Overview

1. Update regarding organizational changes and overview of the City's downtown portfolio
   • City as a whole
   • City’s Real Estate Department

2. Analysis of City office space capacity and needs

3. Future Options for Downtown City-Owned Property
Update on organizational changes to the City’s Real Estate Department and overview of the City’s portfolio
Can the City Change the Public Perception of How it Handles Real Estate Transactions??
“Enron By The Sea”

- Fiscal year 2003 the public lost faith in the City's ability to manage its financial reporting and disclosure
- S&P and Fitch Rating both withdrew the City's credit ratings
- The City lost access to the public finance markets
- The City couldn't even issue accurate financial statements
• New professional staff were hired in key positions
• An audit was commissioned to look at the City's financial reporting practices
• Organizational changes were made
• Nearly 125 audit recommendations were agreed to and implemented
• The City established sound financial policies
• The City developed long range financial forecasting
• The Disclosure Practices Working Group was established
• Established the Office of the City Auditor

NOW THE CITY IS A MODEL
OWEN CITED AS GOOD GOVERNANCE OVER FINANCIAL DISCLOSURE
• Five new Council Members

• A new Mayor and Administration instilling a moral compass into the organization

• An organizational structure that provides for checks and balances

• A Mayor and City Council that expects excellence and transparency

• Organizational changes to the Real Estate Department
This administration brought in two new professionals to lead READ and transform it into DREAM

- Penny Maus
- Lucy Contreras
City’s Real Estate Portfolio

Department of Real Estate and Airport Management

1200 Third Ave., Suite 1700
San Diego, CA 92101
619-236-6020
realestate@sandiego.gov

The City of San Diego owns 1,600 properties totalling 123,000 acres

Over 800 properties leased by third parties, generating $80,000,000 in income

City airports support 1,500 local jobs and generate $199,000,000 in economic activity annually
Staff report improvements
• Attaching appraisals, financial analysis, etc.

Implementing Audit recommendations
• Best practices checklist for acquisitions
• Council Policy updates
• Pursuing upgraded/new lease administration software in FY23
Questions
Analysis of City office space capacity and needs
Introduction

Scope

The City of San Diego (“City”) engaged JLL to assess its Civic Center administrative and office portfolio to support the City’s alternatives analyses, real estate, and financial decisions. JLL’s assessment included the following properties (“Civic Center Portfolio”):

- 101 Ash Building (101 Ash)
- Civic Center Plaza (CCP), 1200 3rd Avenue
- City Administration Building (CAB), 202 C Street
- City Operations Building (COB), 1222 First Avenue

In addition to the Civic Center Portfolio, JLL reviewed four downtown City leases.

JLL’s scope of work included three primary elements:

1. Defining the City’s office and administrative space current state and uses
2. Analyzing the known costs to operate, maintain and renew the Civic Center Portfolio and downtown leases
3. Developing alternatives and potential changes in space needs for the City’s Civic Center Portfolio and downtown leases that consider potential future workplace strategies, purpose of the office and financial impacts
Key Questions

How do the Civic Center Portfolio and downtown leases align with City space needs?

What do the evolution of the office and COVID-19 impacts mean for the City’s use of space as a leading regional employer?

What real estate and financial results may be achieved through portfolio actions and adoption of best practice workplace strategies?
Workplace Attitude Shifts

67% of real estate decision makers are increasing workplace mobility programs.

70% of employees prefer the office for collaboration and connection.

71% of employees expect more flexible schedules.

74% of employees want to work in the office in some capacity.

Source: JLL online survey of 2,033 office workers across 10 countries spanning all major industries, October 2020.
**Historical office/workplace allocation**

The historical office was focused upon individual work with greater individual workplace allocation.

**Future office/workplace allocation**

The work from anywhere ecosystem

New workplace investments will be focused on retrofitting and higher services, amenities and technologies, digital enablement and technology supported access to third spaces.
63% of the workforce want to keep the possibility to alternate between different places of work in the future

Source: JLL, Worker Barometer, 2021

49% of organizations still have not developed a ‘future of work’ program

Source: JLL, Work Dynamics Pulse Survey, October 2021
Shaping the Future of Work

**Key Drivers and enablers:**

The workplace will be a destination and a social hub.

Healthy workplaces and wellness will be central to the hybrid model.

Decarbonizing the built environment will be an imperative.

Technology managed services will enable the future of work.

**Key Outcomes:**

**Built-in elasticity:**
- Provide choice
- Empower users
- Anticipate demand
- Enable experience anywhere
- Adjust flexibility
- Enable hybrid work
- Unlock dynamic occupancy
- Deliver fulfillment
Understanding the Current State

How does the City currently use its office and administrative space downtown?

- Civic Center Plaza
- City Operations Building
- City Administration Building
- 101 Ash Street
- Downtown Leases
## Civic Center Portfolio: Current State

<table>
<thead>
<tr>
<th>Property</th>
<th>Ownership Status</th>
<th>Office Square Feet</th>
<th>Head Count</th>
<th>Seat Count</th>
<th>Seat Sharing Ratio</th>
<th>Office SF / Employee</th>
<th>Office SF / Seat</th>
<th>Annual Occupancy Cost</th>
<th>Deferred Maintenance &amp; Capital Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>101 Ash</td>
<td>Lease-to-Own</td>
<td>314,545 SF</td>
<td>0 employees</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>Not applicable</td>
<td>$1,393,910$</td>
<td>$115,000,000</td>
</tr>
<tr>
<td>Civic Center Plaza</td>
<td>Lease-to-Own</td>
<td>243,922 SF</td>
<td>871 employees</td>
<td>982 office seats</td>
<td>0.89 employees per seat</td>
<td>280 SF</td>
<td>248 SF</td>
<td>$8,115,638$</td>
<td>$7,200,000</td>
</tr>
<tr>
<td>City Admin Building</td>
<td>Owned</td>
<td>115,474 SF</td>
<td>447 employees</td>
<td>356 office seats</td>
<td>1.26 employees per seat</td>
<td>258 SF</td>
<td>324 SF</td>
<td>$2,125,361$</td>
<td>$94,855,985</td>
</tr>
<tr>
<td>City Operations Building</td>
<td>Owned</td>
<td>121,794 SF</td>
<td>450 employees</td>
<td>696 office seats</td>
<td>0.65 employees per seat</td>
<td>271 SF</td>
<td>175 SF</td>
<td>$2,619,389$</td>
<td>$45,168,510</td>
</tr>
<tr>
<td><strong>Total / Average</strong>(2)</td>
<td>Not applicable</td>
<td>796,000 SF</td>
<td>1,768 employees</td>
<td>2,034 office seats</td>
<td>0.87 employees per seat</td>
<td>272 SF per employee</td>
<td>237 SF per office seat</td>
<td>$14,300,000</td>
<td>$262,000,000</td>
</tr>
</tbody>
</table>

(1) 101 Ash is represented as gross square feet; all other property square footages represent office square footage only.
(2) Cost does not include lease payment and reflects only current estimated City costs to maintain and secure the building as vacant; 101 Ash lease payment is included in financial modeling.
(3) From 2008 CDRP Report. Unadjusted for time; 3% annual increase to 2021 is $10,573,443
(4) Assumption of $15.00 per square foot total annual occupancy expense was used for CAB & COB.

Note: all values are estimates based on available information.
## Summary: City Downtown Leases

<table>
<thead>
<tr>
<th>Property</th>
<th>Ownership Status</th>
<th>Office Square Feet</th>
<th>Head Count</th>
<th>Office SF / Employee</th>
<th>2021 Annual Cost Per SF</th>
<th>2021 Total Annual Occupancy Cost</th>
<th>Growth Rate</th>
<th>2027 Annual Cost Per SF$\text{[1]}$</th>
<th>2027 Total Annual Occupancy Cost$\text{[1]}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1122 Broadway</td>
<td>Lease</td>
<td>22,216 SF</td>
<td>NA$\text{[2]}$</td>
<td>NA$\text{[2]}$</td>
<td>$26 per SF</td>
<td>$573,173</td>
<td>3 %</td>
<td>$31 per SF</td>
<td>$684,398</td>
</tr>
<tr>
<td>525 B Street</td>
<td>Lease</td>
<td>90,778 SF</td>
<td>583 employees</td>
<td>156 SF</td>
<td>$45 per SF</td>
<td>$4,113,396</td>
<td>4 %</td>
<td>$56 per SF</td>
<td>$5,096,517</td>
</tr>
<tr>
<td>450 B Street</td>
<td>Lease</td>
<td>2,325 SF</td>
<td>10 employees</td>
<td>233 SF</td>
<td>$42 per SF</td>
<td>$96,960.08</td>
<td>3 %</td>
<td>$50 per SF</td>
<td>$115,775</td>
</tr>
<tr>
<td>600 B Street</td>
<td>Lease</td>
<td>14,972 SF</td>
<td>62 employees</td>
<td>241 SF</td>
<td>$40 per SF</td>
<td>$601,752.00</td>
<td>3 %</td>
<td>$48 per SF</td>
<td>$718,523</td>
</tr>
<tr>
<td>Total / Average</td>
<td>Not applicable</td>
<td>130,291 Office SF</td>
<td>655 employees</td>
<td>199 SF per employee</td>
<td>$41 per SF</td>
<td>$5,385,281</td>
<td>Not applicable</td>
<td>$51 per SF</td>
<td>$6,615,213</td>
</tr>
</tbody>
</table>

Note: all values are estimates based on available information.

(1) 2027 assumed as the stabilized future year for purposes of change implementation and financial analysis

(2) Use of 1122 Broadway space assumed to be static (optimization of space not likely).
As the City looks to the Office of the Future, what are the key drivers of its office space needs?

- Employee Work Styles
- Seat Sharing
- Space Utilization
Space Needs: Employee Work Styles

Potential for diverse work styles, from **fully on-site/anchor, hybrid and remote** employees, create a range of potential space needs and office provisioning.

<table>
<thead>
<tr>
<th>Work Style:</th>
<th>On-Site / Anchor</th>
<th>Hybrid</th>
<th>Remote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobility</td>
<td>Low external mobility</td>
<td>Low – Med, internally mobile</td>
<td>High external mobility</td>
</tr>
<tr>
<td>Days in Office</td>
<td>4-5 days</td>
<td>2-3 days</td>
<td>0-1 days</td>
</tr>
<tr>
<td>Workstation</td>
<td>Assigned workstation</td>
<td>Assigned or unassigned workstation</td>
<td>unassigned workstation</td>
</tr>
<tr>
<td>Computer</td>
<td>Laptop or desktop</td>
<td>Laptop or desktop</td>
<td>Laptop</td>
</tr>
<tr>
<td>Telephone</td>
<td>Desk phone and/or Softphone</td>
<td>Desk phone and/or softphone</td>
<td>Unassigned desk with phone generic extension</td>
</tr>
</tbody>
</table>
Space Needs: Seat Sharing

Based on a range of employee work styles, JLL determined seat sharing ratios at the City department level to profile the potential for anchor, moderately-mobile and highly-mobile City departments. JLL worked with the City’s Real Estate Director to assign preliminary mobility profiles across all City departments in CCP, CAB and COB.

The illustration below demonstrates the methodology for determining potential department mobility using an example department of 100 employees.

### Industry Reference Points

- **JLL recent government clients** targeting aggregate seat-sharing of ~1.2 to ~1.7
- **Google** adopting a 3:2 office to remote hybrid plan
- **Apple** to mandate Mondays, Tuesdays and Thursdays as “office” days in new hybrid program
- **Salesforce** planning for 65% of employees in office 1 to 3 days per week
- **Siemens** planning for a work from home program of 1 to 3 days per week
Space Needs: Utilization

The space allocated for employees is a basic building block of space needs. In addition to individual workspaces, customer and public-facing space, collaboration space and buffer or structured vacancy are key occupancy planning assumptions, particularly for hybrid work models.

<table>
<thead>
<tr>
<th>Utilization</th>
<th>Traditional</th>
<th>JLL Base Case for City</th>
<th>Flexible</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>SF per office seat</td>
<td>400 SF</td>
<td>175-250 SF</td>
<td>100 SF</td>
<td>Base City assumption ranges based on customer-facing roles versus individual workspaces; smaller workspaces typically require more shared office elements</td>
</tr>
<tr>
<td>Buffer space</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>Buffer space can provide office space flexibility on days that experience larger demand.</td>
</tr>
</tbody>
</table>

JLL worked with the City’s Real Estate Director to assign preliminary customer facing profiles across all City departments in CCP, CAB and COB.

Future City office configurations and types of spaces available will depend on several factors and potential renovation needs. See the later discussion of costs and renovation illustrations for more information.
Conclusions & Next Steps
Based on current assumptions and understanding:

1. In consideration of potential remote and hybrid workplace strategies, the City has ample office space downtown from which to consider alternatives, including divestiture, consolidation, relocation of additional employees to downtown and reimagined uses of space.

2. The spectrum of available alternatives will depend on the City’s real estate goals and adoption of new workplace strategies, which will require a deeper consideration of current asset conditions and opportunities, managing change, technology enablement, and employee satisfaction, recruitment and retention.

3. Potential for significant long-term cost savings exists through consolidation and adoption of hybrid workplace strategies. Additional opportunities to implement workplace strategy change may exist outside of downtown, which could result in further cost savings, consolidation or swing space to accommodate other actions.

   *City has the opportunity to control the development of the Civic Center Core, including adjacent properties.*
Next Steps and Implementation

Implementation will require a deeper level of engagement on real estate and workplace strategy opportunities.

<table>
<thead>
<tr>
<th>Increased engagement with City management and staff</th>
<th>Ground truth assumptions and viability of alternatives</th>
<th>Expand scope of study to assess full ‘Office of the Future’ considerations</th>
<th>Implement workplace pilot programs to test concepts</th>
<th>Develop full implementation program and change management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater voice of the City and employee</td>
<td>Further assess facility condition</td>
<td>Iterative testing of scenarios and workplace models and deeper understanding of financial impacts and decision process</td>
<td>Test concepts - manageable and measurable</td>
<td>Engage full change management strategy</td>
</tr>
<tr>
<td>City success factors and values</td>
<td>Validate renovation and floorplan options and operating expenses</td>
<td>Develop change management, sustainability, employee experience and technology strategies</td>
<td>Measure, analyze and learn from results from an operational and employee perspective</td>
<td>Develop action plan, process, policies and procedures</td>
</tr>
<tr>
<td>Validate workplace strategy</td>
<td></td>
<td></td>
<td>Targeted change management pre- and post-occupancy</td>
<td>Implement space changes and technology adaptations</td>
</tr>
</tbody>
</table>

• Targeted change management pre- and post-occupancy
Questions
Future Options for Downtown City-Owned Property
Future Options for Downtown City-Owned Property

State of California
Request for Qualifications
Mixed Use Development
including Affordable Housing
For Excess Sites
Under Executive Order N-06-19

Location:
1350 Front Street
San Diego, CA 92101

Released: November 15, 2021
Due: 5:00 pm PT on February 3, 2022
EO N-06-19 RFQ No. 4-21

See Exhibit 6.
Future Options for Downtown City-Owned Property
Future Options for Downtown City-Owned Property
Future Options for Downtown City-Owned Property

Ability to Execute

Midway Notice of Availability (NOA)
• Declaration of surplus property with development condition for regional entertainment venue
• 60 day NOA issued October 14, 2021
• 5 responses moved into 90-day good faith negotiating period
• Up to 2000 affordable housing units (below 80% AMI) proposed

CA Department of Housing and Community Development (HCD)
• Successful collaboration
• Considered to be a state-wide model
Thank you