

CB URBAN DEVELOPMENT

Memorandum

To: Scott Chadwick
Chief Operating Officer
City of San Diego

From: Charles E. Black
CB Urban Development

Date: March 9, 2015

Subject: San Diego Convention Center Phase III Expansion
Report on Development Options

The Phase III Expansion to the San Diego Convention Center has been a priority of the City of San Diego dating back to the release of the Mayor's Citizen Task Force Report on the San Diego Convention Center Project in September 2009. Although a contiguous expansion ("Approved Expansion") of the current facility was approved by the San Diego Unified Port District ("SDUPD") on September 19, 2012 and by the California Coastal Commission ("CCC") on October 10, 2013, adverse court rulings and other pending litigation have delayed the project and provided an opportunity to evaluate other expansion options. In addition, the passage of time and robust global construction activity has accelerated the rate of increase on construction costs to approximately 4 percent per annum, increasing the cost of the Approved Expansion by approximately \$1,000,000 per month.

I. Purpose of Report

In response to these challenges, Mayor Kevin Faulconer requested an analysis of the feasibility of reducing the size and cost of the Approved Expansion and a comparison to the cost of a range of alternatives for upland expansions described in the study commissioned by JMI Realty and prepared by Populous in September 2014 and an accompanying summary of costs prepared by Cumming (collectively the "Populous Study"). One of alternatives proposed in the Populous Study involves joint-use with a football stadium. In addition to that range of expansion alternatives, the Mayor requested a cost estimate for a suburban-configured football stadium that could be built on the current Qualcomm site.

II. Disclaimers

The scope of this report is limited to a comparison of the costs to construct the range of scenarios described below. In addition, this report is subject to the following disclaimers:

1. Neither the reduced-scope alternatives to the Approved Expansion nor the expansion alternatives described in the Populous Study have been evaluated for their respective efficacy in achieving the programing and marketing goals of the San Diego Convention Center ("SDCC").
2. Area estimates are approximations based on hand-drawn sketches in the case of the reduced-scope alternatives to the Approved Expansion and on measurements taken from the Populous Study. There can be no certainty regarding actual construction costs until the City selects an alternative, engages a design and construction team and obtains a guaranteed maximum price contract for the selected alternative.
3. Although infrastructure and land costs are known for Scenarios A-1 and A-2, the report excludes infrastructure costs and land costs for all Populous scenarios due to the uncertainties surrounding the cost of Tailgate Park (discussed in Section V, below) and hazardous material remediation and facility replacement for the Bus Depot site and infrastructure costs that will be identified in the entitlement process for Scenarios B

CB URBAN DEVELOPMENT

through E. Cost of demolition of existing structures is excluded from Scenarios B, C, D, E and F.

The value of this report is that construction cost estimates for a range development scenarios that use the same estimating methodology, assumptions and construction cost data-base will provide City policy makers with reliable cost comparisons allowing them to make an informed choice among development options with site-specific constraints.

The cost numbers published in the Populous Study include allowances for FF&E, exterior signage, point of sale systems, operating equipment, inventories and pre-opening expenses. However, the City's design/construction team and the preparers of Populous Study used different estimating methods for these amounts. As a result, the "Total Development Cost" for each Scenario in Exhibit 1 excludes those amounts. The table and narrative on page 7 of this report "grosses up" Total Development Costs by allowances intended to cover FF&E, exterior signage, point of sale systems, operating equipment, inventories and pre-opening expenses to allow the policy makers to compare costs of each scenario subject to the further limitation that the Populous Study scenarios do not contain any allowance for infrastructure and land costs.

III. Selection of Scenarios

Reduced-Scope Alternatives to Approved Expansion. The two most contentious issues in the entitlement process for the Approved Expansion were the loss of the existing Hilton Park and the narrowing of the Park Blvd. view corridor to the Bay. Further mitigation of these concerns became the basis for defining the reduced scope alternatives to the Approved Expansion.

In Scenario A-1, the footprint of the Approved Expansion is cut back to the extent necessary to allow Convention Way (in its current configuration) to extend directly to the Bayside Promenade where it turns North, parallel and adjacent to the Promenade. Cutting the corner of the building will reduce the total GSF of the building by 102,300SF. The reductions result in a loss of truck docks, meeting rooms, pre-function space and the grand ballroom in the Upper Level is reduced from 78,000SF to approximately 55,000SF (see Table 1). On the positive side, this "Hilton Park Cut" preserves approximately 1 acre of the Hilton Park and opens the view corridor by an additional 120 feet, measured along the side of the building closest to the Bay.

Scenario A-2 starts with the footprint of Scenario A-1 and eliminates the entire Upper Level, a further reduction of 253,190SF. Scenario A-2 preserves the 5-acre rooftop park constructed on the roof of the Mezzanine Level. The rooftop park would be flat rather than inclined since the incline in the Approved Expansion was included to accommodate the high volume of the grand ballroom.

Table 1 compares the program elements of Scenarios A-1 and A-2 with the Approved Expansion.

Table 1—Contiguous Expansion Options			
Program Elements	Approved Expansion	Scenario A-1	Scenario A-2
Exhibit Hall	222,600SF	210,000SF	210,000SF
Ballroom	78,000SF	55,000-60,000SF	-0-
Meeting Rooms	101,600SF	101,600SF	59,000SF
Truck Docks	49 new	39 new	39 new

Populous Study Scenarios. The following scenarios were selected from the Populous Study for analysis:

CB URBAN DEVELOPMENT

1. Scenario B—Expansion with program elements similar to the Approved Expansion located on Tailgate Park and Bus Depot sites.
2. Scenario C—Expansion with exhibit hall, prefunction and support/back-of-house space located on Tailgate Park with surface parking located on the Bus Depot site. This report excludes the cost of the land bridge between the project and Parcel D of Ballpark Village as well as the program elements proposed to be located on Parcel D, both as shown in the Populous Study. The Populous Study shows 8 truck docks; substantially less than the industry-standard of 1 per 10,000SF of exhibit hall space. Due to the presence of a fault line on the westerly portion of Tailgate Park and other site constraints, a portion of the exhibit hall space in Scenario C would need to be converted to truck docks to address this deficiency.
3. Scenario D—Football stadium only to be located on Tailgate Park and Bus Depot sites. Although this report relied on the layout of Scenario D in the Populous Study, our measurements indicated a gross floor area (“GFA”) of 1,500,505SF rather than 1,740,000SF as shown in the Populous Study.
4. Scenario E—Joint use expansion and football stadium on Tailgate Park and Bus Depot sites.

Table 2 compares the program elements of the Populous Study convention center expansion scenarios.

Table 2—Populous Study Convention Center Options			
Program Elements	Scenario B	Scenario C	Scenario E
Exhibit Hall	225,000SF	227,000SF ¹	225,000SF
Ballroom	80,000SF	-0-	80,000SF
Meeting Rooms	80,000SF	-0-	80,000SF
Truck Docks	24	8	unclear

Scenario F. Scenario F is a suburban-configured football stadium, suitable for construction at the current site of Qualcomm Stadium. Scenario F would be a facility similar in capacity to Qualcomm Stadium with a gross floor area of 1,740,000 SF and between 65,000 and 71,500 seats. The cost of demolishing the current facility is excluded from the estimate.

IV. Construction Cost Estimating Methodology.

Construction costs for any building can be accurately estimated based of the type or types of construction in the building and the unit cost on a square foot (“SF”) basis for each type of construction. For example, the cost per SF to construct a tilt-up, cross-docked industrial facility with 36-foot clear height can be estimated with a high degree of confidence. The estimated cost can be then adjusted to reflect the respective cost of required labor and materials in the locale where the building will be constructed and adjusted for anticipated escalation in such costs during the period of construction. Although more complex, the same cost-estimating approach will produce similarly reliable results when applied to convention centers and sports facilities.

Firms engaged in the business of evaluating construction costs maintain data bases that track material and labor costs in each construction sub-market and the relevant rates of increases. In addition, those firms track actual costs incurred in the completion of a broad range of building types and building

¹ See above regarding insufficiency of truck docks in Scenario C.

² Convention Center and Petco Park parking demand are often concurrent raising the possibility that a substantial number of new parking spaces must be created. Since there are no proximate sites available for surface parking, it is likely that substantial subterranean parking would

CB URBAN DEVELOPMENT

elements. This data enables construction cost estimating firms to perform construction cost modeling that will produce reliable estimates of construction costs for a broad range of building types.

Rider Levett Buchnall ("RLB") is an independent global property and construction firm with broad experience in analyzing the construction costs for convention, sports, office and other facilities. RLB was retained to estimate the construction cost of various development scenarios. RLB was selected partly because it served as the City's construction cost estimator in the conceptual design validation process for the original Phase III contiguous expansion. In that role, RLB prepared its November 2011 Final Construction Cost Estimate for the original Phase III contiguous expansion which was part of the concept validation phase of the Approved Expansion.

The cost estimates in this report rely on measured quantities and built-up rates. The report assumes that procurement will be accomplished through a Construction Manager at Risk ("CMAR") procurement method. Since the estimates are based on concept design information, it was necessary to make certain assumptions and provide allowances in the case of all Scenarios and to rely on conversations with the architect and structural engineer in the case of Scenarios A-1 and A-2.

With respect to estimating kitchen equipment, all scenarios use an estimate of \$250/SF for kitchen areas. Scenarios A-1 and A-2 were based on kitchen areas of 6,000SF because kitchen areas in the existing facility would be expanded while Scenarios B and C are based on kitchen areas of 10,000SF. Scenarios D and E are each based on a 41,000SF kitchen area and Scenario F is based on a 50,000SF kitchen area.

Margins & Adjustments. To ensure consistency among the cost estimates, RLB applied the following factors (collectively, "Margins & Adjustments") to the construction cost estimate for each scenario to determine Gross Construction Cost for each scenario reflected in Exhibit 1 to this report. Except as noted below, Margins & Adjustments were applied uniformly to all scenarios.

- a. General Conditions & General Requirements (10.5% for A-1 and A-2, 8% for B through F). Scenarios A-1 and A-2 have a higher general conditions & general requirements rate due to the complexity of expanding the existing facility during on-going convention operations.
- b. Bonds & Insurance including Sub-Contractor Default Insurance (Sub Guard) (4.0%)
- c. Overhead & Profit (CM@Risk Procurement) (2.8%)
- d. Design Development & Estimating Contingency (12% for Scenario A-1, 15% for Scenario A-2 and 10% for Scenarios B through F). Higher contingency allocations for Scenarios A-1 and A-2 are a result of the risks associated with incorporating expansion programming into the existing and operating facility.
- e. Construction Contingency (5%)
- f. Building Permit (2.5%)
- g. Construction Cost Escalation from August 2013 to January 2015 (5.5%) (Scenarios A-1 and A-2 only)
- h. Construction Cost Escalation from February 2015 to January 2018 (Procurement Completion) (12.0%)

A-1 Methodology. Between the time RLB prepared its November 2011 Final Construction Cost Estimate and approval of the Approved Expansion by the CCC, a number of changes and refinements

CB URBAN DEVELOPMENT

were made to the project. The City Staff, Fentress Architects and Clark/Hunt (the City's CMAR Contractor) prepared an updated cost estimate for the Approved Expansion dated August 29, 2013 ("2013 City Cost Estimate"). RLB began its analysis by updating its November 2011 Final Construction Cost Estimate by the following steps:

Step 1. Reconcile RLB's November 2011 Final Construction Cost Estimate with the 2013 City Cost Estimate.

- a. Remove 39,250SF that were eliminated in connection with negotiations with CCC Staff in Summer 2013 (reduced GFA from 927,850SF to 888,600SF).
- b. Amend unit rate pricing from November 2011 to August 2013 to align with the pricing timeframe reflected in the 2013 City Cost Estimate.
- c. Compare RLB's updated estimate (trade related construction cost of work) and the 2013 City Cost Estimate to ensure consistency. This step was important because substantial work was done interacting with SDCC Staff and accommodating the facility's on-going operations during construction.

Step 2. Accommodate the scope reductions between the Approved Expansion and Scenario A-1.

- a. Once the construction cost estimate for the Approved Expansion was updated in Step 1, 102,300SF was eliminated to accommodate the Hilton Park Cut (reduce GFA from 888,600SF to 786,300SF). The adjustment to the estimate for the Approved Expansion was determined by analyzing the individual building elements eliminated by the Hilton Park Cut and applying the appropriate unit cost of each such building element.
- b. Apply the Margins & Adjustments described above to the revised estimate to determine Gross Construction Cost for Scenario A-1. Note that the Design and Development and Estimating Contingency for Scenario A-1 was increased to 12%.
- c. Margins & Adjustments were applied to the resulting construction cost estimate to determine Gross Construction Cost for Scenario A-1:

A-2 Methodology. Estimating the cost of Scenario A-2 begins with construction cost estimate for Scenario A-1 before application of Margins & Adjustments, in the following sequence:

Step 1.

- a. Revise the estimate by removing from Scenario A-1 the Upper Level (253,190SF) (reduced GFA from 786,300SF to 533,110SF). The adjustment to the estimate was determined by analyzing the individual building elements eliminated by deleting the Upper Level and applying the appropriate unit cost of each such building element including the impact of any site development changes and by addressing feedback received from both structural and MEP engineers on the impact of the proposed area reduction.
- b. Apply the Margins & Adjustments to the revised estimate to determine Gross Construction Cost for Scenario A-2. Note that the Design and Development and Estimating Contingency for Scenario A-2 was increased to 15%.

Methodology for Scenarios B through F. All estimates for Scenarios B through E are for new construction based on the program areas and conceptual floor plans and renderings contained in the

CB URBAN DEVELOPMENT

Populous Study. The estimate for Scenario F is also for new construction based on a suburban stadium configuration similar in size and capacity to Qualcomm Stadium with between 65,000 and 71,500 seats and 1,740,000SF.

From the information contained in the Populous Study, approximate quantities were generated for the various elements such as foundations, structure, exterior enclosure, interior build-out, MEP and site costs. These quantities were then priced at rates considered appropriate for the nature of work being undertaken with assumptions being made for foundation and structural systems, exterior cladding etc., and for the level of finish of each interior space, based on past experience with similar projects.

Mechanical and electrical systems were priced on a cost per SF based on previous similar projects.

Site related costs are to cover work within the project boundary only, and include site clearing, landscaping, hardscapes, surface parking, and utilities. No costs have been carried for any off-site works or for any automobile parking beyond surface parking within the project boundary. This report assumes that all utilities and infrastructure exist and have adequate capacity, or if upgrades are needed, the costs will be the responsibility of others.

V. General Comments.

Some of the project costs not addressed in this study may substantially increase the cost of various scenarios. The most significant categories of those excluded costs are briefly discussed below.

Parking and Public Infrastructure. In Scenarios A-1 and A-2, the entitlement and California Environmental Quality Act ("CEQA") processes conclusively determined that no additional parking or additional public infrastructure would be required. The applicable limitation periods for legal challenges to that determination have expired.

In contrast, Scenario B, C, D and E eliminate 1050 parking spaces on Tailgate Park required by the entitlements for Petco Park while creating a limited number of new surface or subterranean parking spaces. The existing long-term lease of Tailgate Park is owned by an affiliate of the San Diego Padres and grants to the tenant all rights to and all revenues from parking on Tailgate Park 365 days/year. The term of the lease runs until 2034 with two five-year extensions, which is concurrent with the term of Petco Park's Joint Use and Management Agreement. The lease permits relocation of parking to comparable and equally proximate parking with the same space count. Although the exact number of parking spaces required for Scenarios B, C, D and E will not be known until a CEQA-mandated shared parking analysis is performed, it likely that the parking count will need to be substantially increased. If additional parking capacity is built below-grade, project costs would be increased by \$40,000² or more per space.

Determination of all other infrastructure costs for Scenarios B, C, D and E must await completion of an analysis of the sufficiency of public facilities and available for each scenario in the entitlement process.

Land. Land costs for Scenarios A-1, A-2 and F are well known³ while the land costs for Scenarios B, C, D and E are uncertain because they are located on the Tailgate Park and Bus Depot sites.⁴ The land cost for Tailgate Park is uncertain due to the requirement for replacing 1050 parking spaces benefitting

² Convention Center and Petco Park parking demand are often concurrent raising the possibility that a substantial number of new parking spaces must be created. Since there are no proximate sites available for surface parking, it is likely that substantial subterranean parking would be required for Scenarios B, C, D and E, substantially increasing project costs.

³ The land cost for Scenarios A-1 and A-2 is \$14 million, the SDCCC's 2010 cost to acquire the Fifth Avenue Landing ground lease with the SDUPD. Since Scenario F is proposed on the current Qualcomm Stadium site, no additional land cost is contemplated.

⁴ Scenario C appears to be located within the boundaries of Tailgate Park with surface parking located on the Bus Depot site.

CB URBAN DEVELOPMENT

Petco Park (discussed above) and the dissolution of its former owner, the Redevelopment Agency of the City of San Diego and the process being administered by the California Department of Finance.⁵ Determination of land cost for Scenarios B, D and E will involve complex negotiations and analysis with its owner, the Metropolitan Transit System, regarding the Bus Depot's replacement and hazardous materials remediation.

Exclusion of FF&E, Exterior Signage, etc. As mentioned above, this report excludes estimates for FF&E, exterior signage, point of sale systems, operating equipment, inventories and pre-opening expenses from the estimates due to the lack of any relevant standard for estimating such costs. We note, however that the Populous Study included total costs for those categories in the range of \$64 to \$85 per GSF for convention center scenarios and \$32 per GSF for football stadium scenarios. In order to provide a rough approximation of the impact of including these costs for each scenario, Table 3 applies the lower number (\$64/SF) to the contiguous scenarios, the higher number (\$85/SF) to the Populous Study expansion scenarios and \$32/SF to all football stadium scenarios.

Table 3— Approximation of Grossed-Up Development Costs With Allowances for FF&E, Exterior Signage, Point of Sale Systems, Operating Equipment, Inventories and Pre-Opening Expenses Added							
Scenario	A-1	A-2	B	C	D	E ⁶	F
Grossed-Up Development Cost	\$549,000,000	\$410,000,000	\$428,000,000*	\$335,000,000*	\$945,000,000*	\$1,365,000*	\$1,049,000**

*Does not include any allowance for land or infrastructure costs.

**Scenario F does not include any allowance for infrastructure costs.

⁵ Although the former Redevelopment Agency's cost for Tailgate Park was approximately \$21 million in 2000, the State may require that the project bear the current appraised value for Tailgate Park, which may be a substantially greater amount.

⁶ Scenario E is a joint-use facility with 635,000SF dedicated to convention use and 1,490,000SF dedicated to stadium use. The grossed-up development cost is the result of adding (\$85 x 635,000SF) and (\$32 x 1,490,000SF).

Exhibit 1

San Diego Convention Center Phase III Expansion Alternative Development Scenarios

Scenario Description	A-1		A-2		B		C		D		E		F	
	Bayside Expansion w/ Hilton Park Out	Cost	Total Costs	Cost Per SF	A-1 and Eliminate Upper Level	Stand Alone Expansion on Tailgates/Bus Depot Sites	Reduced Scope Expansion on Tailgate (1)	Stadium Only on Bus Depot/Tailgate Sites	Joint Use Facility on Bus Depot and Tailgate Park	Qualcomm Stadium Replacement	Cost	Total Costs	Cost Per SF	Total Costs
Gross Floor Area (SF)	786,300		539,110		611,000		427,500		1,500,505		2,135,505		1,740,000	
Total Construction Costs (2) - August 2013	\$ 390,855,000	\$ 497	\$ 293,757,000	\$ 551	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Construction Costs (2) - January 2015	\$ 412,352,000	\$ 524	\$ 309,814,000	\$ 581	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Construction Costs (2) - January 2018 (Procurement Complete)	\$ 461,894,000	\$ 587	\$ 347,104,000	\$ 651	\$ 346,507,000	\$ 567	\$ 274,456,000	\$ 642	\$ 819,894,000	\$ 546	\$ 1,156,797,000	\$ 542	\$ 906,661,000	\$ 521
Design & Project Management (7.5% of line 17)	\$ 34,637,550	\$ 44.05	\$ 26,032,800.00	\$ 49	\$ 25,988,025	\$ 43	\$ 20,584,200	\$ 48	\$ 61,492,050	\$ 40.98	\$ 86,759,775	\$ 40.63	\$ 67,999,575	\$ 31.84
Kitchen/Support Equipment	\$ 2,600,000	\$ 3.31	\$ 2,600,000.00	\$ 5	\$ 3,825,000	\$ 6	\$ 3,825,000	\$ 9	\$ 15,600,000	\$ 10.40	\$ 19,425,000	\$ 9.10	\$ 19,125,000	\$ 8.96
Gross Construction Cost (3)	\$ 499,071,550	\$ 635	\$ 375,736,800	\$ 705	\$ 376,520,025	\$ 616	\$ 298,865,200	\$ 699	\$ 996,986,050	\$ 596	\$ 1,262,983,775	\$ 591	\$ 993,785,575	\$ 562

[1] Excludes portions of the program within M Hotel on Parcel D.

[2] Total Construction Costs excludes FF&E, Exterior Signage, Point of Sales Systems and Operating Equipment.

[3] Gross Construction Cost for each scenario excludes Land and Infrastructure Costs, Working Capital, Inventories, Pre-Opening Expenses, Financial/Taxes/Legal Expense and Capitalized Interest.