

**SAN DIEGO UNIFIED PORT DISTRICT**

**ORDINANCE 2958**

**ORDINANCE GRANTING A LEASE TO MIKE HESS BREWING CO., LLC. (MIKE HESS BREWING) FOR A CRAFT BEER TASTING ROOM AND BONA-FIDE EATING ESTABLISHMENT LOCATED AT 849 W. HARBOR DRIVE, SUITE W-14E IN SAN DIEGO FOR A 10-YEAR TERM PLUS ONE 5-YEAR OPTION (FOR A TOTAL POTENTIAL TERM OF 15 YEARS)**

**WHEREAS**, the San Diego Unified Port District (District) is a public corporation created by the Legislature in 1962 pursuant to Harbors and Navigation Code Appendix I (Port Act); and

**WHEREAS**, Section 87(b) of the Port Act grants authority to the District to lease the tidelands or submerged lands, or parts thereof, for limited periods, not exceeding 66 years, for purposes consistent with the trusts upon which those lands are held, by the State of California; and

**WHEREAS**, Section 21 of the Port Act requires that all grants, franchises, leases, permits or privileges for more than five (5) years shall be made by ordinance; and

**WHEREAS**, Seaport Village is a tourist-oriented retail shopping center consisting of approximately 90,000 square feet of specialty retailers, restaurants, outdoor entertainment, and parking on an approximately 14-acre bayfront site located at 849 West Harbor Drive in San Diego, California; and

**WHEREAS**, on October 1, 2018, the District assumed ownership of the Seaport Village assets, which consist of 32 buildings, including one over-water structure; and

**WHEREAS**, the District has made strategic operational and financial investments to improve the overall experience and success of the shopping center for both locals and visitors alike; and

**WHEREAS**, an essential component to this success is the District's ability to secure tenancies quickly to increase occupancy, attract additional foot traffic, and generate higher revenue to the District; and

**WHEREAS**, one of staff's primary objectives has been to fill the existing vacancies at Seaport Village with new high-caliber tenants with Public Trust compliant uses; and

**WHEREAS**, staff seeks the Board of Port Commissioners' (BPC) approval of an ordinance granting a lease to Mike Hess Brewing Co., LLC, dba Mike Hess Brewing (Mike Hess Brewing) to fill a current vacancy at Seaport Village; and

**WHEREAS**, Mike Hess Brewing, one of San Diego's first craft brewers, has provided great beers and a welcoming atmosphere since its founding in 2010; and

**WHEREAS**, since opening its first tasting room in Miramar, San Diego, Mike Hess Brewing has gone on to open new locations throughout San Diego County, including North Park and Ocean Beach; and

**WHEREAS**, Mike Hess Brewing would be located in Suite W-14E, a 1,034 square foot space in the West Village of Seaport Village, now referred to as the "Carousel District"; and

**WHEREAS**, the Mike Hess Brewing location will include a beer tasting room and patio area along with a full-service restaurant; and

**WHEREAS**, staff has negotiated a ten (10) year lease with one five (5) year option to extend for a total potential term of 15 years; the option to extend will be exercisable at the tenant's discretion (provided the tenant is not in default under the terms of the lease); and

**WHEREAS**, consistent with past BPC feedback to staff, the proposed lease includes a termination provision which would enable the District to terminate the lease after a maximum of seven (7) years; this lease structure provides the District with flexibility in the event of future redevelopment of the Central Embarcadero; and

**WHEREAS**, the District will maintain the right to terminate the lease, with 180 days' notice, any time after the end of Lease Year 6; and

**WHEREAS**, in the event the District terminates the lease during Lease Years 7, 8, or 9, the District will be responsible for paying the tenant a termination fee (\$100,000, \$75,000, and \$50,000 respectively); and

**WHEREAS**, at the July 24, 2019 BPC meeting, the BPC approved a budget amendment that allocated \$3M towards the establishment of a tenant improvement (TI) allowance fund for Seaport Village tenants, providing staff with the ability to achieve the District's goal of executing new market rate leases involving TI allowances to bring existing vacancies up to a reasonable condition within the time parameters expected of retail landlords in the market; and

**WHEREAS**, the proposed lease contemplates a TI allowance of \$250,000, and staff estimates a 10-year initial rate of return of 27% and a net present value of \$359,000 (using an 8% discount rate); and

**WHEREAS**, Mike Hess Brewing will fill a key vacancy in Seaport Village and generate a positive fiscal impact for the District, increase market demand for the

remaining vacancies, and generate momentum and energy for the shopping center as a vibrant, waterfront destination with new and exciting offerings for its visitors; and

**WHEREAS**, staff recommends the BPC adopt an ordinance granting a lease to Mike Hess Brewing.

**NOW, THEREFORE**, the Board of Port Commissioners of the San Diego Unified Port District does ordain as follows:

1. That the 10-year lease, plus one five (5) year option for Mike Hess Brewing Co., LLC, a craft beer tasting room and bona-fide eating establishment located at 849 W. Harbor Drive, Suite W-14E in San Diego, California, is hereby granted.
2. The Executive Director or her designated representative is hereby directed to execute said lease attached as Attachment F in the corresponding agenda sheet.
3. This Ordinance shall take effect on the 31<sup>st</sup> day from its passage by the Board of Port Commissioners.

APPROVED AS TO FORM AND LEGALITY:  
GENERAL COUNSEL


  
By: Assistant/Deputy

PASSED AND ADOPTED by the Board of Port Commissioners of the San Diego Unified Port District, this 5<sup>th</sup> day of November 2019, by the following vote:

AYES: Bonelli, Castellanos, Malcolm, Merrifield, Moore, Valderrama, and Zucchet  
NAYS: None.  
EXCUSED: None.  
ABSENT: None.  
ABSTAIN: None.

  
Garry J. Bonelli, Chairman  
Board of Port Commissioners

ATTEST:

  
Donna Morales  
District Clerk

(Seal)