

<b>REQUEST FOR REDEVELOPMENT AGENCY ACTION</b> CITY OF SAN DIEGO	CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY)
---	--

TO: REDEVELOPMENT AGENCY	FROM (ORIGINATING DEPARTMENT): City Redevelopment	DATE: 07/07/2010
--------------------------------	--	---------------------

SUBJECT: Second Amendment to the Liberty Station Marketplace Ground Leases

PRIMARY CONTACT (NAME, PHONE): Libby Day, 236.6272 MC 56D	SECONDARY CONTACT (NAME, PHONE): Maureen Ostrye, 236.6270 MS 56D
--	---

**COMPLETE FOR ACCOUNTING PURPOSES**

FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00

FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00

COST SUMMARY (IF APPLICABLE): Fiscal Impact: There is no fiscal impact with this action.

**ROUTING AND APPROVALS**

CONTRIBUTORS/REVIEWERS:	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
Liaison Office	ORIG DEPT.	Weinrick, Janice	7/9/2010
Environmental Analysis	CFO		
	DEPUTY CHIEF	Anderson, William	7/13/2010
	COO		
	CITY ATTORNEY	Young, Diane	7/13/2010
	COUNCIL	JuardoSaniz, Diana	7/14/2010
	PRESIDENTS OFFICE		

PREPARATION OF:     RESOLUTIONS     ORDINANCE(S)     AGREEMENT(S)     DEED(S)

That the Redevelopment Agency (1) Approve the Second Amendment to the Liberty Station Marketplace Ground Leases; (2) Authorize the Executive Director or designee to execute the Second Amendment to the Liberty Station Marketplace Ground Leases; and (3) Authorize the Executive Director or designee to take all actions necessary in

accordance with the Resolution.	
STAFF RECOMMENDATIONS: Approve the requested actions	
SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)	
COUNCIL DISTRICT(S):	2
COMMUNITY AREA(S):	Peninsula
ENVIRONMENTAL IMPACT:	This activity is Categorically Exempt from CEQA pursuant to State CEQA Guidelines Section 15301-Existing Facilities.
CITY CLERK INSTRUCTIONS:	

**REDEVELOPMENT AGENCY ACTION  
EXECUTIVE SUMMARY SHEET  
CITY OF SAN DIEGO**

DATE: 07/07/2010

ORIGINATING DEPARTMENT: City Redevelopment

SUBJECT: Second Amendment to the Liberty Station Marketplace Ground Leases

COUNCIL DISTRICT(S): 2

CONTACT/PHONE NUMBER: Libby Day/236.6272      MC 56D

**REQUESTED ACTION:**

That the Redevelopment Agency of the City of San Diego (Agency):

- (1) Approve the Second Amendment to the Liberty Station Marketplace Ground Leases;
- (2) Authorize the Executive Director or designee to execute the Second Amendment to the Liberty Station Marketplace Ground Leases; and
- (3) Authorize the Executive Director or designee to take all actions necessary in accordance with the Resolutions

**STAFF RECOMMENDATION:**

Approve the requested actions

**EXECUTIVE SUMMARY OF ITEM BACKGROUND:**

The NTC DDA between the Agency and McMillin NTC-LLC (June 26, 2000) includes lease provisions for various parcels within the project. Four of the Liberty Station Marketplace (Marketplace) parcels are leased from the Agency. The original Ground Leases for the Marketplace were executed on August 1, 2004, and the First Amendment dated June 1, 2006, corrected the Permitted Use specified in the leases. McMillin-NTC, LLC assigned the Marketplace Ground Leases to Liberty Station Marketplace, LLC in July 2006.

As the neighborhood serving retail center at Liberty Station the Marketplace is anchored by Vons and Trader Joe's. The undeveloped historic buildings were transferred from the Agency to McMillin in the form of long term ground leases as mentioned above. The managers of Liberty Station Marketplace, LLC are McMillin and C.W. Clark. The Agency maintains ownership of the underlying fee interest in the property.

The initial renovation of the historic buildings was funded by equity contributed by McMillin and C.W. Clark, and debt and equity from Bank of America. Bank of America contributed funds through a conventional loan and New Markets Tax Credit (NMTC) allocations. The NMTC program is administered by the U.S. Department of the Treasury to stimulate increased investment and economic growth in older communities. In return for investing in projects in these communities, corporate investors may claim a credit against Federal income taxes totaling 39% of the investment allocated over seven years. The NTC Redevelopment Project Area has been a qualified census tract for this program since the 2000 Census. The NMTC financing has been a critical financing tool in several projects in Liberty Station due to the high cost of renovating historic buildings. The financing structure and associated documentation for these transactions was approved by the Agency as required by the DDA. The Marketplace's five historic buildings totaling 145,000 rentable square footage have been fully renovated, and tenants

occupy 82% of the space. A majority of the remaining 18% of the space has never been leased and remains in shell condition awaiting final tenant improvements. Leasing has been slower than expected due to the recent economic downturn, unusually configured historic spaces, as well as the limitation on the allowable uses imposed by the California Coastal Commission.

The maturity date for the construction loan was April 1, 2010 and was intended to convert to a permanent loan after that date; however, leasing milestones set by Bank of America have not been achieved as anticipated. Liberty Station Marketplace has negotiated a modification to the loan to extend the construction period an additional 18 months to October 1, 2011. It is anticipated that by that date the remaining space will be adequately leased to obtain the financial requirements for the bank for conversion of the construction loan to a permanent loan. Pursuant to the Ground Lease Section 2.30(b)(viii), the Agency "shall approve" all loan modifications which meet certain requirements. This modification meets all requirements except the 80% loan to value criteria. The Ground Lease language is unclear whether the Agency has the ability to approve loan modifications outside the stated parameters. The proposed amendment will address that ambiguity and provide direction to the Agency's Executive Director concerning those circumstances under which a requested modification to the Ground Lease can be approved.

In the current economic environment, loan modifications are common and banks have incentive to work with performing property owners to overcome the downturn in lieu of risking default and subsequent foreclosure. With regard to loan modifications, banks are now willing to consider benchmarks other than loan to value ratio, such as focusing on the property's economic performance and future potential. Due to these factors, the Agency proposes to amend the Ground Leases (Attachments 1, 2 & 3) with language that gives the Executive Director discretion to approve loan modifications with criteria other than just the 80% loan to value requirement stated in the original Ground Leases as long as the Agency's and lender's underwriting criteria are satisfied. Such criteria may include, but are not limited to minimum loan to value ratio, minimum debt service coverage, approval of new and modified leases, restrictions on use of encumbrance proceeds, status of development of improvements, and term of encumbrance.

**FISCAL CONSIDERATIONS:**

There is no fiscal impact with this action.

**ENVIRONMENTAL REVIEW:**

This activity is Categorically Exempt from CEQA pursuant to State CEQA Guidelines Section 15301-Existing Facilities.

**EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE):**

None.

**PREVIOUS COUNCIL and/or COMMITTEE ACTION:**

None.

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

On July 15, 2010 the Peninsula Community Planning Board will be informed of this action. Additional information will be available at the hearing

**KEY STAKEHOLDERS AND PROJECTED IMPACTS:**

Business entities engaged in the proposed action include C.W. Clark, Inc. and McMillin Companies, LLC as Co-Managers of Liberty Station Marketplace, LLC. Projected Impacts include continued ability for Liberty Station Marketplace, LLC to improve and lease out the Liberty Station Marketplace retail center with requested approval of construction loan modifications.

Weinrick, Janice

Originating Department

Anderson, William

Deputy Chief/Chief Operating Officer