



MEMORANDUM

Next Steps for Lot 88-2, Homer Spit Road No. Two Amended

Item Type: Suggestions: Action Memorandum
Prepared For: Mayor Lord and Homer City Council
Date: April 6, 2026
From: Melissa Jacobsen, City Manager

Background: Lot 88-2, Homer Spit Road No. Two Amended (Lot 88-2) on the Homer Spit had a long-term lease that expired in November 2025. As the expiration date approached, the City recognized some unexpected challenges related to the subleases that were managed by the City's tenant, in that most of the buildings were owned by the sub-tenants and not the City's tenant, as required in the City's ground lease. The varied ownership of the structures would have complicated any potential transition to a new tenant for the lot. To mitigate the situation, each building owner was offered an individual short-term lease with the City for the area where their building(s) are located that commenced upon expiration of the long-term lease. The three building owners agreed to the terms and their leases expire December 31, 2026.

Discussion: Lot 88-2 is a .029-acre parcel that is designated as leased land in the City's Land Allocation Plan. The property has water, wastewater, and paved road access and is zoned for Marine Commercial with allowable and conditional uses outlined in HCC 21.28.

Lot 88-2 currently has individual leases with the owners of (1) a restaurant and food service buildings, (2) a gift shop, and (3) a non-conforming residence. According to the current short-term lease agreements, the tenants are to remove the buildings at the end of their lease, and this provision was made clear to all tenants prior to signing the agreement.

Over the past 30 or so years this lot has had various small businesses as tenants and subtenants. Their economic impact has included revenue for seasonal small business owners, sales tax for the City, and lease revenues from the primary tenant. As Port and Harbor services have grown over the years we've experienced increases in harbor users, and visitors and traffic on the Spit. Looking to the future, we see the potential for more growth through float replacement in the existing harbor and the Harbor Expansion project. With the completion of the long-term lease on lot 88-2, it's an opportunity to think about the future of this property after December 31, 2026.

Some possible scenarios to consider include-

- Offer another one-year lease to current tenants that would expire in December 2027.
 - This gives staff, commission, and council time to consider future use through the Land Allocation Plan process.
 - This would mean continued uncertainty for the current tenants who may be looking to make longer-term business decisions.
- Conduct a Request for Proposals (RFP) for the lease of Lot 88-2 for a lease term of up to ten years with no extensions.
 - This will allow continued use of the property for seasonal business owners who submit a successful proposal, while not committing the property for 20 or more years.
 - Business owners leasing from the City have historically hesitated to invest in significant improvements on a parcel that they have for only a limited term. If the existing structures are removed as required under the terms of the one-year leases, the quality of the new construction on the lot could be below the standard the City would prefer.
- Conduct a Request for Proposals and leave it open ended to allow for proposals for long term or short-term leases.
 - This will allow for a proposer to invest in new development on the property.
 - This has the potential of committing the parcel for up to 30 years if a long-term ground lease is put into place.
 - While this would give Council a sense of the level of interest from the public, the cost to prepare a proposal is not insignificant and may deter people who sense that Council is only exploring their options.
- Let the current short-term leases expire.
 - This will require the existing lessees to remove their structures from the lot, which would simplify the land lease process with any future tenant.
 - This gives staff, commission, and council time to consider future use through the Land Allocation Plan process.
- Other ideas?

RECOMMENDATION: Discuss scenarios and provide staff with direction for what information to include at a May 11, 2026 worksession