



THE CITY OF SAN DIEGO

DATE ISSUED: July 21, 2010

Report No. RA-10-36

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of July 27, 2010

SUBJECT: Second Amendment to Liberty Station Marketplace Ground Leases

REQUESTED ACTIONS:

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 Resolution.

STAFF RECOMMENDATION: Approve the requested actions.

SUMMARY:

The Agency and McMillin NTC-LLC entered into the Disposition and Development Agreement (DDA) on June 26, 2000 for redevelopment of the former Naval Training Center (NTC). Over time, and in accordance with the DDA, the Agency as Landlord and McMillin as Tenant executed various long term ground leases. The Liberty Station Marketplace (Marketplace) is comprised of five parcels within the heart of the Naval Training Center Redevelopment Project Area, and four of them 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.

The Marketplace is the neighborhood serving retail center at Liberty Station anchored by Vons grocery store 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



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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.

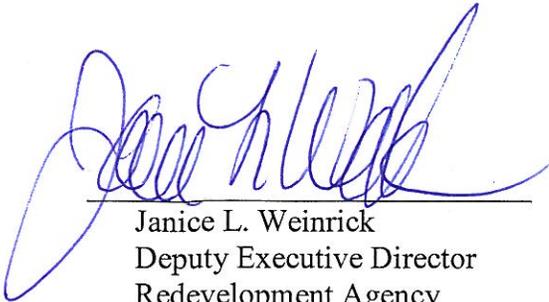
The maturity date for the construction loan was April 1, 2010 and was intended to convert to a permanent loan after that date; however, leasing milestones set by Bank of America have not been achieved as anticipated. Liberty Station Marketplace has negotiated a modification to the loan to extend the 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.

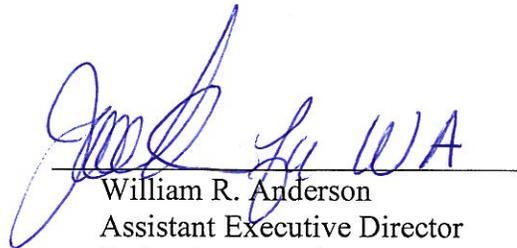
FISCAL CONSIDERATIONS: There is no fiscal impact with this action.

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.



Janice L. Weinrick
Deputy Executive Director
Redevelopment Agency



William R. Anderson
Assistant Executive Director
Redevelopment Agency

- Attachments:
1. Second Amendment to the NTC Unit 5 Lot 20 Ground Lease
 2. Second Amendment to the NTC Unit 5 Lot 21 & 22 Ground Lease
 3. Second Amendment to the NTC Unit 5 Lot 23 Ground Lease
 4. Original Ground Leases with First Amendments – NTC Unit 5 Lot 20, NTC Unit 5 Lots 21 & 22, and NTC Unit 5 Lot 23
 5. Site Map
 6. Redline of Modification to Liberty Station Marketplace Ground Leases