

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

TO: REDEVELOPMENT AGENCY BOARD	FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR
SUBJECT: HOTEL MONTGOMERY TITLE TRANSFER	DATE: APRIL 11, 2008

INFORMATION

On May 22, 2001, the Redevelopment Agency Board approved an Amended and Restated Disposition and Development Agreement (DDA) with the Montgomery Hotel Group (MHG) for the development of the Hotel Montgomery. MHG is controlled and managed by DivcoWest. As amended over time, the DDA required MHG to develop a first class boutique hotel and provided for \$10.6 million in Agency funds to seismically retrofit and historically rehabilitate the building. As consideration, the DDA provides the Agency with a Revenue Participation Payment based upon a percentage of gross revenue.

On May 24, 2005, the Agency Board approved changes to the formula which now requires the Revenue Participation Payments to begin in 2011. At that time, the Agency will receive 3% of the gross revenue generated by the project during Calendar Year 2010. The revenue participation formula will adjust over time and will terminate in 2066 with a payment of 5% of the gross revenues generated by the project during Calendar Year 2065. The Agency's rights to a Revenue Participation Payment are described in the Declaration of Covenants and Restrictions Agreement recorded on the property.

Agency staff was recently advised that MHG intended to enter into a Settlement Agreement with its lender, Gramercy Capital Corp. The Settlement Agreement provided for the conveyance of the fee title of the Hotel Montgomery from MHG to Gramercy in lieu of a foreclosure proceeding. Fee title of the property transferred to Gramercy Capital last week.

It is our understanding that Joie de Vivre Hospitality will continue to operate the hotel and may at some point in the future also be responsible for the operation of the restaurant. There are no plans to close the Montgomery Hotel.

Although DivcoWest is no longer associated with the project, the Agency's rights with respect to the DDA and the Declaration (specifically its rights to revenue participation) remain intact.

I will meet with representatives from Gramercy Capital within the next few weeks to discuss their plans for the property.

Please do not hesitate to contact me if you have any questions.



HARRY S. MAVROGENES
Executive Director