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Developing Navy's waterfront takes bold courage

By JASON HUGHES
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Nobody is more excited than yours truly about what has been and will be done to enhance our city's waterfront. The various efforts now under way to demolish and replace gray obsolete buildings and asphalt lots with a sparkling array of new office buildings, hotels and retail facilities will establish a bay-front skyline of world-class proportions to be admired by generations to come.

It takes a good dose of courage and, I'd even say, guts to undertake the scope of development being planned at the west end of downtown and to do so under the terms and timing involved.

Lane Field, situated between Pacific Coast Highway and Harbor Drive, along Broadway is being developed into two large hotels and a ton of retail space. The Irvine Co. is developing the block immediately east of that site into what will become the largest private-sector office complex in all of downtown San Diego, a 670,000-square-foot tower. The Irvine folks have vowed to move forward with this speculative project, whose land cost alone amounts to $60 million -- with or without preleasing.

Now, enters hotel and office building entrepreneur Doug Manchester who, five months ago, was given the right to develop the Navy Broadway Complex under a 99-year ground lease. The lease requires Mr. Manchester to build a $160 million office complex to house the Navy's Southwest Regional Command, immediately south of the earlier projects on what is generally regarded as among the top redevelopment sites on the West Coast.

For doing so, Mr. Manchester receives the OK to erect offices, condominium hotels and retail stores on the 14-acre Navy-owned parcel, also between Pacific Coast Highway and Harbor Drive but south of the other two projects -- appropriately dubbed Manchester Pacific Gateway.

But, he is obligated to build all the necessary infrastructure and parking as well.

At first glance, that would appear to be a boatload of debt service. First, there's the interest carry on the $160 million "free" building Mr. Manchester is obligated to bear before even being able to begin demolishing any of the existing buildings. Add to that the typical two-year period it takes to build a new office building, hotel or retail complex and the numbers soar to staggering heights. With an 8 percent construction loan, the interest carry along would reach nearly $13 million per year -- more than $1 million a month! One also has to also factor in the sky-high construction pricing being exacted by general contractors and their suppliers these days and the carry becomes absurd in proportion.

Let's then assume it will cost Manchester Development at least another $160 million to build a second office building for private-sector tenants. That brings the investment up to $350 million or more with an accompanying interest carry of $28 million a year. Factor in the average 22-month lease-up time for vacant downtown San Diego office space and you're looking at a project of more than $400 million.

I realize most of the overall project's profits are built into the condominium-hotel component, but that has exorbitant construction costs to absorb as well -- not to mention the risk of the fractional condo/hotel market losing its appeal to investors. All will be well, of course, if only tenants will pay the $8 per-square-foot-per-month to make it pencil.

Keep in mind, I have been talking only about the interest and construction costs involved in the Manchester deal with the Navy, making things scary enough even without the stiff competition from the office and hotel projects just up the street a block or two that will come onto the market earlier.

So, what to do? Well, for one thing, nobody, including me, should underestimate the creativity or tenacity of Doug Manchester. He has contributed unbelievably to our downtown for more than two decades, including building the First National Bank Center, the Marriott Hotel & Marina and most recently, the Manchester Grand Hyatt Hotel.

However, present and future market conditions, construction costs and the like may dictate the need to allow him to change the terms to produce the viable development we are expecting from the redeveloped Navy complex. Perhaps Centre City Development Corp. (CCDC), the Port District and the Navy could each cough up $50 million, along with another $50 million from friends and family to help defray the massive initial costs. Just an idea.

Maybe, though, I'm fretting for naught. The more likely scenario is that "Papa Doug" is three steps ahead of everybody else, me included. Maybe he's got a partner as a high-rise developer and/or major tenant prospects. Maybe, he foresees it will be just a matter of time before all the suburban tenants realize what they're missing out in the "burbs" and hightail it back downtown, regardless of expense.

Whatever the case, I, for one, am excited to see this project finally come to fruition, and you can bet that I'm among its biggest champions.

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