



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?