

LEONARD, STREET AND DEINARD

PROFESSIONAL ASSOCIATION

July 2, 1999

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Mr. Gregory A. Finstad
Director of Transportation and Parking Services
Room 233 - City Hall
350 South Fifth Street
Minneapolis, MN 55415

Re: Loring Park Municipal Parking Ramp and Exhibition Hall

Dear Mr. Finstad:

The undersigned represents Loring Park Associates Limited Partnership and its general partner, Hyatt Minneapolis Corporation, owners of the property at 1300 Nicollet Mall, which is operated as the Hyatt Regency Hotel and Hyatt Merchandise Mart. As you may recall, I have represented the developers and operators of the hotel since its inception and particularly in connection with the various development and ancillary agreements negotiated in the late 1970s between the City of Minneapolis and the predecessor of my client, Mart Plaza Hotel, Inc., which led to the building of the original project. The Development Agreement with the City and ultimately the purchase of the land under the hotel were completed in the early 1980s. There remain two continuing agreements between my client and the City of Minneapolis, those being the management agreement of the adjacent City parking ramp and the lease of the exhibition hall in the parking ramp.

My client believes the Loring Park Municipal Parking Facility Agreement (the ramp management agreement) has worked well for the City and for the hotel. Accordingly, my client wishes to renew the Agreement pursuant to Paragraph 8.7 of the Agreement for an additional ten-year term. As you know, my client and the City have worked throughout the 19 years the ramp has been in operation with Loop Parking, and it is my client's current intention to continue to do so.

The lease of the exhibition hall came about when the hotel was built and the various designs for constructing an exhibition hall were reviewed. It was determined that the most cost effective way of providing exhibit space for the then major tenant of the mart, the Northwest Sales Association, was to build exhibit space on what was to be the ground floor of the adjacent Loring Park Municipal Parking Ramp. The lease agreement and the Development Agreement contemplated that the City would, in effective, advance \$1 Million to the developer by including the then agreed

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upon cost of the exhibition hall in its budget for the parking ramp and, in turn, rent the exhibition hall to the hotel on a triple net basis for a sum which was equal to that cost fully amortizing that allocated portion of the bonds sold to pay for the ramp over the term of the bond (20 years). The exhibition hall lease, called the Lower Level Lease in the original documents of September 1978, specifically provides that the rent is a sum equal to the amount necessary to amortize the \$1 Million cost of the exhibition hall over the 20-year life of the bond. The City Engineer at a later date actually certified the cost of construction and the annual rent paid has been \$99,545.21 per year. My recollection is that the interest coupon on the bonds was approximately eight percent and that those bonds were refunded some years ago, hopefully at lower rates. Nonetheless the hotel has paid \$100,000 a year for 20 years and has, I believe, deposited one year's rent advance to fund the initial bond reserve. The lease of the exhibition hall, like the parking ramp management agreement, contains options for renewal for additional ten-year terms at the same rent [Article III(d), page 7].

The lease, as noted, is a triple net lease and Hyatt has maintained the exhibition hall space, heated it, lighted it, from time to time upgraded it, and paid real estate taxes on it which over the years have averaged approximately \$50,000 per year. Between the rent and the taxes, the City recovered its cost long ago.

At the time the Development Agreement was negotiated, which included the exhibition hall and ramp agreements, the City was sued over its right to enter into such an agreement. You may remember that this was essentially the first, or one of the first, TIF projects. A lawsuit was brought by Robert Short [R. E. Short v. City of Minneapolis and Mart Plaza Hotel, Inc.] which was defended by the then City Attorney, Walt Duffy, and me. We won the suit and established that the City's authority extended to doing projects such as ours and, in fact, far beyond. In that atmosphere, however, we all took a very conservative position with respect to the economic terms of the lease and the lease renewal. We all realized that by the end of the 20 years, the exhibition hall would be fully paid for by the hotel, and then some, but we were reluctant to set future rents to reflect that fact. We only provided an option to renew.

During the 20-year term the exhibition hall has been rented by the hotel, at rather nominal rents, principally to the Northwest Sales Association for its markets, which was the principal reason for building the space in the first place. In addition, the hotel has rented the space to other users and has used it for hotel functions during the course of the years, again at fairly nominal rents. The cost of running and maintaining the exhibition hall, paying the City's rent, paying the real estate taxes and the like, has, in most years, exceeded the gross revenue from the exhibition hall rentals.

In addition the exhibition hall was, as you may recall, essentially a bare shell, that is, concrete floors, concrete walls, no suspended ceiling, etc. The years have not been kind to the space and it needs substantial upgrading. We have estimated that to bring the exhibition hall even up to minimum acceptable standards will require extensive renovation. We believe that rest room

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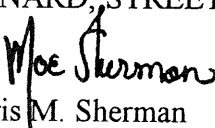
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renovation, code compliance, and upgrading will cost approximately \$120,000. The heating units will need to be either upgraded or replaced at a cost of approximately \$100,000. Door and frame replacement is estimated to cost \$20,000. Drain pipes in the ceiling need to be replaced at an approximate cost of \$70,000. Thus, there is approximately a \$300,000 cost of renovation before my client spends any money on aesthetics which would render the space more attractive to users.

Although my client certainly wishes to keep the space, I believe, based on the history of the Lower Level Lease and the economics of the transaction, that is, my client's payment of \$100,000 a year rent and approximately \$50,000 a year in taxes, it has long since paid for the space. Further, any tenant renewing a long-term lease would, after 20 years, expect the owner to do the renovations needed for the rents it would be getting for the next ten years. I propose, however, a different solution from having the City upgrade the space and my client either exercising its option or developing an alternative event based lease with the City. My client would be willing to undertake the cost of renovation and upgrading in return for the City's agreement to reduce the rent to \$1.00 per year for the remaining option terms. My client will continue to pay the real estate taxes and retain the triple net nature of the Lease. Such an agreement is both equitable and would relieve the City of the need to make capital expenditures on the space or to work out an alternative event based leasing arrangement with the Hyatt and other tenants. I would appreciate your consideration of this proposal and I appreciate the consideration you have already given us. I look forward to hearing from you.

Yours truly,

LEONARD, STREET AND DEINARD

By 
Morris M. Sherman

MMS/bh

cc: Mr. David Eisenman