

MINUTE ITEM

This Calendar Item No. C50 was approved as Minute Item No. 50 by the State Lands Commission by a vote of 3 to 0 at its 10-17-95 meeting.

CALENDAR ITEM
C50

A 19

10/17/95

S 8

PRC 4689

WP 4689

PRC 4690

WP 4690

PRC 4691

WP 4691

Plummer
Stevenson

CONSIDER ASSIGNMENT OF GENERAL LEASE-COMMERCIAL USE PRC 4689.1, 4690.1 and 4691.1 FOR THREE PARCELS OF FILLED TIDE AND SUBMERGED LANDS IN THE CITY OF BURLINGAME, SAN MATEO COUNTY

ASSIGNOR:

San Francisco International Airport Hometel (On-The-Bay) Limited Partnership
C/O Crown Sterling Suites
3131 Turtle Creek Blvd., Suite 1300
Dallas, Texas 75219-5400

ASSIGNEE:

FelCor/CSS Holdings, L.P., a Delaware limited partnership
William Square
5215 N. O'Conner Blvd.
Suite 330
Irving, Texas 75039

AB 884:

N/A

BACKGROUND

At its July 6, 1972 meeting, the Commission approved three leases between the State and Anza Pacific Corporation for filled and partially filled tidelands along San Francisco Bay, in the City of Burlingame, San Mateo County. The leases commenced July 1, 1972, for a term of 66 years, and will expire June 30, 2038. Subsequently, at its meeting of March 24, 1983, the Commission approved an assignment and amendment of the leases to Hometels Development Corporation to construct an approximate 360-room, ten story hotel, together with a restaurant, lounge, typical hotel concessions and public park. The leases were later assigned to San Francisco International Airport Hometel (On-The-Bay) limited partnership, (Hometel).

At its meeting on March 26, 1987, the Commission approved Manufacturers Hanover Trust

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Company (Hanover) as secured party lender to provide \$24,500,000 in financing for the construction and operation of the hotel. Chemical Bank became successor by merger to Hanover.

CURRENT INFORMATION:

Hometel has entered into an agreement to sell and convey the leasehold estate to FelCor/CSS Holdings, L.P., a Delaware limited partnership (FelCor/CSS). It is anticipated that on or before February 28, 1996, FelCor/CSS will be owned by FelCor Suite Hotels, Inc., a Maryland corporation which is treated as a real estate investment trust for tax purposes (the "REIT"), through its subsidiary, FelCor Suites Limited Partnership. This acquisition by the REIT is anticipated to be funded by a public stock offering.

The REIT, due to tax law restrictions, cannot operate a hotel business. Therefore, FelCor/CSS proposes to sublease all of its rights under the leases to an affiliate, DJONT Operations, L.L.C., a Delaware limited liability company ("DJONT"). DJONT intends to enter into new management and franchise agreements with Promus Hotels, Inc. or its subsidiary. Additionally, the name under which the hotel operates will be changed from "Crown Sterling Suites" to "Embassy Suites".

As a part of the acquisition, the existing loan with Chemical Bank, which now stands at approximately \$20 million, will be extinguished. FelCor/CSS has secured loan financing from Smith Barney Mortgage Capital Group, Inc. to fund the acquisition up to \$20 million.

Pursuant to Paragraph 20 of the leases, the Lessee may not assign, transfer or sublease any part of the leases without written approval of the State. Paragraph 21 requires State approval for any encumbrancing of the leasehold estate and for any substantial change of ownership interests in the lessee.

EXHIBITS:

A. Location Map

**RECOMMENDED
ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA
FINDING:**

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND 14 CAL. CODE REGS. 15378.

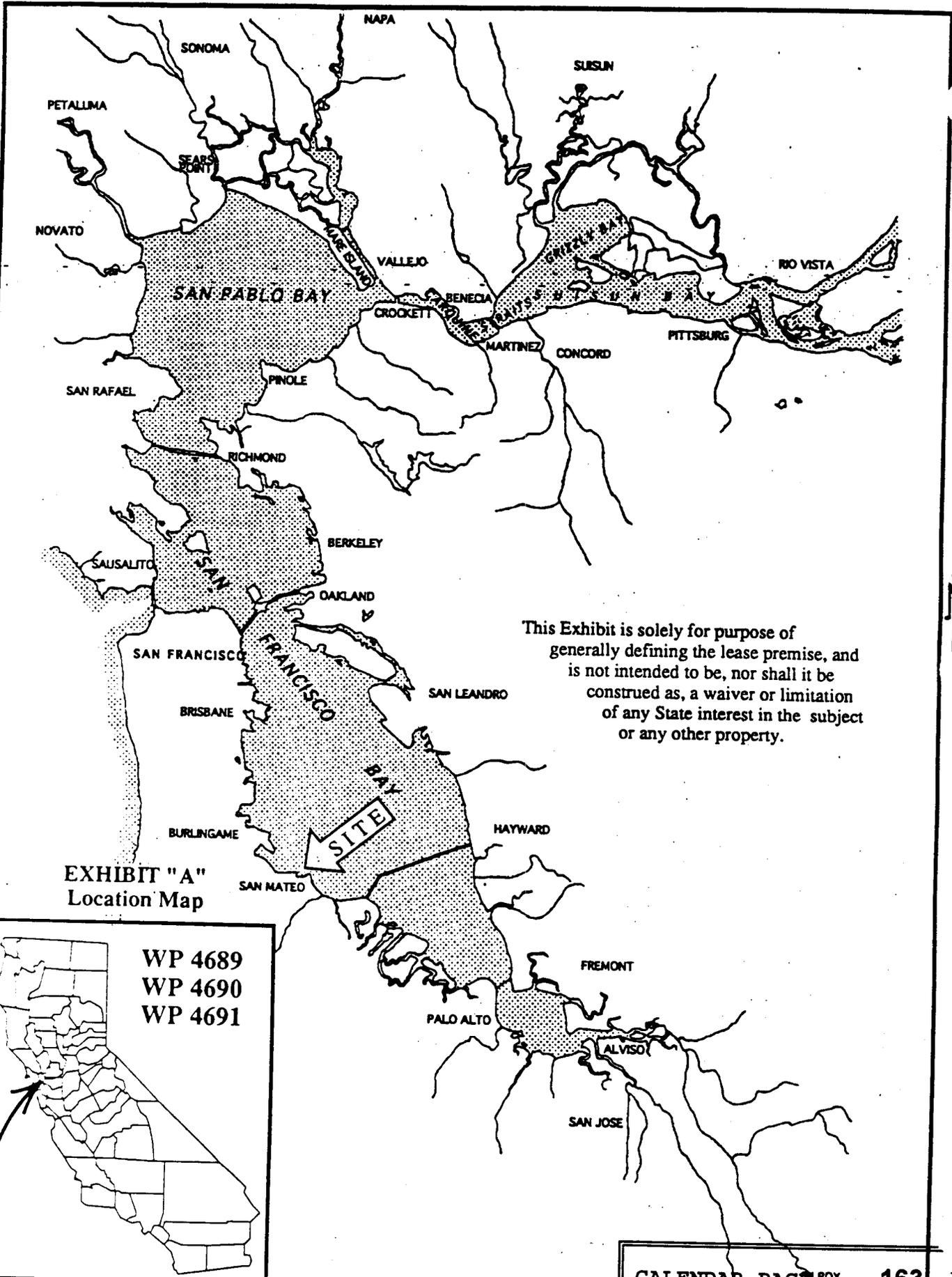
CALENDAR ITEM NO. C50 (CONT'D)

**SIGNIFICANT LANDS
INVENTORY FINDING:**

FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTION 6370, ET SEQ.

AUTHORIZATION:

1. AUTHORIZE THE ASSIGNMENT OF LEASES PRC 4689.1, 4690.1, AND 4691.1 FROM SAN FRANCISCO INTERNATIONAL AIRPORT HOMETEL (ON-THE-BAY) TO FELCOR/CSS HOLDINGS L.P., A DELAWARE LIMITED PARTNERSHIP BY DOCUMENT WHICH PROVIDES FOR THE ASSIGNMENT OF SUBLEASE RENTS AND OTHER PAYMENTS TO LESSOR IN THE EVENT OF DEFAULT. ALL TERMS OF THE ORIGINAL LEASES, AS AMENDED, ARE IN FULL FORCE AND EFFECT.
2. AUTHORIZE THE ENCUMBRANCING OF THE LEASEHOLD ESTATE BY FELCOR/CSS HOLDINGS L.P., A DELAWARE LIMITED PARTNERSHIP, FOR UP TO \$20 MILLION FOR THE PURPOSE OF FINANCING THE ACQUISITION OF THE LEASEHOLD AND APPROVE SMITH BARNEY MORTGAGE CAPITAL GROUP, INC. AS SECURED PARTY LENDER, ALL AS CONDITIONED UPON THE TERMINATION OF THE EXISTING ENCUMBRANCING AGREEMENT.
3. AUTHORIZE A SUBLEASE FROM FELCOR/CSS TO DJONT OPERATIONS, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY BY SUBLEASE AGREEMENT WHICH REQUIRES THAT THE SUBLESSEE ASSUME ALL OBLIGATIONS OF THE LEASE AND ABIDE BY LEASE TERMS AND WHICH PROVIDES FOR THE EFFECTIVE ADMINISTRATION OF THE LEASE PROPERTY BY SUBLESSEE; AUTHORIZE MANAGEMENT AND FRANCHISE AGREEMENTS BETWEEN DJONT AND PROMUS HOTELS, INC., OR ITS SUBSIDIARY; AND THE NAME UNDER WHICH THE HOTEL OPERATES FROM CROWN STERLING SUITES TO EMBASSY SUITES.
4. AUTHORIZE THE ACQUISITION BY FELCOR SUITE HOTELS, INC., ACTING THROUGH ITS WHOLLY OWNED SUBSIDIARY, FELCOR SUITES LIMITED PARTNERSHIP, OF A MAJORITY OR TOTAL INTEREST IN FELCOR/CSS, PROVIDED THAT (1) THE ACQUISITION CLOSES ON OR BEFORE FEBRUARY 28, 1996. AND (2) FELCOR SUITE HOTELS, INC. MAINTAIN A DEBT LIMITATION OF NOT GREATER THAT 40 PER CENT AT THE TIME OF ACQUISITION.
5. AUTHORIZE STAFF TO TAKE ALL ACTIONS NECESSARY TO EFFECTUATE THIS CHANGE OF OWNERSHIP AND SUBSEQUENT SUBLEASE FOR THE CONTINUED OPERATION OF THE HOTEL, INCLUDING THE EXECUTION AND RECORDATION OF NECESSARY DOCUMENTS.



This Exhibit is solely for purpose of generally defining the lease premise, and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

EXHIBIT "A"
Location Map

