

NOV - 6 2006

**DEVELOPMENT**

# Developers Routing Retail Along New State Highway

*Despite delays in the infrastructure construction,  
new projects going up in Chula Vista*

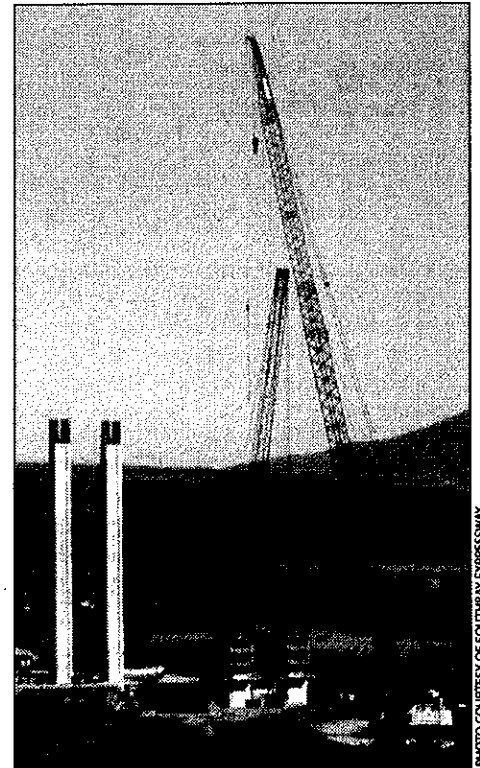


PHOTO COURTESY OF SOUTH BAY EXPRESSWAY

*Retailers are locating along the under-construction state Route 125, being developed privately by South Bay Expressway LP.*

**S**hopping center developers are betting that the extension of state Route 125 through eastern Chula Vista is a road to retail riches.

Almost nine months before completion of the \$773 million South Bay Expressway, as the new stretch of road is called, San Diego County's first new regional shopping center in two decades opened along its route. Even without the four-lane highway, retailers and developers find there is enough demand to justify new shopping centers in Chula Vista.

"The immediate trade area is very strong," said Sharon McHugh, General Growth Properties Inc.'s senior leasing agent for Otay Ranch Town Center, which the real estate investment trust opened Oct. 27.

The 850,000-square-foot lifestyle center on 85 acres along SR-125 at EastLake Parkway and Olympic Parkway is within the 23,000-acre master-planned community of Otay Ranch. Anchors include a 12-screen AMC Theatre, Macy's, REI and Barnes & Noble.

Otay Ranch has 25 percent of the growth in the county, McHugh said.

According to General Growth, the primary trade area for the Town Center has 470,000 residents — half of which live in Chula Vista — with an average household income of \$67,000. Eventually, there will be on- and off-ramps from the South Bay Expressway leading customers from the east and north directly to Otay Ranch Town Center.

As SR-125 turns south from Spring Valley in eastern San Diego County at state Route 54, it cuts through Bonita and becomes a toll road ending near the U.S.-Mexico border in Otay Mesa. **South Bay Expressway LP**, the private developers of the \$635 million toll portion of the road, expect the entire highway to open by mid-2007.

South Bay Expressway LP's general partner is California Transportation Ventures, a wholly-owned subsidiary of Australia-based Macquarie Infrastructure Group. After 35 years, CTV will return ownership of SR-125 to the California Department of Transportation.

The San Diego Association of Governments, the regional transportation planning agency overseeing construction of the \$138 million publicly funded portions of the South Bay Expressway, reported that Chula Vista alone grew 29 percent in just five years from 173,556 residents in 2000 to 223,423 residents in 2005. During that time, the city of San Diego grew by 7 percent and the county's population increased 9 percent.

South Bay Expressway LP's market research shows that commuters living in Chula Vista who drive north on the congested Interstates 805 and 5 to work in downtown San Diego or the Sorrento Mesa and Kearny Mesa submarkets will use the road most. Commuters living in Chula Vista and the eastern San Diego County cities of La Mesa, El Cajon and Santee and who work in border-area businesses are also expected to favor SR-125 over I-805 for driving southeast to Otay Mesa.

"People are saying they plan to use it for shorter trips too, because the arterials are so crowded and there are so many traffic signals," said Greg Hulsizer, chief executive officer of

South Bay Expressway LP.

And being so close to the U.S.-Mexico border, General Growth expects to capture many Mexican shoppers, especially those drawn to high-end stores at Fashion Valley Mall 22 miles to the northwest in San Diego. Some of the upscale tenants at Otay Ranch Town Center include Coach, Ann Taylor, Anthropologie and Sigrid Olson.

George Whalin of San Marcos-based **Retail Management Consultants** said Otay Ranch Town Center is not likely to keep customers from shopping at Fashion Valley, especially wealthy shoppers from Mexico. The 1.7 million-square-foot mall owned by Indianapolis-based **Simon Property Group** is home to many high-end stores that have only one San Diego County location, such as Neiman Marcus.

"There are a few stores, like Forth & Towne, Gap's apparel store for older women, that are new to the county," Whalin said of Otay Ranch Town Center. "It's a nice mix of stores. It will be a very successful shopping center."

Whalin said the lifestyle center will likely draw some customers from East County communities, but doubted that many customers will drive from San Diego or the North County to shop in the South Bay. However, he indicated that Chula Vista's growth on its own is enough to justify a regional shopping center.

#### Tenant Mix

Joe Yetter, a retail broker with San Diego-based **Grubb & Ellis/BRE Commercial**, said the Otay Ranch master plan has space for additional neighborhood shopping centers and smaller big-box centers. There is still a need in eastern Chula Vista for traditional power-center tenants, such as Linens 'n Things and PetSmart.

"All those guys want to be out there. There just hasn't been an opportunity for them to be there," Yetter said. "With what's coming on line now, I don't think we're at a saturation point with retail. The demand will continue to grow as housing continues to be built."

San Diego-based **Sudberry Properties Inc.** opened a 410,000-square-foot Target and Lowe's-anchored EastLake Village Marketplace at EastLake Parkway and Otay Lakes Road in 2003. In March, Sudberry plans to open the 162,000-square-foot Village Walk at EastLake behind the property with specialty grocers Trader Joe's and Henry's Marketplace, a Borders bookstore, Pier 1 Imports and a variety of restaurants.

Whalin said Otay Ranch Town Center will probably have an impact on sales and future renovations at other shopping centers in the South County. He said it is "definitely not a coincidence" that Australian mall owner Westfield is redeveloping portions of its 817,000-square-foot Plaza Bonita in nearby National City. Forty specialty stores will replace a vacant Montgomery Wards and a 140,000-square-foot Target, a Borders bookstore and 14-screen AMC Theatre will be added, among other improvements.

Not far from Westfield's property, General Growth also owns Chula Vista Center on the city's west side. The 876,000-square-foot regional mall was built in 1962 and renovated in 1988, 1994 and 2004.

General Growth will add a small 40,000-square-foot second phase to Otay Ranch Town

Center, where a Robinson's-May department store was planned before May Department Stores Co. merged with Macy's parent company Federated Department Stores Inc.

"We're actually very, very lucky to recapture that square footage because there's so much demand from retailers to be in that market area," McHugh said.

San Diego-based **McMillin Commercial** owns 200 acres in Chula Vista's Otay Ranch master plan where it plans to develop the Eastern Urban Center.

Rick Rosaler, Chula Vista's principal planner for Otay Ranch, said the Eastern Urban Center will reserve about 20 acres for retail, office and multifamily housing with an urban Main Street feel, but construction is a few years away.

Most of the homes slated for Chula Vista's master-planned communities are built and most of the retail to support it has been developed, according to Rosaler. At this point, much of the additional housing and retail planned in Otay Ranch is dependent on the completion of SR-125, he said.

Hulsizer said construction of SR-125 is moving along, with asphalt going down and toll collection systems being installed. The bridge across the Otay River Valley, spanning three quarters of a mile and reaching heights of 180 feet, is more than halfway complete.

The general contractor, **Otay River Constructors**, is a joint venture of **Washington Group International Inc.**, headquartered in Boise, Idaho, and **Fluor Daniel**, a division of Irving, Texas-based **Fluor Corp.**

The construction schedule could be impacted by winter weather — local forecasters are predicting a warmer but wetter winter for San Diego County — but Hulsizer said the anticipated opening at the end of second quarter 2007 should allow for weather delays.

A wet winter in 2004, when grading and earth-moving work was under way, was just one of the challenges that kept the South Bay Expressway from opening earlier.

"Just like other places, the availability of materials was an issue. Steel and concrete were not as readily available as in the past," Hulsizer said.

Also, because the economy is thriving and construction is booming, the availability of labor has been an issue.

Whenever the South Bay Expressway opens, developers and owners will certainly watch their shopping centers closely to see if they win the bets they've placed on Chula Vista's growth.

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