



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: DECEMBER 2, 2015

FROM: WATERFRONT AND COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION 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:

The Waterfront & Commercial Real Estate Division proposes that the Board of Harbor Commissioners (Board) approve the Consent to Hypothecation of Permit No. 520 with LA Sky Harbor, LLC (LASH) in favor of Industrial and Commercial Bank of China (USA), National Banking Association (ICBC), as requested by LASH and its lender, ICBC. Permit No. 520 is a 50-year agreement expiring on December 12, 2046, which grants LASH use of approximately 2.54 acres of City of Los Angeles Harbor Department (Harbor Department) land at the Cabrillo Marina for constructing, operating, and maintaining facilities for a hotel; dinner and convenience restaurants; banquet facilities; office space rental; 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).

Board approval will allow LASH to acquire \$12,000,000 of funding from ICBC in order to facilitate a successful long-term investment strategy that will discharge previously acquired short-term financing, provide the funding necessary to complete the ongoing remodel of the Doubletree and provide working capital, among other things. No funding from the Harbor Department will be required for the proposed action.

RECOMMENDATION:

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

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Consent to Hypothecation of Permit No. 520 to Industrial and Commercial Bank of China (USA), National Banking Association;

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3. 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), National Banking Association; and
4. Adopt Resolution No. _____.

DISCUSSION:

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

On February 21, 2013, the Board approved the Eighth Amendment to Permit No. 520 which required LASH to complete the scope of work in the Product Improvement Plan (PIP), as required by Hilton Worldwide Corporation for licensing to operate the property as a Doubletree by Hilton Hotel (Transmittal 2).

During the past two years, LASH has invested over \$2,000,000 towards the remodeling of the Doubletree as identified in the PIP. The improvements include: exterior repair; landscaping; parking lot repair and resurfacing; building repair; complete guest room renovations, including new furniture, carpet, wall coverings, bedding, and guestroom bathroom upgrades; dining and lounge area renovations; complete industrial kitchen remodel; upgrading the tennis courts and pool area; and refinishing of the ballroom and meeting rooms. These renovations and upgrades have significantly improved the appearance, operating performance, profitability and value of the property.

LASH wishes to obtain a loan for \$12,000,000 and secure the payment with, among other things, Permit No. 520, a deed of trust, assignment of rents and leases, fixture filing, certain related instruments (collectively "Deed of Trust") which will encumber LASH's entire estate, right, title, and interest in Permit No. 520 and the premises. As provided in Section 10(a) regarding the transfer of interest or assignment of Permit No. 520, the lender, ICBC, has requested that the Board approve the Consent to Hypothecation (Transmittal 3).

The proposed Consent to Hypothecation of Permit No. 520 to ICBC 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.

Hypothecation is a mortgage or pledge in which the subject-matter is not delivered to the pledgee. Therefore, the proposed Consent to Hypothecation imposes certain notification obligations on the Harbor Department but also provides assurance that the

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Harbor Department's rights are maintained should a default occur. 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 consent by the Board.

The Board has previously consented to the hypothecation of Permit No. 520 on several occasions, as follows:

- October 1987 - U.S. Bancorp;
- December 10, 1996 - Bankers Trust Company;
- July 16, 1997 - Bank Boston, N.A.;
- November 9, 2005 - San Diego National Bank; and
- June 26, 2013 - ICBC.

The form of the subject Consent to Hypothecation is substantially in the same form as that used in the June 26, 2013 transaction. Upon Board approval, ICBC will execute the Consent to Hypothecation for inclusion with the loan documents necessary to finalize and fund the loan.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a Consent to Hypothecation of LASH's Permit No. 520 to ICBC to allow LASH to acquire funding from ICBC to complete ongoing remodeling of the Doubletree and provide working capital. Remodeling of the hotel has previously been assessed pursuant to CEQA (APP # 130821-119). The current proposed action is limited to approval of the Consent to Hypothecation, which is an administrative activity. As such, the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

The Consent to Hypothecation of Permit No. 520 to ICBC will have no impact on the compensation payable to the Harbor Department under Permit No. 520. It is expected that the completion of the PIP will increase the value of the improvements and result in greater revenue to the tenant through increased occupancy and room rates which should result in the increased percentage rent 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 of Permit No. 520 has been approved as to form and legality by the Office of the City Attorney.

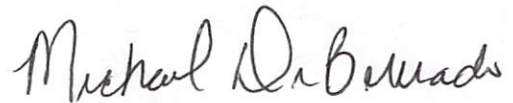
TRANSMITTALS:

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

FIS Approval: MB (initials)
CA Approval: MB (initials)



MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

ES:MD:MG:ER:RV:KS:mmm
Author: K. Stanberry
BL551raw Doubletree Hypothecation