REDEVELOPMENT AGENCY OF THE
CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK

2006 DEC -7 PM 4:49

TO: Office of the Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: December 19, 2006

RE: **A Redevelopment Agency Resolution, Pursuant to Sections 4.9.2 and 11.2 of the Disposition and Development Agreement between the Oakland Redevelopment Agency and Oakland Garden Hotel, LLC, Authorizing the City Administrator to Approve the Transfer of Ownership of the Oakland Garden Hotel to the CIM Group**

A City Resolution Pursuant to Section 10 of the Hyatt Regency Oakland Hotel Ground Lease Between the City of Oakland and Oakland Renaissance Associates Authorizing the City Administrator to Approve the Assignment of the Ground Lease and the Sale of the Marriott Hotel to the CIM Group, and to Accept All Payments Due the City

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SUMMARY

The report requests that the Agency Board and City Council adopt resolutions related to the sale of the Oakland Garden Hotel (the "Courtyard") and the Oakland Marriott City Center Hotel (the "Marriott") to the CIM Group. The Agency has a disposition and development agreement ("DDA") with Oakland Garden Hotel, LLC ("OGH") for the development of the Courtyard. The City has a ground lease with Oakland Renaissance Associates ("ORA"), for the Marriott ("Ground Lease"). The DDA and ground lease require Agency and City consent for transfers and assignments. OGH and ORA are related companies and together are proposing to sell the two hotels and assign the Marriott ground lease to the CIM Group ("CIM"). CIM is an experienced real estate investor and developer, specializing in urban projects that revitalize neighborhoods. Sale of the Marriott will also require ORA to repay the City for the $4.5 million loan plus accrued lease and fee payments which were part of the 1997 refinancing approved by the City. The City and Agency can not unreasonably withhold their consent unless the transferee does not have the financial strength to purchase and manage the hotels, or transferee, assignee and/or proposed operator(s) are inexperienced with a similar type and size of hotel.

FISCAL IMPACT

The resolutions approve the new buyer of the hotels and the assignment of the Ground Lease, subject to City Administrator due diligence. City will receive at least 19% of the net sales proceeds from the sale of the Oakland Marriott City Center Hotel from repayment of a City loan, approximately $5.1 million less all outstanding obligations and closing costs. These funds will be appropriated to the General Fund (1010). The City will also receive approximately $800,000 in real estate transfer tax from the sale of the two hotels.

BACKGROUND

On July 23, 1999 the Agency entered into a DDA with OGH for the development of the Courtyard. Section 11.2 of the DDA requires prior written consent from the Agency before any transfer of the Courtyard and Section 4.9.2 requires prior written consent from the Agency for the operator, if the buyer is not a qualified hotel operator, for the first seven years of operations.

On August 12, 1981 the City entered into a ground lease with Oakland Hotel Associates, Ltd. ("OHAL"), for the Hyatt Regency Oakland Hotel, now the Marriott. In 1986, OHAL defaulted on its loan to Bank of America. In order to prevent foreclosure on the only first-class hotel in Oakland, the City recruited C&L Financial, Inc. ("C&L") as a new investment group to participate in restructuring the hotel finances. C&L created a new partnership – ORA – with C&L IV as the managing general partner, International Hotelier, Limited ("IHL") as a general partner, and OHAL as a limited partner. On December 29, 1986, the City assigned the ground lease to ORA and provided ORA $3.2 million in financing. On August 28, 1997, the City executed a Restructuring Agreement that capitalized the outstanding principle ($3.2 million), interest ($3.3 million), unpaid ground lease rent ($0.3 million) and unpaid ball room fees ($1.4 million) into an $8.2 million share of a $43.4 million pool of loans ("Pool"). Section 10 of the ground lease requires the City's written consent prior to assignment of the ground lease. If the assignee is not an experienced, reputable and responsible operator of an existing hotel of a type comparable to the Marriott, then, concurrent with the assignment of the lease, the assignee must enter into an operating agreement with a reputable and experienced hotel operator. Upon sale of the Marriott, the City will receive its share of the proceeds due to the Pool.

KEY ISSUES AND IMPACTS

The City and Agency are required to approve the Marriott Hotel sale and assignment of the Ground Lease, as long as the proposed buyer and operator are qualified. CIM is a national real estate investment corporation that specializes in urban investment. CIM proposes to hire either Crestline Hotels and Resorts ("Crestline") or Becker Lodging ("Becker") to manage the Courtyard and Marriott. All three, CIM, Crestline and Becker, are subsidiaries or related to companies that own hotels. All three appear to have the necessary experience to own and/or operate the Courtyard and Marriott.

CIM Group

CIM manages over $3 billion of private equity through the CIM Urban Real Estate Investment Trust ("REIT"), which invests in low risk stabilized assets like the Courtyard, and the CIM Fund III, which invests in higher risk opportunity development or redevelopment projects like the Marriott. CIM concentrates investments in key urban locations like Los Angeles, Hollywood and Washington DC by either buying stabilized existing properties or renovating and developing opportunity properties. By concentrating their investments, CIM improves neighborhoods and increases the values of their long-term properties. In Hollywood, CIM's 13 projects include: 800

hotel rooms/suites, 470 apartments, 745,000 square feet of retail, 345,000 square feet of office and almost 5,400 parking spaces, within a 10 block stretch. In Los Angeles, CIM has 10 projects, including: 1,343 residential condominiums, 294 apartments, 178,500 square feet of retail, 200,000 square feet of office and over 3,000 parking spaces, all in a 30 block area of the Downtown. In Washington DC, CIM's 10 projects, counting two in Maryland, are more scattered, and include: 3,562 hotel rooms/suites, 1,442 residential condominiums, 494 apartments, 394,000 square feet of retail, 2,735,000 square feet of office and over 7,000 parking spaces. CIM's investments include four operating hotels, two in Los Angeles and two in Washington DC, and two hotels in development in Huntington Beach and Arlington, VA.

CIM Existing Hotel Investments

- **Renaissance Hollywood Hotel (Hollywood, CA)** – A 22-story 637-room hotel including 33 suites and 23,000 square feet of conference space. The property is managed by Marriott. CIM acquired the property in 2004 and is the sole owner.
- **Hollywood Holiday Inn (Hollywood, CA)** – A 7-story 160-room limited service hotel. The property is managed by Sunstone Hotel Investors. CIM acquired the property in 2006 and is the sole owner.
- **Wardman Park Marriott (Washington, D.C.)** – A 10-story 1,334-room hotel including 143 suites, over 107,000 square feet of meeting and banquet space and 95,000 square feet of exhibit space. The hotel is managed by Marriott. CIM acquired the property in 2004 in a partnership with JBG Companies.
- **L'Enfant Plaza Hotel (Washington, D.C.)** – A 370-room hotel located on four floors in the 15-story L'Enfant Plaza. The hotel is managed by Crestline Hotels and Resorts. CIM acquired the property in 2004 as a joint venture with the JBG Companies and Loeb Partners.

CIM Development Projects

- The Strand (Huntington Beach, CA) – Currently under construction, The Strand will be a 4-story, 149-room boutique hotel. The hotel will be managed by Joie de Vivre Hospitality. CIM is the sole developer.
- Hotel Palomar (Arlington, VA) – Currently under construction, The Palomar will be a 154-room boutique hotel located within a 29-story tower that will also include 136 condo units. The hotel will be managed by Kimpton Hotels. CIM is partnering with JBG on the development.

Management Company

CIM identified five companies that were interviewed and as of the writing of this report two companies have been short listed – Crestline and Becker. CIM is requesting that both firms be approved as the operator for both hotels. Crestline is a subsidiary of Barcelo Crestline and

Barcelo Hotels & Resorts, one of the world's largest hospitality companies, which operates 121 hotels in 15 countries, mostly in Europe, North and South America. Crestline manages 43 hotels in the U.S., including five Marriott Hotels and six Courtyard by Marriott Hotels, 20 hotels by other chains and 12 independent hotels. Becker is a privately held management and investment firm focused exclusively on the hospitality industry formed in 2005 by Becker Ventures. In addition to having controlling interest in two major urban hotels valued in excess of $300 million, Becker Ventures has a commercial real estate portfolio with seven million square feet nationwide and an investment group with equity and debt investments in a variety of public and private companies. Becker Ventures hired B. Thomas Goodwin, formerly a senior vice president and principle of Lowe Enterprises, as president of Becker Lodging when it was created in 2005. At Lowe Enterprises, Mr. Goodwin was responsible for due diligence, business strategy and marketing for the Lowe Hospitality Group, the seventh largest hotel management company in America. Becker Lodging was created to turn around its underperforming Hard Rock Hotel in Chicago. Becker Lodging provides operating and asset management for the Hard Rock Hotel and the Paramount Hotel in New York. Becker has worked to revitalize both of these hotels, aggressively marketing and turning around the operations of the Hard Rock over the last 18 months and is currently renovating and rebranding the Paramount. CIM is in negotiations that may also result in a merger or partnership with Becker. Crestline appears to be qualified to manage the Marriott. Becker or the new company of which Becker is a member have less experience and the nature of the new company has not been determined, therefore we are requesting that the City Administrator have authority to complete review and approval of the management company selected by CIM.

City Loan

The City made a $3.2 million Loan to ORA for the Marriott in 1986. In 1997, the City authorized a restructuring of its financial contribution to the Marriott that capitalized the outstanding principle ($3.2 million), interest ($3.3 million), unpaid ground lease rent ($0.3 million) and unpaid ball room fees ($1.4 million) into a $8.2 million share of a $43.4 million pool of loans ("Pool"). The City has a 19% share of the Pool, with International Hoteliers, Ltd. (62%), a general partner of ORA, and C&L/IHL (19%), the managing general partner of ORA, being the other holders of the Pool. The Pool shares in all excess cash flow, until the loans are paid in full, including any positive cash flow from a sale. Since the Pool is earning interest at a 10% rate and is now valued at approximately $106.1 million, including the City's current share of $20.1 million, it is highly unlikely that the City or other Pool holders will ever be paid in full. According to documents from ORA, the Marriott will generate $40.8 million in cash flow and that the Pool will share in $27.1 million net cash flow, after the senior debt is paid. There are several obligations that will be outstanding at the sale, including insurance claims, pension obligations and other delayed costs. Funds will remain in escrow to cover these obligations. Based on projections provided by the seller, the City will receive approximately $5.1 million less 19% of the funds required to remain in escrow. However, staff has hired a forensic accountant to review all records to determine if ORA's calculations for excess cash flow are accurate and to make sure the City receives its fair share of sales proceeds. Until a final determination regarding the amount of pay-off to the City has been made, the City will withhold the release of its deed of trust, there by preventing ORA from selling or taking equity from the property.

Convention Center/Garage/Warrior's Practice Facility

The City owns the land under the Marriott, as well as the Convention Center, Garage and Warrior's Practice Facility which take up the rest of the block. This sale will not impact the Warrior's Practice Facility. The sale of the two hotels will include the sale of stock in Integrated Services Corp. ("ISC"), with which the City has executed the Convention Center and Convention Center Garage Management Agreement ("Management Agreement"). Since the Management Agreement is the only major asset of ISC, CIM will in effect be assuming management of the Convention Center and Convention Center Garage ("Convention Center Facilities") through their purchase. The Management Agreement was executed November 1, 1997 to provide coordinated use of the Convention Center Facilities and the Marriott. The initial term of the Management Agreement was through June 30, 2002 and allowed for one-year annual extensions after this date. On July 1, 2005 the City amended the Management Agreement extending the term 5 years. The duties under the Management Agreement include: obtain bookings; maintain and control the master events schedule; establish and charge rental fees; administer daily operations; coordinate events; operate the public parking; operate catering, food and beverage, gift, novelty, and concession services, etc.; and pay operating and capital expenses. CIM is proposing to use the manager of the Marriott, i.e. Crestline, Becker or a new company of which Becker is a member, to manage the Convention Center Facilities under the Management Agreement with ISC. Crestline appears to be qualified to perform the duties and manage the Convention Center Facilities. Becker or the new company of which Becker is a member have less experience and the nature of the new company has not been determined, therefore we are requesting that the City Administrator have authority to complete review and approval of the management company selected by CIM.

SUSTAINABLE OPPORTUNITIES

Economic

There are no sustainable economic opportunities that apply to this particular action, since there will be no significant change in the operations of the two hotels.

Environmental

There are no sustainable environmental opportunities that apply to this particular action.

Social Equity

There are no social equity opportunities related to the proposed Council action.

DISABILITY AND SENIOR CITIZEN ACCESS

The City and Agency's actions do not directly relate to changes or improvements to the hotels and will therefore not result in any changes to disabled and senior citizen access.

RECOMMENDATION (S) AND RATIONALE

Staff recommends that: (1) the Redevelopment Agency adopt the resolution, pursuant to Sections 4.9.2 and 11.2 of the Disposition and Development Agreement between the Oakland Redevelopment Agency and Oakland Garden Hotel, LLC, authorizing the City Administrator to approve the transfer of ownership of the Oakland Garden Hotel to the CIM Group; and (2) the City Council adopt the resolution pursuant to section 10 of the Hyatt Regency Oakland Hotel ground lease between the City of Oakland and Oakland Renaissance Associates authorizing the City Administrator to approve the assignment of the ground lease and the sale of the Marriott Hotel to the CIM Group, and to accept all payments due the City. CIM, Crestline and Becker, all have the necessary experience to own and/or operate the Courtyard and Marriott. In addition, the sale of the Marriott will result in substantial renovations to the facility.

ACTION REQUESTED OF THE CITY AND REDEVELOPMENT AGENCY

Staff recommends that the City and Redevelopment Agency approve the attached resolutions.

Respectfully submitted,

Dan Vanderpriem
Director Redevelopment, Economic Development and Housing and Community Development

Prepared by:
Patrick Lane
Redevelopment Manager West

APPROVED AND FORWARDED TO THE COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:

OFFICE OF THE AGENCY ADMINISTRATOR

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REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

RESOLUTION NO. ______________ C.M.S.

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A RESOLUTION, PURSUANT TO SECTION 4.9.2 AND 11.2 OF THE DISPOSITION AND DEVELOPMENT AGREEMENT BETWEEN THE OAKLAND REDEVELOPMENT AGENCY AND OAKLAND GARDEN HOTEL LLC, AUTHORIZING THE AGENCY ADMINISTRATOR TO APPROVE THE TRANSFER OF OWNERSHIP OF THE OAKLAND GARDEN HOTEL TO THE CIM GROUP

WHEREAS, Oakland Redevelopment Agency (the"Agency") Resolution No. 99-32 C.M.S authorized a disposition and development agreement ("DDA") with Oakland Garden Hotel, LLC ("OGH"), which provided for OGH to acquire a 37,342 site located on the northeast corner of 9th Street and Broadway, Oakland ("Property"), to build a 160 room hotel with approximately 5,000 square feet of ground floor retail ("Project"), and the DDA was executed in July 1999; and

WHEREAS, Section 4.9.2 of the DDA requires prior written consent from the Agency before any transfer of the Property, for the first seven years of operations; and

WHEREAS, Section 11.2 requires prior written consent from the Agency for the operator, if the buyer is not a qualified hotel operator, for the first seven years of operations; and

WHEREAS, the Project, currently known as the Marriott Courtyard, was completed in March 2002, fewer than seven years ago; and

WHEREAS, OGH is proposing to sell the Property to the CIM Group, Inc., ("CIM"); and

WHEREAS, CIM is proposing to contract with either Crestline Hotels and Resorts ("Crestline") or Becker Lodging ("Becker") to manage the Property; and

WHEREAS, CIM is a major commercial property owner and developer with nationwide real estate holdings; and

WHEREAS, CIM appears to have the real estate management capacity to own the Property; and

WHEREAS, Crestline and Becker are both experienced operators of similar hotel facilities and appear to have the capacity to operate the Property; and

WHEREAS, the requirements of the California Environmental Quality Act ("CEQA"), the CEQA guidelines as prescribed by the Secretary of Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been satisfied; now therefore be it

RESOLVED: That the Agency approves the transfer of the Property to CIM and the selection of Crestline or Becker as the hotel operator, subject to Agency Administrator approval following due diligence reviews of submittals, and the maintenance of the superior lien position of the DDA; and be it

FURTHER RESOLVED: That the Agency Administrator or her designee is authorized to conduct all negotiations, review and approve all submissions, execute all agreements and take whatever action is necessary with respect to the Property, the Project and the DDA consistent with this Resolution and its basic purposes; and be it

FURTHER RESOLVED: That the Agency has independently reviewed and considered this environmental determination and the Agency finds and determines, based on the information in the staff report accompanying this resolution, that this action complies with CEQA because this action on the part of the Agency is exempt from CEQA pursuant to Section 15301 (existing facilities) of the CEQA guidelines; and be it

FURTHER RESOLVED: That the City Administrator or her designee shall cause to be filed with the County of Alameda a Notice of Exemption for this Project; and be it

FURTHER RESOLVED: That all documents shall be reviewed and approved as to form and legality by the City Attorney's Office prior to execution, and be it

FURTHER RESOLVED: That the custodians and locations of the documents or other materials which constitute the record of proceedings upon which the Agency's decision is based are respectively: (a) the Community & Economic Development Agency, Projects Division, 250 Frank H. Ogawa Plaza, 5th Floor, Oakland CA; and (b) the Office of the City Clerk, 1 Frank H. Ogawa Plaza, 1st Floor, Oakland, CA.

IN AGENCY, OAKLAND, CALIFORNIA,____________________, 2006

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, AND CHAIRPERSON DE LA FUENTE,

NOES-

ABSENT-

ABSTENTION-

ATTEST:______________________________
LATONDA SIMMONS
Secretary of the Redevelopment Agency
of the City of Oakland

Approved as to Form and Legality

City Attorney

OFFICE OF THE CITY CLERK OAKLAND

OAKLAND CITY COUNCIL

2006 DEC -7 PM 4: RESOLUTION NO.________________C.M.S.

Introduced by Councilmember ________________

A RESOLUTION PURSUANT TO SECTION 10. OF THE HYATT REGENCY OAKLAND HOTEL GROUND LEASE BETWEEN THE CITY OF OAKLAND AND OAKLAND RENAISSANCE ASSOCIATES AUTHORIZING THE CITY ADMINISTRATOR TO APPROVE THE ASSIGNMENT OF THE GROUND LEASE AND THE SALE OF THE MARRIOTT HOTEL TO THE CIM GROUP, AND TO ACCEPT ALL PAYMENTS DUE THE CITY

WHEREAS, on August 12, 1981, the City entered into the Hyatt Regency Oakland Hotel Ground Lease ("Ground Lease") with Oakland Hotel Associates, Ltd., a California limited partnership to allow construction of first class hotel building; and

WHEREAS, on December 29, 1986 the Ground Lease was amended and assigned to Oakland Renaissance Associates, a California limited partnership ("ORA"), and the City agreed to provide ORA $3.2 million in financing; and

WHEREAS, on August 28, 1997, the City executed a Restructuring Agreement that capitalized the outstanding loan principle ($3.2 million) and interest ($3.3 million), unpaid ground lease rent ($0.3 million) and unpaid ball room fees ($1.4 million) into a $8.2 million share (collectively the "Loan") of a $43.4 million pool of loans ("Pool") from a variety of lenders, and the loans must be paid off if the Property is sold; and

WHEREAS, ORA is proposing to sell the Marriott Hotel Property, which sits on the land leased from the City, to the CIM Group, Inc., ("CIM"), a major commercial property owner and developer with nationwide real estate holdings; and

WHEREAS, Section 10. of the Ground Lease requires the City's written consent prior to assignment of the ground lease, and further requires that if the assignee is not an experienced, reputable and responsible operator of an existing hotel of a type comparable to the Marriott, then concurrent with the assignment of the lease, the assignee must enter into an operating agreement with a reputable and experienced hotel operator; and

WHEREAS, ORA is proposing to sell the Marriott Hotel Property, which sits on the land leased from the City, to the CIM Group, Inc., ("CIM"); a major commercial property owner and developer with nationwide real estate holdings and

WHEREAS, CIM has the real estate management capacity to own the Property; and

WHEREAS, CIM is proposing to contract with either Crestline Hotels and Resorts ("Crestline") or Becker Lodging ("Becker") to manage the Property, and both are experienced operators of similar hotel facilities and have the capacity to operate the Property; and

WHEREAS, the requirements of the California Environmental Quality Act ("CEQA"), the CEQA guidelines as prescribed by the Secretary of Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been satisfied; now therefore be it

RESOLVED: That the City approves the assignment or other transfer of the Ground Lease to CIM and the selection of Crestline or Becker as the hotel operator, subject to City Administrator approval following due diligence reviews of submittals, and the maintenance of the superior position of the Ground Lease; and be it further

FURTHER RESOLVED: That the City Administrator or her designee is authorized to conduct all negotiations, review and approve all submissions, execute all agreements, accept all payments and take whatever action is necessary with respect to the Ground Lease and the loan repayment consistent with this Resolution and its basic purposes; and be it further

FURTHER RESOLVED: That all monies received in repayment of the Loan are hereby appropriated to the General Fund (1010); and be it further

FURTHER RESOLVED: That the Agency has independently reviewed and considered this environmental determination and the Agency finds and determines, based on the information in the staff report accompanying this resolution, that this action complies with CEQA because this action on the part of the Agency is exempt from CEQA pursuant to Section 15301 (existing facilities) of the CEQA guidelines; and be it

FURTHER RESOLVED: That the City Administrator or her designee shall cause to be filed with the County of Alameda a Notice of Exemption for this Project; and be it

FURTHER RESOLVED: That all documents related to this transaction shall be reviewed and approved by the City Attorney's Office prior to execution, and copies will be placed on file with the City Clerk; and be it further

FURTHER RESOLVED: That the custodians and locations of the documents or other materials which constitute the record of proceedings upon which the Agency's decision is based are respectively: (a) the Community & Economic Development Agency, Projects Division, 250 Frank H. Ogawa Plaza, 5th Floor, Oakland CA; (b) the Community & Economic Development Agency, Planning Division, 250 Frank H. Ogawa Plaza, 3rd Floor, Oakland CA; and (c) the Office of the City Clerk, 1 Frank H. Ogawa Plaza, 1st Floor, Oakland, CA.

IN COUNCIL, OAKLAND, CALIFORNIA, ________________________, 20______

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, and PRESIDENT DE LA FUENTE

NOES -

ABSENT -

ABSTENTION –

ATTEST:____________________________
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California