18.7%**	**(181,774)**	**-1.1%**	**$ 2.51**	**$ 2.23**
Grand Total	**72,354,404**	**100.0%**	**100.0%**	**14,036,754**	**19.4%**	**606,808**	**0.8%**	**$ 2.61**	**$ 2.21**

Source: Cassidy Turley BRE Commercial, Office Snapshot - Fourth Quarter 2010

Despite improving demand for office space, monthly asking rents remain compressed as excess space continues to be absorbed. The overall asking rate for countywide office space for all classes was $2.27 per square foot at the end of 2010. This represents a 5.8% decrease from the previous year's average.

San Diego's office market is expected to slowly recover in 2011 as employment growth makes modest improvements. Moving into 2012, the office market recovery is projected to deepen as job growth begins to accelerate.



Construction activity in the office sector has slowed significantly, almost grinding to a halt. According to Cassidy Turley/BRE Commercial's 2010 Q4 Office Market Report for San Diego, only 133,600 square feet of office space was under construction in the fourth quarter of 2010. Construction activity was limited to the North County market. With a countywide total vacancy rate of 19.4%, total available or vacant space in the fourth quarter of 2010 was estimated at 14,036,754 square feet.

Chula Vista's office market is part of the larger South County submarket. The South County submarket includes Downtown, East County, National City, Old Town, and Uptown. The submarket is dominated by the Downtown office market, a market comprised of about 9,7750,011 square feet of office space that represents about 58% of South County's market and 13.5% of San Diego County's total market. The Downtown submarket ended 2010 with a total vacancy rate of 18.6%. The largest Downtown landowner, The Irvine Company, owns six of downtown's eleven Class A buildings, and has plans to construct a 680,000-square-foot building on West Broadway once market conditions improve.

Chula Vista's office market can be divided into an East and West market. Chula Vista – East includes about 981,068 square feet or 5.8% of the South County Market while Chula Vista – West includes about 792,767 square feet or 4.7% of the South County Market. At the end of 2010, Chula Vista – East was performing well below the countywide average with a 40.1% average vacancy rate as compared to a countywide average of 19.4%. Absorption for 2010 was a positive 15,950 square feet for Chula Vista – East. Conversely, Chula Vista –

West performed relatively well in 2010 with an average vacancy rate of 14.7% and positive absorption of 21,950 square feet. Combined, both Chula Vista – East/West, total 1,773,835 square feet or 10.5% of the South County Market. With combined vacant square footage of 509,945, the East/West market has a combined vacancy rate of 28.7%.

Office Demand

The demand for office space is directly driven by growth in employment; in particular, office related employment. This principal was demonstrated recently in San Diego during the recent economic expansion and subsequent correction. In 2007, Non-Farm Employment peaked at 1,308,800 jobs. As employment levels have dropped each year since 2007, so too have office values, monthly asking rates, and occupancy levels. As job losses have stabilized, the office market is now in a period where demand is expected to improve modestly. However, rents and office values in the short-term will be restrained as available space is absorbed to more normal occupancy levels.

As part of our evaluation of Chula Vista's current and future office market, regional employment and office market trends were measured. Employment projections were based on the San Diego Association of Governments (SANDAG) 2050 Regional Forecast. For 2010 employment figures, data from the California Employment Development Department was utilized. SANDAG's job growth forecast through 2020 was utilized to calculate average annual growth rates through 2020 for this study. The total job growth over this forecast period was annualized on a simple average basis resulting in an average job growth rate of about 1.4% through 2020. SANDAG's job totals were adjusted to only include Non-farm employment. Job growth projections through 2030 were also included in this study.

As shown in Table VII.II on the following page, San Diego County's non-farm employment in 2010 is 1,214,992. Based on an annual job growth average of 1.4%, 173,284 jobs are anticipated to be added to the county by 2020. San Diego's job growth rate from 2020 to 2030 is anticipated by SANDAG to slow to a 1.2% annual growth rate, resulting in the addition of 285,041 jobs by 2030.

In order to estimate job growth for office sector jobs, Gafcon evaluated San Diego County and Chula Vista historical job totals by job category. The North American Industry Classification System (NAICS) was utilized to separate area jobs by job type. As a guide in identifying office jobs, a report prepared by John Burns Consulting Company for the National Association of Realtors (Who Are Your Future Tenants? Office Employment in the United States 2004 – 2014, January 2007) was utilized. As part of this study, job growth in office-using industries was measured. The study found that the overall average for office-

based employment in 23 metropolitan areas was 42.6% while 41.9% of jobs in San Diego were found to be office jobs.

As part of this study, Gafcon evaluated San Diego County's 2009 job base. Office jobs were estimated from each job category, resulting in an office job total of 514,751 office jobs. In 2009, this represented 41.9% of the county's total jobs. For this study, Gafcon adjusted San Diego's office job totals to exclude public or institutional job office users including: Government; Educational services; Healthcare & Social assistance. Excluding these job categories resulted in 346,216 selected office jobs or 28% of total San Diego county jobs. Applying this 28% factor to San Diego County total job growth results in a projected 80,381 non-public/institutional office jobs created by 2030.

In order to project future space demands for this forecasted job growth, an industry standard factor of 250 square feet of office space per office job was applied to the study's job forecast. Based on these assumptions, Gafcon forecasted demand for 20,095,356 square feet of office space for selected office job categories through 2030. On an annual basis, selected countywide space demand is projected to range from about 1.0 to 1.2 million square feet annually.

TABLE VII.II
Office Demand Projections

	2010	2012	2015	2020	2030
San Diego County - Jobs	1,214,992	1,249,283	1,301,406	1,388,276	1,500,032
Job Growth (Cummulative)	---	34,292	86,414	173,284	285,041
Job Growth (Annual Avg.)	---	17,146	17,283	17,328	14,252
Average Annual Job Growth %	---	1.4%	1.4%	1.4%	1.2%
% Office Jobs		28%	28%	28%	28%
Job Growth - Office (Cummulative)		9,670	24,369	48,866	80,381
Average Annual Job Creation	---	4,835	4,874	4,887	4,019
Avg Square Feet per Office Job (Square Feet)		250	250	250	250
San Diego County Office Demand - Cummulative (Square Feet)		2,417,573	6,092,190	12,216,553	20,095,356
San Diego County Office Demand - Annual Avg. (Square Feet)		1,208,786	1,218,438	1,221,655	1,004,768

Source: SANDAG; California Employment Development Department; U.S. Census Bureau, LEHD; Gafcon.

San Diego County's job growth over the forecast horizon was compared to SANDAG's job growth projections for Chula Vista. Table VII.III below highlights Chula Vista's forecasted job growth through 2030. Through 2020, approximately 10.1% of countywide job growth is estimated to occur in Chula Vista, resulting in the creation of 17,420 jobs by 2020 and 40,405 new jobs by 2030. Chula Vista's job growth rate is projected to exceed the countywide growth rate, averaging an annual rate of 2.9% through 2020 as compared to an average rate of 1.4% for San Diego County.

Chula Vista's share of office jobs is well below the estimated countywide average. In order to calculate Chula Vista's share of office jobs, Chula Vista's 2009 job totals were evaluated by NAICS classification. Each NAICS job category was reviewed and a related office job ratio was applied to calculate office jobs within that job category. Adjustments were then made to exclude public or institutional job office users including: Government; Educational services; Healthcare & Social assistance. Excluding these job categories resulted in 6,920 selected office jobs from a citywide job base of 55,133. Based on this analysis, it was assumed that about 13% of Chula Vista's future jobs within the evaluated job categories will be office jobs as compared to the estimated countywide average of 28%.

As shown below, Chula Vista is anticipated to add 5,091 office jobs by 2030 within the job categories evaluated as part of this study. Chula Vista's job growth was calculated based on SANDAG's job growth projections for Chula Vista relative to San Diego County's overall job growth. Adjustments were made to job projections to only include non-farm labor jobs. Additionally, SANDAG's long-term growth estimates were annualized to provide forecasts for periods selected as part of this study.

TABLE VII.III
Office Demand Projections - Chula Vista

	2010	2012	2015	2020	2030
San Diego County - Jobs	1,214,992	1,249,283	1,301,406	1,388,276	1,500,032
Job Growth (Cummulative)	---	34,292	86,414	173,284	285,041
Job Growth (Annual Avg.)	---	17,146	17,283	17,328	14,252
Average Annual Job Growth %	---	1.4%	1.4%	1.4%	1.2%
% Office Jobs		28%	28%	28%	28%
Job Growth - Office (Cummulative)		9,670	24,369	48,866	80,381
Average Annual Job Creation	---	4,835	4,874	4,887	4,019
Avg Square Feet per Office Job		250	250	250	250
San Diego County Office Demand - Cummulative		2,417,573	6,092,190	12,216,553	20,095,356
San Diego County Office Demand - Annual Avg.		1,208,786	1,218,438	1,221,655	1,004,768
Chula Vista - Jobs					
Chula Vista - Share of San Diego County Jobs		10.1%	10.1%	10.1%	14.2%
Job Growth (Cummulative)	---	3,447	8,687	17,420	40,405
Job Growth (Annual Avg.)	---	1,724	1,737	1,742	2,020
Average Annual Job Growth %	---	2.9%	2.9%	2.9%	3.4%
% Office Jobs	---	13%	13%	13%	13%
Job Growth - Office (Cummulative)	---	434	1,095	2,195	5,091
Job Growth - Office (Annual Avg)	---	217	219	219	255
Avg Square Feet per Office Job (Square Feet)		250	250	250	250
Chula Vista Office Demand - Cummulative (Square Feet)		108,589	273,640	548,724	1,272,750
Chula Vista Office Demand - Annual Avg. (Square Feet)		54,294	54,728	54,872	63,637

Source: SANDAG; U.S. Census Bureau, LEHD; Gafcon.

On average, an office worker requires about 250 square feet. Applying this space requirement to projected office worker growth in Chula Vista results in office space demand of about 1,272,750 square feet through 2030. Chula Vista's current office space supply is approximately 1,773,835 square feet. Based on a simple annual average growth rate, about 63,637 square feet of office space is projected to be demanded on average throughout this study's 20-year forecast horizon. In 2010, 37,540 square feet of office space was absorbed in Chula Vista.

Chula Vista's existing office market is largely centered in the City's Downtown/Urban Core and Otay Ranch area. With the notable exception of the Chula Vista Gateway project in the City's Downtown/Urban Core, the City's West office market is largely characterized by older low-rise office development.

The Palomar Gateway District does not provide a notable level of office space. In general, the area directly south of the District provides a significant concentration of Industrial land uses. This study anticipates that the City's existing centers of office activity will continue to capture future office demand activity. For Chula Vista's West-Office market, the City's Downtown/Urban Core office market and Chula Vista Bayfront is expected to absorb an overwhelming share of office demand within the City's western market. As such, this study assumes potential future office space provided within the Palomar Gateway District will be limited.

Office space within the District is anticipated to focus on neighborhood serving offices users. Additionally, other potential office users may be attracted to the area's proximity to the Palomar Trolley Station, freeway access, retail, and proximity to Downtown San Diego and the Mexican border. Based on the District's competitive strength relative to existing and planned office areas (Downtown/Urban Core & Bayfront), the study assumes that the Palomar Gateway District can potentially capture 4% of Chula Vista's total future office space demand. This capture rate assumes that future development programs offered in the Palomar Gateway District area are competitively positioned relative to other office properties. The study assumes that the area's lack of an existing office base can potentially be negated by the area's positive attributes as well as the limited supply of new office properties within Chula Vista's Western office market.

As shown in Table VII.IV on the following page, the Palomar Gateway District is projected to have the capacity to capture 50,910 square feet of Chula Vista's 1,272,750 square feet demanded through 2030. If annualized over the forecast horizon on a simple average basis, this equates to about 2,172 square feet of demand annual.

TABLE VII.IV

Office Demand Projections - Palomar Gateway District

	2010	2012	2015	2020	2030
Chula Vista - Jobs					
Chula Vista - Share of San Diego County Demand		10.1%	10.1%	10.1%	14.2%
Job Growth (Cummulative)	---	3,447	8,687	17,420	40,405
Job Growth (Annual Avg.)	---	1,724	1,737	1,742	2,020
Average Annual Job Growth %	---	2.9%	2.9%	2.9%	3.4%
% Office Jobs	---	13%	13%	13%	13%
Job Growth - Office (Cummulative)	---	434	1,095	2,195	5,091
Job Growth - Office (Annual Avg)	---	217	219	219	255
Avg Square Feet per Office Job		250	250	250	250
Chula Vista Office Demand - Cummulative (Square Feet)		108,589	273,640	548,724	1,272,750
Chula Vista Office Demand - Annual Avg. (Square Feet)		54,294	54,728	54,872	63,637
Chula Vista - Office Space Demand					
Palomar Gateway District (% Share of Citywide Office)		4%	4%	4%	4%
PGD Office Demand - Cummulative (Square Feet)		4,344	10,946	21,949	50,910
PGD Office Demand - Annual Avg. (Square Feet)		2,172	2,189	2,195	2,545

Source: SANDAG; U.S. Census Bureau, LEHD; Gafcon.

Office Conclusions

Chula Vista's office market can be divided into an East and West market. Chula Vista's East market at 981,068 square feet represents about 55% of the city's total office market. At the end of 2010, the East market posted a high total vacancy rate of 40.1% as compared to a South County average of 18.7% and a countywide average of 19.4%. Chula Vista's West market totals 792,767 square feet, or 45% of the city's total office supply. Unlike the city's East market, the West market ended 2010 relatively well with a 14.7% vacancy rate.

With the notable exception of Chula Vista's Gateway project, the Western office market can largely be characterized by older office space centered in the Downtown/Urban Core area. Chula Vista's Bayfront represents a significant potential development opportunity that could have a significant impact of the City's office supply.

The Palomar Gateway District area is not anticipated to become a notable center of office activity. Chula Vista's Otay Ranch/Eastlake, Downtown/Urban Core, and planned Bayfront areas are anticipated to capture an overwhelming share of the city's future office demand.

The Palomar Gateway District can, however, capture office demand on a more limited scale as part of providing office related services for the surrounding community. Also, in some cases, more general office users may be attracted to the potential of the District as a Transit Focus Area. Overall, office space demand is anticipated to be limited, reaching 50,910 over the study's 20-year forecast horizon.

The current General Plan land use designations that are applied to the Palomar Gateway District generate a potential capacity for office that is far above potential demand identified in this study. Approximately 37 acres have been designated as Mixed-use Transit Focus. This land use designation allows retail and office uses a FAR of 1.0. Based on the office demand levels projected as part of this study, the commercial land use capacity provided by the General Plan land use designations far exceeds the projected demand for office space.

The following list summarizes major opportunities and challenges the Palomar Gateway District provides as an area for office development:

Opportunities:

- Within walking distance of transit station
- Within walking distance of restaurant/retail opportunities
- Proximity to freeway on/off-ramp
- Location between San Diego and Mexico

+ Vacant five-acre lot on Palomar/Industrial
+ Public infrastructure improvements
+ Proximity to Chula Vista Bayfront Plan Area
+ Aging office properties in west market
+ Comparative low vacancy rates in west market vs. east market

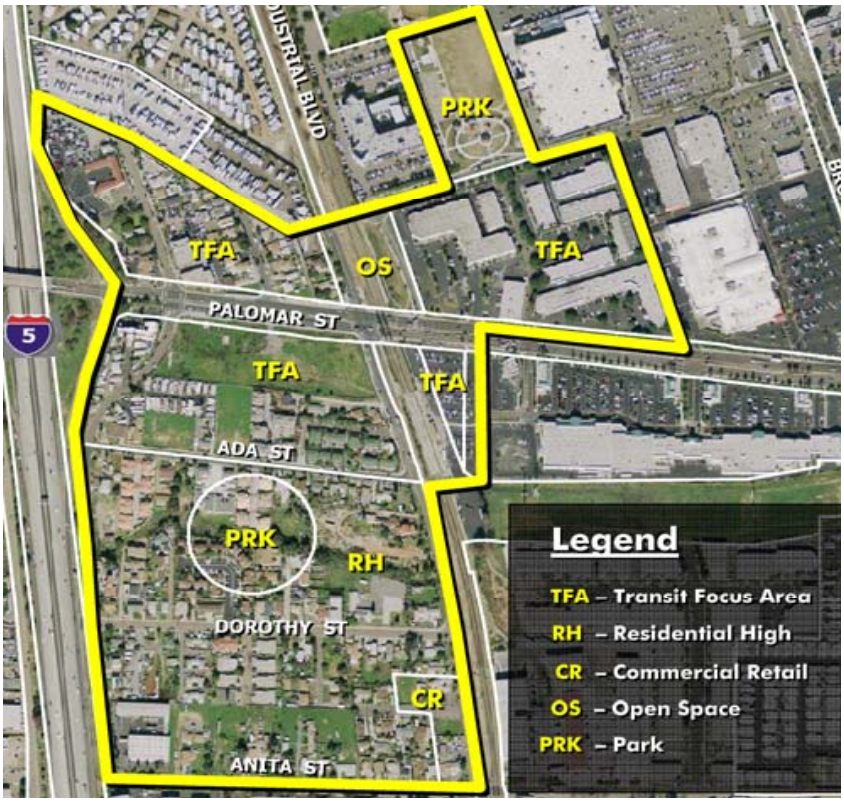
Challenges:

- Retail and industrial area identity
- Traffic congestion
- Mixed market perception
- Potentially limited floor plan flexibility if integrated into mixed-use project

VIII. DESIGNATED LAND USES

The Palomar Gateway District is currently comprised of a variety of land uses that include residential, commercial, and industrial uses. Residential land use is the dominant land use with densities ranging from around 5 to 20 dwelling units per acre. There are currently about 400 residential units in the District, including 67 rooms related to two hotels located in the District. Residential is primarily concentrated South of Palomar St., with community commercial, housing, motel, light industrial, and park land uses North of Palomar St. Directly adjacent to the District is a concentration of commercial centers anchored by large retailers such as Target, Costco, and Walmart. Overall, the District and the area immediately surrounding it can be characterized as an auto-focused area with lower residential densities and a concentration of anchored and in-line retailers clustered around the intersection of Palomar Street and Broadway. Although the District's primary land use in terms of acreage is residential, heavy vehicle trips along Palomar St, Industrial Blvd, and Broadway characterize the District as less of a neighborhood and more a center for auto generating shopping trips.

Chula Vista's 2005 General Plan designates the Palomar Gateway District as one of five "areas of change." The General Plan objective for the District is to help transition the District from a low-density auto-focused interchange into a Mixed Use Transit Focus Area surrounding the Palomar Trolley Station. The vision for the Mixed Use Transit Focus Area includes higher intensity residential, as well as, mixed-use developments that offer a mix of residential, office, and retail uses in a pedestrian-friendly area with strong linkages to the Palomar Trolley Station. The Transit Area Mixed-Use projects are anticipated to provide a larger share of residential uses, with a mix of retail and office uses being located along Palomar St. Residential uses along



Palomar St. are envisioned above and/or behind retail and office uses.

The General Plan provides the following land use designations for the District:

High Residential: This land use designation is intended for multi-family units with densities ranging from 18 to 27 units per acre.

Mixed Use Transit Focus Area: This land use designation allows a mix of residential, office, and retail in pedestrian friendly areas with strong links to the trolley station. Residential densities up to 40 dwelling units per acre are allowed with retail and office uses allowed a Floor Area Ratio (FAR) of 1.0.

Retail Commercial: This designation only applies to a small area in the southeast corner of the District of only about one acre. This land use designation is intended to allow a range of neighborhood and community retail shopping services.

Parks and Recreation: This land use designation is provided for parks; sports fields; playgrounds; golf courses; and other passive urban recreation uses. The land use also includes community centers and urban parks.

The following table summarizes the General Plan Land Use designations within the Palomar Gateway District:

Palomar Gateway District
General Plan Land Use Designations and Potential Buildout

		Existing DU's		General Plan DU's		
	District Acreage	DU's	DU's/Acre	Maximum DU's	Maximum DU's/Acre	Increase in DU's
Residential High	35	189	5	949	27	760
Transit Focus	37	211	6	1,460	40	1,249
Commercial Retail	1	5	3	--	--	-5
Park	5	--	--	--	--	--
Total	**78**	**400**	**5**	**2,400**	**--**	**2,000**

Notes:
(1) All numbers are approximate and have been rounded off.
(2) Existing DU count includes 67 rooms related to two District motels.
(3) Approximately 20 acres District land is designated Transportation Corridors & Right of Way.
(4) Source: Palomar Gateway District Specific Plan - Existing Conditions Summary Report

The General Plan strives for a district wide distribution of land uses in the Palomar Gateway District as follows: Residential (~60%); Retail (~20%); and Office (~20%). The

demand projections generated as part of this study indicate that the General Plan's targeted distribution of land uses has the capacity to accommodate projected future demand.

Residential

Utilizing the General Plan land use designations can result in a maximum of 2,400 dwelling units, resulting in a net increase capacity for 2,000 additional units. Based on this study's forecasted housing demand, as well as, the limited supply of undeveloped sites, the build out capacity for the District will not be achieved.

Although a demand potential ranging from 649 to 1,298 housing units was identified, it's likely the District will not be able to accommodate the market's projected future demand through 2030 due to the limited availability of developable sites. The most prominent developable site is a five-acre site located on the southwest corner of Palomar St. and Industrial Blvd. This site falls within the General Plan's Transit Focus Area land use designation. With this designation, up to 40 dwelling units per acre are permitted. This could potentially allow up to 200 units to be developed on this site. The ability to develop up to 40 units per acre on this site appears sufficient to attract future residential investment.

Areas north of Palomar St. are also provided a Transit Focus Area designation. These areas are already developed and would require significant redevelopment investment in order for these areas to provide the unit capacity allowed by the General Plan. The significant investment required to redevelop those areas as higher-density residential projects is anticipated to be a limiting factor that will likely preclude redevelopment of those areas in the near term and inhibit longer-term investment.

A small area adjacent to the Trolley Station is also provided a Transit Focus Area designation. The site currently provides parking for the Trolley Station. The site's size, configuration, and proximity to the Trolley Station, may present challenges for developing the site as a residential development.

Other areas in the District, south of Alda St., are provided a Residential High designation by the General Plan. This designation allows for development of up to 27 DU's per acre. The District areas that are provided this designation are largely lower density residential properties. Future development that provides this density is anticipated to be limited by the lack of undeveloped sites and the costs and challenges related to acquiring existing residential properties. Several properties appear to be roughly 1-acre lots with smaller residential units at the front of the property. These may represent selected opportunities over time for redevelopment, however, assembling such properties to accommodate larger scale redevelopment is difficult. As such, it is anticipated that these conditions will likely

prevent the District from being able to accommodate market demand over the study's forecast horizon resulting in actual housing unit growth below forecasted housing demand.

Retail

Approximately 37 acres have been designated as Mixed-use Transit Focus. This land use designation allows retail and office uses a FAR of 1.0. Based on the retail demand levels projected as part of this study, 92,353 square feet, the commercial land use capacity provided by the General Plan land use designations far exceeds the projected demand for retail space.

Retail uses are generally only allowed along Palomar St. These areas are assigned the Transit Focus Area designation by the General Plan. As part of this designation, a mix of residential, retail, and office is allowed with retail uses allowed an FAR of 1.0. Based on the limited amount of retail demand forecasted as part of this study (92,352 square feet through 2030), the commercial land use capacity provided by the General Plan land use designations far exceeds the projected demand for retail space.

The Retail Commercial designation is also provided in the District. This designation appears appropriate to accommodate an approximately one-acre area in the southeast corner of the District. This designation allows for a range of neighborhood and community retail shopping services. This site is considered a secondary retail location relative to other retail sites along Palomar St. and Industrial Blvd.

Office

General Plan land use designations allow office uses along Palomar St. These areas are assigned the Transit Focus Area designation by the General Plan. As part of this designation, a mix of residential, retail, and office is allowed with retail uses allowed an FAR of 1.0. Based on the limited amount of office demand forecasted as part of this study (50,910 square feet through 2030), the commercial land use capacity provided by the General Plan land use designations far exceeds the projected demand for office space.

IX. LAND USE IMPLEMENTATION STRATEGIES

While potential market demand has been identified for residential, retail, and office land uses, integrating these uses into a cohesive mixed-use transit oriented development program presents unique opportunities and challenges. A key element in helping to work through these challenges includes a proactive public sector that recognizes the benefits of transit-oriented developments and their role in shaping TODs.

Local government plays a key role in providing zoning and comprehensive planning authority. In addition to beginning the process of developing a Specific Plan for the Palomar Gateway District, the City of Chula Vista has also made several improvements aimed at promoting a more pedestrian and transit oriented neighborhood around the Palomar Trolley Station. In the fall of 2009, the following pedestrian and traffic improvements on Palomar Street and Industrial Boulevard were completed:
1) Construction of missing sidewalks, curbs, and gutters.
2) Traffic circle at the intersection of Industrial Boulevard and Ada Street.
3) Safety improvements at the intersection of Palomar Street and Industrial Boulevard.
4) Landscape improvements along Palomar Street and Industrial Boulevard.

While these improvements represent important beginning steps in creating a transit/pedestrian-oriented neighborhood, additional land use implementation strategies can be initiated to stimulate private investment and maximize public benefits. Some strategies and supportive public policies to help stimulate private sector investment into transit/pedestrian-oriented development in the Palomar Gateway District include the following:

PLANNING:

- Prepare a Palomar Gateway District Specific Plan
    - A completed Palomar Gateway District Specific Plan will help provide a neighborhood vision for developers, reduce design uncertainty, reduce entitlement risk, and help provide market information as part of related market studies.
- Zoning Incentives
    - Incentive zoning provides rewards to developers for improvements that create public benefits. Examples of zoning incentives include: Provide Density, FAR, and Height Bonuses. Increasing densities can help improve project revenues and overall project financial feasibility.
    - Residential parking requirements may be reduced. According to the California Department of Transportation, Transit-Oriented Development has the potential

to reduce parking per household by approximately 20% (Statewide Transit-Oriented Development Study: Factor for Success in California, California Department of Transportation, September 2002 Distribution). Reduction of retail and office parking requirements should be considered carefully as commercial tenants may have minimum parking requirements and parking should be flexible enough to provide for a range of commercial users.

- Flexible Zoning
  - Zoning should provide enough flexibility to allow developers to create programs that effectively respond to current market conditions on the project level while maintaining the overall vision of the area plan.
- Public Outreach
  - Facilitate neighborhood meetings, develop program website, facilitate print/media distribution, and conduct charettes to solicit input and build community support for area vision.
  - Provide the development community with area plan vision and program updates.
- Public-Private Partnering
  - Public entities and private investors should collaborate early in the planning process to help articulate and reconcile visions, expectations, responsibilities, schedules, concerns, etc.

IMPLEMENTATION:

- Area Infrastructure Improvements
  - Public improvements such as, landscaping, sidewalks, parks, lighting, signage, drainage, and utilities. Such improvements elevate the value and appeal to an area and demonstrate the public sector's commitment.
  - As noted above, Chula Vista has made improvements surrounding the trolley station. Additional improvements that enhance pedestrian access, connectivity, and provide a sense of "place-making" will help in making area developments more valuable and attractive to investors, tenants, and neighbors. Examples of improvements include: Signage, landscaping, streetscape improvements, and bicycle pathways/connectivity.
- Area Amenities
  - Utilize the northern portion of the Trolley Station parking lot as a Public Plaza that may include sitting areas, shading trees, and a water fountain/feature. The Plaza will provide an area for transit riders, shoppers, and residents to congregate. A small stage area can be incorporated for community related activities. Parking stalls that are eliminated as part of this improvement can be

transferred to the southern end of the trolley station parking lot into the SCE right of way.
    - Developing a plaza would create an identifiable landmark for the district that communicates its vision as a pedestrian neighborhood. The public plaza can be utilized to fulfill public park/open space goals, as well as, offset potential open space requirements related to residential developments in the District.
- Expedite Development Review and Approval
    - The City can provide expedited planning review and permit priority to help reduce developer uncertainties and costs.
- Reduce Developer Impact Fees
    - Generally speaking, TOD developments impact infrastructure less than traditional developments. Impact fees can be applied on a sliding scale to help match development's real impact on infrastructure.
- Funding/Financing Incentives
    - The City can provide funding or discounts for infrastructure improvements and provide below market rate loans.
- District Branding
    - Construct impactful monument signage at the District entryways that creates a sense of place and promotes the vision of the District. In its current state, the District and the adjacent retail properties form a collection of individual uses with no cohesive connection. The use of signage that communicates a personality and vision at the main points of entry into the District can create a sense of identity and place for the area.
    - Marketing programs to customers and investors to promote the areas vision and identity.