Midway Rising gets another year to finalize deal for San Diego's sports arena site

The city has extended the deadline to finalize a development deal with Midway Rising for its 48-acre property in the Midway District.

By Jennifer Van Grove

The city of San Diego has pushed back the deadline to finalize a deal with the development team selected two years ago to remake the city's 48-acre sports arena site in the Midway District.

The parties, tied together in an exclusive negotiation agreement that was set to expire on Dec. 5, now have through Dec. 5, 2025, to negotiate a long-term ground lease and complete the environmental review of the Midway Rising project.

The Midway Rising project calls for 4,250 residential units, a 16,000-seat replacement arena and 130,000 square feet of commercial space alongside an unspecified number of acres of parks, plazas and public space.

"We have agreed to administratively extend (the ENA) for one year, at (the development team's) request," Christina Bibler, who oversees the city's real estate division, told the Union-Tribune. "There are delays on both sides in terms of going through our various processes. Ours was procurement and contracting for getting our consultant on board (to analyze the Enhanced Infrastructure Financing District). And theirs was finalizing their specific plan and going through development services for certainty as to the development footprint."

Bibler characterized the protracted timeline as a six-month slowdown. She now expects to present a negotiated deal to City Council members before the end of June. Terms have not been publicly disclosed.

In September 2022, San Diego City Council members selected Midway Rising to redo the city's property at 3220, 3240, 3250 and 3500 Sports Arena Blvd. Later that year, the city and the development team signed the negotiation contract, creating a two-year window to reach a deal. The contract allows the mayor to extend the agreement for two one-year terms.

Part of the delay is linked to the city's review of a proposed subsidy that is said to be needed to make possible the project's residential units for low-income households.

The Midway Rising team has promised to build 2,000 affordable housing units, a technical term that refers to units formally set aside for households earning 80 percent or less of the area median income. The housing type typically requires a combination of local, state and federal subsidies given that developers are also required to rent out the deed-restricted units at reduced rates set by the government.

In March, San Diego agreed to explore the formation of an Enhanced Infrastructure Financing

District, or EIFD, to capture the incremental growth in property tax dollars in a defined area to pay for public facilities and help offset construction costs. The county took a similar action in May.

The city hired real estate adviser Keyser Marston Associates in the summer to study the special district proposal, Bibler said. KMA also served as the city's financial adviser during the formation of the Otay Mesa EIFD in 2017.

There has also been a slowdown to the project's environmental review, mandated by California's Environmental Quality Act. In December, the city commenced its analysis of what's known as the Midway Rising Specific Plan as a supplement to the environmental impact report completed in 2018 for the Midway-Pacific Highway Community Plan.

Initially, the specific plan area included the city's 48-acre footprint alongside three additional acres of privately owned land. However, the plan area has since been condensed to just the city's real estate, the city and the developer said. A draft of the environmental document, which will spell out in detail anticipated impacts to traffic, air quality and neighborhood character, has yet to be released.

Midway Rising is composed of market-rate housing developer Zephyr, affordable housing builder Chelsea Investment Corp., and sports-and-entertainment venue operator Legends. The Kroenke Group, a subsidiary of billionaire Stan Kroenke's real estate firm, is the entity's lead investor and limited partner.

In late August, Legends completed its $2.3 billion purchase of ASM Global, which manages the day-to-day operations of hundreds of event venues including Pechanga Arena San Diego. The deal was announced in November, but the entities were required to remain separate during a mandatory waiting period, pending review by the Department of Justice, because of the transaction size.

On Aug. 5, the Department of Justice sued Legends, alleging that the firm violated the waiting period requirements set forth in the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Legends acted as the de facto owner of ASM before legally allowed to do so, directing ASM to continue operating the San Diego arena, according to the complaint.

"In May 2023, Legends won the right to manage a city-owned arena in California upon the expiration of ASM's management lease on July 31, 2024. ASM also competed for this opportunity," the complaint states. "Absent the acquisition, Legends was planning to provide those services itself to the arena. Due to the acquisition with ASM, however, Legends decided to have ASM provide those services instead."

The Department of Justice complaint was accompanied by a negotiated settlement. Legends, which did not admit to wrongdoing, agreed to pay the federal government $3.5 million as a civil penalty.

Bibler said the city could not comment on the legal matter.

Legends officially took over operations of Pechanga Arena San Diego on Aug. 4, per the terms of an interim lease agreement between the city and Midway Rising Venue Management. But there has been no change in day-to-day management, the city said.

“Nothing has changed operationally for the sports arena,” said Lucy Contreras, who is the city’s deputy director of real estate. “It’s the same staff, top to bottom. There’s continuity, 100 percent, so there’s a level of consistency there, and that’s how it’s operating at the moment.”

The contractual shift comes with some marked changes that should boost revenue for the city and improve the arena experience while San Diegans await a replacement venue.

The interim lease requires Midway Rising to pay rent as a percentage of gross revenue, and includes a higher percentage rate for naming rights proceeds and a higher per-ticket fee for ticket sales. At a minimum, Midway Rising will pay the city monthly rent of $64,643 in its first year.

“Midway Rising is excited to be responsible for operating Pechanga Arena and to be collaborating with existing staff to deliver a great guest experience,” said Shelby Jordan, a project director for Midway Rising. “We will continue partnering with current tenants and working with industry promotors to deliver amazing content for San Diego. As well, we will be making new investments into the facility and are thrilled to introduce an elevated food and beverage program soon.”

Per the terms of the contract, Midway Rising must spend $1 million to improve the sports arena during the first 30 months of its lease.