

## City Council – Action Request Form

**Date:** February 8, 2021

**To:** Mayor, Mayor Pro Tempore, and Members of the City Council

**From:** Ben Rowe, Assistant City Manager

**Council Action Requested:**

Resolution Authorizing Amendments to the Grand Pavilion and Conference Center Lease Agreement with PM Meeting Venue, LLC (North Ward)

**Strategic Focus Area:** Economic Vitality and Diversity

**Strategic Objective:** Promote Travel and Tourism

**Strategic Plan Action Item:** No

**Key Work Item:** Yes



**Summary of Information:**

Last month, City staff provided updates on the City’s current lease of the Grand Pavilion/Conference Center space adjacent to the Embassy Suites Hotel as well as the City’s plan to invest nearly \$1.6 million in refreshing the space. Staff from the City Manager’s Office, City Attorney’s Office, and Financial Management Services Department, as well as the City’s outside legal counsel, have worked with the hotel owner, the tenant of the leased space, and their legal counsel to amend the lease agreement as outlined in this Council Action Request Form.

In February 2004, the Mayor and City Council approved a Memorandum of Understanding (MOU) between the City and Noble Investment Group, LLC regarding the acquisition of the Adam’s Mark Hotel and their management of The Benton. Noble Investment Group, LLC acquired the Adam’s Mark Hotel and repositioned the property into two separate hotels—a Marriott and an Embassy Suites. Under the MOU, the City purchased for \$10 million the 38,000 square feet of renovated meeting/support space in the lower level of the Embassy Suites, as well as the Grand Pavilion Ballroom (formerly Beneath The Elms). In June 2016, Noble Investment Group, LLC sold both hotels to Hospitality Venture Management Group entities and transferred management of The Benton to Hospitality Ventures Management Group.

**Committee Action:**

<b>Committee</b>	Finance 2/8/2021	<b>Action</b>	Approval
<b>For</b>	Unanimous	<b>Against</b>	

**Remarks:**

In the fall of 2017, HV Winston-Salem II LLC, a Delaware limited liability company, sold the Embassy Suites to SH Winston Cherry, LLC, a Florida limited liability company, and assigned the lease of the City-owned space to PM Meeting Venue, LLC. Under the lease agreement, the tenant pays an annual rent of \$600,000 for the space, which covers the debt that the City issued to acquire and renovate the space in 2004. With the sale of the Embassy Suites, there are now two parties associated with hotel and leased space properties, instead of one as had been in place since 2004. Under this arrangement, Hospitality Ventures Management Group (HVMG) continued to operate and manage all properties in the Twin City Quarter (The Benton, Marriott Hotel, Embassy Suites Hotel, and the Grand Pavilion/Conference Center space).

Prior to the onset of the novel coronavirus pandemic, PM Meeting Venue, LLC, ceased making monthly rent payments starting in September 2019. Through December 2020, PM Meeting Venue, LLC is in arrears totaling \$800,000. In October, the City's outside legal counsel mailed a letter to PM Meeting Venue, LLC communicating the City's intention to declare them in default under the lease agreement. The City's outstanding debt on the space currently totals \$6,010,000.

PM Meeting Venue, LLC provided the following timeline of the factors that contributed to the lack of profitability for the Grand Pavilion and Conference Center spaces, both prior to and during the pandemic.

- In 2018, the Grand Pavilion and Conference Center was projected to gross \$1.8 million in revenues. It ended the year only grossing \$970,000 (50% of the projection). This projection was expected to lose \$200,000 for the first year of ownership, which ended up losing \$650,000. The ownership funded the loss. The decrease in revenue was mainly due to event organizers booking events in the newly renovated Benton.
- In 2019, the Grand Pavilion and Conference Center was projected to gross \$2 million in revenues with a projected break-even after lease payments. The space ended the year with a loss of \$400,000.
- In 2020, the Grand Pavilion and Conference Center was 50% behind budgeted revenues. In March 2020, the pandemic fully eliminated any potential revenues projected for the year.
- In addition to funding the losses, the ownership unexpectedly had to replace a chiller, a boiler, and electrical systems totaling nearly \$800,000. The ownership expected to catch up on payments in March 2020 through business related to athletics, the Furniture Market, and local graduations. As noted above, demand dropped as events were cancelled, business travel halted, and The Benton closed.

The owner of the Embassy Suites shared that on a national level, hotels are down 50% in occupancy overall for the best markets. Secondary and tertiary markets like Winston-Salem were down 80% for 2020. Further, hotels dependent on groups and meetings have been seeing nearly 95% decline for some markets where the COVID-19 cases are high or city/state ordinances have put restrictions on travel, business operating hours, or stay-at-home orders.

After initial discussions with PM Meeting Venue, LLC, the City provided an extension to the notice of default until March 1, 2021 in order for a mutually agreeable plan to make up the delinquent payments to the City. City staff and the owner have developed a plan to transfer

operation and maintenance of the Grand Pavilion and Conference Center to the City. It is City staff's intent to contract with HVMG, the City's current operator of The Benton, to manage this space as well. Once the transfer is completed, the City will receive the revenues from renting the Grand Pavilion and Conference Center for future events, which will apply toward operating expenses as well as the City's debt payment.

City staff propose the following amendments to the current lease agreement between the City (Landlord) and PM Meeting Venue, LLC (Tenant) for the Grand Pavilion and Conference Center (Leased Space):

1. Landlord to be granted immediate interim access/use for purposes of (i) planning/designing renovations to Leased Space; and (ii) scheduling, holding events with all operating expenses, revenues, and profits for the account of Landlord.
2. Economic Items:
  - (a) From and after January 1, 2021, all revenues or proceeds generated from the Leased Space are retained by the Landlord, and the Landlord assumes all responsibility for the payments, charges, and expenses required under the Lease.
  - (b) Payment plan for rent from September 1, 2019 through December 31, 2020:
    - (i) July 1, 2021 through December 31, 2021 - \$5,000.00 per month-total for the six month period of \$30,000.00;
    - (ii) January 1, 2022 through June 30, 2022 - \$10,000.00 per month - total for the six month period of \$60,000.00;
    - (iii) July 1, 2022 through December 31, 2022 - \$15,000.00 per month - total for the six month period of \$90,000.00;
    - (iv) January 1, 2023 through June 1, 2023 - \$15,000.00 per month - total for the six month period of \$90,000.00;
    - (v) July 1, 2023 through December 31, 2023 - \$15,000.00 per month - total for the six month period \$90,000.00;
    - (vi) a final payment of \$440,000.00 upon the first to occur of either when the hotel sells or December 31, 2030. Consideration shall be given to credit against the final payment a portion of revenues and rental or service fees realized from events previously booked by PM Meeting Venue, LLC and actually held.
  - (c) The Rent Security Clause in the lease shall continue to remain in place as security for the payments under Item 2(b) above.
3. Tenant to be involved with the design/renovation plans and sign off (Item 1 .(i) above) for purposes of confirming (and to the extent not confirmed, then establishing) the use/capacity of the mechanical systems and the building

elements such that the hotel space and the conference center-ballroom space can operate as separate entities. For any elements/systems that are permanently integrated between the various space areas, an appropriate allocation and maintenance program will be developed and implemented.

4. Upon execution of the Lease Amendment, Landlord will be granted access/use to construct the renovations and upgrades to the ballroom and the conference center space.
5. As a component of Item 3 above, Landlord and Tenant will also evaluate and assess (i) any outstanding allocation payments for shared costs associated with "services and personnel" owed, if any, from PM Meeting Venue, LLC to the Benton Convention Center pursuant to any applicable allocation agreements; and (ii) any revision or reallocation to equitably apportion such "services and personnel" costs going forward.
6. Lease to be amended consistent with the above with the other existing provisions in the Lease to remain in effect. In the event that Tenant defaults in its obligations under Item 2(b) above, Landlord will retain all rights and remedies available to Landlord under the Lease including the right to collect all rent that would have been due and payable under Item 2(b).
7. Upon completion of the payments under Item 2(b), the Lease will be terminated.
8. Tenant will surrender the option to purchase the City-owned Grand Pavilion and Conference Center at the end of the lease.

The attached resolution authorizes the City Manager to execute the amendments outlined above to the current lease agreement for the Grand Pavilion and Conference Center. A public hearing will be required pursuant to G.S. 160A-457 and 160A-458.3 (G.S. 160D-1312 and G.S. 160D-1315).