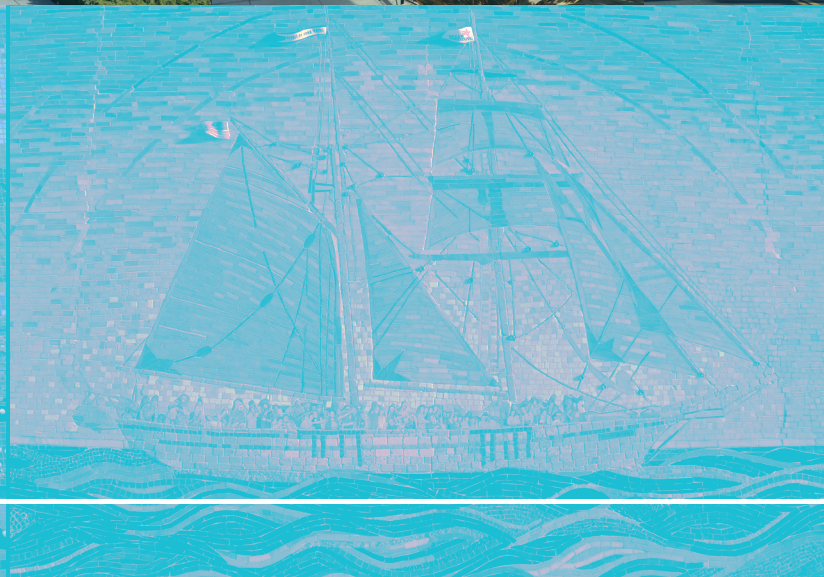
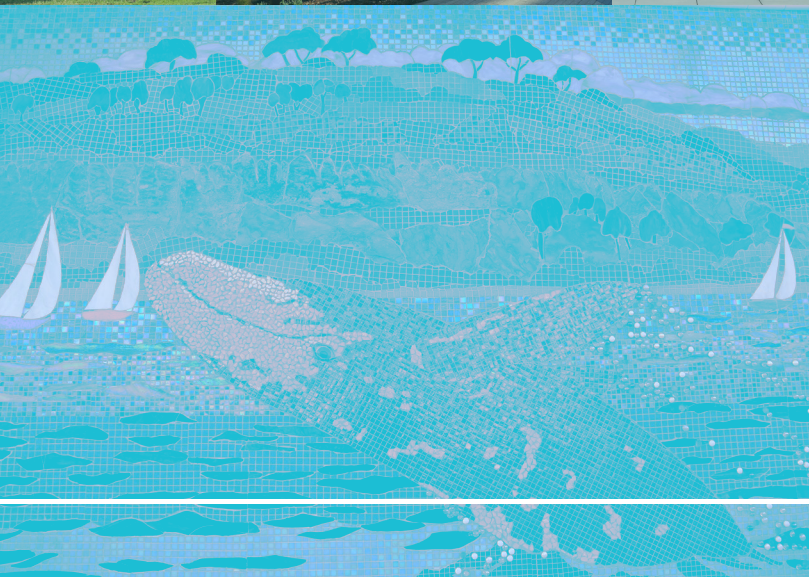


# City of Dana Point Economic and Market Profile

April 2021



*Prepared for:*



**City of Dana Point**  
33282 Golden Lantern  
Dana Point, CA 92629  
949-248-3519  
danapoint.org

*Prepared by:*



PlaceWorks  
3 MacArthur Place, Suite 1100  
Santa Ana, CA 92626  
(714) 966-9220  
placeworks.com

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# Executive Summary

The Economic and Market Profile provides a comprehensive economic and market analysis to inform the City's investment of time and resources in economic development and to set the stage for a future update of the City's General Plan.

## KEY ISSUES

Although the analyses presented in this report are comprehensive, there are several key issues discussed in the report.

### Housing and Housing Affordability

Dana Point has had little population, household, and housing growth since the mid-1990s compared to San Clemente, San Juan Capistrano, and Orange County. Nevertheless, housing in the city has maintained its value relative to neighboring jurisdictions even without substantial new growth. In fact, from 2010 to 2019, the value of a typical Dana Point home increased nearly 19 percent, and median household income only increased 5.2 percent.

The lack of affordability makes it hard for some local businesses to attract and retain the workers they need. Housing affordability was a concern for many stakeholders interviewed for this report, beyond simply complying with state-mandated requirements under the Housing Element Law.

According to the CA Department of Finance estimates, 47 percent of the homes in Dana Point in 1990 were single-family detached housing. By 2020, it was 54 percent of all housing, accounting for almost all net new housing. San Clemente and San Juan Capistrano saw some multifamily housing built, but there too, most new housing was single-family detached.

Because there is little vacant land to develop in Dana Point, new housing construction will require redevelopment of sites with existing buildings. The financial feasibility analyses presented in the final section of this report demonstrate that higher density multifamily housing is necessary to afford the higher cost of land acquisition and the added cost of demolition when redeveloping.

There may be concerns that the market will not really support multifamily housing in southwest Orange County. However, from 2006 to 2019, multifamily housing accounted for 59 percent of all new building permits issued throughout Orange County. Thus, there is a strong regional market for multifamily housing. And as this report shows, getting the density and parking standards right will go a long way to incentivizing private sector investment in multifamily housing and affordable housing.

## Tourism

Tourism is a cornerstone of the local economy in Dana Point. This is no surprise given the city's four major resorts, other hotels and restaurants, Dana Point Harbor, and Doheny State Beach. This sector provides twice as many jobs per capita in Dana Point as it does in southwest Orange County and countywide. Spending by tourists helps support many of the very same restaurants, stores, and activities that residents enjoy. Local tax revenue from hotels and visitor spending help fund many of the public amenities that contribute to the quality of life in Dana Point.

The hospitality sector has been hard hit by the COVID-19 pandemic. There are some concerns regionally and nationally that business travel may never return to pre-pandemic levels and that the sector may never fully recover. However, the tourism base in Dana Point is primarily leisure travel, and many of these travelers have above-average incomes. Thus, there is guarded optimism that tourism may bounce back more quickly in Dana Point than in some other areas.

The report projects future employment growth and the market potential for new development based on employment growth. The accommodation and food services sector was the largest sector in the local economy prior to the pandemic, and the report projects future employment growth in this sector, second only to employment growth in healthcare.

## Retail Is More Than Just Shopping

The retail sector provides about the same number of jobs per capita in Dana Point as it provides in southwest Orange County and countywide. Nevertheless, taxable retail sales per capita in Dana Point are below the sales in San Clemente, San Juan Capistrano, and Orange County. The data presented in this report show that the City leaks retail sales and retail sales tax revenue to neighboring jurisdictions.

Stakeholders interviewed for this report indicated that most residents are not clamoring for more chain retail businesses. They felt that most residents do not mind driving to an adjacent city when they need to purchase something from a chain store. According to these interviews, what residents most desire are unique, independent businesses and shopping districts that provide entertainment and activities in addition to shopping.

For more than two decades, the amount of money Americans spend purchasing goods online has steadily increased every year. Since the 2008–09 recession, however, this increase has come at the expense of bricks and mortar stores. Over the five years prior to the pandemic, the amount of spending at stores in the US, adjusted for inflation and the number of households, has decreased, and retail stores have never fully recovered from the 2008–09 recession.

The remedy for this is experience-oriented shopping—walkable commercial districts with opportunities for socializing, dining, entertainment, and activities in addition to shopping. These places provide experiences that cannot be replicated online.

The retail analysis identifies several retail categories with substantial market potential in Dana Point. For example, leaked retail spending at specialty food stores, home furnishings, and clothing stores could support 200,000 square feet of retail building space. This is more than what is vacant and what could likely be developed, and neighboring cities may well seek to keep or capture some of that spending. However, the key to capturing this market potential will be experience-oriented retail districts.

## Parking

Parking is perhaps one of the most vexing problems hindering housing development and retail revitalization. The financial feasibility analyses conducted for this report show that with the City's standard parking requirements, redevelopment projects generally need to be several acres in size and achieve densities of 30 units per acre or more in order to be financially feasible.

Parking is particularly problematic in the Town Center Specific Plan area. Most existing lots are too small on their own to be redeveloped and provide onsite parking. Lots would have to be assembled to have enough land area to construct a parking structure. Redevelopment would be more financially feasible with residential-only projects.

In contrast, the proposed development standards in the draft Doheny Village Specific Plan, with commercial parking reduced to one space per 500 sq. ft. and the parking required for a 1-bedroom residential unit reduced from 1.7 spaces to 1 space, mixed-use redevelopment projects are generally financially feasible within the allowable densities. A re-evaluation of parking standards for the Town Center plan area may be warranted.

Some stakeholders suggested that a transit system linking existing parking areas, the resorts, the Town Center, and Dana Point Harbor would be a better solution than building more parking structures. Evaluation of the costs and benefits of such a system is beyond the scope of this report. However, when the City updates its General Plan, there would be opportunities to think holistically about access and parking citywide.

## Commuting

The analysis indicates that only 7.7 percent of the employed residents of Dana Point work in the city, and only 9.9 percent of those working in the city live in the city. Although the average commute time for city residents is on par with the countywide average, there is a lot of in- and out-commuting going on.

The out-commuting may subside because of the pandemic. Many office workers have been forced to work from home, and many of these may not return to office work or may only return to the office a few days a week.

This could create an economic development opportunity. Coworking facilities, with shared office and meeting space, could provide additional support for residents working from home. And residents working from home are more likely to patronize local businesses during the work week.

The in-commuting problem will be more difficult to address. Of the jobs in the city, 41 percent employ people with no high school diploma or a high school diploma but no college. It is likely that most of these would have a hard time finding affordable housing in Dana Point. And as discussed above, high land prices make it difficult to develop affordable housing in the city.

## An Economy of Small Businesses

Of the total number of businesses operating in Dana Point, many are operated out of home offices. This is not to say that there are no large businesses or that most workers in the city are employed at small businesses. But between home offices and the many smaller size business locations, much of the local economy takes place at small businesses.

This suggests that the City's economic development efforts could focus on business startups and business assistance programs. Just helping new and small businesses get in touch with service providers like the Orange County Small Business Development Center, Service Core of Retired Executives, and the Orange County Workforce Investment Board can go a long way. This carries over to retail businesses too, given the desire for unique, authentic local businesses.

## An Aging City

With a median age of 50.5, Dana Point is generally older than San Clemente, San Juan Capistrano, and Orange County. Dana Point also has a higher percentage of its population age 65 and older and a smaller percentage of its population under the age of 18.

The healthcare sector is projected to be the fastest growing sector of the local economy, the regional economy, the state economy, and the national economy. With an older population, Dana Point may be poised to capitalize on the economic growth of this sector.

When the City updates its General Plan, it will be a good time for the community to think about who is going to be living in Dana Point in 2040. What kinds of housing will they desire and what kinds of businesses and jobs will they need? The vision for the updated General Plan is a good place to address these questions.

## DEVELOPMENT OPPORTUNITIES

There are three major development opportunity areas in Dana Point.

### Dana Point Harbor

The renovation and revitalization of Dana Point Harbor is a major investment that will have tangible economic benefits for the City. The improvements and the expansion of retail, dining, and lodging create an opportunity to drive new real estate investments and to attract customers and their sales tax dollars from a large part of Orange County.



The development plan for the harbor is not analyzed in this report. However, the stakeholders interviewed for this project were enthusiastic about the opportunities inherent in the harbor project. Additionally, the harbor can be thought of as an anchor tenant that will generate new customer flow in Dana Point. Even though new and expanded businesses in the harbor area will likely capture much of this new spending, it will familiarize an even larger regional audience with Dana Point.



*Dana Point Harbor*

## Town Center Specific Plan Area

Many of the key issues described above are not new to the City. With the Town Center Specific Plan, the City seeks to encourage more experience-oriented retail and facilitate higher density multifamily housing. The original plan even had a plan for parking.

The financial feasibility analysis finds that redevelopment projects complying with the requirements for ground-floor retail, the required unit mix, a three-story height maximum, and the required parking generally require a two acre or larger project size to be financially feasible. These were not financially feasible with 15 percent affordable units.

The parking standard for retail uses appears to be the most difficult challenge. Close to four spaces per 1,000 square feet is a typical parking standard for a suburban strip center. The report suggests that the City reconsider this requirement. Similarly, the additional requirements for uncovered and visitor parking are not particularly well suited for more urban style development.

The prevalence of small lots may inhibit implementation of the specific plan. The analysis finds that it is not financially feasible to redevelop an individual small lot. Eliminating required parking for retail uses improves the feasibility, but it is still

marginal. The alternative is to consolidate lots into a larger project. If this is not possible, or not desirable, an alternative would be to allow residential use only. This may not be a perfect solution, but the analysis finds that it should be financially feasible.

The Town Center is an appropriate location for urban, mixed-use development. Having residents living above retail, dining, and entertainment businesses does not necessarily generate sufficient revenue to support those businesses. However, having residents living in the district puts people on the street and helps convey an image of the district as vibrant. This, in turn, adds value to the businesses that locate in this kind of district.

## Doheny Village Specific Plan Area

In contrast to the Town Center plan, the Doheny Village Specific Plan has less onerous parking requirements. The financial feasibility analysis finds that it is generally feasible to redevelop sites in the plan area in compliance with the draft specific plan requirements. In part, this is because this plan area generally has larger parcels.

The large, required setbacks from Doheny Park Road and Victoria Boulevard for residential uses may complicate redevelopment in this area. It would certainly be easier to provide 15 percent affordable housing with smaller setbacks. Nevertheless, the conceptual plans model for this analysis did indicate that redevelopment is financially feasible.

## NEXT STEPS

### Market Demand

The analysis indicates that there is potential market demand through 2040 to support up to 190,500 square feet of retail and restaurant building space, 103,000 square feet of office and medical office building space, 64,000 square feet of industrial building space, and 37,400 square feet of medical facilities in a residential setting (assisted living facility, substance abuse and recovery facilities).

Even before the pandemic, however, new retail and office development had marginal financial feasibility. This is due more to land cost and market rate rents than to development standards. The pandemic has resulted in higher vacancies and lower lease rates. Even though there is potential market demand for new retail and office development, it likely will not be financially feasible for several years.

The report shows that housing has been underbuilt, nationally and in Orange County, for more than ten years. There is pent-up demand for more housing, and the housing market has not cooled during the pandemic. In this sense, there is almost unlimited potential for housing development. If more housing development is desired, the market would likely accommodate a higher target.

## General Plan Update

Although the report covers many potential considerations for a general plan update, there are several key issues recommended.

### Vision

One of the first steps in a general plan update is to identify the community's vision for the future. As mentioned previously, the aging of the city's population raises the issue of who will be living in Dana Point in 2040. The visioning process is the appropriate time to ask this question.

### Culture

Related to the vision is the community's culture. Dana Point is a destination for higher-income tourism. This is a cornerstone of the local economy. At the same time, Dana Point is known for an authentic surf culture. These two cultures are not necessarily opposites, and that authentic surf culture is a key attraction for tourists. Through the visioning process the community should try to better define these elements of the community's culture and, more importantly, address how to maintain a balance between the two.

### Affordable Housing

Finally, the vision should address affordable housing. The analysis shows that achieving mixed-income housing projects may require more urban forms of development. Although the ongoing Housing Element Update will have to address this for the next eight years, the vision should consider the need for and the requirements for affordable housing and mixed-income projects for the next 20 years.

## Development Standards

As mentioned above, the City may need to reevaluate the development standards in the Town Center Specific Plan, or at least the parking requirements. In general, the development standards in the draft Doheny Village Specific Plan appear to be reasonable in regard to the financial feasibility of redevelopment.

## Economic Development

With the proliferation of small businesses in the local economy and the desire for more independent retailers, the City may want to consider investing in programs to assist entrepreneurs in starting new businesses in Dana Point and assist existing business to operate more profitably and grow.

The City may also want to explore opportunities to capitalize on residents working from home. Development of a coworking facility may be beneficial for those wanting to continue working from home.



*New development in the Town Center*

# Introduction

## Purpose and Intent

This *Economic and Market Profile* provides a comprehensive economic and market analysis to inform the City's investment of time and resources in economic development and to set the stage for a future update of the City's General Plan.

Dana Point is essentially built out; economic growth and compliance with the Regional Housing Needs Assessment will necessitate reuse, redevelopment, and/or intensification of existing buildings and developed areas. The *Economic and Market Profile* is intended to provide a common factual foundation for discussing trade-offs among various types of development in a limited number of opportunity areas.

The report includes an economic analysis to provide an understanding of the economy in Dana Point and to quantify the current and projected market demand for office and industrial development for 5-, 10-, and 20-year horizons. The profile also includes a retail market demand analysis to project demand for retail stores, personal services, dining, lodging, entertainment, and commercial recreation and to identify strategies to capture leaked retail spending and to attract more consumer spending from beyond the city. The profile includes a residential market demand analysis, describing the current residential market and how Dana Point participates in the regional market. Finally, the report analyzes several opportunity sites to determine the types of development that would be financially feasible.

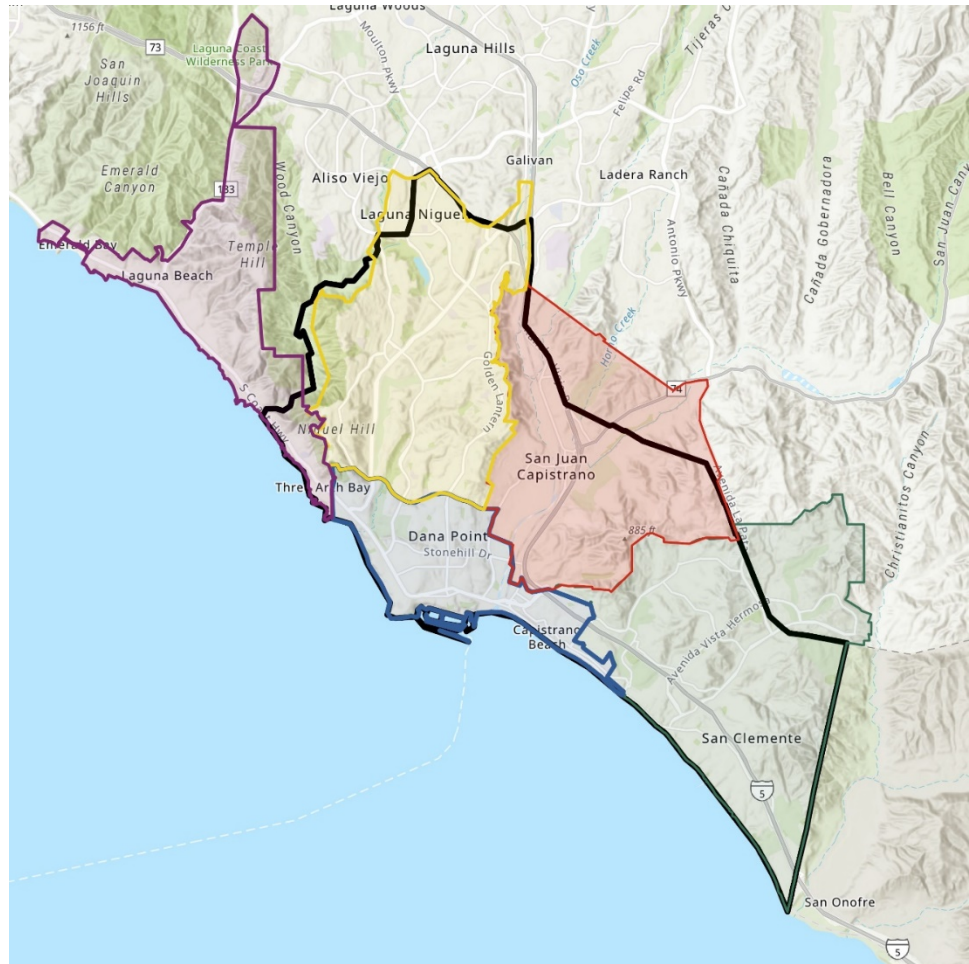
## Geography

The analysis focuses on the City of Dana Point. However, to make data more useful, different analyses presented in this report compare Dana Point to other areas. The immediate area around Dana Point is southwest Orange County, which is defined by the US Census Bureau based on several census tracts. This area includes all of Dana Point; most of Laguna Niguel, San Clemente, and San Juan Capistrano; and a small portion of Laguna Beach. This boundary is shown in Figure 1.

Some of the analyses provide the context of two comparison cities, San Clemente and San Juan Capistrano. These analyses include the entire cities, not just the portions within the southwest Orange County boundary. Laguna Beach and Laguna Niguel are also suitable comparison cities but were excluded to simplify the presentation of data.

Some of the analyses also provide data for Orange County, California, and the United States. When data is presented for Orange County, the data are inclusive of Dana Point, San Clemente, and San Juan Capistrano.

Figure 1: Boundary of Southwest Orange County and Included Cities



Source: PlaceWorks, using data from the US Census Bureau and Esri.

## Data Sources

Data sources are noted throughout the analyses. However, a few notes are warranted for those not familiar with the sources. The California Department of Finance provides annual estimates for population, households, and housing for all cities and counties in the state. These data are estimates for January 1 of each year from 1990 through 2020.

Through 2000, the Decennial Census included a long form with additional question to about 1 in 6 households nationwide. The long form provided additional data beyond population, relationships, and race and ethnicity. The long form ended with the 2000 Census.

In its place, the Census Bureau started conducting the American Community Survey in the mid-2000s. This survey provides a wide range of information. The Census Bureau conducts surveys every month of the year. Each year, the Census Bureau publishes data as one-year, three-year, and five-year estimates. The three-year and five-year estimates are rolling estimates. For example, in the 2019 three-year estimates,

one-third of the data were surveys conducted in 2017, one-third in 2018, and one-third in 2019. For data such as age and income, the early survey data are adjusted to reflect the year indicated for the estimates. For small areas, this increases the number of data points and thereby reduces the margin of error in the estimates. Unless stated otherwise, all the American Community Survey data presented in this report are five-year estimates.

The Census Bureau also provides a subset of the survey responses from the American Community Survey through the Public Use Microdata Set. This data include a subset of the individual survey responses. This allows the analysis to look at detailed information that is not otherwise available. For instance, this analysis looks at all the respondents who moved in the previous year and what type of house they moved into—single-family detached houses, single-family attached housing units, multifamily housing units, and mobile homes. Because this dataset includes individual responses, the data are only published for larger areas, which, for this report, is the southwest Orange County area shown in Figure 1.

Finally, the Census Bureau has the Longitudinal Employer-Household Dynamics program. This program combines data about where employees work, using the Quarterly Census of Employment and Wages (which itself comes from the Workers Compensation Program), and where employees live, using information from their W-2 tax forms. One downside to this data is that if a worker moves, the data reflect the place where they live at the end of the calendar year.

## Stakeholder Interviews

As part of the process to prepare this report, interviews were conducted with ten stakeholders, including elected officials, property owners, and developers. Below is a summary of some of the common issues raised by stakeholders.

### Strengths

#### Quality of Life

Stakeholders expressed general satisfaction from residents regarding the quality of life in Dana Point. Residents enjoy the proximity to a range of amenities offered by the coastal community, such as dining and entertainment options, recreational activities, and beaches.

#### Resorts

The city's resorts along with shopping, dining, and entertainment options in Dana Point and nearby cities are strong attractors for overnight visitors. And the spending by visitors helps support businesses and activities the residents also patronize. For those stakeholders aware of municipal finance, the value of tourism to the City's revenue was recognized.

#### Location and Access

Some stakeholders noted that, for those commuting to work elsewhere in Orange County, the I-5 freeway makes living in Dana Point more attractive than in some other nearby cities.

### **New Developments**

The proposed improvements and expansion of activities at Dana Point Harbor are expected to be very beneficial to residents and to the local economy. New development in the Town Center is also expected to be beneficial for the city.

### **Culture**

Many stakeholders noted that Dana Point's culture is a major strength. The culture is a mix of luxury resorts and some of the business that go along with that and the authentic beach/surf culture. Resort interviewees indicated that the authenticity of the city's surf culture is an attraction for their customers. In fact, the word authenticity was used many times in a variety of contexts to refer to aspects of Dana Point.

### **Leadership**

Stakeholders complimented the City's elected officials and staff for the leadership they provide. It was noted that City staff are accessible and responsive, and that this differs from some stakeholders' experiences in other cities.

### **Challenges**

#### **Redevelopment and Reuse**

Stakeholders recognize that economic development will require reuse or redevelopment of existing buildings. Some suggested that the existing building stock in the city is not suitable for the size and caliber of restaurants that could be successful in Dana Point. Many realize that redevelopment is expensive and will require higher rents. There was a general concern that this will result in national chain tenants rather than independent, authentic local businesses. Some stakeholders expressed a desire for the City to review existing regulations to identify opportunities to better support reuse of some existing buildings in lieu of redevelopment.

#### **Parking**

Parking was the most often mentioned challenge. This can be a problem for residents, businesses, and developers. It was noted that changes to the parking requirements in the Town Center Specific Plan and the expense of constructing public structures have made it very challenging to redevelop in the plan area. It was also noted that the parking requirements were changed because residents near the Town Center believed that there would not be enough parking provided and that customers would park in adjacent residential neighborhoods.

Several stakeholders supported the idea of establishing a transit system circulating among areas with parking, the Town Center, the resorts, and the marina rather than building more parking. However, there were other stakeholders who felt that most residents would not use such a system and that a lack of parking would diminish the patronage of businesses in the Town Center.

#### **Tourism**

Although most stakeholders noted the benefits of the tourism industry for the City's budget and public amenities, some worried about the City being overly reliant on hotel and sales tax from tourism. While they supported strengthening tourism in Dana Point, they also felt that the City should seek to diversify the local economy.



### **Affordable Housing**

Stakeholders recognize that the lack of affordable housing makes it more difficult for local businesses to find workers. However, some businesses indicated that they already pay higher than usual wages, and that their employees are very dedicated. At the same time, developers noted that the cost of land makes it extremely expensive to develop affordable housing projects.

### **Opportunity Areas**

#### **Town Center**

Many stakeholders were strongly supportive of the Town Center and the potential it offers for redevelopment. They felt that parking requirements were the main issue holding back development in the Town Center plan area and suggested re-evaluating the parking standards.

#### **Dana Point Harbor**

The renovation of the harbor provides an opportunity to drive new real estate investments and to attract customers and their sales tax dollars from a large part of Orange County.

#### **Doheny Village**

Stakeholders were generally enthusiastic about the opportunities for Doheny Village to accommodate new housing and improved commercial opportunities. However, there were concerns about remaking too much of Doheny Village and losing some of Dana Point's authentic culture.

### **Vision**

The stakeholders were aware that Dana Point is an aging community. Some expect that, over time, existing homeowners will turn their property over to their children or sell to new families, and they are confident that Dana Point will continue to attract younger residents and families. However, other stakeholders were concerned that Dana Point will continue to age without attracting an influx of younger people and families. They felt that this would set back the local economy, and that more needs to be done to development more housing for younger families.

### **Pandemic Impacts**

The pandemic was already negatively impacting retail property owners and hospitality businesses when these interviews were conducted at the end of summer and early fall of 2020. There was concern about sustaining existing businesses to help them get through the pandemic. There was also concern that rising vacancies will create challenges for commercial property owners that could lead to more marginal tenants or selling retail properties for development.



# National and Regional Context

There is a natural inclination to talk about a *local* economy. In reality, the local economy simply refers to the parts of the regional economy in which the local area participates. A local economy is not its own functioning unit. This chapter provides the context of key national and regional trends and speculates how the trends may influence local economic growth and development in Dana Point. Subsequent chapters present local data and provide more concrete analysis.

## LONG-TERM DEMOGRAPHIC TRENDS

### Generational Dynamics—National Context

One can regularly come across headlines and articles discussing differences among the generations, especially Baby Boomers and Millennials but also Gen-X and Gen-Z. While there may or may not be cultural and social differences among these generations, there are very real differences in the numbers of people (and the resulting potential for households).

Figure 2 shows the number of live births and the fertility rate (the number of live births per woman age 15 to 45) in the US for each year from 1909 to 2019. It also shows four periods during which the fertility rate and number of births exhibit a fairly consistent trend. With the exception of the Baby Boom generation, the generational labels popularly applied to different age groups do not fit neatly with changes in the underlying birth and fertility trends.

#### The Baby Boom

Prior to World War II, the US experienced a long, steady decline in the fertility rate. After World War II, the number of births in the US increased substantially above its long-term norm, peaked around 1957, and showed a sharp decline from 1964 to 1965. The Baby Boom label is commonly used to refer to the trend in the fertility rate and number of births, and the Baby Boomer label is often used to refer to people born from 1945 to 1964.

#### The Baby Bust and Gen-X

The number of births declined through 1975, and the fertility rate declined through 1976. The Baby Bust label is commonly used to refer to the trend in fertility rate and number of births from 1965 to 1976. However, the Gen-X label is commonly used to refer to individuals born from 1965 to 1979. The difference between the demographic time frame and the social labeling of Gen-X results, in part, from the availability of age-related Census Bureau data in 5-year age cohorts.

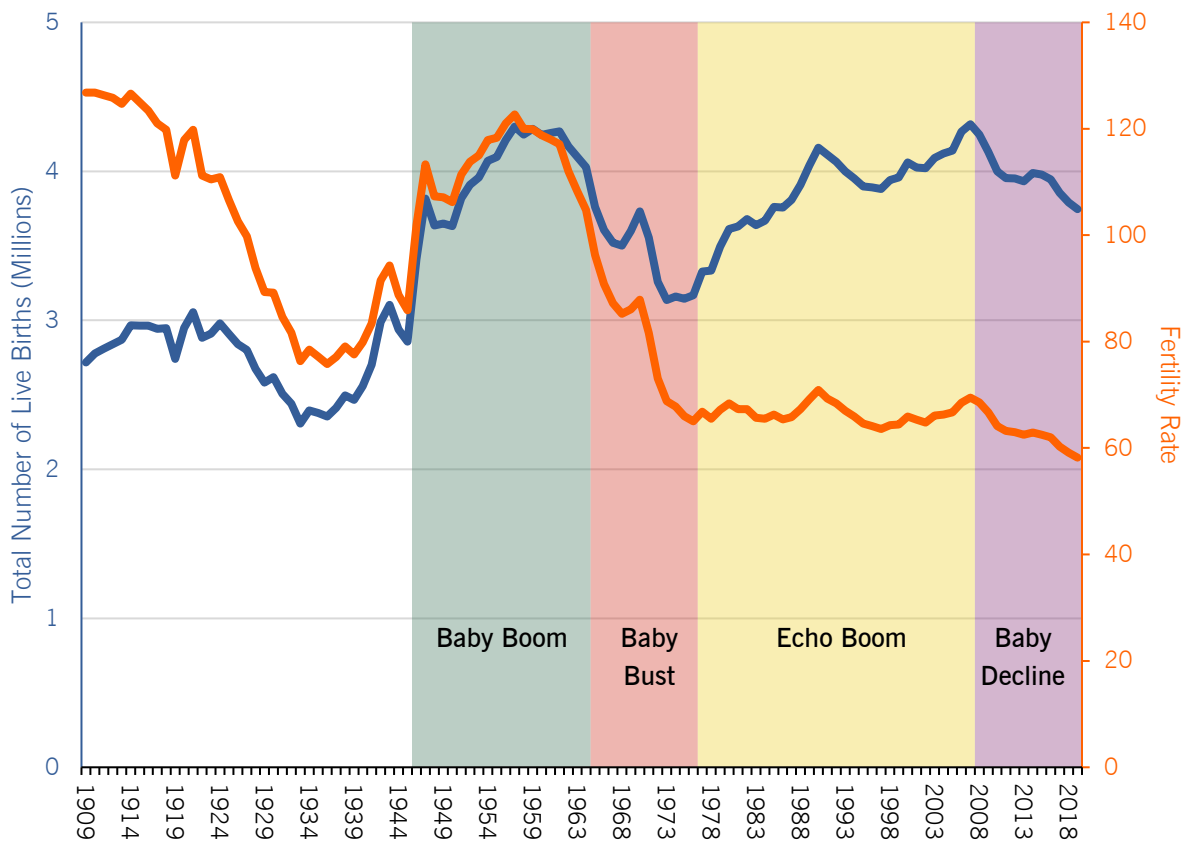
#### The Echo Boom and Millennials

By 1976 the fertility rates stabilized and, as the Baby Boomers began forming families, the number of births began to climb once again. From 1976 to 2008, the fertility

rate remained fairly consistent, and the number of births generally increased. This period is commonly labeled the Echo Boom, because the trend of increasing births with a stable fertility rate is a result of the large number of Baby Boomers in the child-bearing age range.

Generally, the social label Millennials generally corresponds to the Echo Boom demographic period. The label Millennial supplanted the earlier term Gen-Y to refer to individuals born from 1980 through 1999. Later, as journalists and some academics wanted to differentiate Millennials from the following generation, the end of the birth period was sometimes reduced to 1996. Nowadays, the social label Millennial can easily apply to either period.

**Figure 2: Annual Number of Live Births and Fertility Rates; United States; 1909 to 2019**



Source: PlaceWorks, 2019, using data from the US Centers for Disease Control, National Vital Statistics System.

### The Baby Decline and Gen-Z/Zoomers

After peaking in 2008, the fertility rate and the number of births has declined each year, with the exception of 2015. For a while, it was assumed that this was a temporary impact of the 2008–09 recession. But as time has progressed, it is now more widely accepted that this is a new longer-term trend. This period does not yet have a common label, so this report applies the descriptive label Baby Decline.

The downward trend in both fertility rates and the number of live births is similar to the Baby Bust period, but the year-to-year decreases have been less severe in the current period. The net impact to date has also been less severe. The total number of births during the last 12 years of data is only 1.2 million, or 2.4 percent, less than the total number of births during the last 12 years of the Echo Boom. However, each year that the trend continues, the net impact will grow larger. Furthermore, the fertility rate declined to a historical low of 63.2 live births per 1,000 women age 15 to 45 in 2010, and declined even further, to 58.2 in 2019.

This demographic period only partially overlaps the most recent social generation, which originally was commonly labelled Gen-Z but has also been called Zoomers. As mentioned above, the end of the Millennials and beginning of Gen-Z was originally considered to be 1999/2000, but more recently some have suggested that the demarcation should be earlier. Similarly, as this is a new social generation, the end point is not yet generally agreed to. Nevertheless, the social generation Gen-Z spans part of the Echo Boom and part of the Baby Decline demographic periods.

### **Total Fertility Rate**

One final demographic measure is total fertility rate, which is not shown in Figure 2. This measure is the expected number of lifetime births per 1,000 women, given current birth rates by age. A total fertility rate of 2,100.0 births per 1,000 women is considered necessary to replace a population over time. The US total fertility rate in 2018 was 1,729.5 births per 1,000 women (and 1,632.0 in California). Except for 2007, the US total fertility rate has not exceeded 2,100 since 1971. If not for foreign immigration, the US population would be declining over time.

### **Implications of Demographic Trends**

The aging of the Baby Boomers has created changes—social, economic, and in the built environment—through every stage of life. As the Baby Boomers move into retirement and old age, they will continue to drive changes.

### **Labor Force**

The oldest Baby Boomers reached age 65 in 2010, and the youngest will reach 65 in 2029. Even before these individuals reached retirement age, the demographic trends of a population bulge, followed by a large population dip, followed by a long slow growth in population show up in the labor force participation rate (the percentage of the civilian population age 16 and older that is either employed or actively seeking employment) peaked in 2000, declined through 2015, and began to increase slightly until the economic downturn caused by the COVID-19 pandemic. However, the US Bureau of Labor Statistics projects that the Baby Boomer exodus from the labor force will continue to drive down the labor force participation rate over the long term.

Some economists have attributed part of the weaker economic growth coming out of the 2008–09 recession to the declining labor force participation rate, and the continuation of this trend can be expected to put downward pressure on economic growth after the short-term recovery from the current recession.

As Baby Boomers continue to retire, there are fewer workers in the immediately following age cohorts. This dearth of workers among older labor force participants, who

tend to be the most experienced, has created and will continue to create a skills gap. Attracting and retaining qualified workers and managing associated costs are top challenges identified by respondents in the JP Morgan Chase *2020 Business Leaders Outlook* survey.

Bigger than the skills gap is the structural labor shortage for blue collar and manual service jobs. Over time, an increasing percentage of Americans has gone to college, and this increase in educational attainment impacts the labor force and the types of jobs American do. From January 1992 to January 2020, the number of people in the labor force with or without a high school diploma but no college decreased by 5.8 million or 11 percent. At the same time, the number of people in the labor force with a bachelor's degree or higher education increased by 32.5 million or 117 percent. So not only does the retirement of the Baby Boomers result in a shrinking labor force, but an even smaller portion of the shrinking labor force is going to be available for trucking and warehousing jobs, personal care and health support services jobs, and other growing blue collar and manual services jobs.

### **Health Care**

As Baby Boomers leave the labor force, they will also become eligible for federal Medicare benefits and, over time, will drive increasing demand for health care services. It is estimated that half of the expenditures on health care occur after the age of 65. Lifetime Medicare spending alone is estimated at \$150,000 for women and \$135,000 for men for new retirees.

Two key health care issues arise from the aging of the Baby Boomers. First is the cost to provide health care, and second is growth in health care infrastructure, services, and jobs. When most individuals reach the age of 65, their spending on health care switches from out-of-pocket payments and (mostly) private insurance to publicly funded Medicare (which includes some premiums and out-of-pocket expenses). In 2020, the Medicare Trustees projected that under the current funding scheme and program of services and benefits, Medicare would be most likely be able to only pay for about 96 percent of total costs in 2026, down to a low of 92 percent in 2044, and rise back to about 96 percent by the end of the 75-year projection period. Over its history, the Medicare program has faced many projected shortfalls but has never been unable to pay for the cost of its services.

Clearly, solving Medicare funding is not a responsibility of the City of Dana Point. However, the solutions to Medicare funding can be expected to impact the rate of growth of the national economy and impact the funding available for other federal programs that do affect Dana Point, including transportation infrastructure, affordable housing, and the myriad of federal grant programs.

The second issue—growth in health care infrastructure, services, and jobs—will create ongoing opportunities for the local economy. In its most recent outlook, the US Bureau of Labor Statistics (BLS) projects that US economy will grow by 6 million jobs from 2019 to 2020 (this projection predates and thus does not reflect the impacts of the COVID-19 pandemic), and that 2.4 million of these jobs will be in the healthcare

occupations. BLS attributes this growth to the aging population that will need more healthcare services.

Large job increases are expected for healthcare practitioners and technical occupations (such as registered nurses, physicians and surgeons, and dental hygienists, which may suffer from the labor force skills gap discussed previously) and healthcare support occupations (such as home health aides, occupational therapy assistants, and medical transcriptionists, which may suffer from the structural labor shortage for blue collar and manual service jobs described previously). Because the need for healthcare workers may outpace the availability of workers, healthcare service providers may be forced to accelerate the use of technology and other productivity-enhancement measures in order to meet demand.

With increased productivity, the growth in healthcare services may not result in quite as much demand for real estate development (medical office, labs and testing facilities) as would have been expected in the past. However, this is a matter of magnitude, and growth in healthcare is expected to be a strong driver of nonresidential land use through 2029 (when the youngest Baby Boomers turn 65) and beyond.

### **Housing**

In 2019, Baby Boomers owned over 32 million homes in the US. Over the next 20 years, most of those homes will be sold. Some of these Baby Boomers will live in their home until they die, and others will relocate to other regions, downsize their homes, and/or move to senior housing and assisted living facilities. Much media speculation has been paid to what Baby Boomers might do differently in retirement than their parents.

In 2019, 5.9 percent of the population aged 65 to 74 (the first half of the Baby Boomers) had moved in the last year. This rate was about the same as the 5.2 percent rate among those aged 65 to 74 in 2010 (which included only the first year of the Baby Boom). Thus, the data suggests that Baby Boomers appear to be no more or less likely to move, at least in the first ten years after retirement age.

However, Baby Boomers do appear to work beyond retirement age somewhat more than the prior generation. Of those age 65 to 69, 35.7 percent were still in the labor force in 2010 (prior to the Baby Boomers), which increased to 38.6 percent in 2019 (representing the Baby Boom). Of those aged 70 to 74, 20.8 percent were in the labor force in 2010, increasing to 21.8 percent in 2019. Although there has been concern that the 2008–09 recession wiped out Baby Boomers' savings and home equity, the slight increase in working after age 65 could as easily be attributable to better health and a desire to keep working as to being forced by circumstance to work past retirement age.

The trends with Baby Boomers after age 65 suggests that past trends will continue but grow because there will be more Baby Boomer retirees than there were retirees in previous generations. This means growth in regions favored by retirees, growth in downsized housing options in regions where Baby Boomers already live, and the eventual sales of those 32 million Baby Boomer homes.

And it is that last part where intergenerational changes come into play. There are fewer people in the Baby Bust and the older stages of the Echo Boom to purchase those Baby Boomer homes. In addition, changes in household living arrangements and preferences among the Millennials, discussed in subsequent sections of this chapter, suggests that there may be fewer people interested in purchasing those Baby Boomer homes. With fewer people to purchase homes and potentially fewer people interested, communities with higher concentrations of Baby Boomers could experience downward pressure on home values and sales prices and may see a slower inflow of middle-age households with children.

### **Schools**

The 11-year decline in the number of births is already being felt in declining school enrollments. Communities that are growing rapidly may face needs for more school facilities, not fewer. However, most communities can expect to see school enrollments continue to decline, most acutely in communities with little to no household growth.

Depending on how long this trend continues, the decrease in children may reverberate through the economy over time, just as the Baby Boom affected schools, the labor force, housing, and now health care.

## **Generational Dynamics—Regional Context**

Regionally, southwest Orange County<sup>1</sup> has a significantly larger portion of its population in the Baby Boom age cohorts than does Orange County as a whole. Figure 3 shows the portion of the population by 10-year age cohorts as of 2019.

In 2019, the Baby Boom generation was age 55 to 74. These age cohorts account for 30.9 percent of the population living in southwest Orange County and 21.8 percent of the countywide population. Southwest Orange County has about the same percentage of its population in the 45 to 54 age cohort and then substantially less in the younger age cohorts relative to the countywide population.

In part, the large proportion of Baby Boomers in southwest Orange County likely reflects who was buying homes as this area was being built out. Nevertheless, the smaller portion of the population under the age of 45 suggests that younger people either cannot find or afford housing they want in this area or that they are less interested in living in this area.

The larger portion of the population that is age 55 to 74 suggests that southwest Orange County may experience proportionately larger impacts from generational dynamics. On the downside, a smaller labor force can be expected to challenge economic growth as Baby Boomers retire. Local businesses may have to attract workers from farther distances. Capistrano Unified School District, which serves an area larger than southwest Orange County, can be expected to see declining school enrollment. Housing is a big unknown, and the impact will be determined by who eventually can and wants to buy the homes currently owned by Baby Boomers. If there is market support

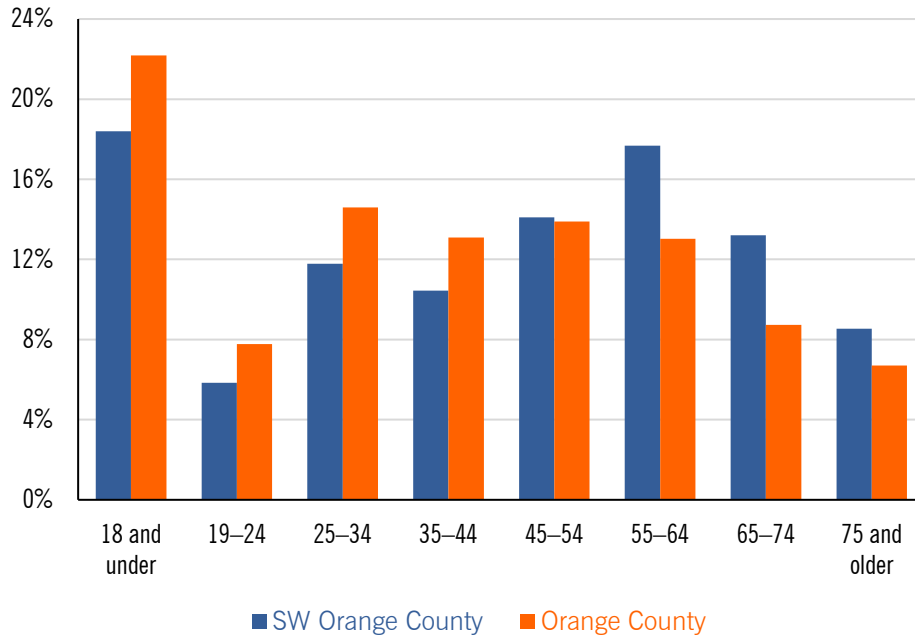
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<sup>1</sup> As discussed in the Introduction chapter, southwest Orange County includes Dana Point, most of the cities of Laguna Niguel, San Clemente, and San Juan Capistrano, and a small part of the city of Laguna Beach.



for home sales, there would be little impact, but if there is a lack of market support as Baby Boomers want to sell, home values could stagnate. Finally, the large proportion of Baby Boomers should support growth in healthcare sectors of the economy.

**Figure 3: Percentage of Total Population by Age Cohort; Southwest Orange County and Orange County; 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau, *American Community Survey, 2019 ACS 1-Year PUMS File*.

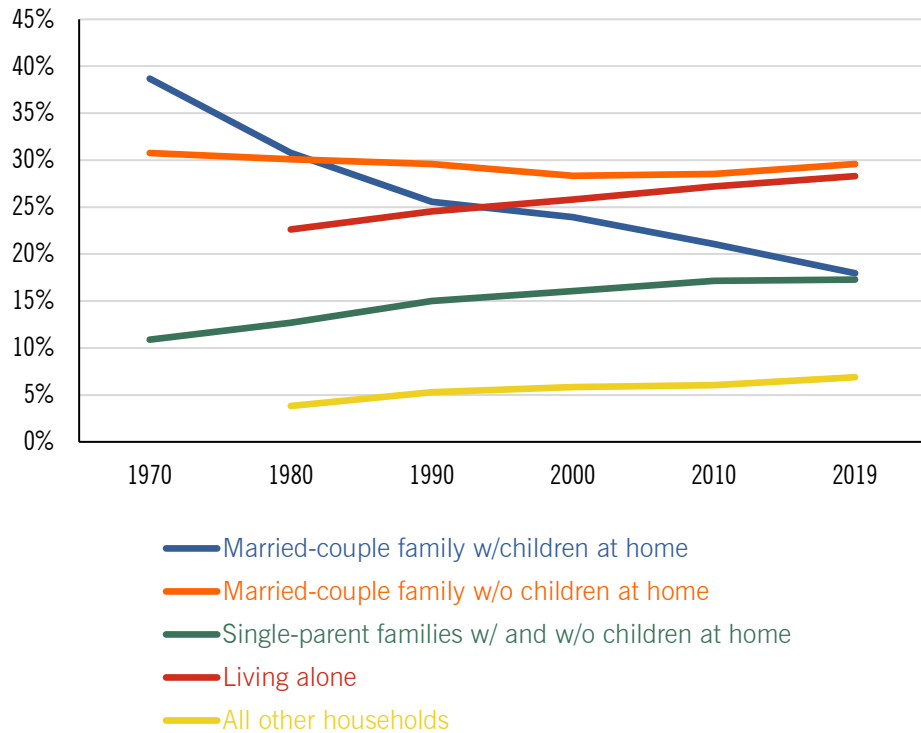
## Households—National Context

### Household Type

With the fertility rate leveling off in the early 1970s and the oldest Baby Boomers moving out of their parents' houses, the ways in which Americans live together in households began a decades-long transition. Figure 4 shows the percentage of total households by type of household for the US from 1970 to 2019.

During this period, the percentage of households that were married couples with children at home declined from 39 percent to 19 percent, even though the number of babies being born was steadily rising from 1976 through 2007. This decline was slightly offset by an increase in the percentage of households that were single-parent families with children at home, which increased from 5 percent in 1970 to 9 percent in 2019. Nevertheless, the percentage of households with children under the age of 18 at home, regardless of marital status, decreased to 28 percent of all households, down from 44 percent in 1970.

**Figure 4: Type of Household by Percentage of Total Households; United States; 1970 to 2019**



Note: Children at home refers to children age 18 and under. Households with and without children may include two more related generations over the age of 18.

Source: PlaceWorks, 2019, using data from the US Census Bureau. Decennial Censuses (1970 to 2000) and American Community Survey (2010 and 2019).

In contrast, the percentage of households that were married couples with no children at home hovered around 29 percent across the nearly five decades. The share of households that were a single parent with children increased from 5.4 percent to 8.5 percent, and the share that were single parents without children at home increased from 5.5 percent to 8.8 percent. There was also a large increase in the share of households that were single people living alone, from 23 percent in 1980 (data were not published for 1970) to 28 percent in 2019. The two most common types of households—married couples without children living at home and single people living alone—account for 58 percent of all households.

From 1980 to 2019, the number of households in the US increased by 42.3 million. Households with children, regardless of marital status, accounted for 5 percent of the total household growth. Households without children (married couple, single householders living with one or more relatives, and singles living alone) accounted for 82 percent of the increase. Nonfamily households accounted for the remaining 13 percent of the increase in households.

The household-type data show that the concept of the nuclear family, which plays a central role in how Americans view our society, represents a minority of households.

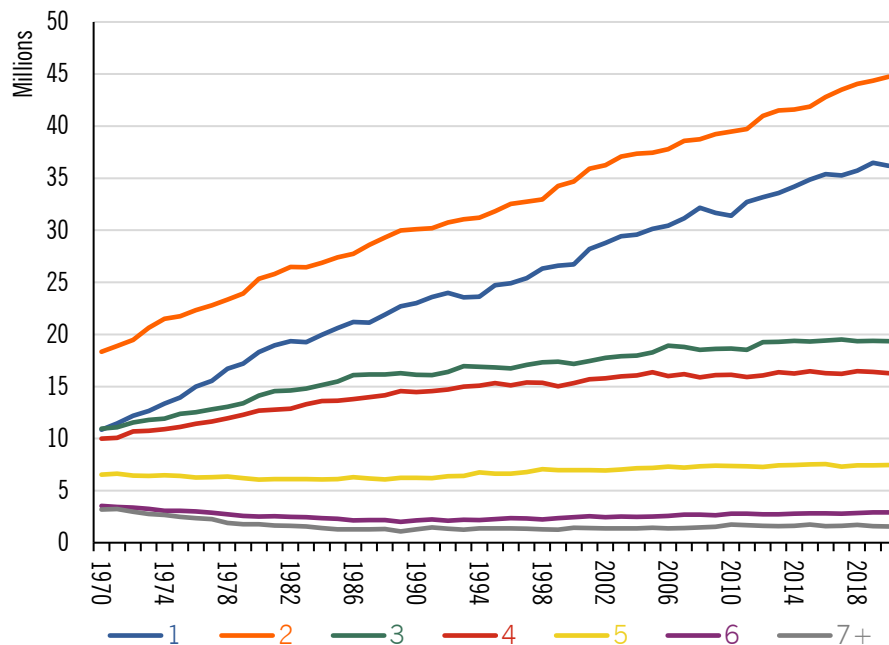
Furthermore, considering that only 28 percent of all households have children, the data raise the question of how well the housing market, which produces primarily single-family detached housing, is serving the needs of most Americans.

### Household Size

The number of households in the US increased from 63,400,000 in 1970 to 128,500,000 in 2020. The increase of 65,000,000 households represents an annual growth rate of 1.4 percent per year. However, the growth in households was largest among one- and two-person households, and increasingly larger households have increasingly lower rates of growth (see Figure 5). The number of households with six and seven or more people declined during this period. Figure 5 shows these trends over time.

One- and two-person households accounted for 80 percent of household growth over the last five decades and increased from 46 percent of the total number of households in 1970 to 63 percent of all households in 2020. In contrast, households with three or more people experienced a decline in the share of total households.

**Figure 5: Number of Households by Persons per Household: United States; 1970 to 2020**



Source: PlaceWorks, 2019, using data from the US Census Bureau, Current Population Survey.

Reflecting the higher growth in one- and two-person households and the decline in the number of households with six more persons, the average size of households has decreased. In 1970, the average household had 3.14 persons. By 2020, the average household size had decreased by 20 percent, to 2.53 persons per household.

The Census Bureau's *Current Population Survey*, from which the preceding household data are derived, is conducted in March of each year. From March 2019 to

March 2020, which catches the beginning of impacts of the COVID-19 pandemic, the total number of households in the US decreased by 0.1 percent. There were declines in the number of households with one, three, four, and seven or more people. In addition, the average household size increased slightly, from 2.52 to 2.53 persons per household. It is reasonable to expect the March 2021 survey to show even larger impacts from the COVID-19 pandemic.

The household size data suggests that the need for new housing over the last five decades has been for smaller housing that accommodates mostly one or two people. As later sections of this chapter show, the housing market has predominantly produced increasingly larger family-sized housing.

## Households—Regional Context

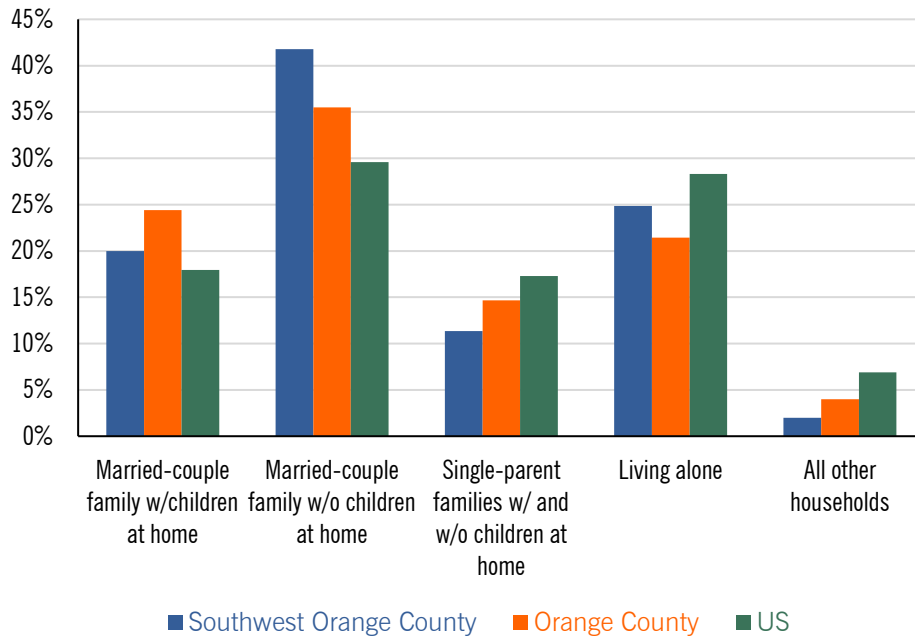
### Household Type

As shown in Figure 6, married couple families without children under the age of 18 at home is the most common type of household in southwest Orange County, accounting for 42 percent of all households. This type of household is also the most common in Orange County, 36 percent of all households, and in the US, 30 percent.

As with the US, the second most common type of household in southwest Orange County is single people living alone. This accounts for 25 percent of the area's households, somewhat lower than the national rate, 28 percent, but more than the share countywide, 21 percent. And who is living alone? In southwest Orange County, 39 percent of those living alone are divorced or separated, and 30 percent have never been married. Countywide, 35 percent of living-alone households are divorced or separated, while 36 percent have never been married.

Finally, the third most common household type is married-couple families with children under the age of 18 at home, which is about 20 percent of households in southwest Orange County. This is somewhat less than the countywide rate, 24 percent of households, but more than the share nationally, 18 percent.

**Figure 6: Household Type as a Percentage of Total Households; Southwest Orange County, Orange County, and US; 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau, *American Community Survey, 2019 ACS 1-Year PUMS File*.

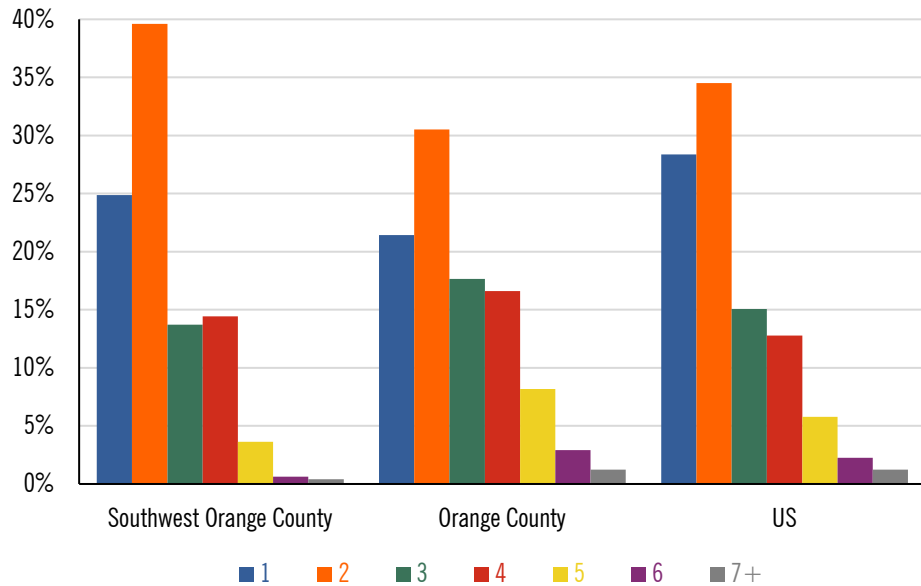
### Household Size

Based on the relatively high share of households that are married-couple families with no children at home or are living alone, it should be no surprise that 64 percent of the households in southwest Orange County—nearly two out of three—have only one or two residents. This is slightly more than the national rate, 63 percent, but significantly more than the share countywide, 52 percent.

Households with two residents is the most common household size regionally and nationally. Two-person households account for 40 percent of households in southwest Orange County, significantly more than the rate of 31 percent of households countywide and 35 percent in the US. One-person households are the second most common type, comprising 25 percent of households in southwest Orange County.

The difference is made up for at the other end of the spectrum of household size. Households with five or more people account for only 4 percent of southwest Orange County households, substantially less than the countywide share, 11 percent, and national share, 8 percent. The resulting average household size in southwest Orange County, 2.48 persons per household, is lower than the countywide household size, 2.82.

**Figure 7: Percentage of Households by Number of Persons per Household: Southwest Orange County, Orange County, and US; 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau, *American Community Survey, 2019 ACS 1-Year PUMS File*.

## NATIONAL ECONOMIC PERFORMANCE

### Gross Domestic Product

Gross domestic product (GDP) is the primary measure of national economic activity. It is an estimate of the total value of goods and services produced each quarter. GDP is an imperfect measure because it does not account for public goods and services for which there is no payment, e.g., clean air and unpaid domestic work. It also accounts for the value of activities that may be detrimental to the public good. For example, GDP counts the value of producing oil, even if that oil is lost in a spill, while there is no accounting for the damage caused by an oil spill; if there is payment to clean up an oil spill, that spending is added to the value of goods and services produced. Nevertheless, GDP is the best available measure of economic activity.

### Economic Expansions and Recessions

When GDP increases from month to month and quarter to quarter, the national economy is considered to be expanding. Expansion is the normal state of the economy. Figure 8 shows GDP, including expansion and recession, for each quarter from 1947 to 2020. Of the 888 months from January 1947 to December 2020, the economy was in expansion for 757 months and in recession for 131 months. The National Bureau of Economic Research (NBER) defines a recession as a significant decline in economic activity spread across the economy, normally visible in production, employment, and other indicators. NBER is not a governmental agency, but its determination

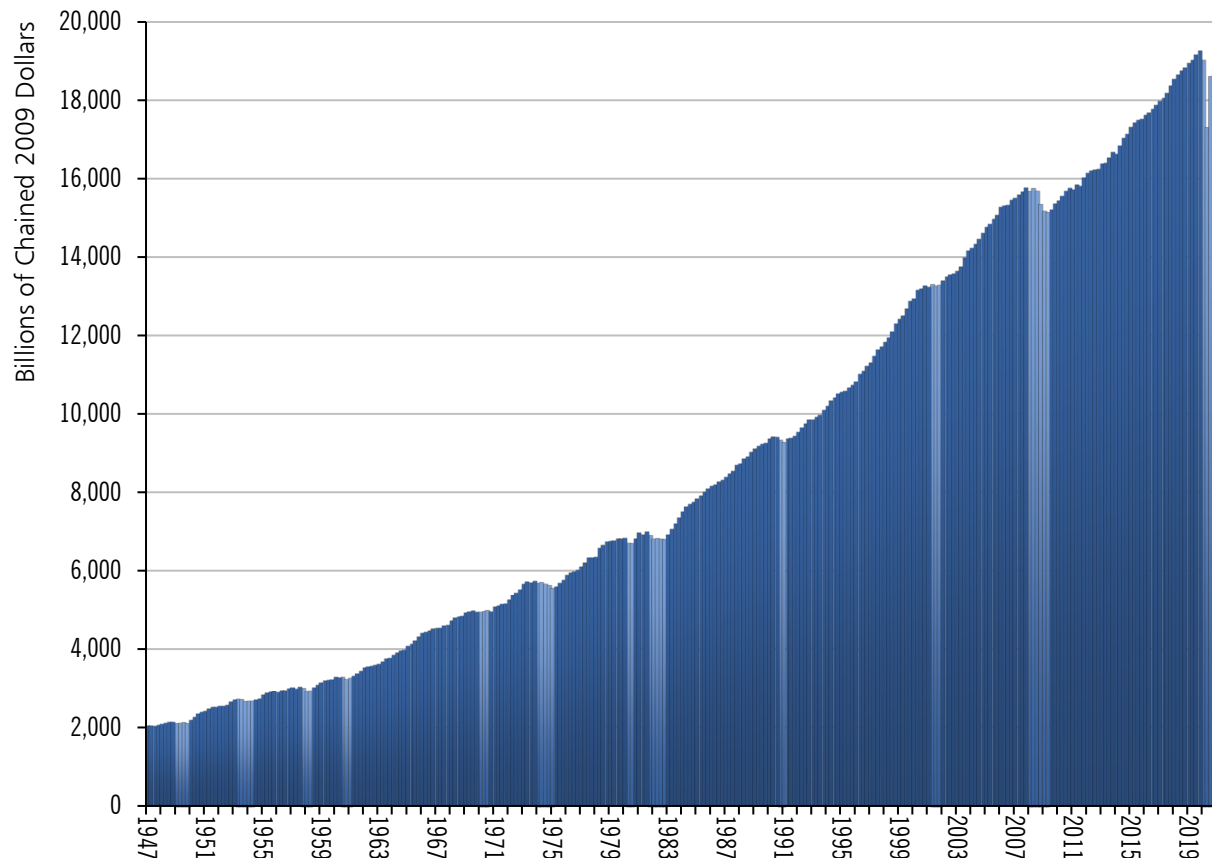
of when the economy is expanding and when it is in recession is considered authoritative.

## The New Recession

On June 8, 2020, NBER determined that the US economy peaked in February 2020 and entered a recession in March. The previous economic expansion—128 months from June 2009 to February 2020—was the longest on record going back to 1854. The second-longest expansion, 120 months, extended from March 1991 to March 2001.

From the fourth quarter of 2019 to the first quarter of 2020, GDP declined by \$247.3 billion, or 1.3 percent, and then declined another 8.9 percent from the first to the second quarter. For context, during the 2008/09 recession, GDP declined over six quarters by \$627.9 billion, or 4.0 percent. By the fourth quarter of 2020, the economy had started to expand, making up 75.7 percent of the decline in the first two quarters. Nevertheless, at the end of 2020, GDP was still 2.5 percent below the level at the end of 2019.

**Figure 8: Quarterly Gross Domestic Product; United States; Q1 1947 to Q4 2020**



Note: Lighter colored areas indicate periods of economic recession; the most recent recession end date is undecided.

Source: PlaceWorks, 2021, using GDP data from the US Bureau of Economic Analysis and recession-date data from the National Bureau of Economic Research.

The current recession was precipitated by the massive shutdown instituted to prevent the spread of the coronavirus. Since then, there have been waves of infections and on-again off-again closures and stay-at-home orders across the nation. Nevertheless, gross domestic product has increased for the last two quarters, and it may be that the national economy is no longer in recession (NBER can be expected to wait for two full quarters, or longer, to make a determination that the economy is no longer contracting). In its most recent economic outlook from December 2020, the Federal Reserve Open Market Committee projected that GDP would decline by 2.4 percent for the year and would increase 4.2 percent during 2021, which would mean GDP exceeding the prerecession peak sometime this year.

As discussed later in this chapter, the economic impact of the COVID-19 pandemic hit some sectors of the economy much harder than other sectors. Even if the overall GDP rebounds in 2021, there are some sectors that may take years to recover. Furthermore, even with economic activity growing strongly, as measured by GDP, the Federal Reserve still projects that the unemployment rate will only fall to 5 percent during 2021. Thus, the overall economy may perform well, but there will likely be businesses and workers that continue to suffer.

## CHANGING CONSUMER SPENDING PATTERNS

For several decades, Americans have been changing what they spend money on and where. Households are spending more and more online and shifting from purchasing goods to spending on experiences. Since the 2008/09 recession, these changes have accelerated.

### Total Retail Spending

Prior to the 2008/09 recession, total inflation-adjusted spending on retail goods per household peaked in January 2006. Spending then declined 16.7 percent over the next 39 months, through April 2009. As of January 2020, spending was only 0.4 percent above the prerecession peak. From January to April 2020, the amount of spending decreased 22.3 percent as social distancing became the norm and many parts of the country issued stay-at-home orders and closed some or all retail stores. Since April, though, total inflation-adjusted retail spending per households has bounced back, exceeding the January 2020 high in September, October, and November.

### Shift to Ecommerce

The total retail spending data hide an important story: the shift in consumer spending away from brick-and-mortar stores to ecommerce. Figure 9 shows monthly retail sales per household, excluding auto sales and adjusted for inflation. The data are divided into convenience goods stores, comparison goods stores, non-store retailers, and restaurants and drinking places. Convenience goods are items that people buy on a regular basis, such as groceries and medications. Comparison goods are items that people buy irregularly and/or infrequently, such as electronics and clothing. These represent



physical stores where people go to purchase goods, often referred to as brick-and-mortar stores. The non-store retailers category consists mostly of ecommerce, in which people place an order online and the goods are delivered to them. It also includes catalog sales, but this is a small part of the sales.

### **Convenience Goods Stores**

Per-household spending at convenience goods stores was relatively flat for most of the 1990s, and then generally started increasing, peaking in June 2008. After falling precipitously during the recession, sales started to grow again, leveling off in the spring of 2011, before declining in 2014. Over the five-year period ending in January 2020, inflation-adjusted per household spending at convenience goods retailers declined 8.7 percent. From January to December 2020, this spending increased 0.2 percent, almost exclusively due to increased spending at food and beverage stores as American households greatly reduced eating out.

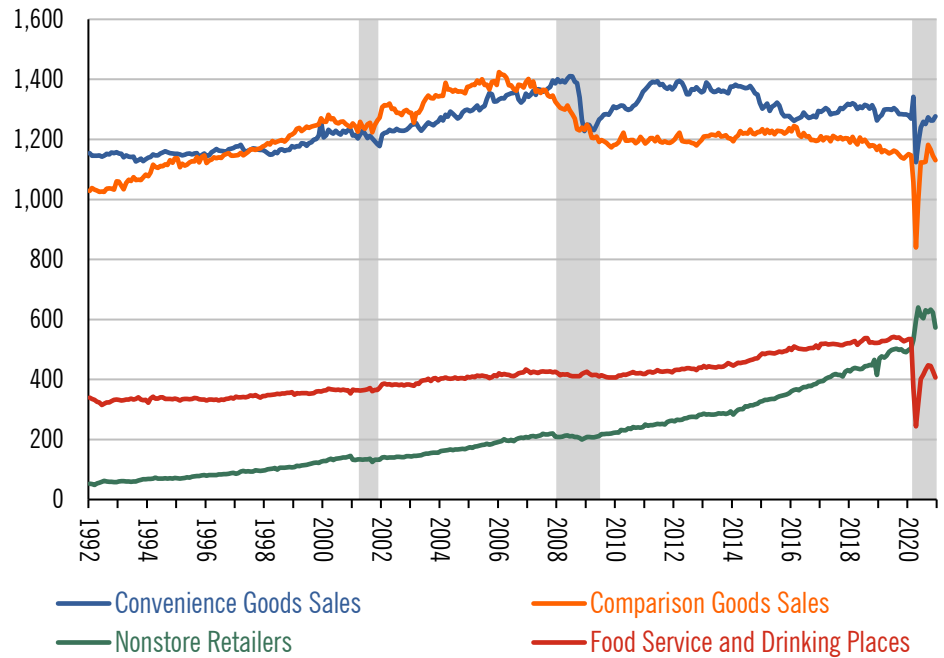
### **Comparison Goods Stores**

The trend with spending at comparison goods stores is even more dire. A long period of generally steady growth in inflation-adjusted per household spending came to a halt in January 2006, two years before the recession officially began. This spending declined for four years, through December 2009. There was little bounce back in comparison goods spending after the recession, and it never really exceeded the spending level at the end of the 1990s. Over the five-year period ending in January 2020, inflation-adjusted per household spending at comparison goods stores declined 12.4 percent. From January to December 2020, this spending declined 1.7 percent, with almost all sales down even more except for spending at building materials and garden supply stores, which increased 11.0 percent.

### **Online Retail Sales**

Since the early 1990s, ecommerce has experienced increasing growth, with only a relatively insignificant decrease during the 2008/09 recession. Over the five-year period ending January 2020, sales at non-store retailers grew 138.8 percent. Non-store retail increased from 5 percent of retail spending in January 2000 to 17 percent in January 2020. From January to December 2020, spending at non-store retailers increased another 14.9 percent.

**Figure 9: Inflation-Adjusted Monthly Retail Spending per Household; United States; Jan. 1992 to December 2020**



Note: Shaded areas indicate recessions; the most recent recession end date is undecided.

Source: PlaceWorks, 2021, using retail sales data from the US Census Bureau's *Monthly Retail Trade Survey*, inflation data from the US Bureau of Labor Statistics' *Consumer Price Index*, number of households estimates from the US Census Bureau's *Housing Vacancies and Homeownership Survey*, and recession dates from the National Bureau for Economic Research.

Ecommerce has grown in total sales since its inception, and the growth has accelerated since the 2008/09 recession. The decline in spending at brick-and-mortar stores is a more recent phenomenon, but it too had been going on for ten years. This shift in where people spend money to purchase retail goods is a long-term trend that can be expected to continue during and after the new recession. It is uncertain how quickly or how much shopping will take place online, but as people get more comfortable with online shopping and ecommerce sites continue to innovate, it is likely that the amount of shopping taking place in physical stores will continue to stagnate or decline for many years.

### Shift to Experience

As retail spending has shifted from brick-and-mortar stores to ecommerce since the recession, there has also been an accelerated shift from purchasing goods to spending on experiences and services. While total inflation-adjusted spending per household for all retail goods (at stores and online) increased only 0.6 percent since the last recession (January 2008 to January 2020), spending at restaurants and drinking places increased 26.8 percent, and was 23 percent higher than the peak prior to the 2008/09 recession. Spending for arts, entertainment, and recreation took longer to recover from the 2008/09 recession, but from 2010 to 2019 (the latest year for which

data are available), inflation-adjusted spending per household increased 23.3 percent, reaching 13.0 percent above the peak prior to the 2008/09 recession.

Spending at restaurants and bars and for arts, entertainment, and recreation have declined significantly with the COVID-19 pandemic and the stay-at-home orders. The recovery in these sectors can be expected to lag the overall economic recovery. Nevertheless, the growth in per-household expenditures on experiences is a long-term trend, and regardless of the short-term impact, this trend can be expected to continue in the long run.

## Implications for Economic Development

As with all such economic transitions, the continuing shifts to ecommerce and spending for experience will create winners and losers—communities that become retail destinations and communities that lose a substantial share of the retail businesses. One determinant will simply be money—Where is there money to be spent buying goods? But another determinant will be desire—Where do people want to spend their time and money?

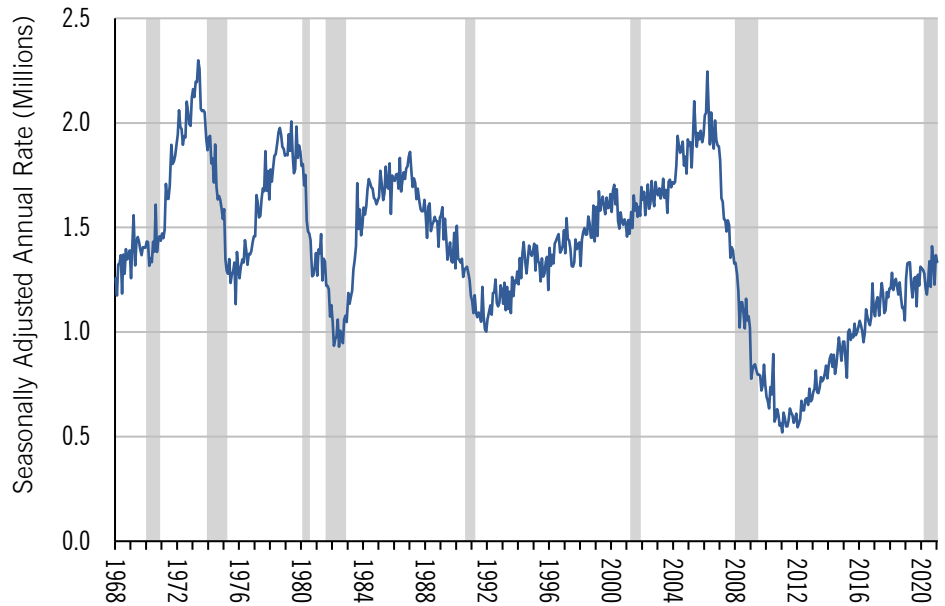
Successful retail centers and districts in the future will likely be mixed-use places. They will be mixed use in the sense that they will offer other things people do as part of a shopping trip, such as dining, entertainment, activities and events, and socializing. These are things that the internet is not so good at providing. They will also likely be mixed use in the conventional planning sense of the term—places that mix commercial uses with housing and employment, usually in a pleasant, walkable setting. The residential component in a mixed-use district rarely creates sufficient spending to support the business component, but having residents who are out and about creates a positive perception that the mixed-use district is a vibrant, living place, and this, in turn, helps attract visitors from beyond the district.

## RESIDENTIAL DEVELOPMENT TRENDS

### Housing Production

In 2020, at the end of the longest economic expansion in history, the US housing market completed almost 1.3 million new housing units, about the same as produced in 1994 during the 1991 to 2006 upcycle in housing development. In fact, in 35 of the previous 52 years, more housing was completed than was built last year. Figure 10 shows the number of housing units completed each month at a seasonally adjusted annual rate. Table 1 provides the average annual housing production during each economic expansion since December 1970. Even though the most recent economic expansion is the longest on record, it produced substantially less housing than each previous expansion over the past 50 years.

**Figure 10: Number of Housing Units Completed Monthly; United States; January 1968 to December 2020**



Note: Shaded areas indicate recessions; the most recent recession end date is undecided.

Source: PlaceWorks, 2021, using data from the US Census Bureau's *Building Permits Survey*, and the *Survey of Construction*.

During the previous ten years, the housing market completed an average of 985,000 housing units per year. At the beginning of this period, 2011, the Millennials were between 12 and 31 years old. At the end of this period, 2020, the Millennials were between 21 and 40 years old. For Baby Boomers, the corresponding age ranges represent the years 1976 to 1985. During this time period, the housing market completed an average of 1,981,000 housing units per year. The housing market produced 101 percent more housing units for the period when Baby Boomers were forming families than it produced when Millennials were forming families, even though there were only 3.5 percent more babies born during the Baby Boom as were born for Millennials. It is no wonder that there is a housing crisis.

**Table 1 Average Annual Housing Unit Production During Economic Expansions; United States; December 1970 through February 2020**

Economic Expansion		Average Annual Housing Units Completed
Start	End	
December 1970	November 1973	1,921,000
April 1975	January 1980	1,628,000
August 1980	July 1981	1,343,000
December 1982	July 1990	1,564,000
April 1991	March 2001	1,346,000
December 2001	December 2007	1,764,000
July 2009	February 2020	914,000

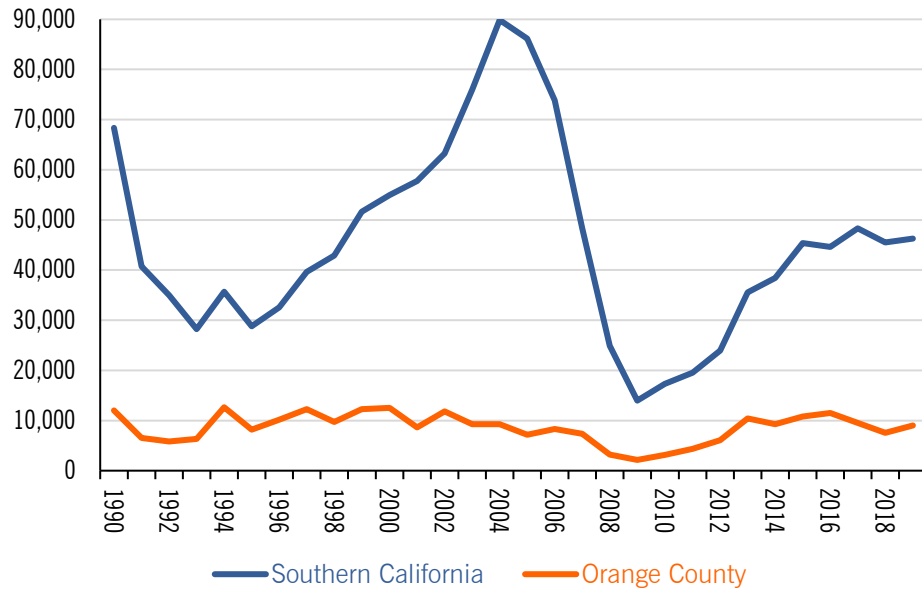
Source: PlaceWorks, using housing production data from the US Census Bureau's *Building Permits Survey* and *Survey of Construction*, and economic cycle dates from the National Bureau for Economic Research.

## Housing Production-Regional Context

From the bottom of the market after 1990–91 to the start of the 2008–09 recession, 781,000 housing units were authorized in Southern California, about 56,000 per year. Since that recession, an average of about 37,000 units per year have been authorized. The region experienced a large decrease in housing construction with the 2008–09 recession, and the pace of new construction for the last several years has been about the same as in 1998.

In contrast, the housing market in Orange County did not experience the large increase in housing production between the two recessions and has since recovered much of its pre-recession activity. The annual number of building permits increased 74 percent in Orange County compared to 219 percent in Southern California from the low after the 1990–91 recession to 2006. During the recession, the number of permits issued annually decreased 74 percent in Orange County and 81 percent in Southern California. In 2019, relative to 2006, the number of new housing units authorized by building permit issuance was 8 percent higher in Orange County but 37 percent lower across Southern California. Figure 11 shows the number of building permits issued for new housing units in Southern California and Orange County.

**Figure 11: Total Number of Housing Units Authorized by Building Permit Issuance; Southern California and Orange County; 1990 through 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau's *Building Permits Survey*.

Even though Orange County had a large decrease in the number of housing units constructed during the 2008–09 recession, it did not have the long, large increase in housing construction that Southern California and the nation experienced from the early 1990s to the mid-2000s.

## Housing Type

The majority of new housing that has been constructed in the US since 1960 has been single-family detached housing.<sup>2</sup> Figure 12 shows the share of all new housing completed that was single-family detached housing for each month since 1968. More than 50 percent of new housing has been single family every month over the past 52 years, and the trend is an increasing share of total housing over time. Over the last 30 years, single-family housing has accounted for an average of 77.2 percent of new housing units constructed.

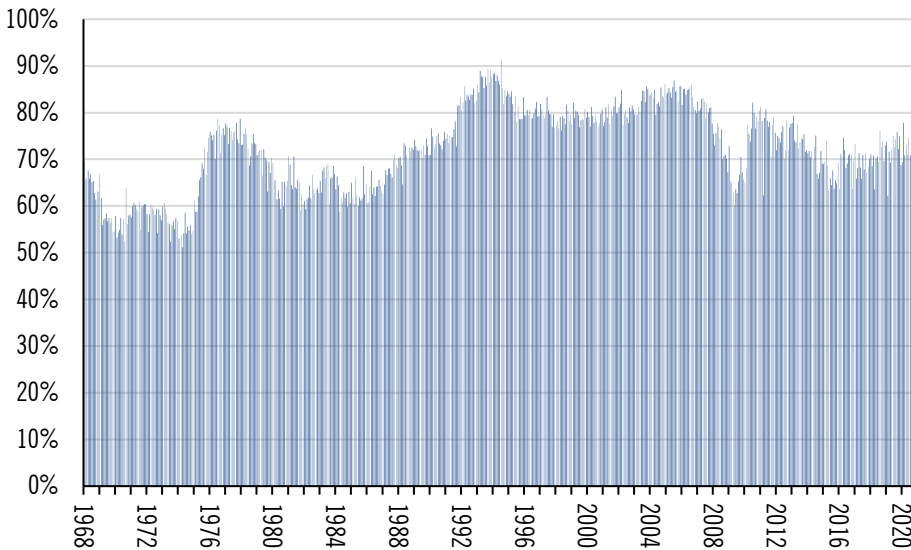
Once again, it is interesting to note that when the Baby Boom generation was coming of age, not only did the housing market produce more housing, but it produced a greater share of single-family attached housing and multifamily housing. In contrast, when the Millennials were coming of age, the housing market produced less housing, and more of what it produced was single-family detached housing.

As discussed in previous sections, married-couple families with children have substantially declined as a percentage of total households over the past five decades, as

<sup>2</sup> Unless stated otherwise, this report uses the term “multifamily housing” to refer to townhouses, multiplexes, condominiums, and apartments—any housing type that has more than one unit in a building. The term “single-family” and “single-family detached” housing do not include buildings with more than a single housing unit.

have households with children. At the same time, families without children and singles living alone have increased as a share of total households. In spite of these changes, the housing market has continued to predominantly produce housing for families with children.

**Figure 12: Single-Family Detached Housing as a Percentage of Total Housing Completions; United States; January 1968 to December 2020**

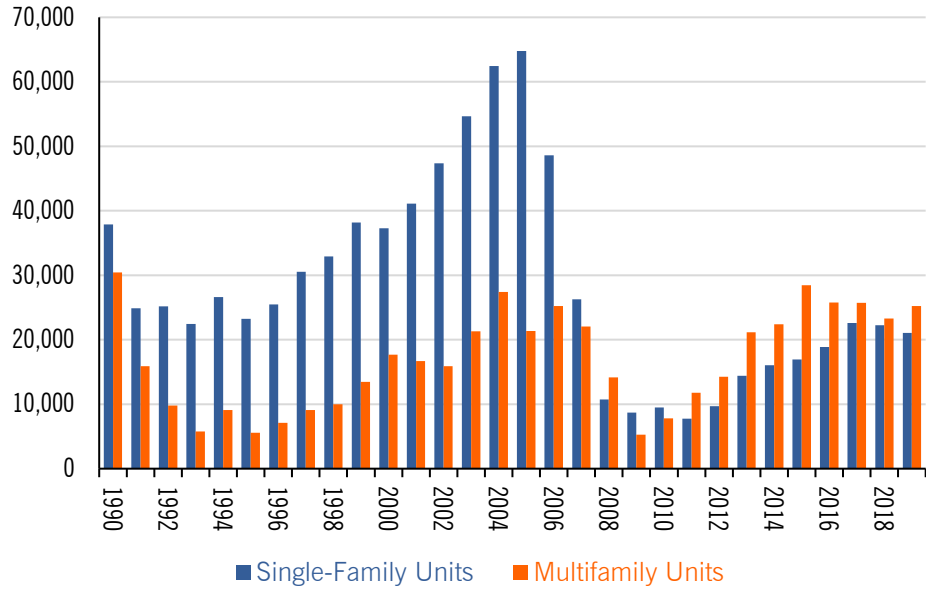


Source: PlaceWorks, 2021, using data from the US Census Bureau's *Building Permits Survey*, and the *Survey of Construction*.

## Housing Type-Regional Context

The type of housing constructed in Southern California and Orange County differs from the types of housing constructed nationwide. In both areas, single-family detached housing was the predominant type of housing constructed until the 2008–09 recession. As shown in Figure 13, it has been the predominant type of housing constructed in most years in Southern California since 2008. From 2006 through 2019, multifamily housing units accounted for 56 percent of the total number of building permits issued for new housing. Because Southern California includes almost half the state's population, this change in housing production is echoed in statewide data. From 2008 to 2019, multifamily housing units accounted for 49 percent of the total number of building permits issued in California.

**Figure 13: Number of Housing Units Authorized by Building Permit by Type of Housing; Southern California; 1990 to 2019**



Note: Multifamily housing includes single-family attached housing. Permits for mobile homes are not included in the data.

Source: PlaceWorks, 2021, using data from the US Census Bureau's *Building Permits Survey*.

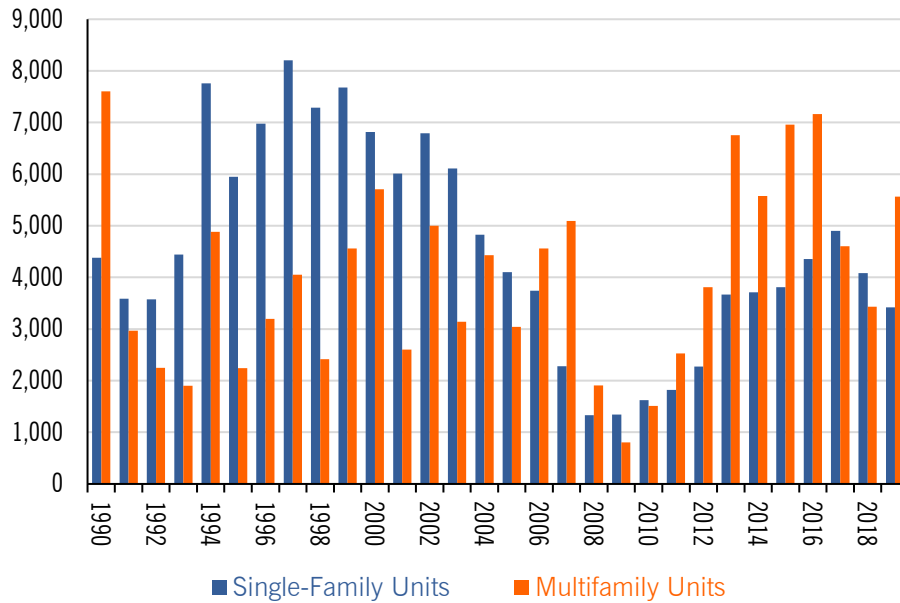


*New housing being constructed in the Town Center in 2020*



This trend is even more pronounced in Orange County, as shown in Figure 14. Multifamily housing became the predominant type of new housing permitted starting in 2006. From 2006 through 2019, multifamily housing units accounted for 59 percent of the total number of building permits issued for new housing in Orange County.

**Figure 14: Number of Housing Units Authorized by Building Permit by Type of Housing; Orange County, 1990 to 2019**



Note: Multifamily housing includes single-family attached housing. Permits for mobile homes are not included in the data.

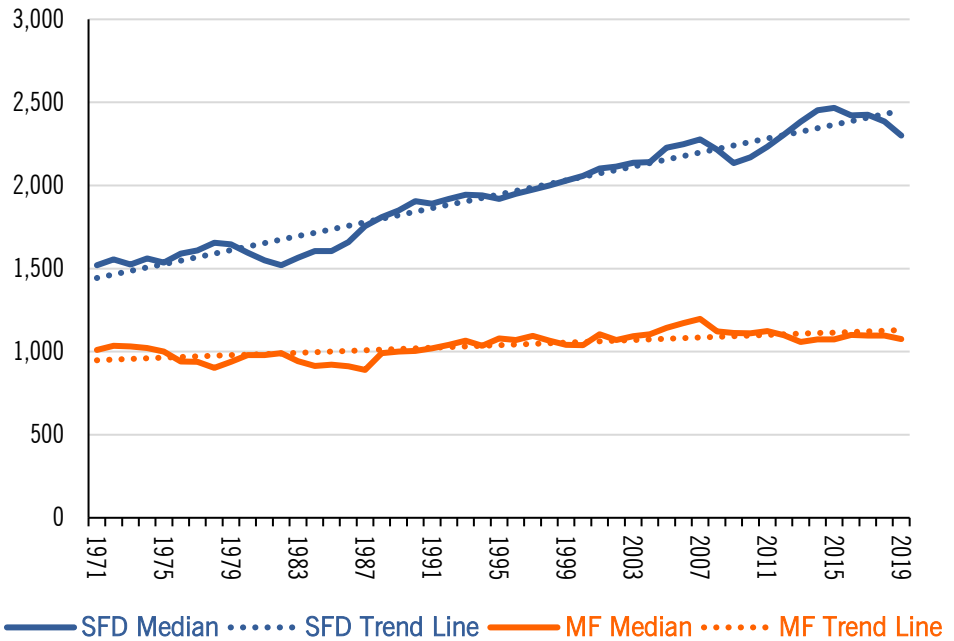
Source: PlaceWorks, 2021, using data from the US Census Bureau's *Building Permits Survey*.

## Housing Unit Size

The size of housing units, both single-family detached and multifamily, have been increasing over time. Figure 15 shows the average unit size for each year, from 1971 to 2019.

The median size of new single-family detached houses increased 51 percent, growing from 1,520 square feet in 1971 to a high of 2,467 square feet in 2015, before declining slightly to 2,301 in 2019. Over almost five decades, the median new house increased in size by about 16 square feet per year.

**Figure 15: Median Unit Size (sq. ft.) for Single-Family Detached and Multifamily Housing Units Completed; United States; 1971 to 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau and the US Department of Housing and Urban Development *Survey of Construction*.

Similarly, the median size across multifamily housing units increased over this period by 6 percent, growing from 1,011 square feet in 1971 to a high of 1,197 square feet in 2007, and declining to 1,076 square feet in 2019. The median multifamily unit increased by about 1 square foot per year over 49 years.

Starting in 1999, the Census Bureau began reporting unit size for multifamily housing intended for rental and those intended for sale. From 1999 to 2019, the median size of new multifamily units intended for rental increased by 45 square feet, or 4 percent, to 1,057 square feet. The median size of new multifamily units intended for sale increased by 81 square feet, or 6 percent, to 1,350, although this down from the peak of 1,706 square feet in 2016.

## Implications for Economic Development

When viewed in the context of 50 years of housing development, the data show that the 2008–09 recession devastated the housing market. The recovery in housing development nationwide has been anemic. The housing crisis of today results, in part, from simply not having enough new housing constructed.

But the data also show, in the context of long-term trends in types of households and household size, the housing that has been built—increasingly larger houses for families—does not match with the growing demographics across the country.

Similar to the national trend, the regional housing market in Southern California suffered major declines in housing production with the recession and has yet to recover

to its former strength. In Orange County, the housing market never fully ramped up production between the 1990–91 and the 2008–09 recessions. This market did suffer a large decline in production and then a recovery to pre-recession levels of housing construction, but over the past 30 years, housing production in Orange County has generally paled in comparison to the Southern California market.

Where the regional markets differ from the national trends is in the production of multifamily housing. According to CA Department of Finance estimates, single-family detached housing accounts for only 50 percent of the total housing in Orange County and 54 percent of the total housing in Southern California. And since the recession, the market has shifted from producing predominantly single-family detached housing to producing a majority of multifamily housing. Given the relatively built-out nature of much of the region, it is not surprising that the market has made this shift. Given the demographic trends and land constraints, it is reasonable to expect the housing market to continue to primarily produce multifamily housing in the future.

## IMPACTS OF THE COVID-19 PANDEMIC

The COVID-19 pandemic has induced an economic recession since the beginning of the year. By forcing the closure of many businesses and forcing many businesses to allow employees to work from home, COVID-19 also has created economic impacts that will live on long after the pandemic subsides. Much of the data presented in this report lags by a year or more, so most of the numerical analyses are unable to account for the impacts of the pandemic. Nevertheless, nearly a year into the pandemic and with vaccinations underway, it is possible to make some qualitative assessments of the impacts.

With vaccinations underway, there is a general expectation of a return to some type of normalcy in the latter half of 2021. However, with new variants of the virus being discovered, there is no guarantee that 2021 economy will fare better than that in 2020.

In three key ways, COVID-19 has had relevant economic impacts that will last well beyond the pandemic. First, it has and may continue to force the permanent closure of many businesses. Second, it has hastened the shift from in-store retail to online retail. And finally, it forced many businesses to adjust to professional and office-based employees working from home.

### General Impacts

#### Business Closures

Many businesses have had to fully close at some point during the pandemic. Yelp's September 2020 Economic Impact Report found that, of the businesses in its database that were open on March 1, 2020, 164,000 were closed as of August 31, 2020. And 60 percent of the closed businesses, 98,000, were closed permanently. The report noted that bars, restaurants, and retail sales and services have been particularly hard hit. Until the economy is fully able to reopen, and consumers are

confident to return to stores, restaurants, and bars, permanent closures can be expected to continue rising.

CB Richard Ellis's most recent *Orange County Retail Marketview* for the fourth quarter of 2020 noted the retail vacancy rate had increased to 4.5 percent. This is about a percentage point higher than the rate for most of 2018 and 2019. Nevertheless, the report expects vacancy rates to increase and lease rates to decline in the short term. The report noted that the retail vacancy rate in south Orange County was 5.5 percent with a 2020 negative net absorption of about 150,000 square feet.

### **Shift to Online Retail**

The growth in online retail spending has been consistent over several decades, as described previously. However, the shift in spending away from retail stores to online retailers increased with the pandemic.

This shift means that the market will take longer to absorb the retail vacancies generated by the pandemic-related permanent business closures than it has in the past. And this is worrisome because inflation-adjusted retail spending per household in stores has never recovered from the 2008–09 recession. It may well be that there is a diminishing demand for retail stores moving forward.

### **Working from Home**

The share of Americans who primarily work from home has risen in recent decades, from 0.7 percent of full-time employees in 1980 to 3 percent in 2017. Of those people with a job in February 2020, 74 percent commuted to work every day, and 8.2 percent worked from home every day. After a marked increase in working from home, by August 2020, only 49 percent commuted to work every day, and 20 percent were still working from home (16 percent of those employed in February were out of work in August). However, those working from home were much more likely to have a college degree and to be working in professional jobs.

There are mixed survey results on whether or not those working from home prefer it and whether or not there has been improvement or decline in productivity. Until schools are back to in-person instruction, it will probably not be clear how large the shift to fully or mostly working from home will be. Nevertheless, surveys generally show majorities of office-based workers working from home do not expect to return to the office full time. Furthermore, a survey by Cisco Systems found that 53 percent of larger organizations plan to reduce the size of their office space, and more than three-quarters will increase work flexibility.

CB Richard Ellis's most recent *Orange County Office Marketview* for the fourth quarter of 2020 noted the office vacancy rate had increased to 11.9 percent. This is about two percentage points higher than the rate for most of 2018 and 2019. However, the report also noted that the available office space remains below the peak during the 2008–09 recession. Some office tenants have moved out or decreased their footprint, resulting in a 2020 negative net absorption of 2.1 million square feet. At the same time, some tenants have signed short-term lease extensions while they wait to better understand the impacts of COVID-19 on their operations and office space needs.

It appears that there is going to be a fundamental change in how and where office-based workers do their work after the pandemic. Even though the increase in working from home may take time to materialize in vacancy rates, it will likely have an immediate and long-term impact on investment in the development of new office building space. The 2008–09 recession had a nearly 10-year impact on office market dynamics and office development in Southern California. If half of office-based businesses reduce their footprint by even 20 percent, that would add 10 percent to the vacancy rate. The market for new office development could take ten years to climb out of that hole.

### **Business Travel**

Business travel makes up 60 to 70 percent of airline sales, and corporate bookings declined by 97 percent in July compared to the same period last year. The pandemic-related decline in business travel has had ripple effects across the travel and hospitality sectors, including lodging, rental cars, and restaurants. An August 2020 McKinsey report noted that it took five years for the business travel segment to recover from the 2008–09 recession. The CEO of Southwest Airlines has suggested that recovery in business travel after the pandemic will take five to ten years.

However, recovery from the current recession may take even longer, and indeed, business travel may never return to its pre-pandemic levels. The rapid development of and continuing improvement in technological solutions to facilitate working from home provide alternatives to business travel. As these technologies continue to improve and as people become more accustomed to virtual meetings, there will likely be less overall demand for business travel.

## **Market Demand Implications**

### **Retail, Dining, and Entertainment**

The retail segment has been and will continue to be the segment hardest hit by the pandemic. Increasing vacancies and decreasing lease rates (negative market factors) can be expected for the short-term, at least until COVID-19 vaccines and treatments ameliorate the risk and fear of in-person shopping. Recovering to healthy and market-supportive vacancy and lease rates will be slowed by the continuing shift in consumer spending from in-person shopping to online purchases. It could take years before there is market support for substantial new retail development.

The city's near-term focus should be helping existing retailers remain in business. Other short-term support for the retail market includes facilitating reuse of existing retail buildings and promoting the transition of retail buildings to other uses (to reduce the square footage of vacant retail space). Longer-term support could include promoting experience-oriented retail (which may help retail stores compete with online retail) and infill housing within walking distance to retail districts and nodes (to provide more pedestrian activity and more spending support). Of course, this is nothing new to Dana Point. The Town Center and Doheny Village Specific Plans aim to do just this.

## **Office-Based Businesses**

Demand for office space may decline over several years as current leases expire and tenants seek to reduce their footprint. The resulting downward pressure on office lease rates may inhibit new office development. It may take two to three years for office vacancies to peak, and somewhere between three to six years for vacancies to fall to a healthy level. Nevertheless, strong economic growth may overcome these market weaknesses.

Office-based businesses are not a large part of the local economy in Dana Point. Impacts to the Orange County office market may have little effect locally. Furthermore, there may be support for new office-based uses, such as coworking, if working from home continues after the pandemic.

## **Hospitality**

In past recessions, recovery in hospitality usually lagged overall economic recovery. The recovery from the current pandemic recession will likely follow the same pattern. However, the lodging market in Dana Point is more leisure travel than business travel. The impact of declining business travel may have less bearing on the local market than it does on the broader hospitality market in Orange County.

## **Housing**

The housing industry has remained strong during the pandemic. It is not clear yet if there will be rising mortgage defaults and tenant evictions if the economic recovery from pandemic stalls; there is still a potential for damage to the housing market. Nevertheless, the national economy underbuilt housing by more than five million housing units since the last recession, and the CA Legislative Analyst's Office found that the state needs to nearly double housing production in the coastal regions to make up for years of underbuilding. Even if the pandemic takes a toll on the housing market, it can reasonably be expected to recover much more quickly than the retail, office, and hospitality markets. At the present time, it appears that housing construction will continue unabated.

## **Industrial**

PlaceWorks' previous research on logistics found that there is insufficient industrially zoned land region-wide to accommodate the long-term demand for warehousing development. This has led warehousing developers to consolidated old smaller industrial properties for redevelopment for warehousing. In turn, this has put pressure on manufacturing businesses, both those leasing industrial facilities and those needing to expand. Overall, industrial vacancy rates are at historical lows, and the pandemic has had little to no impact on market demand.

# Socioeconomic Profile

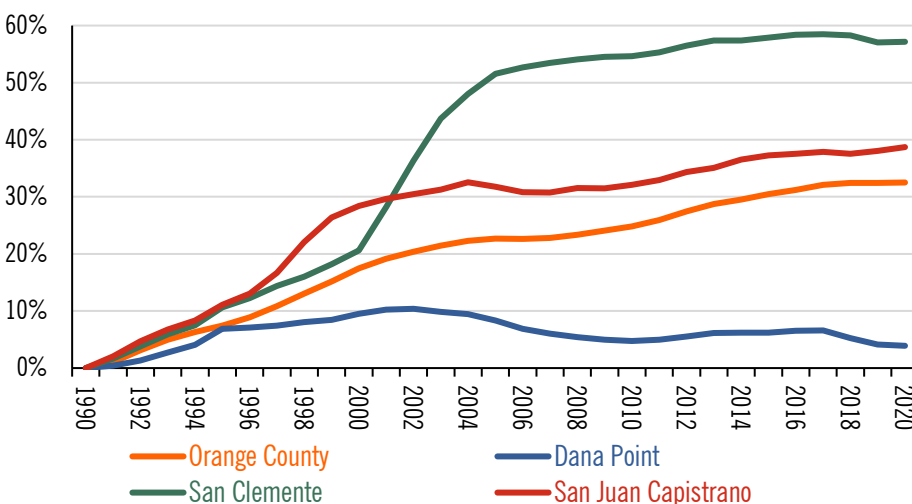
The socioeconomic characteristics of residents living in and near Dana Point in large part determine the number and types of shopping, dining, entertainment, and service businesses that the market can support. The socioeconomic characteristics of those residing in and near Dana Point provide indications of the market for new housing. And the skills and education of the labor force living within commuting distance of the city influence the types of businesses that might be interested in a Dana Point business location. This chapter describes the socioeconomic characteristics of the residents in Dana Point and the surrounding area.

## PEOPLE

### Population

The CA Department of Finance estimates that Dana Point's total population was 33,100 at the beginning of 2020. From 31,900 in 1990, the population increased to 35,200 in 2002 and has generally decreased since then. As shown in Figure 16, the city's population has not kept pace with the trend in adjacent cities. Orange County, San Clemente, and San Juan Capistrano had rapid growth into the early to mid-2000s and continued to grow thereafter. Dana Point's population growth is more similar to that in Laguna Beach, which has most of its population growth prior to 1990. The population in Laguna Beach in 2020 was 2.9 percent lower than its 1990 population. This suggests that the stagnation in Dana Point's population is less about the attractiveness of the city as a place to live and more about the lack of land available for developing new housing.

**Figure 16: Total Population as a Percent of 1990 Population; Orange County, Dana Point, and Neighboring Cities; 1990 to 2018**



Source: PlaceWorks, 2021, using data from the CA Department of Finance.

## Age

Table 2 provides age data for Dana Point and comparison areas. In 2019, the median age of residents of Dana Point was 50.5 years old, which was somewhat higher than the median age in San Clemente and San Juan Capistrano and substantially higher than the median age in the county and the state. In part, the higher median age reflects that a higher percentage of the city’s population is age 65 or older, 24 percent, and a smaller percentage is under the age of 18, 15 percent, than in the comparison areas.

**Table 2: Age Characteristics; State, County, Dana Point, and Adjacent Cities; 2019**

	California	Orange County	Dana Point	San Clemente	San Juan Capistrano
Median Age	36.5	38.1	50.5	44.3	41.5
65+ years	14.0%	14.4%	23.8%	17.7%	18.1%
Under 18 years	23.0%	22.2%	15.5%	21.4%	24.3%

Source: PlaceWorks, 2021, using data from the CA Department of Finance.

The older age indicators in Dana Point represent a growing trend. From 2010 to 2019, the share of city’s population age 65 and older increased by 6.7 percentage points, which is a larger increase than San Clemente (5.3 percentage points), San Juan Capistrano (3.5), Orange County (3.2), and the state (2.9). Similarly, the median age increased by 5.8 years, which is higher than all the comparison areas. Finally, the percentage of the population under the age of 18 decreased by 2.7 percentage points, which is less of a decline than in San Clemente (3.7) but more of a decline than in the other comparison areas.

The data indicate that, in general terms, Dana Point is older than neighboring cities and getting older faster. This is likely due in large part to the limited growth in housing relative to neighboring jurisdictions. Without an influx of new residents moving into new housing, the population in the Dana Point is mostly aging in place except for when existing residents move away from the city and new households take their place.

## Race and Ethnicity

Dana Point is predominately White, non-Hispanic, which accounts for 74.5 percent of the total population. The share of Dana Point’s population that is White, non-Hispanic is substantially higher the share of the state’s population, 37.5 percent, and the county’s, 41.0 percent. The share of the total population in Dana Point is slightly higher than the share in San Clemente, 73.4 percent, and somewhat higher than the share in San Juan Capistrano, 57.7 percent. Figure 17 shows the percentage of the population in each major race/ethnic category.

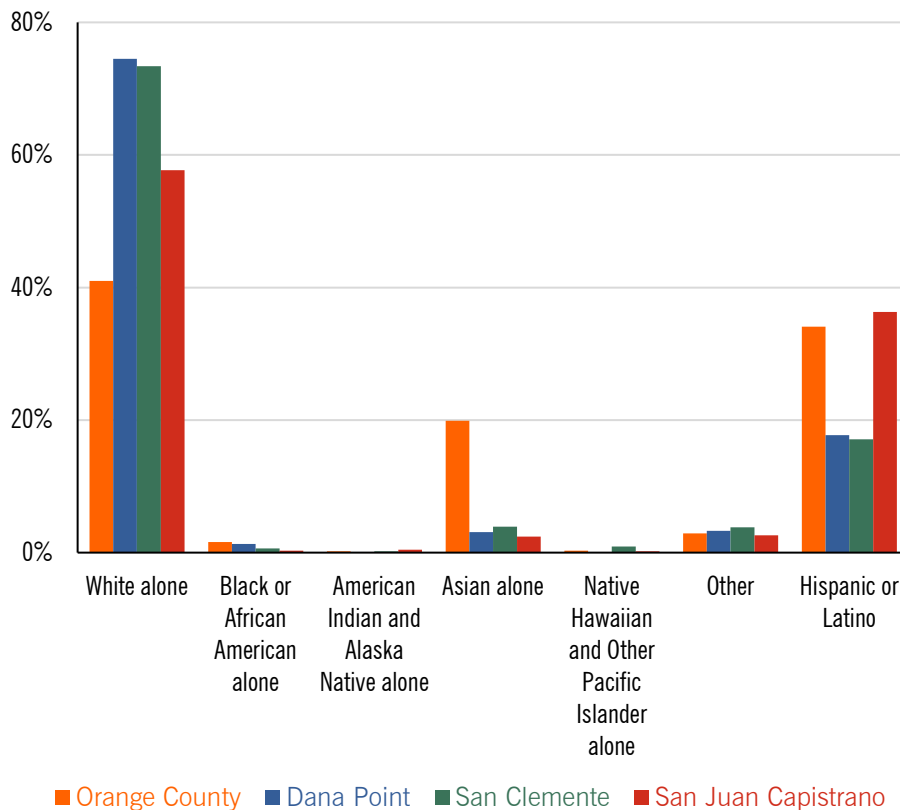
The non-white population in Dana Point is primarily Hispanic or Latino, 17.7 percent. This is about the same as the population in San Clemente, but lower than the share



of the population in the state, 38.9 percent, Orange County, 34.1 percent, and San Juan Capistrano, 36.3 percent. In addition to the Latino population, a sizeable share of Orange County's population is Asian, 19.9 percent. Asians account for 3.1 percent of Dana Point's population.

From 2010 to 2018, the population of Orange County increased by 199,000 people. However, the White, non-Hispanic population decreased by 53,800, the Asian population increased by 113,000, and the Hispanic or Latino population increased by 106,000. The population in the Other race or ethnicity category (which includes two or more races in combination as well as those responding as "other") increased by 29,000 people. It is important to note that increases in particular race/ethnic categories result from both in-migration and births. Similarly, decreases in population reflect both out-migration and deaths. Taken together, the data indicate that Asians and Hispanics or Latinos are major drivers of population growth in Orange County.

**Figure 17: Race and Ethnicity as a Percentage of the Population; State, County, Dana Point, and Neighboring Cities; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau's 2018 American Community Survey 5-Year Estimates.

In Dana Point, the population increased by 430 people from 2010 to 2018. This increase includes a decline in the White, non-Hispanic population (-1,860) and increases in the population that is Black or African American (290), Asian (160), other

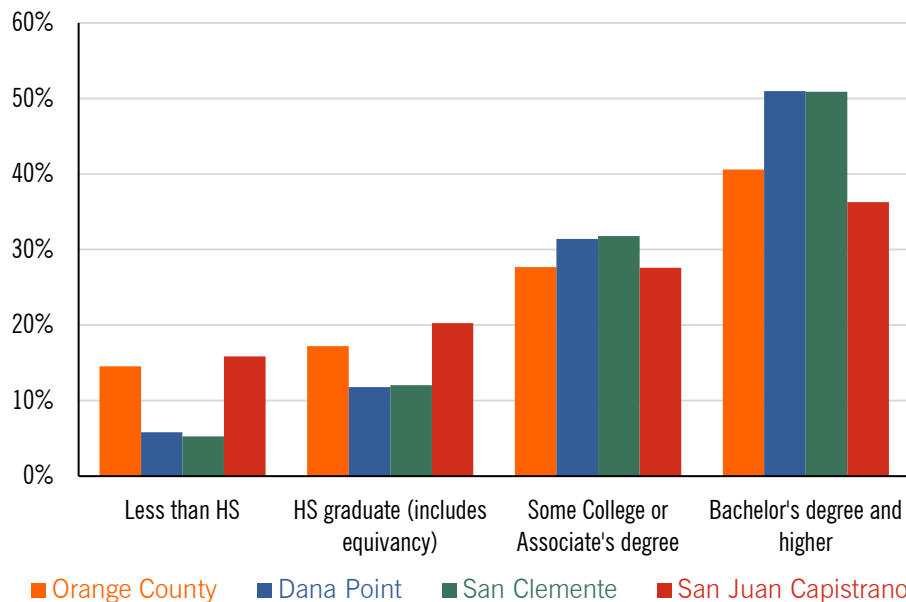
(200), and Hispanic or Latino of any race (1,630). Because Dana Point had a substantially higher percentage of the population that was White, non-Hispanic in 2010, the change in the percentage share of the population by individual race and ethnic categories does not appear dramatic. Nevertheless, as a share of net population growth, the race and ethnicity changes in Dana Point are similar to the changes taking place across the county, with the city experiencing a somewhat larger share of growth among Blacks or African Americans and a somewhat smaller share of growth among Asians.

## Education

Dana Point and San Clemente have higher percentages of residents with some college or a college degree and lower percentages of residents without a high school diploma than San Juan Capistrano and Orange County. Figure 18 shows the education level of residents in each of the jurisdictions.

A challenge facing the California economy is a higher percentage of residents without a high school diploma, 17 percent, relative to the nation, 12 percent. In Orange County, 15 percent of the population does not have a high school diploma. In 2019, 8 percent of workers did not have a high school diploma, and occupations in which the predominant education level was no high school diploma were mostly agricultural workers and some construction occupations.

**Figure 18: Education Level of the Population Age 25 and Older; Orange County, Dana Point, and Comparison Cities; 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau's 2018 American Community Survey 5-Year Estimates.

Although the data suggests that employment for people without a high school diploma is not a key challenge for Dana Point, the city also has a smaller percentage of residents with a high school diploma but no college. Taken together, the lowest two

levels of education (no high school diploma or a high school diploma but no college) accounts for 18 percent of residents but 41 percent of those working at jobs in the city. Countywide, the lowest two levels of education account for 32 percent of residents and 39 percent of those working in the county. This means that many businesses in Dana Point, including retail stores, restaurants, and hotels, have to compete with other cities throughout the county to attract and retain workers.

## HOUSEHOLDS

### Number of Households

According to CA Department of Finance estimates, Dana Point had 14,100 households at the beginning of 2020, which was a 0.5 percent decline from the number of households in 2010, 14,200. The comparison jurisdictions all had an increase in households from 2010 to 2020, with a 1.7 percent increase in San Clemente, 4.2 percent in San Juan Capistrano, and 6.2 percent in Orange County. The city's total household growth follows a similar pattern to the city's population growth. And as mentioned in the population discussion previously, the lack of household growth likely represents, at least in part, the lack of land available to develop new housing.

### Household Size

In 2020, the average household size in Dana Point was 2.33 persons per household, which was lower than the average household sizes in the comparison areas, 2.64 persons per household in San Clemente, 3.05 in San Juan Capistrano, and 2.98 in Orange County. From 2010 to 2020, the average households size decreased in Dana Point and Orange County by 0.01 persons per household, while staying unchanged in San Clemente and increasing 0.02 persons per household in San Juan Capistrano.

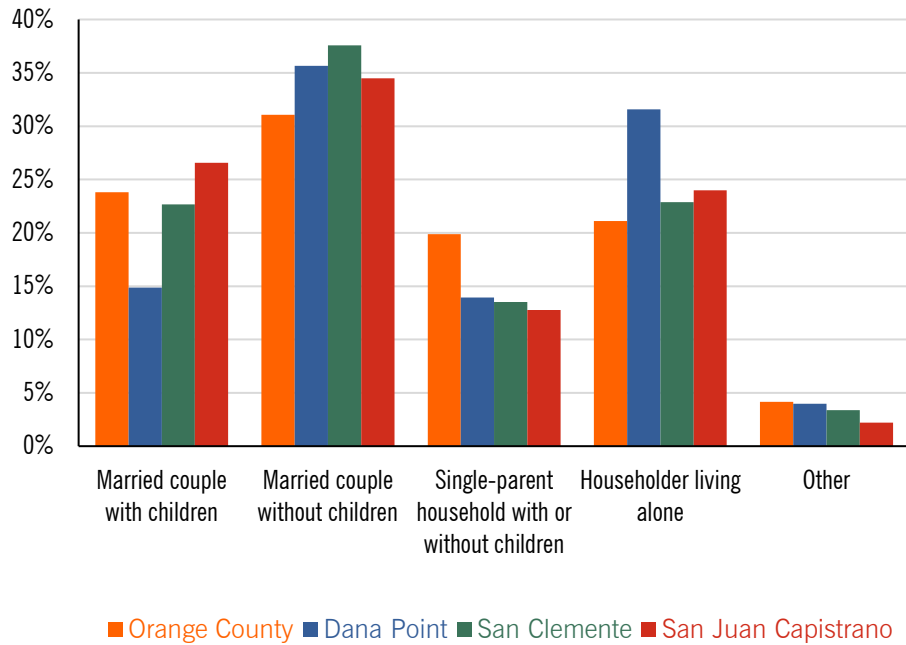
As discussed in the households sections in the National and Regional Context chapter (starting on page 13), the average household size has been decreasing for decades in the US, but in California, the average household size has continued to increase slightly. In its forecasts for the 2020 Regional Transportation Plan, the Southern California Association of Governments forecast a long-term decline in household size in Southern California. Thus, the minor decline in household size in Dana Point is more likely a leading edge in this shift rather than an aberration. It is also worth noting that the average household size in Dana Point, 2.33, is lower than the national average size, 2.53 persons per household.

### Household Type

Married-couple families without children under the age of 18 at home comprise the most common household type in Dana Point, with 36 percent of the households, which is similar to the share in San Clement and San Juan Capistrano but larger than the share of Orange County households. Figure 19 shows the types of households as a percentage of the total number of households. Relative to the comparison areas, Dana Point households are notable for the higher percentage that are householders

living alone, 32 percent, and the lower percentage that are married couples with children under the age of 18 at home, 15 percent. Less than 20 percent of Dana Point households have one or more children under the age of 18. The next lowest comparison area is San Clemente, with 29 percent of the households having children under the age of 18.

**Figure 19: Household Type as a Percentage of Households; Orange County, Dana Point, and Adjacent Cities; 2019**



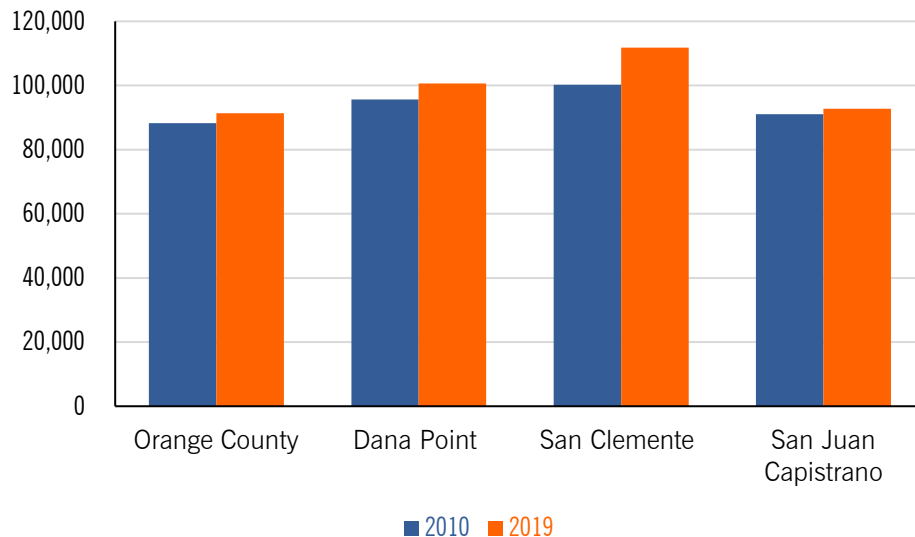
Source: PlaceWorks, 2021, using data from the US Census Bureau’s 2019 American Community Survey, 5-Year Estimates.

From 2010 to 2019, the number of married-couple families with children under the age of 18 at home in Dana Point declined 5 percent. This was about the same as the decline statewide and countywide, but smaller than the decline in San Clemente, 11 percent, while the number actually increased in San Juan Capistrano by 13 percent. During this time, the largest difference between Dana Point and the comparison areas was in householders living alone, the number of which increased in Dana Point by 17 percent and increased in San Juan Capistrano by 22 percent. The number of holders living alone only increased 6 percent statewide, 5 percent countywide, and 8 percent in San Clemente.

## Household Income

Figure 20 shows the inflation-adjusted median household income in 2010 and 2019. The median household income in Dana Point was \$100,650 in 2019, a 5.2 increase from 2010 after adjusting for inflation. The change in median household income was 3.5 percent in Orange County, 11.6 percent in San Clemente, and 1.9 percent in San Juan Capistrano.

**Figure 20: Median Household Income in Inflation-Adjusted 2020 Dollars; Orange County, Dana Point, and Comparison Cities; 2010 and 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau’s 2019 American Community Survey, 5-Year Estimates.

## HOUSING

### Number of Housing Units

According to CA Department of Finance estimates, Dana Point had 16,170 housing units at the beginning of 2020. This is an increase of about 10 percent over the 14,670 housing units in 1990. This is less than the growth of the same time frame in San Clemente, a 42 percent increase in housing, and San Juan Capistrano, a 31 percent increase. The relatively lower rate of housing growth parallels similar growth in population and households, but of course these are all intertwined. As discussed previously, San Clemente and San Juan Capistrano had more land available for development of new housing.

### Housing Type

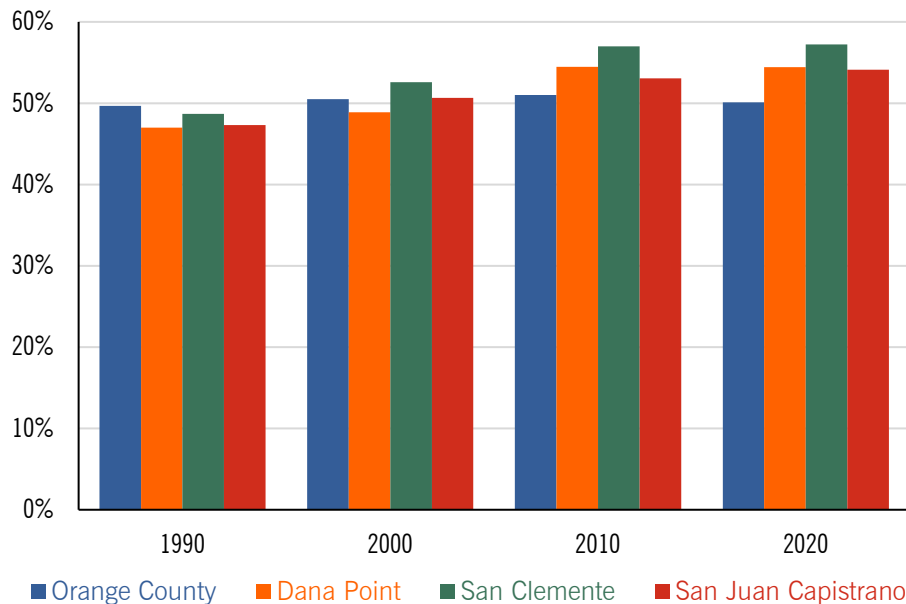
In 1990, single-family detached housing<sup>3</sup> accounted for 47 percent of the total housing in Dana Point, which was about the same as in San Clemente, 49 percent, and San Juan Capistrano, 47 percent. However, from 1990 to 2020 the number of multifamily housing units and mobile homes in Dana Point decreased while all the net growth in housing was single-family detached. In contrast, San Clemente and San Juan Capistrano added multifamily housing and mobile homes, even though these types of housing were far outpaced by the growth in single-family detached housing. As of 2020, single-family detached housing accounted for 54 percent of the total

<sup>3</sup> As noted previously, the terms “single-family” and “single-family detached” housing exclude housing in which there is more than one housing unit in a building, such as townhouses, duplexes, and other multiplexes.

housing in Dana Point and San Juan Capistrano and for 57 percent of the total housing in San Clemente.

Figure 21 compares the single-family detached housing percentage of total housing for Orange County, Dana Point, San Clemente, and San Juan Capistrano. In 1990, the three cities had a lower percentage of single-family detached housing. By 2010, the percentage in all three cities was higher than the countywide percentage.

**Figure 21: Single-Family Detached Housing as a Percentage of Total Housing; Orange County, Dana Point, and Comparison Cities; 1990, 2000, 2010, and 2020**



Source: PlaceWorks, 2021, using housing estimates from the CA Department of Finance and housing units by units in structure data from the 1990 and 2000 Decennial Census.

As described in the Housing Type-Regional Context section on page 27, the housing market in Orange County began producing predominantly multifamily housing in 2006. Since then, multifamily housing has accounted for 59 percent of the housing constructed countywide. In some part this is because there is less and less land available for developing single-family residential subdivisions.

Dana Point is also at this point. New development in the city will require redevelopment of existing sites and buildings. For new housing, this will typically mean multifamily housing rather than single-family detached because the new development will have to generate a sufficient residual land value to cover the cost of existing buildings and demolition. Even though southwest Orange County has produced predominantly single-family detached housing over the last three decades, the strength of the multifamily housing market in Orange County and the fact that San Clemente and San Juan Capistrano produced some new multifamily housing suggest that there should be market support for new multifamily housing development in Dana Point.

## Tenure

Of the total occupied households in Dana Point, 61.4 percent are owner occupied. Dana Point has a higher share of owner-occupied households than the state (54.6 percent) and the county (57.4 percent), but a lower share than neighboring cities San Clemente (66.3 percent) and San Juan Capistrano (74.9 percent). To a certain degree, homeownership rates reflect the types of housing. Generally speaking, single-family detached housing tends to be owner occupied while multifamily housing tends to be renter occupied.

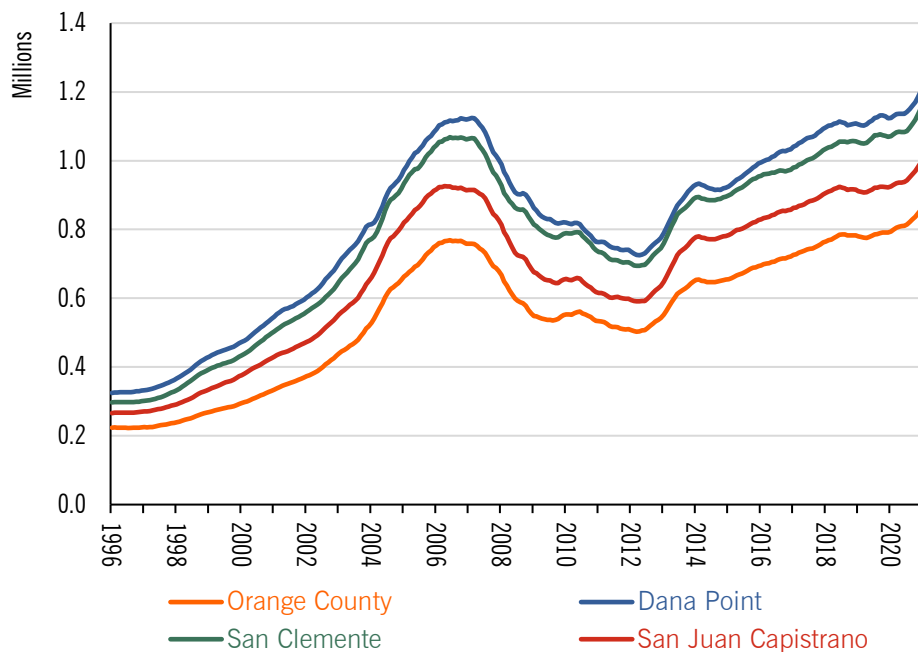
## Housing Cost

### Housing Value

According to the Census Bureau's *2019 American Community Survey, 5-Year Estimates*, the median value of owner-occupied housing in Dana Point was \$878,300. This was between the median values in San Clemente, \$906,100, and San Juan Capistrano, \$720,200. These values were all above the countywide median value of \$679,300.

Figure 22 shows the estimated value of a typical single-family detached house in each of the jurisdictions. The data are from the online real estate site Zillow.com. These data are a bit different from the median value of owner-occupied housing, which also would include some multifamily housing.

**Figure 22: Typical Single-Family House Value; Orange County, Dana Point, and Comparison Cities; Monthly, January 1997 to January 2021**



Source: PlaceWorks, 2021, using data from the Zillow Home Value Index; data reflect the value of the typical single-family house in the 35 to 65 percentile price range and are smoothed and seasonally adjusted.

The data show that the value of a typical house over time has followed similar trends for each of the jurisdictions, with a long trend of increasing values in the 1990s and early 2000s, a steep decline leading up and through the 2008–09 recession, and then another long trend of increasing values starting in late 2012 and early 2013.

The Zillow data indicate that through all of these cycles, the value of a typical single-family detached house in Dana Point has remained slightly above the value in San Clemente for 25 years. The value in all three cities has remained above the value of the typical Orange County house. Even though Dana Point has not added a lot of new housing during this period, the housing stock has maintained its value relative to other jurisdictions.

From 2010 to 2019, the value of a typical single-family house in Dana Point increased 18.7 percent, adjusted for inflation. The housing value increase is substantially higher than the 5.2 percent increase in the median household income. The corresponding increases in the comparison jurisdictions were 20.1 percent increase for housing and 3.5 percent for income in Orange County, 16.8 for housing and 11.6 percent for income in San Clemente, and 20.8 percent for housing and 1.9 percent for income in San Juan Capistrano.

### **Overpayment**

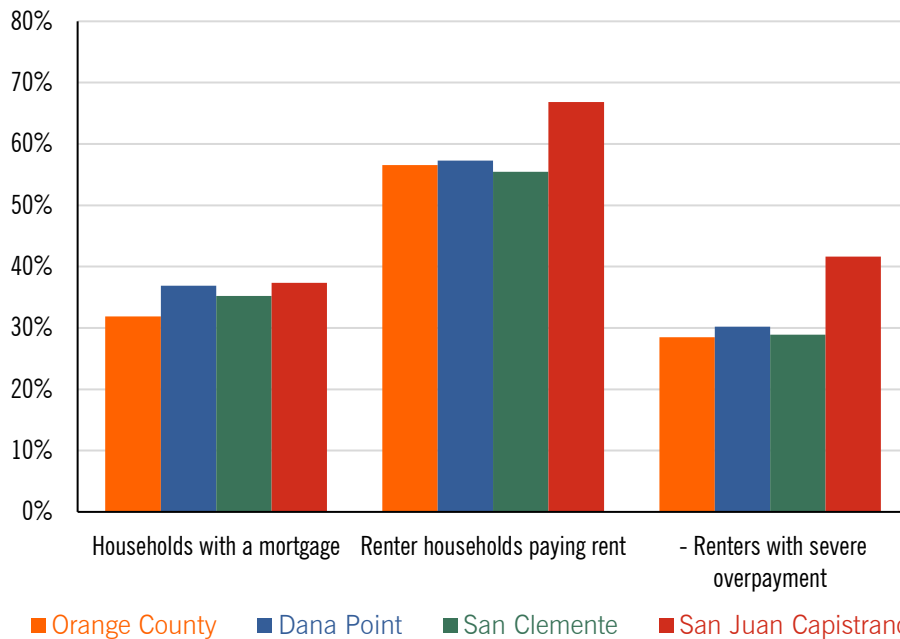
A pressing public policy issue the last few years has been housing affordability. A common metric is the percentage of households that pay more than 30 percent of their household income for housing costs. It is important to note that overpayment is less common with homeowners because the rules to qualify for a mortgage limit the amount of a mortgage based on household income. Figure 23 shows the percentage of homeowners overpaying for housing costs, the percentage of renters overpaying, and the percentage of renters with severe overpayment—paying 50 percent or more of their household income.

In Dana Point, about 37 percent of homeowners with a mortgage paid 30 percent or more of their income for housing costs in 2019, which is slightly more than the countywide rate. About 57 percent of renter households were overpaying for housing costs, and 30 percent of renters were paying more than 50 percent of their household income for housing costs.

Much has been written about housing affordability, and it is a complex problem. As discussed previously, one part of the problem is that housing production has been depressed since the 2008–09 recession, even though it is trending upward. A related but separate issue is that housing costs have been growing much faster than household incomes. It is beyond the City's ability to substantially alter the cost of housing, which, as shown in Figure 22, is a regional problem. Nevertheless, the high cost of housing in Dana Point and southwest Orange County affects who can afford to live in the area and, consequently, the supply of labor for businesses operating in the city.



**Figure 23: Percentage of Households Overpaying for Housing Costs; Orange County, Dana Point, and Comparison Cities; 2019**



Source: PlaceWorks, 2021, using data from the US Census Bureau's 2019 American Community Survey, 5-Year Estimates.

## IMPLICATIONS

Dana Point has had low population and housing growth relative to the county and the two comparison cities. In part this is because the city is not able to grow outward. With little new housing, demographic changes are mostly limited to new households replacing existing households. As a consequence, the community has aged faster than neighboring jurisdictions and the county as a whole.

During the 2010s, the total number of residents age 65 and older increased while the number of school-age children decreased. As the population continues to age, there may be increasing demand for senior housing. And as the number of children declines, there may be less demand for schools and family-focused entertainment and activities.

During the 2010s, the number of residents who identified as White, non-Hispanic declined, mimicking trends across Orange County. Still, White, non-Hispanics remain a far larger portion of the population in southwest Orange County communities than among the countywide population. The trends in the racial and ethnic composition suggests that minorities will make up an increasingly larger share of the local population and account for net population and household growth.

Even though Dana Point experienced a small amount of housing growth since 1990, it maintained high property values relative to the county and neighboring jurisdictions.

In fact, the value of housing outpaced growth in household incomes. This suggests that housing affordability will grow as an important issue for the community.

Housing affordability will likely have a growing economic impact. Because 41 percent of the jobs in the city employ people with no high school diploma or a high school diploma but no college, many workers are forced to commute from other communities where housing is more affordable. From 2010 to 2019, the number of residents in the county with these levels of education increased only 1 percent, much less than the net increase in population with some college or a college degree. Thus, businesses employing low-skilled workers may face increasing difficulties attracting and retaining these workers going forward.

When the City undertakes an update to the General Plan, one of the first tasks will be to develop a community vision. General plans have long-term horizons, typically 20 to 30 years. During this process, the community will need to think about who will be living in Dana Point in 2040 and 2050 and what types of housing and businesses will be needed. The community will also have to consider how much growth is desirable and how much may be necessary for the local economy.



# Economic Analysis

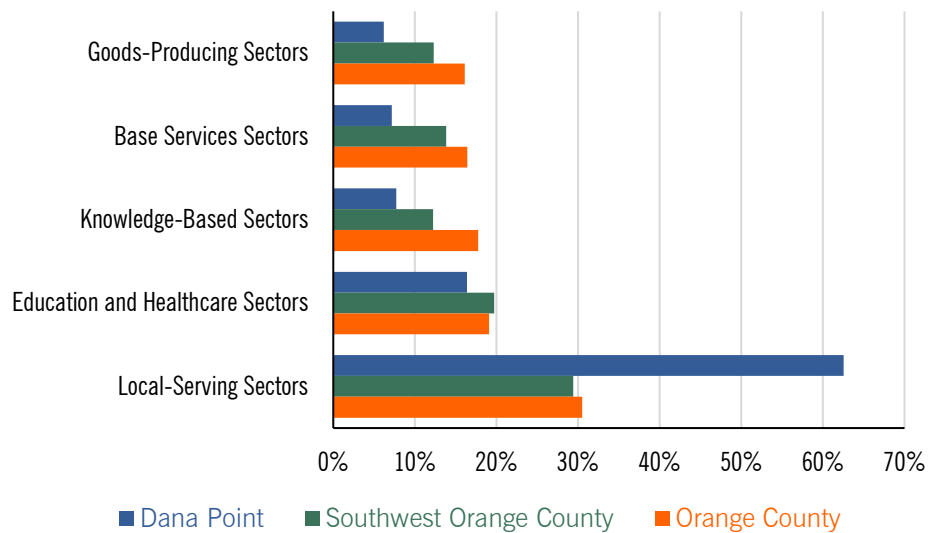
This chapter analyzes the local economy and its potential for growth. This chapter also provides projections for employment and economic growth and the demand for commercial and industrial building space to accommodate the growth.

The economy of Dana Point is connected to the economic activity in neighboring cities and the surrounding region. Due to the city's high proportion of economic activity in local-serving sectors, it is also strongly influenced by external economic factors such as business cycles and tourism. Local policies influence the extent to which Dana Point's residents, firms, and labor force engage in the regional economy and how the city competes for business investment. The following sections analyze various economic indicators and assess the potential for economic growth to support community goals.

## STRUCTURE OF THE LOCAL ECONOMY

A common method to understand an economy's structure and its strengths and weaknesses is to analyze the share of total jobs in each economic sector. Under the North American Industrial Classification System there are 20 sectors. This analysis divides these into major groups. Each of these groups of sectors and the individual sectors within each group are described in the following sections. Figure 24 shows the share of total employment in each major group of sectors for Dana Point, the local area (southwest Orange County), and Orange County. The data show that a relatively large share of jobs in Dana Point are in the local-serving sectors, which includes accommodation and food services. Each of the other major groups accounts for a smaller percentage of total jobs than the share in southwest Orange County and countywide. In southwest Orange County, education and healthcare account for a slightly larger percentage of jobs than in the county, and the other groups account for a lower share.

**Figure 24: Employment by Sectors as a Percentage of Total Employment; Dana Point, Southwest Orange County, and Orange County; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau’s Longitudinal Employer-Household Dynamics program.

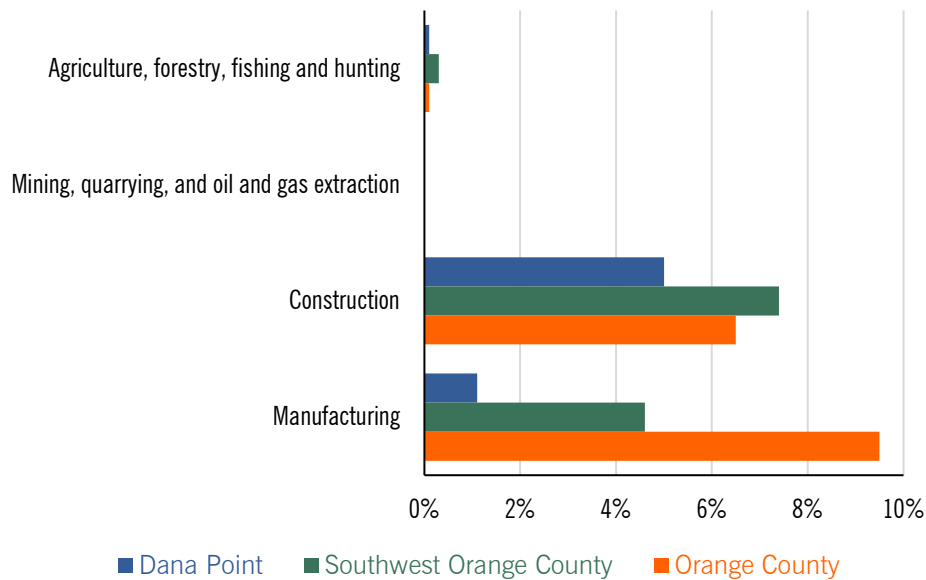
## Goods-Producing Sectors

This group includes businesses that produce goods, from the commodity stage through finished products. The group includes four sectors: agriculture, forestry, fishing and hunting; mining, quarrying, and oil and gas extraction; construction; and manufacturing. Figure 25 shows the percentage of total employment in each of these sectors.

The construction sector is relatively important in Dana Point, the local area, and countywide. From 2010, coming off a recession, the employment in construction in Dana Point increased by 136 jobs, or 33 percent, by 2018. It is important to note that construction jobs are counted at the places of business of the construction firms—whether that is an office in an industrial area or a home office of a subcontractor—and not at the site of construction project. Given the large percentage of jobs in the city in accommodations and food service, the construction jobs are relatively important locally. Construction is projected to continue growing. Because most construction jobs in Dana Point are counted at home offices, this sector is a potential economic development opportunity that does not necessarily involve new development for facilities.

In contrast, manufacturing employment accounts for twice as many jobs countywide as it provides in the local area and eight times as many jobs as in Dana Point. The number of manufacturing jobs in Dana Point decreased by 4 percent from 2010 to 2018. Most of the manufacturing businesses located in the city are very small businesses with 10 to 20 or fewer employees.

**Figure 25: Employment in Goods-Producing Sectors as a Share of Total Employment; Dana Point, Southwest Orange County, and Orange County; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau’s Longitudinal Employer-Household Dynamics program.

## Base Services Sectors

Businesses in this group of sectors provide necessary services to goods-producing businesses and to other types of businesses and households. The group includes four: utilities; wholesale trade; transportation and warehousing; and administration and support, waste management and remediation. Figure 26 shows the share of total employment in each of these sectors.

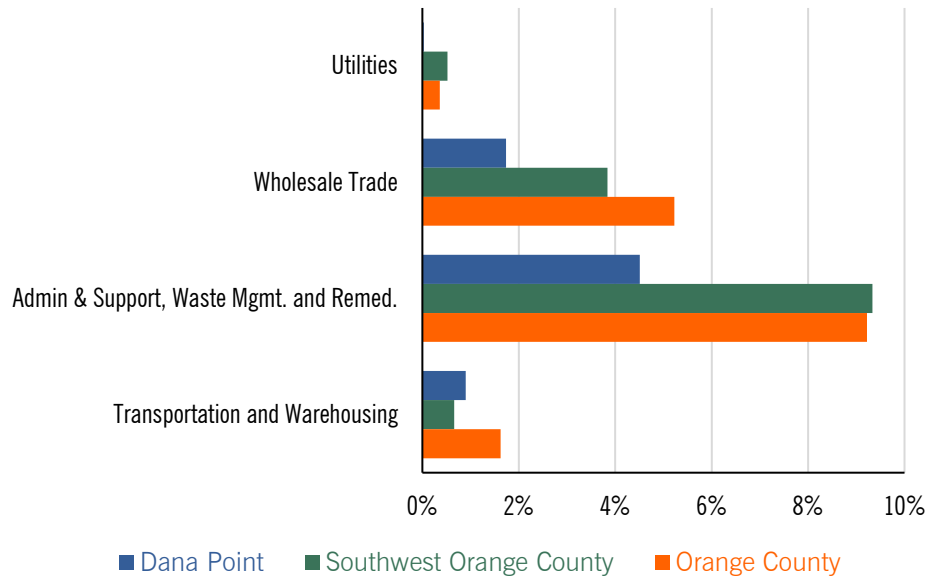
Businesses in these sectors tend to locate in industrial areas. And with little industrial land in Dana Point, it is not surprising that these sectors are less important in the city than in the area and the county.

Wholesale trade is generally thought of as warehouses that distribute goods to the final retailer. However, it also includes businesses that coordinate the export and import of goods. The businesses in this sector in Dana Point are mostly very small businesses run out of people’s homes. The city’s employment in this sector decreased 29 percent from 2010 to 2018.

Transportation and warehousing is often thought of as large warehouses and trucking companies, especially in Southern California. However, this sector also includes businesses that run charter fishing and whale-watching tours, as well as the US Postal Service. Other than the post office, most of the businesses in this sector are associated with Dana Point Harbor. Jobs in this sector in Dana Point increased 23 percent from 2010 to 2018. With the expansion of the harbor, it is possible that employment

in these sectors will continue to grow after recovering from shutdowns associated with the COVID-19 pandemic.

**Figure 26: Employment in Base Services Sectors as a Share of Total Employment; Dana Point, Southwest Orange County, and Orange County; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau’s Longitudinal Employer-Household Dynamics program.

The administration and support, waste management and remediation sector includes a wide variety of businesses that support other businesses and that provide waste management and remediation services. One subsector is employment services, or temporary employment agencies. These jobs are counted at the place of business of the employment agency and not at the place of business where the employees are temporarily assigned. Most of the businesses in this sector are run out of home offices, but most of the employment in this sector is located in small offices and commercial centers. Employment in this sector decreased by 8 percent from 2010 to 2018.

### Knowledge-Based Sectors

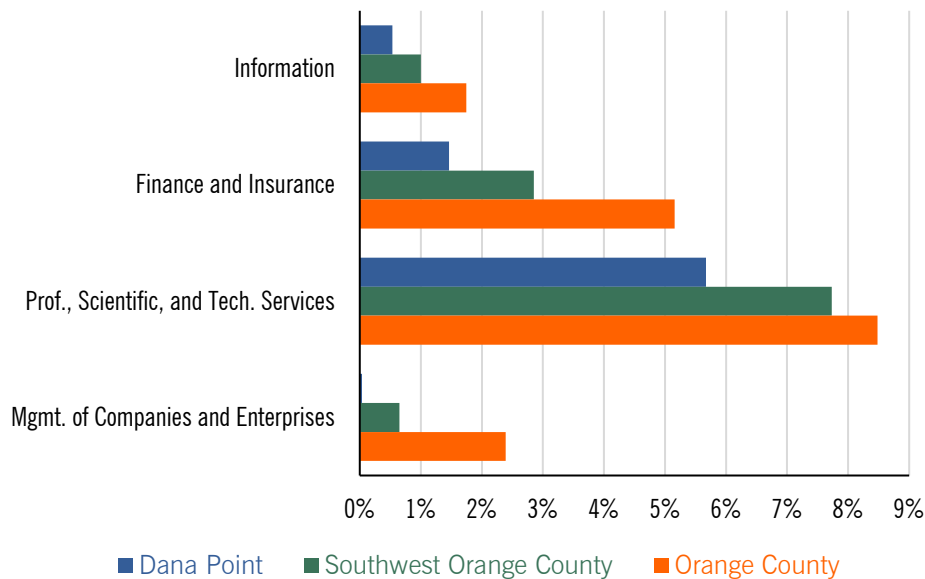
Businesses in this group of sectors rely extensively on educated and skilled workers and provide services to businesses and individuals. The group includes: information; finance and insurance; professional, scientific, and technical services; and management of companies and enterprises.

The information sector includes software, publishing, film, and recording businesses. There are relatively few businesses and relatively few employees in this sector in Dana Point. Most of the businesses are run out of home offices. From 2010 to 2018, the number of jobs in this sector in Dana Point decreased by 42 percent.

The finance and insurance sector includes several banks and insurance firms operating out of offices and commercial centers in Dana Point. It also includes financial advisory firms, which predominantly operate out of home offices. Because the businesses in this sector that occupy commercial real estate primarily serve local customers, the growth potential in this sector will be driven by growth in population and households.

The professional, scientific, and technical services sector includes a variety of businesses, include attorneys and architects, management consultants, and advertising and marketing consultants. Many of these businesses in Dana Point operate out of home offices. However, there are a fair number of jobs in this sector located in office and commercial centers. Even though employment declined in Dana Point by 1 percent from 2010 to 2018, this sector is considered a strength of the Orange County economy. There is potential for Dana Point to capitalize on the regional strength to support the expansion of local businesses and to attract new businesses.

**Figure 27: Employment in Knowledge-Based Sectors as a Share of Total Employment; Dana Point, Southwest Orange County, and Orange County; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau’s Longitudinal Employer-Household Dynamics program.

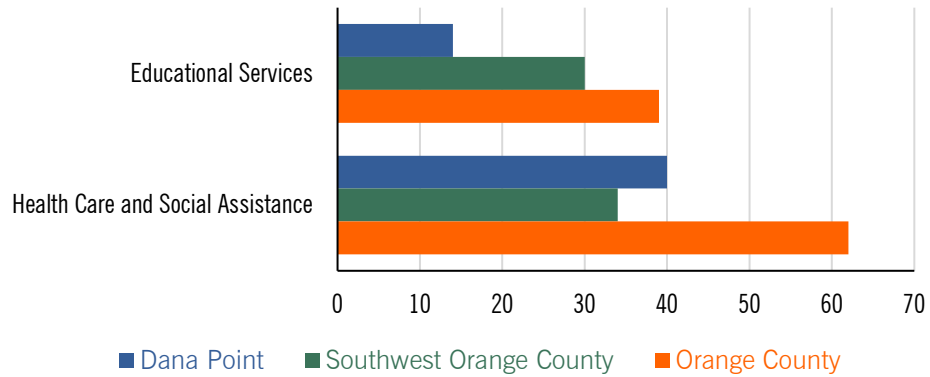
The management of companies and enterprises sector accounts for very few businesses and very little employment in Dana Point. These businesses almost exclusively operate out of home offices.

## Education and Healthcare

Businesses in this group of sectors provide health care and educational services to individuals. These businesses are separated from local-serving sectors because the payment/funding for services and the decisions on where to locate are less tied to

residents. The group includes: Educational services; and healthcare and social assistance. Because these sectors (as well as the local-serving sectors in the next section) typically provide services to local residents, the analysis measures the number of jobs per 1,000 households, rather than the number of jobs as a percentage of total jobs. Figure 28 shows the employment per 1,000 residents in each sector.

**Figure 28: Employment in Education and Healthcare Sectors per 1,000 Residents; Dana Point, Southwest Orange County, and Orange County; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau’s Longitudinal Employer-Household Dynamics program and population estimates from the CA Department of Finance.

The educational services sector includes public and private schools, as well as businesses that provide training in leisure and recreation activities. However, almost all of the jobs in this sector in Dana Point are in public and private K-12 schools. From 2010 to 2018, employment decreased by 9 percent. Future employment in this sector can be expected to grow or decline with the number of school age children.

In contrast, healthcare and social assistance is expected to continue growing in the future, reflecting the aging population. This sector includes not only traditional physician and dental office, but also urgent care centers and substance abuse and recovery centers, as well as assisted living facilities and childcare centers. From 2010 to 2018, employment in this sector in Dana Point increased 46 percent to 1,350 jobs. Many of the jobs in this sector are in residential care settings, including substance abuse and recovery facilities. Other jobs are in traditional medical offices.

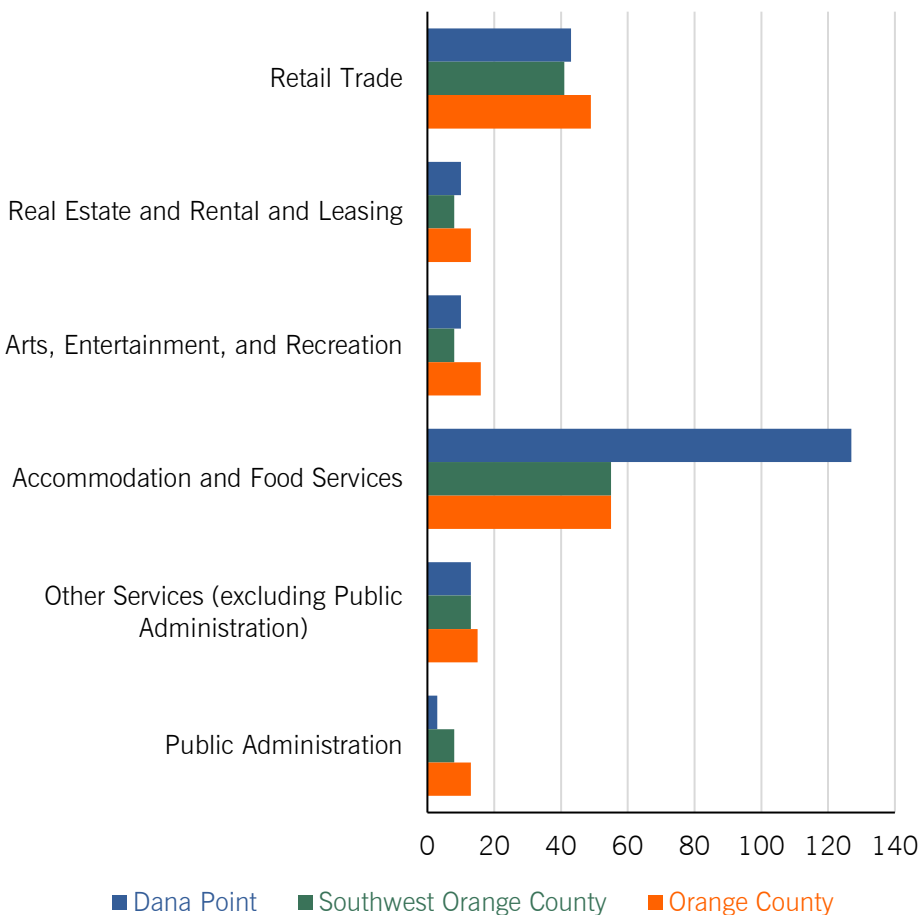
### Local-Serving Sectors

Businesses in this group tend to provide services directly to individual customers. The group includes the following sectors: retail trade; real estate and rental and leasing; arts, entertainment, and recreation; accommodation and food services; other services; and public administration. the analysis measures the number of jobs per 1,000 households, rather than the number of jobs as a percentage of total jobs. Figure 29 shows the number of jobs per 1,000 residents in each of the sectors.



The retail trade sector includes bricks-and-mortar stores that sell goods to the final consumer. This sector accounts for the second highest total jobs among all the economic sectors. From 2010 to 2018, employment increased to 1,430, growing by 5.2 percent. As discussed previously, the retail trade sector has been hit particularly hard by the pandemic. During stakeholder interviews, retail property owners indicated that they had already had vacancies increase. And the rapid increase in online retail during the pandemic suggests that this sector will take longer to recover from the pandemic than the economy as a whole. Nevertheless, the improvements at Dana Point Harbor can be expected to offset some of the expected decrease in retail activity elsewhere in the city.

**Figure 29: Employment in Local-Serving Sectors per 1,000 Residents; Dana Point, Southwest Orange County, and Orange County; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau's Longitudinal Employer-Household Dynamics program and population estimates from the CA Department of Finance.

The real estate, rental, and leasing sector is a small part of the economy, although it employs about the same number of workers per 1,000 residents as it does in the local area and countywide. This sector includes property management firms, real estate agencies, and vehicle and equipment rentals. There are many firms in this sector

operating from a home office, but most of the jobs in this sector are located in offices and commercial centers. From 2010 to 2018, employment in this sector increased by 120 jobs, or 61 percent.

The arts, entertainment, and recreation sector includes fitness studios, recreational and other organizations associated with the marina, and other commercial recreation. Many of the jobs in this sector are located at the marina, and others are located in commercial shopping centers. Employment in this sector increased 46 percent from 2010 to 2018. This sector has been hit particularly hard by the pandemic, but the activities and services these businesses provide cannot be easily replicated online, so recovery may happen more quickly than with the retail trade sector. Furthermore, the improvements and expansion at the marina may result in job growth and increased economic activity in this sector.

The most remarkable difference between the local economy and the countywide economy is in the accommodation and food services sector. This sector provides more than twice the number of jobs per 1,000 residents in Dana Point than it accounts for in southwest Orange County and in Orange County, which is no surprise given the city's four major resorts and other hotels and restaurants. This sector accounts for the largest number of jobs, 4,270, among all the sectors in the local economy, and employment increased by 20 percent from 2010 to 2018. These two sectors have been seen major declines resulting from the pandemic. With the potential for business travel to remain depressed for many years, these sectors may not recover quickly. However, much of the activity in these sectors is driven by leisure tourists and, at least for the resorts, by higher income tourists, so these sectors in Dana Point may recover fairly quickly.

The other services sector includes a wide range of businesses, from nail salons to auto repair. Most of these businesses are located in commercial centers, although some operate in industrial areas. Many of the businesses in this sector have been negatively impacted by the pandemic, but because these services cannot be replicated online, recovery can be expected with the overall economic recovery. These sectors employ about the same number of workers per 1,000 residents as they do in the local area and countywide. Employment in these sectors increased 3 percent from 2010 to 2018. Because these businesses tend to serve local residents, growth prospects are closely tied to population and household growth.

Finally, the public administration sector (excluding public schools, which are included under the educational services sector) employs fewer workers per 1,000 residents in Dana Point than it does in southwest Orange County and countywide. However, there is a major federal building in Laguna Niguel, and Orange County has not only county employees but also employees at the federal courthouse.

## BUSINESS SIZE

Of all the businesses operating in Dana Point prior to the pandemic, 68 percent employed less than 5 people. This is 11 percentage points higher than the state and 14

percentage points higher than Orange County. The prevalence of small businesses reflects that Dana Point is a bedroom community and tourist destination rather than a jobs center.

Of the economic sectors with a larger percentage of total jobs in the local economy, small businesses are especially prevalent in construction, professional, scientific, and technical services, healthcare and social assistance, and other services. Relative to the county, small businesses account for a higher percentage of retail businesses, but the difference is much smaller than in the aforementioned sectors. Finally, small businesses are slightly less prevalent in the accommodation and food services sector relative to the county.

In contrast to medium and large businesses, small businesses are less likely to have staff to participate in economic development programs and interact with economic development service providers. This suggests that the City's economic development program may need to focus on outreach and engagement with small businesses and connecting them to relevant economic development assistance, such as the Orange County Small Business Development Center, the Service Core of Retired Executives, and Small Business Administration lending.

This does not mean that there are not large businesses. In Dana Point, more than 3 percent of businesses employ 50 or more people, about two percentage points less than these size businesses account for in Orange County and across the nation. These size businesses account for 40 percent of the jobs in the city. Thus, conventional tools, such as workforce training through the Orange County Development Board, will still be important.

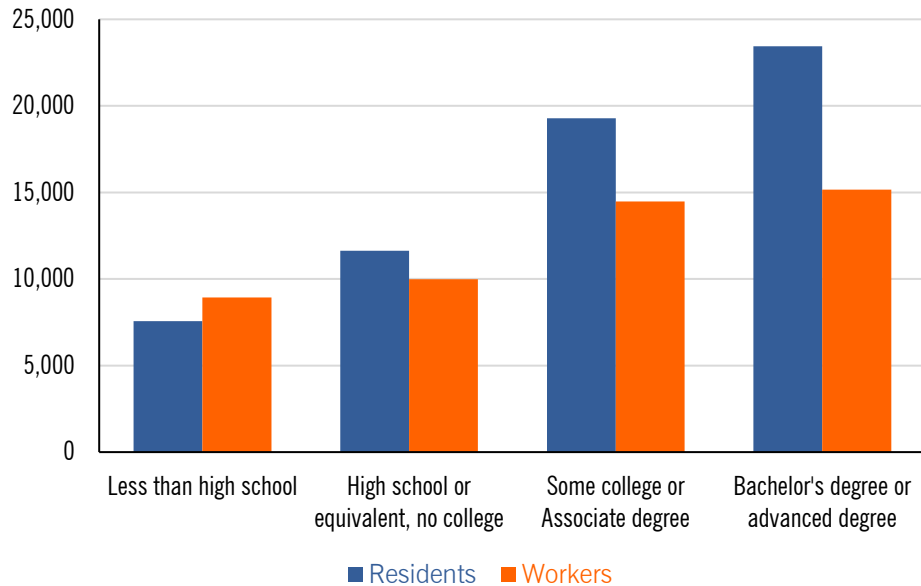
## LABOR FORCE

### Education Level

As discussed in the previous chapter, there is a disconnect between the education levels of those working in Dana Point and the education levels of those residing in the city. The labor force from which businesses draw for their workforce is larger than just the city. Figure 30 shows the number of employed residents and workers by education level in southwest Orange County. The data are available only for those age 29 and older.

The data show that there are more jobs employing workers without a high school diploma than there are working residents without a high school diploma. The net difference is 1,365 workers, or 15 percent, at a minimum, that must commute into the area. The actual number is certainly larger as some of the area's employed residents without a high school diploma commute to jobs outside of the area.

**Figure 30: Number of Employed Residents and Number of Workers, Age 29 and Older, by Level of Education; Southwest Orange County; 2018**



Source: PlaceWorks, 2021, using data from the US Census Bureau’s Longitudinal Employer-Household Dynamics program.

From 2010 to 2018, the number of workers without a high school diploma increased by 2,640, or 42 percent. Similarly, the number of employed residents without a high school diploma increased by 2,440, or 48 percent.

At the other end, there are far more employed residents with a college degree than there are jobs employing people with a college degree. The net difference, 8270 residents, or 55 percent, must commute out of the area for work. Again, the actual number is likely larger as some of the area’s workers with a college degree commute in from other cities. On a positive note, the number of employed residents with a college degree increased by 3,610, or 6 percent, from 2010 to 2018. However, the number of jobs employing workers with college degree increased by 6,520 jobs, or 16 percent.

### In- and Out-Commuting

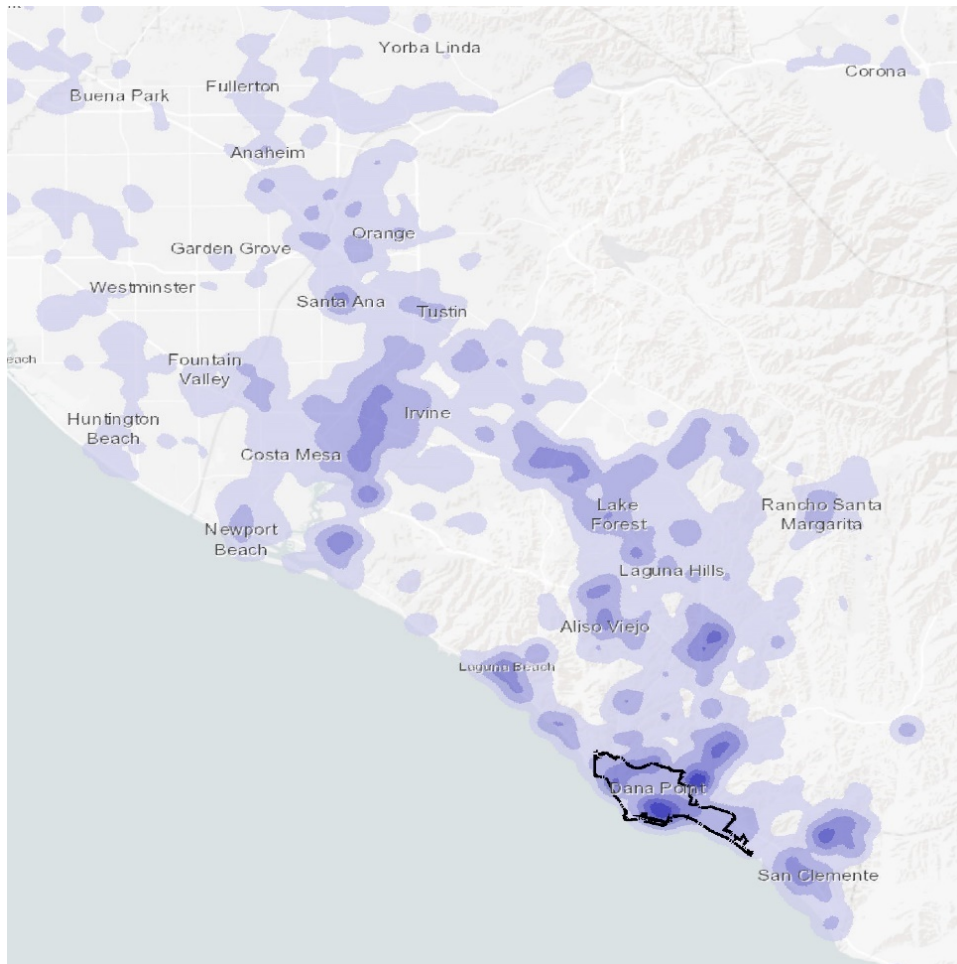
In 2018, only 7.7 percent of Dana Point’s employed residents worked at a job in the city. This is somewhat low. In most cities in Southern California, the percentage of employed residents with a job in the city in which they live is typically in the teens. Even in jobs-rich Irvine, only 28 percent of employed residents worked in the city. Nevertheless, the large percentage of out-commuting in Dana Point is indicative of a bedroom community. Figure 31 shows where Dana Point residents work. Similarly, of the jobs in the city, only 9.9 percent employed a city resident. The other 90 percent, 9,900 workers, commute from another city. Figure 32 shows where workers in Dana Point live.

The out commuting may change. In response to the COVID-19 pandemic, many of office-based workers have been forced to work from home. After the pandemic, many may continue to work from home, fully or partially. However, most of the jobs in Dana Point are in services that cannot be readily performed from home. So, the daily influx of workers will likely continue.

### Commute Time

In 2019, the average commute time for employed residents of Dana Point was 28.5 minutes. This was an increase of 6 percent since 2010. It about the same as the 28.0-minute average commute time across Orange County. However, 9.1 percent of residents had a commute time between 45 minutes and an hour, and 11 percent had a commute time of an hour or longer.

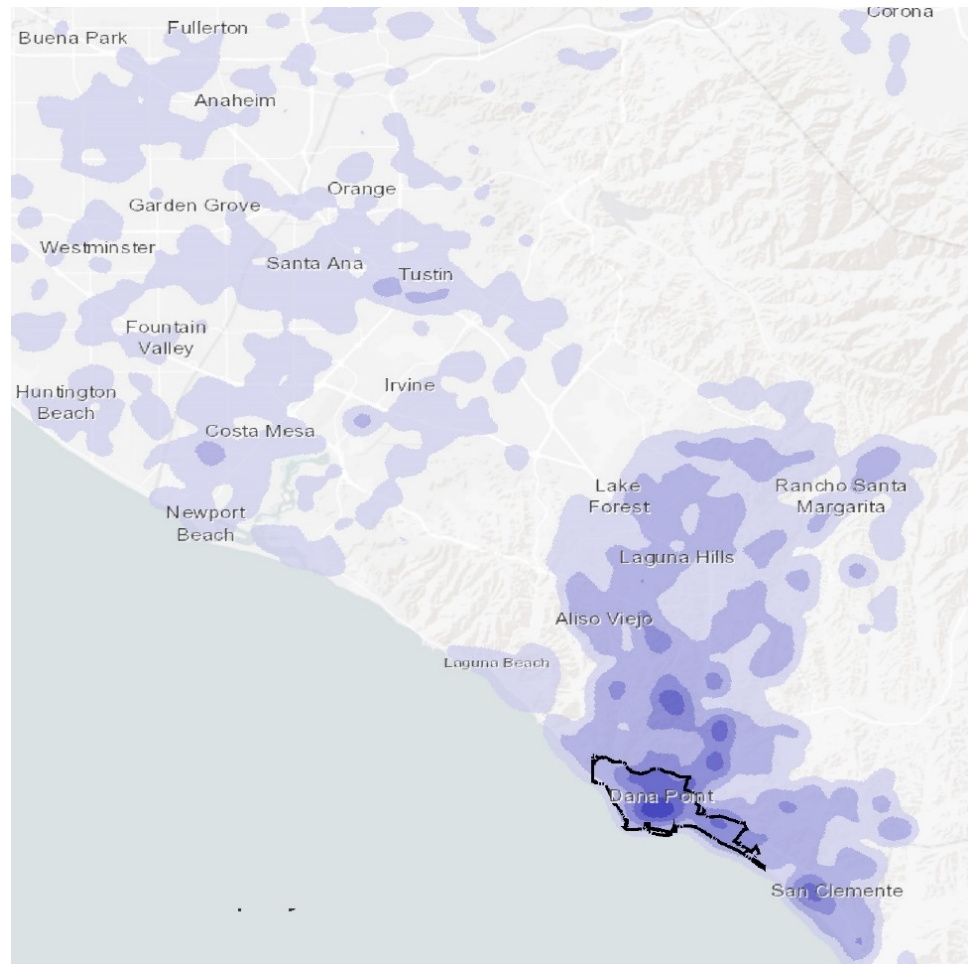
**Figure 31: Out-Commuting; Where Dana Point Residents Work; 2018**



Note: Darker areas show increasing concentrations of jobs where Dana Point residents work.

Source: PlaceWorks, 2021, using data from the US Census Bureau's *Local Employer-Household Dynamics Program*.

Figure 32: In-Commuting; Where Workers in Dana Point Live; 2018



Note: Darker areas show increasing concentrations of jobs where Dana Point residents work.

Source: PlaceWorks, 2021, using data from the US Census Bureau's *Local Employer-Household Dynamics Program*.

## EMPLOYMENT PROJECTIONS

Demand for commercial and industrial building space is generally driven by economic growth that generates job growth. This section provides employment projections that form the basis for the market demand analysis in the next section.

The projected employment is based on the rate of growth by economic sector projected by the CA Employment Development Department for Orange County, analysis of the trends in Census Bureau's Longitudinal Employer-Household Dynamics program data for 2003 to 2018 for the city, and an assessment of confidential Quarterly Census of Employment and Wages data for the city for 2013–14 and 2018–19.

Table 3 provides the potential employment growth for each economic sector. The projections represent the potential employment growth that could occur in Dana Point

given regional growth potential and the types of businesses that operate in the City. However, realizing the potential employment growth is dependent on a sufficient amount of commercial and industrial building space being available. The analysis finds that the up to 60 new jobs could be created by 2025, and that up to 1,070 jobs could be created by 2040.

No job growth is projected for the agricultural, forestry, farming, and fishing sector, the mining, quarrying, and oil and gas extraction sector, and the utilities sector. The projected employment growth in education is for private educational service providers; growth in public sector education jobs would be accommodated in public facilities, which are not included in the market demand analysis.

The projections assume that the economy recovers in the latter half of 2021. Projected employment growth is net growth after jobs lost during the recession are regained as part of economic recovery. This reflects the fact that recovery of lost jobs generally does not necessitate new commercial and industrial space.

**Table 3: Potential Employment Growth by Economic Sector Expected to Support New Nonresidential Development; Dana Point; 2021 to 2040**

	2021– 2025	2025– 2030	2030– 2040	2021– 2040
Construction	10	20	40	70
Manufacturing	5	4	6	20
Wholesale Trade	1	1	2	4
Retail Trade	-13	20	50	60
Transportation and Warehousing	1	2	5	8
Information	1	4	10	20
Finance and Insurance	0	3	7	10
Real Estate and Rental and Leasing	1	4	10	10
Prof./Scientific, and Tech. Services	9	20	50	80
Mgmt. of Companies and Enterprises	0	0	0	0
Admin/Support, Waste Mgmt., Remed.	1	3	8	10
Educational Services	1	5	10	20
Health Care and Social Assistance	50	90	200	330
Arts, Entertainment, and Recreation	3	20	40	60
Accommodation and Food Services	30	80	220	330
Other Services	6	20	30	60
<b>Total</b>	<b>60</b>	<b>280</b>	<b>680</b>	<b>1,090</b>

Note: Total change from 2021 to 2040 may not be the sum of the other periods because data are rounded.

Source: PlaceWorks, 2021, using employment projections from the CA Employment Development Department, employment estimates from the Census Bureau's Longitudinal Employer-Household Dynamics program, and data from the Quarterly Census of Employment and Wages.

## NONRESIDENTIAL BUILDING SPACE DEMAND

Market demand for nonresidential building space is based on the potential growth in employment. The projected job growth is summed for major land use types. The job growth is multiplied by typical employment density for land use types to determine the gross square footage of market demand. Table 4 provides the projected market demand.

**Table 4: Potential Market Demand for Nonresidential Building Space; Dana Point; 2021 to 2040**

	Retail/ Restaurants/ Commercial Services	Office/ Medical Office	Industrial	Medical/ Residential Setting
<b>Projected Employment Increase</b>				
2021–25	30	50	20	10
2025–30	150	90	20	20
2030–40	400	200	40	50
2021–40	500	300	80	80
<b>Square Feet per Employee</b>				
	350	300	800	450
<b>Projected Market Demand (GFA sq. ft.)</b>				
2021–25	12,100	14,330	12,370	5,700
2025–30	51,600	26,000	16,750	9,650
2030–40	126,900	62,600	34,900	22,000
2021–40	190,500	103,000	64,000	37,400

Source: PlaceWorks, 2021.

The data presented in Table 4 represent the potential market for nonresidential development. It is not a forecast of what will happen but a projection of what could happen. Capitalizing on this potential would require that sufficient land area is planned and zoned for each type of development and that land is available at a cost for which development or redevelopment is financially feasible.

### Retail, Restaurants, and Commercial Services

Retail, restaurant, and commercial services is general retail building space, which can accommodate retail stores, restaurants, lodging, and services. Dana Point's existing retail, restaurants, and commercial services are located in the Town Center and along Pacific Coast Highway, in Doheny Village, Dana Point Harbor, and shopping centers and areas, which include Monarch Bay Plaza at Crown Valley Parkway and Pacific Coast Highway Monarch Beach Promenade at Niguel Road and Camino del Avion Ocean Ranch Village at Camino del Avion and Golden Lantern the Albertsons shopping center at Del Obispo Street and Stonehill Drive and along Coast Highway in Capistrano Beach. Existing lodging businesses include the four resorts—DoubleTree Suites, Laguna Cliffs Marriott, Waldorf Astoria Monarch Beach Resort & Club, and the



Ritz-Carlton—and other hotels located at and around Dana Point Harbor and at Capistrano Beach.

It can be expected that mixed-use development and redevelopment in the Town Center and Doheny Village and the improvements at Dana Point Harbor will provide most of the opportunities to capitalize on the potential market demand for retail, restaurants, and commercial services. Beyond these locations, opportunities for additional retail, restaurants, and commercial services will likely involve intensification of the other existing shopping centers and areas. With the limited land area for this type of development, the City may not be able to capitalize on the full market potential. The next chapter provides further evaluation of retail opportunities.

Demand for new hotel development will likely be very limited in the near term as the hospitality industry recovers from the pandemic and recession. When the market returns and there is demand for new hotels, the potential for additional hotel development will be constrained by the limited land area that might be available for development or redevelopment. Furthermore, the limited land that might be available will be, in many cases, the same land that would be available for retail and restaurants or for new housing.

### **Office and Medical Office**

Office and medical office include office-based businesses that provide services to other businesses or provide retail services but do not rely on foot traffic, such as attorneys and physicians. Many of the existing office and medical office uses in Dana Point are located in the Town Center and Doheny Village and in existing shopping centers and areas. There are a few other office locations, such as Crown Pacific Medical Plaza at Crown Valley Parkway and Pacific Island Drive, Monarch Bay Plaza, and along Camino de Estrella.

Most of the existing office space in the city is small, with an average size of 6,370 square feet. Some of the larger office buildings include Monarch Bay Plaza, with 60,500 square feet, and 27,900 square feet in a three-story office building at 24681 La Plaza. Prior to the pandemic, office space availability was low, at just under 3 percent. Since the pandemic, available office space increased about 1 percent county-wide.

New development for offices will face the same land availability constraints as retail and lodging development. Because the existing office supply in Dana Point is older, smaller, and class B and C, market lease rates are relatively low, about \$2.60 per square foot per month prior to the pandemic. Even with low vacancy rates and rising market potential, new office development will likely not be financially feasible. However, there could be opportunities to incorporate office space as part of new retail development, as a second story use in new mixed-use buildings, or ground-floor uses in mixed-use buildings where the ground-floor space would not be good for retail.

### **Industrial**

In Dana Point, industrial businesses are primarily related to food products, auto and marine repair and services, other small-scale light-industrial businesses, and small

warehouse/storage. Although there is a substantial and growing number of jobs in construction, most of these are associated with home-office-run businesses rather than construction businesses in industrial areas. Industrial land uses in Dana Point are found in Doheny Village.

The local opportunities for growth in industrial uses are primarily in construction employment and food products. However, the existing industrial building stock is mostly class C small buildings. With an average market lease rate of under \$2.00 per square foot, industrial development would be the least financially competitive land use for the limited land available for development. The opportunities for industrial development will likely be limited to reuse and intensification of existing industrial sites.

### **Medical Office in a Residential Setting**

This category includes medical and social services provided in a residential setting. In Dana Point this primarily includes nursing homes and assisted living facilities and substance abuse and addiction recovery services. The term “residential setting” refers to the fact that the recipients of these services reside, temporarily or permanently, at the facility. The actual facilities may be located in a commercial area or in or adjacent to a residential area.

Demand for these types of facilities is projected to increase. Substance abuse and addiction recovery businesses often operate out of single-family houses. The City has little control over these facilities when they comply with state requirements. Thus, growth in these businesses may occur with or without City support, and this growth may be accommodated in existing houses without new development.

In contrast, growth in nursing homes and assisted living facilities would need new development. While new facilities would compete with retail, restaurants, lodging, and offices for the limited land that might be available for development, these facilities are much more flexible in where they locate, and they are often good transition land uses between commercial areas and residential areas.

## **IMPLICATIONS**

Dana Point is a bedroom community and a tourist destination. The local economy is concentrated in local-serving sectors, and the accommodation and food services sector employs about twice as many workers per capita as it employs across Orange County and nationwide. Related to lodging and restaurants is a relatively strong retail sector, other services, and commercial recreation associated with Dana Point Harbor.

At the same time, there are several economic sectors that are important in the local economy even if they may be overshadowed by the importance of tourism and local-serving sectors. These include construction, professional services, and healthcare and social assistance.

There are several conventional approaches to economic development, all of which have relevance to Dana Point. One approach is to focus on the strengths of the local economy. This is especially true when the local economy has unique or special

advantages, and certainly the four resorts and Dana Point Harbor qualify as advantages for Dana Point. The second is to capitalize on regional opportunities and diversify the local economy. The construction, professional services, and healthcare and social assistance sectors all have regional growth potential. A third approach is to prioritize assistance to existing businesses and startups without a focus on particular sectors of the economy. The following sections describe these issues in more detail as well as a fourth issue, which is the trade-off among land uses with limited land available for development in the city.

### **Capitalize on Local Strengths**

The strength of Dana Point's local economy is tourism. A conventional economic development approach would seek to facilitate the development of additional resorts and hotels in order to build on this strength. With limited land available for new development, though, there will be few to no opportunities for new development. That said, intensification of older, existing lodging facilities and establishment of small boutique hotels and B&Bs could create opportunities to increase the city's overnight visitor capacity.

More importantly, though, economic development activities should continue to focus on building and improving the visitor experience in Dana Point. This could involve expansions of retail businesses and restaurants, facilitating growth among commercial recreation businesses, expansion of events, and public realm improvements, including parking and circulation.

### **Diversify the Local Economy**

The City's economic development efforts could also focus on expanding economic activity in sectors not associated with tourism. The economic analysis identified three relatively large sectors that also have strong regional growth prospects. These are construction, professional services, and healthcare and social assistance.

The construction sector has been growing since the end of the last recession and it is expected to continue growing. The City may need to do little or nothing, and it would still experience growth in construction jobs. However, construction jobs are counted at the place of business of the construction firm, and for many construction businesses in Dana Point these are home offices. To see a local benefit from growth in the construction sector, the City could focus economic development efforts on assisting these small businesses to grow to the point that they need to occupy office or industrial space.

The professional, scientific, and technical services sector is an important and growing component of the regional economy in Orange County. To capitalize on this regional growth, though, the City would have to facilitate growth in office building space.

The healthcare and social assistance sector has two main components in Dana Point. One is conventional medical office space for physicians, dentists, and other medical service providers. This sector has been growing and is expected to continue growing strongly. With a relatively older population, Dana Point is well positioned to capitalize

on this growth, even though it does not have a general community hospital. This will require the development of more medical office space.

The other main component in Dana Point is medical and social assistance in a residential care facility. This primarily includes nursing homes or assisted living facilities and substance abuse and recovery facilities. Growth in nursing homes and assisted living facilities would require new development. Growth in recovery facilities can and does occur in residential housing, although the development of dedicated facilities would also be an avenue to capitalize on projected growth in this sector.

### **Facilitate Small Business Growth**

Most businesses in Dana Point have less than five employees. Rather than focusing on specific sectors of the economy, the City's economic development program could instead focus its efforts on assistance to small businesses and new business startups.

These types of economic development activities are less about the City directly providing a service and more about connecting local businesses with services that are available through regional economic development services providers, such as the Orange County Small Business Development Center, and assisting these organizations in providing their services locally.

### **Plan for Economic Growth and Development**

The main constraint to economic growth and development in Dana Point is the lack of land available for development. The potential market demand could support close to 400,000 square feet of new retail, office, and industrial development, but there is likely not enough available land to accommodate all this development. New buildings, whether for retail and hospitality, offices, or industry, will require reuse, intensification, and/or redevelopment of existing sites. If residential development is allowed, it will more often than not price out other forms of development. Without residential, commercial retail development will usually price out office and industrial development. When the City updates its General Plan, the community will need to evaluate its vision for the future, and this vision should address the type of economy that is desired. The General Plan will need to carefully consider the land and development needed to support this vision for the future economy.

# Retail Analysis

This chapter analyzes the retail market and identifies opportunities for expansion of retail businesses. As described earlier, the retail market may take longer to recover from the pandemic and the recession than the broader economy. Although much of the data discussed in this chapter reflects conditions immediately prior to the pandemic, the analysis and recommendations are inherently long term, reflecting a point in time when retail sales have recovered, and the retail market is ready to expand.

## CURRENT MARKET CONDITIONS

According to real estate brokerage CB Richard Ellis's *Orange County Retail Marketview* for the fourth quarter of 2020, the retail vacancy rate in Orange County increased from 3.5 percent in December 2019 to 4.5 percent in December 2020. The vacancy rate in south Orange County was slightly higher, at 5.5 percent.

The average asking lease rate was \$2.84 per square foot, an 11 percent increase from a year earlier. However, the report notes that lease rates can be expected to decline, with CB Richard Ellis forecasting a 15 percent decline through the end of 2021.

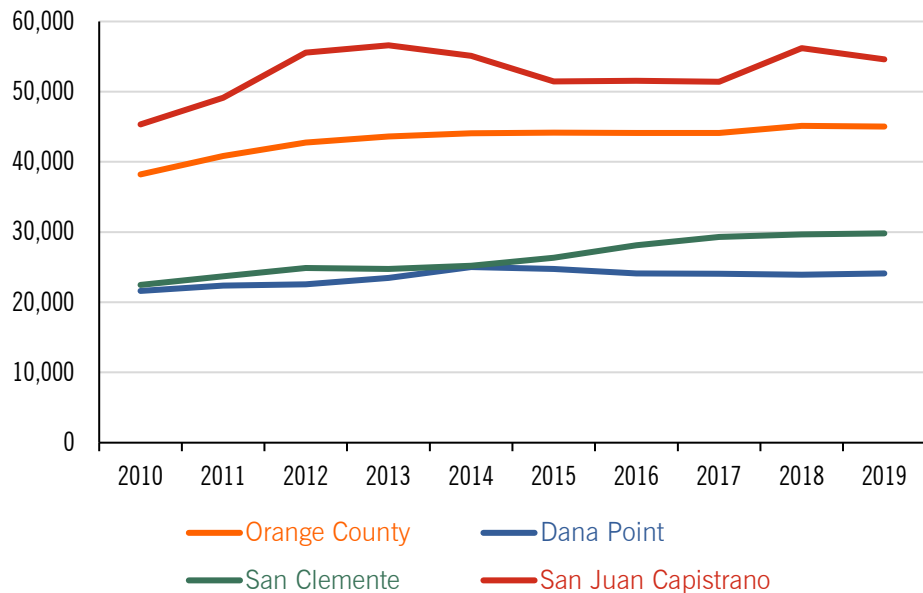
Coming out of the pandemic, CB Richard Ellis expects countywide retail sales to grow at an annual rate of 2.5 percent.

## TAXABLE RETAIL SALES TRENDS

Relative to the number of households, Dana Point has lower taxable sales for retail goods and restaurants compared to Orange County, San Clemente, and San Juan Capistrano. Figure 33 shows the inflation-adjusted (2019 dollars) taxable retail sales per household in Dana Point, Orange County, and the comparison cities from 2010 to 2019. In 2017, taxable retail sales per household were 20 percent higher in San Clemente, nearly two times larger in Orange County, and 2.3 times larger in San Juan Capistrano.

From 2010 to 2019, taxable retail sales per household increased at an annual rate of 1.2 percent per year in Dana Point, 1.8 percent in Orange County, 3.2 percent in San Clemente, and 2.1 percent in San Juan Capistrano. However, almost all the growth in taxable sales in Dana Point occurred in 2011 and 2012. The level of sales per household has remained mostly stagnant since 2012. In this case stagnant is not a negative indicator; the data indicate that taxable sales have kept pace with inflation and growth in households.

**Figure 33: Inflation-Adjusted Taxable Sales per Household for Retail Goods and Restaurants; Orange County, Dana Point, and Comparison Cities; 2010 to 2019**



Source: PlaceWorks, 2021, using taxable sales data from the CA Department of Tax and Fee Administration, number of households estimates from the CA Department of Finance, and inflation adjustment data based on the US Bureau of Labor Standards *Consumer Price Index for All Urban Consumers*.

## RETAIL TYPES

From a land use perspective, the retail market can be categorized into two broad groups: convenience goods and services and comparison goods. Eating and drinking places are a cross between convenience and comparison shopping. Finally, experience-oriented shopping is a hybrid type of retail.

### Convenience Goods and Services

Convenience goods and services are those that people need on a regular basis. For these regular purchases, most consumers have built knowledge of where to go to get what they want, whether their discriminator is price, convenience, or quality. Groceries, medicines, and hair care are typical convenience goods and services. Because convenience goods and services usually have low cost margins and high sales volumes, convenience retailers are located throughout an area, close to concentrations of households. Convenience goods retailers typically operate in convenience-goods centers (less than 30,000 sq. ft.) and neighborhood-scale centers (less than 100,000 sq. ft.), and they typically draw customers from a ½- to 1½-mile radius.

## Comparison Goods

Comparison goods are retail items that consumers purchase more infrequently or rarely. For these purchases, consumers tend to compare goods across brands and across retailers. This habit of comparing induces retailers to locate near each other. It also promotes larger-scale retailers who can stock many different brands of similar products. Clothing, electronics, and furniture are quintessential comparison goods. Because comparison goods have higher cost margins and lower sales volumes and because consumers purchase these goods infrequently, comparison goods retailers tend to locate close to major transportation corridors that give access to a greater number of consumers. These businesses typically locate in community-scale centers (100,000+ sq. ft.) and regional-scale centers (300,000+ sq. ft.), and they draw customers from a 3- to 5-mile radius up to an 8- to 12-mile radius, depending on the center's size and retailer mix.

## Eating and Drinking Places

Eating and drinking places do not fit squarely within the two previous categories. Sometimes consumers are looking for convenience when buying food away from home. Fast food and limited-service restaurants typically satisfy this convenience demand. Other times, consumers are looking for higher quality and are willing to travel longer distances and pay more for the cuisine they desire.

## Experience-Oriented Shopping

In experience-oriented shopping, the experience of the trip is of equal if not greater importance than the material needs for a good or service. The experience's value may accrue from socialization with friends, activities and entertainment, or the quality of the place. Downtowns, new town centers, lifestyle centers, and even shopping malls all attempt to enhance the shopping experience and provide a mix of businesses and amenities to create an enjoyable shopping experience. Because most consumers infrequently invest their time in experiential shopping, most are willing to travel further and forego quick and easy access for the value of the experience. Experience-oriented shopping is a destination trip and draws from a community, regional, or even super-regional size trade area, even if it does not offer the commensurate amount of retail square footage.

# RETAIL MARKET ANALYSIS BASICS

The following sections describe several specific terms and data used in retail market analysis.

## Trade Area

A trade area is the geographic area from which a retail center or area will draw the majority of its customers. Sophisticated market-analysis models for individual retailers often define primary, secondary, and even tertiary trade areas. Several factors affect

the size and boundaries of the trade area, including the type of shopping center, location of competitive retail facilities, physical barriers, and visibility and access to major roads and highways. For planning purposes, a more general definition of the trade area is sufficient. The analysis defines one trade area for convenience goods and a separate trade area for comparison goods because the latter tend to draw customers from a larger area.

### **Convenience Goods Trade Area**

Larger convenience goods retail centers are typically anchored by a supermarket or a pharmacy and draw customers from a 1½-mile radius area. The main convenience goods centers in Dana Point include:

- + Monarch Bay Plaza, anchored by Gelson's
- + Ocean Ranch Village, anchored by Ralphs
- + Lantern Bay Village Shopping Center, anchored by Ralphs
- + Stonehill and Del Obispo Shopping Center, anchored by Albertsons
- + Capistrano Village Shopping Center, anchored by Smart & Final

The convenience goods trade area includes the area within a 1½-mile radius of the shopping centers. Where this trade area overlaps with the trade areas for competitive facilities, it is truncated about halfway between the two centers. The competitive facilities include the Gelson's in Laguna Beach, the Trader Joe's at Ocean Ranch Village, the Vons and Trader Joe's at Plaza Del Rio Shopping Center, the San Juan Capistrano Costco, and the Sprouts on Camino de Estrella in San Clemente. Figure 34 shows the boundary of the convenience goods trade area.

### **Comparison Goods Trade Area**

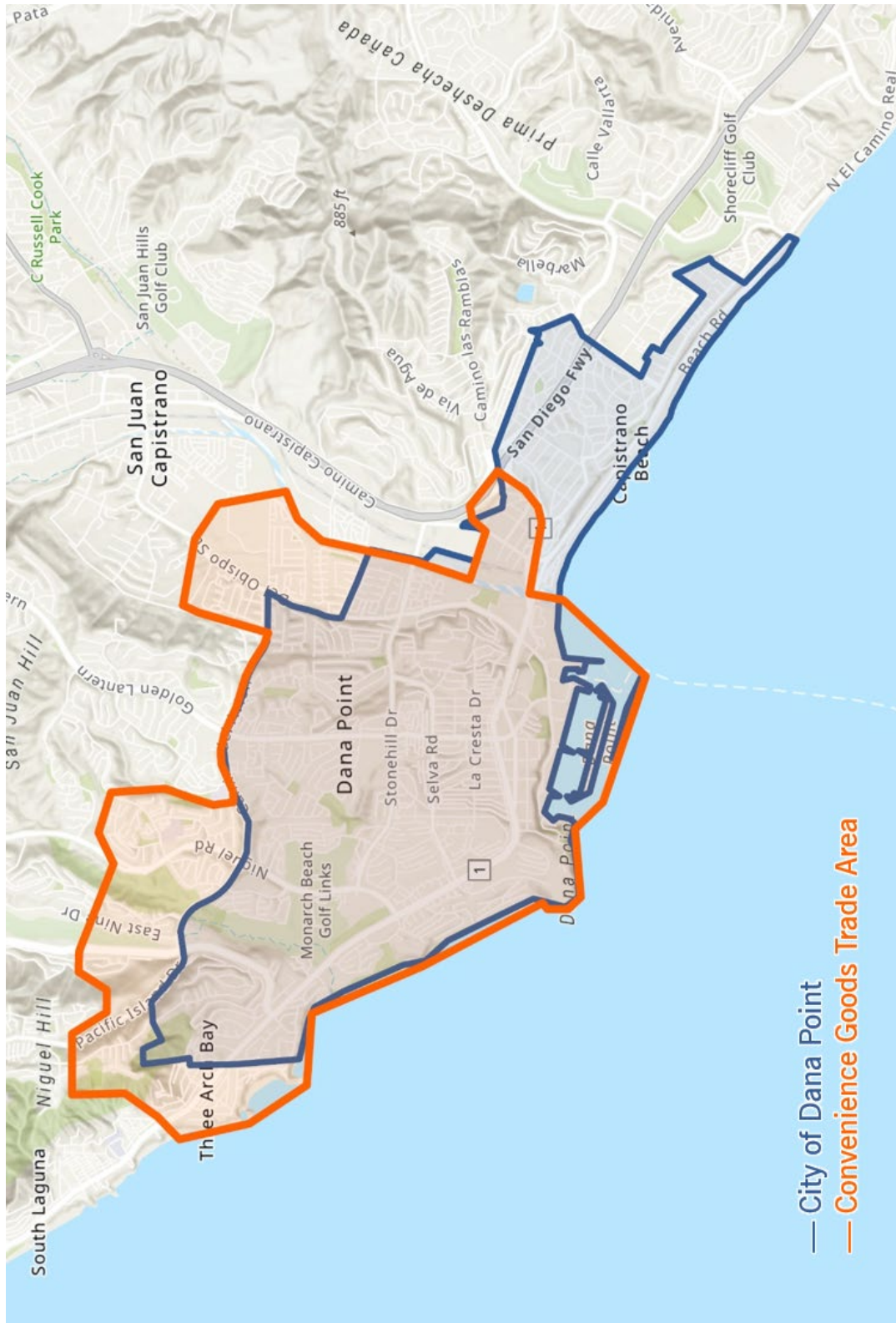
Comparison goods retailers often locate in community-scale or regional-scale shopping areas, which generally have trade areas of five and eight miles, respectively. Because the development of a regional-scale shopping center is not really under consideration, the analysis uses a five-mile radius to define the trade area for comparison goods spending. As with convenience goods, this trade is truncated to reflect the trade area of other community-scale and regional-scale shopping centers. Figure 35 shows the defined comparison goods trade area and the competitive facilities that limit the full extent of the trade area.

## **Household Spending**

The household is the basic economic unit in retail analysis. The Consumer Expenditure Survey, published annually by the US Bureau of Labor Statistics, details how households spend their annual income, stratified by income, age, geography, household size, and other demographic characteristics. Esri's Business Analyst interprets that data for individual locations based on the demographics and lifestyle characteristics of the households residing in that area. Esri reports the data using standard retail business categories from the North American Industrial Classification System.

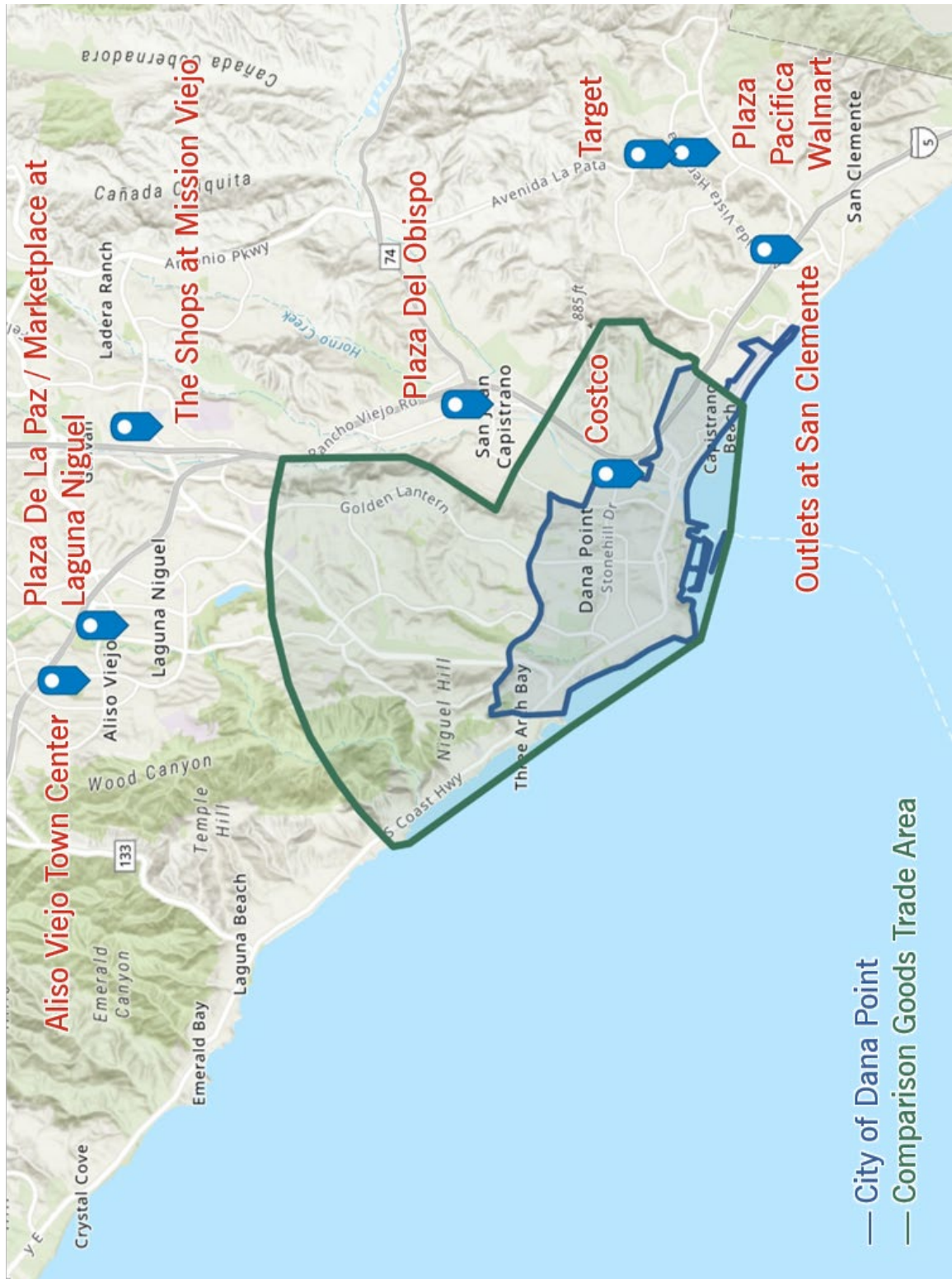


Figure 34: Convenience Goods Trade Area for Dana Point



Source: PlaceWorks, 2021.

Figure 35: Comparison Goods Trade Area for Dana Point and Competitive Retail Centers



Source: PlaceWorks, 2021.

## Estimated Retail Sales

The Esri spending report also estimates the amount of retail sales at businesses operating in the trade area. The Esri estimates are based on the US Census Bureau's Economic Census and information obtained from proprietary data sources, such as Dunn and Bradstreet and InfoUSA.

## Sales Efficiency

Sales efficiency is the average annual sales per square foot of retail businesses. Sales efficiency varies by store type, by individual business, and among different locations of an individual retail chain. This report estimates retail sales efficiency by type of store based on information from Dollars and Cents of Shopping Centers / The SCORE, published by the Urban Land Institute and the International Council of Shopping Centers; annual 10K reports filed by retail corporations with the US Securities and Exchange Commission; and the US Census Bureau's Economic Census.

## Calculating the Retail Gap

Retail market potential is the difference between the amount of trade-area household spending and the amount of trade-area retail business sales. When trade area households spend more at a particular type of retail store than those types of stores in the trade area take in, residents are spending money outside of the trade area. This situation is often referred to as retail spending leakage, or the retail gap. In the opposite situation, when a trade area's retail businesses have more retail sales than trade area households spend, the businesses are attracting customers from beyond the trade area. In this situation, the difference between sales and spending is often referred to as the retail spending capture, or the retail surplus.

Retail leakage and capture matter because it is usually easier to get a trade area's residents to shop closer to home than it is to attract more customers from beyond the trade area. In economic development, most retail business attraction efforts are focused on the retail categories from which a trade area leaks spending.

Dividing a trade area's retail leakage by the average sales efficiency determines the market demand—the amount of retail building space that can be supported by trade area spending. Dividing a trade area's retail capture by the average sales efficiency provides an estimate of the amount of retail building space supported by consumer spending from visitors from outside of the trade area.

## RETAIL GAP ANALYSIS

Table 5 provides the gap analysis for the convenience goods trade area. Table 6 provides the data for the comparison goods trade area. In both tables, the data in the first column are the retail leakage estimated by Esri, representing the potential prior to the COVID-19 pandemic. Positive numbers represent retail leakage and negative numbers

(shown in red and in parentheses) indicate retail surplus. The second column is the potential market demand—the amount of retail building space the estimated retail leakage could support if captured in Dana Point. The final column provides the potential market demand in 2025, assuming that retail spending returns to pre-pandemic levels and that household growth continues in the trade area as projected. The potential market demand data are for gross floor area in square feet. Positive numbers represent additional supportable retail building space, and negative numbers (again, shown in red and in parentheses) indicate the minimum net building space being supported by visitors from outside of the trade area.

The gap analysis data show that there is current market potential that could support expansion of retail businesses and new retail development. Broadly speaking, the analysis suggests that the market could support up to 91,000 square feet of retail building space for convenience goods and 637,000 square feet for comparison goods retailers, for a total of 729,000 square feet.

**Table 5: Retail Leakage and Potential Market Demand (Retail Building Space GFA, sq. ft.); Dana Point Convenience Goods Trade Area; 2020 and Projected 2025**

	2020 Retail Leakage (\$)	2020 Potential Retail Demand (sq. ft.)	2025 Potential Retail Demand (sq. ft.)
Food & Beverage Stores	(12,560,000)	(7,920)	(4,010)
- Grocery Stores	(23,200,000)	(37,000)	(34,000)
- Specialty Food Stores	4,200,000	16,700	17,300
- Beer, Wine & Liquor Stores	6,410,000	12,370	12,700
Health & Personal Care Stores	23,000,000	58,900	61,400
Gasoline Stations	(3,230,000)	(1,870)	(1,200)
Miscellaneous Store Retailers	5,120,000	42,700	45,100
- Florists	233,000	610	690
- Office Supplies, Stationery & Gifts	592,000	2,250	2,700
- Used Merchandise Stores	2,590,000	8,740	8,900
- Other Miscellaneous Store Retailers	1,754,000	5,920	7,000
- Auto Parts, Accessories & Tire Stores	10,570,000	25,200	25,800
<b>Convenience Goods Subtotal</b>		<b>91,900</b>	<b>101,200</b>

Source: PlaceWorks, 2021, using retail spending and sales estimates from Esri.

**Table 6: Retail Leakage and Potential Market Demand (Retail Building Space GFA, sq. ft.); Dana Point Comparison Goods Trade Area; 2020 and Projected 2025**

	2020 Retail Leakage (\$)	2020 Potential Retail Demand (sq. ft.)	2025 Potential Retail Demand (sq. ft.)
Furniture & Home Furnishings Stores	32,200,000	134,300	138,300
- Furniture Stores	18,880,000	98,400	101,100
- Home Furnishings Stores	13,310,000	35,900	37,200
Electronics & Appliance Stores	(14,350,000)	(31,400)	(29,200)
Bldg Materials, Garden Equip. & Supply	16,270,000	36,400	40,200
- Bldg Material & Supplies Dealers	11,470,000	26,900	30,500
- Lawn & Garden Equip & Supply Stores	4,800,000	9,480	9,720
Clothing & Clothing Accessories Stores	79,900,000	234,000	240,000
- Clothing Stores	59,800,000	170,400	174,300
- Shoe Stores	11,390,000	42,900	43,800
- Jewelry, Luggage & Leather Goods	8,660,000	20,700	21,500
Sporting Goods, Hobby, Book & Music	4,370,000	14,870	17,350
- Sporting Goods/Hobby/Musical Instr	(340,000)	(970)	1,120
- Book, Periodical & Music Stores	4,710,000	15,840	16,230
General Merchandise Stores	21,800,000	203,000	215,000
- Department Stores Ex. Leased Depts.	107,000,000	340,000	349,000
- Other General Merchandise Stores	(64,200,000)	(137,600)	(133,900)
Food Services & Drinking Places	60,500,000	45,900	51,600
- Drinking Places - Alcoholic Beverages	2,870,000	9,070	9,280
- Restaurants/Other Eating Places	18,890,000	36,800	42,300
<b>Comparison Goods Subtotal</b>		<b>637,000</b>	<b>673,000</b>

Source: PlaceWorks, 2021, using retail spending and sales estimates from Esri.

However, there are several important caveats. First, the market potential represents the entire trade area, as shown in Figure 34 and Figure 35. The convenience goods trade area mostly includes Dana Point with some adjacent areas in Laguna Beach and Laguna Niguel. Thus, the market potential for convenience goods realistically represents the demand that could be captured in Dana Point. However, the comparison goods trade area includes larger parts of adjacent cities, and these cities may also seek to capitalize on the same potential market. Thus, the retail expansion and development that actually results from the market potential for comparison goods may be less than presented in Table 6.

More importantly, though, the largest portion of the comparison goods market potential is for department stores and for clothing stores, which tend to agglomerate in and near regional shopping destinations. Even though there may be sufficient spending to

support such businesses in Dana Point, those retailers may perceive existing regional destinations as a safer location for new and expanded stores.

Finally, the most important caveat is that the market potential, both current and projected for 2025, assume that the retail market recovers from the pandemic and that consumer spending returns to pre-pandemic levels.

It is unlikely that the City would seek to capture all the leaked spending. Even if the full market potential for comparison goods does materialize, though, the magnitude of the retail leakage suggests that the market should still be able to support substantial retail expansion in Dana Point. In addition, the retail leakage occurs across most store types, including home furnishings, clothing, and restaurants and bars. The analysis suggests that there is spending support for the types of businesses that would contribute to and benefit from a walkable, experienced-oriented retail district, as envisioned for the Town Center and Doheny Village.

## LIFESTYLE SEGMENTATION

The stakeholder interviews conducted for this project indicated that an important attraction for resort customers and other tourists is the authentic experiences of shopping and activities in Dana Point. What makes something authentic? While there are a variety of uses of the term, in the context of shopping and activities, there are two important components to an authentic experience. One is unique independent businesses rather than chain stores. The other is that local residents patronize the same businesses and activities.

Lifestyle segmentation provides a way to understand subgroups within a trade area's population with more detail than provided by median and average statistics. Esri Business Analyst produces a lifestyle segmentation tool, Tapestry, that provides information about activities and preferences in addition to basic measures like education and income for 67 segments of the population (groups of people determined to be socially and economically similar). Lifestyle segmentation provides an understanding of the types of businesses and activities that would likely be supported by trade area residents and, thus, be authentic.

### Lifestyle Segment Descriptions

Following are Esri's descriptions of the top five Tapestry segments in the comparison goods trade area.

#### **Urban Chic**

Urban Chic residents are professionals that live a sophisticated, exclusive lifestyle. Half of all households are occupied by married-couple families and about 30 percent are singles. These are busy, well-connected, and well-educated consumers—avid readers and moviegoers, environmentally active, and financially stable. This market is a bit older, with a median age of 43 years, and growing slowly but steadily. This segment represents about 29 percent of trade area households but only 1 percent of households nationwide.

Preferences and activities more prevalent among Urban Chic households than among the general population include:

- + Shop at Trader Joe's, Costco, or Whole Foods.
- + Eat organic foods, drink imported wine, and truly appreciate a good cup of coffee.
- + Travel extensively (domestically and internationally).
- + Prefer to drive luxury imports and shop at upscale establishments.
- + Embrace city life by visiting museums, art galleries, and movie theaters for a night out.
- + Avid book readers of both digital and audio formats.
- + Financially shrewd residents that maintain a healthy portfolio of stocks, bonds, and real estate.
- + In their downtime, enjoy activities such as skiing, yoga, hiking, and tennis.

### **Exurbanites**

Exurbanite residents are now approaching retirement but showing few signs of slowing down. They are active in their communities, generous in their donations, and seasoned travelers. They take advantage of their proximity to large metropolitan centers to support the arts but prefer a more expansive home style in less crowded neighborhoods. They have cultivated a lifestyle that is both affluent and urbane. Exurbanites represent about 16 percent of households in the comparison goods trade area.

Preferences and activities more prevalent among Exurbanite households than among the general population include:

- + Exurbanite residents' preferred vehicles are late model luxury cars or SUVs.
- + They are active supporters of the arts and public television/radio.
- + Attentive to ingredients, they prefer natural or organic products.
- + Gardening and home improvement are priorities, but they also use a number of services, from home care and maintenance to personal care.
- + Financially active with wide-ranging investments, these investors rely on financial planners, extensive reading, and the Internet to handle their money.

### **Top Tier**

The residents of the wealthiest Tapestry market, Top Tier, earn more than three times the US household income. They have the purchasing power to indulge any choice, but what do their hearts desire? Aside from the obvious expense for the upkeep of their lavish homes, consumers select upscale salons, spas, and fitness centers for their personal well-being and shop at high-end retailers for their personal effects. Whether short or long, domestic or foreign, their frequent vacations spare no expense. Residents fill their weekends and evenings with opera, classical music concerts, charity dinners, and shopping. These highly educated professionals have reached their corporate career goals. With an accumulated average net worth of over 3 million dollars and income from a strong investment portfolio, many of these older residents have moved into consulting roles or operate their own businesses. Top Tier represents about 11 percent of trade area residents.

Preferences and activities more prevalent among Top Tier households than among the general population include:

- + They purchase or lease luxury cars with the latest trim, preferably imports.
- + They contribute to arts/cultural organizations, educational and social groups, and NPR and PBS.
- + Top Tier residents farm out their household chores—every service from property and garden maintenance and professional housekeeping to contracting for home improvement or maintenance projects.
- + Consumers spend money on themselves; they frequently visit day spas and salons, use dry cleaning services, and exercise at exclusive clubs.
- + Near or far, downtown or at the beach, they regularly visit their lavish vacation homes.
- + When at home, their schedules are packed with lunch dates, book club meetings, charity dinners, classical music concerts, opera shows, and visits to local art galleries.
- + Top Tier consumers are shoppers. They shop at high-end retailers such as Nordstrom (readily paying full price), as well as Target, Kohl's, Macy's, and Bed Bath & Beyond, and online at Amazon.com.
- + At their level of spending, it makes sense to own an airline credit card. They make several domestic and foreign trips a year for leisure and pay for every luxury along the way—a room with a view, limousines, and rental cars are part of the package.

### **Golden Years**

Independent, active seniors nearing the end of their careers or already in retirement best describes Golden Years residents. This market is primarily singles living alone or empty nesters. Those still active in the labor force are employed in professional occupations; however, these consumers are actively pursuing a variety of leisure interests—travel, sports, dining out, museums, and concerts. They are involved, focused on physical fitness, and enjoying their lives. This market is smaller, but growing, and financially secure. Golden Years represents about 8 percent of trade area households.

Preferences and activities more prevalent among Golden Years households than among the general population include:

- + Avid readers, they regularly read daily newspapers, particularly the Sunday edition.
- + They subscribe to cable TV; news and sports programs are popular as well as on-demand movies.
- + They use professional services to maintain their homes inside and out and minimize their chores.
- + Leisure time is spent on sports (tennis, golf, boating, and fishing) or simple exercise like walking.
- + Good health is a priority; they believe in healthy eating, coupled with vitamins and dietary supplements.



- + Active social lives include travel, especially abroad, plus going to concerts and museums.
- + Residents maintain actively managed financial portfolios that include a range of instruments such as IRAs, common stocks, and certificates of deposit (more than six months).

## City Lights

City Lights, a densely populated urban market, is the epitome of equality. The wide-ranging demographic characteristics of residents mirror their passion for social welfare and equal opportunity. Household types range from single person to married-couple families, with and without children. A blend of owners and renters, single-family homes and townhomes, midrise and high-rise apartments, these neighborhoods are both racially and ethnically diverse. Many residents have completed some college or a degree, and they earn a good income in professional and service occupations. Willing to commute to their jobs, they work hard and budget well to support their urban lifestyles, laying the foundation for stable financial futures. City Lights represents about 7 percent of trade area households.

Preferences and activities more prevalent among City Lights households than among the general population include:

- + Price-conscious consumers, they seek out deals on brands they like at warehouse clubs, Marshalls, Target, or Bed, Bath & Beyond.
- + Residents are traditional in many ways. They prefer to bank in person but are increasingly paying their bills online. They rarely carry a credit card balance but occasionally buy on credit.
- + Most residents have high-speed Internet access at home and use their computers for basic browsing and some shopping. Although most still own landlines, they use their cell phones frequently from news to entertainment to redeeming mobile coupons.
- + These are health-conscious consumers, who purchase vitamins, low-sodium foods, and spend 7+ hours exercising per week.
- + Dreaming of a brighter future, they often try their luck on the lottery.
- + Their taste in music is varied, typically rhythmic, contemporary, urban, and even R&B music, listening at home and during their daily commutes.

## Lifestyle Activities

Taken together, these five lifestyle groups represent about 70 percent of the households residing in the comparison goods trade area. Several preferences and activities are common across most or all these groups, and these can be the basis for authenticity in shopping and activities in Dana Point.

## Arts and Culture

Arts and culture are important to many of these households, including art galleries, museums, classical music, supporting arts and cultural organizations, and even public radio and public television.

Although Laguna Beach is strongly associated with art, Dana Point has been raising its profile as a Southern California Arts community. Beyond art, there are other culture activities and events that can and do distinguish Dana Point from other Orange County beach communities, such as the Doheny Blues Festival. The range of cultural activities patronized by these households suggests that the Town Center and Doheny Village could have non-overlapping cultural aspects.

### Healthy Lifestyles

These households are health conscious, including healthy eating, healthy shopping, and exercising, often outdoors. Businesses, events, and activities focused on healthy lifestyles would likely be well supported by residents of southwest Orange County.

### Avid Readers

Many of these households are avid readers. Independent bookstores are few and far between, and there is no guarantee that the area's residents would purchase books at a local store rather than online. However, the proclivity of many of these households to read suggests that events and activities related to books and reading would be supported. It also suggests that Dana Point Library and Friends of Dana Point Library could play an active role in facilitating books and reading-related events and activities.

### Outdoor Activities

These households engage in a variety of outdoor activities. Although this is related to healthy lifestyles, it also suggests that investments in trails and bike facilities could benefit economic activity in the Town Center, Doheny Village, and Dana Point Harbor.



*Some existing businesses already cater to outdoor activities*

## IMPLICATIONS

The gap analysis finds that there is sufficient consumer spending to support expansion of existing retail businesses and new retail development. Indeed, the square footage of supportable retail building space is far larger than what could be built on the available land in Dana Point.

The market potential is widespread, covering all types of retail businesses except grocery stores, electronics and appliance stores, sporting goods, and general merchandise stores. The breadth of supportable types of retail suggests that targeted tenanting to establish a niche or a more eclectic approach to business types would be supported by consumer spending from trade area households.

Beyond the retail mix, the lifestyle demographics of trade area households suggests that businesses, activities, events, and facilities focusing on arts and culture, healthy lifestyles, reading, and outdoor recreation and exercise can provide experiences that will draw residents and visitors to Dana Point.

As discussed in the previous chapter, the City should use the planning process when it updates its General Plan to consider the balance of land uses in Dana Point's micro-destinations. However, building strong experience-oriented commercial districts is more than land use and development. Through the planning process for the General Plan update, the City may want to engage property and business owners in discussing the value of establishing business improvement districts. Such districts are a proven vehicle for supporting and managing events and activities, guiding public realm improvements and maintenance, and attracting new business tenants.



*Outdoor dining during the COVID-19 pandemic*

# Residential Analysis

This chapter describes the market for residential development. As described in the National and Regional Context chapter, the housing market has underproduced housing across nation, the state, and Orange County since the 2008–09 recession. The lack of sufficient housing being built is partially responsible for the escalation in housing costs.

There is still pent-up demand for new housing. The market would likely support the development of housing anywhere it can be built in Orange County. In the face of strong regional demand for housing, this chapter is not intended to quantify the development potential for new housing, and the absorption rate is constrained more by the capacity of home builders and their ability to acquire land for development.

Instead, this chapter describes who the market is, who is moving to Orange County and southwest Orange County. The market for new housing in Dana Point is considered to be the area previously shown as southwest Orange County in Figure 1.

## WHO IS MOVING?

The following sections describe the characteristics of households that moved into their current home within the last 12 months. The data are taken from the US Census Bureau's Public Use Microdata Set, which is part of the American Community Survey. The data are for 2019 and thus include those who moved into their current home in 2018.

### Household Characteristics

#### Average Household Size

The average size of households moving into a new home in southwest Orange County from 2018 to 2019 was 2.60 persons per household. This is the same as the average household size of those moving into a new home anywhere in Orange County. The size for southwest Orange County was ever so slightly higher, but the difference gets lost in the rounding.

There were some differences in size, though. Both areas had about the same percentage of households with only one person, nearly one-in-four of all moving households. Southwest Orange County has more households with two people, 37 percent, than the county, 34 percent. The county had a slightly higher percentage of larger households.

#### Younger and Older Residents

Given the similar household sizes, it is unsurprising that the presence of children and individuals age 65 and older are similar. In both areas, 35 percent of the households had one or more children under the age of 18. In both areas, 13 percent of the households had one or more person age 65 and older.

## Multigenerational Households

A multigenerational household is one in which the adult householder also has a parent and/or an adult child living with them. In southwest Orange County, 6 percent of recently moved households were multigenerational. Countywide, 4 percent of recently moving households were multigenerational.

## Housing Type and Tenure

### Tenure

Among the recently moving households in southwest Orange County, 34 percent owned the home they moved into and 66 percent were renters. Across the county, 26 percent were owners and 74 percent were renters. Renters tend to move more often than property owners for a variety of reasons, including that it is easier to move after a lease ends than it is to sell a home, that renters are less secure in their housing and landlords may not renew their lease.

### Housing Type and Tenure

Table 7 provides the percentage of moving households in each area by their current tenure and type of housing. A higher percentage of moving households in southwest Orange County are homeowners, and this carries across the three broad types of housing. About the same percentage of

**Table 7: Housing Type and Tenure Among Households Moving in the Previous 12 Months as a Percentage of All Moving Households; Orange County and Southwest Orange County; 2019**

	Orange County	Southwest Orange County
<b>Homeowners</b>		
Single Family Detached	16.6%	20.1%
Multifamily	2.2%	4.4%
Mobile Home / Other	7.4%	9.7%
<b>Renters</b>		
Single Family Detached	12.3%	9.4%
Multifamily	53.9%	48.2%
Mobile Home / Other	7.6%	8.2%

Source: PlaceWorks, using data from the US Census Bureau's 2019 Public Use Microdata Set.

households moved into single-family detached housing, but countywide that was slightly more often for renter households and slightly less often for homeowners.

The single largest group of moving households in both areas were moving into multifamily housing, and this was predominantly for rent. Slightly more households moved

into multifamily housing that they own in southwest Orange County than did so countywide.

This report has not provided much attention to mobile homes because there has been little to no net increase in mobile homes, either locally or countywide, in the last ten years. Nevertheless, mobile homes, both for sale and for rent, account for 18 percent of moving households in southwest Orange County and 15 percent countywide.

## Financial Characteristics

### Household Income

Due to data limitations, it is not possible to calculate the median household income. This section uses average household income, which is different from previous parts of this report. Average household income tends to be higher than the median, so the data are not directly comparable to previous sections.

Among moving households that own their homes, the average household income in southwest Orange County was \$218,000, about 21 percent higher than the countywide average of \$180,400. Among moving households that rent their homes, the average household income in the local area was \$163,600, which was 38 percent higher than the countywide average.

### Renter Overpayment

Households that own their homes typically have much lower rates of overpayment. Renter households are considered to be overpaying, or rent burdened, if their gross monthly housing costs (rent plus utilities) exceeds 30 percent of the household income. Those paying more than 50 percent are considered to have severe overpayment. Renter overpayment for moving households is provided in Table 8.

**Table 8: Renter Overpayment; Orange County and Southwest Orange County; 2019**

	Orange County	Southwest Orange County
No Overpayment	51.7%	44.3%
Overpayment (30 to 50 percent of income)	24.5%	35.3%
Severe Overpayment (50 percent or more of income)	23.8%	20.4%

Source: PlaceWorks, using data from the US Census Bureau's 2019 Public Use Microdata Set.

Even though the household income of moving households that rent their homes is 38 percent higher than the income of such households countywide, a higher percentage of those households pay more than 30 percent of their income for housing costs than do these households countywide. One in five of these households in the local area pays more than half of their income for housing, but this is somewhat less than the rate countywide.

## MULTIFAMILY HOUSING STOCK

The majority of the multifamily housing in Dana Point is in buildings with four or fewer housing units. This type of housing accounts for 53 percent of the city's multifamily housing stock, which is the highest share in Orange County. Countywide, the share is 24 percent. However, the other cities with a near 50 percent share are Laguna Beach (44 percent), San Clemente (51 percent), and San Juan Capistrano (44 percent).

At the beginning of the COVID-19 pandemic, the typical asking rent for apartments in these small buildings in the south Orange County market was \$2,067, which was slightly lower than the rent in buildings with 25 or more units, \$2,128. Vacancy rates were slightly higher, but it is not clear if this relates to the onset of the pandemic.

At the larger end of the spectrum, there are six multifamily communities with more than 25 units. These range in size from 72 units at Sea Bluff to over 400 units at Marea Apartments. The Greer and Prado West will add new multifamily units in the Town Center area.

The asking rents at the larger apartment communities average \$2.62 per square foot. A more sophisticated regression analysis was conducted to incorporate the number of bedrooms, the number of bathrooms, and the year constructed to develop a formula to estimate likely market rents for new multifamily development for use in the pro forma analyses in the following chapter.

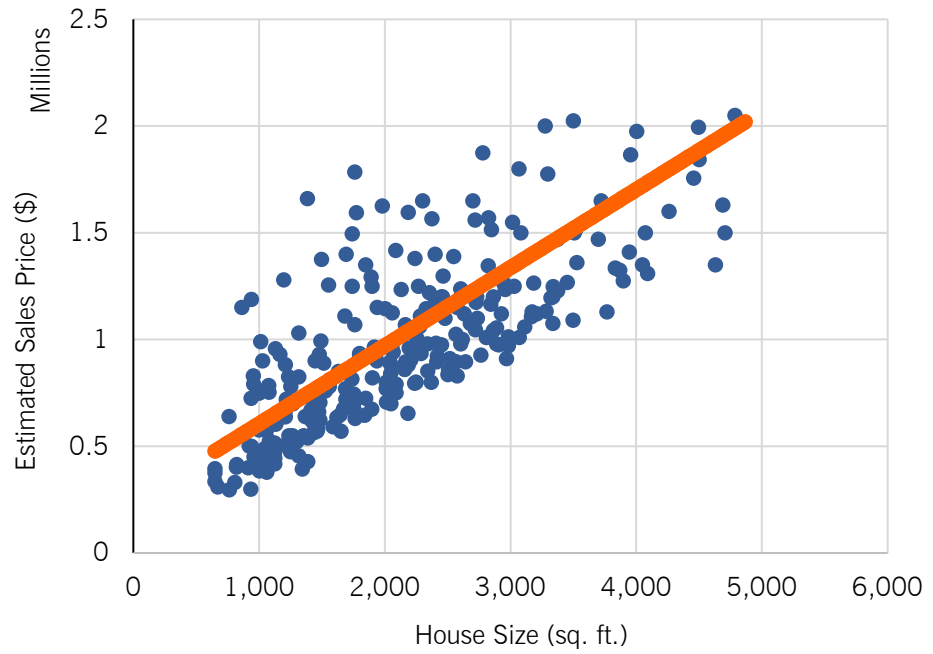
## SINGLE-FAMILY HOUSING SALES

The estimated value of the existing housing stock was discussed previously and presented in Figure 22 on page 43. For the purposes of estimating sales values for housing for the pro forma analyses in the next chapter, existing housing sales from January 1, 2019, through June 30, 2020, were analyzed. The southwest Orange County area presents a complex set of variables that influence housing values, from proximity to and views of the ocean to school quality. Accounting for these variables was beyond the need of this study. However, the analysis did construct a very basic model relating housing sales values to house size.

Figure 36 shows a representative set of the home sales data analyzed and the trend line. The number of sales data points presented in the chart is reduced to improve clarity, and higher sales values are not shown, even though they do influence the trendline.

The analysis for the trend line in Figure 36 suggests that the estimated average sales price of a single-family house in southwest Orange County is about \$239,000 plus \$366 per square foot of living area.

Figure 36: Representative Home Sale Values and Trend Line; Southwest Orange County; January 2019 through June 2020



Note: Not all sales values are shown in order to maintain clarity.

Source: PlaceWorks, 2021, using data from ListSource.



*New residential development at Del Obispo Street and Pacific Coast Highway*



## IMPLICATIONS

With new development in the Town Center, multifamily housing development has arrived in Dana Point. Southwest Orange County has lagged in the countywide market for developing multifamily housing.

It is not exactly clear why the area has not participated in the multifamily housing market up until now. Looking at the characteristics of households that have moved in the prior year, there are not many differences between households in southwest Orange County and households countywide.

The sizes of the households are practically identical, as is the share with children and the share with individuals age 65 and older. There are slightly more multigenerational households moving in southwest Orange County, but the difference between 4 percent and 6 percent is not enough to fundamentally change the type of housing that is sought.

There is one key difference. Households with higher incomes are more prevalent among southwest Orange County households. They are also more prevalent among the area's households moving into a rental home than among those moving into a home they own. Yet curiously, a higher share of these renters is overpaying for housing costs, although not as many are severely overpaying. It may be the case that many of the renter households moving in the area are choosing to pay somewhat more for their housing, within reason, in order to live where they desire to live.

Taken together, the analysis suggests that the market for multifamily housing in southwest Orange County could be stronger. This raises the question of whether there is sufficient land area planned and zoning for multifamily housing, and whether it is financially feasible to develop multifamily housing. The final chapter of this report addresses the latter issue. The City's future General Plan update should address the former question.

## OVERVIEW

### Purpose

Financial feasibility analysis determines whether developers would likely afford to acquire a site and develop it or redevelop it, given existing development regulations and current market conditions, including property values and rents. The results are important for understanding how factors primarily or partially under the City's control—development standards and regulations, required public benefits, development fees—help or hinder the realization of the community's vision for desired types of development and land uses. The results can also illuminate the limits of the City's ability to influence private sector development activity, i.e., identifying where market conditions will simply not support desired types of development and land uses.

### Opportunity Sites

#### What an Opportunity Site Is

A simplified financial feasibility analysis can assess the development potential of a hypothetical site. However, the development potential of a hypothetical site may be of limited replicability because real parcels are often irregularly shaped, have topographical and other unique constraints, and have different types of existing buildings and uses. Buildings and parking lots that easily fit onto a hypothetical rectangular acre of land often do not fit onto real parcels.

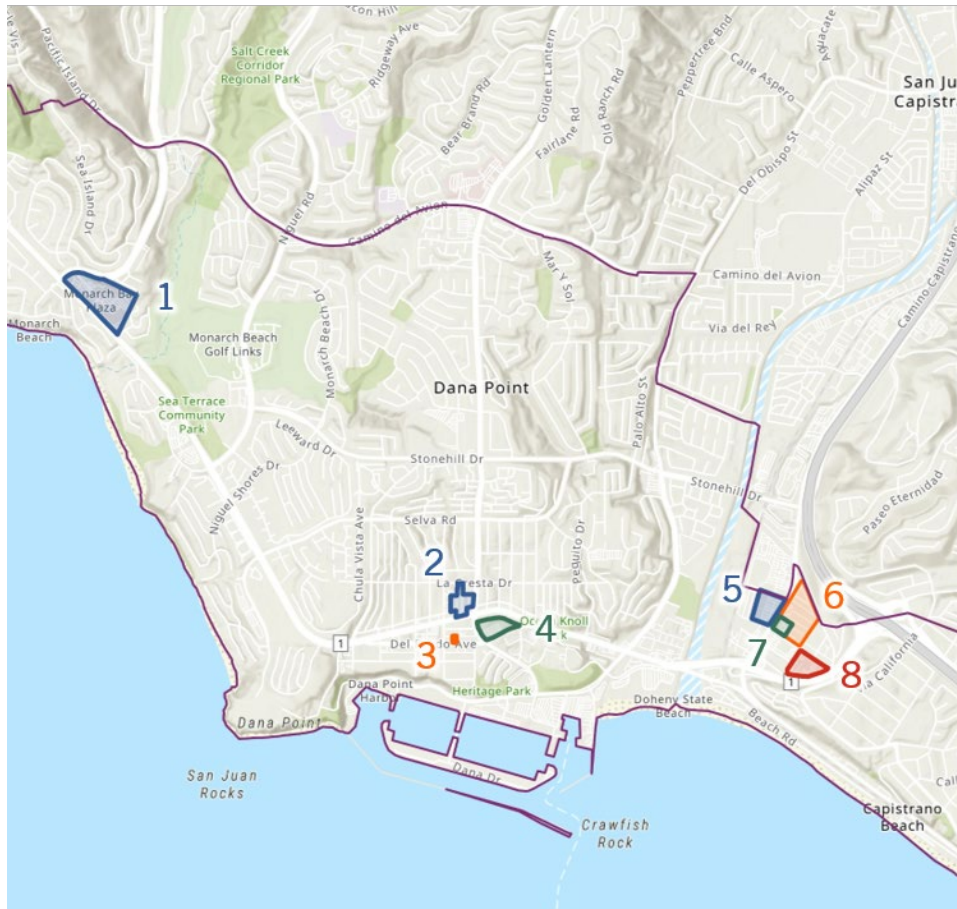
The analyses presented in this report are based on real parcels. The consultant collaborated with City staff to identify eight sites that represent a range of shapes and sizes, locations, and existing development and uses. The report refers to these as “opportunity sites,” a standard term of practice, because the purpose is to assess the potential opportunity for development or redevelopment. The term “opportunity site” should not be misconstrued as suggesting that the property owner has an intention of selling or developing the site, that a development application is imminent, or that the City has any plans, designs, or intentions for the development of the site other than officially adopted plans and regulations or those publicly under consideration (e.g., specific plans, the General Plan, or the zoning code).

#### Location of Opportunity Sites

The financial feasibility analysis includes eight sites in the city, as shown in Figure 37. Four sites are located within the plan area for the draft Doheny Village Specific Plan (numbers 5, 6, 7, and 8 in Figure 37); three sites are located in the Town Center Specific Plan (numbers 2, 3, and 4), and the final site is located outside of these specific plans (site number 1). A separate memorandum was previously prepared for the school bus garage site (number 8 in Figure 37). That site has unique issues

because it would be developed with a land lease from the school district and the findings would not necessarily apply to other properties. Because the separate memo was intended to inform City staff as it worked with the developer of that site, it is not included in this report.

**Figure 37: General Location of Opportunity Sites**



**Opportunity Sites Key for Figure 37:**

- |                              |                               |
|------------------------------|-------------------------------|
| 1. Monarch Bay Plaza         | 5. Capistrano Village Plaza   |
| 2. La Plaza Park             | 6. Beachwood Mobile Home Park |
| 3. Town Center Vacant Parcel | 7. Ganahl Lumber              |
| 4. Lantern Bay Village       | 8. School Bus Garage          |

## FINANCIAL FEASIBILITY ANALYSES

### What a Development Pro Forma Is

A development pro forma is a spreadsheet that calculates the costs of development and the revenue flow, adjusting these for the time value of money and the costs to borrow money. The pro forma determines the amount of equity investment (as opposed to borrowed funds) required of the developer and the rate of return on that

investment. References to the financial feasibility of a development project simply mean whether or not the rate of return is sufficiently high to attract a developer to invest in that project.

## Timing

The three financial feasibility analyses presented in this report use the same phasing schedule. The analysis assumes a six-month entitlement period, during which the developer is paying 100 percent of the costs incurred. The analysis then assumes four months for demolition and site work and 18 months for construction. For simplicity, the analysis assumes that each development project would be fully leased starting in month 29.

## Lease Rates

The rents paid by residential, retail, and office tenants are the income source that repays the development costs. Residential tenants are willing to pay some base level of rent just for a place to live and then some premium for the location, the quality of the dwelling units, and amenities. Similarly, commercial tenants are willing to pay some base level of rent just for the building space and then some premium rent if the location will generate more revenues for their business.

The lease rates used in the analyses are based on a survey of publicly available data and data from Costar, a leading commercial real estate data provider. The residential lease rates assume a 7.5 percent premium to reflect new construction and likely increases over two years until the residential units go on the market. Current market sentiment expects residential values and development to continue upward despite the COVID-19 pandemic. The analysis assumes retail and office lease rates that reflect the likely value of new construction and mixed-use development that creates value through quality of place. However, the market sentiment for near-term commercial lease rates is less certain than that for residential rents. The permanent closure of businesses and the dramatic shift from in-store to online retail spending is expected to put downward pressure on commercial rents. Nevertheless, the spending power of Dana Point and south Orange County residents is expected to remain intact, and the analysis assumes that local commercial rents will have recovered over the 29 months assumed for the new retail and office development to be put on the market.

## Return on Investment

The financial feasibility analysis follows a typical development process in which the development firm puts up some amount of its own money while bringing in an outside investor for the majority of the required equity investment. The developer obtains a construction loan, which covers most of the development costs and half of the land acquisition costs (with the equity investment covering the remainder of the costs). Upon completion of the project, the developer takes out permanent financing and pays off the construction loan.

The return on investment is based on the total equity invested in the development project, not on the total development cost. For development that will be held by the

developer and rented or leased, a common measure of the return on investment is the cash-on-cash yield, often referred to simply as the yield. The yield is calculated by dividing the annual net operating income after debt service and taxes by the total amount of equity investment. A proposed development project is usually considered financially feasible when the yield is expected to be 8.0 percent or higher.

Real estate development is inherently a risky investment. Market conditions could change in the time between making an initial investment and the time that a project is occupied and begins generating revenue. The return on investment reflects this risk relative to other potential investments. One of the jobs of the developer is to entice investors to invest in the project. The return on investment relative to risks is one of the considerations that investors weigh when deciding where to put their money.

## Residual Land Value

Residual land value is the amount the developer can afford to pay to acquire the land while earning an 8.0 percent yield. When the residual land value is higher than the estimated land value, there is a feasibility surplus. The amount of the surplus could reflect additional return on investment to entice equity investors, or it could be used to pay for additional public benefits. When the residual land value is negative, there is a feasibility gap. The amount of this gap represents the additional cash investment that would be needed to make the project feasible.

In general, the analysis estimates the value of each site based on its current use and development. When the residual land value equals the estimated land value, it suggests that an objective property owner would be ambivalent between retaining ownership and selling to a developer. In reality, some property owners are motivated to sell and may accept a lower sales price. Conversely, some property owners are unmotivated to sell and would require a higher sales price to consider selling. The feasibility analysis has no insights into the mindset of individual property owners. Thus, a finding that a proposed development project is financially feasible is no guarantee that a property owner would indeed sell their property to a developer or undertake the development themselves. Similarly, a finding that a proposed development is not financially feasible does not necessarily preclude development from occurring.

## Assumptions

In addition to the foregoing assumptions, the financial feasibility analyses use the following assumptions.

**Construction Costs.** Construction costs are calculated on a per-square-foot basis for gross floor area and are based on Craftsman Book Company's 2020 National Building Cost Manual, with the source's recommended local cost adjustment for Irvine (the nearest location adjustment). As noted in the source, costs include all construction costs: labor, material, equipment, plans, building permit, supervision, overhead, and profit.

**Site Costs.** The analysis assumes costs of: \$15 per square foot of site area for grading and site work; \$12.50 per square foot for surface parking and circulation; \$10 per

square foot for landscaping; and \$10 per square foot of existing gross building floor area for demolition.

**Soft Costs:** The analysis calculates individual development fees for Dana Point park in-lieu fees and art in public places; water and sewer fees for South Coast Water District; and school fees for Capistrano Unified School District. The analysis assumes design, entitlement, and other soft costs at 8 percent of construction cost, and it assumes a contingency allowance at 5 percent of construction cost.

**Financing Assumptions.** The analysis assumes the following financing assumptions based on data from RealtyRates.com: construction loan rate, 9.3 percent; construction loan fee, 3.25 percent; debt service coverage ratio, 1.43; permanent loan rate, 4.16 percent; residential depreciation, 27.5; nonresidential depreciation, 39.0; tax rate, 35 percent; capitalization rate, 7.1; and sales commission, 6 percent.

## MONARCH BAY PLAZA

### Site Overview

#### Site Description

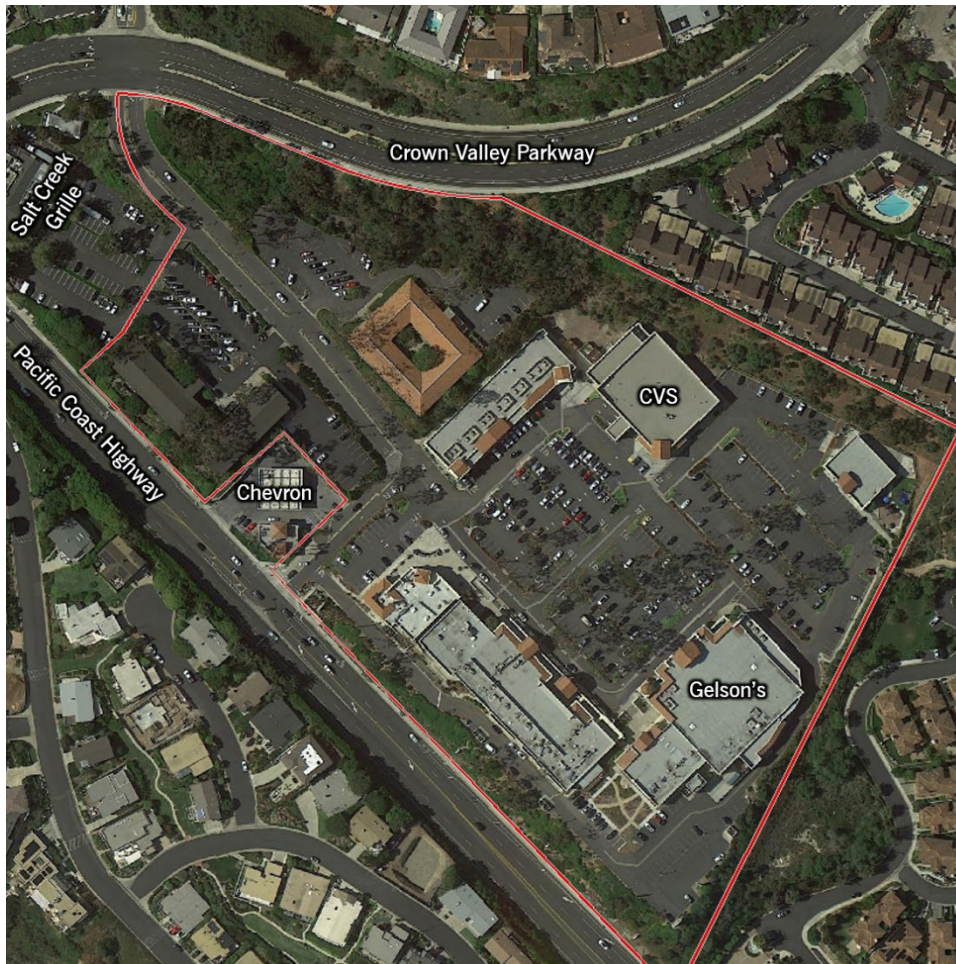
Monarch Bay Plaza is an existing shopping center at the northeast corner of Crown Valley Parkway and Pacific Coast Highway, in the northwest of Dana Point. There are several different land uses and buildings on the larger property, which is about 22 acres in size. For the purposes of illustrating and analyzing a possible redevelopment of the site, only a portion of the site is used on the conceptual development plan. Figure 38 shows the boundary of the area included in the analysis. The area included in the site boundary excludes Salt Creek Grille and Chevron. In addition, some of the existing retail buildings are retained in the conceptual development plan. The site boundary shown in Figure 38 encompasses about 19.2 acres.

#### Estimated Value

For this site, the conceptual site plan would redevelop existing offices with larger office buildings and redevelop some existing retail buildings with new multifamily housing. The estimated land acquisition cost used in the analysis reflects the value of the buildings that would be demolished and redeveloped. The conceptual site plan would retain a majority of the existing retail buildings. It is assumed that the buildings that are retained generate a sufficient return, and these buildings are not included in the financial feasibility analysis.

Table 9 estimates the value of the portion of the site that would be redeveloped. The analysis estimates that the office and retail buildings that would be redeveloped have a value of \$26 million. Thus, the financial feasibility of the redevelopment is weighed against this value. A property owner would likely require \$26 million to forgo the existing uses and redevelop the site.

Figure 38: Monarch Bay Plaza Location



PlaceWorks, 2021, with background image from Google Earth.

Table 9: Estimated Land Value, Monarch Bay Plaza Size

Retail Buildings		Office Buildings	
Estimated building space (sq. ft.)	37,100	Estimated building space (sq. ft.)	86,800
Estimated rent per sq. ft.	3.29	Estimated rent per sq. ft.	2.70
Gross revenue	1,465,000	Gross revenue	2,810,000
Net operating income	718,000	Net operating income	1,125,000
Estimated value	10,110,000	Estimated value	15,850,000
<b>Total site value</b>		<b>\$ 26,000,000</b>	

Source: PlaceWorks, 2021.

**Notes to Table 9:**

1. Building sizes are estimates by PlaceWorks.

2. The estimated rent per sq. ft. is a market average monthly rent value for similar shopping centers and office buildings based on data from Costar. The gross revenue is derived by multiplying the estimated building square footage by the estimated rent by 12 months. The net operating income is gross revenue less a 51 percent (for retail) and 60 percent (for offices) vacancies and operations allowance, based on data from RealtyRates.com.

## Zoning and Development Standards

The site is zoned Community Commercial/Vehicular (CC/V) District. This district provides for higher intensity commercial uses that serve community and subregional needs with an emphasis on convenient automobile access while incorporating efficient, safe, and attractive pedestrian circulation. While this district allows a broad range of commercial uses, residential development is not permitted. To redevelop the site as presented below, some zoning change would be required, such as changing the zoning district classification for the portion of the site accommodating residential units, a broader change to the allowed uses in the CC/V District, or adoption of a specific plan for the site.

The maximum building height in the CC/V District is 31 to 35 feet and three stories. The maximum intensity of development is 0.5 feet of gross floor area (GFA) per one square foot of site area. The required setbacks are: front yard, 20 feet from the ultimate public street right-of-way; side yard, 10 feet; and rear yard, 15 feet.

The required number of parking stalls are: professional offices, one stall per 300 square feet of GFA; medical office, one stall per 150 square feet of GFA; studio and one-bedroom units, 1.7 stalls per unit; two-bedroom units, 2.2 stalls per unit.

Because of the topography on the site and between the site and the residential developments to the northeast and southeast, most of the development standards do not impact the development shown in the conceptual development plan. However, the maximum height and the number of required parking stalls do limit the density/intensity of development that the site can accommodate.

## Development Prototypes

The conceptual development plan includes two types of development. The existing office buildings would be redeveloped with three-story offices. The back part of the retail center would be redeveloped with multifamily housing. Both developments require parking structures.

### Offices

The stand-alone office building prototype is a conventional low-rise suburban office building. There are two three-story multi-tenant office buildings. The conceptual development plan fronts these buildings on either side of the entry street to give the site a somewhat more urban feel. The building on the south side of the street has three stories beside the parking structure, with the third story extending over the top of the parking structure. The office building on the north side of the street has a limited number of surface parking stalls but mostly relies on the parking structure to meet its parking needs.

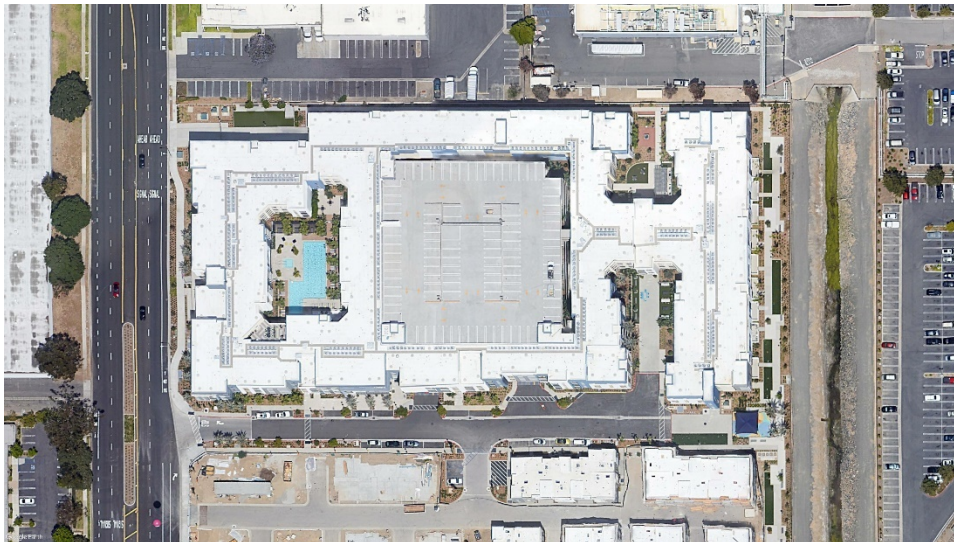




*Typical three-story office building*

### **Multifamily Wrap**

This development prototype generally consists of a central parking structure surrounded by multifamily units. Multifamily wrap buildings have become an increasingly popular development product because they can efficiently achieve high densities, 50+ units per acre, with a five-story modified wood-frame construction.



*Example of multifamily wrap, Rize Apartments in Irvine*

For this opportunity site, the analysis assumes that the ground floor of the parking structure continues to serve the parking needs of the retail businesses retained on the site. The second and third stories of the parking structure serve the multifamily housing. This is a deviation from the typical multifamily wrap, in which each residential unit has a parking space on the same level of the parking structure as the unit is located. Because the parking structure serves retail and residences, the multifamily

development runs along two sides of the parking structure, with the existing retail facing the other two sides.

## Development Scenario

### Conceptual Site Plan

Consistent with the development standards, the conceptual site plan seeks to maximize office and residential development to a degree that is sufficient to warrant redevelopment of existing offices and some of the existing retail buildings. Figure 39 shows the conceptual site plan.

Figure 39: Conceptual Site Plan; Monarch Bay Plaza Site



Source: PlaceWorks, 2021, background image from Google Earth.

The residential portion of the site includes a three-story parking structure, with the ground floor parking reserved for the existing retail uses that remain to the south and west of the new parking structure. It also includes a three-story multifamily wrap building with 282 units. The parking structure provides a total of 512 parking stalls on the second and third levels to serve the residential units.

The site plan also includes a new parking structure to serve two new office buildings. The lowest level of the parking structure would be partially subterranean, with three stories visible from Pacific Coast Highway but only two levels of parking visible from the entry road from Crown Valley Parkway. To the side of this parking structure is a three-story office building, with its third level extended over the parking structure. This building has a GFA of 52,200 square feet. The second office building has a GFA of 107,100 square feet.

The conceptual site plan provides an additional 36 surface parking stalls. The total office parking, 555 stalls, is one stall per 283 square feet of GFA. This exceeds the required parking for professional offices (one stall per 300 square feet) but does not meet the requirements for medical office (one stall per 150 square feet of GFA). Because the greatest demand for future office space in Dana Point will likely be medical offices, a developer may be less likely to invest in this project if medical office cannot occupy a majority of the office space.

After development, the floor area ratio, including new buildings and the existing retail buildings retained, would be 0.55 square feet per one square foot of site area. The conceptual site plan includes 113,000 square feet of landscaped area, or about 400 square feet per residential unit. In addition to this open space, each unit would have a private patio or balcony, with an average size of 100 square feet.

## Development Program

Basic information about the development program is presented in the following tables. Table 33 provides information about the site and conceptual development plan. Table 34 provides information about the residential units.

**Table 10: Site and Project Information, Monarch Bay Plaza Site**

<b>Site Information</b>	
Site area (acres)	19.2
Site area (sq. ft.)	835,000
Existing buildings (est. sq. ft.)	169,600
Estimated value (\$)	26,000,000
<b>Project Information (new &amp; existing)</b>	
Building coverage (sq. ft.)	315,000
- percent of site	37.8%
Circulation/ parking coverage (sq. ft.)	153,000
- percent of site	18.3%

**Table 10 Continued**

Landscaped and open space (sq. ft.)	367,000
- percent of site	43.9%
Gross floor area (sq. ft.)	458,000
FAR	0.55
<b>Residential Information</b>	
Total number of dwelling units	282
Density (du/acre)	14.7
<b>Office Information</b>	
Leasable floor area (sq. ft.)	127,419
Estimated monthly rent (\$/sq. ft.)	3.00
<b>Parking Information (new development)</b>	
Required parking	1,039
Provided parking	1,067
- Parking structure	1,031
- Surface spaces	36

Source: PlaceWorks, 2021.

**Notes to Table 10:**

1. The estimated value of each site was previously calculated in Table 9, and reflects the estimated value of the existing buildings that would be demolished to accommodate the new development.
2. Project information reflects new development and the existing development that would be retained. Parking information reflects only the new development.
3. The leasable floor area for office buildings is based on 80 percent of the gross building area.

**Table 11: Residential Unit Information; Monarch Bay Plaza Site**

<b>Studio Units</b>	
Number of units	36
Average size (sq. ft.)	556
Estimated average market-rate rent	2,439
Estimated average affordable rent	1,054
<b>One-Bedroom Units</b>	
Number of units	189
Average size (sq. ft.)	677
Estimated average market-rate rent	2,754
Estimated average affordable rent	1,041

*Table 11 Continued*

	Multifamily Wrap Prototype
<b>Two-Bedroom Units</b>	
Number of units	57
Average size (sq. ft.)	808
Estimated average market-rate rent	3,078
Estimated average affordable rent	1,239

Source: PlaceWorks, 2021.

**Notes to Table 11:**

1. The estimated average market-rate rent is based on an analysis of asking rents, unit sizes, number of bedrooms, and age of building. The estimated rent is 7.5 percent above current asking rent for comparable units to account for a premium for new units and expected rent increases over 29 months, the assumed time horizon for new units to be put on the market.
2. The estimated average affordable rent is derived as 30 percent of the federal HUD income limits applicable to Dana Point, less utility payments (based on utility allowances established by the Orange County Housing Authority). For studio and 1-bedroom units, the estimated average affordable rent is the average for one- and two-person households with low and very low incomes. For 2-bedroom units, the estimated average affordable rent is an average for two-, three-, and four-person households with low and very low incomes.

## Financial Feasibility Analysis

### Project Income

The estimated monthly rent provides the basis for the estimated project revenue. Multifamily housing projects may take in ancillary revenue, such as fees from onsite laundry facilities. However, for simplicity’s sake, the analysis assumes multifamily and office rent as the only revenue stream for the project.

For the first year of full occupancy, the analysis assumes a residential vacancy allowance and operations allowance of 33 percent and an office vacancy and operations allowance of 45 percent. The net operating income is the gross annual income less the vacancy and operations allowance. Table 12 provides the gross revenue and net operating income for the conceptual site plan as fully market-rate rentals and with 15 percent of the units rented at an affordable rate.

The estimated annual net operating income for a fully market-rate development is \$8.9 million. Providing 15 percent of the units at a rent affordable to low and very low income households reduces the net operating income by \$580,000, or 6.5 percent.

**Table 12: Estimated Project Revenue; Conceptual Site Plan, Monarch Bay Plaza Site**

	Market Rate	15% Affordable
<b>Annual Residential Rents</b>		
Studio rents	1,054,000	971,000
1-bedroom rents	6,250,000	5,670,000
2-bedroom rents	2,110,000	1,907,000
<b>Annual Residential Income</b>		
Gross annual income	9,410,000	8,550,000
- less vacancies and operations	3,060,000	2,780,000
Net operating income	6,350,000	5,770,000
<b>Annual Office Income</b>		
Gross office income	4,590,000	4,590,000
- less vacancies and operations	2,060,000	2,060,000
Net operating income	2,520,000	2,520,000
<b>Project Total</b>		
<b>Net operating income</b>	<b>8,870,000</b>	<b>8,290,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 12:**

1. Annual residential rents are calculated by multiplying the number of units by the estimated average rent (see Table 11) by 12 months. Net operating income for residential units is calculated as the gross rent less a 5 percent vacancy allowance and a 28 percent operating cost allowance for the first year of full occupancy.

**Project Costs**

Table 13 provides the estimated project development costs for the conceptual site plan. There are no construction cost differences between a fully market-rate development and a development with 15 percent affordable units. The estimated cost does not include the cost of financing. The analysis estimates the total development cost at \$29 million.

**Table 13: Estimated Project Costs; Conceptual Development Plan, Monarch Bay Plaza Site**

<b>Land Cost</b>	
Estimated land value	26,000,000
Due diligence	1,298,000
<i>Estimated acquisition cost</i>	27,300,000
<b>Hard Costs</b>	
Site work	13,770,000
Building construction	62,300,000
Circulation and parking	35,100,000
Landscaping	1,702,000
<i>Hard cost subtotal</i>	112,900,000
<b>Soft Costs</b>	
DIF–CUSD	1,058,000
DIF–Parks	9,340,000
DIF–Art in public places	564,000
Water and sewer connections	2,600,000
Other soft costs	9,000,000
Contingency	5,600,000
<i>Soft costs subtotal</i>	15,730,000
<b>Total development cost (before financing)</b>	<b>128,600,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 13:**

1. The estimated land value was previously calculated in Table 9.
2. Site work is calculated at \$15 per square foot of site area and includes an estimated demolition cost of \$10 per square foot of existing buildings.
3. Building construction cost is based on data from the *2020 National Building Cost Manual* by Craftsman Book Company, Carlsbad CA. The cost includes four elevators. Construction cost includes labor, material, equipment, plans, building permit, supervision, overhead, and profit.
4. Circulation and parking cost includes internal roadways and driveways, surface parking stalls, and structured parking.
5. Landscaping cost is calculated at \$15 per square foot of site area excluding buildings, circulation, and parking.
6. Other soft costs include design and entitlement and is calculated at 8 percent of the estimated construction cost. Contingency is calculated at 5 percent of the estimated construction cost.

**Financial Feasibility**

For a planning-level analysis, financial feasibility is generally indicated by a cash-on-cash yield of 8.0 percent or higher. The cash-on-cash yield is determined by dividing the net operating income after debt and taxes by the total equity the developer is

required to invest in the development project. Table 14 provides the financial feasibility calculations for both scenarios.

For a fully market-rate project, the conceptual site plan generates a 5.4 percent cash-on-cash yield. With 15 percent affordable units, the yield would be 4.5 percent. Neither return is financially feasible. The residual land value for a fully market-rate development is 63 percent below the estimated value of the buildings that would be demolished. This suggests that the current property owner does not have a financial incentive to redevelop the site as presented in the conceptual site plan.

**Table 14: Financial Feasibility by Development Scenario; Conceptual Site Plan, Monarch Bay Plaza Site**

	Market Rate	15% Affordable
Development cost	128,600,000	128,600,000
Financing cost	32,400,000	32,400,000
Total project cost	161,000,000	161,000,000
Construction loan amount	106,600,000	99,540,000
Required equity	54,400,000	61,450,000
NOI after debt service & taxes	2,930,000	2,740,000
<b>Cash-on-cash yield</b>	<b>5.4%</b>	<b>4.5%</b>
Residual land value @ 8% yield	9,510,000	490,000
Surplus/(Gap)	(16,450,000)	(25,500,000)
- percent of estimated land value	(63.4%)	(98.1%)

Source: PlaceWorks, 2021.

**Notes to Table 14:**

1. The financial feasibility model assumes that there would be a six-month due diligence period, followed by four months of site work, and 18 months of construction. For simplicity, the model assumes full occupancy in the month following the end of construction.
2. The analysis assumes that the due diligence period would consume one-third of the other soft costs and would be paid fully with developer equity. The analysis assumes that developer equity would pay 50 percent of the land acquisition cost and 20 percent of the remaining development costs. All cost not otherwise paid for with developer equity would be funded through a construction loan.
3. The construction loan terms are based on data from RealtyRates.com and include an annual rate of 9.3 percent and loan fees of 3.25 percent. The permanent loan is based on a rate of 4.16 percent, 30 years, and a debt service coverage ratio of 1.43.
4. The cash-on-cash yield is calculated by dividing the net operating income in the first full year of operation by the required equity.

## Implications

The findings indicate that partially redeveloping this site would be challenging. This primarily results from the office portion of the conceptual site plan. The plan increases the amount of office development on the site by 47 percent, from approximately



86,800 to 127,000 square feet. However, this increase comes at the expense of a three-story parking structure. With a three-story height limitation and the site's topography, it is not feasible to increase the intensity of office buildings enough to warrant a parking structure.

If the office portion of the development is removed from the conceptual site plan (i.e., the existing office buildings remain), the residential portion of the project is financially feasible. With fully market-rate units, the residential development would generate a cash-on-cash yield of 8.7 percent. At an 8.0 percent return, the project would generate a residual land value that is \$3.8 million higher than the estimated value of the buildings that would be demolished. However, if 15 percent of the units were rented at rates affordable to low and very low income households, the return falls to 6.1 percent. To be financially feasible, the number of affordable units would have to be reduced from 42 to 5 units, or from 15 percent to 1.8 percent.

Taken together, these findings suggest that redeveloping existing office buildings may not be financially feasible when the existing buildings are two-story or higher, but redeveloping portions of existing retail centers with multifamily housing may be feasible.

## LA PLAZA PARK

### Site Overview

#### Site Description

The La Plaza Park opportunity site includes several parcels surrounding La Plaza Park in the Town Center area. This analysis explores whether or not it would be financially feasible to construct subterranean parking underneath the park to support redevelopment of adjacent parcels.

Figure 40 shows the boundary of the area included in the analysis. The area encompasses about 4.3 acres, but it excludes the La Plaza Pacifica office building and the 0.9-acre parcel on which it is located.

#### Estimated Value

For this opportunity site, the analysis assumes that all the buildings and the parcels on which they are located are purchased and demolished, with the exception of the La Plaza Pacifica office building. The analysis also assumes that the land beneath the park would be subject to a land lease for a nominal fee.

Table 15 estimates the value of the portion of the site area that would be redeveloped. The analysis estimates that the office and retail buildings that would be redeveloped have a value of \$15.2 million.

Figure 40: La Plaza Park Site Location



PlaceWorks, 2021, with background image from Google Earth.

Table 15: Estimated Land Value, La Plaza Park Site

<b>Retail Buildings</b>		<b>Office Buildings</b>	
Estimated building space (sq. ft.)	21,100	Estimated building space (sq. ft.)	54,300
Estimated rent per sq. ft.	3.00	Estimated annual sales	2.70
Gross revenue	759,000	Gross revenue	1,760,000
Net operating income	372,000	Net operating income	704,000
Estimated value	5,240,000	Estimated value	9,920,000
<b>Total site value</b>		<b>\$ 15,150,000</b>	

Source: PlaceWorks, 2021.

**Notes to Table 9:**

1. Building sizes are estimates by PlaceWorks.

2. The estimated rent per sq. ft. is a market average monthly rent value for similar shopping centers and office buildings based on data from Costar. The gross revenue is derived by multiplying the estimated building square footage by the estimated rent by 12 months. The net operating income is gross revenue less a 51 percent (for retail) and 60 percent (for offices) vacancies and operations allowance, based on data from RealtyRates.com.

## Zoning and Development Standards

The site is located in the Town Center Specific Plan area. The Specific Plan requires non-residential uses on the ground floor and allows up to two additional stories that can be residential or non-residential.

The maximum building height is 40 feet and three stories. The maximum intensity of development is a floor area ratio of 2.5. There is a required front yard setback of 10 feet from Pacific Coast Highway and 0 feet from the other streets. However, facades longer than 80 feet along a street must have a 20 length with an additional setback of 10 feet. There is no required side yard setback. The rear yard setback is 5 feet from an alley, 20 feet from an adjacent residentially zoned parcel, and otherwise there is no required rear yard setback. The Specific Plan also requires additional setbacks for the third story of a building.

The Town Center Specific Plan does not provide separate parking requirements, and the standard zoning requirements apply. The required number of parking stalls are: general retail in a multi-tenant building under 25,000 square feet, one stall per 220 square feet of GFA; professional offices, one stall per 300 square feet GFA; medical office, one stall per 150 square feet of GFA; studio and one-bedroom units, 1.7 stalls per unit; two-bedroom units, 2.2 stalls per unit.

## Development Prototypes

The conceptual development plan assumes a basic mixed-use building. There are three buildings with two stories of residential uses over ground-floor retail. The northernmost building would have ground-floor residential units on the back portion of the building facing La Cresta Street. The building fronting on Golden Lantern has two stories of residential over ground-floor offices. With no on-street parking and no visibility to La Plaza Park, the ground floor of this building would not be an attractive location for most retail businesses.

To provide the required number of parking stalls, the subterranean parking beneath La Plaza Park would need to have two levels and would have to extend underneath the building on the west side of the site. In addition, a level of subterranean parking would be required under the building on the north side of the site and the building fronting on Golden Lantern.



*Three-story mixed-use development at Brea Town Center*

## Development Scenario

### Conceptual Site Plan

The conceptual site plan would provide 173 multifamily residential units, increase the amount of retail by 57,400 by square feet, or 172 percent, and decrease the amount of offices by 44,200 square feet, or 78 percent. Figure 41 shows the conceptual site plan.

The primary subterranean parking structure would extend to, but not below, the alley at the western boundary of the site, extend south to, but not under, the alley parallel to Pacific Coast Highway (PCH), extend east to, but not under, the parcel on which the La Plaza Pacifica office building is located, and extend to and under La Plaza. In addition, the parking below the northernmost building would be accessed from the primary parking structure. The parking below the eastern building fronting on Golden Lantern would be accessed from the alley. There is no parking below the building fronting on PCH, but it would have access from the primary parking structure. The subterranean parking would provide a total of 549 parking stalls. With 116 surface parking stalls, the total parking provided would be 665 spaces.

Figure 41: Conceptual Site Plan; La Plaza Park Site



Source: PlaceWorks, 2021, background image from Google Earth.

The four mixed-use buildings would accommodate 173 apartments, a mix of studios and one- and two-bedroom units. For the residential units, 312 parking stalls would be required. For the office and retail uses, another 317 parking stalls would be required. Finally, 32 parking stalls are needed to replace the parking lot that would be redeveloped with the mixed-use building fronting on Golden Lantern. Thus, a total of 661 parking stalls are required.

Because this conceptual site plan requires a substantial amount of underground parking, the analysis considers a second scenario, under which the parking standards

included in the Doheny Village Specific Plan are applied. Under this scenario, the total required parking is reduced from 661 parking stalls to 366. This change reduces the primary subterranean parking structure from two levels to one, and it eliminates the need for parking below the northernmost building. The building fronting on Golden Lantern would still have a below-grade parking structure because it does not have access to the primary parking structure.

The individual parcels on which the mixed-use buildings are located provide 22,940 square feet of landscaped open space. The Town Center Specific Plan requires 17,300 square feet of open space for the new residential units. In addition, the financial feasibility analysis includes a cost to reconstruct La Plaza Park on top of the subterranean parking structure.

### Development Program

Basic information about the development program is presented in the following tables. Table 16 provides information about the site and conceptual development plan. Table 17 provides information about the residential units in the mixed-use buildings.

**Table 16: Site and Project Information, La Plaza Park Site**

	Scenario 1 (Full Parking)	Scenario 2 (Reduced Parking)
<b>Site Information</b>		
Site area (acres)	4.30	4.30
Site area (sq. ft.)	187,400	187,400
Existing buildings (est. sq. ft.)	90,300	90,300
Estimated value (\$)	15,150,000	15,150,000
<b>Project Information (new &amp; existing)</b>		
Building coverage (sq. ft.)	77,300	77,300
- percent of site	41.2%	41.2%
Circulation/ parking coverage (sq. ft.)	54,800	54,800
- percent of site	29.2%	29.2%
Landscaped and open space (sq. ft.)	55,300	55,300
- percent of site	29.5%	29.5%
Gross floor area (sq. ft.)	225,000	225,000
FAR	1.20	1.20
<b>Residential Information</b>		
Total number of dwelling units	173	173
Density (du/acre)	40.2	40.2

**Table 16 Continued**

	Scenario 1 (Full Parking)	Scenario 2 (Reduced Parking)
<b>Retail Information</b>		
Leasable floor area (sq. ft.)	45,936	45,936
Estimated monthly rent (\$/sq. ft.)	3.50	3.50
<b>Office Information</b>		
Leasable floor area (sq. ft.)	9,506	9,506
Estimated monthly rent (\$/sq. ft.)	3.00	3.00
<b>Parking Information</b>		
Required parking	661	366
Provided parking	665	366
- Parking structure	549	250
- Surface spaces	116	116

Source: PlaceWorks, 2021.

**Notes to Table 16:**

1. The estimated value of each site was previously calculated in Table 15, and reflects the estimated value of the existing buildings that would be demolished to accommodate the new development.
2. The leasable floor area for office buildings is based on 80 percent of the gross building area.

**Table 17: Residential Unit Information; La Plaza Park Site**

<b>Studio Units</b>	
Number of units	23
Average size (sq. ft.)	556
Estimated average market-rate rent	2,434
Estimated average affordable rent	1,054
<b>One-Bedroom Units</b>	
Number of units	115
Average size (sq. ft.)	678
Estimated average market-rate rent	2,747
Estimated average affordable rent	1,041

*Table 11 Continued*

	Multifamily Wrap Prototype
<b>Two-Bedroom Units</b>	
Number of units	35
Average size (sq. ft.)	810
Estimated average market-rate rent	3,070
Estimated average affordable rent	1,239

Source: PlaceWorks, 2021.

**Notes to Table 17:**

1. The estimated average market-rate rent is based on an analysis of asking rents, unit sizes, number of bedrooms, and age of building. The estimated rent is 7.5 percent above current asking rent for comparable units to account for a premium for new units and expected rent increases over 29 months, the assumed time horizon for new units to be put on the market.
2. The estimated average affordable rent is derived as 30 percent of the federal HUD income limits applicable to Dana Point, less utility payments (based on utility allowances established by the Orange County Housing Authority). For studio and 1-bedroom units, the estimated average affordable rent is the average for one- and two-person households with low and very low incomes. For 2-bedroom units, the estimated average affordable rent is an average for two-, three-, and four-person households with low and very low incomes.

## Financial Feasibility Analysis

### Project Income

The estimated monthly rent provides the basis for the estimated project revenue. Multifamily housing projects may take in ancillary revenue, such as fees from onsite laundry facilities. However, for simplicity’s sake, the analysis assumes multifamily, retail, and office rent as the only revenue stream for the project.

For the first year of full occupancy, the analysis assumes a residential vacancy allowance and operations allowance of 33 percent and an office vacancy and operations allowance of 45 percent. The net operating income is the gross annual income less the vacancy and operations allowance. Table 18 provides the gross revenue and net operating income for the conceptual site plan as fully market-rate rentals and with 15 percent of the units rented at an affordable rate.

The estimated annual net operating income for a fully market-rate development is \$5.2 million. Providing 15 percent of the units at a rent affordable to low and very low income households reduces the net operating income by \$340,000, or 6.6 percent.



**Table 18: Estimated Project Revenue; Conceptual Site Plan, La Plaza Park Site**

	Market Rate	15% Affordable
<b>Annual Residential Rents</b>		
Studio rents	672,000	622,000
1-bedroom rents	3,790,000	3,440,000
2-bedroom rents	1,290,000	1,180,000
<b>Annual Residential Income</b>		
Gross annual income	5,750,000	5,240,000
- less vacancies and operations	1,869,000	1,704,000
Net operating income	3,880,000	3,540,000
<b>Annual Retail Income</b>		
Gross retail income	1,929,000	1,929,000
- less vacancies and operations	849,000	849,000
Net operating income	1,080,000	1,080,000
<b>Annual Office Income</b>		
Gross office income	342,000	342,000
- less vacancies and operations	154,000	154,000
Net operating income	188,200	188,200
<b>Project Total</b>		
<b>Net operating income</b>	<b>5,150,000</b>	<b>4,810,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 18:**

1. Annual residential rents are calculated by multiplying the number of units by the estimated average rent (see Table 17) by 12 months. Net operating income for residential units is calculated as the gross rent less a 5 percent vacancy allowance and a 28 percent operating cost allowance for the first year of full occupancy.

**Project Costs**

Table 19 provides the estimated project development costs for the conceptual site plan under the two scenarios. The analysis estimates the total development cost at \$78.6 million with the full amount of parking. By reducing the required number of parking stalls to the level of the Doheny Village Specific Plan, the total development cost is reduced by \$16.8 million, or 21 percent.

**Table 19: Estimated Project Costs; Conceptual Development Plan, La Plaza Park Site**

	Scenario 1 (Full Parking)	Scenario 2 (Reduced Parking)
<b>Land Cost</b>		
Estimated land value	15,150,000	15,150,000
Due diligence	758,000	758,000
<i>Estimated acquisition cost</i>	15,910,000	15,910,000
<b>Hard Costs</b>		
Site work	3,560,000	3,560,000
Building construction	37,700,000	37,700,000
Circulation and parking	26,100,000	11,250,000
Landscaping	1,668,000	1,668,000
<i>Hard cost subtotal</i>	69,000,000	54,200,000
<b>Soft Costs</b>		
DIF–CUSD	633,000	633,000
DIF–Parks	5,730,000	5,730,000
DIF–Art in public places	345,000	271,000
Water and sewer connections	1,670,000	1,670,000
Other soft costs	5,520,000	4,330,000
Contingency	3,450,000	2,710,000
<i>Soft costs subtotal</i>	9,600,000	7,670,000
<b>Total development cost (before financing)</b>	<b>78,600,000</b>	<b>61,800,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 19:**

1. The estimated land value was previously calculated in Table 15.
2. Site work is calculated at \$15 per square foot of site area and includes an estimated demolition cost of \$10 per square foot of existing buildings.
3. Building construction cost is based on data from the *2020 National Building Cost Manual* by Craftsman Book Company, Carlsbad CA. The cost includes elevators for each building. Construction cost includes labor, material, equipment, plans, building permit, supervision, overhead, and profit.
4. Circulation and parking cost includes internal roadways and driveways, surface parking stalls, and structured parking.
5. Landscaping cost is calculated at \$15 per square foot of site area excluding buildings, circulation, and parking. It also includes an allowance of \$838,000 for the replacement of La Plaza Park.
6. Other soft costs include design and entitlement and is calculated at 8 percent of the estimated construction cost. Contingency is calculated at 5 percent of the estimated construction cost.

## Financial Feasibility

For a planning-level analysis, financial feasibility is generally indicated by a cash-on-cash yield of 8.0 percent or higher. The cash-on-cash yield is determined by dividing the net operating income after debt and taxes by the total equity the developer is required to invest in the development project. Table 20 provides the financial feasibility calculations for both scenarios.

For scenario 1, with the full amount of parking currently required, the conceptual site plan with fully market-rate residential units generates a 4.8 percent return and is not financially feasible. It could be financially feasible if the land were acquired for 93 percent less than the estimated value. It is even less feasible with 15 percent affordable units, which would not be financially feasible even if the land were free.

For scenario 2, with the number of required parking stalls reduced to the level required in the Doheny Village Specific Plan, the fully market-rate project generates a return of 8.9 percent and is financially feasible. Indeed, the developer could achieve an 8.0 percent return and afford to pay up to \$2.38 million for public benefits, which could represent a payment to a public parking fund or a payment to an affordable housing fund. With reduced parking and 15 percent affordable housing, the conceptual development plan would generate a return of 7.1 percent, which is not financially feasible. To be financially feasible with 15 percent inclusionary housing, the developer would need a subsidy of \$1.6 million for the 25 affordable units. Alternatively, this would be financially feasible if the number of affordable units were reduced to 12 units, or 6.9 percent of the total number of units.

**Table 20: Financial Feasibility by Development Scenario; Conceptual Site Plan, La Plaza Park Site**

	Scenario 1 (full parking)		Scenario 2 (reduced parking)	
	Market Rate	15% Affordable	Market Rate	15% Affordable
Development cost	78,600,000	78,600,000	61,800,000	61,800,000
Financing cost	19,020,000	19,020,000	18,470,000	18,470,000
Total project cost	97,600,000	97,600,000	80,300,000	80,300,000
Construction loan amount	62,200,000	58,000,000	58,800,000	58,000,000
Required equity	35,500,000	39,700,000	21,500,000	22,300,000
NOI after debt service & taxes	1,703,000	1,590,000	1,912,000	1,590,000
<b>Cash-on-cash yield</b>	4.8%	4.0%	8.9%	7.1%
Residual land value @ 8% yield	1,089,000	n/a	17,530,000	13,540,000
Surplus/(Gap)	(14,060,000)		2,380,000	(1,615,000)
- percent of estimated land value	(92.8%)	0.0%	15.7%	(10.7%)

Source: PlaceWorks, 2021.

**Notes to Table 20:**

1. The financial feasibility model assumes that there would be a six-month due diligence period, followed by four months of site work, and 18 months of construction. For simplicity, the model assumes full occupancy in the month following the end of construction.
2. The analysis assumes that the due diligence period would consume one-third of the other soft costs and would be paid fully with developer equity. The analysis assumes that developer equity would pay 50 percent of the land acquisition cost and 20 percent of the remaining development costs. All cost not otherwise paid for with developer equity would be funded through a construction loan.
3. The construction loan terms are based on data from RealtyRates.com and include an annual rate of 9.3 percent and loan fees of 3.25 percent. The permanent loan is based on a rate of 4.16 percent, 30 years, and a debt service coverage ratio of 1.43.
4. The cash-on-cash yield is calculated by dividing the net operating income in the first full year of operation by the required equity.

## Implications

La Plaza Park illustrates a potential opportunity to work toward the vision of the Town Center Specific Plan. A social gathering space surrounded by shopping, dining, entertainment, and activities in a walkable environment is the type of destination that will likely be competitive with online shopping. However, the findings of the financial feasibility analysis suggests that this will be difficult to achieve by redeveloping existing buildings under current development standards. Furthermore, the analysis shows that reducing the number of required parking stalls is one approach that could bridge the financial feasibility gap. This is not to say that there are not other considerations. After all, in the absence of alternatives, customers for retail businesses and residents in new housing will need to park cars somewhere. Nevertheless, the analysis indicates that parking requirements may inhibit desired types of development.

## TOWN CENTER VACANT PARCEL

### Site Overview

#### Site Description

The Town Center Vacant Parcel site is illustrative of the challenges facing the development of small individual parcels in the Town Center area. The lot selected for this purpose is located on the north side of Del Prado, just east of Violet Lantern, as shown in Figure 42. The size of the lot is 0.2 acre. It fronts on Del Prado and has alley access at the rear of the property.

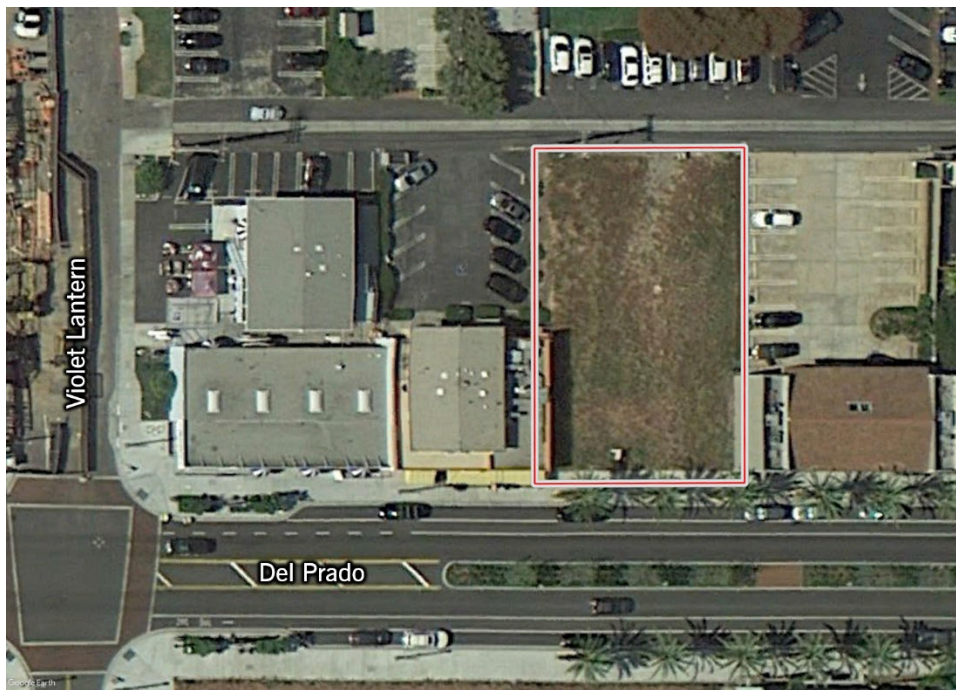
#### Estimated Value

The Town Center Specific Plan does not allow residential uses on the ground floor, and it requires that buildings have a minimum depth of 40 feet. A building 40 feet deep, spanning the lot from side to side would be 3,000 square feet in size. The remainder of the lot is large enough to accommodate 15 parking stalls, which is one stall more than is required for 3,000 square feet of retail. Thus, the minimum required development is also the maximum development that the site can

accommodate. It is not large enough for up and down ramps for a parking structure, so there can be no additional parking to support additional development.

Based on financial feasibility analysis, a 3,000 square-foot retail building on this site would generate a residual land value of \$443,000 or \$2.2 million per acre. This is substantially lower than the value estimated for other opportunity sites and may, in part, explain why the lot is vacant. The evaluation of this site is based on a more reasonable assumed value of \$3.6 million per acre, which results in an estimated land value of \$741,000.

**Figure 42: Town Center Vacant Parcel Location**



PlaceWorks, 2021, with background image from Google Earth.

### **Zoning and Development Standards**

The site is located in the Town Center Specific Plan area. The Specific Plan requires non-residential uses on the ground floor and allows up to two additional stories that can be residential or non-residential.

The required setbacks are: front yard, 0 feet, with a build-to requirement that 75 percent of the building must be built with 10 feet of the front property line; side yard, 0 feet; and rear yard (adjacent to the alley), 5 feet.

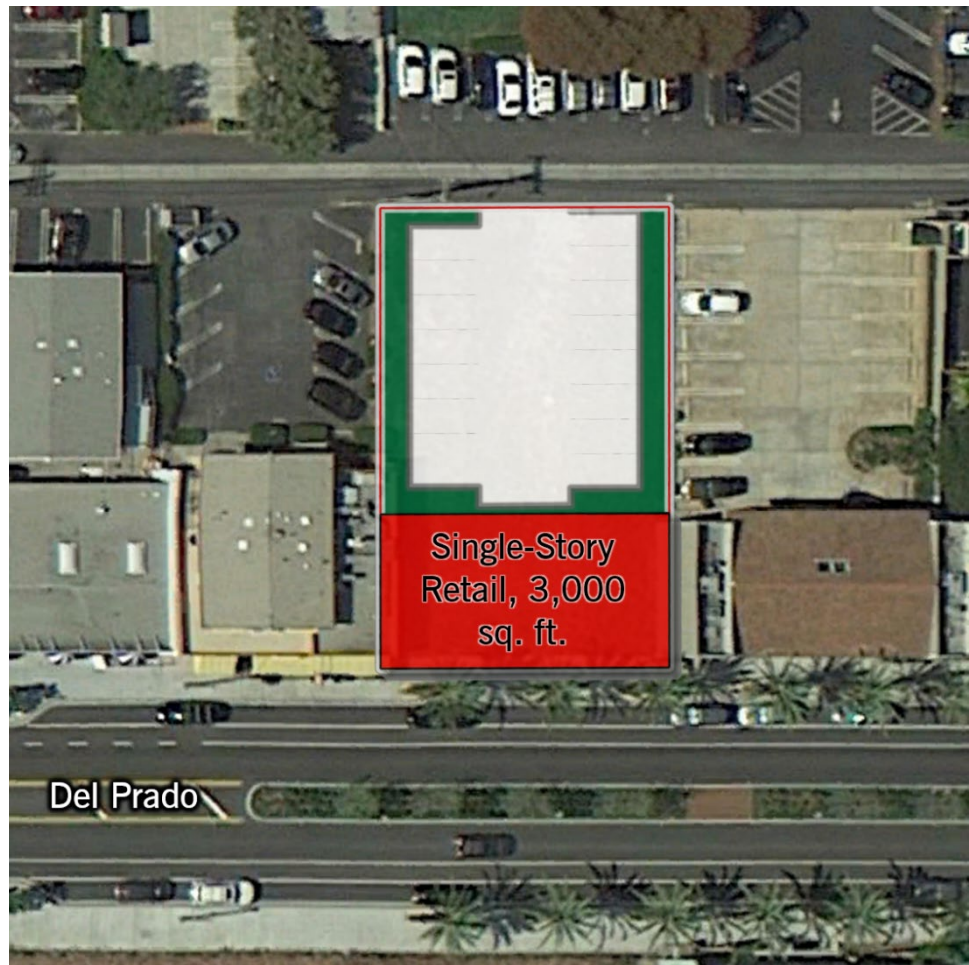
The maximum building height is 40 feet and three stories. The maximum intensity of development is a floor area ratio of 2.5. The Specific Plan also requires additional setbacks for the third story of a building. Because the small size of the lot restricts the amount of development that can be physically accommodated on the site, these requirements do not affect the conceptual site plan.

The required number of parking stalls are: general retail in a multi-tenant building under 25,000 square feet, one stall per 220 square feet of GFA; studio and one-bedroom units, 1.7 stalls per unit; two-bedroom units, 2.2 stalls per unit.

## Development Scenarios

The financial feasibility analysis evaluates two development scenarios. One is a single-story retail store with an alley-accessed parking lot behind the building. The conceptual site plan illustrating this scenario is provided in Figure 43. The size of the building is 3,000 square feet, and the rear parking lot provides 15 parking stalls.

**Figure 43: Conceptual Site Plan; Scenario 1, Single-Story Retail; Town Center Vacant Parcel Site**



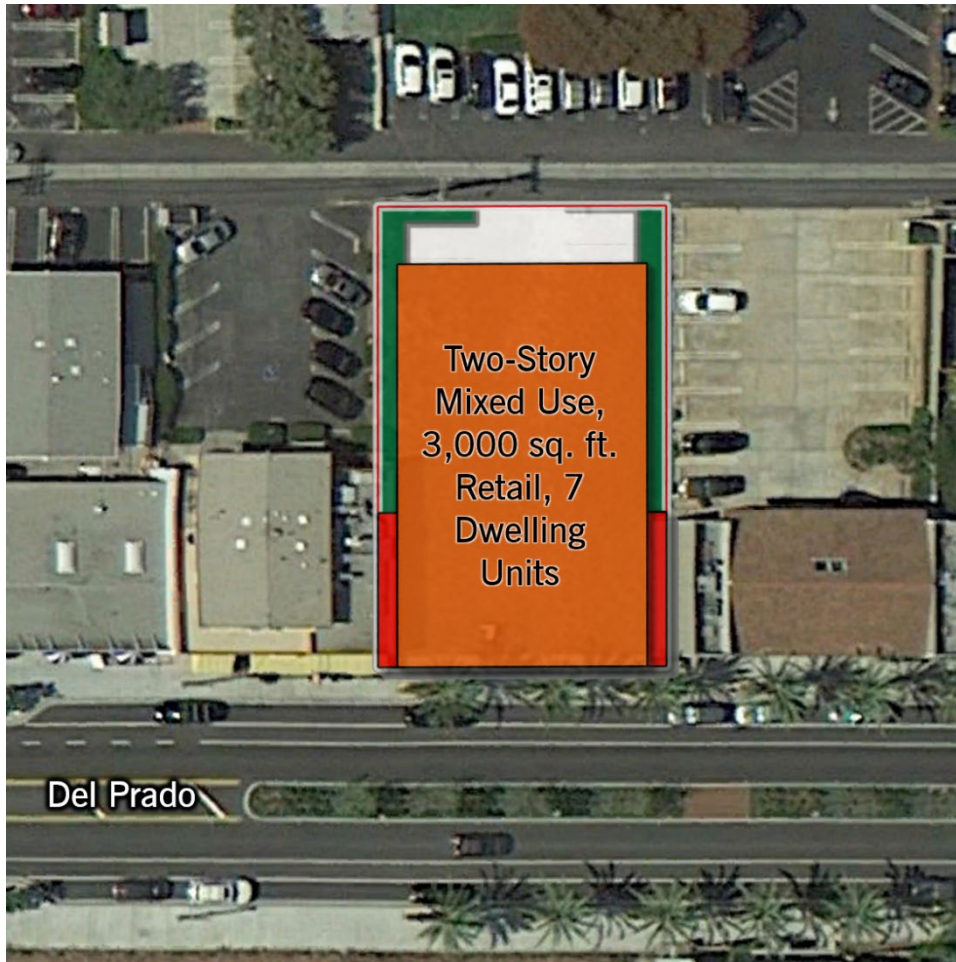
Source: PlaceWorks, 2021, background image from Google Earth.

The second scenario evaluates the impact of waiving the requirement for parking for the ground-floor retail businesses. In this scenario, there is the same ground-floor retail, and a second residential story is cantilevered over the parking lot. The residential story provides seven dwelling units.

Current development standards require 13 parking stalls for these seven residential units and 14 parking stalls for the retail building space. The onsite parking lot only

provides 15 stalls. Thus, this conceptual site plan is deficient by 12 parking stalls. To build a mixed-use development on this site would require a significant reduction in the required amount of retail parking, from 14 to 2 stalls.

**Figure 44: Conceptual Site Plan; Scenario 2, Mixed Use; Town Center Vacant Parcel Site**



Source: PlaceWorks, 2021, background image from Google Earth.

### Development Program

Basic information about the development program is presented in the following tables. Table 21 provides information about the site and conceptual development plan. Table 22 provides information about the residential units in scenario 2.

**Table 21: Site and Project Information, Town Center Vacant Parcel Site**

	Scenario 1 (Single-Story Retail)	Scenario 2 (Two-Story Mixed Use)
<b>Site Information</b>		
Site area (acres)	0.21	0.21
Site area (sq. ft.)	8,960	8,960
Existing buildings (est. sq. ft.)	0	0
Estimated value (\$)	741,000	741,000
<b>Project Information (new &amp; existing)</b>		
Building coverage (sq. ft.)	3,000	7,190
- percent of site	33.5%	80.3%
Circulation/ parking coverage (sq. ft.)	4,380	190
- percent of site	48.9%	2.1%
Landscaped and open space (sq. ft.)	1,580	1,580
- percent of site	17.7%	17.7%
Gross floor area (sq. ft.)	3,000	12,790
FAR	0.3	1.4
<b>Residential Information</b>		
Total number of dwelling units	0	7
Density (du/acre)	0	34.0
<b>Retail Information</b>		
Leasable floor area (sq. ft.)	2,400	2,400
Estimated monthly rent (\$/sq. ft.)	3.50	3.50
<b>Parking Information</b>		
Required parking	14	27
Provided parking		
- Surface spaces	15	15

Source: PlaceWorks, 2021.

**Notes to Table 21:**

1. The estimated value of the site is assumed at \$3.6 million as discussed in the Estimated Value subsection on page 112.
2. The leasable floor area for the retail building space is based on 80 percent of the gross building area.



**Table 22: Residential Unit Information; Scenario 2, Mixed Use; Town Center Vacant Lot Site**

<b>Studio Units</b>	
Number of units	1
Average size (sq. ft.)	594
Estimated average market-rate rent	2,477
Estimated average affordable rent	1,054
<b>One-Bedroom Units</b>	
Number of units	4
Average size (sq. ft.)	724
Estimated average market-rate rent	2,800
Estimated average affordable rent	1,041
<b>Two-Bedroom Units</b>	
Number of units	2
Average size (sq. ft.)	864
Estimated average market-rate rent	3,133
Estimated average affordable rent	1,239

Source: PlaceWorks, 2021.

**Notes to Table 22:**

1. The estimated average market-rate rent is based on an analysis of asking rents, unit sizes, number of bedrooms, and age of building. The estimated rent is 7.5 percent above current asking rent for comparable units to account for a premium for new units and expected rent increases over 29 months, the assumed time horizon for new units to be put on the market.
2. The estimated average affordable rent is derived as 30 percent of the federal HUD income limits applicable to Dana Point, less utility payments (based on utility allowances established by the Orange County Housing Authority). For studio and 1-bedroom units, the estimated average affordable rent is the average for one- and two-person households with low and very low incomes. For 2-bedroom units, the estimated average affordable rent is an average for two-, three-, and four-person households with low and very low incomes.

## Financial Feasibility Analysis

### Project Income

The estimated monthly rent provides the basis for the estimated project revenue. Multifamily housing projects may take in ancillary revenue, such as fees from onsite laundry facilities. However, for simplicity’s sake, the analysis assumes multifamily and retail rent as the only revenue stream for the project.

For the first year of full occupancy, the analysis assumes a residential vacancy allowance and operations allowance of 33 percent and an office vacancy and operations allowance of 45 percent. The net operating income is the gross annual income less the vacancy and operations allowance. Table 23 provides the gross revenue and net

operating income for scenario 1 and for scenario 2 with fully market-rate rentals and with 15 percent of the units rented at an affordable rate.

The estimated annual net operating income for a single-story retail building is \$56,400. The estimated net annual income for scenario 2 (mixed-use building) is \$218,000 with fully market-rate units, substantially larger than the income from a single-story retail building. Providing 15 percent of the units at a rent affordable to low and very low income households reduces the net operating income to \$204,000.

**Table 23: Estimated Project Revenue; Conceptual Site Plan, Town Center Vacant Lot Site**

	Scenario 1 (Single-Story Retail)	Scenario 2 (Two-Story Mixed Use)	
		Market Rate	15% Affordable
<b>Annual Residential Rents</b>			
Studio rents		29,700	29,700
1-bedroom rents		134,400	113,300
2-bedroom rents		75,200	75,200
<b>Annual Residential Income</b>			
Gross annual income		239,000	218,000
- less vacancies and operations		77,800	70,900
Net operating income		161,500	147,300
<b>Annual Retail Income</b>			
Gross retail income	100,800	100,800	100,800
- less vacancies and operations	44,400	44,400	44,400
Net operating income	56,400	56,400	56,400
<b>Project Total</b>			
<b>Net operating income</b>	<b>56,400</b>	<b>218,000</b>	<b>204,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 23:**

1. Annual residential rents are calculated by multiplying the number of units by the estimated average rent (see Table 22) by 12 months. Net operating income for residential units is calculated as the gross rent less a 5 percent vacancy allowance and a 28 percent operating cost allowance for the first year of full occupancy.

**Project Costs**

Table 24 provides the estimated project development costs for the conceptual site plan under the two scenarios. For a single-story retail building, the total development cost is estimated to be \$843,000. For the two-story mixed-use building, the estimated development cost is \$2.5 million.

**Table 24: Estimated Project Costs; Conceptual Development Plan, Town Center Vacant Lot Site**

	Scenario 1 (Single-Story Retail)	Scenario 2 (Two- Story Mixed Use)
<b>Land Cost</b>		
Estimated land value	741,000	741,000
Due diligence	37,000	37,000
<i>Estimated acquisition cost</i>	778,000	778,000
<b>Hard Costs</b>		
Site work	134,500	134,460
Building construction	499,000	1,860,000
Circulation and parking	43,800	43,800
Landscaping	23,800	23,800
<i>Hard cost subtotal</i>	701,000	2,060,000
<b>Soft Costs</b>		
DIF–CUSD	1,830	38,900
DIF–Parks	0	232,000
DIF–Art in public places	3,510	10,310
Water and sewer connections	29,800	122,400
Other soft costs	70,100	206,000
Contingency	70,100	206,000
<i>Soft costs subtotal</i>	142,000	451,000
<b>Total development cost (before financing)</b>	<b>843,000</b>	<b>2,510,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 24:**

1. The estimated value of the site is assumed at \$3.6 million as discussed in the Estimated Value subsection on page 112.
2. Site work is calculated at \$15 per square foot of site area and includes an estimated demolition cost of \$10 per square foot of existing buildings.
3. Building construction cost is based on data from the *2020 National Building Cost Manual* by Craftsman Book Company, Carlsbad CA. The cost includes elevators for each building. Construction cost includes labor, material, equipment, plans, building permit, supervision, overhead, and profit.
4. Circulation and parking cost includes the accessway and surface parking lot.
5. Landscaping cost is calculated at \$15 per square foot of site area excluding buildings, circulation, and parking.
6. Other soft costs include design and entitlement and is calculated at 8 percent of the estimated construction cost. Contingency is calculated at 5 percent of the estimated construction cost.

## Financial Feasibility

For a planning-level analysis, financial feasibility is generally indicated by a cash-on-cash yield of 8.0 percent or higher. The cash-on-cash yield is determined by dividing the net operating income after debt and taxes by the total equity the developer is required to invest in the development project. Table 25 provides the financial feasibility calculations for both scenarios.

For scenario 1, the conceptual site plan generates a 4.9 percent return and is not financially feasible. It could be financially feasible if the land were available to the developer at a price of \$443,000, which is about 40 percent less than the assumed land value.

For scenario 2, the conceptual site plan would be financially feasible with fully market-rate units (a 34 percent return) and with 15 percent affordable units (a 31 percent return). At an 8 percent cash-on-cash yield, the residual land value would be \$2.6 million with market-rate units and \$2.3 million with 15 percent affordable units. In reality, the property owner would likely seek a higher price than that assumed in the analysis. Nevertheless, the magnitude of the difference between the residual land value and the assumed price of the land indicates that this development could afford to contribute to public benefits, such as a fee for a public parking fund.

**Table 25: Financial Feasibility by Development Scenario; Conceptual Site Plan, Town Center Vacant Lot Site**

	Scenario 1 (Single-Story Retail)	Scenario 2 (Two-Story Mixed Use)	
		Market Rate	15% Affordable
Development cost	843,000	2,510,000	2,510,000
Financing cost	1,063,000	1,669,000	1,669,000
Total project cost	1,907,000	4,180,000	4,180,000
Construction loan amount	605,000	1,057,000	1,057,000
Required equity	458,000	612,000	612,000
NOI after debt service & taxes	22,400	211,000	190,600
<b>Cash-on-cash yield</b>	<b>4.9%</b>	<b>34.4%</b>	<b>31.2%</b>
Residual land value @ 8% yield	443,000	2,570,000	2,350,000
Surplus/(Gap)	-298,000	1,832,000	1,608,000
- percent of estimated land value	(40.2%)	247.3%	217.1%

Source: PlaceWorks, 2021.

### Notes to Table 25:

1. The financial feasibility model assumes that there would be a six-month due diligence period, followed by four months of site work, and 18 months of construction. For simplicity, the model assumes full occupancy in the month following the end of construction.

2. The analysis assumes that the due diligence period would consume one-third of the other soft costs and would be paid fully with developer equity. The analysis assumes that developer equity would pay 50 percent of the land acquisition cost and 20 percent of the remaining development costs. All cost not otherwise paid for with developer equity would be funded through a construction loan.
3. The construction loan terms are based on data from RealtyRates.com and include an annual rate of 9.3 percent and loan fees of 3.25 percent. The permanent loan is based on a rate of 4.16 percent, 30 years, and a debt service coverage ratio of 1.43.
4. The cash-on-cash yield is calculated by dividing the net operating income in the first full year of operation by the required equity.

## Implications

As the examples in this report demonstrate, redevelopment in Dana Point will often require parking structures. This puts small individual lots, like the one in this conceptual site plan, at a distinct disadvantage. Small lots simply do not have sufficient area to accommodate the up and down ramps that are needed for parking structures. The Town Center Specific Plan creates a further financial hinderance by requiring non-residential uses on the ground floor. Even though a residential-only scenario was not explored, the significant improvement in financial feasibility with one level of residential suggests that a residential-only development would also be feasible.

Economic considerations are not the only concerns in managing growth and development. Nevertheless, this example shows that without some flexibility on ground-floor uses or parking requirements, many small lots may not be developed until they can be assembled with adjacent properties into a project that is large enough to support a parking structure.

## LANTERN BAY VILLAGE

### Site Overview

#### Site Description

Lantern Bay Village is a relatively large site at the northeast corner of Del Prado and Golden Lantern in the Town Center. It includes a Ralphs, Rite Aid, other retail stores and offices. Figure 45 shows the boundary of the area included in the analysis. The area encompasses about 5.5 acres.

#### Estimated Value

The analysis estimates the value of the site based on the estimated rent generated by existing tenants, as shown in Table 26. It estimates the value of the site at \$18.5 million.

**Figure 45: Lantern Bay Village Site Location**



PlaceWorks, 2021, with background image from Google Earth.

**Table 26: Estimated Land Value, Lantern Bay Village Site**

<b>Retail Buildings</b>	
Estimated building space (sq. ft.)	68,000
Estimated rent per sq. ft.	3.29
Gross revenue	2,680,000
Net operating income	1,315,000
<b>Estimated value</b>	<b>18,530,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 26:**

1. Building sizes are estimates by PlaceWorks.
2. The estimated rent per sq. ft. is a market average monthly rent value for similar shopping centers and office buildings based on data from Costar. The gross revenue is derived by multiplying the estimated building square footage by the estimated rent by 12 months. The net operating income is gross revenue less a 51 percent vacancies and operations allowance, based on data from RealtyRates.com.

**Zoning and Development Standards**

The site is located in the Town Center Specific Plan area. The Specific Plan requires non-residential uses on the ground floor and allows up to two additional stories that can be residential or non-residential.

The maximum building height is 40 feet and three stories. The maximum intensity of development is a floor area ratio of 2.5. There is no required setback from Del Prado and Golden Lantern. There is also no required setback from the property line along the northern boundary of the site. However, the Specific Plan requires that buildings

along Del Prado be built within 10 feet of the property line for at least 75 percent of its length. In addition, facades longer than 80 feet along Del Prado and Golden Lantern must have a 20 length with an additional setback of 10 feet.

The Town Center Specific Plan does not provide separate parking requirements, and the standard zoning requirements apply. The required number of parking stalls are: general retail in a multi-tenant building under 25,000 square feet, one stall per 220 square feet of GFA; professional offices, one stall per 300 square feet of GFA; medical office, one stall per 150 square feet of GFA; studio and one-bedroom units, 1.7 stalls per unit; two-bedroom units, 2.2 stalls per unit.

## Development Prototypes

The conceptual development plan uses two basic development prototypes. First, the conceptual site plan has three-story vertical mixed-use buildings fronting Golden Lantern and the portion of Del Prado closest to the intersection with Golden Lantern. Parking for these buildings is provided in two parking structures that are adjacent to the buildings. The conceptual site plan also has a three-story multifamily residential wrap building on the rear portion of the site. This building has a third parking structure.

## Development Scenario

### Conceptual Site Plan

The conceptual site plan would provide 262 multifamily residential units but would decrease the nonresidential building space by nearly half, to 37,000. Figure 48 shows the conceptual site plan.

As depicted on the conceptual site plan, the three mixed-use buildings would be somewhat deeper than conventional inline retail space, on average about 75 feet deep. The mixed-use buildings provide 88 dwelling units. The multifamily wrap building provides an additional 174 dwelling units.

With the current parking requirements, all the parking structures would have three levels, and one of the structures serving the mixed-use buildings would have to have an additional subterranean level. These three structures would provide 692 parking stalls. Because the conceptual site plan is not financially feasible, the analysis considers a second scenario with reduced parking requirements. In this scenario, the multifamily wrap parking structure would remain at three levels, but the two structures serving the mixed-use buildings are reduced to two levels. In this scenario, there are 467 parking stalls.

With the entrance into the multifamily wrap building parking structure directly from Del Prado, the area required onsite for vehicular circulation would be minimized. Thus, 65,700 square feet of the site would be landscaped open space.

Figure 46: Conceptual Site Plan; Lantern Bay Village Site



Source: PlaceWorks, 2021, background image from Google Earth.

### Development Program

Basic information about the development program is presented in the following tables. Table 27 provides information about the site and conceptual development plan. Table 28 provides information about the residential units.

Table 27: Site and Project Information, Lantern Bay Village Site

	Scenario 1 (Full Parking)	Scenario 2 (Reduced Parking)
<b>Site Information</b>		
Site area (acres)	5.50	5.50
Site area (sq. ft.)	240,000	239,760
Existing buildings (est. sq. ft.)	68,000	68,000
Estimated value (\$)	18,528,000	18,528,000
<b>Project Information (new &amp; existing)</b>		
Building coverage (sq. ft.)	168,300	168,300
- percent of site	70.2%	70.2%
Circulation/ parking coverage (sq. ft.)	5,820	5,820
- percent of site	2.4%	2.4%



**Table 27 Continued**

	Scenario 1 (Full Parking)	Scenario 2 (Reduced Parking)
Landscaped and open space (sq. ft.)	65,700	65,700
- percent of site	27.4%	27.4%
Gross floor area (sq. ft.)	275,000	275,000
FAR	1.15	1.15
<b>Residential Information</b>		
Total number of dwelling units	262	262
Density (du/acre)	47.6	47.6
<b>Retail Information</b>		
Leasable floor area (sq. ft.)	37,000	37,000
Estimated monthly rent (\$/sq. ft.)	3.50	3.50
<b>Parking Information</b>		
Required parking	621	471
Provided parking		
- Parking structure	692	471

Source: PlaceWorks, 2021.

**Notes to Table 27**

1. The estimated value of each site was previously calculated in Table 26, and reflects the estimated value of the existing buildings that would be demolished to accommodate the new development.
2. The leasable floor area for office buildings is based on 80 percent of the gross building area.

**Table 28: Residential Unit Information; Lantern Bay Village Site**

<b>Studio Units</b>	
Number of units	31
Average size (sq. ft.)	561
Estimated average market-rate rent	2,441
Estimated average affordable rent	1,054
<b>One-Bedroom Units</b>	
Number of units	177
Average size (sq. ft.)	684
Estimated average market-rate rent	2,757
Estimated average affordable rent	1,041

**Table 28 Continued**

	Multifamily Wrap Prototype
<b>Two-Bedroom Units</b>	
Number of units	54
Average size (sq. ft.)	817
Estimated average market-rate rent	3,083
Estimated average affordable rent	1,239

Source: PlaceWorks, 2021.

**Notes to Table 17:**

1. The estimated average market-rate rent is based on an analysis of asking rents, unit sizes, number of bedrooms, and age of building. The estimated rent is 7.5 percent above current asking rent for comparable units to account for a premium for new units and expected rent increases over 29 months, the assumed time horizon for new units to be put on the market.
2. The estimated average affordable rent is derived as 30 percent of the federal HUD income limits applicable to Dana Point, less utility payments (based on utility allowances established by the Orange County Housing Authority). For studio and 1-bedroom units, the estimated average affordable rent is the average for one- and two-person households with low and very low incomes. For 2-bedroom units, the estimated average affordable rent is an average for two-, three-, and four-person households with low and very low incomes.

## Financial Feasibility Analysis

### Project Income

The estimated monthly rent provides the basis for the estimated project revenue. Multifamily housing projects may take in ancillary revenue, such as fees from onsite laundry facilities. However, for simplicity’s sake, the analysis assumes multifamily and retail rent as the only revenue stream for the project.

For the first year of full occupancy, the analysis assumes a residential vacancy allowance and operations allowance of 33 percent and a retail vacancy and operations allowance of 44 percent. The net operating income is the gross annual income less the vacancy and operations allowance. Table 29 provides the gross revenue and net operating income for the conceptual site plan as fully market-rate rentals and with 15 percent of the units rented at an affordable rate.

The estimated annual net operating income for a fully market-rate development is \$6.6 million. Providing 15 percent of the units at a rent affordable to low and very low income households reduces the net operating income by \$551,000, or 8.3 percent.

**Table 29: Estimated Project Revenue; Conceptual Site Plan, Lantern Bay Village Site**

	Market Rate	15% Affordable
<b>Annual Residential Rents</b>		
Studio rents	908,000	825,000
1-bedroom rents	5,860,000	5,300,000
2-bedroom rents	1,998,000	1,821,000
<b>Annual Residential Income</b>		
Gross annual income	8,760,000	7,950,000
- less vacancies and operations	2,850,000	2,580,000
Net operating income	5,910,000	5,360,000
<b>Annual Retail Income</b>		
Gross retail income	1,243,000	1,243,000
- less vacancies and operations	547,000	547,000
Net operating income	696,000	696,000
<b>Project Total</b>		
<b>Net operating income</b>	<b>6,610,000</b>	<b>6,060,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 29:**

1. Annual residential rents are calculated by multiplying the number of units by the estimated average rent (see Table 28) by 12 months. Net operating income for residential units is calculated as the gross rent less a 5 percent vacancy allowance and a 28 percent operating cost allowance for the first year of full occupancy.

**Project Costs**

Table 30 provides the estimated project development costs for the conceptual site plan under the two scenarios. The analysis estimates the total development cost at \$89.9 million with the full amount of parking. By reducing the required number of parking stalls to the level of the Doheny Village Specific Plan, the total development cost is reduced by \$10.6 million, or 12 percent.

**Table 30: Estimated Project Costs; Conceptual Development Plan, Lantern Bay Village Site**

	Scenario 1 (Full Parking)	Scenario 2 (Reduced Parking)
<b>Land Cost</b>		
Estimated land value	18,530,000	18,530,000
Due diligence	926,000	926,000
<i>Estimated acquisition cost</i>	19,450,000	19,450,000
<b>Hard Costs</b>		
Site work	4,280,000	4,280,000
Building construction	47,200,000	45,900,000
Circulation and parking	26,300,000	18,210,000
Landscaping	985,000	985,000
<i>Hard cost subtotal</i>	78,800,000	69,400,000
<b>Soft Costs</b>		
DIF–CUSD	926,000	926,000
DIF–Parks	8,680,000	8,680,000
DIF–Art in public places	394,000	347,000
Water and sewer connections	2,530,000	2,470,000
Other soft costs	6,300,000	5,550,000
Contingency	3,940,000	3,470,000
<i>Soft costs subtotal</i>	11,170,000	9,950,000
<b>Total development cost (before financing)</b>	<b>89,900,000</b>	<b>79,400,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 30:**

1. The estimated land value was previously calculated in Table 26.
2. Site work is calculated at \$15 per square foot of site area and includes an estimated demolition cost of \$10 per square foot of existing buildings.
3. Building construction cost is based on data from the *2020 National Building Cost Manual* by Craftsman Book Company, Carlsbad CA. The cost includes elevators for each building. Construction cost includes labor, material, equipment, plans, building permit, supervision, overhead, and profit.
4. Circulation and parking cost includes internal roadways and driveways, surface parking stalls, and structured parking.
5. Landscaping cost is calculated at \$15 per square foot of site area excluding buildings, circulation, and parking.
6. Other soft costs include design and entitlement and is calculated at 8 percent of the estimated construction cost. Contingency is calculated at 5 percent of the estimated construction cost.

## Financial Feasibility

For a planning-level analysis, financial feasibility is generally indicated by a cash-on-cash yield of 8.0 percent or higher. The cash-on-cash yield is determined by dividing the net operating income after debt and taxes by the total equity the developer is required to invest in the development project. Table 31 provides the financial feasibility calculations for both scenarios.

For scenario 1, with the full amount of parking currently required, the conceptual site plan with fully market-rate residential units generates a 6.6 percent return and is not financially feasible. It is even less feasible with 15 percent affordable units. This is despite achieving a density of nearly 48 units per acre.

For scenario 2, with the number of required parking stalls reduced to the level required in the Doheny Village Specific Plan, the fully market-rate project generates a return of 9.2 percent and is financially feasible. Indeed, the developer could achieve an 8.0 percent return and afford to pay nearly \$3.9 more to acquire the land than the estimated value. Or, the surplus value could be used for public benefits, such as a payment to a public parking fund or a payment to an affordable housing fund.

Even with the reduced parking, the conceptual site plan would not generate a financially feasible return with 15 percent affordable housing. However, an 8.0 percent return could be achieved if the number of affordable housing units were reduced to seven percent of the total number units, down from 40 to 19.

**Table 31: Financial Feasibility by Development Scenario; Conceptual Site Plan, Lantern Bay Village Site**

	Scenario 1 (full parking)		Scenario 2 (reduced parking)	
	Market Rate	15% Affordable	Market Rate	15% Affordable
Development cost	89,900,000	89,900,000	79,400,000	79,400,000
Financing cost	23,100,000	23,100,000	22,700,000	22,700,000
Total project cost	113,000,000	113,000,000	102,100,000	102,100,000
Construction loan amount	79,800,000	73,100,000	75,000,000	73,100,000
Required equity	33,100,000	39,900,000	27,100,000	29,000,000
NOI after debt service & taxes	2,190,000	2,000,000	2,490,000	2,000,000
<b>Cash-on-cash yield</b>	6.6%	5.0%	9.2%	6.9%
Residual land value @ 8% yield	14,890,000	9,910,000	22,400,000	15,010,000
Surplus/(Gap)	(3,640,000)	(8,620,000)	3,890,000	(3,510,000)
- percent of estimated land value	(19.6%)	(46.5%)	21.0%	(19.0%)

Source: PlaceWorks, 2021.

**Notes to Table 31:**

1. The financial feasibility model assumes that there would be a six-month due diligence period, followed by four months of site work, and 18 months of construction. For simplicity, the model assumes full occupancy in the month following the end of construction.
2. The analysis assumes that the due diligence period would consume one-third of the other soft costs and would be paid fully with developer equity. The analysis assumes that developer equity would pay 50 percent of the land acquisition cost and 20 percent of the remaining development costs. All cost not otherwise paid for with developer equity would be funded through a construction loan.
3. The construction loan terms are based on data from RealtyRates.com and include an annual rate of 9.3 percent and loan fees of 3.25 percent. The permanent loan is based on a rate of 4.16 percent, 30 years, and a debt service coverage ratio of 1.43.
4. The cash-on-cash yield is calculated by dividing the net operating income in the first full year of operation by the required equity.

## Implications

Unlike the Vacant Town Center site, the Lantern Bay Village site is large enough to accommodate several parking structures. However, to satisfy the parking requirements three- and four-story parking structures are necessary, and those costs add up. Although this analysis has not evaluated higher densities, it is possible that increasing the density would make it financially feasible to redevelop this site with the required number of parking stalls, but that might necessitate higher buildings with four or five stories.

This example and other opportunity sites refer to the reduced parking standards in the Doheny Village Specific Plan. This reference is not to advocate for replicating those standards. Rather, it provides a consistent basis to evaluate an alternative of reduced parking. With fully market-rate units and reduced parking, redevelopment of this site could generate surplus residual land value. This suggests that there is a point in between the current parking requirements and the parking standards in the Doheny Village Specific Plan at which this development would become financially feasible.

## CAPISTRANO VILLAGE PLAZA

### Site Overview

#### Site Description

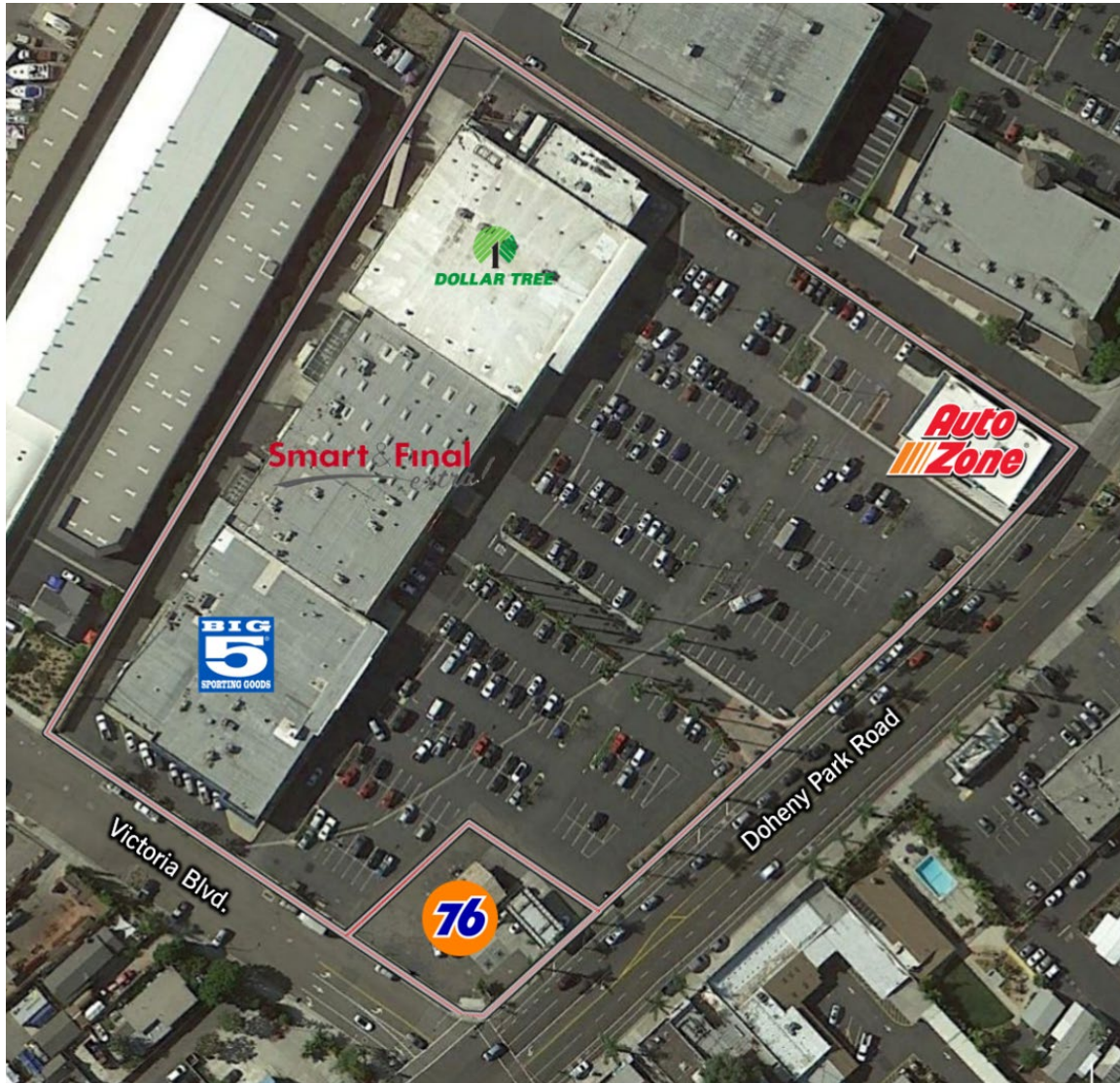
Capistrano Village Plaza is an existing shopping center at the northwest corner of Doheny Park Road and Victoria Boulevard in the Doheny Village area of southeast Dana Point. The site consists of two parcels, as shown in Figure 47 on the following page.

The primary parcel is 6.7 acres. It has an approximately 86,000-square-foot shopping center currently occupied by a Big 5 Sporting Goods, Dollar Tree, Smart and Final Extra, and several inline stores. The primary parcel has a second stand-alone building occupied by an AutoZone store. The second parcel is 0.4 acre. It has a 1,050-square-foot building used for a 76 gas station and convenience store.

## Estimated Value

The analysis estimates the value of the primary parcel at \$16.3 million and the value of the gas station parcel at \$5.8 million, for a total site value of \$22.0 million. Table 32 on page 132 provides the calculation of the value. Because the value of the gas station parcel on a per acre basis is so much higher than the value of the primary parcel, the analysis considers two scenarios, one for the entire site and one for the primary parcel without the gas station parcel.

Figure 47: Capistrano Valley Plaza Site Location



Source: PlaceWorks, 2021; Background image from Google Earth.

**Table 32: Estimated Site Value; Capistrano Valley Plaza**

<b>Primary Parcel</b>		<b>Gas Station Parcel</b>	
Estimated building space (sq. ft.)	86,100	Estimated building space (sq. ft.)	1,050
Estimated rent per sq. ft.	\$ 2.10	Estimated annual sales	\$ 4,230,000
Gross revenue	\$ 2,170,000	Gross revenue	\$ 691,000
Net operating income	\$ 1,172,000	Net operating income	\$ 414,000
Estimated value	\$ 16,280,000	Estimated value	\$ 5,760,000
<b>Total site value</b>		<b>\$ 22,000,000</b>	

Source: PlaceWorks, 2021.

**Notes to Table 32:**

1. Building sizes are estimates by PlaceWorks.
2. For the primary parcel, estimated rent per sq. ft. is a market average monthly rent value for similar shopping centers based on data from Costar. The gross revenue is derived by multiplying the estimated building square footage by the estimated rent by 12 months. The net operating income is gross revenue less a 40 percent operations allowance, based on data from RealtyRates.com.
3. For the gas station parcel the estimated annual sales are based on the average taxable sales per gas station in Dana Point as reported by the CA Department of Tax and Fee Administration for the last two quarters of 2019 and the first two quarters of 2020. The gross revenue is based on a retail margin of 16.3 percent as derived from distribution costs data from the US Bureau of Economic Analysis. The net operating income is gross revenue less a 40 percent operations allowance, based on data from RealtyRates.com.
4. For both parcels, the estimated value is the net operating income divided by a retail capitalization rate of 7.2 percent, based on data from RealtyRates.com. The total site value is the sum of the estimated value for each parcel.

## Zoning and Development Standards

In the draft Doheny Village Specific Plan, the site is designated Village Main Street District (V-MS). This designation allows residential uses as a conditional use and a variety of commercial uses as a permitted or conditional use. Building height is limited to three stories and 35 feet. The maximum residential density is 30 dwelling units per acre.

For non-residential uses, the required setbacks are: front yard, 0 to 3 feet from the ultimate public street right-of-way; side yard, 0 feet; and rear yard, 5 feet. For residential uses, the setbacks are the same, except that the setback from Doheny Park Road is 130 feet and from Victoria Boulevard the setback is 100 feet. The required setbacks for these two streets prohibit residential development on approximately 35 percent of the site.

The required number of parking stalls are: commercial retail, 1 stall per 500 square feet of gross floor area; restaurants, 1 stall per 250 square feet of gross floor area; studio and one-bedroom units, 1 stall per unit; two- to five-bedroom units, 2 stalls per unit.



## Development Prototypes

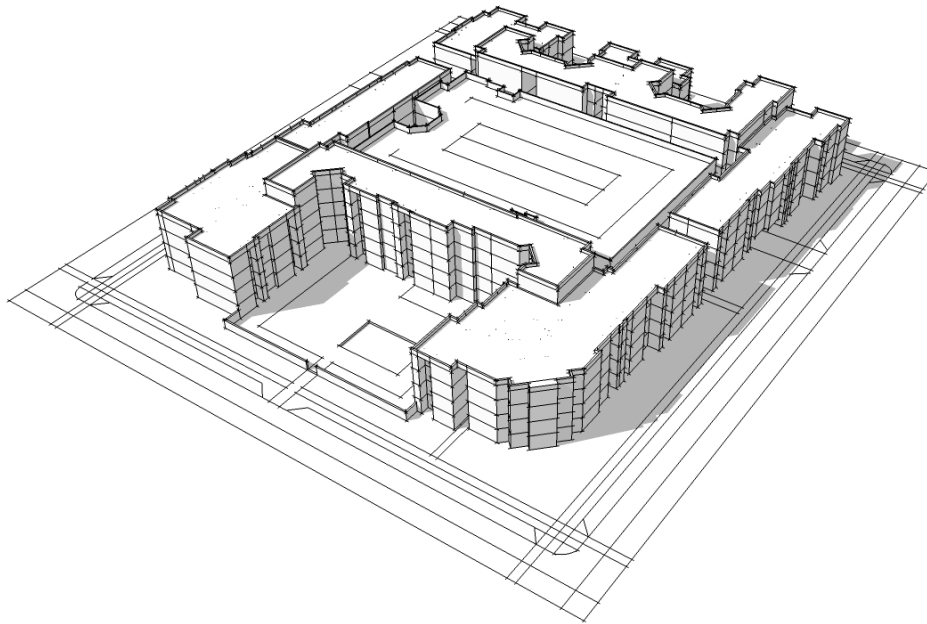
Two development scenarios are analyzed for the Capistrano Valley Plaza site. The scenarios use a mix of two residential prototypes plus stand-alone retail buildings. These are described below.

### Multifamily Wrap

This development prototype consists of a central parking structure surrounded by multifamily units. Multifamily wrap buildings have become an increasingly popular development product because they can efficiently achieve high densities, 50 units per acre and above, with a five-story modified wood-frame construction.

Figure 48 illustrates a typical layout of a multifamily wrap building. Each level of the building typically accommodates about 49 to 57 parking stalls and 42 to 46 dwelling units. The units are a mix of one and two

**Figure 48: Typical Multifamily Wrap Development Prototype**



Source: PlaceWorks, based on a design by Architects Orange.

bedrooms, with two studio units on the ground floor. The units range from 615 to 1,127 square feet. Figure 48 shows a multifamily wrap at five stories, but for this site, the height has been limited to three stories. At this height, the prototype includes 133 dwelling units—2 studio units, 79 one-bedroom units, and 52 two-bedroom units. Under the draft specific plan, 185 parking stalls would be required, and the three-story parking structure accommodates 183 parking stalls.

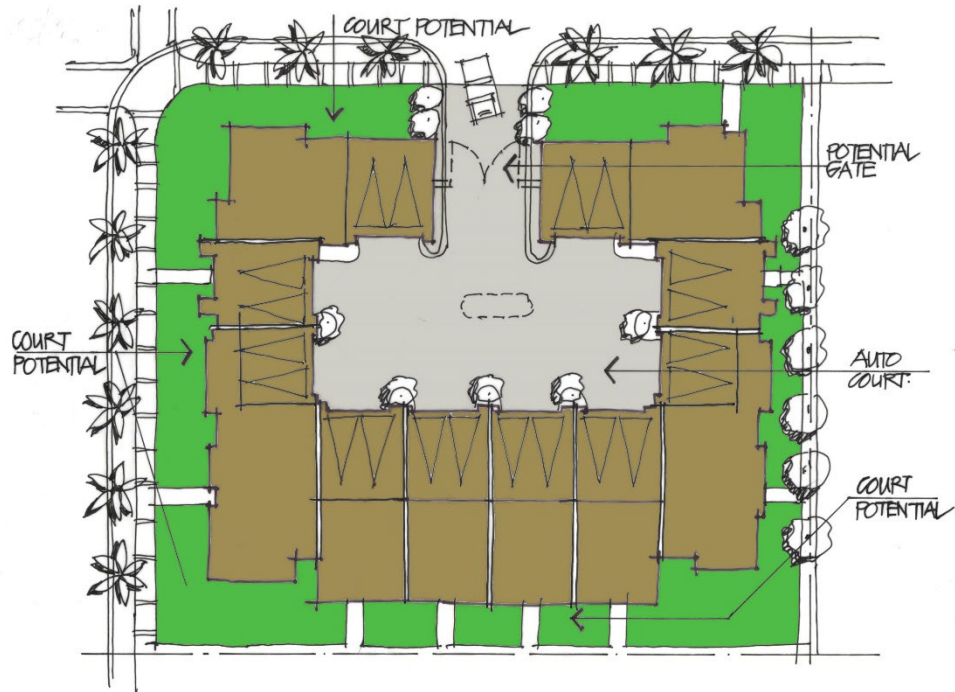
### Three-Story Motorcourt Apartments

Motorcourt apartments are typically arranged in a “U” shape, with individual garages accessed from inside the “U”. Figure 49 shows a typical motorcourt development prototype. When developed for townhouses, motorcourts are usually entirely self-parked

with tuck-under garages. When developed for multistory flats, motorcourts usually require additional surface parking.

For this site, the motorcourt building is three stories and provides a total of 23 units, with 7 one-bedroom units and 16 two-bedroom units. Under the draft specific plan, 39 parking space would be required. The motorcourt building analyzed provides 20 parking garages.

**Figure 49: Typical Motorcourt Development Prototype**



Source: PlaceWorks.

### Stand-Alone Retail

The stand-alone retail development prototype is a conventional suburban strip center. The analysis assumes a consistent depth of 65 feet. In practice, actual buildings would likely have some inline retail spaces at a depth of 50 feet and one or a few slightly larger format spaces.

## Development Scenarios

The analysis considers two development scenarios for the Capistrano Valley Plaza site. Scenario 1 includes the entire site. Scenario 2 includes only the primary parcel, excluding the more expensive gas station parcel.

### Scenario 1

This development scenario seeks to maximize the residential density given the maximum allowable height of three stories and the residential setbacks from Doheny Park Road and Victoria Boulevard. Figure 50 shows the conceptual site plan. The residential portion of the site includes a three-story multifamily wrap building with 133 units

and a three-story motorcourt apartments building with 23 units. The front of the site is lined with stand-alone commercial/retail in two buildings with a gross floor area of 33,000 square feet. Under this scenario, the overall residential density would be 22.3 dwelling units per acre. However, limiting the area to the portion of the site on which residential development is allowed, the density is 35.1 units per acre.

The total required parking is 290 stalls, with 185 for the multifamily wrap, 39 for the motorcourt apartments, and 66 for the retail. The conceptual plan for this scenario provides a total of 304 parking stalls, with 163 in the parking structure, 20 in garages in the motorcourt building, and 121 surface parking spaces.

**Figure 50: Conceptual Site Plan; Capistrano Village Plaza Site, Scenario 1**



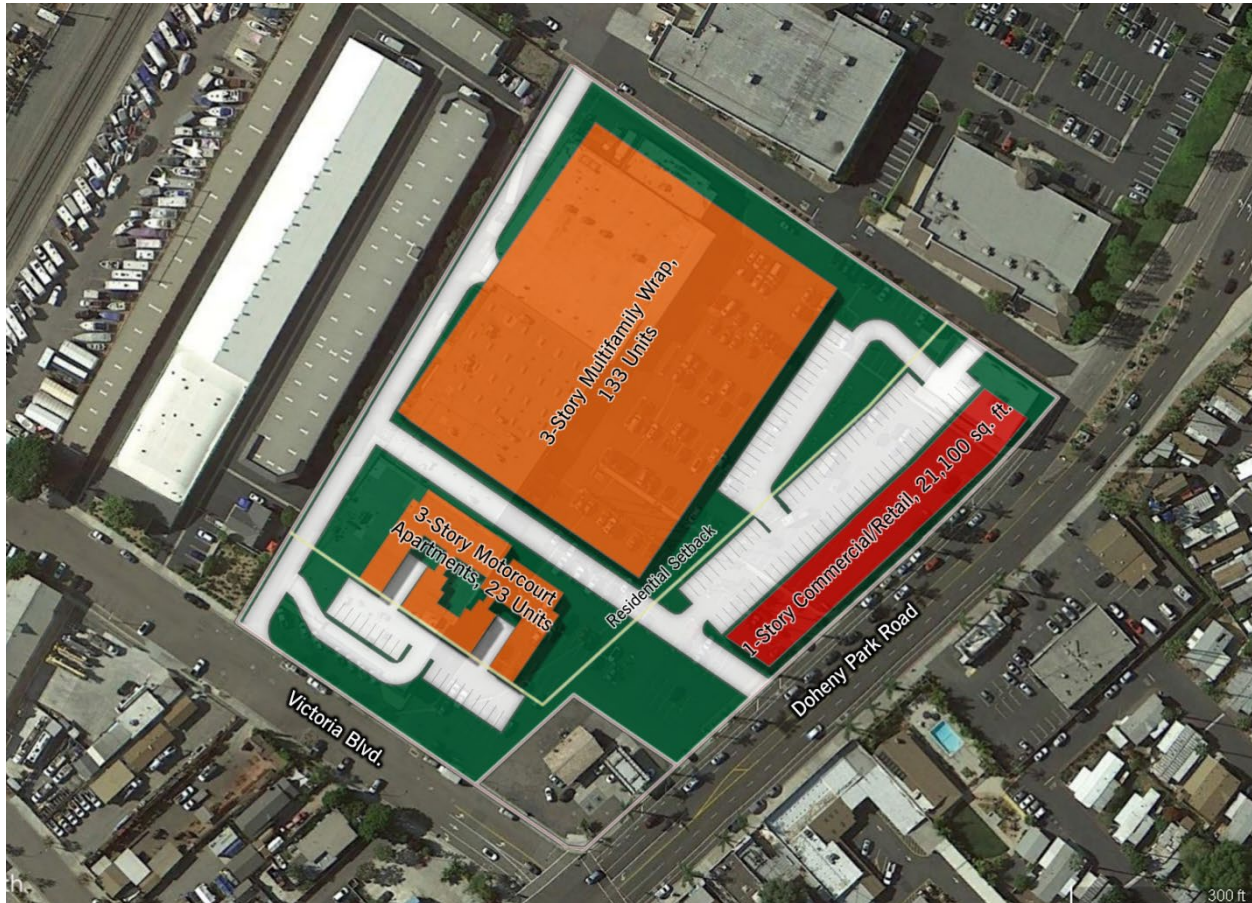
Source: PlaceWorks, 2021; background image from Google Earth.

Buildings cover 36.1 percent of the site and circulation and surface parking cover another 29.4 percent. Of the remainder of the site, 105,050 square feet or 34.5 percent would be landscaped and open space. This would include internal sidewalks, sidewalks along the two streets, landscaped parking islands, and residential amenities. In addition to this open space, each unit would have a private patio or balcony, with an average size of 100 square feet.

## Scenario 2

Because the 0.4-acre gas station parcel accounts for 26 percent of the estimated value of the site, a second development scenario is considered. This scenario excludes the gas station parcel. The conceptual site plan for this scenario is similar to the plan for scenario 1, except the smaller retail building at the southeastern edge of the site and the parking lot immediately adjacent to it have been removed. Figure 51 shows the conceptual site plan for scenario 2.

Figure 51: Conceptual Site Plan; Capistrano Village Plaza Site, Scenario 2



Source: PlaceWorks, 2021; background image from Google Earth.

The number of residential dwelling units remains the same as in scenario 1. However, with a slightly smaller site, the density increases slightly to 23.5 dwelling units per acre. The total required parking is reduced slightly to 280 stalls, and the conceptual site plan for this scenario provides a total of 292 parking stalls.

The lot coverage also changes slightly. Under this scenario buildings cover 33.9 percent of the site and circulation and parking cover an additional 31 percent. Landscaped and open space account for the remaining 35.1 percent, or 101,700 square feet.

## Development Program

Basic information about the development program for each development scenario is presented in the following tables. Table 33 provides information about the site, conceptual development plan, and the commercial/retail building space, all of which vary between the two scenarios. Table 34 provides information about the residential units in the two prototype buildings. The conceptual residential development is the same in both scenarios.

**Table 33: Site and Project Information by Scenario; Capistrano Valley Plaza Site**

	Scenario 1 (full site)	Scenario 2 (w/o gas station parcel)
<b>Site Information</b>		
Site area (acres)	7.00	6.70
Site area (sq. ft.)	305,000	290,000
Existing buildings (est. sq. ft.)	87,200	86,100
Estimated value (\$)	22,000,000	16,280,000
<b>Project Information</b>		
Building coverage (sq. ft.)	110,100	98,200
- percent of site	36.1%	33.9%
Circulation/ parking coverage (sq. ft.)	84,300	74,700
- percent of site	27.7%	25.8%
Landscaped and open space (sq. ft.)	110,500	116,700
- percent of site	36.2%	40.3%
Total number of dwelling units	156	156
Density (du/acre)	22.3	23.5
<b>Parking Information</b>		
Required parking	290	280
Provided parking	304	292
- Parking structure	163	163
- Garages	20	20
- Surface spaces	121	109
<b>Commercial/Retail Information</b>		
Building depth (ft.)	65	65
Leasable floor area (sq. ft.)	26,350	16,850
Estimated monthly rent (\$/sq. ft.)	3.50	3.50

Source: PlaceWorks, 2021.

**Notes to Table 33:**

1. The estimated value of each site was previously calculated in Table 9.
2. The leasable floor area for retail buildings is based on 80 percent of the gross building area.

**Table 34: Residential Unit Information; Capistrano Valley Plaza Site**

	Multifamily Wrap Prototype	Motorcourt Apartments
<b>Studio Units</b>		
Number of units	2	
Average size (sq. ft.)	623	
Estimated average market-rate rent	2,505	
Estimated average affordable rent	1,054	
<b>One-Bedroom Units</b>		
Number of units	79	7
Average size (sq. ft.)	709	772
Estimated average market-rate rent	2,992	3,061
Estimated average affordable rent	1,041	1,041
<b>Two-Bedroom Units</b>		
Number of units	52	16
Average size (sq. ft.)	1,028	1,055
Estimated average market-rate rent	3,543	3,570
Estimated average affordable rent	1,239	1,239

Source: PlaceWorks, 2021.

**Notes to Table 34:**

1. The estimated average market-rate rent is based on an analysis of asking rents, unit sizes, number of bedrooms, and age of building. The estimated rent is 7.5 percent above current asking rent for comparable units to account for a premium for new units and expected rent increases over 29 months, the assumed time horizon for new units to be put on the market.
2. The estimated average affordable rent is derived as 30 percent of the federal HUD income limits applicable to Dana Point, less utility payments (based on utility allowances established by the Orange County Housing Authority). For studio and 1-bedroom units, the estimated average affordable rent is the average for one- and two-person households with low and very low incomes. For 2-bedroom units, the estimated average affordable rent is an average for two-, three-, and four-person households with low and very low incomes.

## Financial Feasibility Analysis

### Project Income

The estimated monthly rent provides the basis for the estimated project revenue. Multifamily housing projects may take in ancillary revenue, such as fees from onsite

laundry facilities. However, for simplicity's sake, the analysis assumes multifamily and retail rent as the only revenue stream for the project.

For the first year of full occupancy, the analysis assumes a residential vacancy and operations allowance of 32 percent and a retail vacancy and operations allowance of 46 percent. The net operating income is the gross annual income less the vacancy and operations allowance. Table 35 provides the gross revenue and net operating income for the two development scenarios as fully market-rate rentals and with 15 percent of the units rented at an affordable rate.

Between scenario 1 and scenario 2, the residential income is the same, and the difference in total project net operating income results from the smaller amount of retail building space in scenario 2. For each scenario, the difference between fully market-rate units and 15 percent affordable units occurs only in residential rents; there is no difference in retail rents.

Providing 15 percent affordable housing units reduces the project net operating income by 8.4 percent and 8.8 percent for scenarios 1 and 2 respectively. The reduction in project size from scenario 1 to scenario 2 results in a 4.6 percent decline in the project net operating income with fully market rate units and a 5.0 percent decline with 15 percent affordable units.

**Table 35: Estimated Project Revenue by Development Scenario; Capistrano Village Plaza Site**

	Scenario 1 (full site)		Scenario 2 (w/o gas station parcel)	
	Market Rate	15% Affordable	Market Rate	15% Affordable
<b>Annual Residential Rents</b>				
Multifamily Wrap Prototype				
Studio rents (2 units)	60,100	60,100	60,100	60,100
1-bedroom rents (79 units)	2,840,000	2,560,000	2,840,000	2,560,000
2-bedroom rents (52 units)	2,210,000	1,990,000	2,210,000	1,990,000
Motorcourt Apartments				
1-bedroom rents (7 units)	257,000	233,000	257,000	233,000
2-bedroom rents (16 units)	685,000	630,000	685,000	630,000
<b>Annual Residential Income</b>				
Gross annual income	6,050,000	5,470,000	6,050,000	5,470,000
- less vacancies and operations	-1,966,000	-1,777,000	-1,966,000	-1,777,000
Net operating income	4,080,000	3,690,000	4,080,000	3,690,000

*Table 35 Continued*

	Scenario 1 (full site)		Scenario 2 (w/o gas station parcel)	
	Market Rate	15% Affordable	Market Rate	15% Affordable
<b>Annual Retail Income</b>				
Gross retail income	1,107,000	1,107,000	708,000	708,000
- less vacancies and operations	-509,000	-509,000	-326,000	-326,000
Net operating income	598,000	598,000	382,000	382,000
<b>Project Total</b>				
Net operating income	4,680,000	4,290,000	4,470,000	4,070,000

Source: PlaceWorks, 2021.

**Notes to Table 35:**

1. Annual residential rents are calculated by multiplying the number of units by the estimated average rent (see Table 34) by 12 months. Net operating income for residential units is calculated as the gross rent less a 5 percent vacancy allowance and a 28 percent operating cost allowance for the first year of full occupancy.
2. Annual retail income is calculated by multiplying the net leasable floor area and the estimated monthly rent (see Table 33) by 12 months. The net operating income for retail building space is the gross annual income less a 6 percent vacancy allowance and a 40 percent operating cost allowance for the first year of full occupancy.

**Project Costs**

Table 36 provides the estimated project development costs for the two development scenarios. The estimated cost does not include the cost of financing. There are no construction cost differences between a fully market rate development and a development with 15 percent affordable units.

The analysis estimates that excluding the gas station parcel from the project, with a decrease in the amount of retail building space and circulation and parking (i.e., scenario 2) results in a 10.8 percent reduction in the total development cost before financing relative to scenario 1. This cost reduction is substantially larger than the 4.6 to 5.0 percent reduction in project income. The difference results in a more financially feasible development project.



**Table 36: Estimated Project Costs by Development Scenario;  
Capistrano Village Plaza Site**

	Scenario 1 (full site)	Scenario 2 (w/o gas station parcel)
<b>Land Cost</b>		
Estimated land value	22,000,000	16,280,000
Due diligence	1,102,000	814,000
<i>Estimated acquisition cost</i>	23,100,000	17,090,000
<b>Hard Costs</b>		
Site work	3,920,000	3,760,000
Building construction	32,300,000	31,000,000
Circulation and parking	4,840,000	4,740,000
Landscaping	829,000	875,000
<i>Hard cost subtotal</i>	41,900,000	40,400,000
<b>Soft Costs</b>		
DIF–CUSD	646,000	640,000
DIF–Parks	5,170,000	5,170,000
DIF–Art in public places	209,000	202,000
Water and sewer connections	1,577,000	1,518,000
Other soft costs	3,350,000	3,230,000
Contingency	2,090,000	2,020,000
<i>Soft costs subtotal</i>	6,090,000	5,900,000
<b>Total development cost (before financing)</b>	<b>71,100,000</b>	<b>63,400,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 36:**

1. The estimated land value was previously calculated in Table 9.
2. Site work is calculated at \$10 per square foot of site area and includes an estimated demolition cost of \$10 per square foot of existing buildings.
3. Building construction cost is based on data from the *2020 National Building Cost Manual* by Craftsman Book Company, Carlsbad CA. The cost includes two elevators in the multifamily wrap building prototype. Construction cost includes labor, material, equipment, plans, building permit, supervision, overhead, and profit.
4. Circulation and parking cost includes internal roadways and driveways, surface parking stalls, and structured parking.
5. Landscaping cost is calculated at \$7.50 per square foot of site area excluding buildings, circulation, and parking.
6. Other soft costs include design and entitlement and is calculated at 8 percent of the estimated construction cost. Contingency is calculated at 5 percent of the estimated construction cost.

## Financial Feasibility

For a planning-level analysis, financial feasibility is generally indicated by a cash-on-cash yield of 8.0 percent or higher. The cash-on-cash yield is determined by dividing the net operating income after debt and taxes by the total equity the developer is required to invest in the development project. Table 37 provides the financial feasibility calculations for both scenarios.

### Findings for Market-Rate Development

For the fully market-rate versions, both scenarios are financially feasible. Scenario 1 generates a 9.6 percent cash-on-cash yield, and scenario 2 does even better with an 11.8 percent yield. The financial feasibility of the two scenarios suggests that the development standards in the draft specific plan not only support but also provide an incentive for redevelopment.

At an 8.0 percent yield, scenario 1 would generate a one-time surplus residual land value \$3.7 million, or 16.7 percent, higher than the estimated site value. Similarly, scenario 2 would generate a one-time surplus residual land value that is \$7.6 million, or 46.8 percent, higher than the estimated site value. This surplus value is a one-time amount that could be used to fund additional public benefits. As an alternative to a one-time surplus value, the analysis indicates that scenario 1 would generate an annual surplus value of \$355,000, and scenario 2 would generate up to \$717,000.

**Table 37: Financial Feasibility by Development Scenario; Capistrano Valley Plaza Site**

	Scenario 1 (full site)		Scenario 2 (w/o gas station parcel)	
	Market Rate	15% Affordable	Market Rate	15% Affordable
Development cost	71,100,000	71,100,000	63,400,000	63,400,000
Financing cost	2,350,000	2,350,000	2,090,000	2,090,000
Total project cost	73,400,000	73,400,000	65,500,000	65,500,000
Construction loan amount	51,400,000	51,400,000	46,800,000	46,800,000
Required equity	22,100,000	22,100,000	20,000,000	20,000,000
NOI after debt service & taxes	2,120,000	1,552,000	2,210,000	1,627,000
<b>Cash-on-cash yield</b>	<b>9.6%</b>	<b>7.0%</b>	<b>11.8%</b>	<b>8.7%</b>
Residual land value @ 8% yield	25,700,000	19,610,000	23,900,000	17,650,000
Surplus/(Gap)	3,670,000	-2,400,000	7,600,000	1,371,000
- percent of estimated land value	16.7%	-11.0%	46.8%	8.4%
Annual surplus/(gap) @ 8% yield	354,700	-220,000	717,000	133,200
Affordable housing units @ 8% yield		14		28
- percent of total housing units		9.0%		17.9%

Source: PlaceWorks, 2021.

**Notes to Table 37:**

1. The financial feasibility model assumes that there would be a six-month due diligence period, followed by four months of site work, and 18 months of construction. For simplicity, the model assumes full occupancy in the month following the end of construction.
2. The analysis assumes that the due diligence period would consume one-third of the other soft costs and would be paid fully with developer equity. The analysis assumes that developer equity would pay 50 percent of the land acquisition cost and 20 percent of the remaining development costs. All cost not otherwise paid for with developer equity would be funded through a construction loan.
3. The construction loan terms are based on data from RealtyRates.com and include an annual rate of 9.3 percent and loan fees of 3.25 percent. The permanent loan is based on a rate of 4.16 percent, 30 years, and a debt service coverage ratio of 1.43.
4. The cash-on-cash yield is calculated by dividing the net operating income in the first full year of operation by the required equity.

**Findings for Affordable Housing**

The analysis indicates that scenario 1 with 15 percent affordable housing is not financially feasible, generating a cash-on-cash yield of 7.0 percent. To be feasible, this scenario would need a reduction in the land acquisition cost of \$2.4 million, or 11.0 percent. Alternatively, this scenario would require an annual subsidy of \$220,000. However, this scenario would be financially feasible if the portion of housing that is rented at affordable rates were decreased from 15 percent to 9 percent, resulting in 14 affordable units instead of 23.

In contrast, the analysis finds that scenario 2 is financially feasible even when providing 15 percent of the housing units at affordable rents. Indeed, the analysis suggests that the portion of affordable units could be increased to nearly 18 percent and the development would still be financially feasible.

## Implications

The Capistrano Village Plaza site is perhaps unique in Doheny Village in two meaningful ways. First, the setbacks from Doheny Park Road and Victoria Boulevard for residential uses eliminates about a third of the site for the most lucrative type of development allowed under the specific plan. Nevertheless, the analysis shows that a sufficient amount of housing can be accommodated on the site to make redevelopment financially feasible.

Second, a very small portion of the site is used for a gas station, and the cost of acquiring the gas station parcel substantially reduces the financial incentive to redevelop the site. However, the analysis shows that the entire site is feasible to redevelop, even with the gas station, as long as affordable housing is no more than 9.0 percent of the total housing.

For a fully-market rate development, there is a nearly \$4 million incentive to the developer to avoid the gas station parcel. Absent a regulatory requirement that this parcel be included in the redevelopment of the primary parcel, the City should not expect

a developer to voluntarily include the gas station parcel in a development proposal for this site.

This analysis highlights one major trade-off that needs to be considered. It is not feasible to develop the entire site and provide 15 percent affordable housing. The City should weigh the value of redeveloping the site’s entire frontage along Doheny Park Road against the value of achieving 15 percent affordable housing. As the impacts of the required setbacks and the existing gas station are perhaps unique to this site, this trade-off may be best addressed through a development agreement and flexibility in the specific plan rather than crafting development regulations in the specific plan to cater to one individual site.

## BEACHWOOD MOBILE HOME PARK SITE

### Site Overview

#### Site Description

Beachwood Park and Village Mobile Home Park is located between Doheny Park Road and Sepulveda Avenue and between Victoria Avenue and Camino Capistrano in the Doheny Village area of southeast Dana Point. The site is shown in Figure 52. The site consists of several parcels and is about 13.0 acres in size. Most of the site is used for a mobile home park with approximately 168 spaces. The site also contains about 11,350 square feet of commercial buildings.

#### Estimated Value

The analysis estimates the site’s value as the sum of the values of the mobile home park use and the commercial uses, as shown in Table 38. With the mobile home park generating a gross annual revenue of \$34.1 million and the commercial uses generating an additional \$369,000, the value of the site would be \$36.6 million.

**Table 38: Estimated Site Value; Beachwood Mobile Home Park Site**

<b>Mobile Home Park</b>		<b>Commercial Buildings</b>	
Number of spaces	170	Est. building space (sq. ft.)	2.71
Est. monthly rent per space	1,600	Est. monthly rent per sq. ft.	369,000
Gross annual income	3,230,000	Gross annual revenue	177,200
Net operating income	2,420,000	Net operating income	2,496,000
Estimated value	34,100,000	Estimated value	2.71
<b>Total site value</b>		<b>\$ 36,600,000</b>	

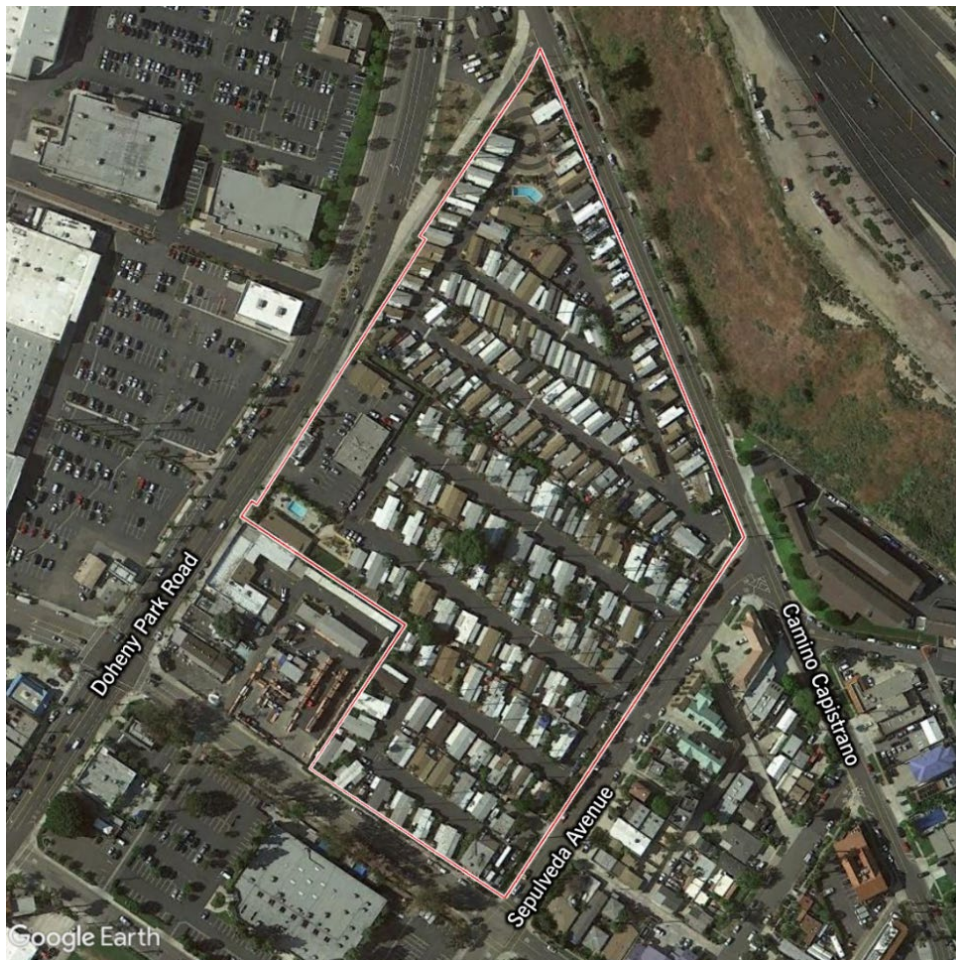
Source: PlaceWorks, 2021.

#### Notes to Table 38:

1. Building sizes are estimates by PlaceWorks.

2. For the mobile home park, the estimated monthly rent per space is based on a survey of publicly available rent information for mobile home parks in Orange County. For the commercial buildings, estimated rent per sq. ft. is a market average monthly rent value for similar buildings based on data from Costar. The net operating income is gross annual income less a 25 percent allowance for vacancies and operations for the mobile home park. The net operating income for commercial buildings is gross revenue less a 40 percent operations allowance, based on data from RealtyRates.com.
3. For both uses, the estimated value is the net operating income divided by a retail capitalization rate of 7.2 percent, based on data from RealtyRates.com. The total site value is the sum of the estimated value for both uses.

**Figure 52: Beachwood Mobile Home Park Site**



Source: PlaceWorks, 2021.

### **Zoning and Development Standards**

In the draft Doheny Village Specific Plan, the site is designated Village Commercial/Residential District (V-C/R). This designation allows residential uses as a permitted use and a variety of commercial uses as a permitted or conditional use. The draft specific plan allows development on this site at a height of up to 50 feet and a maximum residential density up to 50 units per acre.

For non-residential uses, the required setbacks are: front yard, 5 feet from the ultimate public street right-of-way; side yard, 3 feet; and rear yard, 5 feet. The required number of parking stalls are: studio and one-bedroom units, 1 stall per unit; two- to five-bedroom units, 2 stalls per unit.

## Development Prototypes

One development scenario is analyzed for the Beachwood Mobile Home Park site. The scenario uses two residential prototypes, as described below.

### Multifamily Wrap

The development scenario uses the same multifamily wrap development prototype employed in the development scenarios for the Capistrano Valley Plaza site (see page 133). However, for the Beachwood Mobile Home Park site, this development prototype is four stories in height. Figure 53 shows an aerial image of an Avalon Communities multifamily wrap building in Irvine, CA.

With this prototype, each level of the building typically accommodates 49 to 57 parking stalls and 42 to 46 dwelling units. The units are a mix of one- and two-bedrooms, with two studio units on the ground floor. The units range in size from 615 to 1,127 square feet in size. For this development scenario, the prototype building includes 179 dwelling units. The draft specific plan would require 250 parking stalls, and the four-story parking structure accommodates 220 parking stalls.

**Figure 53: Avalon Communities Multifamily Wrap Building; Irvine CA**



Source: Google Earth.

## Motorcourt Apartments

This scenario employs a four-story motorcourt apartment building that is similar but larger than the motorcourt apartments used for the Capistrano Valley Plaza site (see discussion on page 133). These motorcourt apartments have private garages accessed from the interior court of the building as well as garages accessed from two outward-facing sides of the building. Figure 54 illustrates the ground level of the motorcourt apartments analyzed in this scenario, although the scenario's surface parking is laid out differently.

The motorcourt buildings used in this example have eight residential units on the ground floor and three additional stories (four total stories) with 16 units on each level. There are 45 parking stalls in private garage. Figure 55 illustrates the upper floors of the motorcourt buildings analyzed in this scenario.

Figure 54: Illustrative Ground-floor Plan for Motorcourt Apartments



Source: KTG Group, Inc.

Figure 55: Illustrative Upper-Floor Plans for Motorcourt Apartments



Source: KTG Group, Inc.

## Development Scenario

### Conceptual Site Plan

This development scenario seeks to optimize the allowable residential development intensity on the developed portion of the site in order to reserve a part of the site for the public benefit of public park and open space. Figure 56 shows the conceptual site plan for the Beachwood Mobile Home Park site.

The front portion of the site is developed with three 4-story motorcourt apartment buildings, each of which has 56 dwelling units and 45 garage parking stalls. All of the motorcourt apartment buildings have ground-floor residential units facing Doheny Park Road. Two of these buildings also have ground-floor residential units fronting on the entryway from Doheny Park Road. The third building has ground-floor residential units facing the smaller of the two public park spaces. The three buildings have private garage entrances on the ground floor of the other two sides.

The back portion of the site is developed with two 4-story multifamily wrap buildings, each with 179 dwelling units. The interior parking structure in each building accommodates 220 parking stalls.

With the five residential buildings and required parking, the conceptual site plan has an additional 2.1 acres of land. This area could be developed with more housing.



However, the conceptual site plan shows this additional area as public park and open space. The feasibility analysis accounts for park development at the cost currently used for park improvements in the City's development fee for parks.

The conceptual site plan accommodates a total of 526 dwelling units on 13 acres, for a density of 40.5 units per acre. With 285 studio and one-bedroom units and 241 two-bedroom units, the draft specific plan would require a total of 767 parking stalls. The conceptual plan provides 781 total parking spaces, with 440 stalls in parking structures, 135 in individual garages, and 206 surface parking stalls.

**Figure 56: Conceptual Site Plan; Beachwood Mobile Home Park Site**



Source: PlaceWorks, 2021.

## Development Program

Basic information about the development program for the development scenario is presented in the following tables. Table 39 provides information about the site and the conceptual development plan. Table 40 provides information about the residential units in the two prototype buildings.

**Table 39: Site and Project Information; Conceptual Site Plan, Beachwood Mobile Home Park Site**

<b>Site Information</b>	
Site area (acres)	13.00
Site area (sq. ft.)	568,000
Existing buildings (est. sq. ft.)	369,200
Estimated value (\$)	36,600,000
<b>Project Information</b>	
Building coverage (sq. ft.)	255,100
- percent of site	44.9%
Circulation and parking coverage (sq. ft.)	96,900
- percent of site	17.1%
Landscaped and open space (sq. ft.)	122,900
- percent of site	21.6%
Park area	93,000
- percent of site	16.4%
Total number of dwelling units	526
Density (du/acre)	40.5
<b>Parking Information</b>	
Required parking	767
Provided parking	781
- Parking structure	440
- Garages	135
- Surface spaces	206

Source: PlaceWorks, 2021.

### Notes to Table 39:

1. The estimated value of the site was previously calculated in Table 38.

**Table 40: Residential Unit Information; Conceptual Site Plan, Beachwood Mobile Home Park Site**

	Multifamily Wrap Prototype	Motorcourt Apartments
<b>Studio Units</b>		
Number of units	4	
Average size (sq. ft.)	623	
Estimated average market-rate rent	2,903	
Estimated average affordable rent	1,054	
<b>One-Bedroom Units</b>		
Number of units	212	69
Average size (sq. ft.)	709	870
Estimated average market-rate rent	2,994	3,165
Estimated average affordable rent	1,041	1,041
<b>Two-Bedroom Units</b>		
Number of units	142	99
Average size (sq. ft.)	1,029	1,050
Estimated average market-rate rent	3,543	3,566
Estimated average affordable rent	1,239	1,239

Source: PlaceWorks, 2021.

**Notes to Table 40:**

1. The estimated average market-rate rent is based on an analysis of asking rents, unit sizes, number of bedrooms, and age of building. The estimated rent is 7.5 percent above current asking rent for comparable units to account for a premium for new units and expected rent increases over 24 months, the assumed time horizon for new units to be put on the market.
2. The estimated average affordable rent is derived as 30 percent of the federal HUD income limits applicable to Dana Point, less utility payments (based on utility allowances established by the Orange County Housing Authority). For studio and 1-bedroom units, the estimated average affordable rent is the average for one- and two-person households with low and very low incomes. For 2-bedroom units, the estimated average affordable rent is an average for two-, three-, and four-person households with low and very low incomes.

## Financial Feasibility Analysis

### Project Income

The estimated monthly rent provides the basis for the estimated project revenue. Multifamily housing projects may take in ancillary revenue, such as fees from onsite laundry facilities. However, for simplicity’s sake, the analysis assumes multifamily and retail rent as the only revenue stream for the project.

For the first year of full occupancy, the analysis assumes a residential vacancy allowance and operations allowance of 33 percent and a retail vacancy and operations allowance of 46 percent. The net operating income is the gross annual income less the

vacancy and operations allowance. Table 41 provides the gross revenue and net operating income for the conceptual site plan as fully market-rate rentals and with 15 percent of the units rented at an affordable rate.

The estimated annual net operating income for a fully market-rate development is \$13.9 million. Providing 15 percent of the units at a rent affordable to low and very low income households reduces the net operating income by \$1.4 million, or 9.8 percent.

**Table 41: Estimated Project Revenue; Conceptual Site Plan, Beachwood Park Mobile Home Site**

	Market Rate	15% Affordable
<b>Annual Residential Rents</b>		
Multifamily Wrap Prototype		
Studio rents (2 units)	139,300	117,100
1-bedroom rents (79 units)	7,620,000	6,870,000
2-bedroom rents (52 units)	6,040,000	5,460,000
Motorcourt Apartments		
1-bedroom rents (7 units)	2,620,000	2,370,000
2-bedroom rents (16 units)	4,240,000	3,820,000
<b>Annual Residential Income</b>		
Gross annual income	20,700,000	18,620,000
- less vacancies and operations	-6,710,000	-6,050,000
<b>Net operating income</b>	<b>13,940,000</b>	<b>12,570,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 41:**

1. Annual residential rents are calculated by multiplying the number of units by the estimated average rent (see Table 17). by 12 months. Net operating income for residential units is calculated as the gross rent less a 5 percent vacancy allowance and a 28 percent operating cost allowance for the first year of full occupancy.

**Project Costs**

Table 42 provides the estimated project development costs for the conceptual site plan. There are no construction cost differences between a fully market rate development and a development with 15 percent affordable units. The estimated cost does not include the cost of financing. The analysis estimates the total development cost at \$175 million.

**Table 42: Estimated Project Costs; Conceptual Development Plan, Beachwood Mobile Home Park Site**

<b>Land Cost</b>	
Estimated land value	36,600,000
Due diligence	1,828,000
<i>Estimated acquisition cost</i>	38,400,000
<b>Hard Costs</b>	
Site work	8,630,000
Building construction	100,100,000
Circulation and parking	6,480,000
Landscaping	3,792,000
<i>Hard cost subtotal</i>	119,000,000
<b>Soft Costs</b>	
DIF–CUSD	2,193,000
DIF–Parks	11,320,000
DIF–Art in public places	582,000
Water and sewer connections	4,715,000
Other soft costs	9,520,000
Contingency	5,950,000
<i>Soft costs subtotal</i>	17,660,000
<b>Total development cost (before financing)</b>	<b>175,100,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 42:**

1. The estimated land value was previously calculated in Table 38.
2. Site work is calculated at \$10 per square foot of site area and includes an estimated demolition cost of \$10 per square foot of existing buildings.
3. Building construction cost is based on data from the *2020 National Building Cost Manual* by Craftsman Book Company, Carlsbad CA. The cost includes two elevators in the multifamily wrap building prototype. Construction cost includes labor, material, equipment, plans, building permit, supervision, overhead, and profit.
4. Circulation and parking cost includes internal roadways and driveways, surface parking stalls, and structured parking.
5. Landscaping cost is calculated at \$7.50 per square foot of site area excluding buildings, circulation, and parking; this cost estimates includes an allowance of \$2.6 million for park improvements.
6. Other soft costs include design and entitlement and is calculated at 8 percent of the estimated construction cost. Contingency is calculated at 5 percent of the estimated construction cost.

**Financial Feasibility**

For a planning-level analysis, financial feasibility is generally indicated by a cash-on-cash yield of 8.0 percent or higher. The cash-on-cash yield is determined by dividing

the net operating income after debt and taxes by the total equity the developer is required to invest in the development project. Table 43 provides the financial feasibility calculations for both scenarios.

For a fully market-rate project, the conceptual site plan generates a 15.5 percent cash-on-cash yield. With 15 percent affordable units, the yield would be 11.3 percent. Both of these are financially feasible. Indeed, the residual land value at an 8.0 percent return indicates that this development could afford to pay twice the estimated cost to acquire the land with fully market rate units or 50 percent more with 15 percent affordable units. The surplus value, either as a lump sum or on an annual basis, suggests that this development could afford to fund substantial public benefits.

**Table 43: Financial Feasibility by Development Scenario; Conceptual Site Plan, Beachwood Mobile Home Park**

	Market Rate	15% Affordable
Development cost	175,100,000	175,100,000
Financing cost	5,770,000	5,770,000
Total project cost	180,800,000	180,800,000
Construction loan amount	131,800,000	131,800,000
Required equity	49,100,000	49,100,000
NOI after debt service & taxes	7,590,000	5,563,000
<b>Cash-on-cash yield</b>	<b>15.5%</b>	<b>11.3%</b>
Residual land value @ 8% yield	75,400,000	54,900,000
Surplus/(Gap)	38,810,000	18,300,000
- percent of estimated land value	106.1%	50.1%
Annual surplus/(gap) @ 8% yield	3,669,200	1,638,000

Source: PlaceWorks, 2021.

**Notes to Table 43:**

1. The financial feasibility model assumes that there would be a six-month due diligence period, followed by four months of site work, and 18 months of construction. For simplicity, the model assumes full occupancy in the month following the end of construction.
2. The analysis assumes that the due diligence period would consume one-third of the other soft costs and would be paid fully with developer equity. The analysis assumes that developer equity would pay 50 percent of the land acquisition cost and 20 percent of the remaining development costs. All cost not otherwise paid for with developer equity would be funded through a construction loan.
3. The construction loan terms are based on data from RealtyRates.com and include an annual rate of 9.3 percent and loan fees of 3.25 percent. The permanent loan is based on a rate of 4.16 percent, 30 years, and a debt service coverage ratio of 1.43.
4. The cash-on-cash yield is calculated by dividing the net operating income in the first full year of operation by the required equity.

## Implications

The findings indicate that residential development at densities of 40 dwelling units per acre and above would be financially feasible and lucrative for developers. This is true even if the development provides 15 percent of the residential units at rents that are affordable to low- and very low-income households. Even if the estimated cost to acquire the site is off by a large margin, up to 50 percent, residential development would still be financially feasible.

However, this site is the only one that the draft specific plan designates for residential density above 30 dwelling units per acre. The financial feasibility of the conceptual development plan for this site suggests that the allowable density will provide an incentive if and when the property owners consider selling their properties.

## GANAHL LUMBER SITE

### Site Overview

#### Site Description

The Ganahl Lumber site consists of ten parcels, comprising 2.0 acres. The site is located at the northeast corner of Doheny Park Road and Victoria Boulevard in the Doheny Village area of southeast Dana Point. The location is shown on Figure 57.

The largest existing use on the site is Ganahl Lumber. However, there are several other commercial buildings occupied by Beach Cities Glass, Chicks Plumbing, and Feed Barn. Although the site consists of several parcels and several unrelated businesses, the analysis assumes that a single developer with unified control of all the parcels would pursue a single development project.

#### Estimated Value

Approximately three-quarters of the site is occupied by Ganahl Lumber. Due to the nature of its operations, this business has relatively little leasable retail building space, with much of its property used for covered outdoor storage. Thus, the method to estimate site value used for the previous two sites, based on the leasable value of existing commercial building space, can be expected to undervalue this site. As an alternative, the analysis also estimates the site's value based on a basic estimate of land value per acre. However, there is little available data on land sales, so the basic estimate of land value per acre is far from perfect.

Table 44 provides the two estimates of the site's existing value. Based on the leasable commercial building space, the estimated site value is \$3.0 million, or about \$1.5 million per acre. Based on a limited analysis of property sales data, the assumed property value per acre is \$3.88 million per acre, which would indicate a total site value of \$7.88 million. In order to provide a conservative assessment of financial feasibility, the analysis uses the higher estimate of the site's value, \$7.88 million.

Figure 57: Ganahl Lumber Site Location



Source: PlaceWorks, 2021; background image from Google Earth.

Table 44: Estimated Site Value; Ganahl Lumber Site

<b>Value by Building Space</b>	
Estimated building space (sq. ft.)	17,730
Estimated rent per sq. ft.	2.10
Gross revenue	447,000
Net operating income	214,000
Estimated value	3,020,000
<b>Value by Land Area</b>	
Assumed value (\$/acre)	3,880,000
Site size (ac)	2.03
Estimated value	7,880,000

Source: PlaceWorks, 2021.



**Notes to Table 44:**

1. Building sizes are estimates by PlaceWorks. Estimated rent per sq. ft. is a market average monthly rent value for similar shopping centers based on data from Costar. The gross revenue is derived by multiplying the estimated building square footage by the estimated rent by 12 months. The net operating income is gross revenue less a 40 percent operations allowance, based on data from RealtyRates.com. The estimated value is the net operating income divided by a retail capitalization rate of 7.2 percent, based on data from RealtyRates.com.
2. For value by land area, the assumed value is a PlaceWorks estimate based on a review of available data for recent property sales. The value reflects the estimated land value portion of property sales values.

**Zoning and Development Standards**

In the draft Doheny Village Specific Plan, the site is designated Village Main Street District (V-MS). This designation allows residential uses as a conditional use and a variety of commercial uses as a permitted or conditional use. Building height is limited to three stories and 35 feet. The maximum residential density is 30 dwelling units per acre.

The required setbacks are: front yard, 0 to 3 feet from the ultimate public street right-of-way; interior side yard, 0 feet; side yard adjacent to a street, 0 to 3 feet; and rear yard, 5 feet. The required number of parking stalls are: commercial retail, 1 stall per 500 square feet of gross floor area; restaurants, 1 stall per 250 square feet of gross floor area; studio and one-bedroom units, 1 stall per unit; two- to five-bedroom units, 2 stalls per unit.

**Development Prototypes**

Two development scenarios are analyzed for the Ganahl Lumber site. One scenario uses a stand-alone retail building. The other scenario uses a mix of residential retail/residential mixed-use prototype buildings. These are described below.

**Stand-Alone Retail**

The stand-alone retail development prototype is a conventional suburban strip center. To maximize the site's development capacity, the prototype that is analyzed is a two-story building with a consistent depth of 65 feet. In practice, two-story commercial centers tend to have retail businesses on the ground floor and office on the second floor.

Figure 58: Typical Two-Story Retail Prototype

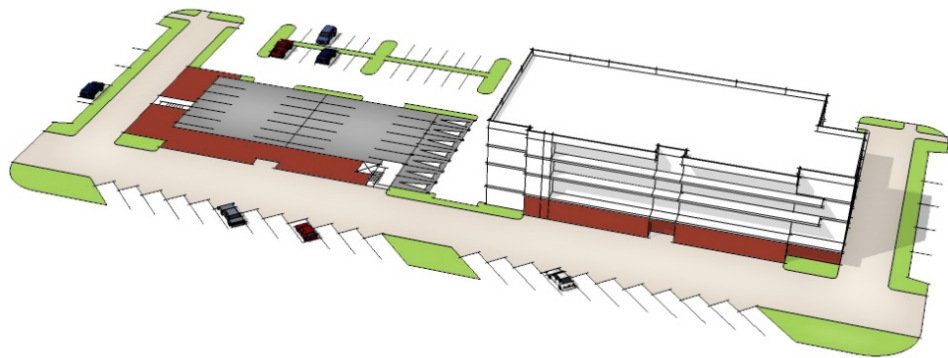


### Mixed-Use Podium Building

This development prototype has ground-level parking with retail building space fronting on two sides and multifamily flats on the second and third stories. A typical layout is shown in Figure 59. Although Figure 59 shows a four-story building, the prototype used in the conceptual plan is two stories.

The parking includes 24 parking stalls in an open interior garage accessed from the rear of the building. It also includes 7 individual garages accessed from one side of the building. The ground floor includes approximately 4,400 square feet of retail building spaces along the front and one side of the building. The second story provides five 800-square-foot one-bedroom units and six 1,100 square-foot two-bedroom units.

Figure 59: Typical Mixed-Use Building Prototype



Source: PlaceWorks, based on a design by Thomas P. Cox Architects, Inc.

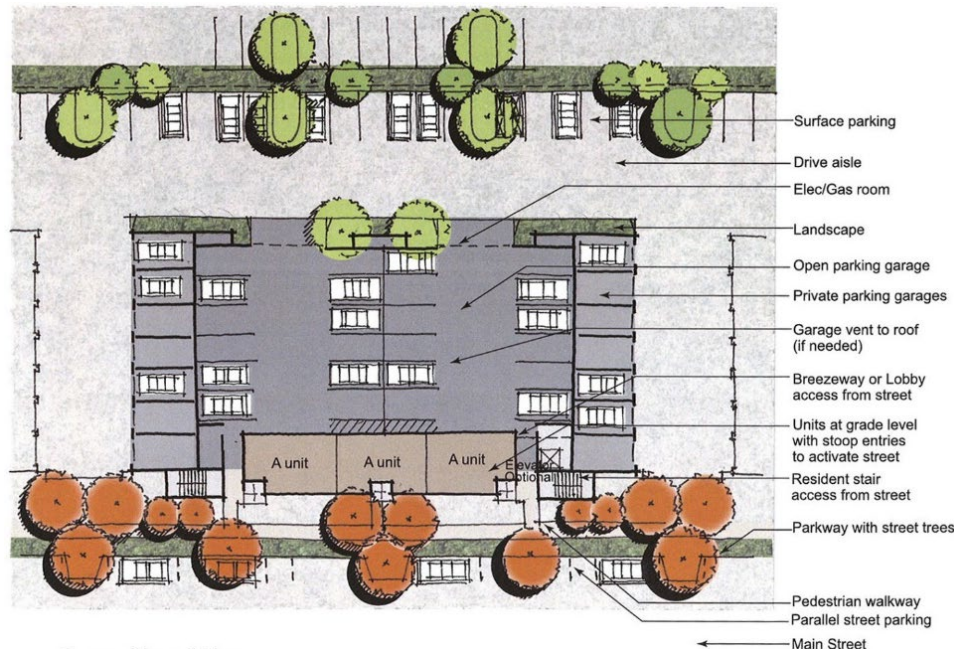
### Podium Apartments

The podium apartments prototype is the same basic building as the mixed-use podium prototype. However, there is no ground floor retail building space. Instead, the

front of this building has three ground-floor one-bedroom apartments. The retail on the side of the building is replaced with seven individual garages. A typical ground-floor plan is shown in Figure 60.

The prototype building provides a total of 13 one-bedroom units (800 sq. ft.) and 12 two-bedroom units (1,100 sq. ft.). The ground-floor parking garage accommodates 38 parking stalls.

**Figure 60: Typical Ground-floor Plan for Podium Apartments**



Source: Thomas P. Cox Architects, Inc

## Development Scenarios

The analysis considers two development scenarios for the Ganahl Lumber site. Scenario 1 provides commercial development only. Scenario 2 has one podium mixed-use building and two podium apartment buildings.

### Scenario 1, Office/Retail

This development scenario seeks to maximize the commercial development capacity of the site. The building provides a gross leasable floor area of 44,800 sq. ft. The feasibility analysis assumes that the ground floor would be occupied by retail businesses, with office-based businesses on the second floor. This results in a floor-to-area ratio of 0.63, based on the gross building size, 56,000 square feet.

Under the draft specific plan, 112 parking stalls would be required. The conceptual site plan provides 112 parking stalls. Buildings cover 31.6 percent of the site, circulation and surface parking cover another 45.1 percent, and landscaped and open space cover the remaining 23.2 percent.

Figure 61: Conceptual Site Plan; Ganahl Lumber Site, Scenario 1



Source: PlaceWorks; Background image from Google Earth.

### Scenario 2, Mixed Use

This development scenario is predominantly residential, with a mixed-use building at the corner of Doheny Park Road and Victoria Boulevard and two podium apartment buildings. The two-story podium mixed-use building provides 4,400 square feet of retail building space and 11 residential units. The two 3-story podium apartment buildings provide a total 50 residential units. The total number of residential units, 61, results in a residential density of 30 dwelling units per acre.

Under the draft specific plan, 9 parking stalls are required for the retail building space and 91 stalls for the residential units. The ground-floor parking in the three buildings accommodates 107 parking stalls. In addition, on-street parking is currently allowed on Doheny Park Road and Victoria Boulevard. Buildings cover 48.8 percent of the site, circulation covers 18.8 percent, and landscaped and open space cover the remaining 32.7 percent.

Figure 62: Conceptual Site Plan; Ganahl Lumber Site, Scenario 2



Source: PlaceWorks.

### Development Program

Basic information about the development program for each development scenario are presented in the following tables. Table 45 provides information about the site, conceptual development plans, and the commercial/retail building space in scenario 1. Table 46 provides information about the residential units in the two prototype buildings for scenario 2.

**Table 45: Site and Project Information by Scenario; Ganahl Lumber Site**

	Scenario 1 (Office/Retail)	Scenario 2 (Mixed Use)
<b>Site Information</b>		
Site area (acres)	2.03	2.03
Site area (sq. ft.)	305,000	290,000
Existing buildings (est. sq. ft.)	88,520	88,520
Estimated value (\$)	7,880,000	7,880,000
<b>Project Information</b>		
Building coverage (sq. ft.)	28,000	43,200
- percent of site	31.6%	48.8%
Circulation/ parking coverage (sq. ft.)	39,900	16,320
- percent of site	45.1%	18.4%
Landscaped and open space (sq. ft.)	20,570	29,000
- percent of site	23.2%	32.7%
Total number of dwelling units	0	156
FAR/Density (du/acre)	0.63	30.0
<b>Parking Information</b>		
Required parking	112	100
Provided parking	112	107
- Garages	0	107
- Surface spaces	112	0
<b>Commercial/Retail Information</b>		
Building depth (ft.)	65	
Leasable floor area (sq. ft.)	44,800	
Estimated monthly rent (\$/sq. ft.)	3.18	

Source: PlaceWorks, 2021.

**Notes to Table 45:**

1. The estimated site value was previously calculated in Table 44.
2. The leasable floor area for the retail building is based on 80 percent of the gross building area. The estimated monthly rent is an average for ground-floor retail and 2<sup>nd</sup> floor office space.

**Table 46: Residential Unit Information; Ganahl Lumber Site**

	Mixed Use Prototype	Podium Apartments
<b>One-Bedroom Units</b>		
Number of units	5	26
Average size (sq. ft.)	800	800
Estimated average market-rate rent	2,875	2,875
Estimated average affordable rent	1,041	1,041
<b>Two-Bedroom Units</b>		
Number of units	6	24
Average size (sq. ft.)	1,100	1,100
Estimated average market-rate rent	3,366	3,366
Estimated average affordable rent	1,239	1,239

Source: PlaceWorks, 2021.

**Notes to Table 46:**

1. The estimated average market-rate rent is based on an analysis of asking rents, unit sizes, number of bedrooms, and age of building. The estimated rent is 7.5 percent above current average asking rent for comparable units to account for a premium for new units and expected rent increases over 29 months, the assumed time horizon for new units to be put on the market.
2. The estimated average affordable rent is derived as 30 percent of the federal HUD income limits applicable to Dana Point, less utility payments (based on utility allowances established by the Orange County Housing Authority). For studio and 1-bedroom units, the estimated average affordable rent is the average for one- and two-person households with low and very low incomes. For 2-bedroom units, the estimated average affordable rent is an average for two-, three-, and four-person households with low and very low incomes.

## Financial Feasibility Analysis

### Project Income

The estimated monthly rent provides the basis for the estimated project revenue. Multifamily housing projects may take in ancillary revenue, such as fees from onsite laundry facilities. However, for simplicity’s sake, the analysis assumes multifamily and retail rent as the only revenue stream for the projects.

For the first year of full occupancy, the analysis assumes a residential vacancy and operations allowance of 33 percent and a retail vacancy and operations allowance of 46 percent. The net operating income is the gross annual income less the vacancy and operations allowance. Table 47 provides the gross revenue and net operating income for the two development scenarios. For scenario 2, the data represent a fully market rate project and with 15 percent of the units rented at an affordable rate.

**Table 47: Estimated Project Revenue by Development Scenario; Ganahl Lumber Site**

	Scenario 1 Office/Retail	Scenario 2 (Mixed Use)	
		Market Rate	15% Affordable
<b>Annual Residential Rents</b>			
1-bedroom rents (31 units)		1,070,000	959,000
2-bedroom rents (30 units)		1,212,000	1,084,000
<b>Annual Residential Income</b>			
Gross annual income		2,280,000	2,040,000
- less vacancies and operations		-741,000	-664,000
Net operating income		1,540,000	1,379,000
<b>Annual Retail Income</b>			
Gross annual income	1,711,000	184,800	184,800
- less vacancies and operations	-787,000	-85,000	-85,000
Net operating income	924,000	99,800	99,800
<b>Project Total</b>			
Net operating income	924,000	1,640,000	1,479,000

Source: PlaceWorks, 2021.

**Notes to Table 47:**

1. Annual residential rents are calculated by multiplying the number of units by the estimated average rent (see Table 34) by 12 months. Net operating income for residential units is calculated as the gross rent less a 5 percent vacancy allowance and a 28 percent operating cost allowance for the first year of full occupancy.
2. Annual retail income is calculated by multiplying the net leasable floor area and the estimated monthly rent (see Table 33) by 12 months. The net operating income for retail building space is the gross annual income less a 6 percent vacancy allowance and a 40 percent operating cost allowance for the first year of full occupancy.

## Project Costs

Table 48 provides the estimated project development costs for the two development scenarios. The estimated cost does not include the cost of financing. There are no construction cost differences between a fully market rate development and a development with 15 percent affordable units.



**Table 48: Estimated Project Costs by Development Scenario;  
Ganahl Lumber Site**

	Scenario 1 (Office/Retail)	Scenario 2 (Mixed Use)
<b>Land Cost</b>		
Estimated land value	7,880,000	7,880,000
Due diligence	394,000	394,000
<i>Estimated acquisition cost</i>	8,270,000	8,270,000
<b>Hard Costs</b>		
Site work	1,549,000	1,549,000
Building construction	3,870,000	12,900,000
Circulation and parking	499,000	1,113,000
Landscaping	205,700	290,000
<i>Hard cost subtotal</i>	6,130,000	15,860,000
<b>Soft Costs</b>		
DIF–CUSD	27,300	277,000
DIF–Parks	0	2,020,000
DIF–Art in public places	30,600	79,300
Water and sewer connections	89,500	636,000
Other soft costs	490,000	1,268,000
Contingency	306,000	793,000
<i>Soft costs subtotal</i>	824,000	2,338,000
<b>Total development cost (before financing)</b>	<b>15,220,000</b>	<b>26,070,000</b>

Source: PlaceWorks, 2021.

**Notes to Table 48:**

1. The estimated land value was previously calculated in Table 44.
2. Site work is calculated at \$10 per square foot of site area and includes an estimated demolition cost of \$10 per square foot of existing buildings.
3. Building construction cost is based on data from the *2020 National Building Cost Manual* by Craftsman Book Company, Carlsbad CA. The cost includes two elevators in the multifamily wrap building prototype. Construction cost includes labor, material, equipment, plans, building permit, supervision, overhead, and profit.
4. Circulation and parking cost include internal roadways and driveways, and surface parking stalls.
5. Landscaping cost is calculated at \$7.50 per square foot of site area excluding buildings, circulation, and parking.
6. Other soft costs include design and entitlement and is calculated at 8 percent of the estimated construction cost. Contingency is calculated at 5 percent of the estimated construction cost.

**Financial Feasibility**

For a planning-level analysis, financial feasibility is generally indicated by a cash-on-cash yield of 8.0 percent or higher. The cash-on-cash yield is determined by dividing

the net operating income after debt and taxes by the total equity the developer is required to invest in the development project. Table 37 provides the financial feasibility calculations for both scenarios.

The analysis finds that the conceptual development plan for scenario 1, office/retail development, would generate a cash-on-cash yield of only 6.8 percent. This finding suggests that even with the reduced parking requirements in the draft specific plan, redeveloping this site for commercial use only will be challenging. The current property owners would have to accept a sales price that is about 9.9 percent below the value the analysis estimates for the site. However, even this reduced value, \$7.1 million, is well above the value of the site for continued commercial use of the existing buildings, estimated to be \$3.0 million.

For scenario 2, mixed use development, the analysis finds that the conceptual site plan would be feasible, generating a yield of 8.0 percent, if all the residential units were rented at market rates. However, if 15 percent of the units were offered at rents affordable to low and very low income households, the development would not be feasible, generating a yield of only 5.7 percent. However, simply adding a third story to the mixed-use building, adding 11 more units and increasing the density to 35.4 dwelling units per acre, increases the yield to 7.6 percent with 15 percent affordable units.

**Table 49: Financial Feasibility by Development Scenario; Ganahl Lumber Site**

	Scenario 1 Office/Retail	Scenario 2 (Mixed Use)	
		Market Rate	15% Affordable
Development cost	15,220,000	26,100,000	26,500,000
Financing cost	505,000	1,268,000	874,000
Total project cost	15,730,000	27,300,000	27,300,000
Construction loan amount	10,070,000	19,230,000	17,790,000
Required equity	5,660,000	8,110,000	9,550,000
NOI after debt service & taxes	382,000	653,000	542,000
<b>Cash-on-cash yield</b>	<b>6.8%</b>	<b>8.0%</b>	<b>5.7%</b>
Residual land value @ 8% yield	7,100,000	7,880,000	5,440,000
Surplus/(Gap)	-784,000	0	-2,440,000
- percent of estimated land value	-9.9%	0%	-31.0%
Annual surplus/(gap) @ 8% yield	-70,700	0	-222,000

Source: PlaceWorks, 2021.

**Notes to Table 49:**

1. The financial feasibility model assumes that there would be a six-month due diligence period, followed by four months of site work, and 18 months of construction. For simplicity, the model assumes full occupancy in the month following the end of construction.

2. The analysis assumes that the due diligence period would consume one-third of the other soft costs and would be paid fully with developer equity. The analysis assumes that developer equity would pay 50 percent of the land acquisition cost and 20 percent of the remaining development costs. All cost not otherwise paid for with developer equity would be funded through a construction loan.
3. The construction loan terms are based on data from RealtyRates.com and include an annual rate of 9.3 percent and loan fees of 3.25 percent. The permanent loan is based on a rate of 4.16 percent, 30 years, and a debt service coverage ratio of 1.43.
4. The cash-on-cash yield is calculated by dividing the net operating income in the first full year of operation by the required equity.

## Implications

The findings suggest that residential densities of 30 dwelling units per acre should generally support redevelopment in the specific plan area, provided that there is no requirement to provide affordable housing units. If the City desires to support the provision of affordable housing as a component of redevelopment projects in the plan area, then higher densities may be warranted.



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