

# Mayor wants to cut these 2 teams in the running for San Diego's sports arena site

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By Jennifer Van Grove April 12, 2022 9:47 AM PT For subscribers

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San Diego's sports arena site is located north of the San Diego International Airport, south of Mission Bay and is bounded by Kurtz Street on the north and Sports Arena Boulevard on the south. The property includes Pechanga Arena San Diego, which has served as the long-time home of the San Diego Gulls and the San Diego Sockers. The 16,000-seat venue opened in 1966; it hosted around 145 sports and entertainment events per year prior to the pandemic.

(Nelvin C. Cepeda/The San Diego Union-Tribune)

**Council members asked to end negotiations with Neighborhood Next and Discover Midway so the city can press forward with picking a winner to redevelop 48-acre site in the Midway District.**

San Diego Mayor Todd Gloria is ready to cease talks with two of the five teams competing to lease and remake the city's 48-acre sports arena site in the Midway District.

The city's real estate department said Tuesday that it wants to end negotiations with Neighborhood Next and Discover Midway in favor of advancing discussions with Midway Rising, HomeTownSD and Midway Village+. The staff recommendation, included in a report prepared ahead of the City Council's Land Use and Housing Committee meeting on April 21, is based on how teams plan to incorporate affordable housing on the site and the viability of their arena proposals.

"The city was pleased to receive five world-class responses to the notice of availability in December," said Penny Maus, who heads the city's real estate department and is leading negotiations on behalf of the mayor. "After a 90-day good faith negotiation with all five teams, we need to focus our efforts on the teams that we see as being the best potential partners on this project."

Council members can accept, reject or modify the recommendation, meaning they can advance as many teams to the second round of negotiations as they see fit. The recommendation is, however, meant to align with state rules that govern how municipalities must offload land no longer needed for government use, as defined by the recently amended Surplus Land Act.

San Diego's sports arena site at 3500, 3250, 3220 and 3240 Sports Arena Blvd. has been on and off the market since February 2020. In October, San Diego re-offered the land for lease, this time adhering to guidelines created by a state oversight agency charged with enforcing the recently amended Surplus Land Act. The city published a notice of availability and received seven responses, although two were eliminated. In December, San Diego entered into a preliminary negotiation period with five teams promising neighborhood-altering makeovers to the acres of asphalt and rundown storefronts around Pechanga Arena.

"I am excited to see such robust housing plans among these bids that will significantly increase the number of new homes that San Diegans can actually afford. No matter which team is ultimately selected, it's clear that the result will be a revitalized Midway community that boosts our local economy, helps address the housing crisis and enhances quality of life," Gloria said in a statement. "I have implemented a transparent process inclusive of City Council and public input as the city considers this critically important decision."

San Diego must now give preference to the team proposing the highest number of affordable residences at the deepest level of affordability, according to California's Department of Housing and Community Development, or HCD, the state oversight agency. The state defines affordable housing as units reserved for families making 80 percent of the area median income. Currently, the median income for a family of four in San Diego is \$95,100.

As such, the city is giving first priority to the Midway Rising proposal from Encinitas-based Zephyr Partners, sports-and-entertainment venue operator Legends and affordable-housing builder Chelsea Investment Corp. The group's plan includes the most affordable units offered to the lowest income levels — or 2,000 deed-restricted units with an average affordability of 40 percent of the area median income, the staff report states.

In total, Midway Rising is pitching 4,250 apartments alongside a new arena, 20 acres of parks and open space, and a 200-room hotel.

“If the numbers didn't change at all and Midway Rising, for some reason, was determined to be infeasible to move forward, the city would need to coordinate with HCD, and provide them with written findings as to why we wouldn't be selecting the team that receives preference under the Surplus Land Act,” Maus said.

Staff is also recommending that HomeTownSD and Midway Village+ move forward so that the city has options as it more rigorously reviews, with the help of an outside real estate consultant, team financials and project feasibility. The city has not publicly disclosed any financial terms, meaning it's unclear what teams expect to pay to lease the site or how much of a subsidy they expect to receive from the city.

Led by San Diego-based Monarch Group, HomeTownSD is proposing to build 1,726 affordable units with the average affordability of units at 48 percent of the area median income. The team, which includes Essex Property Trust and sports real estate firm JMI Sports, features a total of 3,250 apartments, a new-but-downsized sports arena, a 300-room hotel, 155,000 square feet of office and retail space, and 18 acres of parks and open space.

Midway Village+, the group led by luxury housing builder Toll Brothers, is also being recommended for the short list because it proposes a competitive affordable housing plan, Maus said.

Although the team entered the competition with substantially fewer units, Midway Village+ ended the 90-day negotiation period with 1,610 affordable units at an average affordability of 48 percent of the area median income.

Midway Village+ is proposing a total of 4,210 residential units, a new arena, a 250-room hotel and a 12-acre central park. The team, which is partnered with affordable housing builder Bridge Housing and private equity investor Revitate, also wants to build a 3,500-seat event venue and a temporary soccer stadium for the San Diego Loyal.

Staff will ask council members to eliminate two teams: Neighborhood Next, led by The ConAm Group, and Discover Midway from Brookfield Properties.

Although Neighborhood Next pitched the third-highest number of affordable units, or 1,650 units, the team lacks an arena partner and did not demonstrate the ability to renovate the existing sports arena, the staff report said. Instead, ConAm and partners Malick Infill

Development, Community Housing Works and Wakeland Housing & Development Corp. said they would work with Crossroads Consulting to analyze arena needs and search for an operator at a later date.

“Since they didn’t have the operational wherewithal on their team to deliver an arena, we felt that was a reason to set them aside as we move forward with this deeper level of due diligence,” Maus said.

Neighborhood Next is challenging the city’s assessment.

“We are in the top three bidders for the amount of affordable housing being proposed — which is the determining factor under the Surplus Land Act,” said Zach Adams, who is senior vice president of development with The ConAm Group. “This is why we are surprised that Neighborhood Next, as the team proposing a world-class neighborhood with the highest number of homes and in the top three of affordable homes, is not on the recommended top-three short list.”

The group will ask council members to keep the team in the mix, Adams said.

Discover Midway, meanwhile, ranked last in terms of affordable housing, proposing the fewest units at the highest rates. The group’s plan calls for 1,035 affordable units with an average affordability of 56 percent of the area median income.

The recommendation to move forward without Brookfield is a blow to the prominent developer, which won the city’s first competitive bidding process for the sports arena site. That process, started under a different mayoral administration, ran afoul of the Surplus Land Act and was later terminated.

“Our commitment to San Diego doesn’t begin or end with the sports arena project. We will continue to follow the city’s lead on next steps in the process and look forward to further strengthening our local roots for the years to come,” said Jessica Jones, who is a senior director with Brookfield.

San Diego’s four-person Land Use and Housing Committee will consider the mayor’s recommendation on April 21. The full council, which has the final say, could take up the matter as soon as next month. Should the council members pare down the field of the contenders, Maus believes she can return to the elected officials with a final selection before the end of the year.

“If (City Council) wants to modify (staff’s recommendation) by adding one or more teams, it will lengthen the time that we will need to complete the analysis,” Maus said. “With these being very complex, mixed-use projects, the amount of due diligence that staff and ultimately an economic advisor will need to spend with each team is substantive.”