



County of Los Angeles
CHIEF EXECUTIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012
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WILLIAM T FUJIOKA
Chief Executive Officer

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Fifth District

October 21, 2008

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**CONSENT TO CHANGE IN OWNERSHIP
GRAND AVENUE PROJECT
(ALL DISTRICTS) (3 VOTES)**

SUBJECT

Grand Avenue LA, LLC has requested consent from the Grand Avenue Authority for a change in ownership structure of the Grand Avenue Project. Prior to action by the Grand Avenue Authority, the Grand Avenue Committee has recommended consent from the County and the Community Redevelopment Agency of the City of Los Angeles pursuant to the applicable Disposition and Development Agreement.

IT IS RECOMMENDED THAT YOUR BOARD:

Consent to changes in its ownership structure requested by the Grand Avenue Project Developer, Grand Avenue LA, LLC, as recommended by the Grand Avenue Committee to both the County and the Community Redevelopment Agency of the City of Los Angeles before action by the Grand Avenue Authority pursuant to the applicable Disposition and Development Agreement.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Grand Avenue LA, LLC (Developer) has requested consent from the Grand Avenue Authority (Authority) for a change in ownership structure of the Grand Avenue Project (Project). Prior to the Authority's action, the County and the Community-Redevelopment Agency of the City of Los Angeles (CRA) are required to provide their consent.

In March 2008, your Board consented to affiliates of Istithmar Building FZE (Istithmar) and Mandarin Oriental Los Angeles, Inc. (Mandarin) investing in Phase I of the Project by acquiring indirect ownership interests in Developer through Grand Avenue LA Owner, LLC (Owner LLC). Owner LLC, is currently owned by Grand Avenue Investor, LLC (Grand Avenue Investor Group), Related Grand Avenue, LLC (Related Group), and Istithmar. Further, the Developer is currently owned by Owner LLC, Grand Avenue LA Hotel, LLC, Grand Avenue LA Affordable Housing, LLC, and Related Grand Avenue II, LLC. Related Grand Avenue is a wholly-owned subsidiary of The Related Companies, L.P.

The requested change is to replace the current ownership structure (Attachment A) with the proposed new ownership structure (Attachment B). The Grand Avenue Committee will recommend that the Authority execute the "Consent to Change in Ownership Structure of Grand Avenue LA, LLC" (Attachment C) which provides a detailed description of the Developer's requested action. The CRA has calendared its consideration of the same request for consent for October 16, 2008.

Background

The Authority was created in September 2003 through a Joint Powers Agreement between the County and CRA and is a separate legal entity which selected The Related Companies, L.P. (Related) as the developer for the Project in September 2004 after a public process.

In February 2007, your Board approved various actions relative to the phased development of the mixed-use Project. Among those actions was the approval in form and substance of the DDA between the Authority and the Developer which outlined the terms and conditions for development and lease of the Bunker Hill Properties owned by the County and the CRA. The DDA requires that the County and the CRA must consent prior to the Authority consenting to the proposed change in ownership structure.

The Grand Avenue Committee (Authority staff), its counsel and its economic consultant, Keyser Marston Associates (KMA), have reviewed the requested Developer ownership structure change, the financial capacity of the proposed new entity and all related documents and recommends approval. KMA has concluded that the proposed new member of the Grand Avenue development entities has financial resources adequate to meet its obligations as required under the DDA and Ground Lease. According to KMA, the

members of the Honua Group each has a strong balance sheet and is well able to meet their proposed obligations.

Change in Ownership Structure

The proposed new ownership structure for Phase I of the Project as outlined in Attachment B will be capitalized by Related (10 percent), Istithmar Building FZE (45 percent), and Honua Group as described below (45 percent).

The agreements between the Related entity and the Honua Group comply with the requirements of the DDA regarding (i) a significant capital commitment from Related, (ii) significant participation in profits from the Project by Related, (iii) limited ability of the investors to remove Related as the developer of the Project, and (iv) net worth and liquidity on the part of each investor that is adequate to fund the equity capital commitments required for the Project.

Under the new ownership structure, Project Phases II and III will be owned by and the development rights and obligations under the DDA will be transferred to newly-formed limited liability companies, each of which will be owned by the Honua Group and Affiliates of Related, but the original developer is not being released.

Project Components other than the Hotel

As proposed under the new structure, Grand Avenue LA Owner, LLC will be owned by the Related Grand Avenue, LLC with a 10 percent capital interest and 30 percent profit interest, the Istithmar Group, a wholly-owned subsidiary of Istithmar, with a 45 percent capital interest and 35 percent profit interest, and the Honua Group with a 45 percent capital interest and 35 percent profit interest. The Honua Group is an investment vehicle owned by three Korean insurance companies: Dongbu Insurance Company, Ltd. (40 percent), Dongbu Life Insurance Co., Ltd. (30 percent) and Kumho Life Insurance Company, Ltd. (30 percent). Honua Group is managed by an investment advisor, Honua Investment Management, Inc. which has no ownership interest in Honua Group. Honua Group and its subsidiaries will be represented by Honua Management in terms of making development decisions with respect to the Grand Avenue Project, together with Istithmar and an affiliate of The Related Companies.

Related will remain responsible for the day to day control over the development and construction of the Project as required by the DDA. However, as provided under the DDA, should Related default under its obligations, Istithmar, Honua, or a wholly owned subsidiary or affiliate of either of them, would have the right to temporarily replace Related as the Administrative Member of the Developer, subject to certain real estate development experience requirements.

Related has confirmed that the Related Key Personnel (as defined in Section 906(a) of the DDA) will have a greater than 30 percent interest in the profits of Related Grand Avenue, LLC, which the Grand Avenue Committee believes satisfies the requirement of 906(1) of the DDA that the Related Key Personnel have a "substantial financial interest" in the Project.

No transfer of any individual components of the Project will occur until after completion, and prior to the completion of individual components, Developer will continue to be the sole tenant under the Ground Lease.

While the restructuring results in some additional complexity, the Authority's counsel has concluded that the requirements of the DDA and Ground Lease have been preserved and that ultimately the Project will benefit from the involvement of Honua Group.

Hotel Component

The ownership structure for the hotel component remains unchanged Grand Avenue LA Owner, LLC will own 50 percent and the Mandarin owns 50 percent.

FISCAL IMPACT/FINANCING

Approval of the partnership change does not change the economic benefits of the Project to the County.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Developer submitted its request to the Grand Avenue Authority for approval of the restructuring of its ownership in accordance with Articles 9 and 15 of the DDA and Article 11 of the Ground Lease. The Authority has the power under the DDA and Ground Lease, acting after the County and the City Redevelopment Agency have approved this restructuring, to consent to this restructuring.

At the time of Authority review of the Developer's request, Authority staff will report on the prior actions of the County and the CRA. Co-counsel for the Authority, the County Counsel and the City Attorney, will approve as to form the Authority's consent document (Attachment C) prior to its execution by the Authority.

ENVIRONMENTAL DOCUMENTATION

On February 13, 2007, acting as a responsible agency, your Board certified the Grand Avenue Project Environmental Impact Report as prepared and certified by the Grand

The Honorable Board of Supervisors

October 21, 2008

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Avenue Authority as lead agency for the Grand Avenue Project. The recommended action is within the scope of the Project in the previously certified Environmental Impact Report.

CONCLUSION

Upon approval of the recommendation, please forward an adopted, stamped copy of the Board letter to my office.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. T. Fujioka', with a stylized flourish at the end.

WILLIAM T FUJIOKA
Chief Executive Officer

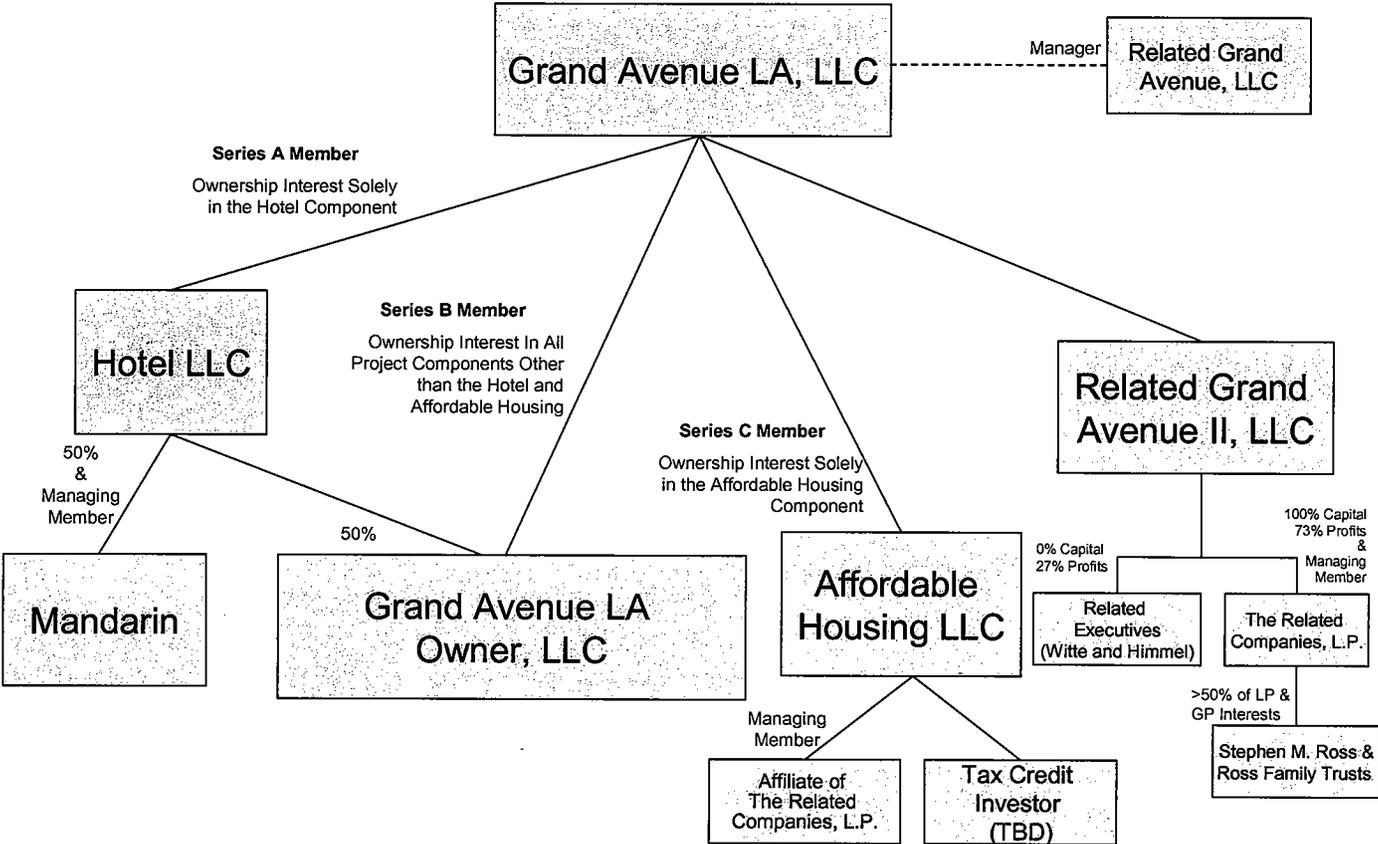
Attachments (3)

WTJ:DLJSE
DJT:DKM:mc

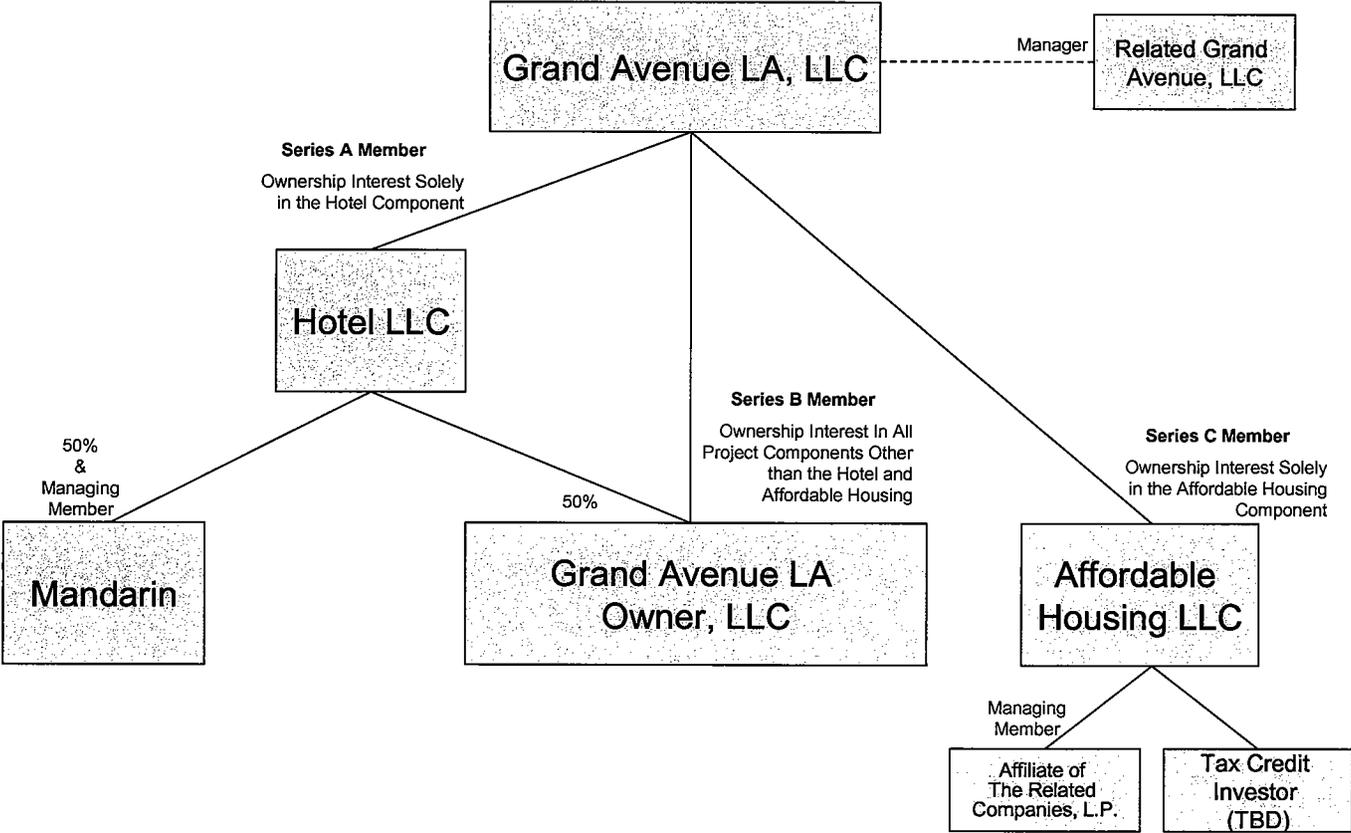
c: County Counsel
The Los Angeles Grand Avenue Authority

STRUCTURE CHARTS

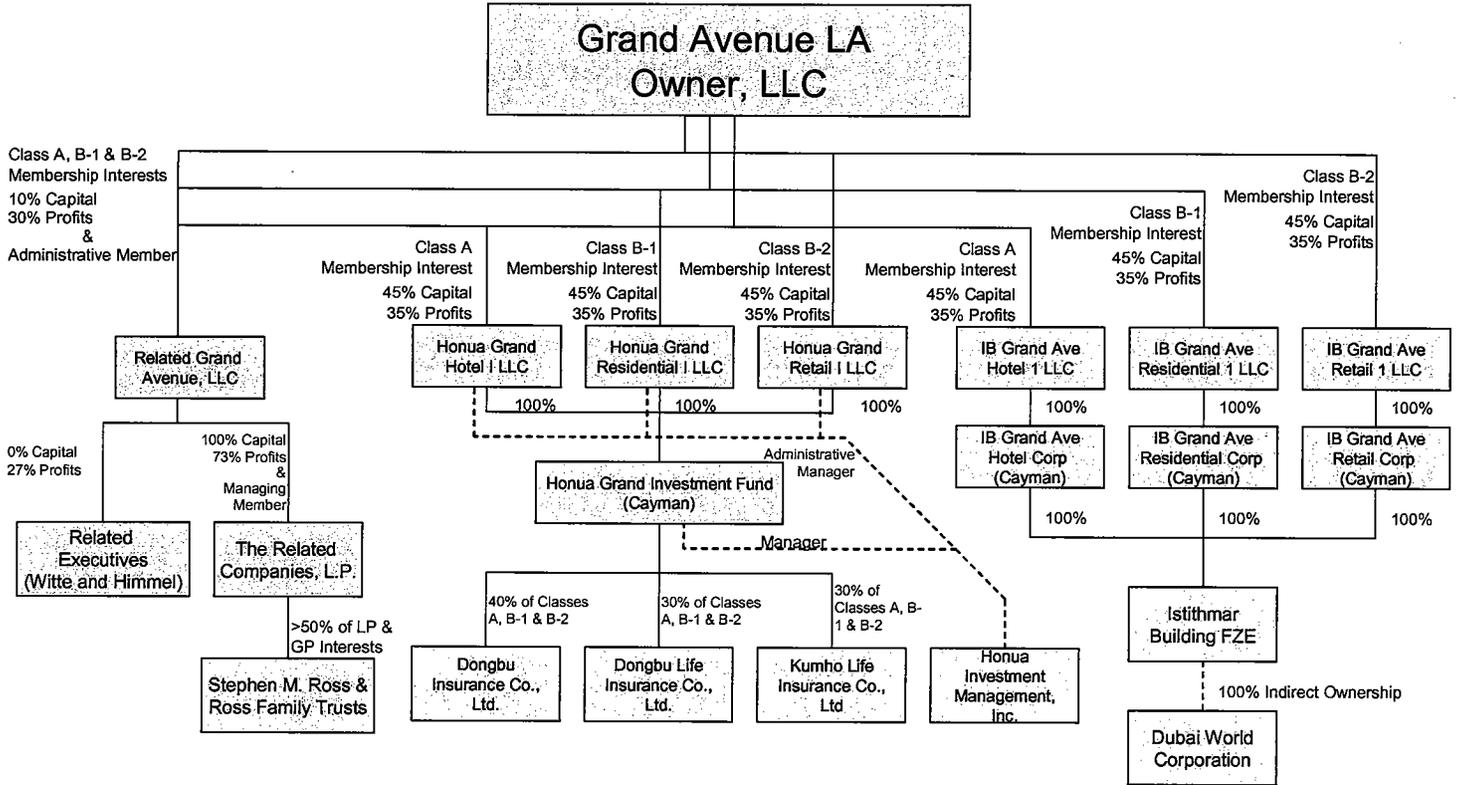
CURRENT OWNERSHIP STRUCTURE OF GRAND AVENUE LA, LLC



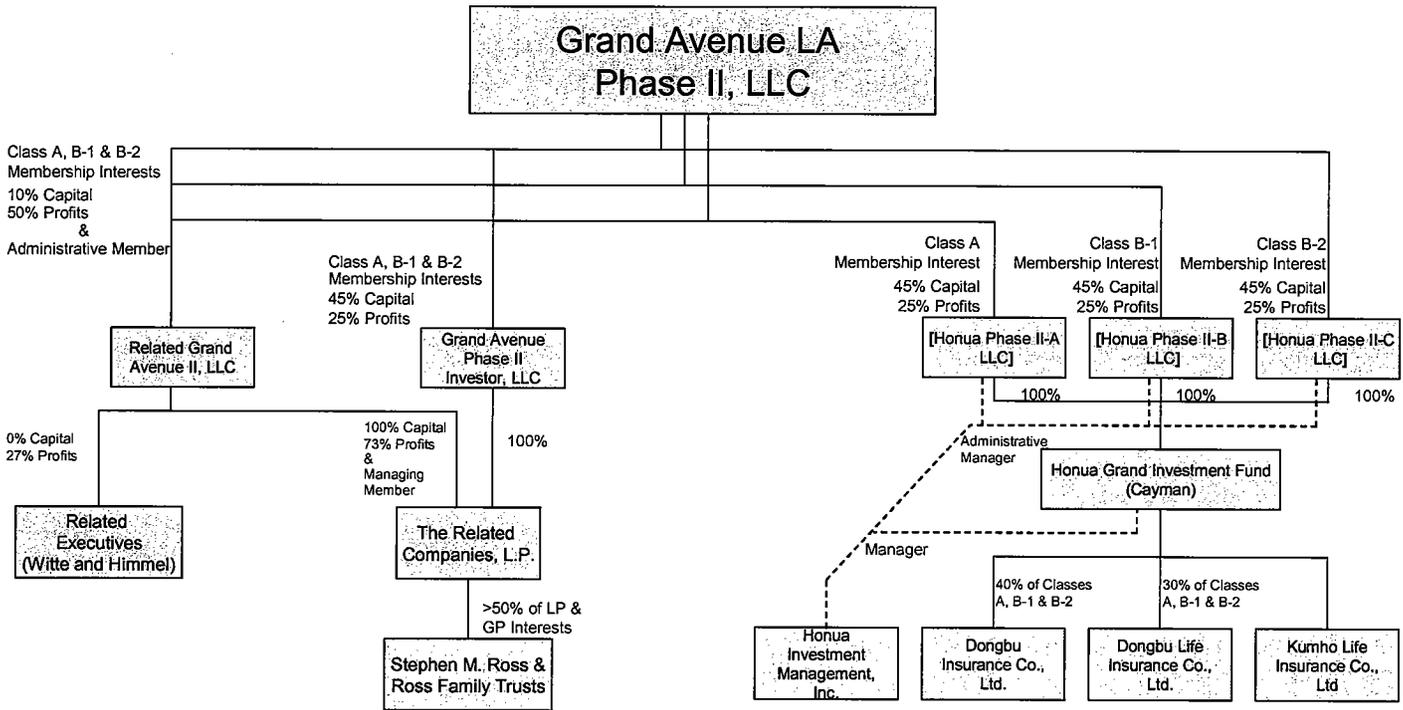
POST-TRANSFER OWNERSHIP STRUCTURE OF GRAND AVENUE LA, LLC



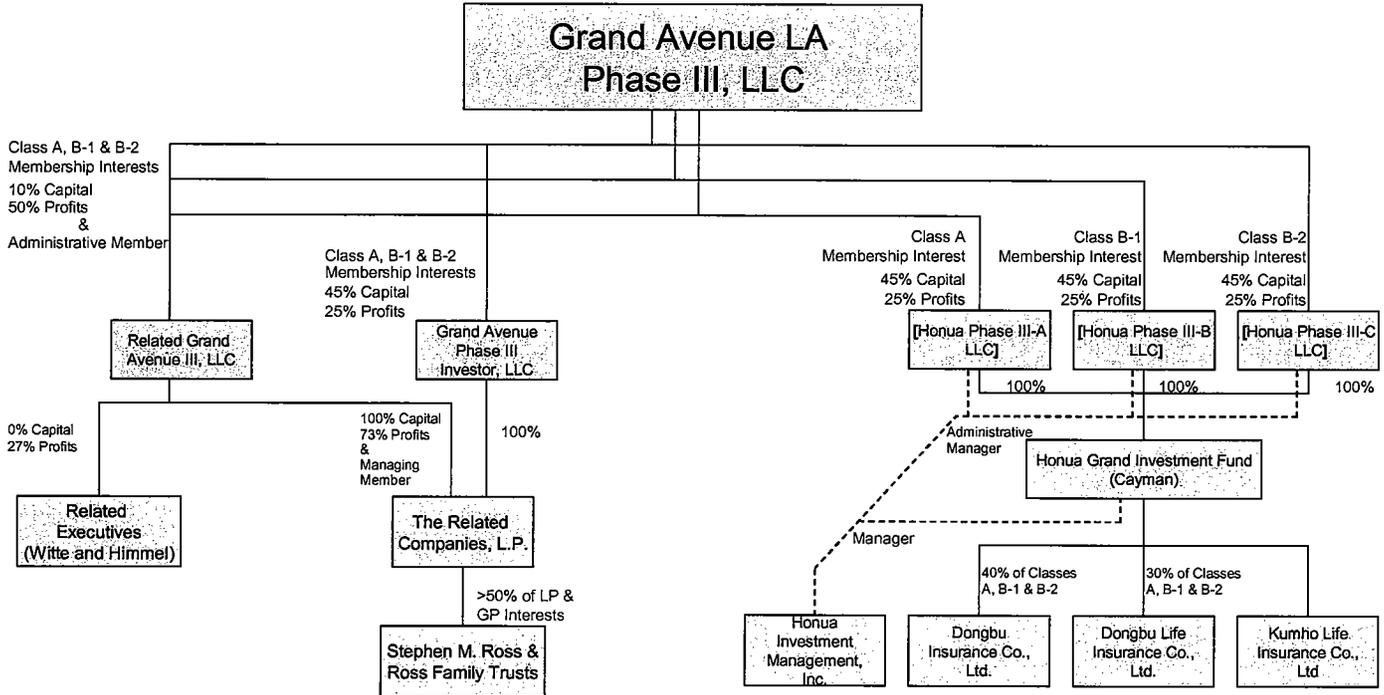
**POST-TRANSFER OWNERSHIP STRUCTURE OF
GRAND AVENUE LA OWNER, LLC**



**POST-TRANSFER OWNERSHIP STRUCTURE OF
GRAND AVENUE LA PHASE II, LLC**



**POST-TRANSFER OWNERSHIP STRUCTURE OF
GRAND AVENUE LA PHASE III, LLC**



THE LOS ANGELES GRAND AVENUE AUTHORITY
c/o The Grand Avenue Committee, Inc.
445 S. Figueroa Street, Suite 3400
Los Angeles, CA 90071

October __, 2008

Grand Avenue LA, LLC
c/o The Related Companies, L.P.
60 Columbus Circle, 19th Floor
New York, NY 10023

Re: Consent to Further Change in Ownership Structure of Grand Avenue LA, LLC
("Developer")

Ladies and Gentlemen:

Reference is hereby made to (i) that certain Disposition and Development Agreement (Grand Avenue) between Developer and The Los Angeles Grand Avenue Authority, a California joint powers authority ("**Authority**") dated as of March 5, 2007 (the "**DDA**"); (ii) that certain Phase I Ground Lease between Developer and Authority dated as of March 5, 2007 (the "**Ground Lease**"); and (iii) that certain letter agreement Re Consent to Change in Ownership Structure of Grand Avenue LA, LLC between Developer and Authority dated as of March 17, 2008 (the "**March 17th Letter**"). Capitalized terms not defined herein shall have the meanings given them in the DDA.

As of the date hereof, the current members of Developer are Grand Avenue LA Owner, LLC ("**Owner LLC**"), Grand Avenue LA Hotel, LLC ("**Hotel LLC**"), Grand Avenue LA Affordable Housing, LLC ("**Affordable Housing LLC**"), and Related Grand Avenue II, LLC ("**RGA II**"). RGA II is a wholly-owned subsidiary of The Related Companies, L.P. ("**Related**").

The current members of Owner LLC are (1) the Istithmar Group (as defined in the March 17th Letter), (2) Grand Avenue Investor, LLC (the "**Grand Avenue Investor Group**") and (3) Related Grand Avenue, LLC (the "**Related Group**"). The Grand Avenue Investor Group and the Related Group are wholly owned by Related.

Pursuant to Articles 9 and 15 of the DDA and Article 11 of the Ground Lease, Developer has requested the consent of Authority to the restructuring of Developer's ownership structure as follows (collectively, the "**Restructuring**"):

1. RGA II will no longer be a member of Developer. The members of Developer will be Owner LLC, Hotel LLC and Affordable Housing LLC.

2. The Grand Avenue Investor Group will be replaced by the Honua Group (as hereinafter defined), which will become an indirect investor in Developer at the Owner LLC level. The **"Honua Group"** is comprised of Honua Grand Hotel I LLC, Honua Grand Residential I LLC and Honua Grand Retail I LLC, each of which has (a) as its sole member Honua Grand Investment Fund, a Cayman Islands unit trust (**"Honua Fund"**), and (b) as its sole administrative manager Honua Investment Management, Inc., a Hawaii corporation (**"Honua Manager"**), which is the manager of Honua Fund. The ownership of the Honua Fund is as follows: Dongbu Insurance Co., Ltd. (**"Dongbu"**) has a 40% interest; Dongbu Life Co., Ltd., (**"Dongbu Life"**) has a 30% interest, and Kumho Life Insurance Co., Ltd. (**"Kumho Life"**) has a 30% interest. Kumho Life, Dongbu and Dongbu Life are collectively referred to as the **"Honua Investors."** The Honua Group will be a member of Owner LLC with an aggregate 45% capital interest and an aggregate 35% interest in profits (which is the same as the Istithmar Group). The remaining member of Owner LLC will be the Related Group with an aggregate 10% capital interest and an aggregate 30% interest in profits. The Related Key Personnel (as defined in Section 906(1) of the DDA) will have a greater-than 30% interest in the profits of the Related Group.

3. Pursuant to that certain Contribution, Assignment and Assumption Agreement (Phase II) (the **"Phase II Assignment and Assumption Agreement"**), Grand Avenue LA Phase II, LLC, a Delaware limited liability company (**"Phase II Developer"**) will assume all rights and obligations of the developer under the DDA with respect to Phase II and will act as the developer of Phase II. The members of Phase II Developer will be (a) RGA II with a 10% capital interest and a 50% interest in profits, (b) Grand Avenue Phase II Investor, LLC, a Delaware limited liability company (**"Phase II Investor"**), which is wholly owned by Related, with a 45% capital interest and a 25% interest in profits, and (c) certain subsidiaries of the Honua Investors (**"Honua Phase II Group"**), each of which is a Delaware limited liability company, with an aggregate 45% capital interest and an aggregate 25% interest in profits. The Honua Phase II Group will be owned in a structure substantially identical to the ownership structure of the Honua Group, and the Honua Investors will provide substantially identical credit support for the Honua Phase II Group as will be provided for the Honua Group.

4. Pursuant to that certain Assignment and Assumption Agreement (Phase III) (the **"Phase III Assignment and Assumption Agreement"**), Grand Avenue LA Phase III, LLC, a Delaware limited liability company (**"Phase III Developer"**) will assume all rights and obligations of the developer under the DDA with respect to Phase III and will act as the developer of Phase III. The members of Phase III Developer will be (a) Related Grand Avenue III, LLC, a Delaware limited liability company (**"RGA III"**), which is wholly-owned by Related, with a 10% capital interest and a 50% interest in profits, (b) Grand Avenue Phase III Investor, LLC, a Delaware limited liability company (**"Phase III Investor"**), which is wholly owned by Related, with a 45% capital interest and a 25% interest in profits, and (c) certain subsidiaries of the Honua Investors (**"Honua Phase III Group"**), each of which is a Delaware limited liability company, with an aggregate 45% capital interest and an aggregate 25% interest in profits. The

Honua Phase III Group will be owned in a structure substantially identical to the ownership structure of the Honua Group, and the Honua Investors will provide substantially identical credit support for the Honua Phase III Group as will be provided for the Honua Group.

The new ownership of: (i) Developer is depicted on the ownership chart attached hereto as Schedule 1; (ii) Owner LLC is depicted on the ownership chart attached hereto as Schedule 2; (iii) Phase II Developer is depicted on the ownership chart attached hereto as Schedule 3; and (iv) Phase III Developer is depicted on the ownership chart attached hereto as Schedule 4. In connection with Developer's request for the consent of the Authority for the Restructuring, Developer submitted drafts of the Phase II Assignment and Assumption Agreement, the Phase III Assignment and Assumption Agreement, and the agreements set forth on the list attached hereto as Schedule 5 (the "**Operating Agreements**").

No later than thirty (30) days after the execution of the Final Phase II and III Operating Agreements (as hereinafter defined) by the members of Phase II Developer and Phase III Developer, as applicable, Related shall cause Phase II Developer and Phase III Developer to execute and deliver to Authority waivers in substantially the form contained in the letter agreement dated July 28, 2008 between Developer and Authority. The waiver given by Phase II Developer shall include an express reference to the fact that there shall be no refund of the portion of the Leasehold Acquisition Fee that pertains to Phase II. In addition, no later than thirty (30) days after the execution of the Final Phase II and III Operating Agreements by the members of Phase II Developer and Phase III Developer, as applicable, Related shall cause Phase II Developer and Phase III Developer to execute and deliver to Authority agreements, in form reasonably acceptable to Authority, wherein the representations and warranties of Developer set forth in Section 1501 of the DDA are down-dated and affirmed by Phase II Developer and Phase III Developer.

Phase II Developer and Phase III Developer shall each, at all times, have a minimum net worth equal to the greater of (i) \$100,000,000 or (ii) 20% of the total projected development costs (including the applicable Leasehold Acquisition Fee) of the applicable Phase. The foregoing net worth requirements may be satisfied by a guaranty by Related to contribute the necessary capital to Phase II Developer and Phase III Developer as such capital is required for the acquisition and construction of Phase II and Phase III, respectively.

Subject to the foregoing conditions, Authority hereby consents to the Restructuring as described herein and shown on Schedules 1 - 4 attached hereto, provided that (A) the final Phase II Assignment and Assumption Agreement, final Phase III Assignment and Assumption Agreement and the final amended and restated Operating Agreements for Developer and Owner LLC are all in substantially the same form and substance as the versions of such agreements presented to the Authority prior to the date hereof; and (B) the final operating agreements of Phase II Developer and Phase III Developer (collectively, the "**Final Phase II and III Operating Agreements**") shall be subject to Authority's review and approval, which approval

shall not be withheld if such agreements are in substantially the form and substance of the interim operating agreements provided to Authority prior to the date hereof and the Owner LLC Agreement. Without limiting the generality of the foregoing, the language in Section 3.7 of the Owner LLC Agreement requiring the Honua Investors to be responsible for the obligation of the Honua Members to fund their respective Project Capital Contributions (as defined in the Owner LLC Agreement) shall be included in the Final Phase II and III Operating Agreements. This consent letter shall not be construed as a consent to any Transfers other than those expressly described herein.

The references in the DDA to Schedule 1501 and the references in the March 17th Letter Agreement to Exhibit "A-1" and Exhibit "A-2" are hereby deemed to refer to Schedules 1 - 4 attached hereto.

Developer has represented to Authority that the Restructuring will be completed within 60 days after the date of this consent letter (except for the execution of the Final Phase II and III Operating Agreements, which will be completed within 120 days after the date of this consent letter). If the Restructuring is not completed within said 60 day period (or if the execution of the Final Phase II and III Operating Agreements is not completed within said 120 day period) in exactly the form described above and on Schedules 1 - 4 attached hereto, then Authority reserves the right to rescind this consent and review the proposed Restructuring again.

Authority reserves all consent rights under the DDA with respect to any Transfers of the interests in the Phase II Investor, the Phase III Investor, the Phase II Developer and/or the Phase III Developer, which consent rights include, without limitation, the right of Authority to consent to any such Transfers in its sole discretion.

Authority further hereby consents to Istithmar Building FZE or its wholly-owned subsidiary and Honua Manager collectively exercising the rights of CUIP under Article 9 of the DDA and Article 11 of the Ground Lease (each such party is referred to herein as the "**CUIP Successor**"); provided, however, that in order to exercise the right of CUIP under the penultimate paragraph of Article 9 of the DDA (and the penultimate paragraph of Section 11.2.2 of the Ground Lease) to temporarily replace the Related Group as the Administrative Member of Developer, the CUIP Successor must (i) have experience in the ownership or financing of properties in the United States which are comparable to the Project, as reasonably determined by the Authority, and (ii) have an office in the United States staffed with experienced real estate executives who have the authority to make decisions and respond to questions and provide information regarding the development of the Project during the entire time (if any) that such CUIP Successor temporarily replaces the Related Group as the Administrative Member of Developer.

Nothing in this letter shall be construed as a release of Developer from any liability, whether past, present or future, under the DDA or the Ground Lease.

Grand Avenue LA, LLC
October __, 2008
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Please confirm your acknowledgment and agreement to the foregoing by countersigning where indicated below and returning an executed original of this letter to the undersigned.

Very truly yours,

THE LOS ANGELES GRAND AVENUE
AUTHORITY,
a California joint powers authority

By: _____
Name: _____
Title: _____

APPROVED AS TO FORM:

Rockard J. Delgadillo
City Attorney

By: _____
Timothy J. Chung
Deputy City Attorney

APPROVED AS TO FORM

Raymond G. Fortner, Jr.
County Counsel

By: _____
Helen S. Parker
Principal Deputy County Counsel

Acknowledged and agreed this ___ day of _____, 2008.

DEVELOPER:

GRAND AVENUE LA, LLC,
a Delaware limited liability company,

By: RELATED GRAND AVENUE, LLC,
a Delaware limited liability company,
its Administrative Member

By: THE RELATED COMPANIES, L.P.,
a New York limited partnership,
its Managing Member

By: The Related Realty Group, Inc.,
a Delaware corporation,

Grand Avenue LA, LLC
October __, 2008
Page 6

its sole General Partner

By: _____
Stephen M. Ross, Chairman and Chief Executive Officer

RELATED:

THE RELATED COMPANIES, L.P.,
a New York limited partnership

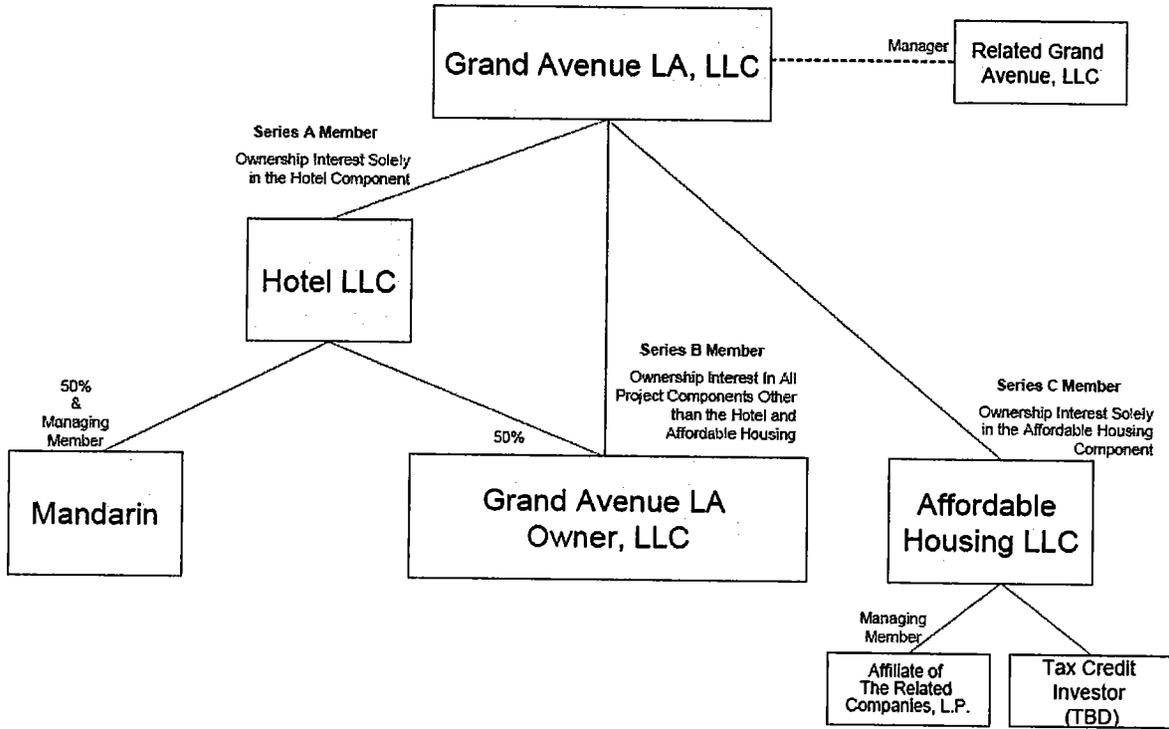
By: The Related Realty Group, Inc.,
a Delaware corporation,
its sole General Partner

By: _____
Stephen M. Ross, Chairman and Chief Executive Officer

SCHEDULE 1

NEW OWNERSHIP STRUCTURE OF GRAND AVENUE LA, LLC

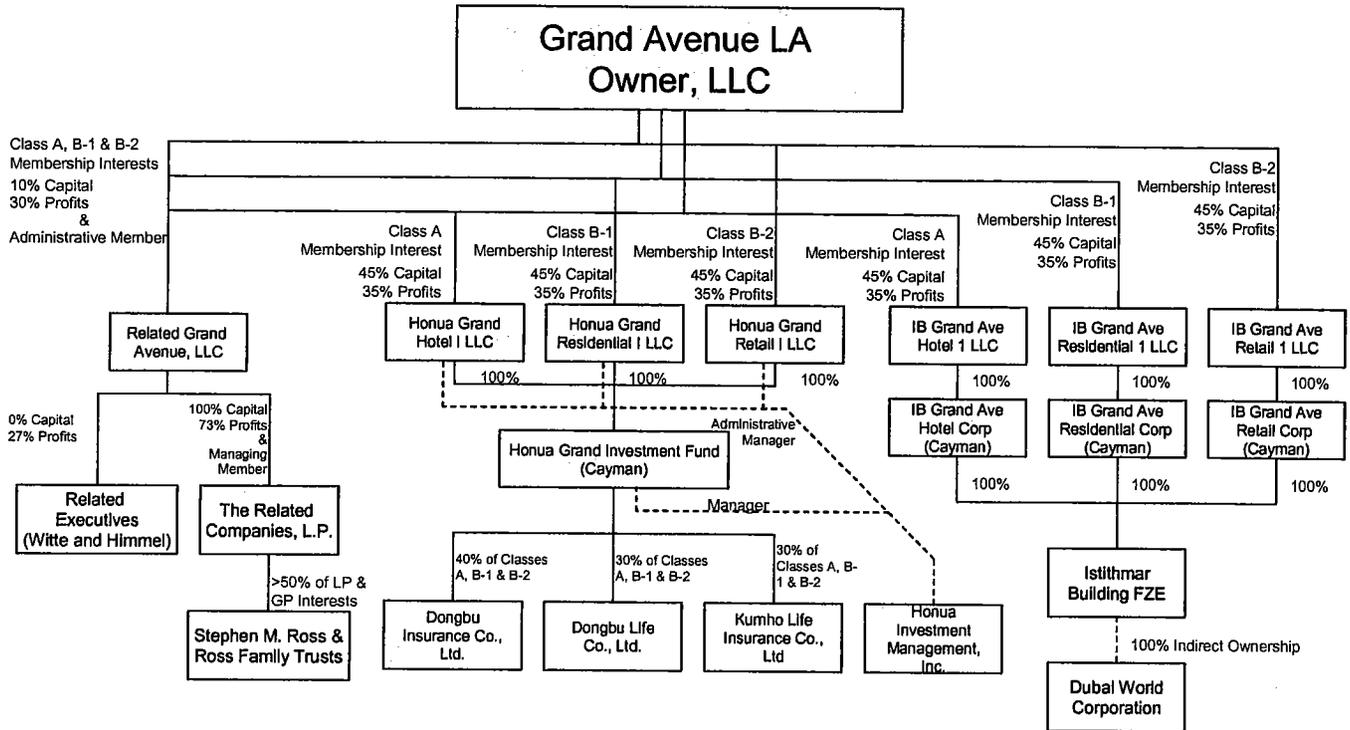
(Replaces Schedule 1501 to the DDA and Exhibit A-1 to the March 17th Letter Agreement)



SCHEDULE 2

NEW OWNERSHIP STRUCTURE OF GRAND AVENUE LA OWNER, LLC

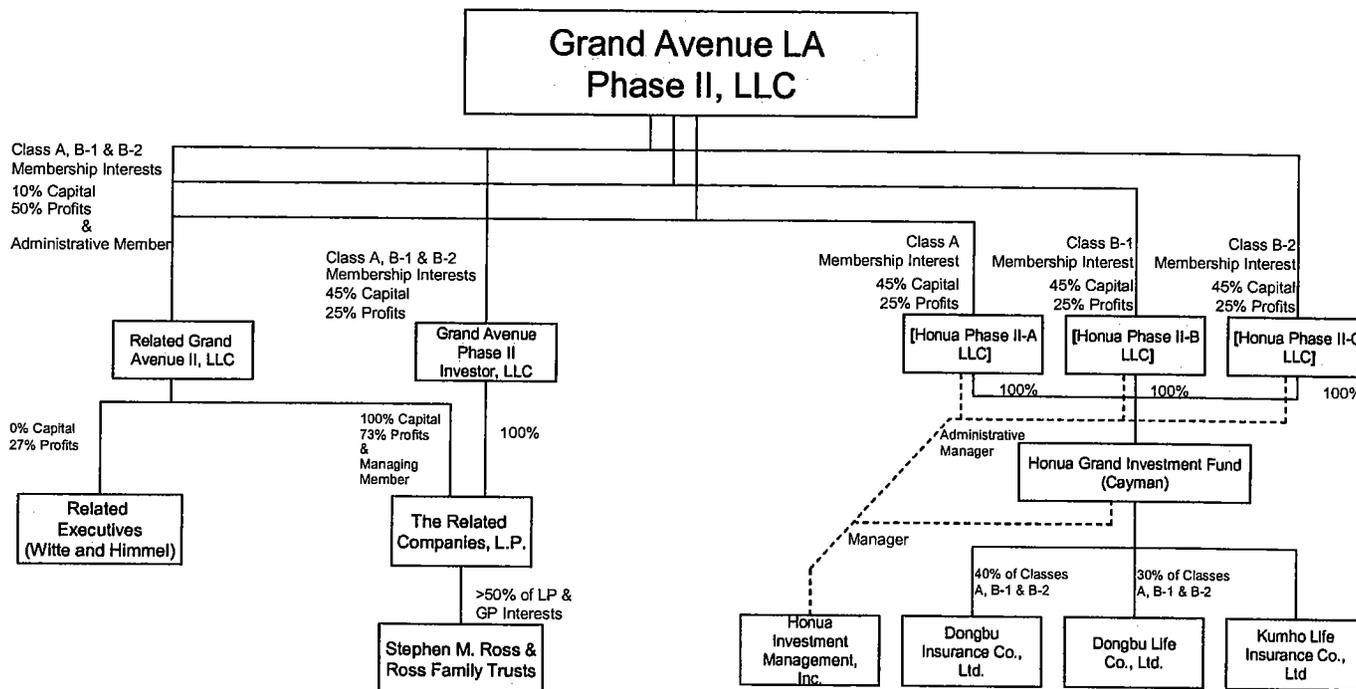
(Replaces Schedule 1501 to the DDA and Exhibit A-2 to the March 17th Letter Agreement)



SCHEDULE 3

OWNERSHIP STRUCTURE OF GRAND AVENUE LA PHASE II, LLC

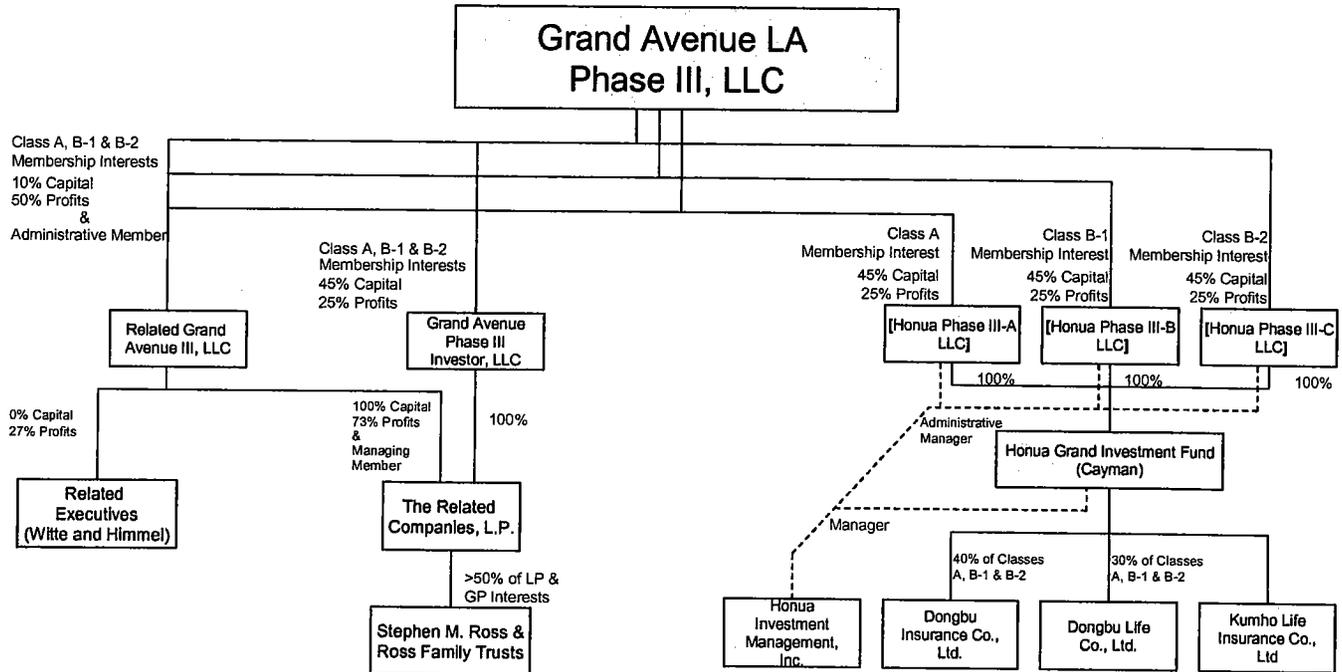
(Replaces Schedule 1501 to the DDA)



SCHEDULE 4

OWNERSHIP STRUCTURE OF GRAND AVENUE LA PHASE III, LLC

(Replaces Schedule 1501 to the DDA)



SCHEDULE 5

LIST OF OPERATING AGREEMENTS

1. Second Amended and Restated Limited Liability Company Agreement of Grand Avenue LA, LLC, by and among Owner LLC, Hotel LLC, and Affordable Housing LLC.
2. Amended and Restated Limited Liability Company Agreement of Grand Avenue LA Owner, LLC, by and among the Related Group, the Istithmar Group, and the Honua Group.
3. Amended and Restated Letter Agreement re: Grand Avenue Development, Los Angeles, California by and among the Related Group, the Honua Group, the Istithmar Group and Owner LLC.
4. Letter Agreement re: Grand Avenue Development, Los Angeles, California by and among the Related Group, the Honua Group, the Istithmar Group and Owner LLC.