

SAN DIEGO UNIFIED PORT DISTRICT

DATE: April 6, 2010

SUBJECT: PROPOSED HOTEL AND PHASE 3 EXPANSION OF THE SAN DIEGO CONVENTION CENTER

- A) PRESENTATION ON THE PROPOSED EXPANSION HOTEL AND PHASE 3 EXPANSION OF THE SAN DIEGO CONVENTION CENTER**
- B) RESOLUTION CONSENTING TO THE ASSIGNMENT AND ASSUMPTION OF LEASE FROM FIFTH AVENUE LANDING, LLC TO THE SAN DIEGO CONVENTION CENTER CORPORATION**
- C) ORDINANCE GRANTING AMENDED, RESTATED AND COMBINED LEASE TO SAN DIEGO CONVENTION CENTER CORPORATION ENDING JUNE 30, 2024**
- D) RESOLUTION CONSENTING TO A \$12.5 MILLION DEED OF TRUST SECURED BY THE SAN DIEGO CONVENTION CENTER CORPORATION LEASEHOLD INTEREST IN FAVOR OF FIFTH AVENUE LANDING, LLC**
- E) ORDINANCE GRANTING 20-YEAR LEASE WITH TWO FIVE YEAR OPTIONS TO EXTEND TO FIFTH AVENUE LANDING, LLC**

EXECUTIVE SUMMARY:

The San Diego Convention Center Corporation (SDCCC) proposes to pursue entitlements to develop a hotel and phase 3 expansion of the San Diego Convention Center (Project) on District property bay ward of Convention Way and Marina Park Way. The Project would be built on District property currently leased to Fifth Avenue Landing, LLC (FAL), including a one-acre public park/plaza. The staff presentation on the proposed Project is for illustrative purposes only. Staff will return to the Board at a later date for preliminary project review and authorization to commence preparation of the Environmental Impact Report (EIR) for the Project, after conducting stakeholder outreach regarding the design of the Project and collaborating with SDCCC regarding the conceptual development plan.

SDCCC entered into an agreement to purchase FAL's leasehold interest in September 2008 and paid FAL \$1 million for a one-year due diligence process. SDCCC now desires to acquire FAL's remaining leasehold interest for \$13.5 million. FAL will finance SDCCC's acquisition by providing a \$12.5 million deed of trust secured by the leasehold interest. SDCCC will pay FAL \$1 million at the close of escrow and make annual payments of \$500,000 for up to five years. Consequently, SDCCC is requesting District consent to the assignment of a portion of the FAL leasehold interest to SDCCC, the grant of a new Amended, Restated and Combined (ARC) lease to SDCCC and consent to a lease encumbrance.

SDCCC's new ARC lease expires on June 30, 2024, with annual minimum market rent of \$376,000 and allowed uses for parking and special events. The ARC lease provides a framework for SDCCC to work with the District in a collaborative process to design and entitle the Project. If the Board certifies an EIR and the California Coastal Commission (CCC) approves a Port Master Plan Amendment (PMPA), SDCCC obtains financing for the phase 3 expansion and the City and District amend the Convention Center Management Agreement, then the Board may consider issuing a Coastal Development Permit (CDP) for the phase 3 expansion and granting a new 66-year lease to SDCCC pursuant to the terms outlined in the ARC lease. The expansion hotel site would revert to the District for future development opportunity.

If SDCCC does not satisfy the conditions in the ARC lease, FAL, as the lender, has the ability to cure any defaults and foreclose on SDCCC's leasehold interest. In the event of foreclosure, FAL will have 365 days to exercise its option imbedded in the ARC lease to develop a hotel or the leasehold will revert to the District.

The proposed new lease with FAL for the Water Transportation Center (WTC) includes a 3.5 acre water parcel and a land parcel with improvements, including: a ticket booth, parking and public restrooms. There is also an expansion option for a 4.5 acre water parcel, for a total of up to 30 slips. The WTC lease expires on February 28, 2030 with 2 five-year options to extend, for a maximum lease term of 30 years. Minimum rent is set at \$114,000 versus standard District percentage rental rates. As a condition of the lease, FAL must comply with the terms of its existing CDP issued for the WTC and complete the public promenade by September 30, 2011.

Conditioned on the Board's consent to the assignment of FAL's leasehold interest to SDCCC, grant of the ARC lease to SDCCC and consent to the SDCCC lease encumbrance, staff recommends the grant of a new 20-year lease to FAL plus 2 five-year options to extend for the WTC.

RECOMMENDATION:

- (A) Presentation on the Proposed Expansion hotel and Phase 3 Expansion of the San Diego Convention Center
- (B) Resolution Consenting to Assignment and Assumption of Lease From Fifth Avenue Landing, LLC to the San Diego Convention Center Corporation
- (C) Ordinance Granting Amended, Restated and Combined Lease to San Diego Convention Center Corporation ending June 30, 2024
- (D) Resolution Consenting to a \$12.5 million Deed of Trust Secured by the San Diego Convention Center Corporation Leasehold Interest in favor of Fifth Avenue Landing
- (E) Ordinance Granting 20-year Lease with Two 5-year options to extend to Fifth Avenue Landing, LLC

FISCAL IMPACT:

FAL currently pays the District annual minimum rent is \$469,400 versus standard District percentage rental rates. The immediate impact is that minimum rent for the two new leases will increase to \$490,000 annually versus standard District percentage rental rates. FAL will pay the District annual minimum rent of \$114,000 per year versus standard District percentage rental rates for the WTC lease and total percentage rent is estimated at \$152,000 annually. SDCCC will pay annual minimum rent of \$376,000 versus standard District percentage rental rates for the ARC lease.

If SDCCC exercises its option to enter into a new 66-year lease to develop the expansion, then SDCCC will pay standard District percentage rental rates for retail uses throughout the term of the new lease. During the initial bond term (maximum 30 years), SDCCC will pay flat market ground rent and the District will reimburse SDCCC for qualified expenses equal to the market rent due, with the net result being no rent to the District. The District would continue to receive ground rent versus standard District percentage rental rates from FAL. If the District enters into an agreement to develop the hotel, there would be future revenues to the District as well.

During the planning and entitlement phase, the District will analyze the fiscal impact as a result of development of the Project. Unreimbursed District staff and consultant costs to process the entitlements for the SDCCC Project are estimated at approximately \$500,000 to \$1,000,000 annually over a period of about three years.

If SDCCC fails to pay rent, then FAL as the lender is obligated to meet SDCCC's obligations. If FAL forecloses on SDCCC, it must develop a hotel under a new 66-year lease and pay District standard percentage rents. According to revenue projections provided by FAL for its currently entitled hotel (2008), a 250-room hotel may generate up to \$2.4 million in annual rent to the District. According to revenue projections provided by SDCCC for its proposed expansion hotel (2009), a 500-room expansion hotel could generate up to \$3.6 million a year in annual rent to the District.

COMPASS STRATEGIC GOALS:

If the District secures entitlements for the proposed Project and SDCCC secures the financing, then the District may benefit from an increased number of conventions and visitors on tidelands which may result in additional revenues from existing tenants.

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

- Promote the Port's maritime industries to stimulate regional economic vitality.
- Enhance and sustain a dynamic and diverse waterfront.
- Protect and improve the environmental conditions of San Diego Bay and the Tidelands.
- Ensure a safe and secure environment for people, property and cargo.

- Develop and maintain a high level of public understanding that builds confidence and trust in the Port.
- Develop a high-performing organization through alignment of people, process and systems.
- Strengthen the Port's financial performance.
- Not applicable.

DISCUSSION:

Purchase and Sale Agreement Between FAL and SDCCC

On September 16, 2008, FAL and SDCCC entered into a letter of intent to form a definitive agreement for the purchase and sale of FAL's option to lease agreement for the premises which expires on April 9, 2010. The key terms of the purchase and sale agreement, include:

- A 12-month due diligence period (complete) with payment of \$1 million to FAL;
- Project includes a hotel of at least 250-rooms and phase 3 of the convention center expansion;
- At the close of escrow on April 9, 2010, SDCCC pays FAL \$1 million and FAL accepts a promissory note from SDCCC for \$12.5 million secured by SDCCC's leasehold interest;
- SDCCC pays FAL \$500,000 annually for four years with the balance of \$10.5 million due on the fifth anniversary of the closing date; and,
- If SDCCC defaults, then FAL may foreclose on SDCCC's leasehold interest, but regardless is responsible for SDCCC's obligation under the lease and development of a hotel.

Memorandum of Understanding (MOU)

In November 2008, SDCCC and FAL requested the District's consent to the Purchase and Sale transaction; however, the District would not consent to the transaction agreement without an agreement for redevelopment of the property. On December 2, 2008, the District entered into an MOU with FAL and SDCCC. The MOU provides SDCCC with the time to conduct their due diligence and also allowed District and SDCCC staff time to negotiate agreements for SDCCC's proposed Project. The MOU was later amended to be coterminous with an extension of the SDCCC and FAL purchase agreement, expiring on April 9, 2010.

Port Master Plan – Current Entitlements

The Port Master Plan currently allows for a 250-room Spinnaker Hotel to be developed, consistent with FAL's previously approved concept plans. The current 3.4 acre site includes room for a 250-room, 276-foot high hotel, retail, surface parking, 40,000 square foot ballroom/meeting facility, in addition to a one acre public park/plaza. The Spinnaker Hotel project as entitled required the realignment of Convention Way and the ability to use 110 parking spaces in the District's Convention Center Garage. SDCCC was a stakeholder in the South Embarcadero Redevelopment Program 2 EIR and PMPA and agreed that when the hotel was developed, it would support an amendment of the Convention Center Management Agreement to codify the hotel requirements for parking, landscape maintenance and realignment of Convention Way in exchange for deleting the Convention Center's requirement to pay percentage rents under certain circumstances and obtain District approval for subleases within the Convention Center.

Proposed Expansion Hotel and Phase 3 Convention Center Expansion

SDCCC proposes to build approximately 950,000 square feet of phase 3 expansion is on the FAL site over the existing truck docks, Convention Way and the one acre FAL public park/plaza, plus pedestrian bridges over Harbor Drive at Fourth Avenue to connect the Convention Center to the Gaslamp Quarter and the expansion hotel. The Convention Center would include approximately 207,000 square feet of contiguous exhibit space to the existing convention center in addition to meeting, ballroom and pre-function spaces. Two pedestrian bridges would be built over the public promenade connecting the Convention Center to the expansion hotel site. The Convention Center expansion footprint will be set back 20 feet from the 35-foot wide public promenade along the waterfront. Further information about SDCCC's Project is provided in Attachment A "EXISTING CONVENTION CENTER VS. PROPOSED PHASE 3 EXPANSION."

SDCCC's proposed 250-500 room hotel would need to be functionally and operationally self sufficient on a much smaller site reduced from a 3.4 acre parcel to a less than one acre parcel (approximately 30,000 square feet). SDCCC's latest proposal for a 500 room hotel tower would be built over a 120 foot podium for a combined total of 385 feet. It would accommodate approximately 248 parking spaces on site and approximately 50,000 square feet of ballroom/meeting spaces. Further information about the former FAL Spinnaker Hotel concept as compared to the proposed SDCCC expansion hotel concept is provided in the attached ATTACHMENT B "FAL'S SPINNAKER HOTEL VS. SDCCC'S PROPOSED EXPANSION HOTEL."

SDCCC proposes to work with the District and fund all third-party consultant costs to complete the entitlement process of an EIR and PMPA for the Project. If entitlements are successfully negotiated for the proposed Project and SDCCC secures financing and

is able to exercise its expansion option, then the District would have the rights to develop the hotel on the remaining 1 acre hotel parcel that would revert to the District.

If a PMPA is not approved to entitle the proposed Project or SDCCC is unable to secure financing and exercise its expansion option, then FAL may foreclose on the SDCCC leasehold, develop the expansion hotel as entitled or exercise its hotel option to entitle a new hotel by June 30, 2016 and enter into a new lease to develop a new hotel on the entire 3.4 acre parcel.

If FAL is unable to exercise its hotel option by June 30, 2016, then the FAL leasehold will revert to the District to pursue a hotel or other development opportunities at its discretion.

Amended, Restated and Combined Lease with SDCCC

The proposed ARC lease with SDCCC is further described in Attachment C "AMENDED, RESTATED and COMBINED LEASE INFORMATION SUMMARY" and supplemental term sheet summaries.

The District and SDCCC have reached agreement on a transactional, environmental and Coastal Commission processing framework in the ARC lease whereby SDCCC has an option to develop the phase 3 expansion and the District would retain rights to build the expansion hotel, contingent on satisfying the following conditions:

1. Board approval of the Project, certification of a Final EIR and PMPA;
2. California Coastal Commission approval of the PMPA;
3. District issuance of a CDP for the phase 3 expansion; and,
4. Board approval of SDCCC's financing plan; and District and City of San Diego agreement to amend the Convention Center Management Agreement to provide for additional parking for the expansion hotel in the District's Convention Center Parking Garage.

Once SDCCC has satisfied these conditions, it can exercise its option to enter into a new lease to construct the phase 3 expansion. The ARC lease would terminate and the District will consider approval of a new 66-year lease for the phase 3 expansion site. The District would retain the expansion hotel site for future development, once entitled.

The proposed 66-year Convention Center expansion lease must comply with Board policies in effect at the time and SDCCC is responsible for payment of market rent for the retail spaces within the phase 3 expansion without any rental or construction offsets. In exchange for the payment of ground rent from SDCCC for the phase 3 expansion, the District will reimburse SDCCC from SDCCC's qualified expenses that benefit the tidelands, subject to applicable law and District approval. At all times, the

amount of market rent to be paid by SDCCC shall equal the qualified expenses that the District reimburses to SDCCC.

If SDCCC is unable to satisfy the conditions for exercising its option to develop the phase 3 expansion by entering into a new lease or is otherwise unable to fulfill its obligations under the ARC lease, as the lender, FAL has the ability to step in and cure any defaults or foreclose on SDCCC. In the event of foreclosure or any transfer to FAL, FAL would have 365 days to exercise a hotel option. If FAL fails to satisfy its hotel option requirements by June 30, 2016, the ARC lease will be terminated and the property will revert to the District.

ARC Lease Encumbrance

In order to close escrow by April 9, 2010, FAL has agreed to accept a promissory note from SDCCC for \$12.5 million at the rate of 6% per annum. The promissory note would encumber SDCCC's ARC leasehold interest and require that SDCCC pay FAL \$500,000 per year for up to five years or until the balance of the \$12.5 million note is due. Board consent is required for this lease encumbrance. If SDCCC discontinues its note payments, FAL could foreclose and take ownership of the SDCCC leasehold interest.

New Lease with FAL for Water Transportation Center

The proposed lease with FAL is further described in Attachment D "PROPOSED WATER TRANSPORTATION LEASE INFORMATION SUMMARY."

The proposed lease to FAL for the WTC allows for the continued operation of the facility in a direct lease with the District. The recently completed facility contains 20,000 square feet of docks and floats. Current landside improvements include partial completion of the public promenade, landside ticket booth, public restrooms and a one-acre public park/plaza. The lease also includes a provision that once the District certifies an EIR for the proposed expansion, the landside parcel would be removed and included in a new lease to SDCCC without a reduction in rent. Under the terms of the lease, FAL would remain a direct tenant of the District and all rental revenues would pass to the District without offsets.

FAL is responsible to complete the unfinished promenade (approximately 500 linear feet) by September 30, 2011 as required in its existing CDP for the WTC. When constructed, the completed promenade will complete the connection from the Hilton San Diego Bayfront Hotel, San Diego Marriott Hotel & Marina and South Embarcadero Marina Park. If SDCCC moves forward with the expansion, the promenade could be damaged but will be repaired by SDCCC. As required in the Port Master Plan, the promenade will not be closed during the construction of the proposed SDCCC project.

Conclusion

The informational presentation on the proposed SDCCC Project does not constitute project approval by the District. Staff will return to the Board at a later date after it has had an opportunity to obtain input from area stakeholders and revise the Project to meet the urban design parameters set forth by the Convention Center Task Force. District staff has a number of concerns regarding the design, including lack of adequate parking, additional truck traffic, loss of quality access to the expansion hotel and Embarcadero Marina Park South, and disruption of views up and down the promenade. These are concerns identified by CCC staff in earlier meetings between the District and SDCCC.

If the Board consents to assign a portion of the FAL leasehold interest to SDCCC and the lease encumbrance along with the grant of a new ARC lease, SDCCC will pay rent and use the lease area while it pursues its project entitlements and the City pursues a financing plan for the phase 3 expansion.

The benefits to the District include an independent water transportation center operated by FAL on the adjacent parcels, completion of a public promenade and the hotel development requirement in the ARC lease. In return, the District will commit staff and resources to support the entitlement process to develop a phase 3 expansion of the convention center that may provide a net benefit for District stakeholders and the San Diego region.

Approval of the ARC lease to SDCCC means that the District and SDCCC must next mutually agree on the conceptual design of the Project. If the Board approves the staff recommendations, staff will begin a series of stakeholder outreach and design workshops with SDCCC to consider the potential adverse impacts of the programmatic design elements of the proposed Project on the urban design, environment and viable access to the future expansion hotel and Embarcadero Marina Park South.

Once SDCCC and the District mutually agree on the design of the proposed Project, staff will return to the Board for Preliminary Project Review and authority to start the environmental review process by executing a three-party consulting agreement to draft the EIR and the PMPA. Staff will also commission an economic analysis at SDCCC's cost of the incremental costs versus benefits of the proposed phase 3 expansion to District stakeholders and return to the Board with a recommendation prior to completion of the EIR and PMPA.

Port Attorney's Comments:

The Port Attorney has reviewed and approved the requested documents for form and legality.

Environmental Review:

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

Equal Opportunity Program:

Not applicable.

PREPARED BY: Shahriar Afshar
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Attachment A Existing Convention Center and Proposed Phase 3 Expansion		
	Existing Convention Center	Proposed Phase 3 Expansion (additional space)
Gross Space	1,772,457 square feet	Approx. 950,000 square feet
Exhibition Space	615,000 square feet	Approx. 198,000 square feet
Outdoor Terrace Space	261,433 square feet	Approx. 58,000 square feet
Meeting Space	205,000 square feet	Approx. 88,000 square feet
Ballroom Space	80,000 square feet	Approx. 80,000 square feet
Retail Space	None	Approx. 49,400 square feet
Truck Docks	50 truck docks	17 new truck docks
Parking Spaces	1,849 total public spaces in District garage (1,200 allotted for convention center; 80 for City; 600 for San Diego Marriott)	None
Building Height	140 feet	154 feet (5 floors)
Road Work	Harbor Drive lowered	Reduction and realignment of Convention Way to a 30-foot wide 2-lane covered roadway
Pedestrian Bridge	None	1 over Harbor Drive

Attachment B		
FAL's Spinnaker Hotel and SDCCC's Proposed Expansion Hotel		
	FAL's Spinnaker Hotel (per Port Master Plan)	SDCCC's Proposed Expansion Hotel
Number of Rooms	250 rooms	500 rooms
Number of Floors	21 floors	33 floors
Building Height	276 feet (21 floors)	385 feet (23 floors – guest rooms over 120 foot, 9-level podium)
Gross Square Feet	Approx. 200,000 square feet	Approx. 609,518 square feet (includes garage/ podium)
Parking	88 surface parking <u>+110 spaces at District garage</u> 198 total spaces	248 spaces (4-level garage under hotel) <u>+110 spaces at District garage</u> 358 total spaces
Retail/Restaurant	Approx. 13,500 square feet	Approx. 54,500 square feet (spa, restaurant & rooftop bar)
Meeting Space	Approx. 25,000 square feet	Approx. 19,000 square feet
Ballroom Space	Approx. 25,000 square feet	Approx. 19,000 square feet
Truck Docks	1	2
Road Work: Convention Way	Realign & reduce width to 30 feet	Realign & reduce width to 30 feet (under proposed phase 3 expansion building)
Public Park/Plaza	1-acre mitigation FAL public park/plaza	Phase 3 expansion built over 1-acre FAL mitigation public park/plaza and ½ acre of Harbor Drive park
Pedestrian Bridge(s)	1 over Convention Way	2 over Convention Way

Attachment C
Proposed Amended, Restated and Combined Lease Summary

Lessee:	San Diego Convention Center Corporation, a non-profit public benefit corporation
Location:	Convention Way and Marina Park Way San Diego, CA
Area:	191, 623 square feet tideland area
Use:	Public park/plaza, public parking, meetings, exhibitions, trade shows and special events.
Term:	July 1, 1984 – June 30, 2024
Rent:	Minimum \$376,000/year versus standard Board-adopted rates
Rent Reviews:	5-Year CPI Adjustments 10-Year Rent Reviews
Guaranty:	Term of lease guaranteed by Raymond Carpenter, Arthur Engel, Herbert Engel, and David Engel
Redevelopment & Development Options:	See attached "Proposed Expansion Lease Term Sheet Information Summary" and attached "Hotel Lease Term Sheet Information Summary"

**PROPOSED EXPANSION LEASE
TERM SHEET INFORMATION SUMMARY**

Conditions Precedent: The grant of a lease, under the terms of this term sheet, is conditioned on the satisfactory completion of the conditions precedent as referenced in paragraph 49(h) of the Amended/Restated/Combined lease between the District and Lessee.

Parties: San Diego Unified Port District ("District") and San Diego Convention Center Corporation ("SDCCC") or the City of San Diego as Permitted Assignee ("LESSEE").

Premises: Approximately 6 acres of tidelands, located bay ward of the convention center between Marina Park Way and Park Boulevard.

Project: Development of approximately 950,000 square feet of San Diego Convention Center Phase III expansion including approximately 49,400 square feet of ground level retail along the public promenade; and two pedestrian bridges over Convention Way between the hotel and the expansion; a third pedestrian bridge over Harbor Drive; Relocation and realignment of portions of Convention Way; and creation of a traffic circle at Convention Way and Marina Park Way.

Lease Uses: The Premises shall be used solely and exclusively for convention center uses and retail uses and for no other purposes whatsoever.

Lease Term: Sixty-six (66) years.

Minimum Rent: Lessee will pay minimum vs. percentage rent for all retail uses on the Premises.

First Term (Est. 30 years): Lessee shall pay annual minimum rent during the initial amortization period of the bond(s) with a written itemization of Qualified Expenses that total an amount equal or greater than the rent payment. "Qualified Expenses" will mean normal and customary expenses incurred by SDCCC and approved by Lessor, consistent with applicable law, that directly benefit the Tidelands.

Second Term (Est. 36 years): With respect to the balance of the Premises Lessee will pay rent based on a preliminary

determination of initial annual rent by Lessor that will consider a market rate appraisal, the status of SDCCC as a non-profit public benefit corporation operating at a loss, potential increases in percentage rents that Lessor may receive from nearby businesses on the surrounding tidelands properties, administrative and other costs Lessor incurs in connection with this Lease.

Percentage Rent: Lessee shall pay standard Board-adopted percentage rental rates with no offsets except that all revenues from convention center operations will be excluded.

Expansion Construction: Lessee will be solely responsible for all soft-hard costs, pre-development and other costs for Expansion construction, which shall be commenced and completed in an amount of time fixed by the Lease. SDCCC shall not seek any rental or construction cost offsets from the District.

CPI Adjustments: Rents shall have mid-term CPI adjustments every five (5) years during the Second Term.

Rent Reviews: Rent reviews shall be every 10 years during the Second Term.

Hotel Requirements: The Expansion Lease will provide that the Expansion Hotel will have access to the Convention Center's meeting rooms and banquet facilities in reasonable proximity to the Expansion Hotel at rates and other terms equal to those granted by Lessee to other hotel operators.

Incorporation of WTC Parcel No. 1: On the date that the Board of Port Commissioners approves the Expansion Lease, Parcel No. 1 of the Fifth Avenue Landing, LLC lease will be incorporated into the new Expansion Lease.

District Policies: Lessee shall comply with all District policies in effect at the time of granting the Lease.

Retail Merchandising Plan: As part of Lessee's application for a CDP for the Expansion, Lessee will deliver to Lessor a merchandising plan for all retail uses proposed for the Premises.

PROPOSED HOTEL LEASE TERM SHEET
INFORMATION SUMMARY

- Conditions Precedent:** The grant of a lease, under the terms of this term sheet, is conditioned on the satisfactory completion of the conditions precedent as referenced in paragraph 50(h) of the Amended/Restated/Combined lease between the District and Lessee.
- Parties:** San Diego Unified Port District ("District") and Lessee under Amended/Restated/Combined Lease with the District ("Lessee").
- Premises:** Approximately one acre of tidelands located bay ward of the convention center between Marina Park Way and Park Boulevard as depicted in Exhibit H, Sheet 2.
- Project:** The Hotel will consist of a minimum of 250 rooms in a tower which is a minimum of twenty (20) stories tall (the lobby counting as one-story) with banquet and conference rooms, ballroom, restaurants, cocktail lounges, retail shops, and related development on the Premises including parking in accordance with District's published standards, a public park/plaza of approximately one acre, public promenade along the waterfront, pedestrian bridge, and a public observation terrace, and an interface with the existing water transportation center. The Hotel will meet or exceed the service quality standards of a four diamond, AAA standard.
- Lease Uses:** The Premises shall be used solely and exclusively for hotel uses and for no other purposes whatsoever. This restriction on use of the Premises absolutely prohibits a change in use.
- Lease Term:** Sixty-six years.
- Minimum Rent:** Lessee shall pay annual minimum rent to be determined by a market rate appraisal at the time the District grants the Lease OR not less than Seventy-Five Percent (75%) of the proforma total percentage rents to be verified by an independent feasibility study with no offsets.
- Percentage Rent:** Lessee shall pay standard Board-adopted percentage rental rates with no offsets.

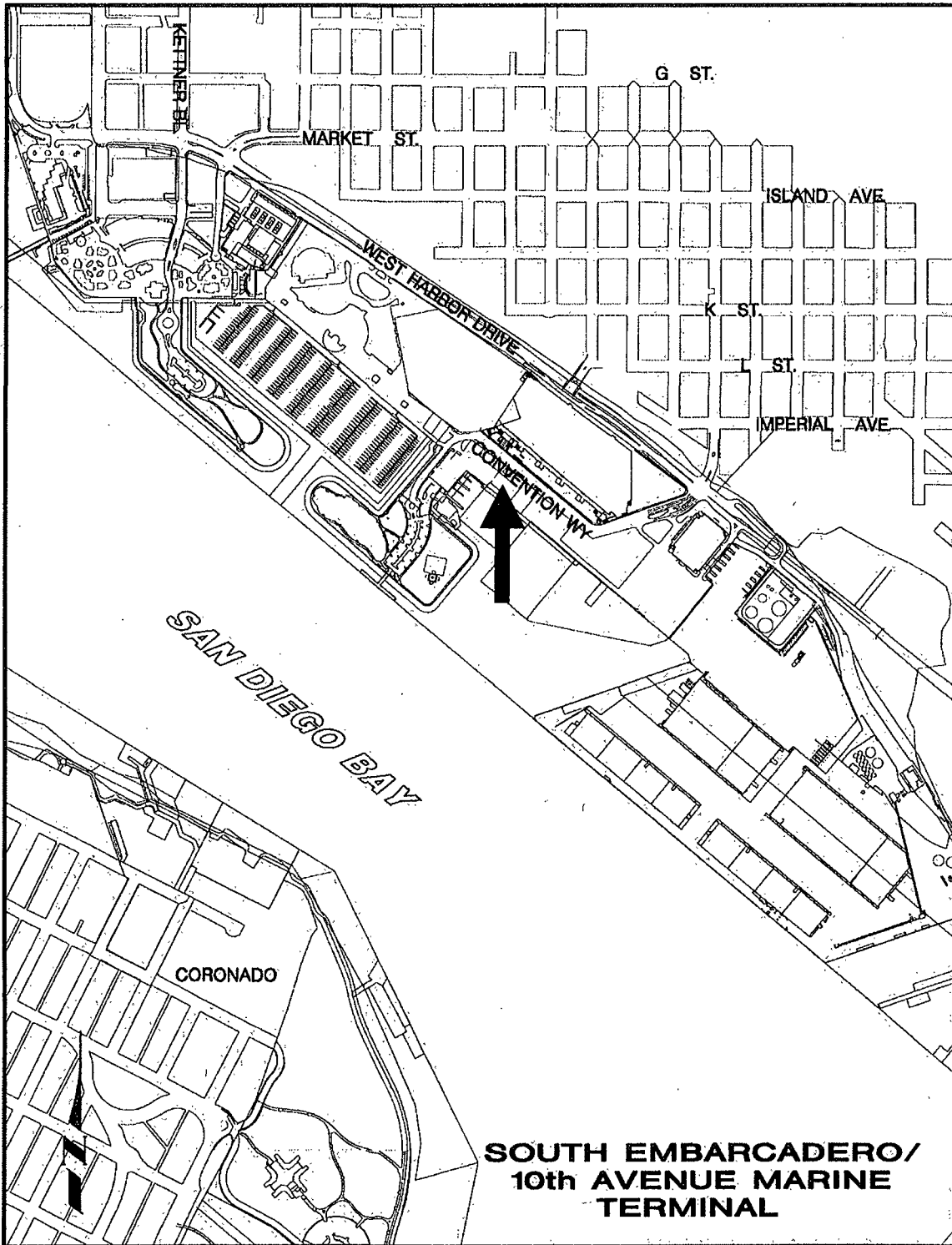
Construction: Lessee will be solely responsible for all soft-hard costs, pre-development and construction costs, for all private improvements on the Premises, which shall be completed in an amount of time fixed by the Lease. Lessee shall not seek any rental or construction cost offsets from the District.

CPI Adjustments: Rents shall have mid-term CPI adjustments every 5 years.

Rent Reviews: Rent reviews shall be every 10 years.

Attachment D
Proposed Water Transportation Center Lease Summary

Lessee:	Fifth Avenue Landing, LLC
Location:	Convention Way and Marina Park Way San Diego, CA
Area:	25,598 square feet tideland area 156, 260 square feet water area
Use:	(i) water transportation center for conducting harbor excursions, dinner cruises, whale-watching, ferry service, boat charters and water taxi operations; (ii) picking up and dropping off of passengers by water transportation operators; (iii) transient oriented berthing facilities that will accommodate between 20 and 30 large yachts; and, (iv) parking.
Term:	Twenty Years with Two Options to Extend of Five Years Each (for a total maximum term of thirty years)
Rent:	Minimum \$114,000/year versus standard Board-adopted rates
Rent Reviews:	5-Year CPI Adjustments 10-Year Rent Reviews
Guaranty:	Term of lease guaranteed by Raymond Carpenter, Arthur Engel, Herbert Engel, and David Engel
Water Option Parcel:	After District obtains Closure Letter rescinding Campbell Clean-Up and Abatement Order, Lessee will have 24-month option to lease additional 207,600 feet of water area. Option cannot be exercised until Lessee has obtained all development approvals and permits.



**SOUTH EMBARCADERO/
10th AVENUE MARINE
TERMINAL**



Attachment to Agenda Sheet No. 32

SAN DIEGO UNIFIED PORT DISTRICT
San Diego, Ca.