

# **PART I**

**A CALL FOR REAL LEADERSHIP IN WATERFRONT DEVELOPMENT**



Figure 1: Brisbane Baylands and Vicinity Viewed From the North

## 1 A Broad View of Peninsula Waterfront Development

Bayfront development on the Peninsula in the vicinity of the Project consists largely of office, hotel, and warehouse business parks with running paths, marinas, and a few small green spaces interspersed throughout. These surroundings are shown in Figure 1.

This use of land provides employment facilities, tax revenue, and ancillary services and retail opportunities. These could be referred to as “income benefits” to the community.

### 1.1 Sterile Business Park Ghost Towns

This development pattern also produces a sterile business park ghost town feel. Non-income benefits to surrounding communities at large is limited. Most people who live in these communities do not engage with

these business parks. The green spaces are often small and little more than lawns with a few benches.

These interspersed green spaces serve more to create views for office employees looking out of their windows than to members of the community who wish to use them for any practical purpose. In short, there are few “lifestyle benefits” to this land use pattern.

These waterfront business parks are ubiquitous on the Peninsula. They are contributing to a phenomenon some are calling “suburban blight.” They are known for “a sea of asphalt to get people into their little cubicles and have them do routine office work.” Part of the motivation for this land use pattern is from employers who have been generally pleased that such parks are free of distractions for workers.

Instead of encouraging them, many communities in the largest U.S. cities are trying to transform, redevelop, and prevent them from developing or expanding [22]. At the core of this land use reversal is incorporating lifestyle elements and an emphasis on cultivating and preserving substantial usable open spaces.

## 1.2 Overdeveloped Commodity

The evidence of the vulnerability of this commodity is the incredible drop in demand for suburban office space and commensurate drop in supply. In 1988 and 1989, more than 160 million square feet of new suburban office space was developed. In 2011 and 2012, just over 12 million new square feet was developed – a 20 year low [22].

### Substantial Excess Peninsula Business Park Supply

At present, millions of square feet of new suburban business park space that has been developed on the Peninsula is sitting dark and unoccupied. This space spans the range of commodity office to warehouse to laboratory. There is no shortage of available space from new premium development to highly discounted older stock. Throughout the Peninsula, all communities are competing and fighting to offer incentives and give-aways to increase occupancy.

Many communities actively solicit and attempt to poach tenants from nearby communities with new incentives. Larger communities with an existing diverse existing income streams may be able to offer stronger incentives to attract new tenants than smaller communities with fewer sources of income. Communities may also have other incentives such as greater local services option, desirable proximity to housing and transportation, or other factors that are difficult to replicate.

In such a market, net absorption does not tell the who story, because that quantity does not reveal the tenant improvement dollars, tax relief, training subsidies, deferments, or other benefits that private and public agents may use to lure tenants at the expense of revenues.

It should be clear that the “build it and they will come” philosophy has substantial risk with respect to these Peninsula business parks.

### Brisbane Ranks First in San Mateo County Office Vacancy Rate

According to Colliers International, as of August 2013, Brisbane ranked #1 in office space vacancy in San Mateo County with over 54% of its office space vacant (460,000 SF available). Brisbane’s current vacancy rate is over well four times higher than the average for San Mateo County municipalities.

Collectively in San Mateo County, over 4.4 million square feet of office is currently vacant. Adjacent communities of South San Francisco and Daly City have the 2nd and 3rd highest vacancy rates with combined nearly 1 million square feet of available space. Brisbane 2013 net absorption year-to-date was reported at less than 10% of outstanding vacant space. [12]

### **Supply and Conflicts Continues to Increase**

Despite this incredible abundance of supply, municipalities and developers continue to approve and fund development of new supply. In office space alone, this 4.4 million square feet vacancy figure does not include new projects already approved or under construction. For example, in Downtown Redwood City, the Crossing/900 project will add 300,000 square feet of office space by second quarter of 2015 [12].

Immediately adjacent to the Baylands Project, Visitacion Valley is preparing to move forward with a 24-acre redevelopment that would include a 90,000 square foot retail component that will be presumably anchored by a grocery store. Just to the East, the Executive Park project, for which some phases are already complete, has already and will include expansion with several hundred thousand square feet of commercial office space. Farther to the East, The Hunters Point / Candlestick Point project (detailed below) will include 700,000 square feet of retail and 2.5 million square feet of state-of-the-art commercial business park space.

Some of the interests that are behind the present Baylands Project also have interests in these other adjacent projects (Visitacion Valley and Executive Park). When one developer controls multiple sites in different communities, the developer can phase development and push potential tenants to the sites in a way that benefits the developer most at the possible expense of the different communities.

Where conflicts like this exist, the communities within which these sites are located should not assume that developers will always advance community interests. This “lock-up” strategy is one of the most basic methods of circumventing competition and gaining leverage over communities and tenants.

The preceding project statistics come from the San Francisco Planning Department and the San Francisco Office of Community Investment and Infrastructure.

### **1.3 Drawbacks of Dependence on Income Benefits**

The stream of income benefits to communities from commercial development is dependent on a relatively fixed and brittle commodity. Office and warehouse space is subject to obsolescence in design, competitive threats from other new buildings and incentive programs, and changing business climates.

Generally office and warehouse space begins life as “Class A” and commands the highest rents. Over time, rents typically fall on a relative basis or require continual reinvestment. The development typically becomes less valuable over time.

Communities that depend on such income streams continually risk budget gaps due to income shortfalls. Planning for the future is uncertain given such a risky income stream. Brisbane has recently experienced tenant turnover in Sierra Point and the accompanying problems that occur and will continue to occur with dependence primarily on this form of benefit.

Another risk that accompanies such development plans is that the absorption pace and buildout is unknown. Projected incomes may take longer to materialize. Increasing development pace may create excessive supply, decrease revenue, and increase servicing costs. Importantly, on-site amenities or infrastructure that are tied to specific phases may or may not occur on schedule or at all.

### **1.4 Effect on Downtown**

An obvious risk to development is the cannibalization of existing real estate supply. The introduction of new commercial and residential supply can lure both buyers and tenants away from historic downtowns, for example.

New building is more modern, functional, exciting, and importantly, includes new tenant improvement money that can be a tremendous inducement to locate or relocate. These tenant improvement dollars also attract

competitive new tenants from outside of the community.

The collective effects of such development is clearly impossible to fully predict. However, some rules-of-thumb are generally accepted.

For example with retail, it is widely recognized that “malls hurt downtown.” In a joint paper by University of Massachusetts and Michigan State [27], the authors write that “[local stores] unable to compete with the mall in terms of prices and variety will inevitably close. Family-owned stores will suffer and few will survive the transition. An overwhelming number of the malls tenants are already in the marketing region, as there are no new markets, only stolen markets. Furthermore, a herd instinct prevails, once a key merchant moves to the mall, others follow suit. Downtowns will be forced to carry specialized goods not offered by the mall, or change its focus...”

### 1.5 Effect on Sierra Point

Retail and office in Downtown Brisbane will not be the only supply hurt. Existing Sierra Point business park space will also be impacted by the introduction of new supply. Tenants will be eager to move to new facilities and the developers will be eager to court and incentivize them.

Every developer knows that the easiest source of tenants are nearby relocations. It would be shocking, in fact, if such conversations have not already begun.

### 1.6 Other Options

At the outset, it is clear that “yet another business park” along the waterfront has substantial very real risks to the community. One key to understanding these risks is to realize that the public community and the private developer do not necessarily have the same interests.

However, it is entirely possible for both private developers and the general community to prosper together. Some of the keys to this is to consider the entire possible scope of benefits that both can receive. Benefits to the community, for example, should not be limited to tax and fee revenue.

Benefits to both should also occur regularly over time. Both short-term and long-term gains need to be programmed. It is not realistic to take upfront disproportionate risks for highly uncertain future benefits. These risks to the community include granting approvals and permits that obligate them to provide services while also limiting future opportunities and benefits.

Is there any reason to assume that the current model that dominates the Bay waterfront on the Peninsula is the only option? Does Brisbane have to settle for more of the same while simultaneously taking on substantial risks with little immediate benefit to the vast majority of the community? Does Brisbane have an opportunity to make a mark on the Bay Area and potentially entire Country or does it have to settle for the first thing that comes its way?





Figure 2: Fontana Residential Complex, San Francisco

## 2 Lessons from the Past

While Figure 1 shows the extent and pervasiveness of these sterile ghost town business parks in the vicinity, waterfront development is not limited to commercial and industrial users.

### 2.1 Preventing “Manhattanization”

One important lesson from history can be found in San Francisco. Shown in Figure 2 is the controversial Fontana Residential Complex on the North side of the city. This complex when proposed in the 1960’s almost single-handedly began a revolution against the “Manhattanization” of San Francisco.

In 1960, the planning director of San Francisco James R. McCarthy sounded the warning: *“San Francisco zoning laws will have to be changed to prevent construction of a ‘Chinese Wall’ of skyscrapers along its waterfront. We want to avoid what has happened in lower Manhattan in New York, where views of the bay are blocked by high rising buildings.”*

Former California State Assemblyman Casper Weinberger argued that the subsequent 40-foot height limit adopted in much of San Francisco *“will preserve for future generations one of the priceless assets of San Francisco, the whole relationship of the City to the Bay, and particularly, the views enjoyed by the public from publicly owned lands, such as Coit Tower and other City-owned recreational spaces.”*

In further testimony he continued, *“the Master Plan has for years provided that the height of buildings should generally follow the contour of the land, and that low rise buildings should be built on the low lands, such as the northern waterfront, and high rise at the tops of hills so that the loss of views, etc., will be minimized.”* [10]

For scale purposes, the view of Fontana in the figure above is from a distance offshore that is similar to where users of CPSRA engage in windsurfing recreation compared to some of the proposed plans for the Project.

## 2.2 Preservation Key to Thriving Success

No one can dispute the success that the San Francisco real estate market has enjoyed. Property values and revenues to the City are incredible. This height limit, which was fairly and uniformly applied except at the tops of some hills and certain special districts, has not prevented the City from thriving.

In almost every single “Top-10” list for things to do and see in San Francisco, the views are listed among the best of the best. Picture postcards often show these views taken on Powell Street looking North and framed by cable car. Instead of constraining the potential for the City, the height limit created incredible value for the City and kept the density from overwhelming infrastructure.

This is a tremendously relevant example of how a community applied a long-term perspective and enjoyed great success that benefited not just the City coffers but every resident and visitor.



Figure 3: Candlestick Point and Hunters Point Shipyard Phase II

Shown here is the non-stadium alternative 2010 plan for the Candlestick Point and Hunters Point Shipyard Phase II redevelopment by Lennar Corp. This plan was provided by San Francisco Office of Community Investment and Infrastructure (formerly San Francisco Redevelopment Agency). According to the San Francisco Office of Economic and Workforce Development, this plan would cover 700 acres of waterfront development with 10,500 new residential units, 300 acres of waterfront parks (including a new “Crissy Field of the South”), 700,000 square feet of retail and entertainment, and 2.5 million square feet of commercial/office space.

### 3 New Waterfront Development Competitive Pressure

There is an idea that new development on the Baylands should be considered separately from the existing supply. Possibly this new space provided by the Project would attract tenants that would not consider the existing space due to various reasons. The new space could be more functional or have different amenities absent from existing options. So possibly it would not cannibalize existing space but attract a new market. Unfortunately, Brisbane is not alone in preparing to bring on-line new state-of-the-art supply as mentioned above.

The adjacent Hunters Point Shipyard / Candlestick Point redevelopment shown in Figure 3 is already underway. It is slated to contain 700,000 square feet of new retail, 2.5 million square feet of commercial space (an amount that is more than 50% of the existing vacant office space in San Mateo County), and 10,500 new residential units.

In addition, it is planned to include 300 acres of waterfront parks, creating a “Crissy Field of the South.”



Unless the Baylands Project offers something different or more competitive, it risks succumbing to the same fate as commodity offerings elsewhere on the Peninsula or being subsumed by competitive new entrants such as Hunters Point / Candlestick Point.

Figure 3 shows how the Hunters Point / Candlestick Point open space system is comprehensive, embraces the waterfront, creates a transition between intense commercial and waterfront open space, and clusters development away from the water.

However, the irregular waterfront along Candlestick Point makes it difficult to create large contiguous waterfront spaces in the Candlestick Point areas closest to Highway 101. An advantage that the Baylands Project may have is the proximity to Highway 101 and the site envelope such that access to the waterfront open spaces could be much more visible, regular, and programmed with a wider range of uses.

The shear scale and critical mass that the Hunters Point / Candlestick Point development may achieve along with the support of San Francisco will make it a very formidable competitor for new tenants. Both the public and private developers have extensive experience with developments on these scales and are familiar with many tools that can help bring funding gaps and realize visions quickly and efficiently.

Brisbane needs to have a superior offering and one that embraces the most valuable resource here – the waterfront – rather than walling it off behind a commodity business park. The waterfront needs to add value to all facets of the Project and community, not simply enhancing the desirability of the tall buildings that could easily monopolize it.







## 4 Imagining the Possibilities

One of the unquestionably greatest successes of waterfront development in the United States is found in downtown Chicago. The Chicago Lakefront evolution has tremendous parallels to the Baylands.

The Lakefront park system including the world-renowned Millennium Park was built on an industrial wasteland. A landfill, railyard, and shipyard from the 1850's until the late 20th century, the public-private vision that has led to a 250-acre system of open space, museums, trails, entertainment venues, and parks is one of the most successful case-studies of waterfront development in the world.

The Baylands are a complete blank slate of waterfront development potential. This is probably one of the largest regularly-shaped undeveloped urban waterfront sites currently available in the United States. Compared to Chicago, this could be a year-round amenity with weather that is mild and accessible throughout all 12 months, making such open space potentially much more utilized than anywhere else in the Country.

The preceding page contains a brief snapshot of some of the sights of the Chicago Lakefront. The contrast with the aforementioned peninsula development pattern in the vicinity of the Baylands should be immediately obvious.

### 4.1 Immediate Benefits to All

Access to the waterfront is a public right in California. The views and enjoyment of the same should also be a public right in the City of Brisbane. Creating a Waterfront Preservation District that is more than just a few token patches of lawn with a running trail would be an immediate lifestyle benefit that would encourage a multitude of uses and enrich the lives of everyone in Brisbane and beyond.

The benefits would be immediate, would not be subject to the business park risks mentioned above, and would have large economic impact. There is virtually no substantial waterfront development of this sort on the Peninsula. It would be unique, desirable, and compliment the other tremendous assets that Brisbane has in terms of its natural setting, vibrant community, and proximity to San Francisco and the South Bay.

Not only would direct use of such an area be a benefit, but it would allow filtration of stormwater and catchment of some airborne litter to help improvement of the Bay water quality be a primary focus rather than an afterthought.

The current plan to expand a trash processing plant and monopolize the waterfront with buildings up to 200' above sea level does not provide benefits to all, removes the waterfront from the public space, and ignores that many lessons learned from the waterfront development experiences elsewhere such as in Chicago.

A trash plant, for example, is not the highest and best use for this land. A trash plant is not only a negative amenity for its odors, litter, and unsightliness, but also presents additional risks such as fire and explosion due to the inherent handling of raw and possible hazardous materials [5].

### 4.2 Real Economic Benefits

San Diego Magazine considered five cities as potential models for new waterfront development. They wrote about Chicago the following in 2011 [25]:

*...Chicago has done more than any other American city to foster beauty in its public realm over the past 20 years. The shining example is Millennium Park, the 24-acre jewel in the northwest corner of Grant Park on the site of a former parking lot.*

*This "art park"—which features world-class commissions created by Anish Kapoor and Jaume Plensa, stunning architecture including a pavilion and bridge by Frank Gehry and an addition to the Art Institute by Renzo Piano, plus brilliant landscape design —has become an economic blockbuster for the North Michigan*

*Avenue neighborhood since opening in 2004.*

*The numbers tell a compelling story:*

- *The increase in value of adjacent real estate, directly attributable to Millennium Park, is projected to be \$1.4 billion over the next 10 years.*
- *Hotels will benefit over the next decade to the tune of \$482 million to \$586 million; retailers, \$529 million to \$711 million; and restaurants, \$672 million to \$867 million.*
- *In its first six months, the park attracted more than 2 million visitors. Now its 3 million annually, including international tourists who spend \$300 per day on average, according to City studies.*

*Millennium Park and The Bean (the affectionate name for the Kapoor sculpture) have become the new post-card images for the City, as well as a source of enormous civic pride. It's important to note that this public space was achieved over the objections of many who claimed the expenditure was frivolous or wasteful.*

*What Mayor Richard Daley understands is that investment in creating a beautiful public realm, whether through art, landscape or programming, has created extraordinary value by attracting even greater private investment.*

The income benefits include revenue opportunities for everyone, not just for City Hall. Property appreciation throughout the surrounding area is continuing today. The attraction of new and desirable retail and services tenants to existing real estate supply was experienced rather than cannibalization caused by constructing another new mall.





## 5 Alternatives for the Brisbane Baylands

Is Brisbane limited to the existing Peninsula business park development pattern? Would such a concept like the Chicago Lakefront even physically fit or be appropriate on the Baylands?

### 5.1 Available Area

The Chicago Lakefront park system is roughly 250 acres with a length of approximately 6,000' and a width of 1,800'. The footprint of this park system on the Baylands fits amazingly well. The preceding page shows the Chicago Lakefront park system overlayed onto the Baylands. In addition, the overlay shows a reduced park system area that is 125 acres and 1/2 the width (6,000' by 900').

**Because of the intense competition from existing and new supply and the need to create both compelling lifestyle and resilient income benefits with this Project, it is recommended that this half-size area of the Chicago Lakefront park system be adopted as the minimum Waterfront Preservation District area for the Baylands.**

### 5.2 The Only Realistic Option

Clustering and density management are frequently used techniques in urban planning to offset development impact. By clustering development, infrastructure can be shared economically and open space can be consolidated so that larger more usable spaces can be created.

In this case, the irreplaceable waterfront cannot be replicated and incorporated in open space and community amenities that are located behind a wall of buildings. Not every patch of open space is equal. Furthermore the configuration of the open space area is just as important as the sum total area.

Importantly, the overall development would not lose substantial buildable area by simply reallocating and clustering the open space through a Waterfront Preservation District.

By created a Waterfront Preservation District, Brisbane would gain an immediate unique lifestyle amenity that would be a real asset to residents as well as a boost for business and property values. Long-term income from fees and taxes would still accrue over time from commercial development, but the risk of these not materializing as projected would be mitigated but the lifestyle benefits created at the inception of the Project.

A diverse set of benefits to the community is key to mitigate the risk of future changing business climates, new competition, and unaligned public and private interests. The amenity would increase the value of adjacent private development, and both private and public interests would therefore be benefiting at each stage of the Project.

### 5.3 Phasing Public Space Development

Developing and implementing a plan for such a Waterfront Preservation District would be a daunting task. Many decisions would have to be made and funds would have to be raised. Fortunately, the development of the same could be phased over many years, giving enough time to thoroughly determine the proper course.

The key consideration would be that the area be designated, prepared, and preserved from the outset. Funds for future enrichment of the site could even be raised in the form of assessments on the remaining land.

None of these ideas are revolutionary, impossible, or first-of-a-kind. The establishment of a Waterfront Preservation District for the benefit of the general public would be the first step in a series of many that could occur gradually over time.

## 5.4 Consider the Alternative

Now imagine for a moment the waterfront almost entirely obliterated or consumed by the status quo development. What tangible impact would this have on most of the citizens of Brisbane? How would the increase supply in commercial space affect existing stock in the City? Would Brisbane become a more or less desirable place to live? Would business have more or less reason to locate in Downtown Brisbane?

For example, imagine a trash plant four times the size of the current Recology facility. By any measure, a trash plant is a negative that detracts and devalues the surroundings. On-site trash processing does not eliminate post-processing transport costs, odor, litter, on-site truck trips, and the fact that the public does not interact with such a development in any meaningfully positive way. It is not an economical or efficient way of processing the waste, which is currently processed with minimal energy in large open-air land tracts in the Central Valley surrounded by farms that consume much of the result of the processing. Onsite power generation or other savings would be offset by the additional costs of processing standards required and monitoring required in such a sensitive urban setting.

Brisbane has everything to gain with the Baylands by creating something truly unique, valuable, desirable, and attractive; and it could do so without having to make all of the difficult decisions today. The alternative would be to create more of the same basic real estate, cannibalize existing supply, eliminate valuable potential waterfront amenity benefits, and become saddled with cost and inconvenience for many years to come.

<p><b>Brisbane needs real leadership at this critical time to resist the pressures of private interests and the lure of short-term risky gains. This Project will be developed over perhaps 20 to 30 years and will stand for decades after. A long-term view needs to be taken that preserves the resources that exist today. The realistic risks of claims or projections being worse than expected must be carefully considered. Mitigation plans to account for these and other unforeseen risks must be adopted.</b></p>
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