



THE LONDON GROUP

**Executive Summary
Economic Impact and Development Analysis**

Proposed Sports Entertainment District

Prepared For:

The City of Escondido

October 2010

The London Group © 2010

Report Prepared by:

Gary H. London, *President*
Nathan L. Moeder, *Principal*

**El Cortez Building
701 Ash Street, Suite 101, San Diego, CA 92101
Phone: 619-269-4012
www.londongroup.com**



Table of Contents

EXECUTIVE SUMMARY 3
 Development Timeline 3
 Tax Increment & Bonding Capacity 4
 Economic & Fiscal Impacts..... 4

HYPOTHETICAL DEVELOPMENT CONCEPT 6
 Land Use Yield 6
 Development Timing 7
 Projected Absorption and Values 8

TAX INCREMENT & BONDING CAPACITY 9
 Phased Development..... 9
 Ballpark Use 12

ECONOMIC & FISCAL IMPACTS 13
 Sales Tax Revenue..... 13
 Retail Uses 13
 Ballpark Use 14
 Hotel TOT Revenue..... 15
 Jobs & Wages Creation..... 16



EXECUTIVE SUMMARY

The London Group Realty Advisors has evaluated the anticipated economic impact of a proposal to create a Sports Entertainment District in Escondido. The proposal includes the development of a minor league ballpark as well as other land use elements which would be planned and anticipated as a result of the development of the ballpark. This report details our analysis of the potential fiscal and economic benefits that might be generated by the creation of this new district and the development of the ballpark, including market-supportable residential and commercial projects.

The proposed district comprises approximately 150 total acres. Based on our analysis we believe that the development potential for the site would be 560,000 square feet of commercial office, 200,000 square feet of retail, 4.4 million square feet of residential (3,220 units), two hotels and a 10,000-seat ballpark.

Development Timeline

Based on our research of the residential and commercial markets, we recommend that the development plan for the proposed Sports Entertainment District should be programmed over 10 years. The following timeline summarizes the proposed development schedule, which assumes approximately two years for planning, followed by two years for ballpark construction. The initial delivery of product would commence in 2015. Total development of the project area is anticipated to occur through 2024.

Development Timing Schedule

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2 Years of Planning and Adoption of Plan		Development of Ballpark and Necessary Infrastructure		PHASE 1 34% of Master Plan Residential: 960 units Office: 200,000 S.F. Retail: 200,000 S.F.			PHASE 2 33% of Master Plan Residential: 960 units Office: 360,000 S.F. Retail: none			PHASE 2 33% of Master Plan Residential: 1,300 units Office: none Retail: none			



Tax Increment & Bonding Capacity

The total tax increment generated by the development is approximately \$12.2 million annually which represents a total bondable value of approximately \$180 million over a series of three bond issuances, as shown in the following table.

Escondido Ballpark District Proposal Development Phasing & Bonding Capacity

Development Phasing				
Phase	% of Total Development	Office S.F.	Retail S.F.	Residential Units
Phase 1	34%	100,000	100,000	640
Phase 2	33%	340,000	100,000	960
Phase 3	33%	120,000	0	1,280
Total		560,000	200,000	2,880

Bond Issuance			
Phase	Year	Tax Increment	Bond Value
Phase 1	2017	\$3,728,509	\$55,287,107
Phase 2	2020	\$3,858,804	\$57,219,159
Phase 3	2024	\$4,575,762	\$67,850,361
Total		\$12,163,076	\$180,356,627

Source: The London Group Realty Advisors

Economic & Fiscal Impacts

Additional economic and fiscal impacts of the project are as follows:

- ➔ **\$3.5 million additional bond value related to tax increment of the ballpark facility.**
- ➔ **\$774,000 in local sales tax revenue per year (\$7.7 million over ten years)**
- ➔ **\$1.4 million in hotel TOT revenue per year (\$14.4 million over ten years)**
- ➔ **Office creation ranging from 2,240 to 2,520 new office jobs and \$112 million to \$164 million in employee wages.**
- ➔ **Retail job creation ranging from 1,027 to 1,118 new retail jobs and \$20.5 million to \$33.5 million in employee wages.**



There are benefits that are not quantified in this analysis that would be generated from the development of property. These would include development which would inevitable occur outside of the actual 150-acre Sports Entertainment District. Furthermore, while this analysis analyzed the venue strictly as a ballpark, which would host an estimated 71 baseball games per year, there are other events that could be held at the facility that would add revenue.



HYPOTHETICAL DEVELOPMENT CONCEPT

Land Use Yield

We have prepared a hypothetical development concept for the 150-acre site proposed for the Sports Entertainment District. It is our understating the site is divided between 75 acres to the north and 75 acres to the south of Washington Avenue.

The following table demonstrates that one-half of the property (75 acres) is allocated to open space, circulation, streets and parking. For the balance of the property we have assumed that the ballpark will comprise 15 acres, while 50 acres is dedicated for residential and 10 acres for commercial office and retail.

Proposed Sports Entertainment District Hypothetical Development Concept														
				Residential										
N of Washington	Acres	FAR	Development S.F.	Av. Unit S.F.	# Units¹									
Residential	45	2.0	3,920,400	1,150	2,898									
Office	5	1.7	360,000											
<u>Open Space / Circulation / Streets</u>	<u>25</u>		<u>N/A</u>											
Subtotal	75		4,280,400											
				Residential										
S of Washington	Acres	FAR	Development S.F.	Av. Unit S.F.	# Units¹									
Ballpark	15		N/A											
Residential	5	2.0	435,600	1,150	322									
Commercial	5	1.8	400,000											
<i>Office</i>			200,000											
<i>Retail</i>			200,000											
<u>Open Space / Circulation / Streets / Parking</u>	<u>50</u>		<u>N/A</u>											
Subtotal	75		1,235,600											
				<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>Residential</td> <td>4,356,000 SF</td> <td>3,220 Units</td> </tr> <tr> <td>Office</td> <td>560,000 SF</td> <td></td> </tr> <tr> <td>Retail</td> <td>200,000 SF</td> <td></td> </tr> </table>		Residential	4,356,000 SF	3,220 Units	Office	560,000 SF		Retail	200,000 SF	
Residential	4,356,000 SF	3,220 Units												
Office	560,000 SF													
Retail	200,000 SF													
<u>Notes:</u>														
¹ Assumes building efficiency of 85%.														

Source: The London Group Realty Advisors

We estimate that 3,220 residential units can be constructed on 50 acres at an FAR (floor area ratio) of 2.0, which yields four to five story structures. On the 10 commercial acres we estimate



that 560,000 square feet of office and 200,000 square feet of retail can be constructed at an FAR of 1.7 to 1.8. In addition to this development, we believe there is also an opportunity to develop two hotels (200 rooms each, for a total of 400 rooms).

Development Timing

A ten year development schedule is the basis for our financial and fiscal analysis. We have assumed approximately two years for planning and two years of ballpark development. The first deliveries of product would commence in 2015. Total development of the project area is anticipated to occur through 2024, which is an approximately 10 year development plan.



Projected Absorption and Values

We have completed comprehensive analyses of the residential and commercial markets to determine the level of absorption, sale prices and rental rates for the development in the subject area (see [Residential Market Analysis](#) and [Office Market Analysis](#)). The following summarizes our base values (today's dollars) and captures of absorption for each product type:

- **Residential Absorption**: approximately 320 units sold per year, which represents 40.5% of the average of all residential sales in the PMA over the last ten years.
- **Residential Sale Prices**: average sale price of approximately \$287,500 (\$275 per square foot), which is 31.5% higher than the average sale price of approximately \$197,000 (\$161 per square foot) for new condo sales over the last ten years in the PMA. It is also 6.8% less than the average sale price of approximately \$307,000 (\$260 per square foot) of new condo sales in the PMA during the market peak of 2004 to 2007.
- **Office Absorption**: approximately 100,000 square feet of office for the first two years and 120,000 square feet for the following three years. The first two years of office absorption (100,000 square feet annually) represents 36% of the approximately 278,000 square feet absorbed from 2000 to 2005 in the Secondary Market Area (SMA), which includes the Escondido, Rancho Bernardo, San Marcos and Vista submarkets. The following three years of office absorption (120,000 square feet annually) represents 43.2% of the approximately 278,000 square feet absorbed in the SMA from 2000 to 2005. These capture rates are larger than what has been realized historically because Rancho Bernardo is nearly built out (as is much of the remaining I-15 corridor), and Escondido, particularly the proposed Sports Entertainment District, can be positioned to attract and increase your share of new office demand. This can be a capture of regional demand.
- **Office Rental Rates**: average monthly lease rate of \$2.50 per square foot, which is 8.2% less than the average office lease rate of \$2.72 in Rancho Bernardo, the dominant submarket in the SMA, from 2006 to 2009. The average lease rate at the subject project is 16.2% more than the average lease rate in Escondido and 7.8% more than the average lease rate of \$2.32 in the entire SMA from 2006 to 2009.
- **Retail Component**: the 200,000 square feet of retail is anticipated to be associated with the Ballpark and is assumed to be developed in the first phase. The assumed average monthly lease rate is \$3.20 per square foot.



TAX INCREMENT & BONDING CAPACITY

The purpose of this section is to determine the tax increment generated by the 150-acre proposed development. This section also demonstrates the bonding capacity for development phase.

Phased Development

An important benefit of redevelopment areas is the tool of tax increment. Tax increment is the difference between the current “in place” assessed value of the property and the new taxable value once the redevelopment has taken place. We have analyzed property tax records and determined that the average taxable value in the area is approximately \$29 per square foot of land. However, more research is required to determine the true base assessed value at inception of the redevelopment area.

Based on the timing, values and absorption of the hypothetical development, we have forecasted the property tax revenue and tax increment that can be captured by the City. The following bullet points and table on the next page summarize the tax increment and bonding capacity for each phase of development. **The total tax increment generated by the development is approximately \$12.2 million annually. This represents a total bondable value of approximately \$180 million over a series of three bond issuances.**

- By 2017, Phase 1 is forecasted to be complete and generate approximately \$3.7 million in annual tax increment. The bondable value, assuming a 4.5% discount rate and 25 years, is approximately \$55.3 million.
- By 2020, Phase 2 is forecasted to be complete and generate approximately \$3.9 million in annual tax increment. The bondable value, assuming a 4.5% discount rate and 25 years, is approximately \$57.2 million.
- By 2024, Phase 3 is forecasted to be complete and generate approximately \$4.6 million in annual tax increment. The bondable value, assuming a 4.5% discount rate and 25 years, is approximately \$67.9 million.



Escondido Ballpark District Proposal
Development Phasing & Bonding Capacity

Development Phasing				
Phase	% of Total Developmnet	Office S.F.	Retail S.F.	Residential Units
Phase 1	34%	100,000	100,000	640
Phase 2	33%	340,000	100,000	960
Phase 3	33%	120,000	0	1,280
Total		560,000	200,000	2,880

Bond Issuance				
Phase	Year	Tax Increment	Bond Value	
Phase 1	2017	\$3,728,509	\$55,287,107	
Phase 2	2020	\$3,858,804	\$57,219,159	
Phase 3	2024	\$4,575,762	\$67,850,361	
Total		\$12,163,076	\$180,356,627	

Source: The London Group Realty Advisors

The table on the following page details the annual tax increment for the City of Escondido on an annualized basis.



Escondido Ballpark District Proposal
Forecast (Straightline)
 Program Analysis / Benchmark Valuation / Revenue Forecast

					PHASE 1			PHASE 2			PHASE 3				
					2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Delivery Schedule															
	Total	2011	2012	2013	2014										
Residential Units	3,220	0	0	0	0	320	320	320	320	320	320	320	320	340	
Retail S.F.	200,000	0	0	0	0	0	100,000	100,000	0	0	0	0	0	0	
Office	560,000	0	0	0	0	0	100,000	100,000	120,000	120,000	120,000	0	0	0	
Cumulative Development & Assessed Value															
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Development Totals															
Residential Units		0	0	0	0	320	640	960	1,280	1,600	1,920	2,240	2,560	2,880	3,220
Retail		0	0	0	0	0	100,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Office		0	0	0	0	0	100,000	200,000	320,000	440,000	560,000	560,000	560,000	560,000	560,000
Cumulative Acres Absorbed															
Residential Acres		0.0	0.0	0.0	0.0	5.0	10.0	15.0	20.0	25.0	30.0	35.0	40.0	45.0	50.0
Office & Retail Acres		0.0	0.0	0.0	0.0	0.0	2.5	5.0	6.7	8.3	10.0	10.0	10.0	10.0	10.0
Total Acres		0.0	0.0	0.0	0.0	5.0	12.5	20.0	26.7	33.3	40.0	45.0	50.0	55.0	60.0
Valuation & Tax Base Forecast															
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Residential															
Appreciation / Value PSF	3.00%	\$250	\$258	\$265	\$273	\$281	\$290	\$299	\$307	\$317	\$326	\$336	\$346	\$356	\$367
Annual Increase / Total Tax Base	2.00%	\$0	\$0	\$0	\$0	\$103,546,811	\$212,270,962	\$326,369,192	\$446,044,972	\$571,508,718	\$702,978,026	\$840,677,893	\$984,840,967	\$1,135,707,788	\$1,301,971,114
Retail															
Appreciation / Value PSF	3.00%	\$486	\$501	\$516	\$532	\$547	\$564	\$581	\$598	\$616	\$635	\$654	\$673	\$693	\$714
Annual Increase / Total Tax Base	2.00%	\$0	\$0	\$0	\$0	\$0	\$56,387,091	\$115,593,536	\$117,905,407	\$120,263,515	\$122,668,786	\$125,122,161	\$127,624,605	\$130,177,097	\$132,780,639
Office															
Appreciation / Value PSF	3.00%	\$312	\$321	\$331	\$340	\$351	\$361	\$372	\$383	\$395	\$407	\$419	\$431	\$444	\$458
Annual Increase / Total Tax Base	2.00%	\$0	\$0	\$0	\$0	\$0	\$36,122,980	\$74,052,109	\$121,520,595	\$171,318,074	\$223,532,514	\$228,003,165	\$232,563,228	\$237,214,492	\$241,958,782
Tax Increment Forecast															
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Tax Base		\$0	\$0	\$0	\$0	\$103,546,811	\$304,781,033	\$516,014,838	\$685,470,974	\$863,090,308	\$1,049,179,326	\$1,193,803,219	\$1,345,028,800	\$1,503,099,377	\$1,676,710,535
Less: Base Valuation Assessment	\$29 psf	\$0	\$0	\$0	\$0	(\$6,316,200)	(\$15,790,500)	(\$25,264,800)	(\$33,686,400)	(\$42,108,000)	(\$50,529,600)	(\$56,845,800)	(\$63,162,000)	(\$69,478,200)	(\$75,794,400)
Incremental Assessed Value		\$0	\$0	\$0	\$0	\$97,230,611	\$288,990,533	\$490,750,038	\$651,784,574	\$820,982,308	\$998,649,726	\$1,136,957,419	\$1,281,866,800	\$1,433,621,177	\$1,600,916,135
Annual Property Tax Revenue (Increment)	1.12%	\$0	\$0	\$0	\$0	\$1,086,348	\$3,228,862	\$5,483,101	\$7,282,324	\$9,172,753	\$11,157,814	\$12,703,112	\$14,322,170	\$16,017,706	\$17,886,876
Less: Pass-through	32.00%	\$0	\$0	\$0	\$0	(\$347,631)	(\$1,033,236)	(\$1,754,592)	(\$2,330,344)	(\$2,935,281)	(\$3,570,500)	(\$4,064,996)	(\$4,583,094)	(\$5,125,666)	(\$5,723,800)
Revenue to City		\$0	\$0	\$0	\$0	\$738,717	\$2,195,626	\$3,728,509	\$4,951,980	\$6,237,472	\$7,587,313	\$8,638,116	\$9,739,075	\$10,892,040	\$12,163,076



Ballpark Use

To estimate the property taxes generated by the ballpark, we have assumed total construction costs of approximately \$40 million. Based on the property tax rate of 1.11729%, the estimated annual property taxes generated is approximately \$447,000.

The following table demonstrates the bonding capacity strictly related to the ballpark property taxes. We have assumed a base assessed value of \$29 per square foot of land, which was determined by analyzing property tax records for the surrounding area. The total tax increment generated from the ballpark is approximately \$237,000 annually. Based on a discount rate of 4.5% and a term of 25 years, the bond value is estimated at approximately \$3.5 million.

Ballpark Area

Property Taxes and Bonding Capacity

Acres		14.89
\$/S.F. of Land		\$29
Assessed Value		\$18,809,644
Prop Taxes	1.11729%	\$210,158
New Ballpark Property Taxes		\$447,000
Tax Increment		\$236,842
Bond Value		\$3,511,939



ECONOMIC & FISCAL IMPACTS

The purpose of this section is to detail the economic and fiscal impacts in addition to the tax increment and bonding capacity of the City.

Sales Tax Revenue

Retail Uses

The total retail space assumed on the 150-acre site is 200,000 square feet. Based on our research, we have applied an average sales volume of \$250 per square foot, which results in a total annual sales volume of \$50 million.

As the following table details, the estimated annual sales tax revenue at a rate of 8.75% is approximately \$4.4 million. This revenue is divided between the County and City revenue of \$750,000 per year and the State of \$3.6 million per year.

Proposed Sports Entertainment District Estimated Annual Sales Tax Revenue from Retail Uses		
Retail S.F.		200,000
Annual Sales Volume PSF		\$250

Subtotal Annual Taxable Sales		\$50,000,000
Total Annual Taxable Sales		\$50,000,000
	<u>Tax Rate</u>	<u>Total</u>
County Transportation Funds	0.25	\$125,000
City and County operations	0.75	\$375,000
<u>San Diego Regional Transportation Commission</u>	<u>0.5</u>	<u>\$250,000</u>
Total Local Sales Taxes	1.5	\$750,000
State's Share	7.25	\$3,625,000
Total Annual Sales Tax Revenue	8.75	\$4,375,000

Source: The London Group Realty Advisors, CA State Board of Equalization



Ballpark Use

The following table details the sales tax impact as it relates to the ballpark activities. Based on our conversations with the owners, there are anticipated to be 71 games per year with an average attendance of 6,760 people per game. The estimated annual concession sales are approximately \$2.6 million per year. We have assumed that 40% of this figure is subject to sales tax (namely alcohol sales) since most food items are not taxed. By adding an estimated \$550,000 in retail sales, the total taxable sales related to ballpark activities is approximately \$1.6 million per year.

Based on a sales tax rate of 8.75%, there is approximately \$140,000 generated in sales tax revenue. This is divided between approximately \$24,000 captured by the county and city and \$116,000 by the State.

Proposed Sports Entertainment District		
Estimated Annual Sales Tax Revenue from Ballpark Operations		
Ballpark Related Sales		
Ballpark Capacity (Seats)		10,000
Attendance %		68%
<u>Average Attendance</u>		<u>6,760</u>
No. of Games Per Year		71
No. of Attendees Per Year		479,960
Estimated Concessions		\$2,620,000
<u>% Concession Taxable</u>		<u>40%</u>
Concession Taxable		\$1,048,000
<u>Estimated Retail Sales</u>		<u>\$550,000</u>
Total Annual Ballpark Taxable Sales		\$1,598,000
Total Annual Taxable Sales		\$1,598,000
	<u>Tax Rate</u>	<u>Total</u>
County Transportation Funds	0.25	\$3,995
City and County operations	0.75	\$11,985
<u>San Diego Regional Transportation Commission</u>	<u>0.5</u>	<u>\$7,990</u>
Total Local Sales Taxes	1.5	\$23,970
State's Share	7.25	\$115,855
Total Annual Sales Tax Revenue	8.75	\$139,825

Source: The London Group Realty Advisors, CA State Board of Equalization



Hotel TOT Revenue

We have assumed that two hotels could be built in the Sports Entertainment District. Each hotel comprises 200 rooms for a total of 400 hotel rooms. Assuming an average daily rate (ADR) of \$125 and an annual occupancy of 75%, the total revenue generated from room sales is approximately \$13.7 million. As the following table demonstrates, the total annual transient occupancy tax (TOT) revenue generated is approximately \$1.4 million per year.

Proposed Sports Entertainment District Estimated Hotel TOT Revenue	
N of Washington	
No. of Hotels	1
<u>Av. Room Count</u>	<u>200</u>
Total Number of Rooms	200
<hr/>	
Av. Occupancy	75%
Average Daily Rate (ADR)	\$125
Annual Revenue from Room Sales	\$6,843,750
S of Washington	
No. of Hotels	1
<u>Av. Room Count</u>	<u>200</u>
Total Number of Rooms	200
<hr/>	
Av. Occupancy	75%
Average Daily Rate (ADR)	\$125
Annual Revenue from Room Sales	\$6,843,750
Total Revenue from Room Sales	\$13,687,500
TOT Tax Rate	10.5
Annual Hotel TOT Revenue	\$1,437,188

Source: The London Group Realty Advisors



Jobs & Wages Creation

The office and retail space in Phase 1 and Phase 2 of development will directly result in new jobs and wages. The following table demonstrates the creation of office jobs for the 560,000 square feet of new office space. Phase 1 is estimated to create 800 to 900 office jobs and \$40 million to \$58.5 million in employee wages. Phase 2 is estimated to create 1,440 to 1,620 office jobs and \$72 million to \$105 million in employee wages. The total combined job creation ranges from 2,240 to 2,520 new office jobs and \$112 million to \$164 million in employee wages.

Office Jobs & Wages 560,000 S.F. of Office								
	PHASE 1				PHASE 2			
Total Office Space (S.F.)	200,000				360,000			
Stabilized Occupancy Rate	90%				90%			
Occupied Office Space (S.F.)	180,000				324,000			
Square Feet Per Employee Office Jobs	Low		High		Low		High	
	225		200		225		200	
	800		900		1,440		1,620	
Office Wage Per Employee	Low	High	Low	High	Low	High	Low	High
	\$50,000	\$65,000	\$50,000	\$65,000	\$50,000	\$65,000	\$50,000	\$65,000
Total Office Wages	\$40,000,000	\$52,000,000	\$45,000,000	\$58,500,000	\$72,000,000	\$93,600,000	\$81,000,000	\$105,300,000

Sources: The London Group Realty Advisors, CA Board of Equalization

The following table demonstrates the creation of retail jobs for the 200,000 square feet of new retail space. We estimate there to be a range of 1,027 to 1,118 new retail jobs and \$20.5 million to \$33.5 million in employee wages.

Retail Jobs & Wages 200,000 S.F. of Retail				
	PHASE 1			
Total Retail Space (S.F.)	200,000			
Stabilized Occupancy Rate	95%			
Occupied Retail Space (S.F.)	190,000			
Square Feet Per Employee Retail Jobs	Low		High	
	185		170	
	1,027		1,118	
Retail Wage Per Employee	Low	High	Low	High
	\$20,000	\$30,000	\$20,000	\$30,000
Total Retail Wages	\$20,540,541	\$30,810,811	\$22,352,941	\$33,529,412

Sources: The London Group Realty Advisors, CA Board of Equalization

The total combined impact for the office and retail development, which excludes the ballpark activities ranges from 3,267 to 3,638 new jobs and \$133 million to \$197 million in employee wages.