



City of San Diego and Midway Rising LLC., Disposition and Development Agreement

Recommended Actions for Consideration

- Certify Subsequent Environmental Impact Report (SEIR) No. PRJ-1106734 (SCH No. 2023120451) for the Project is compliant with the California Environmental Quality Act (CEQA) and adopt the associated Findings of Fact, Statement of Overriding Considerations, and Mitigation Monitoring and Reporting Program.
- Approve the Disposition and Development Agreement between the City and Master Developer for development of the Project on the Property and authorize the Mayor or his designee to sign the Disposition and Development Agreement.
- Make findings regarding the Project's fulfillment of economic opportunity objectives and the value of the proposed transaction to the City, consistent with Government Code section 52201.
- Waive the application of Council Policy 700-10 in reference to the DDA and the associated ground leases to the extent they are inconsistent with Council Policy 700-10 considering the unique nature of this transaction.
- Authorize the Chief Financial Officer to accept and deposit all payments to the City under the DDA or the associated future ground leases or other agreements into General Fund Number 100000.

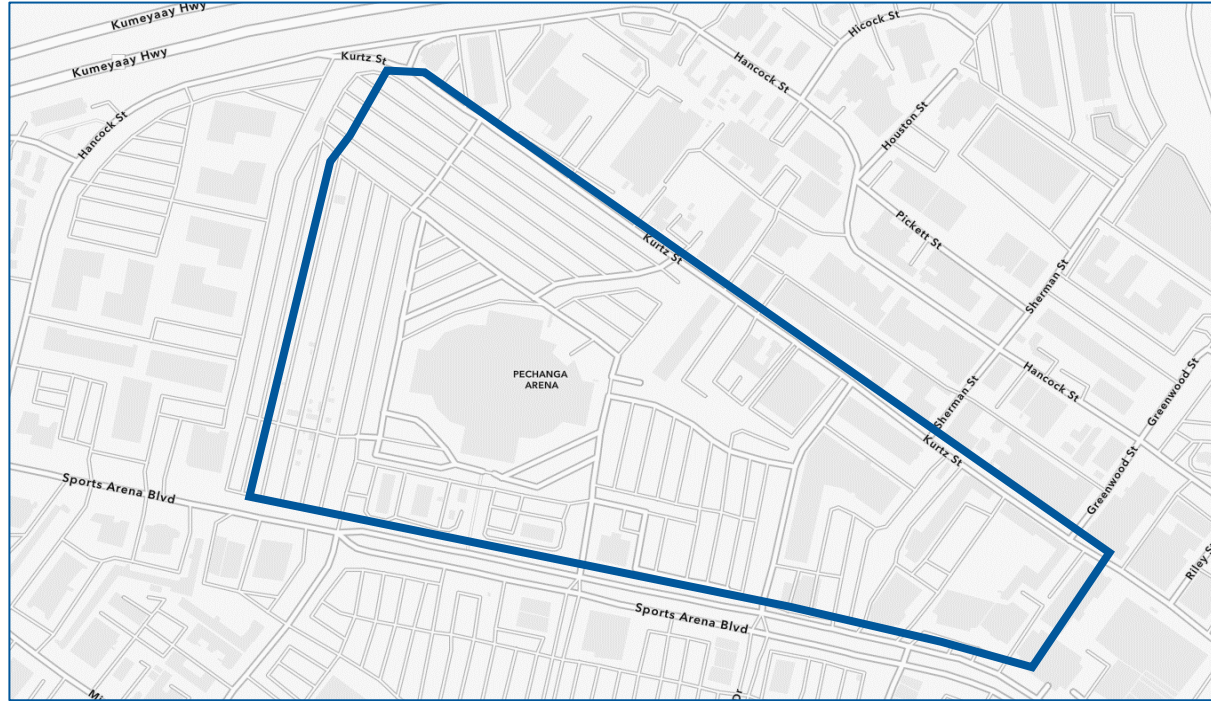
Background

Pursuant to the Surplus Land Act (SLA) a Notice of Availability (NOA) was issued on 10/4/2021, requiring that future development of the site include the renovation or replacement of the City's current sports arena.

Through the NOA process and selection requirements, Midway Rising was recommended as the preferred development partner, and Council approved in September 2022.

The City then entered into an Exclusive Negotiations Agreement (ENA) with Midway Rising in December 2022.

The ENA expires December 4, 2026



Negotiation Timeline

December 2022 ENA

December 2023 - Closed Session on Proforma

February 2024 – City's Initial Term Sheet

Jan-Feb 2025 finalize key economic terms

March 3, 2025 – Closed Session w/Council Direction

September 15, 2025 – Closed Session w/Council Direction

Appellate Court decision

April 20, 2026 – Closed Session w/Council Direction

September 22, 2026 - Closed Session w/Council Direction

September 29, 2026 Legislation SB344 & SB958 Signed by Gov. Newsom

Development Program and Project Costs

Development Program

Affordable Housing	2,000 units (average affordability level not to exceed 60% of area median income)
Market-Rate Housing	2,250 units
Entertainment Center	380,000 square feet (16,000-seat capacity)
Retail	130,000 square feet
Parking	7,040 spaces
Parks/ Open Space	14.54 acres
Master Developer/ Infrastructure	Shared parking and infrastructure, including parks/ open space

Project Benefits and Market Value

The Project provides significant public benefits to the City, which reduce the value of the Site

Public benefits include:

2,000 affordable housing units – 22% more affordable units (936 units in excess of SLA 25% affordable housing requirement)

14.54 acres of public parks and open space – the operations and maintenance of which is the Master Developer's responsibility for the life of the lease

New 16,000-seat entertainment center – privately financed, and is anticipated to spur increased economic activity, while expanding public access to cultural, sporting, and civic events

The Project's mix of uses, as required by the SLA and City, does not maximize the **market value** of the land; as a result, the real estate transaction is not representative of a true market transaction

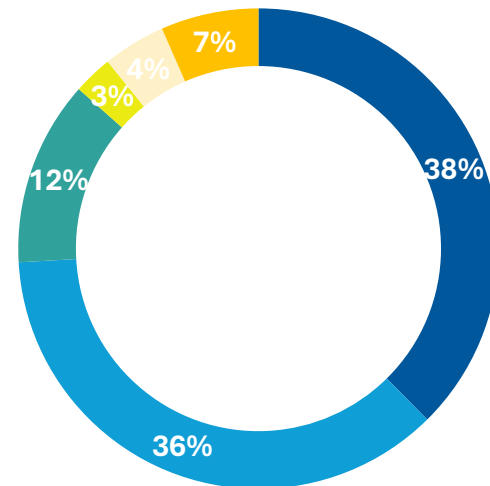
Site Map

- A "THE GREEN"
- B "THE SQUARE"
- C "THE PLAZA"
- D PROMENADES
- E STREETSCAPES
- F PASEO GREENS
- G PASEO GREENWAYS
- H RESIDENTIAL BUFFER



Project Cost

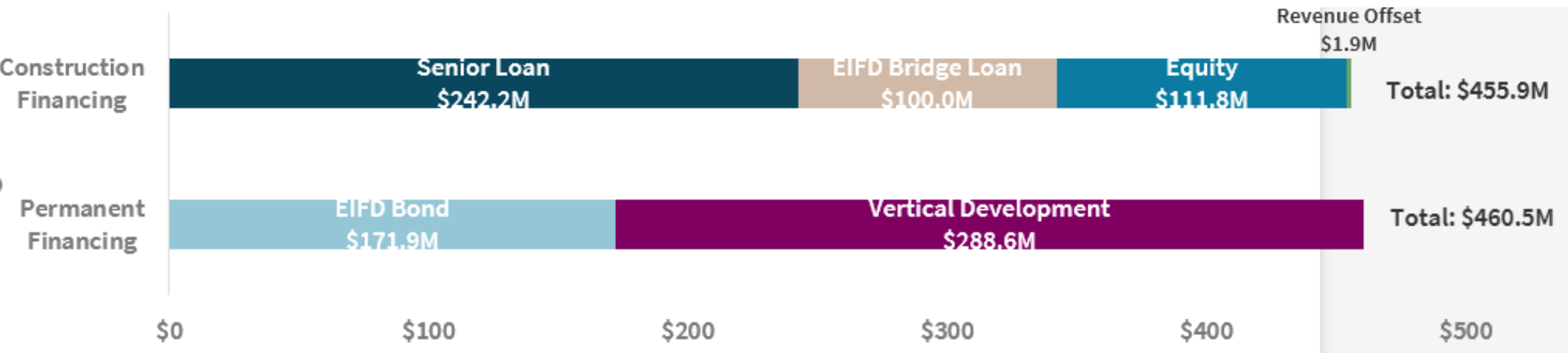
	Development Cost	% of Total Cost
Affordable	\$1,588M	37.6%
Market-Rate	\$1,541M	36.5%
Entertainment Center	\$526.4M	12.5%
Retail	\$111.9M	2.6%
Parking	\$178.1M	4.2%
Master Developer/ Infrastructure ⁽¹⁾	\$277.9M	6.6%
Total	\$4.223B	100.0%



(1) Includes \$18.4M in predevelopment cost, \$204.0M in master infrastructure cost (e.g., site prep, parks/open space, sitework, internal streets, utilities, off-site improvements, etc.), and \$55.5M in financing cost.

Master Developer Infrastructure

- Creation of an Enhanced Infrastructure District (EIFD) is critical for Project feasibility
- Proceeds paid by Vertical Developers to the Master Developer, for development parcels, only cover approximately 63% of the cost to prepare the parcels for development



Development Agreements

	Disposition and Development Agreement (DDA)	Development Agreement	Horizontal Ground Lease	Vertical Ground Lease(s)
Term:	Terminates on the earlier of: - issuance of the Certificate of Occupancy for the final vertical improvement completed under a Vertical Ground Lease, or - termination under any other terms of the agreement.	30 years	15+ years	85 years
Description:	- Principal agreement governing development of the Project. - DDA & its exhibits provide the overall roadmap for development, including both horizontal and vertical development, public benefits and affordable housing requirements, and the financial structure for the transaction.	- Vests the Developer's rights to develop the Project - Obligates Developer to provide "extraordinary public benefits" – benefits in excess of what the City requires under existing policies and regulations.	- Sets the terms and conditions under which the Master Developer will lease the 48.5-acre site from the City to prepare the site for Vertical Development (e.g., demolition of the existing buildings and structures) and construct the horizontal infrastructure, such as parks, roads, and utilities. - Individual development parcels will be removed from the Horizontal Ground Lease and will subsequently be governed by a Vertical Ground Lease on each pad site.	- Grants Developer the right to lease and redevelop an individual parcel of land owned by the City for a defined term and permitted use, as part of the larger redevelopment Project. - Sets forth the terms and conditions governing construction, operation, and maintenance of vertical improvements on the parcel, following completion of the required horizontal site work.

Real Estate Transaction Structure

MILESTONE YEAR
(NOT TO SCALE)



REAL ESTATE AGREEMENTS

Interim arena lease

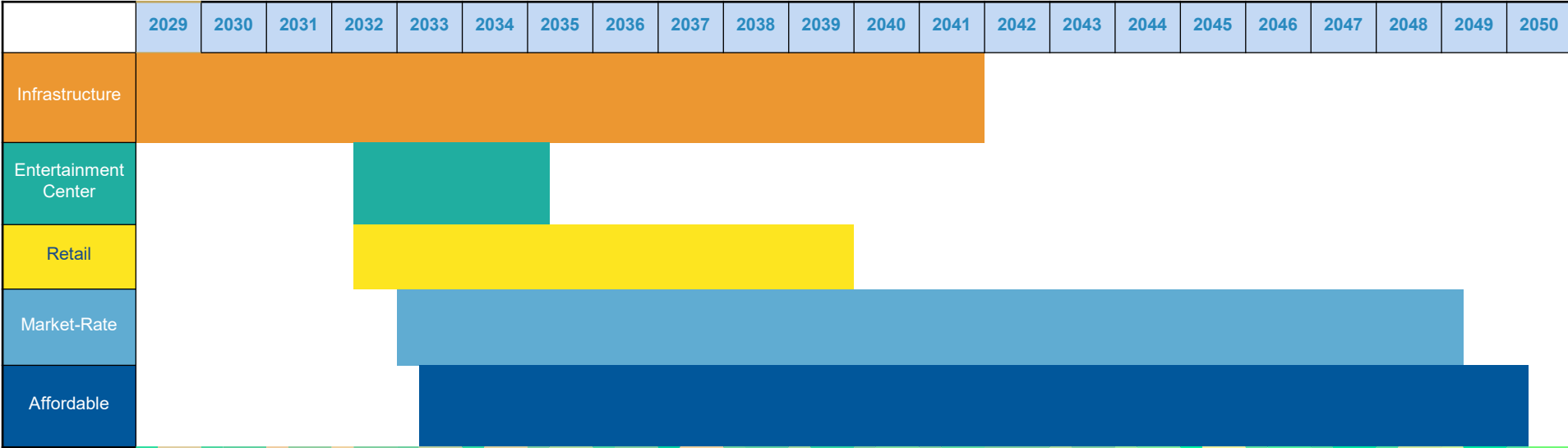
Horizontal ground lease

Housing + retail lease(s) including affordable

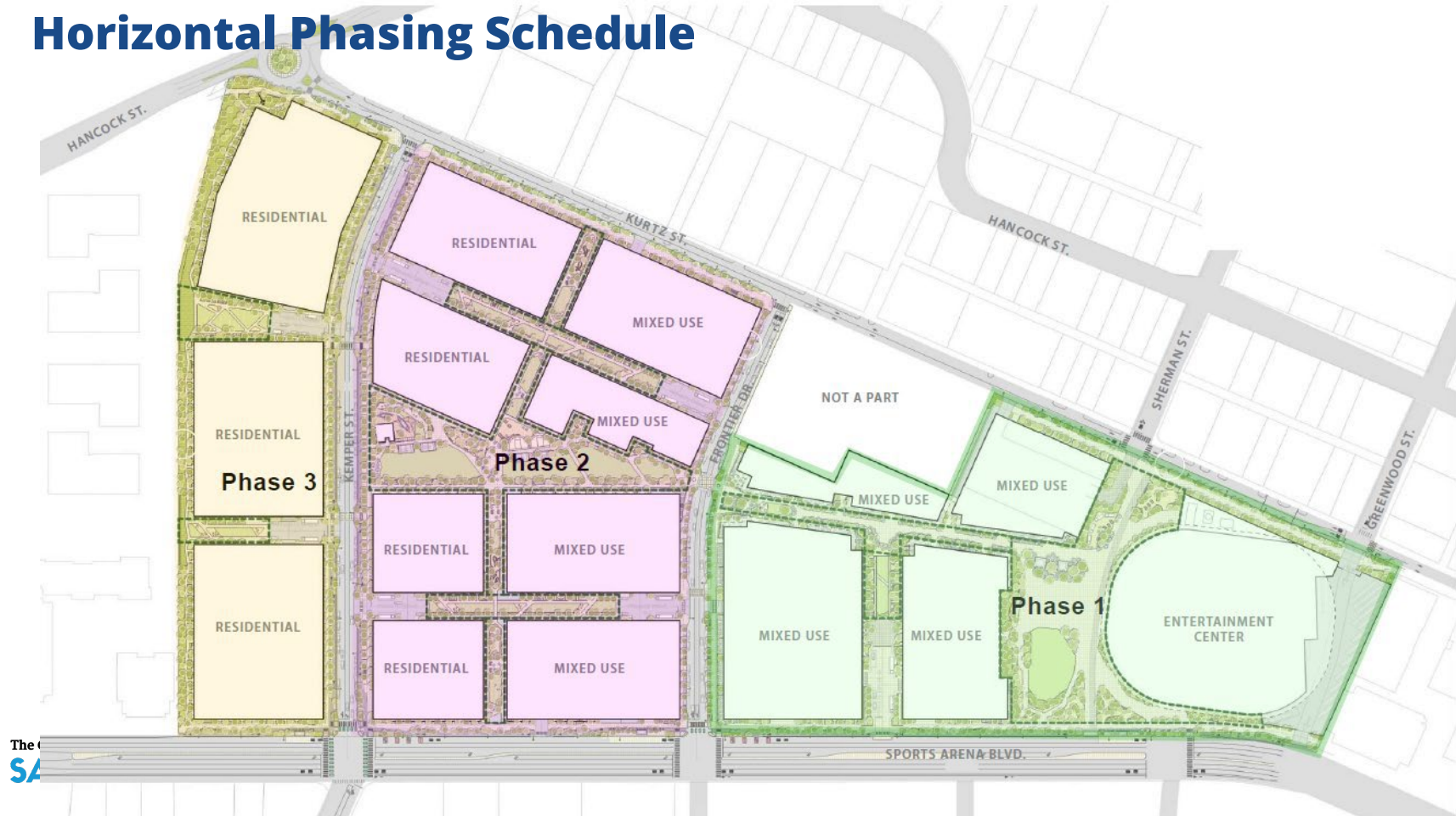
Entertainment center lease

Development Phasing Schedule

Indicates starts and completions



Horizontal Phasing Schedule



Affordable Housing Criteria - Section 15 of DDA

- Must construct minimum 2,000 affordable units
 - 500 studio/1-bedroom unit
 - 200 2-bedroom units
 - 200 3-bedroom units
- 30-80% Area Median Income w/ Average Affordability not to exceed 60% of AMI
- 200 Permanent Supportive Housing Units
- Must be built in each Phase
- Must be built across the Site; not one location
- Minimum Required Affordable Units per Phase; ensures:
 - No more than 580 Affordable Units in Phase 5
 - Allowable Carryover, if excess in earlier Phases
- Unavailable Financing in Phase 2 or 3 and allows a "catch up" provision
- Phase 1 - Must have building permit for Aff. Hsg. within 12 months of Market Rate building permit
- Phase 2 - 5 - Must have CofO for Aff. Hsg. within 54 months of CofO for Market Rate in that Phase

Affordable Housing Phasing

AMI	Studio or 1 Bedroom	2 Bedroom	3 Bedroom	Total
61 to 80% AMI	70	60	50	180
51 to 60% AMI	180	100	100	380
31% to 50% AMI	560	240	170	970
30% AMI or below	240	120	90	450
Manager Units (unrestricted)	-	20	-	20
Total	1,050	540	410	2,000

Phase	Development Phasing Plan Specified Number of Affordable Units	Development Phasing Plan Specified Number of Market Rate Housing Units	Development Phasing Plan Specified Total Number of Residential Units Per Phase	Number of Minimum Required Affordable Units in Each Phase	Cumulative Number of Minimum Required Affordable Units at the End of Each Phase	Cumulative Percentage of Affordable Units in the Development
1	500	386	886	249	249	28%
2	400	316	716	232	481	30%
3	340	708	1048	447	928	35%
4	480	419	899	492	1420	40%
5	280	425	705	580	2000	47%

Phase	Development Phasing Plan Specified Total Number of Residential Units Per Phase	10% Reduction in Overall Development Phasing Plan Specified Residential Units in Each Phase	Number of Minimum Required Affordable Units in Each Phase After 10% Reduction	Cumulative Number of Minimum Required Affordable Units at the End of Each Phase After 10% Reduction	Cumulative Percentage of Affordable Units in the Development After 10% Reduction
1	886	797	224	224	28%
2	716	644	209	433	30%
3	1048	943	402	835	35%
4	899	809	585	1420	44%
5	701	1061	580	2000	47%

Key Rent Terms

Horizontal Ground Rent

- \$100,000 per year for the full 48.5-acre site at execution of Horizontal Ground Lease and guaranteed for 15 years
- Existing Arena Rent Uninterrupted: \$1,800,000 per year (avg.) for Existing Arena Lease rent will continue during construction and opening of New Arena

Vertical Ground Rent

Market-Rate Housing & Retail

- Greater of Participation Rent or Minimum Rent
 - Participation Rent: 0.5% of Modified Gross Revenue for years 0-55, increasing to 2.5% from year 56-85. Participation Rent begins after the Developer's initial equity is repaid.
 - Minimum Rent: Participation Rent converts to Minimum Rent once it reaches thresholds in increments of \$500,000, up to \$2M.
- Thereafter, Minimum Rent is reset every 10 years. The new Minimum Rent becomes 75% of the prior 12-month period's Minimum Rent, provided Minimum Rent can never decline.

Vertical Ground Rent

Entertainment Center

- \$1.50 Dollar fee per ticket paid to the City, escalating 3% annually
- Fee is abated for the first ten (10) years
- Starting in Year 11:
 - 25% of the ticket fees are paid to the City
 - 75% of the ticket fees accrue and once a 16.5% levered internal rate of return (IRR) on equity is achieved. 100% of every dollar of post-debt service cashflow goes to the City until accrued balance is fully repaid.

Capital Event Participation

Market-Rate Housing & Retail and Entertainment Center

- City receives 5% of Net Sale Proceeds over 19% levered IRR on equity, plus 10% of Net Sales Proceeds over 30% levered IRR on equity.
- Net Sales Proceeds = Gross Sales Price LESS deductions:
 - Transaction Costs
 - Debt Repayment
 - Return OF Equity
 - Return ON Equity
- Capital Event Participation survives throughout the term of the Ground Lease and applies to all future successor owners.

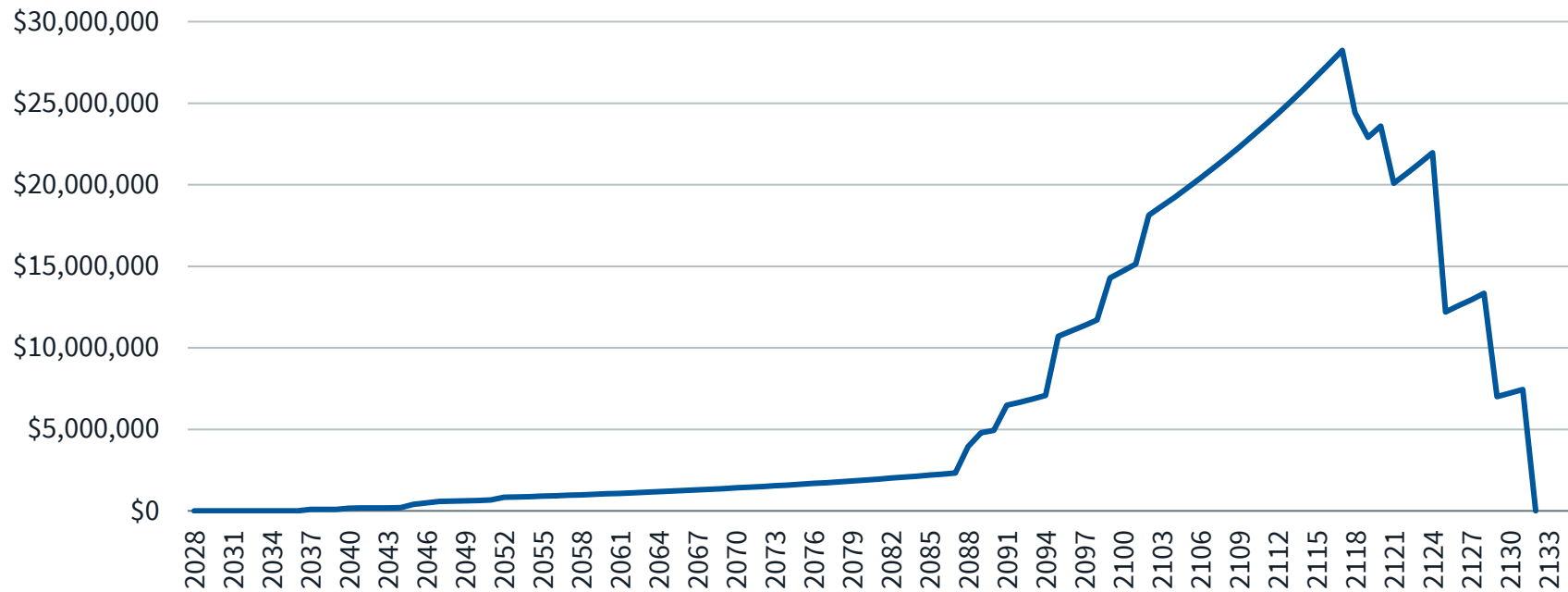
Projected Timeline

Milestones	Market-Rate Housing					Retail
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	
Construction Commencement	2033	2036	2040	2044	2047	2032
Construction Completion	2035	2039	2042	2046	2049	2034
Stabilization	2037	2040	2044	2047	2051	2034
Commencement of Ground Rent	2037	2040	2045	2046	2052	2047
Ground Rent in Year of Commencement	\$85,161	\$76,779	\$195,694	\$79,723	\$144,056	\$53,474

Projected Timing of Minimum Base Rent Thresholds

Threshold	Year	Project Year
First Year of Ground Rent	2037	10
Minimum Base Rent: \$500,000	2047	20
Minimum Base Rent: \$1,000,000	2059	32
Minimum Base Rent: \$1,500,000	2073	46
Minimum Base Rent: \$2,000,000	2082	55

Estimated Annual Market-Rate Housing & Retail Ground Rent



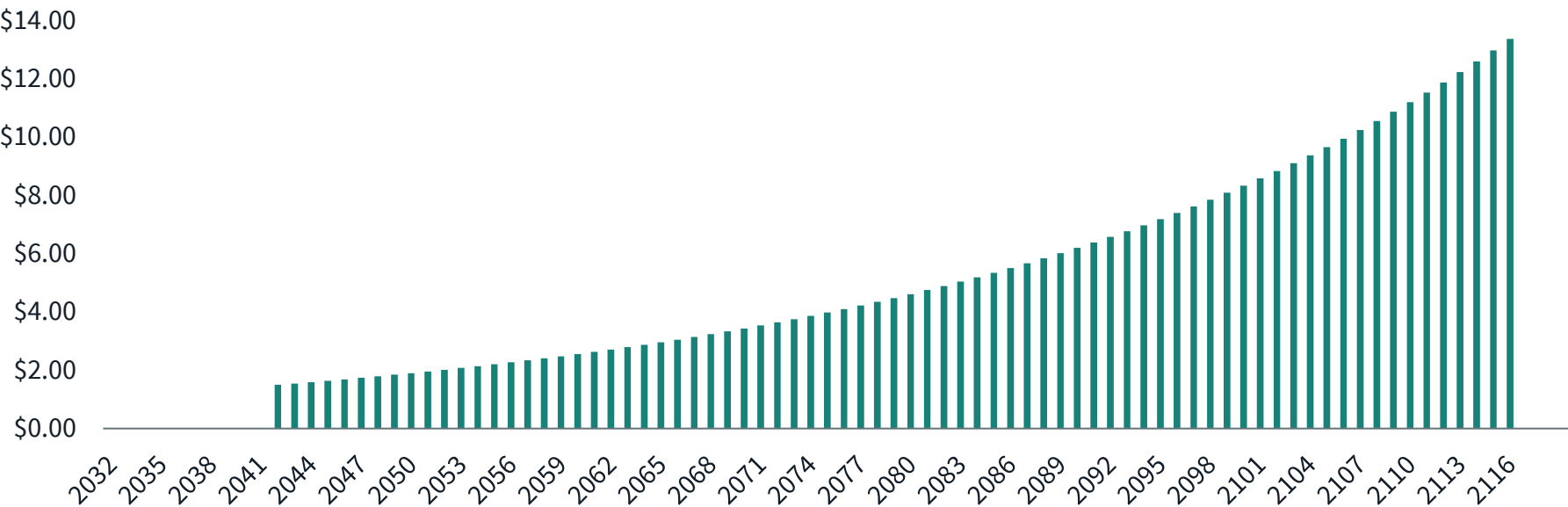
Master Rent Administration Agreement

Market-Rate Housing & Retail Ground Rent Calculation

- Applicable to Market Rate Housing and Retail Vertical Leases
- Calculating Minimum Rent and Participation Rent per Tenant
- Developer Responsible to calculate Rent to City
- Annual revenue statement with income and expenses
- Each Tenant provides Master Developer Annual Revenue Statement
- After Minimum Rent initial threshold met (\$500K) then City will receive greater of either Minimum or Participation Rent
- Master Developer assuming risk of miscalculation

Entertainment Center: City per Ticket Fee

\$1.50 per ticket fee starts in Year 11 and increases 3% annually

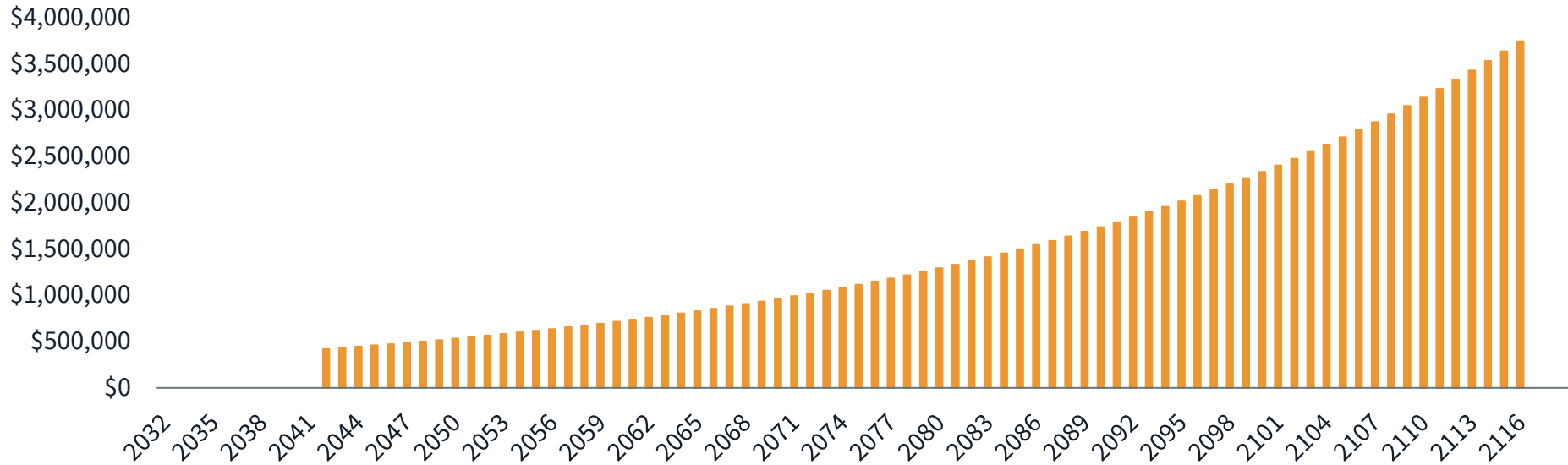


Ticket Fee Comparables: Stadiums on Public Land

								
Stadium	Midway Rising	NRG Stadium	Nissan Stadium	Angeles Stadium	Rate Field	PNC Park	Audi Field	Fiserve Forum
Location/Organization	San Diego, CA	Houston, TX Houston Texans (NFL) & Texas Rodeo	Nashville, TN Tennessee Titans (NFL)	Anaheim, CA Los Angeles Angels (MLB)	Chicago, IL Chicago White Sox (MLB)	Pittsburgh, PA Pittsburgh Pirates (MLB)	Washington DC DC United (MLS)	Milwaukee, WI Milwaukee Bucks (NBA)
Capacity	est. 16,000	72,200	69,143	45,517	40,615	38,747	20,000	17,385
Revenue Structure	Starting in Year 11, \$1.50 per ticket and escalates 3% annually: 25% of the ticket fee revenue paid to the City 75% of the ticket fee revenue paid to the City after Developer achieves a 16.5% levered IRR on equity	\$2/ticket for Rodeo events	\$3/ticket for non-NFL events	\$2/ticket in excess of 2.6 million tickets sold	\$0 for 1st 800k tickets \$4/ticket for next 1.2m tickets \$1.5/ticket for each ticket beyond 2m	5% surcharge for all events	\$2/ticket	\$2/ticket
Notes		Rodeo is a large 3-week event with an estimated 2.7 million visitors, but excludes NFL games and other events excluded	In 2024, there were 6 non-NFL events that include concerts and a golf event. In 2025, a deal was struck with Tennessee State Football	Attendance by year: 2021 - 1,512,033 2022 - 2,457,461 2023 - 2,640,575 2024 - 2,577,597 2025 - 2,601,253 (est)	Attendance by year: 2021 - 1,596,385 2022 - 2,009,359 2023 - 1,669,628 2024 - 1,380,733 2025 - 1,456,400 (est)	Attendance by year: 2021 - 848,880 2022 - 1,257,444 2023 - 1,630,611 2024 - 1,720,359 2025 - 1,558,278 (est)	Attendance by year: 2021 - 217,447 2022 - 303,263 2023 - 298,180 2024 - 308,329 2025 - 329,205 (est)	Attendance by year: 2024 - 740,880 2025 - 732,018 (est)

Estimated Annual City Ticket Fee Revenue

25% of the ticket fees not subject to the 16.5% IRR hurdle



Entertainment Center Hurdle

16.5% Levered Internal Rate of Return (IRR)

Levered IRR hurdle: The minimum annualized return on equity investors require, calculated after accounting for financing (debt).

Why is the IRR hurdle levered vs. unlevered?

- Unlevered IRR ignores the benefits derived from utilizing debt, which is how conventional development deals are financed.
- Levered IRR is a more representative measure of performance compared to unlevered IRR, which assumes all-cash financing.

Market reasonableness: Given the risk associated with the performance of an entertainment center use, **a 16.5% levered IRR falls within the typical market range** for this type of asset.

Entertainment Center Hurdle

Potential Set of Conditions to Achieve 16.5% Levered IRR

- Cost reduction of 5-10%
- Higher leverage construction and/or permanent debt financing 55-65% (current assumption is 44% debt)
- Revenue growth above 4% per year
- Assuming a sale of the Entertainment Center in 2040, the City could receive the majority of the accrued unpaid ticket fees

Projected Cumulative Ground Rent

Ground Rent Over Lease Term	Horizontal	Market-Rate Housing	Retail	Entertainment Center*	Combined Total
Nominal	\$1.5M	\$731.9M	\$48.4M	\$114.5M	\$896.3M
Present value **	\$764k	\$19.0M	\$401k	\$3.0M	\$23.2M

Notes:

* 25% of the City per ticket fee not subject to the IRR hurdle.

** Horizontal, Retail, and Entertainment Center discount rate 7.5%. Multi-family discount rate 5.0%.

Key Value Drivers for the City

Land Value	City's programmatic requirements (2,000 affordable units, 16,000-seat Entertainment Center) reduce unencumbered fair market value of land.
Predictable and Sustainable Ground Rent Revenue	Ground rent keeps pace with the market rents. Escalation indexed to the positive performance of the project, rather than CPI which often lags actual growth in rental rates. Minimum ground rent increases in increments of \$500,000.
Risk Mitigation for the City	City benefits from continued performance improvement with downside protection by way of a minimum ground rent floor.
Participation Rent Structure (Market-Rate Housing & Retail)	No further hurdle after Developer's initial equity investment is repaid.
"Homerun Insurance"	Dual tiered structure for capital sales event participation which provides the City with an even greater share of profits: 5% in excess of a 19% levered IRR + 10% of profits in excess of a 30% levered IRR.
Additional Consideration	Limit impact to General Fund while new arena is under construction.

Regional Impact and Benefits

**\$4.5 billion in
direct
construction
activity**

**\$2.6 billion
induced and
indirect
economic output**

**Long Term
Economic Impact
of \$18.4 billion**

**Long Term
Economic Impact
generated within
City \$14.7 billion**

**23,610 Total Jobs
Created**

**1,200 Net New
Permanent FTE
over 30 years**

**16,412
Construction
Jobs**

**City Net Fiscal
Benefit after 15
years \$36.1
million**

**County Net Fiscal
Benefit after 15
years is \$44.6
million**

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QUESTIONS?