

DATE ISSUED: March 27, 2002

REPORT NO. 02-070

ATTENTION: Honorable Mayor and City Council
Agenda of April 2, 2002

SUBJECT: Lease Agreement - Sports Arena Retail Pad Ground Lease

SUMMARY

Issues - Should the City Manager be authorized to enter into a lease agreement with Arena Group 2000 for three retail pads on the San Diego Sports Arena property, amend the current Sports Arena Operating Agreement and execute an easement agreement with San Diego Gas & Electric?

Manager's Recommendation - Direct the City Manager to enter into a lease agreement with Arena Group 2000, amend the Sports Arena Operating Agreement and execute an easement agreement with San Diego Gas & Electric.

Other Recommendations - Various phases of this proposal were presented as information only items to the North Bay Project Area Committee, Midway/Peninsula Community Planning Group and the Rules Committee.

Fiscal Impact - If the lease agreement with Arena Group 2000 is executed, it is anticipated that the City will receive \$94,500 rent per year once the site is fully leased.

BACKGROUND

The current operator of the San Diego Sports Arena ("Sports Arena"), Arena Group 2000, acquired its interest in the arena operating agreement in March 1993. The operating agreement expires on May 7, 2017. The lease and operating agreement for the Sports Arena is one of thirteen ground leases of City-owned land in the area that total approximately 95 acres.

Under the terms of the existing Sports Arena operating agreement the City receives percentage rent revenue from parking income, Kobey's Swap Meet proceeds, and incidental uses such as telecommunication subleases, but not for activities inside the arena such as ticket sales and concessions. Revenue in recent years has averaged \$360,000 to \$380,000 annually and in FY 2001 totaled \$367,982.

DISCUSSION

In July 1998, Arena Group 2000 approached the City with a proposal to develop retail uses on a portion of the 38-acre Sports Arena site and on an adjoining 5-acre City-owned property known as Sports Arena Square that is under a City ground lease that expires on February 28, 2006.

From July 1998 through August 2000, Arena Group 2000's proposal went through several re-designs and the proposed tenant mix changed. The project was brought before the Rules Committee in January 2000 as an information only item. At that time the project included a 16-screen multi-plex theater and five or more retail pads. In December 2000, Arena Group 2000 approached the City with a scaled down project proposal consisting of three retail pads for a restaurant, donut shop, and gas station/car wash to be located between the south entrance to the Sports Arena and Sports Arena Boulevard. The total acreage of the pads including access around the perimeter, is 4.92 acres.

In accordance with previous direction from the Mayor and City Council, the proposed agreement is a 30-year ground lease for three retail pads. Rents from the proposed subleases will be split evenly between the City and Arena Group 2000. Arena Group 2000 will receive a reimbursement for the cost of constructing the pads that is limited to \$950,000 and subject to City approval. The cost will be deducted from gross rents before the split in rental income over a ten year period. The three-party landlord/tenant/subtenant relationship will extend beyond the normal expiration of the Sports Arena Operating Agreement in May 2017. To facilitate an all-encompassing redevelopment of the site, the City will have the ability to terminate and/or condemn the ground lease after 21 years with no obligation to make goodwill or relocation payments. If Arena Group 2000 does not enter into a sublease within three years, the City will have the right to terminate this lease.

Staff estimates that the unencumbered fair market rental value of the property included in this ground lease would be \$482,000 annually. Total rental income from the proposed subleases is estimated to be \$284,000 per year. After the annual deduction for the pad construction, revenue of \$189,000 is remaining and will be equally distributed between the City and Arena Group 2000. Since the property is otherwise encumbered until May 7, 2017 under the Sports Arena Operating Agreement, the estimated revenue is reasonable.

To address the Sports Arena naming rights issue, included is an amendment to the current Sports Arena Operating Agreement that guarantees the City ten percent of the gross proceeds for any Sports Arena naming rights agreement and requires Arena Group 2000 to submit any naming rights agreement to the City for approval and consent by the Mayor and City Council. The lease also states that the City is not obligating itself in any way to Arena Group 2000 with respect to any adjoining property.

The lease amendment also deletes the pad area in the new lease from the existing area described in the Sports Arena Operating Agreement. San Diego Gas & Electric Company (SDG&E) has requested an easement to provide underground electrical service and gas lines to the three retail pads included in the lease agreement. The general location of the easement is at intersection of Sports Arena Blvd. and the Sports Arena main entrance. Since the requested easement will provide electrical service exclusively to a City lessee, no compensation will be requested.

ALTERNATIVES

Do not approve the lease agreement, operating agreement amendment and easement agreement.

Respectfully submitted,

William T. Griffith	Approved:	Bruce Herring
Real Estate Assets Director		Deputy City Manager