

# **THE PORT OF LOS ANGELES WATERFRONT COMMERCIAL PROPOSED LEASING GUIDELINES**

Board of Harbor Commissioners Meeting

July 17, 2025

## Table of Contents

PORT MANAGEMENT .....	2
SOURCES OF INFORMATION .....	3
INTRODUCTION .....	4
GENERAL GUIDELINES .....	8
I. Administration .....	8
LEASE INITIATION GUIDELINES .....	9
II. Competitive Proposals for Port Properties .....	9
III. Port Objectives for Commercial Leases .....	9
IV. Tenant in Good Standing .....	10
V. Exclusive Negotiation Procedures .....	10
VI. Labor Peace .....	12
LEASE PROVISION GUIDELINES.....	13
VII. Lease Term .....	13
VIII. Pre-Construction Option Period.....	13
IX. Term Extension Options.....	14
X. Rent.....	14
XI. Annual Adjustments and Compensation Resets .....	15
XII. Subleases .....	16
XIII. Assignments .....	17
XIV. Property Ownership.....	17
LEASE PERFORMANCE GUIDELINES .....	19
XV. Amendments .....	19
XVI. Leasehold Financing .....	19
GLOSSARY .....	20
EXHIBIT A - LA Waterfront Map.....	22
EXHIBIT B - Public Access Land/Water Uses.....	23
EXHIBIT C - Existing Tenant Proposal Contents.....	24

## **PORT MANAGEMENT**

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*Deputy Executive Director, Marketing and Customer Relations*

Thomas E. Gazsi  
*Deputy Executive Director, Public Safety & Emergency Management*

David Libatique  
*Deputy Executive Director, Stakeholder Engagement*

## **SOURCES OF INFORMATION**

Development of the Port of Los Angeles Waterfront Commercial Leasing Guidelines included information drawn from discussions with and/or review from a broad set of subject matter experts, including: Port of Los Angeles staff; various port agencies located in the United States; real estate, financial, and development experts; Port of Los Angeles Tenants and other stakeholder feedback. Various outreach and information sources are listed below.

- AIR Commercial Real Estate Association
- Building Owners and Managers Association International (SOMA)
- California State Lands Commission - Public Trust Doctrine
- City of Los Angeles Harbor Department Business Development Bureau and Waterfront and Commercial Real Estate and Cargo Real Estate Divisions
- City of Los Angeles Harbor Department, Office of the City Attorney
- Los Angeles City Charter
- Los Angeles City Administrative Code
- Port of Los Angeles, 2012-2017 Strategic Plan: 2014 Update
- Port of San Diego, California
- State Tidelands Trust Grant

## INTRODUCTION

### **About the Port of Los Angeles**

*The Port of Los Angeles ("Port") is the premier gateway for international commerce in the United States. Located 20 miles south of downtown Los Angeles in the San Pedro Bay, the Port encompasses 7,500 acres of land and water along 43 miles of waterfront. The Port is an economic engine with a wide array of diverse uses and community benefits that are directly leveraged on the success of the Port's container business which accounts for more than 80 percent of its revenue. The Port generates tremendous economic activity, including commerce and goods movement activity that facilitates more than three million jobs nationwide.*

*The Harbor Department is a proprietary department of the City of Los Angeles ("City") and operates the Port for the purpose of the promotion and accommodation of maritime commerce, navigation, and fishery, including public access uses that are associated with these three purposes. The Port is financially independent of the City and self-sustaining by generating its own revenues without taxing authority. Management and control of the Port is directed by a Mayoral appointed five-member Board of Harbor Commissioners ("Board") and administered by the Executive Director of the City of Los Angeles Harbor Department ("Executive Director").*

*Maintaining our containerized cargo business is necessary to provide continued economic benefits to the region, state, and nation and to continue to build a diverse portfolio of tenants that leverage the Port's waterfront location and public access investments to provide expanded economic and public access opportunities to our adjacent communities, the region, state, and beyond.*

*The Port understands our critical role in local job creation and economic development, as well as the need to invest in community programs, waterfront projects and business development initiatives that contribute to the prosperity and quality of life for Harbor Area residents. As a result of our economic success in the cargo business, innovative environmental advances, and long term vision to designate and program specific property for public access and visitor serving developments, the Port now has an opportunity to attract world class private developers to further unlock the value of our unique waterfront assets. In order to facilitate these developments, transparent and predictable leasing guidelines that demonstrate the Port's understanding of the requirements necessary to create large scale and sustainable privately financed developments along the LA Waterfront are needed.*

### **Waterfront Commercial Leasing Guidelines**

*The Port's LA Waterfront has become an increasingly active visitor serving destination due to the Port's continued investment into public access infrastructure, new events,*

*and new public and private visitor destinations. The future success of the LA Waterfront as a visitor serving destination depends on private development in a variety of visitor serving attractions. Private development of successful visitor serving attractions will leverage the investments the Port has made and will make in public access infrastructure along the LA Waterfront. The intent of the Waterfront Commercial Leasing Guidelines ("Guidelines") is to strategically address issues unique to private development and financing these types of developments within a ground lease.*

*Visitor-serving commercial developments are subject to market and real estate transaction considerations that are unique from cargo terminals and facilities. Periodic reinvestments to upgrade or completely repurpose private developments to meet market demands are required to avoid economic obsolescence and ensure long term success of these developments. Without these reinvestments, development down cycles are more significant and become more related to the amount of time remaining on a lease than the general market or economic conditions. In a ground lease environment constrained by financing limitations related to term of lease, there must be an acknowledgement that proposed significant reinvestment during the term of an existing lease can be analyzed anew from the perspective of a fresh project proposal.*

*Overall, the Guidelines provide broad objective standards for how initial investment and reinvestment proposals will be reviewed with favor towards investments that achieve the Port's and Tidelands Trust's goal of maximizing the long term value and utility of land assets. Achieving this broad goal will result in improving and encouraging public access to the tidelands and the LA Waterfront for the citizens of California which is a central mission of the Tidelands Trust Doctrine. The standards, procedures and strategies necessary to encourage new private development and continual reinvestment from existing Tenants in visitor-serving developments are addressed in further detail within the Guidelines. The Guidelines apply to all public access related uses including, but not limited to commercial, cruise/ferry, fish sales (retail or wholesale), hotel, marina, museum, office, park, research, and retail, dining, and entertainment. A map identifying L.A. Waterfront land area is attached as Exhibit A.*

## **Summary and Organization**

*The Guidelines are divided into four distinct areas, including General Guidelines, Lease Initiation Guidelines, Lease Provision Guidelines and Lease Performance Guidelines.*

### *General Guidelines*

*This section discusses administrative implementation of the Guidelines, including responsibility, application to new and existing leases, procedures to amend the Guidelines, process for addressing deviations from the Guidelines, and frequency of review.*

### *Lease Initiation Guidelines*

*This section provides parameters for both for new developers and existing tenants to enter into exclusive negotiations with the Port and the major milestones to a final approved lease. New developments will be solicited through an open and transparent*

competitive process. Existing tenants may qualify for exclusive negotiations with the Port for a new lease or lease extension, if the existing tenant qualifies as a Tenant in Good Standing and satisfies criteria that justify that the proposed project meets the Port's specific development Objectives. Once in exclusive negotiations, major milestones include execution of a Term Sheet, approval of an Environmental Review Agreement, final lease negotiations, and necessary City approvals.

#### *Lease Provision Guidelines*

This section addresses parameters on specific material provisions to be negotiated in a proposed lease. Lease provisions highlighted in the guidelines include length of lease term, term extensions, rent (Percentage and Flat), annual adjustments and compensation resets, subleases, assignments, and property ownership.

#### *Lease Performance Guidelines*

This section addresses issues that arise during the term of the lease, including amending the lease and the process to receive consent for leasehold financing.

### **Applicable Laws, Regulations and Policies**

The Guidelines do not replace or supplant applicable laws, regulations and policies, which are the ultimate authorities governing the Port's leasing and contracting activities. The Port is governed by, among other laws and regulations, the Los Angeles City Charter ("City Charter"); the Los Angeles City Administrative Code ("Administrative Code"); the State Tidelands Trust Grant ("Tidelands Trust"); the California Coastal Act-Chapter 8 ("Coastal Act"); California Public Resources Code §§ 6009, 6009.1 and 6306; and the Port's Tariff No. 4, as it now exists or may be amended or superseded in the future ("Tariffs").

The Guidelines are consistent with the applicable laws, regulations and policies which govern the Port. In the event of any conflict, the laws, regulations and approved policies will prevail over the Guidelines.

#### *Public Trust Doctrine*

As a custodian of Tidelands Trust properties, the Guidelines support the obligation to accommodate public access to the waterfront for the citizens of the State of California. The Guidelines establish procedures and criteria that facilitate the successful development of uses consistent with the Public Trust Doctrine.

#### *2014 Strategic Plan Update*

The Guidelines implement the vision and mission of the 2012-2017 Strategic Plan 2014 Update by carrying out two of the plan's four objectives.

- Improved Financial Performance of Port Assets - The Guidelines are developed to produce successful public access related developments, improve net revenue to the Port and incentivize private investment to upgrade and build new facilities to increase the value of Port assets.

- Strong Relationships with Stakeholders - The Guidelines support increasing the number of visitors to the LA Waterfront of Wilmington and San Pedro. The Guidelines facilitate Port partnerships with private investors to develop successful visitor serving waterfront attractions that further activate the public access infrastructure (parks, plazas, etc.) constructed by the Port.

#### *Public Access Investment Plan*

The Public Access Investment Plan provides a predictable, sustainable and transparent investment blueprint for public access infrastructure. The Guidelines are crafted to leverage Harbor Department investment in the LA Waterfront provided through the Public Access Investment Plan by creating standardized leasing guidelines that build value in leasable areas through increased utilization of public access infrastructure.

#### *Other Policies*

The Guidelines will be applied in a manner that is consistent with other Port adopted policies, including, but not limited to, Asset Management Policy, Port Master Plan, Built Environment Historic Architectural and Cultural Resource Policy, Clean Air Action Plan, Water Resources Action Plan, and Financial Policies.

## GENERAL GUIDELINES

### I. Administration

1. Executive Director Authority. The Executive Director shall be responsible for the implementation of the Guidelines.
2. Application. The Guidelines apply to leases within the Harbor District, boundaries of the LA Waterfront (as shown Exhibit A "LA Waterfront Map"), and Public Access Land/Water Uses (as described in Exhibit B "Public Access Land/Water Uses)." The Guidelines may also apply to areas outside the prescribed Exhibit boundaries on a case by case basis where proposed uses include significant private investment in real property.
3. Leases with Prior Effective Dates. The Guidelines do not override or supersede the provisions and conditions of any existing lease between the Port and its tenants. These preexisting leases may be updated into accordance with the Guidelines when appropriate.
4. Full Force and Effect. The Guidelines shall remain in full force and effect unless and until rescinded, repealed or modified by Board action.
5. Material Deviations. All material deviations from the Guidelines must be approved by the Board with findings to justify said deviations in an open public meeting.
6. Review Frequency. A review of the Guidelines including any proposed changes will be presented to the Board in a public meeting no less frequently than every five years following its adoption or last review.

## LEASE INITIATION GUIDELINES

### II. Competitive Proposals for Port Properties

1. Competitive Process. The Port may solicit proposals for properties through a competitive process via a Request for Proposals/Request for Qualifications, or other similar process. The assembling, sharing, and maintaining of information related to the solicitation of competitive proposals should be open and transparent.
2. Competitive Process Selection Criteria. Proposers selected through the competitive process may enter into exclusive negotiations with the Port for a lease. The selection of successful proposers is to be based on criteria published in the Port's solicitation for proposals, subject to the applicable laws and provisions.
3. Existing Tenant Request. A competitive process may not be required when an existing Tenant, wishing to remain in occupancy, submits a request for a new lease or lease extension for their existing leasehold. A request for a new lease may be considered when the existing lease expires or upon early termination of the existing lease. The request may include land adjacent to their existing leasehold if the Executive Director determines in writing that inclusion of the additional property significantly enhances the productivity and/or efficiency of the existing Tenant to the benefit of the Trust.
4. Required Proposal Contents For Existing Tenants. To allow for proper review when a competitive process is required, the request for a new lease or lease extension should consist of a proposal that includes, but is not limited to, the contents set forth in Exhibit C "Existing Tenant Proposal Contents."
5. Evaluation Criteria. For an existing Tenant to enter into exclusive negotiations with the Port without a competitive process, the Executive Director must determine in writing, based on review of the Tenant's proposal, that the new lease or lease extension meets all the requirements set forth below:
  - a. The proposal accomplishes Port Objectives for Commercial Leases (Section III).
  - b. The existing Tenant qualifies as a Tenant in Good Standing (Section IV).

### III. Port Objectives for Commercial Leases

1. Objectives. The Executive Director may determine that a proposal satisfies the Port Objectives for Commercial Leases if the proposal substantially meets the objectives set forth below:
  - a. Economically benefits the Port/Trust, when compared to the Port's reversionary interest in the existing Improvements.

- b. Increases or maintains, but in either case maximizes the economic performance and visitor serving capacity of the Premises.
- c. Increases or maintains visitor serving capacity of the Premises.
- d. Increases or maintains the economic viability of the development.
- e. Avoids obsolescence when compared to the development's expected useful economic life.
- f. Positions the development to provide access to Capital Investment to meet market demands.
- g. Replaces outdated existing lease provisions with updated standard Port lease provisions.

#### **IV. Tenant in Good Standing**

1. Qualifications. The Executive Director may determine that an existing Tenant is a Tenant in Good Standing if the Tenant substantially meets the qualifications set forth below:
  - a. Is compliant with the material provisions and conditions of its existing lease with the Port, including payments due and owing under the lease.
  - b. Has financial capability and responsibility in accordance with the scope of the existing and/or proposed lease or development project.
  - c. Holds management qualifications and experience which meet industry standards for similar leaseholds or development projects.
  - d. Operates and uses the property in accordance with the lease.
  - e. Maintains the Premises in good repair in accordance with the lease terms and within industry standards for similar leaseholds or development projects.
  - f. Limits deferred maintenance of the Premises in accordance with industry standards for similar leaseholds or development projects.
  - g. Is capable of obtaining required insurance, is compliant with current insurance requirements, and has provided complete insurance policy copies to the Port.
  - h. Possesses other relevant qualifications that affirm future performance beneficial to the Trust.

#### **V. Exclusive Negotiation Procedures**

1. Overview. A proposer or existing Tenant who has entered into exclusive negotiations with the Port for a lease will generally be asked to execute a Term Sheet and an Environmental Review Agreement.
  - a. The Term Sheet is a non-binding document between the Port and a potential or existing Tenant on material provisions that may include but are not limited to: project scope, uses, maintenance, lease term, pre-construction option period, term extension options, rent, annual adjustments and compensation resets, subleases, assignments and community outreach plan. The Board will provide instructions to Port negotiators on terms for inclusion in the Term Sheet.

- b. The Environmental Review Agreement specifies the responsibility for costs required for compliance with CEQA, and if necessary, NEPA. Proposers will be required to execute an Environmental Review Agreement following execution of the Term Sheet and prior to commencement of the environmental review process. The Environmental Review Agreement is subject to either Board or Executive Director approval depending on the contractual term and dollar value. The Port as the lead agency will remain responsible for oversight and approval of the environmental review process whether the environmental review is performed by a consultant contracted by the proposer or a contractor of the Port.
2. Proposer Responsible for All Environmental Review Costs. Generally, proposers will be required to pay for all costs associated with the environmental review without contribution from the Port. Costs may include:
  - a. Direct contract costs for preparation of the environmental document.
  - b. Port staff costs required for preparation and review of the environmental document.
  - c. Any other direct or indirect costs incurred as a result of processing the environmental review.
3. Port Discretion Regarding Contracting Method. The Port reserves the right to determine whether the proposer may contract directly to complete the environmental review work or whether the Port will perform or contract for the performance of an environmental review process. This determination will be made based on the scope of the project and expertise required to complete the environmental review.
  - a. If the Port decides the proposer may directly contract for the environmental review, the proposer will be required to reimburse the Port for required staff review as invoiced by the Port, typically on a monthly basis.
  - b. If the Port performs or contracts for performance of an environmental review, the proposer will reimburse the Port on a monthly basis based on invoices from the Port for direct contract costs and staff costs for preparation, review and management of the environmental assessment.
4. Lease Negotiations. The proposer or existing Tenant and Port staff will negotiate the terms of a lease document in conformance with applicable environmental assessment conditions, the Term Sheet, and standard lease provisions.
5. Due Diligence. Staff will exercise due diligence in its recommendation to the Board when negotiating a lease. Such due diligence will include, but not be limited to, the evaluation of the proposed Tenant's:
  - a. Qualifications to complete the project successfully.
  - b. Ability to comply with provisions and conditions of the lease.
  - c. Project business plan, compared to other similar developments.

6. Required Approvals. The process concludes with Board and/or City actions, consisting of all of the following:
  - a. Consideration, certification, and/or adoption, of the environmental review document.
  - b. Approval of the project.
  - c. Approval and authorization to execute a lease. Board approval is required and City Council approval may be required based on the provisions of the City Charter and the Administrative Code.

## **VI. Labor Peace.**

1. Purpose - The Harbor Department has a financial interest in hospitality operations that lease real property from the Harbor Department. These operations base their lease, rental or license payments to the Harbor Department in part on the revenue they generate. Therefore, it is essential that these operations conduct business efficiently and, to the extent possible, without interruption. The Harbor Department has found that the efficient and uninterrupted operation of hospitality operations may be threatened by labor disputes. The Harbor Department 's investment in these operations must be shielded to the extent possible from impacts that labor disputes may have on the revenue of these hospitality operations. The Harbor Department has further found that the Harbor Department can protect its investment by requiring its hotel operations lessees to sign contracts with the labor organizations that represent employees in the hospitality industry. These contracts will prohibit the labor organizations and its members from engaging in picketing, work stoppages, boycotts or other economic interference with the business of the hospitality operators, for the duration of their lease with the Harbor Department.
2. Policy - It is the Policy of the Board; the Harbor Department shall not execute any Lease with existing Hospitality Operations unless and until the Hospitality Operations Lessee has signed a labor peace agreement with any Labor Organization seeking to represent Hospitality Workers at the premises covered by the Lease. Each labor peace agreement must contain a No-Strike Pledge. A Hospitality Operations Lessee shall be relieved of the obligations of this section with respect to a Labor Organization if the Labor Organization places conditions upon its No-Strike Pledge that the Board finds arbitrary or capricious.
3. Limitations - Nothing in this Policy requires Hospitality Operations Lessee to recognize a particular Labor Organization. This Policy is not intended to, and shall not be interpreted to, enact or express any generally applicable policy regarding labor-management relations or to regulate those relations in any way. This Policy is not intended to favor any particular outcome in the determination of employee preference regarding union representation. Nothing in this Policy permits or requires the City or any Hospitality Operations Lessee to enter into any agreement in violation of applicable law.

## LEASE PROVISION GUIDELINES

### VII. Lease Term

- a. Overview. The length of a new or extended lease Term should be negotiated to be primarily related to the reasonable life expectancy of the Improvements and/or the amount of Capital Investment proposed. The reasonable life expectancy is the amount of time that an asset is expected to have use based on its expected physical deterioration through time. The Term should be relatively longer for developments that are physically more substantial and have a higher reasonable life expectancy. Capital Investment into a development by a Tenant also factors heavily into the length of a Term. Port developments can reach higher utilization when Capital Investment includes leverage from financial lenders. The Term length can be relatively longer, and reflective of market conditions, when the project is shown to support increased Capital Investment in Port properties. The maximum Term allowed will be based on the most restrictive applicable law (City Charter or California State Tidelands Trust) at the time the lease commences.
  
- b. Requests for Lease Extensions or New Leases. If market changes or other factors subject a development asset to premature obsolescence or otherwise negatively affects the functional utility of a development, an existing Tenant is encouraged to propose a lease extension or a new lease during the Term of their existing lease if it supports the existing Tenant's ability to reinvest into the asset to meet market demands. A Tenant may request early termination of the existing lease concurrent with a new lease.

### VIII. Pre-Construction Option Period

- a. Overview. The total lease Term may be negotiated to include a pre-construction option period, and pre-construction terms, where the Tenant is allowed non-possessory site control for a period of time to secure entitlements, financing, building permits, subtenants and complete other pre-construction activity or agreed upon milestones. The Term of the pre-construction option period will be counted as part of the collective lease period including all possessory periods of the Term. In no case shall the collective time period exceed the maximum lease Term allowed under the most restrictive applicable law.
  
- b. Length. The length of the pre-construction option period should be based on a reasonable time period that considers the scope of private development, related entitlements, scope of required public infrastructure, private financing requirements, proposed subtenants and other relevant factors. The pre-construction option period should not exceed 24 months.

- c. Extension. Leases may include provisions to extend a pre-construction option period based on a delay in activities that are beyond the reasonable control of the Tenant and of which the Tenant has provided the Port with adequate documentation. Generally inability to receive financing is not a factor unless such instance occurs at a time where required financing is generally unavailable but not as a result of lack of equity or adequate projected performance.
- d. Rent. Rent to the Port for the pre-construction option period may be affected by Tenant contributions in investment in public Improvements, expedited delivery of proposed Improvements or other monetary compensation to the Port in the form of fees.

## **IX. Term Extension Options**

- a. Overview. An option to extend the Term of a lease may be negotiated into a lease transaction. However, in no event can the sum of the initial term, plus option period(s), exceed the maximum allowable under the most restrictive applicable law.
- b. Conditions. In granting an option to extend the initial term, and/or subsequent term, of a lease, the Tenant may be required to pay a fee. The fee should be no less than 10% of the estimated total rent of the first year of said extension option period. Such fee shall apply to each extension option period and shall be paid upon the execution of the initial Term of the lease. The fee shall not apply to, but is in addition to, future rent and shall not be refundable.

## **X. Rent**

- a. Overview. Rent should be negotiated to provide predictability that encourages private investment in Port land assets, to increase the value of Port land, to provide flexibility for economic cycles and to advance the Port as a profitable and productive place to do business. Rent should be set in a manner consistent with the City Charter, practices and relevant laws and provide comparable economic results to the Port with similarly situated uses in similar municipal harbors.
- b. Market Rent. The Port should receive Market Rent for the leasing of its property and rent should periodically be adjusted to market rates during the Term of the lease.
- c. Flat or Percentage Rent. Leases should generally be negotiated to be either percentage rent or flat rent. A flat rent structure is preferable for leases that do not include uses where value is derived by gross receipts, e.g. retail sales or boat slip rent. In a percentage rent structure, a set minimum rent should be included in the lease.
- d. Percentage Rent Methodology. For percentage rent, an Economic Performance Methodology is preferred. This methodology utilizes actual economic performance, usually for the immediate previous three years, to establish a basis for subsequent

minimum Market Rent rates. This is a useful method to set minimum rent because it will account for each lease's unique situation, location and specific use provisions that result in the ultimate economic performance capacity of a leasehold, given the assumption that all Tenants are similarly motivated to maximize the economic production of their leasehold interest.

- e. Percentage Rent Compensation. Minimum rent should generally be negotiated at 75% and no less than 50% of the average annual rent paid for the previous 3 years.
  - i. If for any reason, minimum rent exceeds the average annual rent paid for the previous 3 years, the Port may engage the Tenant to renegotiate compensation. Any proposed change in compensation requires Board approval.
- f. Flat Rent Methodology. For Flat Rent, two methodologies to determine land value are preferred, at the discretion of the Port. The first methodology is a Market Comparison Approach, where similar parcels are analyzed, compared, and adjusted to provide a value indication of the land being appraised. The second methodology is a Residual Land Value Approach, which is equal to the potential revenue the land generates after subtracting the costs of establishing the total revenue including all operating expenses and revenue associated with the other agents of production derived from improvements to the land. This calculation results in the remaining income associated with the land, which is capitalized to result in the residual land value.
  - i. Value should be based on the Highest and Best Use of the land if vacant and available for new development.
  - ii. Tenant financed public infrastructure Improvements constructed by the Tenant on or off the Premises should not be included in the valuation.
  - iii. The cost of remediation of other concessions granted at the commencement of the Lease should not be considered in the valuation.
- g. Flat Rent Compensation. The Flat Rent on land and Improvements should be negotiated consistent with the Port's rate of return or Financial Policies as it now exists, is amended, or is superseded in the future.
- h. Reduced Rent Prior to Construction Completion. During a pre-construction option period and/or during the Construction Period, minimum rent may be negotiated at a discounted rate until construction is complete and/or a relevant economic performance period has elapsed. Such period shall in no case exceed a total of 36 months

## **XI. Annual Adjustments and Compensation Resets**

- a. Annual Adjustments. Annual adjustments of rental compensation due shall be required for all leases. Such adjustment shall be based upon a Consumer Price Index (CPI).

b. Compensation Resets. Consistent with the City Charter, compensation resets are required no less often than every five years. The proposed reset shall be made to the then current applicable Market Rent based on the most relevant valuation process considering the unique situation, location and specific use of the leasehold interest.

i. Any compensation reset to market process shall take into account annual adjustments implemented in preceding periods. Any proposed reduction to the existing rate requires Board approval.

c. Negotiation Impasse for Compensation Reset. If the Tenant and Board cannot agree upon a compensation reset, the compensation reset will be determined in the following manner. Three appraisers will be appointed. One appraiser is appointed by the Port, one by the Tenant, and a third by the two appraisers so appointed. The Port's and Tenant's appraisers will submit an appraisal for the market rental value of the subject property. In the event that the Port and Tenant propose compensation within 10% of each other, Staff recommendation to the Board will be to reset compensation at the average value of the two appraisals. If the proposed rental value exceeds 10%, the third appraiser will recommend either the Port's or Tenant's appraisal, with written justification for the basis of the selection. The results of the process, the appraisals, and selection justification will be presented to the Board with a Staff recommendation. The Board retains full discretion to reset compensation.

## **XII. Subleases**

a. Overview. Long Term relationships with private developers serving as master Tenants based on their qualifications to develop, operate, and manage visitor serving developments is encouraged. These developments rely on multiple and varied sub-tenancies to be successful in the long term and to encourage visitor access to the waterfront. Private developers benefit from the authority to efficiently solicit and enter into subtenant relationships that correspondingly create value through the investment of subtenants.

b. Conditions. The Port maintains discretion to review and approve subleases. Limited restrictions on Subleases may be proposed to the Board for approval upon written findings by Staff that the following conditions are substantially met:

- i. The Tenant derives the majority of its income through subtenants.
- ii. The subtenant must be a Reputable Company.
- iii. General uses for subtenants are contemplated and identified in the subject lease.
- iv. In the event of any conflict between the master lease and the Sublease, the master lease shall prevail.
- v. The Tenant must report a list of its subtenants including their location in the development annually.

- vi. The Tenant must request that they and the Port be additional insureds on subtenants' liability insurance.

### **XIII. Assignments**

- a. Required Approvals. Consistent with the City Charter, no assignment, transfer, gift, hypothecation, or grant of control of a franchise, permit, license, or lease shall be valid for any purpose unless first approved by the Board.
- b. Evaluation Criteria. Provisions within a lease that apply to Staff evaluation and recommendation to the Board on Assignments should be based on objective criteria focused on:
  - i. The reputation, financial and managerial ability of the assignee to operate the leased Premises successfully.
  - ii. Any additional criteria defined in the lease.
- c. Conditions. The Port may require conditions to consent when considering an Assignment, including but not limited to, the conditions set forth below:
  - i. Incorporation of the Port's current standard lease provisions, in a manner that does not materially alter the lease. Standard lease provisions that are not included must be disclosed in writing to the Board for approval.
  - ii. Receiving an assignment fee based on a percentage of the sale or a compensation adjustment of rent to market rates.
  - iii. Assessment of an administrative fee associated with the Port's cost of processing the proposed assignment transaction. Assignment Fees will be determined on a case by case basis, depending on the lease and specific project.
- d. Other Transactions. A name change that does not result in any material change of control, operation, or management of the ownership entity will not be considered an Assignment and will be addressed as provided for in the lease. Consistent with the City Charter, no assignment, transfer, gift, hypothecation, or grant of control of a franchise, permit, license, or lease shall be valid for any purpose unless first approved by the Board. Other transactions not governed by applicable law will be addressed as provided in the lease. Determinations will be made on a case by case basis based on the specific facts of the transaction as to whether the subject transaction is or is not an assignment, transfer, gift, hypothecation, or grant of control.

### **XIV. Property Ownership**

- a. Overview. Leases should require that all Port-owned Improvements, fixtures and equipment existing at the commencement of the Term of the lease remain property of the Port. At the option of the Port, title to Improvements constructed by Tenants or third parties may be conveyed to the Port upon expiration or early termination of the lease.

- b. Demolition of Tenant-Owned Improvements. The lease should provide that the Port retains discretion to require the Tenant to demolish and remove some, remove all, or not remove any Tenant-owned Improvements at the Tenant's expense.

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## LEASE PERFORMANCE GUIDELINES

### XV. Amendments

- a. Required Approvals. Amendments to an approved lease require Board approval.
- b. Evaluation Criteria. Staff recommendation to the Board will be based on the following minimum requirements set forth below:
  - i. The amendment accomplishes Port Objectives for Projects (Section III).
  - ii. Amended uses are consistent with the Port Master Plan, if applicable.
- c. Conditions. The Port may require conditions when considering an amendment, including but not limited to, the conditions set forth below:
  - i. Incorporation of the Port's current standard lease provisions.
  - ii. Compensation adjustment of rent.

### XVI. Leasehold Financing

- a. Required Approvals. Existing Tenants seeking new or changed leasehold financing requires Board approval.
- b. Required Documentation. The required minimum documentation to be submitted by the Tenant in support of proposed leasehold financing will be:
  - i. Approved financing application and/or lender commitment document.
  - ii. Cash flow projections or proforma submitted to the lender.
  - iii. Appraisal and/or feasibility report submitted to the lender.
  - iv. Previous three years audited annual financial statements of the Tenant and/or Federal/State income tax returns if audited financial statements are not available.
- c. Evaluation Criteria. Staff recommendation to the Board will not be unreasonably withheld if evaluation of documentation satisfies the criteria set forth below:
  - i. Loan proceeds should not exceed 75% loan to value based on the lender's Appraisal or the amount of repayment of the existing financing if the existing financing was consented to by the Board.
  - ii. Loan maturity date must not exceed the Term of the lease.
  - iii. Loan application should not be conditioned on rent relief or downward adjustment of rent.
  - iv. Leasehold financing supports a proposed project that meets Port Objectives for Commercial Leases (Section III).
- d. Conditions. Staff recommendation to the Board will not request a share of loan proceeds.

## GLOSSARY

**Appraisal:** A professional opinion or estimate of the value of property. An Appraisal is also the act or process of estimating property value.

**Assignment:** Transfer of contractual rights from one contracting party (the assignor) to another party (assignee).

**Capital Investment:** An expenditure that improves the value or extends the life of a major asset.

**Consumer Price Index (CPI):** CPI is an index of change in the price of consumer goods for the Los Angeles-Riverside-Orange County, California area, as published by the U.S. Department of Labor, Bureau of Labor Statistics, or a successor index selected by the Executive Director.

**Construction Period:** Time period prior to active operations of the development.

**Executive Director:** The senior Executive Officer of the Harbor Department, appointed by the Mayor of the City of Los Angeles, acting in his/her role and through the authority delegated by the Board of Harbor Commissioners. As used in this Leasing Guidelines, Executive Director shall mean the Executive Director or Designee as may be from time to time designated to carry out the functions delegated to the Executive Director.

**Harbor District:** The lands and waters, and interests therein, under the possession, management and control of the Board.

**Highest and Best Use:** The reasonable, probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.

**Hospitality Operation:** means the general business operations of a hospitality operator for a hotel, motel, providing lodging and other guest accommodations.

**Hospitality Operations Lessee:** Any company with a lease from the Harbor Department for a hotel or motel, providing lodging and other guest accommodations.

**Hospitality Workers:** All full-time and part-time employees in a Hospitality Operation, except supervisors, managers and guards.

**Improvements:** Improvements generally include a building or buildings, but may be any permanent structure or other development such as, but not limited to, a street and utilities.

**Labor Organization:** an organization of any kind, or an agency or employer representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work.

**Lease:** As used in this policy, includes permit and/or license

**Market Rent:** As defined by the Appraisal Institute, Market Rent is "the most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement, including permitted uses, use restrictions, expense obligations, Term, concessions, renewal and purchase options, and Tenant Improvements."

**Premises:** The defined area of control by the Tenant which is specified in the lease.

**Port Master Plan:** A general plan for long-range development of the Port of Los Angeles, which describes an overall development concept.

**No-Strike Pledge:** A provision in a labor peace agreement prohibiting the Labor Organization and its members from engaging in picketing, work stoppages, boycotts or any other economic interference with Hospitality Operations of a Hospitality Operations Lessee for the duration of the City lease term.

**Rate of Return:** Rate of return (ROR), also known as return on investment is the ratio of money gained or lost (realized or unrealized) on an investment relative to the amount of money invested. The investment may be in the asset or capital.

**Rent:** Compensation paid for the occupancy and use of real property.

**Reputable Company:** A company whose owners and/or managing individuals must be of good character and reputation as determined by the Port. Generally, owners shall have not been convicted in a federal or state felony criminal proceeding, including a crime of moral turpitude.

**Sublease:** A lease from a lessee to another lessee (Tenant to another Tenant). The new lessee is a sublessee or subtenant.

**Tariffs:** Port Tariffs prescribe the rates, charges, rules and regulations of the Port of Los Angeles.

**Tenant Improvements:** Improvements to land or buildings to meet the needs of the Tenant. Such Improvements may be new or remodeled, the cost of which may be paid by the landlord, Tenant or parts by each.

**Term:** A specified period of time, such as the Term of a lease.

**Tenant:** One who has possession of real estate under a lease or other rental agreement.