



**Ted Fikre**  
Vice Chairman  
Chief Legal and Development Officer

June 14, 2016

Honorable Mike Feuer  
City Attorney  
City of Los Angeles  
City Hall East  
200 N. Main Street, 8<sup>th</sup> Floor  
Los Angeles, CA 90012

Dear City Attorney Feuer:

Thank you for taking the time to meet with us and for the attention you paid to our concerns. As we discussed, the City appears to be moving forward with a process that could dramatically impact AEG's rights and run afoul of the agreements between AEG and the City. Given the importance of the issues at stake, we thought it would be useful for us to follow up with this letter and provide the attached details.

While the City has acknowledged that AEG has a variety of rights and interests that could be implicated by certain of the proposed plans for the Convention Center, we fear that some City officials may not fully appreciate the nature, complexity and importance of the issues involved, as those individuals continue to advocate for plans that would violate our legal rights.

As you know from your tenure on the City Council, AEG and the City agreed to a 55-year development deal in 1997. The essence of that agreement was that AEG would invest capital to build STAPLES Center, the Convention Headquarters Hotel (which ultimately became the JW Marriott/Ritz-Carlton hotels) and L.A. LIVE, thereby redeveloping a severely blighted area and revitalizing the City's Convention Center and the downtown area. AEG delivered on its promise and the City has received the benefits it bargained for.

In the continued spirit of cooperation and partnership, last year AEG proposed a 755-room expansion of the JW Marriott in response to the City's expressed desire for additional development of large room blocks within walking distance of the Convention Center. We had hoped that this expansion project, together with various other hotel development projects in the current development pipeline, could help achieve the City's stated objective of reaching a total supply of 8,000 hotel rooms in the vicinity of the Convention Center.

After reaching an agreement with City staff on the terms of support for which this proposed Convention Headquarters Hotel expansion would qualify under the City's standard policies and practices for hotel development incentives, AEG was recently informed that in order for the City to proceed with its support of the project, AEG must agree to surrender critical rights at the Convention Center (which are unrelated to the proposed JW Marriott/Ritz-Carlton expansion) in order to make way for the construction of a second 1,000-room headquarters hotel on areas of the Convention Center immediately adjacent to STAPLES Center. As a point of reference, we are attaching a brief description of the various contractual and property rights that would likely be impacted by that proposed on-site hotel project as we understand it. We believe the proposal for a second convention headquarters hotel is a fundamental violation of the deal entered into by AEG and the City, and would deprive AEG of the benefit of the agreement it negotiated with the City, and which it expects to enjoy for the next 37 years.

This effort to now require AEG to surrender rights that the City previously granted is particularly troubling given that it was the City who required that AEG build the Convention Headquarters Hotel as an express condition to its rights, and AEG did so. At tremendous risk, after multiple failed attempts to secure a third-party hotel developer willing to take on the burden of building the project, and in the midst of the financial crisis and severe recession, AEG undertook the billion dollar development of the JW Marriott/Ritz-Carlton L.A. LIVE project to satisfy the City's long-standing desire for a Convention Headquarters Hotel, which AEG understood the City felt was essential for the Convention Center to prosper.

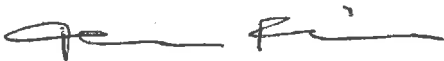
AEG remains a strong advocate for the need to significantly improve and expand the Convention Center in order to retain and attract larger group events and make Los Angeles a premier convention destination. However, we are concerned that rather than pursuing a cost-effective expansion focused on addressing the clear need for additional contiguous exhibition space, some at the City have embarked on a plan, including an on-site convention headquarters hotel, that will likely cost well over a billion dollars to construct, with the vast majority of funding for such project coming in the form of public debt and subsidies, and which is in fundamental violation of AEG's agreement with the City.

The development of a second headquarters hotel was not a part of the deal when the City insisted that AEG build a Convention Headquarters Hotel. We believe that the effort of the City to now usurp the status of the JW Marriott/Ritz-Carlton L.A. LIVE as the Convention Headquarters Hotel violates the Disposition and Development Agreement and related agreements. Further, the proposed new hotel on the Convention Center property would most certainly necessitate an enormous level of public financial assistance likely well beyond the current City policy and related practices. Such a project would likely also stifle the robust private hotel development initiatives that are currently underway in the vicinity of the Convention Center. With a footprint that will require approximately 3 to 4 acres of real estate, the proposed on-site hotel will also greatly constrain future Convention Center expansion opportunities on limited contiguous Convention Center property.

Since 1997, AEG has lived up to its promises—proving time and again that it is a committed and trusted partner with the City, having invested billions of dollars in capital to build STAPLES Center, the JW Marriott/Ritz-Carlton hotels, and the rest of the L.A. LIVE campus. AEG's successful operation of these projects has generated thousands of events and attracted over 200 million visitors since they opened, leading the rejuvenation of downtown Los Angeles and providing massive economic stimulus to the region.

The proposed on-site hotel would violate AEG's contract rights, property rights and entitlements, all of which date back to 1997, and would unfairly interfere with AEG's right to enjoy the benefit of its bargain. We respectfully request that you and your client give due consideration to our concerns and refrain from proceeding with any proposed plans that would violate AEG's legal rights, causing the potential for severe operational and economic consequences to AEG.

Very truly yours,



Ted Fikre

Attachment

## AEG CONTRACTUAL AND PROPERTY RIGHTS

### The Disposition and Development Agreement (“DDA”) and The Overall Deal

- In entering into the DDA in 1997 and each of the later iterations of the DDA and related agreements, the fundamental City goals were to require construction of a Convention Center “Headquarters Hotel” and to revitalize the area around the Convention Center and throughout the Central Business District. The fundamental AEG goals were the development of the STAPLES Center, the Convention Hotel and the L.A. LIVE campus. These fundamental and complementary goals are restated throughout the applicable agreements from 1997 to the present.
- By name, definition and purpose, the hotel that is called for by the DDA was and is THE “Headquarters Hotel” for the Convention Center. The 1,001 room JW Marriott and Ritz-Carlton hotels at L.A. LIVE (which opened in 2010), together, comprise the Convention Center Headquarters Hotel.
- This fundamental understanding is evident throughout the DDA, and was clearly understood by those who were involved in the negotiation and documentation of the DDA and related agreements.
- As demonstrated through the range of contractual provisions below, the DDA and related agreements and entitlements are not discrete stand-alone pieces independent of one another. Rather there is an interrelationship of agreements and provisions that together led to the construction of the Convention “Headquarters Hotel” along with STAPLES Center and L.A. LIVE.
- The DDA and related agreements all include an implied covenant of good faith and fair dealing which requires that neither party do anything to unfairly interfere with the other’s right to receive the benefits of the contract. Construction of an on-site hotel or mixed-use development on Convention Center property would unfairly interfere with AEG’s rights, thereby depriving AEG of the benefit of its bargain with the City.

### Parking Rights

- Pursuant to the Parking Lease dated November 10, 2005 (the “WH/CS Garage Lease”) between AEG and the City, AEG has a long-term lease to 2053 for use of parking spaces in both the West Hall Garage (currently 689 stalls (the “WHG Stalls”)) and the Cherry Street Garage (currently 494 stalls (the “CSG Stalls”)) for all STAPLES Center events, as well as all other events occurring within the Los Angeles Sports and Entertainment District (“LASED”) (Recital E, Sec. 3.2(a)).
- The “Premises” under the WH/CS Garage Lease is defined to include not only all of the aforementioned parking stalls, but the structures in which such stalls are located, and all vehicular and pedestrian ingress and egress with respect to such stalls (Recital E).
- All of the stalls are intended, and expressly permitted, to be used for Arena code parking requirements and/or LASED code parking requirements (Sec. 3.2(c)).
- The WHG Stalls and CSG Stalls, which are proximately located to STAPLES Center, are utilized to meet the parking needs of some of the arena’s most important customers, including STAPLES Center’s premium seat holders who account for the single biggest revenue source supporting

AEG's investment in the arena. The displacement of this parking could severely impair STAPLES Center's ability to successfully market and service its premium seating products.

- Subject to the City's reasonable consent, AEG has the right to use additional stalls within Cherry Street Garage (Sec. 3.2(a)).
- AEG has the right to reconfigure or restripe the CSG Stalls and WHG stalls (at its expense), and if the re-striping results in additional parking spaces, such additional spaces shall be included within AEG's leasehold interest (Sec. 5).
- WH/CS Garage Lease grants AEG rights to install commercial signage in both parking facilities subject to revenue sharing with the City (Sec. 3.2(a)(v)).
- AEG has the right to operate the parking facilities for both its own benefit and for the benefit of the City (Sec. 3.2(a)(i)).
- AEG has the unilateral right to develop a parking structure (contemplated to include approximately 600 parking stalls) on Bond Street lot owned by the City to be used primarily by AEG (Sec. 30).
- The City has the limited right to provide AEG with alternate parking facilities reasonably acceptable to AEG solely if the City "seeks to expand the Convention Center, and all or any portion of the Premises is unavailable to Tenant *due to such expansion.*" This right does not allow the City to permanently demolish the West Hall in order to accommodate a hotel or mixed-use real estate development (Sec. 11).
- Construction of an on-site hotel or mixed-use development displacing the WHG stalls or the CSG Stalls would materially impair AEG's parking rights. AEG's remedies in the event of any breach by the City under the WH/CS Garage Lease are cumulative, and include all measures of equitable or injunctive relief including specific performance (Sec. 16).

### Use and Access Easements

- Pursuant to the Reciprocal Easement and Environmental Restriction Agreement dated March 26, 1998, as amended (the "REA"), between AEG and the City, AEG has broad pedestrian, roadway, and utility easements throughout all portions of the Convention Center campus, including throughout West Hall, Gilbert Lindsay Plaza and all surrounding pedestrian and vehicular access routes (Articles 1 & 2).
- The easements are not limited to any specifically defined area, but are instead defined to include all of "the exterior roadways, exterior walkways, exterior bridges, tunnels, exterior courtyards and other exterior pedestrian access ways..." throughout LACC property (Art. 1, Ex. A).
- Key easement areas include (a) the roadway and ramp to STAPLES Center's loading docks providing access to, among others, service vehicles, players, and artists performing at the arena, (b) areas providing access to West Hall valet and VIP parking in West Hall Garage, and (c) Gilbert Lindsey Plaza which sits in front of one of STAPLES Center's three main entrances.
- The City has no express right under the REA to relocate the Gilbert Lindsay Plaza Surface Easement. The City may only modify or relocate any of the other easements granted to AEG with AEG's prior written approval, not to be unreasonably withheld (Sec. 1.7).

- The REA cannot be amended without AEG's written consent (Sec. 16.3).
- Construction of an on-site hotel or mixed-use development on Convention Center property subject to above easements would materially impair AEG's use and access of those easements. Except only for a limitation on consequential or punitive damages, AEG's remedies in the event of any breach by the City under the REA are cumulative, and include all measures of equitable or injunctive relief including specific performance (Sec. 13.3).

### Signage Rights

- The REA grants AEG rights to place certain signage on the "green wall" and on the marquee constructed in the vicinity of the Venice Garage property (Sec. 4.2).
- The REA also includes various signage rights and protections for the benefit of AEG. Among other things, the applicable provisions preclude the City from selling/displaying exterior commercial signage other than customary temporary LACC event banners (Article 4).
- AEG's affirmative signage rights on the green wall and the 10 freeway marquee extend for the full duration of the Arena Ground Lease (through 2053).
- The restrictions on competing signage at the Convention Center expire in September 2024; however until the termination of the Arena Ground Lease, the City has no right to change the name of the Convention Center or any ancillary facilities from the "Los Angeles Convention Center" to any name which includes or makes reference to any commercial name or product.
- Construction of an on-site hotel or mixed-use development on Convention Center property could materially impair AEG's signage rights.

### Leased Property

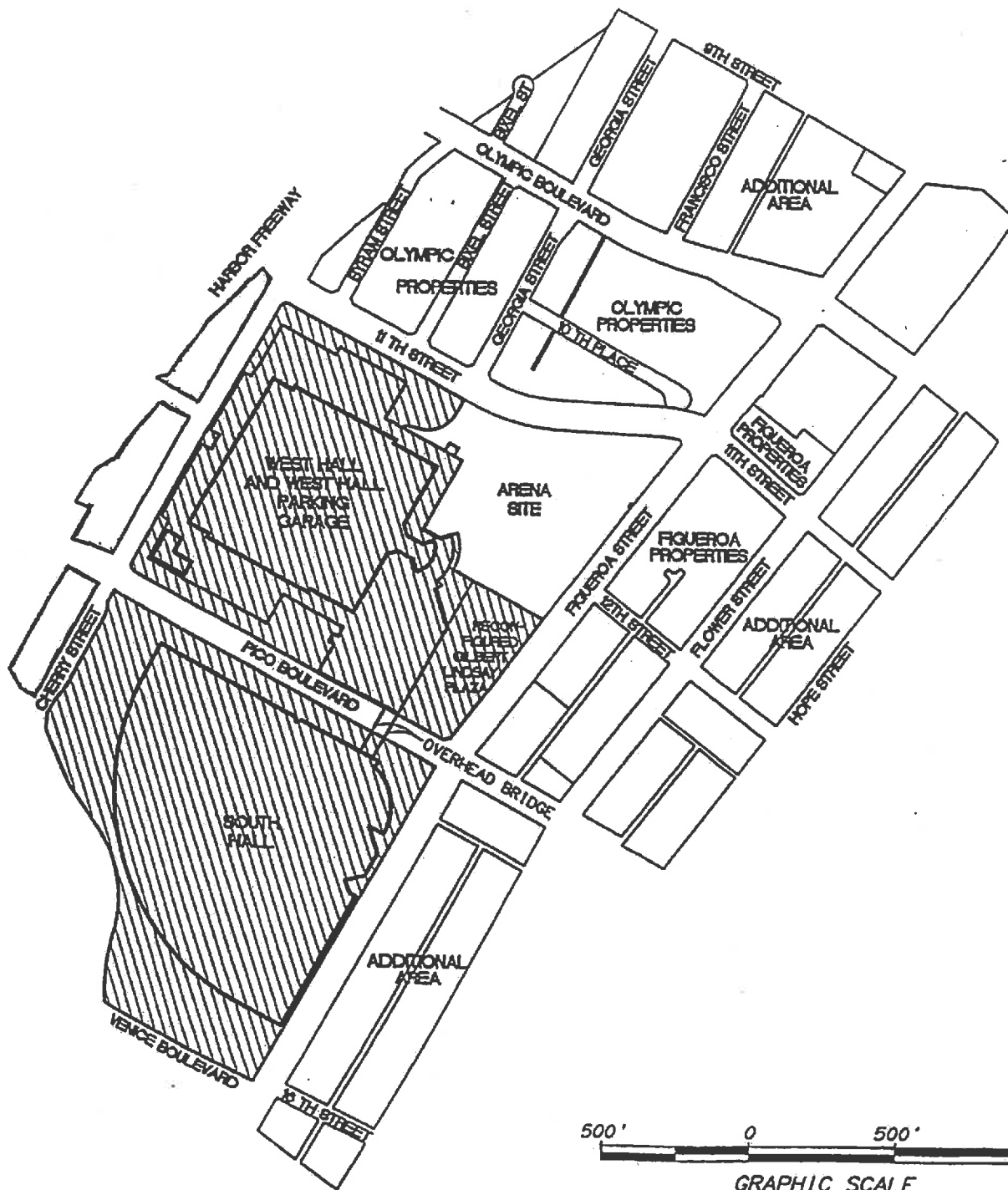
- The existing parcel leased to AEG pursuant to the Arena Ground Lease dated March 26, 1998 (the "**Arena Ground Lease**") by and between AEG and the City would likely require adjustment in order to accommodate the proposed hotel development on the LACC site currently being contemplated by the City. For reference, see the attached site plan, which was a part of the original DDA and remains an accurate depiction of the Convention Center Property and its relationship to the Arena Site.
- Any adjustment of the demised premises under the Arena Ground Lease would require AEG's written consent, as well as the written consent of any "Leasehold Mortgagee(s)" (Sec. 42.10).
- Maximizing the buildable footprint for a hotel and other uses around the West Hall site would most likely necessitate (a) shifting a portion of existing STAPLES Center site out of the demised premises, (b) replacing STAPLES Center loading ramp with a reconfigured ramp that will free up part of the area around the West Hall, and/or (c) relocating existing chiller plant and recently installed Bloom Energy cells. Maintaining continuous access to the STAPLES Center loading ramp will be extremely challenging.
- Construction of an on-site hotel or mixed-use development on Convention Center property could materially impair AEG's Arena Ground Lease.

SCALE: 1" = 500'

SHEET 1 OF 1 SHEET

# CONVENTION CENTER PROPERTY

IN THE CITY OF LOS ANGELES  
COUNTY OF LOS ANGELES, STATE OF CALIFORNIA



GRAPHIC SCALE

1" = 500'