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Economic and sustainable real estate trends intersect in San Diego

By **TONY PAUKER AND MARY LYDON**

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Major changes in the regional economy continue to reshape San Diego land use and real estate. The frenetic growth of the housing market from 2000 to 2005 led to a huge increase in not only prices, but also building permits. Existing apartments followed suit as many of the better quality (and sometimes lower quality) units were converted to condos. Shortly thereafter, the regional office market exploded after a decade of inactivity, and suddenly downtown had two new Class-A office towers with more on the way. And we saw the first office condos. A recent \$1 billion-plus investment in San Diego office space by the Irvine Company was followed by their purchase of another Class-A office tower in UTC for over \$600/square foot. The hospitality industry has taken a quantum leap forward with numerous downtown hotels opening and projects planned for Chula Vista, Oceanside and the Embacadero. When you add the increased focus on cross-border development, we find ourselves in a place we've never been before.

Economists believe our region will weather the current downturn in the housing market that has led to apartment developers eagerly responding to increased demand. The meltdown of the subprime mortgage market has affected the commercial sector where we are witnessing some caution on the part of lenders causing a delay on the start of major projects. As we look to the New Year, we should expect to see more efforts to develop affordable housing and LEED certified buildings.

The transformation of downtown San Diego has proven we are not only a community of single-family enclaves, but also a metropolitan 24-hour city. The growth in traffic has made commuting difficult and the land available for large master planned communities has mostly been built out. Consequently, much of the development activity over the past half-decade has looked inward. Not only has downtown become more vertical, so too have our "other" downtowns such as Oceanside, Escondido, and even National City and Chula Vista are exploring more vertical metropolitan models of development. Our residents have embraced this change by living closer to work, or working in the home. Some people have called these development models "sustainable," others call it "smart growth." No matter what title you use, it all points to a shared goal -- a higher quality of life. While relatively new to many of us San Diegans, this concept is pretty much business as usual for those from Chicago, San Francisco, New York and major European and Asian cities.

There has now emerged another evolution of this sustainable trend -- "green" building. Not too long ago, the label "green" may have been a pejorative term applied to those shopping at a co-op wearing hemp clothing. Now it is as mainstream as Wal-Mart, Toyota and Starbucks. No one even blinks when someone drives a Prius to Starbucks, asks for organic coffee and recycles their cup.

One big reason behind this change, is a growing awareness that these trends have real dollars and cents implications for our daily lives. For example, San Diego's arid topography means our water is imported and the costs are on the rise. Our landfills are nearing capacity. Where the cost of discarding construction waste was once nominal, recycling may prove to be more cost efficient. The operational costs of heating and cooling a 20-year-old office building may be several times higher than the same costs for a new LEED-certified building that uses reclaimed water for irrigation. Apply a 6 percent cap rate to those savings, and we are talking real money. As we look across the region, major new developments by Hines, Westfield and Del Sur are leading the way in sustainable development because it not only helps the environment, it is also good business.

At ULI San Diego/Tijuana, we will explore how economic and "sustainable" trends intersect in our region at our 2007 Real Estate Trends Conference November 13 at the Hilton Torrey Pines in La Jolla. Titled "The Dollars, Sense and Leadership of Sustainability," we will feature noted economists, environmental experts and leading developers who are cracking the code on the economics of sustainable development. We invite you to join in the discussion. You can find all the details at ulisd.org.

Pauker is chair and Lydon is executive director of Urban Land Institute of San Diego/Tijuana.