



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: JUNE 5, 2013

FROM: REAL ESTATE

**SUBJECT: ORDER NO. _____ - APPROVE CONSENT TO
HYPOTHECATION OF PERMIT NO. 520 WITH LA SKY HARBOR, LLC,
TO INDUSTRIAL AND COMMERCIAL BANK OF CHINA (USA), A
NATIONAL BANKING ASSOCIATION**

SUMMARY:

Permit No. 520 (Permit) is a 50-year permit expiring on December 12, 2046, which grants LA Sky Harbor, LLC. (LASH) use of approximately 2.54 acres of City of Los Angeles Harbor Department (Harbor Department) land at Cabrillo Marina for constructing, operating and maintaining facilities for a hotel; dinner and convenience restaurants; banquet facilities; rental of office space; general retail sales; and incidental purposes. The hotel is located at 2800 Via Cabrillo Marina, San Pedro, and is currently licensed as the Doubletree by Hilton Hotel San Pedro – Port of Los Angeles (Doubletree).

It is proposed that the Board of Harbor Commissioners (Board) consent to the hypothecation of Permit No. 520 to Industrial and Commercial Bank of China (USA), NA. (ICBC), as requested by LASH and its lender ICBC. Board approval will allow LASH to acquire funding from ICBC, in order to remodel the Doubletree and have working capital, among other things.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Approve the Consent to Hypothecation of Permit No. 520 to Industrial and Commercial Bank of China (USA), National Association (NA).;
2. Authorize the Executive Director to execute and the Board Secretary to attest to the Consent to Hypothecation of Permit No. 520 to Industrial and Commercial Bank of China (USA), NA.; and
3. Adopt Order No. _____.

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DISCUSSION:

Background/Context – The premises (Transmittal 1), is improved with a 226-room hotel, restaurant, swimming pool, tennis courts, non-exclusive parking, and related commercial facilities. The Doubletree and all site improvements are owned and maintained by LASH.

Over the next two years, LASH has committed to investing over \$2,000,000 towards the remodeling of the Doubletree as identified in the Product Improvement Plan (PIP). The proposed improvements include, but are not limited to, exterior repair; landscaping; parking lot repair and resurfacing; building repair; complete guest room renovation, including new furniture, carpet, wall coverings, bedding, and guestroom bathroom upgrades; dining and lounge area renovations; upgrading the tennis courts and pool area; and refinishing of the ballroom and meeting rooms. It is anticipated that these renovations and upgrades will significantly improve the appearance, operating performance, and profitability of the property.

The proposed Consent to Hypothecation of Permit No. 520 to Commercial Bank of China (USA), NA., recognizes that it is the intent of the Board to ensure that the hotel and other improvements on the premises are operated and maintained in a manner comparable to a Doubletree by Hilton hotel or other hotel of similar or better quality as required by the Eighth Amendment to Permit No. 520.

Permit No. 520 has been amended and assigned on numerous occasions, with the most recent Board action having occurred on February 21, 2013, in which the Board adopted Order No. 13-7123 approving the Eighth Amendment, which requires LASH in part to complete all renovations and upgrades identified in the PIP. See Transmittal 2.

The subject Consent to Hypothecation gives consent to the tenant pledging the leasehold interest of Permit No. 520 as a security interest for the loan it is obtaining. The consent gives certain rights to the lender including: receiving notice of a tenant default to give the lender an opportunity to cure a default. If the tenant defaults under the loan, the lender will have the right to foreclose upon its security interest in the permit. The lender would have the right to assign the permit to a third party which would become a tenant under the permit. Any successor tenant, other than the lender or its successor, shall be subject to the reasonable consent by the Board.

The Board has previously consented to the hypothecation of Permit No. 520 several times including October 1987, in which the Board consented to hypothecation of Permit No. 520 to U.S. Bancorp; December 10, 1996, in which the Board consented to the hypothecation of Permit No. 520 to Bankers Trust Company, July 16, 1997, in which the Board consented to the hypothecation of Permit No. 520 to Bank Boston, N.A., and most recently, on November 9, 2005, in which the Board consented to the

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hypothecation of Permit No. 520 to San Diego National Bank. The form of the subject Consent to Hypothecation is substantially in the same form as that used in the November 9, 2005 transaction.

Moreover, in 2005, Permit No. 520 was amended by a Seventh Amendment, in which Section V provided the following amendment to Section 10(a) [Sublease and Assignment] of Permit No. 520 "If Tenant, or any successor or assign of Tenant, shall obtain new financing, the Board, pursuant to Section 10(a) of the Permit, upon request of the lender, shall enter into an agreement with any existing or future lender provided such is substantially in the form of the 'Consent to Hypothecation' with the current lender, a form of which is attached as Exhibit ___." Although that sentence was left with the blank space, and no exhibit was attached to the Seventh Amendment, presumably the Consent to Hypothecation that was being referred to was the Consent to Hypothecation of that same year (2005).

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a Consent to Hypothecation of Permit No. 520 to ICBC to allow LASH to acquire financing for refurbishment of the Doubletree hotel. As an administrative activity related to interior and exterior alterations involving remodeling and minor construction where there be negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Section 2 (f) and Article III Class 1 (1) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Tenant improvements associated with the proposed Consent to Hypothecation will support 17 direct and 13 one-year equivalent jobs for the five-county region.

FINANCIAL IMPACT:

The Consent to Hypothecation of Permit No. 520 to Industrial and Commercial Bank of China (USA), NA. (Transmittal 3) will have no impact on Harbor Department spending. It is expected that the completion of the PIP will increase the value of the improvements and result in greater revenue to the Harbor Department. Annual minimum rent payable to the Harbor Department is \$170,724. Ongoing operating and maintenance costs associated with the subject property will continue to be fully borne by the permit holder.

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CITY ATTORNEY:

The Consent to Hypothecation has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Site Map
2. Product Improvement Plan
3. Consent to Hypothecation

FIS Approval: *KP* (Initials)
CA Approval: *BB* (Initials)

for

JACK C. HEDGE
Director of Real Estate

FOR

KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

GK:KM:JCH:CCW:EAB:KLS:raw
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WITH LA SKY HARBOR, LLC.

CITY ATTORNEY:

The Consent to Hypothecation is subject to approval as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Site Map
2. Product Improvement Plan
3. Consent to Hypothecation

FIS Approval: ____ (Initials)
CA Approval: ____ (Initials)

for JACK C. HEDGE
Director of Real Estate

for KATHRYN McDERMOTT
Deputy Executive Director

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GERALDINE KNATZ, Ph.D.
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