

(The following article is re-printed from The Urban Land Institute's "Urban Land")

Urban Land - April 1994 - Feature
The Metamorphosis of Downtown San Diego
by Pamela M. Hamilton

Newly elected Mayor Pete Wilson's first State of the City Address, delivered in January 1972, contained an aggressive agenda to slow development in the far fringes of the city in exchange for accommodating growth within developed areas. He promised that the entire community would benefit from effective growth management, and insisted that "to prevent the core blight which has afflicted other great American cities, we must turn to the task of revitalizing downtown San Diego."

Wilson called for "housing, and for cultural, educational, and recreational facilities to provide diversity of texture and experience among the office towers We must commit to aggressively seeking major retail activity downtown. We must, in short, do whatever we can to make our downtown livable, rather than a place from which people flee at day's end to the suburbs."

Thus began one of the city's most challenging public initiatives. With the mayor's leadership and the concerted efforts of San Diegans, Inc., an organization of business owners, developers, and downtown property owners, the long-debated Horton Plaza Redevelopment Project was approved by the city council in July 1972. The redevelopment plan called for the return of large-scale retailing to the heart of downtown. The city issued a nationally advertised request for proposals to identify a developer to make the redevelopment plan's vision a reality. In summer 1974, The Hahn Company of Los Angeles was selected for negotiations. Mayor Wilson and Ernest W. Hahn, president of The Hahn Company, began a partnership that was to be tested many times.

In January 1975, the city council adopted a proposal advanced by the mayor and San Diegans, Inc., to create a public, nonprofit organization Centre City Development Corporation (CCDC) to focus solely on downtown redevelopment. The mayor and the city council appointed CCDC's seven-member board of directors to act as the sole negotiator between the city and developers. CCDC assumed the responsibilities of strategic planning, urban design, developer negotiations, property acquisition, relocation of affected residents and businesses, public improvements, and public financing for all downtown redevelopment projects. Its primary source of revenue was to be tax increment financing (see "Calculating Tax Increment" on page 37).

The following year, 1976, saw the adoption of the first Centre City Community Plan, which called for the revitalization of downtown through redevelopment projects in four areas, each with a specific, synergistic objective. Horton Plaza was to bring large-scale retailing back downtown; projects in the Marina area aimed to create a residential community downtown; projects in the Columbia area were to extend the city's traditional central business district westward to the bay and to develop a major convention facility; and work in the Gaslamp Quarter was expected to reclaim and rehabilitate historic structures along Fifth Avenue to showcase downtown's Victorian heritage.

Horton Plaza Sets the Scene

The planned Horton Plaza retail center was to be the keystone of all downtown revitalization efforts. But the road to its realization was long. Before the ground breaking for the retail center, The Hahn Company and the redevelopment agency amended the development agreement five times, reconfigured the site, changed the design a dozen times, and negotiated with numerous anchor department stores (at one time, a Montgomery Ward Automotive Center was planned for the site where Nordstrom stands today). Proposition 13 wreaked havoc with the public financing plan and, in the 11th hour, The Hahn Company was sold to Trizec Corporation, a Canadian real estate firm. In reviewing the contractual obligations of The Hahn Company and the redevelopment agency, and the financing available for construction of the retail center, Trizec determined that it would not carry the project forward unless the redevelopment agency repaid \$4 million in funds advanced by The Hahn Company to assist the agency in land assembly. The agency did not have the funds. Finally, CCDC and Ernie Hahn came up with a daring solution. Although the agency could not sell additional Horton Plaza Tax Allocation Bonds in the traditional bond market, it could sell privately placed tax allocation bonds. Hahn personally purchased \$5 million in tax allocation bonds, with no principal or interest payments due for five years. The only security for the bonds was the property tax increment that would flow to the agency when and if the retail center were built.

Hahn's faith in the project was warranted. Ground was broken for Horton Plaza in October 1982. By August 1985, Horton Plaza was a reality--and a success a multitered, multicolored fantasyland with four department stores, 140 specialty shops, restaurants, and a seven-screen cinema. It also contains two performing arts theaters known as the Lyceum that were developed by The Hahn Company and CCDC through a separate public/private partnership.

Office Development Follows Suit

Horton Plaza's ground breaking brought a collective sigh of relief from San Diego citizens, city and Hahn Company officials, and downtown property owners and developers. Several other key redevelopment projects had gone forward based on the expectation of Horton Plaza, and many more awaited the final go-ahead.

Plans for the westward extension of the CBD into the Columbia area had suffered a major setback in 1981, when voters rejected the convention center planned for the area. (The San Diego Convention Center, built later that decade by the San Diego Unified Port District on port-controlled land along Harbor Drive, is recognized today as a smashing success, both in terms of urban design and positive impact on San Diego's tourism-based economy see "An Unconventional Convention Center" on page 38). But within several years, investments by Japanese and other lending institutions triggered a Class A office building boom, which focused attention on the Columbia area and the traditional office core. In 1982, 2 million square feet of office space in four buildings was added; another 2

million square feet was added in five additional buildings built between 1989 and 1991.

By 1991, a new generation of office buildings—including Emerald-Shapery Center (1991, Shapery Enterprises/San Diego, 109, Inc.), America Plaza (1991, San Diego Tower Associates/Shimizu Land Corporation), and Symphony Towers (1989, Charlton Raynd Development Company; see "Symphony Towers" on page 70)—had reshaped San Diego's skyline and more than doubled the amount of office square footage downtown.

Gaslamp Quarter Adds Texture

While most of the activity in downtown focused on traditional "redevelopment" by the private and public sectors—land assembly; the construction of office, hotel, retail, and residential space; and public improvements—the revitalization of the Gaslamp Quarter took a different approach. In the 1970s, Gaslamp Quarter property and business owners staunchly opposed their being included in a redevelopment project area. They equated redevelopment with bulldozers and felt it threatened the integrity of the Gaslamp Quarter National Historic District.

The owners of properties and businesses in the quarter embraced a pioneering approach to redevelopment. Their assumption was that when the city improved the sidewalks and lighting, building owners would restore and improve their crumbling properties, and the quarter's pornography shops, tattoo parlors, and card rooms would disappear.

The city responded to the need to provide additional financing for public improvements by adopting the Gaslamp Quarter Redevelopment Plan in 1982, but it prohibited the redevelopment agency from acquiring property for anything other than public improvements. It soon became clear, however, that not all property owners were interested in investing in the Gaslamp Quarter.

With construction of Horton Plaza underway at the edge of the Gaslamp Quarter, The Hahn Company was concerned, as were property owners who already had begun to make improvements. What would happen to their investments if adjacent property owners refused to rehabilitate their properties and to change tenants? The Hahn Company worried that Horton Plaza would open with a tawdry zone bordering its Fourth Avenue frontage. These concerns led CCDC to propose the establishment of the "Fourth Avenue Project." In 1983, CCDC staff began meeting with owners of properties on the three blocks between Broadway and G streets on Fourth Avenue. Discussions centered on the expected economic benefits of Horton Plaza's 1985 opening. Owners were asked to submit plans and schedules to CCDC for bringing their properties into compliance with the Gaslamp Quarter Redevelopment Plan, restoring historic structures, and renting to conforming uses. In 1984, the Gaslamp Quarter Redevelopment Plan was amended to permit the agency to acquire property for redevelopment purposes.

The one-on-one dialogue with Fourth Avenue owners yielded results without a significant expenditure of redevelopment agency funds. Of the 14 targeted properties, the

agency purchased only two; these were resold to private interests for redevelopment/rehabilitation. Nonconforming uses removed from Fourth Avenue by owners and the agency included three go-go bars, three card rooms, a gay bath, a video/pinball arcade, two adult bookstores, . and various bars. The agency's acquisition and subsequent sale of the Windsor Hotel to San Diego Hardware for its expansion allowed San Diego's oldest retail business to remain downtown.

In 1985, when Horton Plaza opened and construction of the convention center began, national restaurant chains began to take notice of the Gaslamp Quarter and entrepreneurial owners began to respond. While CCDC continues to work with certain holdout owners throughout the district to bring their properties into conformance with the Gaslamp Quarter Redevelopment Plan, the Quarter is now the recognized entertainment center of San Diego, with more than 70 restaurants. On weekend evenings, parking spaces are hard to find. Retailers are beginning to fill in the remaining Victorian storefronts.

Today, the Gaslamp Quarter's warehouses and upper floors have been converted to exciting live/ work lofts renting in the range of \$0.85 to \$1.15 per square foot, and old single-room-occupancy hotels (SROs) have been rehabilitated and reserved for low-income tenants. While these residential rehabilitations began with prodding and incentive loans from CCDC, the momentum for residential rehab has come from the private sector over the past several years.

Housing Completes the Picture

Perhaps the greatest real estate challenge of the downtown plan has been the establishment of a residential community in the Marina area. San Diego's close-in neighborhoods and suburbs offer attractive housing for all incomes. The downtown plan aimed to provide middle-income housing through adaptive use of warehouses and low-income housing through rehabilitation of existing SROs; it also aimed to expand downtown housing options to include other types of residential projects to serve households of all incomes.

Two apartment towers for senior citizens broke ground just steps from Horton Plaza in 1979 and 1980. Both projects were developed by nonprofit housing groups to provide low-cost rental apartments for low- and moderate-income seniors. Horton House, with 153 units, opened in 1980; the 131-unit Lions Community Manor opened in 1981. By the early 1980s, CCDC had acquired land for the expansion and refurbishment of the city's oldest public park, Pantoja Park, and the development of two residential condominium projects. Together, these projects—Marina Park (1984, Shapell Housing, Inc., and Goldrich Kest and Associates) and Park Row (1985, Pardee Construction Company and Great American Savings Bank) offered 446 apartments ranging in price from \$80,000 to \$200,000. The first units were marketed in 1982.

These first condominiums were sited to enjoy the urban amenity of Pantoja Park, while the first rental projects the—192-unit Market Street Square (1987, Shapell

Housing, Inc., and Goldrich Kest and Associates), which includes 40 units for very low-income residents, and the 180-unit 600 Front Street Apartments (1988, Meric, National, and Halenza Partners)—were built near Horton Plaza. The area's first high-rise luxury condominium project, the 172-unit Meridian (1985, Walter Smyk) also was built near Horton Plaza.

The balance of the Marina area faced a major problem: a swath of railroad tracks separated it from Harbor Drive and the waterfront. Implementing a concept in the community plan, CCDC began negotiations with the Atchison, Topeka and Santa Fe Railroad; Southern Pacific Railroad; the San Diego and Arizona Eastern Railroad; and the Metropolitan Transit Development Board to consolidate rail rights-of-way and create a linear park on the upland side of the tracks. Named in honor of Martin Luther King, Jr., King Promenade is being developed as new housing is developed along it, making the old railroad right-of-way downtown's most prestigious address (see "The Incremental Development of a Downtown Park" on page 36).

Private projects built as a direct result of King Promenade include 96 condominiums at Watermark (1991, Odmark & Thelan), the 202 high-rise condominiums at One Harbor Drive (1992, Stark Properties), and the 331 condominiums (including the adaptive use of the Pacific Soap Factory) at City-Front Terrace (1993, Marina Village Associates). The Bayside Trolley runs along the edge of King Promenade, so that the morning commute from home in the Marina area to the office core can be either a brisk stroll or a short trolley ride. More than 5,000 residential units have been completed downtown since 1985. New housing options range from a 230-square-foot furnished SRO unit renting at \$366 a month (including utilities and linens) at the J Street Inn (see "Developing SROs" on page 40) to penthouses atop luxury high rises selling for more than \$2 million.

To Be Continued

By 1992, the redevelopment agency had invested \$150 million in carefully targeted projects. This has produced \$1.7 billion in private development, \$11.3 in private money for every \$1 in public money. In 1992, the agency expanded downtown San Diego's redevelopment area boundaries from 325 to 1,500 acres, to include the Little Italy, Cortez, Core, and Centre City East neighborhoods. The dramatic success within the original redevelopment area had heightened the public's perception of the blight and disinvestment still existing in the rest of downtown. The new Centre City Redevelopment Project calls for the public and private sectors to work together over the next 33 years to develop 14.4 million square feet of additional Class A office space, 1.5 million square feet of new service and entertainment retail space, 5,600 new hotel rooms, 3 million square feet of rehabilitated space, and 25,250 new residential units.

The greatest challenge to this expanded redevelopment program is, without doubt, the concentration, predominantly in Centre City East, of a street population taking advantage of San Diego's sunny, warm climate. On any given night, the homeless population in the Centre City area is estimated at 4,000 persons. In 1991, anticipating

expansion of the redevelopment area, CCDC began to develop a social issues strategy (SIS) to address this issue, calling on governmental agencies, social service providers, and interested individuals to help it come up with policies and programs that will permit downtown to redevelop into the viable neighborhoods envisioned by the Community Plan. The redevelopment agency adopted a ten-year SIS last January.

The SIS relies on partnerships between the community, public agencies, and social service providers to create a continuum of housing (6,000 beds are projected) and care to break the cycle of homelessness. In the first year of SIS implementation, the redevelopment agency rehabilitated space containing 134 beds and committed an additional \$2 million toward other transitional and low-income housing proposals. San Diego is currently in the throes of the national recession that hit California three years ago. Fueling the recession locally has been the loss of many local financial institutions taken over by the RTC, the overbuilding of all types of real estate that took place in the late 1980s, the withdrawal of Japanese investment, and defense industry cutbacks. The only projects currently under construction in downtown are small-scale, infill, for-sale condominium or lower-income rental housing developments. Several exciting commercial and larger-scale residential projects have been approved for construction but await financing.

Major public initiatives have begun during this quiet real estate period. CCDC has worked with downtown business and community groups to prepare focus plans for each of the neighborhoods added to the redevelopment area. With the San Diego Unified School District, CCDC is implementing the expansion of Washington Elementary School to provide outdoor community recreation areas which is the top priority for the Little Italy area. Redevelopment of four key blocks in the Cortez area, including the conversion of the National Register-listed El Cortez Hotel into 119 rental apartments and adaptive use of three other structures into 145 condominium units, is being implemented by the property owner with more than \$11 million in redevelopment agency rehabilitation loans (\$1.6 million of which will convert to second mortgages for 48 moderate-income homebuyers). An additional \$3.5 million of redevelopment agency funds will go toward public improvements in the Cortez area, including upgraded curbs, gutters, sidewalks, street trees, and the development of Beech Street Park.

Centre City East now has a "grand vision" for its future, thanks to the gift to the city of a series of charettes completed in December 1993 by the University of California at San Diego School of Architecture, under the initiation and direction of Dean Adele Naude Santos. The vision calls for the integration of the Centre City East area with Balboa Park to the north and San Diego Bay to the south. Major public facilities, including the planned 20,000-seat San Diego Entertainment and Sports Center and a new Central Library, would be grouped near the Metropolitan Transit System Headquarters at Twelfth and Imperial avenues. A pedestrian bridge spanning Harbor Drive would provide access to a new amphitheater and tidal basin, which would be constructed immediately east of an expanded San Diego Convention Center. Mayor Susan Golding has embraced these visionary plans as the redevelopment opportunities of the 1990s.

The Incremental Development of a Downtown Park

King Promenade is an unusual park. It includes an operational railroad, a light-rail system, and a major street. Part of the 1976 Centre City Community Plan, this half-mile debris-ridden strip of Harbor Drive along the Santa Fe Railroad tracks was planned as a park to support urban development efforts in downtown's Marina district. Landscape architects Peter Walker and Martha Schwartz of San Francisco, in association with the San Diego-based Austin Hanson Group, designed the park. Its design emphasizes the linearity of rails, a theme that is repeated in the planting beds, hedges, pathways, and rows of trees that parallel the rails. (See Janice Phillip, "San Diego's Marina Linear Park," *Urban Land*, November 1989.)

In 1991, the park was renamed in honor of Martin Luther King, Jr. With the renaming came some new design elements to give expression to King's work and visions. Asphalt pavers for the 12-foot-wide continuous pedestrian pathway throughout the park symbolize the many miles King marched over the streets of the nation. Along the pathway, granite monuments inscribed with King's words are reminders of his historic journey toward racial equality. A sculpture by Melvin Edwards, winner of a nationwide art competition, entitled *Breaking the Chains*, will be installed near the convention center trolley station.

The \$25 million park is being developed incrementally with the development of adjacent housing and retail uses. Each joint venture for park-related development that Centre City Development Corporation (CCDC) negotiates has the same objectives: to integrate the landscaping and design, to share the cost of park improvements, and to minimize the city's park maintenance costs.

CCDC's approval of plans for adjacent residential development aims at blending park and private development in the context of the park's master plan. Approximately one-half of the park's private frontage has been landscaped so far. Casual viewers often find it difficult to tell where the park ends and private property begins; what appears to be park may, in fact, be private property with an easement for park purposes. Two residential developments along the park—One Harbor Drive and CityFront Terrace—have been completed. Together, they contain 523 dwelling units; each project has approximately 700 feet of direct park frontage. The developers of both projects contributed to park improvements and have assumed maintenance responsibilities for pads of the park adjoining their property.

Construction of Gaslamp Park, a southeasterly extension of King Promenade, will begin this spring. It will help introduce the city's nearly 1 million annual conventioners to the 16-block Gaslamp District. Developers of an adjacent residential parcel, not originally included as part of the park concept, plan to use the design concepts of Gaslamp Park on the parcel's 600-foot frontage.

Development of King Promenade has lagged behind the original five-year construction schedule. But the concept has caught on, and the park seems destined to continue to grow.

Much progress already has been made. Three new trolley stations serve the Gaslamp Quarter, the hotel/convention center complex, and the Seaport Village shopping and restaurant complex. Each station is designed to relate to both the park and the area it serves-the Gaslamp Quarter station is Victorian, the convention center station is geometric (like Arthur Erickson's convention center design), and the Seaport Village station is whimsical in design.

Harbor Drive and the trolley right-of-way have been landscaped. CCDC has reached an agreement with the Santa Fe railroad under which the redevelopment agency will improve the railroad's right-of-way as a recreational path for cyclers and joggers. Plans are being drawn up to extend the park concept and recreational pathways along the entire two-mile edge of downtown, with construction money being provided through the Intermodal Surface Transportation Efficiency Act (ISTEA).

The key feature of King Promenade will be a large circular pond, 200 feet in diameter, over which the trolley and Santa Fe rails will float. CCDC plans to develop this feature through a joint venture with future private development and perhaps a hotel. Development of the remaining 1,200 feet of private frontage along the park will proceed as the market improves.

What began as a one-half-mile enhancement of marginal land adjoining a proposed residential area has stretched two miles along the edge of downtown. With luck and determination, the park will become part of a downtown open-space system and a unifying element for downtown developments.-Max Schmidt, assistant vice president of planning and engineering for Centre City Development Corporation

Calculating Tax Increment

When redevelopment causes property values to rise, the difference between the old assessed values and the new assessed values leads to a change in property taxes. These increases become the tax increment paid to the redevelopment agency. For example, in 1972, the Horton Plaza Redevelopment Project area was assessed at \$18,772,000. New construction within the redevelopment area brought the assessed valuation up to \$467,488,000 for the fiscal year 1992/1993. Property taxes due total \$4,674,880, calculated at the standard rate of 1 percent of assessed valuations. The redevelopment agency receives the difference between the old payments of \$187,720 and the new payments of \$4,674,880 (which is \$4,487,160) to cover its share of redevelopment costs.

An Unconventional Convention Center

The San Diego Convention Center is a monument to the city's 15-year struggle to become a major player in the convention and trade show industry. Perseverance paid off. Almost from the day it opened in November 1989, the center was judged an architectural and financial success. It has a soaring lobby, curved green-tinted glass, round windows, exterior fins, sail-like tents on the roof, and an outdoor terrace and 400-seat amphitheater with sweeping views of the bay. Looking much like a cruise ship anchored along the downtown waterfront, the 760,000-square-foot center has garnered praise for its landmark design and its powerful effect on urban renewal.

The \$161 million center—the most expensive public project in the city's history—replaced a small, antiquated center next to City Hall and quickly boosted San Diego's visitor industry at a time when the city was reeling from a recession and loss of defense jobs.

In the center's first year of operations, more than 250,000 out-of-town delegates attended 49 trade shows and conventions, spending \$226 million. In its first three years, the center generated a \$1.1 billion impact on the local economy, according to a study by San Diego-based CIC Research.

The benefits were particularly notable near the new convention center, which provided a stream of guests for the neighboring San Diego Marriott Hotel & Marina and the Hyatt Regency San Diego. The center also helped revive the once-seedy Gaslamp Quarter. The CIC Research study found that 38 restaurants opened in the 16-block Quarter in the three years after the center opened. A survey done as part of the study showed that 17 percent of pedestrians in the Gaslamp Quarter were visitors from the convention center. The study also identified the Horton Plaza shopping complex, within walking distance of the convention center, as a destination for 30 percent of delegates. Despite these benefits, the convention center project had been mired in so many political and technical difficulties that civic leaders said it was a miracle that it was ever built. Former Mayor Pete Wilson proposed a downtown center in 1974. By 1978, the San Diego City Council had chosen a four-block site off the waterfront along lower C Street. But in the city's first and only mail ballot election, in May 1981, a majority of San Diego voters rejected the proposed \$226 million center, apparently buying the argument of opponents that the huge project would cause a tax hike.

Undaunted, Wilson turned to the revenue-rich San Diego Unified Port District and began focusing on Navy Field, the waterfront site on Harbor Drive on which the center eventually was built. The port agreed to build the center and lease it to the city for \$1 a year.

In late 1983, city voters endorsed the \$95 million center proposed on port-controlled tidelands. The following year, an architectural team led by Arthur Erickson won the port's design competition. But construction was delayed when the bayside

excavation site, with its low water table, required an elaborate permanent pumping system, which was installed behind schedule in 1986.

In 1987, the project hit another obstacle when the San Diego Port Commission tossed out all construction bids and announced a second round of bidding, in hopes of reducing the project's cost. The new bids were lower, and port commissioners finally awarded a \$117 million contract to Tutor Saliba and Perini Corporation of Los Angeles. But more problems cropped up during construction. In the name of cost-saving, the port considered eliminating the rooftop tents and other of Erickson's unique architectural features. Most of the features survived, transforming what could have become a giant concrete warehouse into a signature building.

Now that the center is viewed as an invaluable asset, the city and port have embarked on an expansion plan that could cost up to \$164 million. The proposed expansion would double the existing 254,000-square-foot contiguous exhibit space. According to CIC Research, the annual economic impact of the center could increase from \$580 million in 1991 to \$923 million in 1997.

Although the expansion venture has broad support, it is not free of problems. This year, construction financing mechanisms must be worked out, as must the difficulties of designing the addition in a way that will not detract from the original.

According to Carol Wallace, the center's executive vice president and general manager, the goal is to complete the expansion in time for the Super Bowl scheduled for San Diego in 1998. Wallace says her staff is already under pressure from large conventions that want to book into the San Diego facility as soon as it is enlarged. Says Wallace: "They have told us, 'If you build it, we will come.' "—**Lynne Carrier**, staff writer for the *San Diego Daily Transcript*
Urban Land: April 1994

©1994 ULI—the Urban Land Institute, all rights reserved.