

**DRAFT****SAN DIEGO UNIFIED PORT DISTRICT****ORDINANCE xxxx****ORDINANCE APPROVING SECOND AMENDMENT  
TO OPTION TO LEASE AGREEMENT WITH  
SUNROAD HIE HOTEL PARTNERS, L.P. FOR A 66-  
YEAR LEASE TO DEVELOP AN UP TO 450-ROOM  
HOTEL ON HARBOR ISLAND TO EXTEND THE  
TERM OF THE OPTION AND UPDATE OTHER  
TERMS**

**WHEREAS**, the San Diego Unified Port District (“**District**”) is a public corporation created by the Legislature in 1962 pursuant to Harbors and Navigation Code Appendix I (“**Port Act**”); and

**WHEREAS**, Section 87(b) of the Port Act grants authority to the District to lease the tidelands or submerged lands, or parts thereof, for limited periods, not exceeding 66 years, for purposes consistent with the trusts upon which those lands are held, by the State of California; and

**WHEREAS**, Sunroad HIE Hotel Partners, L.P. (“**Sunroad**”) is proposing the development of the Sunroad Harbor Island East Hotel, which would include development, operation, and maintenance of an up to 450-room hotel and associated amenities, including a walk-up restaurant and bar area, swimming pool, jacuzzi spa, retail space, conference space, parking lot(s), waterfront promenade, and landscaping (collectively, the “**Project**”); and

**WHEREAS**, the Project is located at the eastern corner of Harbor Island Drive, consisting of two parcels totaling approximately 7.55 acres (“**Project Site**”) commonly referred to as the “Elbow Parcel” (see Attachment A to the Agenda Sheet to which this Ordinance relates – Location Map); and

**WHEREAS**, on July 21, 2021, Sunroad and the District entered into an Option to Lease Agreement<sup>1</sup> (“**Option**”) for the redevelopment of the Project Site, which Option includes as an attachment a 66-year ground lease (“**Original Lease**”) to be executed and effective after Sunroad’s satisfaction of all conditions precedent specified in the Option and Sunroad’s exercise of the Option; and

**WHEREAS**, the Option, which was later amended by Amendment No. 1 to the Option to Lease Agreement<sup>2</sup>, currently expires on May 31, 2025; and

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<sup>1</sup> Office of the District Clerk Document No. 72948

<sup>2</sup> Office of the District Clerk Document No. 75951.

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**WHEREAS**, at the November 9, 2021 Board meeting, the Board adopted a resolution (BPC Resolution No. 2021 -144) authorizing the issuance of appealable Coastal Development Permit No. 2021-07 for the Project ("**CDP**"), which CDP is on file in the Office of the District Clerk as Document No. 73453; and

**WHEREAS**, the CDP was later amended to extend the termination from December 7, 2024 to December 7, 2026; and

**WHEREAS**, during the time elapsed since entering into the Option, the hospitality market has changed considerably, with substantial increases in hotel construction costs and to interest rates for hotel financing; and

**WHEREAS**, due to these changes in market conditions, as well as unknowns related to what qualifies as low cost overnight visitor accommodations ("**LCOVA**") to determine what, if any, in-lieu fee is due under the CDP, the Project is no longer feasible based on the current terms of the Option and Original Lease; and

**WHEREAS**, in order for the Project to be able to continue to move forward and ultimately be successful, District staff and Sunroad have renegotiated the terms of the Option and Original Lease; and

**WHEREAS**, the renegotiated terms include a Second Amendment to Option to Lease Agreement ("**Second Amendment**") in the form of Attachment B to the Agenda Sheet to which this Ordinance relates that extends the Option term from May 31, 2025 to December 31, 2026 and revises the Option's assignment provisions to facilitate equity investment; and

**WHEREAS**, the Second Amendment also includes, as an attachment, a revised Lease ("**Revised Lease**") that, as compared to the Original Lease, provides for a longer fixed rent period to aid feasibility, increases percentage rental rates for room rental in later years, and includes a cost sharing between the District and Sunroad of any LCOVA in-lieu fees due under the CDP; and

**WHEREAS**, since an onsite solution to the LCOVA requirement is challenging and the LCOVA in-lieu fee impact on feasibility, District and Sunroad have agreed to split the cost of any in-lieu fee due under the CDP, calculated at \$100,000 per room for 25% of the high-cost rooms; and

**WHEREAS**, additional information on the differences between the Original Lease and the Revised Lease are further described in the Agenda Sheet to which this Ordinance relates; and

**WHEREAS**, the proposed Board action was adequately analyzed in the First Addendum to the Final Environmental Impact Report ("**FEIR**") for the Sunroad Harbor Island Hotel Project and East Harbor Island Subarea Port Master Plan

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Amendment (UPD# 83356-EIR-783; SCH# 2006021027, Clerk Document No. 61175) prepared and adopted by the District on April 13, 2021 (Resolution No. 2021-059); and

**WHEREAS**, The proposed project is not a separate project for CEQA purposes but is a subsequent discretionary approval related to a previously approved project; and

**WHEREAS**, District staff believes the terms set forth in the proposed Second Amendment and Revised Lease will aid in the delivery of a successful hotel project to District tidelands; and

**WHEREAS**, as a result, staff recommends that the Board approve the Second Amendment to Option to Lease Agreement and the Revised Lease attached thereto, all in substantial form and substance as Attachment B to the Agenda Sheet to which this Ordinance relates.

**NOW, THEREFORE**, the Board of Port Commissioners of the San Diego Unified Port District does ordain as follows:

1. The Second Amendment to Option to Lease Agreement with Sunroad HIE Hotel Partners, L.P. and accompanying Lease attached thereto, all in substantial form of Attachment B to the corresponding Agenda Sheet to which this Ordinance relates, is hereby approved.

2. The Executive Director or his designated representative is hereby authorized to execute said Second Amendment to Option to Lease in substantially the same form as Attachment B to the corresponding Agenda Sheet to which this Ordinance relates.

3. This Ordinance shall take effect on the 31<sup>st</sup> day from its passage by the Board of Port Commissioners.

APPROVED AS TO FORM AND LEGALITY:  
GENERAL COUNSEL

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By: Assistant/Deputy General Counsel

PASSED AND ADOPTED by the Board of Port Commissioners of the San Diego Unified Port District, this 15<sup>th</sup> day of April 2025, by the following vote: