



The Queen Mary



Queen Mary Task Force

February 3, 2016



Site





Site (Cont.)





Recent History

- 1995: 66-Year Lease w/ QSDI
- 2005: QSDI files bankruptcy after City demand for percentage rent
- 2007: Save the Queen LLC (STQ) purchases lease through bankruptcy court
- 2009: STQ defaults on loan from Garrison Investment Group (Garrison), who takes over management of Queen Mary
- 2007-2010: Per City Agreement, Garrison/STQ completed over \$5.3M in CIPs
- 2011-2014: Garrison/STQ completed over \$8M in improvements to restaurants, retail, hotel, and exhibits



Iconic "Stacks"



Before



After



Staterooms & Suites



Before



After



Promenade Cafe



Before



After



Sir Winston's



Before



After



Chelsea Chowder House



Before



After



Grand Salon



Before



After



Wedding Chapel



Before



After



Queen's Salon



Before



After



Promenade Deck



Before



After



Lease Issues

- The existing lease is overly cumbersome, erodes the value of the leasehold, diminishes investor interest, and forestalls land development
- Percentage rent is not a reliable, on-going funding source for historic restoration of the Queen Mary
- Carnival intends to expand their presence in Long Beach, requiring the entire Dome for concurrent embarkation and disembarkation
- Demand analyses indicates three potential uses of the land: entertainment (including food and beverage), boutique hotel, and a mega yacht marina



Re-Stated Lease Goals

1. Ensure first class operation of, and ongoing maintenance and capital investment into, the Queen Mary Hotel
2. Ensure secure, ongoing funding for historic restoration and preservation of the Queen Mary ship
3. Ensure a well capitalized, market-driven, high quality, entertainment-oriented shore side development
4. Provide Carnival Cruise Lines access to the entire Spruce Goose Dome in order to increase the size of its passenger ships, number of annual passengers, and improve the guest experience



Goal 1

Ensure first class operation of, and ongoing maintenance and capital investment into, the Queen Mary Hotel

- Establish an annual Hotel Operations, Maintenance and FFE Fund starting at 1% of gross revenues, increasing to 3% by year 5 to enhance the guest experience
- Establish a new Base Maintenance and Replacement Plan detailing required annual maintenance obligations of the Lessee
- Require Lessee to establish a certified non-profit Foundation to fundraise for, and support the preservation and historic restoration of, the Queen Mary ship
- Work with the City in the preparation and implementation of an annual Historic Preservation and Capital Investment Plan (HPCIP), a Conservation Management Plan, a Marine Survey and an Historic Structures Report
- Prepare and submit for approval a Transition Plan to ensure continuity of 1st Class operations and maintenance



Goal 2

Ensure secure, ongoing funding for historic restoration and preservation of the Queen Mary ship

- Require Carnival Passenger Fees to be passed through to the City into the HPCIP reserve fund for both structural and historical capital investment projects
 - All Passenger Fees up to \$2.15 per passenger is passed through to City
 - All Passenger Fees above \$2.15 per passenger is shared 50/50
- In place of this revenue stream, provide the Lessee a 9% preferred, annual, non-cumulative return on both initial investment and eligible capital improvements
- Percentage rent at 10% of Net Operating Income (above the Base Rent) will apply after payment of priority return
- Base Rent will continue at \$25,000 per month, with increases every 10 years by CPI capped at 40%
- City shall participate in net profits from the sale or refinance of the leasehold at the level of 25% of net proceeds



Goal 3

Ensure a well capitalized, market-driven, high quality, entertainment-oriented shore side development

- Launch of Queen Mary Task Force regarding development
- Extend the term of the lease to 66 years
- Provide ability to create financeable sub-leases (or direct leases with the City) for portions of the land for specific developments
- City consent required for any assignments or encumbrances
- Establish land value today, with rent payable when the land is used to generate revenue, at a stepped up return of 3% for the first year, increasing annually to 7%
- Adjust land value every 10 years at cumulative CPI, capped at 40%
- Require implementation of financial reporting practices as recommended by City Auditor



Goal 4

Provide Carnival Cruise Lines (CCL) access to the entire Spruce Goose Dome in order to increase the size of its passenger ships, number of annual passengers, and improve the guest experience

- CCL plans to replace the Miracle with the Splendor in early 2017, increasing total cabins from 7,800 to 8,800
- To accommodate increase passenger count, the entire Dome is needed for embarkation and disembarkation for a positive guest experience
- CCL intends to invest up to \$5M on structural and fire/life/safety upgrades to the Dome
- Loss of the Dome will compel Lessee to construct new entertainment venues to continue lucrative annual events



The Successor Lessee: Urban Commons, LLC

- Urban Commons is one of the nation's fastest growing privately-held real estate investment and development firms
- Founded in 2008, the firm is headquartered in Los Angeles, CA and maintains a presence in major real estate markets throughout the nation
- Urban Commons owns and manages over 40 hotels , developed almost 1 million square feet of commercial property with a current portfolio valued at over \$1 billion



The Successor Lessee: Urban Commons, LLC (Cont.)

- Urban Commons hired Hurst/Harrigan Associates to evaluate demand for a new destination entertainment development
- Urban Commons hired Gensler Architects to guide the future shore side development
- Urban Commons will continue to employ Evolution Hospitality to operate the hotel
- Urban Commons will continue to employ John Thomas as its historical consultant



Development Impediments

- **Geographic Restrictions:** The property is isolated, physically constrained and faces severe access restrictions
- **Market Restrictions:** The Port complex and related high trucking uses and very limited demographics severely diminishes the traditional market radius
- **Parking Restrictions:** Development programs must optimize and balance vertical land development with increased parking demand, with lost surface parking for Queen Mary guests
- **Tidelands Restrictions:** Under the Public Trust Doctrine the permitted uses of lands are commerce, navigation, fisheries, ecological habitat protection, visitor-serving, water-oriented recreation and preservation of land in its natural condition



Development Impediments





Demand Analyses

- 3 land use demand analyses have been conducted:
 - EPS in June 2013 (at the request of Garrison Investments Group)
 - ADK&A in August 2013 (a City-requested review of the EPS analysis)
 - Hurst-Harrigan in June 2015 (at the request of Urban Commons)
- 3 economically supported land uses identified:
 - Boutique Hotel of up to 150 rooms to supplement the Queen Mary Hotel for higher end guests
 - Outdoor event and entertainment complex for special and ongoing events with both indoor and outdoor elements and supporting retail
 - A 14-berth Mega yacht marina to accommodate larger personal watercraft that have limited berthing opportunities
- 1 potential use identified, subject to Tidelands restrictions
 - Residential



Demand Analyses

June 2013 EPS Study analyzed two development scenarios

Scenario 1:

- 14 berth mega-yacht marina
- 150-room boutique hotel
- 15,000 SF support retail
- Shoreline promenade
- Outdoor events area
- Reduced parking from 1,600 to 1,171

Scenario 2:

- Same basic development in Scenario 1, plus
- 370 residential podium-parked units
- Reduced parking from 1,171 to 370



Demand Analyses

2 Development Scenarios

Queen Mary Lease Amendment Analysis
 Draft Assessment and Proposal 04/18/13 (Revised 06/12/13)

Table 4 Residual Value under Three Development Scenarios

	Baseline ⁽¹⁾			Scenario 1: Partial Build-Out ⁽²⁾			Scenario 2: Full Build-Out ⁽³⁾			
	Queen Mary	Queen Mary	New Vertical Development	Total	Queen Mary	New Vertical Development	Total	Queen Mary	New Vertical Development	Total
Capitalized Value (Before Ground Rent)	\$58,719,370	\$54,607,215	\$76,200,017	\$130,807,232	\$47,762,501	\$219,725,201	\$267,487,702			
Vertical Development Cost	NA	NA	(\$60,105,194)	(\$60,105,194)	NA	(\$183,013,521)	(\$183,013,521)			
Developer Targeted Return on Vertical Costs	NA	NA	(\$8,108,133) 13.5%	(\$8,108,133)	NA	(\$24,086,215) 13.2%	(\$24,086,215)			
Residual Value	\$58,719,370	\$54,607,215	\$7,986,691	\$62,593,005	\$47,762,501	\$12,625,464	\$60,387,966			

(1) From 2013 Queen Mary Budget. Includes Queen Mary operations, events programming, lease revenue, and 1,600 surface parking spaces for Queen Mary and Queen Mary program events

(2) Adds Marina, Hotel, and Retail, park/pavilion, pedestrian plaza, parkable events area, and reduced Queen Mary surface parking totaling

(3) Adds Marina, Hotel, and Retail, Multifamily residential, park/pavilion, pedestrian plaza, parkable events area, and reduced Queen Mary surface parking totaling 370 spaces

Source: Economic & Planning Systems



Demand Analyses

Development Sensitivities

Parking:

Currently 1600 surface parking spaces and 1300 structured parking spaces (shared with Carnival Cruise Lines) are available. Vertical development will reduce available surface parking, potentially reducing the 1.5 million annual visitors to the historic Queen Mary

Infrastructure:

As the visitor count increases, restricted access becomes a critical barrier to success. Infrastructure costs could overwhelm the available capital funds, rendering development infeasible without public participation

Tidelands:

A land swap might be feasible, lifting the Tidelands use restrictions for residential uses. However, the increased infrastructure requirements may offset the economic benefits

Queen Mary Revenues:

As available parking is reduced through vertical development, and alternative entertainment venues grow, QM revenues (and related capitalized value) will reduce



Development Challenge

Branding an Icon



World class destination
Enduring, high-quality reputation
Long term relevance