

DATE ISSUED: October 24, 2002

REPORT NO. 02-248

ATTENTION: Honorable Mayor and City Council
Docket of October 28, 2002

SUBJECT: Lease Amendment - BH Partnership d.b.a. Bahia Resort Hotel

SUMMARY

Issues - Should the City Manager be authorized to execute a lease amendment with the BH Partnership d.b.a. Bahia Resort Hotel to extend the lease term 15 years and increase the existing percentage rates to market levels?

Manager's Recommendation - Approve the lease amendment.

Other Recommendations: - None.

Fiscal Impact - Approval of the amendment will result in an estimated increase in revenue to the City of approximately \$300,000 per year and approximately \$5.5 million over the remaining term of the existing lease due to the changes in percentage rent rates.

BACKGROUND

BH Partnership has operated the Bahia Resort Hotel in Mission Bay Park as a City lessee since 1953. Existing improvements on the premises include 320 guestrooms, a 76-slip marina, a restaurant and guest service facilities. The present lease was approved on March 17, 1966, amended on April 24, 1967 and expires on March 30, 2016. During Fiscal Year 2002 the City received \$811,637 in rent.

DISCUSSION

BH Partnership approached the City with a proposal to extend the term of the lease for 15 years past the present expiration date of March 2016. As consideration for the extension, a lease amendment has been negotiated that increases existing percentage rent rates so they are comparable with present market rates. Various other lease provisions have been updated and the lessee has also committed to making annual capital improvements to the existing improvements starting with an investment of \$500,000 in 2003 and increasing to \$579,000 by 2008. The requested action does not include approval of any new project. The proposed lease amendment provides no land use entitlements for any expansion or increased development of the property. Any proposal to do so would require a subsequent approval by the Mayor and Council after appropriate staff and stakeholder input and review.

The proposed lease includes immediate changes to the percentage rent categories as follows:

	<u>Existing Lease Rates</u>	<u>Amended Lease Rates</u>
Room Rental	5.0%	7.0%
Food and Non-Alcoholic Beverages	1.0%	3.0%
Alcoholic Beverages	5.0%	6.0%
Boat Slips and Storage	10.0%	25.0%
Boat Rentals	5.0%	10.0%
Gift Shop	4.0%	7.0%
Health Club	5.0%	7.0%
All Other	5.0%	10.0%

Other percentage rent categories that were comparable to existing market rates remain unchanged. All percentage rent categories will be subject to adjustment based on a market appraisal in April 2018. City staff obtained an independent review of the proposed lease amendment by a consultant specializing in hospitality properties. This review confirmed that the amended rates as proposed reflect market rates for properties of this type and location. (See Attachment)

Other updated lease provisions include:

Insurance - \$5,000,000 public liability insurance

Water Quality/Best Management Practices (BMPs) - Lessee must prepare and adhere to BMPs to provide increased water quality protection. The BMPs are subject to annual review by City.

Water Lease Documentation

The Bahia lease has always included a 2.444 acre marina. Although the 1966 lease mentions a water area for boat slips and the accompanying Council Resolution #697319, dated March 21, 1966, refers to a 2.0 acre water area, a correct legal description for the marina was never prepared. The Mission Bay Park survey conducted in 2000 included a survey of land and water leasehold boundaries as described under the existing leases. As previously reported to the Mayor and Council, the survey identified several discrepancies and encroachments for some lease boundaries. Since the survey was completed all of these issues have been addressed with the Bahia and Mission Bay Yacht Club leasehold descriptions representing the last remaining issues requiring attention. This lease amendment will accurately describe the water area encompassed by the existing marina facilities that were constructed as part of the Bahia leasehold around 1955. The water acreage represented by the existing legal description is 0.352 acres, in an area which was never developed or used. Once the accurate legal description for the marina is included as part of the lease amendment, the acreage totals for the leasehold are 13.053 acres of land and 2.444 acres of water. The correct total leased water acreage in Mission Bay Park will be 97.649 acres, which represents 4.2% of the total water acres versus 4.1% without the marina. Charter section 55.1 limits the total leased water area to 6.5%.

CONCLUSION

The City Manager recommends approval of the proposed lease amendment. It is anticipated that lease revenue will increase from approximately \$800,000 per year to approximately \$1,100,000 per year, which represents a 37.5% increase based upon current revenue figures. It is estimated that proposed percentage rent rates will result in additional revenue received by the City of approximately \$5,575,000 as compared to the existing percentage rates over the remaining term (14 years) of the existing lease.

ALTERNATIVES

Do not authorize the City Manager to execute the lease amendment.

Respectfully submitted,

.....

.....

William T. Griffith.....Approved: Bruce A. Herring
Real Estate Assets Director..... Deputy City Manager

WTG/CWG/cdj

Note: The attachment is not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment: Letter dated October 18, 2002 from Maurice Robinson & Associates