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Massive Business Development Project Takes Off at Brown Field

Developer in Negotiations For 20-Year Proposal to Include Lease Options

BY SYLVIA TIERSTEN

After decades of benign neglect and failed attempts to revitalize Brown Field Municipal Airport, the city of San Diego is in exclusive negotiations with Brown Field International Business Park LLC of Carlsbad to redevelop the historic Otay Mesa airfield. The BFIBP development team submitted its proposal last year under the Distinctive Projects Co. Inc. name.

The ambitious plan, which spans 20 years, envisions a mix of aviation-related and nonaviation-related businesses on roughly 40 percent of the 880-acre site. This includes development of an aviation business center, helicopter operations facility, a 50-acre solar energy park, a hotel and conference center, commercial and retail space, and relocation of the San Diego Air & Space Museum from Balboa Park. The nonaviation and corporate elements would help defray development costs.

“Our approach is to utilize the airport not simply for takeoff and landing purposes, but to create a first-tier, aviation-based business community,” said BFIBP President Richard Lee Sax. “It’s time for Brown Field to be modernized and to become a primary economic engine as opposed to an antiquated and underutilized real estate asset.”

Reflecting on Brown Field’s potential Sax said: “If you’re looking for a largely undeveloped airport in the Southern California market that’s a two-minute drive from the most active international border in the U.S., has access to ports, is in an enterprise zone and a free trade zone, and has an 8,000-foot-long-by-150-foot-wide runway that can accommodate most aircraft, your short list is very short.”

Opened in 1918 and acquired by the city of San Diego in 1962, Brown Field operates as a general aviation airport and port of entry for private aircraft coming into the United States through Mexico. Military and law enforcement agencies also use the facility.

In 2007, there were 146,270 takeoffs and landings at Brown, including landing practice generated by a helicopter school. Although the BFIBP proposal aims to increase both small aircraft and business jet traffic, there are currently no plans to add cargo or charter service to the mix.

Phase one of the master plan would encompass 100 acres and \$100 million of mainly aviation-related improvements, according to Mike Tussey, the city of San Diego’s deputy director of airports. Still to

come are environmental, entitlement and development work, and a final consent or denial vote by the City Council.

The developer has already spent \$2 million toward planning and preliminary work on the project, which Sax estimates will carry a total price tag of \$1 billion after factoring in several years of construction and infrastructure expenses.

Although costs within the airport will be funded by revenues generated there, “one of our concerns is to look at costs associated with off-site infrastructure such as traffic lights and see how we can address them,” said Bill Anderson, deputy chief operating officer and executive director of city planning and development for the city of San Diego. In light of city and Federal Aviation Administration processes, he reckoned it would take at least two years to break ground on the first phase.

Airport Proposals

San Diego’s history is littered with failed airport projects, including a 1991 proposal to alleviate crowding at Lindbergh Field by developing a twin airport or binational operation along the U.S.-Mexico border. Another stalled plan initiated a few years ago called for transforming Brown Field into an all-cargo airport.

“This time I’m cautiously optimistic,” said Tussey. Fueling his optimism is a sense of initial community buy-in, the prospect of a second Otay border crossing on a pay-as-you-go or toll-road basis, the opening of the state Route 125 toll road, and construction of Interstate 905 that will connect Interstates 805 and 5 directly to the airport. The anticipated completion date is 2012.

“If you look at San Diego as a region, Otay Mesa is the last frontier,” said Tussey. “If one big development went in and was successful, it could attract a real renaissance down here.”

Prior to receiving the RFP award, the BFIBP development team attended 17 public input and community outreach meetings.

“I’ve been to three forums so far and I haven’t heard any negative comments,” said Alejandra Mier y Teran, executive director of the Otay Mesa Chamber of Commerce. “A state-of-the-art airport in our community will open up the door for manufacturing businesses with an aviation component and for companies looking to site their headquarters in an attractive airport where they can have their planes.”

Citing residential development as a future sticking point, Mier y Teran said that the city is proposing to build homes near the industrial area of Otay Mesa and in close proximity to the airport. If that happens, “residents might complain about the noise” and oppose Brown Field redevelopment efforts, she said.

Councilman Ben Hueso representing District 8, which encompasses South County communities, voted against the all-cargo airport measure a few years back. Now he said he is hearing nothing but positive feedback from his constituents about the Brown Field proposal that’s currently on the table.

“The previous plan required expansion of the airport and increasing the runway, which was very controversial,” he said. “It meant taking land away from other uses, and accommodating larger aircraft for cargo travel.”

An airport that’s safe, functional and properly utilized, benefits everyone, said Hueso, even the residents who are concerned about increased air travel and road traffic. He ticked off several innovative ideas for making the airport more welcoming to the community — from an on-site museum or library facilities to a helipad housing a firefighting helicopter.

Distinctive Projects Selected

Last year, the city received six replies to its request for qualifications to develop Brown Field and invited two of the candidates to respond to a subsequent RFP. “Distinctive Projects was chosen for its financial merit and experience in San Diego. The firm has an equity partner with substantial net worth,” said Rob Hixson, senior vice president of CB Richard Ellis commercial real estate services and chairman of the Otay Mesa Planning Group.

The proposal award comes after years of FAA objections to the lack of aviation-related facilities at Brown Field and the extent of nonaviation uses, such as the granting of tenant leases to used car lots and salvage yards. “The city has made a promise to the federal government to administer the airport according to its highest and best use,” said Hueso. “If we don’t make a real effort to do that, the federal government could reassign ownership and take away all local control.”

During the RFP selection process, the South County Economic Development Council requested information about the project’s economic impact, which Distinctive Projects provided. “We’re interested not only in the number of jobs created, but also the quality of those jobs,” said Cindy Gompper Graves, South County EDC’s chief executive officer. “We think that the development proposal for Brown Field offers the median-income jobs as well as the high-paying jobs this region needs.”

Gompper Graves cited aircraft manufacturing as an industry that traditionally offers higher wages than several other employment sectors. In its economic impact analysis, BFIBP projected one-time economic benefits from construction at \$84.6 million and annual recurring economic benefits at \$545.5 million.

Distinctive Projects developed the Premier Jet fixed-base operator (FBO), or flight service center, at McClellan-Palomar Airport, which opened in Carlsbad two summers ago. To attract new corporate tenants, the developer built Class A office space over modern hangars and offered long-term leasing options. BFIBP is proposing similar business models for the Brown Field project.

“The concept is to not just bring planes to the airport, but to bring businesses to the airport,” said Sax. “Rather than having a business jet hangared at our facility, the business itself can relocate to an office above its hangar.”

Another carrot for relocating corporations is an optional 30-year, prepaid office lease program to promote long-term tenancy. Conventional leases will also be available.

“People choose PPLs for the same reason they buy a house instead of renting an apartment,” said Sax. The lessee pays a flat-rate monthly fee and can sell the remaining interest in the facility at any point during the 30-year term.

“Owners can build their businesses reliably, not worry about losing their space, and escape from the ever-escalating prices that landlords and airports charge for their office facilities. They can sell a lease as easily as they can sell their house,” said Sax.

Upon the sale of a 30-year leasehold, the city would receive a portion of the prepaid office lease. “Instead of getting just little bits of money each month, San Diego would also get some very large checks that would pay for some improvements to the airport,” said Sax.

During the first year of Premier Jet FBO operations in Carlsbad, the company sold \$30 million worth of prepaid leases. “Instead of a few thousand dollars in rental overrides, the county received closer to \$500,000, along with monthly payment checks,” said Sax.

In financing the Brown Field project, BFIBP plans to use equity investment for much of it — and limit debt financing to the construction phase, according to Sax. To finance the \$30 million Premier Jet FBO facility, the developer invested \$10 million in cash and took out a \$20 million construction loan for the balance. “We retired the loan within the first 15 months,” said Sax.

Green Features

The master plan for Brown Field incorporates several green features, including an eco-industrial solar energy park with photovoltaic arrays at a 50-acre, dual-purpose facility. The arrays will generate sufficient power to provide electricity for the equivalent of 2,500 homes, according to Sax.

“As businesses grow at Brown Field, they will have clean power to facilitate that growth and not cause a strain on San Diego Gas & Electric,” he said.

The photovoltaic arrays will sit on top of structures designed for parking, bonded warehousing, trucking facilities and containerized shipments. The city will benefit from rentals generated by the lower structures, and power generated by the solar panels.

To replace the limited aviation support service currently available at Brown Field, the development team will provide a full-service FBO. “That means a higher quality of avionics, maintenance, support and repair, fueling operations, charter operations, general aviation accommodations, hangaring, and most importantly, more competitive pricing for those services,” said Sax.