



The Queen Mary



Presentation to City Council

November 17, 2015



City Council Consideration

- City's current lessee is Garrison Investment Group (Garrison), who acquired the property through default, and is neither a hotel operator, nor a land developer and seeks to sell its leasehold interest
- Garrison and has identified a proposed Successor Lessee: Urban Commons, a well capitalized hotel developer and operator
- Staff have worked with Urban Commons to communicate the challenges related to site constraints, entitlement expectations, and negotiate terms and conditions of a new Restated Lease
- Staff seeks City Council authority to enter a new Restated Lease with Urban Commons, who intends to promptly meet with the Queen Mary Task Force and begin public outreach related to development alternatives

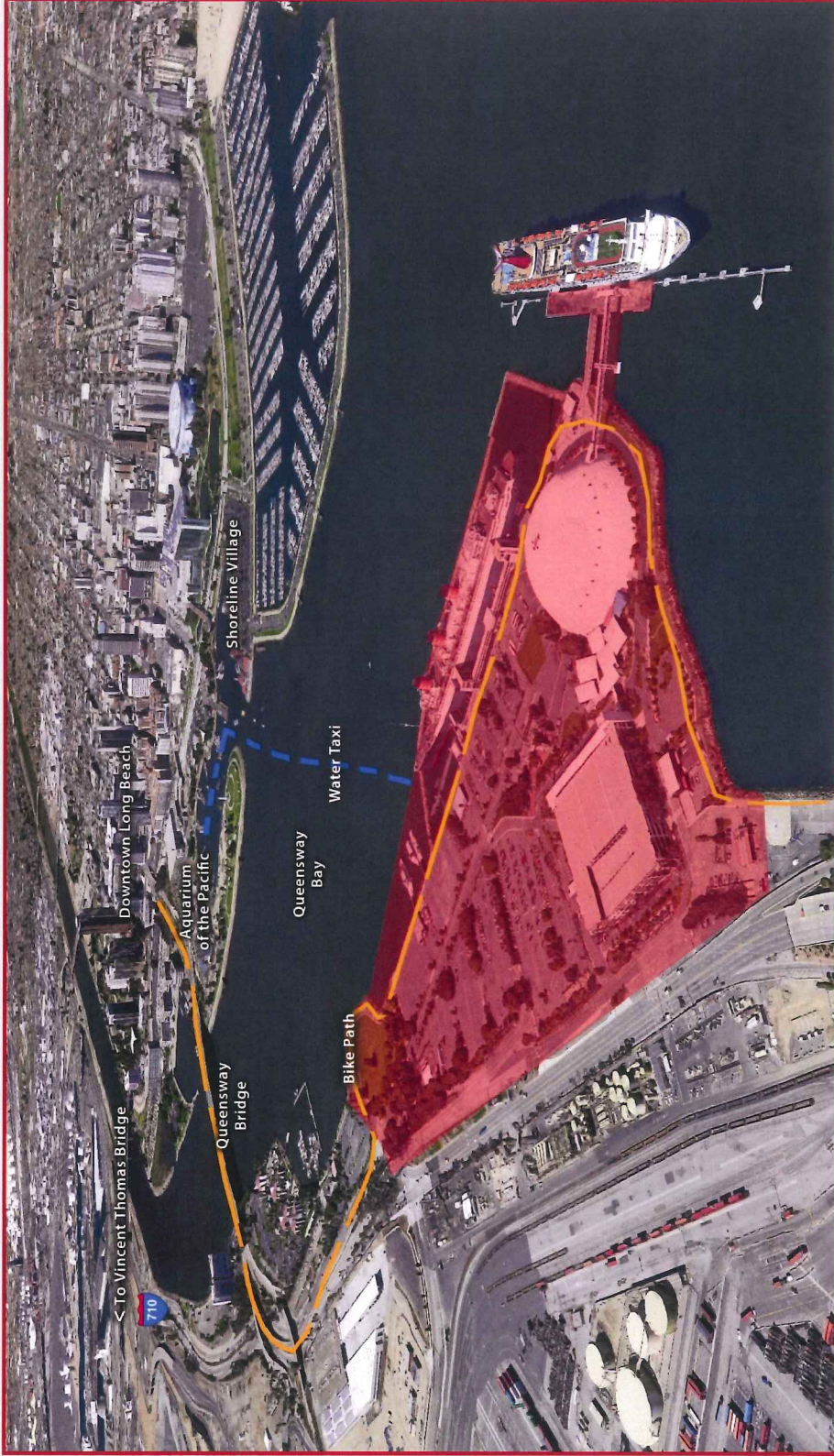


Site





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, who takes over management of Queen Mary
- 2007-2010: Per City Agreement, Garrison/STQ completes over \$5.3M in CIPs



Recent History (Cont.)

- 2011: Garrison/STQ, along with City and PCR Consulting, complete Historic Inventory Report, cataloging over 4,700 historically significant items on the Ship
- 2011: Evolution Hospitality contracted for operation of the Ship and introduces the CHILL signature event
- 2012: Princess Diana Exhibit is center piece of \$3.3M in CIPs
- 2011-2014: Garrison/STQ completed over \$8M in improvements to restaurants, retail outlets, hotel amenities and exhibits



Recent History (Cont.)

- 2014: Conservation Management Plan developed to improve oversight and management of on-ship assets and the Ship itself
- 2015: Completion and Certification of Fire Alarm Upgrade. Sprinkler head replacement is ongoing
- Pending: Historic Structures Report will determine historical significance of structures within the Ship and recommend preservation strategies
- Pending: Marine Survey will assess the status and integrity of the Ship's structural components including the hull, superstructure and side shell



Upgrades & Renovations (2007 - 2015)

- 314 Guestrooms
- HVAC
- Wharf Entry
- Elevators
- Promenade Deck
- Kitchen/Catering Facilities
- Smoke Stacks
- Retail & Parking Technology
- Chelsea Chowder House
- Britannia Salon
- Grand Salon
- Windsor Salon
- Queen's Salon
- King's View Room
- Promenade Café
- Sir Winston's
- Wedding Chapel
- Hand Railings
- Wi-Fi Infrastructure
- Retail Improvements
- Wedding Services
- Lighting Fixtures
- Ghosts & Legends Upgrades
- Gym Remodel
- Landscape Upgrades
- Tour Listening Devices
- ADA Restrooms



Awards & Accolades

- California Preservation Foundation – 2012 Preservation Design Award
- Association Meetings' 2012 Inner Circle Award – Hotel
- 2012 Trip Advisor Certificate of Excellence Award – Hotel
- 2012 Zagat Award of Excellence (Sir Winston's)
- Press-Telegram 2012 Readers' Choice Best Brunch Award
- 2012 Open Table Diners' Choice Award – Sir Winston's
- 2012 Open Table Diners' Choice Award – Best Brunch
- 2012 Trip Advisor Certificate of Excellence Award – Dining
- 2012 Los Angeles Travel Readers' Choice Award – Favorite Romantic Los Angeles Restaurant (Sir Winston's)
- The Southern California Restaurant Writers' Golden Bacchus Award for Wine Selection (Sir Winston's)
- The Southern California Restaurant Writers' Golden Scepter Award (Sir Winston's)
- 2012 Trip Advisor Certificate of Excellence – Attractions



Performance Audits

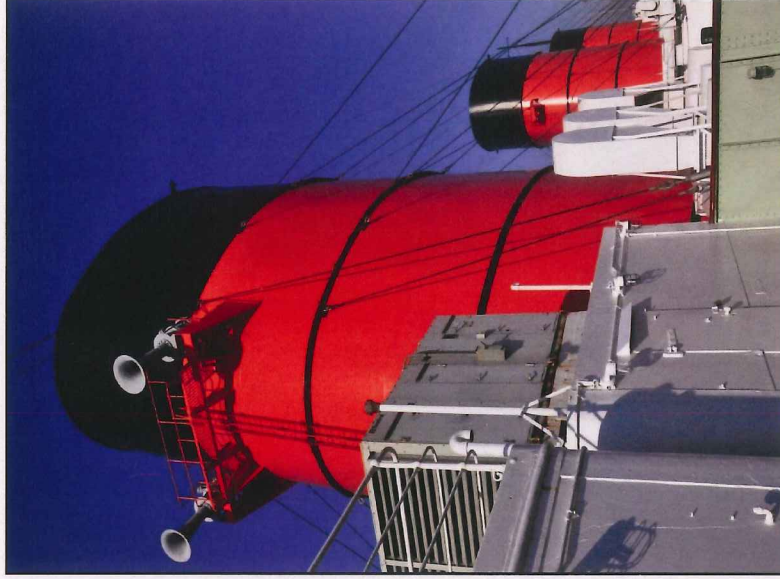
- City Auditor Report determined STQ short of 2008 benchmark by \$800,000 (pre-Garrison)
- Follow-up City Auditor Report determined STQ short of 2009 benchmark by \$300,000
- STQ, under Garrison oversight, met and exceeded the \$5.3 Million benchmark in 2010



Iconic "Stacks"



Before



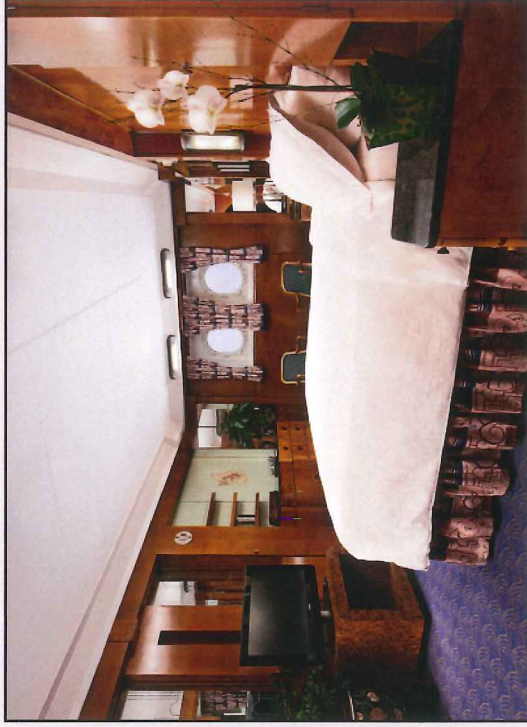
After



Staterooms & Suites



Before



After



Promenade Cafe



Before



After



Sir Winston's



Before



After



Chelsea Chowder House



Before



After



Queen's Salon



Before



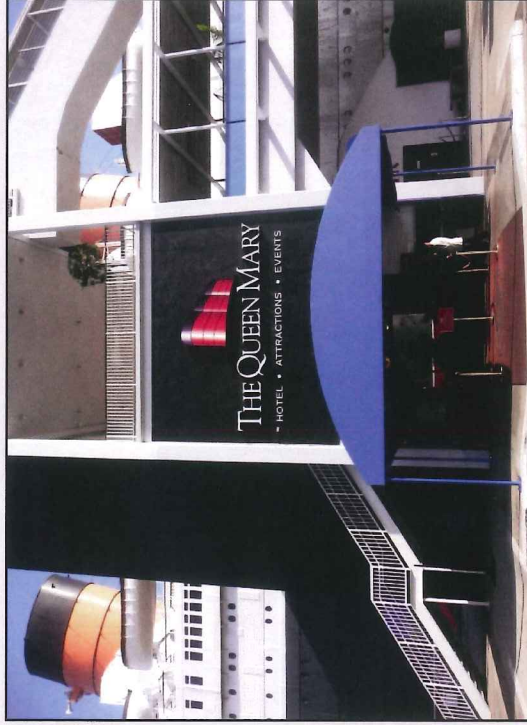
After



Main Entrance



Before



After



Promenade Deck



Before



After



Garrison's Success

- Garrison has been the City's lessee and partner since 2009
- Garrison has invested over \$13 million into capital improvements and event infrastructure in the Queen Mary
- Garrison, together with Evolution Hospitality, has introduced signature events at the Queen Mary, increasing the stature and popularity of this iconic ship
- Garrison, and subsequently, Evolution Hospitality, hired a Historic Resource Advisor who has positively influenced both historic restoration and preservation on the Queen Mary
- Staff believes Garrison and Evolution have been extraordinary partners and excellent stewards of the City's most recognized asset



Development Impediments

- As the City Council contemplates the future of the Queen Mary and shore side development, it is important to recognize the various challenges and impediments unique to the ship and the adjoining land
- These unique challenges work to create guarded expectations for land use and density, high speculation for successful development, cautious assumptions related to attendance and market saturation, significant risk to anticipated revenues, and resultant gearing between debt and equity



Development Impediments

- **Limited Access and Market Saturation:** The Port complex and related high trucking uses, single point of access over the Magnolia Avenue bridge and very limited demographics severely diminishes the traditional market saturation for the Queen Mary. As a result, any development theme will need to ensure drawing from a market area included within a 60-minute drive
- **Tidelands Land Restrictions:** Under the Public Trust Doctrine the permitted uses of land which come under the jurisdiction of the Public Trust are commerce, navigation, fisheries, ecological habitat protection, water-oriented recreation and preservation of land in its natural condition



Demand Analysis

- Three Demand Analyses have been conducted indicating three primary uses for the land:
 - Boutique Hotel of up to 75 rooms to supplement the Queen Mary Hotel for higher end guests
 - Entertainment complex for special and ongoing events with both indoor and outdoor elements with a wide variety of supportive food and beverage venues
 - Mega yacht marina to accommodate larger personal watercraft that have limited berthing opportunities



Demand Analysis (Cont.)

- Entertainment uses would include the following:
 - Themed restaurants
 - Sports-themed food and beverage establishments
 - Live music venues
 - Open air markets
 - Waterfront activities
 - Impulse entertainment/children's venues
 - Cultural facilities
 - College Classroom/Community Space



Issues

- After 8 years, Garrison seeks to exit its investment
- 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
- Carnival intends to expand their presence in Long Beach, requiring the entire Dome for concurrent embarkation and disembarkation



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 the establishment of a certified non-profit Foundation to fundraise for, and support the preservation and historic restoration of, the Queen Mary ship
- Complete the preparation and begin 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
- Revise Percentage Rent to a fixed 10% of Operating Revenue (above the Base Rent) after payment of priority return
- Base Rent to 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 refinancing 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 to guide 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 on land value of 3% for the first year, increasing annually to 7% of land value
- 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 profitable annual events



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 landmark destination entertainment development
- Urban Commons hired Gensler Architects to guide the design of 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 resource advisor

URBAN COMMONS CURRENTLY OWNED AND MANAGED CA HOTELS

	Acq. Date	Project Name	National Brand	Brand Conversion	Location	Room Count
1.	01/04/11	Sycamore	DoubleTree	No	Norwalk, CA	224
4.	08/29/12	Frontera	Embassy Suites	No	Anaheim, CA	222
5.	12/13/12	Riverside	Westin	Yes	Sacramento, CA	101
7.	05/15/13	Fourth	Four Points by Sheraton	Yes	San Jose, CA	195
8.	05/16/13	Highway 111	Embassy Suites	No	Palm Desert, CA	198
9.	09/04/13	Bayshore	Holiday Inn & Comfort Inn	In process	San Mateo, CA	220
10.	02/14/14	Cordova	Sheraton	No	Pasadena, CA	311
11.	06/01/12	Bristol	Crown Plaza	No	Costa Mesa, CA	228
12.	08/01/11	Walnut	Holiday Inn	No	Anaheim, CA	255
13.	08/1/12	Grover	Holiday Inn*	No	Grover Beach, CA	134
14.	08/01/14	Pasadena	Le Meridian	No	Pasadena, CA	200
15.	12/01/14	Norwalk	Double Tree	No	Norwalk CA	120
16.	03/01/14	Newport Beach	Holiday Inn Resort	No	Newport Beach, CA	275
17.	03/01/15	Port of LA	DoubleTree	Yes	San Pedro, CA	226
					Total/Average	2909

*Third party agreement with ASAP/Managed by Interstate Hotels and Resorts

URBAN COMMONS OTHER CA. PROPERTIES AND DEVELOPMENT

Acq. Date	Project Name	Type of Development	Location
1. 08/01/12	Virgil	150,000 sf Apt./Retail Mixed Use	Los Angeles, CA
2. 01/01/13	Crenshaw	350,000 sf Retail/ Senior Housing	Los Angeles, CA
3. 07/01/13	8 th /Garland	250,000 sf Hotel/ Retail Mixed Use	Los Angeles, CA
4. 08/01/10	Mission	50,000 sf Condo/ Retail Mixed Use	Pasadena, CA
5. 12/01/10	Bellingham	40,000 sf Condo Development	Los Angeles, CA
6. 03/01/10	Denny	30,000 sf Condo Development	Hollywood, CA





Howard Wu - Principal
Taylor Woods - Principal



Dan Zaharoni - Principal



Steven R. Upchurch - Principal
Son Do - Senior Architectural Designer



Pat S. Hurst - President
Sheri Rossillo - Principal



Derek Burnham - Principal



Lynda Boyer - Vice President



Guy Maisnik - Partner & Vice Chairman





BRANDING AN ICON

Urban Commons is committed to finding the ideal Name and Brand for the Queen Mary Entertainment Development and will work with the best branding/marketing firms in the industry to name and promote this world-class entertainment destination.



URBAN COMMONS



The Queen Mary



Questions/Comments?