



Legislation Text

File #: 2021-0290, Version: 1

DATE: September 14, 2021

SUBJECT:

SEAPORT VILLAGE:

A) ORDINANCE GRANTING A LEASE TO HAMPTONS NEWPORT BEACH, LLC DBA SHOREBIRD FOR A FULL-SERVICE RESTAURANT AND BAR LOCATED AT 885 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 \$227,500 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

B) 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

C) RESOLUTION AUTHORIZING AMENDMENT NO. 4 TO THE AGREEMENT WITH R.I. PROPERTIES, INC. DBA RETAIL INSITE (RETAIL INSITE) FOR COMMERCIAL REAL ESTATE BROKER SERVICES FOR SEAPORT VILLAGE TO INCREASE THE MAXIMUM AMOUNT PAYABLE UNDER THE AGREEMENT BY \$450,000 FOR A TOTAL AGGREGATE AMOUNT NOT TO EXCEED \$1,050,000 AND WAIVING BOARD OF PORT COMMISSIONERS POLICY NO. 114 - PAYMENT OF COMMISSIONS FOR THE LEASING OF TIDELANDS. ALL FUNDS REQUIRED FOR FUTURE FISCAL YEARS WILL BE BUDGETED IN THE APPROPRIATE FISCAL YEAR, SUBJECT TO BOARD APPROVAL UPON ADOPTION OF EACH FISCAL YEAR'S BUDGET

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 of approximately \$7.8M in site enhancements, activations, deferred maintenance and tenant improvement allowances 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.

The District's vision and strategic investments into Seaport Village have resulted in the successful repositioning and revitalization of a 40-year-old, waterfront shopping center, with combined total revenue to the District of approximately \$20M and gross sales generated by Seaport Village tenants in excess of \$104M over the past three years. With over 6.3M visitors to Seaport Village since 2018, the District continues to achieve its objectives to increase visitorship and attract additional foot traffic throughout the shopping center. To date, the District has successfully filled 18 spaces with a variety of uses including unique specialty retailers, full-service and fast-casual restaurants, walk up cafes and a specialty market among other new and exciting offerings. The Board's adoption of ordinances for transformational leases at Seaport Village with exceptional operators 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 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. It also allowed the District to achieve its objective of securing tenancies quickly and generating higher revenues back to the District, with over \$13.5M in projected net cash flows from these new leases.

Despite recent impacts to the retail market and overall economy from the COVID-19 pandemic, Seaport Village is performing stronger than ever. With the increasing market demand for space, the District's broker, Retail Insite, continues to present the District with highly competitive letters of intent (LOIs) from extraordinary prospective tenants. Today, the District is in a position to source high performing, innovative food & beverage operators with proven success as new anchor tenant restaurant destinations at the shopping center. To leverage the incredible successes of Seaport Village over the past three years, today, staff seeks the Board's approval of ordinances granting leases to (1) Hamptons Newport Beach, LLC dba Shorebird (Shorebird) and (2) SD 4 Fish LLC dba Gladstone's (Gladstone's), two phenomenal and highly successful restaurant operators with operations on the West Coast that would anchor Seaport Village in the Carousel District on the west side of the shopping center. Proposed long-term leases with Shorebird and Gladstone's would provide the District with an opportunity to create valued partnerships with highly sought-after operators, 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.

Combined, the two leases are projected to generate \$6.8M in net cash flow over the 10-year term of the leases, a highly competitive internal rate of return (IRR) to the District of 38% with a net present value (NPV) of \$3.7M. Consistent with past Board feedback to staff, the proposed leases include termination provisions which would enable the District to terminate the lease after the fifth lease year in the event of future redevelopment of the Central Embarcadero. In the event the District were to terminate in the sixth lease year, the proposed lease with Shorebird would generate an IRR of 45% and NPV of \$765,587 to the District. Under the same scenario, the proposed lease with Gladstone's would generate an IRR of 11% and NPV of \$371,494 to the District. Combined, the proposed leases also include up to \$1,477,500 tenant improvement (TI) allowance that would be paid by the District in the first or second quarter of FY 2023 and budgeted for as further described in the Fiscal Impact section below.

To execute on the District's leasing initiatives, additional funding for commission fees associated with the leases for Shorebird and Gladstone's is required. Staff is seeking the Board's approval of Amendment No. 4 to the Agreement between the District and R.I. Properties, Inc., dba Retail Insite for Real Estate Broker Services (Retail Insite Agreement). Under the Retail Insite Agreement, the maximum amount of commissions payable to Retail Insite over the term of the Retail Insite Agreement is \$600,000. The proposed amendment would increase the total maximum expenditure under the Agreement to \$1,050,000 to provide for commissions on the leases with Shorebird and Gladstone's and support the District's leasing initiatives overall at Seaport Village. Anticipated broker commissions of approximately \$260,500 will be due for the Shorebird and Gladstone's leases in FY 2023. Please see Attachment B - Amendment No. 4 to the Retail Insite Agreement (Amendment No. 4).

As further discussed below, staff recommends the Board adopt ordinances granting leases to Shorebird and Gladstone's and authorize Amendment No. 4 to the Retail Insite Agreement.

RECOMMENDATION:

A) Adopt an Ordinance Granting a Lease to Hamptons Newport Beach, LLC dba Shorebird for a Full-Service Restaurant and Bar Located at 885 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 \$227,500 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

B) Adopt an 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

C) Adopt a Resolution Authorizing Amendment No. 4 to the Agreement with R.I. Properties, Inc. dba Retail Insite (Retail Insite) for Commercial Real Estate Broker Services for Seaport Village to Increase the Maximum Amount Payable Under the Agreement by \$450,000 for a Total Aggregate Amount Not To Exceed \$1,050,000 and Waiving Board of Port Commissioners Policy No. 114 - Payment of Commissions for the Leasing Of Tidelands. All Funds Required for Future Fiscal Years will be Budgeted in The Appropriate Fiscal Year, Subject To Board Approval Upon Adoption Of Each Fiscal Year's Budget

FISCAL IMPACT:

Adopting these ordinances granting leases to Shorebird and Gladstone's will have a positive fiscal impact to the District, as staff anticipates approximately \$6.8M in net cash flow over the 10-year term of the leases, a highly competitive IRR to the District of 38% with an NPV of \$3.7M (using an 8% discount rate). If the leases with Shorebird and Gladstone's are approved, the District would incur cash outflows for broker commissions in the amount of approximately \$260,500 and TI allowances in an amount up to \$1,477,500 (\$227,500 for Shorebird and \$1,250,000 for Gladstone's). Due to the lease structures and expected construction timelines for Shorebird and 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. Broker commissions would be budgeted in the District's Non-Personnel Expense (NPE) budget for Seaport Village commissions and TI allowances would be budgeted in the Equipment Outlay and Other Capital Projections Appropriation for Seaport Village TI Allowances. Therefore, any cash outflows incurred by the District resulting from these leases would not impact the District's FY 2022 budget constraints associated with the COVID-19 pandemic. Please see Attachment C and Attachment D for the economic terms and projections of the leases.

COMPASS STRATEGIC GOALS:

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

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

DISCUSSION:

At the February 12, 2019 Board of Port Commissioners (Board) meeting, staff gave a presentation to the Board on the interim management and operations of Seaport Village including recommendations for maintenance, leasing and activation. Staff presented several strategies and goals for the shopping center that could be implemented to improve operations, create momentum and interest in the shopping center, and generate short-term returns to the District by increasing revenues, securing tenancies and repositioning Seaport Village to the public in a positive light, including:

- Explore additional revenue generating opportunities;
- Activate underutilized portions of the shopping center;
- Attract additional foot traffic;
- Create a testing ground for new ideas and concepts with retail and public space;
- Collaborating with stakeholders to advance common goals; and
- Hedging downside risk and reducing tenant vacancies.

To implement these strategies, the Board approved investment funding of approximately \$2.2M towards deferred maintenance, site enhancements and activations for the shopping center. At its July 24, 2019 meeting, the Board also approved a \$3M appropriation for tenant improvement allowances at Seaport Village, to achieve the District's goal of executing new market rate leases within the shopping center with high-caliber tenants to fill vacancies and ensure the continued viability of Seaport Village.

Since then, staff has worked in close coordination with the District's property manager, Protea Property Management, Inc. and the District's broker, Retail Insite, to transform Seaport Village into a vibrant waterfront destination along the San Diego bayfront for locals and visitors. With approximately \$20M in combined total revenue to the District and over \$104M in gross sales generated by Seaport Village tenants over the past three years, the District is in a position to leverage its successes to source highly innovative and experienced prospective tenants with Public Trust compliant uses.

To date, the District has successfully filled 18 spaces with a variety of uses including specialty retail, full-service and fast-casual restaurants, walk-up cafes and a specialty market, among other new and exciting offerings. The shopping center is approximately 92% occupied and the District has lease agreements in place with 60 tenants at Seaport Village and approximately 6 vacancies. Most of these vacancies are concentrated in the Lighthouse District on the east side of the shopping center. The current tenant mix is comprised of 39 retail tenants and 21 food and beverage tenants.

Proposed Leases

As a result of staff and Retail Insite's joint efforts, staff has negotiated leases with two transformative and renowned restaurant operators to fill two key anchor spaces at Seaport Village in the Carousel District on the west side of the shopping center: (1) Shorebird and (2) Gladstone's (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 C and D.

Shorebird - Suite B-1

The WildThyme Restaurant Group currently operates a collection of 20 restaurants on the West Coast, including the highly successful Shorebird, a California coastal inspired eatery specializing in seafood and steaks with locations in Newport Beach, CA and Sedona, AZ. The WildThyme Restaurant Group was founded in 2009 and has established several successful concepts in its portfolio, including the highly popular Jay Bird's Nashville Hot Chicken. As their first location in San Diego County, Shorebird would anchor Seaport Village at Suite B-1, an approximately 2,272 square foot, two-story over-water structure on San Diego Bay. Shorebird would offer patrons a first-class, over-water dining experience in the Carousel District on the west side of Seaport Village featuring a wood-fire grill and rotisserie, a selection of fresh fish, sushi and nigiri items as well as a full-service bar. With a wide range of offerings as a new and innovative food and beverage anchor, a tenant like Shorebird would catalyze leasing activity, overall foot traffic and continue to build momentum for the shopping center as a vibrant and exciting waterfront destination.

Currently, Suite B-1 is under a short-term lease with Water View Restaurants, Inc. dba San Diego Pier Café (Pier Café) which was extended on September 30, 2020 for an additional year. On June 24, 2021, the District received written notice from Pier Café to extend its lease term for an additional year, commencing on October 1, 2021. The one-year lease term extension provides the District and Pier Café with a ninety (90) day termination right that can be exercised by either party at any time. Under the proposed lease with Shorebird, the District has no obligation or requirement to terminate the existing lease with Pier Café unless and until such time as Shorebird has secured all of its necessary approvals to commence construction of tenant improvements and has provided notice to the District accordingly. Therefore, during the time in which Shorebird is working to secure its necessary approvals, Pier Café would continue to operate the space and pay rent to the District in accordance with its lease, provided it does not exercise its ninety (90) day termination right. This would provide certainty and ensure continued operations for Pier Café as staff would continue to work closely with Pier Café and Shorebird to establish a smooth transition plan for both operators.

Staff has negotiated a 10-year lease with Shorebird, which staff estimates will result in a 10-year IRR of 55% and an NPV of \$1,457,798 (using an 8% discount rate). The lease contemplates a TI allowance of \$227,500 and a minimum required investment spend of \$750,000 in order to upgrade the existing infrastructure of the space to be modeled consistent with the operator's brand and vision,

similar to the Newport Beach and Sedona locations. The lease also provides for a District termination right after lease year 5. In the event the District terminates the lease after lease year 5, the District would be responsible for paying Shorebird termination fees as follows: \$100,000 in lease year 6, \$75,000 in lease year 7, \$50,000 in lease year 8, \$25,000 in lease year 9. There is no termination fee for terminating in lease year 10 or beyond. A copy of the proposed lease with Shorebird is attached as Attachment E.

Gladstone's - Suite W-9

Malibu's historic beachside restaurant, Gladstone's was founded in 1972. In 2004, LB 4 Fish LLC, a licensee of the Gladstone's brand, opened a full-service, upscale Gladstone's restaurant located at the Pine Avenue Pier in Long Beach, CA. As an experienced waterfront restaurant operator, Gladstone's would anchor Seaport Village at Suite W-9, a 9,684 square foot space with an outdoor wrap-around patio located along the promenade in the Carousel District. As its first location in San Diego County, Gladstone's would bring a fresh, new concept to Seaport Village with a focus on classic seafood dishes including fish plates, king crab, and Maine lobster among other offerings. Together with Shorebird, Gladstone's would create strong synergies with the current food and beverage operators in the Carousel District and draw both locals and visitors as an exciting new dining destination with proven success.

Currently, Suite W-9 is under a short-term lease with Water View Restaurants, Inc. dba Edgewater Grill (Edgewater Grill), the same ownership group as the Pier Café. The short-term lease with Edgewater Grill was extended on September 30, 2020 for an additional year. On June 24, 2021, the District received written notice from Edgewater Grill to extend its lease term for an additional year, commencing on October 1, 2021. The one-year lease term extension provides the District and Edgewater Grill with a ninety (90) day termination right that can be exercised by either party at any time. Under the proposed lease with Gladstone's, the District has no obligation or requirement to terminate the existing lease with Edgewater Grill unless and until such time as Gladstone's has secured all of its necessary approvals to commence construction of tenant improvements and has provided notice to the District accordingly. Therefore, during the time in which Gladstone's is working to secure its necessary approvals, Edgewater Grill would continue to operate the space and pay rent to the District in accordance with its lease, provided it does not exercise its ninety (90) day termination right. Like Pier Café, this would provide certainty and ensure continued operations for Edgewater Grill as staff would continue to work closely with Edgewater Grill and Gladstone's to establish a smooth transition plan for both operators.

Staff has negotiated a 10-year lease with Gladstone's, which staff estimates will result in a 10-year IRR of 32% and an NPV of \$2,316,175 (using an 8% discount rate). The lease with Gladstone's contemplates a TI allowance in an amount of \$1,250,000 and a minimum required investment spend of \$2,250,000, based on the magnitude and scope of work to improve existing infrastructure of the space to be modeled similar to its Long Beach location. The lease also provides for a District termination right after lease year 5. In the event the District terminates the lease after lease year 5, the District would be responsible for paying Gladstone's termination fees as follows: \$750,000 in lease year 6, \$650,000 in lease year 7, and \$550,000 in lease year 8 or lease year 9. There is no termination fee for terminating in lease year 10 or beyond. A copy of the proposed lease with Gladstone's is attached as Attachment F.

Amendment No. 4 to Retail Insite Agreement

To support the District's leasing initiatives at Seaport Village and to provide for commissions on the proposed leases with Shorebird and Gladstone's, staff is seeking Board approval of Amendment No. 4 to the Retail Insite Agreement to amend the total maximum expenditure to \$1,050,000. Under the Retail Insite Agreement, the maximum amount of commissions payable to Retail Insite over the term of the Retail Insite Agreement is \$600,000. The proposed amendment would increase the total maximum expenditure under the Agreement to \$1,050,000 to provide for commissions on the leases with Shorebird and Gladstone's of approximately \$260,500 and support the District's leasing initiatives overall at Seaport Village to date. As described in the Fiscal Impact section, anticipated broker commissions for both leases would be paid in FY 2023. Please see Attachment B - Amendment No. 4 to the Retail Insite Agreement (Amendment No. 4).

In accordance with BPC Policy No. 110, the existing Retail Insite Agreement must be amended and presented to the Board for authorization. Therefore, staff recommends the Board authorize Amendment No. 4 to the Retail Insite Agreement and waive BPC Policy No. 114 Payment of Commissions for the Leasing of Tidelands.

Staff Recommendation

The District's vision and strategic investments into Seaport Village have resulted in the successful repositioning and revitalization of the shopping center. The proposed leases with Shorebird and Gladstone's would provide the District with an opportunity to partner with renowned, first-class restaurant operators and continue to catalyze leasing activity and attract additional foot traffic for Seaport Village as an exciting waterfront destination for both locals and visitors alike. For these reasons, staff recommends the Board adopt ordinances granting leases to Shorebird and Gladstone's.

The proposed amendment to the Retail Insite Agreement would support the District's leasing initiatives at Seaport Village and provide for commissions on the proposed leases with Shorebird and Gladstone's. Therefore, staff also recommends the Board authorize Amendment No. 4 to the Retail Insite Agreement and waive BPC Policy No. 114 Payment of Commissions for the Leasing of Tidelands.

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 two ordinances granting leases and one resolution authorizing an amendment to an existing agreement, 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 actions are not a separate "project" for CEQA purposes but are subsequent discretionary approvals 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 actions are 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.

Diversity, Equity, and Inclusion Program:

This agenda item has no direct DEI impact.

PREPARED BY:

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Attachment(s):

Attachment A:	Seaport Village Site Map and Proposed Premises Map
Attachment B:	Amendment No. 4 to the Agreement with Retail Insite
Attachment C:	Lease Information Summary for Shorebird
Attachment D:	Lease Information Summary for Gladstone's
Attachment E:	Lease with Shorebird
Attachment F:	Lease with Gladstone's