



**COUNCILMEMBER VIVIAN MORENO**

**City of San Diego  
Eighth District**

**MEMORANDUM**

**DATE:** July 24, 2024

**TO:** Honorable Mayor Todd Gloria

**FROM:** Councilmember Vivian Moreno 

**SUBJECT: RE: Request to Submit Specific Negotiating Points for the Lease Between Kettner Vine Creative House, LLC, and the City of San Diego, a California Municipal Corporation for 3554-3590 Kettner Blvd., San Diego, CA 92101, for the Hope @ Vine Campus.**

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Thank you for your July 23, 2024, memorandum “Request to Submit Specific Negotiating Points for the Hope @ Vine Campus” requesting City Council input on desired terms for the proposed lease between Kettner Vine Creative House, LLC, and the City for 3554-3590 Kettner Blvd., for the Hope @ Vine Campus.

I appreciate the Mayor’s efforts to locate additional space for more shelter beds that can help individuals experiencing homelessness get off the streets. I am glad the City finally held a public hearing on this matter because the public has been discussing this site for months without the details associated with the proposed lease and without a formal explanation on what is envisioned at the site.

The lease that was presented to the City Council on July 22<sup>nd</sup> is not something I can support. The City has had a recent history of entering into bad real estate deals. A number of them were highlighted in the City Auditor’s performance audit on Major Building Acquisitions and most notably include 101 Ash Street, the Housing Navigation Center and the Kearny Mesa Repair Facility lease. The audit recommendations have increased transparency, resulted in a better process by which the City approaches real estate transactions and helps safeguard against entering into bad deals.

One of the recommendations was for the Independent Budget Analyst (IBA) to have a real estate consultant on retainer in order to examine proposed real estate transactions being brought before City Council. Utilizing this consultant, the IBA provided the Council with an extensive report on this proposed lease that clearly outlined areas of the agreement that are problematic. For instance, the IBA points out that the City would pay \$72 million in rent during the lease period, which is a \$33.9 million net present value, and cover an estimated \$13 million for tenant improvements, resulting in a present value total City investment of \$46.9 million. In comparison, the total cost to purchase the property and do tenant improvements is \$31.3 million, which means that the City's investment for leasing the property is \$15.7 million more than if the City were to own the building outright and make the tenant improvements itself.

Additionally, the \$5 million tenant improvement allowance would not cover tenant improvements for tenant-specific uses, but rather would fund the repairs needed to bring the property into working condition for any use, which means the City is fully funding the additional tenant improvements to convert the facility for use as a homeless shelter.

The proposed price per square foot and the annual escalator are above market rate when compared with similar properties, even if you price in paying some sort of a premium because the City views the property as a perfect fit compared to others. The IBA states the current market rate rent per square foot range for a property like this one ranges from \$1.45-\$1.55 per square foot. The proposed lease set a rent cost of \$1.95 per square foot per month, \$0.50 cents above market rate. The proposed lease sets an annual escalator at 3.5%, while the IBA has determined that 3% is market rate.

Additionally, the City Attorney released a memo that outlined a number of concerns, including vague language throughout the lease agreement, which could expose the City to higher costs in a number of scenarios should there be a dispute with the landlord. The memo concluded "*As currently written, the proposed Lease does not adequately protect the City's legal or financial interests, and the City would benefit from further negotiation, legal analysis, and due diligence.*"

The IBA and City Attorney are clearly and plainly warning that the proposed lease has very deep flaws, ranging from paying above market rate prices to not meeting the City's legal interests. The Mayor and Council must heed their advice and change the terms of the proposed lease between Kettner Vine Creative House, LLC, and the City of San Diego for 3554-3590 Kettner Blvd. If the Mayor and City Council ignore the issues raised by the IBA and the City Attorney, the City will be repeating the mistakes of the past by entering into a real estate deal that put taxpayer dollars at risk.

Thank you for the opportunity to share my opinion on how best to improve this proposed lease. Below please find my desired terms for the proposed lease between Kettner Vine Creative House, LLC, and the City of San Diego:

- Rent cost should not exceed \$1.50 per square foot per month;
- Annual rent escalator should not exceed 3%;
- Term of the lease should be no more than twenty years with multiple options for the City to extend after the initial lease period concludes;
- The City should not bear the cost of paying property taxes for the site;

- The costs to improve the property that are not expressly specific to improvements needed to allow the site to be used as a shelter for homeless individuals should be borne by the property owner. Such improvements would include but not be limited to existing plumbing, HVAC, electrical systems, roofs, replacements of several building systems such as the replacement of an existing cast iron sewer line in its entirety, installing a new grease interceptor, water heaters, hot water pump, and piping; and replacing roof drain piping and cold water hose bibs;
- Hazardous materials, such as asbestos and lead should be tested for by the City at the proposed site, prior to a lease agreement being entered into;
- Include clear and unambiguous language that any environmental hazards found onsite not caused by the City are the responsibility of the landlord to address, regardless of when the hazard is identified;
- The City should perform an independent property appraisal completely separate from the appraisal performed by the property owner;
- The City should perform an independent building assessment completely separate from the assessment performed by the property owner;
- All legal issues raised by the City Attorney raised in her July 19, 2024 memorandum should be addressed and the City Attorney should provide an updated legal analysis on the revised language before the agreement is placed on a City Council agenda for consideration.
- The lease should be accompanied by a proposed multi-year funding plan for the operation of the site as envisioned.

The City should take the appropriate time needed to address all of the above issues before bringing a revised agreement before the City Council for consideration.