

STANDING COMMITTEES

Finance and Asset Management Committee

Fairmont Olympic Hotel: Approve Ground Lease Extension and Delegate Execution of Documents

RECOMMENDED ACTION

It is the recommendation of the administration, the Advisory Committee on Real Estate, and the Finance and Asset Management Committee that the Board of Regents:

1. Approve an eight-year ground lease extension and related documents for the continued operation of The Fairmont Olympic Hotel and subsequent transfer fees funded by the Tenant; and
2. Delegate to the President the authority to execute all documents related to this transaction.

BACKGROUND

The Fairmont Olympic Hotel was constructed in 1924 on a ground lease with the University and was originally owned and operated by Community Hotel Corporation. It has since been through multiple owners, operators and renovations. In 1980, JMB Realty signed a new 60-year ground lease with the University, hired the Four Seasons as operator and completed a major remodel including converting the hotel from 850 to 450 rooms. In 2003, the leasehold interest was sold to Legacy REIT and Fairmont took over hotel operations.

In 2007, LHCS LLC, an entity of which the majority is owned by Ivanhoe Cambridge, a division of Caisse de dépôt et placement du Québec, purchased the leasehold interest and retained Fairmont as the operator. In 2014, LHCS LLC became IC/RCDP Seattle Hotel, LLC (the Tenant) and added minority owners Rockwood Capital and DiNapoli Partners to asset manage the property. In 2016, the Tenant made over \$30 million of improvements to all of the rooms in the hotel.

On May 19, 2019, the Regents approved extending the ground lease 56 years to 2075. This was 35 years past the previous expiration in 2040. The agreement required the Tenant to invest \$25 million in renovation of public spaces within the hotel and meet subsequent scheduled capital improvements. The agreement included early reversion of the parking garage ownership to the University in 2040, a key element. The agreement also raised the rent floor and kept the

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existing base rent formula. Further, extensive revisions were made to the lease to provide more clarity and objectivity.

In March 2020 the hotel was shut down due to the COVID-19 pandemic. The Tenant approached the University in May and asked for an additional 8-year lease extension. The pandemic has decimated their business and they needed to re-assess their immediate and long-term plans. They predicted it will take at least 3-4 years to restore the hotel to previous stabilized revenues. They asked for a lease term of approximately 60 years after full stabilization, to improve the marketability of the asset. It is important to note that the Tenant has always been transparent about their intent to sell their leasehold interest in the property. After some negotiation we agreed to an 8-year extension among other conditions outlined below.

PROPERTY DESCRIPTION

The Fairmont Olympic Hotel site is located at the south-central portion of the Metropolitan Tract. It is bounded by Seneca Street to the south, University Street to the north, 4th Avenue to the west and 5th Avenue to the east. The hotel site totals 61,269 square feet and contains a 542,000 square foot hotel with 450 guest rooms. In addition, the parking garage site is located on the block south of the hotel. It is bounded by Stewart Street to the south, Seneca Street to the north, 4th Avenue to the west and an alleyway to the east. The garage site totals 29,000 square feet and contains a 279,000 square foot garage with 787 stalls.
(Attachment 1 – Site Plan)

AMENDED TRANSACTION STRUCTURE

- Document
 - Amended and Restated Hotel Ground Lease
- Parties
 - Landlord: The Board of Regents of the University of Washington
 - Tenant: IC/RCDP Seattle Hotel, LLC
- Land Parcels
 - Hotel block described above
 - Garage site described above
- Primary Terms of Amended Agreement
 - The ground lease will be extended an additional 8-years ending October 1, 2083 (formerly 2075)

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- IC/RC may use up to \$2 million of savings (if any) from the \$25 million remodel that can be applied to near-term operating deficits
- IC/RC may use up to \$1 million of the required Furniture, Fixtures & Equipment (FF&E) reserves to cover operating shortfalls, provided that the FF&E reserves are fully replenished by January 1, 2022
- The transfer fee for the initial transfer and all subsequent transfers will be increased from 1.0% to 1.5% of the gross sales price
- As per the current agreement, no sale or transfer can occur until all work is complete and all contract requirements are met including replenished reserve funding

TRANSACTION REVIEW

The Tenant (IC/RCDP) has been a good partner. They executed on all recently agreed upon terms, have operated with transparency, and are in the process of completing \$55 million of improvements undertaken over the past 5 years. Since COVID-19 hit, they have not asked for free rent and have continued to pay the minimum base rent of \$3.5 million per year. It is a material benefit to the University to increase our participation fee by 50 basis points in any sale or transfer.

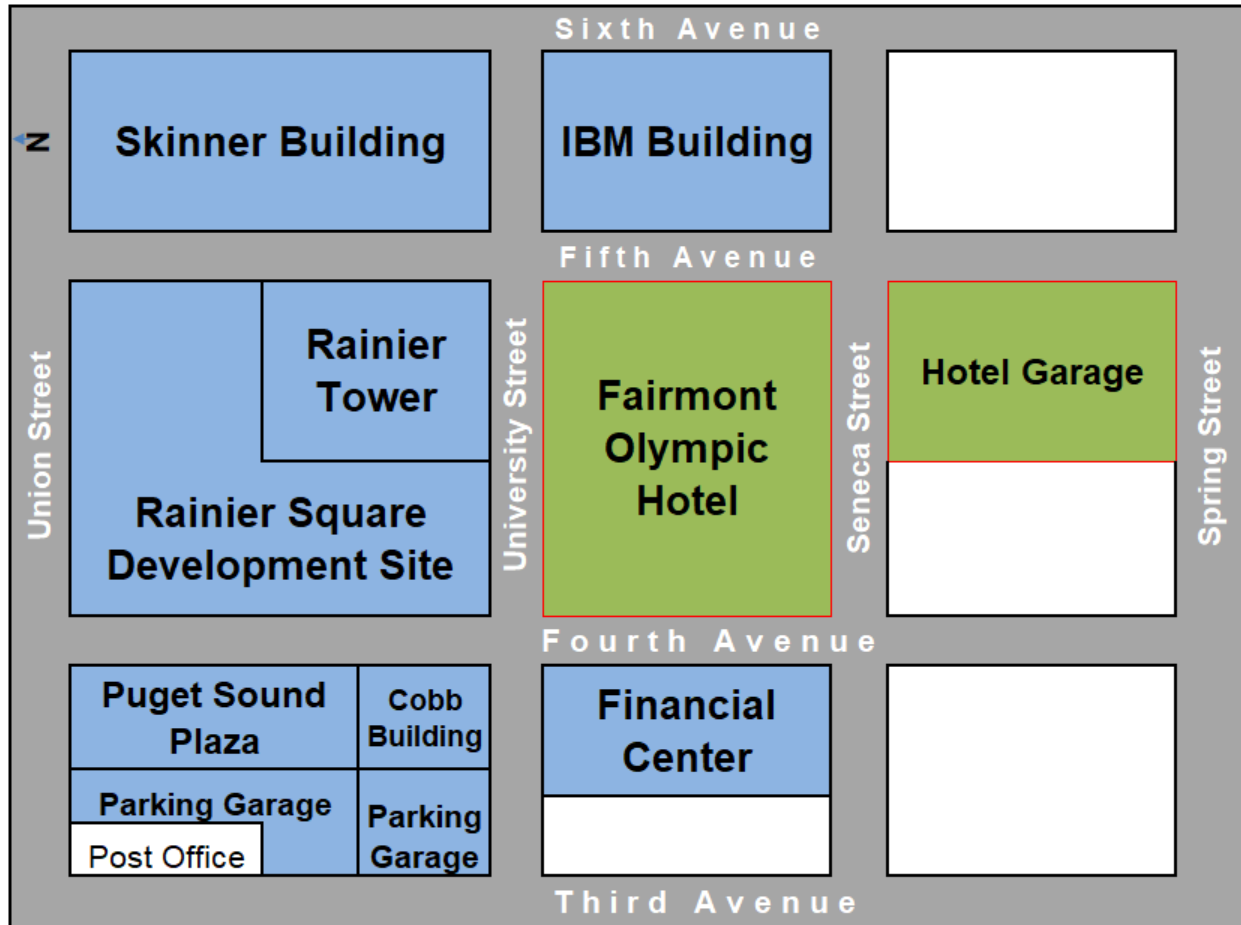
REVIEW AND APPROVAL

This item has been reviewed and recommended for approval by the Chief Real Estate Officer, the UW Advisory Committee on Real Estate, and the Vice President of Facilities.

Attachments

1. Fairmont Olympic Hotel Site Plan
2. Fairmont Olympic Hotel Photo

Fairmont Olympic Hotel Site Plan



Fairmont Olympic Hotel Photo

