



Legislation Text

File #: 19-0939, **Version:** 1

Recommendation to receive supporting documentation into the record, conclude the public hearing regarding an economic subsidy in connection with a Transient Occupancy Tax Sharing Agreement with Breakers Development, LLC, a California limited liability company, for the property at 210 East Ocean Boulevard, Assessor Parcel Number 7278-007-034, pursuant to California Government Code Section 53083; and

Authorize City Manager, or designee, to execute any and all documents necessary, Transient Occupancy Tax Sharing Agreement, with Breakers Development, LLC, a California limited liability company, or assignee, for the development of an upscale independent boutique hotel. (District 2)

The Breakers Building, is a 14-story building situated on a 1.15-acre parcel, at 210 East Ocean Boulevard (Subject Property) (Attachment A). In 1989, the City Council designated the Subject Property as a building of historical significance. The Subject Property is prominently located on Ocean Boulevard adjacent to the Center for the Performing Arts and steps from the Long Beach Convention Center. The Subject Property is in an excellent location within the City's central business district, overlooks the Pacific Ocean, and is adjacent to many of the City's tourism destinations.

The Subject Property originally opened in 1926 as a luxury oceanfront resort and has operated under various hotel brands/flags over the years, including "Hilton Hotel," "The Wilton," and the "Breakers International Hotel." The Subject Property has experienced several changes of ownerships and up until 2015, was operated as a senior housing facility. In November 2017, Breakers Development, LLC, an affiliate of Pacific 6 Enterprises (Developer), purchased the Subject Property with the intent of returning it to its original use as a luxury hotel. The Developer would like to reposition and convert the Subject Property into an upscale independent boutique hotel, the "Breakers Hotel and Spa."

The Project

The Breakers Hotel and Spa (Project), will convert the existing historic building into a luxury full-service hotel and spa with the interior and exterior being completely remodeled. The Project will include 185-rooms averaging approximately 400 square feet in size, which is generous in size for a historic building. The rooms will be highly appointed and designed to provide guests a luxurious hotel experience. The Project will include over 10,000 square feet of ballroom/meeting space, 12,800 square feet of food and beverage facilities, including a new full-service restaurant and bar, jazz club, coffee shop, signature restaurant ("Sky Room Restaurant and Bar"), and signature rooftop bar and terrace. Further, the Project will offer additional amenities including a

new 6,000-square-foot spa and beauty salon, fitness center, and new pool deck to be constructed on the third floor with expansive ocean views. The attached conceptual rendering is a perspective looking west from the intersection of Ocean Boulevard and Long Beach Boulevard. Additional renderings and layout plans are also included (collectively, Attachment B).

As part of the proposed project, the Developer will also construct improvements to Victory Park, an urban-linear City-owned park, that runs along the front of the Subject Property. Proposed improvements include new landscaping and amenities as well as reconfigured vehicular access by relocating the easterly driveway approach to exit on Collins Way to eliminate a point of vehicle/pedestrian conflict along Ocean Boulevard (Attachment C).

Renovations to the Subject Property are anticipated to be in excess of \$135 million. The Project is expected to generate approximately 500 temporary construction jobs during the 18-month construction period. Once completed, the Project will employ 240 permanent staff, comprised of 190 full-time jobs and 50 part-time jobs. In addition, the Developer has committed to creating a safe workplace for hotel workers. The Developer has provided evidence of a Memorandum of Agreement with Unite Here Local 11, dated March 1, 2019. Project completion and anticipated occupancy would occur in the first quarter of 2021.

The Development Team

The Developer is a Long Beach, California based investment/development company devoted to reinvesting and transforming the community in Long Beach, and is led by Mr. John Molina, Founding Partner, and Mr. Renato Alesiani, Director of Real Estate Development. The Developer has assembled a development team with extensive luxury hotel development experience. The project architecture firm is Los Angeles-based, Nadel Architects, and notable projects include the St. Regis Hotel in Chicago, Rosewood Hotel in Palm Desert, and Abu Dhabi Hotel in the United Emirates. The project Interior Designer is Rodrigo Vargas Design, who was responsible for the interior design of the Loew's Hotel Santa Monica, Monarch Beach Resort in Dana Point, and the US Grant Hotel in San Diego.

The Breakers Hotel and Spa will be built, opened and operated at a standard of AAA 4-Diamond rating. The hotel will be the only "independent" AAA 4-Diamond hotel in the City. The hotel will offer a variety of amenities to fulfill the AAA definition of Urban Resort. City staff commissioned the City's real estate economic consultant, Keyser Marston Associates, Inc. (KMA), to conduct an in-depth review of the financial proforma and cashflow projections of the proposed project. This analysis assumed the proposed Breakers Hotel and Spa will be an independent hotel affiliated with the "Preferred Hotels and Resorts" brand. Preferred Hotels and Resorts is one of the world's top ranked hotel chains. Its brand represents upscale luxury, sophisticated style, and exclusive service. The company has an exceptional collection of unique properties in desirable destinations around the world, providing choice accommodations, exceptional dining and spa options, attentive service, and top amenities. Preferred Hotels and Resorts has over 30 prominent hotels across California.

Market Analysis

In 2016, the City commissioned a Hotel Market Study and Demand Analysis by BAE Urban Economics. The study concluded that an additional 234 hotel rooms could be developed through 2020 and based on projected growth of Business and Leisure travel in the City, an additional 900 new hotel rooms would be warranted through 2040.

In May 2019, the Developer commissioned an independent market analysis for the proposed project by CBRE Hotel Advisory. The CBRE Market Analysis (Report) provided an analysis of potential market demand. The Report identified eight hotels (existing) totaling 2,500 rooms that the proposed hotel would compete with. Additionally, a 429-room full-service hotel, developed by American Life, Inc., is proposed at 100 East Ocean (start of construction is yet to be determined).

In Long Beach, historical growth in hotel Average Daily Room (ADR) rates increased from \$149 per night in 2014 to \$185 per night in 2017 reflecting a compound average growth rate of 5.4 percent revenue per available room (Rev PAR), a combination of occupancy and average daily room rate, increased at an average rate of 6.5 percent annually over the five-year period (2014-2017). Occupancy levels over the same period increased from 78.9 percent in 2014 to 81.8 percent in 2018 and, to date in 2019, is reflecting a decrease to 78 percent. The decrease in 2019 is attributed to the \$22 million renovation at the Westin Long Beach, which commenced in January 2019 and is expected to be completed this year. The rooms out of commission at the Westin have impacted the business at the Long Beach Convention Center.

Market Analysis Findings

Assuming the proposed project opened on January 1, 2021, as projected, the Report identified that in the first year of operation, the hotel's ADR would be \$255 in 2021 and would be able to increase by 3 percent on a compound average annual basis beginning in 2022. An occupancy level of 78 percent is projected and Rev PAR of \$202. The Report concluded that based on CBRE's knowledge of Long Beach and Greater Los Angeles County hotel markets, they have determined that an opportunity exists for the development of a high quality, independent boutique hotel at the Subject Property.

City Assistance

The Developer is projecting total cost of development to exceed \$135 million, or \$732,114 per room. Development costs are comprised of approximately \$78.6 million for direct construction costs, \$8.6 million for soft costs, \$8.2 million in financing costs, and \$39.9 million in acquisition costs.

As a result of the high costs of development due to the adaptive re-use, the Developer has requested that the City share a portion of the future Transient Occupancy Tax (TOT) to be

generated if the project is completed. The City currently assesses a 12 percent TOT rate on room rent for hotels, motels, and short-term rentals. This rate does not include an additional 3 percent assessment levied on hotels within the Long Beach Tourism Business Improvement area. The City is proposing to share 80 percent of the project's TOT received by the City for a period of nine years.

Transient Occupancy Tax Sharing Agreement (TOTSA)

KMA, the consulting firm mentioned previously, evaluated the Report and operating projections report prepared by CBRE Hotel Advisory and the Developer's estimated construction costs and operating projections.

The KMA analysis projects total development costs of approximately \$135 million, based on similar construction costs for similar projects in the region. The KMA analysis was predicated on a AAA 4-Diamond hotel and, for the purposes of the report, it specifically used Preferred Hotel and Resorts as the hotel brand/flag. Based on their projections of the proposed project's Net Operating Income, the supportable investment for the hotel is \$96.7 million, resulting in a projected economic feasibility gap of approximately \$37.7 million.

Under the TOTSA, the Developer would receive approximately \$13 million, estimated to be 34 percent of what is needed to cover the economic feasibility gap, over a period of 9 years. KMA also recommends the Developer will be required to make a minimum investment of \$70.7 million in direct costs for development of the hotel, which includes construction costs and furniture, fixtures, and equipment, to receive the TOT reimbursement. If the minimum investment falls short of the \$70.7 million as agreed to, City staff will return to the City Council to amend the terms of the TOTSA. In event the hotel operator loses the Preferred Hotels and Resorts as the hotel brand/flag but replaces the flag with another AAA-rated Four Diamond Hotel flag, equal to, or better than, Preferred Hotels and Resorts, subject to City Manager approval, the TOTSA would remain in effect.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on July 23, 2019 and by Budget Management Officer Rhutu Amin Gharib on September 19, 2019.

Pursuant to California Government Code Section 53083, the Economic Development Subsidy Report was posted on the City's website on September 19, 2019. This report identifies the entity receiving the subsidy, the schedule for the subsidy, the description of the subsidy, statement of the public purpose for the entity, the projected tax revenue as a result of the subsidy and the estimated number of jobs created by the subsidy. City Council consideration is requested on October 1, 2019, to ensure that development of the Subject Property can occur in a timely manner.

If City Council approves the TOTSA, upon Project occupancy, 80 percent of the TOT received by the City generated from the Subject Property, will be rebated back to the Developer and 20 percent will be retained by the City. This TOTSA does not include the TOT associated with

the Long Beach Tourism Business Improvement Area. This rebate amount will be capped at \$13 million over the 9-year term of the TOTSA. The Developer will be required to make a minimum investment of \$70.7 million in direct costs for the development of the hotel, which includes construction costs and furniture, fixtures and equipment to receive a TOT reimbursement. If the minimum investment falls short of the required \$70.7 million, City staff will return to the City Council to amend the TOTSA.

The agreement will begin once the Project has received its Certificate of Occupancy and the City has received its first TOT payment generated by the Project. In event the hotel operator loses the Preferred Hotels and Resorts as the hotel brand and/or flag but replaces the flag with another AAA-rated Four Diamond Hotel flag equal to, or better than, Preferred Hotels and Resorts, subject to City Manager approval, the TOTSA will still remain in effect.

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. The approval of this action will provide continued support to our local economy by creating or facilitating the creation of approximately 500 short-term jobs and a total of 240 permanent jobs.

Approve recommendation.

JOHN KEISLER,
DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:

THOMAS B. MODICA
ACTING CITY MANAGER