



# San Diego Unified Port District

3165 Pacific Hwy.  
San Diego, CA 92101

## Legislation Text

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**File #:** 2021-0193, **Version:** 1

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**DATE:** April 13, 2021

**SUBJECT:**

**SUNROAD HARBOR ISLAND EAST HOTEL PROJECT LOCATED AT 851 HARBOR ISLAND DRIVE IN SAN DIEGO:**

**A) ADOPT RESOLUTION ADOPTING A FIRST ADDENDUM TO THE REVISED FINAL ENVIRONMENTAL IMPACT REPORT FOR THE "SUNROAD HARBOR ISLAND HOTEL PROJECT & EAST HARBOR ISLAND SUBAREA PORT MASTER PLAN AMENDMENT" AND AUTHORIZING STAFF TO FILE A NOTICE OF DETERMINATION**

**B) ADOPT AN ORDINANCE GRANTING AN OPTION TO LEASE AGREEMENT, WITH CONDITIONS, WITH SUNROAD HIE HOTEL PARTNERS, L.P. FOR A 66-YEAR LEASE**

### **EXECUTIVE SUMMARY:**

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 a 450-room, dual-brand 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). 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).

On April 14, 2017, Sunroad entered into an Exclusive Negotiating Agreement (ENA) with the San Diego Unified Port District (District) for the redevelopment of approximately 7.55 acres in East Harbor Island commonly referred to as the "Elbow Parcel" (Attachment A - Location Map). The original ENA allowed for the development of a high-quality hotel of 500 rooms as designated in the Port Master Plan. At the February 12, 2019 Board of Port Commissioners (Board) meeting, by Board Resolution No. 2019-020, the Board directed staff to negotiate an amendment to the ENA as well as to include additional criteria to guide design of Sunroad's project. Among those criteria specified was the requirement for a hotel development with 450 to 500 rooms built in one phase. On August 26, 2019, Sunroad submitted a revised design that includes a single-phase, dual branded, 450-room hotel. At the October 8, 2019 Board meeting, the Board received a preliminary project review presentation on Sunroad's revised Project design, provided feedback to District staff on the proposed design, and authorized staff to further study the Project and commence the necessary environmental review pursuant to the California Environmental Quality Act (CEQA) (Attachment B -

October 8, 2019 BPC Agenda on Sunroad Development Preliminary Project Review).

In accordance with CEQA, 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 (PMPA)” (UPD #83356-EIR-783; SCH #2006021027, Clerk Document No. 61175) has been prepared to analyze the proposed Project (Attachment C - First Addendum to Revised FEIR). The Addendum documents that none of the conditions in CEQA Guidelines Sections 15162 and 15163, triggering preparation of a Subsequent or Supplemental EIR, have occurred. Approval of the First Addendum is appropriate under CEQA Guidelines Section 15164.

The Project includes an Option to Lease Agreement (Option), which includes and attaches a 66-year ground lease, entitled Lease to Sunroad HIE Hotel Partners, L.P (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. The Option has a term of 2 years and includes conditions necessary to ensure the Project is close to ready for commencement of construction.

The Project will also require concept approval pursuant to BPC Policy No. 357 and authorization of an appealable Coastal Development Permit (CDP) in accordance with the California Coastal Act and the District’s CDP Regulations; these actions will be presented to the Board for consideration at a later date. The CDP and concept approval are being taken to the Board separately from the Option and Addendum because staff is still in the process of finalizing the draft CDP.

### **RECOMMENDATION:**

Sunroad Harbor Island East Hotel Project located at 851 Harbor Island Drive in San Diego:

- A) Adopt resolution adopting a First Addendum to the Revised FEIR for the “Sunroad Harbor Island Hotel Project and East Harbor Island Subarea Port Master Plan Amendment” and authorizing staff to file a Notice of Determination
- B) Adopt ordinance granting an Option to Lease Agreement, with conditions, with Sunroad HIE Hotel Partners, L.P. for a 66-year lease

### **FISCAL IMPACT:**

In accordance with BPC Policy No. 106, Cost Recovery User Fee Policy, Sunroad is subject to cost recovery fees for environmental review. If Sunroad successfully exercises the Option and enters into the Lease, future rent revenue from the 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 Port that the public understands and trusts.
- 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 July 14, 2015 Board meeting, the Board directed staff to issue a request for Statements of Interest, Qualifications, and Vision (SOIQV) for the redevelopment of approximately 48 acres within the East Basin Industrial Subarea of Planning District 2. At the October 6, 2015 meeting, the Board directed staff to include the Project Site into the SOIQV area, resulting in a total redevelopment area of 55 acres. At the September 8, 2016 meeting, the Board selected Sunroad Enterprises to develop the Elbow Parcel, which is approximately 7.5 acres of the 55-acre redevelopment area, and directed staff to enter into an ENA with Sunroad Enterprises through its Sunroad HIE Hotel Partners, L.P. entity ("Original ENA", Clerk Document No. 66537). At the February 12, 2019 meeting, the Board adopted Resolution 2019-020, which directed staff to negotiate an amendment to the ENA ("ENA Amendment"). Resolution 2019-020 also identified 10 criteria to be included in the amendment that would guide design of the Proposed Development, which are detailed further in Attachment B. Among those criteria specified was the requirement for a hotel development with 450 to 500 rooms built in one phase. The District and Sunroad executed Amendment No. 1 to the ENA on April 29, 2019 (ENA Amendment, Clerk Document No. 69880). The ENA Amendment required Sunroad to submit a revised Second Submittal within 120 days from the effective date of the ENA Amendment, or by August 26, 2019.

On August 26, 2019, Sunroad revised the Project 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. At the October 8, 2019 Board meeting, the Board received a preliminary project review presentation on Sunroad's revised Project, provided feedback on Sunroad's revised design, and authorized staff to further study the Project and commence the necessary environmental review under CEQA.

### **Proposed Development Summary**

Sunroad proposes the construction and operation of a hotel development on approximately 7.55 acres (328,878 square feet) on the Elbow Parcel of Harbor Island at 851 Harbor Island Drive. The Project would construct a dual-branded hotel complex with 450 rooms, including an extended stay hotel and a limited service hotel within a single building. Common areas serving both hotel 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 (Attachment D - Project Renderings).

In addition to the common areas/amenities serving the dual brand hotel, the ground floor would also include meeting rooms and ballrooms totaling 10,000 GSF. The hotel building would also include amenities such as a fitness center and restrooms for hotel guests totaling 3,000 GSF and retail shops totaling approximately 350 GSF. The ground floor would include other areas necessary for hotel operations such as space for administrative functions, laundry, and operational equipment. The

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Project would have a total building footprint of 34,000 SF and the maximum building gross square footage of 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 will also implement public access components by incorporating public use areas and amenities that are accessible to the public year-round (Attachment E - Public Access Plan Exhibit). The 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.
- As stipulated in the ENA, the Project will include both temporary and permanent mini destinations throughout the Project Site 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 portion of the Elbow Parcel that is currently designated as Open Space in the Port Master Plan (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 so 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 coastal and promenade access. The signage will include information on amenities to inform and invite the public to the hotel and Harbor Island.

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.

#### Option to Lease Agreement

The District and Sunroad are parties to the Original ENA dated April 14, 2017 for the redevelopment of the approximately 7.55-acre Elbow Parcel, which was later amended by the ENA Amendment. Sunroad has adhered to the requirements of the ENA and negotiated a definitive agreement, which would be an Option to Lease Agreement with the attached Lease.

The District and Sunroad have negotiated the Option that includes conditions precedent that Sunroad is required to meet prior to exercising the Option and executing the Lease (Attachment F - Option to Lease Agreement). The purpose of the Option is to identify conditions that Sunroad must meet that are necessary steps in development prior to construction to reasonably ensure the Project is ready to

commence construction once the Lease is executed. The Option mitigates risk to the District and Sunroad and allows for the leasehold to be leased to another tenant during the Option term. The Option has a term of two years, and allows for up to 6 months of extensions, which would be subject to the Executive Director's sole and absolute discretion and require payment of \$100,000 for each of two three-month extensions. The proposed Option includes eight conditions that Sunroad must meet within the specified deadlines in order to exercise the Option and enter into the Lease. The conditions of the Option include the following for which further detail can be found in Attachment F - Option to Lease Agreement.

Conditions:

- A. Submittal of working 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 (requires Board approval)
- F. Submittal of completion guaranty
- G. Submittal of an executed construction contract
- H. Conduct and submit an environmental site inspection

Once all the conditions are met within the specified dates, Sunroad can exercise the Option and execute the Lease, as attached to the Option. The District and Sunroad negotiated a 66-year lease for the operation of a hotel at the approximately 7.5-acre Elbow Parcel. The proposed Lease would require Sunroad to invest a minimum of \$153 million into the hotel Project. The Lease includes approximately \$15 million in contribution from the District in the form of rent concessions during the first seven years of hotel operations to allow for stabilization. The rent concessions are structured as fixed rent for the first seven years of operations that gradually increase annually, with percentage rent and minimum annual rent commencing on the eighth year of operations. The percentage rental rate for rental of guest rooms begins at 7% and gradually increases throughout the term of the Lease up to 8.25%. The percentage rental rates for sales of food and beverages begin at 3% and 5% and include a scheduled 0.5% increase in the 31<sup>st</sup> operating year to 3.5% and 5.5% respectively. The proposed Lease also includes an additional rent provision that allows the District to receive additional rent during the first seven years of operation if Sunroad's gross income exceeds specified annual gross income thresholds. If Sunroad's gross income exceeds the gross income threshold for a specific year, the gross income beyond the threshold amount incurs a 3% additional rent payment. The Lease also includes the District's most current provisions, such as a demolition and remediation fund, participation in a sale or refinance event, and indemnity and prevailing wage provisions. Additional detail on the negotiated terms of the proposed Lease is described in Attachment G - Term Sheet. The Lease is expected to generate approximately \$33.5 million in rent in net present value over the term of the Lease. Staff recommends the Board adopt an Ordinance granting the Option with Sunroad, with accompanying 66-year Lease. Staff believes the Lease represents a favorable market-based deal for the District and is comparable with other previous hotel leases on tidelands. The Option allows for the District and Sunroad to mitigate risk by assuring the Project is ready for construction by the time the Lease is executed.

### Next Steps

The Project will be a valuable addition to Harbor Island as it brings an exciting new hospitality option to the area and will generate substantial revenue to the District over the term of the Lease. The

Project will enhance the East Harbor Island area with an iconic design and a new waterfront promenade. If the Board approves any discretionary action to carry out the Project, District staff will file a Notice of Determination pursuant to CEQA Guidelines Section 15094. The Project will also require concept approval pursuant to BPC Policy No.357 and authorization of an appealable CDP in accordance with the California Coastal Act and the District's CDP Regulations. These two actions will be presented to the Board for consideration at a later date.

### **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:**

In accordance with CEQA statutes and guidelines, on March 4, 2014, by Resolution No. 2014-52, the Board certified the Revised Final Environmental Impact Report for the "Sunroad Harbor Island Hotel Project and East Harbor Island Subarea Port Master Plan Amendment" (UPD #83356-EIR-783; SCH #2006021027; Clerk's Document No. 61175) ("2014 Revised FEIR"), which analyzed potential impacts associated with construction of a 175-room hotel on East Harbor Island and potential construction of up to 325 additional hotel rooms on East Harbor Island. Also on March 4, 2014, the Board adopted the Findings of Fact and Statement of Overriding Considerations (Findings and SOC), and adopted the Mitigation Monitoring and Report Program (MMRP).

Because the 2014 Revised FEIR retains informational value and, consistent with Public Resources Code ("PRC") § 21166 and CEQA Guidelines § 15162, an addendum to the 2014 Revised FEIR was prepared for the Project. The First Addendum to the 2014 Revised Final Environmental Impact Report for the "Sunroad Harbor Island Hotel Project and East Harbor Island Subarea Port Master Plan Amendment" ("Addendum"), dated December 2020 (Attachment C), evaluates the environmental impacts associated with the implementation of the proposed Project and determines if any new or more severe environmental impacts could result from the implementation of the Project than what was evaluated in the 2014 Revised FEIR. The Addendum also recommends mitigation measures from the 2014 Revised FEIR that would apply to the proposed Project to avoid or lessen significant adverse effects. The Addendum analyzes the proposed Project and if adopted will become part of the 2014 Revised FEIR. Staff has reviewed the Project, the 2014 Revised FEIR, and the Addendum and determined that none of the conditions triggering preparation of a supplemental or subsequent EIR, as specified in PRC § 21166 or CEQA Guidelines § 15162, have occurred. Staff has determined that the Project is within the scope of the 2014 Revised FEIR; and there will not be any new or more significant impacts or required new mitigation measures not previously identified in the 2014 Revised FEIR, Findings and SOC, or MMRP previously certified and adopted by the Board.

The analysis included in the Addendum to the 2014 Revised FEIR concludes that the Project would result in substantially similar impacts to those analyzed in the 2014 Revised FEIR. The Addendum to the 2014 Revised FEIR also concludes that (1) analyses and conclusions in the 2014 Revised FEIR remain current and valid; (2) that the Project would not cause new or substantially more severe significant effects than those identified in the 2014 Revised FEIR; (3) no new mitigation measures would be required; (4) that no change has occurred with respect to circumstances surrounding the Project that would cause new or substantially more severe significant environmental

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effects than identified in the 2014 Revised FEIR; and (5) that no new information has become available that show that the Project would cause significant environmental effects not already analyzed in the 2014 Revised FEIR. As such, pursuant to CEQA Guidelines Section 15164, and based on the information provided in the Addendum to the 2014 Revised FEIR, the analysis for the Project has been appropriately addressed in the 2014 Revised FEIR and no further environmental review is required. If the Board approves any discretionary action to carry out the Project, District staff will file a Notice of Determination pursuant to CEQA Guidelines Section 15094.

The 2014 Revised FEIR, as well as the Addendum to the 2014 Revised FEIR, were provided to the Board via a Board Memo dated April 8, 2021. The 2014 Revised FEIR and Addendum to the 2014 Revised FEIR (including the Appendices to the Addendum) can be accessed on the District's website at:

<https://www.portofsandiego.org/public-records/port-updates/notices-disclosures/ceqa-documents>.

The proposed Board actions do not allow for "development," as defined in Section 30106 of the California Coastal Act, or "new development," pursuant to Section 1.a. of the District's Coastal Development Permit (CDP) Regulations because they will not result in, without limitation, a physical change, change in use or increase the intensity of uses. Therefore, issuance of a CDP, CDP amendment or exclusion is not required at this time, but will be required prior to construction. However, development within the District requires processing under the District's CDP Regulations. Future development, as defined in Section 30106 of the Coastal Act, will remain subject to its own independent review pursuant to the District's certified CDP Regulations, PMP, and Chapters 3 and 8 of the Coastal Act. The Board's actions in no way limit the exercise of the District's discretion under the District's CDP Regulations. Therefore, issuance of a CDP, CDP amendment or exclusion is not required at this time.

Finally, the recommended Board actions comply with Section 87 of the Port Act which allows for all visitor-serving commercial and industrial uses and purposes, and the construction, reconstruction, repair, and maintenance of commercial and industrial buildings, plants, and facilities. 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:**

Not applicable.

### **PREPARED BY:**

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### **Attachments:**

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Attachment A: Location Map  
Attachment B: October 8, 2019 BPC Agenda on Sunroad Development Preliminary Project Review  
Attachment C: First Addendum to the Revised FEIR for the Sunroad Harbor Island Hotel Project and East Harbor Island Subarea PMPA (includes MMRP)  
Attachment D: Project Renderings  
Attachment E: Public Access Plan Exhibit  
Attachment F: Option to Lease Agreement  
Attachment G: Term Sheet  
Attachment H: Preliminary Draft Board Presentation