

RESOLUTION 2019-124

RESOLUTION CONSENTING TO ASSIGNMENTS, SUBLEASE, AND MANAGEMENT AGREEMENT FOR HOST SAN DIEGO HOTEL LLC DBA SHERATON SAN DIEGO HOTEL AND MARINA (MARINA TOWER AND BAY TOWER) LOCATED AT 1380 HARBOR ISLAND DRIVE AND 1590 HARBOR ISLAND DRIVE CONDITIONED ON EXECUTION OF AN AGREEMENT CONSISTENT WITH THE SUBSTANTIAL FORM OF THE TERMS IN THE AGENDA AS APPROVED BY THE EXECUTIVE DIRECTOR: (A) ASSIGNMENT AND ASSUMPTION OF LEASEHOLD INTERESTS FROM HOST SAN DIEGO HOTEL LLC, A DELAWARE LIMITED LIABILITY COMPANY DBA SHERATON SAN DIEGO HOTEL AND MARINA TO SSD HOLDINGS, LLC, A DELAWARE LIMITED LIABILITY COMPANY; (B) 5-YEAR SUBLEASE WITH TWO 5-YEAR OPTIONS FOR THE ENTIRE LEASED PREMISES BETWEEN SSD HOLDINGS, LLC, A DELAWARE LIMITED LIABILITY COMPANY AND SSD OPERATING CO., LLC, A DELAWARE LIMITED LIABILITY COMPANY; AND (C) 10-YEAR MANAGEMENT AGREEMENT BETWEEN SSD OPERATING CO., LLC, A DELAWARE LIMITED LIABILITY COMPANY AND SSD MANAGEMENT, LLC, A DELAWARE LIMITED LIABILITY COMPANY FOR OPERATION OF THE HOTEL

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; and

WHEREAS, the District entered into two 66-year leases, San Diego Unified Port District Lease to Host San Diego Hotel LLC, dba Sheraton San Diego Hotel and Marina (Marina Tower) located at 1380 Harbor Island Drive on file in the Office of the District Clerk bearing Document No. 60317, filed April 25, 2013 and San Diego Unified Port District Lease to Host San Diego Hotel LLC, dba Sheraton San Diego Hotel and Marina (Bay Tower) located at 1590 Harbor Island Drive on file in the Office of the District Clerk bearing Document No. 60316, filed April 25, 2013 (Leases) with Host San Diego Hotel LLC (Host) on November 1, 2012 to operate the Sheraton San Diego Hotel and Marina on Harbor Island (Sheraton); and

WHEREAS, the two Leases include a 705-room hotel building (Marina Tower) located at 1380 Harbor Island Drive and a 348-room hotel building (Bay Tower) located at 1590 Harbor Island Drive; and

WHEREAS, Host is owned by Host Hotels & Resorts, L.P., a real estate investment trust (REIT), and Host operates the Sheraton through long-term subleases covering both leased premises to REIT subsidiary HST Lessee San Diego LP; and

WHEREAS, Host has a franchise agreement with The Sheraton LLC and a management agreement with Starwood Operator II, LLC to operate and manage the hotel under the Sheraton brand; and

WHEREAS, Host wishes to sell its interest in the Sheraton, including the leased fee interest under the Leases and certain related property, including intellectual property (Transaction) to SSD Holdings, LLC (SSD Holdings); and

WHEREAS, the beneficial ownership of SSD Holdings is also a REIT and SSD Holdings will enter into one long-term sublease of both leased premises with REIT subsidiary SSD Operating Co., LLC and SSD Operating Co., LLC will then enter into a management agreement with SSD Management, LLC; a subsidiary of KSL Resorts for the entire leased premises; and

WHEREAS, at the closing of this Transaction, Host will:

- (1) assign the Leases to SSD Holdings;
- (2) terminate the existing subleases with HST Lessee San Diego LP;
- (3) terminate the franchise agreement with The Sheraton LLC; and
- (4) terminate the existing management agreement with Starwood Operator II, LLC; and

WHEREAS, at the closing of this Transaction:

- (1) SSD Holdings will assume the Leases from Host;
- (2) SSD Holdings will enter into a new sublease with SSD Operating Co., LLC; and
- (3) SSD Operating Co., LLC will enter into a new franchise agreement with The Sheraton LLC or its affiliate; and
- (4) SSD Operating Co., LLC will enter into a new management agreement with SSD Management, LLC; and

WHEREAS, the proposed Transaction requires Board consent to the two Assignment and Assumption of Tenant's Interest in Ground Leases, the Sublease, and the Management Agreement; and

WHEREAS, if the Transaction is approved by the Board, SSD Holdings plans to invest significantly in the Sheraton to reposition the entire property as a higher quality hotel experience in keeping with their portfolio of resort properties, as the Sheraton is currently in need of updates in order to remain competitive in the industry and would benefit greatly from the investment, while the District would in turn benefit with a higher performing asset on tidelands; and

WHEREAS, pursuant to the Leases, upon a consented-to assignment and/or sublease, the District has the right to require the Leases be amended to include new or revised provisions; and

WHEREAS, SSD Holdings, LLC, requested in lieu of Lease updates to District current standard language, entering into an agreement with the terms described in the Agenda, and HOST San Diego Hotel LLC has agreed to acknowledge the agreement and condition on the assignment; and

WHEREAS, staff recommends that the Board consent to the Transaction conditioned on execution of an agreement consistent with the substantial form of the terms in the Agenda as approved by the Executive Director.

NOW THEREFORE, BE IT RESOLVED by the Board of Port Commissioners of the San Diego Unified Port District, hereby consents to the following, conditioned on execution of an agreement consistent with the substantial form of the terms in the Agenda as approved by the Executive Director:

- (A) Assignment and assumption of leasehold interests from HOST San Diego Hotel, LLC, a Delaware Limited Liability Company dba Sheraton San Diego Hotel and Marina to SSD Holdings, LLC, a Delaware Limited Liability Company;
- (B) Five (5) year sublease with two five (5) year options for the entire leased premises between SSD Holdings, LLC, a Delaware Limited Liability Company and SSD Operating Co., LLC, a Delaware Limited Liability Company; and
- (C) Ten (10) year management agreement between SSD Operating Co., LLC, a Delaware Limited Liability Company and SSD Management, LLC, a Delaware Limited Liability Company for operation of the hotel.

APPROVED AS TO FORM AND LEGALITY:
GENERAL COUNSEL



By: Assistant/Deputy

PASSED AND ADOPTED by the Board of Port Commissioners of the San Diego Unified Port District, this 8th day of October 2019, by the following vote:

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

NAYS: None.

EXCUSED: None.


ABSENT: None.

ABSTAIN: None.



Garry J. Bonelli, Chairman
Board of Port Commissioners

ATTEST:



Donna Morales
District Clerk

(Seal)