



Legislation Text

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DATE: November 9, 2021

SUBJECT:

SUNROAD HIE HOTEL PARTNERS, L.P.'S PROPOSED SUNROAD HARBOR ISLAND EAST HOTEL PROJECT AT 851 HARBOR ISLAND DRIVE IN SAN DIEGO:

- A) CONDUCT PUBLIC HEARING AND ADOPT RESOLUTION AUTHORIZING ISSUANCE OF AN APPEALABLE COASTAL DEVELOPMENT PERMIT TO SUNROAD HIE HOTEL PARTNERS, L.P. FOR THE SUNROAD HARBOR ISLAND EAST HOTEL PROJECT**
- B) ADOPT RESOLUTION GRANTING CONCEPT APPROVAL TO SUNROAD HIE HOTEL PARTNERS, L.P. FOR THE SUNROAD HARBOR ISLAND EAST HOTEL PROJECT**

EXECUTIVE SUMMARY:

Sunroad HIE Hotel Partners, L.P. ("Sunroad" or "Project Applicant") proposes development of the Sunroad Harbor Island East Hotel, which would involve: demolition of the existing improvements within the project site, site preparation, grading, construction, operation and maintenance of a 450-room, dual-brand hotel and associated amenities including a walk-up restaurant and bar area, swimming pool, jacuzzi spa, retail space, conference space, parking lot(s), waterfront promenade and landscaping (Project). The Project is located at 851 Harbor Island Drive in San Diego, at the northeast corner of Harbor Island Drive and East Harbor Island Drive, consisting of two parcels totaling approximately 7.55 acres (Project Site). The Project will also include public access features such as a 15-foot-wide multi-use waterfront promenade and four mini-destinations to draw the public to and through the Project Site by creating activating uses.

On April 13, 2021, by Resolution No. 2021-059, the Board of Port Commissioners ("Board") adopted a First Addendum to the 2014 Revised Final Environmental Impact Report ("Revised FEIR") for the "Sunroad Harbor Island Hotel Project and East Harbor Island Subarea Port Master Plan Amendment" (UPD District #83356-783; State Clearinghouse #2006021027, Clerk Document No. 61175), and authorized staff to file a Notice of Determination pursuant to Section 15094 of the California Environmental Quality Act ("CEQA"). The Board also granted an Option to Lease Agreement ("Option") with the Applicant for a 66-year lease. The Option includes various conditions that Sunroad must meet within the specified deadlines in order to exercise the Option and enter into the Lease. Also, as part of the Option, Sunroad is required to pay its fair share for public infrastructure and construct or pay a fair share towards the public realm improvements.

The Project requires the issuance of an appealable CDP in accordance with the California Coastal

Act (Coastal Act) and the District's CDP Regulations (CDP Regulations). As conditioned, the Project is fully consistent with Chapters 3 and 8 of the Coastal Act and the District's certified Port Master Plan (PMP). Staff is recommending the Board authorize the issuance of an Appealable CDP (Attachment A, Draft CDP). The Project also requires the granting of concept approval pursuant to BPC Policy No. 357.

RECOMMENDATION:

Sunroad HIE Hotel Partners, L.P.'s Proposed Sunroad Harbor Island East Hotel Project at 851 Harbor Island Drive in San Diego:

- A) Conduct public hearing and adopt resolution authorizing issuance of an Appealable Coastal Development Permit to Sunroad HIE Hotel Partners, L.P. for the Sunroad Harbor Island East Hotel Project
- B) Adopt resolution granting concept approval to Sunroad HIE Hotel Partners, L.P. for the Sunroad Harbor Island East Hotel Project

FISCAL IMPACT:

In accordance with BPC Policy No. 106, Cost Recovery User Fee Policy, Sunroad is subject to cost recovery fees for Project review. The Board's authorization of the issuance of the appealable CDP and granting concept approval will further the implementation of the Project. If Sunroad successfully exercises the Option to Lease Agreement as approved by the Board on April 13, 2021, and enters into the Lease, future rent revenue from the proposed hotel over the 66-year lease term is estimated to be approximately \$33.5 million in net present value to the District.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goals.

- A vibrant waterfront destination where residents and visitors converge.
- A Port that is a safe place to visit, work and play.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

Background

At the September 8, 2016 BPC meeting, the Board selected Sunroad Enterprises to develop two parcels totaling approximately 7.5 acres (commonly known as the Elbow Parcel) located at the northeast corner of Harbor Island Drive and East Harbor Island Drive, and directed staff to enter into an Exclusive Negotiating Agreement with Sunroad Enterprises through its Sunroad HIE Hotel Partners, L.P. entity ("Original ENA", Clerk Document No. 66537). Subsequently, at the February 12, 2019 Board meeting, the Board directed staff to negotiate an amendment to the ENA ("ENA Amendment" or "ENA", Clerk Document No. 69880), and identified the following 10 criteria to be included in the amendment that would guide design of the proposed development:

- 1) Proposed development will be a hotel development with 450 to 500 rooms built in one phase;
- 2) Proposed development has one or two hotel buildings that contrast each other in scale and massing;
- 3) Integrate parking for the proposed development into the property interior by minimizing its visibility from Harbor Island Drive;
- 4) Proposed development incorporates temporary and permanent mini destination areas throughout the Elbow Parcel that draws the public to and through the Elbow Parcel by creating activating uses, including on the ground level;
- 5) The operator for the hotel component of the proposed development will be an upscale hotel brand similar in quality and amenities to AC Hotels by Marriott, Element, Aloft, Hyatt Place, Hyatt House, Hilton Hotels & Resorts, Curio - A Collection by Hilton, Tapestry Collection by Hilton, or Swissotel;
- 6) In 120 days from the effective date of the amendment to the Sunroad ENA, Sunroad shall deliver to the District an economic feasibility analysis to determine whether one or two hotel building(s) with 450 to 500 rooms is commercially feasible. On a parallel track, District staff and Sunroad will work with California Coastal Commission (Coastal) staff to get a better understanding of Coastal staff's response to having two hotel buildings for the proposed development.
- 7) Proposed development will have a bayside public promenade on the Elbow Parcel that will be completed concurrent with the hotel development to provide a continuous waterfront accessway and be sited in a manner that does not obstruct pedestrian flow;
- 8) Sunroad will provide financial participation in the District shuttle system based on a fair share formula determined by the District;
- 9) Sunroad will site hotel building(s) to not block any view corridors designated on Sunroad's plans for the proposed development;
- 10) While not part of the motion, the sense of the Board was to encourage Sunroad to address a water mobility component as part of its proposed development.

In response to the above design criteria as set forth in the ENA Amendment, Sunroad submitted a new Project design on August 26, 2019, that changed the design from a two-phased, dual-branded, 500 room hotel with two buildings, to a single-phased, dual-branded, 450 room hotel, consisting of one structure (Attachment B, Project Plans).

At the October 8, 2019 Board meeting, the Board received a preliminary project review presentation on Sunroad's revised Project design and authorized staff to further study the Project and commence the necessary environmental review under CEQA (Attachment C, October 8, 2019 Agenda Sheet).

On April 13, 2021, by Resolution No. 2021-059, the Board adopted a First Addendum to the Revised FEIR. It was determined that the Revised FEIR retained informational value and, consistent with Public Resources Code 21166 and CEQA Guidelines 15162, an addendum to the 2014 Revised FEIR was prepared for the Project. The First Addendum evaluated the environmental impacts associated with the implementation of the proposed Project and determined if any new or more severe environmental impacts could result from the implementation of the Project than what was evaluated in the Revised FEIR. The First Addendum also recommended mitigation measures from the Revised FEIR that would apply to the proposed Project to avoid or lessen significant adverse effects. It was determined that none of the conditions triggering preparation of a supplemental or subsequent EIR, as specified in Public Resources Code ("PRC") Section 21166 or CEQA Section

15162, have occurred. It was also determined that the Project is within the scope of the Revised FEIR, and there will not be any new or more significant impacts that results in the need for new mitigation measures that were not previously identified in the Revised FEIR (Attachment D, April 13, 2021 Agenda Sheet).

In addition to the adoption of the First Addendum to the Revised FEIR, the Board also granted an Option to Lease Agreement with the Project Applicant for a 66-year lease at the April 13, 2021 Board meeting. The Option includes conditions precedent that Sunroad is required to meet within a specific timeline prior to exercising the Option and executing the Lease. The conditions include:

- A. Submittal of work drawings
- B. Proof of irrevocable commitment of project equity financing
- C. Proof of irrevocable commitment of project debt financing
- D. Submittal of development permits
- E. Hotel franchise and management agreements (require Board approval)
- F. Submittal of completion guaranty
- G. Submittal of an executed construction contract
- H. Conduct and submit an environmental site inspection

Sunroad can exercise the Option and execute the Lease once all the conditions are met within the specified dates. The Lease is expected to generate approximately \$33.5 million in rent in net present value over the term of the Lease.

Stakeholder Outreach

Accessibility Advisory Committee (AAC)

The AAC met at a publicly noticed meeting on February 5, 2020, at which District staff and Sunroad provided an overview of the Project's conceptual design. The AAC recommended a fully universally designed hotel and requested that Sunroad return once further design is completed. Sunroad committed at the meeting that they will return and present the Project design once the detailed drawings are available.

California Coastal Commission (Coastal) Staff Coordination

District staff have been coordinating with Coastal staff on the Project since Sunroad's initial project submittal in June 2018. A total of nine meetings were held from July 2018 to October 2021 to facilitate discussion on various issues, including Lower Cost Overnight Visitor Accommodations, Port Master Plan Amendment (PMPA), and project design. In written correspondence from Coastal staff dated June 7, 2021 (Attachment E), and through feedback District staff received from Coastal staff in a meeting held on October 7, 2021, local Coastal staff raised three issues. The proposed CDP addresses these issues as follows:

1. Construction of Lower Cost Overnight Visitor Accommodations or Payment of an In-Lieu Fee

Coastal staff initially expressed concern that the proposed Project does not include lower cost accommodations onsite as part of the project design and asserted that Sunroad's original proposal to instead pay an in-lieu fee of \$35,000 per unit for 25% of the Project's total new market-rate room

count is not adequate to fund and ensure the future construction of lower cost accommodations units. Coastal staff believes an in-lieu fee of \$100,000 per unit reflects the true cost to develop lower cost accommodations. Coastal staff indicated that if incorporating lower cost accommodations onsite as part of the Project or providing in-kind mitigation off-site are infeasible, then the Project Applicant should apply the most up-to-date in-lieu fee, which is \$100,000 per room for 25% of the total new market-rate rooms. Furthermore, if the project proposes a lower fee, then a specific site should be reserved for a future lower cost accommodations project and there should be a commitment to ensure that a lower cost accommodations project will be built in a timely manner. Furthermore, Coastal staff feels a PMPA should be processed to address lower cost accommodations. In an email to District staff on April 12, 2021, Coastal staff stated that they "...will solicit an appeal if the CDP is not revised to require either 25% of rooms be lower cost or the updated in-lieu fee of \$100,000 per room for 25% of the rooms."

In response to Coastal staff's request, District staff is requiring that Sunroad proceed with one of the following options, or a combination as may be permitted:

- 1) Within five (5) years of the issuance of the Certificate of Occupancy for the hotel Project, Permittee shall construct or participate in the construction, completion and commencement of operation of a lower cost overnight visitor accommodations establishment to include a minimum of a total number of rooms equal to 25% of all new market rate rooms or the equivalent number of beds (based on the number of market rate beds per room) constructed as part of the Project (any such lower cost accommodations establishment, a "Lower Cost Accommodations Project"). The lower cost accommodations project shall be located within the San Diego Bay Coastal Zone, preferably within the Harbor Island Planning District on Tidelands.
- 2) Pay a fee of a minimum of \$100,000.00 per room for 25% of all new market rate rooms constructed as part of the Project (the "Lower Cost Overnight Visitor Accommodations In-Lieu Fee"). Permittee may pay such fee consistent with either of the following:
 - a. \$100,000 per room for all or a portion of the required rooms prior to issuance of the Certificate of Occupancy for the hotel Project.
 - b. Within five (5) years after the Certificate of Occupancy for the hotel Project, \$100,000 per room plus either of the following, compounding and accruing annually: (1) a 3% interest rate, applicable at the commencement of each year following the issuance of the Certificate of Occupancy for the hotel Project, or (2) adjusted by the Los Angeles - Long Beach - Anaheim Consumer Price Index For All Urban Workers (CPI), whichever is less. Permittee may pay partial amount of the lower cost accommodations in-lieu fee, but any such partial payment must be on a per room (\$100,000) basis, plus any applicable interest.

Additional details on these requirements can be found in Special Condition No. 4 of the Draft CDP (Attachment A, Draft CDP).

2. Request for a Port Master Plan Amendment (PMPA)

Coastal staff requested a PMPA be processed in conjunction with the Project to incorporate the updated project, specifically the Project's public access components and time commitment for the future LCOVA project, into the PMP.

District staff believe a PMPA is not required for this project. First, the Project is consistent with Project No. 1 on the Planning District 2 Project List: "HOTEL COMPLEX: up to 500 rooms, restaurant, cocktail lounge, meeting and conference space; parking; landscape." Consistent with the Project List project description, the proposed Project includes a single-phase and single-structure, dual branded, 450-room hotel with associated amenities, many of which are shared between the two brands (lobby, meeting rooms, pool and spa, restaurant, etc.). Second, the certified PMP expressly anticipates the site will be developed with "a high quality hotel of approximately 500 rooms that is sited to be responsive to views of San Diego Bay, the airport, and the downtown San Diego skyline. Maximum building heights establish consistency with aircraft approach paths. The hotel complex includes restaurant, cocktail lounge, meeting and conference space, recreational facilities, including piers, and ancillary uses....". The Project is consistent with this PMP Precise Plan text.

Coastal staff previously asserted that Sunroad's prior proposed project, which included two separate buildings in a two-phased design, would require a PMPA, as it was inconsistent with the single hotel as identified in the PMP. In response to Coastal staff's prior comments, Sunroad significantly redesigned their project in August 2019 to be one hotel structure built in one phase instead of a two-phased hotel in two buildings.

In summary, District staff believes the Project is consistent with the current certified PMP applicable land use designations, Precise Plan text, Precise Plan map, and Project List, and would not warrant a PMPA. The Project's Public Access Plan, including all public access components, have been incorporated into the CDP, which is a discretionary permit, the conditions of which are applicable and enforceable.

3. Hotel Building Setback from Proposed Promenade

Coastal staff requested that the Project implement a minimum 15-foot development setback from the 15-foot-wide waterfront promenade.

While District staff understands Coastal staff's desire for a 15-foot development setback on District tidelands as a generally applicable standard, District staff believes site-specific considerations must also be evaluated. In this instance, staff believes a narrower building setback from the waterfront promenade is justified for this Project site. The 10-foot hotel building setback from the waterfront promenade, coupled with the 15-foot-wide promenade, is sufficient for this unique, narrowly shaped site for the areas where it can be achieved. District staff have worked extensively with Sunroad on the design of the hotel building. Of the total site linear footage of 2,630 feet abutting the proposed Promenade, Sunroad is able to achieve a 10-foot setback for the hotel building for 97% of the span. However, due to a small pinch point that consists of the loading area, back of house, and a portion of the one-story meeting space, spanning not more than 75 feet (or less than 3% of the total linear footage), Sunroad is unable to achieve a 10-foot setback. The hotel tower itself would not be adjacent to the Promenade. District staff will require that Sunroad implement a minimum 10-foot hotel building

setback from the waterfront promenade for at least 95% of the linear footage abutting the Promenade; and for the remaining 5%, Sunroad shall implement supplemental screening and/or building architectural features to create an appealing visual experience for the promenade users. These requirements can be found in Special Condition No. 15 of the Draft CDP (Attachment A, Draft CDP). See also Attachment B for a rendering of this area.

Project Description Summary

Sunroad proposes the construction and operation of a hotel development at the northeast corner of Harbor Island Drive and East Harbor Island Drive, consisting of two parcels totaling approximately 7.55 acres (commonly known as the Elbow Parcel) on East Harbor Island. The Project would include a dual-branded hotel complex with up to 450 rooms, including an extended stay and a limited service brands within a single structure. Common areas serving both brands, such as lobby, registration desks or pods, lounge and bar, and breakfast area, would be provided on the ground floor. The extended stay wing would consist of 12 floors and include 200 rooms, with the rooms distributed from levels 2 through 12. The extended stay wing would have a building footprint of 9,500 square feet and total floor area of 118,000 gross square feet (GSF). The limited service wing would consist of 15 floors and include approximately 250 rooms and the rooms would be distributed from levels 2 through 15, with a total floor area of 123,000 GSF. The maximum height of the building would be approximately 160 feet from finished grade to the top of the building parapet (excluding the elevator overrun and mechanical enclosures). The maximum height including the elevator overrun and mechanical enclosures would be 175 to 180 feet. The maximum height approved by the Federal Aviation Administration (FAA) is up to 224 feet above ground level (AGL) or 237 feet AMSL to accommodate the building flagpole.

In addition to the common areas/amenities serving the dual brand hotel, the ground floor would also include meeting rooms and ballrooms totaling approximately 10,000 GSF. The hotel building would also include amenities such as fitness center and restrooms totaling 3,000 GSF and retail shops totaling approximately 350 GSF. The ground floor would also include other areas necessary for hotel operations such as space for administrative functions, laundry, and operational equipment. The Project would have a total building footprint of 34,000 SF and the maximum building gross square footage of the Project would be 265,000 GSF.

Outside of the proposed hotel building, the Project would provide an outdoor swimming pool with jacuzzi spa and outdoor private function space for hotel guests and approximately 3,500 GSF of walk-up restaurant or bar area open to the public.

The Project would provide approximately 350 parking spaces within two surface parking areas located on the eastern and western sides of the proposed hotel building. Additional landscaping would be installed along the Project Site frontage to screen the parking areas from Harbor Island Drive.

Project construction would be performed in one continuous construction phase consisting of five stages: demolition; site preparation; grading; building construction; and paving. No pile driving or blasting would occur. Construction of the Project is expected to begin in late 2023 and be completed by late 2025 for a total duration of approximately 24 months.

Public Access

The Project's Public Access Plan (PAP) is part of the CDP and conditions are included to ensure the public access components will be completed and open to the public prior to or concurrent with the time the hotel begins occupancy, and are accessible to the public year-round. Key public access components include:

- A new 15-foot wide multi-use waterfront promenade, and interior pathways that connect the promenade to the public sidewalks on Harbor Island Drive
- A restaurant and walk-up bar accessible via the sidewalk on Harbor Island Drive, promenade, and from the open space area.
- Both temporary and permanent mini destinations to draw the public to and through the Project Site by creating activating uses. Three of the four mini destinations are proposed along the waterfront promenade. One will be located on the "Elbow Parcel that is currently designated as Open Space in the PMP. Bench(es) and/or artwork would be incorporated in each mini destination. The art may feature works by local and national exhibitors. Temporary mini destination uses will include outdoor retail carts and temporary structures that are easily movable. These mobile carts and temporary structures will be placed as to avoid interference with the promenade and may include activating uses such as retail cart(s) selling specialty items and/or food, and games/exercise spots.
- The site is designed to incorporate approximately 350 parking spaces for the hotel, 14 of which are designated specifically for public parking to facilitate public recreational waterfront access opportunities.
- Public pedestrian access will be marked with informational and public access signage to identify the coastal and promenade access. The signage will include information on amenities to inform and invite the public to the hotel and Harbor Island.

Participation in Public Infrastructure and Public Realm

Per the Option to Lease Agreement that the District entered into with Sunroad, Sunroad is required to pay its fair share for public infrastructure that will serve, benefit or be located within the Project Site. Sunroad is also required to construct or pay its share of costs associated with the public realm elements, including but not limited to, public promenades and other public-serving amenities located on or adjacent to the Project Site. In addition, the Option to Lease Agreement reserves the District's right to establish a mechanism for funding the maintenance of public realm and infrastructure costs at East Harbor Island, which funding mechanism would be separate from Sunroad's participation in public infrastructure and public realm as previously referenced.

Coastal Development Permit

The Project constitutes "development" pursuant to Coastal Act Section 30106 as it would result in the placement of solid material on a structure, erection of structures, grading, and change in the intensity of use of land. Furthermore, in accordance with the District's CDP Regulations Section 7.d. (4) and Section 30715 of the Coastal Act, the Project constitutes as an "appealable development", as it would involve the construction of a hotel. The Project is located between the sea (as defined in the Coastal Act) and the first inland continuous road paralleling the sea, and the Project is consistent with Public

Resources Code Sections 30604(c), 30210-30224, and the Coastal Act public access and recreation policies referenced therein. The Project would activate the area by enhancing public access and public recreation by improving the property to include a waterfront promenade, public art, and amenities such as mini-destinations, café and restaurants for the public to enjoy. The Project would not negatively impact the marine environment, is protective of water quality, does not adversely impact visual or scenic resources, and is appropriately sited within a well-developed commercial area. Therefore, it is fully consistent with Chapter 3 and 8 of the Coastal Act.

The Project is located in Planning District 2, Harbor Island, which is delineated on Precise Plan Map Figure 9 of the certified Port Master Plan (PMP). The PMP land use designation within the Project Site are Commercial Recreation and Open Space. The proposed Project is consistent with the existing certified land use designations, precise plan map and text, and project list; therefore, the Project conforms to the certified PMP.

A copy of a draft CDP is provided as Attachment A to this Agenda Sheet. Conditions are incorporated into the draft CDP to ensure conformance with all applicable policies and District's requirements, Mitigation Monitoring & Reporting Program (MMRP) for the First Addendum to the 2014 Revised FEIR, as well as the PAP.

Pursuant to the CDP Regulations, a public hearing is required for all appealable CDPs, including the proposed CDP. In accordance with the CDP Regulations, notices were mailed to certain property owners and occupants surrounding the Project Site, City of San Diego, and Coastal staff, to notify them a public hearing will be conducted on the CDP issuance for the Project. Board action on the Project may be appealed to the Coastal Commission pursuant to Chapter 7 of Division 20 of the Public Resources Code within 10 working days after the Coastal staff receives the notice of the Board's decision, if a written appeal is not filed within 10 working days, the Executive Director may issue the CDP immediately.

Concept Approval

Pursuant to BPC Policy No. 357, plans for new tenant development must be presented to the Board for approval if the project is estimated to cost more than \$500,000. The Project involves demolition of existing improvements and construction of a hotel. The Project cost is approximately \$153 Million. The components of the Project are further detailed above in the Project Description section.

General Counsel's Comments:

The General Counsel's Office has reviewed the agenda sheet and attachments, as presented to it, and approves them as to form and legality.

Environmental Review:

On April 13, 2021, the Board adopted the First Addendum to the Revised FEIR (Resolution No. 2021-059) and a Notice of Determination was filed with the State Clearinghouse subsequently. The current Board action is in furtherance of implementation of the Project and there has been no change in the scope of the Project since the adoption of the First Addendum to the Revised FEIR. As such, pursuant to CEQA Guidelines Section 15164, and based on the information provided in the First

Addendum to the Revised FEIR, the analysis for the Project has been appropriately addressed in the Revised FEIR and no further environmental review is required. If the Board grants concept approval and authorizes the issuance of the Appealable CDP, District staff will file a Notice of Determination specifically for these actions pursuant to CEQA Guidelines Section 15094.

Additionally, the recommended Board actions comply with Section 87 of the Port Act which allows for public recreation uses and purposes, and the construction, maintenance, and operation of parks, public recreation facilities, and appliances incidental, necessary, or convenient for the promotion and accommodation of such uses. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed actions are consistent with the Public Trust Doctrine.

Diversity, Equity, and Inclusion Program:

This agenda sheet has no direct DEI impact.

PREPARED BY:

Michelle Chan
Senior Planner, Development Services

Wileen C. Manaois
Director, Development Services

Attachments:

Attachment A: Draft Coastal Development Permit

Attachment B: Project Plans

Attachment C: October 8, 2019 Board Meeting Agenda Sheet (without attachments)

Attachment D: April 13, 2021 Board Meeting Agenda Sheet (without attachments)

Attachment E: California Coastal Commission Staff Letter dated June 7, 2021