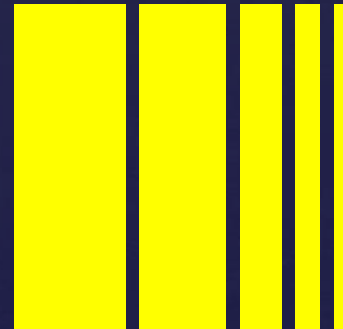


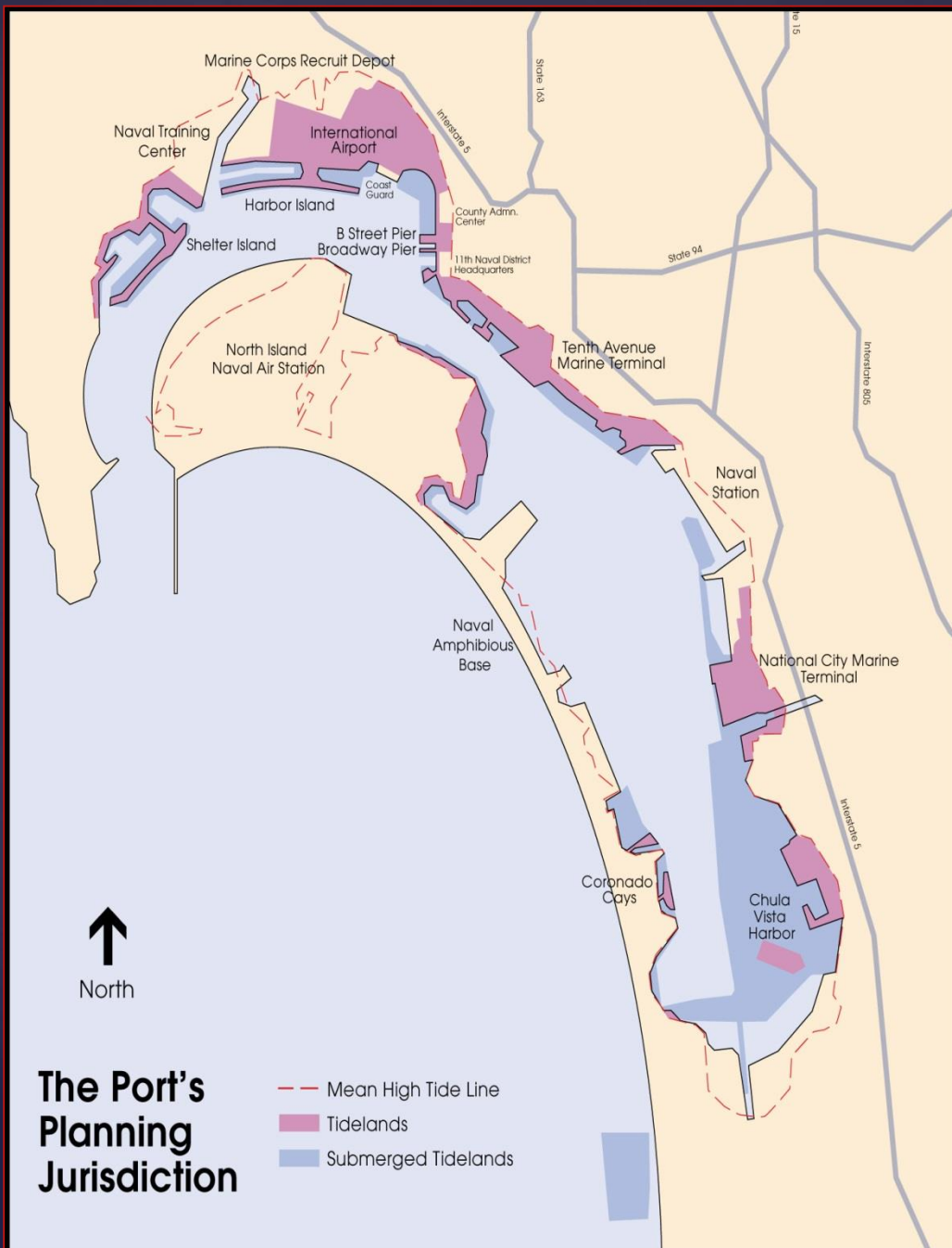
Port of San Diego

{ Ground Leasing on San Diego Bay
AAPA Real Estate Seminar | December 9, 2015
Shaun D. Sumner, Acting Vice President of Operations



- Port 101: Who we are and what we do
- Ground Leases: Port-Specific Issues
- Port Rents (Hotel Focus): Performance and Valuation
- Case Study: InterContinental Hotel at Lane Field South
- Closing remarks

Presentation Agenda



The Port encompasses 2,403 acres of land and 3,535 acres of water.

Five Member Cities:

- Chula Vista
- Coronado
- Imperial Beach
- National City
- San Diego



Dan Malcolm
Chairman



Marshall Merrifield
Vice Chairman



Dukie Valderrama
Secretary



Garry Bonelli



Rafael Castellanos



Ann Moore



Bob Nelson

Board of Port Commissioners

What We Do



Harbor Police



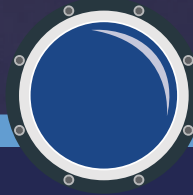
- Land/Water
- Firefighting
- Airport



Maritime



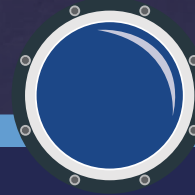
- Cruise
- Cargo
- Strategic Port



Recreation



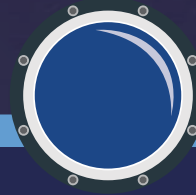
- 22 Parks
- 150 Acres
- Special Events



Environmental and Land Use



- Land Use Planning
- Green Programs
- Restoration



Real Estate Development



- 800 Leaseholds
- Development

General Overview

- Created in 1962 by the CA legislature
- Government agency (Brown Act)
- Oversight by State Lands Commission
- Market participant (lease / develop land)
- Taxing authority but no taxes since 70's

Responsibilities

- Promote commerce, navigation, recreation, and fisheries
- Environmental obligations
- Fiduciary duty to the people of CA



Port Act and Public Trust



- Approximately 527 employees
- Includes 123 Harbor Police Officers
- 11 departments in several facilities throughout Port tidelands

FY 2015/2016 Revenue Budget	
Real Estate	\$ 93.46 million
Maritime	\$ 35.72 million
Harbor Police	\$ 14.73 million
Other / Misc.	\$ 3.22 million
TOTAL	\$147.13 million

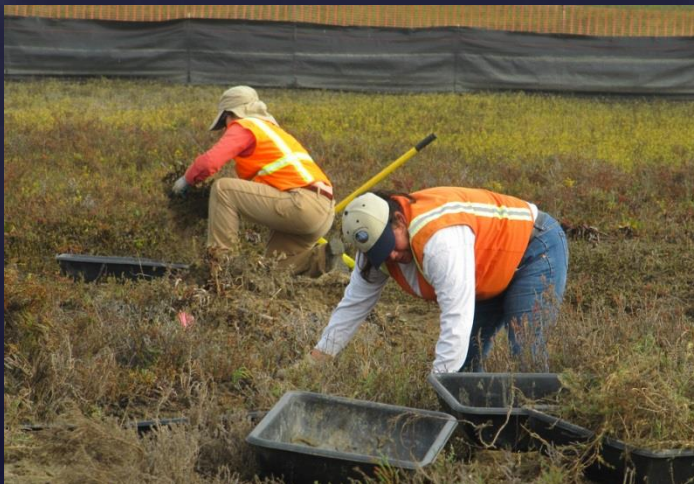
Port by the Numbers

- Two maritime cargo terminals
- B Street Cruise Ship Terminal
- Port Pavilion (Broadway Pier)
- SD Convention Center
- South Bay Wildlife Refuge
- NC Marine Terminal Wharf
- Airport terminals / expansions
- 22 dedicated public parks
- Shelter Island
- Harbor Island
- National City Marina Basin

Investment: \$1.7 billion since 1963

Environmental Stewardship

- Green Port Program
- Green Business Network
- Environmental Fund
- Grant funded projects
- Restoration projects
- Climate Action Plan



Recreation



Public Safety



Maritime Operations / Trade





- Approx. 800 business agreements
- 16 Hotels (about 8,000 rooms)
- 73 Restaurants (more than 13,000 seats)
- Cargo tenants & cargo operator
- 3 Shipyards & 9 Boatyards
- 25 Marinas, Yacht Clubs, sportfishing landings (7,626 slips)
- 3 Retail Centers (Seaport Village, Coronado Ferry Landing, and The Headquarters)

Port Tenant Businesses

Ground Leases

{ Port-specific issues

- Visitor-serving retail and restaurants
- Hotels and ancillary uses
- Maritime industrial
- Marinas / water-dependent uses
- Other commercial recreational uses
- No residential OR general office

Acceptable Uses

Port Act limits maximum lease term

- No more than 66 years for any grant / license

Board Policy No. 355 guides term for uses

- Hotels: 40 to 66 years
- Marinas: 40 years
- Restaurants: 20 to 40 years
- Retail: 30 to 45 years
- Shipyard / Industrial: 50 years
- Other uses vary

Term Considerations

- Port should obtain market rent as negotiated
- Lease provisions should be updated to standard
- Port should be compensated for deferral of its reversionary interest in the improvements
- Lease uses should be consistent with Port Master Plan
- Plan of development must be acceptable to the Port

Policy Considerations

Case Study

{ Proposed Lane Field South

North Embarcadero and Vicinity

"B" Street Pier (Cruise)

Lane Field

NEVP Phase 1

USS Midway Museum

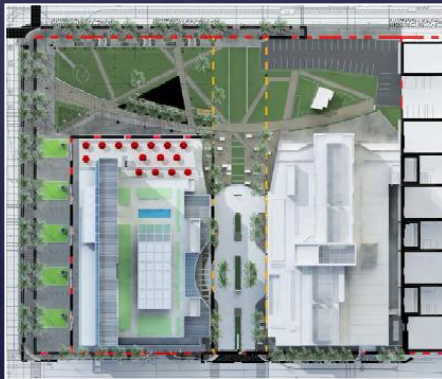


Oblique View of Lane Field North and South, 1220 Pacific Hwy, and Setback Park



InterContinental Hotel at Lane Field South

- \$218 million project
- 400 hotel rooms
- InterContinental
- 32,000 sf of retail
- 686 parking spaces
- Groundbreaking by early 2016



District Staff

- Lead Negotiator: Jenner Smith
- Supervising Area Manager: Tony Gordon

Consultants

- Maurice Robinson (Development)
- PKF Consulting (Peer Review / Analysis)

The Port Team

Objectives

- Develop a surface parking lot into a hotel complex
- Maximize rental income while satisfying public policy requirements

Development Program

- Total project cost of approximately \$207 million
- 400-room InterContinental (or comparable brand)
- Also allows for two brands in one tower
- Visitor-serving retail, restaurants
- Site parking and general public parking
- Completion of adjacent public parks, amenities

Leasing Lane Field South

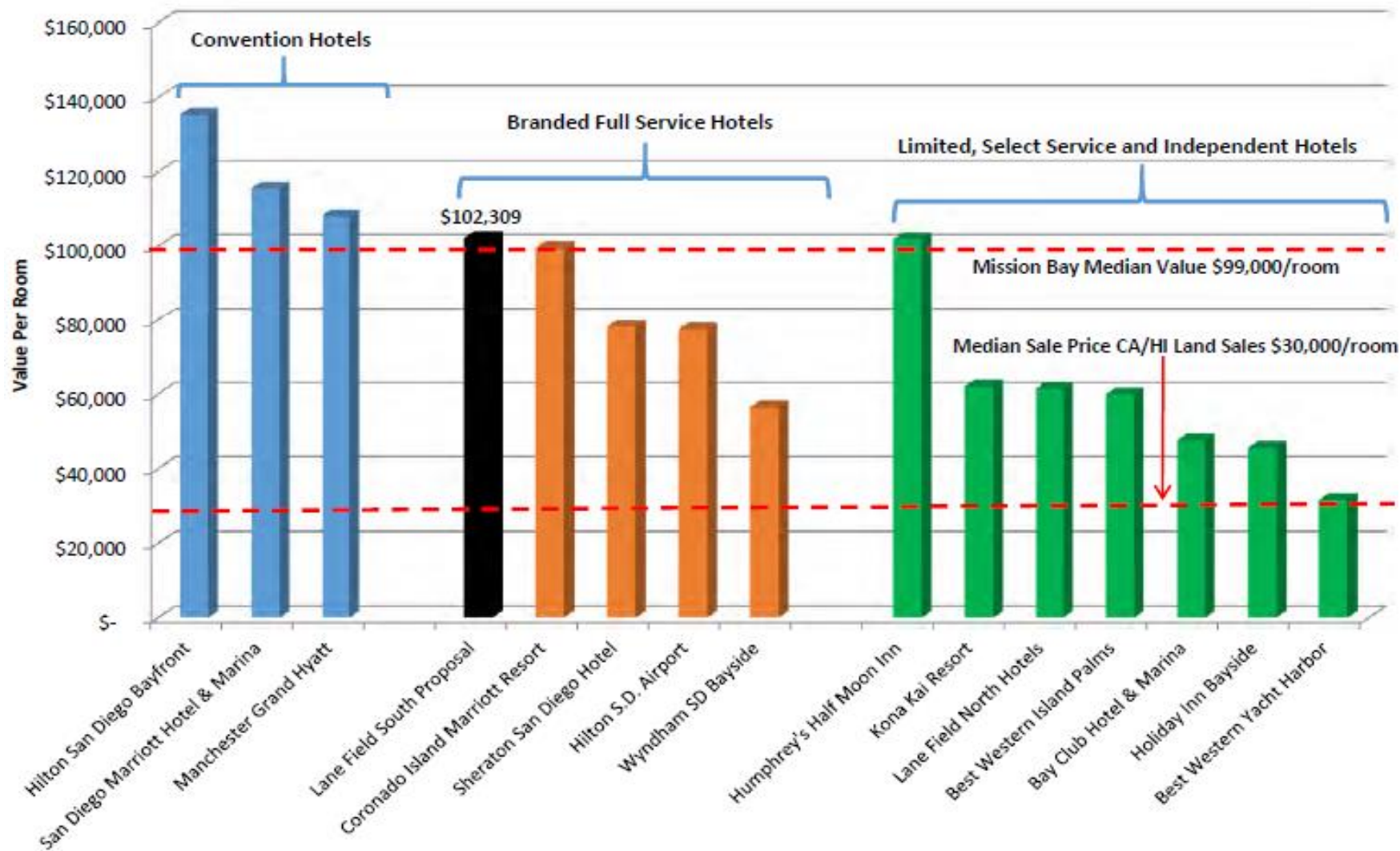
- Construction of park space within a 55' setback
- An additional 271 public parking spaces
- \$3 million in-lieu fee for affordable accommodations
- Prevailing wages on hotel construction
- Union operations for the hotel
- Maintenance of an adjacent public park

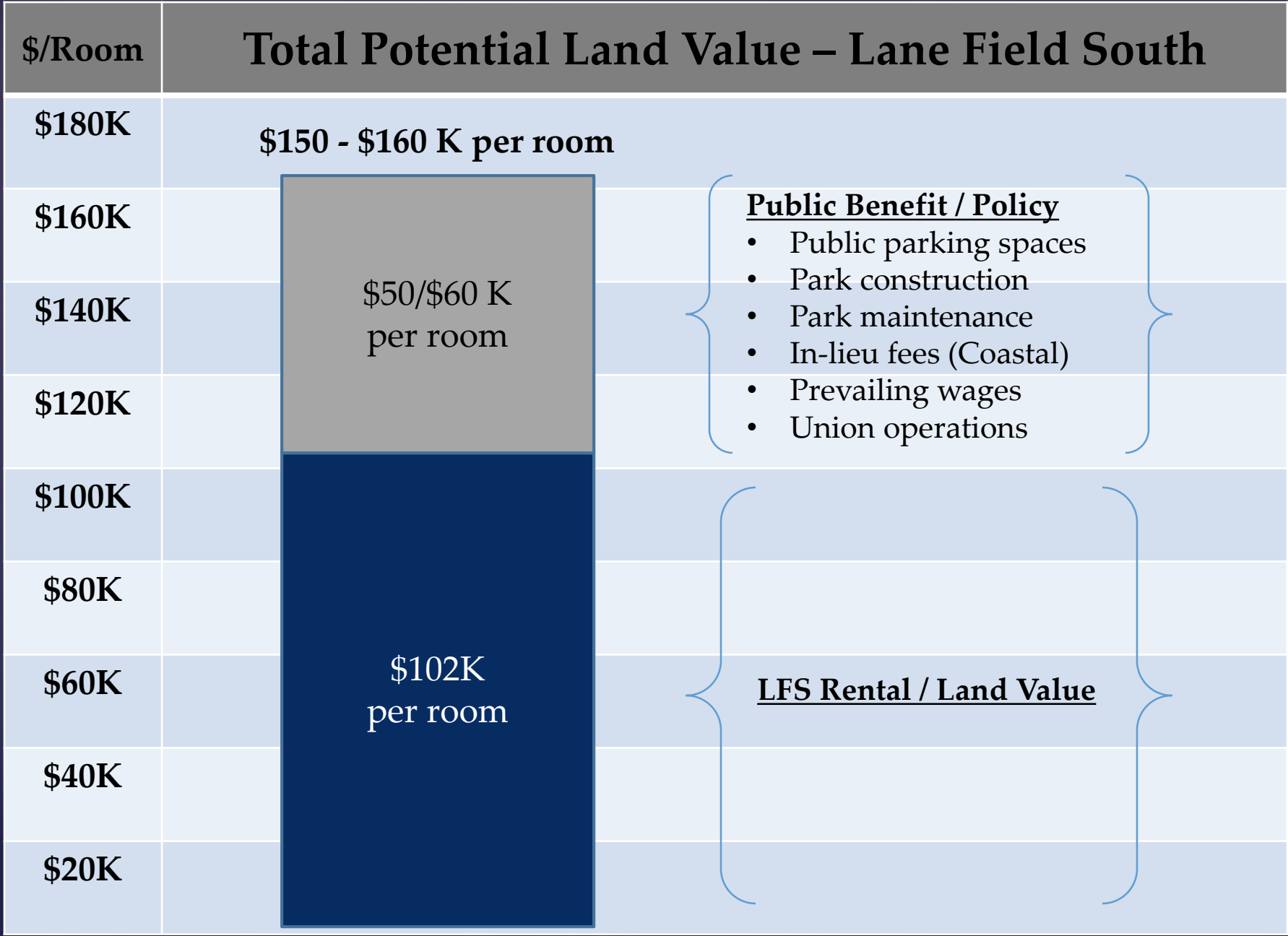
Public Policy Matters

- 66 year term
- Rent ramps up over 25 years
- Fixed percentage rate increases:
 - Rooms from 7% to 8% to 9%
 - Food from 3% to 4% to 5%
 - Beverages from 5% to 6% to 7%
- Minimum annual rent look-backs
- 85 basis points to the Port on assignments

Lane Field South Lease

One Approach to Port Hotel Land Values





Thank You

{ Q&A