

SAN DIEGO UNIFIED PORT DISTRICT

ORDINANCE 2753

**ORDINANCE GRANTING AMENDMENT NO. 3 TO
THE OPTION TO THE LEASE AGREEMENT WITH
LANE FIELD, LLC FOR THE DEVELOPMENT OF
LANE FIELD NORTH HOTEL PROJECT, LOCATED
AT THE CORNER OF PACIFIC HIGHWAY AND
WEST BROADWAY IN THE CITY OF SAN DIEGO**

WHEREAS, the San Diego Unified Port District (District) is a public corporation created by the Legislature in 1962 pursuant to Harbors and Navigation Code Appendix I (Port Act); and

WHEREAS, Section 87(b) of the Port Act grants authority to the District to lease the tidelands or submerged lands, or parts thereof, for limited periods, not exceeding 66 years, for purposes consistent with the trusts upon which those lands are held, by the State of California; and

WHEREAS, LPP Lane Field, LLC (Developer) has an option to lease agreement with the District for development of a 400-room hotel on the Lane Field North site; and

WHEREAS, the District has granted two option amendments, the most recent of which provided two, 2-month time extensions to the Developer if they satisfied certain conditions within those timeframes; and

WHEREAS, the Developer has exercised their first and second extensions by satisfying all necessary requirements, including payment of \$320,000 in additional option consideration; and

WHEREAS, the additional time has allowed the Developer to further negotiations with their proposed equity partner, AIG Global Real Estate, their proposed lender, US Bank (Lender); and their proposed hotel franchisor and manager, Marriott Corporation; and

WHEREAS, at this time the Developer is in final negotiations with all parties and is seeking a final option amendment from the District to prepare the option to be exercised; and

WHEREAS, under the proposed Option Amendment No. 3, modifications have been proposed to the option agreement which fall into one of the following three categories: (1) changes to the business agreement related to assignments, encumbrances, and rent reviews; (2) protections and clarifications requested by the lender; and (3) revisions to the lease to bring lease terms up to the District's standard language and to make the lease consistent with previous Board of Port Commissioners and Coastal Commission approvals; and

WHEREAS, the proposed Option amendment would have a positive fiscal impact to the District if the Developer exercises the Option; and

WHEREAS, if the Option is exercised, then the Developer may obtain an option agreement on Lane Field South, subject to the negotiation of a rent structure; and

WHEREAS, consideration for the Lane Field South Option is an additional \$750,000 payment; and

WHEREAS, if the Developer exercises the Option and enters into the lease for Lane Field North, then projected revenues to the District over the first twenty years of the lease are estimated to be \$41.6 million; and

WHEREAS, after a ten-year ramp-up period, rent stabilizes at approximately \$3 million per year with projected annual increases; and

WHEREAS, if the Developer fails to exercise the Option and builds the Setback Park/Plaza, then the Developer is also required to pay the first \$750,000 in costs for the Setback Park/Plaza, with the remaining balance of up to \$4,250,000 to be paid by the District.

NOW, THEREFORE, the Board of Port Commissioners of the San Diego Unified Port District does ordain as follows:

Section 1. Amendment No. 3 to the Lane Field North Option to Lease Agreement with LPP Lane Field, LLC for development of the Lane Field North hotel project to with the above listed modifications is hereby granted.

Section 2. The Executive Director or his designated representative is hereby directed to execute Amendment No. 3 to the Lane Field North Option to Lease Agreement.

Section 3. This ordinance shall take effect on the 31st day from its passage by the Board of Port Commissioners.

APPROVED AS TO FORM AND LEGALITY:

PORT ATTORNEY



By: Assistant/Deputy

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PASSED AND ADOPTED by the Board of Port Commissioners of the San Diego Unified Port District, this 11th day of February, 2014, by the following vote:

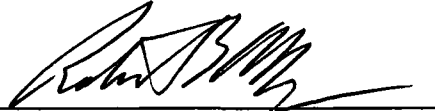
AYES: Bonelli, Castellanos, Malcolm, Merrifield, Moore, Nelson, and Valderrama

NAYS: None.

EXCUSED: None.

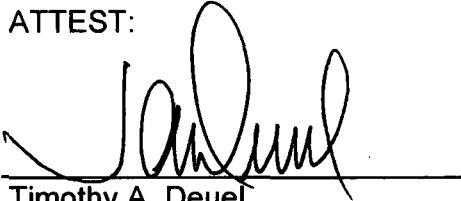
ABSENT: None.

ABSTAIN: None.



Robert E. Nelson, Chairman
Board of Port Commissioners

ATTEST:



Timothy A. Deuel
District Clerk

(Seal)