



## Legislation Text

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File #: 2022-0261, Version: 1

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**DATE:** October 11, 2022

**SUBJECT:**

### **SEAPORT VILLAGE:**

**A) ORDINANCE GRANTING A LEASE TO 807 SEAPORT LLC DBA 3<sup>RD</sup> BASE FOR A FULL-SERVICE RESTAURANT AND BAR LOCATED AT 807 W. HARBOR DRIVE IN SAN DIEGO FOR AN APPROXIMATELY 10-YEAR INITIAL TERM PLUS ONE 5-YEAR OPTION TO EXTEND (FOR A TOTAL POTENTIAL TERM OF APPROXIMATELY 15 YEARS) WITH \$760,000 IN TENANT IMPROVEMENT ALLOWANCE TO BE BUDGETED IN THE FISCAL YEAR (FY) 2024 EQUIPMENT OUTLAY AND OTHER CAPITAL PROJECTS APPROPRIATION FOR SEAPORT VILLAGE TENANT IMPROVEMENTS ALLOWANCES**

**B) RESOLUTION AUTHORIZING AMENDMENT NO. 5 TO THE AGREEMENT WITH R.I. PROPERTIES, INC. DBA RETAIL INSITE (RETAIL INSITE) FOR COMMERCIAL REAL ESTATE BROKER SERVICES FOR SEAPORT VILLAGE TO 1) INCREASE THE MAXIMUM AMOUNT PAYABLE UNDER THE AGREEMENT BY \$250,000 FOR A TOTAL AGGREGATE AMOUNT NOT TO EXCEED \$1,300,000 AND 2) INCREASE THE TERM OF THE AGREEMENT BY ONE (1) YEAR FOR A TOTAL TERM OF SIX (6) YEARS 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**

### **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 improvements, which consist of 32 buildings, including one over-water structure. Since then, the District has made strategic operational and financial investments of approximately \$9.1M 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 Doctrine compliant uses.

Over the past four years, the District has successfully transformed Seaport Village into a vibrant and prosperous waterfront destination with new and exciting offerings for locals and visitors. The District's

effective repositioning and revitalization of the 42-year-old waterfront shopping center has resulted in combined total revenue to the District of approximately \$29.6M and gross sales generated by Seaport Village tenants in excess of \$170M over the past four years. With over nine million 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 24 spaces with various 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 adoption by the Board of Port Commissioners (Board) of ordinances for transformational leases at Seaport Village with exceptional operators including Malibu Farm, Shorebird, Gladstone's, Mike Hess Brewing, Mr. Moto Pizza, Spill the Beans Coffee, Louisiana Charlie's 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 to ensure continued vitality of the site and generating higher revenues back to the District to invest in new Seaport Village tenancies and other District land, with over \$15M in projected net cash flows from these new leases.

As demand for space at Seaport Village persists, the District's broker, R.I. Properties, Inc. dba Retail Insite (Retail Insite), continues to present the District with highly competitive letters of intent (LOIs) from well-qualified operators. Today, the District is positioned to secure a high-performing and dynamic operator with proven success as a new anchor tenant restaurant destination at the shopping center. To continue the incredible achievements of Seaport Village over the past four years, staff seeks the Board's adoption of an ordinance granting a lease to 807 Seaport LLC dba 3<sup>rd</sup> Base (3<sup>rd</sup> Base), a company that will be operated by the same individual who operates the highly experienced hospitality group, Cedar Restaurant Group, LLC (Cedar Restaurant Group). The proposed long-term lease with 3<sup>rd</sup> Base (Lease, Attachment D) would provide the District with an opportunity to fill a critical vacancy in the Lighthouse District on the east side of the shopping center, create a valued partnership with a highly sought-after operator, continue to elevate the existing dining and shopping experience at Seaport Village and capstone the District's success in achieving its objectives for the shopping center.

The Lease is projected to generate \$2.3M in net cash flow over the approximately 10-year initial term of the Lease, a highly competitive internal rate of return (IRR) to the District of 26% with a net present value (NPV) of \$1.1M. Consistent with past Board feedback to staff, the proposed Lease includes a standalone termination provision, separate from termination due to a tenant default, which would enable the District to terminate the Lease after month fifty-sixth (56) of the fifth lease year, upon giving 180 days' advance notice in writing to 3<sup>rd</sup> Base, which notice can be provided prior to month fifty-six (56). For clarification the first lease year commences as of the Rent Commencement Date, which may not occur until January 1, 2024. The District may exercise this right as a matter of right and without cause, but may need to pay 3<sup>rd</sup> Base a termination fee if the District exercises its termination right between the first day of the fifty-sixth (56<sup>th</sup>) month of the fifth lease year and the last day of the eighth lease year. Commencing with the ninth lease year, the District is no longer required to pay 3<sup>rd</sup> Base a fee to terminate the Lease. The proposed Lease includes a \$760,000 tenant improvement (TI) allowance that would be projected to be paid by the District in the first or second quarter of FY 2024 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 Lease for 3<sup>rd</sup> Base is required. Staff is seeking the Board's approval of Amendment No. 5 to the

Agreement between the District and 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 is \$1,050,000. The proposed fifth amendment would increase the total maximum expenditure under the Agreement to \$1,300,000 to provide sufficient funds to pay for the commission payable on the Lease with 3<sup>rd</sup> Base and leave additional funds to continue to support the District's leasing strategy to fill the remaining four (4) vacancies in the shopping center for lease terms of five (5) years or less. Anticipated broker commissions of approximately \$134,118 are projected to be due for the 3<sup>rd</sup> Base lease in FY 2024. Please see Attachment B - Amendment No. 5 to the Retail Insite Agreement (Amendment No. 5). This will leave approximately \$116,000 for commissions for leases for the remaining vacancies. Since additional vacancies remain at Seaport Village, staff is also recommending that the term of the Retail Insite Agreement be extended for an additional year from June 30, 2023, to June 30, 2024.

Under Board Policy No. 114 (Payment of Commissions for the Leasing of Tidelands), the payment of commissions to real estate brokers for securing leases on tidelands and the amounts must be approved by the Board. Since the Retail Insite Agreement covers the payment of commissions to Retail Insite for Seaport Village, the Retail Insite Agreement was previously authorized by the Board, and Amendment No. 5 is being brought to the Board for authorization, staff recommends the waiver of Board Policy No. 114.

As further discussed below, staff recommends the Board adopt the ordinance granting the Lease to 3<sup>rd</sup> Base and adopt the resolution authorizing Amendment No. 5 to the Retail Insite Agreement.

This agenda item is on the consent agenda and with passage of the consent agenda, the Board approves item B before item A.

#### **RECOMMENDATION:**

A) Adopt an Ordinance Granting a Lease to 3<sup>rd</sup> Base with \$760,000 in TI Allowance to be Budgeted in the FY 2024 Equipment Outlay and Other Capital Projects Appropriation for Seaport Village TI Allowances

B) Adopt a Resolution Authorizing Amendment No. 5 to the agreement with Retail Insite and Waiving Board Policy No. 114. All Funds Required for Future Fiscal Years will be Budgeted in The Appropriate Fiscal Year, Subject To Board Approval

#### **FISCAL IMPACT:**

Adopting an ordinance granting the Lease to 3<sup>rd</sup> Base will have a positive fiscal impact to the District, as staff anticipates approximately \$2.3M in net cash flow over the approximately 10-year initial term of the Lease, a highly competitive IRR to the District of 26% with an NPV of \$1.1M (using an 8% discount rate). If the ordinance is adopted, the District would incur cash outflows for broker commissions in the amount of approximately \$134,118 and TI allowance in an amount up to \$760,000. Due to the requirements in the Lease and expected construction timeline for 3<sup>rd</sup> Base, staff anticipates that broker commissions and the TI allowance would be due by the District in the first or second quarter of FY 2024, and as a result, if Amendment No. 5 to the Retail Insite Agreement is approved, would be budgeted in the FY 2024 budget. Broker commissions would be budgeted in the District's Non-Personnel Expense (NPE) budget for Seaport Village commissions and TI allowance would be budgeted in the Equipment Outlay and Other Capital Projections Appropriation for Seaport

Village TI Allowances. Please see Attachment C for the economic terms and projections of the Lease.

### **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:**

Since assuming ownership of the Seaport Village assets in 2018, the District has successfully achieved its objectives of securing high-caliber, catalyst tenants to increase occupancy, generate greater momentum for the shopping center and secure higher revenue to the District. Over the past four years, 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.

To date, the District has successfully filled 24 spaces with a variety of uses including specialty retail, full-service and fast-casual restaurants, walk-up cafés, and a specialty market, among other new and exciting offerings. Currently, the shopping center is approximately 92% occupied and the District has lease agreements in place with 60 tenants at Seaport Village and approximately 5 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 41 retail tenants and 19 food and beverage tenants.

#### *Proposed Lease with 3<sup>rd</sup> Base*

As a result of staff and Retail Insite's joint efforts, staff has negotiated a lease with 3<sup>rd</sup> Base, a subsidiary of Cedar Restaurant Group, a transformative and prominent restaurant operator, to fill a critical anchor space at Seaport Village in the Lighthouse District on the east side of the shopping center (location shown in Attachment A). A summary and description of the tenant is provided below, and full economic terms and projections for the Lease are provided in Attachment C.

#### *3<sup>rd</sup> Base - Suite E3*

Cedar Restaurant Group owns and operates several restaurants in its portfolio throughout southern California, including Hollywood's iconic Yamashiro restaurant, 3<sup>rd</sup> Base LA, San Diego's Sugar Factory American Brasserie, and King & Queen Cantina. 3<sup>rd</sup> Base would anchor Seaport Village at Suite E3, an approximately 7,989 square foot anchor restaurant, 622 square foot outdoor wrap around patio, and 2,842 square foot Lighthouse District Courtyard for a total of 11,453 square feet. With the operator's foresight and industry expertise, 3<sup>rd</sup> Base plans to offer patrons a first-class dining experience at Seaport Village by creating an inviting, warm bungalow-themed environment consisting of an elevated American fare menu and a full lineup of cocktails, craft beer, and wine. 3<sup>rd</sup> Base would anchor the Lighthouse District, increase market demand for the remaining vacancies and attract additional foot traffic to the east side of the shopping center. With a wide range of offerings as a new and innovative food and beverage anchor, a tenant like 3<sup>rd</sup> Base would catalyze leasing activity, draw visitors to the Lighthouse District and solidify the shopping center as a vibrant waterfront destination.

Staff has negotiated an approximately 10-year lease with 3<sup>rd</sup> Base, which staff estimates will result in a 10-year IRR of 26% and an NPV of \$1.1M (using an 8% discount rate). The Lease contemplates a TI allowance of \$760,000 and a minimum required investment spend of \$2,500,000 to facilitate the necessary improvements in building infrastructure upgrades and to adequately activate the Lighthouse District. As one of the conditions to disbursements of the TI allowance, the Lease requires the tenant to provide final, unconditional lien waivers and releases in statutory form for all contractors, subcontractors, and materialmen who performed work or supplied materials in connection with the completion of the initial tenant improvements. The Lease also provides for a District termination right commencing on the first day of month fifty-six (56) of lease year 5. If the District terminates the Lease after month fifty-six (56) of lease year 5, the District may be responsible for paying 3<sup>rd</sup> Base termination fees as follows: \$750,000 from month 56 of lease year 5 through lease year 7 and \$650,000 in lease year 8. The District does not need to pay a termination fee to 3<sup>rd</sup> Base after Lease Year 8. In addition, commencing on the first day of month fifty-six (56) of lease year 5, the District would also have the right to relocate 3<sup>rd</sup> Base but would be responsible for paying certain costs and expenses.

A copy of the proposed Lease with 3<sup>rd</sup> Base is attached as Attachment D.

#### *Amendment No. 5 to Retail Insite Agreement*

To support the District's leasing initiatives at Seaport Village and to provide for funding to pay for the commissions on the proposed Lease with 3<sup>rd</sup> Base, staff is seeking Board approval of Amendment No. 5 to the Retail Insite Agreement to amend the total maximum expenditure to \$1,300,000 and increase the term of the Retail Insite Agreement by one (1) year for a total term of six (6) years. Under the Retail Insite Agreement, the maximum amount of commissions payable to Retail Insite over the term of the Retail Insite Agreement is \$1,050,000. The proposed amendment would increase the total maximum expenditure under the Agreement to \$1,300,000 to provide for commissions on the Lease with 3<sup>rd</sup> Base of approximately \$134,118 and support the District's leasing strategy to fill the remaining four (4) vacancies in the shopping center for lease terms of five (5) years or less with the remaining amount of approximately \$116,000. As described in the Fiscal Impact section, anticipated broker commissions for the Lease would be paid in FY 2024.

On July 17, 2018, after a competitive solicitation process, the Board selected Retail Insite as the successful proposer to the Request for Proposals (RFP 18-23ME: Commercial Real Estate Broker for Seaport Village Specialty Retail Center) for the agreement to list and market retail space on the District's behalf for Seaport Village. The term of the Retail Insite Agreement will expire on June 30, 2023. To support the District's leasing strategy to fill the remaining vacancies in the shopping center, staff recommends that the Retail Insite Agreement term be extended by one (1) year for a total term of six (6) years. Please see Attachment B - Amendment No. 5.

Under Board Policy No. 114 (Payment of Commissions for the Leasing of Tidelands), the payment of commissions to real estate brokers for securing leases on tidelands and the amounts must be approved by the Board. Since the Retail Insite Agreement covers the payment of commissions to Retail Insite for Seaport Village, the Retail Insite Agreement was previously authorized by the Board, and Amendment No. 5 is being brought to the Board for authorization, staff recommends the waiver of Board Policy No. 114. Therefore, staff recommends the Board authorize Amendment No. 5 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 successfully repositioning and revitalizing the shopping center. The proposed Lease with 3<sup>rd</sup> Base would allow the District to capitalize and create a new transformative partnership with a high-caliber restaurant operator with a proven ability to perform. It would build momentum, continue to generate leasing activity, and attract additional foot traffic for Seaport Village as an exciting, new waterfront restaurant destination for locals and visitors alike. For these reasons, staff recommends the Board adopt the ordinance granting the Lease to 3<sup>rd</sup> Base.

The proposed Amendment No. 5 to the Retail Insite Agreement would support the District's leasing initiatives at Seaport Village and provide additional funding to pay for the expected commission on the proposed lease with 3<sup>rd</sup> Base and other vacancies at Seaport Village. Therefore, staff also recommends the Board authorize Amendment No. 5 to the Retail Insite Agreement and waive BPC Policy No. 114 (Payment of Commissions for the Leasing of Tidelands).

### **General Counsel's Comments:**

The Office of the General Counsel has reviewed this agenda sheet and Attachments B and D as presented to it and approves this agenda sheet and Attachments B and D as to form and legality.

### **Environmental Review:**

The proposed Board actions, including without limitation, ordinance granting a lease to 3<sup>rd</sup> Base for a full-service restaurant and bar located at 807 W. Harbor Drive in San Diego for a 10-year term plus one 5-year option to extend with \$760,000 in tenant improvement allowance to be budgeted in the Fiscal Year (FY) 2024 equipment outlay and other capital projects appropriation for Seaport Village tenant improvements; and, resolution authorizing amendment No. 5 to the agreement with R.I. Properties, Inc. dba. Retail Insite for commercial real estate broker services for Seaport Village to increase the maximum amount payable under the agreement by \$250,000 for a total aggregate amount not to exceed \$1,300,000 and waiving Board of Port Commissioners Policy No. 114 - Payment of Commissions for the Leasing of Tidelands, do not constitute a project under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because there is not a potential to result in a direct or indirect physical change in the environment. Therefore, the proposed Board actions are not subject to CEQA and no further action under CEQA is required.

The proposed Board actions comply with Sections 21 and 35 of the Port Act, which allow the Board to pass resolutions; and to do all acts necessary and convenient for the exercise of its powers. 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 Regulations. Therefore, issuance of a Coastal Development Permit or an exclusion finding is not required.

### **Diversity, Equity, and Inclusion Program:**

Due to limited known sub opportunities, no SBE goal was established for the Commercial Real Estate Broker Services for Seaport Village Agreement.

**PREPARED BY:**

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**Attachment(s):**

Attachment A:	Seaport Village Site Map and Proposed Premises Map
Attachment B:	Amendment No. 5 to the Agreement with Retail Insite
Attachment C:	Lease Information Summary for 3 <sup>rd</sup> Base
Attachment D:	Lease with 3 <sup>rd</sup> Base