Executive Summary

TO: **Key West Bight Management District Board**
Caroline Street Corridor and Bahama Village Community Redevelopment Agency

CC: **Jim Scholl; Doug Bradshaw**

FR: **Marilyn D. Wilbarger, CCIM**

DT: **June 3, 2019**

RE: **Lease Assignment for 255 Margaret Street**

ACTION STATEMENT:
The city has received a request from the tenant McGrail and Rowley, Inc. to approve a lease assignment for 255 Margaret Street to RED Hospitality & Leisure Key West, LLC. a newly formed Delaware Limited Liability Company which is a wholly owned subsidiary of RED Hospitality & Leisure, Inc. a Delaware Limited Liability Company.

RED Hospitality & Leisure, LLC is an indirect subsidiary of Ashford, INC (NYSE AINC), which is the external advisor of Ashford Hospitality Trust (NYSE AHT) and Braemar Hotels & Resorts, Inc. (NYSE: BHR). Ashford counts The Pier House and La Concha resorts among its over $6B in assets under management and shares a vested interest in the local community and tourism market. There is a corporate organizational chart attached for your reference.

RED Hospitality & Leisure, LLC provides resort services, including destination services, watersports, beach and recreation operations, destination management services, and transportation under several subsidiary brands in the US Virgin Islands, namely Cruz Bay Watersports which has served the USVI market for over 30 years and is one of the largest and most diversified watersports companies in the territory.

RED Hospitality and Leisure identified Sebago Watersports due in large part to its quality reputation, successful operations and quality management team. RED intends to maintain the continuity of the Sebago Watersports brand, including its management team post acquisition.

HISTORY:
The CRA entered into a five-year lease for the demised premises that will expire in May of 2025. The current tenant, McGrail and Rowley, Inc., LLC has entered into a purchase agreement with the Assignee and is requesting a simple assignment meaning that no terms or conditions of the lease change for the remainder of the lease term.

The leases provide for the assignment as described in Section 10 excerpted here, as follows:

> **"10. ASSIGNMENT AND HYPOTHECATION -** This Lease is not transferable or LANDLORD which may be withheld and shall be at the sole discretion of the LANDLORD.
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> Any assignment or sub-letting, even with LANDLORD'S consent shall not relieve TENANT from liability for payment of Rent or from the obligation to keep and be bound by the agreements of this Lease. The acceptance of Rent from any other person shall not

be deemed to be a waiver of any of the agreements of this Lease or to be consent to the assignment for the benefit of creditors or by operation of law and shall not be effective to transfer any rights to any assignee without prior consent of LANDLORD. In the event TENANT wishes to assign this Lease and LANDLORD consents to such assignment, LANDLORD may charge a reasonable fee, not to exceed **$500.00** to help offset any costs LANDLORD may have in preparing such assignment, or in examining the information, financial statements, operating history, references, etc., necessary to effectuate same. Any assignment, transfer, hypothecation, mortgage, or subletting without LANDLORD'S written consent shall give LANDLORD the right to terminate this Lease and to re-enter and repossess the Demised Premises and the LANDLORD'S right to damages shall survive.

If the TENANT is a corporation, then a sale or transfer of a controlling interest in the corporation by sale of stock or otherwise shall constitute an assignment for purposes of this provision."

The proposed Assignee's parent organization RED Hospitality & Leisure, LLC has provided historical financials as well as 1st quarter 2019 financial statements that are attached for your reference. Additionally, the most recent SEC Form 10-Q filing for Ashford, Inc. (NYSE AINC) is attached.

FINANCIAL STATEMENT:
The current tenant has met all of the financial obligations of the lease and the rent will continue pursuant to the existing lease. The financial safeguards in the lease, namely the required letter of credit in an amount equal to six months base rent that the Assignee must provide as additional security, ensure that rent will be paid for an adequate period of time to regain possession in the event of a default. Additionally, RED Hospitality & Leisure LLC. will guaranty the complete performance of all of the covenants and obligations of the Assignee.

CONCLUSION:
This lease assignment is contingent upon the completion of the sale between the Assignor and Assignee of the business known as Sebago Watersports. The effective date of the assignment is the date of the closing of this transaction. The requested action is permitted under the terms of the lease, at the sole discretion of the Landlord, and the current tenant is not relieved from liability if the assignee defaults in its obligations under the terms of the lease therefore the financial risk to the City is minimized. The business is highly successful in a very desirable location that would attract substantial interest should there ever be an opportunity to offer it for lease.

ATTACHMENTS:
Lease Assignment and Consent of Lessor
Lease: City resolution 17-133
1st Quarter 2019 Financial Statements RED Hospitality & Leisure LLC
Historical Financial Statements RED Hospitality & Leisure LLC
10Q Ashford, Inc.