

September 14, 2012



Ms. Kimberly Brandt
Director - Community Development Department
City of Newport Beach
3300 Newport Boulevard
Building B
Newport Beach, CA 92663

Dear Ms. Brandt:

Pursuant to your request, we have completed economic impact, fiscal impact, and residual land value analyses for the proposed hotel to be developed at the current site of the Newport Beach City Hall. The following summarizes our scope of work followed by a discussion of our findings:

A. Economic Impact Analysis

Based on 78-room hotel and 120-room hotel scenarios, we have projected the estimated direct and indirect economic impact that each of the hotel development scenarios will have on businesses in Newport Beach through the purchases of goods and services by hotel guests.

B. Fiscal Impact Analysis

Based on the abovementioned hotel room count scenarios, we have projected the estimated fiscal impact of hotel operations on tax revenue to the City of Newport Beach, including transient occupancy tax, sales tax, and possessory interest tax. Utility, business license, and parking taxes have not been included.

C. Residual Land Value Analysis

We have prepared land residual analyses for the following development alternatives:

1. 78-room Hotel and 100 above ground parking spaces; and
2. 120-room Hotel and 150 above ground parking spaces.

*Both analyses assume existing lot size and dimensions and retention of the fire station in its current location.

The land residual analyses provide the City of Newport Beach (City) with the following valuation estimates for each development alternative:

1. The estimated fair market value of the fee interest in the property upon completion and the estimated value of the land before and after the deduction of extraordinary costs such as a public plaza and a promenade; and
2. The estimated annual ground lease income that could potentially be received by the City if the property is conveyed in the form of a long-term ground lease.

SUMMARY OF CONCLUSIONS

The following table presents a summary of conclusions for each hotel development scenario.

Summary of Conclusions		
	78-Room Hotel	120-Room Hotel
Economic Impact		
Representative Year Direct and Indirect Spending	\$20,566,715	\$29,408,056
10-Yr Direct and Indirect Spending	\$254,249,861	\$362,006,807
Fiscal Impact		
Representative Year TOT	\$476,000	\$680,700
Representative Year Sales Tax	\$123,494	\$176,583
Representative Year Possessory Interest Tax	\$38,759	\$54,366
<i>Total Fiscal Impact Representative Year</i>	\$638,253	\$911,649
10-Year TOT Revenue	\$5,885,200	\$8,378,800
10-Year Sales Tax Revenue	\$1,526,662	\$2,173,697
10-Year Sales Possessory Interest Tax	\$476,256	\$667,307
<i>Total Fiscal Impact 10-Year Period</i>	\$7,888,118	\$11,219,804
Residual Land Value		
Option A	\$3,430,481	\$5,530,481
Option B	\$49,895	\$2,149,895
Annual Ground Rent at 10% of Land Value		
Option A	\$343,000	\$553,000
Option B	\$5,000	\$215,000
<i>Source: PKF Consulting</i>		

ANALYSIS

Our analysis follows the outline presented above. The following presents an expanded discussion of our analysis and conclusions regarding each item in the summary.

A. ECONOMIC IMPACT

The following presents the estimated economic impact of hotel operations on the Newport Beach economy. We have performed an economic impact analysis for two development scenarios: 1) 78-room upscale boutique hotel and 2) 120-room upscale boutique hotel.

The total economic impact of the proposed development in the City of Newport Beach consists of direct spending by overnight hotel guests, which includes lodging, food and beverage, souvenirs, attractions, transportation, and incidentals, as well as indirect spending. Indirect spending is a function of monies spent by visitors in area businesses, which the businesses then utilize to operate and spend on other items. We have applied our economic analysis to the operational phase of the development. In addition to this impact, the project will create additional impact such as jobs and spending during the construction phase, as well as spending by day guests to the hotel, such as conference, banquet, and restaurant guests.

Operational Phase Economic Impact

The methodology used to determine the economic impact of the operational phase of the proposed project to the City of Newport Beach includes an estimation of visitor spending within the different categories. This allocation of visitor spending is performed by taking the overall hotel visitor spending data for the City of Newport Beach, as derived by Horizon Consumer Science¹, and applying it to the average daily rate and number of occupied rooms of the property. We have estimated:

- The flow of dollars through the economy into the City of Newport Beach attributable to hotel guest direct spending
- The indirect spending created by this spending

Assumption

It should be noted that this economic impact study is limited to overnight visitors who stay in Newport Beach at the subject property and **does not assume** day visitors that come to the area due to the new facilities and positioning of the subject property.

Definitions

Hotel/Motel Guests - those overnight visitors who stay at lodging facilities in the City of Newport Beach. The primary purpose of their visits to Newport Beach varies and includes business, leisure, and self-contained groups.

Multiplier - a means to determine the indirect economic benefits of visitor expenditures in a community, such as spending by hotels and restaurants and their employees. The multiplier is applied to direct spending by visitors to measure the total flow of visitor dollars through the economy.

The following tables summarize our findings.

¹ Horizon Consumer Science, *Visitor Profile and Economic Fiscal Impacts of Newport Beach Tourism For FY 2010/2011*

Scenario 1 – 78 Rooms

Total Annual Economic Impact (Based Upon a Stabilized Year of Operation, 2012 Dollars)	
	78 Rooms
Hotel Guests	
Occupied Hotel Rooms	21,637
Double Occupancy Factor	2.0
Total Hotel Visitor Days	43,274
Total Visitor Spending	\$15,820,550
Multiplier	1.3
TOTAL ECONOMIC IMPACT Direct and Indirect*	\$20,600,000
Note: Number has been rounded.	

Scenario 2 – 120 Rooms

Total Annual Economic Impact (Based Upon a Stabilized Year of Operation, 2012 Dollars)	
	120 Rooms
Hotel Guests	
Occupied Hotel Rooms	32,412
Double Occupancy Factor	2.0
Total Hotel Visitor Days	64,824
Total Visitor Spending	\$22,621,581
Multiplier	1.3
TOTAL ECONOMIC IMPACT Direct and Indirect*	\$29,400,000
Note: Number has been rounded.	

The following text provides summary tables and the assumptions used to reach the aforementioned conclusions.

Total Hotel Visitors

In order to calculate the visitor impact of the hotel operations, it is first necessary to estimate total hotel visitors. This has been derived by estimating the stabilized occupancy level. The projected occupancy is then multiplied by the double occupancy factor. As previously presented, we estimate a stabilized occupancy of 76 percent for Scenario 1 (78 rooms) and 74 percent for Scenario 2 (120 rooms).

Next, to develop a baseline expenditure that we can extrapolate to total visitor expenditure, we have utilized daily lodging expenditure per hotel visitor. This is calculated by taking the average daily rate and dividing it by the occupancy factor. We have utilized a rate of \$220 for Scenario 1 and \$210 for Scenario 2.

Scenario 1 – 78 Rooms

Total Proposed Newport Beach Hotel and Daily Lodging Expenditure	
78 Rooms	
Total Occupied Rooms	21,637
Occupancy Factor	2.0
Total Hotel Visitors	43,274
Average Daily Rate	\$220.00
Daily Hotel Spending per Visitor	\$110.00
PKF Consulting	

Scenario 2 – 120 Rooms

Total Proposed Newport Beach Hotel Visitors and Daily Lodging Expenditure	
120 Rooms	
Total Occupied Rooms	32,412
Occupancy Factor	2.0
Total Hotel Visitors	64,824
Average Daily Rate	\$210.00
Daily Hotel Spending per Visitor	\$105.00
PKF Consulting	

Direct Visitor Spending

Based on the daily lodging expenditure, it is now possible to project spending on other categories. Our estimates of overnight visitors are based upon the projected occupancy and ADR of the proposed subject. The following table presents the spending by category for the City of Newport Beach for direct visitor expenditure. The Regional Input-Output Modeling System (RIMS II) was used to calculate the economic multipliers. The spending data is for fiscal year 2010-2011. Please note that we are relying on this data for the percentage allocations rather than the dollar amounts.

For these segments, our analysis of daily expenditures for overnight stays included the following categories:

Daily Hotel Visitor Spending		
Spending Category	2010-11	% of Total
* Lodging	\$84.60	30.1%
* Meals & Beverages	58.93	21.0
* Local Transportation	13.67	4.9
* Non-Food Retail Purchases	68.50	24.4
* Entertainment	18.23	6.5
* Other	13.15	4.7
	5.89	2.1
	7.30	2.6
	10.90	3.9
Total	\$281.17	100.0%

Source: Horizon Consumer Science Visitor Profile and Economic Fiscal Impacts of Newport Beach Tourism For FY 2010/2011

Utilizing the average daily expenditure on lodging, we can apply these ratios of spending to the subject property for each scenario, as presented in the following tables.

Scenario 1 – 78 Rooms

Newport Beach Hotel Visitor Direct Spending Per Day		
Spending Category	Basis	Newport Beach Hotel 78 Rooms
Lodging	30.1%	\$110.00
Meals	21.0	76.62
Beverages	4.9	17.77
Shopping/gifts	24.4	89.06
Mus./Theater/Clubs Fees	6.5	23.71
Daily Transport/Parking	4.7	17.09
Amenities/Health Spa	2.1	7.67
Activities	2.6	9.49
Groc./Conv./Incidentals	3.9	14.17
Total	100.0%	\$365.59

Scenario 2 – 120 Rooms

Newport Beach Hotel Visitor Direct Spending Per Day		
Spending Category	Basis	Newport Beach Hotel 120 Rooms
Lodging	30.1%	\$105.00
Meals	21.0	73.14
Beverages	4.9	16.97
Shopping/gifts	24.4	85.01
Mus./Theater/Clubs Fees	6.5	22.63
Daily Transport/Parking	4.7	16.32
Amenities/Health Spa	2.1	7.32
Activities	2.6	9.06
Groc./Conv./Incidentals	3.9	13.53
Total	100.0%	\$348.97

Next, we will apply this daily expenditure to the number of hotel visitors to calculate total direct visitor spending. The following table presents our conclusions of total direct visitor spending in a representative year.

Scenario 1 – 78 Rooms

Newport Beach Hotel Visitor Direct Spending	
Spending Category	Newport Beach Hotel 78 Rooms
Lodging	\$4,760,184
Meals	3,315,628
Beverages	769,125
Shopping/gifts	3,854,015
Mus./Theater/Clubs Fees	1,026,083
Daily Transport/Parking	739,758
Amenities/Health Spa	331,773
Activities	410,783
Groc./Conv./Incidentals	613,202
Total	\$15,820,550

Scenario 2 – 120 Rooms

Newport Beach Hotel Visitor Direct Spending	
Spending Category	Newport Beach Hotel 120 Rooms
Lodging	\$6,806,520
Meals	4,740,969
Beverages	1,099,761
Shopping/gifts	5,510,802
Mus./Theater/Clubs Fees	1,467,181
Daily Transport/Parking	1,057,770
Amenities/Health Spa	474,397
Activities	587,372
Groc./Conv./Incidentals	876,809
Total	\$22,621,581

The Multiplier Effect

The total impact of direct spending related to the introduction of the expanded facilities is amplified by means of an economic multiplier. A multiplier is used to estimate the impact that the visitor dollar makes beyond the initial goods/services purchased. The infusion of new dollars into the local economy also produces additional goods and services. In short, “direct” visitor spending creates indirect and induced economic benefits for the City. For example, visitor spending collected “directly” within a hotel restaurant also “indirectly” supports food and beverage suppliers and delivery services. Moreover, the direct and indirect spending induces further spending in the community by employees of the benefiting businesses.

Based upon the RIMS II economic modeling system and as confirmed by the *Visitor Profile and Economic Fiscal Impacts of Newport Beach Tourism For FY 2010/2011 study performed by Horizon Consumer Science*, we have used an overall economic multiplier of 1.3. We applied this multiplier to the expenditures related to the visitors to the subject property to determine the overall economic impact of the subject under each scenario.

Hotel Visitor Direct and Indirect Spending	
Newport Beach Hotel 78 Rooms	
Direct Spending	\$15,820,550
Multiplier	1.3
Direct and Indirect Spending	\$20,566,715

Hotel Visitor Direct and Indirect Spending	
Newport Beach Hotel 120 Rooms	
Direct Spending	\$22,621,581
Multiplier	1.3
Direct and Indirect Spending	\$29,408,056

Annual Direct and Indirect Economic Impact

Scenario 1 – 78 Rooms

The project as proposed results in an estimated total direct and indirect economic impact of \$20.6 million in a representative year. The following presents a summary of 10 years of impact.

Annual Direct and Indirect Economic Impact (78 Rooms)			
	Direct	Indirect	Total
2012 Rep	\$15,820,550	\$4,746,165	\$20,566,715
2015	15,442,068	4,632,620	20,074,688
2016	16,895,439	5,068,632	21,964,071
2017	18,337,455	5,501,237	23,838,692
2018	18,912,748	5,673,824	24,586,573
2019	19,488,041	5,846,412	25,334,453
2020	20,063,334	6,019,000	26,082,334
2021	20,638,626	6,191,588	26,830,214
2022	21,285,831	6,385,749	27,671,580
2023	21,933,035	6,579,910	28,512,945
2024	22,580,239	6,774,072	29,354,311
Total 2015-2024	\$195,576,816	\$58,673,045	\$254,249,861

Scenario 2 – 120 Rooms

The project as proposed results in an estimated total direct and indirect economic impact of \$29.4 million in a representative year. The following presents a summary of 10 years of impact.

Annual Direct and Indirect Economic Impact (120 Rooms)			
	Direct	Indirect	Total
2012 Rep	\$22,621,581	\$6,786,474	\$29,408,056
2015	21,668,098	6,500,429	28,168,527
2016	23,703,053	7,110,916	30,813,969
2017	26,174,786	7,852,436	34,027,222
2018	27,036,507	8,110,952	35,147,459
2019	27,790,513	8,337,154	36,127,667
2020	28,652,235	8,595,670	37,247,905
2021	29,513,956	8,854,187	38,368,143
2022	30,375,677	9,112,703	39,488,381
2023	31,345,114	9,403,534	40,748,648
2024	32,206,835	9,662,051	41,868,886
Total 2015-2024	\$278,466,775	\$83,540,032	\$362,006,807

B. FISCAL IMPACT

This portion of our analysis focuses on providing a fiscal impact of hotel operations on tax revenue to Newport Beach local agencies. Fiscal impact is the amount of tax revenue generated directly to Newport Beach local agencies by visitor spending of hotel guests and hotel operations. Potential government revenues drawn from tourism-related projects include: sales tax, transient occupancy tax, business tax, property tax, utility tax, and parking tax. Please note our analysis presents potential revenues to the City from taxes related to hotel revenues including sales and transient occupancy tax, as well as property

taxes in the form of a possessory interest tax. Utility and parking tax estimates have not been included. Business tax is a small set amount per year in the City of Newport Beach and will not represent significant impact to the City.

The current transient occupancy tax rate in the City of Newport Beach is 10.0 percent. The current retail sales tax that is contributed to the City is 1.0 percent of retail sales. The City retains 17.15 percent of total property taxes.

Basis for Fiscal Impact

Scenario 1 – 78 Rooms

We have projected 10 years of operational performance. We used comparable data from hotels with similar average daily rate, occupancy, size, and market positioning from PKF Consulting’s *Trends in the Hotel Industry* survey (referred to as Comparables “A”, “B”, “C”, “D”, and “E” in the addenda). All five are full service properties, averaging 102 rooms at an aggregate 80 percent occupancy rate and ADR of \$198.00. The following table presents a summary of the projected top line performance for the proposed 78-room hotel.

Summary of Projected Top Line Performance	
Scenario 1- 78 Rooms	
Room Count	78
Year 1 Occupancy	68%
Year 2 Occupancy	72%
Year 3 Occupancy	76%
Stabilized Occupancy	76%
ADR (2012 rep)	\$220
ADR Year 1	\$240
Annual ADR growth	3%
PKF Consulting	

The following table presents the incremental tax revenues for the proposed Scenario 1.

Hotel Operations Tax Revenues	
(Stabilized Year of Operations, 2012 Dollars)	
78 Rooms	
Rooms Revenue	\$4,760,000
TOT Rate	10%
TOT Generated (rounded)	\$476,000
Sales Revenue (Meals & Beverages, Non-Food Retail, Entertainment, Transportation, Other)	\$14,378,476
Sales Tax Rate ¹	1%
Sales Tax Generated (rounded)	\$123,494
Total Possessory Interest Tax	\$226,000
Percentage of Property Tax to City	17.15%
Possessory Interest Tax to City	\$38,759
Total Hotel Operations Tax Revenues to City of Newport Beach local agencies	\$638,253

¹Sales tax revenue was estimated at 1.0 percent of meals, beverages, and shopping/gifts spending and 0.05% of other spending

- Based on the assumptions of occupancy and average daily rate upon stabilization, we have estimated transient occupancy tax of \$476,000 in a representative year.
- In addition to TOT, the City of Newport Beach is estimated to receive 1.0 percent of the sales tax generated from meals and beverages and non-food retail as well as one half of 1.0 percent from transportation, entertainment, personal care, and other activities expenses. We estimate that Scenario 1 will drive \$123,494 in sales tax revenue from expenditures by hotel visitors to the City of Newport Beach.
- The subject property is in the real estate taxing jurisdiction of Orange County. In California, Proposition 13 limits property taxes to one percent of the assessed value plus city, special district, and county bonds. Assessed values are further limited to a two percent increase per year, except upon sale or major alterations of the property. Based on our knowledge of typical tax assessments and the base rate, we have applied a tax rate of 1.1 percent to the value of the property based on an estimated construction cost of \$280,000 per room to derive a representative property tax base. This figure is then inflated at two percent per year in accordance with the Jarvis-Gann Amendment. The City of Newport Beach retains 17.15 percent of total property taxes. We have estimated possessory interest tax of \$38,759 in a representative year.

We have also calculated the tax revenue for a ten-year period beginning in 2015, the estimated opening date of the lodging facility.

	78-Room Hotel							
	Hotel Operations				Taxes			
	Total Revenue	Rooms Expenditure	Other ¹ Expenditure	Total Possessory Interest Tax	TOT	Sales Tax ²	Possessory Interest Tax to City ³	Total
2012 Rep	\$6,978,000	\$4,760,000	\$14,378,476	\$226,000	\$476,000	\$123,494	\$38,759	\$638,253
2015	6,814,000	4,646,000	14,034,493	240,000	464,600	120,540	41,160	626,300
2016	7,449,000	5,084,000	15,355,386	260,000	508,400	131,885	44,590	684,875
2017	8,089,000	5,518,000	16,665,960	265,000	551,800	143,141	45,448	740,389
2018	8,340,000	5,691,000	17,188,814	271,000	569,100	147,632	46,477	763,208
2019	8,592,000	5,864,000	17,711,668	276,000	586,400	152,123	47,334	785,857
2020	8,848,000	6,038,000	18,234,521	281,000	603,800	156,613	48,192	808,605
2021	9,106,000	6,211,000	18,757,375	287,000	621,100	161,104	49,221	831,425
2022	9,386,000	6,405,000	19,345,585	293,000	640,500	166,156	50,250	856,906
2023	9,670,000	6,600,000	19,933,796	299,000	660,000	171,208	51,279	882,487
2024	9,958,000	6,795,000	20,522,006	305,000	679,500	176,260	52,308	908,068
Total 2015-2024	\$86,252,000	\$58,852,000	\$177,749,605	\$2,777,000	\$5,885,200	\$1,526,662	\$476,256	\$7,888,118

¹Other Expenditure is based on Direct and Indirect Spending by hotel visitors not including lodging accommodations.

²Sales tax revenue was estimated at 1.0 percent of meals, beverages, and shopping/gifts spending and 0.05% of other spending

³Based on 17.15% of total property tax to the City

Scenario 2 – 120 Rooms

We have projected 10 years of operational performance. We used comparable data from hotels with similar average daily rate, occupancy, size, and market positioning from PKF Consulting’s *Trends in the Hotel Industry* survey (referred to as Comparables “A”, “B”, “C”, “D”, and “E” in the addenda). All five are full service properties, averaging 119 rooms at an aggregate 78 percent occupancy rate and ADR of \$199.00. The following table presents a summary of the projected top line performance for the proposed 120-room hotel.

Summary of Projected Top Line Performance	
Scenario 2- 120 Rooms	
Room Count	120
Year 1 Occupancy	65%
Year 2 Occupancy	69%
Year 3 Occupancy	74%
Stabilized Occupancy	74%
ADR (2012 rep)	\$210
ADR Year 1	\$229
Annual ADR growth	3%
PKF Consulting	

The following table presents the incremental tax revenues for the proposed Scenario 2.

Hotel Operations Tax Revenues (Stabilized Year of Operations, 2012 Dollars)	
	120 Rooms
Rooms Revenue	\$6,807,000
TOT Rate	10%
TOT Generated (rounded)	\$680,700
Sales Revenue (Meals & Beverages, Non-Food Retail, Entertainment, Transportation, Other)	\$20,559,580
Sales Tax Rate	1%
Sales Tax Generated (rounded)	\$176,583
Total Possessory Interest Tax	\$317,000
Percentage of Property Tax to City	17.15%
Possessory Interest Tax to City	\$54,366
Total Hotel Operations Tax Revenues to City of Newport Beach local agencies	\$911,648
¹ Sales tax revenue was estimated at 1.0 percent of meals, beverages, and shopping/gifts spending and 0.05% of other spending	

- Based on the assumptions of occupancy and average daily rate upon stabilization, we have estimated transient occupancy tax of \$680,700 in a representative year.
- In addition to TOT, the City of Newport Beach is estimated to receive 1.0 percent of the sales tax generated from meals and beverages and non-food retail as well as one half of 1.0 percent from transportation, entertainment, personal care, and other activities expenses. We estimate that Scenario 2 will drive

\$176,600 in sales tax revenue from expenditures by hotel visitors to the City of Newport Beach.

- The subject property is in the real estate taxing jurisdiction of Orange County. In California, Proposition 13 limits property taxes to one percent of the assessed value plus city, special district, and county bonds. Assessed values are further limited to a two percent increase per year, except upon sale or major alterations of the property. Based on our knowledge of typical tax assessments and the base rate, we have applied a tax rate of 1.1 percent to the value of the property based on an estimated construction cost of \$255,000 per room to derive a representative property tax base. This figure is then inflated at two percent per year in accordance with the Jarvis-Gann Amendment. The City of Newport Beach retains 17.15 percent of total property taxes. We have estimated possessory interest tax of \$54,366 in a representative year.

We have also calculated the tax revenue for a ten-year period beginning in 2015, the estimated opening date of the lodging facility.

120-Room Hotel								
Hotel Operations					Taxes			
	Total Revenue	Rooms Expenditure	Other ¹ Expenditure	Total Possessory Interest Tax	TOT	Sales Tax ²	Possessory Interest Tax to City ³	Total
2012 Rep	\$9,824,000	\$6,807,000	\$20,559,580	\$317,000	\$680,700	\$176,583	\$54,366	\$911,648
2015	9,416,000	6,520,000	19,693,008	337,000	652,000	169,140	57,796	878,936
2016	10,298,000	7,132,000	21,542,473	364,000	713,200	185,025	62,426	960,651
2017	11,374,000	7,876,000	23,788,903	372,000	787,600	204,319	63,798	1,055,717
2018	11,737,000	8,135,000	24,572,076	379,000	813,500	211,046	64,999	1,089,544
2019	12,073,000	8,362,000	25,257,353	387,000	836,200	216,931	66,371	1,119,502
2020	12,443,000	8,621,000	26,040,527	394,000	862,100	223,658	67,571	1,153,329
2021	12,817,000	8,880,000	26,823,701	402,000	888,000	230,384	68,943	1,187,327
2022	13,194,000	9,140,000	27,606,875	410,000	914,000	237,111	70,315	1,221,426
2023	13,608,000	9,431,000	28,487,945	419,000	943,100	244,678	71,859	1,259,637
2024	13,993,000	9,691,000	29,271,119	427,000	969,100	251,405	73,231	1,293,735
Total	\$120,953,000	\$83,788,000	\$253,083,980	\$3,891,000	\$8,378,800	\$2,173,697	\$667,307	\$11,219,804

¹Other Expenditure is based on Direct and Indirect Spending by hotel visitors not including lodging accommodations.

²Sales tax revenue was estimated at 1.0 percent of meals, beverages, and shopping/gifts spending and 0.05% of other spending

³Based on 17.15% of total property tax to the City

Fiscal Impact Conclusions

The estimated total tax impact for Newport Beach local agencies of Scenario 1 over a 10 year period is \$7.9 million and \$638,200 in a representative year, comprising transient occupancy tax, sales tax, and possessory interest tax. The estimated total impact for Scenario 2 is \$11.2 million over a 10-year period and \$911,600 in a representative year.

C. RESIDUAL LAND VALUE ANALYSIS

We have performed a residual land value analysis for each development scenario. In preparing this study, we evaluated the proposed development as a 78-room upscale boutique hotel and as a 120-room upscale boutique hotel, including ancillary amenities and facilities. Our analyses incorporate the following assumptions for both development scenarios:

- The total land area of the subject site is 4.2 acres, including the land under the fire station. The hotel will be developed on approximately 0.5 acres. The existing fire station will be demolished and rebuilt at approximately the same location, with half of the costs of construction assessed to the hotel.
- There will be 100 surface parking spaces totaling approximately 0.9 acres in Scenario 1 (78-rooms) and 150 surface parking spaces totaling approximately 1.3 acres in Scenario 2 (120-rooms).
- A public plaza and promenade will be developed on approximately 1.21 acres of the site. Land value offsets associated with the public plaza and promenade have been included in the analysis.

METHODOLOGY

In order to derive residual land value estimates, we have performed a development cost estimate using the Marshall Valuation Service for the cost of constructing the proposed facility for each development scenario. This includes development of improvements and soft costs. The next step was then to develop an opinion of value for the completed facility based on comparable property operations and discounting the projection of revenue and expenses. The net difference between the total development cost and the value upon completion yields the gross land value.

PRESENTATION OF ANALYSES

SCENARIO 1 – 78 ROOM HOTEL

We have evaluated the proposed development. We took into consideration the room count, total floor area calculations, and parking facilities, as well as the cost of constructing a new fire station. We have penetrated the property into the competitive market and projected occupancy, ADR, and operating performance. The following table summarizes the scenario:

Summary of Scenario	
Hotel Type:	Upscale Boutique
Keys:	78
Square Feet of Buildings:	58,500
Parking Spaces:	100
Average Daily Rate:	\$220.00
Stabilized Occupancy:	76%
PKF Consulting	

DEVELOPMENT COST ANALYSIS

In order to derive a development cost estimate, we:

- Estimated development costs for the new improvements, including all direct and indirect costs associated with the building; and
- Added the estimated cost of personal property (furniture, fixtures, and equipment) and soft costs that may be included in the total property value, including working capital, and pre-opening marketing expenses.

Direct and Indirect Costs

A development cost estimate was formulated utilizing Marshall & Swift Valuation Services, a comprehensive cost model. The development cost for the improvements is supported by comparable property development budgets and actual construction costs, as presented in the following section. The cost estimate includes all hard and soft construction costs, including:

- Development of structural improvements;
- Average architects' and engineers' fees, including plans, building permits, and surveys to establish building lines and grades;
- Normal interest on building funds during periods of construction and associated processing fees or service charges;
- Sales taxes on materials;
- Normal site preparation, including excavation for foundation and backfill;
- Utilities from the structure to lot-line figured for typical setback;
- Contractors' overhead and profit, including job supervision, workers' compensation, fire and liability insurance, and unemployment insurance; and
- Developer Fee.

Building Improvements

Building improvements include all structural improvements, site improvements such as landscaping, and level of construction quality and facilities. This value of the improvements also takes into account a sprinkler system throughout the project, as well as the construction type and mechanical systems. Based on a Class D Excellent construction building, as defined by Marshall and Swift, this cost is estimated at \$212.67 per square foot. We used a square footage of 58,500 square feet per the redevelopment assumptions provided by the City. We used a basis of \$2,000 per space for surface parking.

Personal Property

Personal property, more commonly known as furniture, fixtures, and equipment (FF&E), is a critical component in the operation of a hotel, and is commonly sold with the building. FF&E includes the hotel's guest room and public area furnishings, kitchen equipment and service/maintenance equipment, and other machinery. The subject hotel will be an upscale hotel. We used a basis of \$35,000 per room for FF&E.

Indirect Costs

In addition to the foregoing direct costs, there are indirect costs associated with the development of a hotel. Typical indirect costs include legal, title and escrow fees, real estate taxes, financing costs, and working capital.

Legal, title, and escrow fees represent the costs in each of these areas to complete the development of the property. We have estimated these costs at approximately \$5,000 per room.

Real estate taxes represent the amount of property tax associated with the land and improvements of the project incurred during the development period, estimated to be eighteen months. After opening, the property tax would be assessed on the full value of the land, personal property and improvements. We have estimated these costs at approximately 1.12 percent of total direct cost.

Contingency Fees represent the costs associated with having a reserve in the case of unexpected cost overruns, delays, or damages to the on-going construction process. We have estimated these costs at approximately 5.0 percent of total direct cost.

Pre-opening and working capital costs include pre-opening marketing, training and administrative expenditures as well as a working capital reserve to maintain adequate cash flow until the hotel achieves a break-even point. Also included in this category are the costs of operating supplies to properly outfit the hotel. We have estimated these costs at approximately \$5,000 per room.

Financing costs represent the costs associated with obtaining construction and permanent financing for the subject. This cost is primarily composed of “points” associated with these loans. We have estimated financing costs at 2.5 percent of total financed amount based on a 60.0 percent loan to value ratio of total development costs.

Developer Fee represents the cost associated with compensation to the developer for time and risk involved to develop the project. We have estimated developer fee at 5.0 percent of direct costs.

Conclusion of Development Costs

Based on the above analysis, the total development costs are estimated to be as follows:

Newport Beach Hotel - 78 Rooms Development Cost estimate	
Direct Costs	
Building Improvements and Site Improvements	\$12,813,911
Personal Property (FF&E)	2,730,000
Total Direct Costs	15,543,911
Indirect Costs	
Legal, Title, and Escrow Fees	390,000
Real Estate Taxes	348,184
Contingency Fees	777,000
Pre-Opening Expenses and Working Capital	390,000
Developer Fee (5% OF Direct Costs)	777,196
Total Indirect Costs	2,682,379
Total Development Cost before Financing	18,226,291
Financing Costs	262,000
Total Direct and Indirect Costs with Financing	18,488,291
Round to	\$18,500,000
Source: PKF Consulting	

The following table summarizes the development cost estimate:

Summary of Development Cost	
Hotel Type:	Upscale Boutique
Keys:	78
Square Feet:	58,500
Development:	\$18,500,000
Per Key:	\$237,200
PKF Consulting and Marshall Valuation	

In order to test the reasonableness of this cost estimate, the following table presents actual development cost budgets for four full service hotels, including only hard and soft costs, but not land value. While these budgets were for actual projects, they may not have all been constructed for various reasons.

Actual Development Budgets (Direct and Indirect Costs, not including land)					
No.	Project	Date	Number of Units	Cost	Cost Per Key
1	Proposed Hotel Carlsbad	Jul-06	75	\$21,600,150	\$288,002
2	Proposed Hotel San Diego	Jan-07	250	90,000,000	360,000
3	Proposed Hotel Carlsbad	Feb-06	250	55,566,000	222,264
4	Proposed Hotel Palm Springs	Oct-06	200	54,525,648	272,628

Note that the lodging facilities present a range in quality and service relative to the subject's upscale boutique property.

This development estimate is designed to present reasonable cost assumptions for an upscale boutique hotel property in the City of Newport Beach. Based on current positioning of comparable lodging facilities within similar markets in Southern California, and the projected similar quality level of a proposed lodging facility for the subject site, we find that the development cost estimate is reasonable.

VALUATION OF HOTEL

The next step is to develop an estimate of value of the hotel. A common technique often used in estimating value by the Income Capitalization Approach is the discounted cash flow method (DCF). In the DCF, the value of a property is the present value of the net operating income of the property in each year of a holding period (here assumed to be ten years) and the value of the property when sold at the end of the holding period (the reversion). The present value of these elements is obtained by applying a market-derived discount rate. The value of the reversion is obtained through the capitalization of the adjusted income in the eleventh year, which should be a normalized or typical year, with a deduction for the costs of sale. The cash flow projection over the holding period is based on the stabilized year estimate, adjusted to reflect such factors as change in room rates, occupancy, inflation, and the fixed and variable components of each revenue and expense item.

The subject has been valued based on an opening date of January 1, 2015. The valuation period consists of ten full calendar years. Our projections of revenues and expenses are based on a review of comparable property financials, presented in the addenda.

Hotel Value Conclusion

For the purposes of our analysis, we have used a going in capitalization rate of 8.0 percent and a discount rate of 11.0 percent. We have considered investor survey input, published in PKF Consulting's *Hospitality Investment Survey 2012*, Korpacz and RERC's *Investor Survey, First Quarter 2012 and Second Quarter 2012*, respectively. These surveys present capitalization rates. Typically, in today's investment environment, there is a 50 basis point adjustment applied to the going-in capitalization rate to derive the terminal capitalization rate. This accounts for the 10-year holding period.

The following table presents the 10-year stream of net operating income (NOI), as well as the reversion of the property at the end of year 10. Based on the resulting calculations, we have derived a prospective market value of the proposed subject, as presented in the table below.

Newport Beach Hotel Scenario 1 – 78 Rooms				
Valuation – Discounted Cash Flow				
Period	Number of Months	Projected NOI	11.00% PV Factor	Unrounded Present Value
2015	12	\$ 1,931,000	0.900901	\$1,739,640
2016	24	2,208,000	0.811622	1,792,062
2017	36	2,477,000	0.731191	1,811,161
2018	48	2,563,000	0.658731	1,688,327
2019	60	2,643,000	0.593451	1,568,492
2020	72	2,727,000	0.534641	1,457,966
2021	84	2,802,000	0.481658	1,349,607
2022	96	2,897,000	0.433926	1,257,085
2023	108	2,989,000	0.390925	1,168,474
2024	120	3,078,000	0.352184	1,084,024
Reversion		35,675,750	0.352184	12,564,445
				<u>\$27,481,283</u>
			ROUNDED	\$27,500,000

Based on a discounted cash flow analysis, our estimate of the market value of the proposed hotel upon completion is \$27,500,000. This equates to \$352,600 per room.

LAND VALUE ESTIMATE

Based on our estimates of development costs and valuation of the proposed facilities, we arrived at an estimated gross land value of \$9,000,000. We then need to deduct the land value offsets associated with the development of the public plaza and promenade. According to the City’s preliminary development budget, these costs are estimated as follows:

Public Plaza and Promenade Development Cost Estimates		
	Option A (nice improvements)	Option B (nicer improvements)
Main Plaza - Newport & 32nd	\$1,212,363	\$2,359,743
Northern Promenade - City only (65%)	272,208	575,836
32nd Street - Newport to Lafayette	1,078,055	2,121,237
Via Malaga Plaza	371,534	773,039
Via Oporto Plaza	522,859	1,007,750
Fire Station Reconstruction Allocation	2,112,500	2,112,500
	<u>\$5,569,519</u>	<u>\$8,950,105</u>

The following tables present our estimated net land value conclusions after incorporating the above land value offsets.

Net Land Value -		
	OPTION A	OPTION B
Hotel Value as Completed	\$27,500,000	\$27,500,000
Total Construction Cost	(18,500,000)	(18,500,000)
Estimated Gross Land Value	9,000,000	9,000,000
Land Value Offsets	(5,569,519)	(8,950,105)
Net Land Value	\$3,430,481	\$49,895

Source: **PKF Consulting**

GROUND RENT

The proposed hotel is to be developed on leased land from the City of Newport Beach. As such, the City will collect annual ground lease payments from the hotel owner/operator. We have estimated annual ground lease payments by applying an annual lease rate to the net land value. Based on our understanding of general commercial and residential multi-family ground leases, we have applied a 10.0 percent ground lease rate to the property. This results in annual ground lease payments of \$343,000 and \$5,000, for Options A and B, respectively.

SCENARIO 2 – 120 ROOM HOTEL

We have evaluated the proposed development. We took into consideration the room count, total floor area calculations, and parking facilities. We have penetrated the property into the competitive market and projected occupancy, ADR, and operating performance. The following table summarizes the scenario:

Summary of Scenario	
Hotel Type:	Upscale Boutique
Keys:	120
Square Feet of Buildings:	90,000
Parking Spaces:	150
Average Daily Rate:	\$210.00
Stabilized Occupancy:	74%

PKF Consulting

DEVELOPMENT COST ANALYSIS

In order to derive a development cost estimate, we:

- Estimated development costs for the new improvements, including all direct and indirect costs associated with the building; and
- Added the estimated cost of personal property (furniture, fixtures, and equipment) and soft costs that may be included in the total property value, including working capital, and pre-opening marketing expenses.

Direct and Indirect Costs

A development cost estimate was formulated utilizing Marshall & Swift Valuation Services, a comprehensive cost model. The development cost for the improvements is supported by comparable property development budgets and actual construction costs, as presented in the following section. The cost estimate includes all hard and soft construction costs, including:

- Development of structural improvements;
- Average architects' and engineers' fees, including plans, building permits, and surveys to establish building lines and grades;
- Normal interest on building funds during periods of construction and associated processing fees or service charges;
- Sales taxes on materials;
- Normal site preparation, including excavation for foundation and backfill;
- Utilities from the structure to lot-line figured for typical setback;
- Contractors' overhead and profit, including job supervision, workers' compensation, fire and liability insurance, and unemployment insurance; and
- Developer Fee.

Building Improvements

Building improvements include all structural improvements, site improvements such as landscaping, and level of construction quality and facilities. This value of the improvements also takes into account a sprinkler system throughout the project, as well as the construction type and mechanical systems. Based on a Class C Excellent construction building, as defined by Marshall and Swift, this cost is estimated at \$226.70 per square foot. We used a square footage of 90,000 square feet per the redevelopment assumptions provided by the City. We used a basis of \$2,000 per space for surface parking.

Personal Property

Personal property, more commonly known as furniture, fixtures, and equipment (FF&E), is a critical component in the operation of a hotel, and is commonly sold with the building. FF&E includes the hotel's guest room and public area furnishings, kitchen equipment and service/maintenance equipment, and other machinery. The subject hotel will be an upscale hotel. We used a basis of \$35,000 per room for FF&E.

Indirect Costs

In addition to the foregoing direct costs, there are indirect costs associated with the development of a hotel. Typical indirect costs include legal, title and escrow fees, real estate taxes, financing costs, and working capital.

Legal, title, and escrow fees represent the costs in each of these areas to complete the development of the property. We have estimated these costs at approximately \$5,000 per room.

Real estate taxes represent the amount of property tax associated with the land and improvements of the project incurred during the development period, estimated to be eighteen months. After opening, the property tax would be assessed on the full value of the land, personal property and improvements. We have estimated these costs at approximately 1.12 percent of total direct cost.

Contingency Fees represent the costs associated with having a reserve in the case of unexpected cost overruns, delays, or damages to the on-going construction process. We have estimated these costs at approximately 5.0 percent of total direct cost.

Pre-opening and working capital costs include pre-opening marketing, training and administrative expenditures as well as a working capital reserve to maintain adequate cash flow until the hotel achieves a break-even point. Also included in this category are the costs of operating supplies to properly outfit the hotel. We have estimated these costs at approximately \$5,000 per room.

Financing costs represent the costs associated with obtaining construction and permanent financing for the subject. This cost is primarily composed of "points" associated with these loans. We have estimated financing costs at 2.5 percent of total financed amount based on a 60.0 percent loan to value ratio of total development costs.

Developer Fee represents the cost associated with compensation to the developer for time and risk involved to develop the project. We have estimated developer fee at 5.0 percent of direct costs.

Conclusion of Development Costs

Based on the above analysis, the total development costs are estimated to be as follows:

Newport Beach Hotel - 120 Rooms Development Cost Estimate	
Direct Costs	
Building Improvements and Site Improvements	\$20,875,339
Personal Property (FF&E)	<u>4,200,000</u>
Total Direct Costs	25,075,339
Indirect Costs	
Legal, Title, and Escrow Fees	600,000
Real Estate Taxes	561,688
Contingency Fees	1,254,000
Pre-Opening Expenses and Working Capital	600,000
Developer Fee (5% OF Direct Costs)	<u>1,253,767</u>
Total Indirect Costs	4,269,455
Total Development Cost before Financing	29,344,793
Financing Costs	<u>421,000</u>
Total Direct and Indirect Costs with Financing	\$29,765,793
Round to	\$29,800,000
Source: PKF Consulting	

The following table summarizes the development cost estimate:

Summary of Development Cost	
Hotel Type:	Upscale Boutique
Keys:	120
Square Feet:	90,000
Development:	\$29,800,000
Per Key:	\$248,300
PKF Consulting and Marshall Valuation	

VALUATION OF HOTEL

The next step is to develop an estimate of value of the hotel. A common technique often used in estimating value by the Income Capitalization Approach is the discounted cash flow method (DCF). In the DCF, the value of a property is the present value of the net operating income of the property in each year of a holding period (here assumed to be ten years) and the value of the property when sold at the end of the holding period (the reversion). The present value of these elements is obtained by applying a market-derived discount rate. The value of the reversion is obtained through the capitalization of the adjusted income in the eleventh year, which should be a normalized or typical year, with a deduction for the costs of sale. The cash flow projection over the holding period is based on the stabilized year estimate, adjusted to reflect such factors as change in room rates, occupancy, inflation, and the fixed and variable components of each revenue and expense item.

The subject has been valued based on an opening date of January 1, 2015. The valuation period consists of ten full calendar years. Our projections of revenues and expenses are based on a review of comparable property financials, presented in the addenda.

Hotel Value Conclusion

For the purposes of our analysis, we have used a terminal capitalization rate of 8.0 percent and a discount rate of 11.0 percent. We have considered investor survey input, published in PKF Consulting's *Hospitality Investment Survey 2012*, Korpacz and RERC's *Investor Survey, First Quarter 2012 and Second Quarter 2012*, respectively. These surveys present capitalization rates. Typically, in today's investment environment, there is a 50 basis point adjustment applied to the going-in capitalization rate to derive the terminal capitalization rate. This accounts for the 10-year holding period.

The following table presents the 10-year stream of net operating income (NOI), as well as the reversion of the property at the end of year 10. Based on the resulting calculations, we have derived a prospective market value of the proposed subject, as presented in the table below.

Newport Beach Hotel Scenario 2 – 120 Rooms				
Valuation – Discounted Cash Flow				
Period	Number of Months	Projected NOI	11.00% PV Factor	Unrounded Present Value
2015	12	\$ 2,813,000	0.900901	\$2,534,234
2016	24	3,199,000	0.811622	2,596,380
2017	36	3,716,000	0.731191	2,717,107
2018	48	3,852,000	0.658731	2,537,432
2019	60	3,956,000	0.593451	2,347,693
2020	72	4,086,000	0.534641	2,184,542
2021	84	4,213,000	0.481658	2,029,227
2022	96	4,338,000	0.433926	1,882,373
2023	108	4,488,000	0.390925	1,754,470
2024	120	4,605,000	0.352184	1,621,810
Reversion		53,190,000	0.352184	<u>18,732,692</u>
				\$40,937,962
			ROUNDED	\$40,900,000

Based on a discounted cash flow analysis, our estimate of the market value of the proposed hotel upon completion is \$40,900,000. This equates to \$340,800 per room.

LAND VALUE ESTIMATE

Based on our estimates of development costs and valuation of the proposed facilities, we arrived at an estimated gross land value of \$11,100,000. We then need to deduct the land value offsets associated with the development of the public plaza and promenade. According to the City's preliminary development budget, these costs are estimated as follows:

Public Plaza and Promenade Development Cost Estimates		
	Option A (nice improvements)	Option B (nicer improvements)
Main Plaza - Newport & 32nd	\$1,212,363	\$2,359,743
Northern Promenade - City only (65%)	272,208	575,836
32nd Street - Newport to Lafayette	1,078,055	2,121,237
Via Malaga Plaza	371,534	773,039
Via Oporto Plaza	522,859	1,007,750
Fire Station Reconstruction Allocation	2,112,500	2,112,500
	<u>\$5,569,519</u>	<u>\$8,950,105</u>

The following tables present our estimated net land value conclusions after incorporating the above land value offsets.

Net Land Value		
	OPTION A	OPTION B
Hotel Value as Completed	\$40,900,000	\$40,900,000
Total Construction Cost	(29,800,000)	(29,800,000)
Estimated Gross Land Value	11,100,000	11,100,000
Land Value Offsets	<u>(5,569,519)</u>	<u>(8,950,105)</u>
Net Land Value	<u>\$5,530,481</u>	<u>\$2,149,895</u>
Source: PKF Consulting		

GROUND RENT

The proposed hotel is to be developed on leased land from the City of Newport Beach. As such, the City will collect annual ground lease payments from the hotel owner/operator. We have estimated annual ground lease payments by applying an annual lease rate to the net land value. Based on our understanding of general commercial and residential multi-family ground leases, we have applied a 10.0 percent ground lease rate to the property. This results in annual ground lease payments of \$553,000 and \$215,000, for Options A and B, respectively.

We thank you for the opportunity to conduct this study and look forward to discussing our findings with you.

Sincerely,
 PKF Consulting USA

Bruce Baltin
 Senior Vice President

ADDENDA

- A. *STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS*
- B. *COMPARABLE HOTEL FINANCIALS*

Addendum A

Statement of Assumptions and Limiting Conditions

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This report is made with the following assumptions and limiting conditions:

Economic and Social Trends - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

Information Furnished by Others - In preparing this report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Hidden Conditions - The consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Hazardous Materials - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the value of the subject property. The value estimated in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a loss in value. The consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use - Unless otherwise stated, the projections were formulated assuming the hotel to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits - Unless otherwise stated, the property is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

Engineering Survey - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Subsurface Rights - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the consultant, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with proper written qualification and only in its entirety for its stated purpose.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

(continued)

Testimony in Court - Testimony or attendance in court or at any other hearing is not required by reason of rendering this report, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the consultant's time to prepare for and attend any such hearing.

Archeological Significance - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archeological significance.

Compliance with the American Disabilities Act - The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We assumed that the property will be in direct compliance with the various detailed requirements of the ADA.

Definitions and Assumptions - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Dissemination of Material - Neither all nor any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of the consultant(s).

Distribution and Liability to Third Parties - The party for whom this report was prepared may distribute copies of this report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without our written consent. Liability to third parties will not be accepted.

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation, may not be reproduced or references made to the report or to PKF Consulting in any sale offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Limits to Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

Legal Expenses - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

Addendum B
Scenario 1(78-Rooms)
Representative Year Operating Statement
and 10-Year Projected Operating Results

Proposed Newport Beach Hotel (78)
Representative Year of Operation

Number of Units:
Number of Annual Rooms Available:
Number of Rooms Occupied:
Annual Occupancy:
Average Daily Rate:
Revenue Per Available Room:

Stated in 2012 Dollars

78
28,470
21,637
76.0%
\$220.00
\$167.20

Revenues
Rooms
Food & Beverage
Other Operated Departments
Rentals and Other Income
Total Revenues

Amount	Ratio	Per Room	P.O.R.
\$4,760,000	68.2%	\$61,026	\$219.99
1,839,000	26.4%	23,577	84.99
325,000	4.7%	4,167	15.02
54,000	0.8%	692	2.50
6,978,000	100.0%	89,462	322.50

Departmental Expenses
Rooms
Food & Beverage
Other Operated Departments
Total Departmental Expenses

1,168,000	24.5%	14,974	53.98
1,435,000	78.0%	18,397	66.32
179,000	55.1%	2,295	8.27
2,782,000	39.9%	35,667	128.57

Departmental Profit

4,196,000	60.1%	53,795	193.93
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Undistributed Expenses
Administrative & General
Marketing
Property Operation and Maintenance
Utility Costs
Total Undistributed Operating Expenses

647,000	9.3%	8,295	29.90
296,000	4.2%	3,795	13.68
234,000	3.4%	3,000	10.81
140,000	2.0%	1,795	6.47
1,317,000	18.9%	16,885	60.87

Gross Operating Profit

2,879,000	41.3%	36,910	133.06
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Base Management Fee

209,000	3.0%	2,679	9.66
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Fixed Expenses
Property Taxes
Insurance
Total Fixed Expenses

226,000	3.2%	2,897	10.44
23,000	0.3%	295	1.06
249,000	3.6%	3,192	11.51

Net Operating Income Before Reserve

2,421,000	34.7%	31,038	111.89
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FF&E Reserve

279,000	4.0%	3,577	12.89
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Net Operating Income After Reserve

\$2,142,000	30.7%	\$27,462	\$99.00
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Source: **PKF Consulting USA**

Proposed Newport Beach Hotel (78)
 Projected Operating Results
 Calendar Years

	2015		2016		2017		2018		2019	
Number of Units:	78		78		78		78		78	
Number of Annual Rooms Available:	28,470		28,470		28,470		28,470		28,470	
Number of Rooms Occupied:	19,360		20,500		21,640		21,640		21,640	
Annual Occupancy:	68.0%		72.0%		76.0%		76.0%		76.0%	
Average Daily Rate:	\$240.00		\$248.00		\$255.00		\$263.00		\$271.00	
Revenue Per Available Room:	\$163.20		\$178.56		\$193.80		\$199.88		\$205.96	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	\$4,646,000	68.2%	\$5,084,000	68.3%	\$5,518,000	68.2%	\$5,691,000	68.2%	\$5,864,000	68.2%
Food & Beverage	1,798,000	26.4%	1,961,000	26.3%	2,132,000	26.4%	2,196,000	26.3%	2,262,000	26.3%
Other Operated Departments	317,000	4.7%	346,000	4.6%	376,000	4.6%	388,000	4.7%	399,000	4.6%
Rentals and Other Income	53,000	0.8%	58,000	0.8%	63,000	0.8%	65,000	0.8%	67,000	0.8%
Total Revenues	6,814,000	100.0%	7,449,000	100.0%	8,089,000	100.0%	8,340,000	100.0%	8,592,000	100.0%
Departmental Expenses										
Rooms	1,210,000	26.0%	1,280,000	25.2%	1,355,000	24.6%	1,395,000	24.5%	1,437,000	24.5%
Food & Beverage	1,469,000	81.7%	1,564,000	79.8%	1,663,000	78.0%	1,713,000	78.0%	1,764,000	78.0%
Other Operated Departments	175,000	55.2%	190,000	54.9%	207,000	55.1%	213,000	54.9%	220,000	55.1%
Total Departmental Expenses	2,854,000	41.9%	3,034,000	40.7%	3,225,000	39.9%	3,321,000	39.8%	3,421,000	39.8%
Departmental Profit	3,960,000	58.1%	4,415,000	59.3%	4,864,000	60.1%	5,019,000	60.2%	5,171,000	60.2%
Undistributed Expenses										
Administrative & General	690,000	10.1%	720,000	9.7%	750,000	9.3%	772,000	9.3%	795,000	9.3%
Marketing	324,000	4.8%	334,000	4.5%	344,000	4.3%	354,000	4.2%	365,000	4.2%
Property Operation and Maintenance	256,000	3.8%	263,000	3.5%	271,000	3.4%	279,000	3.3%	288,000	3.4%
Utility Costs	153,000	2.2%	158,000	2.1%	163,000	2.0%	168,000	2.0%	173,000	2.0%
Total Undistributed Operating Expenses	1,423,000	20.9%	1,475,000	19.8%	1,528,000	18.9%	1,573,000	18.9%	1,621,000	18.9%
Gross Operating Profit	2,537,000	37.2%	2,940,000	39.5%	3,336,000	41.2%	3,446,000	41.3%	3,550,000	41.3%
Base Management Fee	204,000	3.0%	223,000	3.0%	243,000	3.0%	250,000	3.0%	258,000	3.0%
Fixed Expenses										
Property Taxes	240,000	3.5%	260,000	3.5%	265,000	3.3%	271,000	3.2%	276,000	3.2%
Insurance	26,000	0.4%	26,000	0.3%	27,000	0.3%	28,000	0.3%	29,000	0.3%
Total Fixed Expenses	266,000	3.9%	286,000	3.8%	292,000	3.6%	299,000	3.6%	305,000	3.5%
Net Operating Income Before Reserve	2,067,000	30.3%	2,431,000	32.6%	2,801,000	34.6%	2,897,000	34.7%	2,987,000	34.8%
FF&E Reserve	136,000	2.0%	223,000	3.0%	324,000	4.0%	334,000	4.0%	344,000	4.0%
Net Operating Income After Reserve	\$1,931,000	28.3%	\$2,208,000	29.6%	\$2,477,000	30.6%	\$2,563,000	30.7%	\$2,643,000	30.8%
Source: PKF Consulting USA	Full Year of Operation									

Proposed Newport Beach Hotel (78)
 Projected Operating Results
 Calendar Years

	2020		2021		2022		2023		2024	
Number of Units:	78		78		78		78		78	
Number of Annual Rooms Available:	28,470		28,470		28,470		28,470		28,470	
Number of Rooms Occupied:	21,640		21,640		21,640		21,640		21,640	
Annual Occupancy:	76.0%		76.0%		76.0%		76.0%		76.0%	
Average Daily Rate:	\$279.00		\$287.00		\$296.00		\$305.00		\$314.00	
Revenue Per Available Room:	\$212.04		\$218.12		\$224.96		\$231.80		\$238.64	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	\$6,038,000	68.2%	\$6,211,000	68.2%	\$6,405,000	68.2%	\$6,600,000	68.3%	\$6,795,000	68.2%
Food & Beverage	2,330,000	26.3%	2,400,000	26.4%	2,472,000	26.3%	2,546,000	26.3%	2,623,000	26.3%
Other Operated Departments	411,000	4.6%	424,000	4.7%	436,000	4.6%	449,000	4.6%	463,000	4.6%
Rentals and Other Income	69,000	0.8%	71,000	0.8%	73,000	0.8%	75,000	0.8%	77,000	0.8%
Total Revenues	8,848,000	100.0%	9,106,000	100.0%	9,386,000	100.0%	9,670,000	100.0%	9,958,000	100.0%
Departmental Expenses										
Rooms	1,480,000	24.5%	1,525,000	24.6%	1,570,000	24.5%	1,617,000	24.5%	1,666,000	24.5%
Food & Beverage	1,817,000	78.0%	1,872,000	78.0%	1,928,000	78.0%	1,986,000	78.0%	2,045,000	78.0%
Other Operated Departments	226,000	55.0%	233,000	55.0%	240,000	55.0%	247,000	55.0%	255,000	55.1%
Total Departmental Expenses	3,523,000	39.8%	3,630,000	39.9%	3,738,000	39.8%	3,850,000	39.8%	3,966,000	39.8%
Departmental Profit	5,325,000	60.2%	5,476,000	60.1%	5,648,000	60.2%	5,820,000	60.2%	5,992,000	60.2%
Undistributed Expenses										
Administrative & General	819,000	9.3%	844,000	9.3%	869,000	9.3%	895,000	9.3%	922,000	9.3%
Marketing	375,000	4.2%	387,000	4.2%	398,000	4.2%	410,000	4.2%	423,000	4.2%
Property Operation and Maintenance	296,000	3.3%	305,000	3.3%	314,000	3.3%	324,000	3.4%	334,000	3.4%
Utility Costs	178,000	2.0%	183,000	2.0%	189,000	2.0%	194,000	2.0%	200,000	2.0%
Total Undistributed Operating Expenses	1,668,000	18.9%	1,719,000	18.9%	1,770,000	18.9%	1,823,000	18.9%	1,879,000	18.9%
Gross Operating Profit	3,657,000	41.3%	3,757,000	41.3%	3,878,000	41.3%	3,997,000	41.3%	4,113,000	41.3%
Base Management Fee	265,000	3.0%	273,000	3.0%	282,000	3.0%	290,000	3.0%	299,000	3.0%
Fixed Expenses										
Property Taxes	281,000	3.2%	287,000	3.2%	293,000	3.1%	299,000	3.1%	305,000	3.1%
Insurance	30,000	0.3%	31,000	0.3%	31,000	0.3%	32,000	0.3%	33,000	0.3%
Total Fixed Expenses	311,000	3.5%	318,000	3.5%	324,000	3.5%	331,000	3.4%	338,000	3.4%
Net Operating Income Before Reserve	3,081,000	34.8%	3,166,000	34.8%	3,272,000	34.9%	3,376,000	34.9%	3,476,000	34.9%
FF&E Reserve	354,000	4.0%	364,000	4.0%	375,000	4.0%	387,000	4.0%	398,000	4.0%
Net Operating Income After Reserve	\$2,727,000	30.8%	\$2,802,000	30.8%	\$2,897,000	30.9%	\$2,989,000	30.9%	\$3,078,000	30.9%

Source: **PKF Consulting USA**

Addendum C
Scenario 2 (120-Rooms)
Representative Year Operating Statement
and 10-Year Projected Operating Results

Proposed Newport Beach Hotel (120)
 Representative Year of Operation

Number of Units:
Number of Annual Rooms Available:
Number of Rooms Occupied:
Annual Occupancy:
Average Daily Rate:
Revenue Per Available Room:

Stated in		2012		Dollars	
		120			
		43,800			
		32,412			
		74.0%			
		\$210.00			
		\$155.40			

Revenues
Rooms
Food & Beverage
Other Operated Departments
Total Revenues

Amount	Ratio	Per Room	P.O.R.
\$6,807,000	69.3%	\$56,725	\$210.01
2,463,000	25.1%	20,525	75.99
486,000	4.9%	4,050	14.99
9,824,000	100.0%	81,867	303.10

Departmental Expenses
Rooms
Food & Beverage
Other Operated Departments
Total Departmental Expenses

1,653,000	24.3%	13,775	51.00
1,921,000	78.0%	16,008	59.27
233,000	47.9%	1,942	7.19
3,807,000	38.8%	31,725	117.46

Departmental Profit

6,017,000	61.2%	50,142	185.64
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Undistributed Expenses
Administrative & General
Marketing
Property Operation and Maintenance
Utility Costs
Total Undistributed Operating Expenses

868,000	8.8%	7,233	26.78
390,000	4.0%	3,250	12.03
312,000	3.2%	2,600	9.63
186,000	1.9%	1,550	5.74
1,756,000	17.9%	14,633	54.18

Gross Operating Profit

4,261,000	43.4%	35,508	131.46
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Base Management Fee

295,000	3.0%	2,458	9.10
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Fixed Expenses
Property Taxes
Insurance
Total Fixed Expenses

317,000	3.2%	2,642	9.78
34,000	0.3%	283	1.05
351,000	3.6%	2,925	10.83

Net Operating Income Before Reserve

3,615,000	36.8%	30,125	111.53
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FF&E Reserve

393,000	4.0%	3,275	12.13
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Net Operating Income After Reserve

\$3,222,000	32.8%	\$26,850	\$99.41
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Source: **PKF Consulting USA**

Proposed Newport Beach Hotel (120)

Projected Operating Results

Calendar Years

	2015		2016		2017		
Number of Units:	120		120		120		
Number of Annual Rooms Available:	43,800		43,800		43,800		43,
Number of Rooms Occupied:	28,470		30,220		32,410		32,
Annual Occupancy:	65.0%		69.0%		74.0%		74
Average Daily Rate:	\$229.00		\$236.00		\$243.00		\$25
Revenue Per Available Room:	\$148.85		\$162.84		\$179.82		\$185
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount
Revenues							
Rooms	\$6,520,000	69.2%	\$7,132,000	69.3%	\$7,876,000	69.2%	\$8,135,
Food & Beverage	2,364,000	25.1%	2,585,000	25.1%	2,855,000	25.1%	2,941,
Other Operated Departments	467,000	5.0%	510,000	5.0%	564,000	5.0%	580,
Total Revenues	9,416,000	100.0%	10,298,000	100.0%	11,374,000	100.0%	11,737,
Departmental Expenses							
Rooms	1,696,000	26.0%	1,798,000	25.2%	1,916,000	24.3%	1,974,
Food & Beverage	1,946,000	82.3%	2,075,000	80.3%	2,227,000	78.0%	2,294,
Other Operated Departments	224,000	48.0%	245,000	48.0%	271,000	48.0%	279,
Total Departmental Expenses	3,866,000	41.1%	4,118,000	40.0%	4,414,000	38.8%	4,547,
Departmental Profit	5,550,000	58.9%	6,180,000	60.0%	6,960,000	61.2%	7,190,
Undistributed Expenses							
Administrative & General	923,000	9.8%	962,000	9.3%	1,007,000	8.9%	1,037,
Marketing	426,000	4.5%	439,000	4.3%	452,000	4.0%	466,
Property Operation and Maintenance	341,000	3.6%	351,000	3.4%	362,000	3.2%	373,
Utility Costs	203,000	2.2%	209,000	2.0%	216,000	1.9%	222,
Total Undistributed Operating Expenses	1,893,000	20.1%	1,961,000	19.0%	2,037,000	17.9%	2,098,
Gross Operating Profit	3,657,000	38.8%	4,219,000	41.0%	4,923,000	43.3%	5,092,
Base Management Fee	282,000	3.0%	309,000	3.0%	341,000	3.0%	352,

Fixed Expenses						
Property Taxes	337,000	3.6%	364,000	3.5%	372,000	3.3%
Insurance	37,000	0.4%	38,000	0.4%	39,000	0.3%
Total Fixed Expenses	374,000	4.0%	402,000	3.9%	411,000	3.6%
Net Operating Income Before Reserve	3,001,000	31.9%	3,508,000	34.1%	4,171,000	36.7%
FF&E Reserve	188,000	2.0%	309,000	3.0%	455,000	4.0%
Net Operating Income After Reserve	\$2,813,000	29.9%	\$3,199,000	31.1%	\$3,716,000	32.7%
Source: PKF Consulting USA	Full Year of Operation					

Proposed Newport Beach Hotel (120)

Projected Operating Results

Calendar Years

	2020		2021		2022		
Number of Units:	120		120		120		
Number of Annual Rooms Available:	43,800		43,800		43,800		43,800
Number of Rooms Occupied:	32,410		32,410		32,410		32,410
Annual Occupancy:	74.0%		74.0%		74.0%		74.0%
Average Daily Rate:	\$266.00		\$274.00		\$282.00		\$291.00
Revenue Per Available Room:	\$196.84		\$202.76		\$208.68		\$211.00
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount
Revenues							
Rooms	\$8,621,000	69.3%	\$8,880,000	69.3%	\$9,140,000	69.3%	\$9,431,000
Food & Beverage	3,120,000	25.1%	3,214,000	25.1%	3,310,000	25.1%	3,410,000
Other Operated Departments	616,000	5.0%	634,000	4.9%	653,000	4.9%	673,000
Total Revenues	12,443,000	100.0%	12,817,000	100.0%	13,194,000	100.0%	13,608,000
Departmental Expenses							
Rooms	2,094,000	24.3%	2,157,000	24.3%	2,221,000	24.3%	2,288,000
Food & Beverage	2,434,000	78.0%	2,507,000	78.0%	2,582,000	78.0%	2,660,000
Other Operated Departments	296,000	48.1%	304,000	47.9%	314,000	48.1%	323,000
Total Departmental Expenses	4,824,000	38.8%	4,968,000	38.8%	5,117,000	38.8%	5,271,000
Departmental Profit	7,619,000	61.2%	7,849,000	61.2%	8,077,000	61.2%	8,337,000
Undistributed Expenses							
Administrative & General	1,100,000	8.8%	1,133,000	8.8%	1,167,000	8.8%	1,202,000
Marketing	494,000	4.0%	509,000	4.0%	524,000	4.0%	540,000
Property Operation and Maintenance	395,000	3.2%	407,000	3.2%	419,000	3.2%	432,000
Utility Costs	236,000	1.9%	243,000	1.9%	250,000	1.9%	257,000
Total Undistributed Operating Expenses	2,225,000	17.9%	2,292,000	17.9%	2,360,000	17.9%	2,431,000
Gross Operating Profit	5,394,000	43.3%	5,557,000	43.4%	5,717,000	43.3%	5,906,000
Base Management Fee	373,000	3.0%	385,000	3.0%	396,000	3.0%	408,000

Fixed Expenses						
Property Taxes	394,000	3.2%	402,000	3.1%	410,000	3.1%
Insurance	43,000	0.3%	44,000	0.3%	45,000	0.3%
Total Fixed Expenses	437,000	3.5%	446,000	3.5%	455,000	3.4%
Net Operating Income Before Reserve	4,584,000	36.8%	4,726,000	36.9%	4,866,000	36.9%
FF&E Reserve	498,000	4.0%	513,000	4.0%	528,000	4.0%
Net Operating Income After Reserve	\$4,086,000	32.8%	\$4,213,000	32.9%	\$4,338,000	32.9%
Source: <i>PKF Consulting USA</i>						

Addendum D
Comparable Hotel Financials

Proposed Newport Beach Hotel (78 Rooms)
Operating Results of Comparable Hotels

	Hotel A			Hotel B			Hotel C		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	79.8%	\$55,514	\$193.46	81.3%	\$61,208	\$210.20	70.7%	\$56,642	\$195.90
Food & Beverage	13.9%	9,661	33.67	10.1%	7,605	26.12	23.2%	18,562	64.20
Other Operated Departments	6.3%	4,379	15.26	8.1%	6,129	21.05	6.1%	4,899	16.94
Rentals and Other Income	0.0%	0	0.00	0.4%	316	1.08	0.0%	28	0.10
Total Revenues	100.0%	69,554	242.39	100.0%	75,258	258.45	100.0%	80,131	277.13
Departmental Expenses									
Rooms	26.8%	14,852	51.76	23.6%	14,448	49.62	26.2%	14,852	51.36
Food & Beverage	87.3%	8,430	29.38	95.4%	7,259	24.93	81.6%	15,151	52.40
Other Operated Departments	31.9%	1,399	4.87	20.4%	1,248	4.29	37.0%	1,815	6.28
Total Departmental Expenses	35.5%	24,681	86.01	30.5%	22,955	78.83	39.7%	31,818	110.04
Departmental Profit	64.5%	44,874	156.38	69.5%	52,303	179.62	60.3%	48,313	167.09
Undistributed Expenses									
Administrative & General	11.2%	7,796	27.17	9.0%	6,770	23.25	9.3%	7,447	25.76
Marketing	3.0%	2,052	7.15	3.3%	2,504	8.60	5.6%	4,485	15.51
Property Operation and Maintenance	4.0%	2,756	9.60	4.4%	3,332	11.44	3.0%	2,426	8.39
Utility Costs	3.1%	2,147	7.48	1.8%	1,390	4.77	1.9%	1,533	5.30
Total Undistributed Operating Expenses	21.2%	14,752	51.41	18.6%	13,996	48.07	19.8%	15,891	54.96
Gross Operating Profit	43.3%	30,122	104.97	50.9%	38,307	131.55	40.5%	32,422	112.13
Base Management Fee	3.0%	2,087	7.27	3.0%	2,257	7.75	3.0%	2,400	8.30
Fixed Expenses									
Property Taxes	2.2%	1,515	5.28	2.1%	1,549	5.32	0.8%	679	2.35
Insurance	0.4%	250	0.87	0.4%	326	1.12	1.5%	1,233	4.27
Total Fixed Expenses	2.5%	1,765	6.15	2.5%	1,874	6.44	2.4%	1,912	6.61
Net Operating Income Before Reserve	37.8%	26,271	91.55	45.4%	34,176	117.37	35.1%	28,110	97.22

Source: PKF Consulting USA

Proposed Newport Beach Hotel (78 Rooms)
Operating Results of Comparable Hotels

	Hotel D			Hotel E			Weighted Average		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	89.7%	\$56,287	\$190.37	64.8%	\$60,407	\$196.79	76.5%	\$57,966	\$197.64
Food & Beverage	7.4%	4,645	15.71	32.8%	30,621	99.75	18.0%	13,663	46.59
Other Operated Departments	2.6%	1,625	5.50	2.1%	1,958	6.38	5.2%	3,966	13.52
Rentals and Other Income	0.3%	163	0.55	0.2%	231	0.75	0.2%	179	0.61
Total Revenues	100.0%	62,720	212.13	100.0%	93,216	303.67	100.0%	75,740	258.25
Departmental Expenses									
Rooms	24.7%	13,911	47.05	23.1%	13,935	45.40	24.9%	14,434	49.21
Food & Beverage	89.7%	4,166	14.09	73.9%	22,634	73.73	81.9%	11,184	38.13
Other Operated Departments	31.0%	504	1.70	40.8%	799	2.60	30.1%	1,193	4.07
Total Departmental Expenses	29.6%	18,581	62.84	40.1%	37,368	121.73	35.4%	26,811	91.42
Departmental Profit	70.4%	44,139	149.29	59.9%	55,849	181.94	64.6%	48,929	166.83
Undistributed Expenses									
Administrative & General	13.7%	8,594	29.07	12.5%	11,672	38.02	10.9%	8,264	28.18
Marketing	7.0%	4,383	14.82	6.1%	5,693	18.55	5.0%	3,751	12.79
Property Operation and Maintenance	4.1%	2,567	8.68	3.2%	3,024	9.85	3.7%	2,813	9.59
Utility Costs	3.4%	2,102	7.11	2.9%	2,710	8.83	2.5%	1,918	6.54
Total Undistributed Operating Expenses	28.1%	17,645	59.68	24.8%	23,098	75.25	22.1%	16,746	57.10
Gross Operating Profit	42.2%	26,494	89.61	35.1%	32,750	106.69	42.5%	32,183	109.73
Base Management Fee	3.0%	1,870	6.33	3.0%	2,786	9.08	3.0%	2,267	7.73
Fixed Expenses									
Property Taxes	2.4%	1,515	5.12	2.0%	1,829	5.96	1.8%	1,378	4.70
Insurance	0.3%	177	0.60	0.3%	257	0.84	0.6%	482	1.64
Total Fixed Expenses	2.7%	1,692	5.72	2.2%	2,087	6.80	2.5%	1,861	6.34
Net Operating Income Before Reserve	36.6%	22,932	77.56	29.9%	27,877	90.82	37.0%	28,055	95.66

Source: PKF Consulting USA

Proposed Newport Beach Hotel (120 Rooms)
Operating Results of Comparable Hotels

	Hotel A			Hotel B			Hotel C		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	79.8%	\$55,514	\$193.46	81.3%	\$61,208	\$210.20	70.7%	\$56,642	\$195.90
Food & Beverage	13.9%	9,661	33.67	10.1%	7,605	26.12	23.2%	18,562	64.20
Other Operated Departments	6.3%	4,379	15.26	8.1%	6,129	21.05	6.1%	4,899	16.94
Rentals and Other Income	0.0%	0	0.00	0.4%	316	1.08	0.0%	28	0.10
Total Revenues	100.0%	69,554	242.39	100.0%	75,258	258.45	100.0%	80,131	277.13
Departmental Expenses									
Rooms	26.8%	14,852	51.76	23.6%	14,448	49.62	26.2%	14,852	51.36
Food & Beverage	87.3%	8,430	29.38	95.4%	7,259	24.93	81.6%	15,151	52.40
Other Operated Departments	31.9%	1,399	4.87	20.4%	1,248	4.29	37.0%	1,815	6.28
Total Departmental Expenses	35.5%	24,681	86.01	30.5%	22,955	78.83	39.7%	31,818	110.04
Departmental Profit	64.5%	44,874	156.38	69.5%	52,303	179.62	60.3%	48,313	167.09
Undistributed Expenses									
Administrative & General	11.2%	7,796	27.17	9.0%	6,770	23.25	9.3%	7,447	25.76
Marketing	3.0%	2,052	7.15	3.3%	2,504	8.60	5.6%	4,485	15.51
Property Operation and Maintenance	4.0%	2,756	9.60	4.4%	3,332	11.44	3.0%	2,426	8.39
Utility Costs	3.1%	2,147	7.48	1.8%	1,390	4.77	1.9%	1,533	5.30
Total Undistributed Operating Expenses	21.2%	14,752	51.41	18.6%	13,996	48.07	19.8%	15,891	54.96
Gross Operating Profit	43.3%	30,122	104.97	50.9%	38,307	131.55	40.5%	32,422	112.13
Base Management Fee	3.0%	2,087	7.27	3.0%	2,257	7.75	3.0%	2,400	8.30
Fixed Expenses									
Property Taxes	2.2%	1,515	5.28	2.1%	1,549	5.32	0.8%	679	2.35
Insurance	0.4%	250	0.87	0.4%	326	1.12	1.5%	1,233	4.27
Total Fixed Expenses	2.5%	1,765	6.15	2.5%	1,874	6.44	2.4%	1,912	6.61
Net Operating Income Before Reserve	37.8%	26,271	91.55	45.4%	34,176	117.37	35.1%	28,110	97.22

Source: PKF Consulting USA

Proposed Newport Beach Hotel (120 Rooms)
Operating Results of Comparable Hotels

	Hotel D			Hotel E			Weighted Average		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	72.5%	\$55,249	\$186.55	87.4%	\$56,909	\$212.09	78.2%	\$57,102	\$199.94
Food & Beverage	22.4%	17,065	57.62	4.7%	3,054	11.38	15.0%	10,969	38.41
Other Operated Departments	4.9%	3,720	12.56	7.9%	5,174	19.28	6.7%	4,873	17.06
Rentals and Other Income	0.2%	161	0.54	0.0%	0	0.00	0.1%	165	0.57
Total Revenues	100.0%	76,194	257.27	100.0%	65,138	242.75	100.0%	73,042	255.76
Departmental Expenses									
Rooms	27.9%	15,413	52.04	27.0%	15,344	57.18	26.3%	15,007	52.55
Food & Beverage	81.1%	13,844	46.74	114.8%	3,507	13.07	86.3%	9,470	33.16
Other Operated Departments	37.7%	1,402	4.73	42.7%	2,212	8.24	33.9%	1,649	5.78
Total Departmental Expenses	40.2%	30,658	103.52	32.3%	21,063	78.50	35.8%	26,127	91.48
Departmental Profit	59.8%	45,536	153.75	67.7%	44,074	164.26	64.2%	46,915	164.27
Undistributed Expenses									
Administrative & General	12.1%	9,194	31.04	12.0%	7,791	29.03	10.7%	7,815	27.36
Marketing	7.1%	5,428	18.33	5.2%	3,359	12.52	5.0%	3,625	12.69
Property Operation and Maintenance	4.2%	3,236	10.92	5.2%	3,359	12.52	4.2%	3,042	10.65
Utility Costs	3.2%	2,445	8.26	3.6%	2,359	8.79	2.7%	1,992	6.97
Total Undistributed Operating Expenses	26.6%	20,303	68.55	25.9%	16,867	62.86	22.6%	16,473	57.68
Gross Operating Profit	33.1%	25,233	85.20	41.8%	27,207	101.40	41.7%	30,442	106.59
Base Management Fee	3.5%	2,644	8.93	2.5%	1,628	6.07	3.0%	2,185	7.65
Fixed Expenses									
Property Taxes	3.9%	2,946	9.95	0.0%	0	0.00	1.8%	1,686	5.79
Insurance	0.3%	206	0.70	0.5%	339	1.26	0.6%	473	1.66
Total Fixed Expenses	4.1%	3,152	10.64	0.5%	339	1.26	2.4%	1,755	6.14
Net Operating Income Before Reserve	25.5%	19,437	65.63	38.7%	25,240	94.06	36.3%	26,502	92.80

Source: PKF Consulting USA