



**Centre City  
Development  
Corporation**

DATE ISSUED: February 13, 2008 REPORT NO.: CCDC-08-02

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Docket of February 19, 2008

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Gaslamp Renaissance Hotel (Block bounded by J Street and Fifth,  
Sixth, and Island avenues) – Second Implementation Agreement to  
Disposition and Development Agreement with GRH, LLC --  
Gaslamp Quarter Sub Area of the Centre City Redevelopment  
Project

COUNCIL DISTRICT: Two (2)

REFERENCE: None

STAFF CONTACT: Eli Sanchez, Senior Project Manager (619)533-7121

REQUESTED ACTION:

Redevelopment Agency of the City of San Diego approval of a Second Implementation Agreement to the Disposition and Development Agreement between GRH, LLC and the Redevelopment Agency of the City of San Diego and making certain findings and determinations regarding environmental impacts for the proposed project.

STAFF RECOMMENDATION:

That the Redevelopment Agency of the City of San Diego (“Agency”):

- Approve the proposed Second Implementation Agreement (“Agreement”) to the Disposition and Development Agreement between GRH, LLC and the Agency (“DDA”) for the development and construction of the 365-room, full-service Marriott Renaissance Hotel (“Hotel”) located on the southwest corner of the block bounded by Fifth, Sixth and Island avenues and J street (“Site”) in the Gaslamp Quarter Sub Area; and
- State for the record that on March 30, 2004, the Agency adopted Resolution No. R03756, a Resolution of the Agency certifying that the Agency has Reviewed and Considered Information Contained in the Master Environmental Impact Report (“MEIR”), for the Centre City Redevelopment Project, the Subsequent Environmental Impact Report to the MEIR for the Proposed Ballpark and Ancillary Development Projects, and Associated Plan Amendments, and the Supplement to the MEIR, with Respect to the Proposed DDA (SEIR); Approving the SEIR; Adopting a Mitigation, Monitoring and Reporting Program; Adopting a Statement of Overriding

Considerations and Findings Pursuant Thereto; Making Certain Findings and Determinations Regarding Environmental Impacts of the Development; that an Environmental Secondary Study has been prepared for the Second Implementation Agreement under the 2006 Final Environmental Impact Report (FEIR) in order to evaluate the project's continued compliance with the Downtown Community Plan and the findings and conclusions of the previous SEIR and the more recent FEIR; that the project has been found to be in compliance with, and consistent with, those planning and environmental documents; and that all elements of the project and its impacts have been found to be within the scope of the activities and impacts identified in the previous environmental documents and were adequately analyzed therein; therefore, no further environmental review is required.

SUMMARY:

The Agency entered into a DDA with the Developer on April 12, 2004 for the development and construction of a 334-room, full-service hotel on the 40,000 square-foot Site (Attachment A). Under the DDA, the Agency was responsible for the purchase, at the Developer's cost, of a 5,000 square-foot, improved parcel of land (APN 535-084-05) located on the southwest corner of the Site ("Acquisition Parcel") from the owner Ahmed Mesdaq ("Owner"). The Agency pursued eminent domain with the Superior Court for the acquisition of the Acquisition Parcel on April 30, 2004. The Agency obtained an Order of Immediate Possession of the Acquisition Parcel on June 15, 2005.

Under the DDA and First Implementation Agreement (dated April 26, 2006), construction was to begin January 15, 2007. The Developer is not currently in compliance with the Schedule of Performance under the DDA. The Developer requests modification through the Second Implementation Agreement (Attachment B) of i) the Schedule of Performance, ii) the Scope of Development; iii) the Method of Financing; (iv) the addition of a provision to permit a third party ground lease for the development, construction and operation of the proposed Hotel by Hansji Hotels Gaslamp, LLC (Attachment C); and (v) the addition of a provision requiring the Agency to credit to Developer all proceeds received by the Agency under the Five Star Parking Agreement related to the Acquisition Parcel.

FISCAL CONSIDERATIONS:

Under the DDA, the Agency was responsible for acquisition of the 5,000 square-foot Acquisition Parcel from the Owner. The Developer will pay a purchase price for the Acquisition Parcel consisting of all acquisition and relocation costs ("Acquisition and Relocation Costs"). To date, the Developer has advanced funds in the approximate amount of \$10,165,000. The funds used to pay Owner under the settlement described below will come from the Developer's advance of funds deposited with the court. The Agency will pay Developer all proceeds (approximately \$310,000) received by the Agency under the Five Star Parking Agreement related to the Acquisition Parcel.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:

On January 16, 2008, the Corporation Board of Directors held a Special Board meeting to consider the proposed Second Implementation Agreement. The Board voted unanimously in favor of the staff recommendation.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

None.

DEVELOPMENT TEAM

<b>ROLE</b>	<b>FIRM/CONTACT</b>	<b>OWNERSHIP</b>
Developer	GRH, LLC, a California Limited Liability Company/ Ramin Samimi	Ramin Samimi, Managing Member
Lessee	Hansji Hotels Gaslamp, LLC/Sajan Hansji	Privately owned
Architect	Awbrey, Cook, McGill Architects/ Tom Awbrey, Principal	Privately owned

BACKGROUND

The proposed construction of a high-density hotel project on this Site advances the following Visions and Goals of the Centre City Community Plan and Objectives of the Centre City Redevelopment Project:

- Eliminate blight through the demolition and development of underutilized properties;
- Develop a strong financial/commercial core surrounded by mixed-use neighborhoods;
- Promote the growth and vitality of Centre City as the primary business, educational, cultural and entertainment magnet;
- Provide property tax increment and Transient Occupancy Tax funding for the Ballpark and related infrastructure improvements through the addition of new hotel rooms; and
- Make Centre City an urban resort where downtown residents and workers mingle with visitors from greater San Diego and around the world to share the unique advantages of a great urban center.

The Agency, Developer and Owner participated in a global mediation conference on December 19, 2007, before Judge Irving that resulted in the settlement of the eminent domain litigation. The settlement between the Agency and Owner generally provides for the execution of settlement documents between the Owner and Agency approved by Agency legal counsel, which among other things, provides that the Agency pay Owner a total of \$7,800,000 from the funds already deposited with the court (less amounts already disbursed to Owner's lender and less an early withdrawal permitted Owner in the amount of \$1.8 million dollars and other legally required deductions) for the acquisition of the Acquisition Parcel and provides that all pending litigation between the Agency and Owner be settled. The acquisition of the Acquisition Parcel under the settlement documents is contingent upon the Agency and Developer executing an Agency

approved Second Implementation Agreement.

The Developer has achieved approval of 50% Design Development Drawings of the approved basic concept/schematic drawings, has completed the Phase II Environmental Site Assessment and prepared a Property Mitigation Plan. In addition, the Developer submitted an application to the Development Services Department in April 2006, for a grading, excavating and shoring permit. However, no permits have been issued.

## DISCUSSION

The proposed Second Implementation Agreement provides for:

1. Agency authorization for the Agency Executive Director or his designee to take action to approve a ground lease between Developer and a third party contingent upon the Developer and such third party executing an Agency approved Delegation Agreement.
2. The amendment of the DDA to provide for a back-to-back escrow whereby:
  - a. The title of the 5,000 square-foot Acquisition Parcel is conveyed from Owner to Agency
  - b. Title conveyed from Agency to Developer
    - i. Subject to First Deed of Trust secured by Developer's performance under the DDA
      1. Deed of Trust reconveyed once Developer satisfies Redevelopment Conditions Precedent.
    - ii. Subject to a cash security equal to the balance of funds deposited with the court for acquisition of Acquisition Parcel less amounts distributed to Owner's lender and to Owner per settlement documents and less other legally required deductions deducted from Owner's funds in escrow ("Cash Security").
      1. Cash Security will be either
        - a. Released to Developer concurrently with reconveyance of the First Deed of Trust; or
        - b. Retained by the Agency as minimum damages in the event Developer defaults on its obligations under the Second Implementation Agreement to perform the Redevelopment Conditions Precedent.
3. A revised Schedule of Performance to bring the Developer into compliance with the DDA that includes but is not limited to the following milestones:
  - a. Developer to submit to the Agency 80% Construction Drawings and Specifications on or before November 17, 2008;
  - b. Developer to obtain grading excavation and shoring permit from the City of San Diego ("City") to include third level underground parking garage level on or before December 1, 2008;
  - c. Developer commences grading and excavation pursuant to grading, excavation, and shoring permits from the City on or before January 12, 2009;
  - d. Developer to obtain necessary building permits to commence construction of the foundation and structure on or before June 22, 2009; and

- e. Developer to complete construction on or before April 22, 2011.
4. A revised Scope of Development to provide for modifications to the Basic Concept/Schematic Drawings to respond to changes needed to maintain a Marriott Renaissance flag.
5. An amendment to the DDA to add a provision requiring the Agency to credit to Developer all proceeds received by the Agency under the Five Star Parking Agreement related to the Acquisition Parcel.
6. An amendment to the DDA clarifying that Developer's obligation to reimburse Agency's attorney's fees also includes attorney's fees for CCDC legal counsel and Agency Special Counsel in responding to the subject issues, from December 2006 until the close of escrow between the Agency and Owner.
7. An amendment to the DDA requiring a three-way mutual acknowledgement and release between Agency, Developer and Owner from the Purchase and Sale Agreement entered into between Owner and Developer for the Acquisition Parcel.
8. An amendment to the DDA providing for Developer to release the Agency in relation to the settlement between Owner and Agency and the approval of the settlement by Developer.
9. An amendment to the DDA providing for Developer's withdrawal of Developer's Notice of Termination.
10. An amendment to the DDA providing that Developer holds harmless and releases the Agency from the Notice of Termination and accompanying claims.

Scope of the Project – Under the current Scope, the proposed Hotel is an approximately 334-room, 12-story Marriott Renaissance hotel, approximately 240,530 square feet above grade consisting of a first class, full-service hotel with a 6,400 square-foot ballroom, 3,900 square feet of meeting rooms, 5,800 square feet of pre-function space, two levels of subterranean parking for 205 vehicles, and 13,700 square feet of retail/commercial uses located on a 40,000 square-foot parcel on the block bounded by J Street and Fifth, Sixth and Island avenues in the Gaslamp Quarter. The total height of the development will not exceed 125 feet and the Floor Area Ratio (FAR) of 5.99. The Developer owns or controls 35,000 square feet of the proposed Site ("Developer Parcel"). A Site Map is included as Attachment A.

Subject to substantial conformance to Development/Site Permit No. 41-0546, the Developer proposes to modify the Scope of Development to modify the interior and below grade structure to:

1. Increase the number of rooms from approximately 334 to approximately 365 rooms;
2. Add a third level of below-grade parking to increase parking capacity from approximately 205 vehicles to approximately 260;
3. Reconfigure the interior space to accommodate the relocation of the ballroom from the second floor to the ground floor;
4. Modify the layout of the approximately 13,700 square feet of retail/commercial space; and
5. Relocate a yet to be determined amount of square footage of back-of-the-house uses to the below-grade parking structure.

Project Description – The proposed Project is an approximately 365-room, full-service Marriott Renaissance Hotel with retail, commercial, parking, and function space.

Project Budget and Financing – The Developer is responsible for all costs and expenses associated with the assembly of the Site and the development and construction of the improvements on the Site.

Disposition of Property – The Agency will convey the Acquisition Parcel to the Developer in accordance with the DDA.

Participation by Agency – The Agency is required to attempt to acquire (at Developer's cost) the 5,000 square-foot Acquisition Parcel adjacent to the 35,000 square-foot Developer Parcel.

Proposed Schedule of Performance – Under the proposed revisions to the Schedule of Performance, the Developer is to commence construction on the foundation and structure on or before June 22, 2009 and to complete construction on or before April 22, 2011.

Proposed Ground Lease – The Developer further requests that the DDA be modified to allow for a ground lease of the Site to a third party Lessee ("Ground Lease"). The Developer proposes to bring in Hansji Hotels ("Lessee") to construct and operate the Hotel under a management agreement with Marriott. An overview of the experience and holdings of Lessee is included as Attachment D. The Lessee would build the hotel in accordance with the DDA and the approved Development/Site Permit No. 41-0546 and all subsequent Implementation Agreements. The Lessee will not have an option to purchase the fee simple interest in the property. The Ground Lease will not be subordinate to any loans on the property made by the Lessee. The Ground Lease will be subordinate to the Agency's right-of-reverter contained in the Grant Deed until the issuance by the Agency of a Release of Construction Covenants.

Under the proposed Second Implementation Agreement, the Developer and Lessee would agree to enter into an assignment and assumption agreement in form and substance approved by the Agency. The execution of the assignment and assumption agreement will not release the Developer from its obligations under the DDA. The Lessee is currently developing the Marriott Residence Inn in the Gaslamp Quarter located on the block bounded by Fifth, Sixth, J and K streets.

## PROJECT ANALYSIS AND IMPACT ASSESSMENT

Environmental Impact – On March 30, 2004, the Agency adopted Resolution No. R03756, a Resolution of the Redevelopment Agency of the City of San Diego Certifying that the Agency has Reviewed and Considered Information Contained in the Master Environmental Impact Report ("MEIR"), for the Centre City Redevelopment Project, the Subsequent Environmental Impact Report to the MEIR for the Proposed Ballpark and Ancillary Development Projects, and Associated Plan Amendments, and the Supplement to the MEIR, with Respect to the Proposed DDA; Approving the Supplement to the MEIR; Adopting a Mitigation, Monitoring and Reporting Program; Adopting a Statement of Overriding Considerations and Findings Pursuant

Thereto; and Making Certain Findings and Determinations Regarding Environmental Impacts of the Development.

An Environmental Secondary Study has been prepared for the Second Implementation Agreement under the 2006 Final Environment Impact Report (FEIR) in order to evaluate the project's continued compliance with the Downtown Community Plan and the findings and conclusions of the previous SEIR and the more recent FEIR. The project has been found to be in compliance with, and consistent with, those planning and environmental documents; and all elements of the project and its impacts have been found to be within the scope of the activities and impacts identified in the previous environmental documents and were adequately analyzed therein; therefore, pursuant to CEQA Guidelines sections 15162 and 15168, no further environmental review is required

### CONCLUSION


The Second Implementation Agreement provides for the agreement between the Agency and Developer to bring the Developer into compliance with the DDA and other modifications to the DDA in accordance with the global settlement agreement between the Agency, Developer, and Owner of the Acquisition Parcel. Staff recommends that the Agency approve the Second Implementation Agreement.

Respectfully submitted,

Concurred by:



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Eli Sanchez  
Senior Project Manager



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Nancy C. Graham  
President

- Attachments: A – Site Map  
B – Second Implementation Agreement  
C – Secondary Study  
D – Hansji Hotels, Inc Overview