

**NAVY BROADWAY COMPLEX
REDEVELOPMENT PROJECT**

THE ECONOMIC IMPACT: 2012 - 2025

October 2011

Commissioned by:



www.sdmac.org

**Fermanian Business &
Economic Institute at PLNU**

business & economics in action

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LETTER FROM THE SDMAC PRESIDENT



Dear SDMAC Members, Supporters and Readers of this Report:

The San Diego Military Advisory Council (SDMAC) is a nonprofit mutual benefit corporation, supporting, promoting and representing the common business of the military, its quality of life and the defense industry community in the San Diego area. For several years, SDMAC has supported the Navy Broadway Complex Redevelopment Project (Project) due to the significant benefits this redevelopment would bring to the citizens of the San Diego region and to the U.S. Navy. The Project converts Federal land owned by the Navy to a mixed use modern downtown waterfront development that meets the Navy's needs while also providing a tremendous positive economic impact to the San Diego area. The Project retains the beauty of the San Diego Harbor and conforms to the North Embarcadero Visionary Plan.

For nearly five years, SDMAC has watched the Project encounter obstacles that have emanated from environmental concerns and questions relative to the benefits of the Project. Recently, SDMAC commissioned the Fermanian Business and Economic Institute of Point Loma Nazarene University to undertake an independent analysis of the economic impact of the Navy Broadway Complex Redevelopment Project to the San Diego area. The Institute is a renowned and respected organization which has conducted many such studies using accredited methodologies and models accepted throughout the economic community. SDMAC would like to thank the Fermanian Business and Economic Institute of PLNU for creating this analysis and for the professional and thorough Report generated.

In these difficult economic times of a lingering recession and high unemployment, this Report demonstrates the substantial benefit the project will bring to San Diego in terms of jobs, earnings, total output and tax revenue. Of special note, every job and all revenue and output cited in this Report would be all newly created, and the Project itself would be the largest of its type in the San Diego area. SDMAC believes this Report demonstrates the significant positive impact to the San Diego region that will occur at start-up and into perpetuity of operation.

SDMAC hopes this report is of value on moving this critical project forward which, in our estimation, is of great mutual benefit to the San Diego region and the Navy.

Sincerely,
John Pettitt
President 2011

LETTER TO THE READER

The Fermanian Business & Economic Institute of Point Loma Nazarene University is pleased to present its original economic analysis and research report for the Navy Broadway Complex Redevelopment Project. This is a significant and important project for San Diego, especially during these challenging economic times and we have attempted to provide to the citizens of San Diego a document that is in keeping with the highest levels of economic research, econometrics, modeling, and analysis, using the best available information and data on the project. Every reasonable effort has been taken to ensure that the final report represents the most accurate economic opinion on the Project as of the date of publication. Concurrently, our goal is to provide this research and analysis in an easily readable format accessible to the widest possible audience, making it a point of accurate information for a very complicated project. At the Fermanian Business & Economic Institute we call this process “actionable economics.”

On behalf of the entire staff at our Institute, we are pleased to submit this Report to the San Diego Military Advisory Council (SDMAC) and to the San Diego community for their consideration.

Randy M. Ataide, J.D.
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About the Fermanian Business & Economic Institute

The Fermanian Business & Economic Institute (FBEI) is a strategic unit of Point Loma Nazarene University, providing the following services:

- > Economic forecasting and events
- > Expert business and economic commentary and speeches
- > Economic consulting and related services
- > Professional and executive development events
- > Business and economic roundtables
- > Economic studies and research
- > Special projects

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EXECUTIVE SUMMARY

- The proposed Navy Broadway Complex Redevelopment Project represents a major development effort for 12 acres of property situated in the North Embarcadero area on San Diego Bay. It culminates collaborations dating back to the late 1980s between the U.S. Navy and the City of San Diego to develop this prime segment of waterfront property.
- The development is designed as a multi-use Project comprising 2.9 million gross square feet. It will feature three Class A+ office buildings, three luxury hotels, 271,000 gross square feet of retail space, a new administrative headquarters building for the Navy, and two levels of underground parking. Public uses will encompass museum and cultural space plus over 4.5 acres of landscaped open area including a new waterfront park. The Project's cost is estimated at about \$1.2 billion, which will be privately funded.
- Plans are for the Project to be built out in two phases. The first would commence in mid-2012, with office, hotel, and retail space ready for occupancy in mid-2015. The second construction phase would follow immediately, with its completion targeted for mid-2018.
- The Project would have a significant economic impact on jobs, income, and the San Diego region's total output of goods and services. Accounting for all of the ripple effects through supply chains and additional consumer spending, the overall impact of the Project on annual total income in terms of employee compensation and proprietors' income should exceed \$350 million by 2022 at its peak of operations. The Project should add nearly \$850 million to the region's total output or gross sales of goods and services by that year.
- Over the entire period of 2012 through 2025, the total impact on employment from the Project is estimated to average more than 5,300 jobs. This compares with the 5,200 jobs created in total by all industries and economic activities combined throughout San Diego County in 2010. As office, hotel, and retail properties all achieve full operation by 2022, the Project should be responsible for creating about 7,400 total new jobs in the region.
- The Project should generate sizable tax revenues for all levels of government. Restaurants and other retail stores are projected to generate about \$10 million in annual sales tax revenue when those properties are functioning at peak capacity by 2021 or 2022. Hotels should generate about \$8.5 million in terms of the Transient Occupancy Tax (TOT) and the Tourism Marketing District (TMD) tax by that time. Property tax revenues are expected to climb to nearly \$10 million per year when both phases of the Project are in operation for the full year in 2019.
- The Project should yield a highly productive use of now largely vacant land. It would build on San Diego's redevelopment efforts, complement other downtown enterprises or projects, and enhance the City's attraction as both a prime location for businesses and a leading destination for tourists.

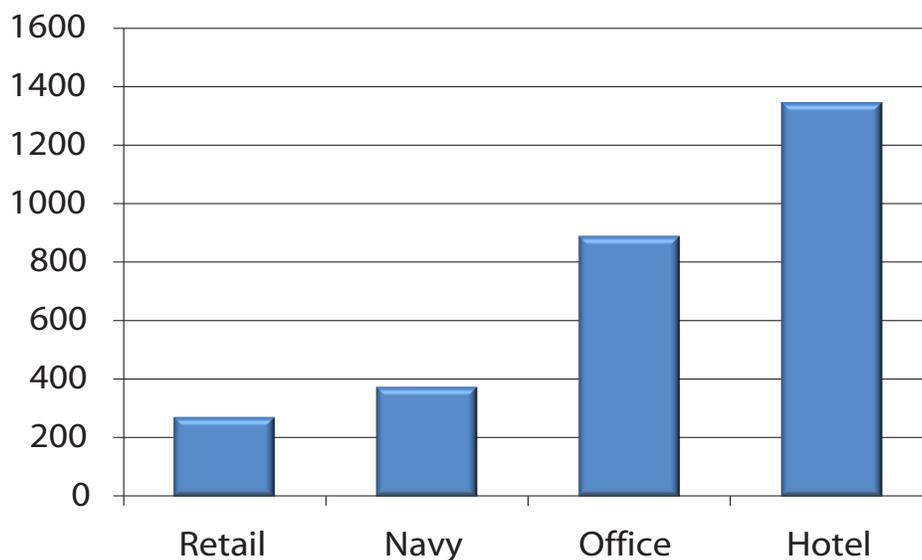
Project to Provide Sizable Economic Gains

	Annual Average 2012-2025	Peak 2022-2025
Jobs	5,328	7,362
Income, \$2011 millions	\$274	\$354
Output, \$2011 millions	\$653	\$843

Source: FBEI

Project Spans 2.9 Million Gross Square Feet

Thousands of square feet



Source: FBEI

STUDY PURPOSE AND OUTLINE

The purpose of this Report is to analyze the total economic impact of the Navy Broadway Complex Redevelopment Project (Project), a 12-acre development planned for the North Embarcadero area in downtown San Diego. The Project involves the redevelopment of property owned by the U.S. Navy to encompass a complex of upscale office, hotel, and retail space together with a new Navy administrative building.

The Report traces the economic effects of the different phases of the Project from the design stage through construction to full operation. The analysis spans the period from mid-2012 through the end of 2025.

Section I describes the Project's vision, history, and various elements. Section II presents the study's findings in terms of jobs, total income, and the value of total output. The numbers, types of jobs, and expected salaries are discussed. Direct and various ripple or multiplier effects are presented to give a comprehensive view of the Project's total expected economic impact. Section III presents the expected impact on tax revenues in terms of property, hotel, and sales tax receipts.

Section IV describes in greater detail the various aspects of the Project. The different elements of the construction phases are discussed. The office parts of the property are then analyzed in terms of the tenant base likely to be established. An analysis of the build-out and economic effects of the hotel parts of the complex follows. This section concludes with a discussion of the different types of retailers expected to occupy the premises.

Section V details the methodology and assumptions used in the different elements of the analysis. Section VI summarizes the Report's conclusions.

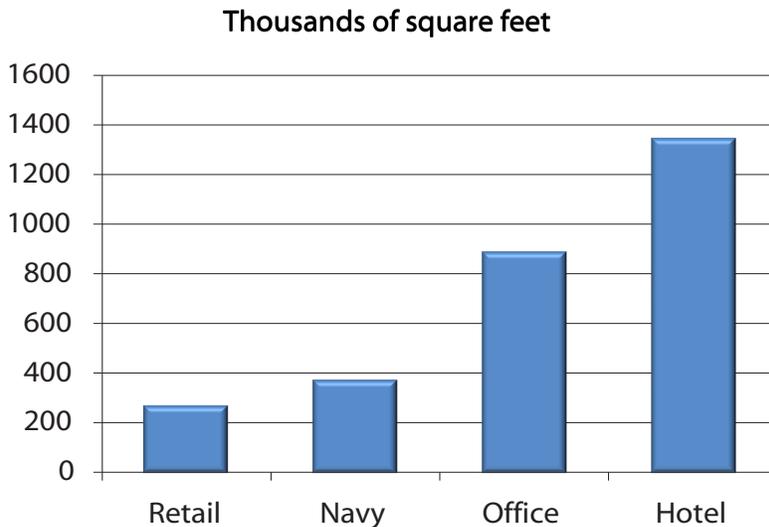
I. PROJECT'S VISION AND SCOPE

Dating back to the late 1980s, the U.S. Navy and the City of San Diego began exploring ways to develop a significant waterfront property known as the Navy Broadway Complex. Because much of the area was located within the Centre City community planning area, the City of San Diego worked closely with the Navy to ensure that the redevelopment plan would serve both private and public interests. On December 2, 1992, the City of San Diego and the Navy agreed on a development plan and urban design guidelines for the development of the property.

On March 31, 2006, after conducting a rigorous competitive bidding process, the U.S. Navy selected Manchester Pacific Gateway LLC to develop its 12-acre property located on the North Embarcadero of San Diego Bay. In exchange for building a new \$165 million administrative office building for the Navy at no cost, Manchester was granted a 99-year lease to develop the remaining seven parcels of the Navy Broadway Complex. San Diego's Centre City Development Corporation (CCDC) was charged to closely monitor the Project to fulfill its redevelopment vision for the area extending from the airport to Seaport Village.

Exhibit 1

Project Spans 2.9 Million Gross Square Feet



Source: FBEI

The proposed development will encompass 2.9 million gross square feet, representing a major development for San Diego. (See Exhibit 1.) By comparison, only 372,000 square feet of total office and retail building space was completed in the first three quarters of 2011 (Costar Group). Costing approximately \$1.2 billion, the Project will be funded from private sources. The Project will be a mixed-use development, featuring three Class A+ office buildings, three luxury hotels, 271,000 gross square feet of retail space, a new administrative building for the Navy, and two levels of underground parking. Public uses will encompass museum and cultural space plus over 4.5 acres of landscaped open space including a new waterfront park.

The Project is planned to be completed in two phases. The first will commence in mid-2012, with the various facilities to be in operation in mid-2015. At that time, the second construction phase will begin, with operations of its different segments in service by mid-2018.

II. ECONOMIC IMPACT

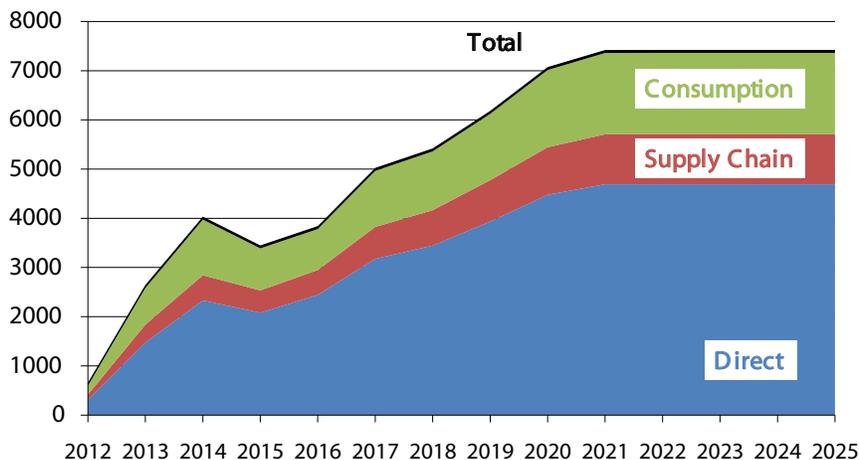
The Project’s vision is to produce a world class Project on San Diego’s waterfront that will amplify San Diego’s position as a tourist destination, encourage new businesses to locate in or expand in the City, complement other downtown projects or venues, and enhance San Diego’s development efforts and image.

The Project should have a significant economic impact on jobs, income, and the region’s total output of goods and services. The construction phases of the Project will be one-time events, although the boost to the beleaguered construction sector will come at a propitious time. As office, hotel, and retail space is filled, the stream of economic benefits from those operations will continue to accrue over time.

The overall impact on jobs involves a number of components. The construction and operations phases will each entail: (1) direct; (2) supply chain; and (3) consumption effects. The direct employment effects of the construction phases will stem from the hiring of workers to design and build the Project. The supply chain effects will reflect the impact on the region’s payrolls as various goods and services are purchased as part of the build-out effort. Consumption effects will involve the spending by additional workers hired as new “direct” and supply chain related employees, with some of those purchases supporting goods and services produced within the region. Similarly, the direct employment effects of the operating phases will reflect the hiring of office, hotel, and retail workers as the premises are occupied. Additional supply chain and

Exhibit 2

Project’s Ripple Effects to Generate New Jobs



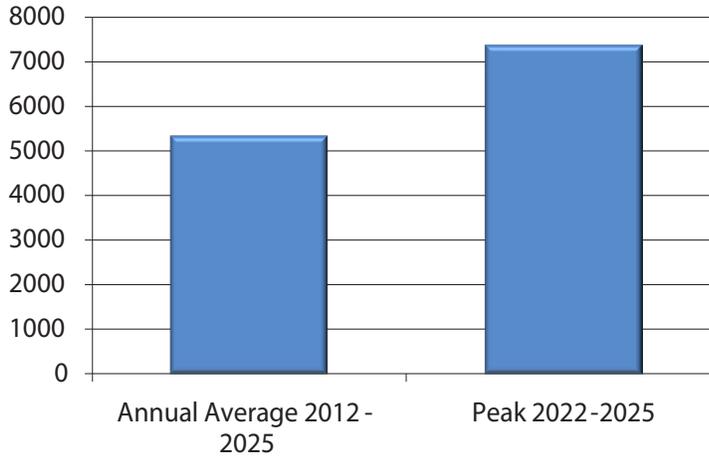
Source: FBEI

consumption effects will follow. (See Exhibit 2.)

This study is careful to identify the economic impact only of “new money” coming to the region (San Diego County) as opposed to the redistribution of money within the area. For example, while all of the construction funds will represent such “new money”, some of the economic activity that will take place in the Project’s office, hotel, and retail segments might have otherwise occurred in other locations in the region. Those effects are netted out from the economic impact results reported below.

Exhibit 3

7,400 New Jobs at Full Operation



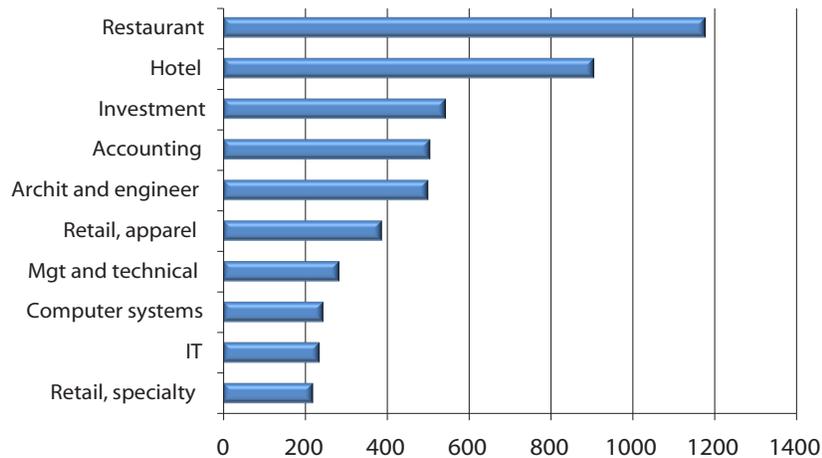
Source: FBEL

Over the entire period of 2012 through 2025, the total impact on employment from the Project is estimated to average more than 5,300 jobs. This compares with the 5,200 jobs created in total by all industries and economic activities combined throughout San Diego County in 2010 (U.S. Bureau of Labor Statistics). As office, hotel, and retail properties reach full operation by 2022, the Project should generate about 7,400 total new jobs in the region. (See Exhibit 3.)

A wide variety of jobs requiring different skill sets and education levels will materialize over the various phases of the development. At its peak level of operations reached starting in 2022, large numbers of positions will appear for people working in restaurants, hotels, and retailing as well as in accounting, investment, engineering, IT,

Exhibit 4

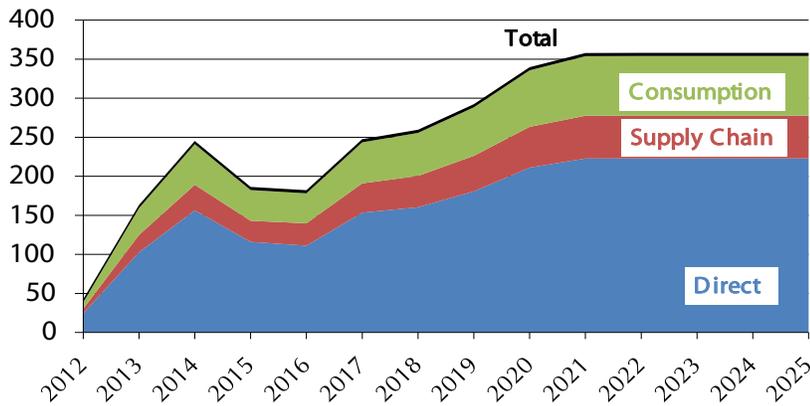
Top Ten Sectors for New Jobs 2022 - 2025 Peak



Source: FBEL

Exhibit 5

Total Income to Exceed \$350 Million Millions of 2011 dollars



Source: FBEI

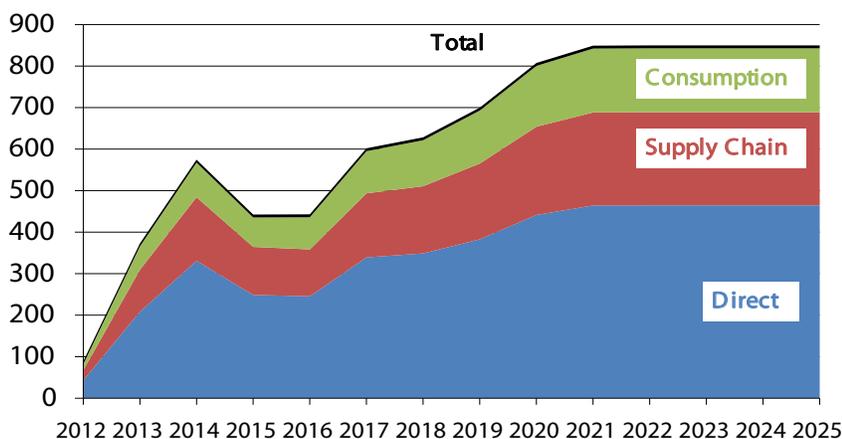
and management firms. (See Exhibit 4.)

Wages and salary levels will span a corresponding wide range from around \$26,000 per year for restaurant workers to approximately \$86,000 for individuals designing and programming various Web or Internet applications.

The Project will produce similar ripple or “multiplier” effects through supply chain and consumption related impacts for both total income and total output. The overall impact of the Project on annual total income in terms of employee compensation and proprietors’ income should exceed \$350 million by 2022 at the peak of operations. (See Exhibit 5.) The Project should add nearly \$850 million to the region’s total output or gross sales of goods and services after accounting for the various effects flowing through the economy by that year. (See Exhibit 6.) By comparison, total gross sales of sporting and athletic goods in San Diego County were about \$900 million in 2009 (U.S. Bureau of Economic Analysis and MIG Implan.)

Exhibit 6

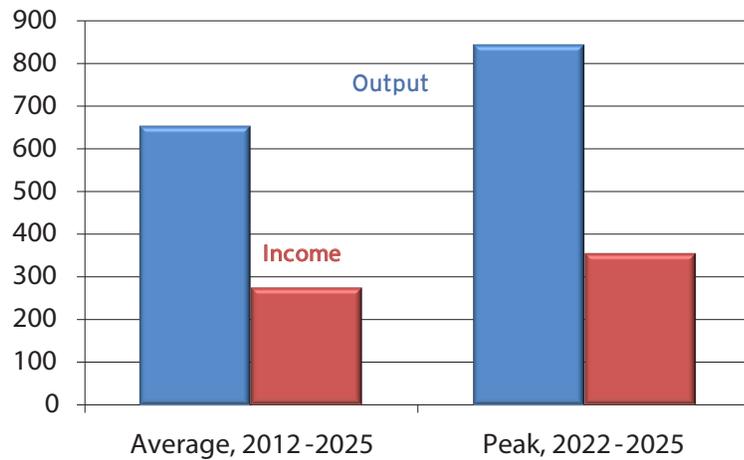
Total Output to Approach \$850 Million Millions of 2011 dollars



Source: FBEI

Exhibit 7

Income and Output to See Substantial Boost Millions of 2011 dollars



Source: FBEl

Even including the earlier years of the Project’s build-out, the total effect on income and output for the San Diego region should be sizable. The Project should boost total earnings an average of nearly \$275 million per year between mid-2012 and the end of 2025. It is also expected to contribute an average of about \$650 million annually over this period of time. (See Exhibit 7.)

Exhibit 8

Project to Provide Sizable Economic Gains

	Annual Average 2012-2025	Peak 2022-2025
Jobs	5,328	7,362
Income, \$2011 millions	\$274	\$354
Output, \$2011 millions	\$653	\$843

Source: FBEl

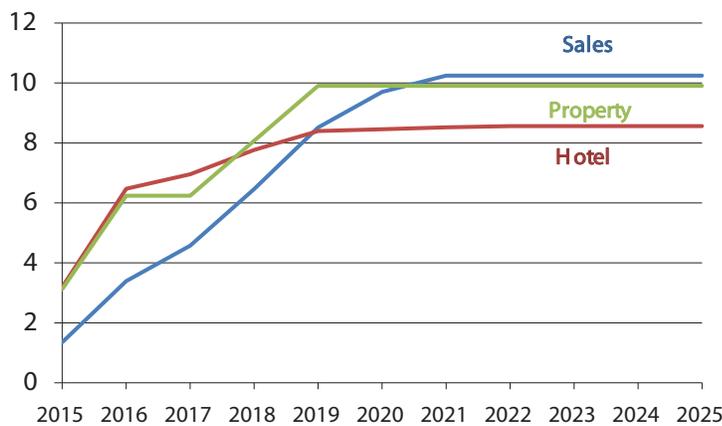
III. IMPLICATIONS FOR TAX REVENUES

The Project should generate sizable tax revenues for different levels of government beginning in mid-2015 when the first phase begins operations. Restaurants and other retail stores are projected to generate slightly over \$10 million in annual sales tax revenue when all properties are functioning at peak capacity by 2021 or 2022. Hotels should generate over \$8.5 million in terms of the sum of the Transient Occupancy Tax (TOT) and the Tourism Marketing District (TMD) tax when both phases of the Project achieve maximum occupancy rates in 2022.

Exhibit 9

Tax Revenue to Grow

Millions of 2011 dollars



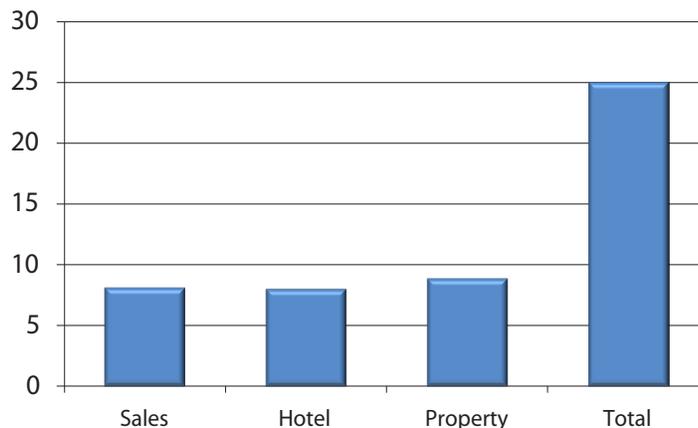
Source: FBEI

Because the land is leased from the Navy, no property taxes will accrue from the land. However, property improvements should start generating tax revenues when the first phase of the Project becomes operational in 2015. Property tax revenues are expected to climb to nearly \$10 million per year when both phases of the Project are operating for the full year in 2019. (See Exhibit 9.)

Exhibit 10

\$ 25 Million of Additional Tax Receipts

Annual average, 2015 - 2025, millions of 2011 dollars



Source: FBEI

Combining all three sources of tax receipts, the Project should generate an average of about \$25 million of tax revenues per year between mid-2015 and year-end 2025. As the peak years of operation materialize by 2022, these flows into tax revenues should approach \$29 million per year. (See Exhibit 10.) To put these numbers in perspective, the Mayor's budget for the city of San Diego for fiscal year 2012 proposed a \$9.6 million or 0.9% increase in the budget over fiscal 2011 (April 18, 2011.)

In addition to these three revenue sources, the Project will also generate significant amounts of other tax receipts including individual income, corporate income, business, and payroll taxes for the local, state, and federal government.

IV. BUILD-OUT OF THE PROJECT AND ITS TARGET MARKETS

The two phases of the Project will produce a complex set of economic effects. The first phase, to start in mid-2012 and be completed by the middle of 2015, will encompass one office building, the Navy building, two hotels, and more than 135 thousand gross square feet of retail space. The second construction phase, scheduled to run from mid-2015 to mid-2018, will include another two office buildings, a third hotel, and another 136 thousand of retail gross square footage. (See Exhibit 11.)

Exhibit 11

Project Development Follows Two Phases

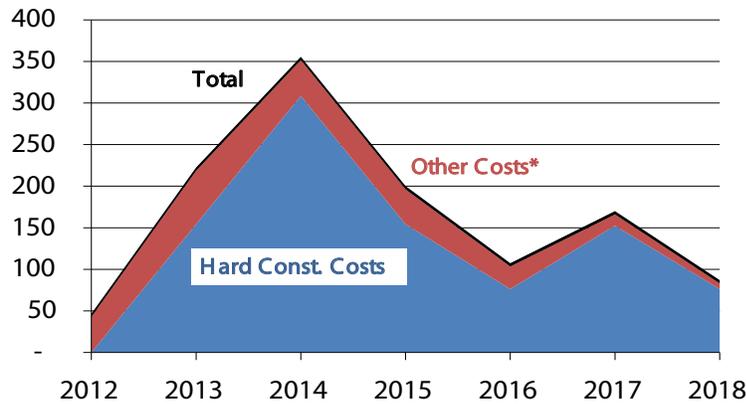
	Construction Period*	Operations Start*	Gross Square Feet
Office 2A	2012-2015	2015	239,760
Office 1B	2015-2018	2018	533,679
Office 4B	2015-2018	2018	114,520
Hotel 2B	2012-2015	2015	896,280
Hotel 3A	2012-2015	2015	195,070
Hotel 4A	2015-2018	2018	251,600
Navy Building	2012-2015	2015	374,370
Retail Phase 1	2012-2015	2015	135,475
Retail Phase 2	2015-2018	2018	135,879

*All times begin at midyear, July 1

Source: FBFI

Exhibit 12

Project to Provide New Construction Work 2011 dollars



* Engineering, consulting, permits, and other soft costs; furniture, fixtures, and equipment

Source: FBFI

The first year of each construction phase will encompass such activities as securing permits, completing environmental analysis, conducting engineering studies, and working on design plans. Although various “soft cost” elements will continue through project completion, the second and third years will see the deployment of “hard costs” as actual construction proceeds. This period will include the installation of any tenant improvements that may be required as well as necessary expenditures on furniture, fixtures, and equipment.

Total construction spending on the Project is expected to exceed \$350 million at its peak in 2014. Construction employment due to the Project will approach 2,200 new jobs. Another smaller peak of about \$165 million should follow in 2017 as the second phase of the Project proceeds. (See Exhibit 12.)

The types of jobs targeted for the Project's office space should be generally high paying. The proximity of a number of luxury condominiums will provide close-in housing, minimizing commuting times. Younger workers appear to now be especially attracted to working and living in a downtown, urban setting.

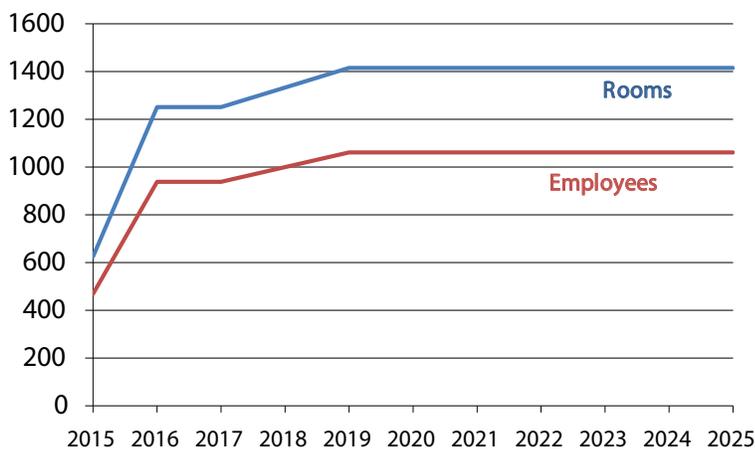
The completion of the 374,000 square foot building for the U.S. Navy will feature 18 stories of modern space replacing the old and outdated facility the Navy is now using for offices.

The Project's plan is for its three hotels to be either four or five-star luxury hotels. The major hotel will consist of two 30-story towers, 1,058 rooms, more than 200,000 square feet of meeting space, ballrooms, and spa areas. It is scheduled to be completed and begin operation by mid-2015. The Project will also encompass two smaller boutique hotels, with one completed in the first phase and the other in the second phase.

By mid-2018, the three hotels combined will represent more than 1,400 new rooms, with a payroll of more than 1,000 workers. (See Exhibit 13.) Total capacity will compare with the 1,362 rooms of the San Diego Marriott Hotel and Marina. The proposed hotel's prime harbor location and proximity to the USS Midway Carrier Museum, Seaport Village, the Convention Center, and other venues is expected to generate a sizable gain in new tourists for the region.

Exhibit 13

Over 1,400 New Hotel Rooms



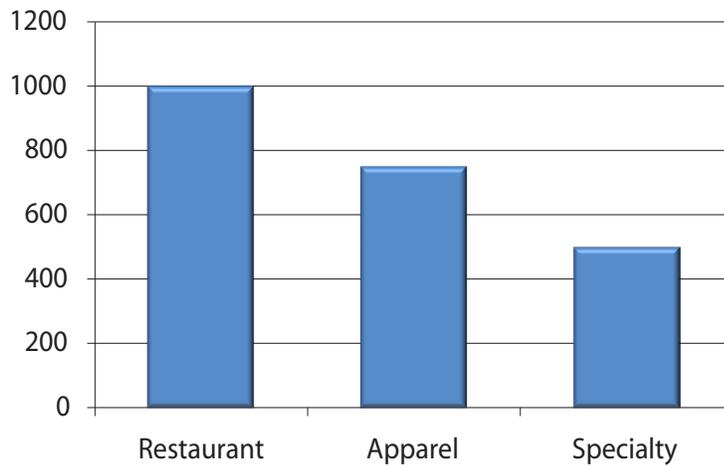
Source: FBFI

The retail segment of the Project plans to feature generally upscale restaurants, apparel stores, and specialty shops. The focus will be on the upper-income workers in the office's complex and guests in its luxury hotels. Such a plan should generate about \$1,000 per square foot in sales for restaurants, \$750 per square foot for apparel stores, and \$500 per square foot for the gift and other specialty retailers. (See Exhibit 14.) By comparison, sales per square foot in the Mission Valley shopping center averaged \$457 per square foot in 2010 and \$533 per square foot in the UTC mall (Westfield Group 2010 Annual Report).

Exhibit 14

Upscale Retailers Targeted

Sales per square foot, 2011 dollars



Source: FBEI

V. METHODOLOGY

The analysis of the total economic impact in terms of jobs, income, and output involved a detailed assessment of the costs and expected revenues generated each year from 2012 through 2025 from the Project's various phases. The IMPLAN© V3.0 modeling program was utilized to determine the magnitude of the supply chain and consumption related impacts to be added to the direct effects on spending or employment from the Project. IMPLAN© is a well known economic programming model widely used in economic impact analysis. The dollar amounts throughout the study were analyzed in terms of constant, 2011 dollars or purchasing power. The analysis encompasses San Diego County.

The primary shortcoming of most economic impact studies is a failure to distinguish between the injection of new funds into a region versus a redistribution of existing monies or resources. This study attempted to make realistic assumptions to accurately capture the actual potential economic impact of the proposed Project. The funds deployed for construction will all represent such "new money." In the area of office space, while the Project hopes to attract firms from Silicon Valley and other regions as well as the start-up or expansion of firms looking for space, some of the office gains will be at the expense of other properties in the region. For the office segment of the analysis, 65% of the expected employees occupying the Project's space are assumed to represent new or additional economic activity.

A significant portion of the sales from the complex's restaurants, apparel stores, and specialty shops is expected to come from spending from tourists and other visitors from outside the region. Some of the business, however, will represent consumer spending that otherwise might have taken place at other venues within the San Diego area. Because most of the restaurant and retail sales are expected to be generated from outside tourism, an assumed 70% of the Project's retail sales are placed as new or external money.

With the Project's hotel properties primarily targeted at tourists, conventioners, and business travelers from outside the region, 85% of revenues are assumed to be new or outside money for this segment. This ratio still acknowledges that some of the hotel business will reflect a diversion of potential revenues from other properties in the region.

For each year, an extensive set of inputs for the model was developed. These included estimates of construction costs categorized by type, estimates of expected office employment by sector, hotel revenues, estimated hotel payroll numbers, and projected retail sales totals by segment.

The Project's developer, Dealy Development, Inc., provided detailed cost information on construction costs that were allocated to different industry segments for each year. For the office inputs, the number of employees was estimated to equal about 4.5 employees per thousand square feet. Office occupancy rates were assumed to start at about 50% in the first six months of operation, before rising to 63% in the first full year of service, 83% in the second full year, with a peak of 90% in the third year. Employees were divided into sector based on expectations of the tenant base.

Hotel revenues were based on an assumed average daily rate (ADR), encompassing all hotel services, of \$220 for the large hotel and \$240 for each of the smaller boutique

facilities. Facilities were assumed to operate 365 days each year. Occupancy rates were assumed to start at 67% for the large property in its first full year of operation, rising to a maximum of 78% by the fourth year. The boutique hotels are assumed to begin with a slightly lower occupancy rate of 65% in the first year before climbing to a maximum also of 78% by the fourth year. An average of .75 hotel employees per room was assumed for each of the hotel properties.

The retail sales inputs were based on an assumed split of the total gross square footage equally between restaurant, apparel, and specialty retailers. The annual dollar totals were calculated on the assumption of \$1,000 of sales per gross square foot for restaurants, \$750 per gross square foot for apparel stores, and \$500 per gross square foot for the specialty shops.

The retail segment was assumed to start with a leasing rate of 50% in the first six months of operation before seeing tenant occupancy rising to 63% in the first full year of operation, 85% in the second full year, and a peak of 95% in the third full year.

For the tax revenue analysis, the current sales tax rate of 7.75% for San Diego is used for the entire period through 2025. The Transient Occupancy (TOT) rate is held constant at 10.5% throughout the period and is based on an assumed average room rate of \$200. The Tourism Marketing District (TMD) assessment is assumed to remain constant at 2.0% throughout the period. Both sales and hotel taxes are calculated taking into account the different occupancy rates assumed for the properties in different years and is based on estimates for the net “new money” into the region these projects will represent. Property taxes are based on the Project’s cost estimates for the two phases and are based on 1.0% of valuation.

VI. CONCLUSIONS

The Navy Broadway Complex Redevelopment Project has the potential of creating substantial economic value for San Diego in terms of new jobs, income, output, and tax revenues. Its construction phases should give a badly needed boost to San Diego's construction sector. The operation of the complex's office, hotel, and retail sales facilities will generate an ongoing flow of economic activity with a wide range of jobs created in various industry segments.

The Project is expected to incorporate state-of-the-art technology in terms of energy efficiency and other "green" standards of construction. Its plan for a major waterfront park and open space should provide an important balance with the commercial portions.

The Project should yield a highly productive use of now largely vacant land. It should build on San Diego's redevelopment efforts, complement other projects or venues, and enhance the City's attraction as both a prime location for business enterprises and a leading destination for tourists.

The Navy Broadway Complex Redevelopment Project could also become a general model for successful public-private partnerships as part of a long history of collaboration and close relations between the City of San Diego and the U.S. Navy.



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