

## Some Better Ways to Replace City Hall

Saturday, May 28, 2011 | U-T San Diego | Jason Hughes

**T**he San Diego County Grand Jury hit the nail on the head when it concluded that city officials had exaggerated the costs of staying in the current City Hall in their zeal to erect a shiny new \$300 million civic edifice. I, along with others in the business and civic sectors, have long been wary of building a new City Hall – especially in lean times when San Diego is struggling with a massive structural debt and cutting important services. Carrying the nail metaphor further, perhaps the best response to the report thus far comes from San Diego City Councilman Carl DeMaio, who was quoted as saying: “I hope this is a nail in the coffin for the project and that we can move forward toward more common sense alternatives.”

There are at least a couple of smart alternatives the city might consider to control occupancy expenses while finding new and expanded quarters for its central bureaucracy.

One such possibility lies 100 yards across the plaza from the current City Hall, adjacent to the present city-owned parking structure. If city ownership of its quarters is a priority, the Civic Center Plaza building, now fully occupied by city-leased offices, is on the market at a listed sales price of \$200 per square foot. Actually, with shrewd negotiating the city could probably buy the 266,000-square-foot structure for as little as \$125 per square foot. By contrast, the cost of building a new city hall would be closer to \$600 per square foot.

Buying an existing property might not have that much sparkle, but, to use a residential real estate analogy: One typically doesn't build a \$1 million custom home in a neighborhood of \$250,000 homes.

A second purchase option is the existing building at 1010 Second Ave. across the street from the City Hall entrance. The city occupies about half of the structure's 324,000 square feet – on most of the low floors of the building. The balance includes leases to other tenants and about 50,000 square feet of vacant space.

Given that tenants are being asked to send their rent checks to a lockbox (typically a step before foreclosure), the existing owner and lender might be very motivated to sell. That means the city might be able to buy the building for about the same sales price as Civic Center Plaza.

So, to play out the purchase option, the city could buy the two nearby buildings, totaling almost 600,000 square feet, for a little more than \$70 million – far under the conservative \$300 million estimate to build a new City Hall. In doing so, the city would pick up 90,000 more square feet of space for its staff and monthly rental revenues from existing tenants.

If the decision is not to buy, the city can lock up the space it needs in these buildings under newly negotiated long-term leaseholds for about \$1.20 per square foot – roughly the same rate in effect 20 years ago.

Whether the decision is to lease or buy, what's important is that voters know all the reasons why building a new City Hall doesn't make sense. One such reason falls under the law of unintended consequences. The city currently leases about 500,000 square feet of space in privately owned buildings across the cityscape. With a new City Hall, those spaces would become vacant in an already-squishy office leasing market. That amount of space alone adds 6 percentage points to the downtown space availability rate. Together with other departures, the current 20 percent rate could easily soar to 30 percent which would drive the downtown office market into an economic abyss.

While that would be a fantastic opportunity for brokers and private clients, the glut of additional vacant space would inflict terrible consequences on city government and other public agencies that depend on property tax revenues. Reduced building revenues from vacancies and slashed leasing rates would force some owners into

# Hughes Marino

Because Where You Do Business Matters™

---

foreclosure while sending others to the county assessor's office to petition for lower property taxes. Lower property tax revenues would further compound the city's already-plagued financial condition.

We need to resolve the decades-old City Hall issue sooner rather than later. Property values are such that now is an ideal time to buy if the decision is to buy one or both of the two nearby buildings. In the leasing option, whatever negotiations leverage the city may have will diminish as its existing leases approach expiration.

Nothing good is going to happen if the city continues to sit on its hands.

*Jason Hughes is President of [Hughes Marino](http://HughesMarino.com), a San Diego commercial real estate company specializing in San Diego tenant representation and building purchases. Contact Jason at (619) 238-2111 or [Jason@hughesmarino.com](mailto:Jason@hughesmarino.com) to learn more.*