



**DATE:** November 7, 2023

**TO:** Mayor and City Council

**FROM:** Director of Public Works

**SUBJECT:** Adopt a Resolution Authorizing the City Manager to Negotiate and Execute a Third Amendment to the Existing Ground Lease with Mahabal Hospitality, LLC

## **RECOMMENDATION**

That the Council adopts a resolution (Attachment II) authorizing the City Manager to negotiate and execute a Third Amendment to the Ground Lease with Mahabal Hospitality, LLC.

## **SUMMARY**

In November 2017, the City entered into lease agreements with Mahabal Hospitality, LLC and Ramesta Hospitality, LLC to build two new hotels on vacant airport parcels. Construction of the Home2Suites hotel (developed by Ramesta Hospitality) was completed in early 2022 and the hotel opened for business in March of that year. Plans and specifications for the Hyatt Place hotel property (developed by Mahabal Hospitality) were approved and construction will commence by the end of 2023.

Prior to construction of the first hotel, the Federal Aviation Administration (FAA) requested additional information regarding siting and penetrations of protected airspace. A seven-month period was required for approval of the revised Airport Layout Plan (ALP) and property release documents by the FAA, causing construction of the Hyatt Place development to be pushed back to November 2020, which is outside the lease-mandated two-year construction timeline of no later than November 2019. Accordingly, an amendment for this extension was approved by Council on October 1, 2019<sup>1</sup> that allowed for a three-year construction window from November 2020 to November 2023. However, soon after the amendment was executed, the COVID19 pandemic impacted development of the Hyatt hotel, including the construction schedule and revenue projections. As a result, the project incurred further, significant delays. As the business environment has returned to pre-COVID19 levels, this third amendment is required to extend the Hyatt Place construction period from June 1, 2023 to June 1, 2026, and allow for construction of a banquet facility and retail space by no later than June 1, 2028.

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<sup>1</sup> <https://hayward.legistar.com/LegislationDetail.aspx?ID=4148712&GUID=4F08BD8E-32C3-42D4-8A30-252061B16693&Options=&Search=>

### Council Airport Committee Review

This item was presented to the Council Airport Committee (CAC) during their October 26, 2023<sup>2</sup> meeting and was unanimously recommended for approval.

### **BACKGROUND**

Over the past several years, staff developed a plan to market non-aeronautical parcels on Airport property. A developer expressed interest in three parcels for the potential development of two hotels. This interest culminated in an agreement on November 14, 2017<sup>3</sup>, Council approved a ground lease agreement between the City and both Ramesta Hospitality, LLC (for the Home2Suites hotel on Hesperian Boulevard), and Mahabal Hospitality, LLC (for the Hyatt Place hotel at the corner of West A Street and Skywest Drive).

On October 16, 2018<sup>4</sup>, a First Amendment was approved by Council in order to finalize financing requirements with the developer's lender for each lease.

On October 1, 2019<sup>5</sup>, a Second Amendment was approved by Council in order to allow for an additional three years to construct the hotel. This request was needed due to a lengthy FAA approval process that in turn affected construction milestones. Additional review time was required due to staff turnover at the FAA:

- A revised Airport Layout Plan (ALP)
- An approved airspace study
- Completion of an FAA property release for non-aeronautical purposes
- The preparation of a site plan and a drawing depicting the hotels in relation to the Federal Regulation, Title 14 Part 77, Safe, Efficient Use and Preservation of the Navigable Airspace, (Part 77) protected airspace has affected construction milestones

The Second Amendment with the hotel developer required that construction for the Hyatt Place hotel be completed by no later than November 30, 2023. However, due to conditions outside of the developer's control, the lease with Mahabal Hospitality, LLC must be amended a third time to permit a revised construction date.

### **DISCUSSION**

The developer is in the process of preparing final environmental documents for the Hyatt Place hotel situated on the corner of Skywest Drive and West A Street. Once approved by

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<sup>2</sup> <https://hayward.legistar.com/MeetingDetail.aspx?ID=1126516&GUID=B3771542-291C-423B-A121-83106DD31F57&Options=info|&Search=>

<sup>3</sup> <https://hayward.legistar.com/LegislationDetail.aspx?ID=3210067&GUID=95082EE2-D0CC-4F2E-B305-9C8291EBF970&Options=&Search=>

<sup>4</sup> <https://hayward.legistar.com/LegislationDetail.aspx?ID=3701970&GUID=B2C33FC2-BA36-4F9D-B545-F8C88FA1D03B&Options=&Search=>

<sup>5</sup> <https://hayward.legistar.com/LegislationDetail.aspx?ID=4148712&GUID=4F08BD8E-32C3-42D4-8A30-252061B16693&Options=&Search=>

the City, the developer will receive a grading permit and break ground later this year. The site for the Hyatt Place hotel is depicted in Attachment III. The leasehold is approximately 160,000 square feet and will contain the following features and amenities:

- A minimum of 110 rooms;
- A banquet facility that seats a minimum of 200 persons, and can be subdivided into three smaller rooms and include retail space;
- A swimming pool; and
- A nationally-branded restaurant.

#### *FAA Approval*

The FAA reviewed documentation for the site, including the ALP, airspace studies, and property releases for non-aeronautical use. They determined that the proposed development is in conformance with FAA standards. The FAA subsequently approved construction of the hotel.

#### *Impact of COVID19*

Soon after approval from the FAA, the COVID19 pandemic impacted work in many different industries, including the construction trades. As a result, work on the Hyatt Place hotel was curtailed until the effects of the pandemic eased and physical and financial conditions improved. In early 2023, the developer submitted construction plans to the City. After several revisions the plans were approved. A second phase of environmental work is underway and results will be forwarded to the City. Once approved, the developer will break ground on the project, which is expected later this year.

#### *Lender Requirements*

To secure new financing, the developer's lender is requesting an amendment to the ground lease that changes the construction timeline for the hotel from a November 2023 completion date to June 1, 2026. A second timeline for the construction of a banquet hall/retail space would allow for completion two years after construction of the hotel, or no later than June 1, 2028. Other changes related to more technical aspects of the lease (address changes, binding effect of amendment, etc.) were also requested by the lender. All other terms and conditions of the lease remain unchanged.

#### Council Airport Committee Review

This item was presented to the CAC during their October 26, 2023 meeting and was unanimously recommended for approval.

### **ECONOMIC IMPACT**

This hotel development will generate work for skilled and unskilled tradespeople during the construction phase, and retail/service sector jobs after the hotel is built.

### **FISCAL IMPACT**

Once a Certificate of Occupancy is issued, the Airport Operating Fund will realize a revenue increase of approximately \$210,000 per year from the Hyatt Place hotel. Additional economic impact from transient occupancy, sales, and property taxes is estimated approximately \$500,000, which will benefit the City's General Fund. The City's General Fund will also benefit from additional business license fees.

## **STRATEGIC ROADMAP**

This agenda item pertains to development at the Airport and does not directly relate to any of the six priorities outlined in the Council's Strategic Roadmap.

## **SUSTAINABILITY FEATURES**

The Airport is strongly committed to developing projects that are environmentally responsible. Therefore, all plans proposed by the developer incorporated features that are compatible with the City's sustainability guidelines.

## **PUBLIC CONTACT**

This topic was discussed at the CAC meeting of October 12, 2017<sup>6</sup>, with unanimous support expressed for the project. Furthermore, the projects were approved by Council on November 14, 2017. The First Amendment for both developments was reviewed and approved by Council on October 16, 2018. The Second Amendment was presented to and approved by the Council Airport Committee on September 19, 2019. This Third Amendment was presented to and approved by the CAC on October 26, 2023. The staff report and relevant attachments for this item have been posted on the City's website and distributed to interested parties.

## **NEXT STEPS**

If approved, Airport staff will prepare the Third Amendment for execution by the City Manager, in a form approved by the City Attorney.

*Prepared by:* Doug McNeeley, Airport Manager

*Recommended by:* Alex Ameri, Director of Public Works

*Approved by:*



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Kelly McAdoo, City Manager

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<sup>6</sup> <https://hayward.legistar.com/MeetingDetail.aspx?ID=568912&GUID=DFD876B7-E18C-4EB1-95C5-A1D1C28F8C8A&Options=info|&Search=>