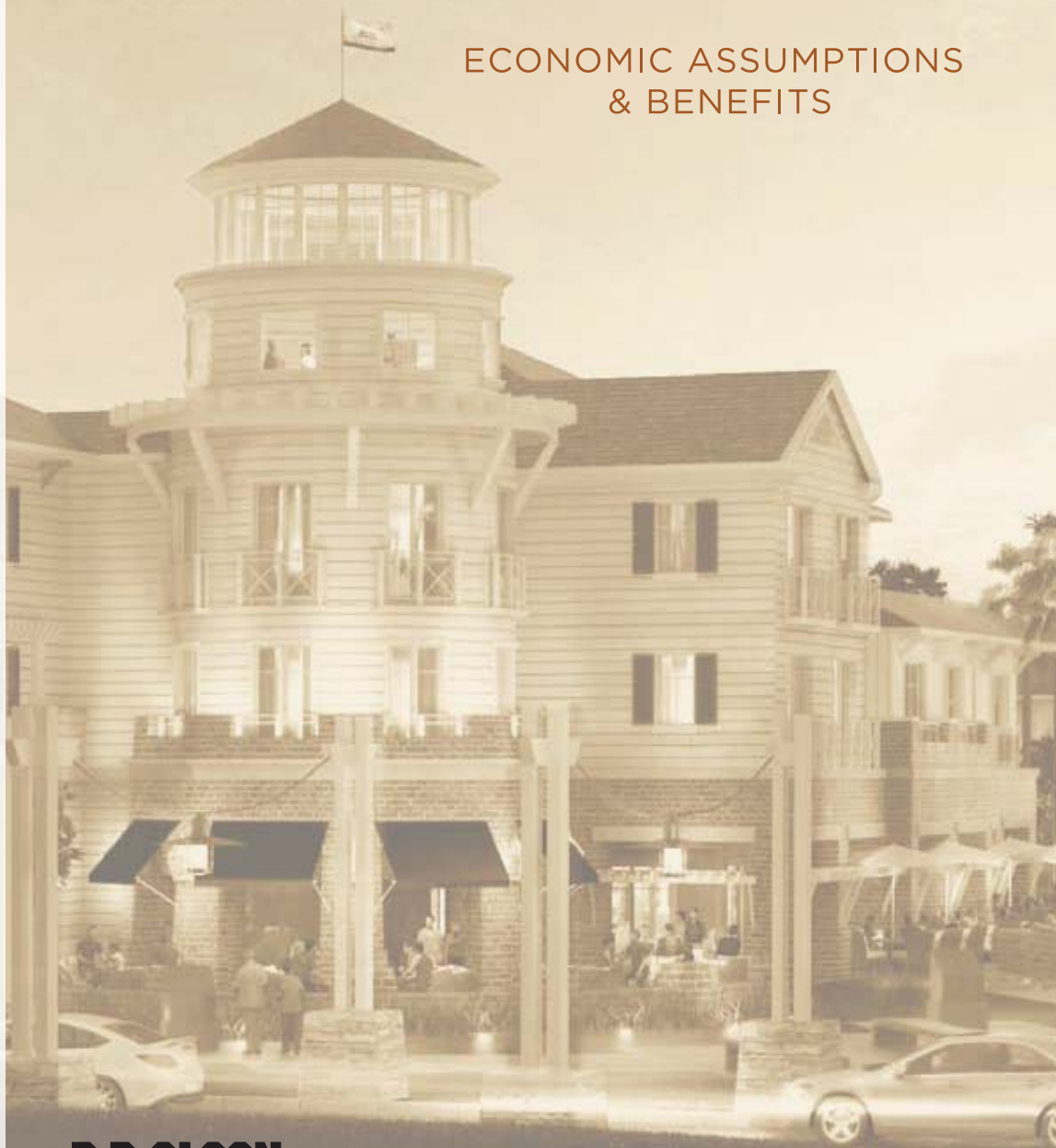


# LIDO HOUSE HOTEL

City of Newport Beach / City Hall Site Reuse

April 18, 2013

ECONOMIC ASSUMPTIONS  
& BENEFITS



**R.D. OLSON**  
DEVELOPMENT

 **DESTINATION**  
HOTELS & RESORTS

**WATG**  
Architecture | Landscape

**sfa design**  
smith • freestone associates

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EXHIBIT A - PKF ECONOMIC AND FISCAL IMPACT ANALYSES

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## E. CITY PROJECTED TAX BENEFIT

Lido House Hotel provides the City with significant tax benefit in the form of Transient Occupancy Tax and the City's share of Sales Tax and Property Taxes.

- **Transient Occupancy Tax** - Upon a projected stabilized average daily rate of \$240 (in 2013 dollars) and occupancy of 73.5%, the 130 rooms at Lido House will generate \$8,370,000 of Gross Room Revenue. With a Transient Occupancy Tax rate of 10% on guest room revenue, Lido House is expected to generate approximately \$837,000 in annual TOT.
- **Sales Tax** - The City of Newport Beach would earn its share of sales tax revenue from hotel revenues. Assuming that the City retains 1% of retail sales, it is estimated that the hotel will drive \$217,149 in annual sales tax revenue from expenditures by hotel visitors to the City of Newport Beach.
- **Property Taxes in the form of Possessory Interest Tax** - The City of Newport Beach retains 17.15% of total property taxes with stabilized estimated possessory interest tax of \$51,622 annually.

## F. DIRECT, INDIRECT, INDUCED ECONOMIC BENEFIT

RD Olson Development retained PKF Consulting to analyze the economic impact of Lido House Hotel. The report is included as Exhibit A to this document. The proposed project results in an estimated total direct and indirect economic impact to the City of Newport Beach of \$36.2 million in a representative year and \$402.3 million over a ten year period. Additionally, the estimated total tax and ground lease impact for Newport Beach local agencies from the operation of Lido House Hotel over a 10 year period is estimated at \$17.2 million and \$1,526,771 in a representative year, comprising Transient Occupancy Tax, sales tax, possessory interest tax, and a ground lease. In addition to the economic and fiscal impact, the project will create additional impact such as full-time and part-time jobs supported by the hotel's operations, jobs and spending during the construction phase, and spending by day guests to the hotel, such as conference, banquet, and restaurant guests.

The following table presents the conclusions of PKF Consulting:

### SUMMARY OF CONCLUSIONS

#### Economic Impact

Representative Year Direct and Indirect Spending	\$ 36,163,960
10-Yr Direct and Indirect Spending	\$402,861,265

#### Fiscal Impact

Representative Year TOT	\$837,000
Representative Year Sales Tax	217,149
Representative Year Possessory Interest Tax	51,622
Representative Year Ground Rent Income	421,000
Total Fiscal Impact Representative Year	\$1,526,771

10-Year TOT Revenue	\$9,326,800
10-Year Sales Tax Revenue	2,419,010
10-Year Sales Possessory Interest Tax	596,477
<u>10-Year Ground Rent Income</u>	<u>4,883,000</u>
<b>Total Fiscal Impact 10-Year Period</b>	<b>\$17,225,287</b>
Source: PKF Consulting	

#### OTHER DIRECT AND INDIRECT QUANTITATIVE BENEFITS TO THE COMMUNITY

- **The Multiplier Effect** - PKF used a 1.3 multiplier to estimate the impact that the visitor dollars makes beyond the initial goods and services purchased. The infusion of new dollars into the local economy also produces additional goods and services. In short, direct visitor spending creates indirect and induced economic benefits for the City. For example, visitor spending collected directly within a hotel restaurant also indirectly supports food and beverage suppliers and delivery services. Moreover, the direct and indirect spending induces further spending in the community by employees of the benefiting businesses.

Lido House Hotel projects an estimated total direct and indirect economic impact of \$36.2 million in a representative year. The following presents a summary of 10 years of impact.

10 Year Direct and Indirect Economic Impact			
	Direct	Indirect	Total
<i>2013 Rep</i>	\$27,818,431	\$8,345,529	\$36,163,960
2015	7,009,063	2,102,719	9,111,782
2016	25,268,359	7,580,508	32,848,867
2017	29,892,838	8,967,852	38,860,690
2018	32,329,428	9,698,828	42,028,257
2019	33,299,311	9,989,793	43,289,104
2020	34,298,290	10,289,487	44,587,777
2021	35,327,239	10,598,172	45,925,411
2022	36,387,056	10,916,117	47,303,173
2023	37,478,668	11,243,600	48,722,268
2024	38,603,028	11,580,908	50,183,936
<b>Total 2015-2024</b>	<b>\$309,893,281</b>	<b>\$92,967,984</b>	<b>\$402,861,265</b>

- **Jobs Benefit** - The Hotel is expected to provide approximately 70-80 direct permanent jobs and 150-200 construction jobs.
- **Rising Real Estate Values and Interest in further development in Lido Village area** - Given the upscale nature and attractive architectural design of the hotel, there is expected to be an increase in real estate values and new interest in real estate development in the immediate neighborhood.

## G. GENERAL BENEFITS TO THE COMMUNITY

In addition to the tax benefits and direct and indirect benefits of the new Lido House Hotel, there are many general benefits to the Newport Beach community:

- More than \$40 million of new private investment in the neighborhood which will be a positive catalyst for future investment in Lido Village.
- A new signature gateway to the Newport Peninsula.
- High quality extended stay lodging for families of local residents in a high quality atmosphere.
- Neighborhood restaurant, bar and rooftop deck for enjoyment by local residents.
- Live entertainment and music for public benefit.
- Day spa which is available to the community.
- New pedestrian friendly retail which helps solidify Lido Village and 32<sup>nd</sup> Street.
- Expanded public parking on 32<sup>nd</sup> Street.
- Public Bay to Beach Park which provides a wonderful connection from the beach to Lido Village.
- Better utilization of the Lido Theatre. We will work with the Lido Theatre on joint activities such as special product launches, group forums and corporate events. The hotel will provide an excellent venue for the Newport Beach Film Festival events.
- Increase in the quality of Lido Village tenants.

## H. SOURCES AND STRUCTURE OF FINANCING

RD Olson Development has a long history of strong relationships with debt and equity partners. Construction debt is raised from RD Olson Development's strong relationships with several nationally recognized banks. Debt is full recourse through the construction period personally guaranteed by Bob Olson. Typical leverage ranges from 65% to 70%. RD Olson Development has raised over \$130 million in construction financing since 2010 for new hospitality construction. Equity, representing a significant portion of the capital stack, is raised through a longstanding network of private and high net worth investors with whom relationships have been established over many years including former and current professional athletes and coaches. The private offering allows for these qualified investors to subscribe to a California limited liability company whose sole purpose is to acquire, own, develop and asset manage the property. RD Olson Development invests approximately 10% of the equity and retains control of the partnership as managing member. RD Olson Development has raised over \$450 million private equity and construction financing since 2001 the company's inception for the development of new hotels.

## **I. CITY PARTICIPATION**

No financial participation from the City of Newport Beach is assumed or anticipated in this proposal. RD Olson Development would appreciate support from the City in securing approvals from the California Coastal Commission.

## **J. OTHER ASSUMPTIONS**

This document outlines the major assumptions critical to determining whether the proposal is economically and physically feasible.

**EXHIBIT A - PKF ECONOMIC AND FISCAL IMPACT ANALYSES**

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## **ADDENDA**

- A. *STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS*
- B. *DEVELOPER'S 3-YEAR PROFORMA*
- C. *10-YEAR ESTIMATED OPERATING RESULTS (BASED ON DEVELOPER'S PROFORMA)*

## ***Addendum A***

### ***Statement of Assumptions and Limiting Conditions***

## **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

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

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

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

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

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

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

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

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

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

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

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

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

## **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

(continued)

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

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

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

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

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

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

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

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

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

***Addendum B***  
***Developer's 10-Year Proforma***

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***Addendum C***  
***Representative Year Operating Statement***  
***and***  
***10-Year Operating Results (Based on Developer's Proforma)***



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