

**Centre City
Development
Corporation**

DATE ISSUED: June 5, 2007

ITEM #11

ATTENTION: Real Estate Committee
Meeting of June 13, 2007

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

STAFF CONTACT: Eli Sanchez, Senior Project Manager

REQUESTED ACTION: Committee consideration of a request from GRH, LLC (“Developer”) for a Second Implementation Agreement to the Disposition and Development Agreement (“DDA”) for the development and construction of the 334-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 District.

STAFF RECOMMENDATION: That the Real Estate Committee provide direction to staff for the preparation, in coordination with the Developer, for a Second Implementation Agreement (“Implementation Agreement”) to the DDA, to modify the Schedule of Performance and Scope of Development (“Scope”); and to provide for a third party ground lease for the development, construction and operation of the proposed Hotel.

SUMMARY: The Redevelopment Agency of the City of San Diego (“Agency”) entered into a DDA with the Developer in April 2004 for the development and construction of a full-service hotel on a 40,000 square-foot site generally located at the intersection of Fifth Avenue and J Street in the Gaslamp District. Under the DDA, the Agency is 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 current 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 eminent domain litigation is currently on appeal to the State Court of Appeals.

The Developer is not currently in compliance with the Schedule of Performance under the DDA. The Developer requests an implementation agreement to modify the Schedule of Performance and Scope of Development; and to provide for a third party lease for the development and construction of the proposed Hotel. Staff seeks direction from the Committee in response to the Developer’s request.

FISCAL CONSIDERATIONS: Under the DDA, the Agency is responsible for the purchase 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 amount of \$10,165,000. Funds are available in the FY 2006-2007 Budget.

OTHER RECOMMENDATIONS: None.

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 all the world to share the unique advantages of a great urban center.

On April 4, 2004, the Agency approved the DDA with the Developer and on April 26, 2006, the First Implementation Agreement, for the development and construction of the Hotel. Subject to the terms and conditions of the DDA (including the termination rights pursuant to Sections 508-510 of the DDA), the Agency agreed to acquire the 5,000 square-foot Acquisition Parcel adjacent to the 35,000 square-foot Developer Parcel by negotiation or eminent domain, if necessary and feasible.

After unsuccessfully attempting to purchase the Acquisition Parcel through a negotiated sale, the Agency adopted a Resolution of Necessity on April 27, 2004. The Superior Court trial resulted in a judgment in favor of the Owner on November 23, 2005, in the amount of \$7,785,131. On June 27, 2006, the Superior Court also awarded the Owner litigation expenses of \$1,230,716 plus interest of \$124,789. The total amount awarded to the Owner is \$9,140,636. The Agency filed a Notice of Appeal with the California Court of Appeals on January 17, 2006. The owner of the Acquisition Parcel has filed a cross appeal on the Agency’s right to acquire the Acquisition Parcel under eminent domain. Oral argument is scheduled for July 17, 2007.

DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Developer: GRH, LLC, a California Limited Liability Company	Ramin Samimi	Ramin Samimi, Managing Member
Lessee: Hansji Hotels	Sajan Hansji	
Architect: Awbrey, Cook, McGill Architects	Tom Awbrey, Principal	

DISCUSSION

The Developer has advanced the Acquisition and Relocation costs to the Agency in the amount of approximately \$10,165,000. The Developer has obtained approval of the necessary development entitlements and is engaged in the preparation of construction drawings. The Developer is also in negotiations to obtain construction financing and has received three potential financing structures for Marriott's financial participation in the proposed Gaslamp Renaissance Hotel.

The Developer has achieved approval of 50% Design Development 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.

In December 2003, Keyser Marston Associates, economic consultants to the Agency, estimated the fair-market value of the Acquisition Parcel to be \$2,050,000. The Acquisition and Relocation costs associated with the Agency acquisition of the Acquisition Parcel are now estimated to exceed \$10,000,000. In addition, the estimate of total development costs has increased from \$70,000,000 in April 2004, to \$98,000,000 in June 2006, to a current estimate of \$108,000,000.

After three years of protracted litigation and significant increases in the estimated cost of development, the Developer has been unable to perform in accordance with the Schedule of Performance and requests a Second Implementation Agreement to provide for a revised Schedule of Performance, a revised Scope and the provision of an Assignment and Assumption Agreement for a permitted transfer of a leasehold interest to a third party for the construction and operation of the Hotel in accordance with the DDA and approved Site Development Permit.

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.

The Developer proposes to modify the Scope to:

1. Increase the number of rooms from 334 to 350 rooms;
2. Add a third level of below-grade parking to increase parking capacity from 205 vehicles to 270;
3. Reconfigure the interior space to accommodate the relocation of the ballroom from the second floor to the ground floor;
4. Modify a yet to be determined amount of retail/commercial square footage;

5. Relocate a yet to be determined amount of square footage of back-of-the-house uses to the below-grade parking structure.

Project Budget and Financing – Pursuant to the DDA, the Developer agreed to pay all costs necessary for the Agency to purchase the Acquisition Parcel. The Developer is obligated to deliver an advance in the amount reasonably estimated by the Agency to be sufficient to pay all costs necessary to acquire the Acquisition Parcel (“Developer Advance”). If the Agency determines at any time that the Developer Advance is insufficient to pay the Acquisition and Relocation Costs, the Developer, after receipt of such notice by the Agency, shall within thirty (30) days provide the Agency with such additional funds determined necessary to pay all Acquisition and Relocation Costs.

The Developer has advanced Acquisition and Relocation costs to the Agency in the amount of approximately \$10,165,000. The Developer is responsible for all other costs and expenses associated with the assembly of the 35,000 square foot Developer Parcel and the development and construction of the improvements on the Site. The total development costs are estimated to be \$108,000,000.

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

Participation by Agency – On April 4, 2004, the Agency approved the DDA with the Developer and on April 26, 2006 the First Implementation Agreement to acquire the 5,000 square-foot Acquisition Parcel adjacent to the 35,000 square-foot Developer Parcel for the development and construction of the Hotel.

Proposed Schedule of Performance – The Superior Court has ruled that the Agency has a right to acquire the Acquisition Parcel pursuant to eminent domain. The Agency has obtained a judicial order authorizing the Agency to take possession of the Acquisition Parcel and all occupants have relocated from the Acquisition Parcel. Previously, the Agency offered the Acquisition Parcel to the Developer but satisfaction of the condition precedents to the close of escrow by the Developer have not been met.

Under the current Schedule of Performance, the Developer was to satisfy all conditions precedent to the closing of all construction financing and the close of escrow for the Acquisition Parcel no later than December 15, 2006; and to commence excavation of the Site 30 days after closing (January 15, 2007).

The Developer cites the protracted eminent domain litigation and that California State Proposition 90 on the November 2006 ballot posed a viable threat to the Agency’s eminent domain authority and planning activities as the basis for delay in compliance to the existing schedule.

The Developer proposes the following milestones as a basis for a revised Schedule of Performance:

1. 100% Architectural Design Development drawings will be complete and submitted to Agency on or before December 15, 2007;
2. Civil, shoring, and grading permit application will be submitted to City of San Diego (City) on or before November 27, 2007;
3. 80% Construction Drawing documents will be complete and submitted to the Agency on or before March 31, 2008;
4. Structural/Building Permit application will be submitted to the City on or before March 31, 2008;
5. Civil, shoring, and grading permit issued by the City on or before April 1, 2008;
6. Site excavation to commence on or before May 12, 2008;
7. Structural/Building permit issued by the City on or before September 30, 2008;
8. Commence construction of the structure on or before October 1, 2008;
9. Complete construction on or before July 23, 2010.

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 general proposal is that the Developer will 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 B. The Lessee would build the hotel in accordance with the DDA and the approved Development/Site Permit No. 41-0546. The Lessee would not have an option to purchase the fee simple interest in the property. The Ground Lease would not be subordinate to any loans on the property made by the Lessee.

The Lessee would not have any control over or be involved in any way in the management of the Developer entity. Nor would there be a change in the ownership of the Developer entity. The Lessee would be and remains a third party entity, separate and apart from the Developer entity.

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 5th, 6th, J and K streets. Staff and Keyser Marston Associates is in the process of performing a due diligence analysis of the proposed Lessee's hotel development and operation experience and its ability to obtain the necessary financing to complete the construction of the Improvements on the Site in accordance with the DDA.

Alternative

In the event that the Developer is not prepared to move forward with the development and construction of the Improvements on the Site and timely satisfy its remaining obligations under the DDA, the Committee may choose to recommend to the Corporation Board that the Agency issue the Developer a Notice of Default of the terms under the DDA in substantially the form of the draft Notice of Default included as Attachment C.

PROJECT ANALYSIS AND IMPACT ASSESSMENT

Environmental Impact – The Agency on March 30, 2004 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. No substantial changes or new information of substantial importance within the meaning of CEQA Guidelines section 15162 would warrant any additional environmental review in connection with approval of the Second Implementation Agreement to the DDA with GRH, LLC for the development of the Gaslamp Renaissance Hotel. No further environmental review is required.

CONCLUSION

Staff seeks direction from the Committee for the preparation of a Second Implementation Agreement to revise the Schedule of Performance and Scope of Development; and provide for the proposed Ground Lease, or alternatively to issue a Notice of Default.

Respectfully submitted,

Concurred by:



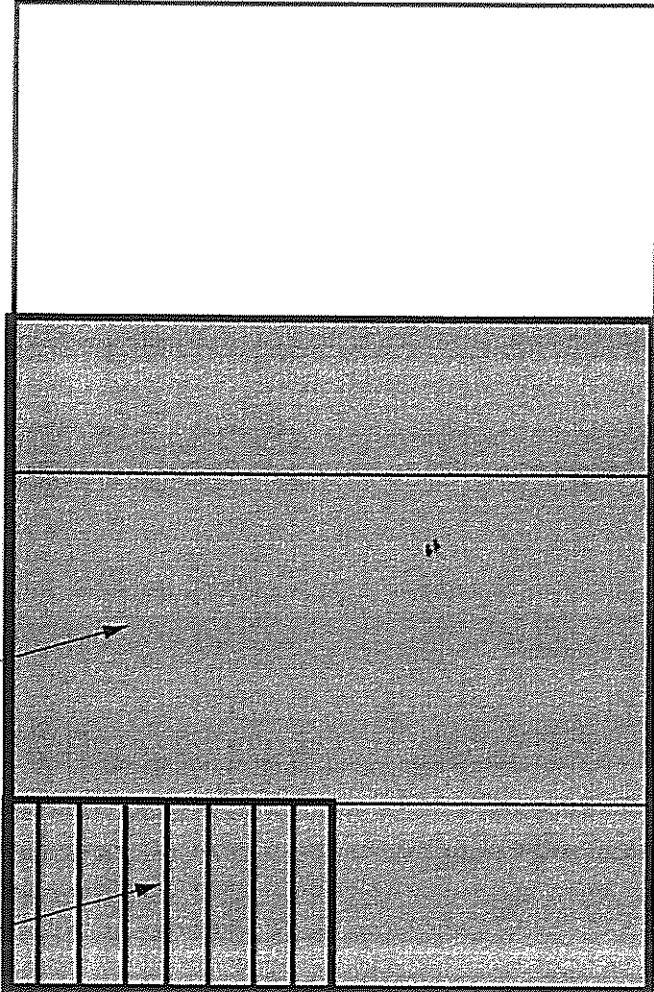
Eli Sanchez
Senior Project Manager



Nancy C. Graham
President

- Attachments: A – Site Map
B – Hansji Hotels, Inc Overview
C – Draft Notice of Default
D – Developer Letter Request

ISLAND AVENUE



FIFTH AVENUE

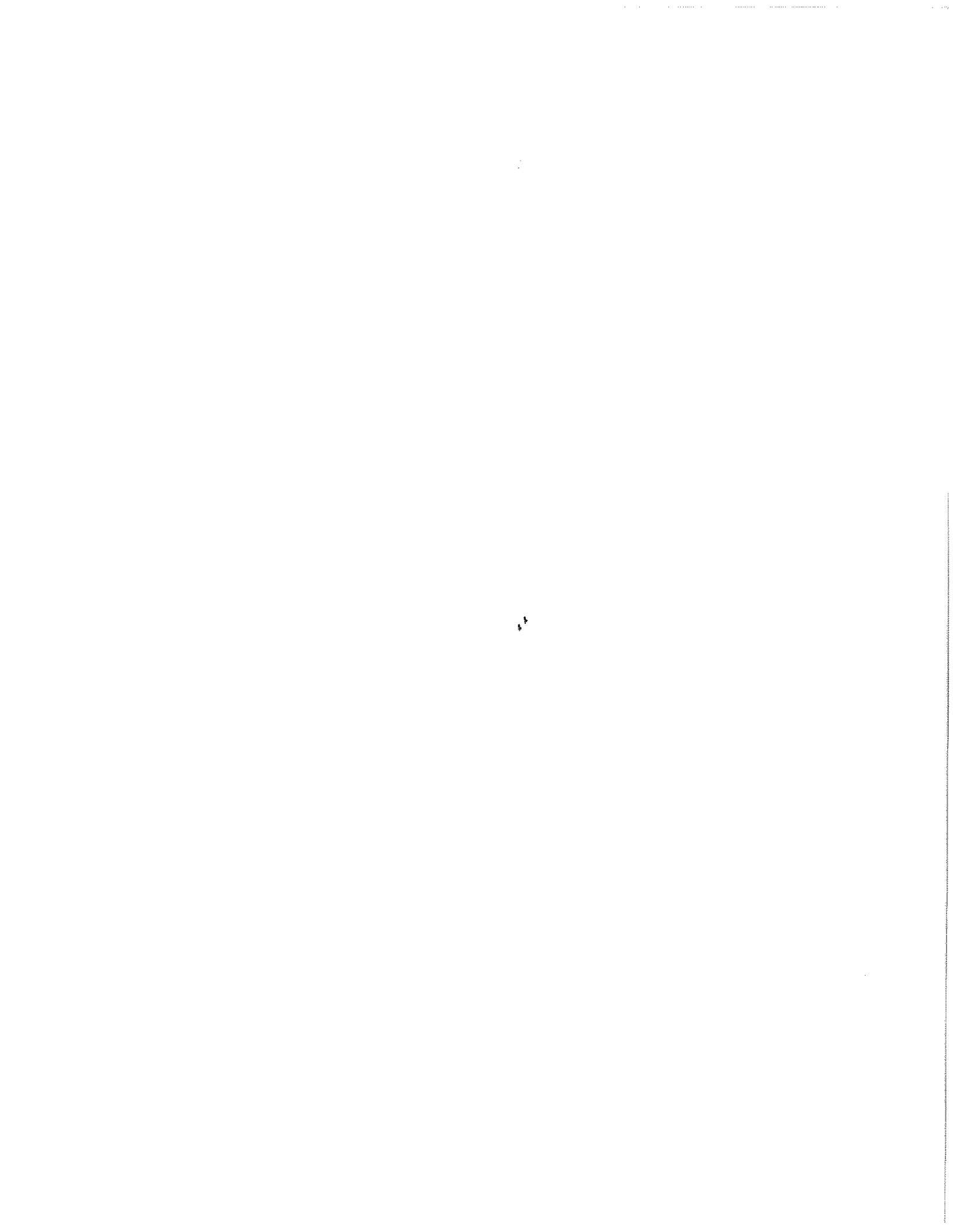
SIXTH AVENUE

Developer Parcel

Acquisition Parcel

J STREET

Site Map



HANSJI HOTELS

development | management | development

COMPANY OVERVIEW

OUR COMPANY

Established in 1974, Hansji Hotels is a premier hospitality company. Based in Southern California, the company has a long history of developing and operating distinctive hotels in key markets.

Hansji Hotels is based in Orange County, California and is aggressively growing with strategic developments, high yielding acquisitions, and efficient management. The synergy of the company has always surrounded the concept of blending both customer and employee satisfaction with the maximization of assets by concentrating on bottom lines.

With over 30 years in the hospitality industry, Hansji Hotels has transformed itself from its humble beginnings with the 25-room Hacienda Motel into a first class organization operating over 1,000 rooms in the Southwest United States. Brothers Shirish and Arun Hansji pioneered, what is respectfully known today as Hansji Hotels, after migrating to this country from India in 1974. Today, along with their sons, Rajan and Sajan, Hansji Hotels is focusing their efforts on becoming among the leading hotel developers and operators in the country.

DEVELOPMENT

With years of experience in hotel construction and renovations, Hansji Hotels continues to develop premier hotel assets. Backed by a solid team of professionals in each discipline, the company has the experience, stability and resources to see any project to fruition. Hansji Hotels' development of the Doubletree Guest Suites at the Anaheim Resort, valued at over 50 million dollars, is another example of the company's commitment to expansion in the hospitality sector. With the ability to perform construction in house, Hansji Hotel's recently completed the expansion of the Desert Palms Hotel & Suites in 2004. Combining both new construction and renovation, the 15 million dollar expansion of the Desert Palms showcased Hansji Hotels' ability as a top hotel developer.

To date, Hansji Hotels has several projects in the development pipeline and will continue to deliver on its commitment.

MANAGEMENT

To some management companies, a hotel is something that can be directed from a distance. At Hansji Hotels, we believe that a hotel must be managed from the inside. Hansji Hotels comprises a management team unique to our industry. Dedicated, result-oriented professionals with proven track records and a shared passion for the bottom line. Our goals are simple...we provide hands on management services that enable our hotels to maximize return on investment. We work to establish concrete objectives with measurable performance standards, to deliver the most consistent quality and service possible.

301 WEST KATELLA AVE ANAHEIM CA 92808
714.776.8604 TEL 714.776.7333 FAX

ATTACHMENT B
Hansji Hotels, Inc. Overview

Hansji Hotels emphasizes the importance of developing a strong foundation in all aspects of the company. From customer service to back office accounting, the company utilizes the tools and techniques to create an efficient and successful organization.

INVESTMENT

Hansji Hotels employs the same entrepreneurial investment strategy which has been successfully executed over the past thirty years. This strategy is designed to consistently achieve attractive returns through acquisitions and development, while maximizing value through effective management. Hansji Hotels' success in pursuing those goals and beliefs is reflected today in the company's outstanding reputation and its acknowledged role as a major hotel player. The company shall continue to create capital appreciation opportunities through repositioning, restructuring, development, and intensive management.

CURRENT DEVELOPMENT / RENOVATION PROJECTS

- Marriott Residence Inn San Diego Gaslamp Project – Hotel & Residences, San Diego, CA** *Proposed Opening October 2008*
- Development of 12 story hotel w/ residences (240 guestrooms & 20 residences)
 - Located in the heart of the Gaslamp District (5th & J St.)
 - Estimated Project Value \$60 Million
- Doubletree Hotel, Phoenix, AZ (Currently The Phoenix Place Hotel & Suites)** *Proposed Completion September 2006*
- Renovation of 6 Story Tower (160 units) into Full Service Doubletree Hotel
 - Estimated Renovation Value +\$6 Million
- Hyatt Place Anaheim Resort, Anaheim, CA** *Proposed Opening July 2008*
- Approved for development of 175-room hotel
 - Estimated Project Value \$25 Million
- Marriott Residence Inn Scottsdale, Scottsdale, AZ** *Proposed Opening July 2008*
- Development of 150 room extended stay product in a NEW mixed use corporate park
 - Estimated Project Value \$20 Million
- aloft by W (Starwood), Bangalore, India** *Proposed Opening August 2008*
- Development of 150 room hotel in the heart of the IT Sector of India
- Executive Inn Tempe, Tempe, AZ** *in Escrow*
- Repositioning of 140 room all suite hotel located between ASU and Old Town Scottsdale
 - Independent Boutique or Branded Hotel

FUTURE PROJECT SITES

- Downtown Phoenix Hotel Project (Select Service Hotels in Mixed Use Development), Phoenix, AZ**
- Estimated Project Value \$75 Million
 - Possible Marriott Residence Inn / Courtyard Urban Concept
- Phoenix Area Resort Hotel Project (Full Service Hotel in Destination Theme Park), Phoenix Area, AZ**
- Estimated Project Value \$70 Million
 - Possible Starwood Brand
- Phase 2 – Orangewood Site (Next to Doubletree Guest Suites), Anaheim, CA**
- Estimated Project Value \$60 Million

EXISTING PROPERTIES

Doubletree Guest Suites by Hilton, Anaheim, CA - 252 rooms & suites
Built 2006

Desert Palms Hotel & Suites, Anaheim, CA - 188 rooms & suites
Built 1988 & 2004

Desert Inn & Suites, Anaheim, CA - 150 rooms & suites
Built 1986 & 1990

Del Sol Inn – Anaheim Resort, Anaheim, CA – 60-rooms hotel
Built 1984

Cortona Inn & Suites – Anaheim Convention Center, Anaheim, CA – 128 rooms & suites
Acquired and renovated 2003

The Phoenix Place Hotel & Suites, Phoenix, AZ - 160 rooms & suites
Acquired 2005 and currently renovating

The Plaza Inn, Albuquerque, NM – 120 rooms & suites
Acquired 2005

Windsor Suites Hotel Houston, Houston, TX – 252 Suites
Acquired 2006 and currently renovating to Crown Plaza

Wyndham Garden Hotel - Dallas Park Central, Dallas, TX – 197 rooms
Acquired 2006 and currently renovating

RECENT SALES TRANSACTIONS

AmeriSuites, Ontario, CA

La Quinta Inn & Suites, Anaheim, CA

Holiday Inn Hotel & Suites - Mesa, Mesa, AZ

Hampton Inn by Hilton- Mesa, Mesa, AZ

Hampton Inn by Hilton- Tucson, Tucson, AZ

Holiday Inn Express, Barstow, CA

Anaheim Carriage Inn, Anaheim, CA

Best Inns, San Diego, CA

The Dupre Anaheim Resort, Anaheim, CA

FRANCHISE AFFILIATIONS

Hilton Hotels (i.e. Hilton, Doubletree, Hilton Garden Inn, Hampton)
Marriott Hotels (i.e. Residence Inn, Courtyard, Springhill, Fairfield)
Starwood Hotels (i.e. Sheraton, Westin, Four Points)
InterContinental Hotel Group (i.e. Holiday Inn, Crowne Plaza)
Carlson Hotels (i.e. Radisson, Country Inn & Suites, Park Inn)
Cendant (i.e. Wyndham, Days Inn, Super 8, Ramada)
Hyatt Hotels (i.e. Hyatt, Hyatt Place)

FINANCING RELATIONSHIPS

Bank of America (Primary Lender)
Morgan Stanley
GE Franchise Finance
Citigroup
United National Bank
East West Bank

HANSJI HOTELS

development | management | investment

KEY PERSONNEL

PRINCIPALS

Shirish Hansji Patel
Rajan Hansji
Sajan Hansji

REAL ESTATE & FINANCE

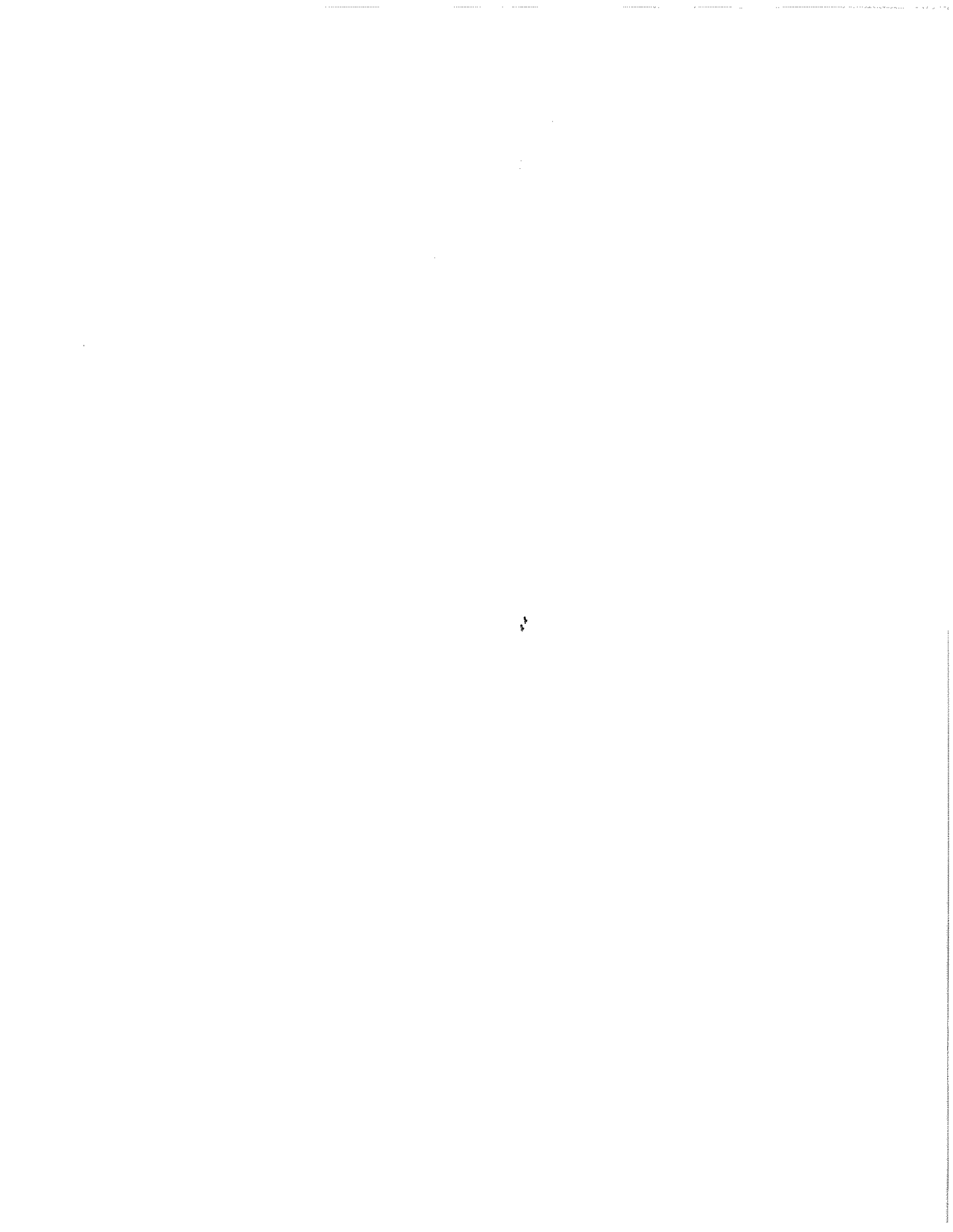
Jason Jones – Vice President of Real Estate
Arun Malhotra – Vice President of Finance & Accounting

OPERATIONS

Jeffrey Morse – Vice President Operations
Fred Brown – Director of Operations
Salah Ibrahim – Director of Revenue Management
Donna Sue Davis – Director of Sales & Marketing
Konstantinos ("Gus") Laliotis – Director of Food & Beverage
Susan McCarthy – Director of Human Resources
Devang Doctor – Director of Information Technology

DEVELOPMENT & CONSTRUCTION

John Bissell – Vice President of Development & Construction



DRAFT

VIA CERTIFIED MAIL
& FIRST CLASS MAIL

Gaslamp Renaissance Hotel, LLC
[Insert Address]

and

Cynthia L. Eldred
The Law Office of Cynthia L. Eldred
2481 Congress Street
San Diego, CA 92110

NOTICE OF DEFAULT

YOU ARE HEREBY NOTIFIED, THAT:

1. Gaslamp Renaissance Hotel, LLC, a California limited liability company ("Developer") failed to accept conveyance of the Mesdaq Parcel from the Redevelopment Agency of the City of San Diego ("Agency") pursuant to that certain Disposition and Development Agreement dated April 12, 2004 between the Agency and Developer (the "DDA") and that certain First Implementation Agreement dated April 26, 2006 between the Agency and Developer ("Implementation Agreement") (Collectively referred to herein as the "Agreement"), as required by Section 209 thereof;
2. Developer failed to submit commitments for the Construction Loan, including Construction Loan documents, and evidence of Developer's Equity to the Agency by November 15, 2006, as required by Section 209 g., of the Agreement;
3. Developer failed to demonstrate that all conditions to the issuance of the grading, excavation, shoring, foundation and structural framing permits, other than the payment of fees (to be paid upon the close of escrow), have been satisfied by December 15, 2006, as required by Sections 209 j., and 214 of the Agreement;
4. Developer failed to satisfy all conditions precedent to the closing of all construction

financing and the close of escrow for the Mesdaq Parcel by December 15, 2006, as required by Section 209 of the Agreement; and

5. Developer failed to commence the construction of the Improvements on the Site by January 15, 2006, as required by Section 307 of the Agreement.

Each failure of Developer set forth above is a failure to perform a material term or provision of the Agreement. Each failure constitutes a default under the Agreement. Developer is therefore required to immediately commence to cure, correct, or remedy each and every one of such failures.

YOU ARE FURTHER NOTIFIED THAT pursuant to the Agreement:

The cure period for the defaults referred to above shall expire no later than thirty (30) calendar days following the giving of this notice, provided, however, that Agency reserves the right to determine an earlier default date if it determines its security becomes or is about to become materially jeopardized by Developer's failure to cure the defaults, as set forth in Section 501 of the Agreement.

Very Truly Yours,

Cynthia L. Eldred

2481 Congress Street
San Diego, California 92110
Telephone: 619.233.7366
Facsimile: 619.233.7390

VIA ELECTRONIC MAIL AND PERSONAL DELIVERY

June 7, 2007

Redevelopment Agency of the City of San Diego
225 Broadway, Suite 1100
San Diego, CA 92101-5074
Attn: Eli Sanchez, Senior Project Manager

Re: June 13, 2007 Real Estate Committee Agenda Item # _____
Gaslamp Renaissance Hotel

Dear Mr. Sanchez:

As you are aware, this office represents GRH, LLC ("GRH") regarding its development of the Gaslamp Marriott Renaissance Hotel (the "Project"). This correspondence is written with respect to the CCDC Real Estate Committee's ("Committee") meeting set for June 13, 2007. As more fully described below, we believe that GRH's (and HHGaslamp, LLC's) schedule of performance meets the intent and purpose of the DDA particularly in light of intervening forces over which GRH had and has no control. GRH has worked diligently to move the Project forward and has performed pursuant to the DDA despite significant, unexpected financial risk. GRH is prepared to move forward with the development and construction of the improvements on the site and timely satisfy its remaining obligations under the DDA.

Requested Action

On behalf of our client, we are requesting that the Committee take two actions: (1) direct staff to prepare a Second Implementation Agreement for the purposes of: extending the deadlines for GRH: (a) to demonstrate that GRH has taken all necessary steps to enable GRH to pull its permits; (b) to open and close escrow; and, (c) to construct the hotel; and, (2) approve an agreement between GRH and HHGaslamp, LLC ("Lessee") for the purpose of allowing the Lessee to construct and operate the hotel. A proposed Schedule of Performance to be attached to the Second Implementation Agreement is attached hereto as Exhibit 1. In addition, a proposed revised Scope of Development is attached hereto as Exhibit 2.

GRH Performance to Date

As described in more detail below, there have been myriad roadblocks placed in the way of the Project. Nonetheless, GRH has continued to move the Project forward and perform pursuant to the terms of the DDA. GRH's commitment to the Project is undeniable. To date, GRH has incurred Project costs in excess of \$23,000,000. No viable business entity would commit that amount of money to a project and then fail to continue moving forward on its development. GRH is no

ATTACHMENT D
Developer Letter Request

Since the beginning of 2006, negotiations between the parties and counsel for GRH and Mr. Mesdaq have been in process. Although the parties to date have not been able to resolve the matter despite active, serious negotiations, the parties have not stopped their efforts. The seriousness of the attempt to settle the lawsuit is evidenced by the fact that in October, 2006, the parties retained the services of a third party to resolve the outstanding issues. Retired Justice Howard Weiner met with the parties and their counsel in an effort to end the litigation and allow title to transfer. Unfortunately, despite the good faith efforts of GRH and the assistance of Justice Weiner the negotiations have not resulted in a settlement to date. As recently as this past month, the parties continued to exchange settlement proposals. Again, even though Counsel for the Agency is firm in his belief that the Agency will receive a ruling in its favor, GRH continues its efforts to settle the matter and resolve it as soon as possible without waiting for the courts to rule on the appeals.

The Anderson Initiative (Proposition 90) Impediment

While the eminent domain lawsuit was in its early stages, California citizens became determined to modify eminent domain legislation by various methods, including limitations on actions taken by public agencies with respect to planning for and condemning property, particularly for commercial ventures.

On December 21, 2005, a California homeowner, Anita S. Anderson, filed a proposed initiative measure to restrain development agency actions. By early May 2006, Ms. Anderson was required to submit nearly 600,000 signatures on a petition to qualify the initiative for the November 7, 2006, ballot. On June 30, 2006 the California Secretary of State certified the initiative (Proposition 90) for the ballot. There was extensive publicity about the initiative and the effects it was expected to have on California eminent domain law. According to the initiative's language, the proposition, if it passed, would apply to pending eminent domain cases and would affect every public agency in the state.

There was significant support for the proposition as shown by a Field Poll taken between July 10 and July 23, 2006. That poll showed 46% support for the proposition, with 31% opposed and 23% undecided (error of plus or minus approximately 4%). Although it was ultimately defeated, in November, 2006, it generated significant concern since it would apply to pending cases, including the Gaslamp Renaissance Hotel Project. The immediate impact if the measure passed was unknown: would the pending eminent domain appeals be dismissed; would the condemnation action by the Agency be invalidated immediately; would the property be returned to its original owner; would the developer be required to pay damages to the original owner to compensate him for all costs associated with the loss of his property through the eminent domain process? These are but a few questions raised about what might have happened if the Anderson Initiative passed, which looked likely as recently as July 2006.

On behalf of GRH, for months prior to the November, 2006 election, this office sought input from the Agency, title companies, insurance underwriters, financial institutions, and attorneys about their views on the effect of the passage of the Anderson Initiative and reviewed a myriad of articles on the topic. There were a wide range of opinions, none of which were positive, which we shared with our client. All predictions of likely scenarios were negative in nature since the initiative provisions would have applied to the Renaissance Hotel Project.

the Agency have physical possession of the property pending the appeals. Still at issue among other matters is whether the Agency properly followed all of the necessary procedures in its right to take process for condemning private property.

The legal process has been lengthy, is not yet finished and the end is not yet in sight. Attached hereto is a chronology of the litigation prepared by litigation counsel for the Agency. *See*, Exhibit 3. There have been multiple Superior Court hearings regarding Mr. Mesdaq's claims that the Agency's process was flawed but his claim has not succeeded before the Superior Court to date. Despite his setbacks in the Superior Court, Mr. Mesdaq filed an appeal with the California Fourth District Court of Appeal. In addition, the Agency appealed the trial verdict and that appeal is also pending. Both the Agency and Mr. Mesdaq have filed briefs and other pleadings with the Fourth District Court. Oral argument on the appeals has been scheduled for July 17, 2007 before the Fourth District. However, the Fourth District, like other courts of appeal, does not have set timelines on when rulings will be issued. Thus, at present, the parties do not know when the Court will issue its decision on the appeals.

In addition, a ruling from the Fourth District does not mean that litigation will be completely finished. The parties do not have to end the Court proceedings after the Fourth District issues its ruling. An aggrieved party has the right to appeal the Fourth District's ruling to the California State Supreme Court. It is not unusual for a case to be at the California Supreme Court for a year or longer. Thus, at this time, it is impossible to determine when Court proceedings may finally come to a conclusion. Similarly, it is impossible to say with certainty what the ultimate ruling will be on the question of vesting of title to the property.

Market Factors

Hotel facilities were changing in reaction to market forces even while the DDA was being negotiated and finalized. Hotel costs have risen over the years. In response to greater competition for hotel guests, hotel facilities were changing and concepts are being revised. In the present matter the original interior hotel floor plan is being reconsidered to reflect more updated ideas in the industry.

As a result, GRH and Marriott have determined that the hotel floor plan needed to be updated to meet new industry standards. For instance, to make the hotel more attractive, the ballroom and pre-function area should be moved to the ground floor, instead of remaining on the second floor, which was the original concept. A fitness and health spa should be added to the first parking level. Further, a third level of underground parking should be added to increase capacity. All of these decisions increase the cost of the hotel construction. Based on those unanticipated costs, GRH has realized that it needs additional financial assistance to meet Marriott Hotel's requirements.

HHGaslamp's Role in the Project

The soaring hotel construction costs, the Superior Court ruling in favor of Mr. Mesdaq with respect to the value of his property, the subsequent appeals over the Agency's attempts to obtain title to the property, Proposition 90 issues, the lack of title insurance and numerous other issues have resulted in the Project's inevitable delay amid rising costs. For these business reasons, GRH entered into negotiations with HHGaslamp whose principal is Sajan Hansji, of Hansji Hotels, a reputable hotel

Conclusion

As described above, the Project delay is the result of events beyond either GRH or the Agency's control. GRH respectfully requests that GRH be permitted to enter into a Second Implementation Agreement with the Agency. It is our opinion that the proposed Schedule of Performance and the proposed modification of the Scope of Development fairly take into account those factors outlined above and will ultimately result in the completion of the Gaslamp Marriott Renaissance Hotel.

GRH is prepared to move forward with the development and construction of the improvements on the site and timely satisfy its remaining obligations under the DDA. Thank you for your consideration of this matter. We are available as always to respond to any questions or comments you may have.

Very truly yours,



Cynthia L. Eldred, Esq.

THE LAW OFFICE OF CYNTHIA L. ELDRED

Attachments

Cc: (all by electronic mail only)
GRH, LLC
Murray O. Kane, Esq.

Milestone	Hansj Hotels, Inc. Proposed Date
1) Awbrey, Cook, McGill Schematics Phase I - 30% Complete [CCDC Board Subcommittee Review]	June 8, 2007
2) Awbrey, Cook, McGill Schematics Phase II - 60% Complete [CCDC Board Review]	June 25, 2007
3) Execution of Management Agreement with Marriott International on or before:	July 2, 2007
4) Awbrey, Cook, McGill Schematics Phase III - 75% Complete [Redevelopment Agency Presentation]	July 12, 2007
5) Awbrey, Cook, McGill 100% Schematic Drawings Complete	August 6, 2007
6) Obtain approval of the revised Basic Concept/Schematic Drawing from Marriott on or before:	August 24, 2007
7) Submission of revised Basic Concept/Schematic Drawings to CCDC and the Agency on or before:	August 24, 2007
8) Approval of revised Basic Concept/Schematic Drawings by CCDC on or before:	September 30, 2007
9) Submission of 50% Design Development Drawings of revised plans to the Agency on or before:	November 15, 2007
10) Submission of application for grading, excavation, and shoring permit to the City of San Diego on or before:	November 26, 2007
11) Submission of 100% Design Development Drawings of revised plans to the Agency on or before:	December 15, 2007
12) Submission of application for all necessary building and structural permits to the City of San Diego on or before:	March 31, 2008
13) Submission of 80% Construction Drawings and Specifications to the Agency on or before:	March 31, 2008
14) Issuance of grading, excavating and shoring permit on or before:	March 31, 2008
15) Ground Water Testing Commencement (drill wells to establish Rate of Water Flow (RWF) and Toxins to determine level of necessary remediation on or before:	April 1, 2008
16) Mobilization of Traffic Control/Construction and Assembly of Pedestrian Tunnels on or before:	April 28, 2008
17) Commence grading and excavation on or before:	May 12, 2008
18) Plan Check Cycle I/IIa on or before:	June 16, 2008
19) Plan Check Cycle III/IIIIa on or before:	July 21, 2008
20) Plan Check Cycle III/IIIIa on or before:	August 25, 2008
21) Submission of 100% Construction Drawings and Specifications to the Agency on or before:	September 13, 2008
22) Developer shall demonstrate that all approvals have been obtained, and that all conditions for the issuance of all necessary permits have been satisfied (with the exception of payment of fees) on or before:	September 30, 2008
23) Developer shall satisfy all conditions precedent to the closing of all construction financing and as set forth in the DCA for the Acquisition Parcel on or before:	September 30, 2008
24) Close of escrow to convey Acquisition Parcel to Developer on or before:	October 1, 2008
25) Commence construction of the improvements on the Site on or before:	October 1, 2008
26) Complete construction of the improvements on the Site on or before:	July 23, 2011

2

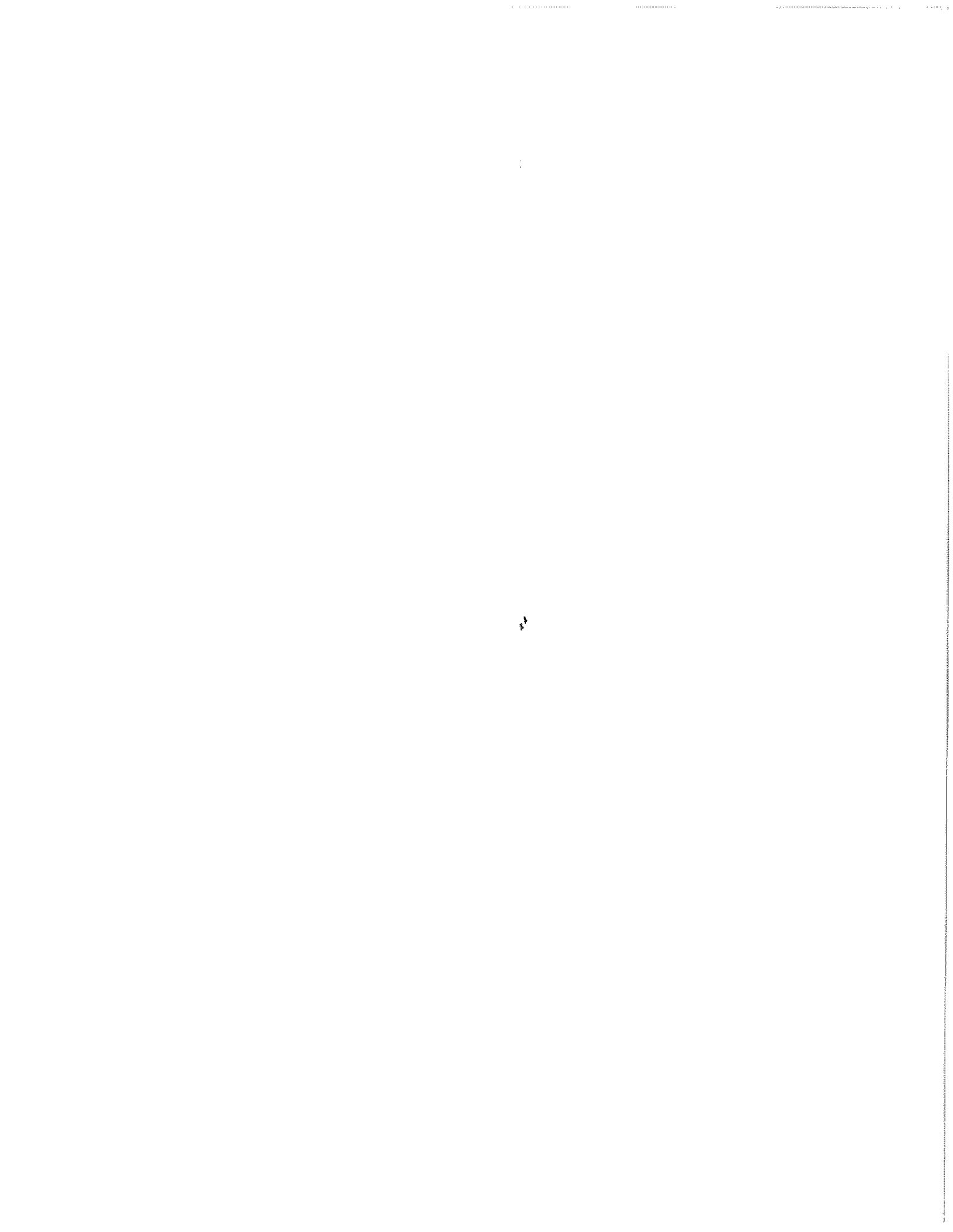
Proposed Modifications and Refinements
Marriott Gaslamp Quarter Renaissance Hotel
June 6, 2007

Proposed modifications and refinements to the approved design relate primarily to internal programming. The exterior elevations remain virtually unchanged.

1. Increase parking from 205 cars (90 stalls) to approximately 250 cars (145 stalls)
2. Provide three levels of underground parking instead of two.
3. Relocate ballroom and pre-function area from the second level to the ground level. The pre-function area will be face 6th Avenue to better activate street frontage.
4. The overall amount of meeting space decreases from approximately 16,126 square feet to approximately 13,900 square feet (2,226 square feet smaller). The ballroom will be approximately 5,200 square feet (1,200 square feet smaller), the meeting rooms will be approximately 4,700 square feet (800 square feet larger) and pre-function area will be approximately 4,000 square feet (1,800 square feet smaller).
5. Increase efficiency by reducing the amount of space dedicated to exiting stairs necessitated by a second level ballroom.
6. Relocate certain back of house functions from the ground level to the P1 and P2 levels.
7. Increase the room count from 334 keys to approximately 350 keys. (Final key count may vary slightly due to combining of bays or splitting of two bay suites)
8. Add a fitness and health spa to the P1 level.

The following elements of the approved plans shall remain virtually unchanged:

1. All exterior elevations remain virtually unchanged although we do anticipate making some minor refinements to the ground level storefronts and adding minor elevation / fenestration refinements to the hotel tower near the elevator core.
2. Above-ground square footage and floor area ratio remain the same.
3. General location of and amount of space devoted to street retail remains the same or greater. The hotel lobby still fronts J Street with additional street retail fronting 5th Avenue. The 424 square foot retail space fronting 6th Avenue moves closer to the J Street corner.
4. Guest room size (bay depth and width) remain unchanged.
5. Materials and colors remain the same.



From: Ed Himmelberg [HimmelbergCompany@cox.net]
Sent: Thursday, June 07, 2007 9:52 AM
To: sajan@hansjihotels.com
Cc: 'Peggy McCarberg'; rsamimi@pacbell.net; 'Lee Gibbs'
Subject: FW: San Diego Gaslamp Renaissance

Importance: High

From: Capuano, Tony [mailto:Tony.Capuano@marriott.com]
Sent: Thursday, June 07, 2007 9:52 AM
To: sanchez@ccdc.com
Cc: himmelbergcompany@cox.net
Subject: San Diego Gaslamp Renaissance
Importance: High

Eli -

It is with great pleasure that I reconfirm Marriott International's enthusiastic support for the proposed Renaissance Hotel and the involvement of the Hansji Group. We recently received corporate approval for the revised transaction/ownership group. We are working to finalize all binding documents and looking forward to commencing construction.

If you should have any questions or require any additional information, please do not hesitate to contact me directly.

*Anthony Capuano
EVP North American Full-Service Development
Marriott International
One Marriott Drive, Dept. # 30/921.09
Washington, D.C. 20058
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