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
Board of Port Commissioners

Dan Malcolm
Chairman

Marshall Merrifield
Vice Chairman

Dukie Valderrama
Secretary

Garry Bonelli

Rafael Castellanos

Ann Moore

Bob Nelson
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>$ 93.46 million</td>
</tr>
<tr>
<td>Maritime</td>
<td>$ 35.72 million</td>
</tr>
<tr>
<td>Harbor Police</td>
<td>$ 14.73 million</td>
</tr>
<tr>
<td>Other / Misc.</td>
<td>$ 3.22 million</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$147.13 million</strong></td>
</tr>
</tbody>
</table>
Investment: $1.7 billion since 1963

- 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
Environmental Stewardship

- Green Port Program
- Green Business Network
- Environmental Fund
- Grant funded projects
- Restoration projects
- Climate Action Plan
Recreation
Public Safety
Maritime Operations / Trade
Port Tenant Businesses

- 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)
Ground Leases

\{ 
  \text{Port-specific issues} 
\}
Acceptable Uses

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

- **Convention Hotels**
- **Branded Full Service Hotels**
- **Limited, Select Service and Independent Hotels**

- Mission Bay Median Value $99,000/room
- Median Sale Price CA/HI Land Sales $30,000/room

<table>
<thead>
<tr>
<th>Hotel</th>
<th>Value Per Room</th>
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<tbody>
<tr>
<td>Hilton San Diego Bayfront</td>
<td></td>
</tr>
<tr>
<td>Marriott Hotel &amp; Marina</td>
<td></td>
</tr>
<tr>
<td>Manchester Grand Hyatt</td>
<td></td>
</tr>
<tr>
<td>Coronado Island Marriott Resort</td>
<td></td>
</tr>
<tr>
<td>Sheraton San Diego Hotel</td>
<td></td>
</tr>
<tr>
<td>Hilton S.D. Airport</td>
<td>$102,309</td>
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<tr>
<td>Wyndham SD Bayside</td>
<td></td>
</tr>
<tr>
<td>Humphrey’s Half Moon Inn</td>
<td></td>
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<tr>
<td>Kona Kai Resort</td>
<td></td>
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<tr>
<td>Lane Field North Hotels</td>
<td></td>
</tr>
<tr>
<td>Best Western Island Pains</td>
<td></td>
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<tr>
<td>Bay Club Hotel &amp; Marina</td>
<td></td>
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<tr>
<td>Holiday Inn Bayside</td>
<td></td>
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<tr>
<td>Best Western Yacht Harbor</td>
<td></td>
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<tr>
<td>$/Room</td>
<td>Total Potential Land Value – Lane Field South</td>
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<tr>
<td>--------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>$180K</td>
<td>$150 - $160 K per room</td>
</tr>
<tr>
<td>$160K</td>
<td>$50/$60 K per room</td>
</tr>
<tr>
<td>$140K</td>
<td>$102K per room</td>
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**Public Benefit / Policy**
- Public parking spaces
- Park construction
- Park maintenance
- In-lieu fees (Coastal)

- Prevailing wages
- Union operations

**LFS Rental / Land Value**
Thank You

{ Q&A }