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## MEMORANDUM

DATE: April 24, 2006.

TO: City of San Diego Planning Commission

FROM: Murtaza H. Baxamusa, AICP

SUBJECT: Economic Prosperity Element of the General Plan

### SUMMARY

This memo outlines the symbiotic relationship between land-use and economic prosperity. This relationship is considerably significant for low-income households in the city. The following arguments are presented for inclusion of socio-economic issues in the General Plan:

- California requires economic issues to be addressed in planning
- The plan update needs to be consistent with the Strategic Framework
- Economic development is integral to smart growth
- Economic planning is critical to comprehensive planning

### I. LAND-USE IMPACTS ON LOW-INCOME EMPLOYEE HOUSEHOLDS

The General Plan will considerably impact low-income families in employment, housing, mobility and livability. The Plan either explicitly, or through its silence, will determine both the demand as well as the supply of new development in the City. A minimum wage worker (earning \$6.75 an hour) needs to work 132 hours a week to afford a two-bedroom unit at the HUD's Fair Market Rent in San Diego. Alternatively, a San Diegan needs to earn \$22.27 per hour to afford a two-bedroom unit.<sup>1</sup> In addition, an average household spent \$9,161 on transportation in 2000/01 (\$4.40 per work hour).<sup>2</sup> For lower-income families, the expense of transportation poses an even greater burden, inhibiting wealth creation, hindering home ownership, and dangerously straining already tight family budgets.<sup>3</sup>

The Economic Prosperity Element should be concerned with increasing choices in employment, housing, mobility, and livability for the low and middle-income population. Total employment in the City of San Diego is expected to grow 26% by 2030.<sup>4</sup> Thus about 200,000 jobs will be created during this period.

<sup>1</sup> National Low Income Housing Coalition, Out of Reach 2005, based on US HUD and Census 2000 data.

<sup>2</sup> US Bureau of Labor Statistics, Consumer Expenditures Survey, 2000-01.

<sup>3</sup> Surface Transportation Policy Project, The American Dream, 2003.

<sup>4</sup> SANDAG 2030 Population/Housing/Employment Forecast by Jurisdiction.

About 4,050 acres of vacant developable land will be developed for commercial, industrial and office uses. Employment choices to a great extent determine choices in other quality of life issues. And employment choices are created, regulated and sustained by employment land-use development.

The following tables and figures demonstrate that land-use, industry and occupation considerably determine wages and benefits of households in the city.

**Table 1: Disparity in Health Insurance Coverage by Industry**

Industry	Uninsured	Medicaid	Other Public	Employment-based	Privately Purchased
Construction	32.4%	8.1%	1.4%	50.1%	7.7%
Wholesale and Retail Trade	16.1%	9.5%	1.5%	65.5%	7.2%
Information	10.4%	2.8%	0.8%	80.7%	5.3%
Financial Activities	7.9%	2.9%	1.5%	78.4%	9.3%
Professional and Business Services	16.7%	5.3%	1.3%	67.6%	9.0%
Leisure and Hospitality	31.6%	12.0%	1.5%	45.3%	9.3%

Source: 2003 California Health Interview Survey, statewide averages, University of California Los Angeles.

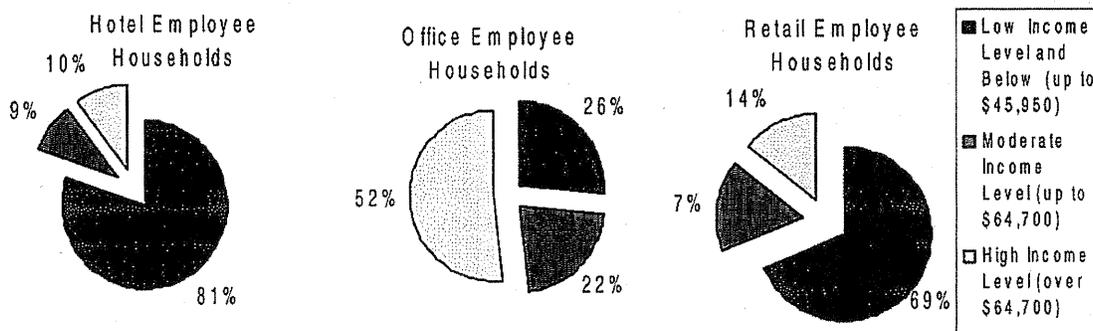
**Table 2: Sample of Low-Income Households by Occupation**

SIC Code	Occupational Title	Number of Jobs	Entry Level			Median (50th Percentile)		
			Hourly Wage	Annual Income	Annual Household Income	Hourly Wage	Annual Income	Annual Household Income
25-2011	Preschool Teachers	4,610	\$8.84	\$18,387.20	\$29,603.39	\$11.04	\$22,963.20	\$36,970.75
33-9032	Security Guards	11,550	\$7.88	\$16,390.40	\$26,388.54	\$9.80	\$20,384.00	\$32,818.24
29-2071	Health Information Techn	1,360	\$9.56	\$19,884.80	\$32,014.53	\$12.94	\$26,915.20	\$43,333.47
43-6013	Medical Secretaries	1,540	\$10.39	\$21,611.20	\$34,794.03	\$13.08	\$27,206.40	\$43,802.30
43-9061	Office Clerks, General	32,770	\$8.36	\$17,388.80	\$27,995.97	\$11.55	\$24,024.00	\$38,678.64
43-5081	Stock Clerks / Order Fillers	13,470	\$8.06	\$16,764.80	\$26,991.33	\$10.68	\$22,214.40	\$35,765.18
39-9011	Child Care Workers	3,260	\$7.82	\$16,265.60	\$26,187.62	\$9.69	\$20,155.20	\$32,449.87

Source: Occupational Employment (November 2004) & Wage (2005 - 3rd Quarter) Data from the 2004 Occupational Employment Statistics (OES) survey. The wages have all been updated to the third quarter of 2005 by applying the US Department of Labor's Employment Cost Index to the 2004 wages.

Note: Household income assumes 1.61 wage-earners per household (based on US Census 2000 estimate for earners/household).

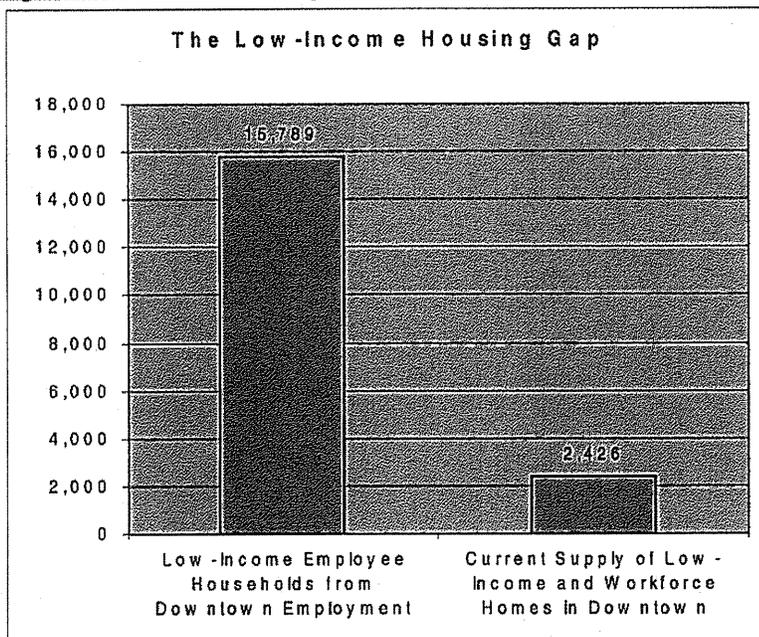
**Figure 1: Proportion of Low-Income Households that is Dependent on Land-Use**



Source: Keyser Marston Associates' Jobs Housing Balance report for the Centre City Community Plan Update, Table 1.

The employment impacts from land-use decisions have significant effects on the quality of life for the entire community. For example, even with the redevelopment tools, downtown is not able to generate affordable housing for low-income employment created by the new development. There is a current regional demand of 15,789 low-income housing units from low-income employee households created downtown.<sup>5</sup> However, downtown redevelopment has supplied only 2,426 low-income and workforce units.<sup>6</sup> From San Diego commuting patterns, approximately 58% of people holding jobs in the City also reside in the City.<sup>7</sup> Therefore, about 6,732 households with members working downtown, are currently looking for low-income affordable housing (whether “naturally affordable” or “income restricted”) in rest of the City of San Diego.

Figure2: The Jobs-Housing Imbalance in Downtown



Sources: Current supply from Centre City Development Corporation 2006 Annual Report. Current demand from Community Plan (January 2006 version) Table 3.2; proportional distribution of employee households by income category from Keysor Marston Associates' Jobs Housing Balance report Table 1; per Census 2000 data, City of San Diego had 1.61 earners per household.

<sup>5</sup> Based on 25,420 low-income employment downtown.

<sup>6</sup> Centre City Development Corporation, 2006 Annual Report.

<sup>7</sup> US Census 2000.

## II. INCLUSION OF SOCIO-ECONOMIC ISSUES IN GENERAL PLAN

This section highlights key arguments and substantial issues about including economic prosperity in the General Plan.

### **(1) California requires economic issues to be addressed in General Plans**

Local governments get their planning authority from police power conferred by the state.<sup>8</sup> The California Supreme Court has described the general plan as “a charter for future development”. *Leshner Communication Inc. v. City of Walnut Creek* (1990) 52 C3d 531, 540, 277 CR 1 and *Citizens of Goleta Valley v. Board of Supervisors* (1990) 52 C3d 553, 570, 276 CR 410. It is statutorily established that the General Plan is not just a land-use map, but has broad authority to guide the quality, distribution and impacts of development (see Government Code Section 65300 et seq).

California State Planning and Zoning law specifically states that social and economic development factors should be included in the planning process (Government Code Section 65030.1). State law in fact requires that the planning process address economic implications:

It is further the policy of the state and the intent of the Legislature that land use decisions be made with full knowledge of their *economic and fiscal implications*, giving consideration to short-term costs and benefits, and their relationship to long-term environmental impact as well as long-term costs and benefits.

*(Government Code Section 65030.2)*

State guidelines recommend the Economic/Fiscal Element as an optional element in the general plan, since economic issues are central to land-use decisions:

...The general plan serves to: Identify the community’s land use, circulation, environmental, *economic, and social goals and policies* as they relate to land use and development.

*(General Plan Guidelines, 2003, The Governor’s Office of Planning and Research, pg. 10)*

The structure of a city’s or county’s economy plays an important role in the physical development of the planning area and the stability of the local tax base.

*(General Plan Guidelines, 2003, The Governor’s Office of Planning and Research, pg. 109)*

### **(2) The Economic Prosperity Element needs to be Consistent with the Strategic Framework Plan**

The Economic Prosperity Element is required to follow the implementation program laid out by the Action Plan of the Strategic Framework:

The Five-Year Action Plan is an implementation program for updating the General Plan, amending community plans, and identifying other steps necessary to execute the City of Villages growth strategy.

*(Strategic Framework Action Plan, page 1.)*

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<sup>8</sup> Dillon’s Rule.

The Action Plan approved by the City Council in June 2002 explicitly calls for “high quality employment opportunities”:

Action Plan Goal 7: Promote Economic Prosperity and Regionalism

Retain and attract businesses that diversify the economic base and offer high quality employment opportunities.

Goal 7e: Economic Impact: Consider the economic and fiscal impacts of major development projects for use in the decision-making process.

- Consider wage levels of jobs created and new development impact on viability of existing uses in the community.
- Prepare economic impact statements for selected projects.
- Define "major development project" and identify what impacts should be addressed through the economic impact statements.

**(3) Economic Development Principles are an Integral Part of Smart Growth**

A “smart growth” approach must integrate economic issues into planning:

Smart Growth is development that serves the *economy*, the community, and the environment. (*California Planning Guide, The Governor’s Office of Planning and Research, 2005, page 8*)

Smart growth means using comprehensive planning to guide, design, develop, revitalize and build communities for all that:

- have a unique sense of community and place;
- preserve and enhance valuable natural and cultural resources;
- *equitably distribute the costs and benefits of development;*
- *expand the range of transportation, employment and housing choices in a fiscally responsible manner;*
- value long-range, regional considerations of sustainability over short term incremental geographically isolated actions; and
- promotes public health and healthy communities.

(*American Planning Association, Policy Guide on Smart Growth, adopted 2002*).

In 1991, the Local Government Commission brought together a group of architects who have been leaders in developing new notions of land use planning. These innovators were asked to come to agreement about what it is that the new planning ideas - from neotraditional planning to sustainable design- have in common, and from there, to develop a set of community principles. These principles have been known as the Ahwahnee Principles and used in urban planning throughout the country. The Ahwahnee Principles for Economic Development (adopted in 1997), are based on the hypothesis that economic prosperity in the 21<sup>st</sup> century will be based on creating and maintaining a sustainable standard of living and a high quality of life for all. Some of these principles are:

- Integrated approach between government, business, education, and the community should work together to create a vibrant local economy, including a long-term strategy that increases social equity.

- Poverty reduction by promoting jobs that match the skills of existing residents, improving the skills of low-income individuals, addressing the needs of families moving off welfare, and insuring the availability in all communities of quality affordable child care, transportation, and housing.
- Communities and regions should identify specific gaps and niches their economies can fill, and promote a diversified range of specialized industry clusters drawing on local advantages to serve local and international markets.

*(Local Government Commission, Ahwahnee Principles, 1997)*

#### **(4) Economic Planning is Critical to Comprehensive Planning**

Addressing broad socio-economic impacts in comprehensive community planning is a routine professional practice in planning:

The American Planning Association and its chapters support a sustained and focused initiative in federal, state and local public policy to reverse the general decline of urban neighborhoods and the trend toward isolated, concentrated poverty through strategies that promote reinvestment within urban communities.

*(American Planning Association, Policy Guide on Smart Growth, Policy D1, Adopted 2002)*

The State of California Governor's Office of Planning and Research defines the planning process as:

The planning process involves analyzing the environmental and *socio-economic impacts* of development and infrastructure projects.

*(California Planning Guide, The Governor's Office of Planning and Research, 2005, page 1)*

The standard textbook for local planning also referred to as the *Green Bible for Planners* calls for "socially conscientious planning". It describes community development and economic development as integral to planning as zoning and urban design. *(Linda C. Dalton, Charles Hoch and Frank S. So, 2000, Practice of Local Government Planning)*

Comprehensive planning should include employment issues related to low-and moderate income households such as self-sufficiency wage levels, career ladders, access to healthcare, affordable housing, and childcare.

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## **The History of Economic Development Efforts in San Diego**

To date, the City's economic development and redevelopment functions have been performed primarily by the Community & Economic Development Department (CED) which is now part of the City Planning and Community Investment Department. The local administration of redevelopment project areas was the Department's original function and activities were generally limited to a few areas within the City's urban core. Redevelopment is the core economic development function of California's older urbanized cities and is considered necessary to ameliorate conditions of physical blight which often arise due to the functional obsolescence of older structures. The construction of newer suburban developments, especially retail establishments, has led to increased vacancies and the underutilization of these older structures. The adoption of redevelopment project areas provides the Redevelopment Agency with the financial resources to assemble smaller parcel and to subsidize and encourage new investment in these older areas. Since that time, additional functions related to urban revitalization, revenue generation, and job creation have been added in order to address issues which stem from growth and economic change.

In the mid 1980's, the State of California introduced a new tool for urban revitalization – the Enterprise Zone. The City of San Diego applied for and received an Enterprise Zone designation for a defined geographic area in the central core of the city. This area (now known as the Metropolitan Enterprise Zone) was then known for its two most prominent communities, Barrio Logan and Southeast San Diego. Pursuant to its agreement with the State of California, the City created its own local Enterprise Zone program which included dedicated full-time staffing, collaborative partnership agreements with local job-training and other agencies, plus local development incentives. A second Enterprise Zone (now know as the South Bay Enterprise Zone) was designated by the State in 1992, this one known by its two most prominent communities – San Ysidro and Otay Mesa.

In the early 1990's, the City of San Diego was heavily impacted by the end of the Cold War and the commensurate reduction of defense spending. Like other cities in southern California, San Diego had become heavily reliant on the aerospace industry as an economic engine of growth. The City's largest employer General Dynamics had begun a significant phase-out of its missile and aircraft production facilities in the Midway and Kearny Mesa communities. Other factors, such as the lingering effects of the saving and loan debacle, the rapidly rising costs of workmen's compensation insurance, business regulations and environmental compliance costs also contributed to a local economic downtown which was relatively deeper and longer than that experienced by the nation as a whole.

A group of local business, labor, and government leaders formed an Economic Development Task Force in 1991 and recommended a number of policy actions designed to stimulate economic growth at the local level. These recommendations included permit "streamlining", reductions in local development fees, expansion of inter-agency partnerships to improve communication and collaboration, support for small businesses, support for job training initiatives, and increased funding for economic development activities. Support for base sector industries including manufacturing, tourism, and international trade was to be a significant policy focus.

As a result of the efforts and recommendations of the economic development task force, the City Council adopted Council Policy 900-12, the Business & Industry Incentive Program. This program represented a significant departure from previous efforts and programs which targeted assistance and incentives to the designated urban core areas. This was the first official program aimed at increasing economic prosperity for the whole of San Diego by providing assistance to businesses citywide. The first business assisted through this program was Sony Electronics, Inc. a multinational company with a major manufacturing operation in the community of Rancho Bernardo. Since then hundreds of other businesses throughout the City has been assisted through this program. The result has been the creation of thousands of jobs and millions of dollars of new tax revenues.

Until recently, most of the citywide economic development efforts have focused on high-tech industry clusters identified by SANDAG pursuant to strategies and research developed by Prof. Michael Porter at Harvard University. These high-tech clusters are Biotechnology, Business Services, Defense, Electronics, Software, and Telecommunications. These “traded clusters” were identified as being the principal drivers of the “New Economy” in San Diego County and a clearly defined economic strategy was promulgated by former Mayor Susan Golding in a 1996 document titled: *Charting a Course for the 21<sup>st</sup> Century – A Strategic Economic Plan for San Diego’s “New Economy”*. This focus on “traded clusters” is similar to many local economic development strategies which focus on the economic base of the local community – this base being essentially the aggregate of those economic sectors and industries which bring wealth into the community by trading goods and services with other communities. This effort has been a qualified success story. San Diego successfully diversified its industrial base and reduced its reliance on the defense industry and uniformed military as hundreds of new high-tech firms flourished in San Diego during the nation’s high-tech boom period of 1995-2000.

Unfortunately, during the period from 2000 to present, globalization and the high costs of doing business in California greatly accelerated the loss of manufacturing jobs including even high-tech industries. Responding to pressure for lower prices from retailers and their consumers, multinational corporations began to rapidly rationalize production by moving manufacturing operations directly to lower cost states and off-shore locations, or by outsourcing these functions to third party contract manufacturers who have mastered global supply-chain management systems. This loss of middle-income blue collar jobs contributed to a situation which has long plagued San Diego – the inability to create good “move-up” jobs for existing residents. Many of the largest industrial corporations have retained or even expanded their research and development operations within San Diego while at the same time reducing or eliminating the production and distribution functions here. See Attachment 2b for further information.

Prepared by the Community and Economic Development Department, March 2005

## The Significance of Manufacturing, Research and Development, Logistics Services and Distribution to the City of San Diego

### **I. The Loss of Middle-Income Employment**

Statistics recently published by the San Diego Chamber of Commerce - Economic Research Bureau underscore the impact of these manufacturing job losses. The Chamber's ERB breaks out San Diego's occupational categories into three categories – high, middle, and low. The lower-income jobs are those that pay less than \$25,000/year (\$12/hour), the middle-income jobs are those that pay \$25,000-50,000 (\$12.00 - \$24.00/hour) and the higher-income jobs being those paying in excess of \$50,000 annually. For the period 1999-2002, the lower-paying jobs increased in number by 11 percent, the middle-paying jobs increased 4 percent, and the higher-paying jobs increased in number by 8 percent. Without correlation to the size of these existing groups, it is clear that San Diego's economic policies are resulting in the creation of substantial numbers of jobs in the lower and higher income brackets, and much less in the middle income bracket. Despite the fact that 63 percent of all jobs in the year 2000 paid middle income bracket (\$25,000 - \$50,000) wages and salaries, only 43 percent of the jobs created in the period 1999-2002 fell into this category. Sixty-seven percent of the new jobs fell into either the lower bracket (a 30 percent gain) or the higher bracket (a 27 percent gain). Clearly, the high tech industrial businesses were adding new high-paying science and engineering jobs while eliminating manufacturing and distribution jobs. Professional services firms (law, finance, insurance, and real estate) were also adding new jobs at the high end, and the retail and tourist industry were adding jobs to the lower paying bracket. Several sources indicate that approximately 5,200 manufacturing jobs were lost during this period. These conditions create an "hour-glass" economy in the region resulting in increased income, social, and spatial disparities. These disparities in turn impose increased public service costs on the City.

### **II. The Significance of Manufacturing and Research and Development**

Globalization has rendered it infeasible to conduct many types of manufacturing and even some research and development (R&D) operations in the U.S. The situation in California is even more severe as high operating costs and real estate costs have rendered infeasible many types of high-technology production operations within the state, and especially in high-cost coastal cities like San Diego. With some exceptions, most types of consumer product manufacturing, in particular home electronics, medical device manufacturing, electronic component manufacturing, and much of the related R&D functions have been moved to cheaper states and countries.

However, San Diego remains strong its ability to compete for manufacturing and R&D operations which have one or more of the following characteristics: (1) classified security and defense systems purchased by the U.S. government including weapons systems, telemetry and avionics systems, inspection and screening devices, training systems, communications systems, and reconnaissance systems (2) high-technology drugs, therapeutics, and medical diagnostics regulated by the FDA (i.e. biotechnology), (3) products which are highly proprietary, or are manufactured to extremely exacting tolerances in low volumes for demanding (usually business) customers, and (4) the distribution of products and sub-assemblies made in Mexico.

San Diego has a comparative advantage in these industries for primarily two reasons: (1) very high labor quality including ex-military personnel with security clearances, and (2) proximity to

Mexico which has its own comparative advantage in the manufacturing of high quality and high-technology products in high production volumes, where national security, product safety, and intellectual property concerns are not a major consideration. In order to remain competitive, San Diego's industrial firms have either sold off divisions or business units which make the more commercial or consumer products, while retaining in San Diego those divisions or business units which make the higher-end products for government consumers, or prototype/pilot manufacturing of new valuable high-technology products for consumers.

### **III. The Significance of Logistics Services and the Distribution Function of Manufacturers**

The globalization of the world economy is a result of a great variety of factors including competition between multinational corporations, increased labor skill levels in "low labor cost" producer nations, the rising power and influence of major general merchandise retailers, and technological innovations which have made it possible to construct longer, larger, and more complex global supply-chain management systems. This trend towards globalization has resulted in the movement of manufacturing jobs to cheap-labor counties at an alarming rate. Over the last five years, San Diego has lost over 5,000 manufacturing jobs with good pay and benefits and which are available to local residents because they do not require advanced college degrees.

However, California cities have successfully replaced some of these lost manufacturing jobs with new jobs created in large warehouse operations called distribution centers (DC's). As global supply chain systems shift manufacturing to off-shore locations the distribution functions are reorganized. Many distribution functions are still performed by manufacturers and retailers, but are now frequently provided by third party logistics companies (3PL's). The operation of these large DC's by manufacturers and 3PL's has become a very competitive industry where efficiency, flexibility, and speed are of paramount importance. Retailers are constantly modifying their orders for "floor ready" merchandise to respond to fluctuating consumer demand. Many of the packaging, labeling, and re-packaging functions formerly performed by manufacturers and retailers at one end of the supply chain distribution system are increasingly now performed in the middle of the system at the DC's. These value-added functions require higher labor quality and frequently pay wages and benefits in the middle income range, much like the traditional manufacturing jobs.

West coast cities with ports-of-entry are now aggressively competing to be selected for the sites of new distribution centers. These regional DC's provide cities with an important means of expanding their economic base and providing local residents with these choice blue collar job opportunities. San Diego's unique location directly adjacent to the Mexican border also allows it to participate in the quest for new distribution centers operated by companies distributing goods made in Mexico. Manufacturers operating in Mexico are able to compete effectively against manufacturers operating in Asia due to advantages derived from a much shorter "time-to-market." The resultant lower inventory costs can, in many instances, offset the lower labor costs enjoyed by Asian manufacturers. As a result, in the last two years, several new distribution centers representing over one million square feet have been constructed in San Diego, mostly in Otay Mesa.

Prepared by the City of San Diego Economic Development Division, April 28, 2006.

## **Industrial Land Supply, Demand, and Intensification**

### **I. The Industrial Land Supply and Demand**

In San Diego, the shrinking supply of industrial land and its rapidly rising cost is the most frequent subject of the quarterly and annual reports published by commercial/industrial real estate brokerage firms. Several such reports maintain that San Diego's mid-county submarkets only have sufficient available vacant industrial land for one more market upswing or "boom" period. Industrial land prices have essentially quadrupled in price during the last ten years, rendering many industrial activities infeasible. Even in value-oriented Otay Mesa, prices for finished industrial lots are approaching \$14 per square foot, a 500% increase over 1996 prices for identical properties. A recent study completed in 2005 by the San Diego-based industrial brokerage firm Grubb & Ellis concluded that: "The single most important attribute shaping real estate fundamentals in the industrial arena in 2005 and beyond is the lack of developable land countywide. Land pricing, consequently continues to skyrocket."

High land prices consequently translate into high lease rates and occupancy costs for manufacturers and other industrial space users. This same G&E report included a nationwide survey of asking lease rates for 1-story "warehouse-distribution" space and 2-story "R&D-Flex" space. This survey showed that San Diego had the third highest rental rates for warehouse-distribution space (behind only Orange County and Washington DC) and the second highest rates for R&D-flex space (second only to Riverside-San Bernardino).

According to the CoStar Group, the San Diego County industrial market has approximately 178 million square feet (MSF) of existing industrial space. Other research and brokerage firms provide similar figures. A recent study (2004) by Economics Research Associates (ERA) estimated that by 2030 San Diego would need to add approximately an additional 77 (MSF) of "industrial, distribution, and R&D space" to keep pace with demand.

Net-to-gross acreage yields for industrially-designated land in the north city-north county area consistently average approximately 50%. In topographically flat areas like Otay Mesa, the typical net-to-gross yields improve to an average of about 80%. Taking the average of the two yields (65%) and applying it to a gross acre of un-entitled industrial land yields 28,314 square feet of net developable industrial land per acre. Using a 0.5 floor area ratio (typical for 2-story R&D flex developments) it is clear that each gross acre will yield approximately 14,157 square feet of industrial space. Dividing 77 MSF by the per acre net space yield of 14,157 it is clear that San Diego County as a whole will need approximately 5,440 gross acres (3,536 net acres) of industrially designated land dedicated solely to industrial uses in order to keep the industrial land market in balance and avoid economic dislocations and job loss.

Unfortunately the inventories of vacant developable land for San Diego are inconsistent, outdated, or imprecise. Estimates by the San Diego Association of Government (SANDAG) in their recent studies indicate an available inventory of approximately 7,500 acres. However these figures do not account for absorption which has occurred since 2000, nor do they account for political, environmental, and infrastructure constraints which will certainly reduce the amount of land which is potentially developable through the subdivision process. The studies do not consider net out the fully-entitled net acres which will be absorbed by non-industrial uses such as commercial stores, professional offices, medical uses such as clinics and hospitals, plus churches, schools, government offices and facilities and other uses which commonly absorb large amounts of industrial land, or land which has been or will be re-zoned for residential or purely commercial uses.

SANDAG's figures allocate approximately 3,000 acres of this total (40%) to communities within the City of San Diego. However City staff has been able to identify only about 400 fully-entitled net acres currently vacant and developable within the City. Permissive zoning, high land prices, institutional ownership, and current market trends indicate that approximately half of these 400 acres will be used for commercial retail, professional office, and institutional uses. Approximately 1,700 vacant gross acres are designated for industrial use and could be added to the industrial land supply at some point. Most of this property, approximately 1,500 acres, is in one community – Otay Mesa, which has restrictive industrial zoning. Assuming a net-to-gross yield for this community of 80%, the total net acres available in Otay Mesa is about 1,200. Approximately 200 net acres may be entitled in the Mission Gorge area of the Navajo Community. Thus the total citywide supply of vacant industrial acreage is about 1,600 acres (net), and this total assumes no changes in zoning, pricing, or market demand.

For the entire county, if the 7,500 total acres were similarly adjusted, they would yield 3,525 net acres available for industrial use in the short and long term, assuming all of these same factors (yields, zoning, pricing etc.) apply to the industrial land in the County's other cities. Accordingly, there would be only 3,525 acres countywide to satisfy demand for 77 MSF of industrial space. As noted above, the demand for 77 MSF of industrial space will require 5,540 gross acres (3,600 net) of industrially-designated land. The difference between these two figures, 7,500 and 5,540, indicates an excess of supply over demand of approximately 2000 acres.

However, as noted above, environmental, financial, and political factors may render many large parcels completely or partially un-developable, and there is substantial anecdotal evidence indicating that this is the already the case. Most cities throughout the county do not apply zoning ordinances which restrict the development of industrial lands to purely industrial uses and many large parcels have been recently rezoned for other uses. Rapidly rising land prices indicates that the market has already "priced in," these factors and that demand will continue to exceed supply in both the short and the long term at it has done for a very long time. Accordingly, realistic assumptions about these market externalities such as zoning, infrastructure spending, environmental constraints,

and political realities should clearly be taken into account when attempting to determine the actual supply of land available to meet the future demand for industrial space.

## **II. Intensification of Industrial Uses**

Some land use professionals have suggested that the cost and lack of availability of industrial land can be addressed by encouraging manufacturers to build vertical campuses using mid-rise or high-rise office buildings rather than the more traditional campus-type developments comprised of multiple low-rise buildings. The assumption is that low-rise campus-type developments represent an inefficient use of precious land resources and that San Diego manufacturers are now principally engaged in engineering/R&D and “corporate headquarters” activities which can be performed in an office setting.

This presupposition is correct as it relates to consumer product manufacturers such as those in the consumer electronics industries, telecommunications industries, software development, web development, and similar businesses. Many of these businesses operating in San Diego have responded to higher land prices in precisely this way, moving into taller buildings with smaller floor-plates and structured parking. It should be noted that, with the exception of Kearny Mesa, industrial zones in all other areas of the city allow an F.A.R. of 2.0 which permit multi-story office-type structures even larger than the one recently constructed in Sorrento Mesa by Qualcomm.

However this prescriptive remedy has a number of limitations and undesirable side effects. First, compact high-intensity developments with structured parking are very costly. Currently, only the most profitable manufacturers can, and will, construct such facilities in San Diego when cheaper alternatives exist elsewhere in the world. The advantages of being in San Diego must outweigh the cost benefits of those other alternatives.

Second, many of these industrial functions which can be performed in an office setting are in industries which are not growing steadily or very rapidly (e.g. the rapid rise and fall of “dot.com” businesses) or are in labor-intensive industries which are moving operations to other countries where labor costs are much lower and engineering talent is becoming more readily available.

Finally, as discussed above, San Diego seems to have a strong comparative advantage in the more capital intensive industries such as biotechnology and defense systems. The establishments operated by these manufacturers typically include some mix of actual manufacturing functions plus research & development functions. Even those which are not likely to manufacture products in San Diego use wet-labs for product research and development. These industrial activities require machinery, equipment, and infrastructure (electrical, mechanical, plumbing) which requires 15-20-foot floor-to-ceiling clear heights. Although a few manufacturers have recently constructed three-story buildings with these clear heights, the vast majority seem to prefer the traditional one-story with mezzanine or two-story industrial building. Also, large floor-plates are more efficient for both manufacturing and R&D activities due to lower cost per square

foot and the inherent flexibility which allows specific activities to expand or contract quickly as needed.

City staff evaluated the real estate owned or leased by San Diego's 25 largest manufacturers to determine the extent to which such firms are becoming more vertical. As shown in Exhibit 1, the vast majority (88%) still use one- or two-story industrial buildings, and of all the buildings being used by these manufacturers, 80% are 1 and 2-story industrial buildings, 9% are 3-story buildings, and only 11% are office buildings of 4 stories or more. Construction activity within the last five years among these 25 largest manufacturers has indicated a slight increase in the construction of mid-rise and high-rise buildings (7 and 3, respectively), but these same companies also constructed 14 low-rise buildings.

Overall, there is a direct correlation between the use of mid-rise and high-rise vertical buildings and profitability. The most profitable companies are responding to the real estate market by "going vertical". However, these companies represented a small minority of the sample. When land costs and land availability are removed from evaluation, the large floor-plate, 2-story, concrete tilt-up industrial building is still the most efficient from an operational perspective, and the most cost-effective overall for most companies. This explains why this building type is the most commonly-constructed building type for high-technology manufacturers.

While allowing some greater flexibility in design space availability, further increases in allowable intensity simply exchange high land costs for higher construction costs. This explains why even speculative office buildings in suburban markets still frequently surface-parked, and the number of stories is directly proportional to land costs.

In sum, companies have not yet been limited by existing floor area ratio regulations, except in Kearny Mesa. Thus, increases in allowable floor area ratios are not necessary at this time. The draft element encourages intensification of industrial uses while acknowledging that the operational requirements and financial limitations of most companies dictate the use of low-rise industrial buildings. That is why the element is focused on recognition of base sector *uses*, not controlling intensity since intensity is essentially a market-driven construct under current regulations.

## Economic Base and Non-Base Sector Industries

### **The Economic Base**

An “economic base” includes that economic segment of a defined geographical area which includes business establishments, institutions, and governmental agencies which create wealth for that area or region by providing products and services primarily to other people living outside that defined geographical area. By definition, the economic base is the economic engine of a geographically-defined area; it brings money or “wealth” into that area. The term generally applies to local regions or politically-defined areas which accommodate the employees of the establishments which comprise that economic base. Theoretically these businesses, institutions, and agencies can be located anywhere within a much larger geographical area, but for reasons related to accessing natural or human resources, physical infrastructure, climate, or other factors which create efficiencies and comparative advantages, have chosen to locate within the defined area.

In San Diego, the economic base is primarily comprised of establishments classified into two sectors and one sub-sector and a variety of industries and firms classified outside these major categories. The two major sectors are: the Manufacturing sector, the Visitor Industry sector. Additionally, San Diego’s economic base includes the National Security & International Affairs sub-sector, plus a variety of unrelated establishments from other sectors such as the Retail Trade sector, the Information sector and other establishments providing administrative or financial services to businesses outside San Diego.

Still the largest economic sector in San Diego, the Manufacturing sector includes business establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. This sector includes businesses which have one or more activities or necessary and related support functions such as research & development, corporate headquarters/administration, sales/marketing, and product distribution. Manufacturers operating in San Diego may have all of these functions located here, or may have one or more of these functions located elsewhere. These manufacturers are increasingly dedicated to the production of highly proprietary and highly regulated products such as medicines and medical devices, weapons systems, and business equipment, all of which incorporate highly advanced technologies. Many of these manufacturers also provide related services to the same customers. They are attracted to San Diego’s highly skilled, well-educated human resources. These types of base sector uses will continue to seek locations to expand and locate in San Diego.

A growing component of the economic base are technology service industries which provide a variety of professional, scientific, and technical services primarily to clients outside the region. Policies in the EPE encourage the expansion of these industries, particularly in areas that can accommodate more intense employment uses.

The second sector is actually two sectors, the Accommodation and Food Services sector and the Arts, Entertainment, and Recreation sector, which comprise those establishments which primarily serve visitors to the San Diego region and are frequently referred to collectively as the “tourist industry.” These establishments are private businesses such as hotels, motels, inns, restaurants, nightclubs, sports franchises, and amusement parks. A number of other establishments are operated by governmental or non-profit organizations and include convention centers, museums, science centers, zoos, and historical attractions. Most of these establishments are located in San Diego because of the warm Mediterranean climate.

The National Security & International Affairs sub-sector (part of the Public Administration sector) has been a major and significant part of San Diego’s economic base since Naval Station San Diego was established here in 1922. Most of the establishments within this sub-sector are military bases operated by the Department of the Navy and range from traditional naval fleet operations, to Marine Corps training, to space warfare operations. The Department of the Navy has long-term historical roots in San Diego, significant land holdings, and is attracted to its calm Pacific-coast harbors, and a climate conducive to year-round training.

Like most communities, San Diego also has a number of unrelated business establishments which provide administrative services to their own retail outlets or services to governments, institutions, or other businesses located outside San Diego. These business establishments include the corporate headquarters offices of major retailers, “call centers” for insurance, sales, and customer service functions, and laboratories to provide technical services to other businesses. These businesses are frequently located in San Diego because they evolved from small proprietorships and partnerships whose owners live in San Diego.

### **The Non-Economic Base**

The non-economic base includes that economic segment which includes establishments that exchange the wealth created by the economic base for the provision of essential goods and services to the local population. These industries, by their nature, must be in close proximity to the population served (i.e. “customer base”) and they compete among themselves in the local component of the Retail Trade, Wholesale Trade, and Service sectors of the economy. The non-economic base also includes most governmental establishments, utilities, schools (both public and private), medical offices, clinics, and hospitals, churches, and many non-profit and charity organizations which serve the local population. These establishments that are not part of the economic base are closely tied to the local population and usually cannot provide their products and services effectively from outside the local area. They are thus “tied” to the local area they serve and lack the choice and mobility of the economic base establishments. The non-economic base establishments derive their existence from the payroll spending of employers in the economic base, thus their success, and in fact their survival, is highly dependent on the growth and stability of the economic base.

**Examples of Sectors, Sub-sectors, Industries, and Establishments**

Economic Base

Mining  
Mixing  
Manufacturing (including R&D)  
Petroleum Drilling and Refining  
Fishing  
Meat Packing  
Corporate Headquarters Office  
Amusement Parks  
West Coast Distribution Center  
Government Research Laboratory  
Laboratory  
Book and Magazine Publishing  
Software Development and Web Hosting  
Services  
Agriculture  
Services  
Medical Research Institute  
Hospitals  
IRS Service Center  
National Political Organization Office

Non-Economic Base

Rock Quarries/Concrete  
  
Construction  
Gasoline Service Stations  
Fish Markets  
Meat Markets  
Auto Insurance Office  
Movie Theaters  
Retail Trade  
Reference (testing)  
  
Newspaper Publishing  
Computer Repair and IT  
  
Local Produce Delivery  
  
Medical Offices and  
  
Local Government Office  
Law Offices and Court

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