

DRAFT

SAN DIEGO UNIFIED PORT DISTRICT

ORDINANCE xxxx

**ORDINANCE AUTHORIZING AMENDMENT
NO. 2 TO THE SAN DIEGO UNIFIED PORT
DISTRICT'S AMENDED, RESTATED AND
COMBINED LEASE WITH PACIFIC GATEWAY, LTD,
DBA SAN DIEGO MARRIOTT MARQUIS AND
MARINA, TO REPLACE FUTURE RENT REVIEWS
WITH FIXED RENT INCREASES AND UPDATE
CERTAIN LEASE TERMS**

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, the District entered into an Amended, Restated and Combined Lease (Marriott Lease) with Pacific Gateway, Ltd. dba San Diego Marriott Marquis and Marina, which is owned by Host Hotels & Resorts, LP (Lessee), on December 1, 1995; and

WHEREAS, the District entered a sixty-six (66) year Amended and Restated Lease with Manchester Grand Resorts, L.P. dba Manchester Grand Hyatt (Hyatt Lease) on June 1, 2001; and

WHEREAS, the Marriott Lease requires that percentage and minimum rents be reviewed and adjusted every ten (10) years; and

WHEREAS, the first Marriott Lease rent review occurred in 2006, the current rent review is for the period of December 1, 2016 to November 30, 2026; and

WHEREAS, staff started negotiating with Lessee in May of 2016 and recently agreed to terms for the current rent review period for the Marriott Lease; and

WHEREAS, staff and Lessee have agreed to terms which would update outdated terms and conditions in the Marriott Lease that created ambiguity in the rent review process, eliminate future rent reviews, fix percentage rental rate

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increases through the remaining term of the Marriott Lease, adjust minimum rent and update certain terms to District standard and grant options to Lessee to extend the Marriott Lease by twenty-two (22) years and the Hyatt Lease by sixteen (16) years; and

WHEREAS, the updated Marriott Lease terms would eliminate future rent reviews and any potential disagreements stemming from the rent review process, fix future percentage rental rate increases and minimize the risk and expense of arbitration in exchange for granting additional term for these two highly successful assets; and

WHEREAS, staff projected the increases in room rent over the lifetime of the Marriott Lease would result in a net present value of approximately \$12.8 million in additional rent to the District versus the possibility of no change in percentage rental rates for future rental arbitrations; and

WHEREAS, during the extension term, of the Marriott Lease, the percentage rental rate for rooms will be eight and one-quarter percent (8.25%) and the Hyatt Lease will be nine percent (9%), which are above current Board adopted percentage rental rates of seven percent (7%) for rooms; and

WHEREAS, the agreement between District and Lessee would establish fixed percentage rental rate increases for rooms starting in 2036 and eliminate all future rent reviews and update certain terms of the Marriott Lease to District standard in exchange for twenty-two (22) additional years of term on the Marriott Lease and sixteen (16) additional years of term on the Hyatt Lease.

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

1. The Amendment No. 2 to the San Diego Unified Port District's Amended, Restated and Combined Lease with Pacific Gateway, Ltd. dba San Diego Marriott Marquis and Marina to replace future rent reviews with fixed rent increases and update certain terms of the Lease to District standard, is hereby approved.
2. The Executive Director or her designated representative is hereby directed to execute said Amendment No. 2 to the San Diego Unified Port District's Amended, Restated and Combined Lease with Pacific Gateway, Ltd. dba San Diego Marriott Marquis and Marina.
3. This Ordinance shall take effect on the 31st day from its passage by the Board of Port Commissioners.

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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 12th day of February 2019, by the following vote: