

RESOLUTION 2015-134

RESOLUTION DIRECTING STAFF TO NOT ACCEPT PROPOSAL FROM SEAPORT VILLAGE OPERATING COMPANY, LLC AND TO RETURN TO THE BOARD OF PORT COMMISSIONERS TO PRESENT AND OBTAIN DIRECTION TO ISSUE A SOLICITATION FOR A STATEMENT OF INTEREST, QUALIFICATIONS, AND VISION FOR THE REDEVELOPMENT OF THE BROADER AREA WHICH INCLUDES SEAPORT VILLAGE

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 21 of the Port Act authorizes the Board of Port Commissioners (BPC) to pass all necessary ordinances and resolutions for the regulation of the District; 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, Seaport Village Operating Company, LLC (SVOC) has a 40-year lease with the District to operate a tourist-oriented shopping village including restaurants, retail shops, artisan activities and incidental uses, and a limited second story office space located at 849 West Harbor Drive in San Diego (Seaport Village), which commenced on October 1, 1978 and expires on September 30, 2018; and

WHEREAS, SVOC also has a 40-year lease for another specialty retail center located adjacent to the SVOC leasehold (The Headquarters), which commenced on January 11, 2012 and expires on January 10, 2052; and

WHEREAS, in November 2010, the BPC first considered specific visioning goals for Seaport Village and the surrounding areas, in conjunction with staff's review of a redevelopment plan submitted by SVOC; and

WHEREAS, as consideration for the amendment to SVOC's option to redevelop The Headquarters, SVOC was required to incur costs associated with entering into a three party agreement with the District and a District-selected, mutually-agreeable planning consultant, and to conduct public and stakeholder

outreach forums to verify the initial visioning goals for Seaport Village and the surrounding areas; and

WHEREAS, after conducting a year-long visioning process, the results were presented to the BPC on September 13, 2011, and the BPC adopted Resolution 2011-134, which adopted visioning goals for Seaport Village and the surrounding areas (Visioning Goals); and

WHEREAS, SVOC presented a revised redevelopment proposal to the BPC in November 2011 and on December 13, 2011, the BPC adopted Resolution 2011-176 finding the November 2011 SVOC redevelopment proposal consistent with the District's Visioning Goals, with conditions; and

WHEREAS, in July 2012, SVOC submitted a refined redevelopment proposal for Seaport Village which was aligned with the BPC's vision at the time, but SVOC and the District were unable to agree on business terms, and as such SVOC ultimately indicated to staff that the redevelopment proposal was not financially feasible and that SVOC would resubmit at a later time; and

WHEREAS, in June 2015, SVOC submitted a revised \$81 million redevelopment proposal for Seaport Village (2015 Proposal), with only three (3) years remaining on SVOC's 40-year lease term; and

WHEREAS, the 2015 Proposal envisions 100% new construction of Seaport Village, increases the gross leasable area from 92,000 to 160,000 square feet, and includes a new 1,120-space parking structure; and

WHEREAS, the 2015 Proposal encompasses an approximate 20-acre site which includes the existing Seaport Village and The Headquarters leaseholds, the parcels currently occupied by Chesapeake Fish, and the adjacent pier which is currently unleased; and, a proposed future phase which would include a boutique hotel on the Chesapeake Fish site which may or may not be redeveloped by SVOC; and

WHEREAS, staff commissioned Jones Lang LaSalle (JLL) to conduct a study of the proposed redevelopment of the SVOC leasehold, and to assess existing operations and performance and to provide market rents per square foot for similar retail centers and restaurants, which study is currently underway; and

WHEREAS, the 2015 Proposal's rent to the District is \$9 per square foot below what is currently being paid today by SVOC, and based on the analyses conducted by JLL to date, significantly below regional comparables, and significantly under market for the proposed use at that location; and

WHEREAS, staff looks to the BPC Policy No. 355 and the Administrative Practices—Real Estate Leasing (collectively, BPC 355) for guidance to determine

whether a proposed redevelopment project qualifies for an extended lease term, and for negotiation of new leases when certain criteria are met; and

WHEREAS, the 2015 Proposal does not meet all of the criteria for a lease extension negotiation per BPC 355 and the rent proposal is significantly under market; and

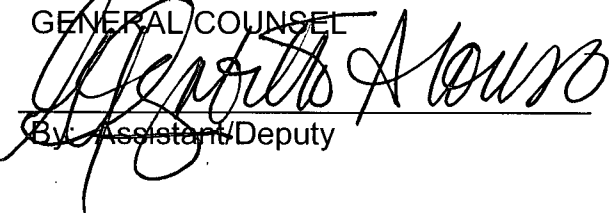
WHEREAS, at the July 22, 2015 Study Session on Integrated Planning, the BPC directed staff to return with a recommended path forward for the redevelopment of the broader area which includes Seaport Village; and

WHEREAS, staff anticipates returning to the BPC in December to present and obtain direction on a recommended strategy to advance the redevelopment of the broader area which includes Seaport Village.

NOW, THEREFORE, BE IT RESOLVED by the Board of Port Commissioners of the San Diego Unified Port District, as follows:

That the Executive Director or her designated representative is hereby authorized and directed on behalf of the San Diego Unified Port District to not accept the 2015 Proposal from Seaport Village Operating Company, LLC and to return to the Board of Port Commissioners to present and obtain direction to issue a solicitation for a statement of interest, qualifications, and vision for the redevelopment of the broader area which includes Seaport Village.

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 6th day of October, 2015, by the following vote:

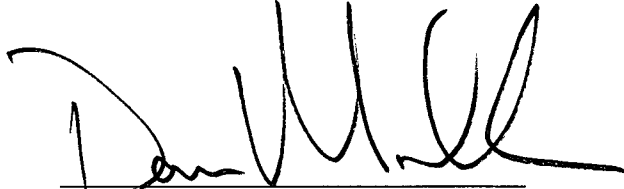
AYES: Bonelli, Castellanos, Malcolm, Merrifield, Moore, Nelson, and Valderrama.

NAYS: None.

EXCUSED: None.

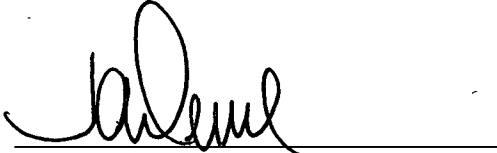
ABSENT: None.

ABSTAIN: None.



Dan Malcolm, Chairman
Board of Port Commissioners

ATTEST:



Timothy A. Deuel
District Clerk

