

## In 'historic' deal, Navy agrees to vacate prime real estate opposite San Diego Bay



Sandwiched between the Wyndham San Diego Bayfront hotel and the Lane Field hotels, the low-rise buildings at 1220 Pacific Highway are the property of the United States Navy. The Navy has agreed to terminate its 100-year lease with the Port of San Diego for the 3.4-acre property. (Adriana Heldiz/The San Diego Union-Tribune)

By Jennifer Van Grove

The Port of San Diego and the United States Navy have agreed to terms that will see the federal government vacate a 3.4-acre, waterfront site at 1220 Pacific Highway in exchange for \$5.75 million in products and services.

The deal, which is 38 years in the making, will return the prime real estate opposite B Street Pier to the port and open the door for redevelopment with hotels and public amenities.

Port of San Diego Commissioners will vote Tuesday on the negotiated deal, with approval

triggering termination of the Navy's 100-year leasehold before the end of the year.

"This is a historic deal for the Port of San Diego. This marks the end of the 100-year, front-porch '49er, a lease that was entered into in 1949 and won't expire until 2049," said Rafael Castellanos, who chairs the seven-member Board of Port Commissioners. "This is a lease where the Navy pays no rent, and (the site is) right in the heart of San Diego's front porch. And it's an area that over the last several years has been completely transformed."

In August 1949, the city of San Diego executed a four-page lease agreement with the United States of America for 1220 Pacific Highway. The contract essentially gave the land to the Navy free of charge for 100 years. The agreement was inherited by the San Diego Unified Port District when it was formed in 1962, and the agency has, over the decades, sought to take back the property for varying purposes.

The site is currently home to around 93,000 square feet of general office space, spread across one- and two-story buildings that are currently used as general administrative space for several Navy tenants, a spokesperson for the agency said. At the same time, the Naval Facilities Engineering Command, the primary division that was using the dated facilities, has since relocated to the Navy Building One tower at 750 Pacific Highway.

The facilities, now surrounded by an abundance of public attractions and hotels, take up valuable real estate at the water's edge.

"From the county Waterfront Park, to Portside Pier, the new promenade, the Lane Field Park, the Lane Field hotels, Carnitas' Snack Shack, the Broadway improvements. And then bookended by the USS Midway and now the IQHQ project. It's the heart of what people see when they think about the Embarcadero and downtown San Diego," Castellanos said. "And to get back what is really the heart of it, right in the center, and to open up opportunities for more public access, recreation and development that will generate revenue for us to reinvest into the waterfront, it's just a tremendous opportunity to get back this land."

Per the terms of the negotiated deal, the Navy's lease will automatically terminate after a 60-day due diligence period that starts once the agreement is executed. The federal government will then receive a short-term permit for continued use, and have up to four years to vacate the premises.

In exchange for the Navy's early exit, the port has agreed to provide the Navy with up to \$5.75 million in to-be-determined products and services. The port will also be responsible for demolition costs and environmental remediation expenses.

"The Navy will relinquish its lease of the 1220 Pacific Highway property to the Port of San Diego although 27 years remained on the lease," said Rear Adm. Brad Rosen, who is commander of Navy Region Southwest. "The Navy negotiated with the port on an agreement that meets our requirements while accommodating the port's interest for redevelopment with their Central Embarcadero redevelopment plan. This agreement affirms the Navy's strong relationship with the

port and our shared commitment to cooperation and partnership.”

The deal is made possible by Section 836 of the Military Construction Authorization Act of Fiscal Year 1985, or special legislation that gave the Navy the authority to convey its leasehold interest to the port. The law, however, conditioned the transfer on the port providing replacement facilities at no cost to the United States government. The costly requirement tripped up progress on the land exchange.

Most recently, in November 2005, the agencies agreed on paper to consider a deal that would allow the port to acquire the Navy’s 1220 Pacific Highway leasehold for \$26.5 million worth of replacement facilities. The deal terms, kept alive for seven years, eventually expired because the port wasn’t able to come with the funds.

The newly negotiated sum, just a fraction of what was contemplated two decades ago, reflects the value of a leasehold with a term that is ticking down, said Tony Gordon, who is the port’s assistant vice president of real estate.

There are also other factors at play.

“It’s important to acknowledge that there has been a major change in that there’s now a new Navy office building that’s been built,” Castellanos said. “This (1220 Pacific Highway) complex that we’re talking about. It’s old, dilapidated. And the maintenance costs ... are also an additional cost for the Navy.”

Once the Navy’s lease is terminated, the waterfront land will become an immediate target for redevelopment, with the port already contemplating at a high level the opportunity for additional park space alongside new hotels and retail shops.

The Port Master Plan Update, which is expected to go before the board for approval later this year, makes room for 750 additional hotel rooms in the North Embarcadero area between Ash Street and Broadway. The draft master plan also envisions more park space along North Harbor Drive and an extension of B Street to the water.

Lane Field San Diego Developers will get the first crack at crafting a redevelopment proposal.

The development team, responsible for building the adjacent hotels at Broadway and Pacific Highway, has a contractual first right to submit a project for the entire site, although the board has broad discretion on whether to accept, deny or request modifications to the proposal, Gordon said. The entity will have a 90-day window to submit a proposal after the Navy’s lease termination agreement is executed.