

SAN DIEGO UNIFIED PORT DISTRICT

DATE: July 7, 2007

SUBJECT: PRESENTATION AND DIRECTION TO DISTRICT STAFF REGARDING REDEVELOPMENT OF THE SHELTER ISLAND ENTRANCE CORRIDOR

EXECUTIVE SUMMARY:

At the intersection of Shelter Island Drive and Anchorage Lane are two properties that could be redeveloped. On the southeasterly corner are several marine sales and service tenancies (North Sails Group, Inc., Harold D. O'Neal dba Custom Marine Electronics, Gordon S. Barienbrock dba Crow's Nest Yacht and Ship Brokerage, and The Marlin Club) and a 67-space public parking lot ("MS&S Site"). The MS&S Site consists of approximately 77,000 square feet of land and 55,000 square feet of water. See attached drawing of EXISTING PROPERTIES. At its August 8, 2006 meeting, the Board authorized option and lease negotiations for the MS&S Site with North Bay Development, LLC; however, negotiations were unsuccessful. The MS&S Site is currently master-planned for a marine sales and services development.

On the southwesterly corner is approximately 89,000 square feet of land developed with a 238-space public parking lot ("Commercial Rec Area"). See attached drawing of EXISTING PROPERTIES. This property has a Port Master Plan designation of "commercial-recreation" which allows potential retail, restaurant and hotel uses. The specific use for this property will require a Port Master Plan Amendment and an EIR may be required.

Following are two redevelopment alternatives for these properties:

- Alternative A - Issue a Request for Proposals ("RFP") solely for redevelopment of the entire MS&S Site.
- Alternative B - Issue two separate RFPs: one RFP for redevelopment of the portion of the MS&S Site that is presently rented to Barienbrock and Marlin Club ("Corridor Site") and another RFP for redevelopment of the balance of the MS&S Site (i.e., North Sails, O'Neal and 67-parking spaces) in combination with the Commercial Rec Area ("Anchorage Lane Site").

District staff will make a presentation to the Board regarding redevelopment options and will request Board direction. Within three weeks following Board direction, staff anticipates having the RFP (or RFPs) completed and available for purchase.

RECOMMENDATION:

Hear presentation and give direction to District staff regarding redevelopment of the Shelter Island Entrance Corridor.

FISCAL IMPACT:

Issuance of the RFP (or RFPs) will not result in any significant fiscal impact to the District. If the MS&S Site or the Corridor Site and the Anchorage Lane Site are redeveloped, it is anticipated that District revenue from these properties will increase.

DISCUSSION:

Portions of the MS&S Site are currently rented to four tenants (i.e., North Sails Group, Inc.; Harold D. O'Neal dba Custom Marine Electronics; Gordon S. Barienbrock, dba Crow's Nest Yacht and Ship Brokerage; and The Marlin Club). Principals of three of the four tenants expressed interest in redeveloping the MS&S Site and were to be members in an entity called North Bay Development, LLC ("NBD"). At its August 8, 2006 meeting, the Board authorized negotiations with NBD; however, negotiations were unsuccessful primarily because NBD did not believe it could afford to pay the rent that was indicated by District appraisals in the area. The terms of these four agreements, which are on month-to-month holdover, are summarized on the attached EXISTING TIDELAND USE AND OCCUPANY PERMITS INFORMATION SUMMARIES.

One of the four tenants, the Marlin Club, is a non-profit organization incorporated in 1958 which provides a free, certified weight station for the angling public and promotes sportsmanship and sport angling competition in the San Diego area. The Marlin Club has occupied a parcel of approximately 10,000 square feet of land and 24,000 square feet of water at a nominal rent for many years. So that the Marlin Club's value to the boating community is preserved, both RFP alternatives described below require the developer to accommodate the Marlin Club with minimized club space and minimized rent.

Staff recommends consideration by the Board of two alternatives for issuing RFPs for development of the MS&S Site plus the Commercial Rec Area. Listed below are items that will be included in any/all Requests for Proposal followed by a listing for each alternative of: (a) the different RFP factors and (b) the advantages and (c) disadvantages of that alternative.

Items to Be Included in Any/All Requests for Proposal:

- Proposers must submit a completed questionnaire form along with financial statements, renderings/site layout drawings depicting the proposed project, an economic feasibility study for the proposed project, and a \$25,000 good faith refundable deposit.
- Proposers are required to propose the rent for the entire site, in accordance with Board Policy 355.

- The RFP requests that proposers not contact Board members in conjunction with the RFP and provides that such contact is grounds for rejection of a proposal.
- At a future meeting, the Board will be requested to hear oral presentations from up to three proposers and authorize an Exclusive Negotiating Agreement (ENA) with one of the proposers.
- The terms of the proposed 60-days' ENA are summarized on the attached ALTERNATIVE A - EXCLUSIVE NEGOTIATING AGREEMENT INFORMATION SUMMARY.
- The terms of the proposed 15-month Option Agreement are summarized on the attached ALTERNATIVE A - OPTION AGREEMENT INFORMATION SUMMARY.
- The terms of the proposed 40-year Lease are summarized on the attached ALTERNATIVE A - LEASE INFORMATION SUMMARY.

Alternative A – RFP for the Entire MS&S Site

RFP Requirements- Alternative A:



ALTERNATIVE - A

Developer must provide:

- 30,000 maximum square feet of marine sales and services buildings
- 10'-wide shoreline promenade and 9,000-square-foot public park/plaza
- Water access for dock and dine/water taxi use
- Marlin Club use at minimal rent: 400 square feet of office/storage space, weigh station area, and public dock similar to existing long dock (which can also be used to fulfill the water taxi requirement)

In addition, agreements with the existing four tenants will be assigned to the selected proposer allowing the proposer to relocate or evict the existing tenants and at the proposer's option, require them to demolish their existing improvements.

Advantages of Alternative A

- Has entitlements for 30,000 square feet of marine sales and service – and can be developed in the near term
- Market rent proposals allow District to test the rental market
- Marine sales and service businesses (vs. developers) may be more interested to bid on this alternative – which may mean higher marine sales and service rent, and occupancy by direct water-serving users

Disadvantages of Alternative A

- May not be economically viable and perhaps no proposals will be received
- Precludes the possibility of subsequent Port Master Plan Amendment allowing a restaurant (or other commercial use) on the waterfront
- Does not provide for redevelopment of the Commercial Rec Area

Alternative B– Two RFP's

- 1. RFP for Redevelopment of the Corridor Site**
- 2. Separate RFP for Anchorage Lane Site**

RFP Requirements Alternative B:



ALTERNATIVE - B

Corridor Site (current Barienbrock and Marlin Club sites):

Developer must provide:

- 10,000 maximum square feet of marine sales and services buildings
- 10'-wide shoreline promenade
- Water access for dock and dine/water taxi use
- Adequate parking for new development
- Marlin Club use at minimal rent: 400 square feet of office/storage space, weigh station area, and public dock similar to existing long dock (which can also be used to fulfill the water taxi requirement)

The RFP would allow the developer to consider relocating Anchorage Lane to the west and to close the portion of Canon Street north of San Diego Yacht Club. It would also provide that agreements with the two existing tenants will be assigned to the selected proposer allowing the proposer to relocate or evict the existing tenants and at the proposer's option, require them to demolish their existing improvements.

Anchorage Lane Site (Remainder of MS&S site plus Commercial Rec Area):

Developer:

- May propose a retail center, restaurant, or hotel as well as marine sales and services uses
- Must obtain entitlements including CEQA, Coastal and a Port Master Plan Amendment for all commercial uses
- Must replace existing 238 parking spaces in Commercial Rec Area plus parking required for new development

In addition, Lease term may be increased to 50 years if the proposed use for the Anchorage Lane Site is a hotel

Advantages of Alternative B

- Allows two different types of developers to propose (i.e., a user-developer may propose on the Corridor Site and real estate developers on the Anchorage Lane Site)
- The Corridor Site has the requisite entitlements; can be developed in the near-term
- Market rent proposals allow District to test the rental market
- Increased revenue to the District on the newly developed portion of the Anchorage Lane Site
- If same developer selected for both properties, the two developments should have a unified design theme
- If same developer selected for both properties, the developer risk can be offset by income from MS&S Site
- Revenue can continue from North Sails and Custom Marine Electronics (and those tenants can remain in place) until a redevelopment plan is under construction
- Allows the developer to pursue commercial use on the waterfront on a portion of the MS&S Site
- Opportunity to increase efficiency of land area which includes the Commercial Rec Area plus Anchorage Lane plus the portion of Canon Street north of the San Diego Yacht Club

Disadvantages of Alternative B

- Entitlements required for redevelopment of the Commercial Rec Area and any change in use of the MS&S Site
- Multi-level development on the Commercial Rec Area may be opposed by adjacent upland property owners

- Probable delay in redevelopment of 20,000 square feet of entitled marine sales and service uses if developer chooses to seek change to land use designation in marine sales and service portion of Anchorage Lane Site

Staff Recommendation

Staff recommends Alternative B because it allows immediate redevelopment and near-term market rent for a portion of the property while preserving possibilities for more comprehensive planning for both the Commercial Rec Area and some of the MS&S area waterfront. Income can continue to be received from North Sails and Custom Marine Electronics as well as the 10,000 square foot development while longer-term planning is being considered on the Anchorage Lane Site.

Alternative B also allows for boat brokers and other marine sales businesses to develop the Corridor Site while a real estate developer experienced with the entitlement processes could bid just on the Anchorage Lane Site, which could result in higher bids for each parcel.

Board Direction Requested

The Board's direction is requested for the following items:

1. Should staff issue an RFP for Alternative A or two RFP's for Alternative B?
2. Should the selected developer(s) be required to negotiate in good faith with North Sails Group, Inc., Harold D. O'Neal, and Gordon S. Barienbrock (the three existing for-profit tenants) to lease space in the developer's new project but not be required to lease space to them at below market rates? These tenants have all been in their existing locations for 30 years or more.
3. If Alternative B is selected, should the District contract with a land use planning/economic consultant to recommend uses for the Commercial Rec Area and square footages for each recommended use prior to issuing the RFP? Or should the RFPs for Alternative B be issued now with the requirement that each proposer propose uses that are supported by an economic feasibility study and that a Port Master Plan Amendment will be a prerequisite condition for the exercise of the option?
4. Should the District offer to provide partial or total rent credits for developing a public park/plaza and/or promenade?

Port Attorney's Comments:

Not applicable.

Environmental Review:

This proposed Board action is not subject to CEQA, as amended.

Equal Opportunity Program:

Not applicable.

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EXISTING PROPERTIES



Geographic Information Systems (GIS)

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**EXISTING TIDELAND USE AND OCCUPANCY PERMITS
INFORMATION SUMMARIES**

Tenant: **Gordon S. Barienbrock dba Crow's Nest Yacht and Ship Brokerage**

Location: 2515 Shelter Island Drive

Area: 7,500 sq. ft. – land; 25,885 sq. ft. - water

Use: Sale of new and used boats, boat engines, boat parts and boat accessories

Term: Month-to-month

Rent: \$5,851 per month

Existing Improvements: 1,336 sq. ft. one-story building, seven double-wide slips and 13 parking spaces

Demolition Obligation: District has option to require Tenant to demolish existing improvements.

Tenant: **North Sails Group, Inc.**

Location: 1111 Anchorage Lane

Area: 18,494 sq. ft. - land

Use: Manufacture, sale and repair of sails, flags, cordage, rigging and marine canvas

Term: Month-to-month

Rent: \$7,258 per month

Existing Improvements: 17,526 sq. ft. two-story building and two parking spaces

Demolition Obligation: District has option to require Tenant to demolish existing improvements.

Tenant: Harold D. O'Neil dba Custom Marine Electronics

Location: 2525 Shelter Island Drive

Area: 7,202 sq. ft. - land

Use: Marine electronics sales and service, sailmaking, yacht brokerage, yacht management and new boat sales and service business

Term: Month-to-month

Rent: \$5,833 per month

Existing Improvements: 4,753 sq. ft. two-story building

Demolition Obligation: District has option to require Tenant to demolish existing improvements.

Tenant: The Marlin Club

Location: 2445 Shelter Island Drive

Area: 10,000 sq. ft. – land; 24,125 sq. ft. - water

Use: Activities of an organization promoting marlin fishing

Term: Month-to-month

Rent: \$75 per month

Existing Improvements: 974 sq. ft. one-story building, pier with float, two double-wide slips, and five parking spaces

Demolition Obligation: District has option to require Tenant to demolish existing improvements.

**ALTERNATIVE A -
EXCLUSIVE NEGOTIATING AGREEMENT INFORMATION SUMMARY**

Location:	Southeasterly corner of Shelter Island Drive and Anchorage Lane.
Area:	Land – 76,699 sq. ft.; Water – 55,485 sq. ft.
Required Improvements:	<ul style="list-style-type: none"> • 30,000 sq. ft. of marine sales and services buildings (not more than two buildings); • Piers and slips that do not result in any increase in water shading; • Ten-foot-wide public promenade along entire shoreline. • Public park/plaza of approximately 9,000 sq. ft. • Shoreline protection based on professional engineer's recommendations. • Parking that is adequate for all on-site uses.
Term:	60 days but may be extended by 30 days in District's sole discretion.
Good Faith Deposit:	\$25,000
Option Agreement and Lease Terms to be Negotiated:	<p><u>Option Agreement</u></p> <ul style="list-style-type: none"> • Consideration amount. <p><u>Lease</u></p> <ul style="list-style-type: none"> • Project development • Minimum construction cost of all improvements. • Personal guarantee of lease for first three years of lease. <p>Note: The above lease items will be proposed by the selected proposer in its RFP submittal. The District may accept the terms of the proposal or make a counter-proposal during the Exclusive Negotiating Agreement term.</p>

**ALTERNATIVE A -
OPTION AGREEMENT INFORMATION SUMMARY**

Location:	Southeasterly corner of Shelter Island Drive and Anchorage Lane.
Area:	Land – 76,699 sq. ft.; Water – 55,485 sq. ft.
Required Improvements:	<ul style="list-style-type: none"> • 30,000 sq. ft. of marine sales and services buildings (not more than two buildings); • Piers and slips that do not result in any increase in water shading; • Ten-foot-wide public promenade along entire shoreline. • Public park/plaza of approximately 9,000 sq. ft. • Shoreline protection based on professional engineer's recommendations. • Parking that is adequate for all on-site uses.
Term:	15 months but may be extended by up to 3 months in District's discretion and Optionee payment of additional consideration.
Consideration:	Amount to be negotiated during Exclusive Negotiating Agreement term.
Optionee Conditions Precedent to Option Exercise:	<ul style="list-style-type: none"> • <u>If necessary</u>, Environmental and Port Master Plan Amendment (PMPA) processing completed. • Schematic drawings; preliminary plans; and working drawings approved by District. • Public Art approved by the Port. • Development permits obtained, construction contract awarded and performance bond posted. • Project financing consented to by District, lease security deposit posted, and Equal Employment Opportunity Program submitted.

**ALTERNATIVE A -
LEASE INFORMATION SUMMARY**

Location:	Southeasterly corner of Shelter Island Drive and Anchorage Lane.
Area:	Land – 76,699 sq. ft.; Water – 55,485 sq. ft.
Required Improvements:	<ul style="list-style-type: none"> • 30,000 sq. ft. of marine sales and services buildings (not more than two buildings); • Piers and slips that do not result in any increase in water shading; • Ten-foot-wide public promenade along entire shoreline. • Public park/plaza of approximately 9,000 sq. ft. • Shoreline protection based on professional engineer's recommendations. • Parking that is adequate for all on-site uses.
Term:	40 years.
Use:	Boat sales, boat charters, boat rentals, sailing school, ship chandlery, marine hardware sales, marine electronic sales, sailmaking, sail repair, making boat covers, food and beverage service from a walk-up, window-type restaurant, offices for visitor-serving and maritime uses, Marlin Club facility, intermittent rental of slips, bicycle rentals, and parking. In addition, public park/plaza, and public promenade to be kept open for public use between 6:00 a.m. and 10:30 p.m. daily, unless directed otherwise by Executive Director.
Rent:	Rents to be determined during the Exclusive Negotiating Agreement (ENA) term
CPI Rent Adjustments of Minimum Rent:	Every 10 years commencing on the 5 th anniversary of the lease.
Open Rent Reviews:	Every 10 years commencing on the 10 th anniversary of the lease.
Lessee Construction:	18 months. Minimum construction amount to be determined during ENA term.
Guarantee:	Personal guarantee may be negotiated during ENA term.
Miscellaneous:	<ul style="list-style-type: none"> • Lessee responsible for demolition of existing improvements at its sole cost if not demolished by existing tenants. • Lessee to maintain Public Park/Plaza at its sole cost. • Lessee to maintain public promenade at its sole cost. • Lessee to maintain shore protection at its sole cost. • Lessee to comply with District Recreational Dockage Requirement.