Market and Economic Update

Fort Ord Regional Urban Design Guidelines

DRAFT

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prepared for:
Fort Ord Reuse Authority (FORA)
Dover, Kohl & Partners

STRATEGIC ECONOMICS

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I. INTRODUCTION

The Fort Ord Reuse Authority (FORA) commissioned the Dover, Kohl & Partners Team to develop a set of Regional Urban Design Guidelines that meet individual community objectives while also ensuring that private development projects and public improvements made across the multiple jurisdictions support the cohesive, sustainable reuse of the former Fort Ord – i.e., that the whole is greater than the sum of the parts. In particular, the design guidelines are intended to achieve the following six design principles included in the 1997 Base Reuse Plan (BRP):

> *Design Principle 1. Create a unique identity for the community around the educational institutions.*
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> *Design Principle 2. Reinforce the natural landscape setting consistent with Peninsula character.*
>
> *Design Principle 3. Establish a mixed-use development pattern with villages as focal points.*
>
> *Design Principle 4. Establish diverse neighborhoods as the building blocks of the community.*
>
> *Design Principle 5. Encourage sustainable practices and environmental conservation.*
>
> *Design Principle 6. Adopt regional urban design guidelines.*

Strategic Economics prepared this Economic and Market Update to inform the process of developing the design guidelines. As part of the analysis for this report, Strategic Economics assessed historic and projected demographic and employment growth trends in Monterey County, evaluated local real estate market conditions, and interviewed local brokers, developers, and economic development professionals. The analysis also included a review of the BRP, the 2012 Base Reuse Plan Reassessment (which included an extensive market and economic analysis[1]), and other previous studies related to economic trends, the real estate market, and development at the former Fort Ord. This report builds on the findings from the 2012 analysis, as well as on the many other market and economic analyses that have been conducted in recent years for Fort Ord,[2] but provides updated data and information that are specifically targeted towards informing the design guidelines.

The remainder of this introduction provides a summary of key findings from the report. Chapter II describes the development context in the former Fort Ord, including the economic opportunities and barriers that continue to shape the base's ongoing reuse. Chapter III reviews demographic, housing stock, and employment trends in Monterey County, and discusses the implications for residential and commercial development at Fort Ord. Chapters IV and V review recent trends in the residential and

[1] Economic & Planning Systems, Inc., "Ford Ord Base Reuse Plan Reassessment – Market and Economic Analysis," prepared for Fort Ord Reuse Authority, August 15, 2012.

[2] For example, these include the Monterey County Business Council, "Monterey County Economic Report: Competitive Clusters -- Status Report for 2010-2011;" Monterey County Health Department, "Strategic Plan: 2011-2015;" Urban Design Associates, "UC Monterey Bay Education, Science, and Technology Center Visioning Process," prepared for UC Santa Cruz and FOR A, November 2011; SRI International, "Economic Opportunities in Monterey County," prepared for the Monterey County Economic Development Committee, August 2011; SRI International, "Monterey County Economic Development Strategy: Monterey County Priority Economic Opportunities," prepared for the Monterey County Economic Development Department and the Economic Development Committee of the Monterey County Board of Supervisors, August 2013; Bay Area Economics, "Opportunities Analysis for Sites at Marina Municipal Airport Economic Development Area," prepared for City of Marina, June 2007; and reports conducted by Bay Area Economics and The Clark Group for FORA on affordable housing development.

commercial real estate markets, respectively, including a discussion of the short- and long-term potential for the market to deliver different types of development in Fort Ord.

SUMMARY OF KEY FINDINGS

This section summarizes the key conclusions from the analysis. The following chapters provide additional data and information on each of the findings discussed below.

Build-Out of the Base Reuse Plan

The Base Reuse Plan was based on assumptions about the pace of population and employment growth in Monterey County that have proven overly optimistic. The pace of growth envisioned in the 1997 BRP was based on projections that the Association of Monterey Bay Area Governments (AMBAG) published for the county in 1995. However, regional population and employment growth has been slower than was originally anticipated, and AMBAG's projections have been revised downwards over time. To date, only 7 percent of the new housing units and 16 percent of the new commercial square feet that the BRP projected would be built by 2015 have been completed (see Figure II-2 in Chapter II).

At the rate of growth that is now projected, build-out of the Base Reuse Plan is expected to take 20 to 30 years. As discussed in Chapter III, AMBAG currently projects that the North Peninsula cities – including Seaside, Marina, Del Rey Oaks, and Sand City – will add no more than 200 to 300 housing units per year on average through 2035, and about the same number of jobs. At this rate of growth, it will take 20 to 30 years to build-out the remaining 5,700 housing units that the BRP envisioned for Fort Ord, even if the base were to capture 100 percent of new development in the North Peninsula. The number of housing units in the West Peninsula cities of Monterey, Carmel, and Pacific Grove is expected to barely grow at all by 2035, reflecting the fact that these cities are largely built-out and are very constrained by their limited water supply.

While the many economic development initiatives on former Fort Ord are gradually adding jobs, no single project will replace the army's role as an economic generator for the region. At the height of military activity, Fort Ord supported approximately 14,500 military jobs, 3,800 civilian jobs, and a total population of 31,270 residents. [3] The Base Reuse Plan projected that the former Fort Ord would support approximately 18,000 jobs by 2015. However, as of 2013, there were an estimated 4,100 full-time equivalent jobs on the former Fort Ord.[4] California State University at Monterey Bay (CSUMB) – the largest current employer on the base – employs 700 full time workers and 1,000 part-time employees, and is expected to grow to approximately 1,000 full time workers in the foreseeable future. Early reports suggest that the Veteran's Medical Clinic that is currently under construction will support around 100 new jobs.[5] While not insignificant, these increments of growth (a few hundred jobs at a time) are small compared to the thousands of jobs lost with the base closure.

The real estate market in Monterey County has not proven robust enough to support the land values that were expected when the BRP was drafted, limiting FORA's ability to complete necessary improvements to the base. The BRP assumed that land sale proceeds would be significant and that 50 percent of these proceeds would be allocated to fund building removal. Many developers negotiated to assume the cost of blight removal themselves, in lieu of cash payments for the land, because

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[3] Economic & Planning Systems, Inc., "Ford Ord Base Reuse Plan Reassessment – Market and Economic Analysis," prepared for Fort Ord Reuse Authority, August 15, 2012.

[4] Fort Ord Reuse Authority, "Annual Report: FY 2012-2013."

[5] Philip Molnar, "Marina Clinic for Veterans, Active Military Breaks Ground," *Monterey Herald*, November 11, 2013, http://www.montereyherald.com/general-news/20131111/marina-clinic-for-veterans-active-military-breaks-ground.

this arrangement was less expensive for the developers and helped make their projects more financially feasible. However, given the slower than anticipated market growth, low real estate values after 2008, the discovery of unexpected levels of hazardous materials, and increased pre-development costs due to delays, many developers have been unable to proceed with building removal and development despite the fact that there was no upfront land cost. These same challenges also made developers more sensitive to costs associated with the Community Facilities District (CFD) Special Taxes and impact fees, which remain a key component of the plan to pay for base-wide improvements. FORA has significantly reduced CFD payments (by 27 percent, as of the 2012 Capital Improvement Program) to incentivize development.

Given the challenging market conditions, it is increasingly clear that public investments need to be phased and targeted to create an environment that is supportive for new development. Certain activity centers are emerging as places with more market strength, including The Dunes at Monterey Bay and East Garrison. Prioritizing investments – including place-making improvements as well as blight removal – that support and nurture these nodes can help ensure that scarce public dollars are used efficiently in the short-term, and will support the long-term build-out of the entire Base Reuse Plan. The Regional Urban Design Guidelines can help create a framework for phasing and prioritizing investments to support development at these emerging centers.

Improving the cohesiveness and connectivity among the emerging neighborhoods and activity centers within and adjacent to Fort Ord can help support the overall success of development. While certain areas within Fort Ord are beginning to emerge as activity centers – particularly The Dunes, CSUMB, and East Garrison – these centers are surrounded by blighted buildings and vacant land, making them feel isolated. Moreover, while FORA and the other jurisdictions have begun to invest in bicycle and pedestrian infrastructure, routes between The Dunes and CSUMB remain underdeveloped. Traveling to surrounding activity centers such as downtown Marina, the Sand City Retail Center, and Ryan Ranch, typically requires a car. The Regional Urban Design Guidelines can help coordinate and align existing transportation planning efforts to improve these connections, and provide guidelines to ensure that new private development contributes to a cohesive community with a special character and identity.

Housing Market Findings

The existing housing stock in Seaside and Marina is relatively affordable, predominantly single-family, and serves as an important source of housing for service workers employed on the Peninsula. Nearly half of all housing units in the North Peninsula were built in the 1960s and 1970s, the period when Seaside and Marina experienced significant population growth associated with the expansion of Fort Ord. Many of the housing units built during this era were small, low-cost, single-family homes, and many of these are now being rented and are in need of repair or renovation. The older, rented homes in Seaside and Marina provide one of the few sources of affordable, market-rate housing for service workers employed in the Peninsula. In the wake of the housing market crash that began in 2007 and 2008, there has been a significant increase in the number of investors purchasing single-family homes and placing them on the rental market. Investors have focused on Marina and Seaside in particular due to their affordability and proximity to service jobs in the West Peninsula.

Seaside and Marina have not historically attracted many second homebuyers and retirees. While the high cost of housing in the West Peninsula is supported by a large percentage of second homes and wealthy retirees, there has been less demand to date from these types of buyers in Marina, Seaside, and Fort Ord. Local brokers noted that the majority of second homebuyers considering options in the Peninsula are looking for the lifestyle and amenities associated with Carmel, Pebble Beach, and surrounding affluent communities. Anecdotally, brokers suggest that in some communities in Carmel and Pebble Beach, 60 percent or more of housing units are owned by second homeowners and are not occupied full-time. In comparison, second homeowners are thought to account for around 10 to 20 percent of the market in Seaside and Marina.

The first two major residential projects to commence development in Monterey County since the recession are both located on Fort Ord. There are currently two residential projects underway on the former Fort Ord: East Garrison and The Dunes. The projects are both in their preliminary phases, which include market-rate, for-sale single-family homes as well affordable rental units. The for-sale component of both projects is predominantly composed of single-family detached units, although The Dunes also includes some duets (attached single-family homes). At East Garrison, permits for 170 single-family units have been pulled; approximately 50 units are completed and 70 sold (including pre-sales), with more are under construction. Model homes at The Dunes are under construction, with sales expected to begin in February 2015.

Despite the new construction at East Garrison and The Dunes, absorption of new, market-rate housing units in the Peninsula has been slower than AMBAG household growth projections would suggest. As discussed above, AMBAG projects that the North Peninsula cities will add approximately 200 to 300 households a year between 2010 and 2035. However, actual absorption of new, for-sale, market-rate homes in Fort Ord has totaled fewer than 50 units a year since new units at East Garrison first came online in 2012, and is projected to reach approximately 100 units per year with the completion of additional homes at East Garrison and The Dunes in the next few years. (Approximately 170 affordable rental units have also been completed and occupied in the past two years.) The other residential projects in the planning pipeline for the former Fort Ord are currently stalled due to financing, entitlement, water, environmental, or other factors, but could be completed in the medium- to long-term.

The slow development and absorption of new market-rate units reflects slow regional population growth, the lingering effects of the recession, a mismatch between the incomes of Monterey County residents and the prices that are needed to support new development, and the challenges associated with construction on Fort Ord. New construction has been slow to occur on the base, in part as a result of regional economic conditions, including slower than expected population growth, relatively low household incomes in the region, and the effects of the recent recession. Moreover, there is a significant gap between local incomes and new home prices. For example, only 11 percent of Monterey County households can afford a home priced at $650,000, the cost of a higher-end new home in East Garrison.[6] Other factors contributing to the challenge of development on Fort Ord include the lack of cohesive neighborhoods, poorly ranked local school districts, and relatively high sales prices that are driven in part by high construction costs associated with blight removal and the prevailing wage requirement.

To some extent, slow absorption rates may also indicate a mismatch between demand and the supply of new units that have entered the market to date. To date, only single-family homes with three or more bedrooms have been completed on Fort Ord. These units have proven most attractive for move-up buyers and former renters from within the county, as well as families and older couples relocating from communities outside the area. There may also be demand for smaller, lower cost units – for example, from younger people creating new households by moving out of their parents' home or graduating from CSUMB, or from senior households who would like to move from a single-family home to a smaller unit – that is not being met by the new, single-family housing that on the market. Because the amount of recently completed development in Monterey County is so small, however, the market for smaller and attached units remains largely untested.

In the near-term, single-family homes are expected to account for most new development; market-rate multi-family development will only become economically viable when unit values increase significantly. Market-rate development on Fort Ord is likely to continue to take the form of single-family units (including attached and detached) in the short-term. To the extent that there is a growing segment of

[6] Based on calculation by Strategic Economics. Only 11 percent of Monterey County residents earned $150,000 or more in 2012, the approximate income required to afford a home priced at $650,000.

the market that is interested in higher-intensity development, prices will need to increase before this type of product will be financially feasible to build. Current single-family sales prices are adequate to cover the cost of construction – which, on a per-square-foot basis are typically lower for single-family homes than for multi-family development – and offer an acceptable return on investment for single-family homebuilders. However, rents and sales prices are not expected to reach the level required to support multi-family construction costs, including providing an acceptable rate of return for the developer, for at least the next five years.

Vertical mixed-use development is also unlikely to be economically viable in the short- to mid-term. Like other types of multi-family development, mixed-use development will be challenging because it is more expensive to build on a per-square-foot basis, and thus requires higher prices to be financially feasible than the market currently supports. In addition, there is limited demand for additional retail space on the former Fort Ord, and retailers prefer to locate in highly visible, concentrated activity nodes near large, brand-name anchor tenants. These location considerations are often difficult to accommodate in a vertical mixed-use format.

Absorbing the housing development anticipated in the BRP will likely require attracting segments of the housing market not currently active in the North Peninsula, including retirees and second homebuyers. Given the relatively low incomes in the North Peninsula and slow pace of household growth and employment that is projected over the coming decades, Fort Ord will need to attract buyers from outside the region in order to fully realize the community's vision for the base reuse. Although Seaside and Marina had historically struggled to attract retirees and second homebuyers, Fort Ord could prove attractive for moderate-income buyers from inland Monterey County or other parts of the Central California, who are looking for a second home or retirement community located near the coast that is relatively affordable compared to communities such as Carmel and Pebble Beach.

Attracting and retaining members of the Millennial generation will also be critical to the long-term economic revitalization of the North and West Peninsula area. In many other parts of the country, people in their 20s and 30s (the Millennial generation) have been driving demand for new housing. In the North and West Peninsula, however, the population under age 45 has been decreasing since the 1990s (see discussion of demographic trends in Chapter III). In order to stabilize or reverse the decline in young people and retain CSUMB graduates and other younger households over time, the region will need to provide housing and neighborhoods that meet their preferences, as well as good jobs and high-quality K-12 schools for families with children. In order to help grow the base of high-quality jobs and retain more young workers, the County Economic Development Department, CSUMB, UC MBEST, and individual cities' economic development staff are working to capitalize on key employment sectors already present in the county, including pursuing approaches to expand education, health, and hospitality employment as well as research and development opportunities in agriculture and marine research.

The Regional Urban Design Guidelines represent an opportunity to help make Fort Ord more attractive for Millennials, families, and older second homebuyers and retirees, as well as more functional for an aging population. Surveys indicate that Baby Boomers and Millennials are less interested in other age groups in traditional, auto-dependent suburbs, and instead prefer locations with easy access to amenities and a broader range of mobility options such as walking and public transit.[7] Creating more cohesive, pedestrian-oriented neighborhoods with improved connections to retail and other activity centers could help make Fort Ord more attractive for these buyers.

[7] See, for example, American Planning Association, *Investing in Place: Two Generations' View on the Future of Communities*, May 2014, http://www.planning.org/policy/polls/investing/pdf/pollinvestingreport.pdf.

Commercial Real Estate Market Findings

Monterey County's commercial real estate markets have generally been flat over the last five years, and the slow pace of development is expected to continue in the foreseeable future. There have been some modest improvements in the industrial and hotel markets in recent months, but a significant supply of existing vacancy space, low rents, and a significant sublease market in most commercial markets suggest that the pace of new construction will continue to be slow in the coming years. Demand for new, multi-tenant speculative commercial buildings in particular is not expected for the next five to 10 years.

The existing supply of office space in the market in and around Fort Ord is likely to accommodate most of the increased demand associated with knowledge-based employment growth for the coming decade. As discussed in Chapter III, Monterey County has lost employment in traditional office-based employment sectors (i.e., information, financial services, and professional services) since 2000. Long-term employment projections forecast that future job growth in the county will be concentrated in the leisure and hospitality, education and health care, retail, and agriculture industries, which typically do not generate significant demand for office space. Expectations that CSUMB or the University of California Monterey Bay Education, Science, and Technology Center (UC MBEST) would generate demand for new research facilities requiring office or flex/light industrial space have not come to fruition, and the institutions have scaled back their growth projections over time. Given the large amount of vacant office space on the market, any spinoff associated with UC MBEST, CSUMB, or other institutions (such as medical offices associated with the Veteran's Clinic) in the next five to ten years will likely be absorbed by existing buildings. However, if various economic development efforts are successful, this trend could change over the longer term.

While vacancy rates for industrial space have declined in recent years, rents remain too low to support new, speculative industrial development. The only light industrial development that is expected to locate on or near Fort Ord in the next five to ten years will be tied to niche or specialized users with outside funding, such as UC MBEST or the motor sports facility that is planned adjacent to the Ryan Ranch Business Park. Other build-to-suit facilities may be developed in the future, but are difficult to predict based on current growth projections.

Some hotel development may occur on Fort Ord in the near term, reflecting local and regional growth in the tourism industry. As discussed in Chapter III, leisure and hospitality is one of the industries that have driven job growth in Monterey County in recent years. Hotels and other visitor-serving accommodations remain a strong and improving sector in the Peninsula economy, and two hotel projects are in the approvals process on the former Fort Ord. These hotel projects are expected to augment the area's identity as a destination from which to explore the Monterey Peninsula, and will meet an underserved niche for college graduations and events.

While demand for regional-serving retail centers appears to be saturated, it may be possible to attract a small grocery store, restaurants, or other convenience-oriented shops serving the area near CSUMB, East Garrison, and The Dunes. Between The Dunes Retail Center and the Sand City Retail Center, the North Peninsula trade area appears to be saturated with existing supply of regional-serving, big box retail. However, dining and food and beverage establishments on Fort Ord land are undersupplied and offer one area for near-term retail growth. The Dunes Phase 2 is targeting the pent-up demand for restaurants, but there may be additional demand for this type of retail space, especially as the number of residents and workers on the base increases over time. Demand for dining and food and beverage uses is likely to be strongest in the area closest to CSUMB, East Garrison, and The Dunes, where there is a critical mass of population and employment and an existing concentration of retail activity.

II. DEVELOPMENT CONTEXT

The former Ford Ord encompasses 28,000 acres located within unincorporated Monterey County and the cities of Seaside, Marina, Del Rey Oaks, and Monterey. At the height of military activity, Fort Ord supported approximately 14,500 military jobs, 3,800 civilian jobs, and a total population of approximately 31,270 residents. [8] When the military base closed in 1994, the county lost a major economic driver. The cities of Marina and Seaside were particularly affected, as their economies were most closely linked to the base. This chapter describes the development that has occurred in the former Fort Ord in the years since the base's closure, including the opportunities and barriers that continue to shape the potential for the base's reuse.

MAJOR ACTIVITY CENTERS IN AND AROUND THE FORMER FORT ORD

As illustrated in Figure II-1, below, the majority of Fort Ord land has been retained as permanent open space, including the Fort Ord National Monument. When the base closed, the State of California created California State University at Monterey Bay (CSUMB) to help catalyze new economic development activity in the area. The university currently has an enrollment of 6,600 students and 700 staff, and is projected to grow to 9,000 students and 1,000 staff within the next several years. Depending upon state funding availability, the university's enrollment may increase to 12,000 students over the next decade.

Other than the university, little new development had occurred on the former base until recently. However, in the past few years, several new retail, housing, and health care facilities have begun construction or been completed. In particular, The Dunes on Monterey Bay is emerging as a hub of activity. The development opened in 2007 with a 380,000 square foot regional shopping center. In subsequent years, the 35,000 square foot Peninsula Wellness Center and a 108-unit affordable apartment project were also completed. Construction is nearing completion on a five-screen movie theater, a 148,000 square foot Department of Defense/Veteran's Medical Clinic, and model homes for Phase 1 of a planned for-sale housing project. A 21,000 square foot food court and hotel is also planned.

The other major development project that is underway is East Garrison, a residential community that is entitled for up to 1,472 housing units, including a mix of single- and multi-family. The first project, completed in 2013, was a 66-unit affordable apartment development. Permits for 170 single-family units have been pulled; of these, approximately 50 units are completed and more are under construction.

Figure II-1 shows these emerging activity centers on the former Fort Ord, as well as the major office and retail centers that are directly adjacent to the base. These include Ryan Ranch, the largest office and light industrial park on the North Peninsula; and the Sand City Retail Center, a regional-serving shopping center anchored by Costco and Target. These activity centers are a critical part of the overall market context for future development on Fort Ord land, as is discussed in greater detail in Chapters IV and V below.

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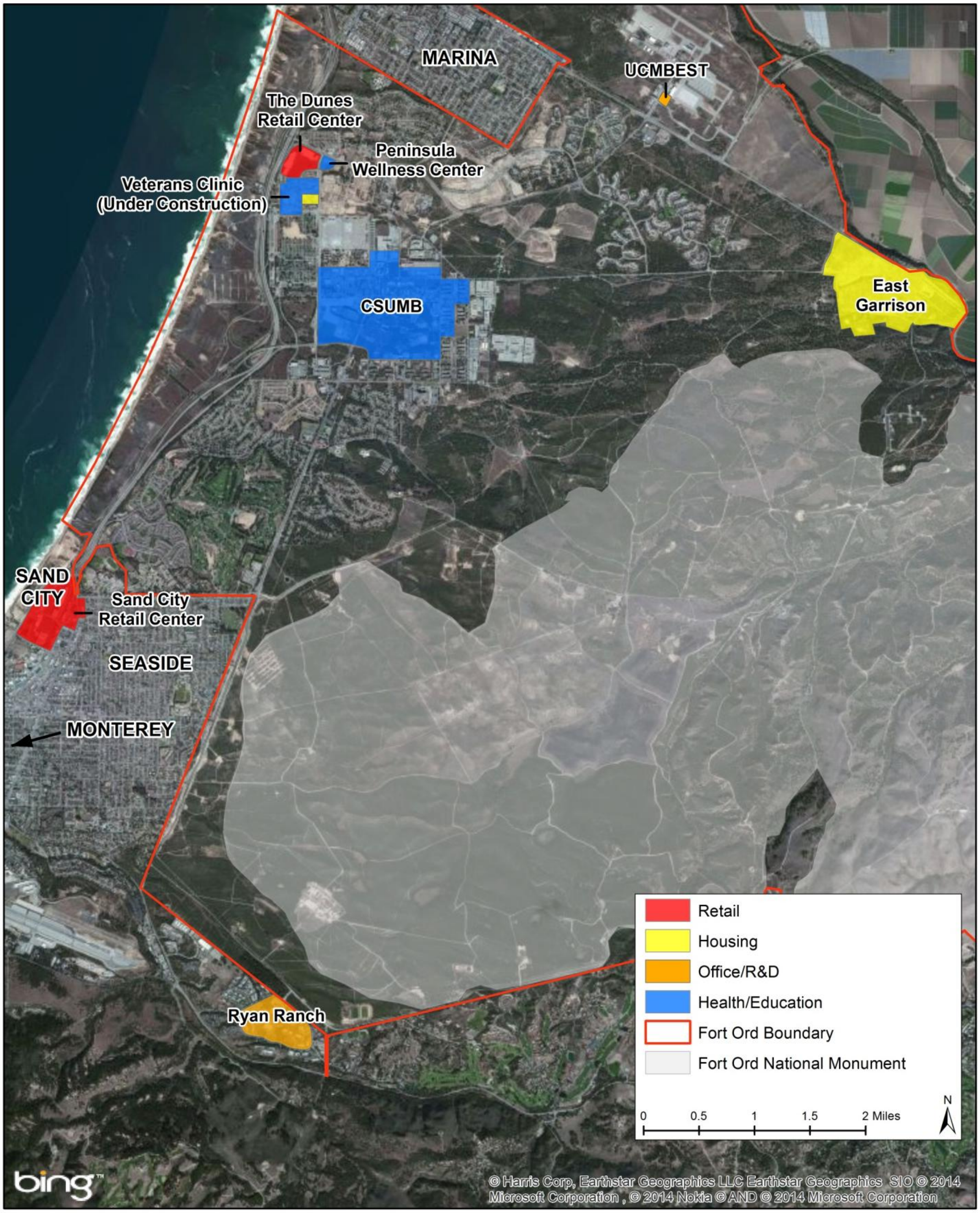
[8] Economic & Planning Systems, Inc., 2012.

Figure II-1. Major Activity Centers in and around Fort Ord (Existing and Under Construction)



Source: US Department of Veterans Affairs, 2014; Strategic Economics, 2014.

While some new development has begun, the pace of this activity has been significantly slower than originally projected. As shown in Figure II-2, the BRP originally projected that by 2015, build-out of the former Fort Ord would include 10,816 occupied housing units (including 6,160 new units and 4,656 rehabilitated existing units), 4.6 million square feet of commercial space, and 1,750 hotel rooms. To date, only 7 percent of the projected new housing units and 10 percent of the office/light industrial space has been completed. With the completion of The Dunes Retail Center, nearly half the retail space has been developed. No hotels have been built on Fort Ord, although several projects are going through the planning process that, combined, would add a few hundred rooms. The following section describes some of the opportunities and constraints that have influenced Fort Ord's build-out, and will continue to affect development potential in the future.

Figure II-2. Status of the Fort Ord Base Reuse Plan

	Projected 2015 Development per the 1997 BRP	Built as of (2013/2014)	Percent Built Out
Housing Units			
New Housing	6,160	433	7%
Existing Housing			
Military Housing	1,590	1,590	100%
CSUMB Housing	1,253	1,253	100%
Other[(a)]	1,813	1,413	78%
Total	10,816	4,689	43%
Commercial Space			
Light Industrial/Office/R&D (sq. ft.)	3,856,500	391,300	10%
Retail (sq. ft.)	757,000	368,000	49%
Total	4,613,500	759,300	16%
Hotel (rooms)	1,750	0	0%
Jobs (Full Time Equivalents)	18,342	4,101	22%
CSUMB Students[(b)]	25,000	6,631	27%

(a) Includes 400-unit Cypress Knolls project, which was originally intended to be rehabilitated and reused but, due to deterioration over time, must now be torn down and redeveloped.
(b) CSUMB was originally planned to grow to 25,000 students; however, plans have been scaled back and the university is now expected to reach a total of 9,000 to 12,000 students over the next decade.
Sources: Base Reuse Plan; 2013 Annual Report; FORA, Developer Surveys, July 1, 2014; Strategic Economics, 2014.

DEVELOPMENT OPPORTUNITIES AND CONSTRAINTS

The former Fort Ord has a number of opportunities for new development, but also faces significant barriers to change. Some of the key opportunities and constraints are discussed below, based on interviews with local developers, brokers, and economic development professionals, as well as a review of past studies.

Opportunities

- **Land and roadway facility capacity:** While many areas of the Peninsula have limited capacity to grow, Ford Ord benefits from its abundant land situated at the gateway to the Peninsula. Moreover, past investments in roadways have helped create significant capacity for new development (for example, along Second Avenue in Seaside and Marina). Therefore, traffic congestion, a common concern confronting most new development in California, is unlikely to be a major issue for future development within Fort Ord.

- **Education and health institutions:** Four institutions of higher learning have been established in the former Fort Ord, including CSUMB, the University of California Monterey Bay Education, Science, and Technology Center (UC MBEST), Monterey Peninsula College (community college), and the Monterey College of Law. CSUMB in particular has the potential to serve as a new anchor for economic development, although (as discussed below), the university has scaled back its growth projections. The base is also beginning to attract a cluster of health and wellness institutions, including the Peninsula Wellness Center and the Veteran's Health Clinic.
- **Recreational opportunities:** The Fort Ord National Monument and the Fort Ord Dunes State Park have the potential to attract a wide range of visitors for bicycle, pedestrian, and equestrian use.
- **Existing regional economic strengths in education and health, tourism, and agriculture:** Previous regional economic studies have identified education and research, health care, tourism, and agriculture as the sectors that drive Monterey County's economy.[9] With a number of complimentary education and health institutions, and opportunities to expand recreational tourism opportunities, Fort Ord has the potential to absorb demand from these sectors as they grow.

Challenges

- **Slower population and employment growth than originally anticipated:** As discussed in Chapter III, population and employment projections for the county have shifted downwards since the BRP was written in 1997, suggesting that the build-out of the Base Reuse Plan will take significantly longer than was originally anticipated. The revised projections in part reflect the effects of the recession that began in 2007/08, which had a profound impact on the area's economy. However, while the economy is beginning to recover from the worst effects of the recession, Monterey County has generally grown more slowly than the state over the past several decades.
- **Reduced growth projections for the educational institutions:** UC MBEST was originally expected to add several million square feet of office and light industrial space on a 500 acre campus. However, the original 39,000 square foot facility struggled to attract tenants, and budget cuts in the UC system caused the center to reduce staffing. In recognition of these challenges, the center's 2011 visioning exercise concluded that total market demand for new R&D/flex space at UC MBEST over the next 20 years would not exceed 296,000 square feet, occupying 27 acres (less than 10 percent of the amount of development that was originally projected for 2016). The 2011 demand estimate assumes that UC MBEST captures half of the 1,400 to 1,800 new jobs projected for Monterey County in business and professional services over a 20-year timeframe. Meanwhile, CSUMB had originally projected full enrollment of 25,000, but water limitations, development costs, and state funding limitations have lowered the University's desired enrollment size to approximately 9,000 to 12,000 students and an estimated staff of 1,000.
- **Blight removal:** The BRP envisioned that new development would help pay for removing dilapidated and vandalized buildings. However, the market has not proven strong enough to support this plan. The BRP provided for the allocation of 50 percent of land sale proceeds to fund building removal. In many cases, developers agreed to assume the cost of blight removal themselves, rather than provide upfront cash payments for the land. However, as a result of slow growth, low market values, the discovery of unexpected levels of hazardous materials, and increased costs of business due to delays, many developers have been unable to proceed with their projects despite the fact that they did not

[9] SRI International, "Monterey County Economic Development Strategy: Monterey County Priority Economic Opportunities," prepared for the Monterey County Economic Development Department and the Economic Development Committee of the Monterey County Board of Supervisors, August 2013; Economic & Planning Systems, Inc., 2012.

have to pay for the land. Currently, about 60 percent of blighted buildings have been removed or reused by FORA, CSUMB, private developers, and other partners.[10]

- **Development cost:** The Market and Economic Analysis conducted as part of the 2012 Base Reuse Plan Reassessment identified high Community Facilities District (CFD) Special Taxes and impact fees as barriers to development, particularly for attached development products with lower unit values (for which fees make up a higher percentage of the value). In recognition of this barrier, FORA has significantly reduced CFD payments (by 27 percent, as of the 2012 Capital Improvement Program). However, the requirement that developers pay federal prevailing wage rates for new construction projects is still considered a significant cost burden to developers. Because this requirement raises project costs, higher rents and sales prices are required in order for development projects to be financially feasible.
- **Development risks:** Fort Ord is perceived to be a cumbersome and costly location in which to obtain development approvals. Developers cite overlapping jurisdictions, FORA's review process, and stringent CEQA requirements as major challenges to obtaining entitlements. Moreover, developers believe that environmental concerns and a strong anti-growth sentiment add to increased risks of lawsuits and project delays. Negative perceptions and actual restrictions on water allocations further add to developer risk. Finally, the fact that FORA sunsets in 2020 creates uncertainty regarding the ability of individual land use jurisdictions to coordinate on base-wide issues (such as building removal, habitat management, transportation and transit, and water augmentation) in the future.
- **Infrastructure deficits:** As discussed above, concerns about Fort Ord's long-term water supply add to the perceived risk of developing on the former base. The anticipated development build-out for Fort Ord requires 9,000 acre-feet per year (AFY), including 6,600 AFY in existing groundwater supply and an additional 2,400 AFY that has not yet been obtained. The current build-out uses approximately 2,000 AFY (30 percent of the existing groundwater supply, or 22 percent of the projected 9,000 AFY). FORA has worked with the Marina Coast Water District (MCWD) to develop a water augmentation plan; however, implementation of the plan has been on hold due to the recession and settlement negotiations.[11] In addition to the long-term concerns about water availability, local economic development professionals report that the slow Internet connection in and around the base poses a barrier to business attraction.
- **Need for improved place-making and transportation connectivity:** While certain areas within Fort Ord are beginning to emerge as activity centers – particularly, The Dunes, CSUMB, and East Garrison – these centers are surrounded by blighted buildings and vacant land, making them feel isolated. Moreover, while FORA and the other jurisdictions have begun to invest in bicycle and pedestrian infrastructure, routes between The Dunes and CSUMB remain underdeveloped. Traveling to surrounding activity centers such as downtown Marina, the Sand City Retail Center, and Ryan Ranch, typically requires a car. Improving the connections among all of these activity centers could help support the success of the newly emerging nodes on Fort Ord.

CONCLUSION

The Regional Urban Design Guidelines (RUDG) offer the opportunity to build on the opportunities described above, while addressing some of the constraints that are holding back new development. In particular, the RUDG are intended to address the place-making and connectivity challenges discussed above by providing guidance on the overall look and feel of development and public spaces within Fort

[10] Fort Ord Reuse Authority, "Annual Report: FY 2012-2013" and "Regional Urban Design Guidelines on the Former Fort Ord: Request for Proposals," 2014.

[11] Fort Ord Reuse Authority, "Capital Improvement Program: Fiscal Year 2012/13 through 2021/22," approved by the FORA Board June 8, 2012.

Ord, improving multimodal connections among the base's emerging activity centers, and enhancing the trail system. In addition, to the extent that local jurisdictions "buy in" to the design guidelines and adopt them locally, the RUDG have the potential to reduce some of the uncertainty around development entitlements (in the short- to medium-term) and the future direction of the base after FORA sunsets (in the long-term).

However, in order to ensure that the RUDG are realistic and implementable, the guidelines should take into account the expected slow pace of future growth and development in the region generally and in Fort Ord specifically. The following chapters provide more detailed discussions of demographic and employment trends and local real estate market conditions, including the implications of regional trends for Fort Ord.

III. DEMOGRAPHIC AND EMPLOYMENT TRENDS

Demand for new residential and commercial space is, fundamentally, driven by household and employment growth. Understanding the rate of regional population and employment growth, the location of that growth within the region, and the types of households and industries that are driving change is therefore key to understanding the rate and type of change that Fort Ord has experienced in the past, and is likely to experience in the future. This chapter provides an overview of demographic and employment trends in Monterey County (also known as the Salinas metropolitan statistical area, or MSA). For the purposes of the analysis, Strategic Economics defined three key submarkets within the region:

1. North Peninsula, including the cities of Marina, Seaside, Del Rey Oaks, and Sand City.
2. West Peninsula, including the cities of Monterey, Carmel, and Pacific Grove.
3. Salinas Valley, including the cities of Salinas, Gonzales, Greenfield, Soledad, and King City. For some key indicators of growth, the City of Salinas is discussed separately from the other Salinas Valley communities.

The North Peninsula includes the vast majority of Fort Ord; a small amount of the base is also located in the City of Monterey. Therefore, the discussion below focuses on understanding the North Peninsula's role in the region, and specifically the implications of regional growth patterns for Fort Ord's redevelopment.

DEMOGRAPHICS

Historic Population Trends

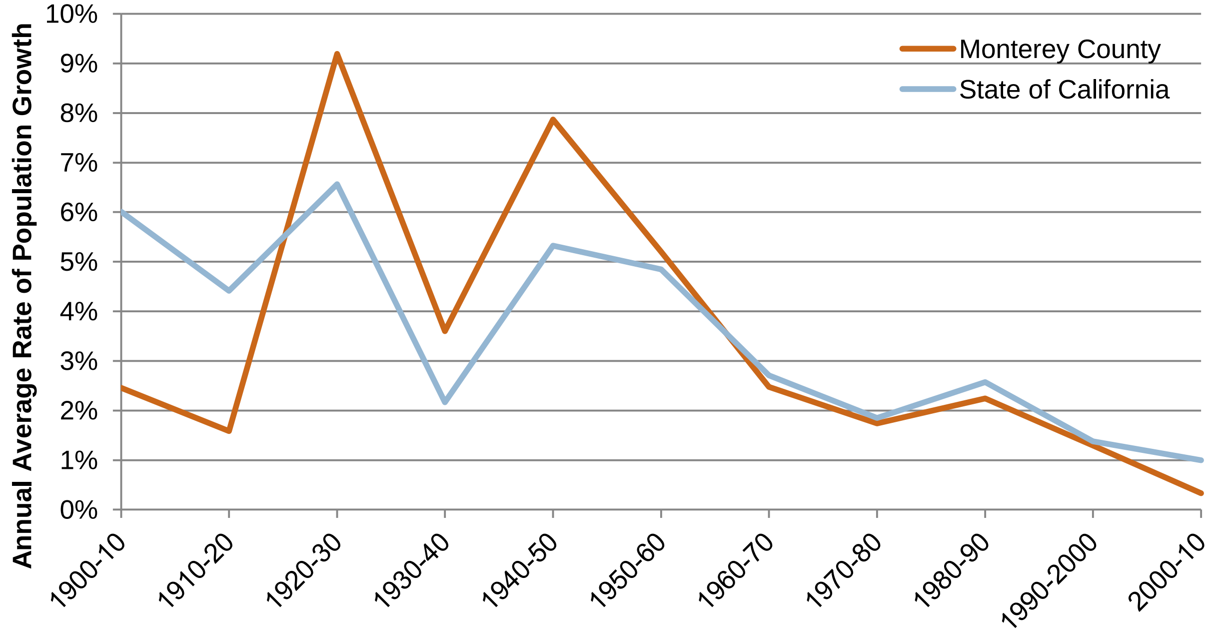
After growing rapidly for many decades, Monterey County is now growing more slowly than the state as a whole. As shown in Figure III-1, the county's population grew rapidly through the first half of the 20th Century. However, since the 1960s, the county has been growing more slowly than the State of California over all. As of 2010, the county had a total population of 415,000.

Between the official opening of the military installation in 1940 and its closure in 1994, Fort Ord's expansion drove the growth and economic development of the North Peninsula. Figure III-2 shows historic population growth for each of the Monterey County submarkets, as well as some of the major events in the history of Fort Ord and the development of the North Peninsula. The Army began using the future Fort Ord for training purposes in the early 1900s. After the Army purchased the land that was to become Fort Ord in 1917, the area continued to be used as a training camp until it officially became a military base in the early 1940s. Over the following decades, the base expanded rapidly as Fort Ord became the nation's primary basic training center during the Vietnam War. Population growth in the North Peninsula – and, to a lesser extent, the West Peninsula – mirrored the base's growth. After 1975, with the end of the war, the pace of growth in Fort Ord and surrounding cities began to slow.

Population in the North and West Peninsula declined significantly following the base closure, and has not recovered. After the base closed in 1994, the population of the North Peninsula fell by nearly 20 percent, from a peak of 67,190 in 1990 to 54,700 by 2010. Over the same time period, the population in the West Peninsula declined by 11 percent (Figure III-2).

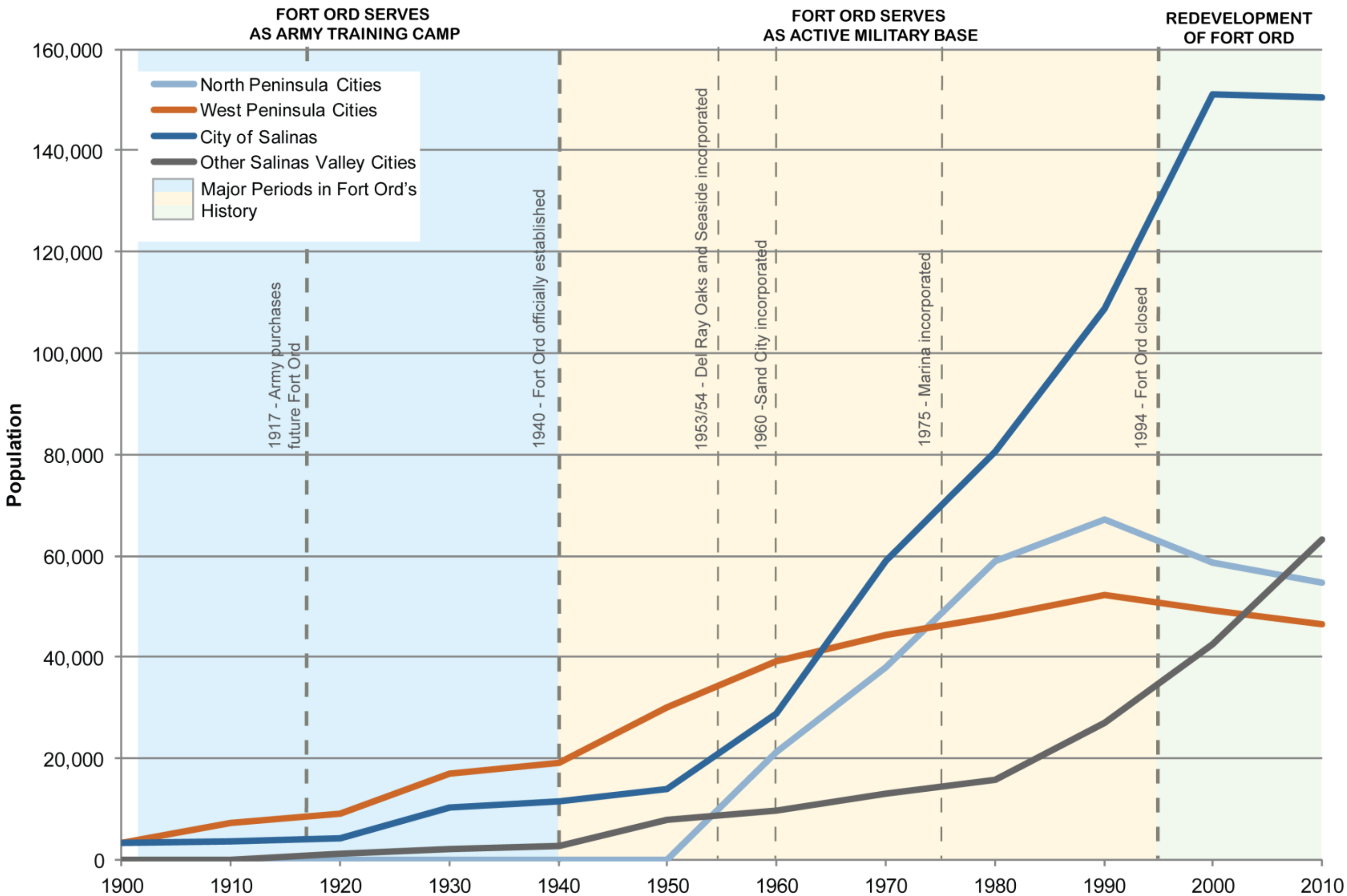
The growth driver within Monterey County has gradually shifted from Fort Ord and the North and West Peninsula to the City of Salinas and other Salinas Valley cities. The City of Salinas has served as the region's major population and economic center since the 1960s. While the North Peninsula's population growth began to slow in the 1980s and then declined, the City of Salinas and the other Salinas Valley Cities continued to expand rapidly through 2000 (Figure III-2).

Figure III-1. Historic Population Growth Rates (Annual Average Percent Change): Monterey County Compared to the State of California, 1900-2010



Sources: California Department Finance, Historical Census Populations of California, Counties, and Incorporated Cities, 1850-2010; Strategic Economics, 2014.

Figure III-2. Historic Population Growth by Submarket and Major Events in the Development of Fort Ord and the North Peninsula



Note: Figure is based on total population in incorporated cities at the time of each Decennial Census; for example, the City of Marina was incorporated in 1975, so Marina's population is included in the North Peninsula beginning in 1980.
Sources: California Department Finance, Historical Census Populations of California, Counties, and Incorporated Cities, 1850-2010; Strategic Economics, 2014.

Existing Population and Household Characteristics

Within Monterey County, there is significant variation in population and household characteristics. Figures III-3 and III-4 compare key demographic and household characteristics in the North Peninsula, West Peninsula, and Salinas Valley to the county and the state as a whole for 2012. In general:

- **The North Peninsula has a relatively young, racially and ethnically diverse population, and is home to many families.** The demographic and household makeup of the North Peninsula is generally similar to the state and county as a whole, although the North Peninsula does have a slightly higher share of residents aged 18 to 34 (29 percent of the population) compared to the county and the state as a whole (26 and 25 percent, respectively) – likely reflecting the concentration of students. Compared to the West Peninsula, the North Peninsula cities are home to a larger share of children under 18 years; a larger share of African-Americans, Asians and Pacific Islanders, and Hispanics; and a lower share of people who have continued their education beyond high school (Figure III-3). On average, households in the North Peninsula are larger than in the West Peninsula, with more families with children and relatively fewer single-person and roommate households (Figure III-4).

- **The West Peninsula's population is older, less diverse, and more highly educated, with more single-person and roommate households.** Compared to the other submarkets in Monterey County and the state as a whole, the West Peninsula has a relatively low share of children; a high share of adults aged 55 and over; and fewer African-Americans, Asians and Pacific Islanders, and Hispanics. Half of all West Peninsula residents have a Bachelor's or post-graduate degree (Figure III-3). The West Peninsula also has a relatively low share of families with children, and a higher share of single-person households than the state as a whole (Figure III-4).

- **The Salinas Valley has a predominantly Hispanic population, is home to many families with children, and has low rates of educational attainment.** The Salinas Valley has a much younger population than the other Monterey County submarkets or the state as a whole, many more residents who have not graduated from high school, and larger household sizes (Figures III-3 and III-4).

Over time, the North and West Peninsula's population has aged, while the number of families with children has declined. Figures III-5 and III-6 show the change in population by age group and households by type, respectively, for the three submarkets and the county. Overall, the North Peninsula has seen significant declines in population, especially in the population under 18, 18 to 34, and 34 to 44. Meanwhile, the population 45 and over has increased as the Baby Boomer cohort (born between 1946 and 1964) has aged. This pattern is similar to the West Peninsula, which has seen a decline in all age groups under 54, while the Salinas Valley has remained more attractive for younger age groups (Figure III-5). The number of families with children has also declined in the North Peninsula, while the number of householders living alone and other non-families has increased – reflecting the overall aging of the population (Figure III-6). To some extent, this pattern reflects the overall aging of the state's population. At the state level, however, the number of families with children has remained stable even as the population has aged and the number of families without children and single-person households has increased.

Figure III-3. Population Characteristics: Submarkets, County, and the State of California, 2012

	North Peninsula		West Peninsula		Salinas Valley		Total County		State of California	
	#	**% of Total**	**#**	**% of Total**	**#**	**% of Total**	**#**	**% of Total**	**#**	**% of Total**
Age										
Under 18 years	13,593	25%	7,166	15%	67,338	32%	111,291	27%	9,282,806	25%
18 to 34 years	15,788	29%	12,172	26%	61,236	29%	108,639	26%	9,268,304	25%
35 to 44 years	7,483	14%	5,661	12%	30,333	14%	54,964	13%	5,199,915	14%
45 to 54 years	7,280	13%	5,950	13%	24,682	12%	53,192	13%	5,224,402	14%
55 to 64 years	5,596	10%	6,947	15%	16,050	8%	43,285	10%	4,049,135	11%
65 years and older	5,134	9%	9,131	19%	14,114	7%	44,828	11%	4,300,506	12%
Total	54,874	100%	47,027	100%	213,753	100%	416,199	100%	37,325,068	100%
Race										
White	32,678	60%	38,317	81%	154,370	72%	309,794	74%	23,252,553	62%
Black or African American	4,426	8%	1,100	2%	5,885	3%	12,568	3%	2,254,160	6%
Asian or Pacific Islander	7,221	13%	3,917	8%	12,769	6%	28,172	7%	5,065,779	14%
Other Race or Two or More Races	10,549	19%	3,693	8%	40,729	19%	65,665	16%	6,752,576	18%
Total	54,874	100%	47,027	100%	213,753	100%	416,199	100%	37,325,068	100%
Ethnicity										
Hispanic or Latino	19,669	36%	6,198	13%	164,195	77%	185,997	45%	14,024,109	38%
Not Hispanic or Latino	35,205	64%	40,829	87%	49,558	23%	230,202	55%	23,300,959	62%
Total	54,874	100%	47,027	100%	213,753	100%	416,199	100%	37,325,068	100%
Educational Attainment (for Population 25 Years and Over)										
Less than High School Graduate	8,227	24%	1,894	5%	52,806	43%	76,433	30%	4,577,493	19%
High School Graduate or Equivalency	7,190	21%	4,925	14%	27,202	22%	52,006	20%	4,988,559	21%
Some College or Associate's Degree	11,225	33%	10,427	30%	28,875	24%	70,240	27%	7,206,710	30%
Bachelor's Degree or Higher	7,704	22%	17,380	50%	13,018	11%	59,862	23%	7,344,555	30%
Total	34,346	100%	34,626	100%	121,901	100%	258,541	100%	24,117,317	100%

Note: Submarkets exclude unincorporated areas.
Sources: US Census American Community Survey 5-Year Estimates, 2008-2012; Strategic Economics, 2014.

Figure III-4. Household Characteristics: Submarkets, County, and the State of California, 2012

	North Peninsula		West Peninsula		Salinas Valley		Total County		State of California	
	#	**% of Total**	**#**	**% of Total**	**#**	**% of Total**	**#**	**% of Total**	**#**	**% of Total**
Total Households	17,743	100%	21,411	100%	52,147	100%	125,123	100%	12,466,331	100%
Average Household Size	3.0		2.1		3.8		3.2		2.9	
Household Type										
Families with Children	5,935	33%	4,314	20%	25,816	50%	46,155	37%	4,137,409	33%
Families without Children	6,186	35%	6,809	32%	16,305	31%	44,236	35%	4,412,625	35%
Householder Living Alone	3,958	22%	8,508	40%	7,617	15%	26,992	22%	3,030,438	24%
Other Non-Family Households	1,664	9%	1,780	8%	2,409	5%	7,740	6%	885,859	7%
Total	17,743	100%	21,411	100%	52,147	100%	125,123	100%	12,466,331	100%

Note: Submarkets exclude unincorporated areas.
Sources: US Census American Community Survey 5-Year Estimates, 2008-2012; Strategic Economics, 2014.

Figure III-5. Change in Population Age Distribution Over Time: Submarkets and the County, 1990-2012

	Population			Percent Change	
	1990	**2000**	**2012**	**1990-2000**	**2000-12**
North Peninsula					
Under 18 years	18,528	15,289	13,593	-17%	-11%
18 to 34 years	28,350	18,438	15,788	-35%	-14%
35 to 44 years	8,953	9,817	7,483	10%	-24%
45 to 54 years	4,120	6,475	7,280	57%	12%
55 to 64 years	3,740	3,752	5,596	0%	49%
65 years and older	3,499	4,937	5,134	41%	4%
Total Population	67,190	58,708	54,874	-13%	-7%
West Peninsula					
Under 18 years	9,087	8,096	7,166	-11%	-11%
18 to 34 years	17,122	12,283	12,172	-28%	-1%
35 to 44 years	8,448	7,564	5,661	-10%	-25%
45 to 54 years	4,716	7,865	5,950	67%	-24%
55 to 64 years	4,274	4,764	6,947	11%	46%
65 years and older	8,663	8,705	9,131	0%	5%
Total Population	52,310	49,277	47,027	-6%	-5%
Salinas Valley					
Under 18 years	44,702	64,144	67,338	43%	5%
18 to 34 years	43,406	57,940	61,236	33%	6%
35 to 44 years	18,314	29,526	30,333	61%	3%
45 to 54 years	10,216	19,006	24,682	86%	30%
55 to 64 years	8,232	9,820	16,050	19%	63%
65 years and older	10,811	13,089	14,114	21%	8%
Total Population	135,681	193,525	213,753	43%	10%
Monterey County					
Under 18 years	97,951	114,050	111,291	16%	-2%
18 to 34 years	116,059	107,744	108,639	-7%	1%
35 to 44 years	52,319	61,978	54,964	18%	-11%
45 to 54 years	29,785	49,251	53,192	65%	8%
55 to 64 years	24,849	28,440	43,285	14%	52%
65 years and older	34,697	40,299	44,828	16%	11%
Total Population	355,660	401,762	416,199	13%	4%
State of California					
Under 18 years	7,750,725	9,249,829	9,282,806	19%	0%
18 to 34 years	9,098,628	8,595,092	9,268,304	-6%	8%
35 to 44 years	4,639,321	5,485,341	5,199,915	18%	-5%
45 to 54 years	2,902,569	4,331,635	5,224,402	49%	21%
55 to 64 years	2,233,226	2,614,093	4,049,135	17%	55%
65 years and older	3,135,552	3,595,658	4,300,506	15%	20%
Total Population	29,760,021	33,871,648	37,325,068	14%	10%

Sources: US Decennial Census, 1990, 2000 and American Community Survey 5 Year Estimates, 2008-2012; Strategic Economics, 2014.

Figure III-6. Change in Household Types Over Time: Submarkets and the County, 1990-2012

	Population			Percent Change	
	1990	**2000**	**2012**	**1990-2000**	**2000-12**
North Peninsula					
Families with Children	9,599	6,733	5,935	-30%	-12%
Families without Children	5,787	5,961	6,186	3%	4%
Householder Living Alone	2,923	3,446	3,958	18%	15%
Other Non-Families	1,015	1,222	1,664	20%	36%
Total Households	19,324	17,362	17,743	-10%	2%
West Peninsula					
Families with Children	5,332	4,588	4,314	-14%	-6%
Families without Children	7,223	6,972	6,809	-3%	-2%
Householder Living Alone	7,491	8,366	8,508	12%	2%
Other Non-Families	2,298	2,275	1,780	-1%	-22%
Total Households	22,344	22,201	21,411	-1%	-4%
Salinas Valley					
Families with Children	20,043	24,597	25,816	23%	5%
Families without Children	10,621	13,767	16,305	30%	18%
Householder Living Alone	7,276	7,441	7,617	2%	2%
Other Non-Families	2,098	2,039	2,409	-3%	18%
Total Households	40,038	47,844	52,147	19%	9%
Monterey County					
Families with Children	47,334	47,411	46,155	0%	-3%
Families without Children	35,681	40,520	44,236	14%	9%
Householder Living Alone	22,999	25,748	26,992	12%	5%
Other Non-Families	6,951	7,557	7,740	9%	2%
Total Households	112,965	121,236	125,123	7%	3%
State of California					
Families with Children	3,853,394	4,117,036	4,137,409	7%	0%
Families without Children	3,286,000	3,803,013	4,412,625	16%	16%
Householder Living Alone	2,429,867	2,708,308	3,030,438	11%	12%
Other Non-Families	811,945	874,513	885,859	8%	1%
Total Households	10,381,206	11,502,870	12,466,331	11%	8%

Sources: US Decennial Census, 1990, 2000 and American Community Survey 5 Year Estimates, 2008-2012; Strategic Economics, 2014.

While there is significant income diversity among the North Peninsula cities, most have relatively low median incomes compared to the county and the state as a whole. Figure III-7 shows median household incomes by city in 2012, compared to the county- and state-wide medians. The median household income in Del Rey Oaks is among the highest in the county at over $80,000 a year. However, median incomes in Marina, Seaside, and Sand City range from approximately $42,300 to $54,000 a year, well below the county and state medians. Residents of West Peninsula cities tend to have higher incomes, while incomes in the City of Salinas are relatively low.

Figure III-7. Median Household Incomes for Selected Cities, 2012

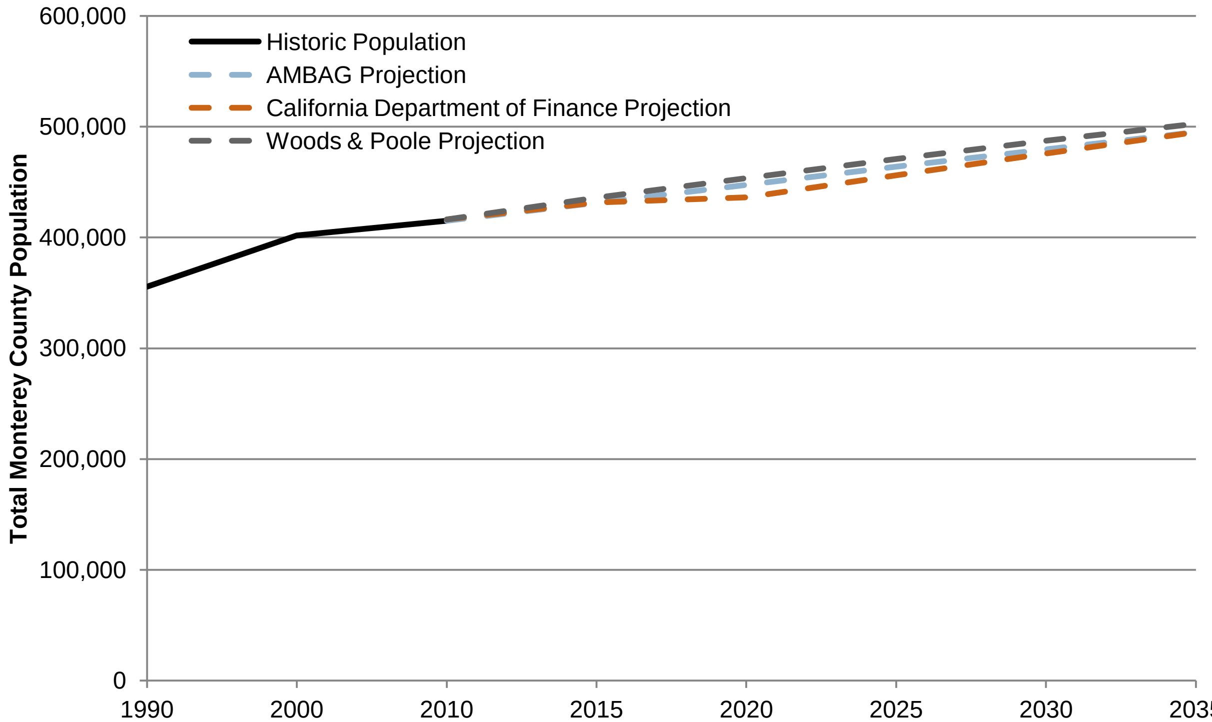
	Median Household Income
North Peninsula	
Del Rey Oaks	$80,417
Marina	$54,038
Seaside	$50,587
Sand City	$42,292
West Peninsula	
City of Monterey	$63,072
Carmel	$72,582
Pacific Grove	$68,213
City of Salinas	$50,587
Monterey County	$60,143
State of California	$61,400

Sources: US Census American Community Survey 5-Year Estimates, 2008-2012; Strategic Economics, 2014.

Projected Population Growth

While projection sources differ slightly, Monterey County is not expected to reach half a million people until 2035. Figure III-8 compares three population projection sources for Monterey County: the Association of Bay Area Governments (AMBAG), the California Department of Finance, and the commercial forecasting firm Woods & Poole. All three are fairly similar, and show Monterey County reaching 500,000 by approximately 2035. This represents an annual average growth rate of about 0.7 percent a year, significantly faster than the average growth rate for the county between 2000 and 2010 (0.3 percent a year), but slower than the average growth rate between 1990 and 2000 (1.3 percent a year).

Figure III-8. Comparison of Population Projection Sources: Monterey County, 1990-2035



Sources: U.S. Decennial Census, 1990, 2000, and 2010; Association of Monterey Bay Area of Governments "Regional Growth Forecast," 2014; CA Department of Finance, 2014; Woods & Poole Economics, 2014; Strategic Economics, 2014.

Current projections are much more conservative than when the Base Reuse Plan was written, and have also been revised downwards since the Base Reuse Plan Reassessment Report was completed in 2012. In 1995, when the Base Reuse Plan was written, AMBAG projected that Monterey County would reach 500,000 residents before 2015. As of the 2012 Reassessment Report Market Study, AMBAG was projecting that the county would reach this benchmark in 2025, and the Department of Finance's projections were even more aggressive.[12]

AMBAG currently projects that the North Peninsula will add fewer than 300 housing units per year on average, while the West Peninsula housing stock will barely grow at all by 2035. Figure III-9 shows forecasted population and housing unit growth by submarket, based on AMBAG's projections (AMBAG is the only source that provides city-level projections). The North Peninsula is expected to grow slightly faster than the county; however, this still amounts to fewer than 300 new housing units per

[12] The 2012 Reassessment Report Market Study used AMBAG's 2008 projections; this report relies on AMBAG's 2014 Regional Growth Forecast.

year. At this rate of growth, the North Peninsula will not reach its peak, 1990 population level again until nearly 2030, while the West Peninsula will not achieve 1990 population levels until after 2035. According to AMBAG planners, the slow growth rate of projected for the West Peninsula reflects the fact that these cities are largely build-out, slow-growth communities with significant water constraints.

At this rate of growth, build-out of the Base Reuse Plan will take 20 to 30 years. Assuming that the North Peninsula cities grow at a rate of 200 to 300 housing units per year, it will take 20 to 30 years to build-out the remaining 5,700 housing units that the BRP envisioned for Fort Ord – even if the former Fort captures 100 percent of new development in the North Peninsula.

Figure III-9. Projected Population and Housing Unit Growth by Submarket (AMBAG)

	Actual		Projected		Annual Average Change			Annual Average Percent Change		
	2000	2010	2020	2035	2000-10 (Actual)	2010-20 (Projected)	2020-35 (Projected)	2000-10 (Actual)	2010-20 (Projected)	2020-35 (Projected)
Population										
North Peninsula	58,708	54,701	60,372	71,499	-401	567	742	-0.7%	1.0%	1.2%
West Peninsula	49,277	46,573	46,939	51,594	-270	37	310	-0.5%	0.1%	0.7%
Salinas Valley	193,525	213,570	237,358	267,689	2,005	2,379	2,022	1.0%	1.1%	0.9%
Unincorporated County	100,252	100,213	102,847	104,304	-4	263	97	0.0%	0.3%	0.1%
Total County	401,762	415,057	447,516	495,086	1,330	3,246	3,171	0.3%	0.8%	0.7%
Housing Units										
North Peninsula	20,367	19,421	22,141	25,611	-95	272	231	-0.5%	1.4%	1.0%
West Peninsula	24,749	25,170	25,251	25,897	42	8	43	0.2%	0.0%	0.2%
Salinas Valley	49,475	55,486	60,377	66,749	601	489	425	1.2%	0.9%	0.7%
Unincorporated County	37,117	38,971	39,337	39,735	185	37	27	0.5%	0.1%	0.1%
Total County	131,708	139,048	147,106	157,992	734	806	726	0.6%	0.6%	0.5%

Sources: US Decennial Census, 2000 and 2010; Association of Monterey Bay Area Governments, 2014; Strategic Economics, 2014.

EMPLOYMENT

Regional Employment Trends

There are approximately 170,000 to 180,000 jobs in Monterey County in an average year, but employment varies significantly by season and various sources report significantly different job numbers. Because agricultural employment accounts for approximately 30 percent of all jobs in Monterey County and many agricultural jobs are seasonal, overall employment numbers are very cyclical. In addition, because the two biggest employment categories in Monterey County – agriculture and government – are both challenging to measure,[13] various data sources differ significantly in how much employment they report for the county.[14] Excluding farm employment, there are about 125,000 to 130,000 jobs in the county. Of these, about 90,000 to 95,000 are in private (non-government) industries.

Employment in Monterey County grew significantly in the late 1990s, and then stabilized in the early 2000s before declining again during the recession. Figure III-10 shows total annual average employment in Monterey County, total annual average non-farm employment, and total private employment from 1990 through 2013. The closure of Fort Ord resulted in the relocation of 13,500 active duty military jobs and an additional loss of 4,500 civilian jobs.[15] As demonstrated by the population trends discussed above, the base closure had significant local economic impacts in the North and West Peninsula. At the county level, however, growth in private employment – particularly farm employment – resulted in a net increase of nearly 30,000 jobs to the Monterey County economy between 1990 and 2000. Following 2000, employment remained generally stable until the national recession began in 2007.

Monterey County has recovered more slowly than the state from the recession, but employment has generally been increasing since 2011 and the unemployment rate is declining. Figure III-11 compares annual (year-over-year) change in non-farm employment in the county to the state as a whole. Figure III-12 compares the county and state unemployment rates since 2000. Beginning in 2011, Monterey County began to experience positive job growth; however, the county's economy has recovered slowly compared to the state as whole (Figure III-11). Unemployment has also started to decline, although it remains above the statewide average (Figure III-12).

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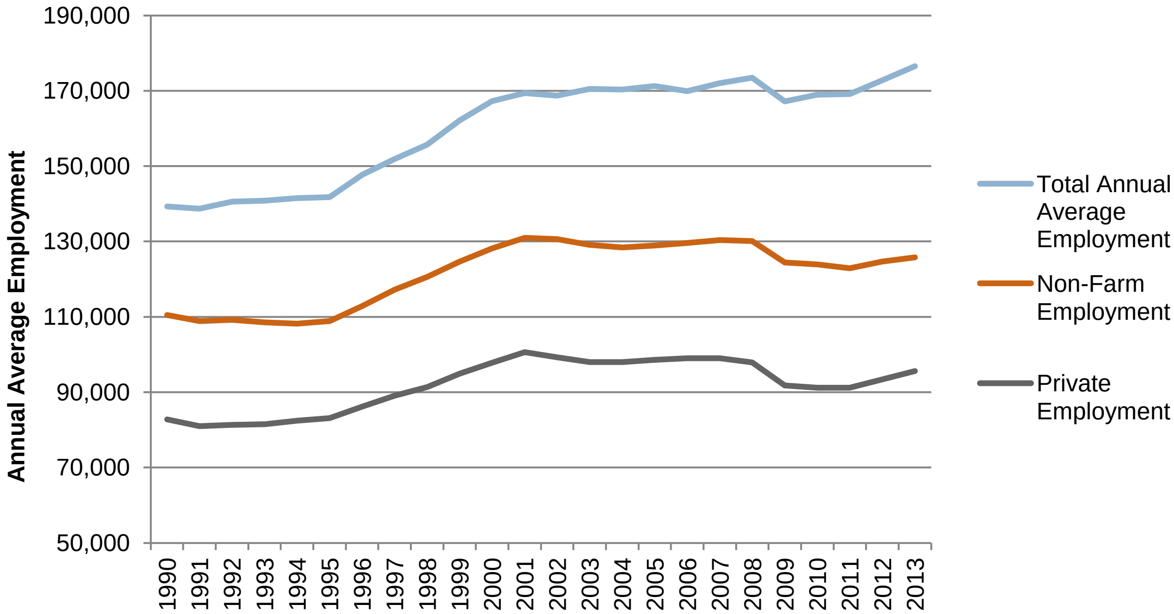
[13] Many sources struggle to measure agricultural employment because of its cyclical, temporary nature; sources may also vary in the extent to which they capture undocumented workers. Some data sources report government work all at one central location (e.g., all state workers in Sacramento); others are more accurate in assigning government workers to actual work locations.

[14] This report relies primarily on employment estimates from the California Economic Development Department (EDD) and Association of Monterey Bay Area Governments (AMBAG). As the regional metropolitan transportation organization and council of government, AMBAG has taken the closest, most detailed look at Monterey County employment. The EDD provides additional historical data at the county level, and are generally similar to the figures reported by AMBAG. The following sections also include data from the U.S. Census Bureau's Longitudinal Employer-Household Dynamics (LEHD) dataset, which is the best available source for understanding commute patterns and where employment is located within cities. Other data sources considered include the American Community Survey, County Business Patterns, and Quarterly Workforce Indicators; these sources report significantly different employment numbers and were eventually excluded from the analysis.

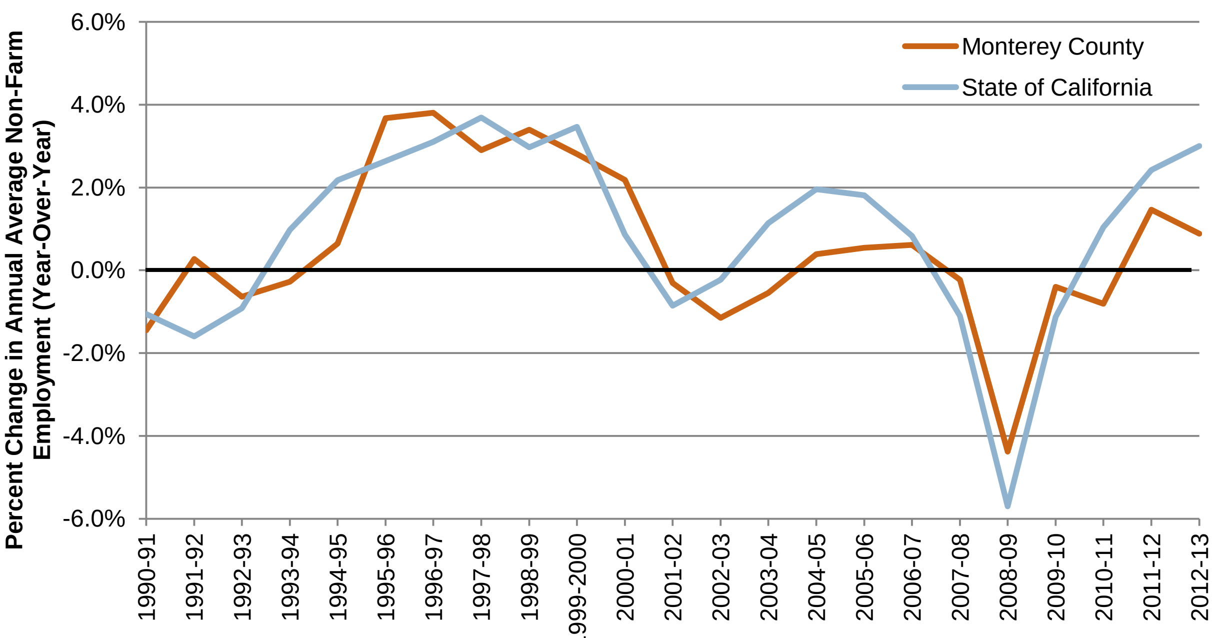
[15] FORA, "Regional Urban Design Guidelines on the Former Fort Ord: Request for Proposals," May 2014.

Figure III-10. Annual Average Employment: Monterey County, 1990-2013



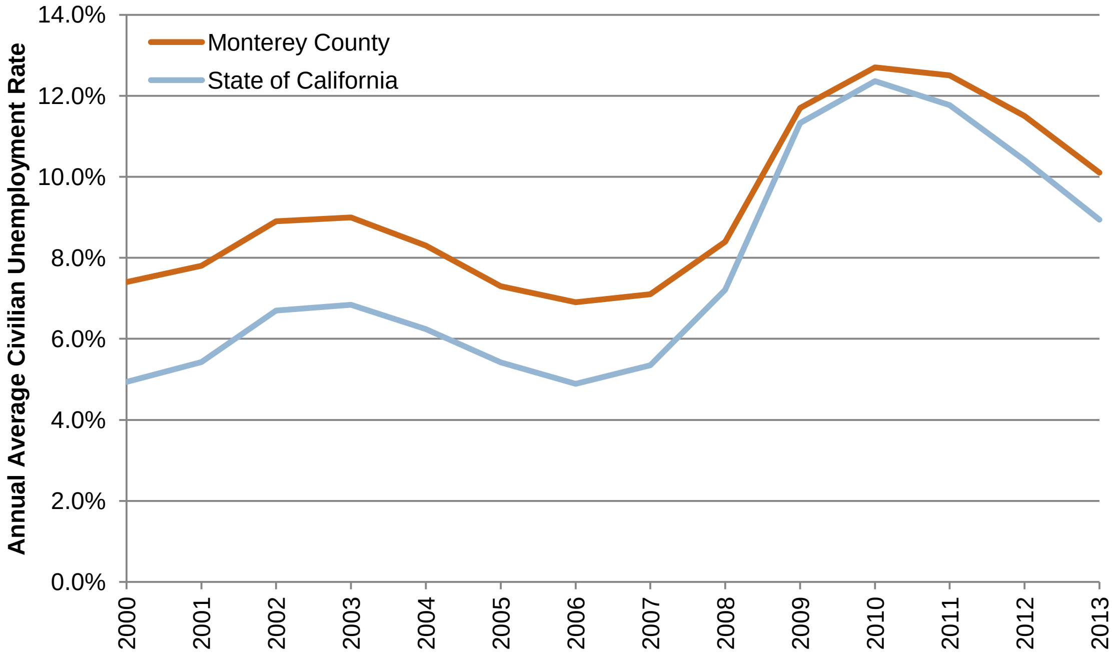
Sources: California Employment Development Department, "Industry Employment & Labor Force - by Annual Average," Salinas MSA (Monterey County), October 2014; Strategic Economics, 2014. Employment is not seasonally adjusted.

Figure III-11. Year-Over-Year Change in Annual Average Non-Farm Employment: Monterey County and the State of California, 1990-2013



Sources: California Employment Development Department, "Industry Employment & Labor Force - by Annual Average," Salinas MSA (Monterey County) and State of California, October 2014; Strategic Economics, 2014. Employment is not seasonally adjusted.

Figure III-12. Unemployment Rates: Monterey County and the State of California, 2000-2013



Sources: California Employment Development Department, "Industry Employment & Labor Force - by Annual Average," Salinas MSA (Monterey County) and State of California, October 2014; Strategic Economics, 2014.

Monterey County's economic recovery has been driven by growth in the agriculture, education and health services, leisure and hospitality, and retail industries. Figure III-13 shows employment in Monterey County by industry for 1990, 2000, 2010 and 2013. Agriculture and government are the largest categories of employment, followed by leisure and hospitality. Between 2010 and 2013, as the economy began to recover from the recession, agriculture, education and health services, leisure and hospitality, and retail saw the most significant increases in employment. Agriculture and education and health are also the only sectors that experienced significant, net employment increases between 2000 and 2010.

Employment in the knowledge-based industries – which drive demand for office space – has declined since 2000. Knowledge-based jobs include employment in information, finance, and professional and business services. In 2013, there were 16,800 jobs in these industries in Monterey County – fewer than in 1990, when knowledge-based industries accounted for 17,300 jobs (Figure III-13).

Figure III-13. Employment by Industry: Monterey County, 1990-2013

	Annual Average Employment				Percent of Total Employment				Annual Average Percent Change		
Sector	**1990**	**2000**	**2010**	**2013**	**1990**	**2000**	**2010**	**2013**	**1990-2000**	**2000-10**	**2010-13**
Agriculture & Resources[(a)]	29,000	39,200	45,300	50,900	21%	23%	27%	29%	4%	2%	4%
Construction	4,700	6,300	4,100	4,400	3%	4%	2%	2%	3%	-3%	2%
Industrial[(b)]	16,300	16,800	13,800	14,400	12%	10%	8%	8%	0%	-2%	1%
Retail	14,700	16,400	15,200	16,200	11%	10%	9%	9%	1%	-1%	2%
Knowledge-Based Services[(c)]	17,300	22,000	17,500	16,800	12%	13%	10%	10%	3%	-2%	-1%
Education & Health Services	8,400	12,100	15,700	16,900	6%	7%	9%	10%	4%	3%	3%
Leisure & Hospitality Services	17,800	20,000	20,000	21,800	13%	12%	12%	12%	1%	0%	3%
Other Services	3,500	4,200	4,600	4,800	3%	3%	3%	3%	2%	1%	1%
Government	27,700	30,400	32,600	30,200	20%	18%	19%	17%	1%	1%	-2%
Total	**139,400**	**167,400**	**168,800**	**176,400**	**100%**	**100%**	**100%**	**100%**	**2%**	**0%**	**2%**

(a) Include agriculture, mining, and logging.
(b) Includes manufacturing, wholesale trade, transportation, warehousing, and utilities.
(c) Includes information, financial activities, and professional and business services.
Sources: California Employment Development Department, "Industry Employment & Labor Force - by Annual Average," Salinas MSA (Monterey County) and State of California, October 2014; Strategic Economics, 2014.

Employment by Submarket

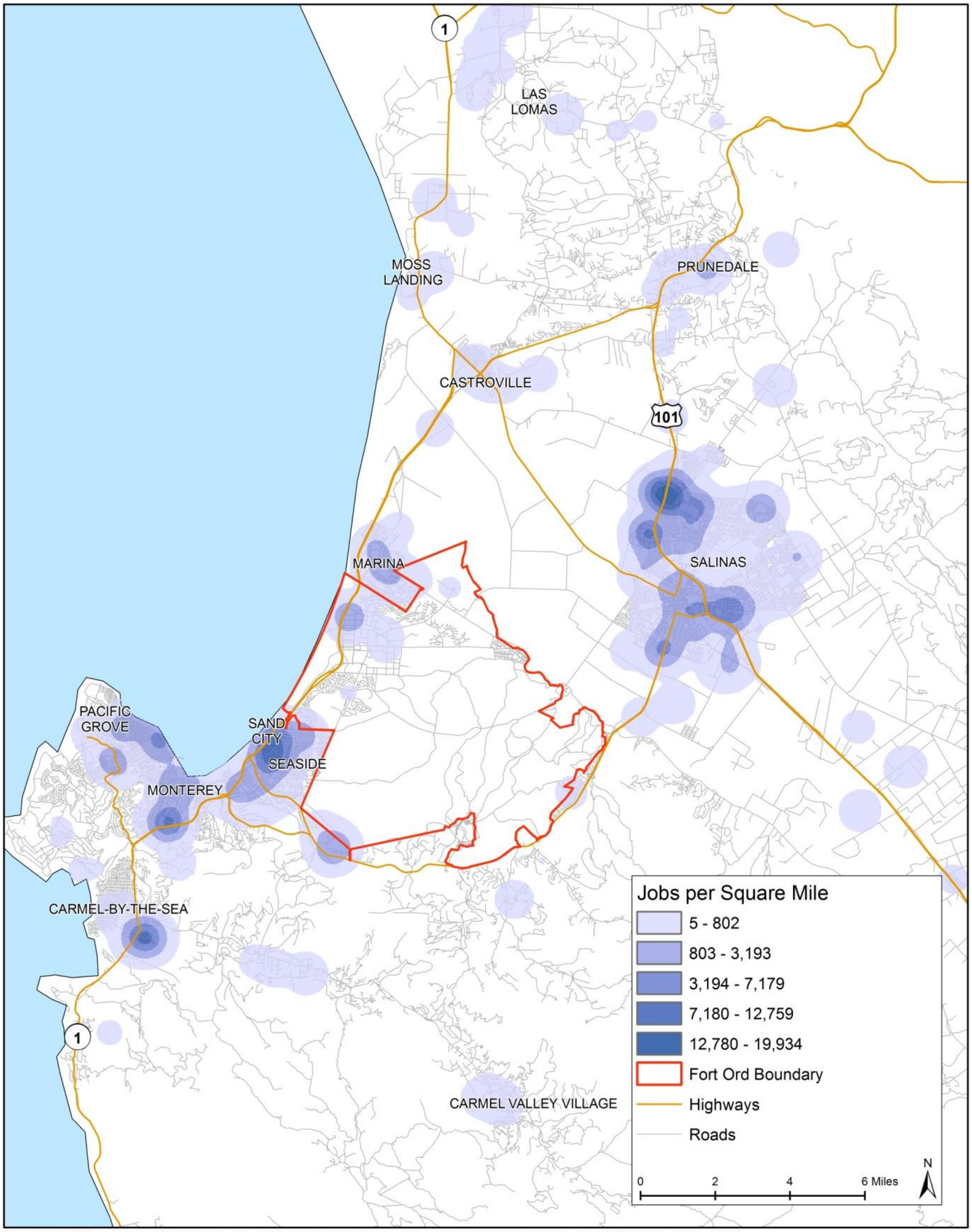
The City of Salinas is the largest employment center in the county, followed by the City of Monterey. Figure III-14 shows total employment numbers by submarket and city; Figure III-15 provides a map of where employment is most concentrated within the county. As shown, the City of Salinas accounts for 54,500 jobs, or nearly 30 percent of the county's employment; the next largest employment center is the City of Monterey at 26,900 jobs or 15 percent of county employment. In total, there are fewer than 7,000 jobs in the North Peninsula cities, or about 4 percent of county employment.

Figure III-14. Total Employment by Submarket and City: 2010

Submarket/City	Employment	Percent of Total County Employment
City of Salinas	54,504	30%
West Peninsula		
Monterey	26,933	15%
Pacific Grove	8,792	5%
Carmel-By-The-Sea	2,282	1%
Subtotal	38,007	21%
North Peninsula		
Seaside	7,790	4%
Marina	4,951	3%
Sand City	1,562	1%
Del Rey Oaks	414	0%
Subtotal	6,927	4%
Other Salinas Valley		
Greenfield	6,934	4%
King City	4,273	2%
Gonzales	2,922	2%
Soledad	2,572	1%
Subtotal	9,767	5%
Unincorporated County	58,071	32%
Total Monterey County	182,000	100%

Sources: Association of Monterey Bay Area Governments, "Regional Growth Forecast", 2014; Strategic Economics, 2014.

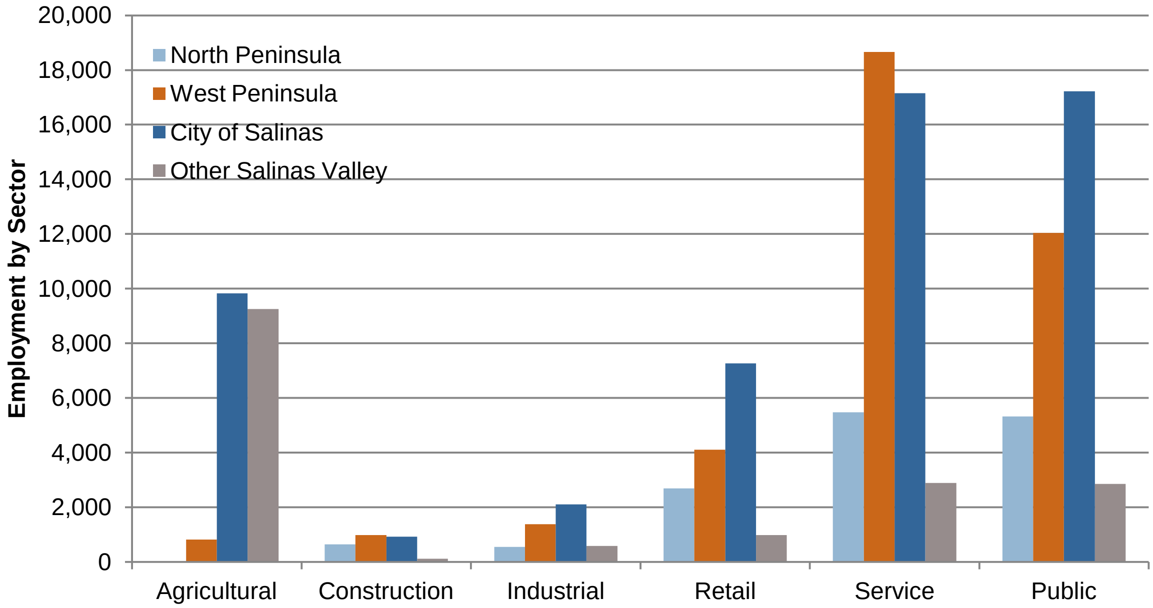
Figure III-15. Monterey County Employment Concentrations, 2011



Sources: US Census Longitudinal Employer-Household Dynamics "On the Map", 2011; US Census TIGER Line Data, 2013.

Most jobs in the North Peninsula are in the service, public, and retail sectors. Figure III-16 compares the employment in the submarkets by sector, using the sectors for which AMBAG reports data. While the service, public, and retail sectors account for most of the employment in the North Peninsula, the West Peninsula and Salinas have significantly more employment in each of these sectors. In particular, Salinas has by far the most public sector and retail jobs. Other data sources suggest that, for all submarkets, leisure and hospitality account for most of the service-sector employment shown in Figure III-16. Education and health care employment are included in AMBAG's estimate of public sector employment.

Figure III-16. Employment by Industry and Submarket, 2010

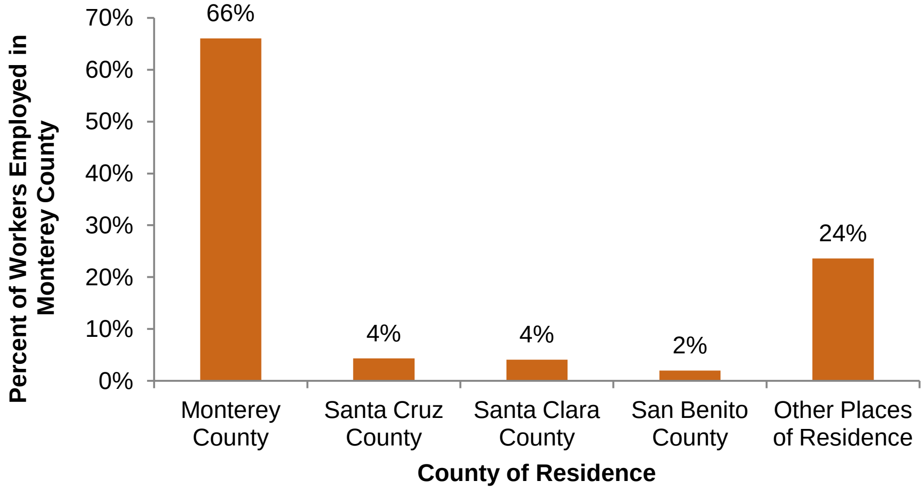


As reported by AMBAG, the construction sector includes mining, logging, and construction employment; the industrial sector includes manufacturing employment; the retail sector includes wholesale and retail trade employment; the service sector includes transportation, warehousing and utilities, information, financial activities, professional and business services, leisure and hospitality, and other services; and public includes education and health care as well as government employment.
Sources: Association of Monterey Bay Area Governments "Regional Growth Forecast", 2014; Strategic Economics, 2014.

Commute Patterns

Monterey County commute patterns are relatively self-contained; 66 percent of workers employed in Monterey County in 2011 also lived there, while only 34 percent commuted in from other counties. In comparison, 36 percent of workers employed in Santa Cruz County commuted in from outside the county, while 38 percent of workers employed in Santa Clara County lived in another county. For workers employed in Monterey County who lived outside the county, the most common places of residence were Santa Cruz, Santa Clara, and San Benito Counties (Figure III-17).

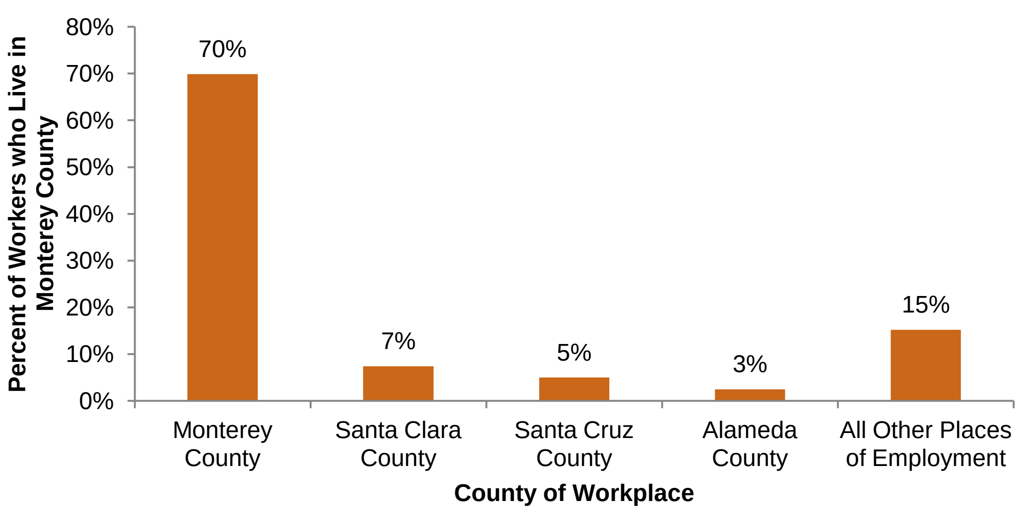
Figure III-17. Top Counties Where Workers Employed in Monterey County Lived, 2011



Sources: US Census Longitudinal Employer-Household Dynamics "On the Map", 2002 and 2011; Strategic Economics, 2014.

A high share (70 percent) percent of workers who live in Monterey County have found work in the county. This is similar to the share of Santa Clara County's employed residents who work in the county where they live (70 percent), and significantly higher than the share of employed residents in Santa Cruz County who work in the county where they live (54 percent). Among Monterey County workers who commuted to jobs outside of the county, the top commute destinations were Santa Clara County, Santa Cruz County, and Alameda Counties (Figure III-18).

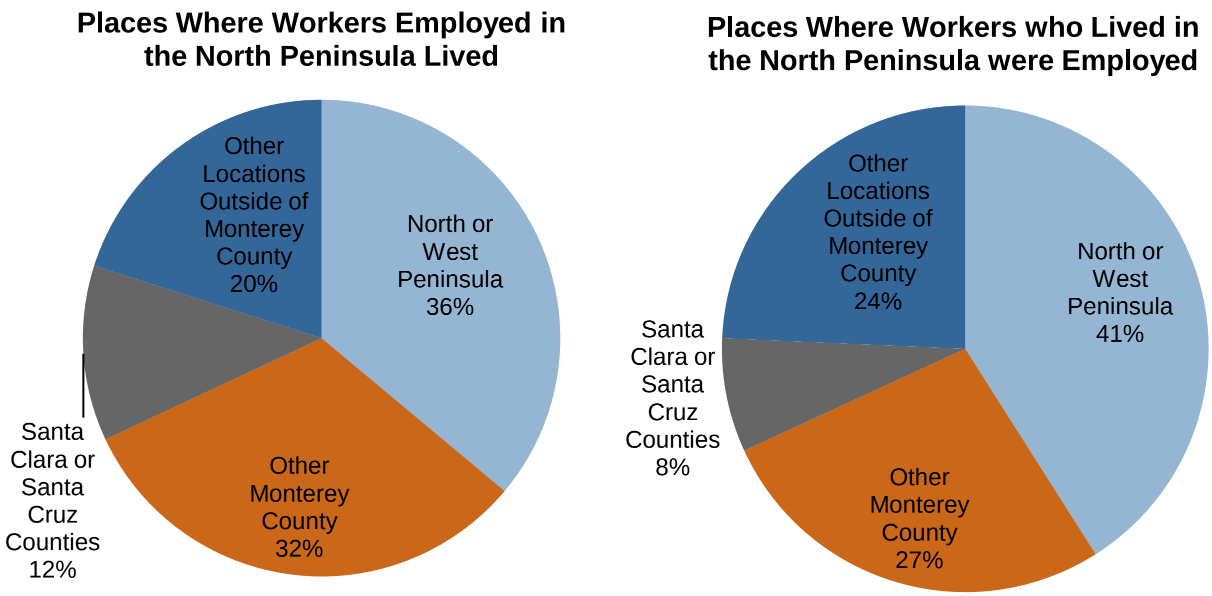
Figure III-18. Top 5 Counties Where Workers Who Lived in Monterey County were Employed, 2011



Sources: US Census Longitudinal Employer-Household Dynamics "On the Map", 2002 and 2011; Strategic Economics, 2014.

The majority of workers who live or work in the North Peninsula also commute within Monterey County. Figure III-19 shows where workers employed in the North Peninsula lived, and where workers who lived in the North Peninsula were employed. As for the county as a whole, the majority of commutes are occurring within Monterey County.

Figure III-19. Commute Origins and Destinations for North Peninsula Workers and Employed Residents, 2011



Sources: US Census Longitudinal Employer-Household Dynamics "On the Map," 2011; Strategic Economics, 2014.

Employment Projections

Various data sources report significantly different current employment, and project varying rates of employment growth. Figure III-20 compares the employment projections published by AMBAG, the California Economic Development Department (EDD), and Woods & Poole.[16] Woods & Poole is significantly more aggressive than the two government sources in both the current employment estimate, and in the projected rate of growth. AMBAG and EDD's projections are fairly similar.

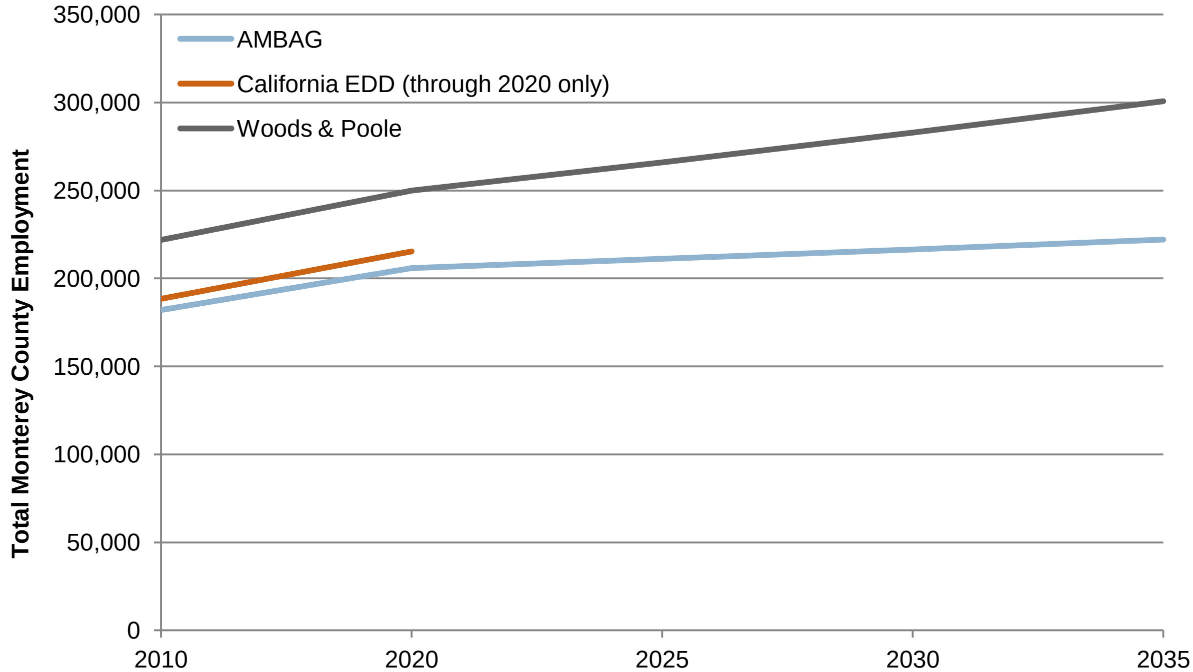
Like the population projections, the employment projections have been revised downwards. In 1995, when the Base Reuse Plan was written, AMBAG projected that Monterey County would exceed 221,000 jobs by 2015. In comparison, the most recent AMBAG forecasts project that the county will not reach that level until 2035.

Service and public sector jobs are expected to drive the county's future employment growth. Figure III-21 shows forecasted employment growth by sector, based on AMBAG's projections. The service and public sectors are projected to growth the fastest, followed by retail and agriculture.

[16] Note that EDD only projects employment through 2020.

AMBAG currently projects that the North Peninsula will add 230 to 265 jobs per year through 2035, while the West Peninsula and Salinas Valley will add more jobs. Figure III-22 shows forecasted employment growth by submarket. The North Peninsula is expected grow at roughly the same annual average rate as the other major submarkets between 2010 and 2020 (1.6 percent a year), and slightly faster between 2020 and 2035 (1.2 percent a year). However, this rate of growth only translates to less than 300 jobs per year on average.

Figure III-20. Comparison of Employment Projection Sources: Monterey County, 2010-2035



Sources: Association of Monterey Bay Area Governments "Regional Growth Forecast," 2014; CA Economic Development Department, 2014; Woods & Poole Economics, 2014; Strategic Economics, 2014.

Figure III-21. Projected Monterey County Employment Growth by Sector (AMBAG)

	Employment			Annual Average Change		Annual Average Percent Change	
Sector	**2010**	**2020**	**2035**	**2010-20**	**2020-35**	**2010-20**	**2020-35**
Agricultural	45,100	47,432	48,666	233	82	0.5%	0.2%
Construction	4,300	5,902	6,226	160	22	3.7%	0.4%
Industrial	5,600	5,651	5,425	5	-15	0.1%	-0.3%
Retail	20,100	23,306	23,869	321	38	1.6%	0.2%
Service	60,900	71,430	77,805	1,053	425	1.7%	0.6%
Public	46,000	52,256	60,146	626	526	1.4%	1.0%
Total	182,000	205,977	222,137	2,398	1,077	1.3%	0.5%

As reported by AMBAG, the construction sector includes mining, logging, and construction employment; the industrial sector includes manufacturing employment; the retail sector includes wholesale and retail trade employment; the service sector includes transportation, warehousing and utilities, information, financial activities, professional and business services, leisure and hospitality, and other services; and public includes education and health care as well as government employment.
Sources: Association of Monterey Bay Area Governments, 2014; Strategic Economics, 2014.

Figure III-22. Projected Monterey County Employment Growth by Submarket (AMBAG)

	Employment			Annual Average Change		Annual Average Percent Change	
	2010	2020	2035	2010-20	2020-35	2010-20	2020-35
Employment							
North Peninsula	14,717	17,034	21,006	232	265	1.6%	1.6%
West Peninsula	38,007	44,055	48,897	605	323	1.6%	0.7%
Other Salinas Valley	71,205	81,890	88,791	1,069	460	1.5%	0.6%
Unincorporated County	58,071	62,998	63,443	493	30	0.8%	0.0%
Total County	182,000	205,977	222,137	2,398	1,077	1.3%	0.5%

Sources: Association of Monterey Bay Area Governments, 2014; Strategic Economics, 2014.

CONCLUSION

Monterey County's economy is relatively small, slow growing, and self-contained. The county is home to 415,000 residents and 170,000 to 180,000 jobs, of which approximately 30 percent are agricultural and 20 percent are in the public sector. With the notable exceptions of agriculture and tourism, most employment in the county is in industries that support the local population, including health care, education, and retail, rather than in industries that are exporting goods or services to other places. Most of the workforce lives within the county boundaries. Although Monterey County grew rapidly through mid-20th century, in more recent decades the pace of growth has been significantly slower than the statewide average.

Fort Ord's expansion between World War II and the end of the Vietnam War drove population growth and development in the Peninsula; since that time, the momentum of growth within Monterey County has increasingly shifted towards Salinas. The development of Seaside and Marina was particularly tied to the military's activities at the Fort. Since the base's closure in the 1990s, population in the North Peninsula has declined by 20 percent. The closure of the army base also affected the West Peninsula, which experienced a smaller but still significant population decline of 11 percent between 1990 and 2000. Even prior to the base closure, the City of Salinas was growing more quickly than the Peninsula, and this trend is expected to continue.

Overall, the population in the North and West Peninsula has been declining since 1990, with the greatest decreases seen among the younger age groups. The overall shrinking and aging of the population suggests that there are limited work opportunities for recent graduates and working households.

Employment growth in the North Peninsula will likely be slow, and driven by resident-serving industries such as education, health care, and retail. These industries have experienced some growth in recent years, and are projected to continue growing modestly in the future. The leisure and hospitality industry is also expected to grow. However, traditional office-based employment sectors (i.e., information, financial services, and professional services) have lost jobs since 2000, and may take longer to recover.

Population and employment projections for the county have been shifted downwards over time, suggesting that the build-out of the Base Reuse Plan will take significantly longer than was originally anticipated. AMBAG projects that the North Peninsula as a whole will add just 200 to 300 new housing units a year, on average, over the coming decades, and about the same number of jobs. At this rate of growth, build-out of all the new housing units envisioned in the BRP will take 20 to 30 years, assuming that Fort Ord captures 100 percent of new growth. Moreover, as discussed in Chapter V, much of the demand for new employment space in the North Peninsula may be met by filling existing, vacant buildings. The West Peninsula is projected to add jobs at a slightly faster rate, but not to experience significant net new housing development.

Given the slow rate of projected growth, the region should ensure that the development that does occur is designed to meet both regional and local goals. The Regional Urban Design Guidelines can play an important role in focusing growth to desired locations, and ensuring that the quality of new development is high and contributes to the long-term economic revitalization of the North and West Peninsula areas and the vision for the reuse of the former Fort Ord.

IV. RESIDENTIAL MARKET

The pace of new residential development at Fort Ord and the type of new units that are built (i.e., single-family homes, townhouses, condos, or apartments) will be driven in part by the demographic shifts discussed in the previous chapter, including the rate of population and employment growth as well as household change over time – for example, young creating create new households by moving out of their parents' home or graduating from CSUMB, families adding children and moving up to larger housing units, and older households downsizing to smaller units. In addition to these local and regional demographic factors, the market for new housing in Fort Ord will also shaped by changing consumer preferences, the attractiveness of Fort Ord to second homebuyers, retirees, and other households from around the region and the state, and the competitive supply of housing units throughout the region (including both the existing housing stock and new housing built in other parts of the region).

This chapter explores all of these factors, and presents an updated assessment of the residential real estate market that builds on discussion of demographic and employment trends in Chapter III. The analysis also builds on the findings from the 2012 Market and Economic Analysis performed as part of the Base Reuse Plan Reassessment, incorporating up-to-date market data as well as qualitative findings from interviews with brokers, developers, and economic development professionals. Following an overview of the existing housing stock and regional housing market trends, the chapter discusses recent market activity on the former Fort Ord and concludes with a summary of implications for the base's long-term reuse and revitalization.

CHARACTERISTICS OF THE EXISTING HOUSING STOCK

Most of the North Peninsula's housing was built prior to 1980, with the greatest number of units dating from the 1960s and 1970s. Figure IV-1 compares housing stock characteristics for the four submarkets, county, and state. Nearly half (44 percent) of all housing units in the North Peninsula were built in the 1960s and 1970s, the period when the submarket – like Fort Ord itself – experienced the most significant population growth. The cities of Seaside and Marina, in particular, grew to meet demand for housing generated by Fort Ord's expansion during this period. A military buildup at the base between 1968 and 1978 resulted in significant additional demand for lower-cost housing for military families. Many of these older, smaller homes are now being rented and are in need of repair or renovation. In comparison, the West Peninsula has relatively more pre-World War II housing (19 percent of units were built prior to 1940) while the Salinas Valley's housing stock is generally newer (approximately 44 percent was built after 1980).

The North Peninsula has a relatively low housing vacancy rate compared to the county and the state. Just 6 percent of housing units in the North Peninsula were vacant in 2012, compared to 10 percent of units in Monterey County and 9 percent in the State of California. In comparison, the West Peninsula had an 18 percent vacancy rate, which may reflect the many homeowners who have retirement or vacation homes that were vacant when the Census data were collected.[17] The relatively low vacancy rate in the North Peninsula likely reflects the relative affordability of the housing stock, as well as the limited housing construction that has occurred in recent decades. Even though the overall population has declined, new households have continued to form and little to no new housing stock has been built to accommodate first-time and move-up buyers and renters. In addition, the older, rented homes in Seaside

[17] The American Community Survey classifies housing units occupied at the time of interview entirely by people who will be there for two months or less as "Vacant - Current Residence Elsewhere." This classification appears to undercount second homeowners, as it only captures those who are occupying their second home at the time of the Census. Units classified as "Vacant- Current Residence Elsewhere" are included in the estimated number of total vacant units.

and Marina provide one of the few sources of affordable, market-rate housing for service workers employed in the Peninsula. The low vacancy rate in the North Peninsula also suggests a smaller second home market in this part of the region compared to the West Peninsula.

The North Peninsula's existing housing stock – including the rental housing stock – is predominantly single-family. As shown in Figure IV-1, over two-thirds (67 percent) of the North Peninsula's housing stock is single-family, similar to the countywide average (69 percent) and higher than the state as a whole (65 percent). The North Peninsula also has a relatively high share of renters; renters occupy 57 percent of all housing units in the North Peninsula, compared to 49 percent in the county and 44 percent of all housing units statewide. According to local brokers, a sizeable percentage of the rental housing stock is made up of privately owned single-family homes. As discussed below, the rental single-family housing stock has been growing in recent years as investors have purchased foreclosed homes.

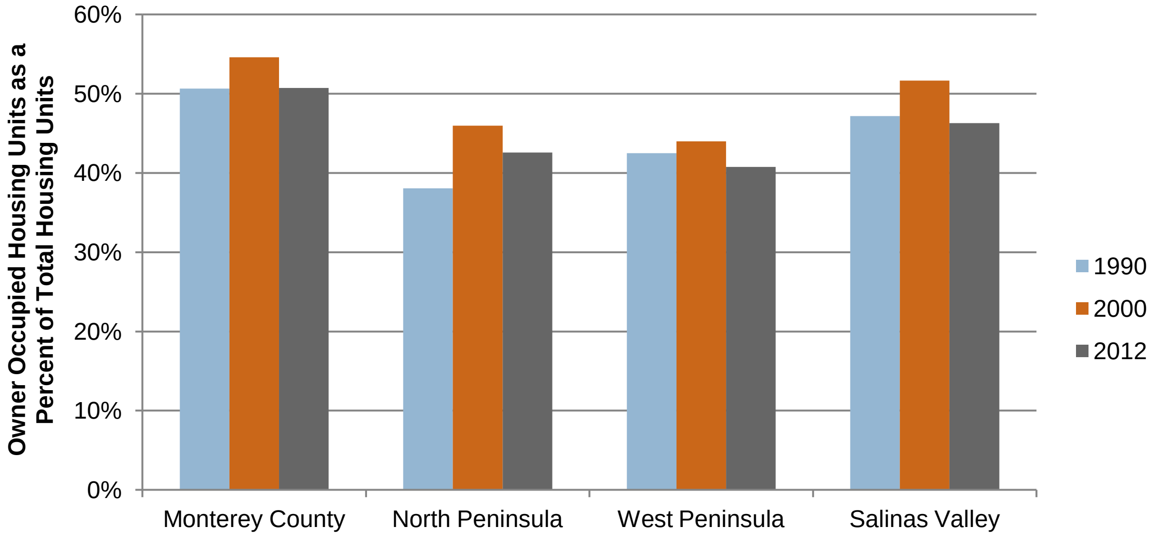
Figure IV-1. Housing Stock Characteristics: Submarkets, County, and the State of California, 2012

	North Peninsula		West Peninsula		Salinas Valley		Total County		State of California	
	#	**% of Total**	**#**	**% of Total**	**#**	**% of Total**	**#**	**% of Total**	**#**	**% of Total**
Occupancy Status										
Occupied	17,743	94%	21,411	82%	52,147	94%	125,123	90%	12,466,331	91%
Vacant	1,167	6%	4,597	18%	3,338	6%	13,963	10%	1,200,895	9%
Total Housing Units	18,910	100%	26,008	100%	55,485	100%	139,086	100%	13,667,226	100%
Tenure										
Owner Occupied	7,555	43%	8,725	41%	23,936	46%	63,463	51%	6,978,397	56%
Renter Occupied	10,188	57%	12,686	59%	28,211	54%	61,660	49%	5,487,934	44%
Total Occupied Housing Units	17,743	100%	21,411	100%	52,147	100%	125,123	100%	12,466,331	100%
Housing Stock by Units in Structure										
1 unit	12,649	67%	15,718	60%	35,748	64%	96,258	69%	8,909,117	65%
2 - 4 units	2,058	11%	3,802	15%	4,989	9%	12,927	9%	1,106,556	8%
5 - 9 units	1,564	8%	2,407	9%	5,463	10%	10,251	7%	830,119	6%
10 or more units	1,837	10%	3,869	15%	7,264	13%	13,987	10%	2,282,957	17%
Mobile home, trailer, other	802	4%	212	1%	2,021	4%	5,663	4%	538,477	4%
Total Housing Units	18,910	100%	26,008	100%	55,485	100%	139,086	100%	13,667,226	100%
Housing Units by Year Built										
Built 2010 Or Later	74	0.4%	0	0.0%	98	0.2%	196	0.1%	26,855	0.2%
Built 2000 To 2009	1,640	9%	1,227	5%	6,542	12%	13,107	9%	1,582,291	12%
Built 1980 To 1999	3,576	19%	3,873	15%	17,981	32%	36,208	26%	3,546,995	26%
Built 1960 To 1979	8,374	44%	8,461	33%	19,166	35%	50,440	36%	4,396,238	32%
Built 1940 to 1959	4,852	26%	7,465	29%	9,113	16%	28,871	21%	2,808,475	21%
Built 1939 Or Earlier	394	2%	4,982	19%	2,585	5%	10,264	7%	1,306,372	10%
Total Housing Units	18,910	100%	26,008	100%	55,485	100%	139,086	100%	13,667,226	100%

Sources: US Census American Community Survey 5-Year Estimates, 2008-2012; Strategic Economics, 2014.

Homeownership rates decline significantly during the recession. As shown in Figure IV-2, homeownership rates in Monterey County increased significantly between 1990 and 2000, especially in the North Peninsula. However, by 2012, homeownership rates had fallen as foreclosed single-family units were transitioned to the rental market. While homeownership rates in the west Peninsula and Salinas Valley are now below 1990 levels, in the North Peninsula a higher share of units are still occupied by homeowners compared to 1990 – presumably reflecting the relative affordability of the North Peninsula market.

Figure IV-2. Homeownership Rates: Submarkets and County, 1990-2012



Sources: US Decennial Census, 1990, 2000 and American Community Survey 5 Year Estimates, 2008-2012; Strategic Economics, 2014.

REGIONAL MARKET DYNAMICS

Monterey County saw a huge run-up in prices during the recent housing bubble, driven by speculation, retirees, and second home buyers. Figure IV-3 shows monthly median home sales prices in Monterey County compared to the state of California between 2000 and November 2014. As shown, housing prices increased faster in the county than in the state as a whole during the early 2000s, reaching a peak of over $600,000 in 2005 and 2006. As in many communities, the housing bubble was fueled by speculation in residential property. In addition, brokers reported that the immense wealth generated in Silicon Valley resulted in increasing numbers of households purchasing second or retirement homes in Monterey County.

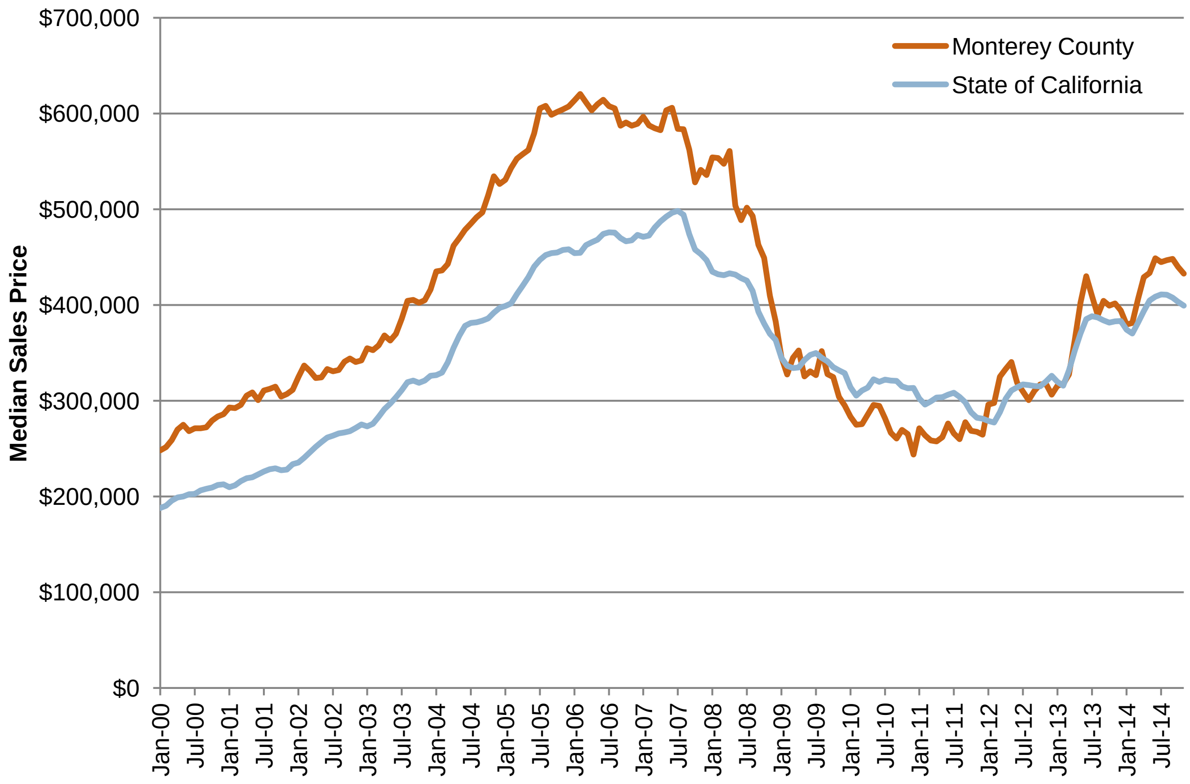
The rapid increase in housing prices was followed by a precipitous decline, from which the region has only recently begun to recover. Between 2006 and 2011, prices in Monterey County dropped by approximately 70 percent, to a low of around $260,000 – slightly below the statewide low (Figure IV-3). Meanwhile, foreclosure activity skyrocketed. As reported in the 2012 Market and Economic Analysis, at the bottom of the housing collapse an estimate 13.5 percent of all households in Monterey County were in some stage of the foreclosure process. Discussions with area brokers suggest that foreclosure rates, at least on the Peninsula, have now stabilized to pre-recession levels.

Home prices began to stabilize in 2011, assisted in part by investors purchasing single-family homes to rent. Anecdotal information from local brokers indicates that, at least initially, the increase in demand was fueled by investors purchasing single-family homes at attractive prices, undertaking small improvements, and returning the homes to the market as rentals. Demand from investors helped stabilize the downward trend in home prices. Seaside and Marina were particularly attractive for this type of investment activity because of the cities' proximity to service jobs on the West Peninsula. The median home price for Monterey County had increased to approximately $460,000 by late 2014, slightly exceeding the statewide median. It is uncertain whether home prices will rebound to their previous highs, but, as discussed below, the reduced prices may be an asset for increasing affordability levels and ownership rates for county residents.

Within Monterey County, there is significant variation in home prices. Figure IV-4 shows median single-family housing price trends for selected communities within Monterey County. Single-family home prices vary dramatically across the region, particularly on the Peninsula where homes sell for well over $1 million in the wealthy communities of Carmel and Pebble Beach, compared to more moderate median prices in most of the North Peninsula. Within the North Peninsula, the median price in the first half of 2014 was approximately $355,000 in Seaside, $423,000 in Marina, $450,000 in the Del Rey Oaks, and $700,000 in the Highway 68 corridor. Median home prices in the Salinas Valley are in the $300,000 range.

Communities in the North and West Peninsula have experienced a more prolonged slump in housing prices compared to the Salinas Valley. The Salinas Valley experienced the sharpest decline in housing prices, with prices falling by 50 to 60 percent between 2007 and 2009. However, Salinas Valley prices began to recover after 2009, and most parts of the Valley have seen sustained price increases since that time. In comparison, prices continued to fall in most North and West Peninsula communities through 2011, and have generally recovered more slowly in the ensuing years (Figure IV-4).

Figure IV-3. Monthly Median Home Sales Prices: Monterey County and the State of California, January 2000-November 2014



Source: Zillow.com, January 2015; Strategic Economics, 2015.

Figure IV-4. Historic Median Single-Family Sales Prices: Selected Markets in Monterey County, 2007- 2014

	Median Sales Price					Percent Change			
	2007	**2009**	**2011**	**2013**	**2014***	**2007-09**	**2009-11**	**2011-13**	**2013-14**
North Peninsula									
Del Rey Oaks	$735,000	$405,000	$385,000	$450,500	$450,000	-45%	-5%	17%	0%
Marina	$580,000	$354,000	$310,000*	$385,124	$423,808	-39%	-12%	24%	10%
Highway 68 Corridor	$932,500	$573,500	$558,000	$600,000	$700,000	-38%	-3%	8%	17%
Seaside/Sand City	$619,000	$270,598	$264,050	$327,400	$355,325	-56%	-2%	24%	9%
West Peninsula									
City of Monterey	$795,000	$520,000	$463,000	$590,224	$635,000	-35%	-11%	27%	8%
Carmel	$1,550,000	$1,240,000	$1,082,500	$1,205,000	$1,350,000	-20%	-13%	11%	12%
Pacific Grove	$805,000	$603,750	$537,500	$682,500	$727,500	-25%	-11%	27%	7%
Pebble Beach	$2,312,500	$1,100,000	$1,104,000	$1,147,500	$1,440,000	-52%	0%	4%	25%
Salinas Valley									
East Salinas	$433,950	$160,000	$174,500	$231,900	$312,000	-63%	9%	33%	35%
North Salinas	$535,000	$209,000	$222,000	$280,000	$319,000	-61%	6%	26%	14%
South Salinas	$540,000	$276,250	$285,000	$390,000	$386,000	-49%	3%	37%	-1%

*Annual data are not available; based on semi-annual data from the January to July period.
Sources: Monterey County Association of Realtors; Strategic Economics, 2014.

Monterey County has a very small for-sale condominium and townhome market. In 2013, 2,788 single-family homes sold in Monterey. In comparison, just 347 common interest development units[18] were sold, accounting for just over 12 percent of total transactions. As shown in Figure IV-5, the majority these units were concentrated in the more affluent communities of Carmel, Pacific Grove, and Monterey. There were also a relatively large number of transactions in Northern Salinas, while very few multi-family ownership homes sold in Marina and Seaside. The small size of the multi-family market, especially in the North Peninsula, likely reflects the area's historically family-oriented communities. Countywide, condo prices averaged $320,000 in 2013; prices were significantly lower in Seaside and Marina.

Figure IV-5. Common Interest Development Sales, 2013

	Closed Sales	Median Sale Price
North Peninsula		
Del Rey Oaks	12	$317,500
Marina	10	$177,000
Seaside/Sand City	8	$250,000
West Peninsula		
City of Monterey	80	$357,500
Carmel	21	$520,000
Pacific Grove	19	$489,500
Pebble Beach	10	$552,000
Salinas Valley		
East Salinas	20	$96,050
North Salinas	44	$97,425
Salinas Monterey Highway	11	$325,000
South Salinas	20	$227,000
Monterey County Total	347	$320,000

Sources: Monterey County Association of Realtors, 2013; Strategic Economics, 2014.

Within the Seaside/Marina market area, a sizable percentage of the rental stock is made up of privately owned single-family homes. According to local brokers, since housing prices reached their trough in about 2009, there has been a significant increase in the number of investors purchasing single-family homes and placing them on the rental market. Investors have focused on Marina and Seaside in particular due to their affordability and proximity to service jobs in the West Peninsula. Older, more run down single-family homes often rent for under $1,500 per month, with rents for homes in better shape currently advertised at about $1,000 for one-bedroom units, $1,600 to $2,600 for two-bedroom units, $2,500 to $3,300 for three-bedroom unit, and $2,100 to $3,400 for four-bedroom units. However, because single-family home rentals are not tracked by market data vendors, data on the rental market in the Peninsula is very limited and incomplete.

Very few new homes have been built in the county since 2005, although there is significant housing development planned both at Fort Ord and in the Salinas area. As discussed below, the first two

[18] Common interest developments (CIDs) include Condominiums and Planned Developments; these two forms of ownership are characterized by common ownership of private residential property and mandatory membership in a homeowner's association.

residential projects to commence development in Monterey County since the recession are both located on Fort Ord. As discussed in Chapters II and III, the Base Reuse Plan calls for an additional 5,700 new housing units to be built at the former Fort Ord. Several projects were entitled on the base before or during the recession, but put on hold due to poor market conditions including low sales prices and high foreclosure rates. Meanwhile, the City of Salinas recently annexed land to the northwest that is part of three specific plans that allow for up to 13,000 new housing units.

Although home prices remain lower than before the recession, Monterey County continues to face a significant discrepancy between housing prices and incomes. A report prepared by the Monterey County Association of Realtors notes that only 27 percent of Monterey County households can afford a home priced at $460,000, the median price of a home in the county in October 2014.[19] There is an even more significant gap between local incomes and new home prices, which have sold (at East Garrison) for up to $650,000. Only 11 percent of Monterey County households can afford a home priced at $650,000.[20] While East Garrison is reportedly doing well and attracting move-up homebuyers from within the county, it remains unclear how deep the market demand will be for new homes priced in the $500,000s and $600,000s given the limited number of local households who can afford homes in this price range.

While the high cost of housing in the West Peninsula is supported by a large percentage of second homes and wealthy retirees, there has been less demand to date from these types of buyers in Marina, Seaside, and Fort Ord. Local brokers noted that the majority of second homebuyers in the Peninsula are looking for the lifestyle and amenities associated with Carmel, Pebble Beach, and surrounding affluent communities. The more affordably priced housing stock in Marina and Seaside is typically occupied by first-time homebuyers and renters. Anecdotally, brokers suggest that in some communities in Carmel and Pebble Beach, 60 percent or more of housing units are owned by second homeowners and are not occupied full-time. In comparison, second homeowners are thought to account for around 10 to 20 percent of the market in Seaside and Marina.

RECENT MARKET ACTIVITY IN THE FORMER FORT ORD

The first two residential projects to begin construction in Monterey County since the recession are both located on Fort Ord. Figure IV-6 provides a summary of unit types and pricing for East Garrison and The Dunes, the two new single-family development projects that are currently under development on the base. As noted above, the units are on relatively small lots, but are set at price points ranging from the mid $400,000s to mid $600,000s, significantly higher than prices for older homes in Marina and Seaside. The other residential projects in the planning pipeline for the former Fort Ord are currently stalled due to financing, entitlement, water, environmental, or other factors.

[19] To afford a home costing $460,000 -- the median home price in October 2014 – a household would need to have an annual income approaching $100,0000. Only 27 percent of Monterey County households earned more than $100,000 in 2012.

[20] Based on calculation by Strategic Economics. Only 11 percent of Monterey County residents earned $150,000 or more in 2012, the approximate income required to afford a home priced at $650,000.

Figure IV-6. New Single-Family Development in Fort Ord

Project	Unit Types	Unit Sizes (sq. ft.)	Lot Sizes (sq. ft.)	Asking Prices	Status (As of Late 2014) and Comments
<u>East Garrison (Phase 1)</u>					Phase I includes 170 single-family units. An estimated 50 units built and 70 sold since home sales began in late 2013 (approx. 3-4 units per month). East Garrison also includes Manzanita Place, a 61-unit affordable apartment building occupied summer 2013.
The Monarch	3 bdrms/2.5 bath	1,575 -1,870	2,500 - 4,000	$449,000-$489,000	
The Artisan	3-6 bdrms/3 bath	1,719-2,607	4,000	$499,000-$575,000	
The Heritage	4-6 bdrms/2.5-4bath	1,975-2,877	5,000-6,000	$575,000-$648,000	
<u>The Dunes</u>				Projected:	Phase I is projected to include 108 single-family attached and detached units. Model homes under construction, sales expected to commence in Feb. 2015. Developer projects absorption of 3 units/month. Phase 1 also included 108-unit affordable apartments.
Sea House (duets)	2-4 bdrms/2.5bath	1,523-1,896	2,500	High $400's - $500's	
Surf House	3-4 bdrms/2.5bath	1,928-2,158	5,000	$500's to $600's	

Source: Project Sponsors, 2014; Strategic Economics, 2014.

East Garrison, the first project to begin selling new housing on Fort Ord, has primarily attracted families relocating from within the county or outside the region, including some employees at CSUMB and local hospitals and clinics. The East Garrison development is approved for a mix of housing types totaling 1,472 units, with 170 single-family permits pulled for Phase 1. The developer indicated that they are pleased with the pace of sales and pricing, with an estimated 50 units built and 70 units sold (including pre-sales) since sales began in late 2013. A favorable land basis allowed the developer to initiate the project early in the market recovery. Buyers are attracted to the opportunity to purchase a new home and include a mix of move-up buyers, a limited number of former renters from within the county, and families relocating from communities outside the area including Bakersfield, Sacramento, and Los Angeles. Some homebuyers have moved from Salinas in search of lower crime rates and better schools. Several homes have also been sold to CSUMB professors and those employed in the area's hospitals and clinics. A small number of homes have been sold to families who are still working in the greater region, but intend to retire to the area. However, the housing at East Garrison is family-oriented and is not located near the coast, and has not proven to be particularly attractive for second home buyers or retirees.

The Dunes on Monterey Bay has approvals for 1,237 housing units, and may prove more attractive than East Garrison for second home buyers. A 108-unit affordable rental apartment project at The Dunes was completed last year. The for-sale residential component had been on hold for several years during the recession, but the developer believes the market can now support the pricing required to make the project economically viable. Model homes are under construction, with sales projected to commence in February 2015. Phase I includes permits for 108 market-rate, single-family attached and detached units. As noted in Figure IV-6, the single-family duets and detached homes will range from 1,800 to 2,200 square feet and are projected to sell for $500,000 to $600,000. Sales representatives indicated they are projecting selling between 3 and 4 units per month. Because The Dunes is located nearer to the coast than East Garrison and some units will have ocean views, sales representatives and local brokers are expecting it to attract more second home buyers and retirees.

Both East Garrison and The Dunes include long-term plans for multi-family townhomes and condos, but multi-family development is not expected to be economically viable until prices appreciate significantly. On a per-square-foot basis, construction costs are generally higher for multi-family than for single-family development. The prevailing wage requirement on Fort Ord further increases construction costs. As a result, condominium and townhome prices will need to increase significantly for multi-family development to be feasible, and for the private market to deliver a broader range of housing products. The developer of East Garrison suggested that an attached multi-family project might not be economically viable for a minimum of five years. Given low apartment rents in the surrounding areas, the developers of the two projects do not anticipate introducing a market-rate apartment project for some time.

Fort Ord benefits from having ample vacant available land on which to develop new residential projects, but also faces challenges including high prices for new development relative to local incomes, a lack of cohesive neighborhoods, and poorly ranked schools. Compared to the older homes in the surrounding area, the new homes on Fort Ord are in pristine condition. However, pricing of the single-family units is high relative to existing home prices and household incomes in the surrounding communities, the emerging neighborhoods within Fort Ord are still quite isolated and offer few amenities, and, with the exception of Carmel and Pebble Beach, the county's schools are ranked poorly on statewide ranking scales.

Absorption of new market-rate homes in Fort Ord has totaled under 50 units a year to date, and is projected to reach approximately 100 units per year with the completion of additional homes at East Garrison and The Dunes in the coming years. Since sales began at East Garrison in late 2013, units have sold at approximately 3 to 4 units per month. Sales representatives at The Dunes are projecting a similar absorption rate. Assuming these absorption rates continue, absorption of homes at East Garrison and The Dunes combined is likely to total approximately 100 units per year, suggesting that new neighborhoods will be slow to emerge.

CONCLUSION

The existing housing stock in Seaside and Marina is relatively affordable, predominantly single-family, and serves as an important source of housing for service workers employed on the Peninsula. Nearly half of all housing units in the North Peninsula were built in the 1960s and 1970s, the period when Seaside and Marina experienced significant population growth associated with the expansion of Fort Ord. Many of the housing units built during this era were small, low-cost, single-family homes, and many of these are now being rented and are in need of repair or renovation. The older, rented homes in Seaside and Marina provide one of the few sources of affordable, market-rate housing for service workers employed in the Peninsula. In the wake of the housing market crash that began in 2007 and 2008, there has been a significant increase in the number of investors purchasing single-family homes and placing them on the rental market. Investors have focused on Marina and Seaside in particular due to their affordability and proximity to service jobs in the West Peninsula.

Seaside and Marina have not historically attracted many second homebuyers and retirees. While the high cost of housing in the West Peninsula is supported by a large percentage of second homes and wealthy retirees, there has been less demand to date from these types of buyers in Marina, Seaside, and Fort Ord. Local brokers noted that the majority of second homebuyers considering options in the Peninsula are looking for the lifestyle and amenities associated with Carmel, Pebble Beach, and surrounding affluent communities. Anecdotally, brokers suggest that in some communities in Carmel and Pebble Beach, 60 percent or more of housing units are owned by second homeowners and are not occupied full-time. In comparison, second homeowners are thought to account for around 10 to 20 percent of the market in Seaside and Marina.

Although the first two major residential projects to commence development in Monterey County since the recession are both located on Fort Ord, absorption of new, market-rate housing units has been slower than AMBAG household growth projections would suggest. AMBAG projects that the North Peninsula cities will add approximately 200 to 300 households a year between 2010 and 2035. However, actual absorption of new, for-sale, market-rate homes in Fort Ord has totaled fewer than 50 units a year since new units at East Garrison first came online in 2012, and is projected to reach approximately 100 units per year with the completion of additional homes at East Garrison and The Dunes in the next few years. (Approximately 170 affordable rental units have also been completed and occupied in the past two years.) The other residential projects in the planning pipeline for the former Fort Ord are currently stalled due to financing, entitlement, water, environmental, or other factors, but could be completed in the medium- to long-term.

The slow development and absorption of new market-rate units reflects slow regional population growth, the lingering effects of the recession, a mismatch between the incomes of Monterey County residents and the prices that are needed to support new development, and the challenges associated with construction on Fort Ord. New construction has been slow to occur on the base, in part as a result of regional economic conditions, including slower than expected population growth, relatively low household incomes in the region, and the effects of the recent recession. Moreover, there is a significant gap between local incomes and new home prices. For example, only 11 percent of Monterey County households can afford a home priced at $650,000, the cost of a higher-end new home in East Garrison.[21]

[21] Based on calculation by Strategic Economics. Only 11 percent of Monterey County residents earned $150,000 or more in 2012, the approximate income required to afford a home priced at $650,000.

Other factors contributing to the challenge of development on Fort Ord include the lack of cohesive neighborhoods, poorly ranked local school districts, and relatively high sales prices that are driven in part by high construction costs associated with blight removal and the prevailing wage requirement.

To some extent, slow absorption rates may also indicate a mismatch between demand and the supply of new units that have entered the market to date. To date, only single-family homes with three or more bedrooms have been completed on Fort Ord. These units have proven most attractive for move-up buyers and former renters from within the county, as well as families and older couples relocating from communities outside the area. There may also be demand for smaller, lower cost units – for example, from younger people creating new households by moving out of their parents' home or graduating from CSUMB, or from senior households who would like to move from a single-family home to a smaller unit – that is not being met by the new, single-family housing that on the market. Because the amount of recently completed development in Monterey County is so small, however, the market for smaller and attached units remains largely untested.

In the near-term, single-family homes are expected to account for most new development; market-rate multi-family development will only become economically viable when unit values increase significantly. Market-rate development on Fort Ord is likely to continue to take the form of single-family units (including attached and detached) in the short-term. To the extent that there is a growing segment of the market that is interested in higher-intensity development, prices will need to increase before this type of product will be financially feasible to build. Current single-family sales prices are adequate to cover the cost of construction – which, on a per-square-foot basis are typically lower for single-family homes than for multi-family development – and offer an acceptable return on investment for single-family homebuilders. However, rents and sales prices are not expected to reach the level required to support multi-family construction costs, including providing an acceptable rate of return for the developer, for at least the next five years.

Vertical mixed-use development is also unlikely to be economically viable in the short- to mid-term. Like other types of multi-family development, mixed-use development will be challenging because it is more expensive to build on a per-square-foot basis, and thus requires higher prices than the market currently supports. In addition (as discussed in Chapter V), there is limited demand for additional retail space on the former Fort Ord, and retailers prefer to locate in highly visible, concentrated activity nodes near large, brand-name anchor tenants. These location considerations are often difficult to accommodate in a vertical mixed-use format.

Absorbing the housing development anticipated in the BRP will likely require attracting segments of the housing market not currently active in the North Peninsula, including retirees and second homebuyers. Given the relatively low incomes in the North Peninsula and slow pace of household growth and employment that is projected over the coming decades, Fort Ord will need to attract buyers from outside the region in order to fully realize the community's vision for the base reuse. Although Seaside and Marina had historically struggled to attract retirees and second homebuyers, Fort Ord could prove attractive for moderate-income buyers from inland Monterey County or other parts of the Central California, who are looking for a second home or retirement community located near the coast that is relatively affordable compared to communities such as Carmel and Pebble Beach.

Attracting and retaining members of the Millennial generation will also be critical to the long-term economic revitalization of the North and West Peninsula area. In many other parts of the country, people in their 20s and 30s (the Millennial generation) have been driving demand for new housing. In the North and West Peninsula, however, the population under age 45 has been decreasing since the 1990s. In order to stabilize or reverse the decline in young people and retain CSUMB graduates and other younger households over time, the region will need to provide housing and neighborhoods that meet their preferences, as well as good jobs and high-quality K-12 schools for families with children. In order to help grow the base of high-quality jobs and retain more young workers, the County Economic Development Department, CSUMB, UC MBEST, and individual cities' economic development staff are working to capitalize on key employment sectors already present in the county, including pursuing approaches to expand education, health, and hospitality employment as well as research and development opportunities in agriculture and marine research.

The Regional Urban Design Guidelines represent an opportunity to help make Fort Ord more attractive for Millennials, families, and older second homebuyers and retirees, as well as more functional for an aging population. Surveys indicate that Baby Boomers and Millennials are less interested in other age groups in traditional, auto-dependent suburbs, and instead prefer locations with easy access to amenities and a broader range of mobility options such as walking and public transit.[22] Creating more cohesive, pedestrian-oriented neighborhoods with improved connections to retail and other activity centers could help make Fort Ord more attractive for these buyers.

[22] See, for example, American Planning Association, *Investing in Place: Two Generations' View on the Future of Communities*, May 2014, http://www.planning.org/policy/polls/investing/pdf/pollinvestingreport.pdf.

V. COMMERCIAL MARKET

This chapter provides an overview of recent commercial trends. The analysis builds on the discussion of employment trends in Chapter III and findings from the 2012 Market and Economic Analysis. The chapter also incorporates updated market data from the commercial vendor CoStar, as well as qualitative findings from interviews with local commercial real estate brokers, developers, and economic development professionals. The following sections provide an overview of regional market dynamics and recent market activity on the former Fort Ord for each major commercial product type envisioned in the Base Reuse Plan (office, retail, hotel, and industrial/flex space). The chapter concludes with a discussion of implications for future development on the base.

Note that the tables below use slightly different submarkets than Chapters III and IV, reflecting the geographies at which CoStar reports data.

OFFICE MARKET OVERVIEW

Regional Market Dynamics

Monterey County's current office inventory totals 7.9 million square feet of rentable building area, with the largest concentration of space in CoStar's North Monterey County submarket and the City of Salinas. As shown in Figure V-1, North County (which includes Ryan Ranch, Moss Landing, the Carmel Valley, and Salinas Valley north of Soledad) has 2.8 million square feet of office space. The City of Salinas is the second largest office market, with 2.1 million square feet, followed by the City of Monterey at just under 2 million square feet of space. Marina and Seaside contain a very small percentage of the county's inventory of office space, with less than 400,000 square feet combined.

Figure V-1. Office Market Statistics, 3rd Quarter 2014

	Rental Building Area		Vacant Sq. Ft.				
CoStar Submarkets	**Total Sq. Ft.**	**% of Total**	**Direct**	**Total**	**Total Vacancy Rate**	**YTD Net Absorption**	**Average Asking Rent (per Sq. Ft. per Year)**
North Monterey County*	2,804,386	35%	194,318	396,676	14.1%	-20,839	$23.20
City of Salinas	2,130,490	27%	96,402	97,952	4.6%	19,520	$19.44
Monterey	1,953,081	25%	123,327	124,327	6.4%	3,464	$21.07
Downtown Salinas	389,673	5%	15,840	17,920	4.6%	2,660	$16.67
Marina/Seaside	376,138	5%	26,693	26,693	7.1%	-245	$16.64
Pacific Grove	166,637	2%	11,880	11,880	7.1%	-4,896	$20.87
Carmel/Pebble Beach	74,783	1%	3,974	3,974	5.3%	-950	$26.40
Soledad	30,632	0%	0	0	0.0%	650	$0.00
South Monterey County**	12,000	0%	2,000	2,000	16.7%	0	$11.93
Total Monterey County	**7,937,820**	**100%**	**474,434**	**681,422**	**8.6%**	**-634**	**$21.30**

*North Monterey County includes Del Rey Oaks, Moss Landing, the Carmel Valley, and the Salinas Valley north of Soledad (excluding the City of Salinas)
**South Monterey County includes the 101 Corridor south of Soledad.
YTD: Year to Date
Direct vacant space being offered for lease directly from the landlord or owner of a building, as opposed to space being offered in a building by another tenant (or broker of a tenant) trying to sublet a space that has already been leased. Vacant space available for sublease is included in "total" vacancy figure.
Source: CoStar Group, 2014; Strategic Economics, 2014.

The office market in Monterey County has worsened slightly over last five years, despite the fact that little to no new construction has been added to the supply of space. The county had an overall vacancy rate of 8.6 percent in the third quarter of 2014, up slightly from the 7.5 percent in 2009.[23] Average asking rents have also declined slightly from $22.06 to $21.30. The softness of the market is further demonstrated by the recent increase in subleased space. In 2009, virtually all the available office space was being directly leased; in the third quarter of 2014, 30 percent of the vacant space was comprised of subleased spaces. With an existing vacant inventory of 680,000 square feet of space, the county has an excessive excess supply of space on the market despite the fact that (according to CoStar), only 15,000 net new square feet of office space has been absorbed since 2009.

The Cities of Salinas and Monterey have the lowest vacancy rates (at 4.6 percent and 6.4 percent respectively) in the county, while vacancies in the North Monterey County and Marina/Seaside submarkets are significantly higher. The vacancy rate in North County, which as noted above includes office buildings in Ryan Business Park, was 14.1 percent in the third quarter of 2014. The vacancy rate in Marina/Seaside was just over 7 percent.

While average rents are in the range of $20 to $23 per square foot a year in most of the major office submarkets in Monterey County, rents are much lower in the Marina/Seaside area. Annualized asking rents average $23 per square foot in the North County, $21 per square foot in Monterey, and $19.40 per square foot in Salinas. However, brokers leasing space in Ryan Ranch indicated they will typically lower rents substantially below asking rates to attract tenants. In the smaller Marina/Seaside market, rents average under $17 per square foot per year.

The majority of office tenants are small professional users who require less than 10,000 square feet of space. Brokers note that tenants in multi-tenant buildings include medical practitioners, attorneys, accountants, services and small to medium business owners.

Larger national tenants have been leaving the county, and have not been replaced by similarly sized companies. For example, Capital One vacated a 300,000 square foot building in Salinas, relocating their 800-person operations to Texas. The County of Monterey purchased the vacated building, preventing vacancy rates from increasing significantly as a result. McGraw Hill, which has a 210,000 square foot office building in Ryan Ranch, is in the process of downsizing and relocating out of the area; the building is now largely vacant and is on the market for sale. The 62,500 Monterey Herald building, also located in Ryan Ranch, was also recently vacated by the newspaper. The company will remain in Monterey, but is downsizing. The building was sold to CSUMB for $5.7 million, or $91 per square foot, well below the $7.2 million asking price. CSUMB plans to use the property to accommodate their research space needs, continuing education and other programs. It should be noted that this acquisition was executed in lieu of earlier plans to build new offices on the campus, which was deemed too costly an option.

Ryan Ranch Business Park, which represents the largest multi-tenant office node on the Peninsula and is directly adjacent to the former Fort Ord, has struggled to maintain occupancy and rent levels. The seven-building complex has 177,000 square feet of space and caters to small to medium sized tenants including many professional offices. The complex has a current vacancy rate of 18.6 percent. Asking rents at Ryan Ranch range from $17.40 to $19.80 per square foot, although the leasing agent indicated to attract tenants they often provide some free rent and pay moving expenses. Several spaces have been on the market for years.

[23] Brokers from Cassidy Turley, one of the largest commercial brokers in Monterey, indicated that the CoStar vacancy rates reflect vacancies in all buildings including government tenants. A more accurate regional vacancy rate for private development would exclude these users, resulting in a 2014 office vacancy rate of 14.5 percent countywide. However, CoStar data are used here because they provide more detailed data at the submarket level.

The general consensus among local brokers, developers, and local economic development professionals is that the office market is unlikely to improve in the coming five to 10 years. The pessimism regarding the speculative office market is based on the weak market indicators, the localized nature of demand, lack of educated labor pool, and high housing prices. Further, the projected growth in employment is primarily in retail, leisure and hospitality, education and health care, and other services sectors that do generate significant demand for office space.

Recent Market Activity in the Former Fort Ord

Expectations that UC MBEST or CSUMB would generate demand for new research facilities requiring office or flex/light industrial space have not come to fruition. As discussed above, CSUMB recently acquired the former Monterey Herald building. This acquisition is projected to accommodate the university's foreseeable future need for office and research space. UC MBEST's latest visioning report reduced their long-term build-out from several million square feet of office/light industrial space to a 296,000 facility. Moreover, UC MBEST recently vacated an 11,000 square foot office building that they are now trying to sell, and the 26,000 square foot headquarters building is only half leased, with little apparent demand for space. Unlike other local research organizations such as Moss Landing Marine Laboratories, which is funded by a consortium of northern and central state university campuses, UC MBEST is required to be being privately financed with the main source of revenue derived from leases and land sales.

The existing supply of office space in the market is likely to accommodate most of the increased demand associated with employment growth for the coming decade. The new 148,000 square foot Veterans Medical Clinic will add a substantial number of new employees and an estimated 70,000 patients per year to Ford Ord. Local brokers are hopeful that the project may spin off of some additional demand for small professional offices, and that this may have some positive impact on the area's high vacancy rates.

RETAIL MARKET OVERVIEW

Regional Market Dynamics

In Monterey County, the greatest concentration of retail space is found in and around the City of Salinas, but there is also a significant amount of retail space in and around Fort Ord. Out of a total of 18 million square feet of retail space in the county, Salinas has 6.9 million square feet of or 42 percent (Figure V-2). North Monterey County (which includes Del Rey Oaks) and Marina/Seaside/Sand City markets each have approximately 3 million square feet.

The county's retail market is generally stable, but not growing. Current vacancy rates are 3.8 percent, having declined from 5 percent in 2009. As shown in Figure V-2, retail vacancy rates are fairly consistent throughout the county, although they are somewhat lower in Salinas and higher in the small retail market of Pacific Grove. Asking rents average $17.70 per square foot, slightly below the 2009 average rate of $17.98 per square foot.

The retail market in Marina/Seaside is generally underperforming compared to the county as a whole. Rents in the Marina/Seaside submarket have declined from $17.55 to $16.41 per square foot in the last five years. Vacancies have declined over the same period from 6.4 percent to 4.4 percent, but are still slightly higher than the countywide average of 3.8 percent.

Discussions with retail developers and brokers suggest that the Peninsula has tapped out retail demand. The local retail market benefits from the large number of visitors to the area. However, with just over 100,000 residents the overall size of the local market area is quite small, and most types of retail are already represented in the marketplace. Further, the slow pace of projected population growth will minimize new demand for the next five to 10 years. As new housing is built over time, there may be the potential to support a small additional amount of locally-serving retail.

Figure V-2. Retail Market Statistics, 3rd Quarter 2014

	Gross Leasable Area				
CoStar Submarkets	**Total Sq. Ft.**	**% of Total**	**Total Vacant Sq. Ft.**	**Vacancy Rate**	**Average Asking Rents (per Sq. Ft. per Year)**
City of Salinas	6,909,794	38%	201,808	2.9%	$16.09
Other North Monterey County*	3,127,791	17%	142,281	4.5%	$19.05
Marina/Seaside/Sand City	2,974,318	16%	131,714	4.4%	$16.41
Monterey	2,473,392	14%	82,913	3.4%	$17.05
Downtown Salinas	710,571	4%	22,574	3.2%	$18.08
Pacific Grove	670,259	4%	60,571	9.0%	$17.59
Other South Monterey County**	557,583	3%	26,050	4.7%	$12.57
Carmel/Pebble Beach	416,739	2%	12,616	3.0%	$38.38
Soledad	266,416	1%	0	0.0%	$0.00
Totals	**18,106,863**	**100%**	**680,527**	**3.8%**	**$17.70**

*North Monterey County includes Del Rey Oaks, Moss Landing, the Carmel Valley, and the Salinas Valley north of Soledad (excluding the City of Salinas)
**South Monterey County includes the 101 Corridor south of Soledad.
Source: CoStar Group, 2014; Strategic Economics, 2014.

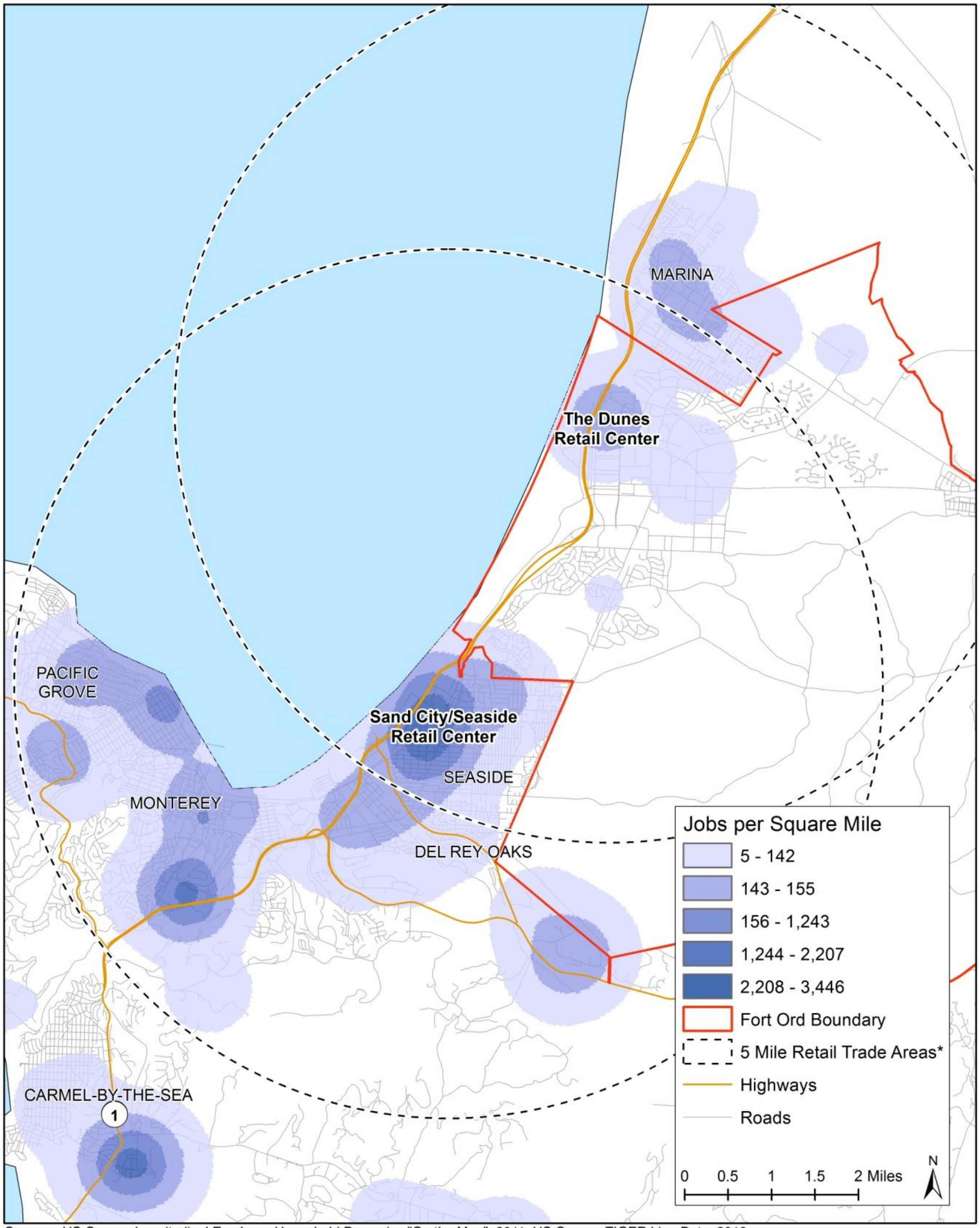
Recent Market Activity in the Former Fort Ord

The Dunes on Monterey Bay came on the market in 2007 with a strong array of tenants including REI, Bed Bath & Beyond, Best Buy, and Target, but the shopping center's leasing agents are struggling to lease out the small amount of space that remains unfilled. Based on discussions with the project's leasing agents, the 365,000 square foot center is doing well. The project is over 95 percent leased. Currently anchor space is leased at $24 per square foot, while the smaller storefronts are renting for $36 per square foot. However, the shopping center's leasing agents are currently having difficulty leasing the last 3,300 square feet of space, particularly given the high rents.

Demand for regional-serving retail centers appears to be saturated. Regional-serving, big box shopping centers like The Dunes typically serve a trade area of approximately 3 to 5 miles. Figure V-3 shows retail employment concentrations within and around Fort Ord and – for The Dunes and the Sand City Retail Center, the other major regional-serving, big box shopping center in close proximity – the five-mile trade area. As shown, the five-mile trade areas for the two centers cover nearly the entire Peninsula, suggesting that there is limited unmet demand for any additional retail of this scale. In addition to the big box centers in Sand City, other shopping nodes within the immediate retail market area include some strip retail on Reservation Road in Marina and Fremont Boulevard in Seaside, and the newly developed convenience retail center at in Stone Creek Village Shopping Center in Del Rey Oaks.

However, dining and food and beverage establishments on Fort Ord land are severely undersupplied and offer one area for near-term retail growth. There currently are no dining or food and beverage outlets near CSUMB and other nearby institutions. The new 150,000 square foot Veterans' Medical Center and multiplex movie theater that are under construction, as well as the planned new hotel at The Dunes, are expected to generate additional demand for this type of retail use.

Figure V-3. Retail Employment Concentrations, 2011



Sources: US Census Longitudinal Employer-Household Dynamics "On the Map", 2011; US Census TIGER Line Data, 2013.
*5 mile retail trade areas only for The Dunes Retail Center and Sand City/Seaside Retail Center.

Phase 2 at The Dunes is targeting this pent-up demand for eating establishments. The master developers of The Dunes have located a retail developer to undertake a 21,000 square foot food court on a 3.7-acre parcel. Leasing agents have already had considerable interest from quick serve restaurants interested in serving lunch and dinner to the area's large numbers of students and employees. Interest from more formal, sit-down restaurants has been limited.

Other than The Dunes Phase 2, most plans for additional retail development on Fort Ord are on hold. The Dunes has approvals to build retail under townhomes and condominiums as part of a town center, but this project is on hold. The plans for East Garrison also included a retail component, with a minimum of 34,000 and up to 110,000 square feet of neighborhood-serving retail. However, the developer does not anticipate that sufficient demand for new retail uses will be generated in the foreseeable future to support the retail component of the project.

HOTEL MARKET OVERVIEW

Regional Market Dynamics

Hotels and other visitor-serving accommodations remain a strong and improving sector in the Peninsula economy. Monterey County has a total of 252 lodging establishments, accounting for 1,204 guestrooms. The vast majority of these are located on the Peninsula, with the majority of those located in Monterey and Pacific Grove. While impacted by the recent recession, the hotel market has improved since 2011. As of October 2014, vacancy rates were at 70 percent, up 1.4 percent from the prior year. The average daily room rate was at $187, a 5.1 percent increase from the previous year.[24]

No new hotels have been built in the county in the previous five years, but several projects are actively pursuing planning approvals. At least two hotels are likely to receive local approvals within the next year, while approval of several other projects is uncertain due to issues including limited water availability, challenges obtaining needed approvals from the Coastal Commission, and other factors.

Recent Market Activity in the Former Fort Ord

Two new hotels are in the approvals process in Fort Ord. The City of Marina recently approved a $1 million incentive package to support development of a 106-room Marriott Springhill Suites Hotel at the Dunes. A second hotel project is undergoing review on the site known as "26 acres" on Lightfighter Drive in Seaside. The developer is proposing a 110-room Hilton Hamptons Inn and Suites for this site. These hotel projects are expected to augment the area's identity as a destination from which to explore the Monterey Peninsula, and will meet an underserved niche for college graduations and events.

INDUSTRIAL MARKET OVERVIEW

Regional Market Dynamics

The overall industrial market in Monterey County has improved over the last year, with increased net absorption and lower vacancy rates. The average, countywide industrial vacancy rate was about 10 percent during the recent recession, but has recently dropped to 5.9 percent (Figure V-4). During the first six months of 2014, the county absorbed 422,000 square feet of industrial space. Discussions with area brokers indicate the majority of this leasing activity was concentrated in the areas surrounding Salinas, and is reflected in the North County numbers.

[24] Monterey County Convention and Visitor's Bureau, 2014.

Figure V-4. Industrial Market Statistics, 3rd Quarter 2014

CoStar Submarkets	Rentable Building Area Total Sq. Ft.	Rentable Building Area % of Total	Vacancy Rate	YTD Net Absorption	Average Asking Rents (per Sq. Ft. per Year)
North Monterey County*	12,254,124	61%	1.0%	429,792	$6.41
City of Salinas	4,473,099	22%	1.4%	30,864	$8.32
South Monterey County**	1,472,032	7%	37.1%	1,200	$3.26
Marina/Seaside	1,041,569	5%	6.5%	23,329	$9.05
Soledad	446,885	2%	0.0%	0	$0.00
Monterey	306,046	2%	6.6%	16,452	$13.26
Downtown Salinas	28,416	0%	0.0%	0	$7.08
Pacific Grove	19,946	0%	0.0%	0	$0.00
Total	**20,042,117**	**100%**	**5.9%**	**422,075**	**$5.34**

*North Monterey County includes Del Rey Oaks, Moss Landing, the Carmel Valley, and the Salinas Valley north of Soledad (excluding the City of Salinas).
**South Monterey County includes the 101 Corridor south of Soledad.
YTD: Year to Date
Source: CoStar Group, 2014; Strategic Economics, 2014.

The industrial market is concentrated in and around the City of Salinas. The City of Salinas and the North Monterey County submarket – which includes the Salinas Valley north of Soledad – account for 16.5 million out of 20 million square feet of space in the county. South County has an estimated 1.5 million square feet of industrial space, while Marina and Seaside combined make up 1 million square feet of the market.

Rents for traditional industrial space are quite low and would prove a barrier for new development on Fort Ord. Annualized rents for industrial space average $5.30 per square foot countywide. Excluding South County (which includes the 101 corridor south of Soledad and is not relevant for Fort Ord), annual asking rents range from $6.41 per square foot in the North County to $9 per square foot in Marina/Seaside. New construction would likely command somewhat higher rent rates as much of the existing inventory consists of older, inferior space. However, local brokers and developers believe that rents would need to be over $15 per square foot in order to support new development.

Most large industrial users cater to agriculture and distribution, and cluster in the Salinas area to have immediate access to trucking routes along Highway 101. According to local brokers, the greatest current demand is for warehouse, distribution, and refrigerated warehouse space, much of it associated with agricultural processing and transportation.

Demand for industrial space on the Peninsula is generally dominated by smaller, local-serving tenants including automotive, contractors, machine shops and warehousing. These tenants are less sensitive to proximity to Highway 101.

The flex/R&D market has been underperforming compared to warehouse space. The flex market comprises only 4 percent of the overall industrial market, with approximately 900,000 square feet of space (Figure V-5). The majority of this space is concentrated near Salinas and other locations within the North County submarket. No new additions to supply have occurred over the last five years. Nonetheless, there are an estimated 140,000 square feet of vacant inventory and an overall vacancy rate of 15.8 percent – up dramatically from 5.1 percent reported in 2009. Rents per square foot average $13.48, and range from $9.40 to $19.60 per square foot, with the lowest pricing found in Salinas, and Monterey commanding the highest asking rents.

Figure V-5. Flex/R&D Market Statistics, 2014.

	Rentable Building Area		Total Vacant Sq. Ft.	Vacancy Rate	Average Asking Rents (per Sq. Ft. per Year)
	Total Sq. Ft.	% of Total			
North Monterey County*	580,945	65%	103,756	17.9%	$14.30
City of Salinas	150,853	17%	14,000	9.3%	$9.40
Monterey	84,696	9%	11,633	13.7%	$19.60
Marina/Seaside	52,880	6%	12,445	23.5%	$13.80
Pacific Grove	18,366	2%	0	0.0%	$0.00
South Monterey County**	8,406	1%	0	0.0%	$0.00
Downtown Salinas	2,300	0%	0	0.0%	$0.00
Soledad	0	0%	0	0.0%	$0.00
Total	**898,446**	**100%**	**141,834**	**15.8%**	**$13.48**

*North Monterey County includes Del Rey Oaks, Moss Landing, the Carmel Valley, and the Salinas Valley north of Soledad (excluding the City of Salinas).
**South Monterey County includes the 101 Corridor south of Soledad.
Source: CoStar Group, 2014; Strategic Economics, 2014.

Recent Market Activity in the Former Fort Ord

The only light industrial development that is expected to locate on or near Fort Ord in the foreseeable future will be tied to niche or specialized users with outside funding. As discussed in Chapter II, UC MBEST has long had plans to create a R&D office/light park, although those plans have recently been scaled back and it remains uncertain when or if the project will come to fruition. Meanwhile, a unique light industrial project is under consideration in the City of Monterey adjacent to Ryan Ranch Business Park. The project sponsor is proposing an international, state-of-the-art motor sports facility. Phase 1 includes 250,000 square feet and would employ several hundred workers, with more than three times that amount projected at build-out.

CONCLUSION

Monterey County's commercial real estate markets have generally been flat over the last five years, and the slow pace of development is expected to continue in the foreseeable future. There have been some modest improvements in the industrial and hotel markets in recent months, but a significant supply of existing vacancy space, low rents, and a significant sublease market in most commercial markets suggest that the pace of new construction will continue to be slow in the coming years. Demand for new, multi-tenant speculative commercial buildings in particular is not expected for the next five to 10 years.

The existing supply of office space in the market in and around Fort Ord is likely to accommodate most of the increased demand associated with knowledge-based employment growth for the coming decade. As discussed in Chapter III, Monterey County has lost employment in traditional office-based employment sectors (i.e., information, financial services, and professional services) since 2000. Long-term employment projections forecast that future job growth in the county will be concentrated in the leisure and hospitality, education and health care, retail, and agriculture industries, which typically do not generate significant demand for office space. Expectations that CSUMB or UC MBEST would generate demand for new research facilities requiring office or flex/light industrial space have not come to fruition, and the institutions have scaled back their growth projections over time. Given the large amount of vacant office space on the market, any spinoff associated with UC MBEST, CSUMB, or other institutions (such as medical offices associated with the Veteran's Clinic) in the next five to ten years will likely be absorbed by existing buildings. However, if various economic development efforts are successful, this trend could change over the longer term.

While vacancy rates for industrial space have declined in recent years, rents remain too low to support new, speculative industrial development. The only light industrial development that is expected to locate on or near Fort Ord in the foreseeable future will be tied to niche or specialized users with outside funding, such as UC MBEST or the motor sports facility that is planned adjacent to the Ryan Ranch Business Park. Other build-to-suit facilities may be developed in the future, but are difficult to predict based on current growth projections.

Some hotel development is likely to occur on Fort Ord in the near term, reflecting local and regional growth in the tourism industry. As discussed in Chapter III, leisure and hospitality is one of the industries that have driven job growth in Monterey County in recent years. Hotels and other visitor-serving accommodations remain a strong and improving sector in the Peninsula economy, and two hotel projects are in the approvals process on the former Fort Ord. These hotel projects are expected to augment the area's identity as a destination from which to explore the Monterey Peninsula, and will meet an underserved niche for college graduations and events.

While demand for regional-serving retail centers appears to be saturated, it may be possible to attract a small grocery store, restaurants, or other convenience-oriented shops serving the area near CSUMB, East Garrison, and The Dunes. Between The Dunes Retail Center and the Sand City Retail Center, the North Peninsula trade area appears to be saturated with existing supply of regional-serving, big box retail. However, dining and food and beverage establishments on Fort Ord land are undersupplied and offer one area for near-term retail growth. The Dunes Phase 2 is targeting the pent-up demand for restaurants, but there may be additional demand for this type of retail space, especially as the number of residents and workers on the base increases over time. Demand for dining and food and beverage uses is likely to be strongest in the area closest to CSUMB, East Garrison, and The Dunes, where there is a critical mass of population and employment and an existing concentration of retail activity.

VI. APPENDIX

The following individuals were interviewed as part of the market and economic research for this report.

Residential Brokers

Angelica Blatt, Deluca Real Estate
Christian Huan, Keller Williams Realty
Ben Beesley, Keller Williams Realty
Larry Acquistapace, Shankle Real Estate
Marylynn Pinto, Bayshore Monterey
Sandy Hamey, Monterey Board of Realtors
Mark Bruno, Coldwell Banker

Commercial Brokers/Leasing Agents

Greg Finley, Cassidy/Turley Salinas
Mike Shroeder, Cassidy/Turley Monterey
Ryan Edwards, Mahone & Associates
Sam Bogdanovich, The Dunes Retail Center

Education/Research

Eric Tao, Director of Economic Development, CSUMB
Veronica Chukwuemeda, Director of Institutional Assessment and Research, CSUMB
Karen Beltramo, Consultant to Community College District
John Carrese, Director of the San Francisco Bay Center of Excellence serving the Bay Area Community Colleges
Sherrean Carr, Dean of Career Technical Education, Gavilan Community College
Dr. Graham Bice, Managing Director, UC MBEST
Gary Adams, Facility Manager, Moss Landing

Developers/Developer Representatives

Jim Fletcher, Division President, UC Benchmark Homes
Wendy Elliot, Community Development Manager for The Dunes, Shea Homes
Bob Schaffer, retired developer
Don Orosco, DBO Development Co.

Public Officials

Tara Hullinger, Planning Manager, Advanced Planning, City of Salinas
Lisa Brinton, Community and Economic Develop. Services Manager, City of Seaside
Dave Spaur, Director of Economic Development for Monterey County
Cody Meyer, AMBAG

Other

Teri Wissler Adam, EMC Planning consultants to City of Seaside for Monterey Downs
Mary Ann Leffel, Monterey Business Council Board Member
David Zehnder, Economic & Planning Systems
John Von Kirk, Monterey County Convention & Visitors Bureau