

Refined Market Analysis
Tustin Town Center

Prepared for:

City of Tustin

Prepared by:

Keyser Marston Associates, Inc.

April 29, 2008

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I. EXECUTIVE SUMMARY

The Center City, Southern Gateway, and West Village Study Areas (Study Areas) located in the City of Tustin enjoy a strategic location within central Orange County, with access and visibility to major freeways, employment centers, and event destinations. The majority of the land area within the Study Areas is dedicated to multi-family residential, low-level retail and office, and light industrial uses. These uses are generally housed in older buildings, where the retail and office uses are located in one-story strip centers or small stand-alone buildings.

Attraction of new real estate development to the Study Areas must overcome a few constraints. While these constraints were analyzed in detail by previous studies, key findings affecting the potential for new development are summarized here:

- Land within the Study Areas is predominantly built-out, with less than 2.5 acres of vacant land available for new development. Assemblage of small parcels for large-scale development may be difficult due to multiple property owners and high acquisition and relocation costs.
- The inner core of the 1-mile radius is characterized by a large rental and low income population. The median household income within the 1-mile trade ring is \$52,000. This income level is far below comparable trade areas including the 5-mile trade ring, the City of Tustin (City), Orange County (County), and the State of California (State). Areas with low household incomes typically have less available income to pay for housing which can affect residential developments by lowering home sales prices and rents. In addition, areas with low incomes have less discretionary income and spending potential, which draws in lower-end retailers. Areas with a large percentage of renters are typically more transient in nature.

Notwithstanding these challenges, Keyser Marston Associates, Inc. (KMA) believes that there is a potential for the introduction of new development within the Study Areas. This conclusion is supported by the following key factors:

- Newport Avenue, a major north-south arterial, currently dead-ends at the southern terminus in the Southern Gateway study area. However, Tustin's Capital Improvement Plan currently includes the extension of Newport Avenue south to Edinger Avenue within the next five to seven years. Due to better traffic circulation, the extension of Newport Avenue would promote a positive commercial business environment and act as a potential catalyst for new development.

- Areas within Orange County that will continue to experience the largest share of new population growth include Tustin and Irvine, primarily due to the redevelopment of the former military bases. According to the Southern California Association of Governments (SCAG), the number of Tustin residents is expected to grow to 88,788 by 2030. Projected increases will be largely due to new residential developments at Tustin Legacy.
- On a national and regional level, there is increasing interest in “in-fill” residential and mixed-use developments as a desirable housing option. Although new in-fill and mixed-use developments have been stalled by the current downturn in the housing market, this fundamental trend is expected to continue. Examples of in-fill intensification in the City include Arbor Walk, Prospect Village, and The Cottages.
- As the County builds out, the Study Areas’ location and access from the I-5 and SR-55 freeways presents a high visibility benefit to many potential developers. Developers throughout California are pursuing freeway visible sites to build new retail and mixed-use developments, and according to the City, have already shown strong interest in the Study Areas.

In addition to vacant areas, larger development sites may be planned and implemented by the Redevelopment Agency through lot configuration and consolidation; and adaptive re-use, repositioning, and increased densification of sites and existing buildings throughout the Study Areas. Potential sites may include Tustin High School, Red Hill Plaza, El Camino Plaza, and areas along Newport Avenue.

KMA estimated the potential long-term demand for the major land uses through 2030. The absorption estimates are detailed in the following sections and are summarized below.

Projected Absorption Analysis by Land Use, Study Areas, 2008-2030				
	Low		High	
I. Annual Space Demand				
A. Retail Space	900 SF	5.2%	2,200 SF	6.3%
B. Restaurant Space	<u>300</u> SF	<u>1.7%</u>	<u>800</u> SF	<u>2.3%</u>
Subtotal	1,200 SF	7.0%	3,000 SF	8.6%
C. Office Space	<u>16,000</u> SF	<u>93.0%</u>	<u>32,000</u> SF	<u>91.4%</u>
Total Annual Space Demand	17,200 SF	100.0%	35,000 SF	100.0%
II. Total Space Demand	378,000 SF		770,000 SF	
III. Total Housing Unit Demand				
A. Multi-family	761 units	100.0%	1,141 units	100.0%
B. Single-family	<u>0</u> units	<u>0.0%</u>	<u>0</u> units	<u>0.0%</u>
Total Housing Unit Demand	761 units	100.0%	1,141 units	100.0%

A. Retail Potential

It is KMA’s conclusion that short term (within five years) demand for new retail/restaurant uses within the Study Areas is weak. Mid- (five to 10 years) to long-term (10 to 20 years) demand is deemed moderate. The primary sources of market support for retail space within the Study Areas are community residents and the existing and future workforce.

A shopping center’s size and orientation are generally determined by the market characteristics of the trade area served by the center. KMA’s retail market analysis indicates that the Study Areas are able to support additional retail and restaurant development in the range of 26,000 to 65,000 SF through 2030. According to typical shopping center criteria, these estimates may support the development of a neighborhood shopping center within the Study Areas.

TYPICAL SHOPPING CENTER CRITERIA				
Center	General Concept	Range of SF	Range of Acreage	Primary Trade
Superregional	Similar to regional center, but larger with more variety	800,000+	60 to 120	5 to 25 miles
Regional	General merchandise, typically an enclosed mall	400,000 to 800,000	40 to 100	5 to 15 miles
Lifestyle	Upscale national chain specialty stores; dining and entertainment generally in an outdoor setting	250,000 to 600,000	10 to 40	8 to 12 miles
Community	General merchandise and convenience	150,000 to 500,000	10 to 40	3 to 6 miles
Power	Dominant anchors with few small tenants	80,000 to 250,000	25 to 80	5 to 10 miles
Neighborhood	Convenience	30,000 to 150,000	3 to 15	3 miles
Source: ICSC Shopping Center Definitions				

Although the Study Areas contain approximately 280,500 SF of existing neighborhood retail space, existing residents do not have a full-service grocery or drug store located within any of these centers. Planning and implementation efforts by Tustin’s Redevelopment Agency could help to redevelop and reposition existing shopping centers to accommodate more efficient layouts of retail space in shopping center and dining facilities.

Additional suggestions for possible categories of retail uses within the Study Areas include:

- Ground floor retail/restaurant uses incorporated into new mixed-use developments. The amount and types of uses that can be supported will depend on the amount of new residential and office development undertaken in the Study Areas.
- With strong taxable retail sales in the Specialty Stores category, this market niche may have a strong potential for both short- and long-term development within the Study Areas. In addition, the West Village can build upon the existing Jewelry Exchange. The current mix of retail lacks cohesive marketing, but presents an opportunity for branding the center as a “jewelry row.”

B. Office Space Potential

KMA concludes that short-term demand for office space in the Study Areas is moderately weak, with potential for development in the long-term. The fallout from the implosion of the subprime mortgage industry, in addition to new office construction, has increased the County’s office market’s vacancy rate.

Office employment in Orange County is highly concentrated in the Greater Airport Area (Corona Del Mar, Costa Mesa, Fountain Valley, Irvine, Newport Beach, and portions of Santa Ana and Tustin). However, the Study Areas within the City are not currently established as an office node. KMA finds, overall, that the Study Areas may have difficulty attracting large-scale office users unless a site or sites are made available for a higher density development. Therefore, it is anticipated that the Study Areas will yield minimal demand for office space at least in the short-term. Office space in the Study Areas is limited within Center City and Southern Gateway to small local-serving professional and business services dispersed among neighborhood retail strip centers and free-standing buildings.

Total demand for new office space within the 3-mile radius of the Study Areas is estimated to be 7,125,000 SF through 2030. Given the Study Areas high visibility and access, KMA estimates that the Study Areas' can capture 5% to 10% of this demand through 2030, equivalent to 356,000 to 713,000 SF. Short-term demand for office space would most likely continue from small professional and business services that are local-serving. In addition, there may be demand for small in-fill office condominium developments if financing remains positive for owner-users. New office uses in the Study Areas will require supporting amenities such as retail and restaurant uses.

The Tustin Hospital and Medical Center anchors the Southern Gateway study area, and as such, could provide opportunities for new development and increased access to additional medical services. However, based on KMA's interviews with office leasing agents, the Medical Center has a high vacancy rate (30%). The office leasing agents also note that medical office demand throughout the Study Areas is weak due to the current high vacancy rates. These vacancy rates could be attributed to many factors, including poor marketing and/or management of the buildings, the elimination of medical services, and lack of amenities to serve potential users. Center City (directly adjacent to City Hall) may be a candidate for finance, insurance, and real estate (FIRE) type professional businesses that utilize office space.

C. Residential Potential

Housing units within the City are projected to increase by approximately 5,100 through 2030, to a total of about 29,900 units, as compared to Tustin's Housing Element build-out projections of 30,984 units. KMA estimates that the Study Areas have the possibility to capture 20% to 30% of these new units over the long-term, or approximately 760 to 1,140 units.

It is KMA's conclusion that there is a strong potential for multi-family residential development in the Study Areas in the short- and long-term, with weak demand for single-family units in the short-term. For both the low and high capture scenarios, KMA

allocated 100% of the new units as multi-family and assumed no new development of single-family through 2030, pursuant to the Study Objectives. Since the Study Areas are located in the City's urban core, it seems appropriate that the residential make-up of the Study Areas is predominately multi-family. Despite the lack of available land, additional multi-family housing units within the Study Areas may be possible through increased densification and adaptive re-use and repositioning of sites and existing buildings. Small-lot single-family homes require minimum lot sizes of at least 4,500 SF and with the limited availability of large developable sites; it does not appear conducive to estimate that the Study Areas can add additional single-family homes.

The rental market should remain stable and occupancy levels high due to the impact of the rise in home foreclosures and new credit restrictions in residential lending. However, the City should focus efforts on the development of for-sale multi-family opportunities. Expanding homeownership opportunities within the Study Areas may improve income levels, increase neighborhood stability, and attract retailers.

II. LIMITING CONDITIONS

1. The analysis contained in this document is based, in part, on data from secondary sources such as state and local government, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.
2. The analysis assumes that neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
3. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.
4. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity.
5. The development concept will not vary significantly from that identified in this analysis.
6. Any estimates of development costs, capitalization rates, income, and/or expense projections are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be projections of the future for the specific project. No warranty or representation is made that any of the estimates or projections will actually materialize.
7. The analysis, opinions, recommendations and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.