

Gary London >>REAL ESTATE

Is Downtown Civic Center Development Proposal Worth the Risk?



The proposed development of the 2 million-square-foot San Diego Civic Center project — which would include offices, retail, residential and hotel space — might be the most risky project ever conceived in downtown San Diego. It might be worth it.

One element of the project, the almost 1 million square feet of commercial office space, as part of Portland, Ore.-based Gerding Edlen's proposal, would represent 8 percent of total existing office space downtown, if they are to successfully build the project in three phased towers, as proposed from 2012 through 2019.

The key to the project's fiscal defense is tied to the successful development of

these towers.

Yet, the downtown commercial office market share has dwindled from 15.3 percent of the region in 1999 to 12.3 percent in 2008, a period of time when 10.7 million square feet of office space has been added throughout San Diego County, creating a total of 105 million square feet.

As reported by commercial real estate data provider CoStar Group Inc., downtown's addition of 1 million square feet of office space in the last seven years does not favorably compare with the hot, new growth commercial markets in the northern cities (including Carmel Valley and UTC), where approximately 2.1 million square feet of space has been added during the past two years alone, and the remainder of the North County (both the Interstate 5 and I-15 corridors), which have added 1.5 million square feet

of space in the same period.

Only in the vacancy rate does downtown fare well, currently at 14.3 percent, compared to 17.6 percent for the region. But even that is more about stagnation — markets that are growing generally experience temporary instability and higher vacancies.

Pathways To Success

Gerding Edlen can succeed in either of two ways: one is by "cannibalizing" office tenants from existing buildings, thus creating vacancies in older, lower quality buildings that will be functionally inferior to their proposed three-tower complex of green, architecturally magnificent structures. The project will already have weakened the current inventory of downtown office space when it yanks city employees out of these spaces and consolidates them into their new tower.

They can also focus on new demand, a much coveted but so far elusive goal of the Centre City Development Corp., which would like nothing more than to "seed" a new office renaissance downtown. The dream of expanding the downtown share of the market lies in attracting corporate headquarters, more professional firms, even high-tech companies, to the downtown mix.

Only twice in the last 17 years has a new office come on line (655 West Broadway and DiamondView Tower). And those buildings enjoy a water and ballpark view. Developing three office towers in the heart of downtown is a heady challenge, particularly when two big developers, Doug Manchester and Donald Bren (The Irvine Co.) are

already shadow boxing each other over two much better sites on the bay front.

But our downtown renaissance is a peculiar one: It has added 10,000 residential units and two office buildings.

This lack of proportionality means that there has been a "disconnect" between where we live and where we work. CCDC would like to correct that.

Reducing The Risk

Look at it this way: Even if their objectives are not achieved, the developer plans to deposit \$6.7 million as a down payment to purchase the land if the projects aren't built, at an appraised value of \$325 per square foot. That would significantly reduce the risk to the city of San Diego.

Is this incentive enough for our city leaders to vote in favor of a new civic center, as they will be asked to do in a series of hearings from September through October? It's probably the most serious redevelopment issue the city has faced since the inception of CCDC.

City Hall is the anchor of the C Street corridor, an ugly, ignored, underutilized and misplanned part of old downtown (with an ill-conceived trolley line as the dominant feature).

This is the "black hole" of downtown, sucking the life out of the center of our centre city.

The reward to the city, which would be achieved with a successful, visionary project, might actually be worth the risk.

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