



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: FEBRUARY 19, 2013

FROM: REAL ESTATE

SUBJECT: ORDER NO. _____ - ASSIGNMENT AND ASSUMPTION OF PERMIT NO. 520 FROM SAN PEDRO OWNERSHIP, INC., DBA DOUBLETREE HOTEL SAN PEDRO TO LA SKY HARBOR, LLC.

SUMMARY:

It is proposed that Permit No. 520 covering the Doubletree by Hilton San Pedro (Hotel) located within the Cabrillo Marina area be assigned from San Pedro Ownership, Inc. (SP Ownership), the current tenant, to LA Sky Harbor, LLC. (LASH). Permit No. 520 grants a 50-year permit terminating on January 23, 2047. Section 10(a) of Permit No. 520, which governs Sublease and Assignment, requires the consent of the Board of Harbor Commissioners (Board) to any sublease, assignment or transfer of control in the premises.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Assignment and Assumption of Permit No. 520 and consent thereto from San Pedro Ownership, Inc. to LA Sky Harbor, LLC.;
2. Authorize the Executive Director to execute and the Board Secretary to attest to the Assignment and Assumption of Permit No. 520 and consent thereto for and on behalf of the Board of Harbor Commissioners; and
3. Adopt Board Order No. _____.

DISCUSSION:

Background and Context – The Board adopted Order No. 5046 approving 50-year Permit No. 520 covering approximately seven acres of land for the purpose of constructing, operating and maintaining facilities for hotel, dinner and convenience restaurants, vessel brokerage, insurance brokerage, banquet facilities, sale of marine hardware, supplies and equipment, rental of office space, general retail sales and for purposes incidental thereto. The premises (Transmittal 1), located at 2800 Villa Cabrillo Marina, San Pedro, is improved with a 226-room hotel, restaurant, swimming pool, tennis courts, non-exclusive parking and related commercial facilities. All improvements are owned and maintained by the tenant.

Permit No. 520 has been amended and assigned on numerous occasions, whereby the most recent Board action occurring on December 6, 2012, wherein the Board adopted Order No. 12-7117 on resetting compensation for the period January 24, 2012 through January 23, 2017. Rental compensation terms will remain as agreed upon for the proposed new tenant.

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LASH is a single-purpose entity with the sole objective of owning and operating the Doubletree by Hilton San Pedro Hotel. LASH intends and has received conditional approval from Hilton Worldwide to continue operating the Hotel as a Doubletree by Hilton branded property. Additionally, LASH has committed, over the next two years, to invest at least \$2,000,000 in renovations and upgrades. The proposed renovations and upgrades may 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 hotel.

LASH's business plan, as depicted by the income/expense statement and evaluated by the Finance Division, appears reasonable. The purchase is a cash only transaction. If approved, LASH will initially hold assets that will provide \$1,000,000 of working capital. Additionally, East West Bank is considering a \$7,250,000 credit facility to LASH. LASH's investment and ownership is split between AVIC International USA - 70 percent, AVstar, LLC. (AVstar) - 17.5 percent and ASAP Hotel International, LLC. (ASAP)- 12.5 percent.

AVIC International USA is a wholly-owned subsidiary of AVIC International Holdings (HK), otherwise called Aviation Industry of China. AVIC International Holdings is an ultra-large state-owned enterprise. Shenzhen Grand Skylight Hotel Management, a subsidiary of AVIC International Holdings, is purported to have over 20 years of operating experience in the hotel industry and operates over 20 hotels within China. AVstar is owned by a single private investor. ASAP has a record of successfully participating in major hotel transactions throughout the Southern California market including: Downtown Los Angeles Hyatt Regency Hotel, Anaheim Holiday Inn Hotel and Suites, Days Inn Fullerton, Embassy Suites Anaheim North, Norwalk California Doubletree, Crowne Plaza Costa Mesa, and the Universal Sheraton Hotel.

Pending Board approval of the Assignment and Assumption of Permit No. 520 (Transmittal 2), staff proposes in a separate Board Order, the approval of the Eighth Amendment to Permit No. 520. The proposed Eighth Amendment requires LASH to complete all property improvements timely (within 24 months), as required by Hilton and identified in the Product Improvement Plan (PIP) (Transmittal 3), and maintain licensing to continue operating the facility as a Doubletree by Hilton or other similar branded hotel, as approved by the Executive Director.

ENVIRONMENTAL ASSESSMENT:

The proposed action is reassignment of Permit No. 520 covering the Doubletree by Hilton San Pedro from SP Ownership to LASH. As an administrative activity, 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) of the Los Angeles City CEQA Guidelines.

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ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

Approval of the Assignment will have no impact on Harbor Department spending. The cost of the required hotel renovations will be funded with monies provided through LASH.

The existing rent obligation, which became effective January 24, 2012, will apply to the assignee. Under those terms, monthly rent is the greater of \$14,227 and the sum of various percentages of corresponding gross revenue streams. In the year 2012, gross receipts received by the Harbor Department exceeded the minimum annual compensation by \$84,371.

LASH will fully bear any operating and maintenance expenses associated with the property.


CITY ATTORNEY:

The Office of City Attorney has reviewed and approved as to form and legality the Assignment and Assumption of Permit No. 520 and Consent Thereto.


TRANSMITTALS:

- 1. Site Map
- 2. Assignment and Assumption of Permit No. 520 and Consent Thereto
- 3. Product Improvement Plan

FIS Approval:  (initials)
 City Attorney:  (initials)


 for JACK C. HEDGE
 Director of Real Estate


 KATHRYN McDERMOTT
 Deputy Executive Director

APPROVED:

 for GERALDINE KNATZ, Ph.D.
 Executive Director