



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

October 4, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute all documents necessary for the assignment of the lease for City-owned property at 600 Queensway Drive from Long Beach Group Inc., a California Corporation, to LBH Land Holding Company, LLC, a California limited liability company, and to execute an Amended and Restated Lease (Lease) between LBH Land Holding Company, LLC, and the City of Long Beach for development of a 152-room hotel. (District 2)

DISCUSSION

In April 1987, the Board of Harbor Commissioners entered into a lease with Quiet Cannon Long Beach, Inc., for the operation of a restaurant with a banquet room and cocktail lounge at 600 Queensway Drive (see Exhibit "A"). Subsequently, a number of lease assignments ensued and in 1994, the Lease was assigned to the current lessee, Long Beach Group Inc., DBA Naga Restaurant. Per the Lease terms, the City receives an annual base rent of \$32,196 and percentage rent based on gross sales above the annual base rent. Over the past eight years, the Lease has generated only the minimum base rental as the restaurant has not achieved the success anticipated. The Department of Community Development currently administers the Lease.

Long Beach Group has requested the City's consent to the assignment of the Lease to LBH Land Holding Company, LLC, a California limited liability company (LBH). It is LBH's intention to enter into an Amended and Restated Lease for the removal of the existing improvements and the development of a hotel. The proposed hotel, of the caliber of a Residence Inn by Marriott, will be the only extended stay hotel located on the waterfront in the Queensway Bay area.

Staff, with the assistance of real estate consulting firms Keyser Marston Associates (KMA), have reviewed LBH's financial background for assignment of the Lease and for the development and operation of the proposed hotel. KMA has concluded that LBH has the financial capability and sufficient background and experience as a hotel developer and operator to be successful in this proposed development and recommends approval. Staff has reviewed the proposed assignment document and found it to be consistent with the City's requirement for consent to an assignment of the Lease.

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The proposed Amended and Restated Lease with LBH will contain the following major terms and conditions:

- Length of term: The term of the Amended and Restated Lease will be 66 years commencing on October 1, 2005, and terminating on September 30, 2071.
- Use and Use Restrictions: The use of the premises shall be for the construction, operation and maintenance of a first-class extended stay hotel. Residential uses are prohibited by the Coastal Commission.
- Prepaid Rent: LBH will prepay the rent for the entire lease term in the amount of \$798,500. This amount is calculated by adding the present value of the base rent for the remainder of the existing lease term, which runs through 2033, to the present value of the fair market ground rent for the remainder of the Amended and Restated lease term, from 2034 to 2071.

For the past eight years, the annual rent has been the minimum of \$32,196. The City assumes receiving minimum rent until 2033. At a 9 percent discount rate, this represents a present value of \$325,700.

Today's fair market land value as appraised by R. P. Laurain & Associates is \$1,845,000. This value is projected to year 2034 at a 3 percent annual increase. The City anticipates receiving an 8.5 percent annual return on the land value, also increasing 3 percent per year through 2071, the end of the extended lease term. The present value of this income stream, at a 9 percent discount rate, is \$472,800. Adding the present value of the remaining lease term to the present value of the additional Amended and Restated lease term equals \$798,500.

- Additional Rent: The City shall receive as additional rent, if any, 50 percent of the amount above the prepaid rent (based on an 8.5 percent rate of the future land value) for any sublease of the premises for a use other than a hotel. In addition, if the hotel is converted to any other use, food and alcohol beverage sales shall result in additional rent, calculated at 3.5 percent and 4.5 percent, respectively, of gross sales.
- Entitlements for Development: LBH will be required to obtain all permits and entitlements for the development, including compliance with CEQA.
- Alterations: The City will retain the right to review and approve architectural changes to the leasehold improvements during the lease term.
- Required Investment: LBH will be required to invest, or cause the investment of, approximately \$17,000,000 in leasehold improvements to construct approximately a 152-room hotel during the first three years of the lease term. The City may reasonably extend the time to construct the hotel. In the event that the hotel use is not permitted or construction has not commenced during the first three years of the

lease term, if LBH is not diligently pursuing entitlements, the City may terminate the lease and refund the prorated prepaid rent.

- Maintenance of Fixtures, Equipment and Improvements: LBH shall be responsible for the leasehold maintenance to include all repairs and replacements of fixtures, equipment and improvements which are to be kept in good working order at all times.
- Utilities, Operation and Maintenance Costs: LBH shall be responsible for all utilities, operation and maintenance costs.
- Insurance: LBH will be required to provide insurance to the satisfaction of the City for the term of the Lease.
- LBH shall cooperate with the City to establish a user tax accrual program.

This letter was reviewed by Deputy City Attorney J. Charles Parkin on August 31, 2005, and Budget Management Officer David Wodynski on September 9, 2005.

TIMING CONSIDERATIONS

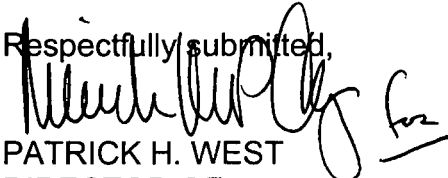
City Council action is requested on October 4, 2005, to complete the lease assignment and proposed development in a timely manner.

FISCAL IMPACT

One-time revenue in the amount of \$798,500 will accrue to the Tidelands Fund (TF) in the Department of Community Development (CD) for FY 06. Subsequent to construction of the proposed project, annual Transit Occupancy Tax of approximately \$672,000 will be generated.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

PATRICK H. WEST
DIRECTOR OF
COMMUNITY DEVELOPMENT

APPROVED:

GERALD R. MILLER
CITY MANAGER