



Legislation Text

File #: 2019-0506, **Version:** 1

DATE: January 9, 2020

SUBJECT:

SEAPORT VILLAGE:

- A) ORDINANCE GRANTING A LEASE TO SEAPORT ENTERTAINMENT, LLC FOR A FULL-SERVICE RESTAURANT LOCATED AT 849 W. HARBOR DRIVE, SUITE E3 IN SAN DIEGO FOR A 10-YEAR TERM PLUS ONE 5-YEAR OPTION (FOR A TOTAL POTENTIAL TERM OF 15 YEARS)**
- B) ORDINANCE GRANTING A LEASE TO TRAVELER'S CONVENIENCE, INC. DBA SEAPORT MARKET (SEAPORT MARKET) FOR A SPECIALTY MARKET LOCATED AT 849 W. HARBOR DRIVE, SUITES C6A-A AND C6A-B IN SAN DIEGO FOR A TOTAL 10-YEAR TERM**

EXECUTIVE SUMMARY:

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 (Attachment A). On October 1, 2018, the District assumed ownership of the Seaport Village assets, which consist of 32 buildings, including one over-water structure. Since then, 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. 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. As a result, 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.

Building upon the District's success of filling nine vacant spaces at Seaport Village over the past year, staff continues to collaborate with the District's broker, Retail Insite, and engage with prospective tenants, resulting in several competitive letters of intent (LOI) for the District's consideration. Staff seeks the Board of Port Commissioners' (Board) approval of two ordinances granting leases to two experienced and exceptional operators. These prospective tenants, Seaport Entertainment, LLC, and Seaport Market, will lease key spaces and generate a positive fiscal impact for the District, increase market demand for the remaining vacancies, and continue to build momentum and energy for the shopping center as a vibrant, waterfront destination with new and exciting offerings for its visitors.

Combined, the two leases are projected to generate \$2.3M in cumulative rent over a 10-year term, a highly competitive internal rate of return (IRR) to the District of 40% with a net present value (NPV) of

\$1.29M. Consistent with past Board feedback to staff, the proposed leases include termination provisions which would enable the District to terminate the leases after a maximum of five years, if termination is required to permit redevelopment of the Central Embarcadero. Therefore, staff recommends the Board adopt the ordinances granting the leases to Seaport Entertainment, LLC and Seaport Market.

RECOMMENDATION:

- A) Adopt an Ordinance Granting a Lease to Seaport Entertainment, LLC for a Full-Service Restaurant Located at 849 W. Harbor Drive, Suite E3 in San Diego for a 10-Year Term with One 5-Year Option (For a Total Potential Term of 15 Years)
- B) Adopt an Ordinance Granting a Lease to Traveler's Convenience, Inc. dba Seaport Market for a Specialty Market Located at 849 W. Harbor Drive, Suites C6A-A and C6A-B in San Diego for a Total 10-Year Term

FISCAL IMPACT:

Adopting these ordinances for leases at Seaport Village will have a positive fiscal impact for the District. If approved, the District will incur cash outflows for broker commissions as well as tenant improvement (TI) allowances. Staff anticipates broker commissions will be approximately \$91,722, of which a portion is anticipated to be paid during FY 2020 and funded by the approved Seaport Village FY 2020 Operating Budget. Total TI allowances would be \$495,000. Due to lease structures and tenants' construction timelines, staff anticipates these TI allowances will be paid during both FY 2020 and FY 2021. Any TI allowances paid out during FY 2020 will be drawn from the FY 2020 Equipment Outlay and Other Capital Projects budget appropriation for tenant improvement allowances at Seaport Village, as was approved by the Board at the July 24, 2019 Board meeting. The remaining TI allowances for future fiscal years will be budgeted for in the appropriate year subject to Board approval upon adoption of each fiscal year's budget.

If these ordinances are adopted, staff anticipates approximately \$2.3M in cumulative, incremental rent over the 10-year term of these leases. Incorporating all of the cash inflows and outflows, staff estimates a 10-year IRR of 40% and an NPV of \$1.29M (using an 8% discount rate). Please see Attachments B and C for the economic terms and projections of each specific lease.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goal(s).

- A Port that the public understands and trusts.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

To date, the District has lease agreements in place with 61 tenants at Seaport Village and approximately 13 vacancies. Most of these vacancies are concentrated in the Lighthouse District on the east side of Seaport Village. The current tenant mix is comprised of 44 retail tenants, 16 food and beverage tenants (including restaurants, walk-up cafes, and specialty foods), and one second-floor

office tenant for related Seaport Village projects. In collaboration with staff and the Seaport Village property manager, Protea Property Management, Inc., Retail Insite has continued to actively market and list the existing vacancies to identify and source high caliber tenants with Public Trust compliant uses.

Leasing Efforts

At its November 5, 2019 meeting, the Board adopted ordinances granting three long-term leases to fill key vacancies at Seaport Village with Mike Hess Brewing Co., LLC, Signore Moto Corporation dba Mr. Moto Pizza and STB & Pot Head Coffee Seaport LLC dba Spill the Beans. Coupled with the District's strategic operational and financial investments to improve the overall experience and success of Seaport Village, the Board's adoption of ordinances for leases with these exciting local operators has 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. As a result, the District has begun to achieve its objectives of securing high-caliber, catalyst tenants to increase occupancy, generate greater momentum and energy for the shopping center and secure higher revenue to the District.

Consistent with the District's leasing strategy and prior Board feedback, Retail Insite continues to present staff with competitive LOIs from prospective tenants for market rate leases that contemplate both shorter lease terms (up to five years) and longer lease terms (more than five years) that provide high-caliber tenants with the ability to sufficiently amortize their up-front investment. In addition, for all leases with terms greater than five years, staff intends to include appropriate termination provisions should construction of the Central Embarcadero project commence before the end of the term.

Proposed Leases

As a result of staff and Retail Insite's joint efforts, staff has negotiated leases with two exceptional tenants to fill key spaces at Seaport Village: Seaport Entertainment, LLC and Seaport Market (locations of each space are shown in Attachment A). Summaries and descriptions of each tenant are provided below and full economic terms and projections for each lease are provided in Attachments B and C.

Seaport Entertainment, LLC - Suite E3 and Non-Exclusive Use of Lighthouse District Common Area Courtyard and Surrounding Walkway

As the owners and operators of Carnitas Snack Shack, LLC, The Broken Yolk Café, and the Little Italy Food Hall, San Diego-based hospitality group Grain & Grit Collective brings a wealth of experience with proven success to the Lighthouse District in Seaport Village. Operating as Seaport Entertainment, LLC, the hospitality group will have a full-service restaurant and bar with a "Sam the Cooking Guy" branded concept from television personality, author and restaurateur Sam Zien, in the two-story, Suite E3 space. Seaport Entertainment, LLC will also be granted a non-exclusive right to use of the Lighthouse District Common Area Courtyard and surrounding walkway (although the walkway is limited to patron and public ingress and egress, and cannot be blocked or obstructed by Seaport Entertainment, LLC). Leveraging their expertise in programming and activation of common area space, Seaport Entertainment, LLC will curate 4,690 square feet of space in the Lighthouse District Common Area Courtyard with family-friendly gaming, entertainment and special events such as live music, art nights, food and wine tastings, movie nights, cooking demos and other special

events for the enjoyment and use of customers and the general public.

Consistent with the lease for Carnitas Snack Shack, LLC, Seaport Entertainment, LLC would have the exclusive right to sell food and beverages that can be consumed in the non-exclusive use area of the Lighthouse District Common Area Courtyard and would be required to maintain and keep the area in good condition and repair. In addition to public activation, Seaport Entertainment, LLC would have the right to host private events that are temporarily closed to the public (such as corporate events) in the Lighthouse District Common Area Courtyard a maximum of 3 times per week during the months of September through May and 2 times per week during the months of June through August (each event occurring a maximum of one day). Seaport Entertainment, LLC must notice the District prior to any such private event, and the District has the right to deny an event if a previously scheduled public event (either by the District or its Seaport Village property manager) would conflict with the proposed private event. Pursuant to the negotiated lease, the District would retain the right to temporarily suspend or revoke Seaport Entertainment, LLC's non-exclusive use of the Lighthouse District Common Area Courtyard.

Currently, Suite E3 is under a short-term lease with Aloha Partners, L.P. dba Busters Beach House (Busters Beach House) which was extended for one year on October 1, 2019 at Busters Beach House's election in lieu of negotiating a new lease with the District for a term of up to five years. The one-year lease term extension, which expires on September 30, 2020, provides the District and Busters Beach House with a ninety (90) day, mutual termination right. Given the uncertainty of a future lease renewal with Busters Beach House, the District has an opportunity to partner with Seaport Entertainment, LLC to not only transform and enhance the Lighthouse District user experience to create a new and innovative concept branded by "Sam the Cooking Guy" for locals and visitors alike, but to also catalyze leasing activity throughout the Lighthouse District and Seaport Village. As a result, staff has negotiated a 10-year lease with one 5-year option to extend for a total potential term of 15 years with Seaport Entertainment, LLC. The option to extend will be exercisable at the tenant's discretion (provided the tenant is not in default under the terms of the lease). However, the District will maintain the right to terminate the lease, with 90 days' notice to Seaport Entertainment, LLC, any time after the end of Lease Year 5 in the event that (1) demolition and/or construction related to a redevelopment of the shopping center has commenced or will imminently commence, as approved by the Board and (2) is significantly impactful to the shopping center and the tenant's leasehold as determined in the District's discretion. In the event the District terminates the lease during Lease Year 6 or Lease Year 7, the District will be responsible for paying the tenant a termination fee of \$328,571.43.

Seaport Entertainment, LLC, will also maintain the right to terminate the lease, with 90 days' notice to the District, any time after the end of Lease Year 5, in the event that (1) demolition and/or construction related to any future redevelopment of the shopping center has commenced or will imminently commence, as approved by the Board and (2) is significantly impactful to the shopping center and tenant's leasehold. Additionally, Seaport Entertainment, LLC would be able to terminate if, in anticipation of future demolition and/or construction related to redevelopment of the shopping center, as approved by the Board, more than fifty percent (50%) of the rentable square footage of the shopping center is vacant. Lastly, Seaport Entertainment, LLC would also be able to terminate if (1) demolition and/or construction related to the shopping center (but not related to a redevelopment of the shopping center), as approved by the Board, has commenced or will imminently commence and (2) is significantly impactful to the tenant's leasehold and (3) more than fifty percent (50%) of the rentable square footage of the shopping center is vacant.

Since the primary purpose and intent of the Lighthouse District Common Area Courtyard is for public use, the District will be responsible for compliance with laws under the lease with Seaport Entertainment, LLC as it relates to (1) structural alterations made to the Lighthouse District Common Area Courtyard and Suite E3 and (2) alterations to the Lighthouse District Common Area Courtyard, unless such compliance requirements (alterations) are triggered by Seaport Entertainment, LLC's alterations or necessary approvals (i.e. permits). However, if District's costs for structural alterations to the Premises exceed \$200,000, Seaport Entertainment, LLC shall bear any additional costs above \$200,000 or may elect to terminate the Lease. This allocation of responsibility is consistent with the District's obligations under the lease with Carnitas Snack Shack, LLC, which assigns responsibility for structural modifications necessary to comply with legal requirements to the District. Furthermore, any compliance requirements triggering District action would have to be the result of a governmental or third-party claim, lawsuit, order, demand, directive, ruling or other action.

The proposed lease contemplates a TI allowance of \$495,000, which Seaport Entertainment, LLC may spend on tenant improvements or limited tenant fixtures. All improvements or fixtures for which reimbursement is sought must first be approved by the District, and the District retains ownership of any improvements or tenant fixtures for which reimbursement was paid (or may elect to have tenant remove the fixtures at the end of the lease term). Staff estimates a 10-year IRR of 34% and an NPV of \$958,733 (using an 8% discount rate). A summary of the economic terms and projections for the Seaport Entertainment, LLC lease is provided in Attachment B. A copy of the proposed lease with Seaport Entertainment, LLC is attached as Attachment D.

Prior to Seaport Entertainment, LLC's occupancy and use of the premises, the District must exercise its termination right to Busters Beach House, which requires them to vacate Suite E3 within ninety (90) days. Once Busters Beach House has vacated, the District would deliver possession of Suite E3 to Seaport Entertainment, LLC and the lease with Seaport Entertainment, LLC would commence.

Seaport Market - C6A-A and C6A-B

Seaport Market is a convenience store that sells wine and alcohol for off-site consumption and will provide a much-needed use and fill two key vacancies in the Lighthouse District, Suites C6A-A and C6A-B (together, approximately 838 square feet). Its current location in the BRIC on Harbor Drive (Intercontinental Hotel) has been a hit with customers, and the owners look to continue their success at Seaport Village. Staff has negotiated a 10-year lease with Seaport Market, which staff estimates will result in a 10-year IRR of 123% and an NPV of \$337,560 (using an 8% discount rate). The lease contemplates zero TI allowance and a District termination right after Lease Year 5, with no termination fee. A summary of Seaport Market economic terms and projections for the lease is provided in Attachment C. A copy of the proposed lease with Seaport Market is attached as Attachment E.

Staff Recommendation and Next Steps

The proposed leases would allow the District to continue to achieve its objectives of securing high-caliber, catalyst tenants to increase occupancy, generate greater momentum and energy for the shopping center, and secure higher revenue to the District. For these reasons, staff recommends the Board adopt ordinances granting leases to Seaport Entertainment, LLC and Seaport Market.

As staff progresses toward meeting the District's goals for leasing at Seaport Village, staff will keep the Board updated as to the operations, leasing activity and efforts for Seaport Village.

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:

The proposed Board actions to approve ordinances granting leases to Seaport Entertainment, LLC and Seaport Market, are within the scope of the Coastal Act Categorical Determination of Exclusion (Categorical Determination) issued by the District on August 9, 2018 and a revised Categorical Determination was issued on October 30, 2019 for lease agreements for the continuation of existing uses at the shopping center currently known as Seaport Village (the Seaport Leasing Project). The District concluded that the Seaport Leasing Project, as described in the Categorical Determination, was categorically exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15301 and/or Section 3.a. (Existing Facilities) of the District's Guidelines for Compliance with CEQA. The proposed Board action is not a separate "project" for CEQA purposes but is a subsequent discretionary approval related to a previously approved project. (CEQA Guidelines § 15378(c); *Van de Kamps Coalition v. Board of Trustees of Los Angeles Comm. College Dist.* (2012) 206 Cal.App.4th 1036.) Accordingly, the proposed Board action is merely a step-in furtherance of the original project for which environmental review was performed, and no further environmental review is required.

The proposed Board actions comply with sections 21, 35, and 87 of the Port Act, which allow the Board to pass ordinances and to do all acts necessary and convenient for the exercise of its powers, and for the use of tidelands 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 Board actions are consistent with the Public Trust Doctrine.

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. A Categorical Determination was previously issued for this project on August 9, 2018, and a revised Categorical Determination was previously issued for this project on October 31, 2019; therefore, issuance of a Coastal Development Permit or subsequent Exclusion is not required for the proposed Board action. 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 proposed Board actions in no way limit the exercise of the District's discretion under the District's CDP Regulations.

Equal Opportunity Program:

Not applicable.

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Attachment(s):

Attachment A:	Seaport Village Site Map and Proposed Premises Map
Attachment B:	Lease Information Summary for Seaport Entertainment, LLC
Attachment C:	Lease Information Summary for Seaport Market
Attachment D:	Lease Agreement with Seaport Entertainment, LLC
Attachment E:	Lease Agreement with Seaport Market