


# City of San Diego and Midway Rising LLC Disposition and Development Agreement and related Actions

Economic Development

City Council Meeting
Item # 602
November 9, 2026

# Recommended Actions

- 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.

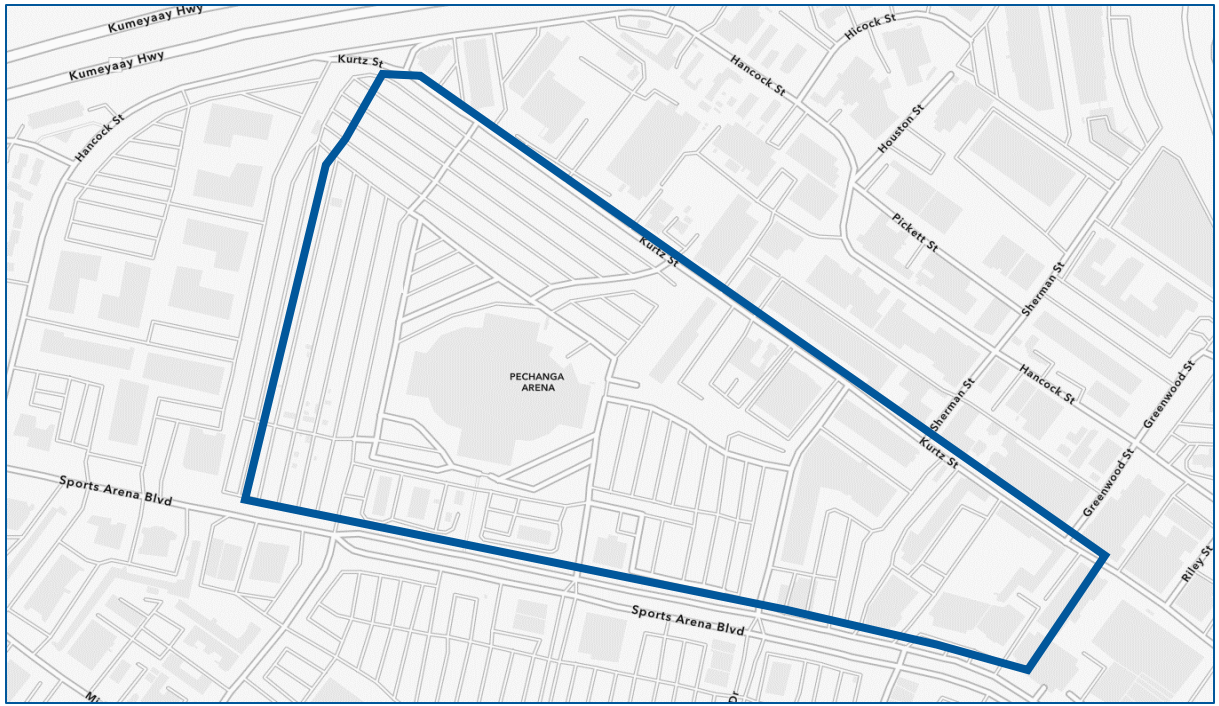
# Background

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<br>(average affordability level not to exceed 60% of area median income) |
| Market-Rate Housing | 2,250 units |
| Entertainment Center | 380,000 square feet<br>(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

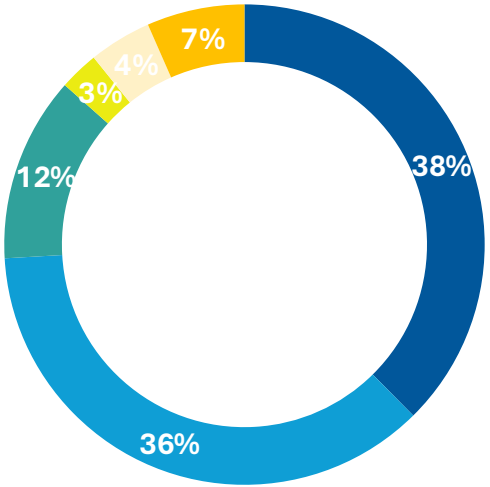
The Project's mix of uses, as required by the SLA and City, does not maximize the **market value** of the land; as a result, the real estate transaction is not representative of a true market transaction

# Site Map


A "THE GREEN"
B "THE SQUARE"
C "THE PLAZA"
D PROMENADES
E STREETSCAPES
F PASEO GREENS
G PASEO GREENWAYS
H RESIDENTIAL BUFFER
HANCOCK ST.
KURTZ ST.
HANCOCK ST.
SHERMAN ST.
GREENWOOD ST.
KEMPER ST.
FRONTIER DR.
RESIDENTIAL
RESIDENTIAL
RESIDENTIAL
RESIDENTIAL
RESIDENTIAL
RESIDENTIAL
MIXED USE
MIXED USE
MIXED USE
MIXED USE
MIXED USE
NOT A PART
MIXED USE
MIXED USE
MIXED USE
ENTERTAINMENT CENTER
SPORTS ARENA BLVD.

# Project Cost

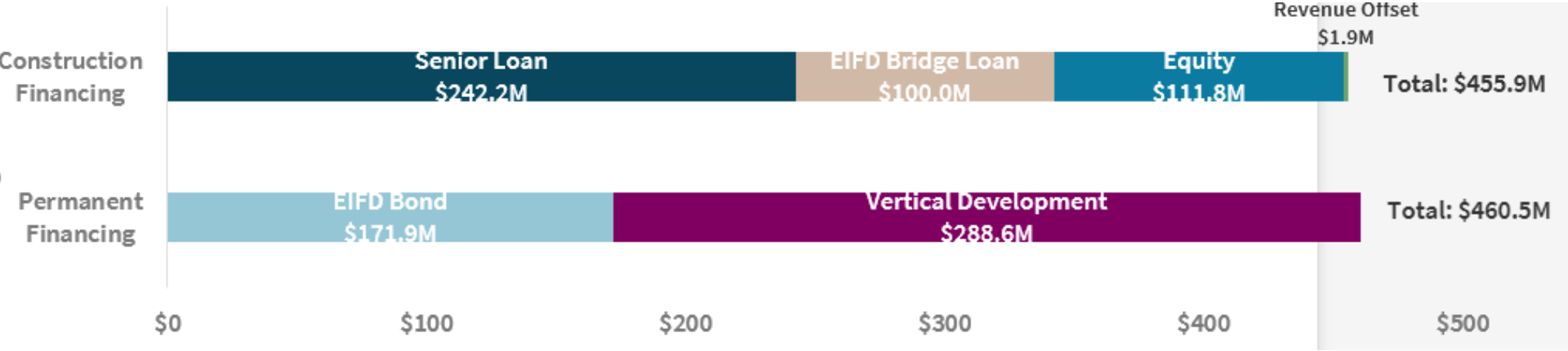
| | Development Cost | % of Total Cost |
|---|---|---|
| Affordable | $1,588M | 37.6% |
| Market-Rate | $1,541M | 36.5% |
| Entertainment Center | $526.4M | 12.5% |
| Retail | $111.9M | 2.6% |
| Parking | $178.1M | 4.2% |
| Master Developer/ Infrastructure (1) | $277.9M | 6.6% |
| Total | $4.223B | 100.0%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



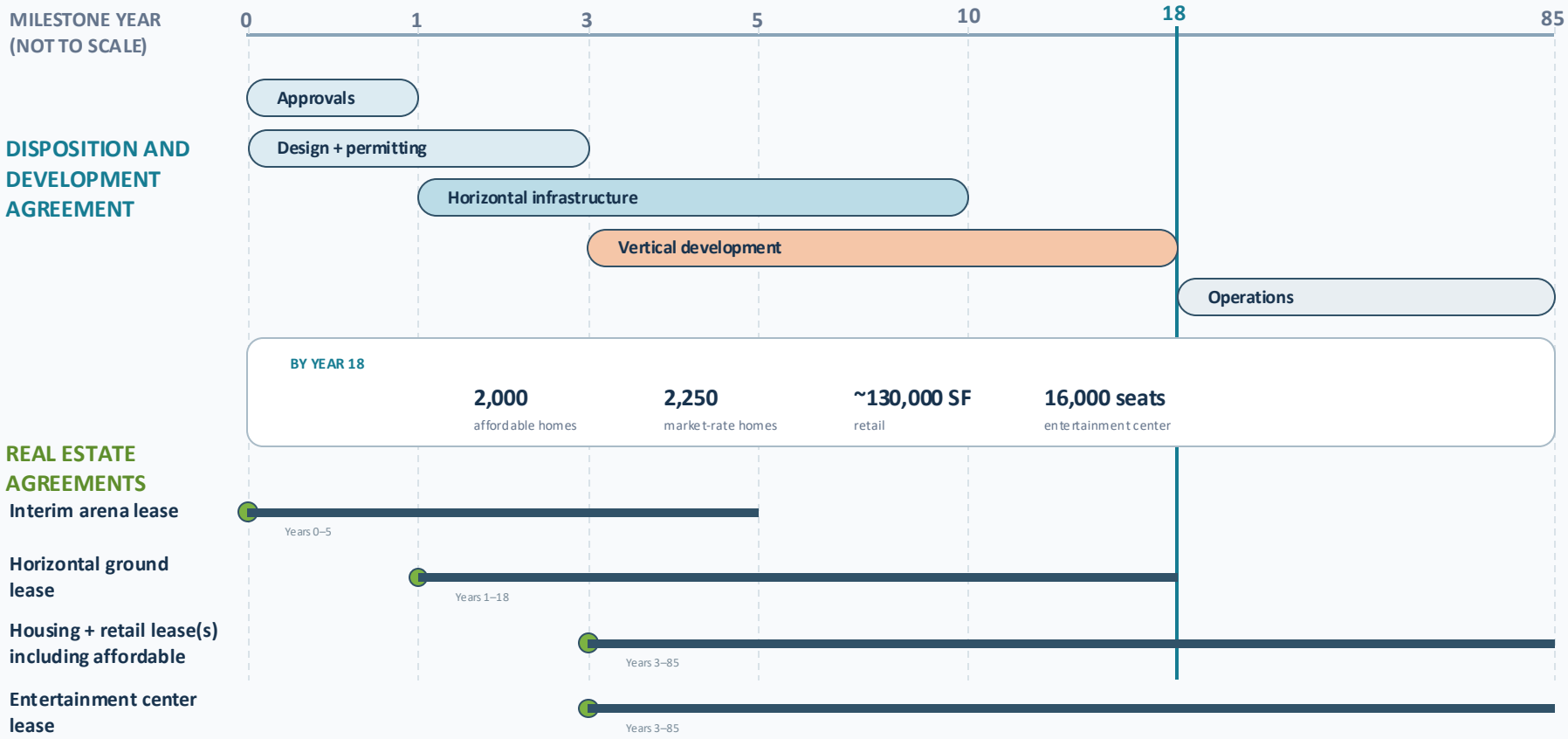

*(1) Includes $18.4M in predevelopment cost, $204.0M in master infrastructure cost (e.g., site prep, parks/open space, sitework, internal streets, utilities, off-site improvements, etc.), and $55.5M in financing cost.*

# Master Developer Infrastructure

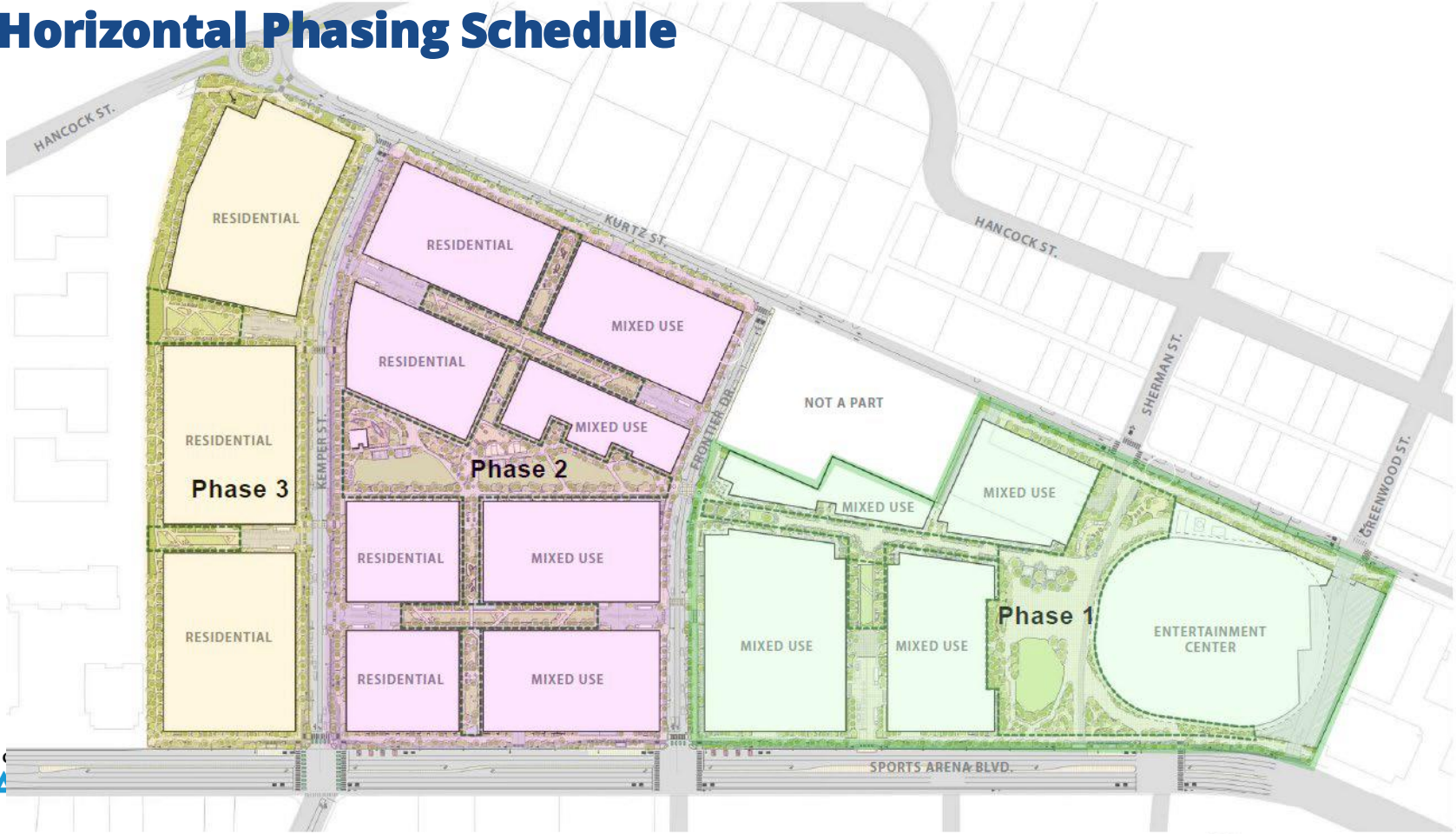
- Creation of an Enhanced Infrastructure District (EIFD) is critical for Project feasibility
- Proceeds paid by Vertical Developers to the Master Developer, for development parcels, only cover approximately 63% of the cost to prepare the parcels for development



# Real Estate Transaction Structure



# 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
- Limitations on becoming a receiver site
- 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 the term without decrease
- 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.

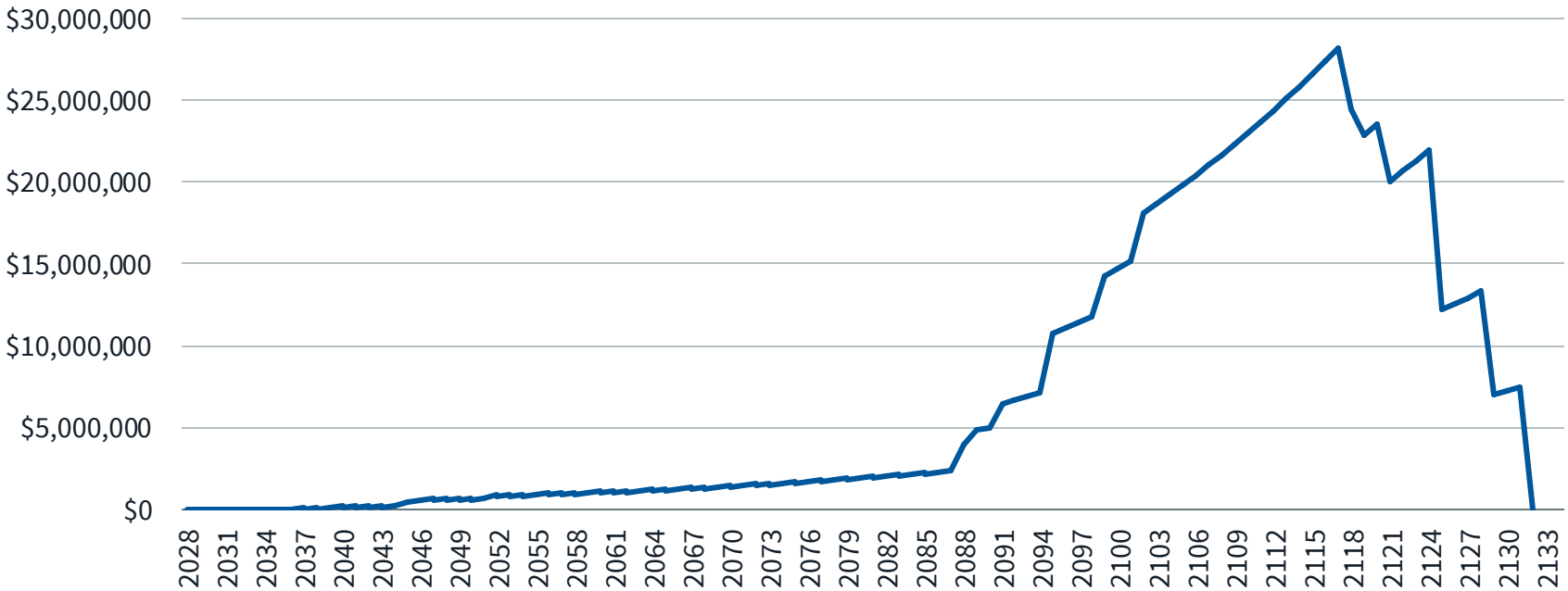
# Projected Timeline

| 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

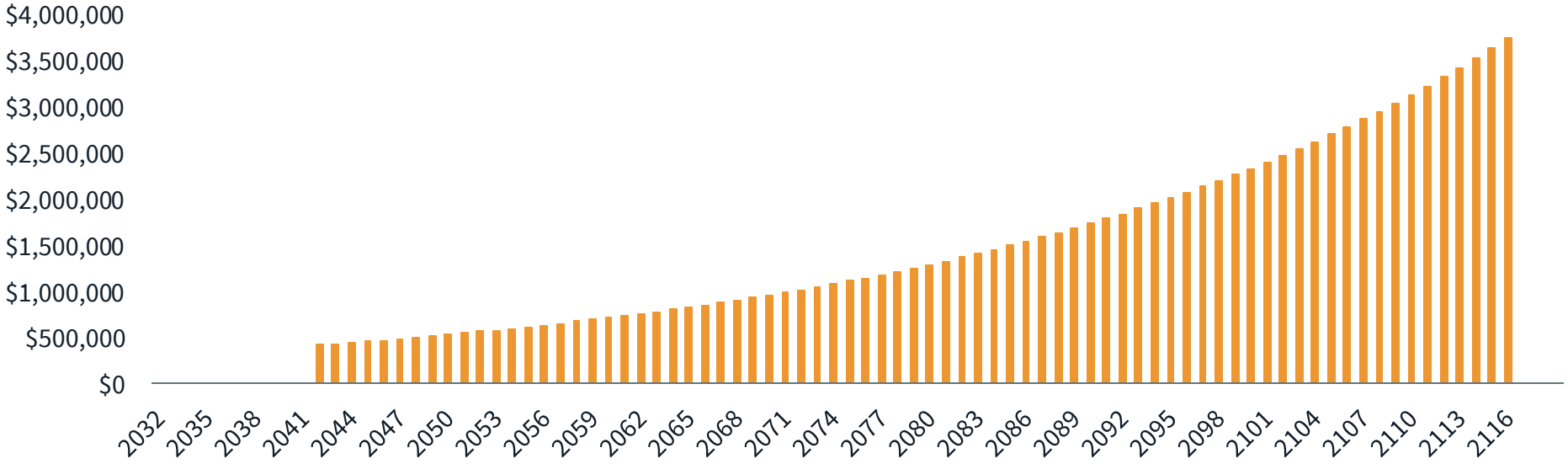


# Ticket Fee Comparables: Stadiums on Public Land

| Stadium | Midway Rising | NRG Stadium | Nissan Stadium | Angeles Stadium | Rate Field | PNC Park | Audi Field | Fiserve Forum |
|---|---|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |  |  |
| Location/Organization | San Diego, CA | Houston, TX<br>Houston Texans (NFL) & Texas Rodeo | Nashville, TN<br>Tennessee Titans (NFL) | Anaheim, CA<br>Los Angeles Angels (MLB) | Chicago, IL<br>Chicago White Sox (MLB) | Pittsburgh, PA<br>Pittsburgh Pirates (MLB) | Washington DC<br>DC United (MLS) | Milwaukee, WI<br>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:<br>• 25% of the ticket fee revenue paid to the City<br>• 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<br>$4/ticket for next 1.2m tickets<br>$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:<br>2021 - 1,512,033<br>2022- 2,457,461<br>2023 - 2,640,575<br>2024 - 2,577,597<br>2025 - 2,601,253 (est) | Attendance by year:<br>2021 - 1,596,385<br>2022- 2,009,359<br>2023 - 1,669,628<br>2024 - 1,380,733<br>2025 - 1,456,400 (est) | Attendance by year:<br>2021 - 848,880<br>2022- 1,257,444<br>2023 - 1,630,611<br>2024 - 1,720,359<br>2025 - 1,558,278 (est) | Attendance by year:<br>2021 - 217,447<br>2022- 303,263<br>2023 - 298,180<br>2024 - 308,329<br>2025 - 329,205 (est) | Attendance by year:<br>2024 - 740,880<br>2025 - 732,018 (est) |

# Estimated Annual City Ticket Fee Revenue

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




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# 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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# Economic Opportunity (52201) Summary

**Employment Generation:** projected to create 19,320 construction jobs and 980 new permanent jobs in the City

**Tax Revenues:** spending during construction and long-term sales tax revenues generated by the Site. Additional revenues from property taxes generated within the Midway area, excluding EIFD

**Affordable Housing:** For households ranging 30-80% AMI, including 200 PSH units. Delivery of these units is facilitated by the City's contribution of land through long-term ground leases

**Entertainment Center:** an 16,000-seat venue attracting events and visitors from outside the City

**Parks and Public Space:** The Project will deliver parks and open space on a site that currently lacks this amenity

**Mobility:** thru on-site street improvements, linear parks, bus rapid transit (BRT), and an event/employee shuttle service. Also, off-site infrastructure improvements supporting the surrounding area

# Economic Subsidy (53083) Summary

**EIFD:** End date of the Subsidy will be: (a) 45 years from the date of the first EIFD bond issuance; or
(b) the date on which the EIFD has fully paid the Purchase Price to the Master Developer under the future Acquisition Agreement; or
(c) the date upon which the EIFD reaches the limit on total allocated; or
(d) if an earlier date is agreed upon

**Additional Revenues:**
Over a 30-year operating period, total recurring tax revenues to the City are estimated at $151.6 million

Over a 30-year operating period, total recurring tax revenues to the County are estimated at $121.1 million

**Job Creation:**
Development of the Project is expected to generate 23,610 full-time equivalent (FTE) construction jobs Countywide, including 19,320 within the City

At buildout, an estimated 1,200 net new permanent FTE jobs are projected to be created Countywide, including 980 within the City

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