



**DATE:** OCTOBER 28, 2020

**FROM:** WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT:** RESOLUTION NO. \_\_\_\_\_ – APPROVE NINTH AMENDMENT  
TO PERMIT NO. 520 WITH LA SKY HARBOR, LLC

**SUMMARY:**

Staff requests approval of the proposed Ninth Amendment to Permit No. 520 (P520) with LA Sky Harbor, LLC (LASH), dba DoubleTree by Hilton Hotel San Pedro (DoubleTree SP). P520 became effective July 1, 1987 with a predecessor tenant and has an expiration date of November 26, 2046. P520 has been assigned multiple times prior to LASH's assumption of the permit effective February 27, 2013.

Due to the current COVID-19 pandemic, DoubleTree SP has experienced significant occupancy reductions as a result of local, state, and federal government orders, as well as international travel restrictions, which has impacted LASH's ability to pay rent. The proposed Ninth Amendment will revise P520 to allow for minimum rent deferral including rent deferral term, rent deferral period(s), and repayment period.

Under the proposed Amendment, LASH's fixed minimum rent would be deferred for up to twelve months, while percentage rent would continue to be paid. The actual amount deferred each month would be the difference between that month's percentage rent and LASH's contractually-guaranteed monthly minimum rent. The total deferred amount would be paid back over a one-year period in equal monthly payments. Approval of the Ninth Amendment will result in a total minimum rent deferral amount estimated at between \$60,000 and \$180,000 from July 1, 2021 to June 30, 2022.

**RECOMMENDATION:**

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Find that it is in the best interest of the City of Los Angeles to grant deferral of minimum rent under the Ninth Amendment to Permit No. 520, as the City of Los Angeles Harbor Department derives substantial long-term economic benefits from the operation of a successful first-class hotel;

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3. Approve the Ninth Amendment to Permit No. 520 with LA Sky Harbor, LLC;
4. Direct the Board Secretary to transmit the Ninth Amendment to Permit No. 520 to the City Council for approval pursuant to Section 606 of the City Charter;
5. Authorize the Executive Director to execute and the Board Secretary to attest to the Ninth Amendment to Permit No. 520 upon approval by the City Council; and
6. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:**

Background – Permit No. 520 grants use of City of Los Angeles Harbor Department (Harbor Department) land at 2800 Via Cabrillo Marina, San Pedro, California (Transmittal 1) for the operation of a hotel and purposes incidental thereto. Improvements include a 226-room hotel, restaurant, swimming pool, tennis courts, fitness facility, and related commercial/banquet facilities. All improvements are owned and maintained by LASH at their sole expense.

The initial tenant and operator, California Coast Development Group, Inc., opened the property as a DoubleTree in September 1989 and experienced economic difficulties from the outset. The hotel was ultimately foreclosed on by the construction lender and lost its flag on two separate occasions, with different permit holders, due to both market conditions and the prior permit holders' inability to make the capital upgrades required by Hilton. In total, there have been eight permit amendments and five ownership transfers, culminating with LASH's purchase of the improvements and assumption of P520 in 2013. LASH proceeded with renovating the property, investing over \$6,000,000 and significantly improving the property's appearance, occupancy, and cash flow. LASH has been the most successful operator of the DoubleTree SP since P520's inception in 1989, due primarily to their capital investments into the property and negotiation of block room contracts with Air China for flight crew stays. In addition to airline rooms contracts, the DoubleTree SP benefits from local and Catalina Island tourism, as well as out of town cruise ship travelers staying before or after their cruises. In 2019, the hotel generated approximately \$12.6 million in gross revenues and paid approximately \$338,290 in total rent, or approximately 2.68 percent of gross revenues based on their tiered percentage rent schedule which ranges from 2.0 to 3.5 percent on all Rooms, Food & Beverage, plus 5 percent of Miscellaneous revenues.

DoubleTree SP's operations and resulting cash flow have been severely impacted by the COVID-19 pandemic, which affected the DoubleTree SP early in 2020 due to the shutdown of Air China flights in February. The DoubleTree SP continues to be hobbled by the lack of flights to and from China, the pandemic directives, tourism decline and no-sail cruise ship orders, which have limited LASH's ability to pay rent, despite a temporary benefit from the presence of the USNS Mercy in San Pedro from mid-March to mid-May. With the pandemic continuing to limit international travel, cruise and Catalina Island tourism, LASH is bracing for an extended period of extremely low occupancy prior to recovery and submitted a request for rent deferral on June 1, 2020.

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Additionally, as a hotel on Harbor Department-owned property and subject to City of Los Angeles Labor Peace Agreement requirements, LASH operates under a union contract which significantly increases their operating expenses over non-union competitors.

Rent Deferral Evaluation Criteria - Due to the potential financial impacts caused by the COVID-19 pandemic, the Harbor Department has developed criteria for evaluating potential rent relief requests received from Waterfront/Commercial tenants. The criteria include the following evaluation factors:

Tenant History

- Type of Business – Hospitality; First Class DoubleTree by Hilton flagged hotel
  - Stabilized occupancies for calendar year 2019 generally ranged between 75-95 percent depending on seasonality, with January being the weakest month of the year, and the summer months the strongest.
- Tenant in Good Standing Prior to COVID-19 – Yes. Prior to the pandemic, LASH passed a Port of Los Angeles Financial Management Division audit in 2019.
- Time Left on Permit Term – 26 Years
  - Potential Permit Extension – Discussions and Term Sheet signed in 2019 proposing new 50-year Permit.

COVID-19 Impact on Business

- Business Impacted by a Government Directives – Yes
  - Federal/State/Local – Local, State, and Federal Government Orders, including no-sail cruise orders and international travel restrictions, which have negatively affected the global hospitality business.
  - Dates of Impact – February 2020 through June 30, 2020, and ongoing. The DoubleTree SP's occupancy initially dropped beginning in February prior to the Los Angeles shelter-in-place orders due to international flight restrictions, which limited travel from China.
  - The berthing of the USNS Mercy at the Port of Los Angeles from March 27 through May 15, 2020 provided a substantial temporary benefit from associated US Navy rooms contract. When the USNS Mercy departed, occupancy dropped to as low as 13 percent. Since then, occupancy has gradually climbed to the percentages in fifties, benefitting from local travel during the summer months.
- Did they apply for Federal Assistance – Yes
  - If yes, what did they apply for and what did they receive? Paycheck Protection Program Loan for \$1,019,500

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- Impact on Jobs – The DoubleTree SP has remained open throughout the pandemic but has reduced staffing levels to approximately 40 active employees instead of their regular staff levels of 90-100 employees.
- Proof of Business Lost – Yes
  - LASH has provided detailed operating statements and STR Competitive and Segmented Industry Reports verifying the COVID-19 impact on revenues. Below is a chart detailing the DoubleTree’s actual year-to-date and forecasted occupancies and associated revenue per available room night (RevPAR) estimates for calendar year 2020.

DOUBLE TREE SAN PEDRO ACTUAL/FORECAST 2020												
	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020
	Actual	Actual	Actual	Actual	Actual	Actual	Act/Est	Forecast	Forecast	Forecast	Forecast	Forecast
Rooms Available	7,006	6,554	7,006	6,780	7,006	6,780	7,006	7,006	6,780	7,006	6,780	7,006
Rooms Sold	5,540	5,234	4,331	6,292	3,185	2,275	3,217	2,870	3,804	3,866	4,305	4,154
ADR	\$140.43	\$149.99	\$141.73	\$152.87	\$130.40	\$115.26	\$119.84	\$119.30	\$113.00	\$114.35	\$112.00	\$112.07
Occupancy%	79.1%	79.9%	61.8%	92.8%	45.5%	33.6%	45.9%	41.0%	56.1%	55.2%	63.5%	59.3%
RevPAR	\$111.04	\$119.78	\$87.61	\$141.86	\$59.28	\$38.67	\$55.03	\$48.87	\$63.40	\$63.10	\$71.12	\$66.45

- Minimum Rent Compared to Total Rent Paid (January 2019 through August 2020)
  - January 2019 – August 2019 Percentage Rent - \$43,890
  - January 2020 – August 2020 Percentage Rent - \$10,196
  - As illustrated in the chart below, the DoubleTree SP’s total gross sales year-to-date through August are \$5,722,262, which represents a 32.7 percent decrease (including the USNS Mercy benefit) over the January through August 2019 period.

2019	Gross Sales	Min. Rent	% Rent >		2020	Gross Sales	Change from 2019	Min. Rent	% Rent >	
			% Rent Only	Min. Rent					% Rent Only	Min. Rent
Jan	\$ 854,332	\$ 19,080	\$ 17,506	\$ -	Jan	\$ 963,381	12.8%	\$ 19,696	\$ 19,450	\$ -
Feb	\$ 1,010,275	\$ 19,080	\$ 20,354	\$ 1,275	Feb	\$ 1,034,581	2.4%	\$ 19,696	\$ 20,983	\$ 1,287
Mar	\$ 1,063,243	\$ 19,080	\$ 21,391	\$ 2,311	Mar	\$ 719,511	-32.3%	\$ 19,696	\$ 14,390	\$ -
Apr	\$ 1,087,773	\$ 19,080	\$ 21,987	\$ 2,908	Apr	\$ 1,409,866	29.6%	\$ 19,696	\$ 28,605	\$ 8,909
May	\$ 1,043,064	\$ 19,080	\$ 21,449	\$ 2,369	May	\$ 542,469	-48.0%	\$ 19,696	\$ 13,562	\$ -
Jun	\$ 1,174,460	\$ 19,080	\$ 29,596	\$ 10,517	Jun	\$ 267,424	-77.2%	\$ 19,696	\$ 6,686	\$ -
Jul	\$ 1,132,666	\$ 19,080	\$ 28,552	\$ 9,472	Jul	\$ 354,773	-68.7%	\$ 19,696	\$ 8,558	\$ -
Aug	\$ 1,135,818	\$ 19,080	\$ 34,119	\$ 15,039	Aug	\$ 430,257	-62.1%	\$ 19,696	\$ 11,029	\$ -
Sep	\$ 1,053,058	\$ 19,080	\$ 34,217	\$ 15,137						
Oct	\$ 1,156,507	\$ 19,080	\$ 40,563	\$ 21,484						
Nov	\$ 947,859	\$ 19,080	\$ 33,232	\$ 14,152						
Dec	\$ 963,177	\$ 19,080	\$ 33,743	\$ 14,663						
<b>Total Rent 2019</b>					<b>y-t-d</b>					
\$ 12,622,232					\$ 5,722,262					
\$ 228,960					-32.7%					
\$ 109,330					\$ 157,570					
\$ 338,290					\$ 123,260					
					\$ 10,200					

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- Expected Return to Normal Business Operations and Justification for this Projection - Based on year-to-date numbers through August 2020, total calendar year 2020 revenue is now estimated at approximately \$8.6 million, a 35 percent decrease versus the original 2020 budget of \$13.3 million, even with projected future increases in occupancy, and the USNS Mercy bump.
- After the USNS Mercy departed, June revenues plunged 77.2 percent over the prior year. For the months of July and August 2020, corresponding with relaxation of the shelter-in-place orders, gross receipts saw a 65.4 percent decrease over July and August 2019.
- Having lost the normal buffer provided by the summer season, the DoubleTree SP is expecting significantly reduced occupancies well into 2021.
- Full occupancy and RevPAR recovery is unlikely to occur until local and international tourism rebounds, Air China flight patterns fully resume, and the no-sail cruise orders are lifted.

Proposed Ninth Amendment - The proposed Ninth Amendment (Transmittal 2) will provide minimum rent deferral terms as described below.

Summary of Significant Amendment Terms:

<b>Provisions</b>	<b>Description</b>
First Rent Deferral Period	July 1, 2020 through December 31, 2020 (6 months)
Optional Second Rent Deferral Period	January 1, 2021 through June 30, 2021 (6 months) <ul style="list-style-type: none"> <li>• Optional Second Rent Deferral Period to be requested by tenant by November 15, 2020.</li> <li>• Optional Second Rent Deferral Period subject to Executive Director approval</li> </ul>
Rent Deferral Terms	<ul style="list-style-type: none"> <li>• Tenant to pay percentage rent through deferment period</li> <li>• If percentage rent due is less than minimum rent due each month, the deficit may be deferred</li> <li>• Rent deferral amount shall not incur late fees or other finance charges</li> <li>• Fixed Minimum Monthly rent is currently \$19,696.14 and subject to annual Consumer Price Index increases effective January 1 of each year.</li> </ul>
Repayment Period	<ul style="list-style-type: none"> <li>• January 1, 2021 through December 31, 2021, or July 1, 2021 through June 30, 2022 if Optional Second Rent Deferral Period is requested and approved.</li> </ul>
Repayment Calculation	<ul style="list-style-type: none"> <li>• Total rent deferred shall be paid back in 12 equal monthly installation payments</li> </ul>
Recalculation Period	<ul style="list-style-type: none"> <li>• Within 30 days after deferment period ends.</li> </ul>

As only fixed minimum rent is deferred, LASH will continue to pay percentage rent at the tier in effect based on their calendar year gross receipts to-date, as follows:

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Rent % Applied	Gross Receipts Threshold	
2.00%	\$ -	\$ 4,999,999.99
2.50%	\$ 5,000,000.00	\$ 7,499,999.99
3.00%	\$ 7,500,000.00	\$ 8,999,999.99
3.50%	\$ 9,000,000.00	and above

Example: In October, gross receipts are \$400,000. Based on the current 2.5 percent rent threshold, they would pay \$10,000 and defer \$9,696.14 of the \$19,696.14 minimum rental obligation.

Deferment is not a “gift of public funds”, as all rent will be recovered during the repayment period, and it does not confer benefits to a private party in ways that might disadvantage public interests. The proposed deferment is an expenditure for a public purpose, which is permissible as the proposed deferment protects the local economy and promotes compliance with public COVID-19 health guidelines, which are fundamental purposes of the government.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is the approval of a proposed Ninth Amendment to P520 to allow for minimum rent deferral, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

**FINANCIAL IMPACT:**

Approval of the Ninth Amendment would revise P520 to allow LASH to defer up to 12 months of rent obligations which would have been otherwise due through June 2021. Under the proposed Amendment, LASH would continue to pay percentage rent. However, to the extent that monthly percentage rent falls below LASH’s contractually-guaranteed monthly minimum rent, the difference will be deferred.

Through two months from July 1 – August 31, 2020, LASH percentage rent of \$19,587 fell \$19,805 below the \$39,392 minimum rent obligation over that two-month period. Under the proposed Amendment, the \$19,805 difference between percentage rent and minimum rent would be deferred to a later date. Assuming that this two-month differential persists over the 12-month maximum deferral period, LASH would likely defer payment of approximately \$120,000 until June 30, 2022.

Given the high degree of uncertainty regarding LASH’s business prospects and ability to generate percentage rent through June 2021, staff estimates that, based on monthly deferrals of between \$5,000 and \$15,000 over a one-year period, ultimately anywhere from \$60,000 to \$180,000, could be deferred for repayment through June 30, 2022 if the proposed Amendment is approved.

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**CITY ATTORNEY:**

The Office of the City Attorney has reviewed and approved the Proposed Ninth Amendment to Permit No. 520 as to form and legality.

**TRANSMITTALS:**

1. Site Map
2. Ninth Amendment

FIS Approval: MT  
CA Approval: SO

*Michael J. Galvin*  
MICHAEL J. GALVIN  
Director of Waterfront & Commercial Real Estate

*Michael DiBernardo*  
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Deputy Executive Director

**APPROVED:**



EUGENE D. SEROKA  
Executive Director

MG:ER:MC:RN:raw  
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BL858raw LASH 9<sup>th</sup> Amend