

DRAFT**SAN DIEGO UNIFIED PORT DISTRICT****ORDINANCE xxxx****ADOPT AN ORDINANCE GRANTING AMENDMENT
NO. 1 TO AN OPTION TO LEASE AGREEMENT
WITH SUNROAD HIE HOTEL PARTNERS, L.P. FOR
A 66-YEAR LEASE TO DEVELOP AN UP TO 450-
ROOM HOTEL ON HARBOR ISLAND TO EXTEND
THE TERM OF THE OPTION**

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, Sunroad HIE Hotel Partners, L.P. (Sunroad) is proposing the development of the Sunroad Harbor Island East Hotel, which would involve demolition of the existing improvements within the project site, site preparation, and construction, including: grading, development, operation and maintenance of an up to 450-room hotel structure 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); and

WHEREAS, the Project is located at the northeast corner of Harbor Island Drive and East Harbor Island Drive, consisting of two parcels totaling approximately 7.55 acres (Project Site); and

WHEREAS, on July 21, 2021, Sunroad entered into an Option to Lease Agreement (Option) with the District for the redevelopment of approximately 7.55 acres in East Harbor Island commonly referred to as the “Elbow Parcel” (Attachment A – Location Map, attached to the corresponding agenda on file with the Office of the District Clerk); and

WHEREAS, the Option, which includes and attaches a 66-year ground lease (Lease), to be executed and effective after (1) Sunroad’s satisfaction of all conditions precedent specified in the Option and (2) Sunroad’s exercise of the Option; and

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WHEREAS, the Option had a term of two years which currently expires on May 31, 2023, and the conditions precedent are intended to ensure that upon exercise of the Option, Sunroad will be ready to commence construction; and

WHEREAS, Sunroad has been diligently working on its deliverables under the Option; and

WHEREAS, at the November 9, 2021, Board meeting, the Board of Port Commissioners (Board) adopted a resolution (BPC Resolution No. 2021-144) authorizing the issuance of an appealable Coastal Development Permit (CDP) for the Project, and the CDP (CDP-2021-07, on file in the Office of the District Clerk as Document No. 73453) was issued on December 7, 2021; and

WHEREAS, the CDP also contains conditions that Sunroad is required to satisfy before proceeding with its development, notably that Sunroad develop a certain number of rooms qualifying as lower cost accommodations, pay fees in lieu of developing lower cost accommodations, or a combination of developing lower cost accommodations and paying in-lieu fees; and

WHEREAS, staff asked Sunroad whether they could feasibly incorporate lower cost accommodations onsite into the proposed hotel; and

WHEREAS, Sunroad and District staff have been exploring an alternative which could result in another brand onsite, which would require changes to the design of the hotel; and

WHEREAS, in anticipation of a persistent challenge to obtaining hotel financing given recent market conditions, coupled with the potential incorporation of lower cost accommodations onsite, Sunroad requested additional time to exercise the Option; and

WHEREAS, there is still additional work to be done to determine whether the onsite lower cost accommodations approach is feasible, including ongoing discussions with California Coastal Commission staff about the definition and enforcement of lower cost accommodations, as well as updated financial analysis to be conducted by District staff; and

WHEREAS, if the Board grants the Option extension, staff will continue to work with Sunroad to incorporate lower cost accommodations onsite if feasible; and

WHEREAS, if infeasible, Sunroad would still be allowed to pay in-lieu mitigation fees or develop (or contribute to the development of) lower cost accommodations elsewhere on tidelands; and

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WHEREAS, under any of these scenarios, staff recommends the Option extension to continue to advance the hotel project permitting and design while Sunroad waits for the hotel financing market to return; and

WHEREAS, staff believes that the extension is warranted and would allow Sunroad sufficient time to ensure all Option conditions are met; and

WHEREAS, staff recommends extending the term of the Option by an additional two years, from May 31, 2023, to May 31, 2025, at no cost, and including two additional three-month extensions for a fee of \$100,000 per extension, with each extension subject to approval by the Executive Director in his sole and absolute discretion.

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

1. Amendment No. 1 to an Option to Lease Agreement with Sunroad HIE Hotel Partners, L.P. in the form of Attachment C to the corresponding agenda to which this Ordinance relates to extend the term of the Option by two (2) years is hereby approved.

2. The Executive Director or his designated representative is hereby authorized to execute said Amendment No. 1 in substantially the same form as attached as Attachment C to the corresponding agenda sheet to which this Ordinance relates.

3. This Ordinance shall take effect on the 31st 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 9th day of May 2023, by the following vote: