



Market Analysis

Proposed Hotel at Newport Beach City Hall Site Newport Beach, California

Prepared For:

Mr. Dave Kiff
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City of Newport Beach
3300 Newport Boulevard
Newport Beach, CA 92663

Prepared By:

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Date of the Report:

August 8, 2012

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August 8, 2012

Mr. Dave Kiff
City Manager
City of Newport Beach
3300 Newport Boulevard
Newport Beach, CA 92663

Dear Mr. Kiff:

In accordance with our agreement, we have concluded Phase One of our study regarding the potential demand for a proposed hotel to be located on the current site of the Newport Beach City Hall in Newport Beach, California. As a component of the initial phase of this engagement, we have completed an analysis of potential market demand and prepared statements of estimated annual operating results for the proposed hotel. Further, in conformity with your request, we have analyzed three potential scenarios including the following: 78 room hotel, 100 room hotel, and 150 room hotel. The conclusions reached are based on our present knowledge of the competitive lodging market as of the completion of our fieldwork in July 2012. The following report summarizes our findings and reflects the conclusion of our analysis.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant changes in the competitive market from that as set forth in this report. Since our results are based on estimates and assumptions that are subject to uncertainty and variation, we do not represent them as results that will actually be achieved.

It is expressly understood that the scope of our study and report thereon do not include the possible impact of zoning or environmental regulations, licensing requirements or other restrictions concerning the project, except where such matters have been brought to our attention and disclosed in the report.

The terms of this engagement are such that we have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of completion of our fieldwork; however, we are available to discuss the necessity for revision in view of changes in the economy or market factors which have a material effect on the proposed property.

This report was prepared to assist you in analyzing the potential market position of the subject hotel. It is subject to the Statement of General Assumptions and Limiting Conditions presented in the Addenda, as well as to the assumptions presented herein.

Sincerely,

PKF Consulting USA

A handwritten signature in blue ink, appearing to read "B. Baltin", is positioned above the printed name and title.

Bruce Baltin
Senior Vice President

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Section I
INTRODUCTION

INTRODUCTION

OVERVIEW OF THE MARKET STUDY

PKF Consulting has been retained by the City of Newport Beach to conduct a study of the potential market demand and prepare statements of estimated operating results for a proposed hotel to be located in the Balboa Peninsula neighborhood of Newport Beach. There are two main sites within the Peninsula that could grant the development of a hotel: 1) the current City Hall site and 2) an assembly of parcels in Lido Marina Village. We analyzed the two potential sites and it is our opinion that the City Hall site would be the most appropriate site to develop as a hotel in the near future for several reasons, which include current ownership and accessibility of the sites. A more detailed explanation of our site conclusion is presented in the site analysis of this report.

The conclusions reached in our analysis assume the hotel will be located at the City Hall site. As a component of this analysis, after we have identified the potential market demand in the greater Newport Beach lodging market, we have then provided our projections of the occupancy and average daily room rate the proposed subject could reasonably be expected to achieve for its first five years of operation under three different room-count scenarios: 78 rooms, 100 rooms, and 150 rooms. Given these projections, we have also estimated the subject's annual operating results including total operating revenues and expenses, net income from operations, and ratio to total revenues for ten years of operation for each scenario. For the purpose of our analysis, we have assumed that the hotel would be open and available for occupancy by January 1, 2015. This report represents the culmination of our market research, analysis, and assessments relative to the potential market demand for the proposed hotel.

ASSUMPTIONS USED FOR PROJECTIONS

Our analysis was based on the following set of assumptions:

- The proposed hotel is to be developed on the current site of the Newport Beach City Hall, located at 3300 Newport Boulevard in Newport Beach, California;
- The proposed hotel will be an upscale boutique property;
- The subject will offer facilities and services consistent with its respective quality level;
- The hotel will offer meeting space consistent with its respective size and positioning;
- The hotel will contain a three meal restaurant;
- The hotel will be developed under one of the following room count scenarios: 78 rooms, 100 rooms, or 150 rooms; and,
- The hotel will open on January 1, 2015.

METHODOLOGY

In conducting the study, we:

- Physically inspected the proposed subject site as well as existing and planned surrounding developments;
- Reviewed the Lido Marina Village Concept plan and associated studies;
- Reviewed the Newport Beach Market Opportunities Analysis performed by Keyser Marston Associates, Inc., dated March 29, 2012;
- Met with residents of Lido Isle to assess their views on the proposed development;
- Assessed the impact of the proposed subject's accessibility, visibility, and location relative to demand generators and overall marketability;
- Researched and analyzed current economic and demographic trends in Orange County with a focus on the Newport Beach area to determine the trends' impact on future lodging demand within the market;
- Identified the existing and proposed competitive supply of lodging facilities in and around Newport Beach;
- Reviewed the historical performance levels for the competitive lodging supply on a composite basis;
- Estimated the anticipated growth in demand for, and supply of, lodging accommodations in the competitive market area;
- Prepared a forecast of the potential annual occupancy and average daily rate for the first five years of operation of the proposed subject under three different room count scenarios; and,
- Prepared statements of estimated annual operating results for the subject hotel for the ten-year period from January 1, 2014 through December 31, 2024 for each room count scenario.

Several sources were used in compiling the background information and preparing the analysis contained in this report. These resources included *Trends in the Hotel Industry*, published by PKF Consulting; data on the local lodging market gathered through direct interviews with managers of the competitive properties; data provided by sources in the lodging chains with which the competitive properties are affiliated; and economic data on the region from various local governmental and planning entities.

AREA REVIEW

We gathered and analyzed relevant economic, demographic, and development data relative to the greater Orange County, the City of Newport Beach, and specifically the Balboa Peninsula area. The purpose of this analysis was to ascertain the economic climate in which the proposed subject hotel will operate and create a basis for projecting future economic conditions as they relate to the proposed subject hotel.

MARKET RESEARCH

We have reviewed our database and conducted primary market research relative to the proposed hotel's competitive market and prepared a five-year history of occupancy and average daily rate trends. To obtain data on current conditions, market mix, and likely future results, we conducted primary research in the area including interviews with representatives of the competitive hotels and planning officials. Data on proposed projects was also researched and reviewed to determine the likelihood of future additions to supply.

PREPARATION OF MARKET SUPPLY AND DEMAND ESTIMATES

We analyzed historical growth and the characteristics of each of the principal segments of demand for lodging accommodations and researched the potential additions to supply. Then, using the information gathered in our research, we projected the growth in demand from 2012 to 2019 for the competitive market, and combined the estimated future supply and demand to reach our conclusions of the overall market potential.

SUBJECT OCCUPANCY AND AVERAGE DAILY RATE PROJECTIONS

After completing our estimates of the market area's supply and demand, we estimated the share of the market that the proposed subject hotel should reasonably be expected to capture for its first five years of operation under each of three different room count scenarios: 78 rooms, 100 rooms, and 150 rooms. From this we derived its annual occupancy percentages under each scenario. After considering the historical average daily rate trends in the market and the projected market position for the proposed hotel under each room count scenario, the proposed property's respective average daily rates were projected from its estimated opening in 2015 through 2019.

ESTIMATED ANNUAL OPERATING RESULTS

Based on our analysis of market demand and the estimated occupancy and average daily room rates for the proposed hotel, we have estimated revenues and expenses for the hotel for its first ten years of operation under each room count scenario. These estimates result in a "bottom line" of income before fixed charges of interest, depreciation, amortization, and income taxes.

SUMMARY OF CONCLUSIONS

The City of Newport Beach and the residents of the Balboa Peninsula are working together to revitalize the Peninsula, and specifically the Lido Village area. The addition of an upscale hotel at the City Hall site represents an attractive development that would benefit the area both aesthetically and economically. Based on our existing knowledge of the City of Newport Beach and the overall Orange County hotel markets coupled with our research relative to this assignment, we are of the opinion that an opportunity exists for the development of an upscale boutique hotel at the subject site.

The Newport Beach hotel market consists of several local area demand generators, which include the following: 1) leisure demand generated by pleasure travelers visiting family, friends and nearby attractions within Newport Beach, Orange County and other Southern California areas; 2) corporate/commercial demand generated from the commercial business districts of Newport Beach, Costa Mesa, and Irvine; and 3) group demand arising from business and association meetings, executive level conferences, and social events.

The area immediately surrounding the subject site is comprised of an array of restaurants and retail establishments, as well as residences and some office space. Located at the entry to the Balboa Peninsula, within blocks from the beach, the subject site presents an attractive opportunity for the development of an upscale boutique hotel, in the four-star category. The beach and other Newport Beach and surrounding communities' attractions generate strong leisure demand during the summer months, which often has existing hotels in the competitive market booked to capacity. Further, the commercial districts generate enough corporate demand to support the market during the off-season. It is our opinion that the market is strong enough to support the addition of an upscale full-service boutique hotel.

There are currently no full-service hotels within the Balboa Peninsula. With the proposed subject's recommended facilities and amenities described further in this report, the hotel will be well positioned to capture demand from the leisure, corporate, and group demand segments as well as generate additional demand for the area.

HISTORICAL MARKET PERFORMANCE AND MARKET SHARE ESTIMATES

We have analyzed the performance and mix of demand for the hotel properties with which the proposed subject is expected to compete. Considering economic and market indicators, we have estimated the market area's supply of and demand for hotel room nights and have estimated the share of the market that the proposed hotel should reasonably be expected to capture for its first five years of operation under each room count scenario. Based upon an analysis of the sources of demand available to the subject property and its estimated competitive position, we have estimated the occupancy percentage and average daily rate that could potentially be achieved in a representative year, in current value dollars, and over the first five years of operation under each of the three scenarios.

The table below summarizes our conclusions. A further discussion of our conclusions under each scenario follows.

Proposed Newport Beach Hotel Conclusions			
	Scenario 1	Scenario 2	Scenario 3
Hotel Type	Upscale Boutique	Upscale Boutique	Upscale Boutique
Keys (Hotel Rooms)	78	100	150
Stabilized Occupancy	76%	75%	72%
Average Daily Rate (2012 value dollars)	\$220.00	\$210.00	\$195.00

78-Room Hotel

We estimate the subject hotel could achieve a stabilized occupancy rate of 76 percent and an average daily rate of \$220.00, in current value (2012) dollars. This places the subject slightly above the average of the competitive market as stabilized in terms of occupancy, which we consider reasonable given the subject's smaller room count as compared to some of the properties in the competitive set. Our projection of average daily rate is also above that of the competitive market average and is considered reasonable given the assortment of properties that make up the competitive set, which range from small independent hotels to full-service branded and resort-type properties. The subject hotel is anticipated to be an upscale boutique property in the four-star category. Furthermore, this rate is within the range of comparable properties located in similar markets throughout Southern California and the United States.

The following table outlines our estimates of occupancy, average daily rate, and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel (78 Rooms)											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2015	28,470	N/A	19,400	N/A	68%	\$240.00	3.0%	\$163.54	N/A	91%	115%
2016	28,470	0.0%	20,500	5.7%	72	248.00	3.0	178.57	9.2%	96	121
2017	28,470	0.0	21,700	5.9	76	255.00	3.0	194.36	8.8	102	128
2018	28,470	0.0	21,700	0.0	76	263.00	3.0	200.46	3.1	102	128
2019	28,470	0.0	21,700	0.0	76	271.00	3.0	206.56	3.0	102	128
CAAG	0.0%		2.8%			3.1%		6.0%			

Source: PKF Consulting USA

The estimates of revenues, costs, and expenses are based on the subject's specific facilities and services and its operational characteristics. As a basis for our projections, we have analyzed the operating results of lodging properties with similar characteristics that are believed to operate with efficient management and proper control of costs and expenses. The following table summarizes the estimated operating results for the first ten years of operation for the proposed 78-room hotel to be located in Newport Beach, California.

Summary of Estimated Annual Operating Results (78 Rooms)			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2015	\$6,814,000	\$1,931,000	28
2016	7,449,000	2,208,000	30
2017	8,089,000	2,477,000	31
2018	8,340,000	2,563,000	31
2019	8,592,000	2,643,000	31
2020	8,848,000	2,727,000	31
2021	9,106,000	2,802,000	31
2022	9,386,000	2,897,000	31
2023	9,670,000	2,989,000	31
2024	9,958,000	3,078,000	31

100-Room Hotel

We estimate the subject hotel could achieve a stabilized occupancy rate of 75 percent and an average daily rate of \$210.00, in current value (2012) dollars. This places the subject similar to the average of the competitive market as stabilized in terms of occupancy. Our projection of average daily rate places the property above that of the competitive market average and we consider this reasonable for the same reasons previously mentioned. This rate is lower than the rate that the 78-room hotel could achieve given its larger room count.

The following table outlines our estimates of occupancy, average daily rate, and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2015	36,500	N/A	24,100	N/A	66%	\$229.00	3.0%	\$151.20	N/A	88%	106%
2016	36,500	0.0%	25,500	5.8%	70	236.00	3.0	164.88	9.0%	93	112
2017	36,500	0.0	27,200	6.7	75	243.00	3.0	181.08	9.8	99	120
2018	36,500	0.0	27,200	0.0	75	251.00	3.0	187.05	3.3	99	120
2019	36,500	0.0	27,200	0.0	75	258.00	3.0	192.26	2.8	99	119
CAAG	0.0%		3.1%			3.0%		6.2%			

Source: PKF Consulting USA

The estimates of revenues, costs, and expenses are based on the subject's specific facilities and services and its operational characteristics. As a basis for our projections, we have analyzed the operating results of lodging properties with similar characteristics that are believed to operate with efficient management and proper control of costs and expenses. The following table summarizes the estimated operating results for the first ten years of operation for the proposed 100-room hotel to be located in Newport Beach, California.

Summary of Estimated Annual Operating Results (100 Rooms)			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2015	\$ 8,077,000	\$2,295,000	28%
2016	8,827,000	2,614,000	30
2017	9,739,000	3,047,000	31
2018	10,051,000	3,159,000	31
2019	10,339,000	3,243,000	31
2020	10,656,000	3,352,000	31
2021	10,976,000	3,454,000	31
2022	11,300,000	3,557,000	31
2023	11,654,000	3,679,000	32
2024	11,984,000	3,776,000	32

150-Room Hotel

We estimate the subject hotel could achieve a stabilized occupancy rate of 72 percent and an average daily rate of \$195.00, in current value (2012) dollars. This places the subject below the average of the competitive market as stabilized in terms of occupancy, which we consider reasonable given the subject's larger room count and market positioning. Our projection of average daily rate places the property above that of the competitive market

average and we consider this reasonable for the same reasons previously mentioned. This rate is lower than the rates that both the 78-room and 100-room hotels could achieve given its larger room count.

The following table outlines our estimates of occupancy, average daily rate, and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel (150 rooms)											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2015	54,750	N/A	33,700	N/A	62%	\$213.00	3.0%	\$131.11	N/A	82%	92%
2016	54,750	0.0%	36,700	8.9%	67	219.00	3.0%	146.80	12.0%	89	100
2017	54,750	0.0	39,500	7.6	72	226.00	3.0	163.05	11.1	96	108
2018	54,750	0.0	39,500	0.0	72	233.00	3.0	168.10	3.1	96	108
2019	54,750	0.0	39,500	0.0	72	240.00	3.0	173.15	3.0	96	108
CAAG	0.0%		4.0%			3.0%		7.2%			

Source: PKF Consulting USA

The estimates of revenues, costs, and expenses are based on the subject's specific facilities and services and its operational characteristics. As a basis for our projections, we have analyzed the operating results of lodging properties with similar characteristics that are believed to operate with efficient management and proper control of costs and expenses. The following table summarizes the estimated operating results for the first ten years of operation for the proposed 150-room hotel to be located in Newport Beach, California.

Summary of Estimated Annual Operating Results (150 Rooms)			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2015	\$10,643,000	\$3,003,000	28%
2016	11,831,000	3,558,000	30
2017	13,112,000	4,182,000	32
2018	13,515,000	4,319,000	32
2019	13,921,000	4,453,000	32
2020	14,331,000	4,585,000	32
2021	14,746,000	4,715,000	32
2022	15,202,000	4,873,000	32
2023	15,662,000	5,029,000	32
2024	16,129,000	5,181,000	32

Section II
ANALYSIS OF SITE LOCATION AND
FACILITIES RECOMMENDATIONS

ANALYSIS OF SITE LOCATION

We analyzed two potential sites for the development of a hotel within the Balboa Peninsula: 1) Lido Marina Village and 2) the current City Hall site. The City Hall site is owned by the City of Newport Beach while the Lido Marina Village site is privately owned by several different entities. After carefully analyzing both sites, it is our opinion that the best site to develop a hotel at this time would be the City Hall site for several reasons. As previously mentioned the City Hall site is owned by the city and will be ready to develop upon demolition of the existing structure, while the Lido Marina Village would require complicated assemblage due to its many owners. The Lido Marina Village site would require extensive redevelopment in order to grant the addition of an upscale hotel as an anchor. In addition, the City Hall site is prominently located on Newport Boulevard, with excellent access, visibility, and within a pedestrian-friendly area providing an array of restaurants and retail shops. Further, with its prominent location and visibility, the City Hall site would serve as an anchor to the Balboa Peninsula and potentially promote further development.

The Lido Marina Village site also presents an attractive location for hotel development assuming extensive renovation of the existing improvements. We are of the opinion that a hotel could potentially be feasible on that site as well in the future, notwithstanding the development of a hotel at the City Hall site due to the strength of the market. For the purposes of this analysis and based on the abovementioned conclusions, we have assumed that the hotel will be developed at the City Hall site.

LOCATION

The subject site is located at 3300 Newport Boulevard in the City of Newport Beach, California. The site is approximately 4.25 acres and is currently improved with the Newport Beach City Hall and a fire station, which occupies approximately 0.7 acres. We analyzed the site with and without the fire station and are of the opinion that the fire station would not interfere with the hotel operations. As such, we have assumed the fire station will remain on the site as the remaining space is adequate for the development of the hotel facilities as recommended herein. The City has the option of a lot line adjustment to square off the site. It is our opinion that the site is of adequate size to support either hotel scenario and a lot line adjustment would not be necessary.

The site is located in Newport Beach's Balboa Peninsula and specifically within Lido Village, an approximately 17-acre area situated at the beginning of the Peninsula. Lido Village encompasses the site of the current Newport Beach City Hall (subject site), the iconic Lido Theater and Via Lido Plaza, the Lido Marina Village, St. James Anglican Church, the First Church of Christian Scientist, as well as several retail and office properties.

The proposed hotel's site has frontage on Newport Boulevard, a major artery that runs through the cities of Newport Beach and Costa Mesa and becomes State Route 55 in Costa

Mesa, connecting several cities in Orange County. The subject site benefits from its excellent location just five blocks from the beach and approximately one mile from Hoag Hospital. Further, the area surrounding the subject site is pedestrian friendly, with access to many restaurants and shops within a short walk.

The bordering uses of the subject site are listed below.

North: The site is bound to the north by Finley Avenue, followed by Via Lido Plaza, a mixed-use retail, entertainment, and commercial center that includes a theater, retail shops, restaurants, and office uses. Past Via Lido Plaza is Lido Marina Village, an area mostly occupied by commercial establishments. Further north, approximately one mile is Hoag Hospital.

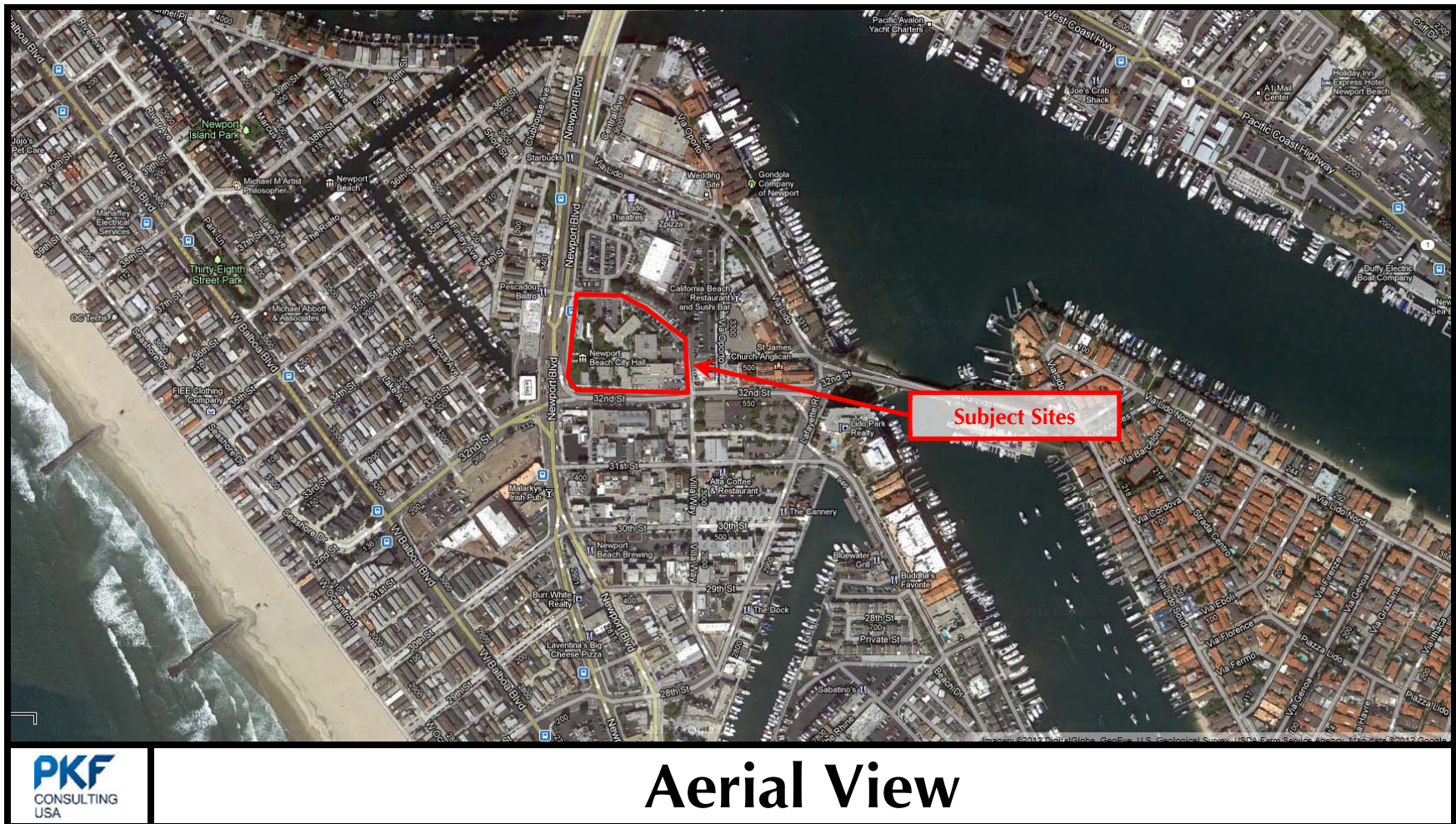
South: The subject site is bound to the south by 32nd Street, followed by commercial uses that include several restaurants. To the southeast of the site is a strip mall anchored by a Pavillions grocery store and including other retail tenants such as a bank, restaurant, and beauty salon. The Newport Pier and the Balboa Pier are located approximately one mile south and two and a half miles southeast of the subject site, respectively.

East: The site is bound to the east by Villa Way followed by the St. James Anglican Church and office buildings. Further east is the Newport Bay and Lido Isle, a prominent residential area. Further east, approximately 3.5 miles, are the Newport Beach Country Club and Fashion Island.

West: The subject site is bound to the west by Newport Boulevard, followed by retail shops. Past the retail shops are residential uses. Approximately five blocks west is the beach.

An area map and aerial view illustrating the subject site location are presented in the following pages.





ACCESS AND VISIBILITY

The subject site is located on Newport Boulevard, right at the entry to the Balboa Peninsula. The site is located in a predominately commercial and residential area within blocks from the beach.

Primary access to the site is afforded via Newport Boulevard/State Route 55 for those traveling west. North/south access is provided by Highway 1/Pacific Coast Highway (PCH) via connecting with Newport Boulevard. PCH is the primary transportation route for the coastal communities of Orange County. Balboa Boulevard connects the site to the rest of the Balboa Peninsula. Interstate 405 can be accessed approximately five miles from the subject site.

RELATIONSHIP TO DEMAND GENERATORS

Demand for hotel rooms in the Newport Beach area is generated by three primary market segments: leisure, corporate, and group. Leisure demand is generated by pleasure travelers to and within Southern California for mostly recreational reasons. Corporate demand in the market is derived from the commercial business districts of Newport Beach, Irvine, and Costa Mesa. Group demand is generated by business and association meetings as well as social events. The subject site is ideally located to capture leisure demand due to its proximity to the beach and other attractions in and around Newport Beach. Further, it is located within a short drive of the commercial districts that generate corporate demand for the area. As such, the subject site is very well located in relationship to the demand generators in the market.

SITE CONCLUSIONS

The proposed subject hotel will benefit from its excellent visibility on Newport Boulevard and convenient access through Pacific Coast Highway. In addition, the subject hotel will benefit from its proximity to the beach, Hoag Hospital, and other commercial demand generators in the market. Given the site's location and the characteristics and demand patterns of the Newport Beach hotel market, the proposed site is well-suited for an upscale boutique hotel. The subject site is of adequate size to support the different hotel development scenarios that will be discussed further in the report and it is our opinion that a lot line adjustment would not be necessary.

FACILITIES RECOMMENDATIONS

BASIS FOR ANALYSIS

We have analyzed the overall Newport Beach lodging market. Our comments concerning facility recommendations for the subject hotel are based on our analysis of the competitive hotels and the recommended positioning of the proposed hotel within the competitive market as well as the input received by members of the community and a review of the Lido Village Concept Plan and Design Guidelines. The following provides a general scope of facilities that should be considered for the subject property.

The Newport Beach lodging market consists of an array of properties ranging from small independent hotels to chain affiliated full-service hotels and resorts. The subject site is located on the Balboa Peninsula, a Newport Beach neighborhood consisting of approximately 1.85 square miles. There are currently only five small independent hotels in the Balboa Peninsula. Outside of the Peninsula, the subject hotel will be competing with six hotels ranging from limited-service to full-service and resort-type properties. All of the larger hotels outside of the Peninsula are considered to be of good to excellent quality. The independent hotels located within the Peninsula as well as the limited-service properties located outside are considered mature properties of average to good quality.

To appropriately position the subject within the competitive market, the hotel's overall quality level should be at or above the competitive properties. Based on the existing facilities within the market and the subject's location within the Lido Village area of the Balboa Peninsula, a pedestrian-friendly, beach-type community, the proposed development should be positioned as an upscale boutique hotel.

The City of Newport Beach and its residents are working together to continue to develop Lido Village into a vibrant gateway Village in the heart of the Peninsula. The Village provides local and regional destination retail, entertainment, and mixed-used services. Similar to other retail villages along the Peninsula, Lido Village has experienced numerous cycles of growth and protraction. The City's vision is to revive Lido Village as a vibrant destination, and mixed-use entertainment hub for surrounding neighborhoods such as Lido Island, West Newport, Balboa Peninsula, and the Greater Newport Beach. Located at the entrance to the Balboa Peninsula, the subject hotel would be an anchor to the Peninsula and Lido Village. As such, the property should be positioned as an upscale, four-star type boutique hotel with an attractive design that complements the architecture and feel of the Peninsula.

The main sources of demand for the subject property are anticipated to be the leisure segment and to a lesser extent the corporate and group segments. The leisure demand in Newport Beach, as in many coastal communities, is seasonal. Therefore, the hotel should feature facilities and amenities that will enable it to capture corporate and group demand during the shoulder months in order to maximize its potential. The hotel should offer modern upscale amenities with the mediterranean feel that is characteristic to the area to attract the leisure traveler, while including facilities suitable for accommodating

commercial guests, such as a full-service restaurant, business services, and functional meeting space designed to serve SMERF, corporate groups, and social events.

Guest Rooms

We have analyzed the market potential under three room count scenarios: 78 rooms, 100 rooms, and 150 rooms. Based on the market in which the property will operate, we recommend that the guestrooms be a mix of king bed, double queen bed, and suites oriented towards commercial and leisure guests. The mix should be approximately 40.0 percent king beds, 45.0 percent double queen beds, and 15.0 percent suites. This mix will allow the subject hotel to effectively capture demand from the three different segments, and have more room options for larger families with the inclusion of more suites.

Guestrooms at the subject are recommended to be single king rooms and double-double/queen rooms, measuring approximately 350 to 400 square feet, and suites consisting of a separate sitting area and bedroom(s), measuring approximately 500 to 700 square feet. The bedrooms should contain one king bed or two double or queen sized beds, two nightstands and a flat screen remote-controlled television with on-command movie options. The suites should also contain a sitting area with a pullout couch, coffee table, and an ample sized working desk. Amenities in the rooms should include a total of two telephones with two lines, voicemail, wireless internet access, alarm clock with iPod docking station or MP3 player, coffee maker, hairdryer, in-room safe, honor bar, iron, and ironing board. As an upscale property, the rooms should offer elegant furnishings and high end bath products.

Food and Beverage Operations

The food and beverage facilities at the subject property should consist of a three-meal restaurant with approximately 80 seats, including outdoor seating if possible. 24-hour room service should also be offered, and catering should be available to banquet guests. The property should also offer a rooftop bar/lounge serving food and cocktails to complement the lively environment of the Peninsula.

Back of the house production areas would service all food and beverage services, including meeting rooms.

Meeting and Banquet Space

Based on the market in which the property will compete, we recommend that the property offers adequate meeting space depending on its room count, including several meeting rooms and a boardroom to accommodate groups utilizing facilities located in the market as well as attract small and medium-sized groups to the hotel.

The following table shows the meeting space provided at the competitive properties.

Meeting Space of the Primary Competitive Market			
	Square Feet (Rounded)	# Rooms	SF/Room
Hyatt Regency Newport Beach	26,000	403	65
Newport Beach Marriott Hotel & Tennis Club	25,000	532	47
Holiday Inn Express Newport Beach	780	83	9
Balboa Bay Club	16,000	132	121
The Island Hotel	8,000	295	27
<i>Average</i>	15,156		54
<i>Source: PKF Consulting</i>			

Given the size of the site and the proposed room count, the primary demand generators in the market, and positioning as an upscale boutique property, we recommend approximately 50 square feet of meeting space per guest room. Therefore, the following amount of meeting space would be adequate for each room-count scenario:

Proposed Newport Beach Hotel Recommended Meeting Space	
Number of Rooms	Square Feet
78	3,900
100	5,000
150	7,500

This space will serve mainly to accommodate small functions for corporate and social groups and is within the range provided in the properties within the competitive set. All available meeting space should be equipped with wireless internet access, independently controlled lighting, and a good quality sound system.

Other Facilities and Amenities

Other amenities at the proposed subject property should include a fitness center, an outdoor pool, concierge desk, and high speed wireless internet throughout the property. The fitness center should include modern cardio equipment, strength equipment, and core and balance kits.

Property Size

Based on plans provided by the City, we have assumed approximately 750 square feet of building space per guestroom. The following table presents the approximate total building size for each scenario.

Proposed Newport Beach Hotel Approximate Building Size	
Number of Rooms	Square Feet
78	58,500
100	75,000
150	112,500

Management and Affiliation

We have assumed that the property will be managed by a third party operator. We are not aware of who the operator will be, but have assumed a management team familiar with the operation of an upscale boutique hotel. As such, the property will be subject to a management fee.

Section III
AREA REVIEW



AREA REVIEW AND NEIGHBORHOOD ANALYSIS

INTRODUCTION

The economic climate of the market area encompassing the subject property is an important consideration in forecasting hotel demand and income potential. Historic economic and demographic trends that highlight the amount of visitation or other economic trends provide a basis for hotel demand projections. The purpose of this section is to review available economic and demographic data to determine whether the subject's regional and local market areas might experience future economic growth.

ORANGE COUNTY OVERVIEW

The subject property is located in the city of Newport Beach in Orange County, California. Orange County includes 34 incorporated cities and a number of unincorporated communities. An overview of the overall Orange County economy is presented as an appendix to this report.

NEWPORT BEACH OVERVIEW

The subject property is located along Newport Boulevard, in the city of Newport Beach, California. Newport Beach is situated in southern Orange County between Huntington Beach to the north and Laguna Beach to the south. The city is approximately 50 miles southeasterly of Los Angeles and 85 miles northerly of San Diego. Newport Beach is approximately 40 square miles, of which 22 square miles is water. Areas officially incorporated into Newport Beach include Corona del Mar, Balboa Island, Newport Coast, San Joaquin Hills, and Balboa Peninsula. The city is acclaimed for its beaches, mild year-round weather, boating/yachting community, sophisticated atmosphere, international film festival, three annual epicurean festivals and the oldest holiday boat parade in the nation.

Nine district neighborhoods make up Newport Beach, each lending a unique culture, charm, natural beauty and history to the city. They are: Balboa Island and surrounding islands, Balboa Peninsula, Corona Del Mar, Mariner's Mile, Cannery Village, Back Bay, Airport/Business District, Fashion Island and Newport Coast/Crystal Cove. The subject hotel is located within the Balboa Peninsula neighborhood of Newport Beach, a lively beachfront area with numerous restaurants, retail establishments, and outdoor activities.

The primary traffic arteries in the Newport Beach area include Pacific Coast Highway, Newport Boulevard, and Jamboree Road. The latter provides direct access from the east into Newport Beach, from Interstates 5 and 405, while Pacific Coast Highway, which parallels the coast, provides for convenient access from coastal traffic. Newport Beach is directly adjacent to John Wayne Airport (SNA); Long Beach Airport (is located 20 miles north); and Los Angeles International Airport (is located 50 miles north).

Newport Beach is a leisure destination area as well as a strong commercial center, and relies heavily upon retail and leisure expenditures. The community is home to 17 full-

service resorts, hotels, boutique hotels and inns, accounting for more than 2,900 hotel rooms and 17,000 square feet of meeting space under a variety of branded and independent hotel flags. There are over 300 restaurants in Newport Beach. Surrounding development in the vicinity of the subject consists primarily of restaurant, commercial uses, and residential uses. In addition, Newport Beach is a well-known shopping destination consisting of Fashion Island, an outdoor mecca filled with over 200 specialty shops and chic boutiques, as well as quaint retail storefronts along Pacific Coast Highway.

ECONOMIC AND DEMOGRAPHIC OVERVIEW

Newport Beach's per capita income (PCI) of \$86,586 easily leads the 420 U.S. communities with populations above 75,000, and it triples the national PCI of \$27,589. More than a quarter of Newport Beach's households (28.6 percent, to be exact) have annual incomes of more than \$200,000. The median value for all homes in Newport Beach exceeds \$1 million.

Population

The population base of Newport Beach has experienced stable growth over the last ten years, as evidenced by a comparison of the 2000 Census estimate with the current estimate: 70,032 and 85,376 persons, respectively. The following table presents historical population estimates from 2001 through 2011 for the City of Newport Beach, Orange County, and California.

Growth in Population			
Year	Newport Beach	Orange County	California
2001	70,032	2,891,000	34,479,500
2002	75,662	2,917,100	34,871,800
2003	79,392	2,940,100	35,253,200
2004	80,800	2,956,100	35,574,600
2005	83,120	2,957,300	35,827,900
2006	83,361	2,953,100	36,021,200
2007	84,218	2,957,900	36,250,300
2008	84,554	2,989,100	36,604,300
2009	86,252	3,026,800	36,961,200
2010	86,738	3,017,600	37,349,400
2011	85,376	3,055,700	37,691,900
CAAG	2.0%*	0.6%	0.9%

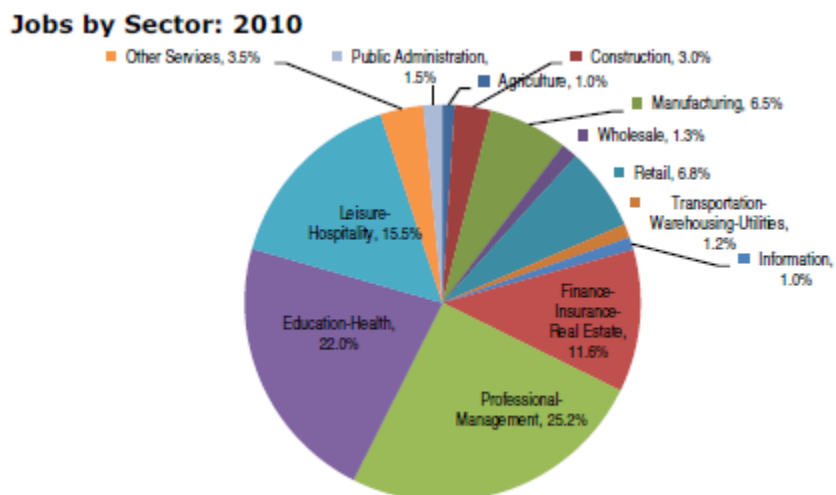
*Some of this growth was due to annexation of adjacent developed areas Source: California Department of Finance/Newport Beach Comprehensive Annual Report

Employment

Newport Beach is a robust coastal community and a strong commercial center. Residents are employed in a variety of industries including professional and technical services, retail, restaurant, and lodging sectors.

According to a report prepared by the Southern California Association of Governments (SCAG) in May 2011, employment in the City of Newport Beach is classified as presented in the chart below. As of 2010 the Professional-Management sector was the largest job

sector, accounting for 25.2 percent of total jobs in the city. Other large sectors included Education-Health (22.0 percent), Leisure-Hospitality (15.5 percent), and Finance-Insurance-Real Estate (11.6 percent).



According to the California Employment Development Department, the 2011 unemployment rate in the Newport Beach was 5.5 percent, down from the prior rates of 6.0 percent and 5.6 percent in 2010 and 2009, respectively. For comparison, Orange County's unemployment rate in 2011 was 8.7 percent, down from 9.5 percent in 2010 and California's unemployment rate in 2011 was 11.7, down from 12.4 percent in 2010. The City has historically maintained unemployment levels below that of the county and state. As of June 2012, the city's unemployment rate is 5.0 percent, as compared to 5.7 percent in June 2010.

The following table illustrates the annual unemployment rates for the City of Newport Beach, Orange County, and California from 2000 through 2011, as well as June 2011 and 2012.

Unemployment Rates			
Year	Newport Beach	Orange County	State of California
2000	2.2	2.4	5.2
2001	2.4	3.2	6.0
2002	2.5	5.0	6.7
2003	2.4	4.8	6.5
2004	1.9	4.3	6.2
2005	2.4	3.7	5.1
2006	2.1	3.2	4.8
2007	2.6	4.3	5.9
2008	2.4	6.1	8.3
2009	6.1	9.0	11.4
2010	6.0	9.6	12.4
2011	5.8	8.7	11.7
6/11	5.7	9.1	12.0
6/12	5.0	7.9	10.7

Source: CA Employment Development Department

Southern California industries saw improving trends in 2011 in the leisure and tourism, professional and business services, health services, and retail sectors, and economists are forecasting continuing improvement through 2012. It is also expected that the regional economy will likely receive a boost from various major public works projects, including the recent expansion of John Wayne Airport.

Major Employers and Employers by Industry

It is further estimated that the total Orange County workforce as of June 2012 is comprised of approximately 44,900 workers. The following table shows the major employers in Newport Beach as of the end of fiscal year 2010-2011.

Top Employers in Newport Beach	
Employer	Number of Employees
Hoag Memorial Hospital	5,000
Pacific Life Insurance	1,119
Glidewell Dental	1,100
PIMCO Advisors	1,005
Newport-Mesa Unified School District	895
City of Newport Beach	807
Resort at Pelican Hill	750
Jazz Semi-Conductor	554
Balboa Bay Club and Resort	500
The Island Hotel	480
Fletcher Jones Motor Cars, Inc.	450
Marriott-Newport Beach	334

Source: City of Newport Beach 2010-2011 Comprehensive Annual Report

Newport Beach is home to one Fortune 500 company, insurer Pacific Life. Other companies based or with large space in Newport Beach include Acacia Research, Conexant, Galardi Group (Wienerschnitzel, The Original Hamburger Stand, and Tastee-

Freeze) Jazz Semiconductor, and PIMCO. Fletcher Jones Motor Cars in Newport Beach is the largest Mercedes-Benz dealership in the world.

VISITATION

Tourist Visitation

Tourism plays a major role in the economy of the City of Newport Beach. According to a study prepared by Horizon Consumer Science for *Visit Newport Beach*, Newport Beach attracted 6.6 million total visitors in 2011, generating a total visitor spending of approximately \$971.3 million. These figures are down from the peak figures of 2007, which reported 6.9 million visitors generating total spending of approximately \$1.04 billion. However, hotel visitors in 2011 amounted to 482,442, an increase of 33.9 percent from the 2007 figure of 361,665. Hotel visitor spending also increased, with an approximate \$452.5 million spent in 2011 versus \$404.7 million in 2007, an 11.8 percent increase.

According to this study, Newport Beach visitors in 2011 were mainly U.S residents, the majority of which resided in California, and primarily Southern California. Further, the percentage of overnight visitors who stayed at a hotel increased from 49.0 percent in 2007 to 62.0 percent in 2011. International visitors made up about 10.0 percent of the total visitors in 2011.

Transient Occupancy Tax

One method of tracking visitor trends is by analyzing the transient occupancy tax (TOT) revenue, also known as bed tax revenue. The TOT reflects taxes on room revenue for lodging facilities in the City of Newport Beach. The TOT rate in Newport Beach is currently 10.0 percent. Assuming that all hotels located within the city have been paying room tax on a regular basis, the following table highlights the increase in occupancy and/or average daily rate experienced by these hotels.

Transient Occupancy Tax Revenue City of Newport Beach 2002 – 2011 (Fiscal)		
Year	Tax Revenue	Percent Change
2002	7,690,655	N/A
2003	8,055,266	4.7%
2004	8,045,132	-0.1
2005	9,215,862	14.6
2006	9,832,729	6.7
2007	12,059,008	22.6
2008	12,751,518	5.7
2009	11,170,956	-12.4
2010	11,400,710	2.1
2011	13,082,451	14.8
CAAG	6.1%	
Source: City of Newport Beach Comprehensive Annual Financial Report 2010-2011		

TOT revenue has experienced a 6.1 percent compound annual growth rate from 2002 to 2011. With the exception of 2004 and 2009 (fiscal), which marked two troubled economic periods, transient occupancy tax increased every year. Marked signs of improvement can be seen in 2011, with TOT revenue higher than the 2008 peak, and a 14.8 percent increase from 2010.

REGIONAL TRANSPORTATION

Freeways

Three interstate highways intersect Newport Beach: the 73 runs North-South, the 55 runs East-West, and the 1 (Pacific Coast Highway) runs North-South along the coast. These interstates are easily accessible to residents and visitors, and conveniently connect with freeways to neighboring Los Angeles and San Diego Counties.

Trains

Amtrak lines run through Irvine and Santa Ana—each of which is 10 miles from Newport Beach. Other nearby stations are: Anaheim, San Juan Capistrano, and the San Clemente Pier.

Airports

Main air access to Newport Beach is provided by John Wayne Airport, located approximately 7.0 miles from the city. A \$543 million Airport Improvement Program to expand the airport facilities was finalized in November 2011. The improvements include a new terminal (Terminal C) with six new bridged aircraft gates, two new commuter terminals, more security checkpoints, new dining and shopping options, a Parking Structure C with 2,000+ parking spaces, and a Central Utility Plant. The Improvement Program adds 282,000 square feet of new space to the existing 448,000 square feet in Terminals A and B at the Thomas F. Riley Terminal.

Year-end 2011 John Wayne Airport passenger counts declined by 0.6 percent from the previous year. This decreased level of passenger traffic can be attributed to the weakened travel demand as well as the commercial and commuter carriers decreasing flight operations. Year-to-date through June 2012 shows a slight decline in passenger travel, down by 0.8 percent over the same period the previous year. The following table details the historical passenger traffic at John Wayne Airport from 2000 to 2011 and year-to-date through June 2012.

John Wayne Airport Activity 2000 – 2011		
Year	Total Passengers	Percent Change
2000	7,772,800	4.0%
2001	7,324,554	(5.8)
2002	7,903,066	7.9
2003	8,535,130	8.0
2004	9,272,394	8.6
2005	9,627,172	3.8
2006	9,613,480	(0.1)
2007	9,979,699	3.8
2008	8,989,603	(9.9)
2009	8,705,199	(3.2)
2010	8,663,452	(0.5)
2011	8,609,008	(0.6)
CAAG	0.9%	
YTD 6-11	4,190,922	
YTD 6-12	4,224,030	(0.8%)
Source: John Wayne Airport		

Despite the expansion of the John Wayne Airport in the last several years, which has helped relieve pressure from increased demand, there is still need for an additional airport to provide enhanced international service to the area. While full capacity has not yet been reached, it has been difficult to attract additional flights due to the airport's limited short-term expansion capabilities.

Other airports serving Newport Beach and Orange County include Los Angeles International Airport (LAX) and Long Beach Airport. The following table provides annual passenger counts for these airports between 2000 and 2011 and year-to-date through June 2012.

Total Passenger Counts – Regional Airports 2000-2011		
Year	LAX	Long Beach
2000	67,300,000	637,853
2001	61,600,000	587,473
2002	56,200,000	1,453,412
2003	54,900,000	2,875,703
2004	60,700,000	2,926,873
2005	61,500,000	3,034,032
2006	61,000,000	2,758,362
2007	62,400,000	2,906,556
2008	59,800,000	2,913,926
2009	56,500,000	2,909,307
2010	59,100,000	2,980,000
2011	61,800,000	3,115,433
CAAG	-0.8%	15.5%
YTD June-2011	29,873,512	1,449,527
YTD June-2012	30,943,155	1,617,860
% Change	3.6%	11.6%
Source: Various Airport Agencies and PKF Consulting USA		

NEWPORT BEACH ATTRACTIONS

One of the major attractions of Newport Beach is the superior quality of the city's beaches, which many regard as among the finest beaches in the country. Newport Beach has a vast number of leisure activities to choose from. In addition to beautiful beaches and unique villages, there are several outdoor activities to take part in. Sprawling across 800 acres in Newport Beach is the Back Bay ecological reserve. Home to nearly 200 species of birds, many hikers, bikers, runners and bird watchers enjoy this coastal wetland. The city is also known for its exceptional year-round golfing and offers three public and two private golf courses, some of which have ocean views.

Beaches and Parks

Newport Beach is comprised of over 10 miles of beaches and has been named one of the cleanest beaches in the United States. Attractions include the city beaches from the Santa Ana River to the tip of the Balboa Peninsula, Corona del Mar State Beach, and the beaches at Crystal Cove State Park. Newport Beach is renowned for good surfing, especially between Newport Pier and the Santa Ana River. At the tip of the Balboa Peninsula, the Wedge offers world-class bodyboarding and bodysurfing. Newport Pier and Balboa Pier draw fisherman and sightseers.

Harbor and Boating

Newport Harbor is touted as one of the finest small boat harbors in the world. Over 9,000 vessels are anchored in its tranquil waters, where recreational and commercial boats of all sizes can be found. The harbor is a popular destination for all boating activities, including sailing, fishing, rowing, kayaking, and paddleboarding. The annual Christmas Boat Parade dates back to 1908 and has been called one of the top ten holiday happenings in the nation by the New York Times. Competitive sailing, rowing, and paddling events occur almost every weekend, and weekdays during summer.

The Annual Newport to Ensenada International Yacht Race, which is held in the Spring, is the largest sailboat race in the world. With more than 20 classes, the race includes a variety of sea-going boats ranging from top ultra-light and maxi-yachts to the non-spinnaker classes. The racing teams compete for the coveted First-to-Finish Honors, the President of the United States Trophy and the President of Mexico Trophy, among many other awards.

Golf Courses

The city is known for its exceptional year-round golfing and offers three public and two private golf courses, some of which have ocean views. Golf courses in and around Newport Beach include the Back Bay Golf Course, the Pelican Hill Golf Club, Oak Creek Golf Club, Tustin Ranch Golf Club, Costa Mesa Country Club-Los Lagos, Costa Mesa Country Club-Mesa Linda, and Mesa Verde Country Club.

Arts & Culture

From the richly diverse exhibitions at the Orange County Museum of Art to the in-depth historical displays at the Newport Nautical Museum, Newport Beach provides its

community and visitors with a unique cultural experience. Located only minutes from the Costa Mesa's Segerstrom Center for the Arts and Laguna Beach's Pageant of the Masters Festival, Newport Beach is central to exploring the Orange County fine arts scene.

Shopping

Newport Beach features many options for shopping enthusiasts, from the Mediterranean-style walkways of Fashion Island to the small boutiques found in the many villages. Many of the city's shopping areas offer spectacular waterfront views for a truly unique experience.

Fashion Island

Fashion Island is an iconic shopping center that caters to the thriving resort market, coastal communities, and affluent residents from throughout Southern California. Fashion Island offers a unique blend of luxury, designer and fashion specialty boutiques—including Neiman Marcus, Nordstrom, Bloomingdale's, Bloomingdale's Home Store, Macy's—and a vast array of fine and art fresco



dining as well as an eight-screen movie theater. The center also offers many guest services to ensure an enjoyable shopping experience for guests, including personal shopping and trolley service. The center underwent a \$100 million makeover in 2011.

Balboa Peninsula

On the Balboa Peninsula, the historic Balboa Pavilion and Balboa Island Ferry are the city's most famous landmarks. Adjacent to the Pavilion, the 500 passenger Catalina Flyer provides daily transportation to and from Avalon, located on Santa Catalina Island. In the same vicinity, the Balboa Fun Zone offers a ferris wheel, bungee jumping, arcade games, souvenir shops and eateries, boat rentals, and harbor tour boat rides; and is also home to the Newport Harbor Nautical Museum.

Back Bay

The Newport Back Bay is an ecological reserve home to nearly 200 species of birds, biking and hiking trails. Many hikers, bikers, runners and bird watchers enjoy passing their time at this coastal wetland. The bay sprawls across approximately 800 acres in Newport Beach and the Upper Newport Bay is one of the few remaining estuaries in Southern California.

As previously mentioned, Newport Beach is ideally located in the southern portion of Orange County, making it accessible to other major destinations and attractions within Southern California. Other major nearby attractions include the Dana Point Harbor, roughly 15 miles southerly of the city, Disneyland and Knott's Berry Farm, roughly 25

minutes northerly, and the many attractions in San Diego, approximately 85 miles southerly. An overview of Orange County is included in the appendix of this report.

NEWPORT BEACH HOTEL MARKET

Since 2010, the Newport Beach submarket, with no new additions to supply, has experienced strong growth across all three econometric indicators. The Newport Beach hotel market weathered the recession relatively well as compared with other submarkets in the nation, experiencing decreases in occupied room nights of only 1.5 percent and 0.1 percent in 2008 and 2009, respectively. In 2010, the market experienced significant growth in occupied room nights from 2009, with a 10.5 percent increase. In 2011, continuing the growth from 2010, the submarket experienced a 7.2 percent growth in occupied rooms, resulting in a 70.3 percent occupancy. Average daily rate and revenue per available room (RevPAR) suffered in 2008 and 2009, due to the troubled economy. Vast improvements were seen in 2010 and 2010, ending 2011 with ADR of \$191.53.

For 2012, we forecast the number of occupied rooms to increase by 3.0 percent, resulting in a market occupancy rate of 72.4 percent. We expect the market to stabilize at or near this rate and, while this rate is above historical levels, we find this estimate to be reasonable given the strength of the high-end coastal market and demand for lodging of this type. Average daily rate is estimated to grow by 5.0 percent to \$201.10. Revenue per available room is estimated to increase by 8.2 percent to \$145.61.

Newport Beach Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2006	874,540	N/A	584,454	N/A	66.8%	\$178.46	N/A	\$119.26	N/A
2007	889,140	1.7%	608,942	4.2%	68.5	201.10	12.7%	137.73	15.5%
2008	901,550	1.4	599,856	-1.5	66.5	189.90	-5.6	126.35	-8.3
2009	1,010,320	12.1	599,137	-0.1	59.3	165.13	-13.0	97.92	-22.5
2010	1,010,320	0.0	662,213	10.5	65.5	176.83	7.1	115.90	18.4
2011	1,010,320	0.0	710,215	7.2	70.3	191.53	8.3	134.64	16.2
2012E	1,010,320	0.0	731,521	3.0	72.4	201.10	5.0	145.61	8.2
CAAG	2.4%		3.8%			2.0%		3.4%	

Source: PKF Consulting

OFFICE MARKET

As previously mentioned, Newport Beach is a strong commercial center. There are approximately 7.1 million square feet of office space in the city. According to Colliers International, as of the second quarter of 2012, Newport Beach has the only under-construction project in Orange County, a 380,000 square foot development at 650 Newport Center Drive, which will be PIMCO's new headquarters. Total vacancy as of 2Q 2012 was 14.4 percent, down from 14.6 percent the previous quarter, and 16.8 percent in 2Q 2011.

In terms of classifying office space, Newport Beach is considered part of the Airport market of Orange County. As of 2Q 2012, the airport market had a total vacancy rate of 18.2

percent, down from 19.2 percent the previous quarter. Thus, the Newport Beach market is performing better than the entire submarket. As of the end of the second quarter of 2012, average asking lease rates in the submarket were approximately \$1.98, one of the highest in the county.

The Orange County office market remains on the slow and steady course of recovery that it began during the third quarter of 2010. Despite the recovery being a slow one, the market is recovering quicker than Los Angeles County due to the Orange County economy recovering at a faster pace than Los Angeles County. Even though vacancy rates are on the decline, landlords continue to wait before they raise asking rental rates. Lease concessions have been pulled back as the market has improved, however, the overall asking lease rates continue to slightly drop. Following the market crash, it is understandable for landlords to wait to raise asking lease rates until they are confident the demand for space is strong enough to support it. As the office market continues to improve, the positive growth in lease rates is the last major fundamental to recover.

FUTURE ECONOMIC OUTLOOK AND CONCLUSION

Newport Beach operates as a destination tourist economy but is also a strong commercial center. Given the city's renowned beaches, numerous art galleries, world-class retail shops, and fine restaurants as well as the commercial districts of Newport Beach, Costa Mesa, and Irvine, the city should be able to continue to attract travelers for the foreseeable future. Overall, the city's unique characteristics should provide significant support for the subject property for the long term.

Section IV
MARKET ANALYSIS

HOTEL MARKET ANALYSIS

OVERVIEW

The future performance of a hotel is directly related to the supply of and demand for hotel rooms within the subject's market area. Accordingly, an analysis of the local area's hotel market is a key component of the analysis of the subject. The following is a discussion of the competitive hotel market for the proposed hotel in Newport Beach.

MARKET ANALYSIS

Competitive Supply

In order to identify the competitive market for the proposed subject, we analyzed the overall Newport Beach lodging market. Given the defining characteristics of the proposed subject hotel and its local market, we selected twelve properties containing 1,641 rooms that represent the local market in which the subject hotel will compete. Six of these properties are small independent properties located within the Balboa Peninsula while six of the properties are full-service and resort type hotels located in other areas of Newport Beach and adjacent to the Peninsula. The selection of the competitive supply was based on each property's location, number of guestrooms, size of meeting space, support facilities and amenities, room rate structure, and market orientation relative to the subject property.

It should be noted that there are other higher and lower quality hotels in Newport Beach that have been excluded due to their positioning outside of the subject's competitive set.


The following chart presents the competitive set for the proposed hotel in Newport Beach. A map indicating their locations, a description of each of the competitive hotels and a discussion of the potential additions to the competitive supply are presented on the subsequent pages.

Competitive Supply		
Map Code	Property	Number of Rooms
Subject	Proposed Newport Beach Hotel	78, 100, or 150
1	Hyatt Regency Newport Beach	403
2	Newport Beach Marriott Hotel & Tennis Club	532
3	Holiday Inn Express Newport Beach	83
4	Best Western Newport Beach Inn	49
5	Balboa Bay Club	132
6	The Island Hotel	295
7	Balboa Inn	45
8	Bay Shores Peninsula Hotel	25
9	Dorymann's Inn	11
10	Little Inn by the Bay	18
11	Newport Channel Inn	30
12	Newport Beach Hotel	18
Total Competitive Supply (not including subjects)		1,641




**Competitive Property Number One
Hyatt Regency Newport Beach**

<u>Location</u>	<u>Description</u>
Address: 1107 Jamboree Road Newport Beach, California 92660	Date opened: 1963
Distance from Subject: 3.0 miles east	Guestrooms: 403

<u>Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • 26,000 SF of meeting and events space • Sol Restaurant • Sandbar Lounge • The Buzz Stop coffee shop • Three outdoor swimming pools and whirlpools • Gaylee Signature Spa • On property golf at the nine-hole, par-3 Back Bay Golf Course • 16 lighted tennis courts at the Palisades Tennis Club, on-property • Fitness Center • Bicycle rentals, hiking and jogging trails, shuffleboard, table tennis, and volleyball • Business Center • Concierge services • Car rental on site • Laundry/dry cleaning • Complimentary transportation to and from John Wayne Airport, Fashion Island, and Balboa Island • Room Amenities: <ul style="list-style-type: none"> ○ Respire by Hyatt hypo-allergenic rooms ○ Wireless high speed Internet access ○ Clock radio with MP3 connection ○ iHome stereo with iPod docking station ○ 37" flat screen television with premium channels and video-on-demand ○ Dual line telephone with Dataport, speaker, and voicemail ○ In-room dining ○ In-room safe ○ Iron and ironing board ○ Coffee maker ○ Hairdryer 	
<u>Condition & Renovations</u>	<u>Historical Performance</u>
The Hyatt Regency Newport Beach debuted a \$2 million renovation of the lobby, registration area, bar & lounge, and a new library in April 2011. The property is in very good condition.	In 2011, this property performed above the market average in terms of occupancy and below the market average in terms of average daily rate.

**Competitive Property Number Two
Newport Beach Marriott Hotel & Tennis Club**


<u>Location</u>	<u>Description</u>
Address: 900 Newport Center Drive Newport Beach, California 92660	Date opened: 1975
Distance from Subject: 4.1 miles east	Guestrooms: 532

<u>Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • 25,000 SF of meeting space • Sam & Harry's Steakhouse • The Lounge at Sam & Harry's • Starbucks marketplace • Pure Blu Spa • Barber/beauty shop • Wireless high speed internet in public areas • Fitness Center • Two heated outdoor swimming pools and whirlpools • Sauna • Business Center • Room Amenities: <ul style="list-style-type: none"> ○ 27" flat screen television with cable and premium channels ○ Pay-per-view and on-demand ○ Wired and wireless internet access ○ Work desk and chair ○ In-room dining ○ Two dual line telephones with speaker and voicemail ○ Alarm clock radio ○ Iron and ironing board ○ Coffee maker ○ Hairdryer 	

<u>Condition & Renovations</u>	<u>Historical Performance</u>
The property underwent an approximately \$70 million renovation that was completed in December of 2005. The renovation included the guestrooms, restaurant, lounge, meeting space, and upgrades to the spa, elevators, roof, and alarm system. The property is in very good condition.	In 2011, this property performed similar to the market average in terms of occupancy and below the market average in terms of average daily rate.

**Competitive Property Number Three
Holiday Inn Express Newport Beach**

<u>Location</u>	<u>Description</u>
Address: 2300 West Coast Highway Newport Beach, California 92663	Date opened: 1990
Distance from Subject: 0.8 miles southwest	Guestrooms: 83

<u>Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • 780 SF of meeting space • Complimentary hot breakfast bar • Outdoor pool and whirlpool • Fitness Room • Wireless Internet in public areas • Business Center • Dry cleaning pickup • Room Amenities: <ul style="list-style-type: none"> ○ 32" Flat panel television with cable and premium channels ○ Complimentary newspaper delivered to room ○ Complimentary high speed wired and wireless internet access ○ Microwave ○ Mini-refrigerator ○ Work desk and chair ○ Coffee and tea maker ○ Two line phone with voicemail ○ Alarm clock ○ Iron and ironing board ○ Hairdryer 	

<u>Condition & Renovations</u>	<u>Historical Performance</u>
The hotel completed a multimillion dollar renovation in July 2012. The renovation included the addition of 19 guestrooms and renovation of the existing guestrooms and most common areas. The property is in good condition.	In 2011, this property performed above the market average in terms of occupancy and below the market average in terms of average daily rate.


**Competitive Property Number Four
Best Western Newport Beach Inn**

<u>Location</u>	<u>Description</u>
Address: 6208 West Coast Highway Newport Beach, California	Date Opened: 1970
Distance from the Subject: 1.9 miles northwest	Guestrooms: 49

<u>Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • Complimentary deluxe breakfast buffet • Outdoor heated swimming pool • Fitness center • Business services • Beach chairs and towels available • Laundry services • Room Amenities: <ul style="list-style-type: none"> ◦ Cable satellite television ◦ Complimentary wireless Internet ◦ Select rooms features balconies and ocean views ◦ Mini refrigerator ◦ Coffeemaker and tea ◦ Hairdryer ◦ Iron and ironing board 	


<u>Condition & Renovations</u>	<u>Historical Performance</u>
The property recently completed a guestroom renovation including a new bedding package and 37" flat screen televisions, and as such is in good condition. Following approval by the chain, the property is now in the process of transitioning to a Best Western Plus hotel.	In 2011, the Best Western performed above the competitive market average in terms of occupancy and below in average daily rate.

**Competitive Property Number Five
Balboa Bay Club**

<u>Location</u>	<u>Description</u>
<p>Address: 1221 West Coast Highway Newport Beach, CA 92663</p> <p>Distance from Subject: 1.4 miles north</p>	<p>Date opened: 2003</p> <p>Guestrooms: 132</p>
<u>Facilities & Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • 16,000 SF of meeting space • First Cabin Restaurant • Duke's Place Lounge • Full-service Spa • Fitness Center • Outdoor swimming pool and whirlpool • Studio Six Salon • Retail stores • Electric buffy boat rental • Business Center • Room Amenities: <ul style="list-style-type: none"> ○ Private verandas in all rooms and suites ○ High-speed internet access ○ Flat screen television with cable TV ○ Work desk and chair ○ Separate sitting area ○ Telephone with voicemail ○ Coffee maker ○ Iron and ironing board ○ Hairdryer 	
<u>Condition & Renovations</u>	<u>Historical Performance</u>
<p>The property changed ownership in May 2012. New ownership plans a renovation of the guest rooms and public meeting areas within the next year.</p>	<p>In 2011, the Balboa Bay Club performed below the competitive market average in terms of occupancy and above the market average in terms of average daily rate.</p>

**Competitive Property Number Six
The Island Hotel
(Formerly Four Seasons)**

<u>Location</u>	<u>Description</u>
Address: 690 Newport Center Drive Newport Beach, California 92660	Date opened: 1986
Distance from Subject: 4.5 miles east	Guestrooms: 295

<u>Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • Approximately 8,000 SF of meeting/banquet facilities • Palm Terrace Restaurant & Lounge • 4,000 SF luxury Spa • Fitness Center/Personal Training • Outdoor swimming pool • Business Center • Concierge services • Room Amenities: <ul style="list-style-type: none"> ○ “Perfect Sleep” system ○ 32”, 42”, or 50” Plasma HD televisions ○ DVD/CD multi-speaker audio system ○ Fully stocked refrigerated private bar ○ Large work desk with fine stationary ○ Complimentary magazines ○ Wired and wireless internet access ○ Omisens bath products ○ Phone with voicemail ○ Iron and ironing board ○ Coffee maker ○ Hairdryer 	

<u>Condition & Renovations</u>	<u>Historical Performance</u>
In 2005, the property unveiled a new \$20 million, 4,000 square foot spa that is presently recognized as a member of the Leading Spas of the World. In 2009, the hotel completed a renovation of the guestrooms, meeting facilities, and public spaces.	In 2011, the Island Hotel performed below the market average in terms of occupancy, and above the market average in terms of average daily rate.

Balboa Peninsula Small Independent Hotels

As previously mentioned, there are six small independent hotels within the Balboa Peninsula. These properties represent a small part of the competitive market in terms of total room count and cater mainly to the leisure business. For the purposes of this analysis, we have convened these properties into one group of 147 guest rooms. Following is a description of each of these properties.

Balboa Inn “The Resort”

Balboa Inn “The Resort, formerly the Balboa Inn, is a 45-room Inn located steps away from the Pacific Ocean and the Newport Bay. The property offers a range of accommodations including 11 oceanview suites. The on-site Italian Restaurant Siena offers dining on the terrace with views from Catalina to Dana Point or the opportunity to dine in the lush courtyard. The restaurant and courtyard are also able to accommodate as many as 175 guests for weddings, luncheons, dinner receptions and private parties. Recreational amenities include an oceanview sundeck and oversized whirlpool spa. The Balboa Inn is located approximately 2.9 miles south of the subject site at 105 Main Street.



Bay Shores Peninsula Hotel

Located on the Balboa Peninsula, the Bay Shores Peninsula Hotel is a casual beach inn that was selected as one of the Top Ten Best Hidden Gems in the United States by TripAdvisor in 2007. The Bay Shores Peninsula Hotel is a 25-room property that features a complimentary breakfast, as well as free boogie boards, beach towels, and chairs for the beach. The hotel renovated all guestrooms with new furnishings and fixtures in 2005. The Bay Shores Peninsula Hotel is located approximately 1.3 miles south of the subject site at 1800 West Balboa Boulevard.



Dorymann's Oceanfront Inn



The Dorymann's Inn is an 11-room bed and breakfast style property located on the oceanfront, across from the Newport Beach Pier. Guestrooms are Victorian inspired, and feature French and American crafted antiques, Italian marble sunken bathtubs. In addition all rooms feature floral draperies, gilt-edged beveled mirrors, etched French glass fixtures, fireplaces, and recently flat screen televisions were added to each of the guestrooms.

Included in the nightly room rate is a continental breakfast served in the parlor or on the oceanfront patio. Additionally, the 21 Oceanfront Restaurant, a fine dining restaurant, is located downstairs and serves dinner nightly. The Dorymann's Inn is located approximately 1.2 miles south of the subject site at 2102 West Oceanfront Boulevard.

Little Inn by the Bay



The Little Inn by the Bay is an 18-room, limited-service hotel located on the Newport peninsula. Guests receive complimentary use of bicycles and beach equipment during their stay and a complimentary continental breakfast is served each morning. The Little Inn by the Bay is located approximately 0.9 miles south of the subject site at 2627 Newport Boulevard.

Newport Channel Inn



The Newport Channel Inn is a 30-room, limited-service motel located on Pacific Coast Highway, one block from the beach. The hotel added flat screen televisions in each room and new granite bathroom countertops a few years ago. A rooftop sundeck is available for guests to take in the scenery and beach towels are provided to guests staying here. The Newport Channel Inn is located approximately 1.9 miles north of the subject site at 6030 West Coast Highway.

The Newport Beachwalk Hotel

Located on the boardwalk of the historic Newport Pier, steps from the sand and surf, Newport Beachwalk Hotel is an 18-room boutique hotel that was renovated in 2006. Amenities include a lounge, complimentary coffee and pastries, concierge services, daily newspapers in the lobby and complimentary wireless Internet access. Additionally, the property is centrally located to a wide variety of restaurants and bars, most within walking distance. The Newport Beachwalk Hotel is located approximately 1.1 miles south of the subject site at 2306 West Oceanfront Boulevard.



Additions to Supply

In conducting our investigations regarding the potential for additions to supply within the subject's competitive market, we did not identify any potential additions to supply in the foreseeable future that will be considered competitive with the subject hotel.

HOTEL ROOMS DEMAND

Demand for hotel rooms is categorized in three ways:

- **Demonstrated Demand**: the demand already captured at competitive hotels;
- **Induced Demand**: the demand that does not presently seek accommodations in the competitive market, but could be persuaded to do so through marketing efforts, room rates, facilities, services and amenities.
- **Unsatisfied Demand**: the demand that seeks accommodations in the market but is not satisfied due to one of a number of factors: sell-outs during peak season; lack of a particular type of accommodation; lack of meeting space; or high room rates.

Historical Performance of the Competitive Supply

The aggregate average annual available and occupied rooms, resulting occupancy levels, average daily rate, and revenue per available room (RevPAR) for this sample set between 2007 and 2011, and year-to-date through June 2012 are presented in the following table.

Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2007	592,030	N/A	423,034	N/A	71.5%	\$215.65	N/A	\$154.09	N/A
2008	592,030	0.0%	424,091	0.2%	71.6	196.83	-8.7%	141.00	-8.5%
2009	592,030	0.0	397,255	-6.3	67.1	157.19	-20.1	105.48	-25.2
2010	592,030	0.0	425,957	7.2	71.9	155.63	-1.0	111.97	6.2
2011	592,030	0.0	441,906	3.7	74.6	162.03	4.1	120.94	8.0
CAAG	0.0%		1.1%			-6.9%		-5.9%	
6/11 ytd	592,030	N/A	438,253	N/A	74.0%	\$158.43	N/A	\$117.28	N/A
6/12 ytd	598,965	1.2%	458,348	4.6%	76.5%	161.92	2.2%	123.91	5.6%

Source: PKF Consulting USA

As reflected in the table above, annual rooms supply has remained constant over the five year period. In 2012, rooms supply increased by 1.1 percent with the expansion of the Holiday Inn Express, which added 19 rooms in July. During the five-year period, the market has demonstrated an increase in occupied rooms with a compound average annual increase of 1.1 percent. The relatively small growth can be attributed mainly to the downturn in the economy, which caused a significant decrease of 6.3 percent in 2009, resulting in lowest occupancy for the period at 67.1 percent. As the economy began to improve, demand for rooms as demonstrated by occupied room nights, increased by 7.2 percent from 2009 to 2010, bringing the occupancy rate up to 71.9 percent. In 2011, the market continued to grow with an increase in occupied room nights of 3.7 percent, resulting in an occupancy rate of 74.6 percent.

For the historical period, the market's average daily rate (ADR) decreased by a compound annual average of 6.9 percent. The recent economic recession played a role in hotels reducing rates to drive occupancy and this is evidenced by the market performance in 2009, when rates dropped significantly by 20.1 percent. Revenue per available room (RevPAR) over the five year period saw a compound average annual decrease of 5.9 percent. Years 2008 and 2009 showed sharp declines in RevPAR of 8.5 percent and 25.2 percent, respectively, due to decreases in ADR during the two years. The market began to recover in 2010 with an increase in RevPAR of 6.2 percent, which was mainly driven by the increase in occupancy, as ADR continued to decline in 2010. In 2011, all econometric measures showed improvement with increases in occupied room nights, ADR, and RevPAR of 3.7 percent, 4.1 percent, and 8.0 percent, respectively. The competitive market ended 2011 with an occupancy rate of 74.6 percent and an average daily rate of \$162.03.

Year-to-date as of June 2012, the competitive market continues to improve with increases in occupied room nights and ADR of 4.6 percent and 2.2 percent, respectively, over the same period last year. As a result, RevPAR has experienced an increase of 5.6 percent.

MIX OF DEMAND

The demand captured by the competitive supply is evenly distributed among three primary market segments: commercial, leisure, and group. The following table summarizes the mix of demand for the competitive market in 2011.

Competitive Market 2011 Mix of Demand		
Market Segment	Room Nights	Ratio
Commercial	141,300	32%
Leisure	167,300	38
Group	133,300	30
Total	442,000	100%
Source: PKF Consulting USA		

Commercial demand in the market is derived from the commercial business districts of Newport Beach, Irvine, and Costa Mesa. In 2011, the commercial segment accounted for 32.0 percent, or approximately 141,300 room nights of captured demand in the market. The introduction of the subject hotel is anticipated to induce some commercial demand into the market by capturing some of the demand that is currently going to other markets but would rather stay closer to the beach. We have estimated 2,000 room nights will be induced into the market in 2015 if the subject hotel is developed with 78 rooms. If the hotel is developed with 100 rooms, we anticipate 2,200 room nights will be induced, while if the hotel is developed with 150 rooms, approximately 3,500 room nights are projected to be induced into the market.

For the projection period, we have estimated growth in the corporate market segment of 4.0 percent in of 2012. Beginning in 2013, and for the remainder of our projections, we estimate that this market segment will grow 3.0 percent annually, the general level of economic growth.

Leisure demand consists of pleasure travelers to and within Southern California for mostly recreational reasons and/or to visit family or friends. The hotels in this competitive market benefit from their proximity to the coast, shopping and other leisure amenities in Newport Beach, Huntington Beach, and Costa Mesa. This segment is comprised of both domestic vacation and weekend travelers. Leisure business is somewhat seasonal, with increased leisure business in the summer months. In 2011, the leisure market segment accounted for 38.0 percent of total demand, or approximately 167,300 room nights of captured demand. Southern California residents make up a significant portion of this demand.

For the projection period, we have projected growth in the leisure market segment to be 4.0 percent in 2012 and 2013, and 3.0 percent in 2014 and for the remainder of the projection period. Additionally we have induced a total of 3,500 leisure room nights into the market in 2015 as a result of the opening of the subject hotel, if developed with 78 rooms. If the hotel is developed with 100 rooms, we anticipate 3,800 room nights will be induced while if the hotel is developed with 150 rooms, approximately 4,200 room nights are projected to be induced into the market.

Group demand consists of room nights associated with corporate and social meetings. In the Newport Beach area this demand is a combination of incentive meetings for sales and marketing staffs, executive level conferences, educational sessions for professionals such as doctors and attorneys, and social and fraternal retreats. There are also a number of group

oriented hotels such as the Hyatt and Newport Beach Marriott that host large scale meetings and events. The group market segment generated approximately 133,300 room nights in 2011, representing 30.0 percent of captured demand.

For the projection period, we have forecasted an increase in the group market segment of 3.0 percent annually. We have estimated 1,500 room nights will be induced into the market in 2015 if the subject hotel is developed with 78 rooms. If the hotel is developed with 100 rooms, we anticipate 1,800 room nights will be induced while if the hotel is developed with 150 rooms, approximately 2,200 room nights are projected to be induced into the market.

Summary of Demand Growth and Market Occupancies

The market occupancy has fluctuated from a low of 67.1 percent to a high of 74.6 percent mainly due to the deteriorating economy between 2008 and 2009. The market ended 2011 at an occupancy rate of 74.6 percent, the highest level for the five year period.

We estimate the market occupancy will increase to 76 percent in 2012 due to improving fundamentals. As the market stabilizes, we project occupancy to decrease to 75 percent in 2013 and remain at this level for the remainder of our projection period. The addition of the subject hotel is not anticipated to lower the market's occupancy as there will be unsatisfied demand in the market by that time. While the market may fluctuate above and below this number, we are of the opinion that an occupancy of 75 percent is appropriate for this particular market considering the supply and demand patterns, seasonality, and mix of business within the competitive market. This stabilized occupancy is in line with the average historical occupancy of the competitive market and the current market dynamics. The projected future growth in supply and demand under each room count scenario are presented in the following table. We have also provided the actual performance of the competitive market in 2011 as a basis of comparison.

Proposed Hotel Newport Beach (78 Rooms) Competitive Market Estimated Future Growth in Lodging Supply and Demand 2011 - 2019									
	2011	2012	2013	2014	2015	2016	2017	2018	2019
ROOMS SUPPLY	1,622								
Additions/(Deletions) to Supply									
Proposed Hotel Newport Beach					78				
Hyatt Regency Newport Beach									
Newport Beach Marriott Hotel & Tennis Club									
Holiday Inn Express Newport Beach		19							
Best Western Newport Beach Inn									
Balboa Bay Club									
The Island Hotel									
Independents									
Cumulative Rooms Supply	1,622	1,641	1,641	1,641	1,719	1,719	1,719	1,719	1,719
Total Annual Rooms Supply	592,030	598,965	598,965	598,965	627,435	627,435	627,435	627,435	627,435
Growth Over the Prior Year	0.0%	1.2%	0.0%	0.0%	4.8%	0.0%	0.0%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR									
Commercial	141,261	32%							
Leisure	167,345	38%							
Group	133,300	30%							
TOTAL DEMONSTRATED DEMAND	441,906	100%							
INDUCED/(UNSATISFIED) DEMAND									
Commercial		0	0	0	2,000	0	0	0	0
Leisure		0	0	0	3,500	0	0	0	0
Group		0	0	0	1,500	0	0	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	0	0	7,000	0	0	0	0
GROWTH RATES									
Commercial		4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Leisure		4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Group		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PROJECTED DEMAND									
Commercial									
Demonstrated	141,261	146,911	151,318	155,858	160,534	167,410	172,432	177,605	182,933
Induced/(Unsatisfied)	0	(970)	(7,859)	(12,369)	(10,461)	(17,319)	(22,341)	(27,514)	(32,842)
Total	141,300	145,900	143,500	143,500	150,100	150,100	150,100	150,100	150,100
Growth Over Prior Year	N/A	3.3%	-1.6%	0.0%	4.6%	0.0%	0.0%	0.0%	0.0%
Leisure									
Demonstrated	167,345	174,039	181,001	186,431	192,024	201,390	207,431	213,654	220,064
Induced/(Unsatisfied)	0	(1,150)	(9,310)	(14,796)	(11,405)	(20,834)	(26,876)	(33,099)	(39,508)
Total	167,300	172,900	171,700	171,600	180,600	180,600	180,600	180,600	180,600
Growth Over Prior Year	N/A	3.3%	-0.7%	-0.1%	5.2%	0.0%	0.0%	0.0%	0.0%
Group									
Demonstrated	133,300	137,299	141,418	145,660	150,030	156,076	160,758	165,581	170,549
Induced/(Unsatisfied)	0	(916)	(7,345)	(11,560)	(10,145)	(16,146)	(20,829)	(25,651)	(30,619)
Total	133,300	136,400	134,100	134,100	139,900	139,900	139,900	139,900	139,900
Growth Over Prior Year	N/A	2.3%	-1.7%	0.0%	4.3%	0.0%	0.0%	0.0%	0.0%
Total Market Demand	441,900	455,200	449,300	449,200	470,600	470,600	470,600	470,600	470,600
Growth Over Prior Year	N/A	3.0%	-1.3%	0.0%	4.8%	0.0%	0.0%	0.0%	0.0%
Market Occupancy	75%	76%	75%	75%	75%	75%	75%	75%	75%
Source: PKF Consulting USA									

Proposed Hotel Newport Beach (100 rooms) Competitive Market Estimated Future Growth in Lodging Supply and Demand 2011 - 2019									
	2011	2012	2013	2014	2015	2016	2017	2018	2019
ROOMS SUPPLY	1,622								
Additions/(Deletions) to Supply									
Proposed Hotel Newport Beach					100				
Hyatt Regency Newport Beach									
Newport Beach Marriott Hotel & Tennis Club									
Holiday Inn Express Newport Beach		19							
Best Western Newport Beach Inn									
Balboa Bay Club									
The Island Hotel									
Independents									
Cumulative Rooms Supply	1,622	1,641	1,641	1,641	1,741	1,741	1,741	1,741	1,741
Total Annual Rooms Supply	592,030	598,965	598,965	598,965	635,465	635,465	635,465	635,465	635,465
Growth Over the Prior Year	0.0%	1.2%	0.0%	0.0%	6.1%	0.0%	0.0%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR									
Commercial	141,261	32%							
Leisure	167,345	38%							
Group	133,300	30%							
TOTAL DEMONSTRATED DEMAND	441,906	100%							
INDUCED/(UNSATISFIED) DEMAND									
Commercial		0	0	0	2,200	0	0	0	0
Leisure		0	0	0	3,800	0	0	0	0
Group		0	0	0	1,800	0	0	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	0	0	7,800	0	0	0	0
GROWTH RATES									
Commercial		4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Leisure		4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Group		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PROJECTED DEMAND									
Commercial									
Demonstrated	141,261	146,911	151,318	155,858	160,534	167,616	172,644	177,823	183,158
Induced/(Unsatisfied)	0	(970)	(7,859)	(12,369)	(8,593)	(15,655)	(20,684)	(25,863)	(31,198)
Total	141,300	145,900	143,500	143,500	151,900	152,000	152,000	152,000	152,000
Growth Over Prior Year	N/A	3.3%	-1.6%	0.0%	5.9%	0.1%	0.0%	0.0%	0.0%
Leisure									
Demonstrated	167,345	174,039	181,001	186,431	192,024	201,699	207,750	213,982	220,401
Induced/(Unsatisfied)	0	(1,150)	(9,310)	(14,796)	(9,110)	(18,839)	(24,890)	(31,122)	(37,542)
Total	167,300	172,900	171,700	171,600	182,900	182,900	182,900	182,900	182,900
Growth Over Prior Year	N/A	3.3%	-0.7%	-0.1%	6.6%	0.0%	0.0%	0.0%	0.0%
Group									
Demonstrated	133,300	137,299	141,418	145,660	150,030	156,385	161,077	165,909	170,886
Induced/(Unsatisfied)	0	(916)	(7,345)	(11,560)	(8,286)	(14,606)	(19,298)	(24,130)	(29,108)
Total	133,300	136,400	134,100	134,100	141,700	141,800	141,800	141,800	141,800
Growth Over Prior Year	N/A	2.3%	-1.7%	0.0%	5.7%	0.1%	0.0%	0.0%	0.0%
Total Market Demand	441,900	455,200	449,300	449,200	476,500	476,700	476,700	476,700	476,700
Growth Over Prior Year	N/A	3.0%	-1.3%	0.0%	6.1%	0.0%	0.0%	0.0%	0.0%
Market Occupancy	75%	76%	75%	75%	75%	75%	75%	75%	75%
Source: PKF Consulting USA									

Proposed Hotel Newport Beach (150 Rooms) Competitive Market Estimated Future Growth in Lodging Supply and Demand 2011 - 2019									
	2011	2012	2013	2014	2015	2016	2017	2018	2019
ROOMS SUPPLY	1,622								
Additions/(Deletions) to Supply									
Proposed Hotel Newport Beach					150				
Hyatt Regency Newport Beach									
Newport Beach Marriott Hotel & Tennis Club									
Holiday Inn Express Newport Beach		19							
Best Western Newport Beach Inn									
Balboa Bay Club									
The Island Hotel									
Independents									
Cumulative Rooms Supply	1,622	1,641	1,641	1,641	1,791	1,791	1,791	1,791	1,791
Total Annual Rooms Supply	592,030	598,965	598,965	598,965	653,715	653,715	653,715	653,715	653,715
Growth Over the Prior Year	0.0%	1.2%	0.0%	0.0%	9.1%	0.0%	0.0%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR									
Commercial	141,261	32%							
Leisure	167,345	38%							
Group	133,300	30%							
TOTAL DEMONSTRATED DEMAND	441,906	100%							
INDUCED/(UNSATISFIED) DEMAND									
Commercial		0	0	0	3,500	0	0	0	0
Leisure		0	0	0	4,200	0	0	0	0
Group		0	0	0	2,200	0	0	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	0	0	9,900	0	0	0	0
GROWTH RATES									
Commercial		4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Leisure		4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Group		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PROJECTED DEMAND									
Commercial									
Demonstrated	141,261	146,911	151,318	155,858	160,534	168,955	174,023	179,244	184,621
Induced/(Unsatisfied)	0	(970)	(7,859)	(12,369)	(3,591)	(12,027)	(17,096)	(22,316)	(27,694)
Total	141,300	145,900	143,500	143,500	156,900	156,900	156,900	156,900	156,900
Growth Over Prior Year	N/A	3.3%	-1.6%	0.0%	9.3%	0.0%	0.0%	0.0%	0.0%
Leisure									
Demonstrated	167,345	174,039	181,001	186,431	192,024	202,111	208,174	214,419	220,852
Induced/(Unsatisfied)	0	(1,150)	(9,310)	(14,796)	(4,282)	(14,387)	(20,451)	(26,696)	(33,128)
Total	167,300	172,900	171,700	171,600	187,700	187,700	187,700	187,700	187,700
Growth Over Prior Year	N/A	3.3%	-0.7%	-0.1%	9.4%	0.0%	0.0%	0.0%	0.0%
Group									
Demonstrated	133,300	137,299	141,418	145,660	150,030	156,797	161,501	166,346	171,336
Induced/(Unsatisfied)	0	(916)	(7,345)	(11,560)	(4,427)	(11,162)	(15,866)	(20,711)	(25,701)
Total	133,300	136,400	134,100	134,100	145,600	145,600	145,600	145,600	145,600
Growth Over Prior Year	N/A	2.3%	-1.7%	0.0%	8.6%	0.0%	0.0%	0.0%	0.0%
Total Market Demand	441,900	455,200	449,300	449,200	490,200	490,200	490,200	490,200	490,200
Growth Over Prior Year	N/A	3.0%	-1.3%	0.0%	9.1%	0.0%	0.0%	0.0%	0.0%
Market Occupancy	75%	76%	75%	75%	75%	75%	75%	75%	75%
Source: PKF Consulting USA									

PROJECTED MARKET PERFORMANCE OF THE SUBJECT HOTEL

Penetration Analysis

Our estimates of occupancy are based on our survey of competitive hotels, an analysis of the segmentation of demand in the market area, and our assessment of the subject properties' market position. The "penetration rate" of a hotel is the percentage of room nights captured relative to the property's "fair share." The hotel's "fair share" is determined by dividing the subject property's number of guest rooms by the total number of guest rooms in the competitive market (including the subject property). Factors indicating a hotel would possess competitive advantages suggest a market penetration in excess of 100 percent of fair market share, while competitive weaknesses are reflected in penetration rates of less than 100 percent. However, other factors besides competitive weaknesses could result in penetrations of less than 100 percent. The actual penetration of each market segment by the subject property may deviate from fair market share for the following reasons:

- The competitive advantages or disadvantages of the subject hotel versus the competition taking into consideration such factors as location, room rate structure, room size, quality and extent of amenities offered, chain affiliation, quality of management, marketing efforts and image;
- The characteristics, composition and needs of each market segment;
- The restraint on demand captured due to capacity constraints during certain periods of the week or season, or due to the accommodation of certain market segments; and,
- Management decisions concerning target markets.

Estimated occupancy levels for the subject hotel have been projected on the basis of a penetration analysis. Our estimate of the subject hotel's performance utilizes a January 1, 2015 opening date.

Penetration of Subject Hotel

Our estimates of the subject hotel's penetration by each segment of demand for each of the room count scenarios are presented in the paragraphs below.

78-Room Hotel

Corporate Demand

Corporate travelers in this market select hotel accommodations based on room and overall hotel amenities, location relative to their destination, and area amenities. Although there is not a large corporate base in the Balboa Peninsula, we anticipate the subject will achieve its fair share of demand of this segment based on the subject's proposed facilities and amenities and proximity to the commercial districts that generate corporate demand for the area. The subject is located close to Hoag Hospital and within a short drive of the

commercial demand generators of the area. Further, with its proximity to the beach, it represents an attractive offering for commercial travelers that want to stay closer to the leisure areas. We project the subject to obtain a 100 percent penetration of the corporate segment upon opening in 2015 and remain at this level for the remainder of our projection period.

Leisure Demand

Leisure travelers are concerned with the hotel's proximity to area leisure attractions. Room size is also an important consideration for the leisure traveler as it balances with the hotel's amenities and orientation. Located within blocks to the beach in Balboa Peninsula and within a lively, pedestrian friendly neighborhood, the subject is expected to over-penetrate the leisure market segment.

We project the subject to obtain a 130 percent penetration of the leisure segment upon opening in 2015. We project the subject's penetration of this segment to increase to 140 percent in 2016 and further increase to 155 percent in 2017 and stabilize at this level for the remainder of the projection period.

Group Demand

Group demand consists of travelers who book blocks of rooms exceeding ten rooms per night. The purpose of the group traveler's visit is to meet with other members of a corporate, leisure, or association group to further the group's goals. These travelers often require meeting space at the hotels in which they are staying. The subject property will include approximately 3,900 square feet of indoor meeting space which will allow it to cater to small and medium-sized groups. We have estimated that the subject will penetrate the group market at 30 percent in 2015, increase to 35 percent in 2016 and stabilize at this level for the remainder of the projection period. Although below its fair share, this still allows the subject to capture a reasonable portion of the market's group room nights given its proposed meeting and event facilities.

Overall Mix, Penetration, and Occupancy

The estimated stabilized market mix and penetration for the proposed 78-room hotel are presented in the following table.

Proposed Newport Beach Hotel (78 Rooms)			
Stabilized Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
Corporate	6,800	31%	100%
Leisure	12,700	59	155
Group	2,200	10	35
Total	21,700	100%	102%
Source: PKF Consulting			

Combining our estimates of the three penetration rates for the proposed hotel, we estimate that the subject property will achieve below its fair share of market demand upon its opening in 2015, with the penetration rate estimated at 91 percent. This equates to an

occupancy level of 68 percent during its first year of operation. By the second year of operation, the subject's penetration rate is expected to increase to 96 percent of its fair share, equal to an occupancy of 72 percent in 2016. The following year the subject is projected to achieve 102 percent penetration as occupancy is estimated to increase to 76 percent. The subject is expected to remain at this level of occupancy of 76 percent and 102 percent penetration rate for the remainder of our projection period.

The following table sets forth projected penetration for the subject from 2015 through 2019.

Proposed Hotel Newport Beach (78 Rooms) Market Penetration and Projected Occupancy					
	2015	2016	2017	2018	2019
TOTAL ROOMS AVAILABLE					
Proposed Hotel Newport Beach	28,470	28,470	28,470	28,470	28,470
Competitive Market	627,435	627,435	627,435	627,435	627,435
	=====	=====	=====	=====	=====
Fair Share of Supply	4.5%	4.5%	4.5%	4.5%	4.5%
	=====	=====	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND					
Commercial	150,100	150,100	150,100	150,100	150,100
Leisure	180,600	180,600	180,600	180,600	180,600
Group	139,900	139,900	139,900	139,900	139,900
	-----	-----	-----	-----	-----
TOTAL	470,600	470,600	470,600	470,600	470,600
	-----	-----	-----	-----	-----
FAIR SHARE OF DEMAND					
Commercial	6,800	6,800	6,800	6,800	6,800
Leisure	8,200	8,200	8,200	8,200	8,200
Group	6,300	6,300	6,300	6,300	6,300
	-----	-----	-----	-----	-----
TOTAL	21,300	21,300	21,300	21,300	21,300
	-----	-----	-----	-----	-----
SUBJECT PENETRATION					
Commercial	100%	100%	100%	100%	100%
Leisure	130%	140%	155%	155%	155%
Group	30%	35%	35%	35%	35%
	-----	-----	-----	-----	-----
ROOM NIGHTS CAPTURED					
Commercial	6,800	6,800	6,800	6,800	6,800
Leisure	10,700	11,500	12,700	12,700	12,700
Group	1,900	2,200	2,200	2,200	2,200
	-----	-----	-----	-----	-----
TOTAL CAPTURED DEMAND	19,400	20,500	21,700	21,700	21,700
	=====	=====	=====	=====	=====
MARKET SHARE CAPTURED	4.1%	4.4%	4.6%	4.6%	4.6%
OVERALL MARKET PENETRATION	91%	96%	102%	102%	102%
	-----	-----	-----	-----	-----
SUBJECT OCCUPANCY	68%	72%	76%	76%	76%
	-----	-----	-----	-----	-----
MARKET MIX					
Commercial	35%	33%	31%	31%	31%
Leisure	55%	56%	59%	59%	59%
Group	10%	11%	10%	10%	10%
	-----	-----	-----	-----	-----
TOTAL	100%	100%	100%	100%	100%
	=====	=====	=====	=====	=====
Source: PKF Consulting USA					

100-Room Hotel

Corporate Demand

Under the 100-room scenario, we project the subject to obtain a 95 percent penetration of the corporate segment upon opening in 2015, increasing its penetration of this segment to 100 percent in 2016 and remaining at this level for the remainder of our projection period.

Leisure Demand

We project the subject to obtain a 128 percent penetration of the leisure segment upon opening in 2015. We project the subject's penetration of this segment to increase to 135 percent in 2016 and further increase to 148 percent in 2017 and stabilize at this level for the remainder of the projection period.

Group Demand

We have estimated that with 100 rooms, the subject will penetrate the group market at 30 percent in 2015 and increase to 32 percent in 2016. In 2017, we project the subject's penetration of this segment to increase to 35 percent and stabilize at this level for the remainder of the projection period. Although below its fair share, this still allows the subject to capture a reasonable portion of the market's group room nights given its proposed meeting and event facilities, which will include approximately 5,000 square feet of meeting space.

Overall Mix, Penetration, and Occupancy

The estimated stabilized market mix and penetration for the proposed 100-room hotel are presented in the following table.

Proposed Newport Beach Hotel (78 Rooms)			
Stabilized Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
Commercial	8,700	32%	100%
Leisure	15,500	57	148
Group	2,900	11	35
Total	27,200	100%	99%
Source: PKF Consulting			

Combining our estimates of the three penetration rates for the proposed hotel, we estimate that the subject property will achieve below its fair share of market demand upon its opening in 2015, with the penetration rate estimated at 88 percent. This equates to an occupancy level of 66 percent during its first year of operation. By the second year of operation, the subject's penetration rate is expected to increase to 93 percent of its fair share, equal to an occupancy of 70 percent in 2016. The following year the subject is projected to achieve 99 percent penetration as occupancy is estimated to increase to 75 percent. The subject is expected to remain at this level of occupancy of 75 percent and 99 percent penetration for the remainder of our projection period.

The following table sets forth projected penetration for the subject from 2015 through 2019.

Proposed Hotel Newport Beach (100 Rooms) Market Penetration and Projected Occupancy					
	2015	2016	2017	2018	2019
TOTAL ROOMS AVAILABLE					
Proposed Hotel Newport Beach	36,500	36,500	36,500	36,500	36,500
Competitive Market	635,465	635,465	635,465	635,465	635,465
	=====	=====	=====	=====	=====
Fair Share of Supply	5.7%	5.7%	5.7%	5.7%	5.7%
	=====	=====	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND					
Commercial	151,900	152,000	152,000	152,000	152,000
Leisure	182,900	182,900	182,900	182,900	182,900
Group	141,700	141,800	141,800	141,800	141,800
	=====	=====	=====	=====	=====
TOTAL	476,500	476,700	476,700	476,700	476,700
	=====	=====	=====	=====	=====
FAIR SHARE OF DEMAND					
Commercial	8,700	8,700	8,700	8,700	8,700
Leisure	10,500	10,500	10,500	10,500	10,500
Group	8,100	8,100	8,100	8,100	8,100
	=====	=====	=====	=====	=====
TOTAL	27,300	27,300	27,300	27,300	27,300
	=====	=====	=====	=====	=====
SUBJECT PENETRATION					
Commercial	95%	100%	100%	100%	100%
Leisure	128%	135%	148%	148%	148%
Group	30%	32%	35%	35%	35%
	=====	=====	=====	=====	=====
ROOM NIGHTS CAPTURED					
Commercial	8,300	8,700	8,700	8,700	8,700
Leisure	13,400	14,200	15,600	15,600	15,600
Group	2,400	2,600	2,900	2,900	2,900
	=====	=====	=====	=====	=====
TOTAL CAPTURED DEMAND	24,100	25,500	27,200	27,200	27,200
	=====	=====	=====	=====	=====
MARKET SHARE CAPTURED	5.1%	5.3%	5.7%	5.7%	5.7%
OVERALL MARKET PENETRATION	88%	93%	99%	99%	99%
	=====	=====	=====	=====	=====
SUBJECT OCCUPANCY	66%	70%	75%	75%	75%
	=====	=====	=====	=====	=====
MARKET MIX					
Commercial	34%	34%	32%	32%	32%
Leisure	56%	56%	57%	57%	57%
Group	10%	10%	11%	11%	11%
	=====	=====	=====	=====	=====
TOTAL	100%	100%	100%	100%	100%
	=====	=====	=====	=====	=====
Source: PKF Consulting USA					

150-Room Hotel

Corporate Demand

Under the 100-room scenario, we project the subject to obtain a 100 percent penetration of the corporate segment upon opening in 2015 and remain at this level for the remainder of our projection period.

Leisure Demand

We project the subject to obtain a 100 percent penetration of the leisure segment upon opening in 2015. We project the subject's penetration of this segment to increase to 115 percent in 2016 and further increase to 133 percent in 2017 and stabilize at this level for the remainder of the projection period.

Group Demand

We have estimated that with 150 rooms, the subject will penetrate the group market at 40 percent in 2015 and increase to 45 percent in 2016 and stabilize at this level for the remainder of the projection period. With the larger room count, the property is also expected to provide more meeting space, therefore capturing a larger portion of the market's group room nights given its proposed meeting and event facilities, which will include approximately 7,500 square feet of meeting space.

Overall Mix, Penetration, and Occupancy

The estimated stabilized market mix and penetration for the proposed 150-room hotel are presented in the following table.

Proposed Newport Beach Hotel (78 Rooms)			
Stabilized Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
Commercial	13,100	33%	100%
Leisure	20,900	53	133
Group	5,500	14	45
Total	39,300	100%	96%
Source: PKF Consulting			

Combining our estimates of the three penetration rates for the proposed hotel, we estimate that the subject property will achieve below its fair share of market demand upon its opening in 2015, with the penetration rate estimated at 82 percent. This equates to an occupancy level of 62 percent during its first year of operation. By the second year of operation, the subject's penetration rate is expected to increase to 89 percent of its fair share, equal to an occupancy of 67 percent in 2016. The following year the subject is projected to achieve 96 percent penetration as occupancy is estimated to increase to 72 percent. The subject is expected to remain at this level of occupancy of 72 percent and 96 percent penetration for the remainder of our projection period.

The following table sets forth projected penetration for the subject from 2015 through 2019.

Proposed Hotel Newport Beach Market Penetration and Projected Occupancy					
	2015	2016	2017	2018	2019
TOTAL ROOMS AVAILABLE					
Proposed Hotel Newport Beach	54,750	54,750	54,750	54,750	54,750
Competitive Market	653,715	653,715	653,715	653,715	653,715
	=====	=====	=====	=====	=====
Fair Share of Supply	8.4%	8.4%	8.4%	8.4%	8.4%
	=====	=====	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND					
Commercial	156,900	156,900	156,900	156,900	156,900
Leisure	187,700	187,700	187,700	187,700	187,700
Group	145,600	145,600	145,600	145,600	145,600
	=====	=====	=====	=====	=====
TOTAL	490,200	490,200	490,200	490,200	490,200
	=====	=====	=====	=====	=====
FAIR SHARE OF DEMAND					
Commercial	13,100	13,100	13,100	13,100	13,100
Leisure	15,700	15,700	15,700	15,700	15,700
Group	12,200	12,200	12,200	12,200	12,200
	=====	=====	=====	=====	=====
TOTAL	41,000	41,000	41,000	41,000	41,000
	=====	=====	=====	=====	=====
SUBJECT PENETRATION					
Commercial	100%	100%	100%	100%	100%
Leisure	100%	115%	133%	133%	133%
Group	40%	45%	45%	45%	45%
	=====	=====	=====	=====	=====
ROOM NIGHTS CAPTURED					
Commercial	13,100	13,100	13,100	13,100	13,100
Leisure	15,700	18,100	20,900	20,900	20,900
Group	4,900	5,500	5,500	5,500	5,500
	=====	=====	=====	=====	=====
TOTAL CAPTURED DEMAND	33,700	36,700	39,500	39,500	39,500
	=====	=====	=====	=====	=====
MARKET SHARE CAPTURED	6.9%	7.5%	8.1%	8.1%	8.1%
OVERALL MARKET PENETRATION	82%	89%	96%	96%	96%
	=====	=====	=====	=====	=====
SUBJECT OCCUPANCY	62%	67%	72%	72%	72%
	=====	=====	=====	=====	=====
MARKET MIX					
Commercial	39%	36%	33%	33%	33%
Leisure	47%	49%	53%	53%	53%
Group	15%	15%	14%	14%	14%
	=====	=====	=====	=====	=====
TOTAL	100%	100%	100%	100%	100%
	=====	=====	=====	=====	=====
Source: PKF Consulting USA					

AVERAGE DAILY RATE

Competitive Market

We have also estimated the average daily rate (ADR) of the competitive market based upon our analysis of the historical rates achieved, interviews with management of the competitive properties, the anticipated impact of the new supply entering the market, and the changing economic conditions.

Following three years of decline, the competitive market finished 2011 with a 4.1 percent increase in average daily rate (ADR), resulting in a market average daily rate of \$162.03. We have estimated that the average daily rate will grow at above inflationary levels in 2012, 2013, and 2014. We project that from 2015 and thereafter, the market ADR will grow at the general level of inflation, or 3.0 percent.

Based on the foregoing analysis, the following tables summarizes our estimates of future supply, accommodated demand, occupancy, average daily rate, and RevPAR for the competitive market from 2012 to 2019.

Projected Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2012	598,965	1.2%	455,200	3.0%	76%	\$168.00	3.7%	\$127.68	5.6%
2013	598,965	0.0	449,300	-1.3	75	176.00	4.8	132.02	3.4
2014	598,965	0.0	449,200	0.0	75	183.00	4.0	137.24	4.0
2015	627,435	4.8	470,600	4.8	75	190.00	3.8	142.51	3.8
2016	627,435	0.0	470,600	0.0	75	196.00	3.2	147.01	3.2
2017	627,435	0.0	470,600	0.0	75	203.00	3.6	152.26	3.6
2018	627,435	0.0	470,600	0.0	75	208.00	2.5	156.01	2.5
2019	627,435	0.0	470,600	0.0	75	215.00	3.4	161.26	3.4
CAAG	0.7		0.5			3.6		3.4	

Source: PKF Consulting USA

Average Daily Rate and Yield for the Subject

Our derivation of the average daily rate for the subject property in a stabilized year of operation is based on the historical average daily rates achieved by the market and information concerning the other hotel properties in the competitive supply. Considerations were also given to the comparison of the other competitive properties with the subjects in terms of quality of facility, location, and mix of demand.

78-Room Hotel

The subject is anticipated to be an upscale boutique hotel with an attractive design. Based on this and comparable properties in similar markets, we have estimated that the subject will achieve an opening average daily rate of \$240.00 in 2013. In consideration of the proposed amenities and facilities of the subject, as well as its expected positioning in the market, we find this rate reasonable, placing the subject above the competitive market average but within the range that the higher rates properties in the competitive set have achieved in the past. Although rates suffered declined over the 2008-2010 period due to

hoteliers lowering rates to increase demand, these rates have begun to bounce back and are expected to continue to increase in the near term. This rate is expected to increase at a compound average annual rate of 3.0 percent throughout our projections. This opening rate equates to a stabilized average daily room rate of \$220.00 stated in 2012 dollars.

The following table outlines our estimates of average daily rate and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel (78 Rooms)											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2015	28,470	N/A	19,400	N/A	68%	\$240.00	3.0%	\$163.54	N/A	91%	115%
2016	28,470	0.0%	20,500	5.7%	72	248.00	3.0	178.57	9.2%	96	121
2017	28,470	0.0	21,700	5.9	76	255.00	3.0	194.36	8.8	102	128
2018	28,470	0.0	21,700	0.0	76	263.00	3.0	200.46	3.1	102	128
2019	28,470	0.0	21,700	0.0	76	271.00	3.0	206.56	3.0	102	128
CAAG	0.0%		2.8%			3.1%		6.0%			

Source: PKF Consulting USA

100-Room Hotel

Based on the subject's design, larger room count, and comparable properties in similar markets, we have estimated that with 100 rooms the subject will achieve an opening average daily rate of \$229.00 in 2015. This rate places the subject above the competitive market average but within the range that the higher rates properties in the competitive set have achieved in the past. We find this reasonable for the reasons expressed above. This rate is expected to increase at a compound average annual rate of 3.0 percent throughout our projections. This opening rate equates to a stabilized average daily room rate of \$210.00 stated in 2012 dollars.

The following table outlines our estimates of average daily rate and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2015	36,500	N/A	24,100	N/A	66%	\$229.00	3.0%	\$151.20	N/A	88%	106%
2016	36,500	0.0%	25,500	5.8%	70	236.00	3.0	164.88	9.0%	93	112
2017	36,500	0.0	27,200	6.7	75	243.00	3.0	181.08	9.8	99	120
2018	36,500	0.0	27,200	0.0	75	251.00	3.0	187.05	3.3	99	120
2019	36,500	0.0	27,200	0.0	75	258.00	3.0	192.26	2.8	99	119
CAAG	0.0%		3.1%			3.0%		6.2%			

Source: PKF Consulting USA

150-Room Hotel

With 50 percent more rooms than the previous scenario, we have estimated that with 150 rooms the subject will achieve an opening average daily rate of \$213.00 in 2015. This rate still places the subject above the competitive market average but within the range that the

higher rates properties in the competitive set have achieved in the past. We find this reasonable for the reasons expressed above. Even at 150 rooms, the subject property is significantly smaller than some of the hotels in the competitive market. This rate is expected to increase at a compound average annual rate of 3.0 percent throughout our projections. This opening rate equates to a stabilized average daily room rate of \$195.00 stated in 2012 dollars.

The following table outlines our estimates of average daily rate and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel (150 Rooms)											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2015	54,750	N/A	33,700	N/A	62%	\$213.00	3.0%	\$131.11	N/A	82%	92%
2016	54,750	0.0%	36,700	8.9%	67	219.00	3.0	146.80	12.0%	89	100
2017	54,750	0.0	39,500	7.6	72	226.00	3.0	163.05	11.1	96	108
2018	54,750	0.0	39,500	0.0	72	233.00	3.0	168.10	3.1	96	108
2019	54,750	0.0	39,500	0.0	72	240.00	3.0	173.15	3.0	96	108
CAAG	0.0%		4.0%			3.0%		7.2%			

Source: PKF Consulting USA

Section V

STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

BASIS OF PROJECTIONS

To prepare estimates of future operating results for the proposed subject hotel as of January 1, 2015, the starting point or basis is the best estimate of results that could be achieved with good management in a representative year or stabilized market, calculated in 2012 dollars.

We estimate that during a representative year, the 78-room property could achieve a stabilized occupancy of 76 percent at an average daily room rate of \$220.00, stated in 2012 dollars. We estimate that the 100-room property could achieve a stabilized occupancy of 75 percent at an average daily room rate of \$210.00, stated in 2012 dollars. Further, we estimate that during a representative year, the 150-room property could achieve a stabilized occupancy of 72 percent at an average daily room rate of \$195.00, stated in 2012 dollars. From this base, we considered the effects of inflation, development, and occupancy levels for the projection period starting January 1, 2015 through December 31, 2024, reflecting ten years of operation. The projections are presented on a calendar year basis and the underlying rationale and assumptions used in preparing these estimates are presented in this section.

The estimates of revenues, costs and expenses are based on the proposed facilities and services and the operational characteristics thereof. The basis for our projections is the operating results of lodging properties with similar characteristics that are believed to operate with efficient management and proper control over costs and expenses.

The estimated annual operating results were first estimated for the 78 room hotel. Results for the 100 and 150 room hotel sizes were estimated based on both a new comparable hotel set at the respective sizes and the economies of scale based on increased size from the 78 room level.

78-ROOM HOTEL

The *Uniform System of Accounts for Hotels*, recommended by the American Hotel and Motel Association and utilized throughout the industry, has been used in the classification of income and expenses for this report. In conformity with this system of account classifications, only direct operating expenses are charged to the operating departments of the subject. The general overhead items that are applicable to operations as a whole are classified as deductions from income and include administrative and general expenses, marketing expenses, utility costs, and property operations and maintenance. Additional costs for management fees, fixed charges, which include real estate taxes and insurance, and reserves for replacement are deducted to derive at the net operating income.

Income and Expense Estimates

Data from the following sources have been used as a basis for the income and expense estimates.

- The market performance (average daily rate and occupancy levels) of the competitive hotels to the subject; and,
- Comparable data from five 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".)

Operating Statistics of Comparable Hotels

An analysis was performed on the operating results of five similarly sized mid-level full-service hotels located within Southern California. All are considered to be comparable with the proposed subject property. The comparable properties range in size from 82 rooms to 119 rooms, with an average room count of 102 rooms. Together these hotels had a composite occupancy of 80.4 percent and an average daily rate of \$197.64. The statistical information is taken from actual financials for the comparable hotels for the most recent calendar year available. For reasons of confidentiality, we cannot disclose the identity of the comparable hotels.

The following pages contain the operating results of the comparable hotels as mentioned above.

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
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
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

REPRESENTATIVE YEAR ESTIMATE

Presented in the following text is a brief discussion of the basis used in developing our estimate of the Representative Year Operating Statement for the subject. A “representative year” illustrates the hotel’s performance as if it were at a stabilized occupancy today, after the anticipated real growth in room rate, with all revenues and expenses expressed in current value dollars.

Departmental Revenues and Expenses

In the Uniform System of Accounts, revenue to the facility is categorized by the department from which it is derived. In the case of the subject, this includes income from rooms, food and beverage, other operated departments, and the category of rentals and other income. In the Uniform System of Accounts, only direct operating expenses associated with each department are charged to the operating departments. General overhead items which are applicable to the overall operation of the facility are classified as undistributed operating expenses.

Rooms Department

Rooms revenue is based on the number of occupied rooms multiplied by the average daily room rate for each of the subject’s first ten years as presented in this report. As indicated in our previous analysis, we have estimated the stabilized average rate of the subject to be \$220.00, stated in 2012 dollars. Stabilized occupancy is estimated at 76 percent; therefore, gross rooms revenue in a representative year is calculated as follows:

$$78 \text{ rooms} \times 365 \text{ days} \times 76\% \text{ occupancy} \times \$220.00/\text{day} = \$4,760,000 \text{ (rounded)}$$

The following table summarizes the average daily room rates, occupancies, and rooms revenues estimated for the projection period.

Estimated Rooms Revenue			
Year	Average Daily Rate	Annual Occupancy	Rooms Revenue
2015	\$240.00	68.0%	\$4,646,000
2016	248.00	72.0	5,084,000
2017	255.00	76.0	5,518,000
2018	263.00	76.0	5,691,000
2019	271.00	76.0	5,864,000
2020	279.00	76.0	6,038,000
2021	287.00	76.0	6,211,000
2022	296.00	76.0	6,405,000
2023	305.00	76.0	6,600,000
2024	314.00	76.0	6,795,000

Rooms Expense

Rooms expense consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservation costs, uniforms, contract services, and other items related to the rooms

department. The comparable hotels had rooms expenses ranging from \$45.50 to \$51.76 per occupied room (POR), with ratios to rooms revenue ranging from 23.1 percent to 26.8 percent. In a representative year, we estimate a rooms expense of \$54.00 per occupied room, or a ratio to rooms revenue of 24.5 percent. This incorporates the projected services and amenities at the property, and is within the range of comparables on a ratio to total revenue basis.

	Rooms Expense	
	Per Occupied Room	Ratio to Rms Revenue
<u>Comparables</u>		
A	\$51.76	26.8%
B	49.62	23.6%
C	51.36	26.2%
D	47.05	24.7%
E	45.40	23.1%
Weighted Average	49.21	24.9%
Subject Stabilized Year	\$54.00	24.5%

Food and Beverage Revenue and Expense

Food and Beverage revenue is typically generated by the sale of meals to both hotel guests and outside patrons in the restaurants and lounges; room service; banquet revenues, including banquet room and audio/visual rental income; and other associated revenues.

	Food & Beverage Revenue	
	Total Amount	Per Occupied Room
<u>Comparables</u>		
A	\$956,478	\$33.67
B	859,365	26.12
C	2,208,931	64.20
D	459,890	15.71
E	2,510,925	99.75
Weighted Average	N/A	46.59
Subject Stabilized Year	\$1,839,000	\$85.00

Food and beverage revenue will vary depending on the number of food and beverage outlets, and the amount of meeting space. Food and beverage revenue at the subject will be generated from the three-meal restaurant and rooftop lounge as well as meetings and special events held at the hotel. The comparable properties ranged in food and beverage revenue from \$15.71 to \$99.75 per occupied room. Based on the assumed restaurant and meeting facilities proposed for the subject, we project food and beverage revenue of approximately \$85.00 per occupied room. This equates to a total food and beverage revenue of approximately \$1,839,000 for the subject during a stabilized year, stated in 2012 dollars. This is considered reasonable as the subject's food and beverage facilities will attract both hotel guests and locals. This is also within the range of the comparables on a per occupied room basis.

Food and Beverage expense includes the cost of food and beverages, payroll and related expenses, and other items such as laundry, linen, china, glassware, silverware, uniform costs, supplies, and other miscellaneous items.

Food & Beverage Expense	
Comparables	Ratio to F&B Rev.
A	87.3%
B	95.4%
C	81.6%
D	89.7%
E	73.9%
Weighted Average	81.9%
Subject Stabilized Year	78.0%

We estimate the subject to achieve an 78.0 percent food and beverage margin for a stabilized year of operation, which is reasonable given our assumptions of the subject's food and beverage facilities and is within the range of the comparables.

Other Revenue and Expense

Other Operated Departments can vary significantly among the comparable properties and the subject depending on the nature of the additional revenue generators. Other operated department revenue is typically generated from guest laundry, business center, health spa, and/or other recreational amenities. Other operated departments at the subject property will include guest services, parking, business services, telecommunications revenue, in room movies, and other miscellaneous income.

Other operated departments revenue at the comparable hotels ranged from \$5.50 to \$21.05 per occupied room. Based upon the various components of this line item, we have estimated the income for the subject to be approximately \$15.00 per occupied room in a representative year of operations, which is within the range of the comparables.

Other Operated Departments Revenue	
Comparables	Per Occupied Room
A	\$15.26
B	21.05
C	16.94
D	5.50
E	6.38
Weighted Average	13.52
Subject Stabilized Year	\$15.00

Other Operated Departments expenses that are associated with these departments include payroll costs, employee benefits, and other operating supplies. The comparables' other operating expenses ranged from a 20.4 percent to a 40.8 percent expense ratio. For a representative year of operations, we have estimated expenses at approximately 55.0 percent of revenues, which is considered reasonable given the anticipated sources of other operated departments revenue at the subject property.

Other Operated Departments Expense	
	Ratio to O.O.D. Rev.
<u>Comparables</u>	
A	31.9%
B	20.4%
C	37.0%
D	31.0%
E	40.8%
Weighted Average	30.1%
Subject Stabilized Year	55.0%

Rentals and Other Income

Rentals and Other Income generally reflects the net revenues associated with the rental of offices and stores, concessions, commissions, cash discounts earned, forfeited advance deposits, service charges, interest income, cancellation charges and other.

Rentals and other income in the comparable properties ranged from \$0.10 to \$1.08. Based on this, and our assumptions of the subject's facilities, we have estimated rentals and other income revenue of \$2.50 per occupied room for the subject on a representative year of operation. This is higher than the comparables but it is considered reasonable given the subject's proposed facilities.

Rentals and Other Income		
	Per Occupied Room	Per Day
<u>Comparables</u>		
A	\$0.00	\$0
B	1.08	98
C	0.10	9
D	0.55	44
E	0.75	52
Weighted Average	0.61	41
Subject Stabilized Year	\$2.50	\$148

Undistributed Operating Expenses

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses include administrative and general, franchise fees, marketing, property operations and maintenance, and energy and utilities. These expenses are relatively unaffected by fluctuations in occupancies and ADR. Excluding management fees, which are a fixed percentage based on a contract agreement and market parameters, these expenses are analyzed primarily on a dollar amount per available room (PAR) basis.

Administrative and General

Expenses in this category include salaries and wages associated with the operation of the administrative function of the property, cash overages and shortages, credit card commissions, bad debt expense, information systems, donations, dues and subscriptions, human resources, loss and damage, security, executive office expenses, professional fees,

travel reimbursements, and supplies. The administrative and general expense of the comparable hotels ranged from \$6,770 to \$11,672 per available room, or 9.0 to 13.7 percent of revenue. We have estimated an administrative and general expense of \$8,289 per available room for the subject in a representative year, or 9.3 percent of total revenues. This includes a \$6,500 expense per available room and an additional 2.0 percent of total revenues for credit card commissions. This is within the range of comparables on a per available room and ratio to total revenue basis.

Administrative and General		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$7,796	11.2%
B	6,770	9.0%
C	7,447	9.3%
D	8,594	13.7%
E	11,672	12.5%
Weighted Average	8,264	10.9%
Subject Stabilized Year	\$8,289	9.3%

Marketing

This account is charged with all costs incurred in the connection with the creation and maintenance of the image of the hotel and the development, promotion, and furtherance of business whether paid for in cash or in hotel trade. This includes the cost of print advertising, the printing of brochures, salaries, wages, and benefits associated with sales and marketing personnel, franchise fees, and other costs associated with sales and promotional programs. The comparable properties ranged from \$2,052 to \$4,485 per available room. The weighted average for marketing expense for the comparable hotels was \$3,751 per available room, or 5.0 percent of total revenue. We estimate marketing costs of approximately \$3,800 per available room in a representative year. This is within the range of comparables on per available room and ratio to total revenue basis and close to the weighted average.

Marketing		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$2,052	3.0%
B	2,504	3.3%
C	4,485	5.6%
D	4,383	7.0%
E	5,693	6.1%
Weighted Average	3,751	5.0%
Subject Stabilized Year	\$3,800	4.2%

Property Operations and Maintenance

This category includes the maintenance of the building, grounds and landscape, electrical and mechanical equipment, salaries, wages, and benefits of the engineering department staff, refrigeration, operating supplies, cleaning, waste removal and uniforms. The comparable properties ranged from \$2,426 to \$3,332 per available room. We estimate

maintenance expenditures for the subject at \$3,000 per available room in a representative year, which is within the range of the comparables on a per available room and ratio to total revenue basis.

Property Operation and Maintenance		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$2,756	4.0%
B	3,332	4.4%
C	2,426	3.0%
D	2,567	4.1%
E	3,024	3.2%
Weighted Average	2,813	3.7%
Subject Stabilized Year	\$3,000	3.4%

Energy and Utility Costs

Energy and utility costs include electric, fuel, steam, water, and sewer charges. The cost of utilities at the comparable hotel properties ranged from \$1,390 to \$2,710 per available room. In a representative year we estimate a utility cost of \$1,800 per available room in 2012 dollars. We find this number reasonable, as utility costs are property and location specific. Further, it is within the range of the comparables on a per available room and ratio to total revenue basis.

Utility Costs		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$2,147	3.1%
B	1,390	1.8%
C	1,533	1.9%
D	2,102	3.4%
E	2,710	2.9%
Weighted Average	1,918	2.5%
Subject Stabilized Year	\$1,800	2.0%

Fixed Charges

Management Fees

A management fee is an expense item representing the value of the management services. It is a variable operating expense normally expressed as a percentage of total revenues. Based on comparable hotels and industry standards, we have utilized a management fee of 3.0 percent of total revenues. This equates to a representative year expense of \$209,000.

Property Taxes

The subject property is assessed by the Orange County tax assessor's office. The current method of taxation of real property in California is mandated by the Jarvis-Gann Property Tax Initiative, known as Proposition 13, under which real estate taxes were reduced to one percent of the property's full market value as of the 1975/76 fiscal year, plus any voter-approved bond indebtedness. Proposition 13 limits real estate taxes to a 2.0 percent annual increase except upon sale or major alteration of the property. In either of these two events,

the property is re-appraised to current market value, usually as evidenced by the sales price or the construction cost. For the purposes of this market study, we have used the tax estimate of 1.1 percent of the hotel's estimated construction cost. We were not provided with total construction cost. Therefore, based on our knowledge of average construction cost for similar properties, we have assumed an estimated construction cost of \$280,000 per room. This equates to an estimated property tax of \$226,000 in a representative year.

Insurance

Insurance for liability and building and contents is estimated to be \$290 per available room in a representative year of operation, primarily based on our analysis of comparable hotel properties in Southern California and the specific attributes of the proposed subject. The subject's projected insurance expense is also within the range of the comparable hotels detailed in the table below.

Insurance	
Comparables	Per Available Room
A	\$250
B	326
C	1,233
D	177
E	257
Weighted Average	482
Subject Stabilized Year	\$290

Ground Rent

We understand that the City intends to lease the site to a private developer. Thus, there will be a charge for land rent, which is undetermined at this time.

Reserves for Replacement

An additional item not typically listed on an owner's income statement is the amount required for the periodic replacement of certain short-lived items such as carpeting, draperies, and other furniture, fixtures and equipment. We have estimated a reserve for replacements as detailed in the following table. Since the subject property is expected to open in January 1, 2015, we have projected a ramp-up in reserves for replacement from 2.0 percent in 2015, to 3.0 percent in 2016, and thereafter stabilizing at 4.0 percent of hotel related revenue in 2017.

Schedule of Reserves for Replacement	
Year	Reserve Percentage of Total Revenue
2015	2.0%
2016	3.0
2017	4.0
2018	4.0
2019	4.0

REPRESENTATIVE YEAR OPERATING STATEMENT

The following presents our estimates of annual operating results for the subject property in a representative year in 2012 dollars based on the aforementioned analysis.

**Proposed Newport Beach Hotel
(78 Rooms)**

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**

ESTIMATED ANNUAL OPERATING RESULTS

The previous analysis provided for the income and expenses incurred in the operation of the subject in a stabilized year. In the following analysis, we provide estimated income and expenses for the subject during each year of the holding period anticipated for a typical investor. Our estimate of the performance for the subject in the stabilized year is used as a basis for our analysis, considering the effects of inflation, business development, and varying occupancy.

Inflation

To portray price level changes during the holding period, we have assumed an inflation rate of 3.0 percent throughout the projection period. This rate reflects the consensus of several well-recognized economists for the current long-term outlook for the future movement of prices and is consistent with historical inflation rates. All expenses, save for property taxes, are projected to increase at 3.0 percent throughout the holding period. Property taxes are assumed to inflate at 2.0 percent annually in accordance with California's Proposition 13.

It should be noted that inflation is caused by many factors and unanticipated events and circumstances can affect the forecasted rate. Therefore, the estimated operating results computed over the projection period can vary from the actual operating results, and the variations may be material.

The following table summarizes the ten-year statement of operating income and ratio to total revenue of income.

Summary of Estimated Annual Operating Results (78 Rooms)			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2015	\$6,814,000	\$1,931,000	28%
2016	7,449,000	2,208,000	30
2017	8,089,000	2,477,000	31
2018	8,340,000	2,563,000	31
2019	8,592,000	2,643,000	31
2020	8,848,000	2,727,000	31
2021	9,106,000	2,802,000	31
2022	9,386,000	2,897,000	31
2023	9,670,000	2,989,000	31
2024	9,958,000	3,078,000	31

Statement of Estimated Annual Operating Results

Presented on the following pages are the subject property's estimated annual operating results for the calendar years of 2015 through 2024. This time period reflects the first ten years of operation.

Proposed Newport Beach Hotel (78 Rooms) 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	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 Rooms) 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										

100-ROOM HOTEL

The *Uniform System of Accounts for Hotels*, recommended by the American Hotel and Motel Association and utilized throughout the industry, has been used in the classification of income and expenses for this report. In conformity with this system of account classifications, only direct operating expenses are charged to the operating departments of the subject. The general overhead items that are applicable to operations as a whole are classified as deductions from income and include administrative and general expenses, marketing expenses, utility costs, and property operations and maintenance. Additional costs for management fees, fixed charges, which include real estate taxes and insurance, and reserves for replacement are deducted to derive at the net operating income.

Income and Expense Estimates

Data from the following sources have been used as a basis for the income and expense estimates.

- The market performance (average daily rate and occupancy levels) of the competitive hotels to the subject; and,
- Comparable data from five 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".)

Operating Statistics of Comparable Hotels

An analysis was performed on the operating results of five similarly sized high-quality extended-stay hotels located within Southern California and similar markets in the United States. All are considered to be comparable with the proposed subject property. The comparable properties range in size from 99 rooms to 121 rooms, with an average room count of 110 rooms. Together these hotels had a composite occupancy of 80.0 percent and an average daily rate of \$195.31. The statistical information is taken from actual financials for the comparable hotels for the most recent calendar year available. For reasons of confidentiality, we cannot disclose the identity of the comparable hotels.

The following pages contain the operating results of the comparable hotels as mentioned above.

Proposed Newport Beach Hotel (100 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 (100 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	89.7%	\$56,287	\$190.37	77.8%	\$57,006	\$195.31
Food & Beverage	22.4%	17,065	57.62	7.4%	4,645	15.71	16.2%	11,887	40.72
Other Operated Departments	4.9%	3,720	12.56	2.6%	1,625	5.50	5.7%	4,211	14.43
Rentals and Other Income	0.2%	161	0.54	0.3%	163	0.55	0.2%	165	0.56
Total Revenues	100.0%	76,194	257.27	100.0%	62,720	212.13	100.0%	73,239	250.92
Departmental Expenses									
Rooms	27.9%	15,413	52.04	24.7%	13,911	47.05	25.8%	14,723	50.44
Food & Beverage	81.1%	13,844	46.74	89.7%	4,166	14.09	84.7%	10,064	34.48
Other Operated Departments	37.7%	1,402	4.73	31.0%	504	1.70	30.8%	1,298	4.45
Total Departmental Expenses	40.2%	30,658	103.52	29.6%	18,581	62.84	35.6%	26,085	89.37
Departmental Profit	59.8%	45,536	153.75	70.4%	44,139	149.29	64.4%	47,154	161.55
Undistributed Expenses									
Administrative & General	12.1%	9,194	31.04	13.7%	8,594	29.07	10.9%	7,961	27.27
Marketing	7.1%	5,428	18.33	7.0%	4,383	14.82	5.2%	3,830	13.12
Property Operation and Maintenance	4.2%	3,236	10.92	4.1%	2,567	8.68	3.9%	2,874	9.85
Utility Costs	3.2%	2,445	8.26	3.4%	2,102	7.11	2.6%	1,916	6.57
Total Undistributed Operating Expenses	26.6%	20,303	68.55	28.1%	17,645	59.68	22.6%	16,582	56.81
Gross Operating Profit	33.1%	25,233	85.20	42.2%	26,494	89.61	41.7%	30,572	104.74
Base Management Fee	3.5%	2,644	8.93	3.0%	1,870	6.33	3.1%	2,273	7.79
Fixed Expenses									
Property Taxes	3.9%	2,946	9.95	2.4%	1,515	5.12	2.3%	1,656	5.67
Insurance	0.3%	206	0.70	0.3%	177	0.60	0.6%	455	1.56
Total Fixed Expenses	4.1%	3,152	10.64	2.7%	1,692	5.72	2.9%	2,111	7.23
Net Operating Income Before Reserve	25.5%	19,437	65.63	36.6%	22,932	77.56	35.8%	26,188	89.72
Source: PKF Consulting USA									

REPRESENTATIVE YEAR ESTIMATE

Presented in the following text is a brief discussion of the basis used in developing our estimate of the Representative Year Operating Statement for the subject. A “representative year” illustrates the hotel’s performance as if it were at a stabilized occupancy today, after the anticipated real growth in room rate, with all revenues and expenses expressed in current value dollars.

Departmental Revenues and Expenses

In the Uniform System of Accounts, revenue to the facility is categorized by the department from which it is derived. In the case of the subject, this includes income from rooms, food and beverage, other operated departments, and the category of rentals and other income. In the Uniform System of Accounts, only direct operating expenses associated with each department are charged to the operating departments. General overhead items which are applicable to the overall operation of the facility are classified as undistributed operating expenses.

Rooms Department

Rooms revenue is based on the number of occupied rooms multiplied by the average daily room rate for each of the subject’s first ten years as presented in this report. As indicated in our previous analysis, we have estimated the stabilized average rate of the subject to be \$210.00, stated in 2012 dollars. Stabilized occupancy is estimated at 75 percent; therefore, gross rooms revenue in a representative year is calculated as follows:

$$100 \text{ rooms} \times 365 \text{ days} \times 75\% \text{ occupancy} \times \$210.00/\text{day} = \$5,749,000 \text{ (rounded)}$$

The following table summarizes the average daily room rates, occupancies, and rooms revenues estimated for the projection period.

Estimated Rooms Revenue			
Year	Average Daily Rate	Annual Occupancy	Rooms Revenue
2015	\$229.00	66.0%	\$5,517,000
2016	236.00	70.0	6,030,000
2017	243.00	75.0	6,653,000
2018	251.00	75.0	6,872,000
2019	258.00	75.0	7,064,000
2020	266.00	75.0	7,283,000
2021	274.00	75.0	7,502,000
2022	282.00	75.0	7,721,000
2023	291.00	75.0	7,968,000
2024	299.00	75.0	8,187,000

Rooms Expense

Rooms expense consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservation costs, uniforms, contract services, and other items related to the rooms

department. The comparable hotels had rooms expenses ranging from \$47.05 to \$52.04 per occupied room (POR), with ratios to rooms revenue ranging from 23.6 percent to 27.9 percent. In a representative year, we estimate a rooms expense of \$52.00 per occupied room, or a ratio to rooms revenue of 24.8 percent. This incorporates the projected services and amenities at the property, and is within the range of comparables on a POR and ratio to total revenue basis. This is also below the projected rooms expense for the 78-room hotel on a per occupied room basis, as there will be more occupied rooms without the need to increase staff and other expenses significantly.

Comparables	Rooms Expense	
	Per Occupied Room	Ratio to Rms Revenue
A	\$51.76	26.8%
B	49.62	23.6%
C	51.36	26.2%
D	52.04	27.9%
E	47.05	24.7%
Weighted Average	50.44	25.8%
Subject Stabilized Year	\$52.00	24.8%

Food and Beverage Revenue and Expense

Food and Beverage revenue is typically generated by the sale of meals to both hotel guests and outside patrons in the restaurants and lounges; room service; banquet revenues, including banquet room and audio/visual rental income; and other associated revenues.

Comparables	Food & Beverage Revenue	
	Total Amount	Per Occupied Room
A	\$956,478	\$33.67
B	859,365	26.12
C	2,208,931	64.20
D	2,064,813	57.62
E	459,890	15.71
Weighted Average	N/A	40.72
Subject Stabilized Year	\$2,190,000	\$80.00

Food and beverage revenue will vary depending on the number of food and beverage outlets, and the amount of meeting space. As previously mentioned, food and beverage revenue at the subject will be generated from the three-meal restaurant and rooftop lounge as well as meetings and special events held at the hotel. The comparable properties ranged in food and beverage revenue from \$15.71 to \$64.20 per occupied room. Based on the assumed restaurant and meeting facilities proposed for the subject, we project food and beverage revenue of approximately \$80.00 per occupied room. This equates to a total food and beverage revenue of approximately \$2,190,000 for the subject during a stabilized year, stated in 2012 dollars.

Food and Beverage expense includes the cost of food and beverages, payroll and related expenses, and other items such as laundry, linen, china, glassware, silverware, uniform costs, supplies, and other miscellaneous items.

Food & Beverage Expense	
	Ratio to F&B Rev.
<u>Comparables</u>	
A	87.3%
B	95.4%
C	81.6%
D	81.1%
E	89.7%
Weighted Average	84.7%
Subject Stabilized Year	78.0%

We estimate the subject to achieve a 78.0 percent food and beverage margin for a stabilized year of operation, which is reasonable given our assumptions of the subject's food and beverage facilities and is just slightly below the average of the comparables.

Other Revenue and Expense

Other Operated Departments can vary significantly among the comparable properties and the subject depending on the nature of the additional revenue generators. Other operated department revenue is typically generated from guest laundry, business center, health spa, and/or other recreational amenities. Other operated departments at the subject property will include guest services, parking, business services, telecommunications revenue, in room movies, and other miscellaneous income.

Other operated departments revenue at the comparable hotels ranged from \$5.50 to \$21.05 per occupied room. Based upon the various components of this line item, we have estimated the income for the subject to be approximately \$15.00 per occupied room in a representative year of operations, which is within the range of the comparables.

Other Operated Departments Revenue	
	Per Occupied Room
<u>Comparables</u>	
A	\$15.26
B	21.05
C	16.94
D	12.56
E	5.50
Weighted Average	14.43
Subject Stabilized Year	\$15.00

Other Operated Departments expenses that are associated with these departments include payroll costs, employee benefits, and other operating supplies. The comparables' other operating expenses ranged from a 20.4 percent to a 37.7 percent expense ratio. For a representative year of operations, we have estimated expenses at approximately 50.0 percent of revenues. This is above the range of the comparables and is considered reasonable given the subject's anticipated sources of other operated department revenues.

Other Operated Departments Expense	
	Ratio to O.O.D. Rev.
<u>Comparables</u>	
A	31.9%
B	20.4%
C	37.0%
D	37.7%
E	31.0%
Weighted Average	30.8%
Subject Stabilized Year	50.0%

Rentals and Other Income

Rentals and Other Income generally reflects the net revenues associated with the rental of offices and stores, concessions, commissions, cash discounts earned, forfeited advance deposits, service charges, interest income, cancellation charges and other.

Rentals and other income in the comparable properties ranged from \$0.54 to \$1.08. Based on this, and our assumptions of the subject's facilities, we have estimated rentals and other income revenue of \$2.25 per occupied room for the subject on a representative year of operation. This is higher than the range of the comparable and is considered reasonable given the facilities and amenities offered at the subject hotel.

Rentals and Other Income		
	Per Occupied Room	Per Day
<u>Comparables</u>		
A	\$0.00	\$0
B	1.08	98
C	0.10	9
D	0.54	53
E	0.55	44
Weighted Average	0.56	41
Subject Stabilized Year	\$2.25	\$169

Undistributed Operating Expenses

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses include administrative and general, franchise fees, marketing, property operations and maintenance, and energy and utilities. These expenses are relatively unaffected by fluctuations in occupancies and ADR. Excluding management fees, which are a fixed percentage based on a contract agreement and market parameters, these expenses are analyzed primarily on a dollar amount per available room (PAR) basis.

Administrative and General

Expenses in this category include salaries and wages associated with the operation of the administrative function of the property, cash overages and shortages, credit card commissions, bad debt expense, information systems, donations, dues and subscriptions, human resources, loss and damage, security, executive office expenses, professional fees,

travel reimbursements, and supplies. The administrative and general expense of the comparable hotels ranged from \$6,770 to \$9,194 per available room, or 9.0 to 13.7 percent of revenue. We have estimated an administrative and general expense of \$7,682 per available room for the subject in a representative year, or 9.1 percent of total revenues. This includes a \$6,000 expense per available room and an additional 2.0 percent of total revenues for credit card commissions. This is within the range of comparables on a per available room and ratio to total revenue basis.

Administrative and General		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$7,796	11.2%
B	6,770	9.0%
C	7,447	9.3%
D	9,194	12.1%
E	8,594	13.7%
Weighted Average	7,961	10.9%
Subject Stabilized Year	\$7,682	9.1%

Marketing

This account is charged with all costs incurred in the connection with the creation and maintenance of the image of the hotel and the development, promotion, and furtherance of business whether paid for in cash or in hotel trade. This includes the cost of print advertising, the printing of brochures, salaries, wages, and benefits associated with sales and marketing personnel, franchise fees, and other costs associated with sales and promotional programs. The comparable properties ranged from \$2,052 to \$5,428 per available room. The weighted average for marketing expense for the comparable hotels was \$3,830 per available room, or 5.2 percent of total revenue. We estimate marketing costs of approximately \$3,400 per available room in a representative year. This is within the range of comparables on per available room and ratio to total revenue basis.

Marketing		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$2,052	3.0%
B	2,504	3.3%
C	4,485	5.6%
D	5,428	7.1%
E	4,383	7.0%
Weighted Average	3,830	5.2%
Subject Stabilized Year	\$3,400	4.0%

Property Operations and Maintenance

This category includes the maintenance of the building, grounds and landscape, electrical and mechanical equipment, salaries, wages, and benefits of the engineering department staff, refrigeration, operating supplies, cleaning, waste removal and uniforms. The comparable properties ranged from \$2,426 to \$3,332 per available room. We estimate maintenance expenditures for the subject at \$2,700 per available room in a representative

year, which is within the range of the comparables on a per available room and ratio to total revenue basis.

Property Operation and Maintenance		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$2,756	4.0%
B	3,332	4.4%
C	2,426	3.0%
D	3,236	4.2%
E	2,567	4.1%
Weighted Average	2,874	3.9%
Subject Stabilized Year	\$2,700	3.2%

Energy and Utility Costs

Energy and utility costs include electric, fuel, steam, water, and sewer charges. The cost of utilities at the comparable hotel properties ranged from \$1,390 to \$2,445 per available room. In a representative year we estimate a representative year utility cost of \$1,700 per available room in 2012 dollars. We find this number reasonable, as utility costs are property and location specific. Further, it is within the range of the comparables on a per available room basis and ratio to total revenue basis.

Utility Costs		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$2,147	3.1%
B	1,390	1.8%
C	1,533	1.9%
D	2,445	3.2%
E	2,102	3.4%
Weighted Average	1,916	2.6%
Subject Stabilized Year	\$1,700	2.0%

Fixed Charges

Management Fees

A management fee is an expense item representing the value of the management services. It is a variable operating expense normally expressed as a percentage of total revenues. Based on comparable hotels and industry standards, we have utilized a management fee of 3.0 percent of total revenues. This equates to a representative year expense of \$252,000.

Property Taxes

The subject property is assessed by the Los Angeles County. The current method of taxation of real property in California is mandated by the Jarvis-Gann Property Tax Initiative, known as Proposition 13, under which real estate taxes were reduced to one percent of the property's full market value as of the 1975/76 fiscal year, plus any voter-approved bond indebtedness. Proposition 13 limits real estate taxes to a two-percent annual increase except upon sale or major alteration of the property. In either of these two events, the property is re-appraised to current market value, usually as evidenced by the

sales price or the construction cost. For the purposes of this market study, we have used the tax estimate of 1.1 percent of the hotel's estimated construction cost. We were not provided with total construction cost. Therefore, based on our knowledge of average construction cost for similar properties, we have assumed an estimated construction cost of \$260,000 per room. This equates to an estimated property tax of \$270,000 in a representative year.

Insurance

Insurance for liability and building and contents is estimated to be \$280 per available room in a representative year of operation, primarily based on our analysis of comparable hotel properties in Southern California and the specific attributes of the proposed subject. The subject's projected insurance expense is also within the range of the comparable hotels detailed in the table below.

Insurance	
Comparables	Per Available Room
A	\$250
B	326
C	1,233
D	206
E	177
Weighted Average	455
Subject Stabilized Year	\$280

Ground Rent

We understand that the City intends to lease the site to a private developer. Thus, there will be a charge for land rent, which is undetermined at this time.

Reserves for Replacement

An additional item not typically listed on an owner's income statement is the amount required for the periodic replacement of certain short-lived items such as carpeting, draperies, and other furniture, fixtures and equipment. We have estimated a reserve for replacements as detailed in the following table. Since the subject property is expected to open in January 1, 2015, we have projected a ramp-up in reserves for replacement from 2.0 percent in 2015, to 3.0 percent in 2016, and thereafter stabilizing at 4.0 percent of hotel related revenue in 2017.

Schedule of Reserves for Replacement	
Year	Reserve Percentage of Total Revenue
2015	2.0%
2016	3.0
2017	4.0
2018	4.0
2019	4.0

REPRESENTATIVE YEAR OPERATING STATEMENT

The following presents our estimates of annual operating results for the subject property in a representative year in 2012 dollars based on the aforementioned analysis.

Proposed Hotel at Newport Beach City Hall Site

ESTIMATED ANNUAL OPERATING RESULTS

The previous analysis provided for the income and expenses incurred in the operation of the subject in a stabilized year. In the following analysis, we provide estimated income and expenses for the subject during each year of the holding period anticipated for a typical investor. Our estimate of the performance for the subject in the stabilized year is used as a basis for our analysis, considering the effects of inflation, business development, and varying occupancy.

Inflation

To portray price level changes during the holding period, we have assumed an inflation rate of 3.0 percent throughout the projection period. This rate reflects the consensus of several well-recognized economists for the current long-term outlook for the future movement of prices and is consistent with historical inflation rates. All expenses, save for property taxes, are projected to increase at 3.0 percent throughout the holding period. Property taxes are assumed to inflate at 2.0 percent annually in accordance with California's Proposition 13.

It should be noted that inflation is caused by many factors and unanticipated events and circumstances can affect the forecasted rate. Therefore, the estimated operating results computed over the projection period can vary from the actual operating results, and the variations may be material.

The following table summarizes the ten-year statement of operating income and ratio to total revenue of income.

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2015	\$ 8,077,000	\$2,295,000	28%
2016	8,827,000	2,614,000	30
2017	9,739,000	3,047,000	31
2018	10,051,000	3,159,000	31
2019	10,339,000	3,243,000	31
2020	10,656,000	3,352,000	31
2021	10,976,000	3,454,000	31
2022	11,300,000	3,557,000	31
2023	11,654,000	3,679,000	32
2024	11,984,000	3,776,000	32

Statement of Estimated Annual Operating Results

Presented on the following pages are the subject property's estimated annual operating results for the calendar years of 2015 through 2024. This time period reflects the first ten years of operation.

Proposed Newport Beach Hotel (100 Rooms) Projected Operating Results Calendar Years										
	2015		2016		2017		2018		2019	
Number of Units:	100		100		100		100		100	
Number of Annual Rooms Available:	36,500		36,500		36,500		36,500		36,500	
Number of Rooms Occupied:	24,090		25,550		27,380		27,380		27,380	
Annual Occupancy:	66.0%		70.0%		75.0%		75.0%		75.0%	
Average Daily Rate:	\$229.00		\$236.00		\$243.00		\$251.00		\$258.00	
Revenue Per Available Room:	\$151.14		\$165.20		\$182.25		\$188.25		\$193.50	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	\$5,517,000	68.3%	\$6,030,000	68.3%	\$6,653,000	68.3%	\$6,872,000	68.4%	\$7,064,000	68.3%
Food & Beverage	2,106,000	26.1%	2,301,000	26.1%	2,539,000	26.1%	2,615,000	26.0%	2,694,000	26.1%
Other Operated Departments	395,000	4.9%	431,000	4.9%	476,000	4.9%	490,000	4.9%	505,000	4.9%
Total Revenues	8,077,000	100.0%	8,827,000	100.0%	9,739,000	100.0%	10,051,000	100.0%	10,339,000	100.0%
Departmental Expenses										
Rooms	1,462,000	26.5%	1,549,000	25.7%	1,650,000	24.8%	1,700,000	24.7%	1,751,000	24.8%
Food & Beverage	1,732,000	82.2%	1,846,000	80.2%	1,980,000	78.0%	2,040,000	78.0%	2,101,000	78.0%
Other Operated Departments	197,000	49.9%	216,000	50.1%	238,000	50.0%	245,000	50.0%	253,000	50.1%
Total Departmental Expenses	3,391,000	42.0%	3,611,000	40.9%	3,868,000	39.7%	3,985,000	39.6%	4,105,000	39.7%
Departmental Profit	4,686,000	58.0%	5,216,000	59.1%	5,871,000	60.3%	6,066,000	60.4%	6,234,000	60.3%
Undistributed Expenses										
Administrative & General	817,000	10.1%	852,000	9.7%	890,000	9.1%	917,000	9.1%	945,000	9.1%
Marketing	372,000	4.6%	383,000	4.3%	394,000	4.0%	406,000	4.0%	418,000	4.0%
Property Operation and Maintenance	295,000	3.7%	304,000	3.4%	313,000	3.2%	322,000	3.2%	332,000	3.2%
Utility Costs	186,000	2.3%	191,000	2.2%	197,000	2.0%	203,000	2.0%	209,000	2.0%
Total Undistributed Operating Expenses	1,670,000	20.7%	1,730,000	19.6%	1,794,000	18.4%	1,848,000	18.4%	1,904,000	18.4%
Gross Operating Profit	3,016,000	37.3%	3,486,000	39.5%	4,077,000	41.9%	4,218,000	42.0%	4,330,000	41.9%
Base Management Fee	242,000	3.0%	265,000	3.0%	292,000	3.0%	302,000	3.0%	310,000	3.0%
Fixed Expenses										
Property Taxes	286,000	3.5%	310,000	3.5%	316,000	3.2%	322,000	3.2%	329,000	3.2%
Insurance	31,000	0.4%	32,000	0.4%	32,000	0.3%	33,000	0.3%	34,000	0.3%
Total Fixed Expenses	317,000	3.9%	342,000	3.9%	348,000	3.6%	355,000	3.5%	363,000	3.5%
Net Operating Income Before Reserve	2,457,000	30.4%	2,879,000	32.6%	3,437,000	35.3%	3,561,000	35.4%	3,657,000	35.4%
FF&E Reserve	162,000	2.0%	265,000	3.0%	390,000	4.0%	402,000	4.0%	414,000	4.0%
Net Operating Income After Reserve	\$2,295,000	28.4%	\$2,614,000	29.6%	\$3,047,000	31.3%	\$3,159,000	31.4%	\$3,243,000	31.4%
Source: PKF Consulting USA	Full Year of Operation									

Proposed Newport Beach Hotel (100 Rooms) Projected Operating Results Calendar Years										
	2020		2021		2022		2023		2024	
Number of Units:	100		100		100		100		100	
Number of Annual Rooms Available:	36,500		36,500		36,500		36,500		36,500	
Number of Rooms Occupied:	27,380		27,380		27,380		27,380		27,380	
Annual Occupancy:	75.0%		75.0%		75.0%		75.0%		75.0%	
Average Daily Rate:	\$266.00		\$274.00		\$282.00		\$291.00		\$299.00	
Revenue Per Available Room:	\$199.50		\$205.50		\$211.50		\$218.25		\$224.25	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	\$7,283,000	68.3%	\$7,502,000	68.3%	\$7,721,000	68.3%	\$7,968,000	68.4%	\$8,187,000	68.3%
Food & Beverage	2,775,000	26.0%	2,858,000	26.0%	2,944,000	26.1%	3,032,000	26.0%	3,123,000	26.1%
Other Operated Departments	520,000	4.9%	536,000	4.9%	552,000	4.9%	569,000	4.9%	586,000	4.9%
Total Revenues	10,656,000	100.0%	10,976,000	100.0%	11,300,000	100.0%	11,654,000	100.0%	11,984,000	100.0%
Departmental Expenses										
Rooms	1,803,000	24.8%	1,858,000	24.8%	1,913,000	24.8%	1,971,000	24.7%	2,030,000	24.8%
Food & Beverage	2,164,000	78.0%	2,229,000	78.0%	2,296,000	78.0%	2,365,000	78.0%	2,436,000	78.0%
Other Operated Departments	260,000	50.0%	268,000	50.0%	276,000	50.0%	284,000	49.9%	293,000	50.0%
Total Departmental Expenses	4,227,000	39.7%	4,355,000	39.7%	4,485,000	39.7%	4,620,000	39.6%	4,759,000	39.7%
Departmental Profit	6,429,000	60.3%	6,621,000	60.3%	6,815,000	60.3%	7,034,000	60.4%	7,225,000	60.3%
Undistributed Expenses										
Administrative & General	973,000	9.1%	1,002,000	9.1%	1,032,000	9.1%	1,064,000	9.1%	1,095,000	9.1%
Marketing	431,000	4.0%	444,000	4.0%	457,000	4.0%	471,000	4.0%	485,000	4.0%
Property Operation and Maintenance	342,000	3.2%	352,000	3.2%	363,000	3.2%	374,000	3.2%	385,000	3.2%
Utility Costs	215,000	2.0%	222,000	2.0%	228,000	2.0%	235,000	2.0%	242,000	2.0%
Total Undistributed Operating Expenses	1,961,000	18.4%	2,020,000	18.4%	2,080,000	18.4%	2,144,000	18.4%	2,207,000	18.4%
Gross Operating Profit	4,468,000	41.9%	4,601,000	41.9%	4,735,000	41.9%	4,890,000	42.0%	5,018,000	41.9%
Base Management Fee	320,000	3.0%	329,000	3.0%	339,000	3.0%	350,000	3.0%	360,000	3.0%
Fixed Expenses										
Property Taxes	335,000	3.1%	342,000	3.1%	349,000	3.1%	356,000	3.1%	363,000	3.0%
Insurance	35,000	0.3%	37,000	0.3%	38,000	0.3%	39,000	0.3%	40,000	0.3%
Total Fixed Expenses	370,000	3.5%	379,000	3.5%	387,000	3.4%	395,000	3.4%	403,000	3.4%
Net Operating Income Before Reserve	3,778,000	35.5%	3,893,000	35.5%	4,009,000	35.5%	4,145,000	35.6%	4,255,000	35.5%
FF&E Reserve	426,000	4.0%	439,000	4.0%	452,000	4.0%	466,000	4.0%	479,000	4.0%
Net Operating Income After Reserve	\$3,352,000	31.5%	\$3,454,000	31.5%	\$3,557,000	31.5%	\$3,679,000	31.6%	\$3,776,000	31.5%
Source: PKF Consulting USA										

150-ROOM HOTEL

The *Uniform System of Accounts for Hotels*, recommended by the American Hotel and Motel Association and utilized throughout the industry, has been used in the classification of income and expenses for this report. In conformity with this system of account classifications, only direct operating expenses are charged to the operating departments of the subject. The general overhead items that are applicable to operations as a whole are classified as deductions from income and include administrative and general expenses, marketing expenses, utility costs, and property operations and maintenance. Additional costs for management fees, fixed charges, which include real estate taxes and insurance, and reserves for replacement are deducted to derive at the net operating income.

Income and Expense Estimates

Data from the following sources have been used as a basis for the income and expense estimates.

- The market performance (average daily rate and occupancy levels) of the competitive hotels to the subject; and,
- Comparable data from five 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".)

Operating Statistics of Comparable Hotels

An analysis was performed on the operating results of five similarly sized high-quality hotels located within Southern California and similar markets in the United States. All are considered to be comparable with the proposed subject property. The comparable properties range in size from 133 rooms to 165 rooms, with an average room count of 150 rooms. Together these hotels had a composite occupancy of 72.8 percent and an average daily rate of \$203.53. The statistical information is taken from actual financials for the comparable hotels for the most recent calendar year available. For reasons of confidentiality, we cannot disclose the identity of the comparable hotels.

The following pages contain the operating results of the comparable hotels as mentioned above.

Proposed Newport Beach Hotel (150 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	84.7%	\$55,716	\$190.99		82.6%	\$56,386	\$194.27		70.9%	\$54,758	\$227.86
Food & Beverage	8.2%	5,387	18.47		9.0%	6,116	21.07		24.5%	18,873	78.53
Other Operated Departments	1.1%	726	2.49		1.7%	1,157	3.99		4.6%	3,523	14.66
Rentals and Other Income	6.0%	3,963	13.58		6.8%	4,617	15.91		0.0%	25	0.10
Total Revenues	100.0%	65,792	225.53		100.0%	68,275	235.23		100.0%	77,178	321.16
Departmental Expenses											
Rooms	22.9%	12,741	43.67		19.9%	11,230	38.69		26.2%	14,328	59.62
Food & Beverage	89.7%	4,833	16.57		91.6%	5,600	19.29		83.6%	15,779	65.66
Other Operated Departments	71.0%	516	1.77		80.7%	934	3.22		29.1%	1,025	4.27
Total Departmental Expenses	27.5%	18,090	62.01		26.0%	17,764	61.20		40.3%	31,133	129.55
Departmental Profit	72.5%	47,703	163.52		74.0%	50,512	174.03		59.7%	46,045	191.60
Undistributed Expenses											
Administrative & General	8.7%	5,754	19.72		8.6%	5,898	20.32		7.1%	5,450	22.68
Marketing	2.9%	1,915	6.57		3.5%	2,405	8.28		3.5%	2,676	11.14
Property Operation and Maintenance	4.8%	3,162	10.84		5.1%	3,494	12.04		4.2%	3,271	13.61
Utility Costs	2.2%	1,431	4.91		2.3%	1,537	5.30		2.5%	1,914	7.96
Total Undistributed Operating Expenses	18.6%	12,262	42.03		19.5%	13,334	45.94		17.2%	13,311	55.39
Gross Operating Profit	53.9%	35,440	121.48		54.5%	37,178	128.09		42.4%	32,734	136.21
Base Management Fee	3.0%	1,974	6.77		3.0%	2,048	7.06		2.0%	1,544	6.42
Fixed Expenses											
Property Taxes	2.0%	1,299	4.45		1.9%	1,316	4.53		3.8%	2,913	12.12
Insurance	0.3%	218	0.75		0.3%	222	0.76		1.0%	771	3.21
Total Fixed Expenses	2.3%	1,516	5.20		2.3%	1,537	5.30		4.8%	3,684	15.33
Net Operating Income Before Reserve	48.6%	31,950	109.52		49.2%	33,592	115.74		35.6%	27,507	114.46
Source: PKF Consulting USA											

Proposed Newport Beach Hotel (150 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	87.4%	\$56,909	\$210.12	67.7%	\$47,349	\$195.67	77.9%	\$54,104	\$203.53		
Food & Beverage	4.7%	3,054	11.28	26.1%	18,243	75.39	15.4%	10,715	40.31		
Other Operated Departments	7.9%	5,174	19.10	5.9%	4,123	17.04	4.3%	2,971	11.18		
Rentals and Other Income	0.0%	0	0.00	0.3%	227	0.94	2.4%	2,076	7.84		
Total Revenues	100.0%	65,138	240.50	100.0%	69,941	289.03	100.0%	69,471	261.34		
Departmental Expenses											
Rooms	27.0%	15,344	56.65	26.8%	12,690	52.44	24.6%	13,306	50.06		
Food & Beverage	114.8%	3,507	12.95	84.1%	15,339	63.39	86.9%	9,312	35.03		
Other Operated Departments	42.7%	2,212	8.17	83.4%	3,436	14.20	55.0%	1,634	6.15		
Total Departmental Expenses	32.3%	21,063	77.77	45.0%	31,466	130.03	34.9%	24,252	91.23		
Departmental Profit	67.7%	44,074	162.73	55.0%	38,475	159.00	65.1%	45,219	170.11		
Undistributed Expenses											
Administrative & General	12.0%	7,791	28.77	12.6%	8,843	36.54	9.7%	6,745	25.37		
Marketing	5.2%	3,359	12.40	7.6%	5,300	21.90	4.5%	3,150	11.85		
Property Operation and Maintenance	5.2%	3,359	12.40	3.9%	2,747	11.35	4.6%	3,195	12.02		
Utility Costs	3.6%	2,359	8.71	2.0%	1,422	5.88	2.5%	1,730	6.51		
Total Undistributed Operating Expenses	25.9%	16,867	62.28	26.2%	18,312	75.67	21.3%	14,821	55.75		
Gross Operating Profit	41.8%	27,207	100.45	28.8%	20,163	83.32	43.8%	30,399	114.35		
Base Management Fee	2.5%	1,628	6.01	3.5%	2,448	10.12	2.8%	1,926	7.24		
Fixed Expenses											
Property Taxes	0.0%	0	0.00	5.7%	3,986	16.47	2.8%	2,432	9.19		
Insurance	0.5%	339	1.25	0.5%	373	1.54	0.6%	395	1.49		
Total Fixed Expenses	0.5%	339	1.25	6.2%	4,359	18.01	3.4%	2,365	8.90		
Net Operating Income Before Reserve	38.7%	25,240	93.19	19.1%	13,356	55.19	37.6%	26,108	98.21		
Source: PKF Consulting USA											

REPRESENTATIVE YEAR ESTIMATE

Presented in the following text is a brief discussion of the basis used in developing our estimate of the Representative Year Operating Statement for the subject. A “representative year” illustrates the hotel’s performance as if it were at a stabilized occupancy today, after the anticipated real growth in room rate, with all revenues and expenses expressed in current value dollars.

Departmental Revenues and Expenses

In the Uniform System of Accounts, revenue to the facility is categorized by the department from which it is derived. In the case of the subject, this includes income from rooms, food and beverage, other operated departments, and the category of rentals and other income. In the Uniform System of Accounts, only direct operating expenses associated with each department are charged to the operating departments. General overhead items which are applicable to the overall operation of the facility are classified as undistributed operating expenses.

Rooms Department

Rooms revenue is based on the number of occupied rooms multiplied by the average daily room rate for each of the subject’s first ten years as presented in this report. As indicated in our previous analysis, we have estimated the stabilized average rate of the subject to be \$195.00, stated in 2012 dollars. Stabilized occupancy is estimated at 72 percent; therefore, gross rooms revenue in a representative year is calculated as follows:

$$150 \text{ rooms} \times 365 \text{ days} \times 72\% \text{ occupancy} \times \$195.00/\text{day} = \$7,687,000 \text{ (rounded)}$$

The following table summarizes the average daily room rates, occupancies, and rooms revenues estimated for the projection period.

Estimated Rooms Revenue			
Year	Average Daily Rate	Annual Occupancy	Rooms Revenue
2015	\$213.00	62.0%	\$ 7,231,000
2016	219.00	67.0	8,033,000
2017	226.00	72.0	8,909,000
2018	233.00	72.0	9,185,000
2019	240.00	72.0	9,461,000
2020	247.00	72.0	9,737,000
2021	254.00	72.0	10,013,000
2022	262.00	72.0	10,328,000
2023	270.00	72.0	10,643,000
2024	278.00	72.0	10,959,000

Rooms Expense

Rooms expense consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservation costs, uniforms, contract services, and other items related to the rooms

department. The comparable hotels had rooms expenses ranging from \$38.69 to \$59.62 per occupied room (POR), with ratios to rooms revenue ranging from 19.9 percent to 27.0 percent. In a representative year, we estimate a rooms expense of \$49.00 per occupied room, or a ratio to rooms revenue of 25.1 percent. This incorporates the projected services and amenities at the property, and is within the range of comparables on a POR and ratio to total revenue basis.

Rooms Expense		
	Per Occupied Room	Ratio to Rms Revenue
<u>Comparables</u>		
A	\$43.67	22.9%
B	38.69	19.9%
C	59.62	26.2%
D	56.65	27.0%
E	52.44	26.8%
Weighted Average	50.06	24.6%
Subject Stabilized Year	\$49.00	25.1%

Food and Beverage Revenue and Expense

Food and Beverage revenue is typically generated by the sale of meals to both hotel guests and outside patrons in the restaurants and lounges; room service; banquet revenues, including banquet room and audio/visual rental income; and other associated revenues.

Food & Beverage Revenue		
	Total Amount	Per Occupied Room
<u>Comparables</u>		
A	\$ 829,579	\$18.47
B	813,367	21.07
C	3,114,039	78.53
D	436,766	11.28
E	2,864,135	75.39
Weighted Average	N/A	40.31
Subject Stabilized Year	\$2,957,000	\$75.00

Food and beverage revenue will vary depending on the number of food and beverage outlets, and the amount of meeting space. Food and beverage revenue at the subject will be generated from the three-meal restaurant and rooftop bar as well as meetings and special events held at the hotel. The comparable properties ranged in food and beverage revenue from \$11.28 to \$78.53 per occupied room. Based on the assumed restaurant and meeting facilities proposed for the subject, we project food and beverage revenue of approximately \$75.00 per occupied room. This equates to a total food and beverage revenue of approximately \$2,957,000 for the subject during a stabilized year, stated in 2012 dollars. This is considered reasonable given the subject's proposed food and beverage and meeting facilities. This also within the range of the comparables.

Food and Beverage expense includes the cost of food and beverages, payroll and related expenses, and other items such as laundry, linen, china, glassware, silverware, uniform costs, supplies, and other miscellaneous items.

Food & Beverage Expense	
	Ratio to F&B Rev.
<u>Comparables</u>	
A	89.7%
B	91.6%
C	83.6%
D	114.8%
E	84.1%
Weighted Average	86.9%
Subject Stabilized Year	77.0%

We estimate the subject to achieve a 77.0 percent food and beverage margin for a stabilized year of operation. This is slightly lower than the range of the comparables and is reasonable given our assumptions of the subject's food and beverage facilities.

Other Revenue and Expense

Other Operated Departments can vary significantly among the comparable properties and the subject depending on the nature of the additional revenue generators. Other operated department revenue is typically generated from guest laundry, business center, health spa, and/or other recreational amenities. Other operated departments at the subject property will include guest services, parking, business services, telecommunications revenue, in room movies, and other miscellaneous income.

Other operated departments revenue at the comparable hotels ranged from \$2.49 to \$19.10 per occupied room. Based upon the various components of this line item, we have estimated the income for the subject to be approximately \$15.00 per occupied room in a representative year of operations, which is within the range of the comparables.

Other Operated Departments Revenue	
	Per Occupied Room
<u>Comparables</u>	
A	\$2.49
B	3.99
C	14.66
D	19.10
E	17.04
Weighted Average	11.18
Subject Stabilized Year	\$15.00

Other Operated Departments expenses that are associated with these departments include payroll costs, employee benefits, and other operating supplies. The comparables' other operating expenses ranged from a 29.1 percent to an 83.4 percent expense ratio. For a representative year of operations, we have estimated expenses at approximately 45.0 percent of revenues, which is within the range of the comparables.

Other Operated Departments Expense	
	Ratio to O.O.D. Rev.
<u>Comparables</u>	
A	71.0%
B	80.7%
C	29.1%
D	42.7%
E	83.4%
Weighted Average	55.0%
Subject Stabilized Year	45.0%

Rentals and Other Income

Rentals and Other Income generally reflects the net revenues associated with the rental of offices and stores, concessions, commissions, cash discounts earned, forfeited advance deposits, service charges, interest income, cancellation charges and other.

Rentals and other income in the comparable properties ranged from \$0.10 to \$15.91. Based on this, and our assumptions of the subject's facilities, we have estimated rentals and other income revenue of \$2.00 per occupied room for the subject on a representative year of operation. This is within the range of the comparables.

Rentals and Other Income		
	Per Occupied Room	Per Day
<u>Comparables</u>		
A	\$13.58	\$1,672
B	15.91	1,682
C	0.10	11
D	0.00	0
E	0.94	97
Weighted Average	7.84	693
Subject Stabilized Year	\$2.00	\$216

Undistributed Operating Expenses

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses include administrative and general, franchise fees, marketing, property operations and maintenance, and energy and utilities. These expenses are relatively unaffected by fluctuations in occupancies and ADR. Excluding management fees, which are a fixed percentage based on a contract agreement and market parameters, these expenses are analyzed primarily on a dollar amount per available room (PAR) basis.

Administrative and General

Expenses in this category include salaries and wages associated with the operation of the administrative function of the property, cash overages and shortages, credit card commissions, bad debt expense, information systems, donations, dues and subscriptions, human resources, loss and damage, security, executive office expenses, professional fees, travel reimbursements, and supplies. The administrative and general expense of the

comparable hotels ranged from \$5,450 to \$8,843 per available room, or 7.1 to 12.6 percent of revenue. We have estimated an administrative and general expense of \$6,509 per available room for the subject in a representative year, or 8.6 percent of total revenues. This includes a \$5,000 expense per available room and an additional 2.0 percent of total revenues for credit card commissions. This is within the range of comparables on a per available room and ratio to total revenue basis.

Administrative and General		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$5,754	8.7%
B	5,898	8.6%
C	5,450	7.1%
D	7,791	12.0%
E	8,843	12.6%
Weighted Average	6,745	9.7%
Subject Stabilized Year	\$6,509	8.6%

Marketing

This account is charged with all costs incurred in the connection with the creation and maintenance of the image of the hotel and the development, promotion, and furtherance of business whether paid for in cash or in hotel trade. This includes the cost of print advertising, the printing of brochures, salaries, wages, and benefits associated with sales and marketing personnel, franchise fees, and other costs associated with sales and promotional programs. The comparable properties ranged from \$1,915 to \$5,300 per available room. The weighted average for marketing expense for the comparable hotels was \$3,150 per available room, or 4.5 percent of total revenue. We estimate marketing costs of approximately \$3,000 per available room in a representative year. This is within the range of comparables on per available room and ratio to total revenue basis.

Marketing		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$1,915	2.9%
B	2,405	3.5%
C	2,676	3.5%
D	3,359	5.2%
E	5,300	7.6%
Weighted Average	3,150	4.5%
Subject Stabilized Year	\$3,000	4.0%

Property Operations and Maintenance

This category includes the maintenance of the building, grounds and landscape, electrical and mechanical equipment, salaries, wages, and benefits of the engineering department staff, refrigeration, operating supplies, cleaning, waste removal and uniforms. The comparable properties ranged from \$2,747 to \$3,494 per available room. We estimate maintenance expenditures for the subject at \$2,400 per available room in a representative year. This is slightly lower than the range of the comparables on a per available room and

ratio to total revenue basis and is considered reasonable given the subject's proposed facilities.

Property Operation and Maintenance		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$3,162	4.8%
B	3,494	5.1%
C	3,271	4.2%
D	3,359	5.2%
E	2,747	3.9%
Weighted Average	3,195	4.6%
Subject Stabilized Year	\$2,400	3.2%

Energy and Utility Costs

Energy and utility costs include electric, fuel, steam, water, and sewer charges. The cost of utilities at the comparable hotel properties ranged from \$1,422 to \$2,359 per available room. In a representative year we estimate a representative year utility cost of \$1,450 per available room in 2012 dollars. We find this number reasonable, as utility costs are property and location specific. Further, it is within the range of the comparables on a per available room basis.

Utility Costs		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$1,431	2.2%
B	1,537	2.3%
C	1,914	2.5%
D	2,359	3.6%
E	1,422	2.0%
Weighted Average	1,730	2.5%
Subject Stabilized Year	\$1,450	1.9%

Fixed Charges

Management Fees

A management fee is an expense item representing the value of the management services. It is a variable operating expense normally expressed as a percentage of total revenues. Based on comparable hotels and industry standards, we have utilized a management fee of 3.0 percent of total revenues. This equates to a representative year expense of \$339,000.

Property Taxes

The subject property is assessed by the Los Angeles County. The current method of taxation of real property in California is mandated by the Jarvis-Gann Property Tax Initiative, known as Proposition 13, under which real estate taxes were reduced to one percent of the property's full market value as of the 1975/76 fiscal year, plus any voter-approved bond indebtedness. Proposition 13 limits real estate taxes to a two-percent annual increase except upon sale or major alteration of the property. In either of these two events, the property is re-appraised to current market value, usually as evidenced by the

sales price or the construction cost. For the purposes of this market study, we have used the tax estimate of 1.1 percent of the hotel's estimated construction cost. We were not provided with total construction cost. Therefore, based on our knowledge of average construction cost for similar properties, we have assumed an estimated construction cost of \$250,000 per room. This equates to an estimated property tax of \$389,000 in a representative year.

Insurance

Insurance for liability and building and contents is estimated to be \$280 per available room in a representative year of operation, primarily based on our analysis of comparable hotel properties in Southern California and the specific attributes of the proposed subject. The subject's projected insurance expense is also within the range of the comparable hotels detailed in the table below.

Insurance	
Comparables	Per Available Room
A	\$218
B	222
C	771
D	339
E	373
Weighted Average	395
Subject Stabilized Year	\$280

Ground Rent

We understand that the City intends to lease the site to a private developer. Thus, there will be a charge for land rent, which is undetermined at this time.

Reserves for Replacement

An additional item not typically listed on an owner's income statement is the amount required for the periodic replacement of certain short-lived items such as carpeting, draperies, and other furniture, fixtures and equipment. We have estimated a reserve for replacements as detailed in the following table. Since the subject property is expected to open in January 1, 2015, we have projected a ramp-up in reserves for replacement from 2.0 percent in 2015, to 3.0 percent in 2016, and thereafter stabilizing at 4.0 percent of hotel related revenue in 2017.

Schedule of Reserves for Replacement	
Year	Reserve Percentage of Total Revenue
2015	2.0%
2016	3.0
2017	4.0
2018	4.0
2019	4.0

REPRESENTATIVE YEAR OPERATING STATEMENT

The following presents our estimates of annual operating results for the subject property in a representative year in 2012 dollars based on the aforementioned analysis.

**Proposed Newport Beach Hotel
(150 Rooms)**
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

150
54,750
39,420
72.0%
\$195.00
\$140.40

Revenues

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

Amount	Ratio	Per Room	P.O.R.
\$7,687,000	67.9%	\$51,247	\$195.00
2,957,000	26.1%	19,713	75.01
591,000	5.2%	3,940	14.99
79,000	0.7%	527	2.00
11,314,000	100.0%	75,427	287.01

Departmental Expenses

Rooms
Food & Beverage
Other Operated Departments
Total Departmental Expenses

1,932,000	25.1%	12,880	49.01
2,277,000	77.0%	15,180	57.76
266,000	45.0%	1,773	6.75
4,475,000	39.6%	29,833	113.52

Departmental Profit

6,839,000	60.4%	45,593	173.49
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Undistributed Expenses

Administrative & General
Marketing
Property Operation and Maintenance
Utility Costs
Total Undistributed Operating Expenses

976,000	8.6%	6,507	24.76
450,000	4.0%	3,000	11.42
360,000	3.2%	2,400	9.13
218,000	1.9%	1,453	5.53
2,004,000	17.7%	13,360	50.84

Gross Operating Profit

4,835,000	42.7%	32,233	122.65
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Base Management Fee

339,000	3.0%	2,260	8.60
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Fixed Expenses

Property Taxes
Insurance
Total Fixed Expenses

389,000	3.4%	2,593	9.87
42,000	0.4%	280	1.07
431,000	3.8%	2,873	10.93

Net Operating Income Before Reserve

4,065,000	35.9%	27,100	103.12
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FF&E Reserve

453,000	4.0%	3,020	11.49
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Net Operating Income After Reserve

\$3,612,000	31.9%	\$24,080	\$91.63
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Source: **PKF Consulting USA**

ESTIMATED ANNUAL OPERATING RESULTS

The previous analysis provided for the income and expenses incurred in the operation of the subject in a stabilized year. In the following analysis, we provide estimated income and expenses for the subject during each year of the holding period anticipated for a typical investor. Our estimate of the performance for the subject in the stabilized year is used as a basis for our analysis, considering the effects of inflation, business development, and varying occupancy.

Inflation

To portray price level changes during the holding period, we have assumed an inflation rate of 3.0 percent throughout the projection period. This rate reflects the consensus of several well-recognized economists for the current long-term outlook for the future movement of prices and is consistent with historical inflation rates. All expenses, save for property taxes, are projected to increase at 3.0 percent throughout the holding period. Property taxes are assumed to inflate at 2.0 percent annually in accordance with California's Proposition 13.

It should be noted that inflation is caused by many factors and unanticipated events and circumstances can affect the forecasted rate. Therefore, the estimated operating results computed over the projection period can vary from the actual operating results, and the variations may be material.

The following table summarizes the ten-year statement of operating income and ratio to total revenue of income.

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2015	\$10,643,000	\$3,003,000	28%
2016	11,831,000	3,558,000	30
2017	13,112,000	4,182,000	32
2018	13,515,000	4,319,000	32
2019	13,921,000	4,453,000	32
2020	14,331,000	4,585,000	32
2021	14,746,000	4,715,000	32
2022	15,202,000	4,873,000	32
2023	15,662,000	5,029,000	32
2024	16,129,000	5,181,000	32

Statement of Estimated Annual Operating Results

Presented on the following pages are the subject property's estimated annual operating results for the calendar years of 2015 through 2024. This time period reflects the first ten years of operation.

Proposed Newport Beach Hotel (150 Rooms) Projected Operating Results Calendar Years														
			2015		2016		2017		2018		2019			
Number of Units:	150		150		150		150		150		150			
Number of Annual Rooms Available:	54,750		54,750		54,750		54,750		54,750		54,750			
Number of Rooms Occupied:	33,950		36,680		39,420		39,420		39,420		39,420			
Annual Occupancy:	62.0%		67.0%		72.0%		72.0%		72.0%		72.0%			
Average Daily Rate:	\$213.00		\$219.00		\$226.00		\$233.00		\$240.00		\$240.00			
Revenue Per Available Room:	\$132.06		\$146.73		\$162.72		\$167.76		\$172.80		\$172.80			
			Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues														
Rooms	\$7,231,000	67.9%	\$8,033,000	67.9%	\$8,909,000	67.9%	\$9,185,000	68.0%	\$9,461,000	68.0%	\$9,461,000	68.0%		
Food & Beverage	2,782,000	26.1%	3,096,000	26.2%	3,427,000	26.1%	3,530,000	26.1%	3,636,000	26.1%	3,636,000	26.1%		
Other Operated Departments	556,000	5.2%	619,000	5.2%	685,000	5.2%	706,000	5.2%	727,000	5.2%	727,000	5.2%		
Rentals and Other Income	74,000	0.7%	83,000	0.7%	91,000	0.7%	94,000	0.7%	97,000	0.7%	97,000	0.7%		
Total Revenues	10,643,000	100.0%	11,831,000	100.0%	13,112,000	100.0%	13,515,000	100.0%	13,921,000	100.0%	13,921,000	100.0%		
Departmental Expenses														
Rooms	1,964,000	27.2%	2,098,000	26.1%	2,239,000	25.1%	2,306,000	25.1%	2,376,000	25.1%	2,376,000	25.1%		
Food & Beverage	2,280,000	82.0%	2,455,000	79.3%	2,639,000	77.0%	2,718,000	77.0%	2,800,000	77.0%	2,800,000	77.0%		
Other Operated Departments	250,000	45.0%	279,000	45.1%	308,000	45.0%	318,000	45.0%	327,000	45.0%	327,000	45.0%		
Total Departmental Expenses	4,494,000	42.2%	4,832,000	40.8%	5,186,000	39.6%	5,342,000	39.5%	5,503,000	39.5%	5,503,000	39.5%		
Departmental Profit	6,149,000	57.8%	6,999,000	59.2%	7,926,000	60.4%	8,173,000	60.5%	8,418,000	60.5%	8,418,000	60.5%		
Undistributed Expenses														
Administrative & General	1,032,000	9.7%	1,081,000	9.1%	1,132,000	8.6%	1,166,000	8.6%	1,201,000	8.6%	1,201,000	8.6%		
Marketing	492,000	4.6%	506,000	4.3%	522,000	4.0%	537,000	4.0%	553,000	4.0%	553,000	4.0%		
Property Operation and Maintenance	393,000	3.7%	405,000	3.4%	417,000	3.2%	430,000	3.2%	443,000	3.2%	443,000	3.2%		
Utility Costs	238,000	2.2%	245,000	2.1%	252,000	1.9%	260,000	1.9%	267,000	1.9%	267,000	1.9%		
Total Undistributed Operating Expenses	2,155,000	20.2%	2,237,000	18.9%	2,323,000	17.7%	2,393,000	17.7%	2,464,000	17.7%	2,464,000	17.7%		
Gross Operating Profit	3,994,000	37.5%	4,762,000	40.3%	5,603,000	42.7%	5,780,000	42.8%	5,954,000	42.8%	5,954,000	42.8%		
Base Management Fee	319,000	3.0%	355,000	3.0%	393,000	3.0%	405,000	3.0%	418,000	3.0%	418,000	3.0%		
Fixed Expenses														
Property Taxes	413,000	3.9%	447,000	3.8%	455,000	3.5%	465,000	3.4%	474,000	3.4%	474,000	3.4%		
Insurance	46,000	0.4%	47,000	0.4%	49,000	0.4%	50,000	0.4%	52,000	0.4%	52,000	0.4%		
Total Fixed Expenses	459,000	4.3%	494,000	4.2%	504,000	3.8%	515,000	3.8%	526,000	3.8%	526,000	3.8%		
Net Operating Income Before Reserve	3,216,000	30.2%	3,913,000	33.1%	4,706,000	35.9%	4,860,000	36.0%	5,010,000	36.0%	5,010,000	36.0%		
FF&E Reserve	213,000	2.0%	355,000	3.0%	524,000	4.0%	541,000	4.0%	557,000	4.0%	557,000	4.0%		
Net Operating Income After Reserve	\$3,003,000	28.2%	\$3,558,000	30.1%	\$4,182,000	31.9%	\$4,319,000	32.0%	\$4,453,000	32.0%	\$4,453,000	32.0%		
Source: PKF Consulting USA	Full Year of Operation													

Proposed Newport Beach Hotel (150 Rooms) Projected Operating Results Calendar Years														
			2020		2021		2022		2023		2024			
Number of Units:			150		150		150		150		150			
Number of Annual Rooms Available:			54,750		54,750		54,750		54,750		54,750			
Number of Rooms Occupied:			39,420		39,420		39,420		39,420		39,420			
Annual Occupancy:			72.0%		72.0%		72.0%		72.0%		72.0%			
Average Daily Rate:			\$247.00		\$254.00		\$262.00		\$270.00		\$278.00			
Revenue Per Available Room:			\$177.84		\$182.88		\$188.64		\$194.40		\$200.16			
			Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Revenues														
Rooms			\$9,737,000	67.9%	\$10,013,000	67.9%	\$10,328,000	67.9%	\$10,643,000	68.0%	\$10,959,000	67.9%		
Food & Beverage			3,745,000	26.1%	3,858,000	26.2%	3,973,000	26.1%	4,092,000	26.1%	4,215,000	26.1%		
Other Operated Departments			749,000	5.2%	772,000	5.2%	795,000	5.2%	818,000	5.2%	843,000	5.2%		
Rentals and Other Income			100,000	0.7%	103,000	0.7%	106,000	0.7%	109,000	0.7%	112,000	0.7%		
Total Revenues			14,331,000	100.0%	14,746,000	100.0%	15,202,000	100.0%	15,662,000	100.0%	16,129,000	100.0%		
Departmental Expenses														
Rooms			2,447,000	25.1%	2,520,000	25.2%	2,596,000	25.1%	2,674,000	25.1%	2,754,000	25.1%		
Food & Beverage			2,884,000	77.0%	2,970,000	77.0%	3,059,000	77.0%	3,151,000	77.0%	3,246,000	77.0%		
Other Operated Departments			337,000	45.0%	347,000	44.9%	358,000	45.0%	368,000	45.0%	379,000	45.0%		
Total Departmental Expenses			5,668,000	39.6%	5,837,000	39.6%	6,013,000	39.6%	6,193,000	39.5%	6,379,000	39.5%		
Departmental Profit			8,663,000	60.4%	8,909,000	60.4%	9,189,000	60.4%	9,469,000	60.5%	9,750,000	60.5%		
Undistributed Expenses														
Administrative & General			1,237,000	8.6%	1,273,000	8.6%	1,312,000	8.6%	1,351,000	8.6%	1,392,000	8.6%		
Marketing			570,000	4.0%	587,000	4.0%	605,000	4.0%	623,000	4.0%	642,000	4.0%		
Property Operation and Maintenance			456,000	3.2%	470,000	3.2%	484,000	3.2%	498,000	3.2%	513,000	3.2%		
Utility Costs			276,000	1.9%	284,000	1.9%	292,000	1.9%	301,000	1.9%	310,000	1.9%		
Total Undistributed Operating Expenses			2,539,000	17.7%	2,614,000	17.7%	2,693,000	17.7%	2,773,000	17.7%	2,857,000	17.7%		
Gross Operating Profit			6,124,000	42.7%	6,295,000	42.7%	6,496,000	42.7%	6,696,000	42.8%	6,893,000	42.7%		
Base Management Fee			430,000	3.0%	442,000	3.0%	456,000	3.0%	470,000	3.0%	484,000	3.0%		
Fixed Expenses														
Property Taxes			483,000	3.4%	493,000	3.3%	503,000	3.3%	513,000	3.3%	523,000	3.2%		
Insurance			53,000	0.4%	55,000	0.4%	56,000	0.4%	58,000	0.4%	60,000	0.4%		
Total Fixed Expenses			536,000	3.7%	548,000	3.7%	559,000	3.7%	571,000	3.6%	583,000	3.6%		
Net Operating Income Before Reserve			5,158,000	36.0%	5,305,000	36.0%	5,481,000	36.1%	5,655,000	36.1%	5,826,000	36.1%		
FF&E Reserve			573,000	4.0%	590,000	4.0%	608,000	4.0%	626,000	4.0%	645,000	4.0%		
Net Operating Income After Reserve			\$4,585,000	32.0%	\$4,715,000	32.0%	\$4,873,000	32.1%	\$5,029,000	32.1%	\$5,181,000	32.1%		
Source: PKF Consulting USA														

Addendum A
Orange County Overview

Addendum B

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.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

(continued)

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.

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).

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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.