DATE: NOVEMBER 16, 2006
TO: AGENCY COMMISSIONERS
FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER
RESPONSIBLE PARTIES DAVID RICCITIELLO, REGIONAL ADMINISTRATOR
LILLIAN BURKENHEIM, PROJECT MANAGER
KAREN YAMAMOTO, SENIOR CITY PLANNER

LOAN COMMITTEE – November 15, 2006

RECOMMENDATIONS
That the Agency approve the Conceptual Design Drawings for the Convention Headquarters Hotel Project (Attachment “C”); and

That the Agency, subject to City Council review and approval:

1. Adopt the attached Joint Finding of Benefit Resolution (Attachment “B”) in accordance with Health & Safety Code Sections 33445 and 33421.1, which finds that the expenditure of $5,000,000 of Bunker Hill Tax Increment to assist the construction of public improvements related to the development of the Convention Hotel is of benefit to the Bunker Hill Redevelopment Project Area, and request that City Council also adopt the attached resolution; and

2. Approve and authorize the Chief Executive Officer, or designee, to execute the First Amended and Restated Hotel Development Agreement with the L.A. Arena Land Company, Inc. (“Developer”) and the City of Los Angeles that includes a grant commitment for a public improvement to facilitate development of the Convention Center Hotel project in an amount not to exceed $5,000,000.
SUMMARY

Development of a Convention Center Hotel has been a goal of the Central Business District and City Center Redevelopment Projects and the City of Los Angeles. To achieve that goal, on September 1, 2005, the City of Los Angeles, the Agency and the L.A. Arena Land Company, LLC entered into a Hotel Development Agreement for the Convention Center Hotel. Since entering into that Agreement, there have been several changes to the proposed hotel development that require changes to that original Agreement. The L.A. Arena Company, LLC (“Developer”) had been working with Wolff/Apollo as their partner in the hotel development. Now the Developer is working with KB Urban (Kaufman and Broad) as their joint venture partner. Originally it had been contemplated that Hilton Hotels would be the operator; now there are two hotels proposed in the tower: Marriott and Ritz-Carlton. There were 1,100 rooms and 110 condominiums; now there are 1,000 rooms and 216 condominiums. The proposed cost of the hotel was $413,000,000; now the estimated cost of development is $540,000,000. The Agency was to provide a $16 million loan, now the recommended action requests approval for a $5 million grant. The remainder of the Hotel Development Agreement remains the same, including the Agency policies and the Community Benefits requirements.

The proposed project is adjacent to the Los Angeles Convention Center and is an integral part of the “LA Live!” project, a multi-use sports and entertainment district located to the north and east of the Convention Center and Staples Center Arena fronting along Olympic Boulevard and Figueroa Street. The “LA Live!” project involves property (27 acres) assembled by the Agency and the Developer for Staples Center and is governed by the Los Angeles Sports and Entertainment District (LASED) Specific Plan. The completed development will consist of approximately 4 million square feet of residential, retail, entertainment, restaurant and office uses, and includes the 7,100-seat Nokia Theater, the one-acre Nokia Plaza public plaza for community and entertainment events, Club Nokia, accommodating approximately 2,400 people for music acts, bands and special functions, and the new “Grammy Exposition” of the National Academy of Recording Arts & Science, a unique and permanent tribute to the producers, artists and engineers who create music for the international audience. This new, vibrant entertainment district, envisioned as the “Times Square of the West”, will have numerous venues including fine dining restaurants and cafes, retail stores featuring major brands; and potentially a broadcast media center with regional headquarters for a major television network; a multi-screen Cineplex suitable for movie premiers and daytime utilization for corporate presentations and educational facilities; and approximately 5,300 new parking spaces.

The proposed Convention Headquarters Hotel is a mixed-use, 54-story tower that includes ground level retail and restaurant uses connected to a Conference Center with a major ballroom and meeting rooms by a pedestrian bridge over Georgia Street. The Conference Center will be located on an adjacent property, which also includes a 600-seat premier theatre and movie theatre complex. The tower will be the architectural anchor of the Los Angeles Convention Center and the “LA Live!” entertainment district. The property is strategically located off the 110 and 10 freeways, with clear visibility from all directions. The area is currently well known throughout the Southern California region as the home of the Los Angeles Lakers, Clippers, and Kings.

The First Amended and Restated Hotel Development Agreement provides for the development of a Hotel(s) to support the Convention Center and assist in the financial feasibility of the development, the terms and conditions including financial assistance for public improvements to facilitate development of the Convention Hotel. The Agency’s assistance includes a $5 million grant, and the City will waive development and permit fees valued at approximately $4 million. The Hotel Development Agreement also provides that the City will consider creation of a Community Taxing District (CTD), which, is anticipated to provide financial assistance to the
Convention Hotel. The anticipated financial assistance would be in the approximate amount of the City's Transient Occupancy Tax (TOT) projected to be generated by the Convention Center Hotel over a period not to exceed 25 years. In exchange for the waiver of development and permit fees and the financial assistance available through the CTD, the Developer, all their contractors and subcontractors will be required to designate the City of Los Angeles as the point of sale with the State Board of Equalization, and will also enter into a Room Block Agreement with the City to set aside hotel rooms for the benefit of bookings for the Los Angeles Convention Center.

The Agency originally was to provide a below-market rate loan to the Developer to assist with the cost of constructing public improvements required for the Hotel Project. The Agency’s loan was capped at $16 million, of which $12 million would be Bunker Hill Tax Increment and $4 million would be a swap of Bunker Hill Housing Trust Funds with City General Fund Revenues. The Bunker Hill Housing Trust Funds were to be transferred to the City’s Affordable Housing Trust Fund and used to construct affordable housing throughout the City of Los Angeles. However, the Agency’s required second deed of trust (related to the $16 million loan) in conjunction with the increased construction costs, the risk-return profile of the Project, and the fluctuation in the residential market was negatively impacting the terms and conditions for debt financing by potential lenders. The proposed restructure of the Agency assistance from a $16 million loan to a $5 million grant would benefit the Agency by releasing approximately $11 million for reinvestment in other Downtown Redevelopment Project activities. While the Agency’s financial obligations would be reduced under the proposed restructure the Developer has committed to providing the same amount and quality of public improvements as initially agreed upon. Furthermore, the restructure will also allow the Developer to obtain debt financing which will allow the project to proceed.

RE
September 1, 2005 – Agency Approval of Convention Center Hotel Development Agreement
September 8, 2005 – City Council Approval of Agency September 1, 2005 action

SOURCE OF FUNDS
Bunker Hill Tax Increment

PROGRAM AND BUDGET IMPACT
The proposed action is consistent with the Approved Work Program and Budget for the Bunker Hill and City Center Redevelopment Projects, under Objectives CT3080 – Convention Center Hotel and BH 9330 - Bunker Hill Financing.

ENVIRONMENTAL REVIEW
The City of Los Angeles Planning Department was the Lead Agency pursuant to the California Environmental Quality Act (CEQA) for the preparation of the Environmental Impact Report (EIR) for the project. The City of Los Angeles Planning Commission, on May 23, 2001, certified the Final EIR for the Los Angeles Sports and Entertainment District Project, made written findings for each significant environmental effect of the Project and adopted a Statement of Overriding
Considerations. The Agency, as the Responsible Agency under CEQA, reviewed the environmental studies, and on August 17, 2001 made findings and also adopted a statement of Overriding Considerations. The currently proposed changes to the project required environmental analysis to assess any new impacts due to the increased residential density and height of the Convention Center Hotel. The Planning Commission, as the Lead Agency, found that there were no new significant impacts from the proposed changes and adopted an Addendum to the Final EIR. The Agency reviewed and considered the information in the Addendum and Final EIR, in connection with the approval of the Fifth Implementation Agreement to the Disposition and Development Agreement with the L. A. Arena Land Company, which analyzed the same project, on November 16, 2006.

BACKGROUND

The Agency, City of Los Angeles and the L.A. Arena Development Company LLC entered into a Disposition and Development Agreement (“DDA”) dated October 31, 1997. The DDA was amended by a First Implementation Agreement to the DDA dated March 26, 1998, and by a Second Implementation to Agreement to the DDA, dated October 15, 1998 (“Amended DDA”). The Amended DDA required that the L.A. Arena Company submit a Master Plan for the Olympic/Figueroa Properties to the Agency and to the City for review and approval. On August 17, 2001, the Agency approved a Master Plan for the Project, which included the development of a Convention Center Hotel an open air plaza to feature year-round events; a site reserved for the future expansion of the Los Angeles Convention Center: and approximately 5,300 parking spaces.

The Convention Hotel, consisting of the 54-story hotel and residential tower with 1,000 hotel rooms and 216 luxury condominium units, is situated on a podium base that will contain the main lobby, public areas, and main hotel drop-off. A Conference Center with a major ballroom and meeting rooms, connected by a pedestrian bridge over Georgia Street, will be located on an adjacent property, which also includes a 600-seat premier theatre and movie theatre complex. The Conference Center is located adjacent to the planned expansion site for the Los Angeles Convention Center with the ability to connect directly to the Convention Center. The ballrooms have a separate valet drop-off area and parking for an efficient guest and visitor experience and operation. The Hotel lobby, restaurants, and meeting spaces will have direct pedestrian access to and from the “LA Live!” district through an exciting, open-air plaza lined with outdoor dining areas.

The 216 luxury condos on the upper floors of the tower are primarily 2-bedroom, 2.5 bath, high-end units ranging from 2,000 to 4,000 SF. The residential units have a distinct and separate “porte cochere” entrance and the lobby is designed for exclusive and direct elevator service to the condominium floors. The condominiums have a pool deck and spa adjacent to a generous open plaza above the Hotel lobby. In recent years the condominiums have become an important part of hotel development financing, providing a compatible use that helps offset the costs of land acquisition and construction financing.

The Convention Hotel is a key component of the Master Plan and the cornerstone of Anschutz Entertainment Group’s “LA Live!” dining and entertainment district. Both the “L.A. Live!” entertainment district and the Convention Hotel are integral to and dependent upon each other. The City and Agency believe that in order to draw more business for the Convention Center to be economically sustainable, a hotel adjacent to the Convention Center is critical. Larger conventions have looked to other cities such as San Francisco, San Diego and Las Vegas due to the lack of enough hotel rooms in easy walking distance to the Los Angeles facility. The lack
of convention business has forced the City to use general fund monies to cover operating costs of the Convention Center in the past. Additionally, conventions account for approximately 35 to 40 percent of downtown Los Angeles hotel occupancy; the remaining occupancy levels must rely on other visitor market segments – business travelers and tourists. The “LA Live!” dining and entertainment experience would serve to attract and sustain all visitor segments, highlighting Downtown Los Angeles as a tourist destination. In turn, convention business is expected to bring in a critical mass of activity and contribute to the success of “LA Live!”

In November 2004 the City Council approved a Memorandum of Understanding (“MOU”) for the development of a Convention Hotel Project to be located on property owned by the L.A. Arena Land Company, a wholly owned subsidiary of the Anschutz Entertainment Group (AEG) and Anschutz Corporation, at the southeast corner of Olympic Boulevard and Georgia Street. The Convention Hotel is critical to efforts to attract regional, national and international events to the Los Angeles Convention Center. An analysis prepared by PKF Consulting for the Chief Legislative Analyst’s Office found that the Los Angeles Convention Center is at a major marketing disadvantage compared to other West Coast centers that have a significant inventory of hotel rooms nearby. The LA Convention and Visitors Bureau completed a study in 2003 that showed that from January 1, 2000 to December 31, 2003, the City lost 1,324,937 room nights that could have been booked but for the lack of hotel room near the Convention Center. The Convention Hotel Project is expected to increase the number of events at the LA Convention Center with corresponding increase in the demand for rooms at the major Downtown hotels including the Westin Bonaventure, Marriott, Omni, and Wilshire Grand. In fact, the LA Convention Center has increased bookings since the approval of the Convention Headquarters Hotel last year.

The Convention Headquarters Hotel, designed by Gensler, will be developed by AEG (L.A. Arena Land Co.) in concert with a partnership of KB Urban (Kaufman and Broad). Marriott and Ritz Carlton will operate portions of the Convention Headquarters Hotel.

Project Economics:

The proposed Convention Headquarters Hotel is a mixed-use, 54-story tower with subterranean parking. The high-rise nature of the building results in substantial development costs for these elements. Total development costs for the hotel component are estimated at $540 million. This represents a significant increase over the previous estimate of $413 million. The rising cost of construction materials is the primary reason for the increase. As indicated in the table below, the entire mixed-use Project has an estimated total development cost of $810 million.

Table 1: Hotel Development Costs

<table>
<thead>
<tr>
<th></th>
<th>HOTEL</th>
<th>CONDOS</th>
<th>PARKING</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Development Costs (TDC)</td>
<td>$540 Mill</td>
<td>$250 Mill.</td>
<td>20 Mill.</td>
<td>$810 Mill.</td>
</tr>
<tr>
<td>TDC (Per Sq.Ft)</td>
<td>$462</td>
<td>$422</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>TDC (Per Room or Unit)</td>
<td>$540,000</td>
<td>$1.1 Mill</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

At $540,000 per room the estimated development cost for the convention center hotel is comparable to similar Projects that are in the late stages of pre-development or under-
construction within the market area. As indicated in the table below, estimated costs for comparable Projects can exceed $600,000 per room.

Table 2: Comparable Hotel Development Costs

<table>
<thead>
<tr>
<th>COMP #1</th>
<th>COMP #2</th>
<th>COMP #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>TDC (Per Room)</td>
<td>$665,000</td>
<td>$629,000</td>
</tr>
<tr>
<td>TDC (Per Gross Sq. Ft)</td>
<td>$613</td>
<td>$450</td>
</tr>
</tbody>
</table>

The net operating income (NOI) of the hotel will primarily be determined by the achievable room rates and occupancy levels. The PKF study, completed in 2005, estimated that the hotel would achieve stabilized operation by 2009, with an estimated NOI of $18.5 million. Current analysis suggests that the first full year of stabilized operation will be 2011 with net operating income from room revenues in the range of $23 million; however, stabilized occupancy rate of 75% will not be achieved until 2013. Current analysis suggests that the hotel has a significant financing gap of over $200 million (before public investment). To address the funding gap the public sector has proposed a financial assistance package that consists of the following:

- a rebate of transient occupancy tax (TOT) over a 25-year period;
- a waiver of certain City fees; and
- financial assistance with costs associated with public infrastructure.

The agreement between the City and the Developer allows the Project to receive an annual rebate of the TOT for a maximum of 25 years. The TOT rebate is capped at a gross amount of $246 million. If the tax rebate reaches the cap prior to the 25th year then the Developer and the City will share in a 50 – 50 split until the gross tax amount generated reaches $270 million.

The proposed Agency assistance of $5 million would contribute to reducing the overall costs of the Project since the funds would be provided as a reimbursement for public infrastructure costs. The proposed $5 million grant would replace the current loan agreement.

The previously approved financial structure had the Agency providing a below-market rate loan to the Developer. The Agency’s loan was capped at $16 million, of which $12 million would be from Bunker Hill Tax Increment and $4 million would be a swap of Bunker Hill Housing Trust Funds with City General Fund Revenues. The Bunker Hill Trust Funds dollars would be transferred to the City’s Affordable Housing Trust Fund and used to construct affordable housing throughout the City of Los Angeles. The Agency’s loan would be secured by a Second Deed of Trust, amortized over 40 years, payable in 30 years, and carry an interest rate of 4.25%. No payments would be required during the first four years. During this period the interest would accrue and would then be added to the principal at the end of the 48-month no-payment period. In the event the Developer pays off the loan on or before the expiration of the no-payment period, the accrued interest would be forgiven. Upon sale, refinance or other

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1 Market area is defined as Los Angeles County.
Transfer of the Project not previously approved by the Agency, the Agency Loan would be fully due and payable.

In the revised deal structure the Developer is obligated to provide all previously agreed upon public improvements, however, the Agency will have released $11 million of funds for immediate reinvestment in other Agency projects. The Developer has agreed to the revised structure because it allows them to secure private financing without the complication of a Second Deed of Trust. The anticipated financing for the entire Project includes approximately $540 million of debt and $270 million in equity.

Return Metrics

After factoring in the Agency and City assistance, the hotel component, at stabilization, has an estimated return on cost of 7.5%. Furthermore, the estimated internal rate of return to the equity partners is in the range of 9% to 10%. The aforementioned return metrics are below industry standards for a Project of this magnitude. However, the developer anticipates that a successful Convention Headquarters Hotel will bolster their economic return on their adjacent projects and other components of the mixed-use development thus rendering the overall Project financially feasible.

Agency Participation

Pursuant to Sections 33445 and 33421.1 of the Community Redevelopment Law of the State of California, the Agency is authorized to pay for the construction (but not for the normal maintenance and operations) of a publicly-owned building, facility, structure of other improvement, either within or outside a redevelopment project area, which is determined by the Agency and the City Council to be of benefit to the redevelopment project, and with respect to which the Agency and the City Council have determined there is no other reasonable means of financing available to the City.

The Finding of Benefit Joint Resolution makes the necessary findings that provides for the use of $5 million of Bunker Hill Urban Renewal Project Tax Increment for public improvements in support of a convention center headquarters hotel and the “LA Live!” project in Downtown Los Angeles. The proposed Convention Hotel is approximately three-quarters (3/4) of a mile south of the Bunker Hill Urban Renewal Project. The following are important factors that link Bunker Hill to the Convention Hotel, such that a Finding of Benefit can be made:

- Transportation Infrastructure
- Tourism
- Hotels
- Offices/Residential

Transportation Infrastructure. Bunker Hill and the subject hotel are physically linked by the following major transportation infrastructure:

- Harbor Freeway (Interstate 110)
- Metro Fixed Rail (Blue Line/Red Line)
- Figueroa Street
- Flower Street
- Grand Avenue
Improvements in the transportation infrastructure supporting the Convention Hotel are of direct benefit to Bunker Hill, since traffic congestion in the convention center hotel vicinity impacts traffic in and around Bunker Hill, including the Harbor Freeway (I-110). The ability to add enhancements in support of Metro can incrementally assist in mitigating traffic impacts. The City of Los Angeles Department of Transportation maintains a highly automated traffic management system that is based upon an integrated traffic signalization system.

Tourism. The establishment of a Convention Hotel will lead to an increase in the number of major conventions/trade shows at the Los Angeles Convention Center. The following are key Bunker Hill tourist and entertainment destinations of regional, national, and international interest that will benefit from the increase of visitors to Los Angeles as a result of the convention hotel:

- Disney Hall and the Music Center (REDCAT Theater)
- MOCA
- Colburn School of Performing Arts
- Angels Flight
- Wells Fargo Museum
- Cal Plaza Water Court (Grand Performances)
- Future Grand Avenue Project
- The Cathedral of our Lady of the Angels (Bunker Hill adjacent)
- Grand Central Market (Bunker Hill adjacent)

When tourists are not visiting the above destinations, they are experiencing a range of world class dining on Bunker Hill that includes Patina, Noe and Ciudad. Other outstanding restaurants are those located at the Bonaventure Hotel, Marriott Hotel, Wells Fargo Center, and California Plaza.

With such a wealth of cultural and food destinations available in Bunker Hill, many will extend their stay in Los Angeles or return at a later date for an extended stay. There is significant documentation on the amount of spending by those staying at a Convention Hotel such as that proposed here. With multipliers, the tourist-related spending can be a significant source of support. It is also a known fact that international visitors to Los Angeles spend more than domestic visitors.

Hotels. There are three major hotels on Bunker Hill that provide rooms in support of the Convention Center. The “Analysis of Potential Market Demand for the Proposed Los Angeles Convention Center Hotel to be Located in Downtown Los Angeles, California” prepared by PKF Consulting (dated August 2005) found that these three hotels will also benefit:

- Westin Bonaventure Hotel (1,354 guestrooms)
- Marriott Downtown Los Angeles (469 guestrooms)
- Omni Los Angeles Hotel (453 guestrooms)

Specifically, the study states on page IV-1: “While we note that the headquarters hotel will compete with the hotels listed above, [along with six others in the Downtown area], the focus of the hotel will be to make Los Angeles a destination and, subsequently, the Los Angeles Convention Center, more attractive for meeting planners of large conventions.”
The three hotels cited above along with six other downtown Los Angeles hotels comprise the competitive market for downtown lodging. Although there has been a decline in convention center trade show bookings, downtown hotel occupancy for the competitive market has increased from 60% in 2004 to 66% in 2005 and is projected to increase to 68% next year. With regard to specific revenue and occupancy numbers for the convention hotel and the competitive market, the occupancy level is projected to decrease from 68% to 67% in 2008 with an increase to 69% in 2009 and stabilizing at 70% in 2010. In addition, the City of Los Angeles Transient Occupancy Tax received at the 9 hotels is projected to continue to increase by $1.6 million with the addition of the Convention Hotel in 2009, with a slight increase of $131,936 in the initial year when the Convention Hotel opens.

The ability of the convention hotel to increase occupancy rates at the three Bunker Hill hotels has a positive impact on the monetary value of the hotels on Bunker Hill that would increase Bunker Hill tax increment upon a sale of property.

Assisting in the development of hotels in Los Angeles is not a new activity. The Agency had previously subsidized the development of the Bonaventure, Marriott, New Otani and Omni Hotels, among others, providing assistance in site assembly and public improvements. Additionally, the Agency provided Historic Credits for the rehabilitation of the Wilshire Grand and Biltmore hotels, to assist in the refurbishment of those properties and the construction of their adjacent office towers.

Cecilia V. Estolano
Chief Executive Officer

Glenn F. Wasserman
Chief Operating Officer

There is no conflict of interest known to me that exists with regard to any Agency officer or employee concerning this action.

Attachment A – Site Map
Attachment B – Bunker Hill Finding of Benefit (Public Improvements)
Attachment C – Site Plan and Schematic Design Plans