

DRAFT**SAN DIEGO UNIFIED PORT DISTRICT****ORDINANCE xxxx****ORDINANCE GRANTING A LEASE TO SD 4 FISH LLC DBA GLADSTONE'S FOR A FULL-SERVICE RESTAURANT AND BAR LOCATED AT 861 W. HARBOR DRIVE IN SAN DIEGO FOR A 10-YEAR TERM PLUS ONE 5-YEAR OPTION TO EXTEND (FOR A TOTAL POTENTIAL TERM OF 15 YEARS) WITH \$1,250,000 IN TENANT IMPROVEMENT ALLOWANCE TO BE BUDGETED IN THE FISCAL YEAR (FY) 2023 EQUIPMENT OUTLAY AND OTHER CAPITAL PROJECTS APPROPRIATION FOR SEAPORT VILLAGE TENANT IMPROVEMENTS**

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

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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, over the past three years, the District has successfully filled 18 spaces with a variety of new and exciting offerings including unique specialty retailers, full-service and fast-casual restaurants, walk up cafés and a specialty market; and

WHEREAS, the Board of Port Commissioners' (Board) adoption of ordinances for transformational leases at Seaport Village including Mike Hess Brewing, Mr. Moto Pizza, Spill the Beans Coffee, Seaport Entertainment, LLC (also known as "Sam the Cooking Guy"), Louisiana Charlie's, Malibu Farm, Old Harbor Distilling Company, Zytoun Gourmet Mediterranean and Crack Taco Shop have demonstrated to prospective tenants in the visitor serving commercial market that Seaport Village has viable and attractive leasing opportunities that are competitive and worth pursuing; and

WHEREAS, despite recent impacts to the retail market and overall economy from the COVID-19 pandemic, the District's broker, Retail Insite continues to present the District with highly competitive letters of intent (LOIs) from extraordinary prospective tenants; and

WHEREAS, staff seeks the Board's approval of an ordinance granting a lease to SD 4 Fish LLC dba Gladstone's (Gladstone's), a phenomenal and highly successful restaurant with operations on the West Coast that would anchor Seaport Village in the Carousel District on the west side of the shopping center; and

WHEREAS, this prospective tenant would provide the District with an opportunity to create a valued partnership with a highly sought-after operator, continue to elevate the existing dining and shopping experience at Seaport Village as a vibrant waterfront destination on the San Diego Bayfront and capstone the district's success in achieving its objectives for the shopping center; and

WHEREAS, the lease is projected to generate net cash flow to the District of \$4,372,235 in rent over a 10-year term, plus one five-year option, a highly competitive internal rate of return (IRR) to the District of 32% with a net present value (NPV) of \$2,316,175; and

WHEREAS, consistent with past Board feedback to staff, the proposed lease includes a termination provision which would enable the District to terminate the lease after the fifth lease year in the event of future redevelopment of the Central Embarcadero; and

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WHEREAS, the proposed lease also includes up to \$1,250,000 tenant improvement (TI) allowance that would be paid by the District in the first or second quarter of FY 2023 budgeted for; and

WHEREAS, if the lease with Gladstone's is approved, the District would incur cash outflows for broker commissions in the amount of approximately \$157,607 and TI allowances in an amount up to \$1,250,000, and due to the lease structures and expected construction timelines for Gladstone's, staff anticipates that broker commissions and the TI allowances would be paid out by the District in the first or second quarter of FY 2023, and as a result, would be budgeted in the FY 2023 budget; and

WHEREAS, any cash outflows incurred by the District resulting from this lease would not impact the District's FY 2022 budget constraints associated with the COVID-19 pandemic; and

WHEREAS, the proposed long-term lease with Gladstone's would provide the District with an opportunity to create a valued partnership with an established operator that would build momentum, continue to catalyze leasing activity and achieve the District's overall objectives for Seaport Village; and

WHEREAS, staff recommends the Board adopt an ordinance granting a lease to SD 4 Fish LLC dba Gladstone's.

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

1. That a 10-year lease, plus one five-year option, with SD 4 Fish LLC dba Gladstone's, a phenomenal and highly successful restaurant operator, located at 861 W. Harbor Drive, Suite W-9, in San Diego, California, is hereby approved.
2. The Executive Director or his designated representative is hereby authorized to execute said lease attached as Attachment F in the corresponding agenda sheet.
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

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San Diego Unified Port District, this 14th day of September 2021, by the following vote: