



## Legislation Details (With Text)

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**Title:** RESOLUTION ESTABLISHING RENT FOR BARTELL HOTELS, DBA HILTON SAN DIEGO AIRPORT LOCATED AT 1960 HARBOR ISLAND DRIVE, IN THE CITY OF SAN DIEGO FOR THE PERIOD OF JANUARY 1, 2019 THROUGH DECEMBER 31, 2028

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**Attachments:** 1. 10. 2019-0019 Attachment A, 2. 10. 2019-0019 Attachment B, 3. 10. 2019-0019 Attachment C, 4. 10. 2019-0019 Draft Resolution

| Date      | Ver. | Action By                   | Action  | Result |
|-----------|------|-----------------------------|---------|--------|
| 2/12/2019 | 1    | Board of Port Commissioners | adopted |        |

**DATE:** February 12, 2019

**SUBJECT:**

**RESOLUTION ESTABLISHING RENT FOR BARTELL HOTELS, DBA HILTON SAN DIEGO AIRPORT LOCATED AT 1960 HARBOR ISLAND DRIVE, IN THE CITY OF SAN DIEGO FOR THE PERIOD OF JANUARY 1, 2019 THROUGH DECEMBER 31, 2028**

### EXECUTIVE SUMMARY:

Bartell Hotels, dba Hilton San Diego Airport (Hilton) has a lease<sup>1</sup> with the District for a 211-room hotel located at 1960 Harbor Island Drive in the City of San Diego. The 50-year lease commenced on January 1, 1999 and terminates on December 31, 2048. Pursuant to the lease, a rent adjustment is required for the ten-year period from January 1, 2019 through December 31, 2028. Staff has reviewed the current minimum annual rent (MAR) and percentage rental rates under the lease and has proposed increases which Hilton has accepted. Hilton currently has a MAR of \$719,425 and the proposed change would increase the MAR to \$764,690. The proposed changes to the percentage rental rates would include increases to the parking sales and banquet/convention sales rental rates effective as of January 1, 2019, and an increase to room sales rental rate which would be effective as of January 1, 2024. Staff recommends the Board adopt a resolution establishing the rent for Hilton for the ten-year period ending December 31, 2028.

### RECOMMENDATION:

Adopt a resolution establishing rent for Bartell Hotels, dba Hilton San Diego Airport located at 1960 Harbor Island Drive, in the City of San Diego for the period of January 1, 2019 through December 31, 2028.

### **FISCAL IMPACT:**

Hilton currently has a MAR of \$719,425 and this Board action would increase the MAR to \$764,690. Hilton paid \$1,028,728 in concession rent in the last year. The increases to the percentage rent categories are expected to increase concession rent by approximately \$28,698 annually for the first 5 years of the 10-year rental period, which increases to approximately \$58,244 additional rent annually as of January 1, 2024 when the increase to percentage rent on rental of guest rooms takes effect.

This agenda item is not subject to Board Policy No. 106 - Cost Recovery User Fee Policy.

### **COMPASS STRATEGIC GOALS:**

This agenda item supports the following Strategic Goal(s).

- A financially sustainable Port that drives job creation and regional economic vitality.

### **DISCUSSION:**

Hilton operates a 211-room hotel with approximately 112,548 square feet of land area and 59,117 square feet of water area located at 1960 Harbor Island Drive in the City of San Diego (Attachment A - Location Map). The 50-year lease and proposed rent are summarized on the attached Existing and Proposed Lease Information Summary (Attachment B).

The lease requires rent reviews every ten years. This rent review is for the period of January 1, 2019 through December 31, 2028. Staff reviewed the current percentage rental rates under the lease and proposes the following increases:

|                          | Existing Rental Rates | Proposed Rental Rates           |
|--------------------------|-----------------------|---------------------------------|
| Rental of Guest Rooms    | 7%                    | 7.25% beginning January 1, 2024 |
| Parking Sales            | 10%                   | 15%                             |
| Banquet/Convention Sales | 7%                    | 7.5%                            |

It is District practice that the MAR be set at no less than 75% of the average rent paid during the last three years of the preceding rental period. During the three-year period commencing October 1, 2015 through September 30, 2018, Hilton paid the District an average of \$1,019,587 per year in rent under the subject lease. Hilton currently has a MAR of \$719,425 per year, and 75% of the average rental paid during the last three accounting years is \$764,690, so MAR will be increased to \$764,690. Hilton has agreed to the above-mentioned proposed changes to MAR and percentage rental rates (Attachment C - Rent Review Proposal Letter).

Staff recommends the Board adopt a Resolution establishing the rent discussed above for the period of January 1, 2019 through December 31, 2028.

### **General Counsel's Comments:**

The Office of the General Counsel has reviewed and approved this agenda as to form and legality.

### **Environmental Review:**

The proposed Board action, including without limitation, a resolution establishing rent for the Hilton San Diego Airport does not constitute a "project" under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because it would not have a potential to result in a direct or indirect physical change in the environment and is, therefore, not subject to CEQA. No further action under CEQA is required.

In addition, the proposed Board action complies with Sections 21 and 35 of the Port Act, which allow for the Board to pass resolutions and to do all acts necessary and convenient for the exercise of its powers. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

Finally, the proposed Board action does not allow for "development," as defined in Section 30106 of the California Coastal Act, or "new development," pursuant to Section 1.a. of the District's Coastal Development Permit Regulations. Therefore, issuance of a Coastal Development Permit or exclusion is not required.

**Equal Opportunity Program:**

Not applicable.

**PREPARED BY:**

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Asset Manager, Real Estate

**Attachments:**

|               |                             |
|---------------|-----------------------------|
| Attachment A: | Location Map                |
| Attachment B: | Lease Information Summary   |
| Attachment C: | Rent Review Proposal Letter |

<sup>1</sup>San Diego Unified Port District Amended and Restated Lease to Bartell Hotels dated October 12, 2015, on file in the Office of the District Clerk bearing Document No. 64027.